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TechnipFMC plc (FTI) CEO Douglas Pferdehirt on Q4 2018 Results - Earnings Call Transcript

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Q4: 02-18-19 Earnings Summary

Press Release *News*

EPS of $-0.09 misses by $-0.46 | Revenue of $3.32B (- 9.7% Y/Y) misses by $-87M

Earning Call Audio

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TechnipFMC plc (NYSE:FTI) Q4 2018 Results Earnings Conference Call February 21, 2019 8:00 AM ET

Company Participants

Matthew Seinsheimer - VP, Investor Relations

Douglas Pferdehirt - CEO

Maryann Mannen - EVP, CFO

Conference Call Participants

Sean Meakim - JPMorgan

James Evans - Exane BNP Paribas

James West - Evercore ISI

Rob Pulleyn - Morgan Stanley

Bill Herbert - Simmons

Amy Wong - UBS

David Anderson - Barclays

Kurt Hallead - RBC

Michael Alsford - Citi London

Mike Urban - Seaport Global

Operator

Good morning. My name is Shelly and I will be your conference operator today. At this time, I would like to welcome everyone to the TechnipFMC's Fourth Quarter 2018 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Matt Seinsheimer, you may begin your conference.

Matthew Seinsheimer

Thank you. Good afternoon and welcome to TechnipFMC's fourth quarter 2018 earnings conference call. Our news release and financial statements issued yesterday can be found on our website.

I'd like to caution you with respect to any forward-looking statements made during this call. Although these forward-looking statements are based on our current expectations, beliefs, and assumptions regarding future developments and business conditions, they are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by these statements. Known material factors that could cause our actual results to differ from our projected results are described in our most recent 10-K, most recent 10-Q, and other periodic filings with the U.S. Securities and Exchange Commission, the French AMF, and the UK Financial Conduct Authority.

We wish to caution you not to place undue reliance on any forward-looking statements, which speak only as of the date hereof. We undertake no obligations to publicly update or revise any of our forward-looking statements after the date they are made, whether as a result of new information, future events, or otherwise.

I will now turn the call over to Doug Pferdehirt, TechnipFMC's Chief Executive Officer.

Douglas Pferdehirt

Thank you, Matt. Good afternoon and good morning. Thank you for participating in our fourth quarter earnings call.

point where we have made a provision of the probable estimate for an aggregate settlement with all authorities.

Let me be clear, these historical individual actions are unacceptable. Since our first day as TechnipFMC, integrity has been a foundational belief that drives the behaviors of the 37,000 women and men of our company.

How we do business is as important as why we do business and helps us to recognize and address the ethical dimensions to our everyday decisions. Our strong compliance program promotes a culture of accountability that gives me confidence in how TechnipFMC will always conduct business.

Now turning our attention to the market and our operational performance. Market adoption of the new commercial model that we pioneered is accelerating and in many cases the integrated model has become the industry standard for Subsea projects.

We have also restored growth in total company backlog with a continued focus on projects selectivity, positioning our company for future profitable growth. This provides us with a strong foundation for 2019 and beyond.

Total company orders exceeded $14 billion for the year, a 40% increase compared to the prior year. Orders exceeded revenues in all segments with onshore, offshore particularly successful in securing several key downstream and petrochemical awards.

In Subsea book to bill was above 1.1 with considerable growth in iEPCI project inbound, including our largest most comprehensive integrated award to date for Energean's Karish field development.

In Surface Technologies, orders grew 36% when compared to the prior year, driven by nearly 70%growth outside of the Americas. The impressive order intake for the total company drove a double-digit increase in backlog to $14.6 billion.

We exceeded total company financial objectives for a second consecutive year. Total company adjusted EBITDA margin of 12.2% declined just 93 basis points from the prior year, despite the revenue decline of 17%. This outperformance was largely driven by continued strength in onshore, offshore execution as evidenced by the early delivery of Trains 2 and 3 on Yamal LNG. In fact, the third train on Yamal was delivered more than 12 months ahead of the original schedule, a feat unprecedented in the LNG industry.

Notable execution milestones in Subsea included the delivery of the industry's first three full cycle iEPCI projects. Our results were further supported by the delivery of merger and

And finally, collaboration with our customers and partners led to the development of several strategic growth initiatives during 2018, which seek to strengthen and differentiate our competitive position and further expand our market opportunity set.

Let me highlight a few of these initiatives. In Surface Technologies we announced the frame agreement with Chevron that leverages the value we can create through our integrated drilling and completion offering. This preferred supplier agreement enables us to further support Chevron's development program across the U.S. and Canada through the provision of Surface wellheads, production trees and related services well into the next decade.

In Subsea, I want to highlight two achievements. First, we signed a global strategic collaboration agreement with Equinor, which further expands upon our recent iEPCI successes. The agreement emphasizes collaboration from early engagement through the full project lifecycle on Equinor's global offshore portfolio. It also encompasses our full scope of products and services. The most comprehensive in the industry, including integrated project execution, next generation technology and digitalization.

Second, our Subsea Services business was awarded a master services agreement by Petrobras. This represents the industry's first integrated services agreement in Brazil, a market where we have the largest installed base of Subsea trees, manifolds and flexible pipelines. It also reinforce to Petrobras, as well as supporting the growth and outlook for our Subsea Services business. Collaboration is essential to the success of our strategy and we are working to secure additional agreements to further strengthen and differentiate our market position.

With the Subsea market recovery entering its third year, we are rebuilding our backlog in a disciplined way. The market for smaller awards including brownfield and tieback projects remains very active.

TechnipFMC has the industry's largest installed base which uniquely positions us to capture a high share of this expanding market. In addition many of these awards come through our alliance relationships and are often the result of a direct award.

Since the formation of TechnipFMC in January of 2017, we have secured over $10 billion of Subsea order inbound. The majority of this reflects smaller awards in Subsea Services work demonstrating that we are not overly reliant on large competitive tenders to support our business.

Subsea Services return to growth in 2018. We anticipate double-digit growth this year driven by an improving Subsea market, as well as strategic investments we have made in

TechnipFMC pioneered the integrated model and has delivered the industry's only full cycle projects. The savings in both cost and time are now being realized. This gives us confidence we will see further market growth in integrated projects in 2019.

This year we have already secured new projects from BP and Lundin, bBoth first time iEPCI customers. Our expanding list of project references when combined with our unique breadth and differentiation of our integrated offering positions us well for continued growth in iEPCI backlog in the coming year. This will be driven in part by a further broadening of iEPCI alliance partners.

Now let me provide a quick update on the Subsea outlook. As evidenced by a recent awards. The deepwater market has moved into 2019 with strong momentum. We continue to anticipate another year of activity growth with integrated awards becoming an even larger component of the Subsea mix for both TechnipFMC and the broader market.

In our updated Subsea opportunities list, we have made several project additions that are reflective of more recent activity trends. With continued projects sanctioning and expanding opportunities in Asia Pacific and Brazil, as well as growing momentum across Africa, we have added four new projects to the list.

As previously discussed, there is a substantial market beyond large competitive tenders including work in the brownfield and tieback markets, Subsea Service and other strategic project opportunities for TechnipFMC.

Our comprehensive capabilities positions us well to capitalize on all of these market opportunities. It is also important to note that several projects on the list will serve to feed existing LNG infrastructure, while others will create new opportunities for large scale gas monetization.

Turning to onshore, offshore. I want to re-emphasize some of the strategic differentiators that we believe distinguishes us and drives our industry leading returns. We take a selective approach targeting projects where we have a real competitive advantage or the ability to create one.

We do this through early customer engagement, with our demonstrated engineering competencies and proprietary technologies, through strong client relationships and local presence and with robust project execution.

Now let me illustrate how these strategic differentiators contributed to our success in 2018. Inbound orders of $7.4 billion nearly doubled when compared to the prior year and backlog grew 27%. Over the last decade, this is the second highest inbound level for

And perhaps most importantly, we have sustained the same level of anticipated profitability from our non-Yamal LNG backlog during this period of significant inbound growth, a testament to our ability to both replace and further grow backlog without compromising project selectivity.

We will use this same strategy to successfully navigate the LNG market where projects are often large, requiring highly complex logistics. These project characteristics play to our strengths and we will remain disciplined and selective.

Stronger than expected demand for LNG is being driven by Asia Pacific with China notably importing over 40%more LNG in 2018 than in 2017. This is reenergized the LNG market and momentum on final investment decisions is now stronger than we envisioned during 2018.

When assessing the future opportunity set, we are currently tracking more than 20 projects in the LNG space globally. While we do not expect all these prospects to move forward, we see potential for significant new capacity to be sanctioned over the next 18 to 24 months.

This near term potential was well above historical growth rates and provides us with a unique portfolio of opportunities. We will leverage our most extensive reference projects, incumbent positions and global client relationships toward those projects that are most strategic to TechnipFMC and offer the highest probability of successful execution.

In summary, 2018 was a year of many successful milestones for our company, and we acknowledge and appreciate the steadfast commitment of the women and men of TechnipFMC and their achievements.

We enter 2019 with an improved backlog and even greater visibility on inbound activity than we had a year ago, driven by the strengthening momentum we see in international Surface activity, the next wave of LNG projects and the accelerated pace of Subsea projects sanctioning.

I will now turn the call over to Maryann to discuss the financial results in more detail.

Maryann Mannen

Thanks, Doug. Let me start by addressing several special items we incurred in the quarter. I'll walk you through these items individually to provide some clarity to the strength of the underlying results.

Impacting the quarter were after tax charges and credits totaling $2.2 billion, which recorded non-cash impairment charges of $1.7 billion consisting of $1.4 billion for goodwill and the remainder related to the carrying value of certain vessels within our fleet. This is a result of our normal annual impairment testing.

We carried $5.4 billion of Subsea goodwill as of the end of 2017 with less than half of that a result of our merger. The Subsea recovery was slower to evolve than we had envisioned at the time of the merger. The impairment test also coincided with a period of very high market volatility which impacted both the discount rate and the market valuations used in the test.

The resulting impairment does not change our longer view of the Subsea market, our leading position in Subsea or the demonstrated strengths of our integrated strategy.

Also in the quarter, we took a provision of $280 million representing the probable estimate for the aggregate settlement of outstanding investigations. We have been informed that the U.S., Brazilian and French authorities have been coordinating their investigations which could result in a global resolution. As we move closer to final resolution on our legal matters, we will provide further clarity on this estimated charge and the potential timing of any payment.

And finally, we incurred charges and credits totaling $37.3 million for restructuring and other severance charges, business combination charges and purchase price accounting adjustment. These are similar to what we have incurred in prior quarters.

Beyond the operating segments, we also had special items impacting our tax provision in the quarter, including a $12 million true-up for U.S. tax reform, and $202 million evaluation allowances. The valuation allowances reflect the probability that in certain jurisdictions deferred tax assets may not generate a tax benefit in future periods. As certain geographic markets recover our views of these deferred tax assets could change. There is no cash impact of this charge.

Excluding these items, we reported an adjusted net loss of $39 million or $0.09 per share. Exhibit 8 and 9 in our release detail all charges and credits taken in the quarter both on a pre-tax and after tax basis.

As we have communicated in the past, other pretext items of significance impacting the quarter for which we do not provide guidance included the following $39 million or $0.05 per diluted share of foreign exchange losses included in corporate expense largely reflecting currency effects and $109 million or $0.24 per diluted share related to an increase in the liability payable to joint venture partners that is included in interest expense.

liability to joint venture partners in 2018. The underlying interest expense was $39 million.

Turning to operational highlights in the fourth quarter, total company revenue was $3.3 billion, adjusted EBITDA $342 million dollars with a margin of 10.3%. Let's look at the performance by segment.

Subsea activity was largely as we anticipated in the quarter, although the strengthening of the U.S. dollar versus the Brazilian reais provided a headwind to revenue in the quarter. Execution continues to be strong, while margin was impacted by more competitively priced backlog, consistent with our previous comments regarding the outlook.

Onshore, offshore delivered robust performance, a higher revenue mix of lower margin work was largely offset by strong project execution and a bonus for completion of further milestones on Yamal LNG. And in Surface Technologies, the margin decrease versus the prior year was primarily due to the rapid decline in completions activity resulting in an unfavorable product mix. However, this was partially offset by increased activity levels and market share gains in North America.

Turning to cash flow, we generated positive operating cash flow in the period of $159 million. As anticipated, in the second half of the year we generated $300 million in cash from operations significantly offsetting the $485 million cash outflow experienced in the first half, largely related to accelerated project delivery on Yamal LNG.

Beyond the operating line, capital expenditures were $113 million in the quarter bringing full year expenditures to $368 million, primarily due to the acquisition of a dive support vessel.

Looking at the other major discretionary items in the period, we distributed a total of $118 million to shareholders via share repurchase and dividends. Also in the quarter, we made cash distributions of $102 million to joint venture partners in the Yamal LNG project taking the full year distributions to $226 million.

The balance sheet remained very strong at quarter end. Cash was essentially unchanged at $5.5 billion. We ended the period with a net cash balance of $1.3 billion.

Focusing further on capital allocation. In December we provided our 2019 forecast for capital expenditures of 14 - $400 million. We are now revising that guidance to lower to $350 million.

Let me discuss a few of the key growth initiatives planned for this year. In Subsea, we remain committed to sustaining the competitive advantage the fleet provides us as a acquisition was somewhat opportunistic but allowed us to obtain a high quality top tier vessel significantly below newbuild cost and without a protracted delivery schedule.

The vessel will operate primarily in the dive construction, inspection, maintenance and repair markets in the North Sea and can also support our iEPCI initiative in the region. In fact, we have already secured significant backlog for the vessel and see strong potential to add more in the near term.

In Brazil, we're investing in a spoolbase to build upon a significant local content we have today in country and to support and differentiate our current and future bidding strategy. And in Surface Technologies, we have ongoing capital commitments for a new facility in Saudi Arabia to support an expansion of our product lines in the kingdom. These strategic initiatives will allow us to expand and support the growth activities we see in these particular end market.

I also want to highlight the completion of our previous $500 million share repurchase program that was implemented in September of 2017. Our Board of Directors approved an additional $300 million share repurchase program in early December.

In summary, while the fourth quarter was impacted by several special items, we are pleased with our overall operational performance in 2018. We exceeded total company financial objectives for a second consecutive year, despite a revenue decline of 17%from prior year, our EBITDA margins were resilient losing only 93 basis points over the prior year.

Our solid project execution and risk management combined with synergies and cost reductions supported our financial performance. Total company order inbound increased by 40%with growth in all three segments driving backlog improvement of 12%over 2018.

Operating cash flow performance in the second half of the year of $300 million was much improved from the first half despite the working capital headwinds of major projects nearing completion. And we return $681 million to shareholders through quarterly dividends and share repurchase activity.

We begin 2019 with good business momentum. Order inbound year-to-date has been strong notably in Subsea and we have improved visibility on near term award potential, including additional iEPCI awards. The LNG outlook has further improved in several LNG projects we are tracking are making good progress toward final investment decisions. And Surface Technology activity continues to strengthen outside the Americas as evidenced by growth in our backlog.

reduced our capital spending intentions, while still allowing growth investments to continue. We reaffirm the remaining items of our 2019 financial guidance and remain very confident in the outlook for our company.

Operator, you may now open the call for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Thank you. Your first question comes from the linen of Sean Meakim from JPMorgan. Your line is now open.

Sean Meakim

Thank you. Starting out maybe in Subsea, is there anything else to highlight in terms of the revenue shortfall in the quarter relative to guidance. I know, Maryann, I think, mentioned something about FX in Brazil, but just curious is there any project deliveries worth mentioning that slipped into the next quarter and I think about how that influence margins in 4Q and just thinking about the implications for that 11% full year margin floor in '19, is that a manageable baseline quarter-to-quarter or is it still too early to say?

Maryann Mannen

Hey. Thanks, Sean. So let me try to address the topic around the revenue numbers. From an activity standpoint, our expectations in terms of how we provided guidance for full year '18 and including our margins were largely consistent. As you know, certain milestones get achieved, certain milestones may slip to a different quarter. But overall our activity levels in the fourth quarter were largely as expected.

I think you know there was strength in the dollar. I call out the Brazilian reais because we certainly have quite a bit of activity. You know, the dollar strengthened against the NOK as well. So we certainly saw a bit a headwind with respect to revenue. Obviously IT didn't change the margin percent.

As we think about 2019, no change here. You know, there is always some seasonality and some sequential change in their revenue profile of Subsea. We don't expect that to be any different than we've seen in prior years frankly. And no change to our guidance for 2019 with respect to those margins. We still see margins of at least 11% for Subsea for all of 2019. So nothing in particular to call out that gives rise to any change or for 2019.

Sean Meakim

to On,Off just how we should think about future potentially Yamal, JV partner liability, revaluations and the settlement payments. Now we've had the third Train delivery I'm not sure that changes anything. Last quarter you quantified the expected impact of Yamal on cash from ops. How do you think about payouts on the mandatory renewable liability impacting cash from financing in ’19?

Maryann Mannen

Yeah. Sure, Sean. Thank you. We will come back in the first quarter and give you a better look for at the full year of 2019. Having said that, you should expect that in 2019 given where we are against the completion of the project that we would expect to make additional payments to cover partner or partner liability.

So we will - you should expect that 2019 we'll see further payments. I'll come back in the first quarter and give you a little more clarity around how that will unfold for the balance of 2019.

Sean Meakim

Okay. Thank you.

Operator

Your next question comes from the line of James Evans from Exane BNP Paribas. Your line is now open.

James Evans

Hi. Good afternoon. Thanks for taking my questions. First one is on Subsea. Following the wins on a Mero and hopefully on confirmed on - confirmed on Golfinho fairly soon it looks like you're pretty busy from ‘21 to ’23 on some large baseload projects. Is that enough now to lift your expectations or pricing or discipline further on serve [ph] work or do we need to see some further wins I guess to lift things a bit further? Thanks.

Douglas Pferdehirt

Thank you, James for the question. Rest assured, we have remained very disciplined throughout this period. In prior quarters, I had described how we are confident because of the success that we have in the base load that we have already because of our installed base with our Subsea Services activity, direct award for many alliance partners and more importantly the iEPCI opportunity set that is proprietary to our company because of the integrated FEED work that we have been doing.

excited about those awards. The real question is how does it stack up for the rest of the market for our competitors. And will that drop reduce some of the level of predatory pricing going forward particularly in the area of the installation contracts. And is there have been a series of awards that have been won by us, but as well as by our competition. We think that does indeed set up well and we would expect to see that normalization of pricing.

But again I just want to conclude by ensuring that we have had a strategy all along to maintain our assets to be able to use them where we can create the greatest value for our clients and the greatest differentiation for TechnipFMC and that is on the iEPCI projects and that is why we have been patient and we have been very, very disciplined along the way.

James Evans

Okay. Thanks. And if I could switch gears onto onshore, offshore and talk a little about LNG. I mean, is also a great pipeline. But are you seeing any additional LNG and take opportunities arise because of financial distress elsewhere in the sector or is that not likely to have an influence on you directly?

Douglas Pferdehirt

James, interesting question. It certainly is a benefit and we have always been quite disciplined from a financial point of view to maintain that - the strength of our balance sheet, and that certainly plays to our competitive advantage.

That being said, we have maintained our process of selectivity that we have done throughout our portfolio, including on our downstream portfolio in petrochemicals, our refining and fertilizers that you saw us secure in very successfully in 2018.

So in regards to LNG, we think we are well positioned. We are tracking over 20 projects globally. We have focused on five strategic projects. Interestingly there over five different countries, we have seven different partners or potential partnerships across those projects. And that's the way that we will make sure that our portfolio is properly represented and carries the right opportunity and risk profile as we move forward.

James Evans

Thank you very much.

Operator

Your next question comes from James West from Evercore ISI. Your line is now open.

Hey. Good afternoon, guys.

Douglas Pferdehirt

Good afternoon, James.

James West

Doug, when looking at the LNG opportunity set you know, as we've done our work on LNG, we're looking at some 100 million tonnes per annum receiving FID this year, so a record year clearly for LNG in our minds. I'm curious as to - as you guys look at the opportunities set, are we too high or too low. How do you guys see or size the market opportunity and maybe you want to take it longer term 18, 24 months?

Douglas Pferdehirt

Yeah, if you go 18 to 24 months, I think it's a realistic expectation James, I was going to make the comment, if you look at it over any 12 month period or even the 10 months remaining in 2019, as you know these are big, big projects. They will move around predicting the actual timing of a project, I don't think is beneficial in this environment - or in any environment just because of the size of the projects.

So we remain a bit prudent. We have a strategic list of projects, we work those very diligently. We having a very strong level of front end engineering activity and detailed engineering, which as you know is meaning we're getting close to moving - potentially moving forward with project FIDs and we monitor those very closely and we have a very dynamic approach to our - and selective approach to the way that we look at the opportunity.

So always difficult because of the potential timing, but I could concur that there are certainly offered an opportunity set out there that could meet the metric that you've - that you've laid out.

James West

Okay. Great. Thanks. And then just switching gears here on the Subsea side with the volatility we saw in commodity prices late last year. Any pause in the activity set or your work on that side and tendering and project progression or has really the train kind of left the station here on Subsea and deepwater - offshore deepwater and were pretty much all systems go?

Douglas Pferdehirt

seeing in our activity. We have not seen any change in the momentum if anything we have seen in acceleration. You may know we have already announced several projects in the first quarter. The value of those projects exceeds the total value in bounded in the fourth quarter of 2018, already in the first quarter of 2019 of just the announced projects and as you know we always have a very strong foundation of Subsea Services and other activity that's direct awarded mainly in the brownfield and tieback arena.

We are very confident in the level of iEPCI awards. We'll be accelerating. Why is that James? We have a unique proprietary set of projects that we only have exposure to because of the activity that we've been doing over the last years with the integrated FEED projects which are then converted to a direct iEPCI award.

We've already announced three iEPCI awards in 2019 to date, two for Lundin and one for BP, both new customers to the iEPCI model. So we remain quite enthusiastic about 2019 and the opportunities that we will be presented and we think the first half is setting up to be a really strong performance for our company.

James West

Thanks, Doug.

Operator

Your next question comes from the line of Rob Pulleyn from Morgan Stanley. Your line is now open.

Rob Pulleyn

Hi, good morning. Thank you. If I can just ask regarding the exposure to Russia, not so much Yamal related, but as we think ahead to Arctic LNG 2, which I believe you're interested in being involved in. Do you foresee any challenges relating to this proposed bill in the U.S. Senate regarding additional sanctions on Russia and Russian Energy in particular?

And secondly, just a very quick one from Maryann, does the impact on goodwill assets lead to a lower depreciation charge? Thank you, guys.

Douglas Pferdehirt

Thank you for the question Rob. Indeed Arctic LNG 2 is a strategic opportunity for our company. We have been performing the FEED study and we are now in the detailed engineering phase of that project. We think we have a significant amount to contribute to

As we did in Yamal LNG project, we will continue to move forward, whilst respecting and acknowledging that sanctions that are in place or potential sanctions that could be in place. But at this time, we continue to actively engage and we'd be very proud to be part of the Arctic LNG 2 project and have another successful project as we did on Yamal LNG.

Maryann Mannen

Hey, Rob, Maryann, here. So you know, no change to depreciation on goodwill because there isn't any, but certain on the portion of the asset impairment regarding fleet we will see some lower results there for 2019.

Rob Pulleyn

Okay. Thank you very much.

Operator

Your next question comes from the line of Bill Herbert from Simmons. Your line is now open.

Bill Herbert

Good morning. Question for Maryann and Doug, it seems like you've upgraded your outlook for Subsea Services which carries a significantly higher margin than Subsea as a whole, yet you maintained your overall Subsea margin guidance. Maryann, can you talk about the interplay between those two?

Douglas Pferdehirt

Let me let me start Bill, then I'll turn it over to Maryann. We have said - we had anticipated an increase in our Subsea Services activity when we did our forecasting. We’re obviously just validating that and providing some additional color around that at this time. So I just want to make sure that that's clear.

But we - indeed you are correct, it is a very important portion of our portfolio and a real differentiator for our company as we have the largest installed base of Subsea equipment and flexible pipes in the industry.

Bill Herbert

Okay…

Maryann Mannen

services piece it typically carries a much stronger margin as you know than the project portfolio put for several reasons. As we look at our 2019 guidance we have reflected that growth, as Doug said into our margin assumptions. So that would be currently a part of our 2019 guidance around margins.

Bill Herbert

Okay. Thank you. And then the second question Maryann. We haven't discussed the outlook for free cash flow in 2019. Would you expect to be generating free cash this year?

Maryann Mannen

Bill, let me let me try to address it in a couple of parts. As you know, as we talked about 2019 on our December call, we offered what we believe to be the view from an operating cash flow level and that is positive. If you allow me to exclude the impact from Yamal here as we talked about, what I share with all of you is $400 million, $500 million of the non-Yamal businesses, meaning Subsea, Surface the remaining onshore, offshore and corporate.

As we look at 2019, we can talk about the pieces here as well. We've just declared CapEx in and around $350 million now for 2019. We just announced our dividend for the last quarter it would be our expectation that we would see similar dividend payments throughout the year. And as I said, we also announced a $300 million buyback.

One of the things that we haven't been as I would say we haven't given you detail on is how we would expect that $300 million to be repurchased and part of that is as I mentioned in my remarks as well, we are highly focused on improving our returns and see - we will use our ability here, our cash flow to be sure that we are opportunistic and where we can put that to work.

The last thing keep in mind and I'll give you some more color in the first quarter. As we are completing the Yamal project, one of the outflows that we will see is the beginning of the payments associated with that MRO and we will have more cash flow for the MRO as well.

Bill Herbert

Okay. Thanks very much.

Operator

Your next question comes from the line Amy Wong from UBS. Your line is now open.

Amy Wong

offshore the order intake was actually quite strong. So I understand there was some good FEED and reimbursables in there. But could you give us some more color into what you think some of these contracts can lead to into further follow-on work, kind of maybe outside your just LNG what it could lead to?

And my second question is a bit more housekeeping. Just if you can talk a bit about the IFRS 16 adjustments to your financial statement? Thank you.

Douglas Pferdehirt

Sure so I'll take the onshore, offshore. Amy thank you for the question. Indeed, we had strong reimbursable activity associated with some of our ongoing projects. Keep in mind what I said earlier on some of our LNG activity, we've had very strong activity including moving into the detailed engineering phase, which would mean additional activity and additional revenues associated with it.

And we also had previously announced and we continue to increase our work that we're doing on a reimbursable basis on the Exxon Mobile blade project in the U.S. So actually quite a bit of activity as you pointed out that was not if you will name projects, but very strong level of activity based on our existing portfolio projects, plus a couple of - plus a couple of new reimbursable projects as pointed out, and more activity moving from FEED to detailed engineering on our LNG opportunity list.

Maryann Mannen

Amy, your second question around lease accounting IFRS 16 adjustments, I think we'll give you the detail as we come out on the first quarter. We're largely through a lot of that work, but not yet complete. I'll give you a couple of high level comments here.

You know, at this juncture based on the work we've done, we don't see any significant impact on the P&L, just given the way that our leases are structured. Obviously we'll have a bit of a balance sheet impact as we put some of that in PP&E. But we are not expecting at this juncture any significant P&L impact from that. We'll come back in the first quarter and give you much more color as we complete that exercise.

Amy Wong

All right. Thank you very much.

Operator

Your next question comes from David Anderson from Barclays. Your line is now open.

Hey, Doug you do a great job of kind of highlighting all the projects and the sizes in the Subsea market and now we're talking about these 20 LNG projects. Could you just kind of help us understand kind of the size is how the scope of these projects range. I don't know if you can put a small, medium large like you do on the Subsea side, but just give us a sense as to kind of how the size of these awards or what they could potentially be?

Douglas Pferdehirt

Sure, David. Thank you for the question. I guess, you'd have to say medium to large. There is no real opportunity set in LNG that would be small and you can look at that based upon the projects that we're currently operating or that we have delivered in the past.

But let's put it in you know in the size of number of potential trains, right. So there is a project we're looking at right now that we're working with our partner KBR to deliver the FEED study and that would be for the Nigeria LNG Train 7. In that case it's a brownfield project. There's six existing trains, so this would be the addition of one train.

In several of the other greenfield projects that we're looking at, we're looking at up to three to four trains on those projects. And then you take a brownfield project like Qatar gas expansion, which, because of the size of the trains and the number of trains in the expansion could actually be as large as any of the greenfield projects that are being investigated at this time.

You further should consider when you think about it from how it impacts if you will our profile going forward, is as I said earlier on those five strategic projects that we're following we're looking at seven plus different partners, sometimes multiple partners on a project or one other partner on a project and that's a good way for us to also ensure that we can use our resources where we can create the greatest value on each and every one of those projects, while partnering with very competent partners to provide other portions of the scope. It also allows us to further diversify our portfolio and our exposure to any one of those projects.

If you want to try to put it into dollar terms you know, you're looking at - you know it's billions of dollars up to tens of billions of dollars, realizing again that we would - it would be unlikely that we would take the scope of a full $10 plus million project without a partner.

David Anderson

But I couldn't imagine any of this turns into revenue in '19, right? This is revenue that starts in ’20, 2020 and beyond?

Depending upon the timing of the sanctioning. You know, again we tend to be a bit conservative, back to the earlier question on LNG opportunities. But there are some projects that could move forward earlier in the year and we could see some benefit from that.

Keep in mind to the earlier comment or question from Amy, we're doing on some of these projects we've moved from the FEED to the detailed engineering which can bring you know a very sizable engineering contract of you know in the hundreds of millions of dollars of detailed engineering work.

So there are sizable opportunities for our company that come up just prior to a potential project FID. So if it came early enough it's possible, but lots and lots of detailed engineering, additional detailed engineering we could be doing for the throughout the remainder of the year and with a potential sanctioning if it happened earlier in the year there could be some revenue from the project. But you are correct in saying that that would likely come over a period of years.

David Anderson

And Doug one final little question here, on the $280 million global settlement you talked about here - that you announced, what you think the sum it could be. Is there any talk about a compliance monitor here in place or are you confident that this is simply going to be a fine, and we could all just kind of move on from this?

Douglas Pferdehirt

So we're still early in the discussions. And as you know, when these type of things - when a settlement is reached there's multiple aspects to a settlement. And it's very early for us to comment on it at this time.

And yes, there could be other elements to the settlement. Although I have to say we are very pleased with the level of cooperation and discussion that we're having and we will continue to work in a very collaborative way to resolve these historical issues.

David Anderson

Thanks for the comments Doug.

Operator

Your next question comes from line of Jean-Luc Romain from CM-CIC Market Solutions. Your line is now open.

Thanks for taking my question. I have two questions about the impairment. The first is how much did a change in the discounting rate, you used - how much it will exchange in discounted rate impact the impairment?

Secondly is you are saying that the long term outlook for your business is unchanged and your position is unchanged and that justifies uh deleting about one - further one quarter of your offshore goodwill. Is that a very big chunk of your goodwill that we raised for just a few months of volatility?

Maryann Mannen

Thanks for the question Jean-Luc. So let me try to answer – you got a couple of questions there, so let me try to take them in pieces and hopefully I can address everything that you're asking me.

So first and foremost obviously the timing of impairment is critical. Most of the change that we saw was largely in the discount rate. We certainly have impact from the discount rate.

When we talk about the fact that our view is unchanged. If you remember when we did our merger we had a view of the market back a few years ago. And frankly what has happened is the view over the long term has not changed, but certainly our ability to deliver in the short term is different.

You know we sat here a few years ago and would have thought as I shared earlier that 2018 was a year of recovery. And just if I might, you know as we as we think about you know the value you said it's roughly a little bit more than 20%of the value in the goodwill in Subsea, you know some of that goodwill was original goodwill if you will and not much of that goodwill was added as a result of the merger.

Just a few things to keep in mind. So let me try to summarize again. Yes, there is certainly you know a significant piece of our impairment that has to do with a discount rate. Look at the timing of that and look at the market conditions as well. Long term view, we still have a very similar view as we look at the margins in our profile, as we think about Subsea over the over the long term.

Jean-Luc Romain

Thank you. Can you tell what the discount rate was this time?

Maryann Mannen

Yeah, for Subsea we'll actually be including that in our K. So if you will allow us to issue

Jean-Luc Romain

Thank you.

Operator

Your next question comes from line of Kurt Hallead from RBC. Your line is now open.

Kurt Hallead

Hey, good afternoon.

Douglas Pferdehirt

Good morning, Kurt.

Maryann Mannen

Hey, Kurt.

Kurt Hallead

Hey. So if I may on the first question here, I want to come back around to some commentary I think that was provided coming out of the Analyst Day and shortly thereafter that you had either a line of sight or target or otherwise, I don't want to put words in your mouth. So you feel free to correct.

iEPCI [ph] orders making up roughly 25% of inbound. Just want to get maybe an update on that and how you think that could progress in 2019 and within the confines of that, I think the other dynamic that you discussed various times was you know, by utilizing - by launching the Subsea 2.0 and then the iEPCI dynamic around it that there could be a number of projects that would not have been deemed economic that would be pulled off the shelf. I wonder if you might be able to comment on how successful you know that's been as well?

Douglas Pferdehirt

Kurt, thank you very much. On the first one on the iEPCI as a percentage of our revenue, I'll tell you what I got that one wrong. The good news is I got it wrong in the right way Kurt. We feel quite strongly that when 2019 iEPCI will exceed that 25% target. And in terms of Subsea 2.0, we talked about it earlier most - the highest percentage of our FEED studies now include Subsea 2.0 technology in those FEED studies. They are now beginning to be converted into projects, which gives us increased confidence in the ability to be able to have more demonstrated success of that technology in the marketplace.

When you commercialize a platform, a change in a platform like we did with Subsea 2.0, you have to go through a series of qualifications with your clients before they're made to be part of their standard procedures going forward. We've now accomplished that with the majority - the vast majority of the major Subsea operators. So we’re actually quite excited about the progress that we made. And as I said it's in the FEED studies now and now being included into the tenders. Thank you.

Kurt Hallead

Yeah. Great and thanks, Doug. And I want to follow up in all the conversation around the growth in LNG opportunities. I wonder if you can give us a refresher on two things. The first being you know what typically the revenue recognition period for four LNG projects?

And then secondarily can you give us some general sense as to what the margin differential is on LNG projects relative to let's say the average downstream you know onshore, offshore type of project?

Douglas Pferdehirt

Kurt, you know, again it really depends as I said you know when you're looking at a 1 train expansion of a brownfield site you can obviously accelerate that because a lot of the utilities is already in place and a lot of the permitting and infrastructure including some potentially some foundation activity is already in place.

When you're looking at a pure greenfield site there is certainly - it's spread over a longer period of time. Typically if you look at a pure greenfield remote site it can be five to seven years. If you look at an FLNG opportunity it tends to be in the range of 60 months. And if you look at some of these brownfield activities it could potentially be in that 60 month range as well.

So that would be - so it's pretty broad because again the opportunity set that we're looking at goes across all of those categories just mentioned. So I guess if you wanted to summarize it you'd say around 4 to 7 years depending upon other project type.

Kurt Hallead

And any margin differential on those projects relative to say your typical downstream onshore, offshore project?

Douglas Pferdehirt

Yeah. Clearly there's a - those at least that have demonstrated the ability to be able to that list, recognize the women and men of our onshore, offshore global business unit who have been able to achieve such an outstanding performance.

So because of that we would expect on these very large projects that the customer would recognize that and we would be rewarded accordingly. What does that mean if it's you know a couple hundred basis points or something in that range. That's probably realistic to assume.

Kurt Hallead

Thanks, Doug. Appreciate that.

Operator

Your next question comes from line of Michael Alsford from Citi London. Your line is now open.

Michael Alsford

Hi. Thanks for taking my questions. I've just got a couple as well please. So just firstly on the fleet and I guess the long term investment requirements of the business you mentioned obviously the CapEx has come down to 350 for 2019. I'm just wondering if you could talk a little bit about how you see the fleet in terms of the outlook versus your pipeline of projects that you potentially could be awarded. And I guess where you see sort of longer term investment levels for the business. My first question? Thanks.

Douglas Pferdehirt

Sure. So as you would expect Michael we have an ongoing fleet strategy. It's important for us as you say to understand what is our opportunity set versus our capacity and our capabilities. We've been very conservative in not chasing work that would tie up our fleet, that we could not leverage on our iEPCI opportunities and I think that's playing out very well in our favor and we will see the benefit from that for the years to come. And so that's point number one.

Point number two we continue to invest in our existing fleet, where we have opportunities in long term contracts like we recently announced in Brazil we were able to add a vessel under a long term contract with our partner DOF, under our JV and we were able to replace one of our existing dive support vessels with a vessel with much higher capabilities at an opportunistic commercial model and bring in a new dive support vessel into our fleet.

the largest and the highest quantity of large fixed assets, regardless if it's vessels, rigs or frac units for that matter, we'll continue to underperform the level of returns that is expected from our investors.

We are prepared to step up take leadership in this area much as we have across the Subsea space. Certainly with the creation of the integrated model that we have now created and is been adopted broadly across the industy.

We will do the same thing in regards to our fleet. So you should expect us to be very prudent to work well with others to be willing to collaborate with others in order to be able to ensure that there is an overall level of capital and assets in the industry that can deliver reasonable and acceptable returns to the investment community through cycle.

Michael Alsford

Thanks. Thanks Doug. And then just a follow up just on the - to Maryann on working capital so maybe I missed this earlier but Mary could you just give a bit of color as to sort of the phasing of working capital outflow ‘19 if you could. Thank you.

Maryann Mannen

Hey, Michael. Maryann here. So I think when we talked about our cash flow from operations at the end of 2018, I didn't specifically give working capital color, but rather color around cash flow from operations. I would expect that throughout the year we will see and probably particularly more front end loaded given the completion around Yamal, those outflows happening earlier in the year rather than later in the year. So that would be the way that I would characterize cash flow from operations, meaning the working capital impact would be more heavily weighted in the first half of the year than in the back half.

Michael Alsford

Thanks. I should took a similar profile that forces sort of ‘18 and what would you say on operating cash flow?

Maryann Mannen

That would be fair Michael, yes.

Michael Alsford

Great. Thank you.

Operator

now open.

Mike Urban

Thanks. Good afternoon. Thanks for sticking me in. Wanted to follow up a little bit on that because Kurt's question, I think everybody agrees. You guys have done a good job in bringing in the business, executing the business and you know one of the big push backs I get is just understanding the - you know the long term margin profile for onshore, offshore. And so definitely helpful on the color in terms of the margin uplift you get from LNG.

But is there anything you've done through the merger that are execution projects election we should talk about in terms of a structural uplift in the normalized margin for the mid and downstream of the traditional EMC work. I think the concern is that over time the margin just kind of migrates back to that kind of mid single digit EBITDA that you've been at, you are at historically?

Douglas Pferdehirt

Michael, thank you for the question. Look I think what we've done as a result of the merger is support the onshore offshore GBU you and continue to provide the tools and resources that they need to execute their work. This is a high performing part of the business and has been for a long time.

So you know humbly I would say what we've done is continued to support them. We have some of the very best project managers in the industry. We have the best leadership in the industry and they've proven themselves year after year by performing some of the world's most complex projects and delivering financial performance that outperforms their peer group.

Mike Urban

Okay. And so I guess given that performance versus peers hopefully that means that our margins and I guess really to follow up a bit of a housekeeping question. Good to hear the improved outlook for Subsea Services. So the is the baseline for that double digit growth you talked about kind of roughly a $1 billion in revenue in ‘18. Is that about where you came in?

Douglas Pferdehirt

That's a reasonable assumption. Yes.

Mike Urban

Operator

There are no further questions at this time. I would like to turn the call back over to Matt Seinsheimer.

Matthew Seinsheimer

This concludes our fourth quarter conference call. A replay of the call will be available on our website beginning at approximately 8 p.m. Greenwich time today. If you have any further questions please feel free to contact the Investor Relations team. Thank you for joining us. Shelly you may end the call.

Operator

This concludes today's conference call you may now disconnect.+

Comments **(0)**