Client Id: 77

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FLR - Q2 2018 Fluor Corp Earnings Call

EVENT DATE/TIME: AUGUST 02, 2018 / 9:30PM GMT

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PRESENTATION

Operator

Good afternoon, and welcome to the Fluor Corporation's Second Quarter 2018 Conference Call. Today's call is being recorded. (Operator Instructions) A replay of today's conference will be available at approximately 8:30 p.m. Eastern Time today, accessible on Fluor's website at investor.fluor.com. The web replay will be available for 30 days. A telephone replay will also be available through 7:30 p.m. Eastern Time on August 9 at the following telephone number, (888) 203-1112. The passcode of 8635678 will be required.

At this time for opening remarks, I'd like to turn the call over to Jason Landkamer, Director of Investor Relations. Please go ahead, Mr. Landkamer.

Jason Landkamer

Good afternoon and welcome to Fluor’s Second Quarter 2018 conference call. With us today are David Seaton, Fluor Chairman and Chief Executive Officer; and Bruce Stanski, Fluor's Chief Financial Officer. Our earnings announcement was released this afternoon after market close. So we have posted the slide presentation our website, which we will reference while making prepared remarks.

Before getting started, I'd like to refer you to our Safe Harbor note regarding forward-looking statements, which is summarized on Slide 2. During today's call and slide presentation, we will be making forward-looking statements which reflect our current analysis of existing trends and information. There is an inherent risk that actual results and experience could differ materially. You can find a discussion of our risk factors, which could potentially contribute to such differences, in the company's Form 10-Q filed earlier today and our 10-K filed on February 20.

During this call, we may discuss certain non-GAAP financial measures. Reconciliations of these amounts with the comparable GAAP measures are reflected in our earnings release and are posted in the Investor Relations section of our website at investor.fluor.com.

Now I'll turn the call over to David Seaton, Fluor Chairman and CEO. David?

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David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Hello. Good afternoon, everyone, and thank you for joining us. On today's call, we'll review the second quarter results and discuss our outlook for the rest of this year.

Earnings attributable to Fluor for the second quarter are $115 million or $0.81 per diluted share compared to a net loss of $24 million or $0.17 per diluted share a year ago.

Second quarter revenue was $4.9 billion, and new awards were $5.4 billion. This represents the first time new awards exceeded quarterly revenue since the third quarter of 2016.

Please turn to Slide 3. For the second quarter, new awards for the Energy & Chemicals segments were $493 million. Ending backlog was $12.4 billion.

During the quarter, we received a limited notice to proceed on the LNG Canada project in Kitimat. We have assembled a remarkable project team and are preparing for a final investment decision, which is expected later this year. We've collaborated with this customer extensively to create a project that will be successful for all parties involved. We started by taking the original FEED package and worked with our partner JCG to design a more economical and appropriate plot plan. We then optimized the design using our Zero Base Execution approach to define minimum operating requirements and improve capital efficiency. And finally, working with the client, we were able to leverage our supply chain and fabrication capabilities, allowing us to reduce needed on-site labor by over 35%, which is probably the largest risk on that project. I look forward to talking more on this project once FID is achieved.

We also see opportunities on 2 other LNG projects. We recently submitted our bid for a project in the U.S. that could move forward in 2019. The other prospect's in Mozambique and it’s currently expected to reach FID in the second half of 2019.

Outside of our LNG opportunities, we expect a decision on a large petrochemical plant later this year, with another one expected early next year.

Globally, we expect that the financial health of our clients will continue to drive CapEx spending on select advantaged projects. These include significant downstream and petrochemical investments in Asia, in Europe, Africa and Middle East. While we continue to pursue a number of prospects both domestically and internationally, we will maintain our competitive posture and limit our pursuits to projects that allow us to fully leverage our people, systems and processes to maximize opportunity and more importantly, minimize risk.

The one challenge for the quarter was a project in Europe, of which we have 36 million in backlog remaining at the end of the quarter. And at the end of July, the project was approximately 95% complete, and we expect to reach final completion by the end of September.

Let's turn to Slide 4, the Mining, Industrial, Infrastructure & Power group reported new awards of $3.6 billion in the second quarter, including the South Flank iron ore replacement mine for BHP in Australia and the Los Angeles International Airport automated People Mover project. Ending backlog for the segment was $12.4 billion.

I'll pleased to see the mining market continue its upward trajectory, as clients turned to us to help improve capital efficiency. At the end of the second quarter, our mining backlog stood at $4.8 billion, which is a significant improvement from $1.2 billion a year ago. We expect some additional awards over the next 2 quarters that should drive mining backlog to the $6 billion to $8 billion range by year-end.

We continue to see opportunities in infrastructure, which includes our recent announcement that our team was the preferred bidder on the Gordie Howe international bridge project connecting Windsor, Ontario and Detroit, Michigan. It's the second project in this region for Fluor and our partner, as we recently completed a parkway in Windsor that will connect to this bridge. We expect bridge authority to reach financial close on this project this year.

Our results for this segment included an additional charge related to our gas-fired project in Florida We have $37 million in backlog remaining in this project at the end of the quarter and through the end of July, the project is 93% complete. I am pleased to note that last night, we were able to successfully first fire on power block 1, which is a huge milestone and supports the overall completion dates that we're moving. This project, along with our Greensfield County project, are scheduled to be completed by year-end, and this will mark our exit from the fixed-price gas fired power market in the United States. Our Power group is currently refocusing its efforts on other end markets.

Turning to Slide 5. The Government group reported new awards of $742 million, which includes awards for LOGCAP IV in Afghanistan. Backlog was $2.3 billion. Looking to the second half of 2018, we were recently selected by the U.S. Navy's Naval Sea Systems Command and the National

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Nuclear Security Administration to manage the Naval Nuclear Laboratory. And we were also part of the team that recently won a contract to oversee operations at Los Alamos National Laboratory. As we have said in the past, we have wanted to have a bigger role in this space and I'm pleased to see that our strategy is coming to fruition. Recent wins are in additional to our pursuit of our LOGCAP V contract and the liquid waste contract at Savannah River and Hanford.

If you turn to Slide 6 please. Diversified Services segment reported new awards of $513 million, which includes an award to operate and maintain gas fields in Colombia. Ending backlog for the quarter was $2.2 billion. And as you may have heard, our oil and gas clients are beginning to increase spending levels on major maintenance programs. Storkis well positioned to benefit from this increased level of spending.

Before Bruce provides the financial update, I want to briefly comment on tariffs. We've done a lot of homework over the last few months looking at the impact of tariffs on us and of our clients. After doing a deep dive on our projects, we believe we can mitigate the Fluor exposure to tariffs with purchasing strategies and contract provisions.

Now I'll turn it over to Bruce. Bruce?

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

Thanks, David, and good afternoon to everyone. If you turn to Slide 7, I'll start by discussing new awards and backlog. This quarter, we booked new awards of $5.4 billion, driven mainly by $3.6 billion in our Mining, Industrial, Infrastructure & Power segment. We were pleased to win several big awards this quarter across the end markets we serve and are encouraged by the growing pipeline of work our clients have entrusted to us. Our company book-to-build ratio improved from 0.53 this quarter to 1.1.

As David mentioned we recently won both the Los Alamos National Laboratory and the Naval Nuclear Laboratory contract in our Government group. I think it's important to note that when we transition onto these sites, we'll see significant margin contribution as we recognize fee with no corresponding backlog component.

Please turn to Slide 8.
Revenue for the second quarter improved to $4.9 billion, led by increased revenue contributions from the Mining, Industrial, Infrastructure & Power segment as well as the Government segment. Corporate G&A expense for the second quarter was $18 million compared to $47 million a year ago. Expenses in the quarter reflect the benefit of $25 million related to foreign currency fluctuations.

If you now turn to Slide 9. For the quarter, we reported net income attributable to Fluor of $115 million or $0.81 per diluted share. Results for the quarter do include a $0.56 charge related to estimated cost increases on a downstream project and a power project; $0.21 for the combined positive impact of foreign currency fluctuations at the corporate level as well as for an embedded derivative relating to our joint venture in Mexico; and additional nonrecurring income related to final closeout efforts on hurricane-related work in Puerto Rico contributed $0.10.We have provided some highlights for the balance sheet on Slide 10. So if you would please turn to Slide 10. Fluor's cash plus marketable securities was $1.8 billion, flat to last quarter. Quarter-end domestic cash balance was approximately 13% of the total cash and marketable securities. Our domestic cash position reflects the use of cash needed to fund our working capital in Puerto Rico, as Puerto Rico pays its subcontractors before it can invoice the government and return that cash to us, and our legacy projects until they are complete.

Before I discuss outlook, I want to cover a few housekeeping items. Later this evening, we will file an S-3 to renew our shelf registration that expired at the end of July. In conjunction with this shelf registration, we will also file an 8-K that presents our 2015, 2016 and 2017 audited results under our new business segment reporting structure. Just to be very clear, this is not a restatement. Nothing has changed in our overall results, just classification.

We also wanted to alert you to our progress in closing out our significant pension plans around the world. As you might recall, we settled our U.S. pension plan back in 2015. We are now working toward settling our U.K. pension plan that was frozen in 2011. While our expense for this quarter was small, just $2 million, we do expect to see additional settlement charges in the future. We don't expect the settlement to have a material impact on our cash position. Settling this U.K. plan will result in lower future expenses and eliminate the actuarial and investment risks inherent in defined benefit plans.

Finally, I want to point out the appendix we've added to the presentation that we posted online this afternoon. In this appendix, you'll find a summary slide updating the status of our gas-fired power project as well as more detail on how we are managing our real estate and G&A expenses.

Now if you'll be so kind as to turn to Slide 11. I'll conclude my prepared remarks by commenting on our guidance for the second half of 2018.

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We're maintaining 2018 earnings guidance in the range from $2.10 to $2.50 per diluted share. This guidance assumes G&A expense of approximately $50 million per quarter, excluding any impact of foreign exchange fluctuations, integration or pension expenses and with a tax rate of 25% to 30%.

NuScale expenses are expected to be $75 million in 2018. While the run rate for NuScale expenses are higher than normal year-to-date, we will still limit our investment to $75 million this year and invest in a lower rate after this year.

If you turn to Slide 12. We anticipate margins for the remainder of 2018 in the Energy and Chemicals group to be in the 6% to 7% range; Mining Industrial, Infrastructure & Power, excluding NuScale, to be in the 2.5% to 3.5% range; government to be approximately 3%; and Diversified Services to be around 4.5% to 5.5%.

As a final point, we're excited to announce that we're planning to hold an Investor Day in New York on Friday, November 16. We look forward to sharing our progress and goals for 2019 with our investor community. With that, operator, David and I are ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Jamie Cook with Crédit Suisse.

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

I guess a couple of questions, one for David and one for Bruce. First, Bruce, with regards to the guidance, I'm just trying to understand how you're thinking about normalized earnings if we ex out all the charges. Because if I back out all the one-offs in the second quarter, it implies your earnings are about $1 of earnings. And if I think about the range of guidance it implies in the back half of the year, you're anywhere between $0.70 and $0.90 each quarter. So why is the second quarter over $1? And the back half run rate much lower than that? Or did something inflate the second quarter? My second question relates to the slides you guys sort of glossed over in terms of real estate footprint and corporate G&A expense. I mean, it looks like there is a new cost savings program evolving here, so if you could provide a little color. It looks like there's a lot of opportunity to reduce square footage, reduce corporate G&A. And if you could give color on how much NuScale could come down in '19? And then David, I'll try one more time. When do we see an end to the problem projects?

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

Okay, Jamie, I'll go ahead and start. The phone is clipping your questions a little bit, but I understand ...

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

Yes, we're hearing that on your end in the prepared remarks, so I don't know if there's something wrong with the line.

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

There's something wrong with the line here. Well yes, just talking about guidance and where we are, so we're holding to -- of course we don't give quarterly guidance. We're holding to our $2.10 to $2.50 EPS range with the $2.30 midpoint. And from the first half to the second half of the year for us, we're guiding very simply. In the first half of the year, we delivered $0.68 between the 2 quarters. In the second half of the year, simply doing the math from the midpoint of $2.30, we expect to deliver $1.62 in the last 2 quarters of the year. But I'm really not going to get into how that will fall in the quarters because there's a lot of moving parts here, but we still are comfortable with our $2.30 midpoint.

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

But why is the implied EPS ex everything out north of $1 in the second quarter? Like I threw out, was there something -- was there a gain in the second quarter we don't know in E&C? Or is that just -- it doesn't make sense, given where you were, what run rate is in the back half.

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Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

Sorry, can you repeat that? I apologize, Jamie, but you're getting clipped.

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

If I look at that the second quarter and I add back the problem projects, FX, and Puerto Rico, your earnings are about $1.06 or something like that? If I look at your guidance in the back half of the year, it implies, I don't know, $0.75. So just something I'm just trying to figure out is why the implied run rate is going down. Or was there something inflating the second quarter?

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

But certainly, in the quarter we did get a huge benefit from the FX...

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

No, I'm adjusting for that.

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

Okay. And from a run-rate basis, we had a nice benefit from the Puerto Rico contract as we closed it out. We don't expect any more earnings, or maybe very limited earnings, from the contract, so that's out of the portfolio. We did see pickups in mining as well as E&C in the second quarter. But we have some -- a lot of puts and takes in the second quarter, like you said.

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

And there's nothing inflating E&C margin as you add back the $67 million in downstream?

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

Nothing special, no.

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

All right sorry. And just on the cost saving opportunities, David, and on the problem projects, just how comfortable are you?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

So I -- we're always looking at how do we reduce our run rate. We've gone through a process over the last couple of years of really what we talked about in terms of dispersed execution. And what we've done is we've been able to kind of stabilize those -- that headcount across the board. And there's 2 activities that we've undertaken. One is the densification effort, so that we're maximizing the square footage of the existing facilities. And then over the next few years, we're going to exit an existing facility in Houston and build another one. And in doing so, we reduce our footprint in Houston from about 1.2 million square feet to about 600,000. So yes, we're focused on overhead reduction and making sure that we're as sharp as we can be. On these 2 projects, I'll start with the power project. I'll hold a weekly call with a project team, including the president of that group, which is almost resident at the site. I can't overstate the importance of first fire yesterday, because it supports the schedules that we have, notwithstanding the charge that we had. The charge that we had this quarter was (inaudible) both in terms of material and labor associated with it, which on other projects that would have been handled by contingency. And because this thing's out in lights, everything stands out, and that's why

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we had to announce it. I still believe that because of the schedule, there is a positive adjustment at the end of the year available to us, assuming that we continue to perform. But my accounting friends have made us report it the way that we reported it. On the project in Europe, that project will be completed in September. Again, we're in negotiations with the customer, and I expect some relief associated with that write-down that we took in the quarter. But that project is all but done. So I think these legacy issues, as we get to December, will be -- are behind us.

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

I'm sorry, David. Back on the real estate footprint, I mean, is this something, in terms of cost savings, are you going to end up quantifying this? Is it big enough to talk about? Is it too early? I'm trying to figure out.

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

It's too early. We won't break ground until probably mid-19. Our lease at the exiting Sugarland facility ends in, I think, June of 21. So it's going to be a significant -- it won't be significant until we get to 21.

Operator

And we'll take our next question from Steven Fisher from UBS

Steven Fisher - *UBS Investment Bank, Research Division - Executive Director and Senior Analyst*

I just want to come back to the question about the E&C margins. Because if you do add back project expenses you're over 8% for the quarter, and I know Bruce, you said there is nothing special in there. But why would the margins for the back half of the year then be implied at a much lower rate? Or is that just some conservatism?

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

Well Steven, you kind of see very high margins in the second quarter for margins that have been lagging that in E&C in prior quarters. So as we look forward into future quarters, we're still sticking to our 6% to 7% range for the second half and we think that's very, very reasonable.

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

But I think that when you look to the future, we talked about integrated solutions. We talked about the things that we've been investing in and doing to change the model. And the questions that you guys asked, I don't know, 4 years ago, was do you think you'll ever get back into the 6% margin range in E&C.? And I believe, because of what we've done, yes, we're going to get back to 6% and stay at 6% as we run through this next cycle. And as I've said, we're on the early side of the cycle. And I believe the things that we've done, and the pieces of projects that we're doing now that we were subcontracting before, supports a higher margin going forward, as we get into next year and the year after.

Steven Fisher - *UBS Investment Bank, Research Division - Executive Director and Senior Analyst*

Okay, that's helpful. And the E&C bookings were a bit light. Just trying to understand how much project deferral there still is? And then kind of related, you last talked about a potentially lower win rate going forward. So to what extent are you still seeing some aggressive bids that makes the lower rates still likely? Or have we sort of cleared the decks on that, and now what you're focused on is really on projects that you can be equally competitive with others out there?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Yes, I feel pretty good about where we are right now. We've had some things shift from quarter to quarter still, some decisions being made. I think there's a little bit of trepidation on the minds of our customers because of tariffs. We've done the studies and we know what those – what that impact could be. In most cases, it doesn't impact the clients' model. So I think that our win rate will be more solid than maybe I'd suggested in prior

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discussions. A good line of sight in the second quarter and -- I'm sorry, third and fourth quarter is awards and pretty high confidence in hitting some big numbers in those 2 quarters. So as I said in my prepared remarks, this is the first time we've seen a positive move in backlog since '16. And I think you're going to continue to see that reality as we go through the next few years. But decisions are being made and client confidence is maybe stronger than it was last quarter when I kind of maybe had a little bit too stern a warning. But we feel pretty good about where we're headed. And this long-awaited change in the cycle that we talked about, we're on the very beginning piece of that. I mean mining alone, if you go to -- what was it, close of year '16, we had $800 million in backlog. And today, we're at $4 billion and projecting $6 to $8 billion. And I see the change in trajectory in gas and some of the other stuff, I think it's understated a little bit. But what the government group has able to do with the laboratory community, we believe, is tremendous. And again, we look at the recurring revenues and earnings in our business, is usually a very, very small percentage. And what we've been working on with the acquisition of Stork and our focus on Government is growing that recurring earnings, which just allows us to grow in this cycle bigger than we were in the last cycle. So if you're sensing a little bit of optimism more so than the last quarter, it's correct. I am -- I -- because we can see the awards that are in front of us.

Operator

And next, we'll hear from Andrew Kaplowitz with Citi

Andrew Alec Kaplowitz - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

Just kind of following along those lines, I think I've asked before. But when you look at Mining, LNG, infrastructure this year, I mean the visibility toward booking for you guys is good. When you compare this cycle to other cycles, maybe you can give us some perspective right? So if we look at that 2013 and '16 petchem cycle, the '11 mining cycle, 2016 refining cycle, do you think over the next 3 years, you'll be able to book more work than those cycles? (inaudible)

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Yes, Andy. You're breaking up. I'm sorry, we got a bad line today. But I think the short answer to your question is yes. In the last call maybe, I think it was the last call, I said that we began the eighth year in January, the eighth year of a downturn in terms of capital spending across the board. And we've been signaling the bottom for some time. Well, we have seen the bottom. And the way I look at this cycle is -- and what we've done on the integrated solutions and just the skill sets around supply chain, our construction capability, our fabrication capability, I think we've got a great opportunity to be a much bigger company in the cycle than we were in previous cycles.

I was in China 2 weeks ago in our yard that is chockfull of modules for the Al-Zour power plant. And I'm telling you, if you go and walk that site, you can see why we did what we did and how successful we're going to be. 14 sailed out in May, and they fit perfectly. So not only is the competitiveness of our offering proving out, but the quality of our offering is proving out. And I think that that's only going to be an added benefit when you look at this next cycle and the projects that are in front of us, and the customers that are looking to us for surety in the terms of cost and schedule. So again, just like Steven's comment, I'm pretty bullish on what we've invested in. It's just a shame that this noise on legacy projects dampened what could have been some really good quarters over the last 2 years. And we've done everything in our power to lessen that risk and give us better insight and surety in terms of our performance going forward.

Andrew Alec Kaplowitz - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

So I know that it's a bad connection, so let me just ask you a concise question. Do you have any more milestones on that project In Europe to get over the hump there? Because I think it's the same project that you had issues on some time ago.

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

We're in start-up this quarter. Basically the answer to that, I think nothing stands in the way of start-up in their operation in September.

Operator

And our next question will come from Tahira Afzal with KeyBanc

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Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

So David, can you talk a bit about what makes the integrated solution maybe for us who are not really from the industry, maybe you can just highlight 1 or 2 elements that really helped control the risk? And I've seen not only for yourself, but throughout all E&C names. If there's a problem project, there's a domino effect. And it's tough to control once there a cost increase. Is there anything within the integrated solution model that does help prevent something like that?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Well, I think in my prepared remarks, the comment about taking 35% of the labor off the job site is key, just because of the location. And regardless of where you are in the world, there is a limit on skilled, capable craftspeople, whether it's the Gulf Coast of the United States, the Middle East or any place else. So one of the risk mitigations is being able to put things in a controlled environment in terms of quality and safety and the things that go with it. I think the other -- and this is -- it's a technical term, so be prepared. It's "one throat to choke". Our customers are looking for one company that they can look to, to deliver these assets. And more and more, most of our customers are looking past the unit rates and they're looking for a total delivery. And that's what we focused on, that's what we've invested in, and that's why I feel like in this cycle, we've got the ability to connect the dots, and there is no middleman that we've got to negotiate with. We can get things done in a more timely manner and make sure that we can stay in sequence. In every one of the problem projects, something has gotten out of sequence, and there's lots of reasons why. Some is the customer, some is the equipment supplier and some is of our own fault. But making sure you stay in sequence is the biggest risk mitigator to delivering cost and schedule.

Tahira Afzal - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Got it, David. That's actually pretty helpful. I guess, just on some of the LNG projects you're seeing out there. I saw that Woodside recently pulled out of one in the U.S. Are you seeing some reshuffling in terms of developers and where they want to be positioned? And does that change what you feel you're better positioned on?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

No, it doesn't change what we're targeting at all. You know, you look at LNG now, and it's almost synonymous with the way the offshore market runs, where the beginning of exploratory wells, somehow, the partners change, either in percentages or completely changed out. And I think you're going to see that in LNG. There's always going to be a leak and some of the other companies are going to ebb and flow. So I don't see that as abnormal, and it certainly doesn't change the ones we're focused on.

Operator

And next, we'll hear from Jerry Revich with Goldman Sachs

Corinne Jenkins- *Goldman Sachs Group Inc., Research Division- Research Analyst*

This is Corinne Jenkins on for Jerry Revich. I was hoping you could talk a little bit more about the mining backlog. It sounds like you're expecting to add between 2 and 4 billion dollars. So my assumption would be, that that's some pretty big project. I was hoping you could talk about how quickly you expect those to ramp.

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Well, yes, the one at Quellaveco, that's been announced that we're on this very large project. And then what you've got is a lot of replacement capacity-type projects that are out there. You've seen the commodity prices like I have, copper kind of leading the way. And most of those projects are things again that have pushed to the right on the schedule because of capital needs and this kind of down cycle. So yes, we're tracking a lot of very large projects, and it's not just this year. I mean, I think this is going to be a longer cycle in mining than maybe we've seen in the past.

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Corinne Jenkins- *Goldman Sachs Group Inc., Research Division- Research Analyst*

And then on the infrastructure side, you booked a couple of projects that are public-private partnerships. Can you tell us if you're seeing that kind of work? Or if it's just a couple of one-offs?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*
No I -- as I've said before, I think the public-private partnership approach has to be the leading approach if these things are going to get done. I mean, you're seeing that our Congress can't pass or even sign a good infrastructure bill. The President, I think he's been pretty clear about what he wants. And in both cases they've used PPP as the go-to model. But the federal government, state governments, they can't afford them. So you've got to go to the private side to be able to fund them, and there is a lot of money sitting on the sidelines waiting to fund these things. So in the financial closure on these things on a schedule that we expect is pretty high probability there. But as you can see with the LAX People Mover, Gordie Howe, all those things are starting to move forward, and there's several more kind of big programs that we're pursuing right now that give us confidence that, that business is going to continue to grow. Now if the U.S. federal government can get their ducks in a row and pass an infrastructure bill, I think that supersizes the opportunity there.

Operator

And our next question will come from Andy Wittmann with Baird.

Andrew John Wittmann - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*
In the first quarter, the change in the revenue recognition didn't have really a material effect on your reported revenues or your profit. But it looks like the 10-Q calls out that on a pretax basis, there's about $30 million. And most of that, it says, fell in the E&C segment. Is that the missing piece to the "gain" that other analysts are looking for? Or is that level of impact from revenue recognition supposed to stick around in the second half?

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*
So we -- as you've seen in our Q, we have, on revenue recognition, a narrative, and it's got tables in it where we're comparing the current quarter old way versus new way and then year-to-date old way, new way. And from that table, year-to-date, we're a little over $21 million dollars in the rev rec tunnel. So as you remember, at the beginning of the year, we reduced our retained earnings by about $340 million and that's what then gets re-recognized on a basis consistent with the rest of the E&C industry. So it's a slower burn, but you don't get the engineering margin and then the construction margin, it smooths it out. So that $340 million would be burned off over 3-plus years. The challenge of course is how we predict what comes in each quarter. The first 2 quarters of this year are very reflective of that. In the first quarter, we were $1.2 million, and then $20 million in the second quarter, getting to $21 million, $21.7 million in the table. So we will see that inflection come, and it will grow as time goes on. It's just a matter about how our contracts burn through each quarter and how much of that rev rec we pick up.

Andrew John Wittmann - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Yes, so that all makes complete sense.
But I guess maybe the question is, given it's lumpier, what's in the guidance? Are you expecting that to -- in the first quarter, you said that for the year, you don't expect a material effect? We got a bit of a material effect here in the second quarter. Is that going to be negative or flat? How are you thinking about it in the second half of the year? I think that might be the missing piece to the revenue or the EPS deceleration that people are trying to understand better

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

What I said in the first quarter call, we're rolling the impact of rev rec into our overall guidance of our $2.10 to $2.50 out this year.

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Andrew John Wittmann - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Right. So -- yes. Are you expecting a benefit in the third and fourth quarter revenue recognition?

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

While burning off the quarters, and we'll see the impact by quarter. I've kind of fallen away from trying to provide guidance on that rev rec, because it changes so much quarter to quarter. That's why we rolled it into our overall guidance.

Andrew John Wittmann - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Okay. My next question is just that you were thinking that there was going to be a payment for the Chinese fabrication joint venture that was due the summer. It was around $50 million. It didn't come in the quarter. Is it third quarter? Or has that payment been delayed or somehow changed?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

It's been delayed. The -- basically we've invested as much as we can invest until the next projects come in. But there is an investment coming, but it will be towards the end of the year. If not, it could slip into next year, but probably towards the end of the year.

Operator

Thank you. And next, we'll hear from Michael Dudas with Vertical Research.

Michael Stephan Dudas - *Vertical Research Partners, LLC - Partner*

David, if 2019 booking opportunities accelerate and the FIDs come through, do you anticipate that the market might -- clients might start to speed up their awards, just because they're going to run out of some of that capacity, engineering capacity? Could we get to the point where we saw, like in the early cycles of '06, '07, where things really heat up, if the economy stays strong and the energy projects finally get pushed through.

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Michael, I think so. As I said, they pushed their spending both on the major maintenance shutdown turnaround kinds of things as well as on the capital side to the right for the last 6, 7 years. And they still have to do the same thing to beat their bogeys in terms of reserves, new projects that they're looking to do if you get back into the petrochemical side, mining side. One of the fears that I have, if you think back to that last cycle, it got pretty overheated in terms of those commodities, the engineering equipment, the building materials that we had. I'm hoping there is a little more structure and discipline in that this cycle would signal before. I'm hoping it will be a bigger cycle than it was. There are more projects out there available now than there was in the last cycle, to be -- put a point on it. But I just think it's going to point to a longer period of that peak. But there's a lot of big projects that are lining up. And I feel really good about our position to capture our fair share.

Michael Stephan Dudas - *Vertical Research Partners, LLC - Partner*

But with your integrated solutions and your new model, can that mitigate and actually benefit you if those environments pick up in a couple of years?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

That's the plan.

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Michael Stephan Dudas - *Vertical Research Partners, LLC - Partner*

Good answer. Follow-up is your – take your temperature on NuScale, where do we stand? There's been some interesting articles I've seen in the press in the last month or 2 on the prospects. And how you're feeling and any timing relative to better visibility on getting off some of the expenses that we're seeing.

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Well, I'm pretty bullish about where we are. I mean we're the only small modules reactor technology that's actually matured to this point. There's a lot of people talking about what they've got it. But really, all they've got something on a piece of paper. We've got equipment being built and tested that supports the NRC requirements and design specification. So I feel pretty good about that. Getting through that first phase, which we did this -- last quarter, but says in a position where outside investors are starting to show interest. The Department of Energy has been very supportive of what we're doing and how we're doing it. And I think that we're headed towards what we expected. But as I've said, our expected investment was always meant to be replaced by others, and that's what we're looking for. I put a lot of pressure on the NuScale team to actually do that. (inaudible) And The DOE is on that in terms of that match. And as I said it’s peaking. So I feel pretty confident that we're on our schedule, and I'm not willing to say how much less for '19, but it will be significantly less.

Operator

And thank you. And I do apologize for some of the audio issues we're having. We'll take our next question from Anna Kaminskaya from Bank of America.

Anna Kaminskaya - *BofA Merrill Lynch, Research Division - VP*

Maybe I'll kick off with -- I don't know if you will be willing to comment on 2019 growth prospects. But if I just look at your pipeline of projects, you should be ending the year with kind of double-digit backlog growth. Can you comment on how quickly can you convert it into revenue? If that's a double-digit backlog growth, can we expect double-digit revenue growth next year? Any color can provide on kind of burn rate in backlog?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Yes, I'm probably not going to get too deep into that. The new rev rec approach smooths things. So in previous times, we would have been doing the engineering early, which has a higher margin than the construction did. So that fast ramp up and peak won't match the last cycle, I guess, is the way I would categorize it. But these projects are starting quick. And we are burning percent complete more quickly than we did in the previous cycle. So I wouldn't predict double digit, but I think we've got a good growth story. And we'll obviously give you more of that type of detail when we have our Investor Day.

Anna Kaminskaya - *BofA Merrill Lynch, Research Division - VP*

That's helpful. And maybe switching to free cash flow. Any comment on what the outlook could be for the second half? It's been coming a little bit weaker than I would have expected. Is it just where you are in the project cycle? Is it just some of the problem projects just taking some of the free cash flow out of your company, how do you expect the ramp of free cash flow through the rest of the year?

Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*

So Anna, this is pretty straightforward. Free cash flow is equal to net income. So as we see our net income growing, that's going to be all cash coming in. And as we see the growth in the second half both in a revenue and earnings burn, that's going to really help our free cash. But certainly, our focus is to build that U.S. cash balance. That's why we're providing visibility in the MD&A and in our disclosures here. We want you to track it right along with us. But no, that's where our free cash -- we see free cash flow increasing as the year go on and even more so into 2019.

Anna Kaminskaya - *BofA Merrill Lynch, Research Division - VP*

Is there opportunity for upside to come above 100% conversion with some of the prepayments in projects, what are the potential upsides or downsides to free cash flow, relative to your net income in the second half?

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Bruce A. Stanski - *Fluor Corporation - Executive VP & CFO*
Clearly, as we win these big projects, the customer advances will begin. And, right now, we're not really planning on the upside of consumer advances because we do keep that earmarked for the projects. A lot of our competitors don’t do that but we do. But that does very much drive up our cash balance, and you will see that in our free cash flow.

Operator

And the next question will come from Chad Dillard with Deutsche Bank.

Chad Dillard - *Deutsche Bank AG, Research Division - Research Associate*

So David, you shared where you thought mining backlogs would grow to $6 billion to $8 billion I was just wondering if you could do the same thing for oil and gas. And then also it seems like the LNG cycle is kicking into full gear here with the LNG Canada win. I'm just trying to get a sense of how you think about the comfort level with carrying multiple LNG projects, should an opportunity actually arise?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Yes I think we said the backlog today sits with E&C at about $12 billion. The previous peak was about double that. And I think we can grow past that in this cycle. I'm not going to give you the number, but I think that significant growth over that 24 is available to us in the cycle. With regard to LNG, yes, you're right. It's starting to percolate here with that win. It's a big win for us. But I’d remind you that we're teamed up with JGC.
So we're leveraging their resources, not just Fluor resources, and we'll continue working together. They have had more than, I don't know what the peak was, but certainly 2 or 3 in their backlog at one time in the last cycle. I'm not uncomfortable with that same number as we get into the cycle. As I said though, I think it's going to be a little bit longer cycle this time. So when we think about LNG Canada as an example, you got about a 12- to 18-month design cycle. And those people will start to become available 9 months into the process. So as you can see, just on timing, we can have several in backlog at the same time as long as their percent of completion fits the resources. But the good thing about Fluor, and when you do have those big projects, is you attract the best and brightest. We've proven that over our history. And again in this cycle, we'll do that again. I think with the discipline around the design systems that we've changed, some of the predictive tools that we've got and the added capabilities that we have in terms of supply chain, construction fabrication, give us bigger bandwidth in the cycle than we've had in previous cycles.

Chad Dillard - *Deutsche Bank AG, Research Division - Research Associate*

That's helpful, and just really quickly on Diversified Services, it seems like the backlog continues to tick down in that business. And I was just curious whether you're starting to see whether you’re close to the bottom, any reassurance? And how you’re thinking about the timing for that business from a bookings perspective?

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*
Yes, we would see some of that business within Stork and some on the historic Fluor side. As I mentioned, most of those customers in oil and gas and mining and everybody else stopped spending, and we're seeing a tremendous uptick in terms of those major maintenance projects and shutdowns. So in 19, 20, 21, I think you see them grow pretty rapidly, frankly, as those projects come up. As you know, there's a lot of assets on the ground that need to be maintained. And I think that our business model allows us to do that for those customers as well.

Operator

And there are no further questions in the queue, we'll turn it back over to the presenters for your final comments.

David Thomas Seaton - *Fluor Corporation - Chairman & CEO*

Thank you, operator. We'll attempt to close us out here.

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As we move, as I've said, into '18, there's a number of signs that this the cycle is pivoting from its multiyear trough. In our conversations with the customers, they are optimistic, but measured in their efforts to move some of these projects forward that could deliver value across the range of the economic cycles. Our clients are being thoughtful in which firms they engage, and they're looking at more than just an E&C provider. They're looking for strong capability in the functions, but they are discerning in terms of cost and schedule. They are starting to focus on characteristics other than the lowest EPC bid. We are approaching this next cycle differently than we have the prior cycles. We have made great progress in the past few years to transform from a transactional reimbursable model, to a model that supports collaboration and allows our company to bring innovative solutions to each and every project on which we work.

I thank you all for participating in the call today. We greatly appreciate your support of Fluor. Have a good day.

Operator

And that concludes today's conference call. We thank you for joining.

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