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Fluor Corp Preliminary Third Quarter 2018 Results Conference Call

EVENT DATE/TIME: OCTOBER 10, 2018 / 9:30PM GMT



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PRESENTATION

Operator

Good afternoon, and welcome to the Fluor Corporation's Third Quarter 2018 Pre-Earnings Announcement Conference Call. Today's call is being recorded. (Operator Instructions) A replay of today's conference call 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 7 days. A telephone replay will also be available through 7:30 p.m. Eastern time on October 16 at the following telephone number (888) 203-1112. The passcode of 2546193 will be required.

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

Jason Landkamer *Fluor Corporation - Director of IR*

Thank you. This is Fluor's pre-earnings announcement conference call. With us today are David Seaton, Fluor's Chairman and Chief Executive Officer; and Bruce Stanski, Fluor's Chief Financial Officer.

Earlier today, we issued a release discussing various charges relating to our work on a Power project and a downstream project.

Before getting started, I'd like to refer you to our forward-looking statement in our release. During today's call, 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 10-K filed on February 20.

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

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

Good afternoon, and thank you for joining us on the call today. I apologize for the short notice, but events have created a need for clearer communication.

As you've read in our release, today, we announced preliminary results for our third quarter. We anticipate pretax earnings for the quarter to be approximately \$125 million and include \$81 million in pretax charges for forecast revisions on 2 projects and a significant gain from the sale of our investment in the Seagreen wind energy venture.

To start, I'd like to discuss our sale of our interest in Seagreen wind energy. Seagreen is a 50-50 joint venture between Scottish and Southern Electricity and Fluor. We invested in this JV earlier this decade while we were actively developing another wind farm in the U.K. More recently, and with increased interest in renewables, we saw an opportunity to sell our position in the JV investment. We closed the transaction in September and we recognized \$124 million in pretax related to our investment. While this is one of a few investments we



have monetized in the past, given the size of this payment, we thought it was appropriate to mention it specifically.

Our Power project in Citrus County, Florida continues to underperform, resulting in a Q3 charge of approximately \$35 million. I was on site again last week and have held weekly calls on this project. During early September, as we got into the startup activities, it became apparent that our efforts were consuming twice the amount of labor to complete the items as compared to our forecast.

I will note that the Greenville project in Virginia is at the same exact point and is currently requiring half of the effort of Citrus. I had changed out management beginning last year and I specifically assigned key resources twice on Citrus. While costs have increased, we still expect to finish on schedule. The client has produced Power from Power block 1 and has placed it on the grid.

Second, in our Energy & Chemicals segment, we incurred a charge of approximately \$46 million related to closeout costs on the downstream project in Europe. We were driving to completion in October, with a startup/incentive deadline of October 5. This looked likely until the final commissioning effort, consistent with what we indicated in our second quarter call.

One issue that prevented our achievement of this deadline was related to defective mechanical valves that had passed initial inspection but failed during commissioning. These valves were sent to the manufacturer for reconditioning and will be back on site for installation this weekend. We expect to complete this project this year.

Finally, earnings results also reflected declines from engineering volume, a timing element for this quarter, expenses associated with closing our U.K. pension plan and foreign exchange movements.

On a more positive note, we expect new awards for the third quarter to be in excess of \$9 billion and book at least that amount again in the fourth quarter. We expect our backlog to be near \$40 billion at year-end. This is the first significant backlog increase since Q1 of '14, which saw the entrance of ChemApp which we took out in subsequent quarters, and signals, I think, the up-cycle that we've been anticipating.

If you take the Kitimat project out of the equation, the last time we had a significant increase was Q1 of 2010. Again, this signals the beginning of the cycle that we've been anticipating.

Before I open the call for questions, I want to point out, we will issue revised 2018 guidance on our scheduled Q3 call, which is scheduled for November 1.

With that, operator, I'm ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll hear first from Steven Fisher with UBS.

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

So I guess, even if we adjust out the charges and the gains that you have this quarter, it seems like you're still coming at about \$83 million below consensus on the pretax and the revenues were a bit light. So I'm just kind of wondering where is that falling short and to what extent is that timing.

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

So I think it's largely timing. And specifically, as it relates to what I said in terms of the engineering backlog, we're starting the projects in mining, we're starting the projects in E&C, which are the heavy users, E&C more than mining. And I believe that is almost purely a timing element, in addition to the issues that I've mentioned in the prepared remarks relative to the U.K. pension plan and FX.



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

Okay. So I mean, you had given some margin guidance here for the second half last quarter. I mean, do we think that your fourth quarter is likely to reflect closer to what those would have been? And then maybe broadly thinking about the \$9 billion of bookings, how should we think about the margins embedded in that? Would they also look something similar to that margin guidance that you gave?

David Thomas Seaton Fluor Corporation - Chairman & CEO

Well, there's 2 questions there. One, in that guidance that we gave before, we were expecting some of these awards to happen in the first and second quarters, which it did not. So again, with that timing question, that's part of the issue. As we have shown, if you think about it, these are 2 projects out of 1,000 that we're doing, that we are performing miserably on. And the remaining projects, I feel very confident about in terms of the backlog margin, which has improved significantly over the last cycle. And I think that the going-forward position is consistent with what we've told you before in terms of what those margin numbers will be across the spectrum of our industries we serve.

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

Okay. And then, I guess, I'll leave the next question for just about cash flow. If you could talk about how that's developing and what your motivation might be to buy back the stock given it seems like you're probably in a lower entry point tomorrow and when would you even have a buyback window open.

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

So Steve, let me talk about cash when I can. So at the end of last quarter, we're just under right about \$1.8 billion in cash total. That's increased to about \$1.9 billion as we've closed this third quarter at September 30 because that's, of course, a hard stop for our cash position. There's not much we have to do to cash once we close the books. We know exactly what it is on our books. I guess the better news there is I've started giving guidance in the first quarter of our ready cash, domestic U.S.-based cash. At the end of last quarter, it was -- we said it's about 13% of the total, so it's at \$230 million, \$240 million. We've over-doubled that in the quarter. So we're at about \$480 million of U.S. cash. And that's really good, driven by what's happening in the business and to build that U.S. cash balance. One of the good news there, we talked in the past about Puerto Rico, and last quarter, they had about \$250 million of our cash out and with -- on that project. They paid down about half of that. So they only have about \$100 million -- a little over \$100 million out now that will be paid by the end of the year. So the cash position is improving. As we've talked before about, Steve, with all this up-cycle coming, we really want to get our U.S. ready cash balance up. And the target we've said before is up to \$1 billion in itself. So based on the numbers I just told you, we're about halfway there.

David Thomas Seaton Fluor Corporation - Chairman & CEO

And the answer to your question is we're closed down on buybacks until sometime after November 1.

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

Okay. Yes. I mean, it seems like investors are going to have -- need a reason to be confident to buy the stock, but I'll let some others be jumping on that a little bit.

Operator

And we'll take our next question from Tahira Afzal with KeyBanc.

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

David, as we're looking to next year, I know we've got a healthy slate of bookings that you have booking in the third quarter and fourth quarter. As we look at next year, how are you looking at paying? Are we at a point when some of the bidding power is going back to contractors like yourself?

David Thomas Seaton Fluor Corporation - Chairman & CEO

I think that, as I've said in previous times, I mean, it doesn't really matter what day or what part of the cycle we're in. It's a dogfight everyday. I do believe that when I look at the slate of projects that we are either already working on or clearly advantaged, I'm looking for



continued growth as we get into '19 and beyond in terms of backlog. As I said, it's unfortunate, and I'm really distraught over the fact we've had these 2 projects deliver this kind of performance because it overshadows all the good stuff that's out there in terms of the new bidding style that we've done, the new approach, the integrated approach. Both of these projects were bid in the 2014 time frame. And I'm really excited to get these behind us so that we can show what Fluor's really, really made of. But I think that the bidding slate, the opportunity slate, if you will, that's in front of us is again as robust as I've seen in my tenure as CEO. So I think we're in for a sustained cycle here, at least for the next 4 or 5 years.

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

Got it. That's great. And just as a follow-up, I know you have your bidding strategy, and that is going to have a meaningful impact in terms of how consistent the profitability is. But have you felt the need to go back and maybe change the way you incentivize some of your senior project managers or how everything is set up from an incentive structure? Or are you pretty comfortable with how that's phased?

David Thomas Seaton Fluor Corporation - Chairman & CEO

Well, obviously, when you have problems like this, you go back and relook at every decision you've made and Monday morning, quarterback yourself on lots and lots of things. We actually started to implement some of that relative to those project managers, and frankly, the entire executive management team, and looked at how we're incentivizing, I think, what those metrics are. So we've already implemented some change in that regard and tightened what I consider to be the metrics, both hard and soft. On the soft side, it's things like are we sticking to our knitting. When you look at the project governance organization that we mentioned before, we're already seeing benefits from that in terms of bidding. We've had some bids that have changed significantly after those reviews, and we've won. So it's not that we've gotten real conservative. I think we've just gotten better because of the problems and challenges that we've had. We had to really go back and look at how we transition from phase to phase of a project. And as I've mentioned, I think, in some cases, we've let our customers make us mobilize the field before we're ready, and that's one of the cost metrics now in making sure that we're not letting that client lead us, we're leading the client.

Operator

And we'll take our next question from Anna Kaminskaya with Bank of America.

Anna Kaminskaya BofA Merrill Lynch, Research Division - VP

I guess we're just going through the same questions, since we're not going to speak to many numbers, but kind of have you done any soul-searching inside of the company if the methods are just a function of something structural within the company, and I think you addressed some of the projects' management changes. But I guess I always thought that the integrated construction approach has always been a big part of your company for the past 5 years. You've always been strong with project management. So is it something that needs to be changed inside of the company? Is it just a function of the cycle? And we've had this tough cycle, so we're just coming out of it. Kind of what has been happening inside of the company, the conversations you've been having on how do we avoid these quarters going forward? And I'm just talking as a frustrated sell-side analyst who's been recommending you, so just how do we get more comfort that you're changing something inside of the company to not have these quarters in the next -- in 2019 as the cycle turns.

David Thomas Seaton Fluor Corporation - Chairman & CEO

Well, speaking as a frustrated CEO, I can tell you that having this call and the last calls we've had, had taken years off my life. We've done a lot of soul-searching, to your point, but I will point you back to one fact that I think is relevant, and that is that this is 2 projects out of 1,000 that are operating at any given time. These projects, the Power project specifically, were bid at a time by a bidding team that did not follow the rules. Those people are no longer in our company. And so the review processes have been changed accordingly. The refining project was bid at about the same time, and they've made some fundamental flaws in terms of how they transition from engineering into the construction phase of the project, again, things that we've taken to heart and have strengthened the decision-making process. But as I mentioned in the previous question, that project governance organization and what their responsibilities are to make sure that: a, it's bid correctly; b, it transitions from the different phases of a project. And I see them as an early warning system, in addition to what we've done with -- that we announced with IBM and the use of Watson. So we've done a lot of things, but the problem with this business is these things are bid 3, 4, 5 years prior to completion, and it's when you get to completion when you find that you have some of the problems that you've got. As I mentioned in the prepared remarks on Citrus, it's just frankly



taking us double the hours to do the work that is taking us in Virginia to do exactly the same thing. I've been in this business a long time and I've changed a lot of management teams out and had success. This one I have not been able to turn the tide on. In the case of the project in Europe, as I mentioned, we had a significant payment due for making October 5. We missed it, and that's really -- to be honest with you, that's the reason why we're having this call is because that really turned negative on us. But again, it was after the close of the quarter, but it's a subsequent event. Until you put some of these things under pressure, some of these materials and equipment, you don't know exactly what you've got. It's normal startup. And in the case of this one, the dates were such that they were very tight, and we missed it. And I'm hopeful that a negotiation may be helpful, but needless to say, we got to recognize the issues when they fall and we're going to communicate clearly and effectively with you regardless of whether I'm a frustrated CEO or not.

Anna Kaminskaya BofA Merrill Lynch, Research Division - VP

I appreciate the color. And then maybe the full logic, we're hearing a lot of tightness in the supply chain, labor tightness, and it seems like the companies are getting a little bit busier. Any comments there on improvement in the pricing structure or contract structure, kind of where we are in the cycle in negotiating with kind of customers, where can we see kind of improvement structures in your contracts?

David Thomas Seaton Fluor Corporation - Chairman & CEO

Well, I think we've already seen a significant improvement in the new awards that we're putting into backlog. So I think the -- we're already seeing that benefit. I think back to your previous question, I think it's still germane, and that is the timing element that's here and when these problem projects were bid and the learnings from that and how we've applied them. I think there is a tightness in the market relative to the supply chain. We're seeing some of the issues and challenges. I mean, clearly, having to go retool 5 big valves is an indicator that the supply chain has failed us. We've already taken great effort in terms of improving that, but clearly, those big valves have been on that site for 2 years and the looking-forward position is different in terms of that supply chain. I think the other comment I'll make is on the integrated solutions, and some of you have seen our yard in China and the other fabrication capabilities that we've got. The issue that we were trying to solve was the craft labor challenge that exists in many places around the globe and taking that labor off of the job site and into a controlled environment in terms of quality. Doesn't mean that everything is going to be moved offsite because there's local content requirements that we'll be able to meet. And on those critical pieces that drive the schedule, the process plant, many of you heard me say that a critical path runs through the piping account, we're going to control that piping account from the supply standpoint through to and including the installation scope of that. So it just pains me to have to talk about a project that was bid 4 years ago and performing at this level when there's so many good things that we've done in taking advantage of the changes we've made in people, the tools and systems and approaches that we're going to apply -- that we've already applied in the things that are coming into backlog and that we'll apply as we bid the next cycle.

Operator

And we'll take our next question from Andrew Kaplowitz with Citi.

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

David or Bruce, so just maybe, just more specifically. I think, since they've tried to ask this question, I'll try to ask it more specifically. So your previous guidance implied something like \$0.80 a quarter in the second half of the year. I don't know what the tax rate is going to be in Q3, but probably, something EPS in the \$0.50 to \$0.60 range, from what -- all the pieces you've given us for Q3. When I look at Q4, why wouldn't you get back closer to what it was supposed to be, I guess? How much drag is there from these projects, if at all, on, I guess, estimated margin, if you may? And then, maybe briefly, you could tell us how much the U.K. pension and FX is actually worth in the quarter, that would be helpful.

David Thomas Seaton Fluor Corporation - Chairman & CEO

Well, I'll start and ask Bruce to continue. I've already answered part of that question. The biggest element that we see that is a, I'll use your term, a drag, a potential drag on your estimates is the timing element. And I'll let Bruce talk about the specifics on the U.K. pension and then FX.

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

Andy, so obviously, we're not completely closed yet. Our books aren't closed. So from an approximation standpoint, the combination of the U.K. pension and our FX, negative impact of FX, is about \$30 million in the quarter.

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

Okay. And David, maybe I could just go to the logical next question there then. If timing is the issue, right, and we look at next year, I mean, the setup is interesting, where you've got -- by the end of this year, the book going as you can, and you have 30% increase in backlog by the end of the year. And then if you look at what you've been guiding in the second half of the year, I mean, seeing 6% to 7% margins, it's hard to believe that those margins would go down in '19, again assuming nothing else happens. So why wouldn't you look at sort of those conditions for 2019? Why wouldn't you have double-digit revenue growth and more normalized E&C margins? What would stop Fluor from booking that? And maybe just visibility around -- but David, in the past, you gave guidance in Q3, you didn't do that last year, we get it. There is no -- the stock level is going down, like they're dropping like a rock. But this year, obviously, it's up a lot. So why don't you have better visibility now than you've had in the past?

David Thomas Seaton Fluor Corporation - Chairman & CEO

Well, great questions. And as far as '19 is concerned, I mean, there's 2 elements there. There is a little bit of a -- if you think about where we thought we would be, we had some of these projects already in backlog and being executed in Q1 and Q2. So that's part of the question, and the startup is the same normal setup. However, from a margin perspective, with rev-rec, we're not hitting the high-margin engineering in the first phases of the project like we did in previous cycles. So you're going to see a little bit of a different effect on that margin curve. I mean, the good news is, is that if we're getting back to \$40 billion and higher, which I think we will as we go through '19, you're going to see more margin simply and more revenue associated with it, which should give us a pretty good earnings trajectory. I think the other point I'll reiterate is we are continuing to see better margin in backlog as we put these projects into backlog. And I think that bodes well for '19 and beyond. If you also kind of put it into the equation, I've been CEO since '11, and other than the Kitimat quarter, we haven't added a backlog. We started the beginning of this year in the eighth year of a downturn. We are coming out of it. We are seeing the light at the end of the tunnel. It's not a train coming at us. So I do think that, to your point, you should see improving numbers as we go through '19, but I don't want you to get too excited with Q1 just because of the timing element that I mentioned.

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

Look, can I ask you -- sorry, I was just going to say, Bruce, look, I hear that, but the issue is, right, you guys are already guiding the 6% to 7% margins in E&C at the bottom of the cycle, and so it was just confusing to us, right, as we look into '19 because the revenue should be starting to pick up. I get your rev-rec comment and the margins are not as front-end loaded, but that's just the conundrum for us, right, is that it just seems like the margins -- every quarter, it's like we think they're good, and then we -- then you have a quarter like this. So instead of rambling off, I'll just say, at the Analyst Day in November, I think it would be helpful to sort of break out or tell us more about the E&C margins.

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

Andy, that's our plan for the -- for Investor Day, to kind of give some color on margins. But as you look forward with these jobs that we're booking, as David said, our booked margin has been steadily increasing and particularly in E&C. So while we've been giving the guidance of 6% to 7%, here are the margins for E&C. We see, as we get into full production and construction of these projects later next year and into 2020, we're going to be potentially going over the top of our range here in margins. We will have more on that at Investor Day.

Operator

And we'll take our next question 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 I'm just trying to understand, Bruce, last quarter, when you provided guidance, the implied quarterly base was about \$0.80 a quarter. If we normalize for all the adjustments this quarter and maybe gain and a few charges, it sounds like it's more like \$0.40 a quarter, which implies -- \$0.40 a quarter. We have FX, which is a negative, and pension, which is a negative headwind of \$0.15, it sounds like. So I guess my question is, the \$0.25, you know what I mean, or so that's related to engineering, does that -- did that resolve itself in the fourth quarter? Or is that an issue in the fourth quarter in that we need to lower the numbers again? Or is that, in this issue, I guess, continuing to '19?

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

Well, Jamie, obviously, there's a -- and I appreciate what you're doing because we're doing the same thing as far as building up to what we expect in earnings, and we haven't finished that process yet with all the moving parts we have in our company. That's why we're going to delay giving guidance until November 1 when we do our earnings call. But clearly, there is a shifting of our engineering work to the right. How much of that's going to fall outside of this year versus in this year is what we're working on determining. Plus, there has been a cadre. David talked about 2,000 projects, a cadre of adjustments and percent completed on those projects that fall out every quarter. So that's another thing that we're looking through. So again, by November 1, we'll have a much -- our optics will be much clearer once I -- once we physically close this quarter and get our taxes right on it. And tax creates another problem there too because with this asset sale, there's many tentacles of the tax question with that asset because it -- foreign-located, U.S. gains, that type of thing. So we'll give you lots of metrics on Investor Day.

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

Yes. The reason why I'm asking the question is because I feel like we ask the same question every quarter, which is everyone's trying to understand a normalized base of earnings, you know what I mean, in '18 because that has implications for '19. So if we took your third quarter, \$0.40, you multiply it by 4, that implies \$1.60 in normalized EPS to grow off of, which is much lower than where The Street is right now, who were at another, probably \$3.50 or something, for 2019. So I'm trying to understand, is the base \$0.40, is it \$0.55, is it like, the genesis of my question, if we're trying to talk The Street down materially now for '19.

David Thomas Seaton Fluor Corporation - Chairman & CEO

We understand the question, Jamie, but we're not going to give a specific guidance for '18 until November 1 and then the others, beyond. I think that the way we're building the plan for '19, your \$3.50 is probably on the high side, but it is a building story. As I said, you got these projects that are 3 or 4 years old in duration, so you got a longer tail on that earnings piece.

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

Do you know how much the adoption, the accounting changes, how much that impacted the quarter? Is that also the variable? That was also the variable.

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

Yes, it's definitely a variable, Jamie. Of course, and like we've said, not until we finally close our books do we know the exact -- the actual amount of rev-rec. We do put that in our Q and reconcile it old way versus new way, so we'll all see it once we finish. But we're just not there yet. If you -- and if you can give us 3 more weeks, we'll have that all done and guidance for the remainder of the year.

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

Okay. And then my next question is, when you guys announced that Seagreen a couple of weeks ago, whenever, you basically said we're not going to quantify what's embedded in guidance, but there is something in your guidance. What was the \$124 million gain relative to what you initially had in your guide?

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

So we did have the benefit of the Seagreen sale in our guidance and scheduled in our guidance for Q3, but the gain was much higher than we expected. Now we certainly didn't expect the project losses that we took to offset that. But it was baked in at a lower amount.

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

And could you quantify how much lower or no?

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

No, probably not. So just in 3 weeks, we'll have guidance for the fourth quarter, so you'll see it. So...

David Thomas Seaton Fluor Corporation - Chairman & CEO

But we appreciate your question, Jamie. I understand where you're going, and we just can't give you those kinds of answers.

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

Yes. I mean, if we want to set the bar now lower for 2019, it's probably the time to do it. And sorry, one last question just because I have to ask, I have covered you guys for way too long -- not way too long, but for a very long time, you guys have never pre-announced on charges. And when you look at the gain relative to the charge -- well, you generally don't is a rule of thumb. I guess what is -- is this like what was the point, you know what I mean? I'm just trying to understand, is this how we think of things going forward and why this detail was important?

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

I think that given the circumstances that we're under right now, the fact that we've got these 2 projects that are albatrosses, and I've thought about this a lot, each of my predecessors have had albatrosses as well as our competitors. No one is immune to these things, but when we missed that date in -- on October 5, last Friday, it took us from basically near your guidance, to not near your guidance. And we wanted to make sure, as I said in my remarks, we want to clearly communicate with The Street when there are changes that have a significant impact, and that's what we've done here. That's what Alan did in 2006 when we had the embassy problems. And I don't want to make this a habit. I certainly don't want to make this a habit when it's a negative. And I just thought that -- well, we thought that it was just appropriate to communicate.

Operator

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

Jerry David Revich *Goldman Sachs Group Inc., Research Division - VP*

David, can you talk about how the contract structures for the major LNG projects are shaping up in the cycle versus large projects in the last cycle? So you spoke about the execution changes in the company, so what about the contract structures, how are the terms now that there are a bunch of projects that are potentially moving forward there, maybe pretty quickly at the same time?

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

Well, that's a great question. We're seeing, in some cases, we're seeing some of the same behaviors and contract expectations that we saw in the last cycle, and we're staying away from those. We're trying to participate in the LNG projects where the customer's looking for a different approach, a different answer and a different outcome, frankly, in terms of cost and schedule certainty. When I look at the approach to LNG Canada, it's just different than what's been done from a stick-build standpoint in -- on previous projects. I was at the gas conference in Spain, and one of the things I may comment is enthusiasm is not a strategy. And in some of these projects, where the spreadsheet and the expected world-class cost per ton is driving the boat, I think they're going to be disappointed in this cycle because there's fewer and fewer people that are willing to take a leap of faith, so to speak. We certainly are not. So I think my comment about it being a dogfight everyday is still appropriate. I think that what we're trying to do is create -- help project -- help clients create projects that make sense from a cost perspective but have a surety in terms of the expected performance of that project. I feel very good about LNG Canada as well as many of the other projects that we're doing. I mean, some of the things, as I said on previous questions in terms of how we're doing our projects and tools and systems, the discipline, the governance that we've added to the mix, I think we're in a much better position just to do what the customers are asking us to do. The contracts are tighter from our perspective. You know that there's a storm going on right now in the Gulf, which is a horrendous storm. If you think back to CPChem and 8 storms were force majeure and 9 storms were not, well, you can imagine what our force majeure language says and what the direction we've given to our bidding teams are. So we have tightened, I think, the nuts on our -- on the things that we can tighten. And most of the customers understand that there is a balance to what risk people like us should take and what risks themselves an owner should take.

Jerry David Revich *Goldman Sachs Group Inc., Research Division - VP*

And David, can you just update us on the number of LNG projects you feel comfortable undertaking at the same time? And as we look at potential FID timing of projects, where you're involved, what's your optimism on this versus international opportunities over the next 6 to 12 months?

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

Well, one thing to keep in mind is we've already started on LNG Canada. And the people that are doing that, the early work, the early process work, will be done in months, not years, and they will be available for a second job and you can go down the line of how those



projects are executed and talk about those teams. We're currently pursuing 2 more, and we're going to be very measured to make sure that we don't overextend from a leadership perspective. I do believe that we are an employer of choice and we've been able to add to our talent base, in addition to some of the great talent that we've been able to challenge on some of these harder projects, including, frankly, the losers that we've got here because scars on back, I think, provide good learning opportunities for people that they can apply on the future projects. So when I think about the -- our limitations, I think it's not really our limitation, it's more of the supply chain's limitation and the willingness of the customer to try a different approach.

Jerry David Revich *Goldman Sachs Group Inc., Research Division - VP*

Okay. And then just to circle up on the margin discussion, I think, give or take, the pre-announcement implies E&C margins of about low 3% range. And I just want to make sure I understood your comments, right, earlier, which is if you had hit the deadline, you would have not only met that additional cost, but you would also have closeout benefit that would take margins closer to where we have been used to in the segment, excluding charges. Did I understand your comments correctly?

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

That date was worth a lot of money.

Operator

And we'll hear next from Chad Dillard with Deutsche Bank.

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

So I just want to go back to your comments about the engineering volume shift out to 2Q, and I appreciate the fact that you're still trying to figure out how much gets realized in 2019 versus 2018. But maybe to start with how much actually moved out and talk through what are the moving pieces that would -- that's going to kind of get you to where are the '18 versus '19?

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

So I'm not going to go into too many details there, but I'll just add this color. The big projects that are coming in, in the second and third quarter, those earnings were '19 in terms of the engineering. We've done a lot of FEEDs, which are good work, but low in terms of number of hours. And there's been a delay in terms of moving them into the EPC phase, which is the big hours that burn and frankly, a lot of our tools and systems are based on. Those projects will be beginning as we get through this year, but they will start in earnest as we get into '19 and '20. There is a litany of projects coming that we feel pretty good about going forward that will fix that problem. And as I mentioned earlier, I think it's more of a timing question that has hurt us in the third and will hurt us in the fourth quarter and probably, not to the level that hurt us in the third because it is building.

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

That's helpful. And then can you just give a little more color on -- you were talking about margins and backlog. Just a more specific comment on the oil & gas business, or can you do that across the rest of your business? And then also, maybe you can give...

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

It's across the board, Chad. We -- when you look at what we've done in terms of project governance, the change in the model, whether it's mining, whether it's infrastructure, whether it's government, I think we've been able to lower our cost of delivery, point number one. I think surety of execution, notwithstanding the 2 problem projects that we've continued to talk about, I think all those things are adding to an ability to raise margins across the board. I think we gave that guidance by unit in the last call, and we'll reiterate that when we get to November. But I think that I'm really pleased with the way the organization has embraced the change. And in some cases, it's a cultural change, and that's difficult. But nonetheless, I'm pleased with the development of the organization, the people that are driving the ship in terms of the application of the lessons learned and the new way of doing things.

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

And just lastly, can you give an update on your real estate footprint nationalization opportunity and where you stand on making progress there?

David Thomas Seaton Fluor Corporation - Chairman & CEO

Well, as I said, the biggest mover is our Houston office, which we'll cut in half in terms of square footage, but that's not until we get to '21. But we're looking at options of how we develop that land and who's going to own that property.

Operator

And we'll take our last question from Justin Hauke with Baird.

Justin P. Hauke Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate

No more beating dead horses here. I've got just 2 quick ones.

David Thomas Seaton Fluor Corporation - Chairman & CEO

But I'll tell you what, this old horse has been beat and put up wet. That's for sure.

Justin P. Hauke Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate

Right. Well, these are like quick ones. Just one on the cash build, Bruce, that was helpful. I just wanted to understand the tenor from here on these projects and the commitment because if you're only half the way to that USD 1 billion cash war chest, are these projects going to be kind of front-end loaded on the cash? Or is this going to be a slow process to kind of get the balance sheet to where you want to be, to where you might have some deployable capital?

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

Well, just it's a little of both. I mean, from the front-end loading as far as near-term receivables that we see, of course, we've talked about the Seagreen asset. We have not experienced that cash inflow yet. It's coming shortly. We talked about Puerto Rico clearing near \$125 million. So we've got some big things that are coming in. If you look at the LNG Canada job, there is a cash advance there, but when we receive that, it's actually because it's in a joint venture bank account, it hits our investment lines on our balance sheet. So it is true cash, but like we do with any of our cash advances, we keep them earmarked for that project. So you actually won't see that one in our cash balance even though it's there in our joint venture bank account. So I think, on an ongoing basis, of course, net income minus dividend equals cash flow. So that's just a rule of thumb. So you'll see it both in the cash advances we get, no matter where we put it in our books, you'll see it on the collections that we're doing, and then you'll see the continual cash contribution at a steady rate over time.

Justin P. Hauke Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate

Okay. Great. Helpful. And then, I guess, just the last one just to kind of square models away. Is the -- what segment is the Seagreen gain? And then the FX and the pension, are those both in your corporate expense, I'm assuming?

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

The gain on the Seagreen will be in the Mining, Infrastructure, Industrial & Power segment. And I'm sorry, just so what's the second question?

Justin P. Hauke Robert W. Baird & Co. Incorporated, Research Division - Senior Research Associate

Just the FX and the pension expense that you talked about, I think it was \$0.15 or so.

Bruce A. Stanski Fluor Corporation - Executive VP & CFO

Yes. So the FX is actually in our G&A. I mean, quarter-on-quarter, we report it on G&A. But we also have an FX on an embedded derivative that sits in our Energy & Chemicals group. So we get it in 2 places, then that's washed through, through operations, through the earnings from the business results, where the FX in G&A, you really see the swings quarter-on-quarter for the positives and negatives in the FX in G&A. Relative to U.K. pension, that's a corporate charge.

Operator

And that concludes today's question-and-answer session. I'd like to turn the call back over to David Seaton for any additional or closing remarks.

David Thomas Seaton *Fluor Corporation - Chairman & CEO*

Thank you, operator, and I appreciate everyone joining us today on such short notice. As I said, we felt that it was important that -- excuse me, that we can clearly communicate when we had some significant things to deal with. We'll update you on our call on November 1, and we hope to give you more granular information and in-depth information on why we think we can be successful at our -- in the industry day -- Investor Day. Thank you very much, and have a good day.

Operator

Once again, that does conclude today's conference. Thank you for your participation. You may now disconnect.

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