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FLR.N - Q4 2020 Fluor Corp Earnings Call

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## CORPORATE PARTICIPANTS

**David Edward Constable** *Fluor Corporation - CEO & Director*

**Jason Landkamer** *Fluor Corporation - Director of IR*

**Joseph L. Brennan** *Fluor Corporation - Executive VP & CFO*

## CONFERENCE CALL PARTICIPANTS

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

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

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

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

**Sean D. Eastman** *KeyBank Capital Markets Inc., Research Division - Senior Equity Research Analyst*

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

## PRESENTATION

### Operator

Good morning, and welcome to Fluor's Fourth Quarter and Year-end 2020 Earnings Conference Call. Today's conference is being recorded. (Operator Instructions) A replay of today's conference call will be available at approximately 10:30 a.m. Eastern Time today, accessible on Fluor's website at [investor.fluor.com](http://investor.fluor.com). The replay -- the web replay will be available for 30 days. A telephone replay will also be available for 7 days through a registration link, also accessible on Fluor's website at [investor.fluor.com](http://investor.fluor.com). 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.

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### Jason Landkamer - Fluor Corporation - Director of IR

Thank you. Good morning, and welcome to Fluor's 2020 fourth quarter conference call. With us today are David Constable, Fluor's Chief Executive Officer; and Joe Brennan, Fluor's Chief Financial Officer. We released our earnings announcement earlier this morning, and we are streaming a slide presentation on 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 1. During today's presentation, we'll 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 our Form 10-K filed earlier today.

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

I'll now turn the call over to David Constable, Fluor's Chief Executive Officer. David?

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### David Edward Constable - Fluor Corporation - CEO & Director

Thank you, Jason, and good morning, everyone. Let's turn to Slide 2, and get started. My first 2 official months back at Fluor have been extremely busy. The immediate priority was to reset and communicate our longer-term strategy and the corresponding organizational structure.

As you know, we announced the new Fluor management team in January. Our collective focus is on the end markets where we have the right technical expertise to add value for our clients, while earning a suitable return for our shareholders. The recent changes that have been implemented align our business around the strategic priorities identified for Fluor in the near term.

As a reminder, our 4 strategic priorities are to: number one, drive growth across the portfolio; two, pursue contracts with fair and balanced terms; three, foster a high-performance culture with purpose; and four, reinforce financial discipline. On today's call, we will review our 2020 results and discuss our views on how 2021 is shaping up.

For a longer-term view of Fluor's opportunities and key focus areas, please tune in to our Strategy Day from last month if you haven't had a chance to view it yet. Strategy Day kicked off one of the more exciting areas of change and growth in Fluor's long history. And we are confident that the strategic plan as outlined will deliver a directional earnings range between \$3 and \$3.50 per share by 2024.

Now to 2020. Please turn to Slide 3. We ended the year with a backlog of \$25.6 billion and full year new awards of \$9 billion. New awards clearly reflected the impact of the pandemic and its pressure on our clients. They also reflect our stringent pursuit criteria and strategy to reduce risk.

Across our end markets, we saw clients delay capital spending plans while they waited for uncertainty from the pandemic to subside. Based on conversations with our clients, we are starting to see positive momentum and expect to see new awards pick up in the second half of 2021.

We continue to see good prospects across our portfolio and are completing front-end work scopes to populate our future backlog. However, lower awards in 2020 will create a headwind for 2021 earnings.

Before talking about what we are seeing for 2021, I want to reinforce that the people of Fluor have tackled the challenges of 2020 with a resilience and energy that was unmatched. These challenges have made us all more adaptive, and I believe that the organization is truly motivated to successfully take the company forward into its next chapter.

Now let's turn to our business lines and how we are aligning our priorities with the opportunities ahead. Turning to Slide 4. As we move into 2021, our Urban Solutions end markets are gaining momentum. Specifically in mining, we are seeing high demand for metals such as copper and iron ore. Last year, we booked a significant North American steel project as well as several front-end studies that we expect will convert to follow-on EPCM awards in late 2021 and beyond.

Late last year, we achieved practical completion for the BHP Spence copper project in Chile. We've had a long-term relationship supporting BHP's capital efforts, and we are proud to be completing another successful project for them.

We are also encouraged by the opportunities we are seeing in our advanced technologies and life sciences end markets. Here, we are pursuing data centers and semiconductor opportunities in North America and major life sciences prospects in Europe.

In addition, Fluor has just been selected for a large biotech project in Europe, and we are finalizing contract details now. This confirms our strategy to leverage front-end technical solutions into full EPC awards. Contract signature is expected by the end of Q1 2021, and we look forward to sharing more specifics at that time.

Advanced technologies and life sciences is well positioned to support our clients for advanced manufacturing projects. This includes opportunities arising from the U.S. government's executive order that is focused on the domestic supply chain for critical materials, including semiconductors, batteries, pharmaceuticals and rare earth elements.

Moving to Slide 5. In Infrastructure, we are well positioned for select opportunities in the U.S. due to urbanization and an aging infrastructure system. Furthermore, we believe these opportunities could be enhanced with the introduction of a federal infrastructure spending bill.

As a reminder and as messaged previously, infrastructure margins will be under pressure as legacy 0-margin projects are worked down through the year. Approximately 35% of our infrastructure revenue will come from 0-margin work in 2021.

As we discussed during Strategy Day, we will be very selective in the infrastructure projects we pursue in the future. Each pursuit must have the right scope, the right client, the right location, the right contract terms, the right size and importantly, the right execution team and resources. Our goal is to deliver predictable earnings and not chase top line growth. This will be especially apparent in our infrastructure pursuits going forward.

Turning to Slide 6. The management team is very excited about the work we are doing in Mission Solutions and the opportunities we see in supporting our government clients going forward. As you know, we are keenly focused on growing our presence in the intelligence, cyber and mission-critical infrastructure and operations markets.

Furthermore, we continue to support the DOE and the National Nuclear Security Administration with its nuclear security, environmental remediation and energy projects and operations. We expect that work to be a strong baseload for Fluor in the coming years.

Please turn to Slide 7. While we are optimistic about our prospects in Energy Solutions in 2021, we don't expect our clients to resume capital spending at a meaningful pace until later in 2021 and beyond. We are having productive conversations with our energy clients and are well positioned to meet their growing needs.

Importantly here, we are living in an ever-changing world, and Fluor continues to enhance its capabilities in the energy transition space. We fully expect this market to begin a larger part of our prospect pipeline as clients pivot themselves toward a lower carbon economy.

Next, our chemicals clients see recovery in key sectors of the market, which are anticipated to translate into additional capital expenditures. This includes the specialty chemicals market, where we continue to see positive signs of investment with our existing clients and significant activity with ongoing pursuits. Also, future consumer demand in the battery market is translating into additional client investments associated with lithium and related battery chemicals.

Now let me give you a brief update on some of our key projects, starting with LNG Canada. Moving to Slide 8. At our Strategy Day, Project Director Phil Clark gave a full update on the good progress at LNG Canada and Kitimat. Earlier this month, the projects received approval for its construction ramp-up plan from the Office of the Public Health Officer and Northern Health. We are coordinating with government and health authorities as our workforce on site increases, and we focus on our spring and summer construction program.

Moving on to the Purple Line project. As mentioned on the third quarter call, a settlement was reached between our Purple Line JV and the Maryland Transit Authority. We received the first payment in the fourth quarter and expect a second payment in the second half of 2021.

This month, the design-build team for the Tappan Zee bridge filed a lawsuit against the New York State Thruway Authority for unapproved change orders. As a team, we agreed we had exhausted all other options for resolution and believe we are owed compensation. While we don't have a time line for the resolution of these legal actions, we will keep you updated as the situation proceeds.

Please turn to Slide 9. With respect to our 2 challenged government projects, I'm pleased to report that on the Radford project, we have turned overall 113 systems to our client, and we are essentially complete. The F.E. Warren project continues to make steady progress. Finally, we remain confident in the viability of our NuScale initiative. And as stated last month, we are currently evaluating new investors and looking to reduce our ownership stake and capitalize on this clean energy investment. I'm very encouraged by the levels of interest we are seeing and believe that NuScale can provide sizable returns for Fluor over time.

And now I'll turn the call over to Joe for the financial update. Joe?

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**Joseph L. Brennan** - Fluor Corporation - Executive VP & CFO

Yes. Thanks, David, and good morning, everyone. The main topic I'll discuss today are: one, an overview of our 2020 financial performance; two, an update on our liquidity and financial position; three, an update on our initiatives; and four, our outlook for 2021. You'll see that today's results are presented in alignment with our old reporting segments and includes Stork as part of continuing operations.

Starting with our Q1 2021 results, we will be presenting our financials aligned with our 3 new business segments: Urban Solutions, Mission Solutions and Energy Solutions. At that time, we also expect to report Stork as discontinued operations. We will maintain another segment which will principally represent NuScale. Our Radford and F.E. Warren projects will move back into Mission Solutions. As David said, Radford is essentially complete with all 113 systems turned over to BAE, while Warren will flow through at 0 margin until its completion.

Turning to Slide 10. For 2020, Fluor reported a net loss from continuing operations attributable to Fluor of \$294 million or a loss of \$2.09 per diluted share. During the year, we recognized the following significant charges, most of which were recorded in quarter 1: \$298 million for impairments of goodwill and tangible assets, investments and other assets; \$60 million for current expected credit losses associated with Energy & Chemicals clients; \$146 million for impairments of assets held for sale included in discontinued operations, of which, \$12 million related to goodwill; as well as significant forecast revisions for project positions due to COVID-19-related schedule delay and associated cost growth.

Corporate G&A expenses for 2020 was \$241 million, up from \$166 million a year ago. For the full year, \$47 million was due to foreign exchange currency losses predominantly driven by the weakening of the U.S. dollar, and \$42 million was attributable to the professional fees associated with the 2020 internal review. Our increased compensation expense of 2020 was primarily due to the impact of a higher price on stock-based compensation, as our share price increased from the date of the grant to the end of the year.

We achieved an estimated run rate savings of \$140 million annually in our overhead expenses due to actions taken in 2020. It's important to note that these savings are spread across the business lines and in corporate overhead. As I mentioned last month, we expect to achieve an additional \$100 million of annual savings over the next 3 years as we rationalize overhead to the new shape of our business.

During the fourth quarter, we exited 2 of our European infrastructure P3 investments and received cash of approximately \$20 million. We also have 2 North American joint ventures that we expect to exit later in 2021.

Moving to Slide 11. Our ending cash balance was \$2.2 billion, up from 2019. Domestic available cash represented 32% of this total. We expect to see our cash holding steady around \$2 billion through the year, with debt retirement being offset by divestitures and the liquidity improvement measures we have discussed in the past. Operating cash flow for the full year was \$186 million, which included approximately \$375 million of cash to fund our legacy projects.

As you saw in our earnings release this morning, Fluor successfully renewed its lines of credit and entered into an amended and restated \$1.65 billion credit facility, which matures in February of 2023 and replaces the previous revolving loan and letter of credit facilities. Additionally, our debt-to-capitalization requirement on this amendment facility was expanded to 0.65x, which gives us more flexibility and current borrowing capacity as we assess our capital needs moving forward. We believe this is the appropriate sized facility we need to support our business given the shift in our strategy as well as another good example of our efforts we are making around the organization to make Fluor fit for purpose.

In 2020, we continued the process of monetizing our investment in AMECO, an equipment rental business. Earlier in the year, we sold our operations in Jamaica, closed our operations in Mexico and sold the equipment rental business owned by Stork. We announced on our Strategy Day call that we have received a letter of intent for our AMECO North America business and are now reviewing options for the remaining South America business.

Please turn to Slide 12. Our 2 main financial priorities in 2021 are further stabilizing our capital structure, which we plan to primarily do with debt retirement and divestitures, and booking a pipeline of work that fits our revised pursuit criteria and our strategies.

We are introducing our 2021 adjusted EPS guidance of \$0.50 to \$0.80 per diluted share for continuing operations. This excludes NuScale-related expenses and any impact from foreign currency gains or losses, restructuring or impairments. This also reflects Stork being a discontinued operation.

As David said, we expect to see new awards begin to pick up in the back half of 2021 with significant EPS growth in 2022 as we begin to work these projects. Though we do not give quarterly guidance, Q1 results have historically reflected higher G&A expenses.

While we are seeing green shoots around the business, the lingering effects of the pandemic will continue to keep awards depressed for the next few months. Furthermore, our existing backlog is still being impacted by the pandemic. Though our projects are back online for the most part, government restrictions have slowed down our progress and the rate at which we are able to bill our clients.

Turning to Slide 13. Our assumptions for 2021 include: a slight decline in revenue as compared to 2020, adjusted G&A expense of approximately \$40 million to \$50 million per quarter and a tax rate of approximately 28%. We anticipate average full year margins of 2% to 3% in Urban Solutions, 2.5% to 3% in Mission Solutions and margins of 2.5% to 3.5% in Energy Solutions and improving as the year progresses. These margins include the remaining impact of 0-margin work flowing through the business.

We also anticipate 2021 capital expenditures to be below \$100 million as we divest our AMECO business this year. As David reaffirmed, we maintain our long-term guidance of \$3 to \$3.50 of EPS by 2024. We are taking the necessary first steps by strengthening our balance sheet and focusing our growth on end markets where we see the best opportunities for revenue and margin expansion. With the COVID headwinds starting to subside, we will see a resumption of project awards to drive our profits over the next several years.

And now I'll turn the call over for questions. Operator, we're ready for our first question.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We'll start out with Steven Fisher with UBS.

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

You mentioned the life sciences plant by the end of Q1. Can you just maybe give us a sense of what are the other big milestones or things we should be looking for that you want to achieve in the next couple of months up to the next earnings call, which would really kind of round out your first 100-plus days, give or take?

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### David Edward Constable - Fluor Corporation - CEO & Director

Steven, thanks for the question. Yes, we are very encouraged by the ATLS award in Europe, a big biotech facility, a world-scale facility that we're just finalizing now like I said. So that was -- and I said it's very encouraging because it does confirm our move up the value chain and working with our customers on front-end conceptual work and then into front-end design and then moving into EPCM services. So that's very encouraging.

Now as far as 100 days goes, we -- I think we've set ourselves up well. We've been working really hard on the new strategy, which you heard about in January, putting new structure together and getting that communicated externally but also internally. So we're working hard on communicating the strategy and getting everyone lined up for going to market across the 3 business segments.

So I think the focus area right now will be engaging with customers, engaging with customers and making sure that our strategic priorities are matching up, which I can give you encouragement on that front as well. We've had good discussions across the segments with customers and what we're rolling out. So I think a key focus area right now, as part of the 100-day plan, in addition to those achievements I just mentioned, will be a real focus on cost optimization. And we've got that kicked off to optimize costs and make sure Fluor's fit for purpose going forward. So that's a big exercise.

I've had some experience with that in my previous life. And we're leading on that specifically to basically simplify the organization and drive some of the complexity out as much as we can and go after overhead where we feel we can be more effective and efficient. So that, to me, that's going to round out the 100 days -- the official 100 days, if you will, at the end of March.

So we're expecting -- I am the executive sponsor for that cost-optimization program. Joe is on the Steering Committee along with Mark Fields, who runs product execution. So I'd say those are the critical areas right now that we're focused on, Steven.

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

That's very helpful. And then you mentioned completing some front-end work scopes that are going to lead to those bookings you have planned for the second half of the year. Can you just talk about some of the incoming front-end scopes and the pace of that, which had been set up for further backlog growth? And do you think the awards in the second half of the year will be strong enough to have a book-to-bill over 1?

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

Thanks again. If you look at the prospects, as we said, on Strategy Day and here in the prepared remarks, we've got obviously a COVID hangover into 2021. But certainly everything we see here at the company and talking to our customers, our clients, but also just in the markets and the GDP comments and the bounce, if you will, in the second half really looks strong. I've seen estimates as far as 6 -- as high as 6.8% this year based on the second half -- 6.8% growth in the U.S. alone in the second half. So we're encouraged by that.

But again, it's -- the timing is somewhat uncertain. As you've heard in the past, our projects have -- our prospects have moved to the right, obviously, in 2020. And so we're expecting a pickup in the second half.

Specifically, we're working on a variety of projects. Even in the first half, we see potential with upstream, international upstream projects that's close to award in the first half. In Mission Solutions, work with the DOE is also getting close to fruition. The -- obviously, the biotech facility I've already mentioned. We have a chemicals project in the U.K. that is shaping nicely for Energy Solutions. Quite a bit of mining work in the second half, I must say, when you asked about that front-end work. A lot of front-end work in mining right now leading to EPCM work, all reimbursable work in the second half. And that cuts across the U.S., Asia, Africa and a couple of jobs in Africa, actually.

And then more second half work in data centers, specifically in data centers and another chemical project in the U.K. So it's kind of across the board across all 3 segments, but definitely focused on the second half more than the first half.

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**Joseph L. Brennan** - *Fluor Corporation - Executive VP & CFO*

David, if I may just add. Steve, to your question around book to burn, we would expect to be closer to flat, meaning that we would be pushing that 1.0 book to burn by the end of the year. That obviously is contingent upon some of this overhang that we continue to see from COVID and when the capital markets will kind of jump back in, and then we'll start seeing the release of some of the projects that David just outlined. But in our modeling, we're looking to be close to that 1.0 book-to-burn ratio by end of '21.

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**Operator**

And next, I'll move to Jamie Cook with Crédit Suisse.

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

I guess 2 questions. One, in the 2021 guide I think for Energy Solutions, you implied margins of 2.5% to 3%, which I think when we were -- had the call following the third quarter conference call, you implied margins potentially in ES could run rate 5%. So I just want to make sure I'm understanding that correctly. And if so, what's driving the lower margin trajectory versus what we thought a couple of months ago?

And then my second question, back to the \$3 to \$3.50 in earnings power you guys talked about last month, in particular, given the base of earnings that we're talking about in 2021, I was hoping you could help us better understand the bridge on how you think we should get there in terms of

how much is coming from cost takeouts versus a potential sell-down in NuScale versus what you assume in sort of market growth? Like any color you could help us sort of bridge that accelerated earnings growth, in particular, off of the space?

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**Joseph L. Brennan** - Fluor Corporation - Executive VP & CFO

Jamie, thanks. I'll jump in on the first question relative to the margins in Energy Solutions. We still are maintaining our 4 to 6 guidance in the outward years, driving to that \$3 to \$3.50. What's occurring in '21 is we're seeing some drag relative to COVID and starts and stops, being able to get folks on site to really drive that volume and get the progress and specifically on a couple of very large projects as we see them today. And those volume impacts are having an overall impact to how our overhead is impacting the volume itself, meaning we got to get the machine cranked up as we get back into fabrication in the middle of the year. On our largest Energy Solutions project, we'll start to see those revenues jump and the margins increase as well.

So if you looked at the trajectory of that 2.5% to 3.5% for Energy Solutions in '21, you would see a significantly lower number in quarter 1 and quarter 2 and really ramping up closer to that 3.5% towards the end of the year. And as we start booking new and more profitable work under the new bidding guidelines, we would expect that to then be a more linear approach back to that 4% to 6% range as we progress out into '22.

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

Okay, Joe. But just for -- Joe, just for clarification on that. There's no -- understanding there's COVID and when project starts or whatever, but there's no degradation in the core profitability of the projects relative to where we were in third quarter for ES, just to be clear.

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**David Edward Constable** - Fluor Corporation - CEO & Director

No, no. That is all.

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**Joseph L. Brennan** - Fluor Corporation - Executive VP & CFO

No, that's an absolute true statement from the standpoint that we've had. Listen, there are some small areas that we're still negotiating with clients, and we've taken some conservative positions, if you will, relative to COVID impacts. But they have not been significant relative to the impact to our overall margin percents as they relate to those projects.

Now there's going to be a long discussion to get to conclusion on some of these items, but we do not see it having an impact as we cross over the middle of the year, the capital markets return, and we can start adding some more profitable backlog into the pipeline at this point in time.

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

Okay. And then just to help us, the bridge to the \$3 to \$3.50 versus where we are today?

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**David Edward Constable** - Fluor Corporation - CEO & Director

So on the \$3 to \$3.50, Jamie, we're still, as I said in the prepared remarks, we're still at that level. We're comfortable with our modeling on that type of projection. And as Joe said, the blended margin corridor at group level is 4% to 6%. We've got obviously more front-end, higher-margin work in that mix that will drive to that higher level of the range that we're projecting. So I think that's how you should think about it and in revenues to get there, that type of growth to get to.



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

But is there an implied revenue number or implied benefit from some of the cost savings? I mean like just the bridge just -- I understand 4% to 6%, but I'm assuming some of the cost takeout should be incremental just -- or is it too early in the game to do that?

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

The -- one of your questions earlier was about NuScale. NuScale, any upside on that is not modeled into this at all. The \$100 million is, obviously, the additional \$100 million of savings we're going after that I spoke about, that Joe and I are working on. So that is in that mix, obviously. And so yes, that's how we get there.

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**Operator**

And next we move to Andy Kaplowitz with Citi.

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

David, so in your initial conversations with customers, could you talk about their acceptance of sort of the strategy to reduce risk, focusing on cost-reimbursable projects? Are the projects that you mentioned you can win later in '21 and more in energy in '22, can you tell if there's (inaudible) with your risk parameters, where you could actually record that 4% to 6% margin on this new work, but more cost reimbursable or lower risk?

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

Yes. Thanks for the question, Andy. All those prospects I ran through with Steven a little earlier, those were all reimbursable projects I mentioned. And won -- we have won GMAX, but again, that's GMAX in ATLS data centers where we closed the books very late in the game, and the risk is very low. So we're comfortable with that type of contracts where it's a reimbursable contract up to a maximum, and we share in the underrun.

So talking to customers, it's been very encouraging. I think they're -- the first thing is, they're relieved and grateful that we're staying in the EPC business and being a leader in engineering construction for them around the -- for all our customers around the world. We've got really good feedback from that standpoint. And they also agree that for us to stay in that, in the game, you've got to have balanced and fair terms. So those discussions have been going well in all the different business segments.

And so again, we'll -- as you know, we'll chase -- go after infrastructure work when we're comfortable. And we've got a track record on those road and bridge -- regional road and bridge projects and then be very selective, very, very selective with a stringent pursuit criteria in, for example, Energy Solutions, where we know the customer, and we negotiate risks that are appropriate.

Having been on the other side of the fence as a customer and having to take multiple FIDs on multibillion-dollar projects in the oil, gas downstream and petrochemicals marketplace, I may have heart-to-heart discussions because I've been in their shoes. And what you -- we're talking about driving to -- after you get safety and quality and fit for purpose lined out in your scope, the next thing you look at when you take FID and get your internal rate of returns as high as possible is this project cost and project schedule.

So talking to customers about driving to the lowest project life cycle cost gets their attention, obviously. And the way to do that is to share risk appropriately and not put massive amounts of coverage on the contractor side of the fence and pay more for your project than you really need to. So we're having really good discussions.

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

That's helpful, David. And so, Joe, you mentioned that you're working on a \$100 million cost-out program. I know it's through 2024 now, and it's on top of the last one. But what if anything that's baked into your guidance for 2021? I imagine a small amount? And can you accelerate it at all? Or maybe just give us an update on what you're doing here in '21.

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**Joseph L. Brennan** - Fluor Corporation - Executive VP & CFO

Yes, no. Thanks for the question. So as David had outlined, we are -- we've been pushing with an external adviser. And the methodology, I think, I laid out during Strategy Day is, we're working across the entire organization through corporate G&A into the business lines. We've conducted, nominally 100 separate interviews. What we're calling this is somewhat of a diagnostic phase or the diagnostic phase, which is a 6- to 7-week period. We plan on taking our findings for the implementation phase of this to David within the next 3 to 4 weeks, and we will then begin to -- we will begin to kind of ramp up that process, to get the optimization that we're looking for.

I would suggest that there's very little of that in '21 due to the fact that we were able to identify \$140 million of that over the last 18 months. So what we're now looking more closely at is aligning the strategy with the footprint of the company and how the 2 really need to marry up and how the users and the suppliers within the company can get aligned and how that all comes back to a much lower footprint and a more optimized model. So that's a long-winded way of saying we're probably going to see very little of that in '21, but you will start to see that really start to kick in, in the first half of '22.

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**Operator**

And next, we move to Jerry Revich with Goldman Sachs.

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

I'm wondering if -- can you talk about the revenue contribution of your green energy or carbon catcher product today and the bookings cadence that you expect over the course of '21? Just can you just give us a rough sense for the size of the business as it stands now? And based on what you're looking at for '21, what could it look like over the course of '22 and '23?

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**David Edward Constable** - Fluor Corporation - CEO & Director

Yes, that's a great topic for Fluor, right? We are well positioned for energy transition, energy transition meaning the dual energy challenge. We've got to support global energy demand, growing energy demand globally, while at the same time, driving towards cleaner energy and making it sustainable and affordable, hence the term energy transition.

And that is right in our wheelhouse, including with our proprietary technology and carbon capture and storage, the economy plus technology. And we're working on a variety of front-end projects right now in carbon capture and storage. So it's early days. It's all primarily front-end work right now, not just in carbon capture, but in biofuels, renewable fuels, some early work in hydrogen as well. And so as far as projecting when the larger programs will drop, that's further out in time, I would say.

I think it's very early days, and we have to just watch that play out. And hopefully, we can give you a little more color on that as these projects take shape. I will say that the early -- I think I've mentioned this to some of you in the past, these early customers first in the door, have been more on the development, if you will, the development side of things from a client perspective. But we're starting to see the big self-financed customers come in as well as they also have to pivot to a lower carbon economy. And they're obviously looking at how to decarbonize their assets, which we've got some work there as well.

But I just don't have the exact figure. Those are actually EPC jobs we're working on in efficiency and decarbonization. But again, it's early days, generally speaking, on energy transition, and we'll give more color in the calls ahead.

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

Okay. And then, can we shift gears and just talk about Infrastructure, with a change in focus for you folks? How are you thinking about the addressable market for Infrastructure for you today versus the revenue rate that we're running at now? Obviously, you mentioned 1/3 of the business is being run through at 0 margins. What should the size of the segment look like as we get the new bids going? Is it a, top line 1/3 smaller than it is today? Or do you think that there is scope to book and replace that business with good margin work?

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

Yes. We're, as you know, working off our 0-margin remaining projects in the legacy Infrastructure portfolio, most of that being this year and next. So that's coming along nicely. And we are keeping a close eye and -- on that, and working with our clients on making sure we're -- we have asserted our rights, if you will, for COVID on force majeure and change in law on all our projects, including Infrastructure.

And the real focus here is on going forward is where we really want to make progress is in regional roads and bridges and transfer our successful business model here in Texas out to other states around the country. That will be the primary focus, but also, Terry Towle, our Group President there in Urban Solutions, is also focused on PMC plus, where program management contracting, plus potential work in -- on the project on a reimbursable basis. So that's also something that's making headway, getting traction as well in managing these big programs.

And as you know, we expect to see more spend in Infrastructure going forward, certainly in the U.S., and that's -- we're primarily focused on the U.S. and Canada in Infrastructure. So that's where we're at right now. And obviously, it'll dip somewhat in revenues based on the new strategy. But we can expect to see that come back and drive -- with this additional type of scope we're going after, get back to historical levels in Infrastructure.

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**Joseph L. Brennan** - *Fluor Corporation - Executive VP & CFO*

With a significantly higher, predictable delivery.

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

Sorry, yes. Yes. Right.

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**Operator**

And we'll move on to Sean Eastman with KeyBanc Capital Markets.

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**Sean D. Eastman** - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

I just wanted to -- this advanced facilities end market is really interesting. I'd just like to try and get some perspective. I mean, could you tell us roughly how much revenue is baked in there for advanced facilities in '21 versus sort of where it's been at historical peaks? And perhaps if you could comment on the prospect pipeline in advanced facilities, how that's shaping up relative to kind of the prior peaks we've seen from Fluor in that business?

**David Edward Constable** - *Fluor Corporation - CEO & Director*

Thanks, Sean, for the question, and it's really heating up, right, in -- across ATLS. So it's just not only data centers and semiconductor work in advanced technologies, but obviously, life sciences and biotech and pharmaceuticals and contract manufacturing, advanced manufacturing, packaging, food and beverage, so across ATLS. And the advanced facilities, like you say, are starting to gain traction.

So you saw the executive order this week. That's -- we view that as good news going forward. It aligns with our Industry 4.0 mega trend we mentioned during Strategy Day, right? And you saw that the administration is focusing on addressing the supply chain shortage, which again, is further supporting our target market. So that trend connects the physical and digital world. And Fluor's advanced technology group is -- in Urban Solutions is well positioned to meet that demand for data processing, semiconductors, storage and data centers, so. And along with large capacity batteries for electric vehicles.

So we've got the capability and experience there. It's early days here in the U.S., but getting that supply chain localized in the U.S. just plays right into our wheelhouse. And so that's where we're at right now, and we expect growth. And that -- I'd say that growth is built into the projections that we've got in our strategic plan. But I would say, based on this focus and the attention we're seeing to localize manufacturing capabilities, we could see upside in ATLS.

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**Sean D. Eastman** - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

Okay. Great. That's helpful. And just looking at the 2021 guidance, \$0.50 to \$0.80. Obviously, a lot of growth baked into that fiscal '24 target of \$3 to \$3.50. Could you give us a rough idea on sort of the cadence of where we are now versus the fiscal '24 target? I mean, is that growth more front-end weighted within that time frame, more back-end weighted? A rough idea there would be really helpful for the model.

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

Yes. The modeling we've done for our strategic plan, obviously, because of the -- as we talked about the 2020 COVID impact and the hangover here in the first half, obviously, we're going to see flatness, if you will, across 2021. But then things really start to pick up in '22. And by '23, we're -- we are at a much higher level revenue-wise and earnings as well. So I say by '23, you -- you're really going to start to see things cooking at that point. That's kind of how we see it coming along.

And there's -- with the accounting change in the last couple of years, the way you take up projects, now you've got to take it up on total project progress. So obviously, that also pushes the earnings to the second half of the strategic planning period.

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**Joseph L. Brennan** - *Fluor Corporation - Executive VP & CFO*

Yes. Yes, I would just add, David, we're looking at it as we start this booking with the diversification that we have across our segments, that we would expect to see that more on a linear basis. There's not going to be a cyclical, I think, from year-to-year based on where we are investing in our growth strategy moving forward. So I would expect that more to be on a linear basis and probably with less cyclical.

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**Operator**

And we'll move on to Michael Dudas with Vertical Research Partners.

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

As you -- David, as you target 2021, your outlook for new business and certainly in the second half away from a depressed first half, I don't think it's much of a surprise. Of the 3 and of the urban -- of your 3 revised lines of business, which one do you think are the ones that have the best

opportunity to exceed 1x book-to-bill? Or how would you rank now you want to get there flat as an organization, which ones should have the momentum going into the end of the year and could lead to even further growth above 1x as you move into 2022?

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

Yes. I guess I'd have to lean on Urban Solutions. That's probably the first choice. That's probably where I would put it, Mike.

However, we've got some great opportunities in Mission Solutions and some massive opportunities if they -- hopefully, they hit. So I think that's probably Mission Solutions then -- sorry, Urban Solutions and then Mission Solutions and followed by Energy Solutions, which again, is doing a lot of front-end work in energy transition. And so that will probably follow-up as in third place, but we've got chemicals projects that will also help Energy Solutions here in 2021.

So I think that's how to look at it. Energy Solutions this year is going to be a lot of -- not the massive size projects, but more of the medium-sized projects that they can bring in and so assuming, more projects, hopefully, in a smaller size. Their smaller relative size, if you will. These are multi-hundred million dollar projects, but not all in the multibillion-dollar range.

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

And that's a good point to follow-up. So how -- in the new business model, the new Fluor, the size of projects, the length of projects, are they a little bit more -- are you focused on the medium side? Or is your cost structure, your basis, allow you to book some small to medium work or book-to-burn work to achieve these targets? And how much is it -- do you still need to depend on multibillion-dollar orders that kind of make the new business model work? How should we think about that as we see some of your project announcements and your progress going forward?

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

Yes. Thanks, Mike. I would definitely say that we are still going to be organized and have a global footprint to execute very, very large, complex, multibillion-dollar, reimbursable projects going forward. Hopefully, if the oil price and oil demand is as we're seeing, we will see a return to traditional oil and gas work here in upstream and downstream in the near future based on, again, the forecasts that are currently coming out.

So we want to be ready for that. Our customers, our clients are depending on us to be able to continue to do those large projects. However, at the same time, I must say that the clients are advising us that their track record, generally speaking, on mega projects has not been that stellar, if you will. And I think a lot of the work going forward will be in more manageable phased programs with expansions to follow. So I think you can expect to see the mid-sized projects come to fruition here based on what I'm hearing. But at the same time, there'll be large mega projects from time to time.

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**Joseph L. Brennan** - *Fluor Corporation - Executive VP & CFO*

David, notwithstanding what you just said, but I think if we go back and look over time, Fluor on a total project basis, Mike, I'm not talking about revenue. You would see that 80 -- don't quote me on these numbers. I'd have to go back and verify, but 80% of the projects that we execute are in that mid- to smaller size range. And it's really -- so we've always had to focus on that.

And as we go through this optimization and get to a more fit for purpose, we're just going to make ourselves more competitive in that market. We may have shifted away from it over the last 3 or 4 years in the integrated solution period. But from my perspective, that medium-sized project, which is -- got a new definition in today's parlance, has always been a staple of Fluor's revenue and profitability over time.

**David Edward Constable** - *Fluor Corporation - CEO & Director*

Well, just, Mike, just to give a little more color on that. Those prospects I went through with Steven earlier, I can give you the revenue, the total installed cost, the TIC on those. The largest is \$1.9 billion. There's \$770 million, \$600 million, \$280 million, \$750 million, \$500 million, \$900 million. They're in that range for 2021.

And again, I think you'll see some of the mega projects coming back as the oil price forecasts start to firm up. And I fully expect to see CapEx flowing in the upstream, downstream arena as that start -- that demand takes off in traditional oil and gas.

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

Yes, I appreciate it. This is very good color. And just a final quick follow-up for Joe. In the guide for 2021 earnings, so it doesn't include Stork, it was discontinued and no NuScale. Could you maybe give a little bit of sense of what would have been the contributions already of Stork, what NuScale would have been or relative to what we've been seeing (inaudible)? And how much of the 0-margin work through the P&L in 2021 on a revenue basis, percentage profit basis is going through the 2021 (inaudible)?

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**Joseph L. Brennan** - *Fluor Corporation - Executive VP & CFO*

Yes. A little trouble hearing. Let me take the last question first, because I didn't hear the -- the Stork contributions are very minimal, would have been very minimal. Let's say, single million dollar digit returns.

I think your last question was in terms of the 0-margin revenue projects that are flowing through the books, of the \$1.8 billion that we've laid out we were nominally going to push about \$700 million of that through in '21 and another \$700 million of that in '22. So by the end of '22, we will have accounted for about 85% to 90% of those 0-margin projects.

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

NuScale is the other part of question, like what would have been, '21?

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**Joseph L. Brennan** - *Fluor Corporation - Executive VP & CFO*

NuScale in '21, nominally, the -- about the same run rate as '20, somewhere in the \$80 million in expenses. You're talking about the P&L side?

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

Right. Is that -- I'm sorry, does the guidance include NuScale in '21?

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**David Edward Constable** - *Fluor Corporation - CEO & Director*

No, sorry. It does not. Yes, I have a little (inaudible).

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**Operator**

And that will conclude today's question-and-answer session. At this time, I would like to turn the call back over to David Constable for any additional or closing remarks.

**David Edward Constable** - *Fluor Corporation - CEO & Director*

So thank you, operator, and thanks to all of you for participating on our call today. Again, 2020 was a challenging year for the company and the industry. As we start to implement our strategic plan and drive reliable and profitable growth across the portfolio, we will remain focused on increasing shareholder value, while at the same time, delivering world-class projects for our clients. So we appreciate your interest in Fluor Corporation, and thank you for your time today.

**Operator**

And that will conclude today's call. We thank you for your participation.

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