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# EDITED TRANSCRIPT

FLR - Q4 2019 Fluor Corp Year End Call

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## OVERVIEW:

Co. reported 4Q19 results. Expects 2020 adjusted EPS from continuing operations to be \$1.40-1.60.



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## CORPORATE PARTICIPANTS

**Alan Lee Boeckmann** *Fluor Corporation - Executive Chairman*

**Carlos M. Hernandez** *Fluor Corporation - CEO & Director*

**Douglas Michael Steuert** *Fluor Corporation - CFO*

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

## PRESENTATION

### Operator

Good morning, and welcome to Fluor Corporation's Fourth Quarter 2019 Year-End Conference Call. Today's call 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 web replay will be available for 30 days. A telephone replay will also be available through 7:30 a.m. Eastern Time on February 25 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 fourth quarter 2019 conference call. With us today are Alan Boeckmann, Fluor's Executive Chairman; Carlos Hernandez, Fluor's Chief Executive Officer; and Mike Steuert, Fluor's Chief Financial Officer.

Our fourth quarter announcement was released earlier this morning. We have posted 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 2. During today's call and slide presentation, we will be making forward-looking statements, which reflect our current analysis of existing trends and information. There is an inherent risk that actual results and experience could differ materially. You can find a discussion of our risk factors, which could potentially contribute to such differences, in the company's filings with the SEC.

Given the company has not finalized and filed its full year financial results, the information provided today is preliminary and unaudited and could be affected by subsequent events or determinations.



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During this call, we may discuss certain forward-looking non-GAAP financial measures. Reconciliations of these amounts to the comparable GAAP measures are not practicable given the nature of the potential adjustments. For additional information, see our release from this morning.

I'll now turn the call over to Alan Boeckmann, Fluor's Executive Chairman. Alan?

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### **Alan Lee Boeckmann** - Fluor Corporation - Executive Chairman

Thank you, Jason, and good morning to all of you. There are several important business updates we'd like to share with you this morning. I'll start by addressing the investigation that we reported in today's press release.

As reported, the SEC is conducting an investigation of the company's past accounting and financial reporting and has requested documents and information related to projects for which the company recorded charges in the second quarter of 2019. In the course of responding to the SEC's data requests and conducting our own internal review, the company is looking at its prior revenue recognition charges and related control environment, focusing initially on the Radford contract. While we currently believe that the total dollar amount of the revenue and subsequent charges taken on this project was correct, we are reviewing whether the accounting and financial reporting, along with a limited number of additional projects, was recognized in the appropriate reporting period.

Let me make a statement that we do not believe at this time that we have material errors, that is the intent of the investigation. To accomplish this, a special committee of the Board of Directors has been formed and will complete a review with the assistance of external advisers. We have informed the SEC of our actions. Given the ongoing internal review, and the recent developments of 2 projects, we will not be able to complete and file our Form 10-K prior to the end of February.

In addition, this means that any financial information we provide today is preliminary, unaudited and subject to change. While it is disappointing to delay the filing of our audited financial statements, we are confident that the company and our Board are on the right path to complete their review in a transparent and comprehensive manner.

Looking forward, I believe our tireless efforts have put this company solidly on the path to profitability. Our strategic review led to meaningful changes at Fluor, including significant organizational and management changes, Board refreshment and the establishment of a Risk Committee at the Board level. We will continue to selectively pursue lump-sum work, and we now feel better positioned in bidding with our revised pursuit criteria and more disciplined in execution with our enhanced Board and management oversight.

I'd like to take a moment to reinforce my conviction in Fluor's plan for long-term success. We expect to work off the majority of our problem projects this year and have a backlog that consists mainly of projects bid under the proper conditions. Our cash position is strong, our commitment to risk management is unwavering, and we will remain vigilant and disciplined in our pursuit of projects. We firmly believe that Fluor will emerge from 2020 in a position of strength, poised to succeed for the next decade and beyond.

And with that, Carlos will now talk about our end markets and what we expect to accomplish in 2020 to deliver value for our shareholders and customers. Carlos?

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### **Carlos M. Hernandez** - Fluor Corporation - CEO & Director

Thanks, Alan, and good morning, everyone. There are 3 main topics I'd like to cover today. But before I begin, I want to briefly address the coronavirus. While we recognize the impact of the virus is widespread, our Health, Safety and Environmental group has taken the lead in putting procedures in place to protect our employees and their families. To date, none of our employees or their families have contracted the virus. Our major offices in China are now open, and we expect to ramp up to normal staffing levels over the next several weeks. Our fabrication yard is also open, and most of the local staff and craft are returning to work. Workers from other provinces will be subject to a 14-day quarantine period before they commence work. We're currently assessing the impact that coronavirus has on our projects and have already made or submitted force majeure notices where appropriate.



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Now the 3 main topics I'd like to discuss today are: one, an update on the AMECO and Government businesses; two, our new risk profile and criteria; and three, a high-level review of our segments and prospects.

If you would please turn to Slide 3. Last fall, as part of Fluor's strategic review to improve its financial position, the company announced that it was initiating plans to sell substantially all of the Government business. As we look through Q4 and realized some of the early benefits of the restructuring plan, we gained confidence in our solid liquidity position and our viable options for generating cash flow, such that we no longer deem it necessary or advisable to proceed with the sale of this important and attractive asset. As a result, we have decided to retain this business, which will cease to be reported as a discontinued operation in the first quarter of 2020.

On the AMECO front, this transaction continues to progress, and our plan to sell this business remains unchanged. It is our intent to have made significant progress with one or more potential buyers by the end of the second quarter.

Now turning to our risk profile. As Alan mentioned, risk imbalance has proven to be a challenge for our industry. As a result, we continue to take significant actions to enhance our risk profile and implement stronger controls. These risk-mitigating actions include a realignment of our engineering, procurement and budget management disciplines, which now report directly into the business units, providing improved oversight.

As an example of our new discipline around project pursuit, we recently participated in a bid proposal, where the client wanted to proceed with unreasonable schedule and cost risks assigned to the contractor. Through negotiations and alignment with the client, we were able to conform the contract to meet our revised pursuit criteria that we outlined last year. The results benefited both the client and Fluor.

Now please turn to Slide 5 for an update on our segments. In Energy & Chemicals, we booked new awards of \$1.7 billion in the fourth quarter, and ending backlog is expected to be \$14.1 billion. New awards include the EPC phase for a manufacturing facility for a chemical used to make nylon polymers, fibers and other specialty materials for INVISTA in China.

We also booked the Polyols Petrochemicals project in India for Bharat Petroleum Corporation Limited. The contract includes the detailed design, engineering, procurement and construction management services intended to help reduce India's dependence on petrochemical imports.

We recently won the EPFC for Canada Kuwait Petroleum Corporation's PDH Silo project, which we booked in the first quarter of 2020. This bid was under our current guidelines, and we have built 3 PDH plants with the same technology.

Our LNG Canada project in Kitimat is well underway. We started piling activities in the fourth quarter, which will continue into next year. Both fabrication yards recently celebrated the first steel cut for the OSBL and ISBL portions of the project. We continue to monitor our progress and are focused on achieving our next major milestones, completing the 90% model reviews.

Moving to our offshore project. This project is staying relatively close to its revised forecast.

New awards for 2020 will be led by the Mozambique Rovuma LNG project. We expect to book this project this year and are currently executing this project under a limited notice to proceed. Fluor, along with our partners, JGC and Technip, have assembled a strong team that is designed to execute this project on schedule and on budget.

Last quarter, we talked about the Formosa Sunshine project in Louisiana and remain optimistic about this project moving forward. We now expect to see the various EPC packages of this project awarded in the second half of 2020 and into 2021.

We also see a number of refinery and petrochemical projects in Europe, North America and Asia Pacific.

Now turning to Mining & Industrial on Slide 6. We expect to end the year with a backlog of \$5.4 billion, and fourth quarter awards were about half a billion. Fourth quarter awards were driven by EPC contracts for data centers in our Advanced Manufacturing and Technologies group.



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Mining awards have been light in 2019 as anticipated, but we expect to see the FEED work we have been completing convert into EPC awards in the back half of 2020. Our prospects continue to be led by copper, bauxite and lithium opportunities.

Our market position remains very strong. We have great relationships with the industry leaders, now working with them to successfully execute complex projects around the world.

For Infrastructure & Power, backlog at the end of the fourth quarter was \$6.9 billion. New awards in the fourth quarter were modest. While we expect to have a lower level of new awards for infrastructure in 2020, we continue to see interest at the state level on improving infrastructure. We're confident that we are focusing on the right states where we have the right track record to win the right projects.

Now please turn to Slide 7. In Government, we ended the year with an expected backlog of \$3.8 billion. Last quarter, Fluor and our joint venture partners were selected to lead the Central Plateau Cleanup Contract at the Department of Energy's Hanford site near Richland, Washington. Fluor was previously at this site from 1996 to 2009.

We were also pursuing the Hanford Tank Closure Contract, and we expect to hear a decision towards the end of February.

In Diversified Services, we expect to end the year with a backlog of \$2.5 billion. Our historic restructuring is almost complete and well positioned for 2020.

Now turning to Slide 8. The "Other" segment includes our 2 fixed government projects, Radford and Warren, and our investment in NuScale. Both of the Radford and Warren projects are continuing to progress, and we do not expect to take any additional forecast revisions in the fourth quarter.

As for NuScale, it cleared a major milestone in December when the NRC concluded the Phase IV review of its design [certification] (added by company after the call) application with no open items. NuScale remains on track to receive its final design approval in September of this year. Funding in the second half of 2019 was provided by third-party investors. We're actively engaged in discussions with additional potential investors.

Also earlier this month, the Department of Energy approved up to \$350 million in cost saving financial assistance.

And now I'll turn the call over to Mike to provide a few highlights for 2019 and our outlook for 2020. Mike?

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### **Douglas Michael Steuert** - Fluor Corporation - CFO

Thank you, Carlos. Please turn to Slide 9. While we are unable to announce our final financial results, we can provide key preliminary unaudited highlights for 2019.

Cash flow in the fourth quarter is expected to be strong, benefiting from a \$150 million closeout of a completed project. Fluor's cash plus marketable securities at year-end was \$2 billion, up slightly from a year ago. Our available domestic cash balance at year-end represents 40% of total cash.

Corporate G&A expense for 2019 is expected to be \$167 million, up from \$118 million a year ago, primarily driven by foreign exchange losses as compared to gains a year ago.

For the full year 2019, we paid \$118 million in dividends and given our announced dividend reduction, payments for 2020 will be approximately \$56 million.

Primary cost impacting our performance in 2020 are expected to be the following: restructuring and other exit costs of \$202 million, \$84 million of which is noncash; noncash write-off of our deferred tax assets of \$668 million; noncash impairment charges of \$305 million; and a noncash expense of \$138 million associated with the settlement of the U.K. pension plan.

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Before I discuss our 2020 outlook, I want to provide an update on a few of the financial initiatives we addressed on our strategic review call in September. Please turn to Slide 10.

For our P3 monetization initiative, we have seen significant interest in our assets, including those in Europe. We have also received indications of interest for our American assets.

We are continuing to make progress on reducing overhead expenses across the organization. In the past few months, we have started to reduce our real estate footprint and related overhead expense. We expect to achieve the previously disclosed run rate of \$100 million in annual savings by the fourth quarter of this year.

We are in the process of examining other transactions that will, along with the sale of AMECO, continue to allow us to strengthen our balance sheet and our financial position through debt reduction and enhancing our cash position. Our goal remains to generate substantial cash from asset sales and other receivable collections, sufficient to maintain our investment-grade rating.

I will conclude by commenting on our guidance for 2020, which is on Slide 11. We are establishing a 2020 adjusted earnings per share guidance range of \$1.40 to \$1.60 per share from continuing operations. We are excluding any restructuring expense or other special nonrecurring items from our guidance. We are also excluding NuScale expenses from our guidance as we expect additional funding will be provided by third-party investors. Our guidance also excludes any earnings from our AMECO business, which we expect to divest this year, and we are reporting as discontinued operations.

Our assumptions for 2020 include modest revenue growth over 2019; adjusted G&A expense of approximately \$40 million to \$50 million per quarter; a tax rate of approximately 28%; and approximately \$60 million in restructuring costs.

Reflecting on revised pursuit criteria, we expect a minor improvement in new awards in 2020 with year-end 2020 backlog modestly down compared to 2019.

I also want to comment on cash flow in 2020. In the fourth quarter, we utilized approximately \$100 million of cash to fund our previously announced challenged projects, below what we anticipated. We have approximately \$500 million of cash requirements remaining related to our loss projects, 2/3 of which we expect to fund in 2020. A portion of this funding has already occurred so far in the first quarter.

Moving to Slide 12. We anticipate full year margins in the Energy & Chemicals group of approximately 3% to 5%, improving as the year progresses; Mining & Industrial margins of approximately 2% to 3%; Infrastructure & Power margins of approximately 1%; and Government margins of approximately 2.5% to 3.5%; and finally, Diversified Services margins of 3% to 4%.

Before we turn it over to G&A -- or Q&A, excuse me, we want to note that there's no additional information that we can share regarding the delay in our financial filings beyond what we provided today in our remarks and in our press release. While the SEC investigation may not be concluded in the near term, we anticipate filing our Form 10-K when our reviews are complete.

With that, operator, we are ready to take questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We'll now take our first question from Steven Fisher from UBS.



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

Great. I did have some further questions on the SEC investigation, but I guess I'll have to hold off on those. So maybe starting with, I guess, to what extent are you seeing your revenues being delayed relative to what you would have thought a few months ago? Because it seems like the Government business could be contributing something like \$0.35 to \$0.40 of earnings in 2020, which is now a meaningful part of the 2020 guidance, which could have been there before. And the margin for the E&C segment isn't too far off, but I think expectations were. So are the revenues in E&C now much lower than what we would have been thinking about a few months ago? I think you said they were going to be up a little bit, but maybe just talk a little bit of what you're seeing on the revenue front and how projects are proceeding.

**Carlos M. Hernandez** - Fluor Corporation - CEO & Director

Yes, Steve, let me -- thanks for that question. What happened, as you can tell from the new awards in 2019, is there have been several projects that have been canceled, supplemental projects that have been canceled, a couple of projects that had moved into 2020, Rovuma being one of them. So that's, I think, probably the reason why the revenue is not as high. We do still expect a little bit modest growth in revenue for 2020, but the -- there has been a movement to the right for a number of projects.

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

Okay. And then in the release, you talked about some recent developments on 2 projects. Can you just talk a little bit more? If I didn't miss it in what your prepared remarks were, what are those projects? What are the recent developments that you're talking about there? And then maybe the bigger picture is that, I mean, clearly, you're making progress on the turnaround, but the quarterly results still have some big negative surprises here. So I guess, to what extent now going forward do you have some more visibility to -- in terms of your arms around what's going on and cleaner quarters?

**Douglas Michael Steuert** - Fluor Corporation - CFO

Yes, let me answer that question in a few different parts. Because of the investigation, we're not able to file the Form 10-K. And as a result, our books remain open for subsequent events on various projects. And that's why we use the word expect to a lot of the financials and can't be a little bit more precise here as the year turns off. And that's in large part driven because of a percent complete accounting that requires us to adjust our estimates for subsequent events that occur prior to our filing date. That impacts all projects. There are a couple that we just indicated that are perhaps a little more sensitive to those changes than others. And that's why we made that comment that, that really impacts all of the projects for the year.

Certainly, we had some unusual costs in the fourth quarter that were nonrecurring, the U.K. pension adjustment, which was a good thing for Fluor. That allowed us over the past year to really essentially cap and reduce our liabilities on future pension expenses. We've had some restructuring costs. And as I indicated, we expect some of those restructuring costs to continue into 2020.

We do expect the performance of the company to improve as we move through 2020. I made that comment in terms of E&C, and we think we'll see that in other sectors as well -- or segments as well as we move through the year. So it's operational. We are seeing improved performance that's going to be gradual throughout 2020.

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

Okay. That's helpful. But just, again, if I could. I know there's some sensitivity here, the developments on the 2 projects. Is these projects that are deteriorating in their performance? Or is this something different?



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### **Douglas Michael Steuert** - *Fluor Corporation - CFO*

No, it's not a performance deterioration issue per se. It's that we've left those projects as we have all of the projects open for adjustments. We'll have to see how that transpires as we move through the first quarter before we file our Form 10-K.

### **Operator**

And now we'll take our next question from Jamie Cook from Crédit Suisse.

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

I guess my first question, Mike, is on the cash flow side. Understanding, you said the \$500 million of cash flow drag, of which 2/3 is in 2020. But what's your expectation in terms of cash generation, if any, for the year and how we think about first half versus second half? And then I guess, my second question is, I guess, on the asset sales. Do you -- do we know -- do we have an updated proceeds number given we're just selling AMECO now? And then it sounds like there's other assets that could potentially be up for sale. I'm just trying to understand how big, how material that is and what are the decisions driving other potential asset sales, if I'm reading it right. Is it to reduce cyclical? Is it we still want to get to the \$1 billion in proceeds? I'm just trying to understand the thought process there given Government is now off the table.

### **Douglas Michael Steuert** - *Fluor Corporation - CFO*

Okay. Let me address cash flow. Seasonally, our first quarter cash flow is somewhat negative. It strengthens as we move through the year. But as you've seen in the past, our cash flow can be very -- can be substantially variable. It's up and down quite a bit as you move through the year and even as you move from month to month, depending on advances on projects and then how we burn through the advances that we receive as well. But we do expect our capital to strengthen as we move through 2020. And we do expect our cash flow generation from operations to fund a substantial portion of the cash that we were going to need to fund the loss projects that we've talked about in the second quarter of 2019. So we expect to see our, right now, for our plan, our cash flow generation should fund the major part of the losses on those projects in 2020.

### **Alan Lee Boeckmann** - *Fluor Corporation - Executive Chairman*

Let me just add one more comment to that. I think Mike is exactly right. But -- and you look at the comment, as Carlos said, to keep the Government group, I'm really pleased with the swift implementation of this team on all the actions that came out of our strategic and operational review. And maintaining our investment-grade credit rating, if you'll recall, is a primary objective. And we believe now that we have strengthened our financial position, and we see additional means to generate cash to make this possible. I'm extremely pleased with where we're at in this regard.

### **Carlos M. Hernandez** - *Fluor Corporation - CEO & Director*

Yes, let me just add something to that because we've always known the Government business is a very valuable business. It's got viable earnings and cash flow and substantially reimbursable. And for that reason, we had very strong interest from many well-funded buyers, both strategic and financial ones. Most of the buyers had approached us when we announced that we were going to divest the business. But as Alan stated, we're so pleased that we're going to be able to keep this significant contributor of earnings and cash flow. And the reasons that we're able to keep Government is a credit to our organization. Our efforts and our people have been very focused on cash conservation and generation. As a result, as of the end of 2019, we had \$2.0 billion in the bank, which is more than we had anticipated. We have been successful in monetizing a number of claims and expect to do more of the same this year and next year. We're encouraged by the interest in our P3 investments and our excess real estate. And we've reduced the annual dividend by more than half. The cost savings -- or the cost efficiency efforts will be resulting in cash savings. And of course, we're proceeding with the AMECO sale, which will raise significant cash and relieve us of the associated capital expenditures of that business. So the combination of these factors really drove our decision to keep Government. And as Mike stated, we're going to maintain a strong balance



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sheet to support our objective of maintaining an investment-grade rating and obviously keep the benefits of the Government and its very talented people.

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

But do we have an update to how to think about a range for the AMECO business, if you're willing to provide one, just because you provided a range before when Government and AMECO were together? And then the other assets that you're contemplating, is it just real estate and the P3 investments? As I'm thinking about Fluor's, what will remain strategic to Fluor's portfolio?

**Douglas Michael Steuert** - *Fluor Corporation - CFO*

Jamie, we haven't -- we're not going to give ranges on individual transactions on this, but we do think that the combination of sale of AMECO, the sale of real estate, sell some of our P3 investments will give us the amount of cash necessary to maintain our investment-grade rating to modestly reduce our debt and enhance our domestic cash position.

**Operator**

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

**Andrew Lee** - *Citigroup Inc, Research Division - Investment Banking Analyst*

It's Andy Lee on for Andy Kaplowitz. So just the first question in terms of your 2020 outlook for margins for the different segments, comparing that to our 2019 Q4 guidance, the margins seemed a little bit lower in our E&C, Infrastructure & Power and Diversified Services. So can you just talk a little bit about the difference there? I mean, is it just seasonality? Or is it the lower-than-expected revenue, like, versus a few months ago? Or is there anything else that's driving that?

**Carlos M. Hernandez** - *Fluor Corporation - CEO & Director*

Let me start with that -- answer part of that, Andy, and maybe I'll ask Mike to follow up. Look, we have -- we've said in the past that 2020 is going to be a transition year for us. And we are still working off some of the problem projects. And so when we gave guidance, we're trying to regain our credibility in the marketplace. So we are giving a guidance that we believe we're going to make, understanding that there's a lot of unknowns still in 2020. But we are going to be seeing progress through the year as we go. Mike, do you want to add something?

**Douglas Michael Steuert** - *Fluor Corporation - CFO*

We often have commented with the charges we took last year on the infrastructure projects that we will have a number of low or zero margin projects, and that's impacting the outlook for margins in infrastructure through this year.

**Andrew Lee** - *Citigroup Inc, Research Division - Investment Banking Analyst*

Okay. Got it. And then secondly, on the -- on NuScale. I think you guys mentioned now you just hope to find new investors for -- to fund NuScale. But how likely is it to find the necessary investors versus funding ourselves ultimately?



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**Alan Lee Boeckmann** - Fluor Corporation - Executive Chairman

This is Alan. Let me respond to that. We are in discussions with potential investors right now that give us significant confidence in our statement that the third-party investors will be -- will provide the funding to cover the overhead cost of NuScale. Carlos mentioned the coming through the NRC approval of phase 4. That is probably the most critical gate in that entire process. The rest is fairly rote process to get through it into September. We actually think that this may be improved. It's that milestone, plus the opportunity for several projects, that is starting to attract investors. And we're seeing a significant response. So yes, we -- it's a very good question. I'm glad you asked it. We do believe that this entity is well on its way to commercial realization.

**Operator**

We'll now take our next question from Andrew Wittmann from Baird.

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

Mike, I just wanted to clarify on the restructuring charges here. Looks like you've got \$118 million of cash that are planned to go into restructuring actions. I just want to understand a little bit more about what that is. And is that extra \$118 million needed to accomplish the \$100 million run rate savings that you previously talked about and talked about on the call today? Or should we expect that, that extra cash that you're putting into restructuring delivers incremental savings -- cost savings for the bottom line?

**Douglas Michael Steuert** - Fluor Corporation - CFO

So some of the restructuring costs are to reduce our real estate footprint and generate savings going forward. Some other restructuring costs are to reduce headcount and also reduce savings. They'll contribute to the \$100 million run rate improvement in overhead. And as we mentioned before, the majority of that overhead savings is going to occur in the business units as opposed to corporate. And even the ones that result in corporate will be, in part, reflected in lower allocations to the business units. So you won't see it all -- you won't even see that much of it in the corporate numbers going forward, but rather in the business margins. It's a wide range of things. Some of it is cash and noncash, and it's a wide range of actions just taken to improve our cost structure across the company.

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

So -- okay. But is -- are you expecting that you'll be able to exceed the previous targets that you outlined though on your cost synergies?

**Douglas Michael Steuert** - Fluor Corporation - CFO

Yes, we do. We said we expected to see our \$100 million in cost savings in the business by the fourth quarter of this year. A lot of that will be in the business units -- in the business unit margins as opposed to in the corporate G&A expense.

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

Right. Of course. Okay. And then I guess, my second question was just on the awards. So I guess in the quarter, it seemed like one of the large awards, and I don't know this, but maybe if you could comment on the Chinese EPC job here for the petchem job for nylon as the product here. That seems like one of the large awards in the quarter, if not the largest award. And I just wanted to understand, is that one of the fixed price lump-sum job? And how are you going to manage the risk? I know that you've been in China. And obviously, the fabrication yard, you're in China. I can't recall seeing an EPC job of particularly the size for a while and just wanted to get a sense of how you're going to execute that on the risk terms on that job, in particular.



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**Carlos M. Hernandez** - *Fluor Corporation - CEO & Director*

Yes. And thanks for that question. That project, as all our projects, now meets our criteria. And one of the ways that we can get comfortable with lump-sum projects is for us to do a reimbursable FEED and development phase. And then at some point, we're comfortable that we have defined the scope adequately and have adequate information with respect to the procurement and the vendor information converted to a lump sum, and that's exactly what's happened with this one. We have been executing that project on a reimbursable basis. And at some point, we will convert it to lump sum.

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

Got it. And then just kind of a clerical question here. The \$150 million closeout is a very nice closeout. I was wondering, Mike, if you could just give us a little bit more detail on that. What job was that?

**Douglas Michael Steuert** - *Fluor Corporation - CFO*

We are not disclosing that.

**Operator**

And now we'll take our next question from Michael Dudas from Vertical Research.

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

I guess, for Carlos, looking at -- you indicated in your prepared remarks or maybe announced some delays in certain projects moving to the right. Maybe you could add a little bit more insight relative to given what's happening in the oil markets, given the virus indications, what you're hearing on the ground with the clients, how does your pipeline look looking towards 2020, aside from the projects that you called out in your prepared remarks that you anticipate happen later this year relative to get to that ramp for a slight decline in backlog and give you some confidence for a reasonable transition in 2021.

**Carlos M. Hernandez** - *Fluor Corporation - CEO & Director*

Well, our pipeline in E&C, we pretty much identified some of that pipeline. It looks very solid at this point. I think what we have, we're going to see in mining is more EPC work picking up in mining as the FEEDs that we've been working on develop into full EPC work. So I can't say that our pipeline is going to result in new awards that exceed 2019 by a lot but we're definitely going to exceed 2019 new awards.

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

But on the energy side, is there a sense though of like kind of caution relative going into 2020 given with oil price and buyers that you're sensing from your clients? And is there a visibility that could maybe inflect a bit as we move into the second half of the year?

**Carlos M. Hernandez** - *Fluor Corporation - CEO & Director*

Well, as we talk to clients, they are obviously concerned about the coronavirus. But I don't -- they don't see that as a long-term impediment going forward with their capital expenditure plans. So obviously, our clients are much more disciplined now than they have been in the past about that. But I don't expect that the plans are going to be contracted any more than what they had previously announced.



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

Terrific. And then my follow-up, I mean, on the Government side, now that it's back into fold into Fluor's business model, maybe a little bit more view on what you have, what recompetes or what the booking opportunities. I know you got the Plateau Contract, is very supportive that you see through Government and how that can play out for even improved cash flow as some of these revenues click in and the risk this model changes as we move into later 2020 and '21.

**Carlos M. Hernandez** - *Fluor Corporation - CEO & Director*

Well, as you know, we have a very, very strong position in the DOE space with a number of labs that we're managing. We have -- this is not a predictable side of the business, but we are strong with FEMA as well. And the LOGCAP business is going to be changing. But I think we're well positioned in those areas for additional awards from the Government. And obviously, our -- the prospective buyers of that business had to as well as we have a lot of interest in that business.

**Operator**

And now we'll take our next question from Jerry Revich from Goldman Sachs.

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

So out of the \$500 million of expected cash outflows to complete legacy projects, can you just give us a sense for how many projects we're talking about? And does that include Radford and Warren as well? Just additional context around the scope of what that \$500 million addresses would be helpful.

**Douglas Michael Steuert** - *Fluor Corporation - CFO*

Yes. It really includes the 16 projects in the second quarter that we took charges on. Now all of those don't represent cash flow. There's a handful of those that are settlements that actually generated cash. And some of them are just accounting adjustments that were noncash. But of the ones that do have cash requirements going forward, that's what the \$500 million represents. And again, we expect about 2/3 of that to occur this year and then some of the funding in subsequent 2021. And yes, it does include Radford and Warren.

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

And sorry, did you say it does include Radford and Warren? And how many projects in total? Does that include appreciating the fact that a bunch of the projects identified on Q2 had noncash charges?

**Douglas Michael Steuert** - *Fluor Corporation - CFO*

Right. It does include Radford and Warren, yes, it does. I don't have the exact number at hand, but I would say, perhaps, 8 to 10 of the 16 will represent material cash outflows.

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

Okay. And lastly, what will your percentage of completion be on those 8 to 10 projects exiting 2020 if you hit the current schedules?



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**Douglas Michael Steuert** - *Fluor Corporation - CFO*

We expect to complete a lot of those by the end of 2020. A few will roll over into 2021, some of the more recent ones such as Warren that we just started in 2019. But the majority will be complete as we end 2020. That's why we're saying most of the funding will occur in 2020.

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

And sorry, let me add just one more, please. Considering the time range on these projects continuing into '21, can you just talk about what gave you the confidence to retain the Government services business, considering it looks like there's substantial wood to chop still on a number of these projects exiting '20?

**Carlos M. Hernandez** - *Fluor Corporation - CEO & Director*

Well, Jerry, as we mentioned, we have a number of ways to generate cash. The largest one is AMECO, which will be -- we expect to sell maybe in Q3, and have a buyer by the end of Q2. And we're going to have savings in CapEx. We're going to have P3 that we're going to be selling and monetization of a number of claims. For example, the one that we just recorded in the fourth quarter is one of those. So we have increasing confidence that we're going to be able to generate the cash that we need to cover the \$500 million and then some of the project charges.

**Operator**

And now we'll take our next question from Chad Dillard from Deutsche Bank.

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

So I just want to make sure I had my arms around the cash conversions for 2020. So I was hoping you could provide a bridge from net income to cash flow realizing you guys talked about, I guess, it's about \$335 million of projects into the cash burn, but just wanted to also understand cash from restructuring, working capital swings, closeouts, CapEx. And ultimately, what sort of leverage target are you expecting to achieve in 2020?

**Douglas Michael Steuert** - *Fluor Corporation - CFO*

Given where we are, we're not finalizing our statements for 2019. And having the beginning balance, it's really hard to go through a very detailed cash flow reconciliation for you from earnings all the way down to cash. It's very complex for Fluor because every single project is different and has a different cash profile. That's why we give our earnings guidance. This is really the first time we're giving cash flow guidance. It's something that we manage very aggressively, and we manage it on a project-by-project basis. And for most of our projects, our intent is to be cash positive.

Now obviously, when we have a project that's in a loss position, like we announced in the second quarter, those projects don't remain in a cash positive position, but we aggressively pursue that. It's also complicated by the fact that some of our projects are on a JV basis. We have partners, and that impacts the cash that we pull out the projects that are not completed over time. And that really complicates it. So as we go through this year, we'll provide additional insight on cash flow. But right now, we're just giving high-level guidance in terms of our expectation that cash flow from continuing operations, including from retaining our Government business, will fund most of the project losses. And we expect to return the required fund in 2020.

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

Got it. And then just a question on the E&C margin guidance. It's certainly wider than what it's been historically. So I was hoping you could just talk about just what each of the bookends represent and how to think about that.



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**Douglas Michael Steuert** - *Fluor Corporation - CFO*

All right. The E&C margins, again, just reflects how some of these projects go throughout the year. Obviously, in the first part of the year, we were looking for lower margins as some of our other projects kick in that were awarded in 2019 and as we progress some of the other projects, such as LNG, throughout the year. So it's, really, the margin development in 2020 is very highly impacted by how these specific projects progress throughout the year. And that's why it impacts our quarter-to-quarter strengths. That's what impacts the fact that we expect improving margins as we move throughout the year.

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**Operator**

We'll take our next question from Michael Feniger from Bank of America. I'm afraid Mr. Feniger stepped away.

Our next question is from Sean Eastman from KeyBanc Capital Markets.

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

Just going back on the cash flow, your comments around operating cash being able to fund a substantial portion of what's needed to fund the loss projects. It would be helpful to get a little bit of context, if possible, just around how much claims are driving that dynamic. And just what gives you confidence around the line of sight around those claims given those are things that seem to be tricky to pin down in a particular year in terms of getting the cash in the door?

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**Douglas Michael Steuert** - *Fluor Corporation - CFO*

Sure. I mean, your observation is correct that it's tricky or difficult to forecast claim revenue. It's complex. You'd have to rely on lawyers to get your money. There's a lot of difficulties involved. But looking at our cash flow for 2020 is not based on any significant claim revenue. We don't factor that into how we manage the business going forward because it is so spotty and so difficult to forecast. And some of the claims can take years to resolve.

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

Okay. That's helpful. And then on the targeted domestic readily available cash balance of \$1 billion you guys had laid out post the divestitures, we did see that balance tick up fairly meaningfully in 4Q versus 3Q, it seems. But I'm just wondering the time line on achieving that \$1 billion now with retaining Government and whether that's a goal we see achieved at some point here in '20.

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**Douglas Michael Steuert** - *Fluor Corporation - CFO*

So that certainly remains my personal goal, and we're working towards that going forward. But as we move through 2020, the asset sales, AMECO, other potential asset sales and collection of various receivables that are outstanding on our balance sheet will all contribute to that as we move through the year.

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

Okay. And then in terms of the P3 and real estate sales, is there any kind of rough thought on whether it's a first half versus second half kind of time line?

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**Douglas Michael Steuert** - Fluor Corporation - CFO

It's going to be both. And we are -- given our financials -- let me put it differently. Given our financial position, we are going to be very, very deliberative in terms of how we proceed with those sales, and we're going to use effort to maximize value as opposed to try and do something quick and just get the cash right upfront.

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

Got it. Okay. Last quick one for me. I've seen several articles written about pausing work at fab yards in China, not surprisingly. Just curious whether you foresee any kind of delays or issues around some of the module deliveries to LNG Canada in light of some of this coronavirus outbreak impacting the fab yard there.

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**Carlos M. Hernandez** - Fluor Corporation - CEO & Director

No. Our yard got back to work on February 10. And at this point, we don't see any delays. But obviously, we'll wait and see when we ramp up completely.

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**Operator**

It appears there are no further questions at this time. Mr. Mike Steuert, I'd like to turn the conference back to you for any additional or closing remarks.

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**Douglas Michael Steuert** - Fluor Corporation - CFO

Before we conclude, I just want to reiterate that we are in a period now where the books are still open, that because of our accounting processes, we are subject to future changes that could impact the financial statements of subsequent events. And that's why we did mention the 2 projects that were there because they are large projects that, perhaps, are somewhat more susceptible to changes as we go through the completion of our reviews that we hope to occur as soon as reasonably possible. And that's why we did mention those 2 projects, and that it's impossible how to forecast what's going to happen. Everybody just has to be aware that the books are open as we go through the remainder of this month and next month.

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**Carlos M. Hernandez** - Fluor Corporation - CEO & Director

Okay. Mike, thank you. And with that, thank you, operator, and thanks to all of you for participating on our call today. Last year, we started down the path of making tangible and actionable changes to our business strategy and structure to position Fluor for long-term success. And as we look ahead now, driven by our talented workforce, we will continue to act with a sense of urgency to drive our business forward and deliver positive results to our clients and our shareholders. So we greatly appreciate your support to Fluor. Thank you.

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**Operator**

This concludes today's call. Thank you for your participation. You may now disconnect.

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