REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FLR.N - Q1 2021 Fluor Corp Earnings Call

EVENT DATE/TIME: MAY 07, 2021 / 12:30PM GMT

CORPORATE PARTICIPANTS

David Edward Constable *Fluor Corporation - CEO & Executive 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*

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

Sean D. Eastman *KeyBanc 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 the Fluor's First Quarter 2021 Earnings Conference Call. Today's call is being recorded. (Operator Instructions)

A replay of today's conference call will be available approximately at 10:30 a.m. Eastern Time today, accessible on Fluor's website at investor.fluor.com. The web replay will be available for 30 days. A telephone replay will also be available for 7 days through the registration link, also accessible on Fluor's website at 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.

Jason Landkamer - *Fluor Corporation - Director of IR*

Thank you, operator. Welcome to Fluor's 2021 First 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 2. 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-Q 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.

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

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

Thank you, Jason. Good morning, everyone. Thank you for joining us today.

If you could please turn to Slide 3. Before we get started on operational results, one of the strategic priorities outlined during our Strategy Day was to foster a high-performance culture with purpose. And I'm pleased to announce that we have appointed Tolani Azeez, a 6-year Fluor employee with 20 years of EPC experience, to lead our diversity, equity and inclusion efforts. Fluor is a vast and diverse company. And with Tolani's leadership, she will help us retain, attract and cultivate a workforce that represents the world in which we live and operate.

On a separate subject, please note that earlier this week, a favorable motion was granted as it relates to an outstanding securities class action lawsuit. This motion dismissed with prejudice all allegations, except those relating to a single statement in 2015 about one gas-fired power project. While no assurance can be given as to the ultimate outcome of this remaining allegation, we do not believe it is probable that a loss will be incurred.

Please turn to Slide 4. It's been great to see the vaccine rollout around the globe, and I'm particularly encouraged at the speed of distribution here in the United States. Although there are still many regional challenges to deal with, the end of the pandemic seems to be in sight, which will be a relief to all of us. Currently, well over 90% of our project sites and about 80% of our offices are operating at limited operations or better. One exception is our office in New Delhi, where a surge in COVID cases has caused local officials to issue a lockdown and curfew order effective until May 10.

The safety and well-being of all employees is our top priority. To help support our Delhi colleagues and families that are in medical need, we airlifted several oxygen concentrators from Houston. Our 1,500 New Delhi employees are all now working safely and productively from home.

In the first quarter, our book-to-bill ratio was 1.25, with new awards led by the Dos Bocas refinery program in our Energy Solutions group. While we continue to see softness in the markets when it comes to capital spending, we anticipate that awards will start to pick up as we get into the back half of 2021. And our teams are busy on front-end work and project pursuits that will help to build a healthy backlog over the next few years.

Note again that we are now reporting in line with our 3 new business segments: Energy Solutions, Urban Solutions and Mission Solutions. Additionally, Stork is now a part of discontinued operations. Joe will give an update on our divestitures of Stork and AMECO in just a few minutes.

Moving to Slide 5, with regard to NuScale. On April 5, we announced a $40 million equity contribution from JGC. We know JGC well, having executed projects with them for more than 10 years. They are an ideal partner that could support NuScale's industry-leading, carbon-free energy solution.

In addition, this morning, we announced that NuScale has retained Guggenheim Partners to explore financing options to fund the commercialization of NuScale's small modular reactor technology. This is consistent with the strategy announced in January to reduce Fluor's equity ownership of NuScale.

Regarding our cost savings initiative, efforts are now well underway to streamline the organization. We will be updating you on our progress as the year proceeds. Key to this program will be ensuring the deployment of world-class execution teams onto new prospects over the coming quarters, coupled with the proper level of fit-for-purpose, back-office support.

I'd like to take the next few minutes to inform you on what is happening across our end markets and what we expect to see over the next few quarters.

Please turn to Slide 6. In Energy Solutions, this quarter, our ICA Fluor joint venture was awarded 3 contracts totaling $2.8 billion for the Pemex Dos Bocas refinery in Mexico. We have a long and successful history of Pemex contracts, and we are pleased to be adding our $1.4 billion share of this refinery program to backlog.

During the quarter, a chemicals project was canceled. And as a result, we removed approximately $1 billion from backlog while slightly increasing Energy Solutions total backlog to $11.1 billion.

When we unveiled our strategy in January, there was a lot of interest in Fluor's energy transition opportunities supporting a reduced carbon future. Over the past few months, we've been in extensive conversations with clients about our energy transition capabilities. We are executing several carbon capture FEED and feasibility studies using our proprietary Econamine FG Plus technology.

Additionally, we are doing early work in the areas of refinery efficiency, gasification to produce carbon-negative energy, green hydrogen, renewable diesel, renewable jet fuel and energy storage. In each of these areas, we have identified projects and are continuing to pursue new opportunities as well.

I'd also like to provide a quick update on LNG Canada on Slide 7 of the presentation. I encourage all of you to check out the project website and social media channels to see our progress on the project. On site, we have completed all site preparation work. The Cedar Valley Lodge camp is filling up, pilings are in place. And overseas, modules are being constructed in the fab yards. We've been remobilizing craft workers on site and are currently at required staffing levels.

In 2021, the focus on site is completing the installation of underground cable and pipe as well as concrete foundations. This will allow the project team to go vertical and be positioned for the receipt of large equipment and the first modules, which are scheduled to arrive later this year.

COVID-19 and changes in law have impacted both engineering and material deliveries as well as the site's ability to mobilize workers due to public health orders. However, several opportunities are being jointly explored with the client to mitigate the COVID-19 and change in law impacts. We will keep you updated on the outcome of these discussions.

Moving to Urban Solutions on Slide 8. This segment is comprised of the infrastructure, mining and metals and advanced technologies and life sciences end markets. In infrastructure, we completed the handover for the 183 South highway project outside of Austin, just a few miles from the Oak Hill Parkway project we booked in 2020.

There is obviously a lot of interest and excitement with the proposed federal infrastructure plan. We think a long-term infrastructure bill would obviously be a good thing for the U.S. economy. In addition to providing needed funding for surface transportation improvements, it would enable state and local governments to better plan for future growth and capacity needs.

It's too soon to tell what impact the bill could have on Fluor, but we typically experience a 2- to 3-quarter lag between any new federal infrastructure spending and the release of construction and services RFPs within the states. Within our infrastructure-focused area of regional projects in selected states, we are tracking some key opportunities in Texas and North Carolina this year.

Please turn to Slide 9. Next, we remain confident in our mining and metals opportunities and prospects. We are currently completing FEED work that represents $20 billion of potential projects. And we see a robust pipeline of FEED and feasibility studies ahead of us. These projects will support an increasingly urbanized and electrified world that is driving the need for investment in minerals like copper and lithium. We have several large prospects in 2021 and expect awards throughout the year.

For our last group in Urban Solutions, we have a lot of positive momentum in advanced technologies and life sciences. As we briefly mentioned in February, in the first quarter, we won a significant EPCM biotech project in Europe. This award from Fujifilm is for a world-scale biologics drug substance manufacturing facility that will be used to produce a variety of treatments, including vaccines. As we have seen over the last 18 months, vaccine development is an integral part of our global economy. And facilities like this one will be essential going forward in protecting the population.

Finally, there's been a lot of news recently about the inability of semiconductor chip manufacturers to increase production to meet demand. While it will take several months for the supply chain to overcome this shortage, this is another area where we can leverage our advanced manufacturing capabilities. Currently, we are tracking several semiconductor prospects in the United States.

Moving to Mission Solutions on Slide 10. This quarter, our Fluor-led joint venture won an extension for the Portsmouth decontamination and decommissioning contract for the Department of Energy in Ohio. This reimbursable 12-month contract with two 6-month options is valued at $690 million. The DOE is a key long-term client. And we look forward to continuing our support at Portsmouth.

And finally, a few weeks ago, the federal government announced that it was -- would withdraw all troops from Afghanistan by September 11. Although uncertainty about the pace of withdrawal remains, Fluor expects to book an additional 3-month extension to LOGCAP IV in the second quarter that will allow us to further support the U.S. Army in Afghanistan until they are demobilized.

Before I turn the call over to Joe, I would be remiss if I didn't take the opportunity to acknowledge yesterday's retirement of Peter Fluor from the company's Board. Peter is the last of a long line of family members to serve the company since our founding in 1912. Joining the Board in 1984, he continued the Fluor family legacy of a commitment to excellence, integrity and ethics, always putting the safety and well-being of employees first and recognizing that teamwork is a key component of our success. On behalf of the entire company, I'd like to thank Peter for his outstanding service and wish him and his entire family much health and happiness going forward.

With that, I'll now turn the call over to Joe for the financial update. Joe?

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

Thanks, David, and good morning, everyone.

Please turn to Slide 11. For the first quarter of 2021, we are reporting adjusted earnings per share of $0.07. As a reminder, we are adjusting out NuScale expenses, foreign exchange fluctuations, impairments and certain legal-related costs.

Our adjusted results also exclude an embedded foreign currency derivative for an Energy Solutions project in Mexico. This derivative is based on exchange rates between the U.S. dollar and the Mexican peso and will fluctuate over the life of the contract or at least until the job has been fully procured.

Our overall segment profit for the quarter was $60 million or 2% and includes the $29 million embedded derivative in Energy Solutions and quarterly NuScale expenses of $15 million. This compares favorably to $55 million in the first quarter of 2020. Removing NuScale expenses and the effect of the embedded derivative would improve our total segment profit margin to 3.6%.

Margins in Energy Solutions and Urban Solutions reflect reduced execution activity on certain projects and the lack of new awards to replace projects we are completing. We anticipate project activities will accelerate as we move through 2021.

In Mission Solutions, margins were strong due to the increased execution activity on DOE projects as well as an increase in performance scores on several projects.

As David mentioned, we received a $40 million investment in NuScale from JGC this quarter and are anticipating other significant investments in the near future. Note here that even though partners are meeting NuScale's cash needs, we will continue to expense 100% of this investment on our income statement on a consolidated basis.

Our G&A expense in the quarter was $66 million. This is higher than our expected run rate due to the increase in our stock price driving up the value of our executive compensation expense.

As David said, our cost savings initiative is well underway. We have identified cost savings above the $100 million target previously discussed. I look forward to providing an update on the progress as we get into the execution phase later this year and transition into a fit-for-purpose organization.

On Slide 12, our ending cash for the quarter was $2 billion, 25% of this domestically available. As a reminder, the rest of our cash is tied up in either VIEs, in projects, or in foreign accounts and is not easily accessible. Our operating cash flow for the quarter was an outflow of $231 million and was negatively impacted by increased funding of COVID costs on our projects; higher cash payments of corporate G&A, including the timing and extent of employee bonuses; and increased tax payments. While it is typical to have a lower operating cash flow in the first quarter, we expect full year operating cash flow to be positive.

We used approximately $50 million in cash for challenged legacy projects in the first quarter. As I stated in February, we expect to spend an additional $65 million over the balance of 2021 to fund these projects.

As we announced earlier this week, we have divested our AMECO North America business for $73 million. This follows our successful transaction of our AMECO Jamaica business last year. We are now focusing on our South American assets, and we'll update you on that plan later in 2021.

The Stork divestiture process is well underway, and we have received interest from a number of promising buyers. We are working through our diligence and are targeting a sale near the end of this year or early in 2022.

Please move to Slide 13. We are maintaining our adjusted earnings per share guidance of between $0.50 and $0.80 for the full year. Hitting this target is dependent on projects being awarded in a timely fashion and revenue picking up over the next 2 quarters.

We are also maintaining our previous segment level guidance and expect 2021 full year segment margins to be approximately 2.5% to 3.5% in Energy Solutions, which excludes any fluctuation from the embedded foreign currency derivative; 2% to 3% in Urban Solutions; and 2.5% to 3% in Mission Solutions.

Before we open up the line for questions, I know a number of you have asked for a historical view of our financials under the new segments. We have posted unaudited financials for 2019 and 2020 that aligns with our new reporting structure on the Investor Relations section of our website.

Operator, we are now ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll go ahead and take our first question from Andy Kaplowitz from Citigroup.

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

David, so book-to-bill at 1.25 in Q1, but Fluor actually grew backlog even despite that $1 billion cancellation you talked about. I know you talked last quarter about pushing that 1x book-to-bill only at the end of 2021. So it seems like you have seen an acceleration of awards versus your expectations. But maybe you could comment on that and then whether you think you now could sustain backlog growth for the rest of the year?

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

Thanks, Andy. I appreciate the question. It was a good quarter, obviously, for new awards across all 3 business segments, obviously, with the great award in Mexico with Pemex for 3 different packages totaling, as I said, $2.8 billion, $1.4 billion -- just over $1.4 billion our share and some good activity in Mission Solutions and the big Fuji biotech plant, which, like I said, is world-scale over in Denmark. And there'll be more where that came from as well down the road.

So yes, great to get started in the first quarter with those awards. I think you have to look at the book-to-bill in light of the lower revenue. I think because of the COVID impact on new awards in 2020 and the hangover in 2021 on revenue and the volumes, we couldn't push through on certain very large projects due to COVID. That pulled down that revenue lower than our planned number.

So I think that's the best way to look at it, that Q1 saw that good of a book-to-bill. But you can expect the revenues to be coming back up as we enter the second, third and fourth quarters. And then we'll probably get back to -- hopefully get back to that 1.0 book-to-bill at the end of the year, like we said in the last call. So that's how you should look at it. Thanks, Andy.

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

David, maybe I can ask you about the cadence then of EPS for the year based on that revenue comment. You had suggested before that it would ramp up maybe a bit back-end loaded. But given the slow revenue start, is it more back-end loaded even now? And are we looking at maybe more of a moderate revenue decline versus the sort of slight revenue decline you guided us to for '21 versus '20?

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

I'm going to ask Joe to comment on how that's going to flow through the year, Andy.

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

Yes. Andy, the way I look at it, we're -- some of our major projects that are sitting in backlog today, I think, had some additional impact in Q1 related to COVID that we had hoped during the planning process would have generated additional revenues. But we do believe as we get into Q2 that our backlog is really going to take off, specifically LNGC as they ramp up their fabrication activities. Our TCO project is getting back on site.

I think also being able to add $3.7 billion of new awards at the beginning of the year, we'll be able to get significant burn on those projects. So I would suspect that we'll see a recovery within those revenues as we progress into Q2 and Q3.

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

And Joe, just to clarify, the ongoing negotiations you have related to COVID, even LNGC and elsewhere, you expect them to resolve at least favorably or not? Big cost creep for you guys, any color you'd give there?

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

So here, the work that we've done with our clients, I would not expect a significant cost creep. I think we kept it out of more of a kind of a litigation-type discussion. And we're working with our clients to get to the right resolution around change in law and force majeure and mitigation strategies. So I would expect that any type of gap that we have relative to positions between the 2 parties will be relatively minimal.

Operator

We'll go ahead and move on to our next question from Steven Fisher from UBS.

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

Just a follow-up on Andy's question there. Can you just give us an update on the timing of those negotiations? When do you think we could have that initial agreement resolved?

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

Steve, you're specifically talking about LNGC, I take it?

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

Yes, sorry. LNG Canada, yes.

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

So we're working very closely with the clients on that and obviously have put all of our notifications in place for the impact on the project to date. And as we said before, we have a weekly meeting. A very complex topic, obviously, based on you've got 3 engineering offices, you've got a massive site in Canada, you've got a couple of fabrication yards and a number of suppliers and vendors supplying the project that all have to be -- it all has to be rolled into the discussions and the path forward that we're working on with the client.

I can tell you that it's a very good discussion, very positive, good working relationship with them on negotiations to put the COVID impact that took place in 2020 and into 2021, early '21 here, is what we're working on right now. And I guess what I can tell you is that discussions are going very well. And I would expect at least the first negotiation to be closed off -- impact to be closed off here in the relatively near term.

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

Okay. That's great. And just to clarify, I think there was some discussion of some of the just general supply chain challenges. Will -- what we're seeing in the overall market today, will that be incorporated in this type of resolution? Or will that just be kind of put off to some later time point?

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

Yes. I think on supply chain, we're in very good shape on the project. We -- engineering is almost basically complete, I would say. And procurement has committed 93% of the equipment and materials. And subcontractors are also, I think, over 80% committed. So we know all that pricing for commodities and bulks and equipment and materials and subcontractors.

So there's not really not a lot of -- not a lot left on that front from an escalation perspective in the -- in some of the higher prices you're seeing in commodities and materials currently. So very comfortable on that front.

I think I can also comment on the Pemex refinery work. We're in a very good place there as well with respect to escalation. We've got -- we've been working for decades in Mexico with our joint venture partner on Pemex, on very large Pemex contracts, primarily in the energy space. And those are all following our stringent pursuit criteria. Open book process with the customer, and engineering and equipment costs were clearly understood and firm prior to converting those contracts. And for bulk materials, we negotiate with the customer that our price excludes any escalation in the -- actual escalation costs will be recovered through price adjustments.

So really good contracts down there as well as union agreements, any revision to a labor agreement entitles us to a price adjustment. So we're really protecting ourselves well and following our strategic priority of fair and balanced contract terms as we talked about at Strategy Day.

Joe has got a comment.

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

Well, yes. No, Steven, the only thing I was going to add in terms of impact relative -- we've placed the POs, were bought out. But there -- obviously, there's some fabrication going on around the world relative to being able to supply...

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

It goes back on LNGC.

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

Yes. Back on LNGC, but we're providing the fabrication yards. Those are all inclusive of our force majeure and change in law claims. So they would be a result of COVID impacts as well. So they've been built into the discussions that we've been having relative to scheduled delays and additional costs associated with supplying and feeding the fab yards to get the progress they need.

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

Great. And then just from a business development perspective, I know you guys want to be very selective. But to what extent are you increasingly kind of going on offense as the economy recovers and commodity prices are up here? Are you kind of increasingly pushing sales pursuits? Or are you still more focused on kind of righting the ship and working through what you have to get through?

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

No, we are -- it's a great question. Thanks, Steven. Really focused on key account management with our sales executives and our wholesales operations technology teams that go to market for us. And so that's got a real externally -- we've got this external push on right now to get to a relationship-based -- we're relationship-based in many of our business lines. But across the board, we want to really push a relationship-based approach to our clients, and that's well underway. And we are definitely on offense. Our first strategic priority is to drive growth, right, across the business lines, including nontraditional oil and gas.

So I think that's the key area I've been spending a lot of time on. I think most of my time recently has been with the client base and talking with them about all of the expected CapEx, if you will, the taking the lid off post pandemic and the pent-up demand that's coming at us. So we really are working in all the growth markets we've talked about, in chemicals, in advanced technology, life sciences, in mining, obviously, and in infrastructure. So that's definitely -- the plan is to push that first strategic priority of driving growth.

We've got great prospects. I've talked last time about all of our FEED work -- FEED and study work in-house. We've got -- we're currently working on over 150 front-end design programs totaling over $110 billion in total installed cost. That's in-house right now, all early work, early phases, of course. And they don't all go to FID, but it gives you a good indication of how much front-end work is out there. And then we're chasing another about $140 billion in early front-end design and study work in '21 and 2022. So definitely on offense, Steven.

Operator

And we'll go ahead and 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 2 questions. One, just with commodity prices where you are, I understand you're focused more on energy transition or green energy. But is there any green shoots that you're starting to see in your traditional oil and gas business? It sounds like chemicals is positive. And I'm just wondering, two, how -- what you're seeing in terms of terms and conditions as the economy starts to improve and you have less players committed to the EPC market or have walked away from it. I'm wondering what that means for potential terms and conditions as we come out of this.

And then my second question, on the divestitures, I guess in particular, Stork. With some of the cost cutting you've done and things start -- the economy starting to improve, I'm just wondering if that -- if the earnings for that business is potentially underappreciated, and sort of how we think about the conversations with customers in terms of potential valuations that you could fetch for some of these divestitures.

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

Thanks, Jamie. I'll have Joe answer the divestiture of Stork here and talk about valuations and, well, at least give us some thoughts on what we're seeing at Stork right now.

Yes. With commodity prices, what's iron ore? $200 a ton or something, right? Just one example. Copper also there, Brent oil. All these things are driving our clients in the right direction from our perspective. Like I said, I'm talking to a lot of chemical clients right now, a lot of downstream clients on traditional downstream work.

In addition to the energy transition that they've got to spend, they're starting to throw billions of dollars at energy transition. Obviously very early days, but we've got a lot of energy transition work in-house with them as well to look at how they might attack that challenge that we've all got to move to low-carbon future.

So -- but yes, I'd say chemicals, downstream, traditional, as you just saw in Mexico. There's more of that internationally for us. Life sciences and manufacturing definitely going to be picking up, based on the challenges with supply across that sector. And you've got infrastructure, obviously, where we're expecting to see a lot of growth.

So yes, green shoots definitely. If I look at those FEED package I just was talking about, chemicals features prominently. LNG is featuring prominently in front-end work for us and downstream. And then in addition, the ATLS and the mining front-end work is one of the standouts as well. So all...

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

But the terms and conditions, David, like are they potentially more favorable as there's less players? Sort of you guys have stayed committed to EPC, a lot of players have not. I'm just wondering if that ends up being a positive for you guys at some point.

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

Yes. It gets to the Ts and Cs there. Obviously, it plays in our favor to work towards fair and balanced terms with the right customers, and we are firmly on that track. I think the Pemex contracts that were signed were just a great example, where we improved our position there as well.

So I would say that we will be seeing those fair and balanced contract terms. And if not, then we'll go work on something else. That's just the way we're going forward. And with all this front-end work, there's no lack of prospects for us. It's not if but when the full FIDs on this CapEx is pulled -- is let go for us.

So we'll be very, very selective on our terms and conditions. But I do -- to your point, I do think we will be able to do better, based on the smaller pool of contractors out there that can bring full service right from these early solutions all the way -- to convert all the way into EPC, EPCM. So that's how we're seeing it. Joe?

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

Yes. Jamie, in regards to how we're viewing Stork, I think we've always viewed Stork in terms of the pre-COVID valuations. During the COVID period, and I think we talked about it maybe on one of the previous calls, a lot of the refineries have put off operations, maintenance, turnaround activities due to capital constraints. And as we start seeing those come back into the market and the requirement to perform those activities, that's how kind of we're looking at our quality of earnings analysis. So we're looking more towards the future, what Stork is going to look like in terms of how we're discussing it with potential buyers at the end of the day.

In terms of what valuations I would see, I don't really necessarily have a range yet as we're still in the process of finishing the QE and the SIM. And we'll have the data room open here in the next 2 to 4 weeks. And so then we'll start getting some real feedback relative to how the market is viewing what Stork's potential valuation is.

Operator

And we'll move on to our next question from Sean Eastman from KeyBanc Capital Markets.

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

On the $20 billion in mining scope that you guys are in process on the FEEDs, I'm just curious, historically, how much of that is translated to EPC per Fluor? Just trying to get a realistic idea of how much Fluor could win and execute out of that number and how that number translates into Fluor revenue. It would be helpful to get that detail.

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

Yes. It's -- thanks, Sean. Thanks for the question. When you just think about just straight prospects out there, the straight prospect list and the total TIC in revenue, we think about a -- probably a 30% to 40% win rate thereabouts historically on prospects. But this over-$20 billion work is actually in-house with front-end contracts in place. So obviously, it's much, much higher than that conversion rate because we're doing the work.

So it's more a matter of does the project get to full FID, based on the market, the internal rates of return for the client, the cost schedule CapEx and so on. So that's -- assuming that all goes forward, then we've got a very high likelihood of converting a lot of this work.

I'll just ask Joe if he's got any exact percentages. I don't think we track that exactly, but...

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

No. No, we don't necessarily track it. But I would reiterate what David is saying relative to -- we are essentially in a sole source position doing the FEEDs, working with the clients in order to get the right return on investment and through value engineering and relationships. So it is a much higher percentage in the position that we're in, in terms of our win rates typically.

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

Yes. That's -- Sean, the way to think about that, if you've already got the Fluor in place on your project, you can have a much lower project life cycle cost if you convert into -- the FEED into the EPC, EPCM because you're shortening your schedule and getting to market sooner.

So that's a real [source] (added by company after the call) of value for the clients. And that's our -- going back to Strategy Day, that's what we're trying to do. We're trying to get front-end solutions with all of our customers, bring solutions to the table and then convert and continue on.

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

Okay. Terrific. That's helpful. And maybe shifting over to the cash flow, I mean you guys have talked about kind of maintaining this cash balance at around $2 billion. There's a lot of moving parts in there. I'd just like to try and flesh out sort of what the underlying free cash flow outlook is for this year, whether that's fully intact. I mean just isolating that around sort of the debt pay-down and funding for loss projects and whatever is included in there for asset sales. If we could just kind of get that bridge, it would be helpful.

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

Yes. That was -- it was a low operating cash flow quarter. And Joe has got the...

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

Yes. No, well, we can talk about the first quarter. There were a number of nonrecurring events that occurred in the first quarter, executive comp payouts. We had the CFHI payment to finalize our investment in CFHI. We had the provisions for the challenged projects, which will ultimately be a recurring impact. We had -- typically, our project working capital adjustments flow from Q4 into Q1, so we have a significant amount of AP. But we do see, based on the backlog and the strong bookings in quarter 1, that we will maintain and slightly grow our cash flow.

What's not included yet is the AMECO divestitures, the $73 million. What's also not included in that number are 2 P3 divestitures, nominally between $40 million to $50 million and then, ultimately, the -- our ability to divest Stork during the year, which will have a significant impact to that number as well as -- yes, as well as the overhead reduction initiatives that we're putting in place, which will have a real cash positive impact. So we're saying flat to slightly up, but it does not include a number of those moving pieces that I just outlined at this point.

Operator

(Operator Instructions) And we'll go ahead and take our next question from Michael Dudas from Vertical Research.

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

So maybe in the Urban Solutions area. Certainly, mining is going to be a big, big positive going forward. Maybe you can elaborate a little bit more? You touched on vaccine. There are other -- you just mentioned the vaccine project, others to come. You talked about semiconductors. Maybe you can flesh out some more on scope timing in the -- in your pipeline or the funnel opportunities?

And is there -- do you expect acceleration because of what we've been seeing on the supply chain front in -- say, domestically in the United States or worldwide? Is that something that can actually provide meaningful booking opportunities later this year? Or is that something that's more looking into 2022 on those projects?

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

Thanks, Mike. The HLS business is doing extremely well. Their offices are full of home office engineering talent doing lots of work around the world and actually bringing in personnel from other business lines to support them.

So they're very, very busy. And they're busy in data centers. They're busy in manufacturing. They're looking at quite a number of, as I mentioned earlier, semiconductor chip plants, primarily here in the United States, some massive facilities and then, obviously, life sciences, where they continue to make progress.

So their new awards will be spread across the -- across 2021 and just continuing to grow. I don't think we disclosed the exact prospect list or the expected new award values to you. But you can really look at it that way is that they're going to be picking up as you go through '21 and into '22.

So they're in very good space right now. And again, they're a faster book and burn as well. Their projects come up fairly quickly and burn fairly quickly. That's -- they don't have a lot of -- like mining and metals or energy, a lot of long-term projects. But they come up fast and they burn fast.

Do you want to add anything, Joe?

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

No. No, I think that that's appropriate.

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

And my follow-up is regarding your announcement on NuScale today. Can you characterize that? Is that quicker than expected, what you had thought the timing and structure of this -- of the financing is obviously to fund NuScale? But also, is there a monetization opportunity for you and other partners? Maybe you can flesh that out?

And what do you think about the timing and the structure that -- certainly, early indications that you're seeing with regard to accelerating net zero carbon power opportunity, which should be well received in the marketplace once people understand it?

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

Yes. And people are starting to understand it. We've got great partners at the DOE. The DoE certainly get it, and the utilities are coming along. And it's very exciting times and not just in the U.S. but internationally. Canada obviously is a nuclear country, as is Japan and many others that we're getting a lot of incoming interest coming into NuScale and seeing how that, as I said, industry-leading technology because of its certification by the NRC, the only SMR, small modular reactor, to have that certification. So placed extremely well in the market and seeing just a lot of interest.

And we're pleased with the additional monies coming in, JGC, the $40 million that Joe talked about. We believe it's the appropriate time to explore how to unlock more value from NuScale for Fluor's shareholders. And we've got the Guggenheim engagement now that are going to be exploring opportunities to monetize the investment.

And as we said in January at the Strategy Day, our overarching goal is to start to monetize Fluor's investment in 2021. So we've got renewed interest from existing investors that we've got and new investors post the JGC announcement. So generating significant interest to come in and bring equity to commercialize -- support the commercialization, partners supporting engineering, procurement, fabrication and construction of the program.

And again, you couple that with Guggenheim driving financing options, all options are focused on monetizing Fluor's equity downward and driving shareholder value starting in 2021, to your timing question, and then take it from there. But it's early days with our -- with Guggenheim. And we're looking for good things to come. And a highly valued company in NuScale, based on their value proposition for carbon-free baseload energy.

Operator

And with that, that does conclude our question-and-answer session for today. And I would now like to turn the call back over to David Constable for our closing remarks.

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

Thank you, operator. And many thanks to all of you for participating on the call today. Today's results are beginning to show that Fluor is strategically shifting to align with our priorities outlined in January at our Strategy Day. Please stay safe. And hopefully, we'll be meeting in person relatively soon.

In the meantime, we appreciate your interest in Fluor Corporation. And thanks again for your time today. Thank you.

Operator

And with that, that does conclude today's call. Thank you for your participation. You may now disconnect.