

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FLR.N - Q3 2020 Fluor Corp Earnings Call

EVENT DATE/TIME: DECEMBER 10, 2020 / 1:30PM GMT

CORPORATE PARTICIPANTS

Alan Lee Boeckmann *Fluor Corporation - Executive Chairman*

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

Jason Landkamer *Fluor Corporation - Director of IR*

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

Michael J. Feniger *BofA Merrill Lynch, Research Division - VP*

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 Corporation 3Q 2020 Earnings Conference Call. Today's conference is being recorded. (Operator Instructions)

A replay of today's conference will be available at approximately 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 a 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, Mr. Landkamer.

Jason Landkamer - *Fluor Corporation - Director of IR*

Thank you, operator, and welcome to Fluor's Third Quarter 2020 Conference Call. With us today are Alan Boeckmann, Fluor's Executive Chairman; Carlos Hernandez, Fluor's Chief Executive Officer; and Joe Brennan, Fluor's Chief Financial Officer. We released our earnings statement earlier this morning, and we are streaming a slide presentation on our website, which we will reference while making prepared remarks.

Before getting started, I'd like to refer you to our safe harbor note regarding forward-looking statements, which is summarized on Slide 1. During today's presentation, we will be making forward-looking statements which reflect our current analysis of existing trends and information. There is an inherent risk that actual results and experience could differ materially. You can find a discussion of our risk factors, which could potentially contribute to such differences, in the company's Form 10-Q filed earlier today.

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 Carlos Hernandez, Fluor's Chief Executive Officer. Carlos?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Thanks, Jason, and good morning, everyone. It's great to be talking with all of you again, and I'm pleased to report that with this morning's 10-Q filing, Fluor is now current with its financials. Our team around the world has worked tirelessly over the last several months to get us to this point, and we are proud and grateful for their diligence and hard work. And we look forward to speaking with the investment community on a more regular and consistent cadence going forward, and we thank you for your patience as we confronted the challenges of 2020.

Moving to Slide 2. I'd like to start by providing an update on the effects of the pandemic on our operations and as we'll discuss in greater detail, since we last spoke, we have seen our projects continue to come back online and recover from the initial rounds of regulatory lockdowns and COVID cases. We are monitoring restrictions in various states and countries with rising cases, and we'll keep you updated on any major impacts to our business that we might see.

Over 75% of our offices are open and operating at a reduced level of operations, with the remaining offices still closed. We can flex the level of personnel at our offices as local restrictions and community spread of the virus changes. Only about 7% of our projects are closed, with the rest operating at normal, intermediate or limited capacity. We continue to engage with our clients on how to proceed successfully and safely and have provided notices asserting our rights under change of law and force majeure provision. We remain committed to the health and safety of our employees and communities where we work, and we have launched new procedures, training and communications packages to help transition our people back to work safely and finish the year strong. We are proactively ensuring our people have the mental and physical support they need to remain resilient and keep our business moving forward.

Despite the impact of COVID, we see a number of positive developments across the company. The majority of our projects have continued to safely and successfully progress in the field, and the projects we identified as problem projects last year have been holding to their revised cost forecast and schedule. There were no significant charges incurred in the third quarter. Before handing the call over to Joe for a financial update, I'd like to provide you a high-level outlook of what's going on in our various business segments and some specific project commentary.

Turning to Slide 3 and Energy & Chemicals. The segment continues to make progress on executing its backlog in a pandemic-constrained environment. However, we continue to hear from a number of our oil and gas clients that they expect to have reduced capital spending plans over the next few years. We believe that our clients will focus on advantaged, high-value projects that can generate returns in a weak commodity price environment. While we do see a pipeline of projects, we will only pursue the ones that fit our revised criteria as we focus on delivering consistent profitability.

On TCO, remobilization continues as the COVID situation in Tengiz and Western Kazakhstan has improved. We have successfully increased the project population to over 15,000 in Q3 and plan to remobilize the project to 20,000 by the end of 2020. As of today, we are at over 19,000.

In October, the project completed the final sealift module delivery for the project, on plan. This represents a tremendous accomplishment during the current pandemic and eliminates a high-profile project risk. The Fluor-led JV is 98% complete with engineering and construction in Tengiz over 50% complete. Major construction activities include setting modules on foundations, completion of metering stations and continued completion of power and control scopes.

In Kuwait, crude has started pumping to the Al-Zour refinery ahead of commissioning. When complete, this will be one of the world's largest oil refining facilities.

Finally, our offshore project work continues, and we are still planning to complete the fabrication and pre-commissioning work in 2021. Ongoing COVID impacts and travel restrictions in China are hampering the progress, but mitigation actions are being taken.

Now moving to Slide 4. Up in Kitimat, progress continues to be made on the LNG Canada project despite the ongoing challenges presented by the government-imposed restrictions due to the COVID-19 pandemic. Our engineering deliverables are being produced in various global operating centers for the ISBL and OSBL scope to keep pace with our COVID-19-impacted schedules for the fabrication yards and construction site.

The site activities are progressing while maintaining all COVID-19 recommended and required measures and mitigations. The site preparation and piling work for train 1 is complete, and train 2 is well underway. The Module Offloading Facility, Haul Road and Bridges required to transfer the modules to site will be ready in advance of receiving the first module in 2021. Pile capping, concrete foundations placement and paving has started for train 1. Though we continue to work on site, the priority continues to be the safety and well-being of our people.

And now to Slide 5. Moving on to our Mining & Industrial segment. Given the ongoing pandemic and the commodity price fluctuations, we have seen a lot of the large mining projects we were expecting to be awarded in 2020 and 2021 get delayed. We are well positioned to win these projects when our clients are ready to proceed.

Revenue and segment profit were negatively impacted as execution activities were deferred on a few large mining projects due to the COVID-19 pandemic. I am pleased to say that over the past month, we have started to see these projects remobilize and expect to see revenues follow suit as they get fully back online.

In our Advanced Technologies and Life Sciences business, we completed the Novo Nordisk project in North Carolina in third quarter. New awards for the quarter include a cell-based influenza vaccine manufacturing facility in Australia.

Now turning to Slide 6. Infrastructure margins reflect execution on a few zero margin projects in our backlog. However, we are continuing moving these projects forward and should start to see some relief in our margins as these projects wrap up later this year and into 2021.

This quarter, our Infrastructure segment booked the Oak Hill Parkway highway project in Austin for the Texas Department of Transportation. This project is another example of our focus on the Texas infrastructure market and is a testament to the value that TxDOT places on our services.

As we have previously discussed, in the third quarter, we terminated our contract with the Maryland Department of Transportation for the Purple Line project. This project has now been removed from our backlog. In November, the Maryland Department of Transportation reached a \$250 million agreement in principle with the consortium to settle all of the consortium's outstanding claims. Although this agreement is subject to approval by the Maryland Board of Public Works, it will result in Fluor and its joint venture partners avoiding additional project costs.

Turning to Slide 7. In Government, third quarter reflects the return to near-normal results driven by solid performance and active management of work levels despite the global pandemic compared to the second quarter. This was achieved across the Government group with the largest increases at Strategic Petroleum Reserve, Portsmouth and Savannah River.

In Diversified Services, reduced business volumes as a result of COVID-19 continue to impact results in the third quarter. Over the past 2 months, we have started to see volumes increasing after lockdown restrictions lifted, especially in Europe and Latin America. In the third quarter, we also divested EQIN, Fluor's professional equipment rental business in Europe.

And now moving to our Other segment on Slide 8. This segment includes the fixed-price Radford and Warren projects that were previously part of the Government segment as well as our NuScale initiative. The margin forecasts for the Radford and Warren projects continue to remain relatively flat. The Radford project is nearly complete with on-site teams rapidly working off punch list items. The water trials have been successful, and the project has made substantial progress in turning over subsystems to the client. Full turnover of all systems and effective site demobilization is expected early next year.

Warren has had an effective construction campaign through the summer and fall weather window, overcoming early design complications and making substantial progress with early structural work. The project successfully negotiated an extension of time order with the client, mitigating risk of schedule damages. To date, impacts from COVID have been relatively modest, and schedule impacts have been effectively mitigated.

In August, we announced that NuScale received final design certification by the NRC. This approval establishes NuScale as the preeminent leader in the small modular reactor technology market and allows Fluor to respond to customers looking for unique, flexible, safe and carbon-free energy solutions. Since that approval, we have seen an increase in interest from potential customers, capital investors, manufacturers and supply chain

partners to move forward in our development efforts. Fluor is pleased to support NuScale's efforts in creating a carbon-free power solution, and we look forward to discussing our opportunities in the near future.

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

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

Thanks, Carlos, and good morning, everyone. I'll start with a financial update on Slide 9.

In the third quarter, we reported revenue of \$3.8 billion, down slightly from Q2, and earnings from continuing operations attributable to Fluor of \$19.1 million or \$0.14 per share. Results for the quarter include \$30 million of foreign currency transaction losses, \$22 million of NuScale expenses and \$19 million of internal investigation expenses. In regards to NuScale, while we previously stated 2020 expenses would be fully funded by investors, investment decision delays due to the pandemic have required Fluor to provide \$15 million of the funding in the third quarter.

Our overall segment profit margin of 3.4% for the quarter is evidence of the work we have done over the last 18 months to stabilize the business. We saw strong performance across our business lines this quarter and have not taken any material project execution charges in the first 3 quarters of 2020.

Specifically, in Energy & Chemicals, it's important to note that our higher-than-normal operating margins for Q3 do not properly represent our performance in the quarter. Although we did see increased project execution activity on our LNG project, the effects of COVID and normal project adjustments were reflected in Q1 because of our delayed reporting schedule this year. Results for the segment also benefited from favorable FX. Thus, looking at the business line from a year-to-date perspective provides a better picture of our performance in that segment.

Corporate G&A expenses in the quarter were \$68 million. Most foreign currencies strengthened against the U.S. dollar in the quarter, resulting in the previously mentioned foreign currency loss of \$30 million, which is driving up the corporate G&A expense. G&A also reflects \$19 million of investigation expenses.

Moving to Slide 10. Our cash balance at the end of the third quarter was \$2.1 billion, with 36% of that domestically available for use. Our operating cash flow for the quarter was \$80 million, with free cash flow of \$58 million.

Moving to capital structure and liquidity. We continue to believe that we have ample liquidity to meet the demands of current projects and future prospects. As Carlos mentioned, with today's filing, we are now current with all financial filings and debt requirements. Furthermore, we continue to have extensive and ongoing communications with our banking community.

And before giving you some general comments about the fourth quarter and 2021, I wanted to provide a quick update on the sale of our AMECO equipment rental business. While this sale is still progressing, the pandemic has slowed progress on getting this transacted. We now anticipate that we will divest this business in the first half of 2021.

In the third quarter, we sold substantially all of our assets of our AMECO Jamaica business for \$18 million, net of working capital, and recognized a loss of \$1 million. You can see this reflected in this quarter's results from discontinued operations.

Turning to Slide 11. While we are not planning to provide 2021 guidance until our year-end earnings call in February, I would like to point out a few items as we close out the fourth quarter and move into Q1. As we stand today, our cash balance is north of \$2 billion, and we expect to maintain cash at this level through the end of the year. Our cash balance is roughly equivalent to where we stood at the end of 2019. Thus, we have been able to fund our loss projects through the year while maintaining strong liquidity.

Our non-cash compensation expense in the fourth quarter will reflect the delayed filing of the 10-K and will increase our G&A expense for the quarter. For our loss projects, we have approximately \$100 million left to fund in the fourth quarter and then marginal a marginal impact beyond this year.

As a reminder, because these projects have been written down to zero margin, they continue to reduce our overall margins since revenue and costs are recognized on a dollar-per-dollar basis. This is particularly evident when you look at the Infrastructure segment. We expect to see margins increase as we ramp up these projects and are working through a healthier backlog.

Finally, we continue to see a COVID impact on our business. Several of our larger clients are slowing work to ensure they can meet their year-end cash flow obligations. Additionally, the pandemic continues to impede our ability to staff projects. As we think about 2021, we will be starting from a lower backlog as we have worked down our existing backlog with much lower awards replacing them this year. This is especially apparent in oil and gas, and we will see a shift toward other business units until some of our larger clients feel comfortable re-investing capital.

Before we open the line for questions, I'd like to turn the call over to Alan Boeckmann, Fluor's Executive Chairman, to provide some remarks on our upcoming Chief Executive Officer transition. Alan?

Alan Lee Boeckmann - Fluor Corporation - Executive Chairman

Thank you, Joe. I'll now ask you to move to Slide 12, and I'd like to start this morning by saying a few words about Carlos Hernandez.

It has been my absolute privilege to get to work alongside Carlos since he came into the company in 2007, but more specifically, over the last 19 months. Carlos took over this company and quickly worked toward stabilizing our business and positioning the company for growth going forward. His hallmark is to be always promoting a culture of transparency and accountability, and the changes he put in place have quickly filtered across the company. The revised pursuit criteria that Carlos enacted has significantly reduced the risk in our backlog and has allowed our sales team to focus on high-quality projects where we can be profitable and successful.

Additionally, I think it's important to note even again on this call that Fluor has not taken any significant project charges in the last 9 months. We have also maintained strong liquidity and have completed a very detailed investigation. All of this is a testament to Carlos' focus on risk assessment, transparency and accountability. The changes he made in this company were necessary to set us up for the next chapter, and we are truly thankful for his contribution and wish him well in his much-deserved retirement.

I'd like to now speak a bit about the CEO succession. As Carlos has put us on a stable operating platform, the Board recognized that it was time for the succession to allow us to move forward with a CEO that will own the forward strategy for the next time frame. Therefore, on January 1, David Constable will return to Fluor as our Chief Executive Officer.

David held various leadership positions at Fluor from 1982 to 2011, and has also been a member of our Board since 2019. He has a deep understanding of our operations and opportunities and has a particular focus on effective risk management. I speak on behalf of the Board when we say we fully support his appointment for the CEO position and are confident he is the right person to lead our company.

I know that some of you remember David when he was last with the company, and he is looking forward to reconnecting with the rest of the investment community soon. As previously mentioned, we are planning a Strategy Day in early 2021. At that time, you will all get a chance to hear from David and the management team about their priorities and the actions that will move this company forward in 2021 and beyond.

And now with that, operator, we will open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll go ahead and take our first question from Andy Kaplowitz with Citi.

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

Carlos, thanks for all your help. It was good working with you.

Can you give us a little more color into how you and your customers are adjusting to COVID-related delays, especially on your problem projects? Basically, have COVID-related delays generally pushed back your timing to complete projects? And have customers, in general, agreed to the new completion dates and/or agreed to force majeure as you talked about? Or might we see more noise around some of your projects until COVID fades?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Thanks for that question, Andy. Actually, obviously, the clients understand that COVID is impacting our projects. And generally speaking, we are negotiating with the clients on the effects of the COVID impacts both as to schedule and as to cost, and I think that the discussions are very collaborative for the most part.

There is no question that there will be compensation to the contractor for impacts beyond our control, and we're in process of resolving some of those at this point in time. The problem is that, obviously, we don't know what the final COVID impact is going to be until we get past the pandemic. But we're engaged in some discussions right now with clients to resolve them to this point and then reserve the right to further negotiate, down the road, additional impacts.

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

All right. And then, obviously, commodities have been rising relatively recently here. Have you sensed any increased willingness from your clients to open the spigot and start spending again outside of E&C?

I mean you've talked about these mining projects in the past. I know they're pushed out, but you did mention sort of a little bit more spend in mining, I think, over the last month. So is there any higher probability, especially if these commodity prices continue their current trend, to see more of these EPC projects, non-energy in 2021 and beyond?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Yes. Actually, we viewed a number of prospects in the mining area as we have a process that's very disciplined about how we decide on whether to bid a project or not to bid a project and then what to submit as the proposal. We are seeing -- we're going through this process on a number of projects in mining and have been for the last several months.

So yes, I'm optimistic that mining will actually begin to resurface as a major activity area for us. As we -- as the world becomes more electrified and copper becomes more necessary, I expect that we will be seeing copper and gold projects coming up, and we are in the premier position to execute those projects.

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

And then maybe one more quickie for Joe. I don't know if you can answer, but your initial margin guidance for E&C before you had to pull it was 3% to 5% margin. You talked about margin being more like year-to-date, which seems like it'd be in that range. So is that the way to think about E&C margin generally going forward?

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

Yes. I think that we did call it out to kind of take a look at the 9-month run rate, Andy. And that would be a better thought process around how you could view E&C moving forward.

Operator

We'll take our next question from Jamie Cook with Credit Suisse.

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

I just wanted to follow up on Andy's question on the E&C margins. Because -- Joe, I think if you take the year-to-date I don't know if that's necessarily reflective because I think you had some charges in the first quarter, and it implied probably more like a 3% margin.

So like why wouldn't margins be higher than that or at least at the high end of your 3% to 5% in 2021 in particular as activity starts to pick up because that has meaningful implications for the earnings power for 2021? If we just took the third quarter at face value and adjusted for tax and G&A, it implies like a \$0.50 number. Now that's probably too high, but it just has meaningful implications for 2021.

And then, I guess, my second question just is on the bookings outlook. Understanding COVID has implications. But I'm just trying to understand how much bookings are being weighed down by customers waiting for you to come out with your sort of strategic update and which businesses will be a focus or not.

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

I'll take the first one. If you go back into the 3 -- nominally 3.1% run rate in E&C and you view some of the impacts that are dragging that number down to the 3%, they're really nonrecurring issues. And I think you're right, Jamie. If you eliminate those nonrecurring issues, you're probably closer to the upper range of that 3% to 5%.

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Jamie, with respect to your second question, we have been talking to customers really all along during this pandemic. And so we're very close to them. They know where we're coming from, and I don't expect that our strategy -- they're not waiting for our strategy to be announced to go forward on projects with us. I think they are very comfortable. Especially, our oil and gas customers expressed to us very much the desire for us to be available to them as a contractor that can execute their large capital projects.

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

Okay. And just one follow-up. Can you just help us understand -- you said the problem projects are on schedule and you haven't had material charges. But what's the dollar amount now associated with the problem projects that's in backlog?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Well, in terms of earnings, we're on plan. In terms of cash, we're on plan as well. In terms of cash that we're going to spend, go ahead and answer.

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

Yes. I can speak to the cash side of it. We had signaled back in, I think, September, Jamie, that we had nominally \$400 million, it's about \$438 million, that we were going to spend on problem projects in 2020 and that there would be a residual \$200 million at that point in time based on a number of things that have occurred in '21 and beyond.

We've had improvement in execution as it relates to those problem projects. We've had some cost avoidance. And so that \$200 million is nominally somewhere between \$50 million to \$75 million at this point. So we have been able to improve what we saw as a cash outlay relative to problem projects in '21 and beyond and see some significant improvement in what that will entail.

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Yes. Overall...

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

Okay. That's -- sorry. Go ahead, Carlos.

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Okay. We're very pleased with the execution of all of our projects, given what we took over in May of '19. So we have been focusing on execution as we said back then, and it paid dividends.

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

Okay. And Carlos, thanks for all your help throughout this as well. It was a pleasure working with you. Thanks.

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Thank you. Likewise.

Operator

We'll take our next question from Steven Fisher with UBS.

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

And I'll echo the sentiment. Thanks a lot, Carlos, and best wishes to you.

So just to follow up on Jamie's question about the project deferrals and activities. So it sounds like customers are not necessarily waiting for any strategy. But could you just talk a little bit more about what really is the thinking and driver of the project deferrals?

How much is COVID? How much is commodity price? How much is economic uncertainty, things like that? And do you have a sense of where backlog could actually bottom or stabilize and when?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Yes. I think it varies by business segment. With respect to oil and gas, obviously, oil prices are a big factor there. In terms of mining, commodity prices somewhat but also COVID has impacted the mining business maybe more than some of the other businesses. The other businesses: life science is going very well; ATLS is going very well; Government, well. So we expect to see growth in Government, ATLS and even mining as we proceed into next year.

In terms of the backlog, where are we now today, Joe, at 15 -- well, 20...

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

28. (corrected by company after the call)

Carlos M. Hernandez - Fluor Corporation - CEO & Director

28. (corrected by company after the call) We're burning some of that backlog. Obviously, we're not replacing the entire backlog, but we're replacing it.

We're -- the backlog we're taking in -- and this is really an important point. The backlog that we're taking in is very, very much based on the discipline that we've established early on in 2019. So we're not taking in bad projects. And so this backlog will decline somewhat, but it will be good backlog.

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

Okay. And then in the Infrastructure segment, I wonder if you can just give us a sense of how the mix of legacy projects versus newer projects will trend over the course of the year. I know it sounds like the legacy ones will become a smaller piece, but do you think you're going to start off with the year, say, 20% newer project mix and by the end of '21, that becomes 80%? How do we see that split as this business could be a big contributor to profit as well?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

I don't have the percentages but I can -- Joe, could you?

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

Look, I can give you a sense right now. We're nominally about \$500 million that we're going to be pulling from previous backlog into 2021 and beyond. And then some of the new work like Oak Hill that we've just booked into, we'll start to kind of balance that out as we move forward. But right now, we're looking at about \$0.5 billion of projects that we're continuing to execute from the previous 2, 3 years that will flow into '21.

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

Okay. Yes, that's helpful. And then just...

Carlos M. Hernandez - Fluor Corporation - CEO & Director

One more point on that, Steve. Obviously, the termination of the Purple Line project has been a very favorable development for us because that's a large project, that's a legacy project. And we'll be able to exit that project and avoid any future risks and costs there.

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

Yes, that's certainly important. And just one last clarification. I know you were talking about the potential to resolve COVID project delays. Did you say or can you say if you expect a resolution on a force majeure decision in 2021 on LNG Canada in particular? Or could that extend beyond that?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Yes. Thanks for that question. I think the way it probably will play out in LNGC is we'll probably have a partial resolution with respect to the impacts to date. And then later on when we're in a position to assess additional impacts, we'll negotiate that. Like I said before, it's not something we can negotiate all at once because situation of the effects are pretty lengthy.

And just a point of clarification, it's not just a force majeure claim, it's something we call change of law because many of the impacts are a result of government-directed lockdowns. So it's both of those decisions that give us the basis for resolution.

Operator

We take our next question from Jerry Revich with Goldman Sachs.

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

Carlos, congratulations on really stabilizing the business and the financials. That was certainly not an easy task here.

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Thank you, Jerry.

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

I'm wondering if we could just take a step back and talk about the balance sheet going forward now that the cash outflows are wrapping up on the problem projects. Alan, are you and the Board thinking about the balance sheet going forward? What do you need to see before redeploying cash with the completion of LNG Canada? Can you just talk about conceptually what signposts we should look for to see when you folks might be deploying capital again once we're continuing with the turnaround here?

Alan Lee Boeckmann - Fluor Corporation - Executive Chairman

Yes. Jerry, I'd be glad to talk about that. Clearly, I mentioned Carlos putting us in a position to reach stability. We're at a point right now, as Joe has also mentioned in his remarks, where we're engaging with our banks on our credit facilities, which will become current here early in this next year. And so getting that done is an important step.

Also, solidifying our balance sheet and both -- looking to improve our credit ratings is important to us. And then starting to pay down debt against that balance sheet to improve the strength of the balance sheet is another important part of the going-forward strategy. We believe that we've got strong liquidity right now, as Carlos said, to be able to manage the business, to be able to face the right prospects and to be able to have funds for any eventuality. But it's the balance sheet now that's our strong focus.

And I think also it is starting to make our mark in those industries where we can see potential growth, and that's going to be a very important part of the going-forward strategy. We want to be able to invest in some of the industries where we think we have a great future. And again, it's not necessarily the same business group that has been the interest in the past.

So I think I don't want to be able to -- don't really want to say much more, but those are our main goals going through the strategy session. We have a lot of strength in the company, and we have some opportunities, I think, to address the market that are coming forward and where we have strength that we didn't necessarily put the focus on them in the past. I hope that answers your question.

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

That's super helpful. And then in terms of -- maybe just to pick up on the strength of the company along the areas where there is perceived growth, hydrogen infrastructure. Obviously, copper, you alluded to. Can you flesh out what are the company's strength in some of those areas that are obviously not driving the P&L currently but could be interesting if we do see alternative energy technologies going forward? Outside of NuScale, what are the company's capabilities today without spilling the beans on the Strategy Day?

Alan Lee Boeckmann - *Fluor Corporation - Executive Chairman*

So I don't want to have to scoop David Constable here, but -- so I'm going to be very general. I think we do have some significant strengths both in intellectual property but also in the ability to execute in locales, to be able to handle permitting work in difficult locations, to be able to use our project management overall skills to be able to drive a successful project. So I think the actual unveiling of the markets we're really going to tend to focus and push hard on, I'm going to save for David and his team to unveil in our Investor Day coming up in early 2021.

But I do think it's going to be -- I think it is exciting, the opportunities that we have in front of us. And I think the position that we're in now that Carlos has gotten us to will allow us to start slowly at first but to gain momentum and in a staged process for a very strong forward strategy together.

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

And something that we've seen from some companies in this environment is companies reducing the size of their office space and companies essentially rightsizing their organizations, considering the new pockets of infrastructure build-out over the next 10 years will be different from what we've seen in terms of heavy energy investment over, call it, the prior 20. How big you have an opportunity is it to rightsize the cost structure and rightsize the footprint? Is that something that we should be thinking about?

Alan Lee Boeckmann - *Fluor Corporation - Executive Chairman*

Yes, I think you can assume that there will be a focus on that.

Operator

We'll take our next question from Sean Eastman with KeyBanc Capital Markets.

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

I just wanted to confirm how much zero margin work is left in the backlog as of the third quarter and how much is expected to be remaining going into 2021. I think you guys mentioned a \$500 million number for the infrastructure segment specifically, but I just wanted to understand how much of that zero margin work sort of rolls off and becomes a margin tailwind into 2021.

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

And Sean, you're talking about the loss projects, if you will, that we're pulling into '21?

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

Exactly.

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

Yes. So if I highlight the 2 biggest -- with Purple Line being pulled out of backlog, the 2 biggest numbers that -- 2 biggest projects that are contributing to the backlog rolling into '21 are Greenline and Bergstrom. And Bergstrom is 35% complete -- or Bergstrom is 80% complete, and Green Line is 35% complete.

So -- and they represent the lion's share of that balance. So my recommendation is that I think it's tied up into those 2 projects. And then we'll start seeing some of the benefit of the new work that's coming in that we booked in this quarter.

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

That's helpful. Would you be able to tell us how infrastructure margins are running year-to-date in 2020 ex the loss projects?

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

Yes. No. I -- it's difficult at this point because they're all running at kind of 0 margin at this point for the loss projects, but then we would have to do some weighted view relative to what we're putting into backlog. But really, any of the new work that's going into the infra side of the business is -- has just been booked in the previous quarter. So I think it would be better to have that discussion in the February time frame when we have a little bit more color around it.

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

Okay. That's fair. And then you guys had previously talked about getting that domestic readily available cash balance up to sort of the \$1 billion level. I'm curious where that number is today and kind of exiting 2020.

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

Currently, we'll exit -- for the \$2.1 billion, about 36% of that is readily available domestic cash. So we're on our way.

But again, to Alan's comment, I don't want to get out in front of Mr. Constable's strategy meetings. But as we go through the strategy, we'll probably have a review of what that cash balance needs to be to support the organization and the brick-and-mortar footprint and some of the other things that will be a fallout of what the new strategy is moving forward. So that number may look or change as we get into discussions at Investor Day.

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

Can you guys still hear me? Should I just keep going?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

We can -- go ahead.

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

All right. Okay. So if you look at the corporate G&A expenses, the underlying number is running quite low year-to-date. So could you guys talk a little bit about that dynamic, sort of where the savings are coming in there, what's sustainable and maybe where that corporate G&A run rate goes into next year?

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

Yes. So I think if you take in my opening comments, Sean, I think we -- if you take the \$68 million and you take the FX impact out of that and you take the investigation costs out of that, you're down at about a \$30 million number. But I would suggest that -- giving guidance around what that run rate may look like going forward, I'd say somewhere between \$35 million to \$45 million at this point.

Operator

We'll take our next question from Justin Hauke with Robert W. Baird.

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

I've got 2 here. First one, I guess, probably kind of easy one, but can you just quantify the descoping on the Purple Line, what that was, the backlog?

And it looks like actually, maybe there was a rescoping. Going through the Q, the reconciliation shows that maybe something came back in. So can you just talk about those 2 items?

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

I can talk top line on Purple Line. What we did take out of backlog was \$543 million. I would suggest maybe we go back and see if we can follow up on your second question, Dustin -- Justin, sorry.

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

Okay. That's fine. We can follow up.

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

Yes. \$543 million is the number that came out of backlog for Purple Line.

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

Great. Second one is just on the AMECO sale. I guess -- I mean I understand it being pushed back. But I guess how advanced is that first half '21 expectation?

And I think in the past, you guys have quantified something like \$200-plus million of proceeds from AMECO. You got the \$18 million from the Jamaica piece, which was obviously a small piece. But is that still a reasonable number? Or is there anything that you can give us as an update about expectations for what the cash proceeds might be from that?

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

Yes. And so as we had started this process and holistically trying to transact the business, it's become clear as we've gotten into some fairly curious negotiations here that it will more than likely be transaction on a regional basis, being North Africa -- or excuse me, North America and South America being 2 discrete elements of the transaction. We are very well progressed in discussions on the North American side and continue to develop a transactional strategy for the South American side.

So we wouldn't come off of that \$200 million range. We believe that's a reasonable expectation. We are just significantly closer to the North American sale than we are the South American sale, but still slated for first half of '21 for North America.

Operator

We'll take our next question from Michael Dudas with Vertical Research.

Michael Stephan Dudas - Vertical Research Partners, LLC - Partner

Well done, Carlos.

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Mike, thank you.

Michael Stephan Dudas - Vertical Research Partners, LLC - Partner

Recognizing how your new focus on discipline on bidding on projects and the overall decline in the market, maybe you can highlight a couple of areas that you've seen in the last couple of months, maybe heading into 2021 on the energy side, where you're seeing some green shoots. But also maybe in the Government and Diversified Services, maybe a bit of some observations on recompetes, opportunities to grow backlog and generate better work in those 2 end markets.

Certainly, Government's a little bit countercyclical and Diversified Services certainly are impacted by COVID and small-cap projects being pressured. So just maybe some of those observations to set things up as we look towards '21 and beyond?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Sure. Well, in Energy & Chemicals, we didn't specifically mention this today but I want to mention now, the chemicals business is still a very steady business for us. And we don't expect to see a decline there. In the Energy & Chemicals business -- I mean the oil and gas business, we've talked about the discipline that our clients are going to demonstrate. So we expect that that's going to be a challenging area for a little while.

But with respect to Government, we are very well positioned in the DOE space. For example, we've got -- we won a number of projects. Some of those are being challenged, being protested, but we feel pretty good about our position on those. And we see continued opportunities in the Government space.

And that's also true in the advanced technologies and life sciences, where we're actually working on some COVID-related facilities as well as other pharmaceutical type of projects. That is an area that we anticipate will have lots of opportunities for us as well. And again, we've mentioned -- we mentioned mining. I think mining may be a little bit later coming up, but we're very bullish on mining as well.

Infrastructure, we've refined our -- that we're going to restrict our bidding to jurisdictions where the Department of Transportation executes projects or advances projects in a way that's fair to us and to contractors in general, and we've been successful. And Texas is certainly one of those, and there are several other states that we've mentioned in the past where we've been able to complete projects successfully for both the client and for us.

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

And a follow-up, Carlos. How do you guys feel about, in general, NuScale going into '21? Is there some pretty big milestones we can anticipate on that front, whether it's a new project or more support on the development or investment side?

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

There's lots going on there, but I'm going to let Alan take that one.

Alan Lee Boeckmann - *Fluor Corporation - Executive Chairman*

Yes. Mike, it's a very good question. I think the -- several things have happened over the last 6 months that have been incredibly positive for the NuScale business and its development.

Number one, we -- Carlos mentioned the NRC approval that's clearly one of the biggest ones. But the Development Finance Corporation of the U.S. announced lifting their prohibition on lending for nuclear projects internationally. That has gotten a lot of attention and has resulted in probably 2 fairly good opportunities to turn into projects here within 2021.

The other thing that happened is DOE announced a \$1.4 billion award -- grant award for the first nuclear project to use small modular reactors. And right now, that's targeted with U.S. projects to drive it forward. But we are talking with at least 2 other clients with potential imminent projects coming up within 2021.

So the project side is starting to look good, but also, we're having very serious discussions with investors who want to come into the equity side of NuScale. So both sides of the equation are looking strong right now. The timing is the issue and getting -- bringing these projects onboard as well as investors onboard is taking a lot of our attention.

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

And Alan, I would think that the incoming administration would be net positive towards this, I would think, given decarbonization. But I don't know if you have any observations on that.

Alan Lee Boeckmann - *Fluor Corporation - Executive Chairman*

Actually, the answer to that is yes. The -- it's interesting that NuScale really got its boost and started moving forward under the Obama administration with Secretary Moniz as the head of DOE. And we've seen over the last -- even during this last administration a very strong bicameral support for this effort.

So we don't think that will change at all. In fact, if anything, it may get a little bit extra push.

Operator

We'll now take our final question from Michael Feniger with Bank of America.

Michael J. Feniger - *BofA Merrill Lynch, Research Division - VP*

The cash balance of \$2 billion, it's impressive that it's at that level. And even year-to-date, the cash from ops, it looks like \$144 million is up from a year ago even with some of the losses that you guys talked about this year. I guess anything we should be aware of that has benefited you this year that might reverse on the cash from op side in 2021?

And with this question, I guess the fact that the cash balance has been relatively stable over the last 12 months, yet your backlog is under pressure in new orders. Is it likely that the cash balance comes down, gets drawn down through 2021? Any context you can provide there on that?

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

Yes, I'll take the question. Our cash balances are kind of a function of a number of the initiatives that we put into place, the least of which is the bidding principles and what is going into backlog and the cash that it's generating, I think, one.

Two, I think the cost optimization program has been very, very beneficial. In fact, we had set a target of \$100 million and without divulging what that number is, we'll be north of that number in terms of real cash savings for the year.

I think to the extent that I had mentioned earlier, Michael, that we are executing our loss provision projects more effectively and efficiently than we had anticipated back in September, have all been benefits. But I would call this -- most of the cash generation that you're seeing is through organic decisions and actions that the company is taking currently.

Michael J. Feniger - *BofA Merrill Lynch, Research Division - VP*

Understood. And when we talked about, to Jamie's question earlier, the 3.1% margin like year-to-date in E&C, it actually sounds like it's higher if we exclude some charges. So you mentioned maybe 4% to 5%. Is that what we're thinking heading early into 2020 that we should be more on the 5% number?

And can you just help me understand, with what you are saying year-to-date, how much has like LNG Canada actually contributed to that number? Is margin being recognized above that range as you guys start to build out that project?

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

Maybe -- I'll answer it maybe holistically, and we'll probably get into the LNGC call -- or question maybe a little bit later in February when we talk about it. But the impacts really that are driving the 3.1% cumulative margins through the first 9 months are some of the disclosed COVID impacts. We have a credit risk on a project in Mexico, and then we have a loss on the transaction for Sacyr Fluor, which we would consider to be nonrecurring events at the end of the day.

So if you normalize those out, we're closer to the 5% range. So I would suggest that's probably a better number to utilize moving forward.

Michael J. Feniger - BofA Merrill Lynch, Research Division - VP

Got it. That's really helpful. And then it's impressive, as you guys mentioned, no project charges on execution in the last 3 quarters. Yet -- just following up on Steve's question. It sounds like we get a little bit more visibility on the impact of COVID for LNG Canada.

I guess how many other projects out there right now that there are some need for resolution? I understand that's kind of normal course of the business. I don't know if this is a little bit more than normal course with what you guys are speaking. Because I guess I'm just trying to reconcile the really impressive last 2 quarters of no big charges, yet the outlook based on the pandemic is impacting staffing and execution.

Can we wake up in the middle of 2021 or end of 2021 when the vaccine's out there, economy's humming, yet there still are some litigation or charges? Any way you guys can kind of frame that for us and how to think about that and time line?

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Yes. I'll take that. In terms of COVID, obviously, the fixed-price projects are the ones that we have COVID impacts that are being negotiated with the client. I don't think any client is denying entitlements, but clients obviously will negotiate with us in terms of the amount and as to scheduling cost.

So it's still -- we're working with the clients on some of these projects and have already reached some preliminary resolutions, which are favorable. But we still have a number of them to be resolved. And it's hard to resolve them because the impacts are still ongoing, in some cases -- in many cases. So I can't tell you the magnitude, but I can tell you that it's obviously recognized cost and schedule impacts that we're working with the clients to address in an equitable way.

Operator

That concludes today's question-and-answer session. Mr. Hernandez, at this time, I will turn back the conference to you for any additional or closing remarks.

Carlos M. Hernandez - Fluor Corporation - CEO & Director

Thank you, operator, and thanks to all of you for participating on our call today. This is my last time speaking with you as CEO of Fluor. The challenges the company has faced over the last 18 months from project write-downs and internal investigation to a global pandemic have been truly extraordinary.

I want to thank all of our stakeholders, our shareholders, our clients, our partners and of course, our 45,000 employees, for sticking with us through this process. I strongly believe I'm leaving the company stronger and more resilient than when I was named CEO in May of 2019. As an investor, I look forward to seeing great things in Fluor's future.

In the meantime, I've been working closely with David to ensure a smooth transition. I've known David for many years, and he brings a unique combination of deep insight into Fluor and an outsider's perspective. He truly knows our company inside and out, and I wish him all the best in his role.

We greatly appreciate your support of Fluor. Thank you.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2020, Refinitiv. All Rights Reserved.