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PRESENTATION

Operator

Good day and welcome to Fluor Corporation's Second Quarter 2019 Earnings Call. Today's call is being recorded. (Operator Instructions) A replay of today's conference call will be available at approximately 8:30 p.m. Eastern Time today, accessible on Fluor's website at investor.fluor.com. The web replay will be available for 30 days. A telephone replay will also be available through 7:30 p.m. Eastern Time on August 8 through a registration link, also available 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. Welcome to Fluor's Second Quarter 2019 Conference Call. With us today are Alan Boeckmann, Fluor's Executive Chairman; Carlos Hernandez, Fluor's Chief Executive Officer; and Mike Steuert, Fluor's Chief Financial Officer.

Our earnings announcement was released this afternoon. We have posted a slide presentation on our website, which we will reference while making prepared remarks.

Before getting started, I'd like to refer you to our safe harbor note regarding forward-looking statements, which is summarized on Slide 2. During today's call and slide presentation, we'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 the company's Form 10-Q filed earlier today and our 10-K filed on February 21.

During this call, we may discuss certain non-GAAP financial measures. Reconciliations of historical non-GAAP 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.

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

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

Thank you, Jason, and good afternoon to all of you. Let me start by saying that I am extremely disappointed in the company's results for this quarter, and I'm also very aware that we owe you a complete explanation of the issues and our path forward. Carlos, Mike and I are committed to doing just that.

As a result of my 36-year prior career with Fluor, I have a very deep loyalty to this company and its people. And it was that loyalty that drove me to accept the position of Executive Chairman and also because I felt that I could team with Carlos to successfully address our issues.

In my previous tenure as CEO, I hope that I earned a reputation for strong execution and transparent communications. So it's with that in mind, that I begin this discussion.

If you would please turn to Slide 3. On the 1st of May, the Board of Directors appointed me as Executive Chairman and Carlos as Chief Executive Officer. They then commissioned us to effect a complete review of the business. The first and major part of our review was to meet and talk with the business group leaders regarding their project teams, clients, suppliers and subcontractors to allow us to assess all of the risk projects in our backlog.

The second part of our assignment was to evaluate and modify as necessary our bidding and execution strategies to ensure that going forward, we can have a high-quality and reliably-profitable backlog.

Next, we assess the organization, its leadership and its governance to make sure that we have the right team and structure in place. Several major investments that you're aware of have been made in the last few years. Our next task was to take a critical look at the performance of these investments and recommend any necessary actions. Now given recent project losses, we also engaged in a review of our balance sheet, our cash flow and liquidity.

The last part of our review was regarding our current portfolio of businesses. We have begun an analysis in each of the business lines and its position and performance within our corporation. This will result in a recommendation to our Board of Directors of what we believe to be the optimum mix of markets and services that should comprise Fluor Corporation.

As you can see, this was a comprehensive assignment. And for the last 3 months, we have been relentless in looking into every aspect of what I've just outlined.

One of our first actions was to bring back Mike Steuert as CFO. Mike, as many of you know, previously served as our CFO from 2001 until 2012 and rejoined Fluor in June. We also engaged Lazard as the strategic adviser. These 2 critical moves have given us significant leverage in assessing our situation and options.

Our review included a strategic session in June with our entire Board in which we discussed our initial findings and outlined the initiatives that we are pursuing. Recognizing that today we have a lot to accomplish on this call, let me start by outlining the order of our presentation.

First of all, I will begin with a summary of actions taken by Fluor's Board of Directors, then, I will turn the call over to Carlos to brief you regarding the status of our finding and actions to date in this strategic review. Lastly, you'll hear from Mike Steuert, our Chief Financial Officer, as he provides a financial update and his initial priorities.

Carlos and I have met with many of you in our buy- and sell-side community as well as clients and employees. We've listened to what our stakeholders are saying, and we're using this feedback as a guide for the changes that we are making inside our company. The issues we are discussing today are serious, but I am convinced that they are solvable.

I also recognize that our markets have changed, and I have personally observed that clients today have transferred significant risk and liabilities to contractors. And this has impacted our entire sector. But very importantly, I also believe that Fluor does not have to accept these risks, and we are working with our clients to better balance these in future contracts.

We can also achieve project success when all of our employees have a commercial mindset; they have a strong understanding of the contractual requirements; and employ our strategic vision, which is an unwavering commitment to safety, cost competitive innovation, and excellence and execution.

But before we get to the quarterly results, I want to update the investment community about recent actions by the Fluor Board of Directors. If you would, I'll ask you to please turn to Slide 4.

Our Board absolutely recognizes the gravity of this announcement and has taken steps to improve our visibility into the contracting process, including the risks that we're assuming in new projects as well as how we are approaching and executing our existing risk projects.

At yesterday's board meeting, the Board formed a risk committee, led by Jim Hackett. This committee's role is to assist the Board in fulfilling its risk oversight responsibilities. It will oversee and review with management the risk framework and regularly monitor compliance. We believe this committee will enhance the Board's exercise of its duties in keeping with our mandate of good corporate governance.

And lastly, while we have a very strong board, the challenges and market conditions that Fluor is facing today require that we initiate a process to bring on individuals who have additional capital project and industry expertise. We will not be increasing the size of the Board, but expect to announce at least 2 new members by the end of September.

But while these initial efforts are a start in the right direction, they're only a portion of the changes that we intend to make. We expect to include -- conclude our strategic review within the next 8 weeks and to explain our path forward in detail during a webcast on September 24 at 8:00 a.m. Eastern Time. I encourage all of you to put that date and time on your calendar.

And with that, I'll now turn the call over to Carlos to talk more about our operations, progress on changing our strategy, and what he's been doing to meet the Board's expectations. Carlos?

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

Thank you, Alan. Let me start by sharing with you the actions we've taken during my first quarter as CEO and provide you some details on our path forward.

To begin, I've made a number of changes to improve the effectiveness of Fluor's executive team.

Please turn to Slide 5, please? In addition to bringing Mike back as CFO, I appointed Mark Fields as the President of our Energy & Chemicals segment. Mark has nearly 40 years of experience, including extensive megaproject execution in upstream refining, mining, chemicals, and petrochemicals. Also, we have separated infrastructure into a standalone business segment to increase transparency, with Terry Towle as Group President reporting directly to me. Terry has been operationally responsible for 11 infrastructure projects over the last 10 years.

Finally, we have moved risk management under long-time Fluor executive, Garry Flowers, and expanded his authority to enhance reporting and accountability of this group. Garry is particularly well suited for this role as he has provided support and has been instrumental in developing resolution strategies on a number of challenging projects during his career. As Alan mentioned, we have a heightened focus on our risk profile. We have increased transparency and accountability throughout the organization.

Please turn to Slide 6. It has become apparent to me that there are a few significant and common issues in many of our challenged projects. In May, we immediately implemented a more rigorous framework to our pursuit process. We have already enacted changes in our bid/no bid process so that our future backlog will be comprised of high-quality projects with a contract structure and execution approach that will generate improved risk-adjusted margins.

To that end, we have set the following pursuit criteria for new projects. For Energy & Chemicals, we will only pursue fixed price work where there is a limited bid slate, and we have identified a quantifiable advantage over other bidders or where it is a sole-source negotiated lump-sum agreement. We will only bid on projects where Fluor executed the FEED package or otherwise was allowed to perform sufficient due diligence.

In infrastructure, we will focus our efforts in North America and continue to extend our presence in states where we have an established track record and strong DOT relationships. These include Texas, Arizona, California, Virginia and North Carolina.

In the Government segment, we will no longer pursue lump-sum projects. For lump-sum projects, the terms and conditions must have an appropriate allocation of risk between client and contractor. And in all cases, risk projects will be subject to an initial bid/no bid approval, followed by later final approval by the Fluor executive team. This increased focus on selectivity will change the profile of our prospect pipeline because it is important that we drive our company to a backlog and execution platform that can deliver consistent results.

Although the trend in our industry is to pivot away from lump-sum work, we still believe that Fluor has the talent and expertise to win and execute these projects, albeit on a more selective basis. To put it simply, we're focusing on profitability and cash generation. We'll not bid on large-scale lump-sum projects that don't meet our criteria. But there are lump-sum projects that do meet our new standards. If we are successful, for example, on being awarded the Rovuma LNG project, I can assure you that this project has gone through increased scrutiny by Fluor and adheres to our newly-revised risk management approach.

With regard to our current backlog, one thing that has become exceedingly clear to me is that we must take a more disciplined approach to risk assessment on our projects. We have identified our challenges and outlined what needs to be done. Additionally, we're making changes to how we approach engineering and project management to ensure our projects are staying in sequence with work not commencing until the appropriate reviews are complete.

During the second quarter, the company met with a number of our clients, subcontractors and suppliers, in an attempt to resolve a number of matters. These include ongoing disputes, pending change orders, schedule extensions, closeout items, unpaid receivables and our position on outstanding claims.

As a result of these discussions, client settlements and revised estimates to complete projects, the company evaluated its position on a number of projects, which resulted in a pretax charge of $714 million. These charges impact a broad range of projects, including certain projects that remain profitable.

Furthermore, our margins will be lower than normal based on a timing of awards in our proposed -- in our prospect pipeline and the impact of projects discussed today.

Now if you would please turn to Slide 8. In Energy & Chemicals, results for the quarter include additional project adjustments of $186 million relating to an offshore project. You have heard us talk about the offshore project over the last 2 quarters and the challenges we have faced as a result of significant growth from a FEED package from others.

As a result of the revised and approved design guidelines, we determined, in the quarter, that we will not be able to meet the completion deadline as indicated in our contract. While we continue to engage our client in regards to execution strategy, we must recognize the cost associated with missing the initial project completion date and other identified expenses.

Results also include additional charges totaling $87 million, resulting from schedule-driven cost growth and client and subcontractor negotiations on 2 fixed-price, downstream projects as well as scope reductions on a large upstream project.

On a positive note, we won a reimbursable EPFC contract for a refinery expansion project in the United Kingdom. We were also awarded the FEED package for INEOS new processing plant in the United Kingdom, which is a part of their broader strategic investment in the region. We are excited to be part of these projects.

Regarding our LNG Canada project, we're on track with the overall project schedule and budget. In the second quarter, we completed the last 30% model reviews and continued site preparation and construction of the Cedar Valley Lodge worker accommodation center. During the third quarter, we will be progressing engineering, continuing site preparation and commencing construction of the material offloading facility. We remain on schedule to release module design packages to our fabrication yard in Q1 of 2020.

Although this project has taken -- was taken into backlog at the end of 2018, we have completed additional reviews and can confirm that LNG Canada conforms to the revised risk criteria we announced today.

We're also moving forward with the Formosa Sunshine project in Louisiana. Our team is working on the FEED component for several parts of this mega facility and continuing to put together proposals for other pieces of the plant. We expect to see, in the second half of 2019, a reimbursable EPC award for the utilities, off-sites, infrastructures and logistics portion of this project. We're able to leverage experience we have in this area to more effectively forecast labor and equipment costs.

And finally, in E&C, you have heard us talk about 2 large methanol projects that we expected to win in 2019. Unfortunately, one of these projects, South Louisiana Methanol, was indefinitely delayed by the client this quarter. This was disappointing to us, and obviously, affects our new awards outlook for E&C this year. We expect that the Lake Charles Methanol project will move forward early next year.

Now if we would turn to Slide 9, please. In the Mining, Industrial, Infrastructure & Power segment, results for the quarter include project adjustments of $109 million on 3 gas-fired power projects and $55 million on several infrastructure projects, including the Purple Line in Maryland. With regard to the power projects, we have final agreements with our clients, where both sides are absolved from future liability other than standard warranty coverage. Thus, we are pleased to say that these projects are finally behind us with no remaining material exposure to gas-fired power in our backlog.

You may have seen some news articles about the MTA Purple Line project in Maryland and some challenges our joint venture has faced to keep this project progressing on schedule. Due to legal and right-of-way delays, we have revised our project forecast based on increases to our cost forecast and changes to the time line.

We announced this quarter, the award of a $1.7 billion I-635 LBJ East Infrastructure project here in Dallas. This project is the largest example of our strong relationship -- latest example of our strong relationship with TXDOT. We recently won a $263 million project with North Carolina Department of Transportation on Interstate 26 near Asheville. We expect to book both awards in the third quarter.

In Mining, we're starting to see the FEED and feasibility work we have been completing over the last year come to fruition. In the second quarter, we booked over $300 million of work in copper mining projects alone.

Now if you would turn to Slide 10. In the Government group, results for the quarter include a charge of $233 million for a government project, on which the company serves as a subcontractor to a commercial client. For this commercial client, Fluor is providing EPC services for several new structures on an existing site. The charge we're taking on the project is substantially driven by late engineering changes, cost growth and project change orders that have been rejected. As a subcontractor on this project, we continue to work with the prime contractor to resolve these matters. The project is expected to complete at the end of 2020.

In the second quarter, we won a 9-month extension to the LOGCAP IV contract in Afghanistan. We recently announced our 14-month extension of our M&O contract at the Savannah River site in South Carolina, and we will book our portion of this award in the third quarter. Also, later this year, we expect to hear about both the Tank Closure Contract and the Central Plateau Contract at the Hanford site for the DOE.

Now if you would please turn to Slide 11. In Diversified Services, our Stork restructuring that we announced last quarter is well underway and going very well. Our restructuring will be substantially complete by the end of the year. This quarter, a Stork-led consortium was awarded a 4-year framework agreement for plant turnaround services for Ecopetrol on 2 refineries in Colombia.

Now turning to our equipment rental company, AMECO. We're exiting our operations in Mexico and in selected international countries. Exiting these low to negative margin markets will result in a restructuring charge of approximately $120 million, with $37 million recognized this quarter. We expect to receive cash of approximately $90 million as a result of this restructuring effort.

And finally, we're evaluating the rest of our organization to see what offerings or end markets are not consistent with our goals to drive long-term value for our shareholders. All options are on the table, and we will tell you the results of this review on our September 24 call.

I'll now turn the call over to Mike to give some financial updates from the quarter. Mike?

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

Thank you, Carlos. And again, welcome to our second quarter conference call. Like Alan, I returned to Fluor based on my loyalty to the company, and along with Alan and Carlos, I'm committed to returning Fluor to industry-leading performance.

Since you can read about our results for the quarter in our earnings release and 10-Q filed this afternoon, I will focus on several key matters. First, charges in the quarter.

Please turn to Slide 12. Results for the quarter include $669 million of project charges; $46 million for ongoing restructuring efforts in Diversified Services; $26 million for precontract cost; and $19 million for the elimination of embedded foreign currency derivatives related to the company's joint venture in Mexico.

As Carlos mentioned and as stated in our earnings release and 10-Q, these charges are in large part the result of management's efforts to resolve, or at least progress, a number of project matters during the quarter. Some matters have been resolved or are near resolution. However, in spite of our extremely diligent efforts to quantify risk this quarter, risk remains in our backlog, and any additional project challenges could impact future results. In addition, the cost of actions to be taken as a result of our ongoing strategic review may also negatively impact future quarters. Consequently, we will not be providing guidance for 2019.

Shifting to the balance sheet. Fluor's cash plus marketable securities for the quarter totaled $1.9 billion, essentially flat with last quarter. Available domestic cash balance was approximately 20% of total cash and marketable securities.

Our capital structure remains solid, and we have substantial liquidity. In addition to our cash, we have committed lines of credit of $3.5 billion. Approximately half of which is available for drawings. We have plenty of room under our key covenant in the credit agreement. And even if the lines are fully drawn, we have plenty of room. They do not mature until 2022. Further, the first significant tranche of our long-term debt does not mature until 2023.

However, our credit ratings have declined and will certainly come under pressure this quarter. We are committed to reversing this trend and strengthening Fluor's financial position. As Carlos said, we are looking at all options, and we'll provide an update on our September 24 call.

Please turn to Slide 13. Our priorities to accomplish this goal are cash flow generation; improving Fluor's cost profile and operating efficiency; and enhancing our return on investment through focused asset management.

The first is cash flow generation. Cash flow from operations in the quarter totaled $109 million. Cash flow from operations for the second half of the year is likely to be negative as we continue to fund the troubled projects that we have discussed today. Future sources of positive cash flow will be selected asset sales and divestitures, including real estate, as well as the collection of project receivables, change orders and claims.

Moving to the underlying cost profile of our businesses. A number of options are being explored as part of the strategic review. These include optimizing our global real estate footprint, improved discipline around overhead expenses, and rebalancing staffing levels to meet the evolving demands of our clients.

Please turn to Slide 14. In regards to improving return on investment, I, along with executive management and the Board, have been reviewing 3 major investments that Fluor made over the past few years. The first is Stork, our O&M business that we house in Diversified Services. Last quarter, the company announced a restructuring of dividends that is still underway and is on track. These restructuring efforts respond to a shift in the type of services demanded by our clients. This quarter, we took a restructuring charge of $9 million related to anticipated asset divestitures and severance.

We took a $27 million restructuring cost last quarter, anticipating taking another $14 million in restructuring cost in the next 2 quarters. With these changes, we believe the business will be appropriately sized and positioned to further add value for our broader organization.

Next, I want to talk about our COOEC joint venture fabrication yard. We still believe this facility provides flexibility and schedule certainty required to execute large, fixed-price contracts, most notably LNG Canada. That being said, we want to make sure that this investment is operated and structured in a manner that allows us to achieve appropriate returns. The yard currently lacks volume, with appropriate mix of work, and may continue to be a modest drag of earnings for the balance of 2019. We have started conversations with our partner on how to best restructure this investment to bring in new work on a profitable basis, while reducing our exposure.

And finally, NuScale. Last week, NuScale announced that its SMR design had cleared the NRC second and third phases of review 6 weeks ahead of schedule. The NRC remains on track to complete its review by September 2020, and our first potential customer is planning a 12-module SMR plant in Idaho. NuScale has also signed MOUs to explore the deployment of its technology in a number of countries, and discussions are underway with other potential customers.

As you may have seen, Doosan Heavy Industries & Construction, along with Sargent & Lundy, have signed agreements to invest in NuScale. These new investors are expected to fund the cash requirements for the balance of 2019. We are encouraged by this progress and are open to adding additional investors to fund requirements beyond 2019.

Please turn to Slide 15. As I mentioned, we are not providing updated guidance for the second half of 2019. However, there are a couple of cost estimates we can guide to. These include expected corporate G&A expense of approximately $100 million, excluding restructuring charges and pension settlements, both of which are likely to be significant. No additional funding for NuScale in the second half of the year due to the recent impending new investment from Doosan and Sargent & Lundy. Following CFIUS approval of these investments, we will no longer be incurring expenses for the remainder of this year.

Finally, turning to Slide 16. As it relates to our business segments, when comparing the second half of 2019 to the second half of 2018, we expect that Energy & Chemical revenue will decrease 15% to 20% with modest improvement operating profit margins. Mining, Industrial, Infrastructure & Power revenue growth of 30% to 40%, primarily due to mining with operating profit margins in the 2% to 3% range. Government revenue to decrease by approximately 5% with operating profit margins of 3%, excluding NuScale, and Diversified Services revenue growth of 8% to 10% with flat margin.

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

QUESTIONS AND ANSWERS

Operator

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

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

Mike, welcome back.

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

Thank you.

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

So Alan, I know you said there -- it needs more clarity. I knew you said there could still be more risk in our backlog -- in your backlog. But the Street will wonder whether you actually created debt there, not given the size of the charges you took. Obviously, resolving disagreements between sale, but could you give us more color into how you looked at your contracts differently? And if it's possible, could you give us any examples of how you reestimated productivity on projects so we can understand the level of conservatism in your estimates?

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

Sure. Let me just comment on the several events that took place this quarter that resulted in the charge. For example, on the power projects, we were able to reach settlement agreement with the client. And as a result of that, we're taking a charge of about $109 million and taking some positive -- and receiving some positive cash flow.

With respect to certain estimates of cost to complete on a couple of projects, those were looked at this quarter given the progress that has been made, particularly with respect to engineering, which oftentimes drives -- which drives other factors, such as procurement and materials that need to be acquired. And those were reestimated on that basis.

As far as contract, we have a number, and as it is common in every project, of change orders on various projects. And we evaluate those change orders. We discuss them with the client, and we reach conclusions on where we are. With respect to the government project, for example, we have a number of change orders that are outstanding, and we met with the client and made a judgment as to whether we should take the charge at this time, and we decided that we should. That doesn't mean that we're not going to pursue those change orders at a later date, but we thought it was prudent to do so at this time.

Another factor that we sometimes look at, and obviously, with respect to these estimates, there's a degree of judgment that is exercised, and we've tightened the assumptions a little bit. And as a result of that, perhaps took some charges that are reflected in the $714 million of charges this quarter.

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

Okay. And how should we think about Fluor's ability to win major projects now and grow backlog going forward? First of all, how salable do you still think the overall oil and gas and mining markets are at this point? Can you talk about some project delays? Do you still believe that we're in a project upsell? And then, are you actually in retrenchment mode? So we should handicap some of the major potential awards that are out there? Do you still think you can grow backlog in E&C and in the mining infrastructure business?

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

Well, a couple of things. Certainly, we think we are well positioned to win work. And it's no secret that the industry has suffered severely over the last couple of years given what has happened in shifting of risk from clients to contractors. And the industry is getting more selective. But we're going to -- and we're getting more selective as well. But we think we're well positioned to win work.

For example, right now, we have a backlog of $35 billion. We expect, over the second half of this year, for our backlog to grow, perhaps, to $40 billion. And with respect to this backlog growth that we are expecting, we're very comfortable with the kinds of projects that we are expecting to win.

We are -- let's assume, for example, that we are awarded the Rovuma project in Mozambique. That project has gone through a screen filter that's consistent and compatible with the new rules of the road that we have established. So we're very comfortable without. We also have some other -- for example, we have some other lump-sum project that we're pursuing, but those are negotiated lump-sum. So while our backlog will probably increase a little bit in terms of lump-sum, it will be lump-sum that we feel comfortable with.

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

And Mike, if I could just squeeze a quick one in on cash. You mentioned cash would be negative in the second half of '19, cash from operations. But could you actually have an outflow next year, given the project shortage you're taking now?

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

That's a great question. We do expect modest negative cash outflow this year as a result of project charges, but we will also be seeing some inflow from our ongoing operations. For next year, there will definitely be some additional negative outflow from the projects, but we also have our base core business that will be generating cash throughout the year. And our net cash position next year, to a larger extent, really depend on our actions based on a strategic review that's underway currently. And I certainly expect those actions, plus ongoing cash management activities, where we're really looking at all of our excess real estate, we're looking at other assets that can be liquidated. We're doing a number of things to enhance our cash position. So I would expect, overall, I'd be very, very disappointed, if we cannot generate significant amounts of cash in 2020.

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***

A couple of questions. One, just on the charges that you took on the problem projects, is there any way you can help us disclose the dollar amount of backlog, which is associated with the problem projects? How many are there? You highlighted some, but there were more in infrastructure, you didn't highlight the number. And then, what percent complete those projects are?

Two, my second question is, in terms of how we're thinking about the strategic review, when you guys were first on the road, you talked about cutting investment and restructuring Stork. You talked about COOEC. You talked about NuScale. You talked about real estate. But I'm just wondering how extensive this review is now that we have Lazard as a strategic adviser to whether we're considering broader portfolio changes relative to what we announced before given the magnitude and the pervasiveness of the charges that we've seen. So I guess -- and then last, like in what world can we get comfortable with LNG Canada given what we've just seen today?

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

Okay. Jamie, you've asked all the questions that I thought you'd ask. Let me start. 75% of the charges that we took this quarter relate to 2 projects, the offshore project and the government project, as well as the closeout of the power projects.

With respect to the infrastructure projects -- and by the way, the power project is about -- I mean, sorry, the government project is about 50% complete. The offshore project is a little bit higher than that in terms of completion. With respect to the infrastructure projects, the largest charge there is the Purple Line project in Maryland, which we discussed in the earlier remarks.

With respect to the rest of the infrastructure projects, they're all small projects that we probably wouldn't have spoken about. But for the fact that, that they all add up -- total adds up to about $55 million, and some of those projects that we've taken small charges are not even in a loss position.

With respect to the strategic review that we're engaged in, as we said, everything's on the table. We're going to be looking at capital structure, dividends, assets, portfolio, everything that you can imagine to be in a position to report back on the September 24 call.

And Alan, I don't know if you want to add anything to that.

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

No. I think that's right, Carlos. This -- Jamie, this last 3 months, we've been incredibly busy working with our business unit lines, going through the backlog, addressing all of the risk projects. We've been progressing our position on each of the investments and putting a significant focus on those. We also have -- and Carlos has done a really excellent effort in providing some pretty stringent selectivity criteria, and then enforcing that and working through the organizations to make sure that we are being much more highly selective on addressing these risks. That's taken a tremendous amount of effort this quarter.

But in respect to the other parts of our portfolio, we have also been assessing that. We're not in a position of any announcement right now. It requires additional work. We are looking at some efforts that will reduce our overall cost footprint. Mike mentioned some of those.

But I would say September 24, we're going to be able to tell you what this business -- what the business portfolio of this company should be, what each of them represent and contribute to the total of Fluor, and which ones that we think we can -- we have to have in an optimum situation.

So we don't mean to avoid that question at all. It's just that we're just not ready to make those decisions yet because of the analysis that's going on. But you should rest assured that we're looking at the entire portfolio.

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

And then, Alan, on LNG Canada, given what you guys have seen so far, it's too early to possibly get comfortable with that project. Like how do I respond to that when investors ask me that?

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

Yes. LNG Canada, as I mentioned, we're -- it's early in the project still. We're still on schedule and on budget. We brought up a number of expats to augment our critical activity there. We have Mark Fields, who was there 2 days or 3 days after he got appointed Head of E&C. Mike and I have now joined the Board of Directors at that joint venture. We're dedicating all of our resources to that project. And at this point, we believe that, that project has -- would pass our new pursued requirements that we've implemented now. So at this point, we're comfortable with that project.

Operator

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

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

Given the breadth of everything you had to accomplish, do you think that 2 to 3 months was enough time to really do everything that you needed to do, specifically on the backlog reviews? Like, was it as absolutely thorough as it could be? Or did you have to kind of rush it at all to kind of be prepared for today?

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

Steve, they have worked their Chairman extremely hard.

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

I can assure you, Steve, every project that we have touched, we have gone thoroughly and deeply to it. And that's not to say that we won't be doing that for the next several quarters or -- to a project completion. And that's not to say, as you know, we can't say that everything is done on each of these projects. But we have -- at this point, we are very comfortable with where we are based on the information we have now.

Now some of these -- there's one project that -- well, the engineering has caused us to have to increase our cost forecast, and that engineering is not complete. I don't expect that it -- I mean, I can't say that it's going to have additional charges, but until the engineering is complete, there's always a possibility of that. But we have worked long and hard the last 3 months. We've talked to clients. We've visited project sites. We've talked to our project people. It has been an all-out effort.

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

Steve, let me give you an example of our efforts. In my prior life, at quarter end, I would have one review with all the group CFOs and go through the numbers and make sure we were comfortable. This -- the last 2 months, we had 3 rounds of reviews with all the group controllers and CFOs. We brought them in. We sat down for long periods of time on 3 different occasions to make sure that we and they were comfortable with the accounting and assessment of risk this quarter. Now as Carlos said, it was a very intense effort.

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

Okay. I'm wondering if you can help us understand the likely path of margins from here, particularly in the E&C business because that's the one, if you look at the guidance that you have for the second half of this year, relative to what maybe we should think would be normalized, has perhaps the most room for upside. So really kind of wondering how all this affects 2020. And should we expect, as we get into the first quarter and the first half of 2020, that we should see still a step up significantly in margins as you execute the LNG Canada project and get through some of the other things that are dragging on the margins?

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

Well as you look the remainder of this year in 2020, obviously, the one offshore project will be a drag on margins. But the rest of the business, we should expect a modest improvement in margins this year, and that will continue into 2020 as we seek the rest of the business move through the backlog and get burned.

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

But on the E&C business, I mean, does not mean -- can we get back to like a 5% to 6% margin in 2020? Or is that off the table at this point?

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

I think it's going to take a little longer to get back to that level of margins. I think we'll see modest improvement this year and modest improvement next year.

Operator

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

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

So I guess as a first question, you've got some interesting partners now on NuScale. Both of them have nuclear capabilities as well as expertise. Strategically, as you look out, where do you see their roles potentially going versus yourselves?

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

Well, Tahira, first of all, we're very pleased that we've gotten an investment that's going to eliminate any funding obligation from Fluor for the balance of this year, maybe into the beginning of next year, once we get CFIUS approval. But we have noted significant increase in investor interest in NuScale, and we are pursuing discussions with other investors currently.

So the fact that we've gone through 2 recent gate reviews with NRC and we have passed them, and we're expecting NRC approval, I believe it's late 2020. This makes us -- gives us a lot of confidence that we'll be able to attract investors in the next 6 months to a year.

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

And I know a lot of these are very important milestones, modular technology are getting lost in all the noise. So obviously annoying to see that for yourselves.

I guess the second question for me, there've been several other construction companies that are facing and struggling with productivity issues and cost revisions. And some of them have been pretty vocal that they're trying to get some resources from Canada. I guess my concern is even though you're doing more modular construction for LNG Canada, are you being very watchful showing up all the expertise you need on ground?

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

Absolutely. That's one of things that Mark has enhanced even since he took over, and he's bringing resources to that project from other locations to enhance our capabilities there.

Operator

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

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

And appreciate all the frankness and the openness you've shared with us this evening. For, I guess, Alan and Carlos, what were the common themes that you learned from your discussions with the client base, with your managements, with the employees, with vendors, that surprised you or got you to this point of, wow, we got -- not Houston, but Dallas, we have a problem? Other than, obviously, the issues that we've reported today in your second quarter.

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

Mike, one of the things that we've done is Carlos and I have met with a lot of the CEOs of our clients, and it's an interesting situation where they understand the issues that are buried in our industry. They see the damage has been done to the sector. And they actually talked pretty openly about the need for a win-win situation and trying to correct that balance.

I will tell you, though, and one of the things that we've had in our discussions, just pointing out to them, that hasn't always flowed down through their supply chain. I'm sure that doesn't surprise you. But we still -- and I've had 2 conversations just in the last week where I've gone back up the chain and talked to the top of the company about the -- that misdirection or that misalignment in the risk review. So we're going to push on that.

I think as Fluor, we can be selective, and I think that we -- not only can we be selective, as you've noticed, all of the other announcements in this industry, there are actually people leaving, and there are people that are curtailing their selectivity criteria as well. I actually think that's good for us. If we can be disciplined and we can be selective, I actually think that it creates a better situation for us going forward. But we do have to be disciplined.

I'll let Carlos address the rest of your question.

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

Yes. Let me comment on what has happened internally within the company. In the last couple of weeks, for example, we have made decisions not to bid projects that we probably would have bid previously. We have also changed our bids on a couple of projects to be noncompliant, but on the basis that we believe we can execute effectively. And we have established -- we're establishing a new discipline in this regard. We're not going to take projects where we are going to be bidding against a number of other competitors. And the -- and we don't have a quantifiable advantage. And even when we have a quantifiable advantage, it's going to be when there's a very limited slate of competitors.

So this is a change that's quickly being -- that's resonating throughout the company. And every risk project comes to me for approval, along with my management team. And everybody's on board with that.

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

I appreciate that -- those thoughts. And I guess, Alan, to your point on the CEOs or the clients and the customer base, is this a secular -- I mean, this and cyclicality in risk transfer from contractor to client over the cycles. But is this somehow more secular? Some other -- or something else being driven by this? Or will it be cyclical when you let more people pull out of the business and takes up capacity, and then it will be a better situation?

And how does Fluor as the size of the company and where you're focused on today, can be most effective for that to generate returns that's going to be required to improve your share price?

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

Mike, that's an excellent question. This really started -- and actually, I saw it from the other side, when I was the Board of oil and gas company. When the oil price dropped so precipitously several years ago, that's when the oil -- all of the oil companies moved strongly to cut their costs. And one of the first places they did that was with their suppliers and contractors. I think that's -- that was the start of the initiative, and it's just continued since then. In fact, they had to brought in consultants and so forth to work with their supply chain to continue to perfect that.

I do believe that the changes now that are occurring in the industry, the problems that have occurred, has woken these companies. And we've seen a realization of it. I do believe that what we're going to do, and our actions will actually help drive some momentum in that regard. But other companies are joining us, quite rightly, but I think we can lead that effort with our brand and with our global reach. And we intend to do that.

Operator

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

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

Carlos, I'm wondering if you could talk about where you folks drew the line in the sand in terms of projects that you're monitoring, but didn't take charges on. For example, a project like Tappan Zee, where there is dispute with them -- with the owner, and projects like that. Just, can you help us build a comfort level that there aren't another number of projects that we're monitoring that didn't meet the threshold where we took charges that, where it's possible, going forward.

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

Yes. Sure, Jerry. First of all, on Tappan Zee, I believe we took a small charge this quarter. We have a -- and we do have a dispute with a client, a claim there, which we have a legal basis to do -- to pursue.

So where we have a high level of confidence and comfort, Jerry, we will not take a charge. But in this case, we don't have very many other projects where we have claims that we believe are at risk. So as I said earlier, we took a very hard look. And within the range of reasonableness, we got a little bit more conservative.

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

Okay. And then, in terms of the charges that we saw this quarter, what are the cash payments that are going to be necessary, were they go along with those charges? Or have a substantial portion of them effectively already been paid for via working capital growth? Can you help us understand that?

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

There are substantial future cash payments from some of the charges, probably in the $200 million to $300 million range for this year, and into the first part of next year. But again, we will have cash flow from our -- the rest of our operations offset a good portion of that. But there are some charges associated with projects that will actually result in positive cash flow.

The Duke Power is an example where we took some charges, but we expect to receive cash from the client. The restructuring activities for the AMECO, Mexico and the Caribbean, we took some restructuring charges. But as we liquidate those assets, we'll have positive cash flow. So not all the actions that we took will result in negative cash flow. Some will result in positive cash flow in the future.

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

Okay. And as we look at the implied earnings range of the back half margin commentary that you folks laid out, that implies earnings run rate in the low $2 range. As we think about heading into the strategic review discussion in 2 months, I would assume that, that's the starting point for the earnings power of the business, and then we'll look at strategic options from there. Is that the right starting point? Or would you make any observations relative to where we're going to be exiting the year?

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

Given all the moving parts of this quarter, plus the next 2 quarters as we go through our strategic review, I really -- I don't think it's wise for us to give guidance relative to those starting point. I think we need to go through a strategic review and go through our full assessment of 2020 and get more comfortable as we complete this year to be given -- giving guidance as a starting point for looking at next year.

Operator

We'll take our next question from Chad Dillard with Deutsche Bank.

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

So can you talk about your commitment to the integrated delivery model and how this could potentially change? And then are there any projects that you took charge that were bid under that model?

And then secondly, with your new risk framework, like how does your prospect list change? What was before the new framework was implemented? What's it look like today?

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

Well, let me answer the second question first. Our prospect list really doesn't change that much. One of the areas where we expect our prospects to materialize, and we mentioned in the earlier remarks, is in mining. For example, where almost all the work is reimbursable. And with respect -- I mentioned earlier with respect to the next 6 quarters or so, we have prospects that are about between $12 billion and $13 billion of lump-sum work, but 2/3 of that prospect list or the value of the prospects are either negotiated lump-sum, services or the Mozambique project, which we mentioned earlier, passes all of our tests in terms of project pursuits.

And remind me, what was the first part of your question?

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

Yes. I just curious about your commitment to the integrated delivery model, how it could change? And were there any projects that took charges this quarter bid under that model?

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

We have -- the integrated delivery model is something that we're going to continue to have available to us. But to the extent that any of our -- that our strategic review results in some changes in how we handle our investments, and that might change, but we are -- that's a capability that we have that we're going to continue to offer, but we're not necessarily going to be limited to that. To the extent that we can offer parts of that delivery model because the clients want that, we're prepared to do that. We're not going to walk away from different offerings.

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

Got it. And so I'll take the $670 million of charges. I guess, like, how much revenue does that represent? And how much is still profitable?

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

That represents, single-digit revenue, less than 10% as we look forward for the company. The amount that's profitable is a modest amount, given we are in those projects. It's very modest. There were profitable projects in infrastructure, as Carlos mentioned, where we took charges on, and there were a couple other one-off projects that were profitable when we reduced profitably going forward. But it's -- those projects -- I think Jamie asked the question earlier, they don't represent a large proportion of our revenue or our backlog.

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

Got you. If I can just squeeze one last one in. Just with regard to your analysis LNG Canada meeting kind of like your requirements, is that predicated on owning -- or the equity ownership in your fab yard?

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

Well, that's certainly part of the derisking of that project that we have, our modules being built at the fabrication yard in China. So that's definitely part of it, yes.

Operator

We'll take our last question from Andy Wittmann with Baird.

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

I guess my question is building on some of the cash and balance sheet questions and would probably be appropriate for Mike. Just looking at the contract assets and the contract liabilities that you reported here, your assets are down sequentially and your liabilities are up significantly from the charges that you took. You're now in a position for the first time where your contract asset -- or your contract liabilities are actually in excess of your contract assets.

So typically, the other way to the tune of about $600 million or $700 million to the positive on assets. So can we -- is there any -- can we use this relationship between contract liabilities and contract assets to forecast what your potential cash burn could be? You suggested that the second half of the year could burn $200 million or $300 million and that there'd still be some burn into 2020.

I mean are we looking here at $700 million, $800 million of cash burn as we move into 2020? On these projects that have the negative contract capital position?

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

That's a little high. The cash burn will be a portion of the losses we took. We're not -- all those losses do not represent a cash burn. Some are for cash that's already been spent, that was on approved change orders, things like that, that we took off our books where we spent the cash, but just don't expect the collection on the revenue side.

We didn't give out specific numbers, but some of the charges relate to cost growth. And on the cost growth side, we will probably see cash outflow. On the revenue side, where we expect less revenue income, we've already expend some cash, and we won't see that -- so it'll be a portion. It'll certainly be more than half, but it won't be the full amount of those charges.

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

Okay. That's helpful. And then, I guess, just in the case of cash burn happening here, would you look to fund that off of your revolver? Or would you start considering repatriating some of the foreign domiciled cash? And if you did, what would the tax implications of that be, if that's one of the options that's on the table?

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

Given the cash that we have on hand domestically, and our ability to repatriate foreign cash over time, and we have a lot of other actions that I mentioned -- we're going to -- starting right away, selling some excess real estate. We're going to actually be cashing in some insurance policies. We're doing a lot of things to generate cash.

I expect to do everything again. So we're not going to be funding any of our cash requirements off the revolver. But that's our last option.

Operator

And that does conclude today's question-and-answer session. I'd like to turn the call back over to Mr. Hernandez 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. While we still have a lot of work to do at Fluor, we ask for your patience as we ensure we are taking the right steps.

We maintain our conviction that Fluor is best-in-class company and are remaining diligent in our pursuit to restore our reputation and credibility. Our priority going forward is to pursue, win and profitably deliver on work that is aligned with Fluor's risk profile, engineering and project management capability.

We look forward to providing additional information on September 24 as it pertains to our strategic review and our process regarding portfolio rationalization. We greatly appreciate your support of Fluor. Thank you.

Operator

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