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PRESENTATION

Operator

Good morning, and welcome to Fluor's Second Quarter 2022 Earnings Conference Call. Today's call is being recorded. (Operator Instructions) A replay of today's conference call will be available at approximately 10:30 a.m. Eastern Time today, accessible on Fluor's website at investor.fluor.com. 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, Head of Investor Relations. Please go ahead, Mr. Landkamer.

Jason Landkamer - *Fluor Corporation - Director of IR*

Thanks, and good morning. Welcome to Fluor's 2022 Second Quarter Earnings Call. David Constable, Fluor's Chairman and Chief Executive Officer; and Joe Brennan, Fluor's Chief Financial Officer, are with us today. Fluor issued its second quarter earnings release earlier this morning and a slide presentation is posted on our website that we will reference while making prepared remarks.

Before getting started, I'd like to refer you to our safe harbor note regarding forward-looking statements, which is summarized on Slide 2. During today's presentation, we 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 our 2021 Form 10-K and in our Form 10-Q, which was filed earlier today. During this call, we may discuss certain non-GAAP financial measures. Reconciliations of these amounts to the comparable GAAP measures are reflected in our earnings release and posted in the Investor Relations section of our website at investor.fluor.com.

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

David Edward Constable - Fluor Corporation - Executive Chairman & CEO

Thank you, Jason. Good morning, everyone. Thank you for joining us today. Please turn to Slide 4. Before we get started on operational results, I'd like to draw your attention to Fluor's 14th Annual Sustainability Report that was recently published. Our sustainability report provides insight into how we are accelerating our ESG actions to build a better world.

Notable accomplishments highlighted in this latest report include: first, the actions underway to reduce our carbon footprint, led by a 15% reduction in Scope 2 emissions from 2020 to 2021. This performance supports our drive towards delivering on our net zero 2023 commitment for Scopes 1 and 2. In addition, we also achieved a 12% reduction of Scope 3 emissions in the same period; second, our efforts in supporting employees and their families health and safety during the COVID-19 pandemic, which included the expansion of Fluor's Employee Assistance Program globally; and finally, advancing DE&I efforts from implementing inclusion councils to broadening employee resource groups so that all of Fluor's employees globally feel included and can reach their full potential.

Additional information, including our GRI and SASB disclosures can be found in the Sustainability section of our website. Q2 new awards for the quarter were above a 1:1 book-to-burn ratio of \$3.6 billion. Importantly, 73% of new awards for the quarter were reimbursable and nearly 40% were in support of energy transition related opportunities. Fluor continues to differentiate itself in this growing global market space. We also continue to see strong demand for our technical and construction services.

In the first quarter, our margins on new awards were 470 basis points above our plan, and we were able to achieve equally impressive results with margins on second quarter new awards that were 550 basis points higher. Moving now to our business segments. Please turn to Slide 6. Urban Solutions reported segment profit of \$8 million for the second quarter. Results for the quarter reflect cost growth on 3 legacy infrastructure projects and the closing of a P3 transaction that Joe will discuss in a moment.

New awards for this segment approached a 2:1 book-to-burn ratio at \$1.9 billion compared to \$617 million a year ago. Now turning to Slide 7. In Infrastructure, new awards included a \$547 million award for the I-35 Capital Expressway South project just south of Austin. This award is a continuation of Fluor's regional infrastructure focus and reinforces the strength of our project execution skills in road and bridge work.

For the second half of 2022, the near-term prospect pipeline includes the A27 project in the Netherlands. In the quarter, we recognized charges on the Gordie Howe legacy infrastructure project. Fluor and our partners recently performed a detailed review of project progress and cost. The team continues to see significant inflation pressure on materials and labor. This resulted in a \$32 million increase in our cost estimate. We've engaged external partners to create a comprehensive claim package that we expect to submit in the fourth quarter.

This project is 36% complete with an anticipated completion date in early 2025. We also recognized nonmaterial charges on 2 other legacy projects as a result of cost growth and re-work. Across the infrastructure landscape, there are clear signs of cost inflation. At Fluor, we see cost escalation in fuel and commodities, such as rebar. On large contracts, we reduced our fuel risk by entering into fuel hedges. While we've not seen significant inflationary pressure on labor, we are planning for this and have included the currently identifiable amounts in our forecasts.

Our projects estimate future labor costs by using local labor information for craft wages or labor agreements with agreed escalation rates. During the proposal phase, our teams negotiate firm fixed price commitments with the majority of our subcontractors and suppliers. When we are successful in winning an award, we then strive to immediately execute those contracts to lock in prices with subcontractors and suppliers.

As discussed previously, we will continue to be extremely selective on infrastructure pursuits, with a focus on fair and balanced contract terms and with clients where we have a strong relationship. Turning to Slide 8. In Mining and Metals, we successfully started to convert the prospect pipeline I shared with you last quarter. During Q2, Fluor was awarded a contract to perform engineering, procurement and construction management for Iluka Resources Eneabba project, a fully integrated rare earths refinery in Western Australia.

When complete, this refinery will produce light and heavy rare earth oxides that are essential to global electrification and renewable energy infrastructure. Fluor also booked an award for the construction and construction management of a copper project in Indonesia for a valued long-term client. This new work is an extension of an award we booked last year. Over the next 3 quarters, our Mining and Metals clients are positioning to move forward on approximately \$5 billion of limited and full notice-to-proceed awards to support demand for copper, gold, lithium and metals.

Our Quellaveco project in Peru is nearing completion and began initial operations in July. The facility is expected to have an average production of 300,000 tons of copper per year. Fluor was responsible for Quellaveco's engineering, procurement, and construction management services. Now please turn to Slide 9. Our efforts in Advanced Technologies and Life Sciences continue to support our strategic priority of driving growth across the portfolio. In semiconductors, we are supporting the demand for onshoring manufacturing across multiple clients.

Currently, Fluor is working with Intel on projects in Arizona and Malaysia, and we anticipate that these programs will convert to a full release of work over the next few quarters. On the Life Sciences front, we anticipate receiving work in the third quarter for an expansion of an existing biologics manufacturing facility currently underway for Fujifilm in Europe. We also see new biotech investments in Europe and the U.S.

Moving on to Slide 11. Mission Solutions reported segment profit of \$28 million for the second quarter, consistent with our expectations. During the quarter, we were informed by the NNSA of their intention to cancel the Pantex/Y12 contract that was initially awarded to us late last year. According to the NNSA, the award was canceled due to an accelerating workload at both facilities. The NNSA has determined it requires 2 separate contracts to manage Y12 and Pantex in order to deliver on critical national security missions. They will hold 2 new competitions, starting with the release of the Pantex request for proposal by the end of this year. While we are disappointed with the outcome, our team is fully engaged and preparing for the rebid process on both projects.

Even without Pantex/Y12, Mission Solutions has a positive trajectory. We are well on track for upcoming renewals, recompetes and new work. This includes a recent notification from the Department of Energy of their intent to extend our Savannah River Site contract for 4 additional years, with a 1-year option period. We, therefore, believe that Mission Solutions is well positioned to have another successful year.

Moving to Energy Solutions, please turn to Slide 13. Segment profit of \$65 million, reflects foreign currency impacts, cost growth and estimated recoveries on a legacy upstream project. Results also include an embedded derivative gain of \$17 million. New awards for the quarter included a large lithium chemicals project in China. Here Fluor was awarded the engineering, procurement and fabrication management for this energy transition project. We also received a partial award for a refinery upgrade project in Mexico with our joint venture partner, ICA.

Energy Solutions' third major award in the quarter was for the full notice-to-proceed on the New Fortress Energy FAST LNG 2 project. As a follow-up award to the LNG 1 project from New Fortress last quarter, we have proven that our mid-scale modular design and execution plans facilitates repeatable models that can be used to replicate and fast track similar LNG plants in the future. We are well positioned to support the increased worldwide demand for LNG.

In our traditional oil, gas and chemicals markets, we continue to see our clients taking a pragmatic approach with their CapEx plans. However, I can tell you that Q3 is already off to a good start with a key client reaching FID on a large reimbursable petrochemical facility in China. We expect to be sharing further information on this project in the coming weeks.

Turning to Slide 14. At the LNG Canada project, our joint venture scope is well over 60% complete. The project is transitioning to a different phase of construction with modules arriving at the project site and the related increased focus on above ground work. Of the 215 total modules, 98 of ships and 93 were on site at the end of the quarter. On this slide, you can see a refrigerant compressor module in Italy being prepared for transport. We continue to work collaboratively with the client to resolve COVID-related impacts across the primary job site and fabrication yards.

Moving to Slide 16 and NuScale. We continue to see tremendous support and interest in NuScale since its SMR listing in early May. After investing in NuScale for over 10 years and as NuScale's largest investor, it's encouraging to see that the market agrees that there is significant value in NuScale and their carbon-free clean energy solution. Based on recent prices, our 57% investment is approaching \$2 billion in value. During the quarter, the United States announced it is providing Romania with a new scale small modular reactor simulator. This SMR simulator will support Romania's next generation of nuclear experts, technologists and operators.

The collaboration highlights the growing global support for NuScale as the premier clean energy solution. In addition, the U.S. government also announced that it is committing \$14 million towards the front-end engineering and design study as Romania moves towards the deployment of a NuScale VOYGR-6 SMR power plant.

Finally, last Friday, the NRC voted unanimously to approve the design certification of the NuScale SMR. This follows the standard design approval and issuance of the final safety evaluation report in August 2020. NuScale design will now become only the seventh reactor design certification that the NRC has issued for use in the U.S. and the only SMR design.

Before I turn over the call, I wanted to expand a bit on my initial comment about nearly 40% of our new awards this quarter directly related to energy transition. More specifically, we are currently executing energy transition front-end projects that total \$38 billion in potential future work across our segments, and we are pursuing another \$28 billion of front-end prospects in this space.

With that, let me now turn the call over to Joe for the financial update. Joe?

Joseph L. Brennan - Fluor Corporation - EVP

Thanks, David, and good morning, everyone. Today, I will review our results for the first quarter, providing an update on our divestitures and capital structure plans and go over the key financial outlook assumptions that support our 2022 guidance. Please turn to Slide 18. For the second quarter of 2022, revenue of \$3.3 billion reflects projects that have neared completion and the pace of limited versus full notice-to-proceed on projects. Segment profit increased to \$108 million from \$95 million a year ago.

In our earnings release, we added adjusted EBITDA results to help investors and analysts better understand our results from operations independent of tax expenses. Adjusted EBITDA for the quarter was \$65 million, slightly below our expectations for the quarter when the project charges David mentioned are included and when you consider the negative effect of FX on a number of projects. As an example, in Energy Solutions, the impact of FX on our projects this quarter was approximately \$29 million.

Our diluted adjusted EPS for the quarter was \$0.13. Results for the quarter reflect a higher effective tax rate due to our current mix of global earnings, project charges and the negative effect of FX I just mentioned. Corporate G&A expenses for the quarter were \$45 million, down from \$71 million last quarter. This was driven by a \$38 million reduction in incentive compensation, which was partially offset by a \$5 million reserve for legacy -- legal legacy claims. Net interest expense in the quarter was \$1 million compared to \$9 million last quarter. We expect our net interest expense to remain at low levels due to the positive impact of rising rates on global cash balances.

New awards for the quarter of \$3.6 billion, exceeded a 1:1 book-to-burn ratio. Ending backlog improved to \$19.5 billion. When you include some of the recent client announcements that David mentioned, we fully anticipate being above a 1:1 book-to-burn ratio for the third quarter. Our cash and marketable securities balance for the quarter was \$2.2 billion, with 26% of this amount domestically available.

Please turn to Slide 19. Our operating cash flow for the quarter improved to \$55 million as working capital levels remain stable. For the year, we expect our cash balance will be roughly flat. Since Strategy Day in January of 2021, we have been keeping you updated on our cost optimization program, Project FIT. We are on track to capture nearly \$100 million in ongoing cost savings in 2022, 2 years ahead of our goal. We expect to have annual savings well above this amount by 2024.

Please turn to Slide 20. Regarding our capital structure, we remain on track for using existing liquidity and the monetization of our noncore business units to retire our 2023 notes and make progress on our 2024 notes. During the quarter, \$23 million of the 2023 notes were retired. At the end of the quarter, we had a \$1.2 billion in outstanding debt, including \$153 million maturing in March of 2023.

Today, our debt-to-capital ratio is now under 40%. In June, we were successful in monetizing our interest in a P3 infrastructure investment in Canada. For the quarter, we received cash proceeds of \$18 million. As it relates to the monetization of Stork and AMECO, we continue to make progress. Last quarter, I mentioned that we had entered into an exclusivity agreement for the purchase of Stork's European operations. Our conversations with the preferred bidder have progressed well, and we hope to provide more details soon. The divestiture of the remaining AMECO operations have accelerated, and we expect to have an update on our operations in Mozambique, by the end of the third quarter.

Finally, after the successful listing of NuScale shares last May, we have been asked about our ownership strategy for NuScale, one of Fluor's largest assets. Since the beginning of 2021, we have been clear that our intention long term is to own approximately 20% to 25% of NuScale. Currently,

we are under a D-SPAC related lockup period that started in early May. As such, we feel that it is premature to provide additional detail on our plans at this time.

Any plans for our investment in NuScale would be considered with all other sources of cash, including cash from operations and proceeds from Stork and AMECO. In total, these sources provide the financial flexibility we need to invest in our people, maintain our solid capital structure and unlock value for our shareholders.

Please move to Slide 21. We are tightening our adjusted earnings per share guidance from \$1.15 to \$1.40 to \$1.15 to \$1.35 for the full year. This change was mainly driven by higher tax expenses due to our current mix of global earnings. As we start to ramp up U.S.-based revenue in 2023, we believe the effective tax rate will decline as we begin to utilize the approximately \$800 million of currently available domestic tax benefits.

To provide better insight into our operational performance without the distortion caused by higher tax expenses, we are now introducing adjusted EBITDA guidance. For the full year, we expect adjusted EBITDA to be in the range of \$380 million to \$430 million. Note that this adjusted EBITDA guidance is in line with our original expectations that supported our initial 2022 adjusted EPS guidance.

Adjusted EBITDA expectations for the second half of 2022 will be driven by improved bookings, increased project gross margin and lower segment profit, our overhead. Our assumptions for 2022 include revenue similar to full year 2021, adjusted G&A expense of approximately \$50 million per quarter and a second half effective tax rate of approximately 36%. This may vary somewhat depending on the countries in which revenue is generated.

Our expectations for segment margins in the second half of the year are approximately 5% in Energy Solutions, approximately 4.5% in Urban Solutions and approximately 3.5% in Mission Solutions.

Operator, we are now ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from Michael Dudas with Vertical Research.

Michael Stephan Dudas - Vertical Research Partners, LLC - Partner

David, maybe expand a little bit -- you mentioned that some of the projects that you've had limited notice-to-proceed is moving now a little bit better towards full notice. Can you talk about maybe the cadence of that through the second half and looking into 2023? And maybe the confidence level of the clients that you have in your kind of near-term pipeline, any -- are they shaking at all? Or are they still going ahead given some of the uncertainties that we're all reading about in the press?

David Edward Constable - Fluor Corporation - Executive Chairman & CEO

Yes, Mike, it's -- we're really encouraged by the new awards in Q2 and what we've already seen in Q3. It's not slowing down at all. And -- as I mentioned, those limited notices and full notices to proceed are very solid. We expect both LNTP and FNTPs in Mining in the second half and into '23. So CapEx plans, not just in Mining, but across Energy Solutions and Urban Solutions and, of course, government, which is obviously in the press right now seem very solid.

We've got CapEx, the CapEx spend across our top, say, our top 10 customers, commercial customers, it will be about \$175 billion in '22 and up to \$190 billion in '23 annually and beyond. And about \$20 billion to \$25 billion of that is spent -- going to be spent in energy transition annually,

which, as you know, we are differentiating ourselves and picking up a lot of energy transition work by differentiating with our subject matter experts historically out of Energy Solutions, but now cutting across all of our 10 business lines.

So yes, it's -- in a recessionary environment, at least a technical recession, we feel good about our new awards. We historically perform well in a recessionary environment, and we're seeing that now. Thanks, Mike.

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

And my follow-up would be, maybe you can elaborate a little more, certainly, again, very topical, given the CHIPS Act just passed and signed into law, I guess, last week. And the progress on some of the construction management projects for these -- for Intel and other customers and where we can see more visibility on some of those projects and the size of those projects over the next, say, 6 to 18 months?

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

Yes. On the CHIPS Act, right, it just needs to get signed off by the President. So that's going forward with, what is it, 54 -- \$54 billion in grants and loan guarantees and 25% investment tax credits for the semiconductor manufacturing industry and specialized tooling equipment as well in the semiconductor manufacturing process. So yes, we will be participating there, as I mentioned, not only with Intel but other key manufacturers here in the U.S. and in Asia, but also in Europe.

And we're seeing the business line is telling me that we're seeing other governments outside the U.S. following our lead, if you will, with incentives. When you think about Germany and Italy, countries like that where we'll see semiconductor manufacturing picking up. So we're bullish on it, and we expect to see incremental awards in that space. When I say incremental, I'm talking hundreds of millions of dollars. And then you can think about a couple of billion in the first quarter of next year. So it's coming along nicely, and we'll continue to move on that work going forward.

Operator

And next question will come from Steven Fisher with UBS.

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

You mentioned that the Q2 new awards have margins that are 550 basis points above plan. Can you just put that a little bit into the context of which plans you're referring to? And when will we start to see those margins meaningfully coming through the results? And are there any offsets to that anywhere else in terms of inflation that might be a drag on that?

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

Steven, I'll start and then have Joe talk a little bit more about how that burns if we could do that. So that 550 basis points is off of our operating as compared to our operating plan that was set at the end of '21 and approved early '22. So that's how you should think about that is what we were expecting, which obviously informed our guidance that we put out. So that's what we compare against. And that's the plan I talked to when we talk about 550 basis points.

And I'll also say before I turn it over to Joe that those margins were, as we said, extremely strong and primarily reimbursable rate contracts, fair and balanced reimbursable contracts and just 1 fixed price contract there, but very low risk in the government space. So services -- if you will, services fixed price. So Joe, on burn for that?

Joseph L. Brennan - Fluor Corporation - EVP

Yes. No, thanks, Dave and Steven. The way that we're looking at it is a lot of these projects have been in some form of execution, be it through FEED or into LNTPs, so that when they do enter the backlog pipeline on a full release basis, we would be entering at a fairly advanced percentage of progress. So we would see a much quicker burn on some of those activities. And the other projects that are entering the pipeline are of a FEED nature, which would be generating higher margins from inception. So it is a much better position, I think, for us relative to the timing of when we will start to see some of that margin drop to the bottom line.

Operator

And our next question will come 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*

Two guidance questions, and I have a different question. On the guidance show, revenues are now assumed flat versus before up 10% and were down double digit in the first half of the year. So implies revenue should accelerate in the back half of the year, sort of what's driving that?

And then cash flow as well, I think, before you said flat to slightly positive and potentially \$2.4 billion of cash, it's lower than that. So refunding the problem projects, if you could just give color on that?

And then Dave, you talked about the prospects out there in energy transition. Can you talk about sort of the competitive environment? Do you have a lot of competition on those projects? And how you sort of think about win rates?

Joseph L. Brennan - Fluor Corporation - EVP

Yes, Jamie, I'll take your first question on cash. We are flat. What we've embedded into flat to slightly down. We have embedded in there the servicing of our '23 obligations this year organically. So I think that's having some drag on that number as we view it. And I think as we see revenue and we're looking at revenue in the outward quarters, I think it's in kind of in parallel to what I was discussing with Steve in the previous question, we are entering these projects into backlog in states of completion where we should begin to see a much higher burn rate as we're entering into the procurement phases of projects as we've worked our way through FEED and LNTPs into full releases. So I think you'll start to see that tick up in Q3 and Q4.

And as David hinted at, as we look at some of the awards not only that are flowing through the Q2 numbers, but we are -- I think we're poised to have a fairly substantive Q3 new award quarter as well to help underpin some of that growth that we should see in the back half of '22.

David Edward Constable - Fluor Corporation - Executive Chairman & CEO

So Jamie, on energy transition and competitiveness and win rates, as I said in the prepared remarks, we really feel we're differentiated in the energy transition space. We currently have 85 energy transition projects in-house. And we're pursuing 136 prospects in the next 18 months. And of those totals, you can think about the total installed cost of those programs, like I said, about \$38 billion of current FEED work in-house, and we're chasing another \$28 billion.

I also mentioned that our key -- just our key top 10 customers are spending \$20 billion to \$25 billion annually in energy transition. And it really cuts across so many areas that Fluor historically -- our subject matter experts in our traditional oil, gas, chemical space and power businesses really excel and can add so much value when you're looking at providing technical solutions and coming up with the best mouse trap on these types of projects, whether it's -- there's many, many places where clients are looking to move into energy transition. It could be energy storage where we have work -- we have work in blue and green hydrogen, renewable fuels, biofuels, renewable jet fuel.

Obviously, our carbon capture, we have differentiated ourselves there with our proprietary pre and post combustion technologies. The battery value chain, we're participating, including the award in China, I mentioned here just in Q2. Green ammonia, decarbonization and electrification of facilities, chemical recycling. And of course, we're going to be participating on the front end of these new small module reactor programs with new scale, both in Idaho and Romania, to get started.

So I think we don't want to win on price. We don't have to win on price. We differentiate ourselves and want to get paid for value. And I think if we choose to go after a project, we have a very high probability of winning and not having to, like I say, win it on price, We'll win it on the value we deliver.

Operator

Next, we'll move on to Andy Wittmann with Baird.

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

I have 2 questions. The first one I wanted to ask about was just kind of the award slate specifically. Just any context you could give us on the size of the pending Savannah River M&O extension would be helpful as well as maybe any comments you have on the Netherlands win. I know you do have some experience there. I was just curious as to the risk terms that you're considering as you're putting that one in.

And then maybe just as an encompassing thought on awards, I think previously you talked about a bogey of kind of around \$20 billion of awards. And I just wondered with the status that you have for the first half of the year, if that's still a realistic goal for you all?

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

Okay. On the -- thanks, Andy. On the Savannah River Site, the DOE notified Congress here recently that they'd be extending the program with our joint venture there for 4 years, with an additional 1-year option is what they're looking at. So we're very pleased to continue on that site. I don't think we've been -- we've advised of any amounts. It is a multi-billion dollar program, obviously, that we can see going into backlog later this year, most likely in Q3, I believe. Actually, it's just a couple of weeks away.

So if you could just hold on that, we'll be able to let everyone know what that does to our backlog in a couple of weeks. Now you mentioned Netherlands as well. I think you're talking about Netherlands A27?

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

Correct. Yes.

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

Yes. So yes, that's a road and bridge project as well. And with a client there that we're very familiar with and have successfully executed projects in the past. So that's obviously one of our pursuit criteria. And commercially, we're also very comfortable with the scope that we're looking at and how to price that. In fact, it, right now, is a conversion process where it's all open book, and we'll go well through the projects through detailed engineering and design prior to converting if we convert. It's -- that's yet to be seen.

So we'll definitely be very comfortable with the risk profile if there is any type of conversion at the back end of that project. So comfortable there. And then just your last question was on the \$20 billion?

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

Yes, exactly. The \$20 billion and your comfort level in achieving that today.

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

We're not tracking on the \$20 billion, sorry.

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

Sorry, I thought you guys previously made a comment that your award outlook for this year could be in the \$20 billion range. Maybe I was mistaken, but that was my understanding.

Joseph L. Brennan - *Fluor Corporation - EVP*

Yes. No, I think when we were addressing that, we had Pantex/Y12 as an awarded contract. As Pantex/Y12 has now gone through the protest and will be rebid into 2023, we will pursue those opportunities as we move into next year. That would have underpinned the \$20 billion, but I think we still are going to see very solid new award bookings for the year, whether it rises to the level of \$20 billion, we're working our way through that. But we do see solid prospects and opportunities. I think, as David laid out in Q3 and as we move into Q4, underpinning that \$20 billion would have been the Pantex/Y12 awarded \$14 billion.

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

Yes. So Andy, I'll just say that we're -- what we see now is new awards well above our outlook and Q3 is going to be, we think, very strong. So yes, we'll keep pushing on that front, obviously, and get as close to that \$20 billion as we can.

Joseph L. Brennan - *Fluor Corporation - EVP*

Andy, just -- I think a bit of additional clarification. What we had laid out, I think when we said that we would be well above the 1:1 in book to burn with the Pantex/Y12, but that we would still be above the 1:1 without the Pantex/Y12. And I think we would reconfirm that statement today whether or not we're able to pursue Pantex, which obviously has now been pushed out to '23. But we feel very comfortable with that 1:1 book to burn by the end of the year based on what's in front of us.

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

Okay. That's helpful context. That makes a lot of sense. Joe, just a couple of items just to understand the quarter a little better, if you would. You had comments on the 2 reworks in the Urban Solutions. You mentioned that there's an energy search solutions recovery. And you also mentioned here in the presentation that there was an \$18 million proceeds from the sale of the Canadian P3.

I would imagine that at least some of the P3 has got a gain probably associated with that. So any of those discrete items that are -- that you mentioned, if you could help us understand the magnitude of those, so we could have a better sense of kind of what's belying the segment margins would be helpful?

Joseph L. Brennan - *Fluor Corporation - EVP*

Yes. So I'll start with the P3. The \$18 million was the cash, and I'll give you the approximately about \$10 million that's flowing through the P&L for the quarter. I think on the charges, we've identified the \$30-plus million impact. We've had 2 non-material charges on legacy infra projects that I

think are reasonably close to that \$30 million value that's flowing right. So consolidate those 2. And then the third part of your question was relative to the \$29 million of FX impacts that are a headwind for us in the quarter as well.

Operator

And our next question will come from Sean Eastman with KeyBanc Capital Markets.

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

And kind of along the same lines as the last question there, just understanding the EBITDA guidance. Obviously, that's a new metric. But I think you guys said it's effectively intact with what would have been contemplated at the beginning of the year, despite the charges and despite the FX drag. So did something get better under the hood to backfill that?

And maybe the second part there would be since EBITDA is a cleaner number to be focused on right now, could you give us the range tied to the 2024 EPS target, so we can make sure the model is calibrated properly?

Joseph L. Brennan - *Fluor Corporation - EVP*

Yes. Let's -- so yes, we can talk a little bit -- we're in the process of going through our strat plan this year. So we'll have some cleaner numbers relative to that EBITDA guidance. We feel comfortable, I would suggest, preliminarily, we're somewhere between \$700 million in EBITDA to \$900 million as we look out into the 2024 range that would support that.

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

Okay. Got it. Helpful. And then we got a lot of color on specific prospects in the near term. I mean one project that I wanted to ask you guys about is Rovuma with Exxon having revived the FID process there. Obviously, you guys have been associated with that one in the initial plan. I just wondered, does that still fit the bid criteria per Fluor 2.0 or not?

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

Sean, yes, so Rovuma is still on the books, right, and looking at it seriously. Client's obviously looking at it very seriously with -- in the LNG space these days, it's critically important. And we're still on the job with our partners, our joint venture partners and looking at how that project will shape based on the revised scope of work and how it may come out for rebid.

And when I talk about scope of work, how the clients may work between Area 1 and Area 4 down there. So it's going to -- we believe it's going to look different going forward. So we're still, I'll say, in play. But depending on what the commercials ultimately look like and what type of scope we could provide with an appropriate risk profile, then we'll take it from there.

So I guess, it's a work in progress is the best way to look at it, Sean, and more to come on that. And yes, Fluor 2.0 is firmly intact on our project pursuit criteria. Joe?

Joseph L. Brennan - *Fluor Corporation - EVP*

Sean, I just wanted to go back to your first question because your -- I think it was more in line with the charges and with some of the headwinds that we're seeing in FX, how were we able to maintain that positive EBITDA guidance, adjusted EBITDA guidance for the year. And I think it's the underlying performance of the business. That's why we've brought adjusted EBITDA into the forefront. We are performing well across the balance

of our portfolio as we work our way through some of these legacy challenges. But I would suggest to you that what we have in backlog today that we're delivering to.

Operator

And next, we'll move to Andy Kaplowitz with Citi.

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

David, you mentioned you've locked in commitments with your suppliers and infrastructure and hedge material cost inflation. But can you talk about -- when you look at that \$8 billion of Urban Solutions backlog, how much of that backlog is legacy type work, such as Gordie Howe or the other 2 projects that you took a charge on this quarter? And then how much of the backlog would you say is relatively protected by the inflation strategies that you mentioned?

David Edward Constable - Fluor Corporation - Executive Chairman & CEO

Thanks, Andy. And I may have Joe comment as well on the backlog question. But if you just think about how we're approaching mitigating risk in infrastructure going forward, obviously, we're very, very selective, as we've said many times on the clients we'll work with and focused on regional road and bridge work.

For example, the recent I-35 East -- South Austin award, on that project, the client takes all quantity responsibility. And then we apply our tried and true Fluor unit rates, which obviously we know well in Texas, and we apply those rates to those non-risk quantities that can obviously be escalated. We'll build in escalation features to those rates. So the majority of the POs and the subcontracts were placed within weeks of that award to lock in price validity.

And where required, like I said, inflation indexing is applied on the projects. Also, if delays are experienced, then escalation relief will also be applied. And the client -- the client is really a good partner on this work, paying upfront for raw materials and providing extra laydown yard for us to get things to the project so that we protect ourselves and the client against any type of inflationary pressure. So -- and then on backlog, Joe, just if you want to comment on the legacy projects.

Joseph L. Brennan - Fluor Corporation - EVP

Yes. From an Infra perspective, we have \$1 billion worth of revenue yet to run through the books.

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

That's helpful guys. And then could you give us color into Mission Solutions. You mentioned Savannah River extension, but Mission Solutions revenue has taken a [stop from] this year, I would surmise because you finished LOGCAP last year. Is there anything that you could book to have that revenue ramp up again?

And then just looking at the margins in the business, they've been consistently above your expectations. Is there any read into there? I know you gave guidance for the second half, but good performance on the execution side there.

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

So I'll let Joe talk about margins a little bit. On Mission Solutions specifically, we're seeing a good pickup in extensions, right? As we talked about at Savannah River, and very busy with bids across all 3 business lines in nuclear and civil and defense and intelligence. So like I said, we expect Mission Solutions to have a good year, starting the trajectory coming back, if you will, as we worked off LOGCAP and a lot of prospects and very busy with bids in Mission Solutions across the 3 business lines here later this year and into 2023. Joe?

Joseph L. Brennan - *Fluor Corporation - EVP*

Yes. And on the margin, I think -- Andy, we're looking at -- in Q1, we had a Puerto Rico settlement, which was really a nonrecurring event, which certainly added some horsepower to our margin performance within Mission Solutions coming off of the closure of LOGCAP Afghanistan. As we move forward, we would expect to see that guidance in the range of approximately 4.5% as we view the new awards that are going into backlog here over the next 2 to 3 quarters.

Operator

And next, we will move to Michael Feniger with Bank of America.

Michael J. Feniger - *BofA Securities, Research Division - Director*

Just on Urban Solutions, I'm curious how the mix of the businesses there play out into next year with Infrastructure picking up, yet you're seeing the Mining picking up too. I'm just curious if you can kind of help us understand the moving growth dynamics there, how that kind of impacts the mix on the profitability level?

Joseph L. Brennan - *Fluor Corporation - EVP*

Yes. So without getting into the specifics of how the awards are going to move forward, I would suggest to you that you're going to see an influx in the ATLS backlog and you're going to see an influx in the Mining side of the backlog as it relates and it compares to Infra. And I would also suggest that you'll probably see kind of a bit of a normalization to a slight uptick in some of those returns as Infra has probably been a bit of a drag as we push some of the Infra -- or the legacy projects through our pipeline and our backlog.

And as we introduce new work related to our -- our guiding bidding principles and quality of earnings and fair and balanced terms, we would expect to see those margins stabilize to improve over the course of the increasing backlog within that segment.

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

That's -- the guidance of 4.5%, I think has some upside to it as the legacy projects wind down.

Michael J. Feniger - *BofA Securities, Research Division - Director*

Great. And just on nuclear, can you just remind us how Fluor wants to participate in the nuclear opportunity? Obviously, there's the NuScale ownership, we know that. But I'm just curious what you're doing with them today, if you can remind us? And how going forward, if nuclear does become a bigger opportunity, where you guys feel comfortable participating in the future?

David Edward Constable - Fluor Corporation - Executive Chairman & CEO

Thanks, Michael. So yes, like I said on the -- in the remarks, very exciting times at NuScale. And certainly, we're comfortable with our ownership right now and will be looking at that going forward, but we do have first right of refusal on those NuScale projects globally. And what we're working on right now is obviously the -- in Idaho for UAMPS, the 6 modules up in Idaho, Idaho Labs. And we're right now just finished the Class III estimate.

So we're in -- I guess the best way to look at that is we are in front-end design, moving from the Class II to the -- sorry, Class III to the Class II estimate in 2023. And then we'll moving to detailed engineering in early '24 on that project. So looking forward to progressing that plant and also working on getting ready to work on the front end of the work in Romania, another 6 module SMR facility in Romania that sits next to a potential for Fluor to install 2 conventional units at Cernavoda, units 3 and 4.

So we met with the Minister of Energy a couple of weeks back just a week ago and the CEO of their -- of SNN, their nuclear agency -- or nuclear customer in Romania. And with the support of the U.S. government and the NuScale technology offering, Fluor will be there to support that project. Generally speaking, we will take a view of where the locations of these SMRs around the world. And if we can add value and effectively provide engineering, procurement, construction management services, then we'll take that on, but always have an eye on the risk profile.

And if necessary, step back into more of a project management role -- a project management contracting role on behalf of the clients and also to support NuScale's installations. So it will be a case-by-case basis. And that's how we'll look at it going forward. But very exciting times on that front as NuScale plays in the energy transition world. Thanks, Michael.

Operator

And then we'll now move on to [William Kim] with Davidson.

Unidentified Analyst

My name is [William], and I'm covering for Brent Thielman. Can you guys talk a little bit more about the pipeline and cadence for potential new awards related to the LNG project? Is that something you see coming in the second half or more so into 2023? I know you guys mentioned the New Fortress Energy project, but I just want to get some more context on that.

David Edward Constable - Fluor Corporation - Executive Chairman & CEO

Thanks, [William]. And we've already talked about Rovuma, that's just out there as a work in progress, so we won't cover off that again. But we are really excited in our Energy Solutions business segment and LNG business line more specifically about how we've been able to develop that market in the mid-scale modular LNG space and with New Fortress Energy and just a great customer and partner in that space, and we're very aligned on the need to fast track all of these LNG facilities to deploy them as quickly as possible and evacuate natural gas, certainly from North America and Mexico to begin with and move that LNG over to Europe.

So as I said, we've got LNG 1 underway, and LNG 2 has been awarded, and we're working -- looking at the front end of subsequent LNG facilities for New Fortress. And there are a number, a number of facilities on the books that we will be looking at. And like I said, repeatable, modularized, fast, cost-effective solutions that New Fortress is very comfortable with and very pleased with how Fluor has been able to manage that program. And we're looking at it as a very long-term play is the best way to put it. So I guess, I'd say stay tuned for more mid-scale LNG awards in the near term.

Unidentified Analyst

And also, what are -- what's the tone of some of your mining clients as commodity prices have pulled back? Are those types of project opportunities being pushed to it right, they're being delayed?

David Edward Constable - Fluor Corporation - Executive Chairman & CEO

It's really project specific, right? And I'd say, for the most part, when you look at the mining client CapEx, some of our customers, they have not come off their CapEx guidance this year or next year or beyond. So I'd say that the mining clients take a very long-term view, they have to because their major projects are decade-long decisions, right, that are not really impacted by, I'd say, by a temporary slowdown or recession in economic activity.

So I'd say that depending on the severity of a recession, obviously, clients could decide to slow down the schedule. But from a high level, looking at all the mining houses, their CapEx plans are in place and include energy transition as well, I might add that we can support them with. So like I said, \$5 billion in near-term new awards coming in Mining. And we continue to talk about Mining. And I guess when you think about the early hitters on the new awards picking up, it's mining and chemicals coming out of the gates here very quickly.

Operator

And there are no further questions in the queue. I'll turn the call back over to David for any final remarks.

David Edward Constable - Fluor Corporation - Executive Chairman & CEO

Thanks, operator. Many thanks to all of you for participating on our call today. We're really pleased with the pace and timing of new awards in a challenging inflationary environment. And I believe that we remain on track to deliver our expectations for 2022 and on our key strategic priorities for 2024. So we, as always, appreciate your interest in Fluor Corporation. Thanks again for your time today.

Operator

And this concludes today's call. We thank you again for your participation. You may now disconnect.

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