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FLR.N - Q3 2022 Fluor Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Fluor's Third Quarter 2022 Earnings Conference Call. Today's call is being recorded. The question-and-answer session will follow management's presentation. (Operator Instructions) 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*

Thank you, Julie. Welcome to Fluor's 2022 Third Quarter Earnings Call. David Constable, Fluor's Chairman and Chief Executive Officer; and Joe Brennan, Fluor's Chief Financial Officer, are here with us today. Fluor issued a third 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 our Form 10-Q, which was filed earlier today.

During this call, we will 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. Thanks for joining us today. Please turn to Slide 4. Before we get started on operational results, I want to share insights from Fluor's Supply Chain Summit in Greenville, South Carolina on September 14. This high-energy event brought together senior leadership from Fluor, our clients, suppliers and contractors across the globe.

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Ongoing industry trends, new business ideas and solutions to current supply chain challenges were discussed. And this event gave everyone an opportunity to meet and interact with Fluor clients and senior Fluor business line and supply chain leadership.

Fluor committed the proceeds from the event to nonprofit organizations, including the Carolinas Virginia Minority Supplier Development Council, the Houston Minority Supplier Development Council, the Greenville Chamber and Fluor Cares.

The councils and chamber we'll use the donation funds to impart training and certification to minority-owned businesses, helping them get ready for relationships with larger corporations.

Please turn to Slide 5. I want to start by addressing the legacy Infrastructure charges incurred in the quarter. Clearly, the impact of these projects weighed heavily on our otherwise great results in the quarter. The $107 million in charges include $64 million for additional rework and schedule delays on the I-635 LBJ East Freeway project.

$22 million for cost growth and delay mitigation costs on the Gordie Howe project and $21 million for subcontractor cost escalation and productivity estimates on the LAX Automated People Mover project.

Over the past 21 months, Fluor's leadership team has taken action to improve the progress and execution of our legacy projects. Specifically in Infrastructure, we have completed 6 of the 9 challenged projects in this time frame.

We continue to strengthen the leadership on the 3 remaining legacy Infrastructure projects in support of our joint ventures. In the last 3 months, we have shifted resources from across our organization, including claims management, project estimators, procurement and field execution personnel. This is in not only support our specific efforts but also reinforce the performance of our joint venture partners.

Finally, we are actively engaged in formalizing our entitlement positions on these 3 legacy projects to seek relief for cost growth and schedule delays. This has taken some time to perfect due to the complex nature of the projects in question. We expect to validate these substantial positions in the next few months.

Please turn to Slide 6. Building upon the positive momentum from the previous quarter's 1:1 book-to-burn for new awards, Q3 new awards were $9.7 billion with a 2.7 book-to-burn ratio. Q3 was the second largest new awards quarter in Fluor's history.

Importantly, these new contracts are accelerating Fluor's strategic priority of fair and balanced terms, with reimbursable work representing 91% of total awards for the quarter.

A majority of our backlog is now reimbursable. New award margins continued our year-long trend being above our internal plan. And we have a robust prospect pipeline that demonstrates the value that Fluor can provide to our clients. We are currently working on or recently completed FEED and study packages that represent an estimated $131 billion in high-quality new award prospects.

We are also tracking FEED and feasibility prospects in the next 18 months that represent more than $163 billion in capital expenditures. Of that amount, 40% is related to Energy Transition.

Moving now to our business segments. Please turn to Slide 8. Urban Solutions reported a segment loss of $54 million for the third quarter. Results for the quarter reflect Infrastructure cost growth on the legacy projects we just discussed. New awards for this segment approached a 1:1 book-to-burn ratio at $929 million of reimbursable work in Mining and ATLS.

This quarter, we made the decision to retain Stork's North American operations. Starting next year, this new business line, Plant and Facility Services will be in our Urban Solutions segment.

As some of you may recall, this represents the original Fluor operations and maintenance baseload business that supported North American clients before the acquisition of Stork. The new plant facility service business line will promote our strategic priority of driving growth across the portfolio.

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This will extend our relationship-driven business model beyond the initial EPC prior to execution contracts with existing clients, while also contributing new awards and growth opportunities. Joe will address the remaining Stork operations portfolio in his comments a little later.

Now turning to Slide 9. In Mining, we continue to make progress on converting our near-term prospect pipeline. In Q3, we received an incremental award for one of our key projects in South America.

We are currently working on a limited notice to proceed for multiple clients and have $5 billion of near-term prospects to support demand for copper, gold, lithium and metals for several clients that should be converted to full awards in the upcoming quarters.

Now please turn to Slide 10. Our Advanced Technologies and Life Sciences business continues to expand. In Advanced Technologies, we have several projects and prospects across the battery and data center markets.

Semiconductor opportunities continue to develop with many clients. Specific to Intel, we continue to receive incremental awards and are supporting their efforts to reprioritize investment plans.

In Life Sciences, we were selected by a leading biologics company for a multi-hundred-million reimbursable contract to perform procurement and construction management for a large-scale biologics drug substance manufacturing facility located in Scandinavia.

This project and over $3 billion in prospects in Europe and the U.S. next year also supports our strategic priority of driving growth across the entire company portfolio.

During the quarter, we received work from a new client that provides cutting-edge robotics and automation technology for some of the largest retailers and wholesalers in North America. Our initial contract is for the installation of racks and automation equipment into 5 mega distribution centers.

As these locations are completed, we see the potential to significantly expand this relationship across the United States.

Please turn to Slide 11. Since we already reviewed the challenges this quarter, I want to elaborate on our expectations for Urban Solutions and specifically the Infrastructure business line.

2 years ago, as part of our go-forward strategy, we narrowed the focus of our Infrastructure business to state departments of transportation, moving away from large signature projects and focusing on regional road and bridge work.

After we narrowed our focus, we further refined the strategy by adjusting our selectivity criteria. Simply put, this means saying no to projects, no to clients or no to joint venture arrangements that did not provide an equitable balance of risk. And I can confirm that this selectivity strategy is working well.

As an example, over the past 18 months, we have declined to bid on approximately $28 billion in Infrastructure work, where we could not see a path to mitigate risk and still deliver an appropriate return.

For projects we may pursue, we expect fair and balanced contract terms. This includes additional contingencies, the ability to procure equipment and materials early and contracts where the client has some degree of responsibility for quantities and labor cost risk. In addition, we do not pursue EPC lump sum contracts where we are a minority partner.

Moving on to Slide 13. Mission Solutions reported segment profit of $29 million for the third quarter, consistent with our expectations. The photo on this slide is from our Ascension Island project for the Department of Defense, U.S. Space Force and the U.K. Royal Air Force.

Fluor began restoring the auxiliary airfield to its full capacity in 2020. The eastern side of the runway is now complete and marks the halfway point of the project.

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New awards for the quarter include a $4.5 billion 4-year extension with the U.S. Department of Energy for the Fluor-led Savannah River Nuclear Solutions, LLC, Management & Operations contract near Aiken, South Carolina. Work performed at the Savannah River site includes environmental management and the cleanup of legacy materials, facilities, and waste remaining from the Cold War.

The site also supports the U.S. government's nonproliferation efforts by processing and storing nuclear materials. Additionally, Mission Solutions has received a 1-year extension from the U.S. Army to continue supporting work with U.S. Africa Command. Currently, we work at 14 sites in 8 countries across the African continent.

The outlook for Mission Solutions is increasingly optimistic with upcoming renewals, recompetes and new work.

Moving to Energy Solutions, please turn to Slide 15. Segment profit of $59 million reflects an embedded derivative loss of $5 million, a $4 million impairment related to the conclusion of a project in Russia and declines in execution activity for projects nearing completion. This was offset by increased activity on recently awarded projects.

New awards for the quarter included 2 reimbursable contracts, totaling more than $2 billion, for BASF, ethylene oxide and ethylene glycol and infrastructure offsites and utility packages in China.

Fluor is also awarded a $600 million award for a refinery upgrade in Mexico with our joint venture partner, ICA. This award is part of the reactivation of a residual upgrading project that was suspended in 2019. This is a fixed-price contract that aligns with our strategy because it was awarded on a sole-source basis with a long-term client, where we have a strong relationship.

Another major award recently announced is a reimbursable contract for front-end engineering, detailed design and engineering and procurement services for Imperial. This project will use our renowned expertise to develop a world-class renewable diesel complex at the client's Strathcona Refinery near Edmonton, Alberta, Canada.

The facility is expected to be the largest renewable diesel facility in Canada and will produce approximately 20,000 barrels of renewable product per day from locally sourced feedstocks.

Turning to Slide 16. At the LNG Canada project, this month, we celebrated our 4-year milestone from receipt of the project's full notice to proceed.

Our joint venture scope is approaching 75% complete. At the end of the quarter, 137 modules were shipped, with 124 on site. All 215 modules are expected to be delivered by the middle of 2023. We continue to work with the client to resolve our COVID-related impacts across the primary job site and fabrication yards.

Fluor is well positioned to support the increase in demand for LNG. During the third quarter, we announced a full notice to proceed on the new Fortress Energy, FAST LNG 2 projects as a follow-up to the LNG 1 project from Q1. We also see opportunity for additional reimbursable awards with this client early next year.

Not only do we have prospects in the pipeline for LNG work, but we also have prospects to support our chemical clients. This includes a significant reimbursable prospect for a major chemical facility in North America.

Moving to Energy Transition on Slide 17. We are seeing ET activity across all of our business lines, including a project for a major automotive client that involve subject matter experts from Energy Solutions and Mining and Metals.

In addition to this automotive award, CarbonCapture Inc., a U.S. climate tech company, recently selected Fluor to provide engineering and project integration services for Project Bison in Wyoming. This will be the first atmospheric carbon removal facility to use Class VI wells for permanent CO2 storage. And it will be the first scalable direct air capture mega project in the United States.

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Moving to Slide 19 at NuScale. In September, NuScale and KGHM signed a task order to initiate deployment of the first small modular reactor in Poland. Under this task order, NuScale is working with KGHM to identify and assess potential project sites and develop project planning milestones and cost estimates. It is anticipated that Fluor will engage in these activities early next year.

On October 20, the Nuclear Regulatory Commission's Advisory Committee on Reactor Safeguards issued a letter, agreeing on NuScale's methodology for determining their small modular reactor emergency planning zones.

The approved methodology will permit a smaller planning zone, thereby opening up a wider range of potential sites for NuScale plant locations, including, for example, coal-fired plants scheduled for decommissioning.

Finally, the U.S. Trade and Development Agency awarded a grant to Romania's [Row Power Nuclear], a subsidiary of the national nuclear energy producer, Nuclearelectrica, for a FEED study to develop NuScale's first SMR plants in Romania.

Joe will talk more about this in the financial update, but I'll just mention, as a reminder, that Fluor remains the largest investor in NuScale with 57% ownership. And we are still considering the appropriate time and approach to begin monetizing our investment in NuScale. With that, let me turn the call over to Joe for the financial update. Joe?

Joseph L. Brennan - *Fluor Corporation - EVP*

Thanks, David. And good morning, everyone. I will review our results for the third quarter, provide 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 21. For the first -- for the third quarter of 2022, revenue of $3.6 billion increased from the ramp-up of execution activities on refinery projects in Mexico, a recently awarded reimbursable LNG project and the chemicals project David mentioned.

Segment profit decreased to $31 million from $116 million a year ago. The decline stems from the $107 million in legacy Infrastructure project charges previously discussed. Adjusted EBITDA for the third quarter was $26 million and our diluted adjusted EPS for the quarter was $0.07. Results reflect a $16 million foreign exchange impact across a number of projects in Energy and Urban Solutions.

Corporate G&A expense for the quarter was $30 million, down from $45 million last quarter. This improvement included $12 million of incentive reversals associated with the project charges taken in the quarter. Net interest income in the quarter was $14 million compared to a $1 million expense last quarter. The increase in income is a result of the positive impact of rising rates on our global cash balances.

As we anticipated, new award revenue for the quarter was $9.7 billion. This improved our backlog to $25.4 billion, which also improved our reimbursable backlog to 58%. Our cash and marketable security balances for the quarter was $2.6 billion, with 23% of this amount domestically available. Total cash includes $348 million held by NuScale.

Please turn to Slide 22. Our operating cash flow for the quarter improved to $118 million as working capital levels remain stable. For the year, we expect our cash balance to be roughly flat when normalized for the impacts of the NuScale de-SPAC consolidation.

Regarding the monetization of Stork and AMECO, we continue to make progress. We have reached an agreement to divest Stork operations in Australia and New Zealand, and this transaction is expected to close at the end of November.

Although this transaction is not material, it is, however, an important next step in our journey to refocus the business.

As David mentioned, rather than selling the Stork North American operations, we have decided to retain the operations as part of Urban Solutions. This will be reflected in our financial results starting in the first quarter of 2023.

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With respect to Stork's European operations, our conversations with the preferred bidder have progressed and we will provide more details in the near term.

Please turn to Slide 23. With the positive developments at NuScale, we continue to be asked about our ownership strategy. As we said on our last call and during our Strategy Day in 2021, our long-term intention is to own approximately 20% to 25% of NuScale. The de-SPAC related lockup period ended at the end of October, we are currently evaluating our options and will move forward as market conditions allow.

At the end of the quarter, we had $1.1 billion in outstanding debt, including $145 million maturing in March of 2023. Our debt-to-capital ratio was 36.5%.

We intend to retire our 2023 notes using available cash. With respect to our capital structure, we remain committed to our plans to reduce outstanding debt to a more appropriate level and use existing liquidity, the proceeds from NuScale and the monetization of our noncore units to address the needs of our business.

Looking forward at options to distribute cash to shareholders, either by share buyback or dividend, we must be diligent in addressing these known uses of cash. We look forward to discussing future capital structure options at the appropriate time.

Please turn to Slide 24. For the fourth quarter, we are setting an adjusted earnings per share guidance range of $0.50 to $0.60. We anticipate adjusted EBITDA in the fourth quarter to be in the range of $125 million to $150 million.

This range is driven by strong performance in Energy Solutions, improved performance from Urban Solutions and supported by over $15 billion in new awards year-to-date booked at higher new award margins than our internal expectations.

Our assumptions for the fourth quarter include revenue of more than $4 billion, adjusted G&A expense of approximately $40 million and an effective tax rate of approximately 34%. This may vary somewhat depending on the countries in which revenue is generated.

Our expectations for segment margins in the fourth quarter are approximately 4.5% in Energy Solutions, approximately 4% in Urban Solutions and approximately 3% in Mission Solutions.

Finally, as it relates to our 2024 adjusted EPS and EBITDA guidance, we are currently in the process of finalizing our 2023 operating plan and our long-term strategic plan. We look forward to providing an update on our year-end call in February. Operator, we are now ready for our first question.

QUESTIONS AND ANSWERS

Operator

Your first question comes from Mike Dudas from Vertical Research, (Operator Instructions).

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

First question, David. Maybe you could share a little bit more detail on your thoughts on 3 areas of prospective award potential over the next several quarters. One, progress on semiconductors in the United States, some of your international exposure with Intel.

Secondly, the timing pace of some of the Mining notes to proceed that we may see. And third, from an energy standpoint, there's a lot of momentum. Obviously, you got some big projects in China. But in the U.S., that large chemical project, is that a near-term, medium-term type opportunity? Are there any ones behind that, that could hit in 2023?

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

Thanks, Mike. Yes, good morning again. So semiconductors, talking about specifically with Intel, where we've built up a great relationship with them, and you know. You've probably been hearing about what they're up to as far as CapEx. They had $27 billion outlined for this year, dropped that down last quarter to the $23 billion and now $21 billion for 2022, but jumping back up to over $28 billion in 2023.

So like I said on the -- in the prepared remarks, they're reprioritizing and looking at their plans and how to proceed and continue to award us incremental work to make sure they're putting the effort in all of their assets appropriately, including in the U.S. and internationally. So that's what we're working on now.

We see -- with that type of CapEx going forward, we see that work coming on, and they're keeping us busy. But it will be a little further out in '23 and '24 for the larger events, if you will. And that kind of lines up with, say, the likes of Samsung who've seen a bit of a slowdown.

But going forward, they see -- and their CapEx is -- had no change in 2022 and is at $38 billion, going up to $39 billion in '23. And their feeling is that they see their demand picking up in the second half of '23 for high-performance computing and in the automotive sector. So yes, it seems like it's just a bit of a pause here and then a pick back up in second half of '23 as the way I'd classify that.

And I'd also say that it is, like you said, U.S. and international, both in Asia for us and into Europe, is what they're looking at.

Mining, we've got these starting to pick up, right? We had our strategic planning sessions here recently and talked about Mining being in a really sweet spot right now and seeing a lot of new work come in and these limited notices to proceed.

I mentioned the $5 billion [in-house] just on the front-end limited notice to proceed that will convert timing-wise, to your question, I'd say, in the next quarter. This quarter, we're talking about plus into the first half of '23 and maybe into the third quarter, that type of time frame.

But certainly in the next 9 months, we expect to see some great full notices to proceed in Mining. Energy, the chemical project I talked to is in North America. I'll just clarify that. And very exciting. It's -- I'd call it an Energy Transition project. It's a path to zero project for the client that's -- will be leading edge. And we want to certainly be involved with it to help that client but also help others with that low carbon footprint with the chemical facilities.

So we expect more of that as well. Chemicals is one of our targeted business lines right now where we see quite a bit of growth coming down the pipeline as well. And I think that covered it. Is that right?

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

Yes. And can I just follow up quickly with -- on NuScale. And is there any indication or thoughts on, given the monetization of such a large state, any private investors, private equity, other vendors or other folks that -- or government that are maybe looking or could possibly take a position from you guys in that transaction?

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

Yes. Thanks, Mike. Yes, just a great spot for us to be in right now with different optionality that we're looking at, and I'll ask Joe to comment.

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Joseph L. Brennan - *Fluor Corporation - EVP*

Yes, Mike. We have kicked off kind of a parallel path here relative to looking at strategics and looking at maybe some public activity. We do see a significant amount of value in terms of bringing in a strategic. In a lot of cases, those strategics have a vested interest not only in the technology but in some cases, looking to apply that technology.

So they become a very critical and important partner as we look at the valuations of NuScale, moving forward. But at the same time, we are also looking at some public opportunity for a transaction.

What I will say is that we're going to do it in a very measured way, such that we maintain not only the integrity and the valuations that are in NuScale but also the required liquidity that Fluor will need as we move out into '23 and into '24.

Operator

Your next question comes from Andy Wittmann from Baird.

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

Great. I just thought we'd check in on the 3 Infrastructure projects here. Maybe, David, you could -- or Joe, you could give us the updated POC and completion dates on those 3 projects to get us going.

Joseph L. Brennan - *Fluor Corporation - EVP*

Maybe I'll take the detailed question on that. And then we can talk a little bit higher level relative to how we're addressing the challenge as we move forward, with the caveat to, Andy, when you think about this, what we've had in our prepared remarks relative to the development of claims and other things that are really right in front of us as we get into Q4.

But in terms of LBJ, we're 50% complete as of Q3, Gordie is 41% complete and LAX is 73% complete. And so with that, maybe, David, if you wanted to...

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

Yes, Andy, so just following on those percent complete, it looks like -- right now, we're forecasting LBJ 635 completing in the second quarter of '25. Gordie completing in the second half of 2025 and LAX further along, as Joe said, 73% complete, completing at the end of the second quarter of 2024.

Joseph L. Brennan - *Fluor Corporation - EVP*

Andy, if I could just add and kind of reinforce where we are relative to the development of claims and other entitlements as we move forward, based on understanding cost and the cost impacts within these projects, we are recording those when they are made available and known to project teams. And it takes time to develop your claim positions and potential variable consideration around that.

That is all starting to come to -- a head as we get into Q4 and into Q1 of next year. So I would expect, as we move out, you'll start to hear a little bit of the flip side of what has been a difficult story to not only present but to hear, but I think you'll begin to understand some of our positions as Fluor in terms of how we support our overall EACs, going forward.

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

Okay. So that's where I wanted to go next. I just want to be a little bit more clear on that because you actually mentioned some of this in the 10-Q as well that in the fourth quarter, you're having some of these discussions around them. So I guess -- are you saying, Joe, that like you've taken reserves on some of these and you're trying to reclaim that?

Or is the [$215 million] balance of unapproved change orders that's in your 10-Q, is that what's being discussed? So I just want to understand which way any outcomes from these discussions could go as they get recognized on your income statement here. I wanted to be just clear about that, if possible.

Joseph L. Brennan - *Fluor Corporation - EVP*

Yes. Let me suggest that in terms of what we've recorded in cost and then potential recovery of variable consideration is a smaller component of the overall claims that we will be putting on the table.

And those claims are significantly larger than our current positions, not only as it relates to variable consideration, but we have recorded 100% of the cost associated with that.

So what you're seeing in our in our Q3 presentation today is really what we consider to be the downside pending all of these additional claims and discussions that will occur. And I will suggest to you it's not across just LAX and it's not across Gordie. It's across a significant portion of the Infra portfolio. Nominally (technical difficulty).

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

All right. That's helpful context.

Operator

Your next question comes from Andy Kaplowitz with Citigroup.

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

David, obviously, you reported a really strong quarter of bookings. You gave us good color, I think, regarding individual end markets with a lot of possible potential bookings coming up.

Given some of the concerns you mentioned from some of your customers, can you continue your recent bookings momentum? And ultimately, do you see backlog continuing to rise from here, call it, in the near to medium term?

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

Andy, and thanks for the question. I think we've talked about it a little bit before. We've got some recessionary pressures and inflation that we're seeing in the marketplace. However, even with the mild recession that we're expecting in the U.S. and maybe more so in Europe, the global recession is probably going to be -- I think the GDP forecast right now is for 2.7% to 2.9%.

On average, and you throw in what China may or may not do as far as how they get back on track after their Zero COVID policy gets finished up, so that could rapidly give a lift to the global economy.

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But having said all that, from our perspective and talking to our clients and looking at their CapEx plans, they're -- generally speaking, if you take kind of a sample of some of our key clients across the 3 business segments, the CapEx plans are generally heading up from 117 -- take the top 10 clients, $175 billion in '22, up to $195 billion in 2023.

And a lot of -- well, a good piece of that, let's call it $30 billion is Energy Transition. So these are decade-long decisions on the projects we work on and not really impacted by a temporary slowdown or recession, economic activity might -- our Head of Strategy was telling us that in a recent conference board, CEO survey, 136 CEOs, 98% of them are planning on a recession in the next 12 to 18 months, but 86% of them said that they're maintaining or increasing capital spending. So the money is there. It's coming.

We obviously have to be really sharp on our estimates. Unfortunately, the supply chain forecast for softening of prices, generally speaking, and that will help with our estimates and our rate of returns for our clients.

So yes. I think we will continue -- we said last quarter that we feel that we're at an inflection point for backlog and in thinking that our book-to-burn ratios can stay at or above 1 for -- certainly. And based on the strategic plans we've just gone through, we've got this -- the headwinds on new awards and backlog continuing across our business lines. Joe?

Joseph L. Brennan - *Fluor Corporation - EVP*

No, maybe I would just add that the pipeline that we were communicating over the previous quarters was pushed to the right slightly. But as we start to see this inflection point and our new award ramp, what I would suggest to you is that pipeline that we were looking at that's driving to some of the release of this capital into some of the project activity that we've been able to put into backlog, has not fundamentally changed as we look forward, that those opportunities still exist.

It will be a little bit chunky because some of these opportunities are multi-billion. And others are more strategic, but the pipeline itself has not fundamentally changed in terms of what we're looking at and how we're viewing our business, moving forward.

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

I think Andy, the really good news is that we're -- the new strategy has us really pushing on reimbursable work, and that has not slowed or cut us out of opportunities. In fact, it's -- we're seeing improving margins as we've talked about the last several quarters. We've been talking about improved margins since Q4, so -- Q4 of '21.

So yes, we're quite bullish on the markets in front of us.

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

Very helpful guys. And maybe kind of a similar question on the earnings side. You talked about revenue ramp up to over $4 billion in Q4. You guys know that you have the '24 targets out there. I think you talked about maybe in the EBITDA target in '24 700 to 900, which would require a pretty big step up next year.

So again, without saying probably too much about '23, how is your visibility toward that step up? Do we -- is it more back-end loaded to get to '24? Do we see sort of a ratable step up here in '23 as we go through, given the higher revenue in Q4?

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

No. It's something we're looking at right now, like I said, in our strategic plans. And we're doing our operating plan for '23 here, second week of December. Joe, any kind of additional comments on guidance and how we're going to be handling that?

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Joseph L. Brennan - *Fluor Corporation - EVP*

I think my general guidance is that we had signaled to the market that we were probably closer to maybe 2 quarters earlier into these types of backlog improvements. So that 2-quarter impact in terms of how it flows into the overall burn for the P&L, will have a little bit of an impact on where we are in '24.

We haven't finalized all those numbers, but we're not seeing a drastic departure at this point. It does support what we've laid out back at the beginning of 2021. I think the delay is going to be what we're working our way through in discussion right now.

But certainly not the quantum of new awards to support a robust growth trajectory into the outward years.

Operator

Your next question comes from Jamie Cook from Credit Suisse.

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

First question, just trying to understand what drives the sequential revenue increase from Q4 to Q3, the $4-plus billion and what's implied in the operating margin in Urban Solutions just because that market has -- the margins in that business have been challenged. So what do we need to get to that, I think, 4.5% margin or so?

And then my other question, Joe, obviously, the run rate in the fourth quarter. I mean, in EBITDA, you're saying $125 million to $150 million. Is that a good base, quarterly base to think about as we're going into 2023, assuming we don't have execution issues? So the 125 times 4, I'm just trying to frame 2023 with that earnings base and just with some of the success you had on the recent bookings.

Joseph L. Brennan - *Fluor Corporation - EVP*

Yes. Thank you, Jamie. The growth that we're seeing in revenue is the fact that -- and we had led into this over multiple previous quarters that when we were taking these projects into backlog as new awards, they weren't -- they [weren't] projects that were issued through an ITB, not all of them.

A majority of them we had been working on and we had a percentage of progress on those projects that now that they're in the backlog, they will be generating higher revenue at a quicker rate, just based on percentage of progress and completion.

So I think that's why you're seeing an uptick in Q3, and we would expect that to grow. And your second question, Jamie...

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

The margins in Urban Solutions, just given what we've seen -- the challenges so far this year?

Joseph L. Brennan - *Fluor Corporation - EVP*

Yes. I think what will -- sorry, go ahead, Jamie.

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

Yes. Go ahead. I was just like the fourth quarter margin on Urban Solutions, confidence level there.

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Joseph L. Brennan - *Fluor Corporation - EVP*

We're very confident in the 4% that we've laid out relative to Q4.

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

But what's driving it?

Joseph L. Brennan - *Fluor Corporation - EVP*

What's driving it? Well, clearly, we're not having the challenged projects that we're having. If we strip out the challenged projects, I can get back to a normalized run rate that is in that 4% range, just based on the backlog that's flowing through the segment.

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

Okay. And then my last question was what can I -- for 2023, can I sort of say your fourth quarter EBITDA is $125 million to $150 million, is that a good base, quarterly base to think about as we're going into 2023?

Joseph L. Brennan - *Fluor Corporation - EVP*

I believe, Jamie, that is a good launching point to think about a very simplified linear run rate moving forward as we go through the operating plan over the next couple of weeks and are able to provide you significantly additional color in the Q4 earnings call. But I don't see the $125 million being the bottom of our run rate, moving forward.

I see it as more of a launching point and a starting point as we begin to put in. You got to remember, too, Jamie, we just put in $15 billion, nominally, of good, high-quality backlog. And that is going to start flowing through the books.

Operator

Your next question comes from Steven Fisher from UBS.

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

I just wanted to follow up on the Urban Solutions margins and performance and really ask about the expectations that you want to set for the segment. Obviously, you just talked about Q4 in some detail. But more curious about the next couple of years as you go through the completion process on those projects.

Should we assume that there's just going to be some noise on more charges, going forward? I know typically, once you get in these positions, it kind of gets hard to fully have no charges into a completion. So I'm just kind of curious what expectations you want to set.

I know you said that we might start thinking about flipping it the other way and getting some claims recovery. But just curious, how you want to set the expectation over the next couple of years and how this may influence sort of clean quarters or not?

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Joseph L. Brennan - *Fluor Corporation - EVP*

Steven, yes, I'll take that question. We believe, as of today, we've captured with the facts and circumstances as we know them in the forecast. Obviously, it's difficult to say that we guarantee there will not be additional challenges on projects that have a couple of years of execution to complete.

But as of today, we believe we are starting to make enough progress to where we're getting more comfortable with Gordie and with LAX. And I think we've ring-fenced LBJ. We had talked about [Penguins] in the past, and we feel very comfortable we've got a deal to get the conclusion on it.

So as time passes, we'll obviously get more assurances on our deliverability within the framework of the forecast that we've laid out today.

But as of today, we believe we've captured the appropriate forecast to get to conclusion. As we work some of what we're talking about in terms of variable consideration and change orders and claims that are rolling out in the fourth quarter, we'll be of a public nature. So you will hear some of that coming through news releases and others as we issue some of these claims.

But I don't want to get out in front of exactly what all the moving pieces of that, but it does apply to about 5 projects across the Infra business line. And we'll be able to provide a lot more transparency around that as we get into the Q4 earnings call.

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

Yes, Steven, I'll just add to help us along here. Joe talked earlier about the percent complete when you're in the 50% to 75% complete range like we are 45% to 75%, say, right now, since we're in Q4, that were almost bought out completely on these products, over 90% bought out from an equipment and a supply standpoint. So also very helpful that that's behind us.

Joseph L. Brennan - *Fluor Corporation - EVP*

And I guess maybe I'll add one other thing because these are the challenges that we're dealing with. We've marshaled a significant amount of the resources around the company, the best that we have relative to -- a number of changes have been made through the project management side, the construction management side.

We continue to shift resources across -- through estimating, through procurement, through prime contract administration, very key roles on all of these jobs. And so we have -- we are laser-focused on being able to deliver these projects.

They are significantly challenged projects. And not to be repetitive, they clearly would not have made it through our pursuit criteria and backlog today. But we are laser-focused on getting these projects to conclusion and completion.

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

Great. And then I guess just a follow-up, similar sort of question specifically related to LNG Canada, how is the ongoing inflation in the marketplace affecting that project in particular?

I know obviously, you have some discussions going on, on that one as well. But I think that's more related to COVID impacts, but maybe the inflation gets baked under that umbrella. How should we think about inflation on that project?

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

Yes. I think that's -- procurement is complete, all bought out. Really, we're putting basically in fabrication and construction mode, Steven. So that's all behind us. And as you said, it's more of a COVID and scheduled discussion that we're working on right now.

Joseph L. Brennan - *Fluor Corporation - EVP*

Any additional inflation exposure that you're going to have is around the labor, but they're covered off with PLA agreements, project labor agreements. So for the most part, we have some containment within what we would -- what we potentially could see in that labor escalation.

But as David said, most of that risk has been cleared off. And most of that risk would run through your material and equipment accounts and to the extent that we're bought out, and all of those pieces of equipment are either at site or in our fab yards in China. We feel like we've limited substantially our exposure to any type of price escalation to get to completion on this project.

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

Yes. It was mostly about the labor, but you have addressed that. So thank you very much..

Operator

Your next question comes from Sean Eastman from KeyBanc Capital Markets.

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

Joe, when you're talking about being diligent around known uses of cash, obviously, the 2023 notes that you'll pay down is defined. But what else are you talking about there? And in particular, I'm curious beyond the $100 million of cost to fund loss projects you highlighted for the fourth quarter. What's that number going to be for 2023?

Joseph L. Brennan - *Fluor Corporation - EVP*

In 2023, we're looking, Sean, at a number that hasn't been affected by the variable consideration in the claims and how we view those. If I look at it on, straight up, without considering the variable consideration and our discussion around claims, it's probably a little higher number than we would expect it to be at this point, in the $200 million to $250 million range in 2023.

But again, we have not layered in all of these discussions as we start submitting claims and looking at potential clawback. So at this point, there's going to be a fair amount.

I don't see upside variability in that, but I do see some downside variability as we mature some of these discussions with the clients. So really, it's running through the maturities in the 2023 and 2024 and challenged projects as we see them today.

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

Okay. And then along similar lines, I mean, a key turning point for the story here is sort of marking this material improvement in operating cash flow generation. Is the message still that that's a 2023 event?

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Joseph L. Brennan - *Fluor Corporation - EVP*

Yes, I believe, Sean, you will begin to see improved cash flow, slightly improved cash flow as we still -- the 23s are coming out. So we'll have some headwind there. You're going to have some challenged projects. But there are other sources of cash that we will be able to access as we get further progressed on a couple of key projects that have an opportunity to be pulling cash back in, in the form of dividends.

But I don't want to get into too much of the specifics around that, but there are sources of cash that as we pick up some of these risk items, will allow us to begin to repatriate some of that back into Fluor's banks.

Operator

Your next question comes from Brent Thielman from D.A. Davidson.

Brent Edward Thielman - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

On Urban Solutions, when you think about where the award opportunities are coming from and then also sort of this deliberate transition in the segment portfolio over the next few years, how do you think about what the end market exposure could look like sort of between call it, Mining, Metals, Advanced Technologies and then the traditional sort of Infrastructure projects?

I guess I'm just wondering, is the Infrastructure stuff ultimately become a much smaller piece of that pie?

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

Yes. Brent, again, as I've mentioned here a few times, we've just gone through the strategic planning process that's taken us through 2026. And I'd also mention that Mining and Metals is really just -- we couldn't have a better market right now for Mining and Metals and also for ATLS with all the opportunities they have in front of it, both domestically and internationally.

Those are two really strong growth engines for the company, going forward, and based on what we're seeing in -- actually line of sight on prospects quite far out in time, actually, as you will have with Mining.

So looking at it and to your specific question, we see Infra being about probably 10% of the Urban Solutions portfolio, going forward, into the planning period that we're looking at through 2026 and sooner.

And then between Mining, ATLS, you can think about it probably -- like I said, because it is so powerful in Mining, right now, you'll probably see Mining at 65% of the business segment and ATLS about 20%. And then we've got other, we've got the TRS, our agency staffing company, and we're just building up the plant facility services business as well. So that will sit in other in the near term, about 5%. So 65% Mining, 20% ATLS (inaudible) and 5% in other. I think that's about right.

Brent Edward Thielman - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

That's really helpful. I appreciate that. And then on Mission Solutions and particularly the strong awards, how much was associated with Savannah River this quarter versus some of the other activities in the segment? And then any update on Pantex? I know customers may be deliberating, splitting that up but potential -- any potential timing to get back involved with that?

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Joseph L. Brennan - *Fluor Corporation - EVP*

So yes, $4.5 billion of that award -- of the new awards totals for Mission roll through the Savannah project. And as it relates to Pantex and Y-12, we know that we've split those 2 contracts. Pantex will come out towards the middle end of 2023 in the form of a bid, and we will go through that process.

We've done a lot of internal work to reposition our pursuit criteria and strategy around how we're going to attack the Pantex opportunity and then how we'll pursue and attack the Y-12. The Y-12 will be further out into the strategic planning cycle more into the end of -- mid to end of 2025 before we have an understanding of -- but we will be pursuing both of those opportunities as they are split.

But the construct of how we will be pursuing them, the strategy around those pursuits will look slightly different.

Brent Edward Thielman - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Okay. I appreciate it. And any other sort of meaningful opportunities along the way in that segment beyond those two?

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

Yes. We've got lots of recompetes ongoing in the nuclear and civil space and DOE -- DOD and DOE, actually. So yes, we just see that continuing on a good trajectory like we've had and then feather in, obviously, the larger Pantex and Y-12 opportunities in the '24, '25 time frame.

Operator

This is all the time that we have for today's questions. I will turn the call back over to David for closing remarks.

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

Thank you, operator, and thanks to everyone for participating on the call today. And just to conclude, we're very pleased with the pace and timing of new awards in today's economic environment. Fluor is a great company with exceptional people, and we're well positioned to meet the ever-growing needs of our clients.

And finally, be assured that these 3 legacy project challenges the company is working through this quarter is no way -- are in no way a reflection on the overall health in a very positive direction that Fluor Corporation is heading in. So we appreciate your interest in the company today, and thank you again for your time.

Operator

This concludes today's conference call. You may now disconnect.

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