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FLR.N - Q1 2023 Fluor Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Fluor's First Quarter 2023 Earnings Conference Call. Today's call is being recorded. (Operator Instructions) 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, Julianne. Good morning, and welcome to Fluor's 2023 First 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 first 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 would like to refer you to our safe harbor note regarding forward-looking statements, which is summarized on Slide 2. During today's presentation, we'll be making forward-looking statements, which reflect our current analysis of existing trends and information. There is an inherent risk that actual results and experience could differ materially. You can find a discussion of our risk factors, which could potentially contribute to such differences in our 2022 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*

Well, thank you, Jason, and good morning, everyone. Thank you for joining us today, and please turn to Slide 3.

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Before we get started on operational results, I wanted to recognize a special achievement that our team recently received for a key milestone on the Marathon L.A. Refinery project. The team, comprised of members from our offices in Southern California, Calgary, Manila, New Delhi and Houston, were able to complete the project's turnaround construction work packages by December 31, 2022, a task that was considered almost impossible at the time due to an aggressive schedule, staffing complications and ongoing scope changes.

In the spirit of One Fluor, our team worked collaboratively to keep the work going and were able to beat the deadline by 9 days. The team utilized working meetings and obtained feedback from the client in real time for increased efficiency. This 24/7 lean approach by the team also used time zone differences to their advantage for seamless handoffs around the clock. Congratulations to the Marathon L.A. project team on this well-deserved recognition.

Now let's turn to Slide 4. Q1 revenue was $3.8 billion, representing a 20% improvement over a year ago. Our increase in revenue was led by Energy Solutions as they continue to deliver strong execution performance on LNG projects and refinery activities in North America.

New awards for the quarter were $3.2 billion, in line with our expectations and on track relative to our full year plan. New awards were 81% reimbursable, and our total backlog is now up to 64% reimbursable.

Our optimism for the future of Fluor is further supported by a robust prospect pipeline. We are currently working on or recently completed FEED and study packages that represent an estimated $290 billion of installed-cost, high-quality new award prospects. In the near term, we are tracking key EPC and EPCM prospects totaling approximately $51 billion across the company.

Moving to our business segments. Please turn to Slide 6. Urban Solutions reported a $20 million loss for the first quarter as a result of additional costs on a legacy infrastructure project. More on this in a moment. New awards for the quarter were $1.8 billion and ending backlog is now 58% reimbursable.

Moving to Slide 7. In Mining & Metals, we continue to successfully execute and deliver on our nearly $4 billion backlog. Over the next 18 months, we are either working on or have direct line of sight on $7 billion of opportunity. This includes decarbonization of metal production facilities, copper projects in South America and lithium work in the U.S.

Please turn to Slide 8. We're off to a good start this quarter as our Advanced Technologies & Life Sciences business continues to support a broad range of opportunities that align well with our strategic priority of driving growth across the portfolio. During the quarter, we received a significant award for a large automated distribution center program in North America and additional work for an existing semiconductor plant in Malaysia.

Looking ahead, we have been engaged as a key project delivery partner for several new biopharmaceutical facilities, including both brownfield expansions and new greenfield campus developments. These projects are in their early stages and will ultimately produce life-saving and quality-of-life improvement treatments for diabetes and oncology patients. Combined, these projects will represent an additional $1 billion in new awards in the second quarter. In addition to our significant advanced technology work in Asia, we also continue to position ourselves for large semiconductor fabrication projects in Idaho and Oregon.

Now turning to Slide 9. I'd like to spend the next few minutes addressing the execution challenges in our infrastructure portfolio. During the quarter, we recognized $59 million in reduced margin on our LAX Automated People Mover Project. This increase in cost is a result of rework associated with subcontractor design errors, the related schedule impacts and systems integration testing time lines. The client has been working collaboratively with us and last week saw us securing an extension of time agreement. Construction on this project is now 88% complete.

Our progress on the I-635 LBJ East Freeway project continues to track our Q4 forecast and is now 53% complete. This quarter, we brought in additional craft labor, and we continue to work on formalizing our claim submission against our design subcontractor for retaining wall deficiencies.

Progress on the Gordie Howe International Bridge project now stands at 47% complete. Progress in the first quarter was as expected, with no material changes from Q4. We continue to hold productive conversations with the client as it relates to cost and schedule relief.

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Moving on to Slide 10. Looking across our infrastructure portfolio, a few common themes emerge, including legacy contracts that did not provide appropriate protection for supply chain and labor escalation costs, labor availability and the tempo of claims recovery negotiations with clients.

To address these issues over the last few months, we marshaled additional resources into infrastructure to strengthen leadership and execution at the project and management level. This is driving a more robust organization with rigorous control and oversight at the business line and project levels. We also worked with our joint venture partners on these projects to align on our strategy for managing potential claims, and we are encouraged by the progress we are making on this front.

Finally, for the past 2 years, we have deliberately narrowed the focus of our infrastructure business to state DOTs or select regional opportunities as was the case with A27 in the Netherlands. Staying away from large signature projects and focusing on traditional roads and bridges fully aligns with our 2021 strategic plan. We continue to have a selective mindset and a view that any prospects must conform with our strategic priority of pursuing contracts with fair and balanced terms. For the balance of 2023, we only see one major infrastructure prospect that meets these criteria.

Although it is not always easy to see, Fluor has made good progress on reducing legacy risk in our backlog. In 2020, $3.6 billion of our backlog represented projects in a loss position. Today, that has been cut by more than half to $1.7 billion, with the vast majority of the backlog consisting of reimbursable contracts with higher than historical margins.

Please turn to Slide 11. Mission Solutions reported segment profit of $7 million for the first quarter compared to $58 million a year ago. Results for the quarter reflect a $21 million charge for government-directed change orders on our legacy FE Warren Air Force Base project in Cheyenne, Wyoming. When construction commenced in 2019, the contract included specific construction activities in the awarded scope of work. Some of these scopes were suspended by the client at various times between 2020 and 2022, while others have impacted the project due to incomplete client designs.

In Q1 of this year, the client directed us to restart construction activities that had been suspended at their request and to proceed with work that could not be negotiated. Our initial estimate to complete this work and the inefficiency arising from these late-stage changes is reflected in this charge. Since we are required to accept these government-directed change orders, we are now finalizing the total cost and schedule implications and will pursue revenue recovery for this claim in future periods. The project is over 70% complete, with handover expected in the third quarter of next year.

New awards for the quarter include a 6-month extension for our efforts at the Portsmouth Decontamination & Decommissioning project in Pike County, Ohio, and an engineering award to support the Class 2 estimate for NuScale's customer, UAMPS, on our carbon-free power project.

Our outlook in Mission Solutions is increasingly positive as we start to convert our prospect pipeline. Last month, Fluor, along with our joint venture partners, BWX Technologies and Amentum won the Hanford Tank Disposition Contract. The contract scope includes operation of the Hanford tank farm facilities and operation of the Waste Treatment and a Immobilization Plant among other responsibilities.

For some perspective, the project includes 177 underground tanks holding approximately 56 million gallons of radioactive waste resulting from the production of plutonium for the U.S. defense program. This contract has a ceiling of $45 billion over a 10-year ordering period. Since we are a minority partner, this program will be reflected as equity income with no increase in backlog or revenue. We anticipate starting the project in the second half of this year.

Next, Mission Solutions recently signed an MOU with Longview Fusion Energy Systems to serve as its engineering and construction partner for their revolutionary laser fusion technology. At full capacity, their plants are slated to provide up to 1,600 megawatts of carbon-free, safe, economical and sustainable energy.

Looking ahead, last quarter, I mentioned our pursuit of a multibillion-dollar operations testing opportunity with the U.S. Air Force. In addition, we expect that the NNSA will be releasing the RFP for Pantex in Q3 of this year.

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Moving to Energy Solutions. Please turn to Slide 12. Segment profit improved to $88 million from $54 million a year ago. Results reflect increased execution activities on refinery and LNG projects in North America, partially offset by $39 million for our embedded derivatives at ICA Fluor in Mexico.

New awards of $712 million include work on 2 EPC projects for Pemex, a compressor modernization project in California and an incremental award for our New Fortress Energy Fast LNG program. We also received an initial FEED award for a new lithium chemicals conversion plant in the United States.

Moving to Slide 13. At the LNG Canada project, our team continues to have success in delivering modules to Kitimat. At the end of April, 205 of 215 modules have been shipped, and 196 modules have been delivered to site. The ISBL or inside battery limit modules for trains 1 and 2 have been installed. All remaining modules will be on site by the end of June, and we are pleased with the final results achieved in the module fabrication yards. As this phase of project risk moves behind us, we look forward to the next phase of construction and our focus on construction progress and precommissioning at the Kitimat site.

We expect resolution of COVID-related impacts on fabrication and construction during the course of this year. I'm also very pleased to report that we are in the final stages of finishing off another legacy project and more specifically, an offshore platform for Shell was moved from China to the European transit yard in Q1, where we will be finishing the final punch list start-up and commissioning items.

As I mentioned in our earnings call in February, in Q1, we received the initial awards for the EPCM of Dow's Path2Zero ethylene and derivatives chemical complex in Canada. We anticipate a full EPCM award release in Q3. In addition to the Dow project, we are tracking significant opportunities with Pemex and with other chemical clients in the second half of 2023.

Turning to Slide 14. Energy Solutions continues to capture opportunities in the energy transition space, with 40% of new awards in the quarter being energy-transition related. Last month, Energy Solutions signed a licensing agreement with Federated Co-Operatives Limited, FCL, for the renewable diesel facility in Regina, Saskatchewan. FCL will be deploying Fluor's proprietary Econamine FG Plus carbon capture technology to help them meet their commitment of a 40% greenhouse gas emissions reduction target by 2030.

Finally, we continue to have positive discussions with Romania for the front-end engineering and execution management of 2 conventional nuclear units at an existing facility. We are also supporting NuScale in Romania as we execute a front-end engineering package for a 6-reactor SMR nuclear power plant. Both of these opportunities will be executed on a reimbursable basis.

Before I turn the call over to Joe, I want to reinforce that our strategy continues to serve us well. While the challenges in our legacy portfolio are frustrating for us and for our shareholders, we believe that the experienced resources we have deployed on these projects will put us on the best path to resolution. Our diminishing portfolio of legacy projects conceal some tremendous performance from the rest of our backlog.

While early, the $20 billion in new awards booked last year are ramping up and will provide considerable EBIT in the years ahead. When you include our awards in the first quarter, where we captured double-digit margins, I'm confident that we will be able to deliver on our earnings expectations for 2023 and 2026.

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

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

Thanks, David, and good morning, everyone. Today, I will review our results for the first quarter, provide an update on divestitures and go over key financial outlook assumptions that support our guidance.

Please turn to Slide 16. As David mentioned, for the first quarter of 2023, revenue of $3.8 billion came in as expected and represented a 20% increase from last year. Revenue for the quarter was driven by increased execution activities across our portfolio, including mid-scale LNG, chemicals and projects in our Advanced Technologies & Life Sciences businesses.

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Our consolidated segment loss for the quarter was $15 million and included approximately $80 million of legacy project charges previously discussed and $60 million for the negative earnings impact associated with the sale of our remaining AMECO assets. I will note that we are seeing solid improvement in energy solutions when normalized for the ICA Fluor-related embedded derivative.

Adjusted EBITDA for the first quarter was $71 million compared to $90 million a year ago. Our adjusted EPS was $0.28 compared to $0.16 in 2022. Our adjusted results exclude $80 million for the income effect of FX and embedded derivative. G&A expenses for the quarter were $62 million, down from $71 million a year ago. This was driven by a decline in our stock price driven compensation.

Net interest income in the quarter was $41 million compared to $31 million last quarter, and an expense of $9 million a year ago. Since our outstanding debt is at a fixed rate, I expect a trend for positive net interest income to continue throughout the year. New awards of $3.2 billion in the quarter drove our ending backlog balance of $25.6 billion.

Turn to Slide 17. Our cash and marketable securities balance for the quarter was $2.3 billion. Total cash includes $268 million held by NuScale. As a reminder, our cash and marketable securities balance excludes cash for proportionally consolidated ventures that do not come on to our balance sheet as cash until distributed to us at the appropriate time.

Our operating cash flow for the quarter was an outflow of $161 million and reflects increases in working capital needs on several large projects and the usual timing of annual incentive payments. We still expect cash flow to be modestly positive when you include approximately $200 million for legacy project cash needs in 2023, of which $15 million was recognized in quarter 1. We anticipate legacy projects will have similar cash needs in 2024, but no significant cash contributions are expected in 2025.

On to Slide 18. During the quarter, we sold our remaining AMECO operations in South America. This transaction represented the end of Fluor providing equipment rental services. This is notable as it essentially eliminates our need to provide capital for rental equipment and allows our management team to focus on our core business segments.

Since 2019, we have received $144 million in cash proceeds from the AMECO portfolio. We also expect to complete final divestiture negotiations for Stork's European operations in the second quarter. Our operations in Stork U.K. will be going to market in early June, and we are having ongoing conversations with select buyers for Stork operations in the Middle East and Latin America.

Finally, in regard to our majority ownership of NuScale, we have committed to working with strategic investors that provide an investment thesis that supports our monetization of this industry-leading, small-module nuclear reactor clean power business. Based on the pace of these conversations, we anticipate a strategically aligned transaction by year-end.

Please turn to Slide 20. We are affirming our 2023 adjusted earnings per share guidance range of $1.50 to $1.90 and our adjusted EBITDA guidance of $450 million to $600 million. Our assumptions for 2023 include revenue growth of approximately 10%, adjusted G&A expense of approximately $45 million per quarter and an effective tax rate of approximately 40%. This may vary depending on the countries in which revenue is generated. We expect tax rates to moderate as revenue and our tax advantage locations start to increase.

Our expectation for 2023 full year segment margins are approximately 5.5% in Energy Solutions, approximately 3% in Urban Solutions and approximately 3.5% in Mission Solutions. Finally, we also affirm our 2026 guidance as indicated in our earnings release this morning.

Operator, we are now ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Andy Wittmann from Baird.

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

I guess I wanted to ask about the Hanford win here. A couple of questions, I guess. Just because it's not going to be consolidated, you're a minority joint venture, it's a little bit harder, I think, for us on the outside to understand what the earnings impact could be, the Fluor with no revenue that we can see, obviously, or backlog that's going to go in.

But maybe, Joe or David, you could just help us with what the -- I guess you'd say the ratable share of what your revenue could be on something like this on an annualized basis, just so we can try to get a sense of how this could affect your earnings. And maybe if you could also just talk about any expectations over protest and time starting on that. I don't think you mentioned that on the prepared remarks.

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

Okay. Andy, I'll turn it to Joe to start on the earnings impact or at least give color, and then I'll take the protest question.

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

Yes. Thanks, David. The way I would look at the Hanford Tank Contract is, I think, we've laid out what the value over a 10-year period would be and our percent ownership in that. And I think if you were to view that in the context of what we have laid out relative to guidance for Mission Solutions in terms of our earnings margins for the upcoming years, I think, maybe with those data points, you could probably construct what would be flowing through our other income and expense line.

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

Sorry, I didn't see the percentage disclosed or hear you say that...

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

Our guidance for Mission Solutions through that contract is how I would view that. We haven't given, obviously, guidance within the specific project itself relative to -- but I think the way -- contextually, the way I would look at that, Andy, relative to what we provided you in terms of guidance for margins for Mission Solutions relative to a $45 billion spend over 10 years with our ownership percentage included in there will give you a sense of, I think, what that would have -- what impact it would have on our P&L.

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

Okay -- go ahead.

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

Do you want to finish off with Joe?

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

No, I was going to go to a different topic actually. So if you have any other comments on Hanford, go ahead.

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

Just on the protest, I think, you asked about. Protest seems to be the order of the day, flavor of the day right now in government contracting. And this is the second time we've won this award. So at the same time, it's very possible that a protest can come in on this work and delay us up to 3 months. So I'll just put that out there right now, and we'll see how that goes.

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

Okay. I thought I'd switch over to LNG Canada for my follow-up. And the numbers that you put here on the slide about the number of modules that are needed in total, having almost all of them having shipped, them arriving on site here in the next 60 days, it seems like there's pretty good -- very good progress on it.

I don't know, Joe. I mean I know you guys have to kind of recognize and call the project as you see it, but you've mentioned in the past that once the modules are on site, and they start getting installed, particularly given the high percentage of completion that you're at right now, you'll have to be able to -- you'll look at the contingencies that you've held so far. And I was just wondering if you could just comment on the potential here this summer to hit some of these really key milestones and what that could mean for your profit recognition as you finish off that last, I guess, 15%, 20% or so?

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

Thanks, Andy. I don't think I'll get into the profit recognition. Maybe what I'll talk a little bit about is the risk and how we view it. We have signaled that getting the modules to site is one of the key risk items that we need to clear off. I would suggest though that was probably the most significant milestone. Now as you get to site, you still have a lot of activities that need to occur in order to get the facility to mechanical completion. So it's not a panacea when you look at all of the risks being cleared up.

But we do -- view that as a positive milestone within the overall execution of the project. It is a significantly positive milestone, but that does not, in any way, shape or form clear the challenges that will still be required in order to deliver the project. But what we can say, I think, definitively today is that there is a significant chunk of that risk that has been addressed in an appropriate time frame.

Operator

Our next question comes from Jamie Cook from Credit Suisse.

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

First, just a clarification. Joe, on the guidance that you're affirming today, the adjusted EPS, the EBITDA and the margins, does that include the $80 million -- does that include the first quarter results that included the $80 million in problem project charges?

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

Yes, it does.

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

So then my question is, if you're able to keep your guidance given the charges that you had in the first quarter, it implies the core profitability of your business is probably better than, I guess, I would have expected. So could you just confirm and then give a little color on how you're able to affirm your guidance with charges I'm assuming you didn't expect?

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So just help me, what's performing better? Maybe you can talk to sort of the margins -- the [as-sold] margins in your backlog, give us an update there. I know what you said about the first quarter, but just holistically, I'm just trying to understand the core profitability. And then I have a follow-up.

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

Jamie, it's David. So yes, let me start here and Joe can chime in. Back in '21, we reinforced our commitment to be transparent and measure in our view, on project performance and our ability to execute and that still holds true today. And the $80 million charge right now does not account for any future claim recovery, so we expect to see certain claim recoveries in the near term as well.

And then also in 2023, we're seeing upside based on the prospect pipeline and the strong execution platform deployed. We're very pleased with the execution and hitting as sold. So the margins -- to your question on margins, margins on new awards have been at or above plan for the last 5 quarters. You remember that we were 220 basis points above plan in 2022 on that $20 billion award year.

So that's driving an extremely healthy backlog, plus we've got that -- gone from $3.6 billion in challenged projects in 2020 down to $1.7 billion in Q1 here. And we continue to book high-quality new awards, and we're successfully executing on approximately 800 projects in backlog right now. And again, importantly, the majority of our projects are delivering at or above as-sold commercial terms.

So with significant opportunities taking shape across our business segments, coupled with an existing healthy backlog, right, driven by the $20 billion from last year that are starting to ramp up and strong execution performance, we're quite comfortable maintaining guidance for 2023.

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

No. I guess the only thing I would add is one of the other indicators that we're looking at too, is you're starting to see that revenue growth kick in, which is really a function of what David is laying out, the high-quality backlog. And it's not just the $20 billion that we booked in 2022, it's really $30 billion over a 3-year period, which all fits into the same pursuit criteria, which we would consider to be a healthy backlog.

So I think we're starting to see -- I firmly believe, I think, we're starting to see that inflection point where the quality of what we're putting in the backlog is starting to dictate what the future is going to look like for us.

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

Yes, these margins, Jamie, are higher than historical margins as we look back in time. And we've got clients lining up A teams with not -- not fully having the scope in place, but coming to us and getting teams on board, getting ready for their CapEx. So that just gives you an idea of how things are looking right now on the margin side.

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

Well, then, I guess my follow-up question because obviously, the award prospects out there are tremendous and you're talking about cost plus, better margins. I guess the other question is, once we get past these legacy projects, I'm just trying to understand, can free cash flow conversion also improve relative to history as terms and conditions improve?

And I'm just wondering, at what point do you get more comfortable where you want to be -- utilize the balance sheet a little more if the free cash flow can improve and what would be the capital allocation priorities, in particular, as you're thinking about your long-term margin targets that my guess is the Street isn't giving you credit for? So what are your capital allocation priorities given that backdrop?

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

Joe?

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

Yes. Thanks, Jamie. So in terms of cash flow, I think what we're seeing is that as you get out into Q3 and Q4, we'll start to see some appreciable growth in that cash flow. We continue, within the cash flow that we're generating, paying down debt, getting back to some fiscal discipline that obviously has impacted our cash flow up to this point.

Our ability to maintain a neutral cash flow to slightly positive cash flow in the face of all that, I think, is very promising. But I would tell you that the inflection point, we believe is going to be towards the tail end of this year where we start to see real true appreciable growth. That's going to be a function of a couple of things.

One is we're starting -- we continue to work off the legacy projects, and that new backlog is starting to generate good quality free operating cash flow. In terms of what our capital allocations are, we still are focused on really a bit of this recovery on our cap structure as it relates to the debt and moving to an asset-light model.

So we'll be focused on our '24s and '23, we'll be focused on looking at forcing the conversion on the preferred as an alternative. And ultimately, the end state would be getting back to dividends and having the potential to invest more in the business, either through discrete M&A activities or just organically, which we think both add significant value to supporting the growth of Fluor going forward.

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

Yes. And just a footnote on project fit, right? And the overhead cost savings that we've been very successful with, Jamie. I know we put a target out there of $100 million. We got $100 million annually, and we got $110 million in '22, and we're out looking at, I think, about $123 million in cash savings -- annual savings this year. So that's also helping support all of those strategies that Joe just spoke to.

Operator

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

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

First one is kind of a clarification question. The comment on the higher margins relative to history, are we talking relative to historical cost reimbursable work? Or are we talking relative to just the overall margin performance of the business?

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

Yes, just across the portfolio is how I was looking at that, Sean.

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

So yes, so I mean, how is it possible to have higher -- producing higher margins on lower risk work? I mean are we just talking about not having charges in the mix? Or -- does the question make sense? Like lower risk, higher margin, how is that possible?

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

I think we've got a very tight market. Like I said, we've got clients coming to us without scopes being fully baked and actually bringing us on board early just to give you an idea of how tight the market is out there. So that's how I was -- that's what I was trying to get to there.

And there's less competitors, right? There's less folks in the EPC industry right now, and our clients are very pleased. When you look at their CapEx plans across traditional oil and gas and chemicals and mining and metals, I'm not sure if you've looked at them, but they are obviously making a lot of money right now, and their CapEx plans are not going down, they're going up. So they are very glad that Fluor is still in the EPC space, very grateful as they start to ramp CapEx.

And then you've got energy transition on top of that, which is extra CapEx that's coming through, and we're very well placed for energy transition. These CapEx numbers run well through 2030. And so that's what I think we're trying to signal there.

And we're -- if you think of our strategic priorities of fair and balanced contract and commercial terms and providing solutions, right, getting -- our strategy is get in early with solutions, get in early and stay late through the full EPC or EPCM and get paid for the value we provide. We're really driving that. And we've got good value propositions against the competition that could command a premium in many cases with that strategy.

Operator

Our next question comes from Michael Dudas from Vertical Research.

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

Just quick clarification. On the $1.7 billion in loss backlog at the end of Q1, is that all going to be -- how is that going to be burned off over the next several quarters? And I guess, you indicated maybe by the end of '24, you'll be through that. Or maybe just clarify that for me, Joe.

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

Yes, primarily, but I'll let Joe maybe talk to that and also talk to the remaining cash required for that $1.7 that will flow.

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

Yes. I guess I would start with where we are relative to completion on the 3 projects that we're talking about. We're over 50% on the LBJ and Gordie projects, and we're pushing 90% complete on LAX. So we're starting to get clarity on -- as we kind of open this conversation, we're getting clarity on what it's going to take to complete these projects.

It's been a bit of a grind, we understand. But we do have, with the amount of work over the last couple of years and some of the additional resources, are getting very comfortable of what that cash outflow is going to look like to complete these jobs. And so we don't see really much cash requirements outside of '24 in order to fund these challenge projects at this point.

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

My follow-up is, certainly, there's a lot of noise and discussion amongst the investors and the market on federal funding of the CHIPS Act, IRA, [clients or folks] get very excited on energy transition, semiconductors. Maybe you could -- how are you guys sitting into that?

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You mentioned -- you called out a couple of projects for semiconductors. There's a lot of others. Are you active in some of those in the $200 and something billion that you've had on the visibility over the next few years? And maybe some of the other of your clients, are they starting to move forward in projects that Fluor can get engaged in later this year and into '24 to ramp up some of those Energy Solutions or Urban Solutions order...

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

Yes. Thanks, Michael. I'll start. Yes, a lot of acts out there. When you think of the energy infrastructure and inflation reduction in chips and even the Science Act funding opportunities that we're looking at. And, obviously, also very tricky, right, if you just take the CHIPS Act as an example with the application process now out there.

And if you receive more than $150 million in subsidies, you need to share a percentage of profit back to the government and not allowed to invest in China for what is it, 10 years. And share buybacks are discouraged and obviously, union construction is required and you even need to come up with child care as well. So there's a lot of things, at least on the chip side, that are causing some pause or some concerns with the manufacturers.

But having said that, where we're playing right now in Asia with the likes of Intel, very strong market. And we also see clients here in the U.S. going forward with major builds. We're supporting them where we can to help them with their subsidies, but the projects we're involved with are right now, proceeding forward, the couple I've mentioned in Idaho and Oregon that we're close to.

So it's something that we are certainly interested in, but it's not holding us back. If you look at even transportation, right? We're dealing with TxDOT primarily who's got about $18 billion to $19 billion a year in their budget and independent of any act coming out of Washington. So that's very helpful.

On the DOE side, they've got a couple of offices they've pulled together and implement $62 billion in investments from the -- remember, the bipartisan infrastructure law, so we're staying close to that. There's something in hydrogen that we're looking at and supporting clients in hydrogen plant opportunities, about $8 billion there. Carbon capture sequestration, we can play obviously because of our 2 technologies, proprietary technologies. It's helping us in nuclear and grants for commercial nuclear plants.

So I think more to come. I mean even on the Inflation Reduction Act, they're looking at funding and they need to fund infrastructure for domestic high-assay uranium -- low-enriched uranium production, where we are playing as well. So there's a lot going on. And including Fusion, right, where I've just mentioned that we'll be looking into Fusion with Longview and also working with General Atomics. But we're not letting it affect our forecast. And we don't see it as a detriment to our strategic plan financials through 2026. And we're not having to -- as some other contractors, we're not betting on any of this coming to fruition anytime soon.

Operator

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

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

Great. I had a question just on the legacy infrastructure projects portfolio. As you look at that portfolio outside of LAX, I guess, I-635, Gordie Howe, what about the performance in the rest of the portfolio? Are there others still in stages that could be -- that prove to be a future risk? Or do these effectively represent that portfolio at this stage?

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

Thanks for the question. As we see it right now, and as I've said, we are very -- as we laid out in 2021, very clear and transparent with our project forecasting. And currently, we are very comfortable with the infrastructure portfolio other than the legacy projects that you just spoke to. That's

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really where we are putting our attention fully on execution. I talked with the new leadership of infrastructure, and we are clearly focused on working off these final few remaining legacy projects.

It's all about execution, that's job one and not worrying about new awards. Like I said, there's only one major prospect that we have our eye on that fits our pursuit criteria this year. So at this point, comfortable with the infrastructure portfolio outside the legacy projects.

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

Okay. Appreciate that. I guess my follow-up would be maybe just a question on the overall business. I recognize awards aren't going to be -- or the trajectory isn't going to be linear quarter-to-quarter. Your new awards were good this quarter, maybe not as strong as we've seen over the past couple of quarters. Your book-to-burn was a little less than 1x yet you've got this big pipeline of projects hereafter.

So I guess my question is just how do you see the award trajectory over the coming quarters as we build up into 2024? Are there some really meaningful opportunities kind of near that bid award stage that could accelerate this award pace in the coming quarters?

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

Yes. Maybe I'll have Joe start on the book-to-burn side, just to give you a feel of how comfortable we are going forward and take it from there. And I'll maybe give some color on what we're seeing overall across the business segments from a volume standpoint.

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

Yes. Maybe just one point of clarification. Yes, the quarter was slightly below one on a book-to-burn, but there's a lot of seasonality that goes into Q1. And I think $3.2 billion in new awards for the quarter is a pretty robust quarter considering you're coming out of the backside of the holiday.

So from a seasonal perspective, it's within line and within expectations. But we do feel pretty confident and strong about the trajectory of new awards for the quarter. You may see some lumpiness because some of the opportunities that we're chasing are quite substantial in nature and will have fairly dramatic impacts on a quarter-by-quarter basis. You will see some lumpiness, but we're very confident on the new award plan that we laid out in December of last year.

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

And just where we're seeing all the action or a lot of the action in new awards, we talked about all those front end -- all that front-end work, $180 billion of really good prospects coming out of our current feeds. And we're looking at another $235 billion in upcoming feeds over the next 18 months. And that really, if you look at the big hitters there for the next set of front-end design work that we're going to be executing, it will be in chemicals, it will be in downstream and it will be in mining and metals.

And remember, energy transition cuts across all of this. We had 84 new awards in 2022 in energy transition. And again, in the first quarter of '23, energy transition awards represented actually 40% of Energy Solutions awards. So -- and then like I said earlier, we've got $51 billion of near-term EPC, EPCM full projects, in addition to this front-end work. And that $51 billion is -- a lot of it is -- the primary chunk of that is in Urban Solutions and Energy Solutions. So we really have a good robust prospect pipeline that will support that book-to-burn -- keeping the book-to-burn at or above one.

Operator

Our next question comes from Steven Fisher from UBS.

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

I just wanted to ask about cash. Can you just help us reconcile the cash expectations and charges. You mentioned, I think, Joe, $15 million out of the $200 million expected was spent in Q1. How does the $80 million of charges in the quarter factor into that $200 million? And can you provide an update on any other sort of major cash ins and outs for the year overall?

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

Yes. Thanks. Steve, in terms of how that would play out in cash requirements for LAX in particular, we've slated about $47 million worth of cash requirements over the year for LAX at this point. In terms of cash flow, can you repeat the back half of your question, Steven? Sorry.

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

Yes. Just all the major cash ins and outs for the year.

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

Well, I think we've talked a lot about some of the activities that we're seeing in Latin America, specifically through our ICA Fluor joint venture. And some of the activities that we're seeing in LNGC and our opportunities -- because we're not consolidating that cash into our balance sheet that sits out on the proportional -- proportionally consolidated joint venture. So there will be opportunities that flow through there.

And we're starting to see very good cash flow being generated off the backside of this high-quality backlog that we've put into the pipeline. There are some offsets in the year. We want to address the '24s. We want to take a significant chunk of those out before we get into the '24 time frame. We've got the conversion of the converts, the [force] conversion. That will play into it.

That's why when I'm talking about cash flow, I'm talking about reasonably flat to slightly up over the year. I could see -- that's probably a more conservative view. I could see that being more positive then slightly at -- slightly flat to slightly up. There are some things that could occur towards the tail end of the year that would make that a much more positive trajectory for us.

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

Okay. Just to clarify your answer on the LAX and just the overall $80 million, was that not all cash, but everything you have embedded from those new charges is included in the $200 million?

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

Yes. It is -- it will be cash, but it will be spread out over '23 and '24.

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

Okay. And then if I could just ask, maybe, David, a higher level macro question. I guess I'm curious how changing macro conditions, including credit tightening and commodity volatility are affecting customer decision-making. And with regard to inflation, how are you seeing that flow through kind of customer decision-making? Is there any more other scope reductions or just value engineering to try and kind of fit projects into budgets?

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

Yes. Maybe we start with credit, right? Obviously, a tighter credit environment these days, and really, for the most part, our key clients have a limited need to access bank funding their debt to finance their projects, right? They're very, very well capitalized as we speak here. And especially true when you look at the CapEx profiles of our major energy, chemicals, mining clients. Obviously, the government is also hopefully in a good place.

But certainly, on the programs we're working on, which are critical to the country, we don't see any pullback there in Mission Solutions either. So we could see some softness with -- in projects being advanced by developers, but we don't play in that space very much. We really only help out on the front end for the most part, where we drive very high margins while they're trying to look for financing, and then we usually -- we pull back.

So I don't see that being a big issue for us, slight recession at Fluor, it really doesn't affect us because our clients they're into decade-long decisions, right, that are really not impacted by a temporary slowdown or recession and economic activity.

Inflation, obviously, we've seen some estimates, obviously, the estimates in the past, cost estimates for the projects in the past couple of years have been quite inflated, and that has been a cause for concern. And we see refeeds or updating of feed packages to get the latest from -- and best pricing from the supply chain, which we do see a softening in our construction material forecast driving estimates down somewhat.

So I think from that standpoint, we're still in pretty good shape. I guess another data point -- as we talk very positively about the future here, I think one thing to hammer home, just another data point is the number of people we've been hiring, right? That's a pretty good bellwether for a services company like Fluor.

And just to give you an idea, in the last 15 months, we've hired almost 4,800 people. And we've got 30 -- almost 35% of those being rehires, which is very pleasing for us as well. And we've got 2050 open positions that we're working on to bring into the company. So hopefully, that gives you an idea that it's a full steam ahead right now.

Operator

Our next question comes from Andy Kaplowitz from Citigroup.

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

David, can you give us an update on what's going on with NuScale? I think you said last quarter that you expected an update on potential, strategic agreement or something like that by the end of the first half of the year and now you're talking about at the end of the year. Is there any reason why conversations maybe are taking a little longer than expected?

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

Thanks. Yes. NuScale, we're very excited, obviously, about its future, about its leading technology in the SMR space and the excitement, not only here in the U.S., but overseas, primarily in Eastern Europe right now, but also in Asia, where NuScale's partners are making some advances there as well. So timing-wise, we're also really pleased with the strategic investment -- strategic investor discussions we're having and getting traction on that front.

And so like we said, we hope to see the results of that effort near the end of this year. And that's just timing as far as -- that's going to be a large deal to button up, and I think we're making really good progress on that. And we're looking forward to supporting NuScale's commercialization efforts as well going forward as we move forward. Very happy with our investment in NuScale and the performance of the company right now.

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

Very helpful. And then, David, I want to ask you, maybe follow up on Steve's question, just specifically around chemicals CapEx. You seem pretty optimistic in terms of petrochemical bookings in the second half. I think we've heard from some software and industrial companies that customers are keeping a little bit of a tighter lid on chemicals CapEx in '23. Are you not seeing any of that?

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

What we're looking at are very interesting opportunities, and we're talking mega projects. When you look over in -- just in the Europe, Africa, Middle East region. And potentially the reduced demand or lower demand for combustion engine fuel and what the companies are looking at going forward, there's a big play a foot in liquids to chemicals, right?

So -- and these are massive programs that we're supporting key clients, historically key clients that we've worked with for decades on. So that's a big play for us in chemicals. And then the other one we're seeing in Europe and in the U.S. is in recycling of chemicals. And these recycling facilities are also very large.

And so that -- our front end -- our subject matter experts at Fluor, our process engineering capabilities, that's a real calling card for us, not just in energy transition but in the recycling space in chemicals. So that's what I'm seeing right now in the second half of the year to give you a little more color.

Operator

We are out of time for questions today. I will now turn the call back over to David Constable for closing remarks.

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

Great. Thanks, Julianne. Many thanks to all of you for participating on the call today. I'm very pleased with the ongoing performance of our healthy backlog and the commitment and support of our clients, as I mentioned. We're well positioned to complete our few remaining legacy projects, and we're confident in achieving our expectations for 2023 and 2026. Appreciate your interest in Fluor, and thank you again for your time today.

Operator

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

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