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EDITED TRANSCRIPT

FLR.N - Q3 2023 Fluor Corp Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to Fluor's Third Quarter 2023 Earnings Conference Call. Today's call is being recorded. (Operator Instructions) A replay of today's conference call will be available at approximately 10:30 a.m. Eastern Time today, accessible on Fluor's website at investor.fluor.com. The web replay will be available for 30 days. A telephone replay will also be available for 7 days through a registration link, also accessible on Fluor's website at investor.fluor.com.

At this time, for opening remarks, I'd 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, Jordan. Welcome to Fluor's 2023 Third 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 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 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 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 2022 Form 10-K and in our Form 10-Q, which was filed earlier today.

During the 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*

Thanks, Jason. Good morning, everyone, and thank you for joining us today.

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Please turn to Slide 3. In response to investor inquiries from our shareholders, I wanted to provide some insight into how Fluor is leveraging artificial intelligence technologies across the organization. As some of you may recall, in 2018, we had entered into an industry exclusive partnership with IBM to develop a predictive analytics solution for large projects. Based on a significant database of over 200 projects spanning 20 years, we continue to expand the use of this platform to supplement execution across our portfolio.

At the same time, we launched a parallel effort to create an AI platform to provide predictive pricing on materials for our supply chain.

Outside of these 2 major predictive solutions Fluor is currently using over 60 AI-derived platforms across IT, tax, treasury, human resources, proposal development and plant and facility services. This is in addition to a number of simulation and rule-based AI-enabled systems that we have deployed to support project execution.

These systems are helping Fluor reduce costs and drive a data-driven decision-making process that leads to better project management and quality control.

Now let's turn to our operating review beginning on Slide 4. Revenue for the third quarter was $4 billion, representing our third straight quarter of 10% growth over the prior year. Our increase in revenue was led by Urban Solutions as we ramp up execution activities on several recently awarded projects, including a large metals project in the U.S., 2 life sciences projects and a semiconductor project. Consolidated new awards for the quarter were $5 billion, remaining on track relative to our full year plan of a book-to-burn ratio of greater than 1.

New awards were 94% reimbursable. And our total backlog is now $26 billion, of which 70% is reimbursable. We continue to see strong demand for our services and the value we provide. Margins on new awards were 70 basis points above the margin profile of our existing backlog.

The demand for our services is evident by our prospect pipeline. We continue to track a slate of prospects that is more than 15x the size of our current backlog. This is led by opportunities in chemicals, closely followed by production and fuels and mining & metals.

As you will see over the next few slides, our financial discipline, combined with our focus on selectivity and project execution are starting to drive consistent results.

Moving to our business segments. Please turn to Slide 6. Urban Solutions reported a $66 million profit in the third quarter. Results included an incentive fee earned on a large mining project that is nearing completion as well as a favorable arbitration outcome on a separate mining project. New awards for the quarter were $1 billion and ending backlog is now $11.1 billion and 59% reimbursable.

Now please turn to Slide 7. In Mining & Metals, we continue to work on a number of front-end studies including critical minerals production and green steel technologies. Although there have been no cancellations, the industry has been carefully monitoring inflation inputs and commodity pricing. We're now starting to see clients move forward with final investment decisions. Earlier today, we announced a multibillion dollar reimbursable award from BHP for Stage 2 and of their Jansen Potash Project in Canada. This award will be recognized into backlog in the fourth quarter. Looking ahead to the first half of 2024, we see significant opportunities in lithium, steel and copper to bring into backlog.

Moving to Slide 8. Our Advanced Technologies and Life Sciences business line had another active quarter. Last month, we announced the completion of Bayer's first global cell therapy launch facility. This new state-of-the-art biopharmaceutical development and manufacturing facility will be used to produce cell therapies for neurological degenerative disorders, cardiovascular disease, and other current unmet medical needs.

On the new awards front, ATLS was able to build off its successes in the second quarter. This includes an initial award for a semiconductor facility in the Pacific Northwest and an award north of $400 million for an expansion facility for a key strategic customer in Denmark. We were also awarded of feed package for Altris AB for the world's first industrial-scale sodium ion battery production facility.

We are excited about the pipeline of reimbursable opportunities in this business line.

Over the next few quarters, we are positioned to win significant additional semiconductor work and multibillion dollar opportunities in life sciences.

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In infrastructure, we continue to make significant progress on legacy and non-legacy projects during the quarter. On the Gordie Howe Project, we had a very productive summer with great progress on the bridge and the U.S. and Canadian ports of entry. In August, the team celebrated the topping off of the U.S. tower at 722 feet. The project is now 65% complete. As we mentioned last quarter, Fluor, along with our partners, continue to have collaborative discussions with the Gordie Howe client with respect to cost and schedule relief. Our joint venture team is working to resolve these discussions in the next few months.

Moving on to Slide 9. Mission Solutions reported a segment profit of $38 million for the third quarter, compared to $29 million a year ago. Results for the quarter reflected increased execution activities for FEMA hurricane support. New awards for the quarter included the $175 million 4-month extension at Portsmouth. A new award for AFRICOM, under our LOGCAP V contract and additional task order awards under our FEMA contract to support hurricane-related efforts in Florida and Georgia.

Last month, we were also informed that our contracts for the NNSA's naval nuclear propulsion program was extended for 5 years through 2028. Fees from this $8.5 billion extension will be recognized as equity income. During the quarter, our team submitted our bid package to the NNSA for the Pantex management and operations contract. This contract includes a 5-year base period with three 5-year options valued at up to $30 billion over 20 years. We expect to have an update on this contract next year.

Moving to Energy Solutions. Please turn to Slide 10. Segment profit significantly improved to $177 million from $59 million a year ago. Results reflect the initial recognition of cost recovery entitlements on several fixed-price projects, partially offset by cost growth on a large upstream legacy project and a charge for the expected net settlement of a long-standing claim. Results also included a $24 million gain on our embedded derivative in Mexico. New awards for the quarter totaled $3.3 billion and included a confidential reimbursable EPCM contract for a large chemicals project in North America.

For the fourth quarter, we are anticipating some sizable reimbursable new awards. Prospects include a large battery chemical project and an isocracker retrofit project, both in Europe and an LNG facility in Indonesia.

Finally, I'd like to note that LNG Canada is now 88% complete. And this project continues to meet management expectations.

Before I turn the call over to Joe, I want to note that our results and accomplishments this quarter reflect notable progress against our corporate strategy, and is indicative of our ongoing transformation into 1 of the leading engineering and construction companies in the world. 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 third quarter, highlight some of the key capital structure activities that were recently executed and go over financial outlook assumptions that support our revised guidance.

Please turn to Slide 12. As David mentioned, for the third quarter of 2023, revenue was $4 billion, a 10% increase from last year. Revenue for the quarter was driven by the ramp-up of execution activities on several recently awarded projects across all 3 segments.

Our consolidated segment profit for the quarter was strong at $276 million. This performance was driven by higher execution activity as well as the initial recognition of cost recovery entitlements on several fixed-price contracts.

Adjusted EBITDA for the third quarter was $216 million compared to $30 million a year ago. Our adjusted EPS was $1.02 compared to $0.07 in Q3 of 2022. Our adjusted results for the quarter exclude $47 million for the positive income effects of FX in the embedded derivative in Mexico. G&A expenses for the quarter were $56 million, up from $30 million a year ago. This was driven by higher performance-based compensation forecasts, including stock price influence compensation which is expected to be paid in Q1 of 2024.

Net interest income in the quarter was $42 million compared to $37 million last quarter and $14 million a year ago. Our reinforced liquidity position will enable us to generate positive net interest income throughout the year with prevailing interest rates on our deposits and marketable securities.

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New awards of $5 billion in the quarter improved our ending backlog balance to $26 billion. Based on our prospect pipeline for Q4, and as David advised earlier, we anticipate a book-to-burn ratio in excess of 1 for the full year.

Moving on to Slide 13. Our cash and marketable securities balance for the quarter was $2.4 billion. This excludes amounts held by NuScale . As it relates to operating cash flow, we expect to be positive for the full year. This includes additional distributions from our joint venture arrangements in Mexico and Canada, which more than covers the cash needs for legacy projects. Any potential client concessions on the Gordie Howe Project are not currently included in our cash flow outlook.

While we are not discussing 2024 guidance on this call, I do think it is important to note that we expect 2024 to be a significant year for cash flow generation as we start to see meaningful contributions from our growing non-legacy portfolio.

During the quarter, we reached an agreement to sell Stork European businesses to Bilfinger. We have also launched an effort to transact Stork's remaining operations. At this point, we expect all transactions to close by Q2 next year.

Now please turn to Slide 14.

In August, we completed a very successful convertible debt offering to address our December 2024 Senior Notes. As a result of our offering being oversubscribed by 5x, we were able to lock in a coupon rate of 1.125% and a conversion premium of 32.5%.

We also entered into capped call transactions that prevent any share dilution until our share price trades above $68. Including the cost of the capped call, our effective cost of this debt is approximately 3.47% and slightly lower than the 3.5% on December 24 notes we are retiring. If we had pursued a straight debt issuance, we estimate our cost of funds would have been more than double this market-leading effective rate. A simplified example of how the capped call transaction works can be found in the appendix section of our slide deck.

I should note that in advance of retiring the 2024 notes, the proceeds from the offering have been primarily invested in securities yielding over 5%, outearning our maturing fixed rate debt of 3.5% by over 150 basis points.

Lastly, in September, we announced the full conversion of our convertible preferred stock, which further simplifies our capital structure. The cost of this conversion was $27 million, approximately $2 million less than the remaining undiscounted mandatory dividends. We will not have any change to our adjusted EPS estimated calculations as these shares were already reflected in our share count.

And now that our 10-Q has been filed, our market cap will adjust upward by more than $1 billion. With these transactions, we have rebuilt a capital structure that was pressured over the past few years as we transition back into a lower risk portfolio.

Please turn to Slide 16. We are raising our full year 2023 adjusted earnings per share guidance to a range of $2.50 to $2.70 and increasing our adjusted EBITDA guidance to approximately $600 million. Our assumptions for the fourth quarter include revenue of more than $4 billion. Adjusted G&A expense of approximately $50 million. And an effective tax rate of approximately 40%.

This may vary depending on countries in which revenue is generated. We expect tax rates to moderate as revenue in our tax advantage locations start to increase.

Our expectations for Q4 segment margins are approximately 4% to 4.5% in Energy Solutions, approximately 4% in Urban Solutions and approximately 6% in Mission Solutions.

Finally, we also reaffirm our 2026 adjusted EBITDA guidance of $800 million to $950 million, as indicated in our earnings release this morning. Operator, we are now ready for our first question.

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QUESTIONS AND ANSWERS

Operator

Your first question comes from the line of Steven Fisher from UBS.

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

And good to see that backlog growth there with the cost reimbursable mix. There were a lot of one-offs in the segment this quarter, though, related to older projects. And the language in the release said that you had initial recognition of cost recovery entitlements. So I guess I'm curious if that means there's going to be more of those benefits coming in? How consistent might the recognition be? And what did you bake into the guidance for that?

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

Steven. principally what's driving some of the recognition relative to that is the activities in Mexico. And the way I'm looking at the recovery of those costs are really through kind of the financial discipline and the execution as we drive to more positive conclusions on some of our lump sum projects. And it's a process, it clearly was part of our entitlement in our contract, but we had to work our way through it.

So there's a portion of that. We always had it outlooked in Q4, but we were able to recognize it in Q3. So it was part of our guidance overall. But I think the majority of those projects now are close to 90% complete. So I do not expect to see that type of significant uptick in a recognition around these cost recoveries going forward.

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

Okay. And just, I guess, bigger picture macro, I think, David, when you're talking about the mining activity. You mentioned there's no cancellations and things moving forward. I guess I'm just curious about -- related to the kind of stronger for longer interest rate environment.

What do you hear from your customers about the impact of that? Does that kind of create opportunities for you to do more value engineering? Are there any delays? Is your project set pipeline looking more insulated? What do you think about sort of that big picture macro topic?

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

Steven, it's David. From a Mining & Metals perspective, as you just saw, we had a great award here from BHP earlier this morning up in Saskatchewan for their potash plant, a great client with -- got a long relationship with BHP due to our project execution performance with them. So it was great to see that.

More generally, we've got about $55 billion of front-end work ongoing in Mining & Metals right now. We see that continuing and have another line of sight on about another $50 billion of front-end work. Obviously, value engineering is also always important across our client base to make sure we can drive the best value and the right solutions for our customers.

So yes, mining clients are big picture, investing in energy transition, Minerals & Metals. So we see that continuing. Some some of the mid-tier clients are not going after the big multibillion dollar projects, but their CapEx levels, we track our clients' CapEx levels quarterly. And we don't see that softening at all right at this point. So -- and with all that front-end work, we continue to remain confident in our Mining & Metals business and especially being such on copper specifically being the leader in the copper mining space, we feel we're in a really good position going forward.

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Operator

Your next question comes from the line of Andrew J. Wittmann from Baird.

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

Great. I thought I would ask here, Joe, to cut through the noise as much as we would all love to hear and quantify the claims settlement, the upstream charge and the various other things that ran through your income statement this quarter. I know that you're not going to do that for us.

So I'm going to ask that question in aggregate a different way. And so your adjusted EBITDA for the quarter was $216 million. You previously talked about your run rate of EBITDA and have demonstrated, in fact, the last several quarters of around $150 million of EBITDA. Was the quarter's result, if you would look at it kind of ex the big items that you called out in your release, in that $150 million run rate range? Or was it different from that?

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

Andy, What's happened is we had anticipated the work that needed to be done in order to get to the position where we could recognize those cost recoveries with our client to occur in quarter 4. It got pulled forward into quarter 3.

So you're seeing a little bit of the distortion of that $150 million run rate over the Q3, Q4 period that we had laid out in the last call. So some of that is being recognized earlier, but I think we're still feeling comfortable in that $140 million to $160 million range going into quarter 4 as well.

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

Okay. That's helpful. And then I just wanted to drill in on your commentary. You previously have been a little bit reluctant to talk about cash flow in 2024. I think that made a lot of sense.

Is it just that we're closer to '24 now that gives you confidence to say that there could be significant free cash flow next year? Or is there something in the business that you're seeing more confidently today in terms of the business' performance that gave you the confidence to make that general comment?

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

Andy, I appreciate the question. I think this is the result of a lot of hard work in clearing out the legacy challenges. You can see some of those settlements flowing through the books today. We're getting significantly more comfortable where we are in that position. We continue to add very high-quality backlog at very good rates as experienced in Q3 relative to $5 billion in New Award and then coming out next quarter. So it's really a combination of all those things.

The other thing that's underpinning, our comfort levels around kind of highlighting cash generation moving not only in the Q4 of this year but into 2024 is we're starting to see some of the repatriation of the dividends that we have been communicating to the market over the last 2, 3 quarters. And in Q4, you'll start to see the ramp-up of the return of that liquidity to form.

Operator

Your next question comes from the line of Brent Thielman from D.A. Davidson.

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

Congrats on a great quarter. I was just looking at the slide deck, the expectations for Energy segment margins for 4Q that 4% to 4.5%. Yes. Would be below what you've seen year-to-date. I understand there were some outstanding benefits here in the third quarter.

I'm just wondering if there's some specific influences in the fourth quarter in that business group we should consider just sort of trying to be prudent given that -- the moving pieces of the business?

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

No. We are -- for the full year, we're at 6.5%, and this is more just a reset after the culmination of getting to the recognition of the cost recoveries in Mexico. It's just a bit of a settling of that, a bit of the lumpiness that's flowing through, but 6.5%. And as we look forward to giving you a guide for 2024, but we do not see 4% to 4.5% being the run rate moving forward for Energy Solutions at this point.

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

Okay. Appreciate that. And I guess just taking a step back, I mean, look, you're still facing some cost growth on some legacy projects that's more than offset by kind of positive items in the business, core execution recoveries.

Is some of these legacy activities move into sort of late stages here? You're ramping up more profitable new work. I just want to get a sense, are you more confident that the sort of typical kind of quarter-to-quarter risk associated with these legacy projects is diminishing? Companies in a better position now to sort of more than offset that even if we do see some more cost growth ahead?

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

I'll start, Joe, you can chime in as well. I'd say we're getting much more confidence with the remaining legacy work. There are only a few projects remaining that are well along. In fact, the large offshore projects that we're looking to finish off is 100% complete and 75% complete commissions. And hopefully by the end of January that it will be handed over to the client. So that's well along. As I mentioned, Gordie Howe is 65% complete, and we're getting great progress there and having good discussions with the client on revenue recovery and well along on the LAX People Mover project out in Los Angeles. I think it's 88% complete as we speak.

So these projects are in a very good place now and with good discussions with the clients where there is revenue recovery required. So that allows us to have good confidence going forward. And as we continue to execute right now, well above our as-sold margins on the much healthier backlog that we brought in as we've said, we've hit and passed an inflection point at the company now that gives us a lot of confidence in our numbers and that cash that Joe talked about the year of cash in 2024.

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

No, I think that's -- the only thing maybe I would add is you're starting to see some of the financial discipline relative to the recognition of cost and the hard work that's gone in over the last 12 to 18 months to bring some of these claims to very positive conclusions with our clients. So I think all that is kind of contributing to the positive outlook here.

Operator

Your next question comes from the line of Andy Kaplowitz from Citigroup.

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

David or Joe, I think you said that these positive cost recoveries are part of your guidance, but they just moved early into Q3 but you still raised your EPS guidance significantly for the year. So what else is going right to lead to that raise?

And then without giving us and EPS guide for '24. Is it fair to say that with the significant backlog growth you have and expect an underlying margin improvement, you would still expect significant EPS growth off of '23s higher base?

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

Well, I don't want to guide into '24 yet. I think what David touched on, we're having the resolution of the challenged projects and we're coming to the conclusions that we expected through a lot of hard work. That's one element of it.

And I think David's leaned into, and we're seeing it is just this higher quality better than existing backlog margin intake and we're starting to burn those higher quality awards through the P&L.

So it's just a combination of all that and you're going to start seeing that higher quality margin backlog kind of be the headline story next year as we get back to a lot more consistency around how we're reporting out in the cash flow generation around contracts that have much better terms and conditions. So I think it's a combination of a few things that are giving us that level of confidence.

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

Yes, that's -- that $20 billion we booked in -- Andy, the $20 billion we booked in 2022 is really strong margin in there. And we're doing it again this year. We may not get quite to the $20 billion, but we'll be getting close to that this year as well with that same type of margin profile. We expect to be at or near 75% reimbursable by the end of the year. And we've got execution excellence on , as I said earlier, that we're executing above our as-sold.

So that all plays so well into the future and the positive trajectory for the company here over several years, right? These jobs will run -- right now, we've got jobs running out to 2026, 2027 because they are -- there's a lot of volume a lot of hours to burn over the next several years. And so that gives us pretty good line of sight going forward. We'll be looking at the operating plan reviews for '24 in mid-December, and that will certainly lead to our guidance in '24 around margins and growth.

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

That's helpful. And then, David, can you give us an update on how you're thinking about NuScale? I know you said you would look to monetize it some point maybe by the end of the year. But how are you thinking about the funding needs of NuScale moving forward? Is there any possibility that Fluor would have to inject more capital into the JV?

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

Yes. We're -- as we said, we're in discussions with a strategic investor for the monetization of NuScale. Those discussions are proceeding well. And we do have a term sheet with our strategic investor and if all things line up correctly, we'll be able to talk more about that at the end of the year or early in the new year on that monetization.

So that's where we're focused right now. NuScale has a great offering in the industry. They're well ahead of any other SMR technology, I'd say, by 5 years easily. And so we're very excited about supporting the commercialization of NuScale going forward. And I believe they have an earnings call next Wednesday, where they can talk obviously more about your comments around cash and how they look at that.

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Operator

Your next question comes from the line of Michael Dudas from Vertical Research.

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

David, you talked -- you mentioned in your prepared remarks the extraordinary pipeline that you guys are working on relative to your current backlog. Can you maybe share how you guys are set up or how difficult it could be because there is such demand for your services, how you're going about allocating either through sectors, industry clients and certainly, what metrics you're thinking about?

And how is your labor and your capacity to execute not only what you have now, but what seems to be a pretty strong steep opportunity in the future?

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

Michael, right, that's where we spend most of our time right now is staffing these great projects and getting the right talent, the right people in the right places at the right time so we can have execution success for all of our clients.

And we have this very structured pursuit process, bid/no-bid process where we will only move forward if we have the right teams in place. That's, I guess, the first question we ask before we get into the -- all the other details.

So, the whole management team is just laser-focused on resources and hiring -- attraction and hiring of talent into the company. Done a great job over the last couple of years, brought in over 6,500 people. Over 30% of those folks are rehires. People want to come back to the Fluor family as we continue to grow again. So, that really is where we spend a lot of our time and make sure that we're not bringing in projects that we can't execute.

As far as allocation goes, it's -- we do -- fortunately, it's a business where we can cross-pollinate into different businesses as required. For example, with the HLS business ramping up dramatically from doing $400 million, $500 million projects to multibillion-dollar projects. We've successfully inserted product execution skills, project management skills, product control skills into HLS from our Energy Solutions business.

So there's always that going on, and we're fortunate that our processes and procedures which all of us follow allow us to move people around the company and give us more flexibility in that regard. So -- it's -- yes, it's nonstop. We've got a talent task force in place. We've had it in place since early 2022, and that's really working well for us.

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

And given the -- your capacity and even it's growing as you mentioned, but also the demand for your services, can we anticipate, as we look over the next several quarters that as you indicated, booking margins up 70 bps from your backlog, is that a trend that should continue in this environment for the foreseeable future? Not regarding degrees, but certainly see that show up and improve margins into your book backlog?

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

It is, I would say, maybe there's a few pockets in our markets or a few customers specifically who run into challenging times. If you're a chemical clients in Europe, you were challenged with feedstock and you may have to pull back a bit. But everything we're seeing, we look -- we've got a key account management process that gives -- keeps our finger on the pulse along with client CapEx, we look at quarterly and voice of the customer all that front-end work that we track to see -- to give us line of sight on what's coming down the pipeline.

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And I must say, including our government -- don't forget our government business where the budgets always are growing. But the CapEx across our client base is not softening at all. It's either flat up or up and then you lay an energy transition on top of that.

So with all the war for talent and resources, it's a bit of a seller's market right now. And margins, I expect will stay strong on reimbursable work, which is great to see. And I guess that's how I look at it. And I think we'll be able to continue to drive that margin in backlog in the right direction.

And it's all very dependent on whether you're just doing front-end services work or the full EPC, obviously and how that comes into backlog definitely affects the level of margin as well. So it's -- I think it's positive going forward, Michael, and we're going to burn it off above those as-sold margins as well. So that's helpful.

Operator

There are no further questions at this time. I would like to turn the call back over to the presenters for closing remarks.

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

All right. Thank you, operator. Many thanks to all of you for participating on our call today. I'm very pleased with our performance this quarter as it further supports our belief that we are on or really past our inflection point now. And with a strong capital structure and high demand for our services, we're well positioned to deliver increased value to our shareholders. So we appreciate your interest in Fluor, and thank you again for your time today. Thanks

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Operator

That concludes today's conference. You may now disconnect.

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