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Fluor Corp. (FLR)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. Thank you for joining us and welcome to Fluor's Third Quarter 2026 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow management's presentation. [Operator Instructions] A web replay of today's conference call will be available at approximately 10:30 AM Eastern Time today, 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, Vice President, Investor Relations. Please go ahead.

Jason Landkamer

Vice President & Head-Investor Relations, Fluor Corp.

Thank you, operator. Good morning and welcome to Fluor's 2026 third quarter earnings call. Jim Breuer, Fluor's Chief Executive Officer; and John Regan, 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 are 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 2025 Form 10-K and our Form 10-Q, which was filed earlier today.

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During this call, we will discuss certain non-GAAP financial measures. Reconciliations of these amounts to the comparable GAAP measures are reflected in today's slide presentation and posted in the Investor Relations section of our website at investor.fluor.com.

With that, I'll now turn the call over to Jim Breuer, Fluor's Chief Executive Officer. Jim?

James R. Breuer

Chief Executive Officer & Director, Fluor Corp.

Thank you, Jason, and good morning, everyone. This was another strong quarter with record awards, a growing backlog and continued capital returns to shareholders.

I'd like to start by sharing some observations from the Fluor Supply Chain Summit that we hosted this quarter in Greenville, South Carolina. Please turn to slide 3. The summit, now in its third edition, brought together 230 vendors and contractors from around the world, alongside clients and Fluor leaders. It was an opportunity to align our partners on upcoming projects and on the collaboration needed to deliver them for our shared clients.

Over the next four years, Fluor plans to spend approximately $50 billion in procurement and contracts on our projects. And as we look to grow our business, we will rely on our supply chain relationships to help us turn new opportunities into successful project delivery. We're executing projects in an uncertain environment. Geopolitical risk, tight labor markets, rising costs, and logistics disruptions demand an agile and resilient supply of goods and services.

Engaging early in project planning with contractors and vendors helps us anticipate constraints and build more credible estimates, schedules and execution plans. These efforts matter because of what our clients need, a well thought-out capital-efficient execution plan before committing a project and delivery certainty once execution begins. The summit reinforced that our supply chain partners are ready for the challenge. We have strong relationships built over multiple projects, and we see the opportunity to expand those relationships across new projects in different business lines.

Turning to slide 4. We had some significant accomplishments during the quarter. First, we're experiencing robust growth. New awards were $10.9 billion, a record for Fluor, and backlog is now $34.3 billion, the highest level we've seen this decade. These projects will ramp up to full execution over the next two years, solidifying our future earnings growth. And we have additional meaningful awards expected in the near future.

Second, our capability to execute megaprojects is an important differentiator. Our resume, our people, systems and footprint set us apart in the marketplace, and I'll discuss this in greater detail in a minute. And finally, we are steadfast in our approach to capital allocation. We're investing in capabilities and creating shareholder value.

Turning to slide 5, Urban Solutions. Here are a few highlights for the quarter. New awards were $2 billion, headlined by two copper projects in Chile. Our strategy in mining is producing tangible results and the need for capacity expansion is clear. Clients want a partner that can carry a project from early engineering through construction with a special focus on supply chain, as I mentioned earlier.

Looking ahead in the near term, we're well-positioned for the release of a multibillion-dollar copper project in South America, where we are already doing early work. This will be the first large award coming out of our $30 billion mining pipeline that we mentioned last quarter.

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In the data center market, we recently announced a contract with TeraWulf for the development and construction of a three-building site in Kentucky. We expect to recognize an award for the first two buildings in the fourth quarter upon finalization of pricing.

In life sciences, we're executing feasibility studies for several clients, including a new facility for Bayer. We expect these studies to develop into larger awards as we progress through 2027.

Finally, in infrastructure, we continue to work off our remaining legacy projects. I-35 Phase 2 is on track to open its main lanes by year-end and LA People Mover should complete shortly thereafter. On this project, we and our project partners are working collaboratively with LAWA to ensure the safe completion of systems demonstration to support passenger service availability.

Moving to slide 6. In Energy Solutions, our next growth cycle is beginning with the LNG Canada full notice to proceed, which we booked in the third quarter for $7.5 billion. I'm pleased with how we collaborated with the client in these negotiations, resulting in a favorable outcome for both sides. The execution plan reflects the benefits of extensive replication, and the contract incorporates valuable learnings from Phase 1 related to labor availability, geopolitical risks and other events outside of contractor control. Working alongside our JV partner, we are now in full execution mode and are off to a strong start.

In power, momentum continues to build where we're performing planning work on a large gas-fueled facility. With this client, we're finalizing the EPC contract for the first of what could be several plants. Our near-term portfolio looks promising and we expect several EPC contracts next year.

Now, specific to nuclear power and the Cernavodă project, our JV team is finalizing the LNTP phase and positioning the project for a full release sometime in late 2027 or early 2028. Additionally, in nuclear, I'm pleased to share that we continue to expand our relationship with X-energy with a new award for a project at the Hanford site. This is our second project that will utilize this SMR technology. And in anticipation of the next wave of nuclear development, we continue to deepen our engagement with multiple technology providers to support the pipeline of projects ahead.

In domestic refining, we're seeing a resurgence in front-end activity. In addition to the work for America First Refining, which grew this quarter, we're also supporting other major US refiners in advancing the early phases of their expansion projects. As I noted last quarter, we expect this front-end work to translate into EPC opportunities in 2027 and 2028.

We're also positioning for the emerging opportunities in the Middle East and Venezuela. In the Middle East, we remain engaged with our clients and anticipate more clarity in 2027 on new work. These opportunities would be incremental to our current work across all three segments. And in Venezuela, we're taking steps to reestablish our presence, including a local partnership. As a reminder, we have a long history of delivering energy projects in Venezuela.

Turning to Mission Solutions on slide 7. We continue to ramp up on our nuclear fuels work and booked additional scope under EPC project we announced last quarter. We also recognized a six-month extension of our management and operation scope at Savannah River, and we anticipate a decision on the new contract early next year. And we're encouraged by the recent announcement from the NNSA approving the start of full-scale construction on the Savannah River Plutonium Processing Facility.

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Before I turn the call over to John, I want to spend a moment discussing what is one of our key strengths in the marketplace, our capability to execute megaprojects. Please turn to slide 8. At Fluor, we are proud to execute projects of all sizes, but our skill set to execute very large projects sets us apart and is a market differentiator. For perspective, our prospect pipeline in the next two years includes 25 megaprojects with an average size of $4.5 billion, and we're well-positioned to capture many of them.

Megaprojects require a different level of capability, and the complexity grows exponentially with size. They demand the ability to move seamlessly from front-end development through engineering and into construction, supported by a global supply chain team, an experienced leadership and a trained workforce. Success takes rigorous project controls and risk management and the financial strength to ensure delivery over multiple years.

Fluor brings these capabilities together, a global footprint, proven tools and systems, a resume spanning six continents, and teams who have delivered some of the world's largest and most complex projects. And we continue to evolve and improve. We're investing in AI, in our ERP replacement, and in our Project of the Future initiative to strengthen the tools and systems required to plan and execute projects. The goal is to deliver greater project certainty and to reduce cost of schedule for our clients.

And for our shareholders, our megaproject capability allows us to be selective, pursue work that fits our core strengths and generate attractive returns.

With that, I'll turn the call over to John.

John C. Regan

Chief Financial Officer, Fluor Corp.

Thanks, Jim. Good morning, everyone. Today, I'd like to cover a few topics, including Q3 results, capital allocation, plus our outlook for the balance of 2026 and some early framing for 2027.

Let's start with consolidated results on slide 10. For the third quarter, revenue was $3.7 billion, up from $3.4 billion a year ago. Adjusted EBITDA was $142 million, compared with $161 million a year ago. And adjusted EPS was $0.77, compared with $0.68 last year. Our EPS metrics benefit from the 32 million shares that we have retired over the past 12 months.

As a reminder, the prior-year GAAP results for Q3 included a $653 million revenue reversal related to the Santos court ruling. So the year-over-year GAAP results are not meaningful on a stand-alone basis. Our 2026 GAAP results also include the $73 million gain on ICA Fluor, our former JV in Mexico. I'll put some perspective around what the sale means for next year a bit later.

New awards were $10.9 billion, led by LNG Canada, mining awards for copper and a six-month extension for Savannah River. New awards were almost three times quarterly revenue, which significantly bolsters our expectations of future earnings growth.

Ending backlog was $34.3 billion and is now about 70% reimbursable, in large part due to the LNG Canada award. We anticipate the percentage of our reimbursable backlog to trend down to the 60s as we convert the pipeline of attractive power opportunities into backlog.

Our approach to risk remains disciplined and consistent. Reimbursable work continues to be an important contracting model, but we will accept fixed pricing where the returns are higher, risks are commercially balanced, and where the scope is within our proven execution capabilities.

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Let's look at our business segments on slide 11. Urban Solutions reported segment profit of $100 million, which is a 4.3% margin compared with last year's 2.6%. The improvement reflected a late-stage change order on the legacy infrastructure project, improved profitability on another infrastructure project that reached construction milestone during Q3, increased execution activity on a large life sciences project, as well as the $25 million effect in 2025 for delays at LBJ.

Q3 results in 2026 also included $25 million for a charge on a mining project, the same project that we discussed in Q1 this year. Working with our partner, we've reached a preliminary agreement on a change order that establishes the path to completing this project by mid-2027.

Energy Solutions reported segment profit of $93 million, including the $73 million gain for the ICA Fluor sale. This means that segment profit was otherwise $20 million or about a 3% margin. This compared with $120 million a year ago without the Santos effect.

ES' profitability declined as mature projects rolled off faster than recently awarded projects entered meaningful execution. The graphic we'll show later on slide 14 illustrates how we see projects generate earnings across their execution window, including these major energy projects.

Mission Solutions reported segment profit of $55 million, up from $34 million a year ago. The increase was driven by improved award fee performance across the DOE portfolio and the ramp-up of EPC execution.

We ended Q3 with $3.1 billion in cash and equivalents versus $2.8 billion a year ago. That balance supports our planned share repurchases and gives us capacity to internally invest in key enablers, which will drive future growth. This includes our people and systems, plus inorganic opportunities.

Operating cash flow for the quarter exceeded expectations at $186 million. Our year-to-date operating cash usage of $21 million under GAAP includes the tax payment in Q2 for the 2025 NuScale conversion, which totaled $357 million. The impact on Q4 guidance to come a little later.

As it relates to our legacy projects, we did not have any funding in Q3 as the late-stage change order I mentioned offset any Q3 funding requirements. Moreover, the revised forecast now means that our remaining obligations are around $20 million and are expected to hit Q4 investing cash flow in their entirety.

Turning to slide 12. Our financial position remains on solid footing and our capital allocation priorities have not changed. We will keep shareholder value creation in focus while preserving the flexibility to invest in the business. Under the current chapter of our repurchases, which began in Q4 of 2024, we spent more than $2 billion to retire our shares, including $300 million in the third quarter. This translates to more than 20% of our outstanding shares over the last 24 months. We remain on pace for $1.4 billion in repurchases for all of 2026.

Turning to our internal investments, we continue to build momentum with our Project of the Future and our AI initiatives. We've also made good progress on the design of our ERP replacement, and we expect to enter the detailed design phase of that transformational project by mid-2027. Collectively, these represent a profound step forward in our technology and will streamline both our execution playbook and the internal efforts arising from project execution. Separately, we continue to evaluate selected inorganic opportunities, but it looks increasingly like it's a 2027 consideration.

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With that context, let's turn to guidance beginning on slide 13. We are maintaining our full-year 2026 adjusted EBITDA guidance of $500 million to $525 million, which implies a full-year adjusted EPS range between $2.70 and $2.80, given our expected share repurchase tempo. We conditioned both of these ranges last quarter when we announced the divestiture of ICA Fluor. So the guidance principally means continued execution against our backlog.

For reference, through the first nine months of 2026, we have delivered $351 million of adjusted EBITDA. So our range implies fourth quarter adjusted EBITDA of roughly $150 million to $175 million, and adjusted EPS of about $0.85 to $0.95. Importantly, Q3 included some favorable closeouts and settlements that we don't expect to repeat in Q4. So that means real growth in recurring earnings. While some investors may dismiss these closeout efforts as onetime events, they represent the culmination of the earnings from across the project's execution. And I commend those teams for the good outcomes this quarter.

Our other key full-year assumptions are outlined on the slide, including an adjusted operating cash flow of $430 million to $460 million. Full-year new awards book-to-burn ratio potentially approaching 1.4 times with FID on some megaprojects over the next few months, but in any case, would be well above 1 time for all of 2026. G&A will be approximately $180 million to $190 million, which excludes up to $15 million in outside costs for the replacement of our ERP and for other technology and AI enhancements, which I touched on earlier.

We assume a full-year tax rate of 25% to 27% and a revenue split of approximately 65% Urban, 20% Energy and 15% Mission. Assuming these splits, we expect full-year segment margins of approximately 2.5% in Urban, 7% in Energy, and 6.5% in Mission, all on a GAAP basis, including CFM. Most of our refreshed guidance aligns to Q2, though the G&A growth was offset by PGM growth and refreshing the overall EBITDA guidance.

Before I close out Q4, one point worth connecting, the higher G&A and the higher operating cash flow guidance are directly linked. We've built the uplifted cash generation into our incentive comp projections, so stronger cash flow gave rise to higher G&A under the pay-for-performance model. Also, during late October, one of our reimbursable clients notified us of changes to its project scope. We're still evaluating the impact on backlog, but based on our early assessment, we could expect a reduction of approximately $2 billion as early as Q4.

Please turn to slide 14. I'd like to put some preliminary context to next year's numbers when we compare them to the 2026 outlook. For adjusted EBITDA, we expect the growth percentage to be in the low-double digits compared to 2026. This assumes several changes to the earnings base, which I will describe, the expected gradual ramp-up of contributions from recent large awards and the absence of the same level of closeout on major energy projects.

A big factor is the sale of ICA Fluor, which removes approximately $45 million of EBIT that we recognized year-to-date in 2026. So the growth in 2027 is far higher for our retained business. Spending on Project of the Future and our ERP implementation will continue into 2027. And although that spending will hit our GAAP P&L in whole or in part, they are important expenditures that define how we'll conduct business for years to come and are excluded from the year-over-year EBITDA growth target.

As illustrated on the sample burn curve on the slide, our recent megaproject awards will enter the earnings stream in 2027, but large projects generally take two years to approach peak earnings. These megaprojects also execute over longer horizons than the work they're replacing, with peak activity starting in 2028.

We expect earnings to build as these projects move into full execution. Furthermore, our awards pipeline remains strong heading into 2027 when we expect a book-to-burn greater than 1. We also plan to continue share

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repurchases anchored around half of expected annual free cash flow. We'll be adding to these preliminary 2027 views during February's call.

To summarize our thinking coming out of Q3, the core business remains healthy. We delivered record new awards, simplified the portfolio, substantially advanced completion on legacy projects, and continue to direct value to our shareholders.

And with that, we're ready to open the line for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Sangita Jain from KeyBanc Capital Markets. Please go ahead.

Sangita Jain
Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning. Thank you for taking my question. So I want to ask about the TeraWulf award that you recently announced that you will book in 4Q. Maybe you can share the sizing of that award and whether there is further upsizing prospects in that award beyond the first three buildings.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Good morning, Sangita. Thanks for the question. This is Jim. Yeah, we're excited about entering that project. It would be for the first two building a low-single-digit multibillion award. There's a third building at the site that is being estimated and therefore released a little bit later. And we're also in conversations with that client for potentially other sites. So, yeah, it could grow. The focus right now is on the first two buildings, followed by the third building at the Kentucky site.

Sangita Jain
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. And then on the operating cash flow in third quarter and the outlook, can you help us on what is driving that stronger outlook and the potential M&A targets that you're looking at for 2027?

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Good morning, Sangita. It's Regan. So operating cash flow is a really good story in the quarter and in the outlook. So during the – and it plays across all three segments. So I'll talk about what's in the rearview mirror and what's to come. So during the quarter, with respect to Urban Solutions, it was in-flight projects and better working capital management across the portfolio, maybe with a little bit of a concentration in ATLS. So, that was fantastic.

On the Energy Solutions side of things, the ultimate liability and funding of the warranty exposure at LNG was much lower than we had expected coming out of Q2. So our ability to work that down with less cash meant we were able to dividend out more of that money. So that money came to us again in quarter three at a larger quantum than we had expected at the time of the Q2 print.

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And then on the Mission Solutions side, as we said in the kind of the EBITDA bring down for them, they had excellent fee scores across the DOE portfolio. And so when the federal government wrapped up its fiscal year in September, our fee scores were much better. And so that hit earnings in Q3, but will give us a tailwind on the cash flow when we make collection of that in Q4. That all hang together?

Sangita Jain
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. That's very helpful. Thank you.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Yeah. And then on the inorganic opportunities, look, I think we continue to look to build to our depth and to add to kind of the earnings growth that we're expecting. Clearly, we're flushed with cash in terms of being able to make those acquisitions, but just haven't been able to get them across the goal line, be increased in focus over the next few quarters. And as I signaled in the prepared statements, we'll look for something – a little more transparency there in 2027.

Sangita Jain
Analyst, KeyBanc Capital Markets, Inc.

Q

Perfect. Thank you.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Yeah, of course.

Operator: Your next question comes from the line of Steven Fisher from UBS. Please go ahead.

Steven Fisher
Analyst, UBS Securities LLC

Q

Thanks. Good morning, and congrats on all the awards. Obviously, the election is topical this week. I'm curious if you can just discuss the election impact on data center and your energy business and perhaps your booking opportunities more broadly. And curious what conversations you've had with customers in the last couple of days.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Good morning, Steve. This is Jim. Yeah, we're obviously following the implications of the election very closely. I think we need to let the dust settle a little bit. We're looking at potential impacts on energy, data centers, et cetera, et cetera.

But I think if you step back a little bit, the markets that we pursue, Steve, whether it's in the mission space or the private sector space, most of them have bipartisan support. Yes, there's a little bit of growing concerns around the data center ecosystem, but we feel that the data center work that we have today and the power work that we're hoping to book in the next few months is pretty resilient. And I also take it even further back around Fluor's diversity of markets, whether it's domestic or international, copper, life sciences, manufacturing, iron ore. We feel pretty good that our diversity is working as we're not overly exposed to some of the concerns that are out there.

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On the positive side, both sides of the aisle are very determined to work on permitting reform. I think that the permitting reform momentum that's building in the country is going to do well for some of the work we're pursuing. So I think all-in-all, yeah, there are some areas of attention, but we don't expect any significant impact on our company's trajectory.

Steven Fisher
Analyst, UBS Securities LLC

Q

Okay. That's helpful. And then maybe drilling into the gas-fired opportunity. You talked about some of the larger opportunities there. I assume those are all combined cycles. Can you just talk about what still has to happen to book those? And then can you talk about any simple cycle opportunities you might have? To what extent are any potential customers reaching out to you? And if not, why not? It seems like there's quite a bit of that activity going on and a need for contractors.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

We are pursuing both of those types of projects, Steve. We have – our most matured opportunity is a combined cycle. But shortly thereafter, we're working on two simple cycles for a different client that we hope to convert, I would say, around the middle of next year. So you're right, there are both types of projects out there. We're pursuing both of them, talking to several clients. So as I said in my remarks, we expect several EPC contracts to be live next year.

Steven Fisher
Analyst, UBS Securities LLC

Q

Right. And just to clarify, you said next few months on the bigger ones. What still has to happen to book those?

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Oh, sorry. It's just we're working collaboratively with the clients on the estimate, the execution plan and the contract terms, and all that is very mature. Now, the client, in the case of the first project, they have to go to their board for approval. And once they get that approval, they will give us the go ahead and start.

Steven Fisher
Analyst, UBS Securities LLC

Q

Okay. Terrific. Thank you.

Operator: Your next question comes from the line of Andy Kaplowitz from Citi. Please go ahead.

Andrew Kaplowitz
Analyst, Citi

Q

Good morning, everyone.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Morning, Andy.

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James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Good morning.

Andrew Kaplowitz
Analyst, Citi

Q

Jim, I think we all understand that the geopolitical environment these days is quite fluid, but maybe just frame this award cycle a little more versus what you've seen in the past. I think you're going to book more than $25 billion this year. I think you just said next year would be over 1 again in terms of book-to-bill. Do you think 2027 can be similar to 2026 where book-to-bill could be way over 1? And do you expect bookings to grow in 2027 versus 2026 despite, obviously, you booked LNG Canada, which is a large project this year?

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

So, Andy, all good questions and questions that we're analyzing and addressing as a team obviously every day. So 2026 is going to be a good year. As you can tell, we're already at $20 billion essentially at Q3, and anything in Q4 is additive to that. We're saying, as John said earlier, 2027 is going to be a greater than 1 book-to-burn.

Part of the challenge we have is the same story we've been telling you all along is we sometimes struggle defining the exact timing of these big awards. So, for example, there's – we feel very good about a large mining award in South America coming up in the next few months. It could land in Q4, it could land in Q1. That makes a difference when you look at the full fiscal year, but it doesn't really make a difference to us. The work comes in, we start executing it.

So I don't know what the exact number for 2027 will be yet. We'll have more clarity in the beginning of next year. I can tell you that both years are going to be good. Therefore, backlog is going to continue to grow. And it's very – fairly diversified, it's gas-fired power, it's copper, it's data center work, it's life sciences, it's advanced manufacturing, it's mission solutions, refining. Refining, it's picking up. There may be a nuclear award there.

So we feel good about diversity. We feel good about the clear line of sight we have to these projects. The exact timing is not always up to us, but we feel good about both this year, of course, and next year.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

And I think it comes back in large part to the board oversight that you referenced with respect to the power project, that once they get clearance from their own governance structure, that's the important hurdle for us to get over...

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

That's the trigger point.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

...in terms of the booking.

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Andrew Kaplowitz
Analyst, Citi

Q

Very helpful, guys. And then we appreciate the color, the initial thoughts on 2027 EBITDA, but maybe can you give us a little more color on how to think about 2027 from a utilization perspective? Are you still relatively underutilized as you ramp up, particularly in Energy Solutions and that's part of, like, the friction in terms of how quickly you can grow?

And then, obviously, we're not going to talk about guidance for 2028, but could you have a bigger step-up? I mean, I see the chart in terms of utilization helping margins as you go into 2028, so a much bigger step-up in earnings then.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Yeah, Andy. So utilization will improve in 2027 and in 2028. You bring up a – obviously, you understand the company and so you bring up a good point. It's not just the large EPC awards, it's also the services that we're also building up, whether it's in front-end refining work, or life sciences, or even some early chemicals work. The objective is not just to do the large projects, which in themselves have significant utilization, but also continuing to feed and replenish the pipeline which services-only work that then will feed the EPCM awards for 2028 and 2029. So I do expect a gradual improvement at utilization, including in Energy Solutions in 2027, but the big step I think is going to be in 2028.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Yeah. Great. And then that was at the root of slide 14 that hopefully landed well with you, Andy.

Andrew Kaplowitz
Analyst, Citi

Q

It did. Just one quick follow-up, John. Any reason why Urban was light in revenue in Q3. Did something happen there?

John C. Regan
Chief Financial Officer, Fluor Corp.

A

No. I think that's just a typical burn across their portfolio.

Andrew Kaplowitz
Analyst, Citi

Q

All right. Thanks, guys.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Thank you.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Thanks.

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Operator: Your next question comes from the line of Jamie Cook from Truist Securities. Please go ahead.

Jamie Cook
Analyst, Truist Securities, Inc.

Q

Hi. Congratulations on a good bookings in a fairly non-eventful quarter. I guess, just two questions. One, Jim, you talked about your strength in mega and you talked about 25 projects that you're looking at that have an average size of $4.5 billion. Can you just help us understand what markets largely are driving that? And just interested in the competitive dynamics on these projects. How many other players you're bidding against or is it more a function of – just a function of whether or not the project goes forward because there's not a lot of people that have the capability that Fluor has?

And then my second question just on nuclear, congratulations on X-energy and the SMR. Just wondering if you can elaborate what else is to come on the nuke side, whether it's traditional or SMR and just sort of the timeframe associated with that. Thank you.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Thanks, Jamie. Good morning. So on the megaprojects portfolio, pipeline portfolio, it's copper, it's power, it's life sciences, it's manufacturing, and it's both US and international. So it's fairly diverse. Many of them – I can't say all of the 25, but the majority of the 25 we're doing the front-end work or we are in sole-source conversations with clients, for example, in the case of these utilities. So we're really not bidding competitively these large megaprojects, they're more negotiated deals. And the biggest hurdle to win the work is whether the project gets approved by the client's board and if it overcomes its financial hurdles.

As far as nuclear, so we're doing two projects with X-energy now, and we talked about Cernavodă. So that's a conventional nuclear in Romania. And that project is now – the LNTP is almost done and they're working the financial picture to hopefully go into EPC in late 2027, maybe 2028. Above that, we are in conversations with two very established nuclear technology providers, one in the SMR space and one in the conventional reactor space, about establishing partnerships to tackle projects together. So we don't have anything to announce today, neither names of technologies or projects, but I can tell you, you would very much recognize these two names.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

It's a go-to-market strategy for the deployment of their technology.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

And it's a go-to-market strategy as our country and other countries are getting more and more serious about building these large projects. So this is a longer play. As far as announcements, probably front-end announcements in 2027 and EPC announcements in 2028 and 2029.

Jamie Cook
Analyst, Truist Securities, Inc.

Q

Okay. And sorry, just one follow-up. Just as these megaprojects move forward and just the constraints that there are in labor, do you see your business model evolving more towards strategic partnerships versus work that's

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been more transactional historically? I'm just wondering what the implications are for potentially less cyclical earnings or a more stable earnings stream opportunity going forward.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.
A

No, that's exactly right. We're working hard on growth but predictability. So whether it's in the execution of the project in partnership with other contractors or longer-term account relationship with clients, there's a lot of effort on the team to try to provide more predictability to the earnings. But we're balancing that with our growth objectives.

Jamie Cook
Analyst, Truist Securities, Inc.
Q

Thank you.

Operator: Your next question comes from the line of Michael Dudas from Vertical Research. Please go ahead.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Good morning, gentlemen.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.
A

Good morning, Mike.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Jim, as your bookings and business evolves over the next few years, I think just it seems like we can characterize the business right now as pretty clean. The legacy projects, thank goodness we're not going to have to talk about those much or if at all in 2027. And given where your mix of reimbursable, lump sum, and the margins you're booking in the current and with the expected backlog, how does the positioning look from a return and margin standpoint into the next few years versus the prior large project cycles maybe with similar/different end markets that Fluor has executed? I'm assuming there's a much more visibility and predictability in this and maybe I'm assuming better margin accretion. Maybe if you can address that, that'd be helpful. Thank you.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.
A

Sure. Thanks, Mike. Let me say a couple of things here. One, we are pleased with the margins of the new awards we're seeing so far. We are seeing better margins in these awards than we were expecting a year-and-a-half ago when we had our Investor Day, Mike, in early 2025. So that's encouraging.

We're paying a lot of attention to the lump sum versus reimbursable mix. We're seeing good margins on both sides. Obviously, they're very different. Lump sum has higher margins. And so that's why they're an important aspect of our portfolio. We're also working hard with our teams on improving the margins on the reimbursable work, given the demand for qualified resources in the marketplace.

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So, yeah, as we grow the company, the backlog and the revenue, that's going to help margin. There's going to be better utilization as we talked about, but we're also driving higher margin performance on the individual projects. So I think over the next several years, as these big projects start entering into their peak production mode, if you will, as John explained, we expect margins to grow materially.

John C. Regan
Chief Financial Officer, Fluor Corp.
A

Yeah. So maybe I'll just append there. We do expect project-level margins to improve. And then certainly with the additional scale, we're going to get more absorption of the overhead. So even bottom line margin should be expanding as we get into that peak execution window.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

And I'm assuming, John, that with the ERP and the technology, maybe you could frame a little bit of what contribution or absorption or impact that have in this discussion as well?

John C. Regan
Chief Financial Officer, Fluor Corp.
A

Yeah. It's a great question. It's a little bit of a variable right now that's difficult to foretell, but certainly our expectations coming out of that are going to be a much leaner organization. So I think about better technologies making us more efficient in the bidding process, ultimately in the planning process, certainly in the execution and in the back office. It's just a little difficult in the moment to say it's going to trigger a 200-basis-point improvement or something of (sic) [like] that.

But that's why we're so keen to get on to the – advance project to the future and incorporate those learnings into the ERP design because it's very tempting what it could do to our margins, but certainly we would expect up and to the right.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Excellent. Thank you.

Operator: Your next question comes from the line of Andy Wittmann from Baird. Please go ahead.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.
Q

Oh, great. Good morning. Thank you for taking my question. I always like to just try to understand the quarter a little bit better, so that's where I'm going to go here. Particularly, I guess I wanted to start in the Urban Solutions segment here. And just you mentioned a couple of moving pieces. I guess, we do have that the joint venture mine was [ph] 25% (00:46:19) to the negative. First, on that one, is that a consolidated JV or unconsolidated?

And then you have some good guys here too. I think you mentioned a favorable claim. There was – in the press release, you talked about a milestone achievement, I guess. Are those good guys more than the [ph] 25% (00:46:43)? I'm just trying to get a sense of what maybe the underlying margin of Urban was. And I'd love it if you give the numbers, I don't expect that you will. But just understanding how they compared to the [ph] 25% (00:46:52) bad guy, just to get a better understanding of what's happening there, would be helpful, I think.

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John C. Regan
Chief Financial Officer, Fluor Corp.

A

Yeah. Good morning, Andy. I'll tackle that one. So the project itself is a partial consolidation. So it's a 50/50 joint venture. So the income statement has got the typical effects you'd see for our ownership percentage. And you are right, it was a downer in the quarter and it was largely offset by the two things in infrastructure space. So one was on the – one of our projects here in Dallas. And so we were successful with change orders that did give us a positive to our earnings. Again, those were – you said claim, we said change order. So maybe I'd correct the record there. But those were things that we were looking to drive to conclusion before year-end. So it was a good outcome for us that we landed it in Q3, and a little bit better than we had expected in establishing the forecast or the outlook.

And then on the milestone, that's a different project that hit, as we said, that milestone in Q3 and caused an overall reevaluation of effort to go. And when we did that, there was a reduction in that effort forecasted and applied against percent complete, all of which gave rise to a tailwind. I would say the totality of those three things roughly offset each other. So what you see in Urban is really kind of the expectation moving into Q4 when there may be a slight uplift to what we think will come from them in Q4.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

That's great. That's really clear. I'm smiling. I didn't know if I'd get that fulsome of an answer, and I did. So thank you for that, John. Also, I guess I wanted to – on Energy, wanted to kind of dig in a little bit here too. Obviously, we can see kind of the underlying segment profit there. Obviously, I heard full notice to proceed on LNGC 2. Obviously, that's going to have a big contribution. And with full notice to proceed, I would imagine that's going to ramp and. And obviously, you got slide 14 that talks about the company's overall ramp.

But maybe just to understand how this one goes, like, what is the expected completion date over which we should be thinking about that $7.5 billion being burnt? I think that would just give some people some framing as to how this is going to contribute to their earnings as well. Thank you.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Yeah, Andy. This is Jim. So a couple of comments. The graph on that slide is intended to show a theoretical project.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Yeah.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

So it's not the corporation, it's a typical large megaproject. So as far as LNGC, the client has announced start-up in the early 2030s, I believe, first half of the 2030s. So you can extrapolate from that a five- to six-year burn.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

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Yeah. And that project is a little different because we did have the sizable limited notice to proceed. And so we're maybe hitting the ground running a little faster on that versus what's on slide 14. But it's also a really large project, so maybe not quite so much in the first year. So it's complicated, but we wanted to put slide 14 out there to give us a frame to be able to comment on things like this.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

Yes. Okay. Great. Duly noted. Thanks, guys, for your time. Have a good day and good weekend. Thanks.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Yeah. Thanks.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Yeah, Andy.

Operator: Your next question comes from the line of Steven Fisher from UBS. Please go ahead.

Steven Fisher
Analyst, UBS Securities LLC

Q

Great. Thanks for the follow-up. I just wanted to ask about that potential $2 billion backlog scope reduction, Jim, that you mentioned. Anything more you can say about what's driving that and the likelihood of that happening or not?

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Yeah...

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

A

Yeah, Steve. Go ahead. Go ahead.

John C. Regan
Chief Financial Officer, Fluor Corp.

A

Yeah, maybe I'll tackle. Steve, this is something that came up really late last month. So it's still very much a developing story. So it's a change in scope on a project. And so it's not as simple as situations we've had in the past. It's not a project cancellation. And so we know sort of with an amount of precision what that impact is. So it's still under evaluation. As we said, it's a reimbursable contract. So you can intuit what those margins might be. But we think it's in that $2 billion range and we think we will be able to see – we'll see those final amounts and have a de-recognition going into quarter four. But it's more than nominal, so we wanted to make sure that we were being transparent with you guys on what is to come.

Steven Fisher
Analyst, UBS Securities LLC

Q

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And just in terms of is this sort of more kind of a macro environment kind of thing or just something company-specific, project-specific, sort of any sort of color there?

John C. Regan
Chief Financial Officer, Fluor Corp.
A

Yeah. I think it's just project-specific and kind of somewhat ordinary in terms of in-flight projects and clients from time to time reevaluating the scope of what they want us to do.

Steven Fisher
Analyst, UBS Securities LLC
Q

Okay. Thank you very much.

John C. Regan
Chief Financial Officer, Fluor Corp.
A

Yeah. Sure.

Operator: This concludes – oh, your next [audio gap] (00:52:48) of Andy Kaplowitz from Citi. Please go ahead.

Andrew Kaplowitz
Analyst, Citi
Q

Sorry, guys. John, can I just ask one follow-up there? Does your guidance then for 2027, your initial guidance, like include the impact from this project? Like, how do we think about that?

John C. Regan
Chief Financial Officer, Fluor Corp.
A

Yeah. So everything that we talked about today is incorporated into that preliminary guide.

Andrew Kaplowitz
Analyst, Citi
Q

Okay. Thank you.

Operator: Now this concludes our question-and-answer session. I would like to turn the call back to Jim Breuer for closing remarks.

James R. Breuer
Chief Executive Officer & Director, Fluor Corp.

Thank you, operator. And thank you for joining today's call. I'm very pleased with our record new awards and the health of our pipeline, and excited about our ability to deliver shareholder returns in the years ahead. Thank you. And have a good day.

Operator: This concludes today's call. Thank you all for attending. You may now disconnect.

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