Operator: Greetings, and welcome to the Williams Industrial Services Group, Inc.'s Second Quarter 2019 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations. Thank you. You may begin.

Deborah K. Pawlowski: Thank you, Donna, and good morning everyone. Welcome to the review of our second quarter 2019 financial results. We certainly appreciate your time today, as well as your interest in Williams Industrial Services Group.

Joining me on the call today are Tracy Pagliara, our President, CEO and Interim Chief Financial Officer. Also with us are Kelly Powers, President-Power; Matt Petrizzo, President-Energy and Industrial; and Dawn Jenkins, our Treasurer. Tracy will provide his prepared remarks; and then, we will open the call for questions.

You should have a copy of our second quarter 2019 financial results release that went out after the markets closed yesterday, as well as the slides that will accompany today's conversation. If you don't have them, they are available on our website at wisgrp.com in the Investor Relations section.

If you turn to **slide 2** in the deck, I will review the Safe Harbor regarding forward-looking statements. As you are aware, we may make some forward-looking statements during the formal discussions, as well as during the Q&A session. These statements apply to future events, which are subject to risks and uncertainties as well as other factors that could cause actual results to differ materially from what is stated here today. These risks and uncertainties and other factors are provided in the earnings release and slides, as well as with other documents filed with the SEC. You can find all these documents on our website or at sec.gov.

During today's call, we will also discuss some non-GAAP financial measures. We believe these will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results prepared in accordance with GAAP. When applicable, we have provided reconciliation of non-GAAP measures with comparable GAAP measures in the tables that accompany today's release and slides for your information.

Please note as well that our conversation today will be about continuing operations, unless we note otherwise.

If you will turn to **slide #3**, I will turn the call over to Tracy to begin. Tracy?

Tracy D. Pagliara: Thanks, Deb, and good morning everyone.

We delivered another solid quarter of successful execution for our customers, including our long-term maintenance agreement customer. This customer's outage work occurs every other year at the Columbia Generating Station in Washington State.

We also continued to focus on the key initiatives defined in our strategic plan to grow our core business, expand with new customers and markets, diversify our service offerings, and drive best-in-class execution through improved processes and strengthened accountability.

As we strive to fulfill our strategic goals, we are also building our leadership team. We announced yesterday that Kelly Powers and Matt Petrizzo have been promoted as corporate officers and the Presidents of our Power and Energy & Industrial operations. Both Kelly and Matt are instrumental in driving our opportunities for growth.

Revenue for the quarter grew 49% to approximately $71.5 million. largely due to the planned outage work. In addition, we had solid performance in our core markets and continued progress in Canada as well. Gross profit increased 36% to $9.2 million as we gained scale. Gross margin for the quarter was12.9%, in line with our expected range of 11% to 13%. As we grow in new markets, the entry price does affect gross margin. In addition, outage work in general is lower-margin business.

The restructuring efforts of 2018 helped to facilitate our substantially reduced SG&A costs. We're continuing to be vigilant in our cost discipline by many strong controls. Our SG&A target for 2019 continues to be 8% to 9% of revenue. We are confident the organization is now structured to have inherent operating leverage that will manifest in future years as the business is scaled.

Our efforts are paying off as we achieve net income for the second consecutive quarter. This is only the second quarter in five years that we have achieved positive earnings. Adjusted EBITDA was $4 million for the quarter and $6.5 million for the first half of 2019.

The decline in total backlog to $409 million reflects the aggressive site work plan in Vogtle Units 3 and 4 as Southern and Bechtel focused on beating the approved in-service dates of November 2021 and 2022. The completion of the outage at the Columbia Station also consumed backlog. Order levels, as expected, have been light in the first half of the year as we reengaged with customers and prospects following our restructuring. We are highly encouraged with the strength of our pipeline, and expect that order pace will accelerate in the second half of the year as we are gaining increasing momentum with our strategic growth initiatives. There are a number of opportunities that could lead to measurable awards by year-end.

Slide 4 provides details on our revenue mix. The majority of it is lower risk cost-plus revenue related to our core power business, which is still a primary strategic focus. Projects in the midstream oil and gas and other industrial markets will tend to be fixed-price contracts. We are being very diligent in our risk assessment in these areas to ensure that the projects we undertake advance shareholder value.

For the trailing twelve-month period, the majority of our business is related to our power end market, including the outage work completed in the quarter. Of course, the nuclear new build project Vogtle is a large contributor to revenue. This includes revenue direct with Southern and through our joint venture with Bechtel. We are proud to be a part of this massive undertaking and contribute to the productivity that is being realized onsite.

If you turn to **slide 5**, I'll dive more into the financial details. As noted, we had a strong revenue growth in the quarter. The $23.5 million increase was driven by the outage work, which added $15.9 million. Also, contributing to our growth was the addition of projects in Canada, with $4.6 million in revenue, and there were $6.1 million of greater scope with existing customers on projects. Revenue from Vogtle Units 3 and 4, which continues to be substantial for us, was approximately $25 million for the quarter.

Partially offsetting these increases was a $3.2 million decline in revenue from decommissioning activities. As we have discussed, this was related to the delay in a project we are working on. That project now started back up again this quarter. We have strengthened our relationship with our key customer in this space and expect decommissioning to be a significantly larger component of revenue in the future.

Moving to **slide 6**, gross profit has steadily increased during the last three quarters and reached $9.2 million in the second quarter. Gross margin was 12.9%. Gross margin contracted from the prior-year period due to project mix.

If you now turn to **slide 7**, second quarter operating expenses were $6.7 million, down $3.7 million. If you exclude the $2.2 million in restructuring expenses in the second quarter of 2019, operating expenses were down $1.5 million. The decline in OpEx reflects lower SG&A resulting from our 2018 restructuring. You'll note that, since we are a service business and do not require capital investment, depreciation and amortization is a very small component of operating expenses.

Operating income, shown on **slide 8**, was $2.5 million in the quarter, an improvement of $6.2 million over the prior-year period. The improvement was the result of higher revenue and the leverage gained over our lower cost structure. Increasing gross profit contribution over a smaller cost footprint will drive operating margin expansion. We think this is a great business model to scale.

On **slide 9**, we reported income from continuing operations of $1.3 million, our second consecutive quarter of positive income from continuing operations in five years. The simplification and substantial restructuring of our business and reorganization of our corporate office into Tucker, Georgia in 2018, combined with growing revenue, drove our strong performance. In fact, we are on track to deliver significant improvement in operating net income in 2019, positioning us for even greater growth by implementing our strategic plan. Adjusted EBITDA was $4 million for the second quarter. While we need to remain diligent in our efforts, it's clear that our financial performance is trending in the right direction.

If you'll turn to **slide 10**, our nuclear outage in the second quarter required significant working capital, but payment was quickly recovered. As a result, cash flow is expected to strengthen through the year. Because of the structure of our ABL and our need for working capital to grow, we won't necessarily see cash build on our balance sheet. At the end of June, cash and cash equivalents were $3.4 million, down slightly from the $4.5 million we reported at the end of December. Restricted cash was unchanged at $500,000 at the end of the quarter.

At the end of the second quarter, we had term debt of $33.5 million, net of unamortized deferred financing costs of $1.2 million. The process for refinancing our term loan after the no call provision is lifted in September is ongoing, with the primary objective being greater flexibility to fund our growth opportunities. Our refinancing initiative is progressing, and we plan, at this point, to complete it as soon as practical after the third quarter. We believe our strong performance thus far in 2019 should position us for more capacity and better terms.

Turning to **slide 11**, strong revenue recognition from outage work and advancement toward in-service dates for Vogtle Units 3 and 4 more than offset a light level of new awards in the quarter. We provide a roll forward in the press release that provides the details of the change. Total backlog represents the dollar amount of revenue expected to be recorded in the future for work performed under awarded contracts, which was $409 million at the end of June. We expect about $138 million, or 34% of total backlog, to convert to revenue in the next 12 months. Given we had more work completed than new awards, backlog came down. We had anticipated the first half of the year for awards to be light. Given our pipeline and the momentum we are building with our customers, we expect that award levels will increase in the second half of 2019. In fact, just since the end of the quarter, we have won over $15 million in new awards.

On **slide 12**, you can see that we have adjusted our 2019 revenue expectation by raising it from the previous range of $220 million to $240 million to a new range of $230 million to $240 million. Given our expected level of revenue, gross profit and operating expenses, we are still anticipating adjusted EBITDA should be about $10 million to $12 million for the year. We are confident that Williams is implementing a robust strategic plan for a scalable organization that can win new business, both in our core markets as well as with our new markets and customers. Risk management and quality execution will convert this growth into cash and earnings.

Slide 13 provides an update on these growth initiatives from our strategic plan. We have a strong reputation in the nuclear industry and are leveraging our expertise to win new business. We do not believe there are any other competitors that have the qualifications that we do to service nuclear power plants from initial construction through their operating life. In addition, our capabilities in electrical systems is providing us with new contracts as utilities look to convert their fossil and nuclear facilities controls and equipment from less efficient analog systems into digital.

Decommissioning has gained quite a bit of momentum with the NRC's approval to transfer the Oyster Creek license to Holtec, and the related joint venture between Holtec and SNC-Lavalin to form Comprehensive Decommissioning International or CDI. We believe we are well-positioned to serve as longstanding partners with Holtec and CDI in the decommissioning space for years to come.

In energy and industrial, we recently won our first large midstream oil and gas project to provide civil and structural construction services on our crude oil export terminal. Valued at $8.6 million, this contract win is a testament to the successful execution of our strategy to diversify our markets. We entered this market just a year ago and, after demonstrating our strong project management execution and expertise, we have expanded our relationship and the scope of work we are doing for our customer. We are also making substantial progress in growing our wastewater/water infrastructure business in Florida.

Canada is our next frontier. We had over $4 million revenue in the quarter and $6 million year-to-date as we established our presence in this market. We expect that, if we execute well, this can become a meaningful part of our future over the next several years.

With that, operator, we can open the line for questions.

Operator: Thank you. [Operator Instructions] Our first question is coming from John Walthausen of Walthausen & Company. Please, go ahead, sir.

John Walthausen: Hi. Yes, good morning. Congratulations on a good quarter.

Tracy Pagliara: Thanks, John.

John Walthausen: Obviously, the last slide about the focus on growth is a really important one. You referenced Canada a number of times, with $6 million of revenues so far. In one of the bullet points, you talked about a $20 billion opportunity. Can you refine it a little bit more about where the opportunities are there? You also mentioned that you're looking for Canadian financing for these projects. What that might involve?

Tracy Pagliara: Sure. I have Kelly Powers with me, who spends a lot of time on Canada, so I'm going to let him elaborate a bit.

Kelly Powers: Yes. The $20 billion reference pertains to a $20 billion capital program that has been approved across Bruce Power and Ontario Power Generation sites to refurbish their aging plants. So, that's a $20 billion spend over a 13 to 15 year period, across two customers, from a major component refurbishment standpoint. That's what's driving the market need for vendors with our capacity and capabilities to enter that market to support that.

John Walthausen: What type of work is that primarily? Is it a lot of nuclear? You also referenced the conversion from analog to digital.

Kelly Powers: It's both. We are actively bidding right now on the conversion of analog to digital for six operating nuclear plants with Bruce Power, as an example. So, it's work comparable with what we have done domestically, where we have been very successful for a long time, as the market in Canada is opening up for comparable work.

John Walthausen: Makes sense.

Tracy Pagliara: John, I would just add that the political environment in Canada is more welcoming to nuclear. That is evidenced by the $20 billion commitment that Ontario is making to refurbish its nuclear power capabilities over the next 10 years. That's why we think the Canada market is a good place for us to be.

Operator: Thank you. Our next question is coming from John Deysher of Pinnacle Capital. Please go ahead.

John Deysher: Good morning, everyone.

Tracy Pagliara: Hi, John.

John Deysher: I was just curious on the pre-financing, whether you're going to be looking for a bigger facility, given that, as you mentioned, you have growing working capital needs? I was just wondering if you could flesh that out a little bit more; and whether, in conjunction with that, there might be any kind of equity raise to help shore up the balance sheet.

Tracy Pagliara: Okay. So, first question. Definitely, we will be looking for a bigger facility with better covenants.

In terms of potential equity raise, I think that would be something under consideration if it related to a rights offering with existing shareholders. We haven't, at this point, advanced as far with a potential for a rights offering as we have with the debt financing, which we know we want to move forward with as soon as we get past September 20, and get out from underneath some of the terms we have right now under our existing debt agreements.

John Deysher: Okay, that makes sense. What will determine whether a rights offering is part of the scenario?

Tracy Pagliara: Well, I think we have to determine if our existing shareholders have an interest. And we'd probably need to have the comfort level that we'd have some form of backstop to go forward with that. So, there's definitely interest in doing it. It's just determining whether the existing shareholders would have an interest in doing it; and then, how much of a backstop would we have. The last thing we want to do is go forward with the rights offering and then not have it materialize. That would be detrimental in the end to our debt offering efforts.

John Deysher: I totally agree. I would suggest that you start canvassing shareholders sooner rather than later.

Tracy Pagliara: Yes, I agree on that. We have started that to a certain extent.

John Deysher: The other key question is, what can we do about the liquidity in the stock? The OTCQX is kind of a dismal marketplace. It's very disturbing when 500 shares trade and the stock is down 8%. I'm just wondering where specifically we are in terms of getting back onto a more liquid exchange, getting away from the OTCQX, so that we have at least some hope that 500 or 1,000 shares does not move the price significantly?

Tracy Pagliara: Our plan will be to do that when we get through 2019, when we have a full-year of earnings. When we file our 10-K for 2019, I think we'll be in a position as long as we meet the market cap requirement, which I believe we will at that point. That's the only requirement that we don't meet currently.

John Deysher: What's the minimum market cap for getting on to a more liquid exchange?

Tracy Pagliara: I think it's $50 million, and we're just slightly below that.

John Deysher: All right. That's encouraging. Thanks. Good quarter.

Tracy Pagliara: All right. Thank you.

Operator: Our next question is coming from John Sturges with Oppenheimer. Please, go ahead.

John Sturges: Thank you. A nicely executed turnaround, and obviously, hoping to see more. I am just curious, is there a strategic level of fixed-price contracts that make sense to you or do you expect to see that become a lower component of revenue?

Tracy Pagliara: Right now, our revenue is about 85% cost plus, so fixed-price is not a big component. We are certainly opportunistic about fixed-price as we grow in certain of our segments. The new oil and gas order we just took on, an approximately $8.6 million oil and gas order, is fixed price. The water/wastewater projects we do are fixed-price. Often times, project work we do for our nuclear customers can be fixed-price. So, we're not afraid of fixed-price; we do well with it. I think as we grow, a greater percentage of our revenue base will be fixed-price, but we're also quite keen to make sure that we are applying proper risk management, vetting our terms and conditions, and looking at availability of qualified labor to fulfill those types of contracts.

John Sturges: Is there any labor availability issues at this point? I know, last time, you said no.

Tracy Pagliara: Not in any material respect. We do have, from time to time, challenges at Vogtle 3 and 4, but we work collaboratively with SNC and Southern Nuclear and Bechtel. There, clearly, are labor shortages in the oil patch right now, but again, we have a very rigorous risk management assessment process. We don't take on big jobs unless we know we have the labor in place when we take on the project. Labor, in general, can be a challenge. Getting qualified labor, qualified welders, qualified tradesmen, electricians, is a problem right now across the U.S., but it hasn't been a material issue for Williams, because of how we manage our business.

John Sturges: Terrific. The other question is a bit broader. I've seen the U.S. dollar strength have some issues on the industrial sector; it tends to slow it down. It doesn't sound like you're seeing that kind of an impact on the business at this time.

Tracy Pagliara: No, not yet. We don't do a lot outside of the U.S. so it hasn't been an impact for us at this point.

John Sturges: What I'm thinking of is that a lot of your companies do export to some degree, and they tend to slow down expansion.

Tracy Pagliara: Yes, that's correct. Actually, a lot of our companies are big public utilities, and our local U.S. companies do business in the U.S. Some of our oil and gas companies do a little bit more exporting, but we don't have many multinational customers as some of the larger conglomerate might have. We tend to have more U.S.-based customers.

John Sturges: Now, you're still in the very early stages of where you expect to be. What I'd like to have, if you feel comfortable doing this at this point, is your five-year outlook should business conditions permit. I see companies in your space that can do roughly upper-teen gross margins and low-teen operating margins. I'm just curious where you see yourselves headed?

Tracy Pagliara: Five years is a very long time. We're comfortable that our margin range of 11% to 13% is a good base. First of all, it's good relative to what our peers are able to do, and I think that, while we see some incremental improvements over that, at this point in time, I wouldn't be projecting the high-teens. In five years, what I would be doing is focusing more on how I'd leverage my SG&A cost as I scale the business. But, we'll be happy to keep mid-teen margins as we scale the business up.

John Sturges: Are we talking operating margins or gross margins on that particular number?

Tracy Pagliara: Gross margins.

John Sturges: Okay.

Tracy Pagliara: Operating margins are going to be more in the 5% to 10% range.

John Sturges: Right. Very good. Nicely done.

Tracy Pagliara: All right. Thank you.

Operator: Thank you. Our next question is coming from Evan Wax of Wax Asset Management. Please, go ahead.

Evan Wax: Hi Tracy. Just a quick question.

Tracy Pagliara: Hi Evan. How are you doing?

Evan Wax: Good, thanks. Just a quick question on the LTA market. I know that was one of our goals that we're going to attack heavily this year. I am looking for an update on the timing of LTA awards and what we're seeing in the competitive space for the LTA market.

Tracy Pagliara: We have been actively pursuing every LTA award that makes sense for us to pursue and we have a couple that are pending. That's in nuclear. We are also, on our fossil side, trying to develop an LTA relationship with some work we've started with the new customer. I think we have mentioned before that some of the larger LTAs that we thought we might be more competitive on don't come out until after 2019. Nonetheless, we are making a big push into that area and doing everything we can to position ourselves to get all or a portion of LTA agreements as soon as we can. I don't have anything further to offer you at this point other than that's what we're trying to do.

Evan Wax: All right. Thank you.

Operator: Thank you. At this time, I'd like to turn the floor back over to management for any additional or closing comments.

Tracy Pagliara: Thank you, everyone, for participating today. We appreciate your time and interest in Williams. We're committed to delivering on our promises to our shareholders as well as our customers. This year should be a strong demonstration of the significant changes that have been made Williams into a stronger business.

Thank you, and enjoy the rest of your day.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.