Operator: Greetings, and welcome to Williams Industrials Services Group Third Quarter 2018 Financial Results. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to Deborah Pawlowski, Investor Relations for Williams Industrial. Please go ahead.

Deborah Pawlowski: Thanks, Rob, and good morning, everyone. We certainly appreciate your time today and your interest in Williams Industrials Services Group. I have here with me our President and CEO, Tracy Pagliara, and Chief Financial Officer, Tim Howsman. Tracy and Tim will provide their prepared remarks, and then we will open the call for questions.

You should have a copy of the news release reporting our third quarter results that crossed the wire earlier this morning. You can find these documents and the slides that will accompany today's conversation on our website at www.wisgrp.com.

So if you look at Slide 2 on 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, as well as with other documents filed with the SEC. You can find 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. Where applicable, we have provided a reconciliation of the non-GAAP measures to comparable GAAP measures in the tables that accompany today's release and slides for your information.

So with that, let me turn it over to Tracy to begin. Tracy?

Tracy Pagliara: Thanks, Deb, and good morning, everyone. I am pleased to report that we had a positive third quarter and are continuing to build momentum in our business.

Revenue was up 37% versus the third quarter of 2017 and 11% compared with the second quarter of 2018. Revenue in the quarter was driven by the expanded scope we had at Plant Vogtle 3 & 4, the only new nuclear reactors being built in the U.S., and additional work on nuclear decommissioning projects.

Gross margin for the quarter was solid at a normalized 13.6%. The reported 19.1% gross margin benefited from $3.3 million associated with the early termination of a contract that I will let Tim explain in more detail. Excluding restructuring costs of $1.4 million that were related to the closure of our Dallas operations and consolidation into our Tucker, Georgia office, we reduced operating expenses by $2.5 million or 23%.

We achieved GAAP operating income of $700,000 in the quarter. This is the first time we have had operating income since the first quarter of 2014. We also had adjusted EBITDA of $2.9 million, an improvement of $5.5 million over last year's third quarter. Of note, our backlog was up 59% over prior year and increased 7.6% sequentially. I will speak about this more after Tim reviews the quarter.

Turning to Slide 4, let's review the progress we have made since we last reported. As you likely know, we were able to complete the recapitalization of our balance sheet with a new term loan and revolving credit facility. I want to thank Tim and many others on the team for the completion of this financing effort and their persistence in making it happen.

We shut down our Dallas headquarters in the quarter, which enabled us to make progress on the reduction of operating expenses. General and administrative expenses, which is the largest component of operating expenses, were down 22% to $7.5 million and were 14% of revenue compared with 25% last year. We still plan to achieve our goal for general and administrative expenses to be 7% to 9% of revenue in 2019.

I am excited to report that we have received our first contract award to begin work in Canada on the Ontario nuclear facility refurbishment and upgrade project. We also won 2 new contracts with 2 new major oil and gas customers for work on midstream pipeline-related projects.

And I am excited to speak briefly about the new management structure we announced earlier this week. We have refocused roles and enhanced our leadership team to be better aligned with our strategy, to further develop our core business and to expand into new markets and services. We expect the new structure to facilitate better execution of our growth plans.

Loren Monty, who is our most senior operations leader, will focus directly on day-to-day responsibility for the Plant Vogtle Unit 3 & 4 nuclear construction project and will continue to work to strengthen other long-term key customer relationships.

Kelly Powers has shown consistent commitment and passion to win business, lead projects and surpass customer requirements. He will now focus on growing new customers in our power business.

Matt Petrizzo brings to us excellent experience and breadth in industrial and energy markets. He will be responsible for developing further growth and diversification into those markets.

Please turn to Slide 5. Here, we show the types of contracts we operate under with our customers and the mix of the end markets. Our cost-plus contracts are the lowest-risk revenue we have, but our margins also reflect the lower-risk nature of this business. Margins in this category can range from less than 5% to the mid-double-digit range.

Fixed-price contract margins can vary based on the project in efficiency and execution, while early-entry projects may have lower margin and more established contracts should garner low to mid-double-digit margins.

As you look at our end market diversification, we are still largely a nuclear services company, with nearly 2/3 of our revenue coming from this market. We are involved in all aspects of the life cycle of nuclear facilities: new construction, maintenance and decommissioning. Nearly 45% of revenues is directly attributable to the new build work at Vogtle 3 & 4. At the same time, 7% is associated with decommissioning, an area I will remind you that we only started working in at the end of last year.

With that, let me turn the call over to Tim.

Tim Howsman: Thank you, Tracy, and good morning, everyone. If you turn to Slide 6, I'll begin my review of our third quarter performance and will be focusing my comments on our continuing operations.

Revenue for the quarter was just over $53 million, up $14 million, or 37%, from the prior year period and improving 11%, or $5.5 million, over the sequential second quarter. As you can see in the revenue bridge, the scope of work we are performing at Vogtle Units 3 & 4 continues to build, which accounted for $9.6 million of the revenue growth.

We also had new decommissioning work, which contributed $4 million to the growth. As Tracy mentioned, we have only been providing services in the decommissioning space since Q4 of last year and, year-to-date, have done $10.6 million in revenue. While we expect this to continue to build, we do not expect, due to the timing of projects, to generate much decommissioning-related revenue in the fourth quarter.

Revenue for the 9 months ended September 30, 2018, was up $1.9 million over the prior year period. The primary drivers of the increase were a $29.7 million increase from construction activities at Plant Vogtle Units 3 & 4 and a $10.4 million increase from decommissioning projects.

Those increases were substantially offset by the $20 million decrease related to the timing of a customer's nuclear outage. We also had $14.6 million less revenue, as we substantially completed 4 nonrecurring fixed-price contracts in 2017 and, last year, had the benefit of the release to revenue of a $4.4 million liquidated damages contingent liability.

If you look at Slide 7, you can see we reported a gross margin of about 19%; however, $3.4 million of revenue was related to the early termination of a contract, which effectively billed directly through the gross profit without any additional related cost. At the time of termination, the difference between the contractually earned billings and the amount of revenue recognized under our cost-to-cost methodology of percentage of completion accounting was recognized.

To complicate matters, in the prior year quarter, there was $5.1 million of revenue recognized related to 3 loss contracts with no associated gross profit. The cumulative impact of the estimated losses on those 2017 contracts was actually recognized in the first quarter of 2017.

So just looking at this year's quarter, as a percentage of revenue and excluding the benefit of the early termination, gross margin was 13.6%, which is in line with our mid-teens expectation. The normalized margin of 13.6% was down 50 basis points from the trailing second quarter as the result of project mix. Gross profit in our business will always be related to the project mix and execution, but we expect we can deliver overall gross margins in the 12% to 15% range with opportunities to peak if we execute well on fixed-price contracts.

For the first 9 months of 2018, gross profit increased $13.4 million over the prior year, primarily due to last year's recognition of $12.1 million in losses associated with 3 nonrecurring fixed-price contracts, which were substantially completed in 2017. As a result, gross margin improved to 16.2% for the first 9 months of 2018 compared with 7% in the same period last year as a result of better execution and improved project mix. On a normalized basis, the year-to-date margin would be 14.2%.

If you would now turn to Slide 8, let's look at our operating expenses. Our core operating expenses exclude the $1.4 million of restructuring charges that Tracy had mentioned. Excluding those costs, operating expenses for the quarter were down $2.5 million from the prior year quarter. General and administrative expenses decreased $2.1 million to $7.5 million, or 14.1% of revenue, down from 24.7% of revenue in the prior year period. As Tracy mentioned, our goal is to get G&A expenses down to 7% to 9% of revenue.

Moving to Slide 9, included in the restructuring charges are the severance costs associated with the closure of our Dallas operations and restructuring into a single operating business. Through the end of September, we have eliminated $4.3 million in annual overhead costs directly associated with staffing at a cost of $3.2 million in severance.

We expect to incur another $700,000 of severance costs in the last quarter of the year, which will extract an additional $1.3 million in annual overhead savings. We have not yet seen the full impact of those cost reductions in G&A, but we'll begin to see them in 2019. For the year, we expect total restructuring costs in the range of $17 million to $19 million, including those related to discontinued operations.

Slide 10 shows our operating losses for the quarter and 9-month periods. Operating income for the quarter was $700,000. As Tracy mentioned, this is the first quarter in years that we have reported GAAP operating income. Further, if you exclude the restructuring costs of $1.4 million, operating income in the 2018 third quarter would have been $2.1 million, a significant improvement over the last several quarters.

Year-to-date operating loss decreased $16.9 million compared with the prior year period as a result of the $13.4 million increase in gross profit, along with a $3.5 million decrease in current year operating expenses.

On Slide 11, we show net loss from continuing operations for the quarter and year-to-date period. As you can see, we are making progress on our journey towards being able to report net income. Adjusted EBITDA turned into positive territory on both a quarterly and year-to-date basis. Our financial performance, while still not acceptable, is trending in the right direction.

If you'll turn to Slide 12, I'll update you on our cash position and the progress we've made on recapitalizing our balance sheet. In the first 9 months of 2018, continuing operations broke even on the usage of cash; however, discontinued operations used $6.7 million of cash during the period.

At the end of September, cash and cash equivalents were $4.4 million, down from $5 million at the end of June. Restricted cash was $5.9 million at the end of the quarter, also down from $6.6 million at the end of June as the result of the release of a portion of escrowed funds. After the execution of our revolver in October, an additional $5.3 million of restricted cash, which had collateralized our letters of credit, was released to us.

As Tracy noted, we successfully refinanced our previous $45 million senior secured loan maturing in April 2020 with the new $35 million term loan maturing in September 2022 at LIBOR plus 10% with a LIBOR floor of 2.5%. At the time of closing, this reduced our variable rate from 21.1% to 12.5%.

Of particular significance, in October, we secured a 3-year $15 million revolver at LIBOR plus 6% with a LIBOR floor of 1%. This revolver provides us with borrowing ability against 85% of eligible accounts receivable and 80% of eligible cost and estimated earnings in excess of billings after certain customary exclusions and reserves and allow us for up to $6 million of noncash collateralized letters of credit.

With the refinanced term loan and the revolver now in place and combined with our significantly reduced corporate cost structure, we have now more fully focused on our growth initiative.

Tracy, back to you.

Tracy Pagliara: Thanks, Tim. Let's talk about what we're doing to drive our growth. As you look at our backlog, you can see how it has been building over time. Included in the current backlog is the $20 million associated with the 2019 spring nuclear outage for the Energy Northwest plant in Washington. In addition, approximately 60% of our backlog is related to the work at Vogtle.

That concentration in our backlog and the recognition that the Vogtle project is scheduled for conclusion by 2022 is why we are focused on diversifying our sources of revenue; however, we also remain proud of our nuclear project skills and experience and expect for that to remain a significant portion of our business even after the Vogtle 3 & 4 facilities are completed.

We are pursuing new opportunities in Canada oil and gas, decommissioning and industrial markets, while also aggressively attempting to develop more business opportunities with our historic core customers.

As noted on Slide 15, we have a number of opportunities within our existing customer base, but are also looking to build new relationships to increase the number of our long-term services agreements. In fact, to address the opportunities in the fossil fuel market, we've recently added more sales talent in the Midwest.

We have 4 major initial focus areas for growth that our new management structure aligns with. First, we are trying to build our core business by strengthening our relationships with long-term customers to capture more scope on projects and expand our long-term maintenance agreement capacity. We believe that our experience and skills with nuclear and fossil power facilities provide us with a competitive advantage in this space.

But in addition, we have many relationships that span decades in other industries, including pulp and paper operations and wastewater. We also have extensive electrical expertise that positions us well as more plants and operations convert from analog to digital technologies to drive efficiencies.

Second, we are working with Holtec in the decommissioning market. They are the leading engineering contractor in the space, and we believe we can provide them the quality service support they require to succeed in this expanding arena.

Third, we moved into Canada because of the significant amount of nuclear work related to the innovative and collaborative initiatives of Bruce Power and Ontario Power Generation to support Ontario's long-term energy plan. We are legally and physically located there so that we can participate in this significant opportunity. We have won an initial opportunity that, if we perform well, should lead to significant work over several years as they upgrade their nuclear facilities under their plan.

Finally, we are also attempting to aggressively grow our energy and industrial business. We are pursuing midstream oil and gas opportunities, including the expansion of pipeline infrastructure. As noted earlier, we have won initial projects for midstream oil and gas pipeline-related projects. We expect, with successful execution, to gain additional scope on these projects as well. We also have significant opportunities in wastewater projects, where we have prior experience. Water, both generation and waste management, as you know, is a critical issue for our country.

Looking forward, we expect to build a solid base of revenue, establish a reasonable cost structure that provides leverage as we scale our business, develop a team that can execute well, and ultimately, generate more cash and deliver greater shareholder value. 2019 should be just the beginning of that process. We will have the advantage of the base of business represented in our backlog, the new customer relationships we are establishing and the tailwinds associated with the industry's reserve.

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

Operator: [Operator Instructions] Thank you. There are no questions, so at this time, I would like to turn the floor back to Tracy for closing remarks.

Tracy Pagliara: Thank you, everyone, for participating today. We appreciate your time and interest in Williams. We have completed the actions required to transform our company to a Williams-only operating business and now are focused on our future growth and earnings power. Thank you. Have a great day and Happy Thanksgiving.

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