Operator: Greetings. Welcome to the Williams Industrial Services Group Inc. First 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 presentation. [Operator Instructions] Please note, this conference is being recorded.

I will now turn the conference over to your host, Deborah Pawlowski, Investor Relations for Williams. Ms. Pawlowski, you may begin.

Deborah K. Pawlowski: Thank you, Omer, and good morning, everyone. We certainly appreciate your time today and your interest in Williams Industrial Services Group. Joining me on the call are Tracy Pagliara, our President and CEO; and Tim Howsman, our Chief Financial Officer. Tracy and Tim will provide their prepared remarks and then we will open the call for questions. You should have a copy of our first quarter 2019 results that were released after the markets closed yesterday as well as the slides that will accompany today's conversation. If not, they are available on our website at www.wisgrp.com.

If you would 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 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 a reconciliation of the non-GAAP measures with comparable GAAP measures in the tables that accompanies today's release and slides for your information. Please note as well that our conversation will be about continuing operations unless we note otherwise.

So 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.

The success of last year's restructuring efforts as well as good execution are clearly demonstrated in the financial results for the quarter. We have continued to build momentum in our business and importantly, are delivering on the strategic plan that we finalized in January of this year.

Revenue for the quarter grew 18% to approximately $51 million, supported by expansion of the scope for the Vogtle 3 & 4 new-build construction site, as well as strong performance in our power business, and continuing progress with our diversification efforts. As we pursue opportunities in new markets, the entry price does impact gross margin. Gross margin for the quarter was 13.2%, which is in line with our expected range of 11% to 13% for 2019.

The restructuring efforts of 2018 are clear in our substantially reduced SG&A cost. We are being vigilant in our cost discipline by maintaining our focus on operational excellence and strong controls. We are committed to meeting our planned SG&A run rate of 8% to 9% of revenue for the year.

Another major milestone was our delivery to the bottom line. We achieved positive net income this quarter of approximately $300,000 or $0.02 per diluted share. This is the first quarter in 5 years that we have achieved a positive EPS.

Turning to **Slide 4** are details on our revenue mix, the majority of which is cost-plus revenue related to our power business. Projects in the midstream oil and gas and other industrial markets will tend to be fixed-price contracts. We're being very diligent in our assessment regarding the projects we undertake to ensure appropriate risk management. At the same time, our power business is growing and that will continue to be predominantly cost plus work. Our plan is to make changes in our revenue mix systematically to facilitate favorable returns on projects that, by definition, entail more risk, so any shift in mix will likely be opportunistic.

For the trailing 12-month period, the majority of our business is related to our power end-market, although we did have about 13% growth in our energy and industrial end markets in the quarter. Vogtle is a large contributor to revenue, which includes both direct revenue with Southern and our joint venture with Bechtel. We are proud to be part of this massive undertaking and to contribute to the productivity that is being realized on site.

With that let me turn it to Tim.

Timothy M. Howsman: Thank you, Tracy, and good morning, everyone. If you turn to **Slide 5**, I'll begin my review of our first quarter. My comments are related to continuing operations.

Revenue grew $7.5 million or 17.5% over the prior year period to $50.7 million as a result of an increase in customers served as well as greater scope with existing customers. Total revenue associated with Vogtle Units 3 & 4 in the quarter was approximately $22 million.

Our growth initiatives drove a $1.4 million increase from our entry into the nuclear industry in Canada and a $1.3 million increase in midstream oil and gas revenue. We also had $0.9 million in revenue for pre-outage work in preparation for the significant outage work that will occur in the second quarter of 2019. As we've noted in other calls, the outage for this nuclear facility occurs every other year. So each odd year includes approximately $20 million of revenue for the outage.

Partially offsetting these increases was a $1.5 million decline in revenue from dry storage and decommissioning activities due to ongoing inspections, training and process enhancements occurring on the site we are working, which must be completed before fuel offloading will resume.

Moving to **Slide 6**, you can see we reported first quarter gross profit of $6.7 million, representing gross margin of 13.2%. The gross margin decrease from the prior year period level of 15.0% was due to project mix and the downward pressure on near-term margins from our entry into the nuclear industry in Canada as well as the midstream oil and gas and nuclear decommissioning markets.

If you would now turn to **Slide 7**, let's look at operating expenses. First quarter operating expenses were $5.1 million, representing a decrease of almost 30% compared with prior year period, primarily resulting from the extensive restructuring measures taken in 2018, which significantly reduced our SG&A expenses. General and administrative expenses decreased $1.7 million, while selling and marketing expenses decreased $0.2 million and depreciation expense decreased $0.1 million.

We expect that this quarter's operating expenses are representative of the run rate for the year.

Moving on to **Slide 8**. Operating income for the quarter was $1.6 million, an improvement of $2.4 million over the prior year period. The improvement was due primarily to the $2.1 million decrease in operating expenses we discussed on the previous slide. Again, the significant positive change in operating income reflects the impact of the substantial restructuring efforts over the last couple of years, and we believe it's more representative of what to expect moving forward. Note that we have no adjustments in the quarter as well, which is something else you should expect as we move forward.

On **Slide 9**, we reported positive income from continuing operations of $400,000 for the first quarter of 2019. This is the first time we've reported income from continuing operations in 5 years. The simplification of our organization, substantial restructuring and the reorganization of our corporate offices in Tucker, Georgia, combined with growing revenue, drove our improved performance. In fact, we are on track to deliver significant improvement in operating and net income throughout 2019, positioning us for stronger growth as we gain scale with our strategy.

Adjusted EBITDA was $2.4 million for the first quarter. While we need to remain diligent in our efforts, our financial performance is trending in the right direction. I have not included in this analysis, the estimated nonrecurring expenses in the fourth quarter of 2018 since our current operating expense run rate provides the clarity regarding our cost structure that was not readily discernible in the fourth quarter.

If you'll turn to **Slide 10**, our cash generation should strengthen through the year as should our balance sheet.

We generated $2.6 million in cash from operating activities of continuing operations in the quarter.

We expect increasing cash generation, which in turn will help fund our strong growth plans. Further, we generally expect working capital cash requirements to be funded with our ABL revolver. I should comment that because of the structure of our ABL, we may not see cash build on our balance sheet. At the end of March, cash and cash equivalents were $3.8 million, down slightly from the $4.5 million we reported at the end of December. Restricted cash was $0.5 million at the end of the quarter.

We do plan to refinance our term loan after the no call provision is lifted. Our objectives in doing so are to obtain both the lower interest rate and less restrictive covenants. The priority for cash in 2019 will be to fund our growth plans, and as we approach the end of the year, begin to build cash reserves. Then, in 2020, as we grow and generate more cash, we may be able to adjust our priorities to reducing debt. At the end of the first quarter, we had term debt of $33.5 million, net of unamortized deferred financing costs of $1.3 million.

Tracy, back to you.

Tracy D. Pagliara: Thanks, Tim. Turning to **Slide 11**. Our pipeline is growing and backlog remains strong. Total backlog represents the dollar amount of revenue expected to be recorded in the future for work performed under awarded contracts. Previously, we reported backlog as orders from fixed-price contracts plus the amount of revenue the company expected to receive in the next 12-month period from cost-plus contracts, regardless of the remaining life of the cost-plus contracts; however, the company believes that reporting the total revenue expected under awarded contracts is more representative of its expected future revenue.

Our total backlog at the end of the first quarter was nearly $479 million, down slightly from December 2018 as we delivered on projects in the quarter at a brisk pace. We expect about $182 million or 38% of total backlog to convert to revenue in the next 12 months. This compares with the $173 million of convertible backlog at the end of 2018. In addition, our pipeline is building and we believe our go-get revenue beyond what's in backlog is achievable. With these thoughts in mind, we have confidence in our ability to achieve our revenue goal this year.

On **Slide 12**, you can see that we are reaffirming our 2019 financial guidance expectations. Our second quarter revenue will be higher with the planned outage work related to our long-term agreement and we are still targeting $220 million to $240 million in total revenue for the year. Our gross margin is expected to be 11% to 13% and SG&A expenses at about $5 million per quarter. Based on that, adjusted EBITDA should be approximately $10 million to $12 million for the year.

Looking further out, we anticipate exceptional growth in revenue and profits over the next few years. We believe we have structured the business to scale, while ensuring that quality execution and safety remain priorities. Ultimately, we plan to enhance shareholders' equity through improved earnings and cash generation.

Slide 13 provides a summary of some of the key growth initiatives under our strategic plan. We continue to emphasize growing our core business and expanding into other areas, including decommissioning, midstream oil and gas, water and Canada nuclear.

There is growing support of nuclear power in the U.S. and we are well positioned to capitalize on that support. We're excited about the potential to win additional long-term agreements in the future through our ability to deliver safe, cost effective and productive service to our nuclear utility customers. At the same time, we can support the full life cycle of a nuclear power facility from construction through decommissioning.

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

Operator: [Operator Instructions] Our first question comes from Bill Nicklin, Circle N Advisors.

Bill Nicklin: You've done a great job explaining this. I have a question regarding the stock price. I know someone who is in the financial services industry. I have noticed that the SEC over the last couple of years have been putting great pressure on broker/dealers not to trade in penny stocks, and in many firms a broker cannot recommend and a customer cannot buy, even on an unsolicited order, stocks under $5 per share, particularly if they're not on a listed exchange. There could be lots of advisers who have to go through clearing brokers, or lots of brokers going through their own firm who would love to buy your stock and can't. I'm not asking you for a solution, but it's a problem that affects all of us. Could you, along with Deb, spend some time that and what your thoughts are regarding what it will take to get the stock above $5 a share in order to be free of this encumbrance.

Tracy Pagliara: Well we appreciate the comment. We recognize there are limitations, even though we've upgraded to the OTCQX. Ultimately, our plan is to get back on to NASDAQ or New York Stock Exchange or one of the other listed exchanges. We meet most of the requirements at this point, but we need to get through this year first and ideally will look at doing that early next year.

Bill Nicklin: All right, as long as you guys are cognizant of it while you're spending most of your time trying to make money.

Tracy Pagliara: Yes it's part of our overall strategy. We have an IR strategy as well, but we have to take one step at a time. We certainly don't intend to remain on the OTC for the foreseeable future.

Bill Nicklin: Very good. It looks like you're making progress and we look forward to seeing a lot more.

Tracy Pagliara: As do we. Thanks, Bill.

Operator: Our next question comes from John Sturges, Oppenheimer & Co.

John Sturges: I would like to say congratulations coming out with such a nice report from a cloudy period in corporate history. You're seeing some interesting demand. We have a record labor demand currently, and I'm just curious if you could add some color as to how you're dealing with that expense? Are you training internally? I'm just curious what you're seeing and how you're going forward with the business?

Tracy Pagliara: Yes, the labor issue is a nationwide challenge and it's hard to get good, skilled, craft labor on our biggest project, which is the Vogtle 3 & 4 nuclear construction site. We are working collaboratively with Southern and Bechtel to come up with creative solutions to get the right skill set and the right skilled labor on that site. Beyond that, we are managing pretty well with the rest of our power business. I would say, as we move out of our traditional areas into new markets, this is something we are focusing pretty heavily on as we evaluate what projects we're willing to take on. We will make sure that we are confident we have a delivery solution, and that we have the right labor to help us execute the project. It is an issue across the U.S. and it's something that we are managing closely. In our case, there have not been any material impacts to our business, but it's certainly on our radar, it's something that we have to continue to work on and pay close attention to.

John Sturges: Okay. Are you doing any internal training? Do you find that necessary?

Tracy Pagliara: Oh, yes, we have extensive training programs for our crafts, our nuclear and all functions of our business. That is actually one of our strengths in terms of our training, human performance, safety programs are very strong and help us get the right talent in the right place and have them perform properly. And frankly, as I've learned more about the Williams business, our employees are very loyal to Williams because of our culture and the training and the commitment we make to our safety program, and in terms of how we treat them. So to answer your question, the short answer is yes, we have extensive training programs and we also make sure we're thinking about labor as a component of our delivery on each project that we take on. We're very aware of the labor shortages in skilled laborers throughout the U.S.

John Sturges: Thank you. 'm looking forward to the rest of the year.

Tracy Pagliara: As are we. Thank you.

Operator: Our next question comes from Matthew Pilkington, Strategic Credit Concepts.

Matthew Pilkington: No call period for the term loan ends in September this year, I read. Is that correct?

Tracy Pagliara: Correct.

Tim Howsman: Correct.

Matthew Pilkington: Congratulations on getting the interest rate down. It's still high, but from the 20% mark where it was that's amazing and you basically skipped all kinds of trouble by doing that. What do you think the rate you would get, or what range would you get, when you try to refinance that now that you've righted the ship and are starting to have positive returns?

Tim Howsman: We are entering into a process of discussing that with various lenders at this point. I am not going to discuss a specific rate, but we expect a significant reduction from the 12.5% level we are at currently, and we have started to get some interest from more traditional financing sources. We are entering into the phase now where we have delivered the first quarter results, and when we issue our second quarter results in August we will be able to complete those negotiations and move forward. So again, we are not throwing out a specific number, but we do anticipate a significant reduction.

Matthew Pilkington: And you anticipate that this would be within a reasonable time period after the no call period finishes?

Tracy Pagliara: Yes.

Tim Howsman: Yes. Just as quickly as we get the negotiations with the appropriate partner concluded.

Tracy Pagliara: This is one of our 4 top priorities for '19 and we are already working on different alternatives. We obviously have to have a good year, or a good 6 months of earnings. We have had a good 3 months so we have to keep the momentum going. We are not waiting until the end of the second quarter to work on this as we want to move as quickly as possible once the no call provision is no longer applicable.

Matthew Pilkington: Can I ask you another quick question? Regarding the Canadian decommissioning nuclear work you took a margin cut. But as you start to establish that business, will you expect margins to come up closer to your normalized margin?

Tracy Pagliara: We definitely expect margins to come up and on a blended rate we expect to be in the 11% to 13% range. The entry point we took on an interim project controls management contract, that project will be sometime within the next 6 months and we expect it to be converted to a permanent agreement. At that point, we expect the margins to increase significantly.

Operator: We have reached the end of the question-and-answer session. And I will now turn the call back over to Tracy Pagliara for closing remarks.

Tracy Pagliara: Thank you, everyone, for participating today. We appreciate your time and interest in Williams. We are 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 made Williams a stronger business. So thanks, again, 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.