FINAL TRANSCRIPT

ShawCor Ltd.

First Quarter Results

Event Date/Time: May 13, 2013 — 10:00 a.m. E.T.

Length: 37 minutes

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PRESENTATION

Operator

Good morning. My name is Kirk (phon), and I will be your conference Operator today. At this time, I'd like to welcome everyone to the ShawCor Ltd. First Quarter Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you'd like to ask question during this time, simply press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

Mr. Gary Love, Chief Financial Officer, you may begin your conference.

Gary Love — Chief Financial Officer, ShawCor Ltd.

Thank you, and good morning. Before we begin this morning's conference call, I would like to take a moment to remind all listeners that today's conference call includes forward-looking statements that involve estimates, judgments, risks, and uncertainties that may cause actual results to differ materially from those projected.

The complete text of ShawCor's statement on forward-looking information is included in Section 4 of the first quarter 2013 earnings press release. It is available on SEDAR and on the Company's Website at shawcor.com.

Bill?

Bill Buckley — President and Chief Executive Officer, ShawCor Ltd.

Thank you, Gary, and thank you, ladies and gentlemen, for participating in this morning's conference call.

Last Friday we released our first quarter 2013 financial results, and the results again were excellent, setting some new performance records, and continuing the strong performance that we have reported for the past three quarters.

Specifically in the quarter, we generated record revenue of 455 million, a 46 percent improvement over the first quarter of 2012, and also an improvement of 3 percent over our previous record from the fourth quarter of 2012.

We also reported record EBITDA of 104 million, and excluding one-time costs associated with the Plan of Arrangement transaction, EBITDA was 116.9 million, 177 percent improvement over the first quarter of 2012. Finally, quarterly net income was 70.6 million or $1.01 per share on a diluted basis, almost 3 times higher than the year-ago level.

ShawCor's record performance was led by strong revenue and excellent project execution in ShawCor's Asia Pacific and Latin America business units, as well as strong large diameter activity in Canada, and strong flow assurance activity at our facilities in both Beaumont, Texas and Orkanger, Norway.

The strength in all of our regions was the key factor in the continuing trend in operating income margin, with our Pipeline segment recording an unprecedented operating income margin of 26.2 percent in the first quarter, a gain of 12.6 percentage points from the first quarter of 2012. This is a direct result of increased utilization, and of the capabilities of our operations teams following the ShawCor manufacturing system.

Also noteworthy in the quarter was the increase in our backlog to a new record level of 875 million as of March 31, 2013. The growth in the quarter was primarily due to our Socotherm business unit, and in particular to the Socotherm operations in the Gulf of Mexico, where in April we announced that we had acquired the 49 percent ownership interest held by our former joint venture partner.

Given the outlook for deepwater project activity in the Gulf of Mexico, the fact that we now have 100 percent of Socotherm's Channelview Texas operation positions us well for growth in this market in the future.

Now I'll comment further on our outlook later in the call, but first Gary Love, our CFO, will provide you with the other details on the first quarter financial results. Gary?

Gary Love

Yeah. Thanks, Bill. We are reporting record revenue in the first quarter 2013 of 455 million, up 46 percent over the first quarter of 2012, and also up 3 percent from the immediately preceding quarter. Year over year, the most significant sources of revenue growth were Asia Pacific, with revenue increasing $118 million or 249 percent, and Latin America with revenue increasing $45 million or 304 percent. On a consolidated basis, reported gross margins in the first quarter are 44.3 percent, up 6.5 percentage points from the prior year.

The Pipeline segment gross margin was 45.6 percent versus 39 percent a year ago, while the Petrochemical segment gross margin was down slightly at 29.8 percent. Now compared to the fourth quarter of 2012, the Pipeline segment gross margin increased by 4.4 percentage points, as a result of an increasing percentage of the Company's revenue derived from Asia Pacific.

The year-over-year increase in gross profit of $85 million was partially offset by the $19.5 million increase in SG&A expense, which we are reporting at $91.5 million this quarter versus a year ago at $72 million.

The major factor in the SG&A increase were the one-time expenses relating to the Plan of Arrangement transaction, and these included transaction costs of $7.6 million, and related expenses associated with amended executive retirement arrangements of $5 million. Also contributing to the SG&A increase were an increase in bonus and long-term compensation accruals of $6.2 million and increased salaries of $1.6 million.

Now based on the strong revenue and gross profit in the fourth quarter, the Pipeline segment EBITDA margin reached a new record level of 29.6 percent, while the Petrochemical and Industrial segment EBITDA margin came in at 14.5 percent, in line with the prior year. Overall, consolidated EBITDA before the one-time transaction cost is a record level of $116.9 million for an EBITDA margin of 25.7 percent.

Depreciation and amortization in the fourth quarter is $16.3 million versus $11.7 million a year ago. This increase is a result of accelerated depreciation in Asia Pacific, and increased amortization relating to the Socotherm acquisition.

Below operating income we have reported during the first quarter a loss from investment in joint ventures of $671,000. This line item includes the equity accounted results of ShawCor's joint venture in Russia, plus the Socotherm joint ventures in Brazil, Venezuela, and the USA.

Effective January 1st of this year, we are required to account for joint ventures using the equity method rather than our previous method of proportional consolidation. As a result of this change in accounting policy, we will be reporting restated 2012 financial statements throughout this year.

During the first quarter 2013, the Company has recorded an effective tax rate of 20 percent, which is well below the Canadian statutory rate of 27 percent, as a result of the contribution of operating income from low tax rate jurisdictions in Trinidad, Asia Pacific, and the Middle East.

Now turning to the key cash flows during the first quarter, I would highlight that cash flow provided by continuing operations before changes in working capital and deferred revenue, which reached $87 million, more than double the $32.6 million a year ago, and also increased by 10.5 percent from the fourth quarter.

The net change in working capital and deferred revenue was a net cash outflow of $57.5 million, as a result primarily of reduced deferred revenue of $101 million and increased inventories of $28 million, partially offset by lower receivables of $30 million and increased payables of $24 million.

Deferred revenue was lower in line with increased production on the Ichthys and Trinidad projects for which the Company had received substantial upfront payments in 2012.

Cash flow used in investing activities in the first quarter, excluding reductions in short-term investments, was $20 million. This included capital expenditures of $16.1 million. The major capital expenditures in the first quarter included expenditures on the new multilayer insulation plant under construction at our facility in Indonesia; the purchase of long lead time items for the planned Flexpipe expansion in the US and for the new Flexflow product line; expenditures for the construction of the new DSG EMAR facility in Germany; and the development of the new Guardian facility in the Eagle Ford basin in Texas.

Cash flow used in financing activities was $147.5 million, and this included the cancellation of the Class B shares at a cost of $503.1 million and regular quarterly dividends of $6.9 million. These uses of cash were partially funded by the issue of $350 million in senior notes, the issue of shares from the exercise of options of $6.7 million, and the reduction of cash and short-term investments totalling $131 million.

Now even with the Class B share purchase expenditure in the quarter, the Company's financial position remains very strong, with quarter-end cash, plus short-term investments totaling over $231 million.

And with that in mind, I'll turn it back to Bill for his concluding remarks.

Bill Buckley

Thank you, Gary. During the past two quarters, ShawCor has reported over 900 million of revenue.

During this time frame our order backlog has continued to grow, reaching 875 million at the end of the first quarter, and the backlog has improved by 30 percent from the year-ago level. Now part of the continued improvement in backlog has been the movement in booked orders into our 12-month forward backlog time horizon. As a result, the order book beyond 12 months has decreased by approximately $100 million. This is to be expected as we execute the large Asia Pacific projects, and in particular the $400 million Inpex Ichthys gas export pipeline project.

However, the other element in our increased backlog is the contribution from the acquisition of Socotherm, and this is an area where we expect to see growth continuing in the future.

For an indication of our outlook beyond 2013, our active bid list remains very strong. Currently the total value of active bids that we have outstanding exceeds $800 million. This value is reduced from the year-end levels, due to the deferral of the Browse project, which obviously was partially offset by new project bids issued in the quarter. These new bids are for all global regions, and are for work that will be executed for the most part in 2014.

The Browse project will proceed in the future, although it will likely be reconfigured to reduce capital cost. The need for natural gas by the growing economies in the Asia Pacific region will continue, and will accelerate as the global economy improves. The growth in global LNG markets will continue.

There has been a structural change in the number and value of projects that we are bidding, winning, and executing. The key global drivers of this increased activity are LNG, deepwater, and shale development. Global LNG demand is to increase by 200 metric tonnes per annum by 2025, and to put this in perspective, this is the equivalent of 23 Wheatstone projects.

The deepwater market is also growing rapidly, with projected capital expenditures over the next five years of $223 billion. In addition, the North American shale play is driving growth in our Flexpipe business, our pipe coating operations, and our Guardian operations.

ShawCor has never been in a stronger competitive position to serve these projects with our execution track record; our large-scale strategic locations; our proprietary coating and testing technology; our ability to provide a complete single interface and an end-to-end solution; our mobile plant technology to provide logistics advantages on remote projects; and with our recent integration of Socotherm and the growth potential that it provides as we support it.

I'd like to take a minute to highlight the continuing growth of Flexpipe, our composite spoolable pipe business. Flexpipe has recovered from the slowdown in the North American well completion activity that occurred in the second half of 2012, and is now tracking towards what we expect will be a record year in terms of revenue and operating income.

Flexpipe is already ShawCor's second largest business, but even so, it is only scratching the surface of the $2.6 billion annual market opportunity for Flexpipe's composite pipe products in North America, Latin America, and Australia. As the installation cost benefits of composite pipe over conventional steel are experienced by our E&P customers, we expect to see continued revenue and profit growth from this exciting new growth platform.

Finally, I'd like to comment on the Company's strategy, now that the Plan of Arrangement share reorganization transaction has been completed. With the approval of this arrangement, the Company's dual share structure has been eliminated. However, our underlying business strategy remains unchanged. We will continue to focus on growing our business in the global pipeline space, both organically and through acquisition.

We have the balance sheet and the management to execute on an effective acquisition program, as we have done in the past, highlighted by the successful acquisitions of Socotherm and Flexpipe, as well as other contributing tuck-under acquisitions. And we will keep you updated as we execute on this key initiative.

And with that, I'll turn it back to the Operator for questions.

Q&A

Operator

At this time, I'd like to remind everyone in order to ask a question please press *, then the number 1 on your telephone keypad.

Your first question comes from the line of Dan MacDonald. Your line is open.

Dan MacDonald — RBC Capital Markets

Hi. Good morning, guys. Just wondering in light of the really strong margin progression here if you could kind of walk us through what your margin outlook looks like maybe for the next couple of quarters or through '13 at this point? And what the sustainability of that might be?

Gary Love

Yeah. Dan, I think one thing to recognize of course is that margins do move around. They move, obviously, with project activity. We have, as indicated in our backlog, certainly a strong outlook for the next four quarters, and we expect margins to stay strong.

I can't guarantee we'll see another 29.6 percent EBITDA margin in the Pipeline segment, but I think we will see margins continuing at levels that are at or near the Company's historical highs.

Dan MacDonald

Thanks. And then just on the remaining 49 percent interest in the Texas Socotherm JV, can you give us a sense of what that might add to the backlog here now that you have the whole thing? Will that be...

Gary Love

No. That's actually—yeah. Just to be clear, that is reflected in our backlog.

Dan MacDonald

Okay. That was in your Q1 ending backlog?

Gary Love

Yeah. So we—I suppose we've sort of backdated the effect of that acquisition to March 31st for purposes of the backlog. And I think that's appropriate because the backlog, what we report as the backlog is an indicator of future activity. That's the purpose of reporting the backlog.

And so with the Socotherm Gulf of Mexico operation now on 100 percent consolidation basis, we did want to reflect that in the backlog to provide that indication.

Dan MacDonald

Great. I'll leave it at that. Thanks, Gary.

Gary Love

Yeah. Thanks.

Operator

Your next question comes from the line of Scott Treadwell. Your line is open.

Scott Treadwell — TD Securities

Hi. Good morning, guys. Just wanted to get a sense maybe on the bid book, can you give us any sense of sort of the makeup of it? Is it sort of dominated by smaller projects? Or is there a geographic focus in the bid book that's substantially different from the revenue make-up today?

Gary Love

Yeah. A couple of comments. The bidding activity is strong in all of our regions. Now is it true that if you were to look back a year ago, the bidding activity would have been heavily weighted towards Asia Pacific. Today I'd call it much more balanced.

We have significant projects that are underbid in EMAR, also in the Americas, and Asia Pac continues to be a source of strong bidding activity. So looking forward it's probably more balanced than it was a year ago.

Scott Treadwell

Okay. Great. And secondly, I guess, would be just to look at the income statement on the G&A line, the first three quarters of last year kind of in that sort of low to mid 70 million per quarter range. Understanding that there's some one-time costs here in Q1 and potentially some more here in Q2, what do you think the underlying G&A rate is for the Company once we get through whatever noise is in front of us?

Gary Love

Well, first of all, the expenditures related to the Plan of Arrangement transaction, those are now done for all intents and purposes. So the 12.6 million, call it 13 million, of what we're calling one-time charges in the first quarter would not be reflected in our subsequent quarter. So I think you can back that out of the 91 million SG&A, and that should be reflective of a run rate.

Scott Treadwell

Okay. Perfect. And I caught a snippet of Flexflow, and I know you had sort of talked about that in the past. Is that to say now that that's a commercialized technology? Or is it still sort of in the short strokes of getting there?

Gary Love

Still under development. Bill, do you want to…

Bill Buckley

Yeah. It's under development and going through its testing regime. And we would expect that we'll be commercializing it in early 2014. It might be going to some specific sponsored customers in the last quarter of this year.

Scott Treadwell

Okay. Perfect. That's all I've got, guys. Thanks very much for the colour.

Gary Love

Yeah. Thanks.

Operator

Your next question comes from the line of Sarah Hughes. Your line is open.

Sarah Hughes — Cormark Securities

Hi, guys.

Gary Love

Morning.

Sarah Hughes

I guess, Gary, to start off. So the pipeline margin's very strong this quarter. And I think if I remember correctly when you were talking last quarter you said maybe a percent or 2 up, but not too much, and I think it's up 5 percent versus last quarter. So this quarter what surprised you in terms of the margins? Was there any one area? Or…

Gary Love

Yeah. Well, first of all, if we look at EBITDA margin…

Sarah Hughes

Yeah.

Gary Love

In the Pipeline segment, in the fourth quarter we were at 27 percent and this quarter we're at 29.6 percent, so up about 2, 2.5 percentage points, which is a little higher than what we had expected. Really the performance in Asia Pacific has been extraordinary. And what we're seeing in our two facilities in Asia Pacific, both the Malaysia facility and the Indonesia facility, is we're seeing throughputs that are beyond what we had expected. And that's positive for margins.

And we're—we may not be running as hard in subsequent quarters as we were in the first quarter, but certainly the backlog's going to support a high level of activity. So we may come down a little bit in margins as we go forward.

As I said I think on a previous question, I can't guarantee we're going to hit 29.6 percent again, but we're going to stay at high levels for the next few quarters, certainly based on our backlog.

Sarah Hughes

And the higher than expected throughput, is that the big contracts coming faster in terms of you producing them faster than expected? Or did you get more smaller contracts to fill in?

Gary Love

No. It would be higher production levels, particularly on Wheatstone and Ichthys.

Sarah Hughes

Okay. And the main export line for Wheatstone, is that close to being done?

Gary Love

Yeah. That would be pretty much done now. I don't think it's been loaded out, but the main coating activity on that gas trunk line is complete. Both plants are now focused on the Ichthys gas export line. We are starting up the Wheatstone flow line activity now and into the third quarter, and then we'll be starting the Ichthys URF, which is the flow lines, riser flow lines, in the second half of the year.

Sarah Hughes

And would you be able to—because Socotherm when you purchased the other remaining percent on the Gulf of Mexico side, would you be able to give us a bit of an update in terms of the revenue potential we could see from Socotherm? Or kind of their backlog versus where it was a few quarters ago, just to give us kind of a better clarity in terms of the growth in that division?

Gary Love

Yeah. The Socotherm backlog today is approximately 120 million of our total 875 million, and so that's what they will execute over the next 12 months. And that backlog is based on the facilities that we are consolidating on a go-forward basis, which would be the Socotherm facilities in Europe, in Argentina, and now of course in the USA.

We are not consolidating on a go-forward basis Socotherm's operations in Brazil or Venezuela. Those will be equity accounted under the new IFRS accounting rules for joint ventures that came into effect at the beginning of this year.

So we have the consolidated facilities that are generating the backlog that I spoke of. And then in addition, Socotherm and ShawCor will recognize operating income from joint ventures which will be shown in our income statement on that separate line item for income under—income from joint ventures.

Sarah Hughes

Okay. That's it for me. Thank you very much.

Operator

Again, I'd like to remind everyone in order to ask a question, please press *, then the number 1 on your telephone keypad.

And your next question comes from the line of Dana Benner. Your line is open.

Dana Benner — AltaCorp Capital Inc.

Morning, guys.

Bull Buckley

Morning, Dana.

Dana Benner

I wanted to start with Asia Pac, a favourite topic of everyone right now. And thinking back to Q4, 150 million of revenue was an outstanding number; could not possibly beat that; came in at 165 million this quarter. I understand that job mix is changing, et cetera, there at Kabil and Kuantan, but having said that, you also mentioned that you're adding capacity in Kabil. I think that's for the Apache project. And so having said all, that what are the chances that we could see an even higher revenue number in any of the next say three quarters out of that region?

Gary Love

I think realistically that's unlikely. What we had in the first quarter was a really big overlap of Wheatstone and Ichthys, and Wheatstone is now—the gas export line is now complete. And in terms of large diameter concrete weight coating, both plants are focused on the Ichthys project. So we'll see things moderate in the second quarter because we don't have that overlap that we had in the first quarter.

As we get into the third quarter we'll be picking up more of the flow assurance work. I think it would be probably excessively optimistic to think that we're going to go beyond the 165. It's possible, but I wouldn't consider that the base case scenario.

I think what we said—the 150 that we said was a good run rate in the fourth quarter. I would still argue that's a good run rate for the balance of the year.

Dana Benner

Okay.

Gary Love

But again, it will move around, and our plants will execute the work as efficiently as they can. And so if we're getting the throughputs and the pipe is available, we will run the projects because that's the most efficient way to do it and that's the way to generate the maximum margins and returns.

So if the opportunity's there operationally to generate more revenue a quarter, of course we will. But I think we should recognize that the first quarter was somewhat extraordinary in terms of that overlap and the impact that that had.

Dana Benner

Right. I guess just sticking within the region, my recollection is that that the IDD project may be the next substantial one that's in the bid list right now. Any update upon how that may be unfolding?

Bill Buckley

No, Dana. We're still working on that. That project, assuming that we're successful, will impact our business in 2014 and 2015. It will likely start at the end of 2014, so that starts to fill in behind Wheatstone and Ichthys.

And there are some other large projects pending as well that we're working on in the region, like the Shell Malikai in the PCSB gas balancing project in Malaysia, and a series of projects that are in the deep water sections of Indonesia that we're pursuing. And those will drop in in mid to late 2014 and fill in 2015 as well.

Nothing new on IDD; lots of work on our bid teams pursuing; that contract hopefully we'll have something for you by next quarter.

Dana Benner

Great. Moving back to Socotherm, to what extend do you feel there is margin upside corporately say within the next two years from Socotherm fully rebuilding its backlog; understanding it's operating as a separate entity, but as they refill that backlog and move to best practices, to what extent could we see that margin growth get up to say ShawCor normalized or historical levels say prior to this big ramp-up, and then ultimately filter through to ShawCor corporate?

Gary Love

Well, I would say that today, Socotherm's operations are not generating EBITDA margins at the level that we ultimately expect they can get to. So all other things being equal, there is a positive impact on our consolidated results as we see margin improvement in Socotherm's operations.

The key to improving Socotherm's operations will be better utilization. Certainly that in respect to the Gulf of Mexico operation is, I think, quite likely in light of the backlog that they have we'll start to see that in the second half of this year.

The two big projects that that facility will execute are the Lianzi project and the Exxon Julia project, and those are both going to start up in the second half. And so utilization will improve clearly.

The other area of improvement opportunity is the possibility of a restart of Socotherm's facility in Sicily. And there are several West Africa projects that Socotherm are targeting and currently bidding on that would enable a restart of that plant. And I think that improvement in utilization, should we be successful in securing that work, would have certainly a meaningful impact on Socotherm, and that would flow through to ShawCor as well.

Dana Benner

All right. Just one final question; I don't know any other way to ask it, so just bear with me. So if we think out the next three years, I'll list off four things that you've spoken about as being high potential. And maybe you would care to comment on which one you think ultimately may offer the greatest upside. So among Flexpipe acquisitions, Brazil, and Brigden, all clearly offer upside to you. Which of them do you think ultimately could power ShawCor to the greatest level if you execute well?

Gary Love

Bill, go ahead. That's an interesting question. Do we have to rank them in order of priority one through four?

Dana Benner

I'll let you answer it as you wish.

Bill Buckley

Okay. Okay, Dana. When we see the projections for Flexpipe, of course they're quite strong, and that's who we're going to execute on an organic expansion. And we've talked about expanding with a plant in the US and also expanding the product range with FlexFlow, which gets into a straight length product in larger diameters, which will allow us to access the international markets first from a ship-in basis and then with local manufacturing. So executing on that will be very important, and we think that this will be a very substantial business as we build it out over the next, as you say, three-plus years.

In addition, you have to remember that Flexpipe came to us as a small start-up technology company serving a very local market, and we were able to take it and scale it up and bring it into the US market and then now into Latin America and Australia and do that successfully with a very strong management team. I think that's an example of what is going to result from our active acquisition program.

And as we've mentioned in the past, we've brought in some senior management talent into our acquisition department. We are looking for technology businesses that are scalable where we can lever our international platform of operations and sales organization. And I think there will be other businesses that we add that will grow on the same trajectory path that Flexpipe has grown.

And I think you'll find them to be somewhat synergistic, at least in the target areas that we're looking. So they're not disparate opportunities, but I think they will have synergies, one to the other, in the areas that we're focusing on.

Moving to Brazil. Brazil I think has been a little bit of a disappointment for us. I think it's been a little bit of a disappointment for the Brazilian government and for Petrobras, as they have had to revise their strategic plans and have changed out their senior executive.

The Brazilian opportunity is real, will happen. We intend to participate in that. We intend to participate in it with our fixed plants that we have in Brazil. There is also an opportunity, though, to bring a Brigden plant to the coast in Brazil, and that is one of several Brigden opportunities that we're looking at at the moment.

And I think you will see us executing on Brigden. I think three years from now I would expect there'll be at least three to four Brigden facilities, Brigden plants operating in various locations around the world. As I say, we're looking at five or six opportunities now. I think three or four of those will be realized within the next three years. Adding up the potential of those, those will be about equal to one Flexpipe today. So that gives you sort of a sense for relative size.

I think the four points you mentioned are all good individual growth initiatives for us, and we're going to execute on all of them.

Dana Benner

Well, that's great. It seemed to me a couple calls ago you said you wouldn't pick a favourite child, so you still haven't. I'm good. Thank you.

Gary Love

Thanks, Dana.

Operator

We have no further questions at this time. I'll turn the call back over to the presenters.

Bill Buckley

Okay. Well, thank you, Operator, and I'd like to thank everyone for your participation today and interest, and Gary and I look forward to talking with you again next quarter. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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