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## CORPORATE PARTICIPANTS

**Gary Love** *ShawCor Ltd - VP - Finance & CFO*

**Steve Orr** *ShawCor Ltd - President & CEO*

## CONFERENCE CALL PARTICIPANTS

**Jeremy Mersereau** *National Bank Financial - Analyst*

**Dana Benner** *AltaCorp Capital Inc. - Analyst*

**Sarah Hughes** *Cormark Securities Inc. - Analyst*

**Scott Treadwell** *TD Securities Inc. - Analyst*

**Dan MacDonald** *RBC Capital Markets - Analyst*

**Lake Maracaibo**

## PRESENTATION

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### Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the ShawCor 2014 Second Quarter Results conference call. (Operator Instructions). I would now like to hand the conference over to Mr. Gary Love, Chief Financial Officer. Sir, you please go ahead.

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### Gary Love - *ShawCor Ltd - VP - Finance & CFO*

Yes, 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 our Second Quarter 2014 Earnings Press Release. This is available on SEDAR and on the Company's website at shawcor dot com. I will now introduce ShawCor's CEO, Steve Orr.

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### Steve Orr - *ShawCor Ltd - President & CEO*

Thank you, Gary, and thank you ladies and gentlemen, for participating in this morning's conference call. ShawCor released our second quarter financial results yesterday evening. The results are solid with the revenue in the quarter reported at \$441 million. As expected, revenue did decline modestly from year ago levels as project volumes in Asia Pacific wind down following completion of the Chevron Wheatstone and the Inpex Ichthys project.

However, we did solid year-over-year growth in each of our other regions. This was particularly evident in North America with growth across a number of product lines, and EMAR with a pick up in pipecoating volumes in the UAE and Italy.

With the decline in high quality revenue coming from Asia Pacific large projects, we did experience this happening in overall operating margins with the pipeline segment and operating margin decreasing to just under 19%. We expect further softening in operating margins in the second half of the year now that we have complete the Inpex Ichthys [Flowlines] project in Asia Pacific.

The weakening and financial performance in the second half of the year is expected to be temporary. Based on growth in our backlog and a strengthening in bidding activity, we are increasingly optimistic that 2015 will provide solid growth in revenue and earning.

I will comment further on the outlook in a moment. But first, I will ask Gary Love, our CFO to provide you with key details of the second quarter financial results.

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### Gary Love - *ShawCor Ltd - VP - Finance & CFO*



Yes, thanks, Steve. We are reporting revenue of \$441 million in the second quarter. That's a decrease of 3.5% from the second quarter of 2013. It's also down 8% from the first quarter of this year. Now, compared to the prior year, revenue increased in every region in both segments with the exception of the pipeline segments in Asia Pacific region.

The most significant increases were in the pipeline segment with North American revenue up 13%. That was a result of growth at Flexpipe and the Socotherm Channelview acquisition; and at EMAR with revenue up 41% due to higher volumes on a variety of projects at our Ras Al Khaimah facility in the UAE. These increases were not sufficient to offset the \$62.5 million or 37% decline in revenue in Asia Pacific in comparison with a year ago with the Inpex Ichthys gas export pipeline project had been in full production.

Compared to the first quarter of this year, the revenue decrease was attributable to a 10% softening in North America with Canada impacted by spring break up and a temporary reduction in U.S. land weld inspection work. We also had a 17% decrease in Asia Pacific due to a reduced volumes on the Ichthys Flowlines project. In the petrochemical segment, revenue increased over both the first quarter and second quarter of the prior year due to strong growth in wire and cable shipments and on a year-over-year basis due to growth in European automotive shipments.

On a consolidated basis, reported gross margins in the second quarter are 40.6% down from 41.4% in the first quarter and down from 42% a year ago. The pipeline segment and gross margin was 41.7% versus 42.5% and 43% in the first quarter and year ago respectively. In each case, the decline in gross margins is attributable to the continuing decrease of Asia Pacific revenues with their higher associated gross margins as a percentage of overall company revenue.

The petrochemical segment and gross margin increased to 31.2% to 30% in both the first quarter and the year ago quarter. Now, with both revenue and gross margins lower, gross profit decreased by \$13 million or 7% from the prior year. SG&A expenses were basically unchanged from the prior year due to reductions in our short-term incentive and compensation accruals that offset both salary and cost inflation; and higher long-term incentive plan costs.

The Company's consolidated EBITDA for the second quarter is \$82.9 million, a decrease from \$102 million a year ago. The consolidated EBITDA margin in the second quarter is 18.8%, consisting of 22% in the pipeline segment and 19.3% in the petrochemical and industrial segment. Depreciation and amortization in the second quarter is \$15.1 million, a reduction of \$5.3 million from a year ago. This amount will increase substantially in the third quarter with the commencement of amortization of intangibles resulting from the Desert NDT acquisition.

Below operating income, we have reported a gain from the sale of joint venture interest of \$2.5 million. This has been partially offset by losses from joint venture operations of \$1.7 million. During the second quarter 2014, the Company has recorded an effective tax rate of 27%, which is in line with the Canadian statutory rate and also of the rate we had in the first quarter. It's down slightly from 29% that was recorded in the second quarter a year ago.

Before changes in noncash working capital, the cash flow provided by continuing operations was \$61.6 million. This compares with \$79.8 million and \$79 million in the first quarter and year ago quarter respectively. The decrease was primarily due to lower net income and depreciation. The change in noncash working capital was a net cash outflow in the second quarter of \$48.2 million. This compares with a cash outflow of \$63 million in the first quarter and a cash flow of \$102 million a year ago. The decrease in the cash outflow for working capital primarily reflects the normalization of deferred revenue and accounts receivable following the completion of the Inpex Ichthys pipeline projects.

Total net working capital at the end of the second quarter 2014 has reached \$294 million. This compares with \$136 million at the start of the year. The major changes include over the six months, a \$68 million build in account receivable. The change in deferred revenue, which is leveled out at \$64 million; and that was down from \$84 million at the start of the year; and a \$20 million reduction in assets held for sale.

Cash flow used in investing activities in the second quarter excluding reductions in short-term investments was \$26.8 million. This consists of capital expenditures of \$20 million. The SAIS acquisition of \$1.7 million and the payment of deferred purchase consideration that relates to the 2010 Brazil acquisition of \$18 million. These amounts were partially offset by proceeds from the sale of joint venture interests of \$12.8 million.

Based on the excess of investing cash flows over cash generated from operations in the second quarter, our cash plus short-term investment's balance has decreased to \$50 million compared with \$64 million at the start of the quarter; and \$86 million at the start of the year. I'll turn it back to Steve for his commentary on our outlook.

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**Steve Orr - ShawCor Ltd - President & CEO**



Thank you, Gary. As I noted at the outset of this call, we continue to expect that earnings in the second half will lag the performance that we reported for the first six months of this year. A decline in performance will be attributed to lower operating margins as opposed to revenue decrease. The margin decline will be a direct result of overall product mix shift as revenue moves away from Asia Pacific and large projects that have been so accretive to margins over the past 24 months.

Now, despite this short-term outlook for modest weakening in earnings, during the second quarter we experienced a number of positive developments that position the Company very well for strong growth in revenue and earnings in 2015 and beyond. First, we secured several large contracts and reported an overall increase in order backlog; which ended the quarter at \$684 million up from \$617 million at the start of the year. Key contract awards in the second quarter included the 70 million pipecoating award for South Caucasus Pipeline, which is the first scope of pipecoating to be awarded in connection with the BP [led] Shah Deniz gas development in the Caspian Sea.

Another important project in EMAR region in South Stream. With this quarter's announcements, we have secured over 130 million in coating contracts, including the concrete weighted coating and joint protection for South Stream Line 1; and the anticorrosion coating for South Stream Line 2. There is additional work still underbid in this area. In addition to the growth in backlog, we also noted a pick up in bidding activity with a value of currently outstanding firm bids now exceeding one billion.

The largest component of this bid amount continues to be various scopes of work that make up the Shah Deniz Project. However, bidding activity is quite diverse with large projects underbid in Asia Pacific, Latin America, and both East and West Africa. The continuing strength of bidding activity provides us with the optimism that we will see further backlog growth through the second half of this year.

Another key development in the second quarter was the finalization of agreement to acquire Desert NDT. This transaction closed on July of the 8th; and thus, the result of Desert NDT will be included in our second half performance. Desert NDT is a premium company that provides us with earning accretion this year and along with our existing Shaw Pipeline Services business, it will provide us with a solid platform on which to grow our pipeline integrity management business.

In the area of technology and development, a number of advances are noteworthy. First, we are now fully in the early adopter stage of our new six inch [FlexFlow] composite pipe product with several customers having installs. During the third quarter we expect to complete the acceptance testing of the high volume and production [tape winder] and making the move of this equipment to install it in the new FlexFlow facility in Calgary.

Once this is complete, we will be well positioned to rapidly expand our production capacity. Our focus then will be to introduce and work on the eight inch FlexFlow product in the fourth quarter of this year. With these milestones well in hand, we are confident that the significant FlexFlow commercial volumes will be realized in 2015.

Another important technology development in the second quarter has been the continued expansion of the IntelliCOAT automated field joint application system. IntelliCOAT was a critical factor in the award of the South Stream Line 1 joint protection contract. The South Stream application will represent our very first use of IntelliCOAT for an offshore pipeline.

Technology developments continued in several of the other business units as well. They include the successful field trial of our next generation and real-time radiographic and welds inspection system; commissioning of our [lathes in the back box mobile lathes] configuration; and the continued deployment of pipe tracking and traceability enabling technology that we have jointly developed with Vintri.

Finally, I would like to highlight the continued gains in operational effectiveness at the Socotherm. Our efforts to improve the operation and performance at Socotherm, the Gulf of Mexico facility in Channelview, Texas have continued. The margins from this facility have shown quarter-over-quarter improvements. At the Socotherm facility in Pozzallo, Italy, we have successfully relaunched the plant; and have executed the first of three projects that will be undertaken this year.

Based on this success, we are well positioned for the launch of the [40] million [Mobile North Project] later in the third quarter. With that, I would now like to turn this over to questions. I want to ask the operator to open it up.

#### QUESTION AND ANSWER

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#### Operator

Thank you. (Operator Instructions) Our first question comes from the line of Jeremy Mersereau from National Bank Financial.

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**Jeremy Mersereau - National Bank Financial - Analyst**



Good morning, everyone.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Good morning.

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**Jeremy Mersereau - National Bank Financial - Analyst**

First, I was just wondering what the sales for Flexpipe were for the quarter?

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes, we don't disclose business unit level revenues. What I can say is that Flexpipe continues to grow. In fact, if we look at... We have talked directionally about sort of order magnitude where Flexpipe is as a business. In 2013, we've indicated that it was operating in the approximate \$150 million on an annualized basis. It has continued to grow from that level. We would expect that in 2014, we will see solid double digit growth in that business. Certainly that's been the case in the first half of 2014.

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**Jeremy Mersereau - National Bank Financial - Analyst**

I guess you said you should see significant growth from the FlexFlow product in 2015. Can you give us an indication of what kind of significance that would be?

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**Steve Orr - ShawCor Ltd - President & CEO**

No, I think maybe [Richard], to be very clear. We talked about two separate product expansions in 2015, right. We were launching today the six inch [750]. We have installed it. It's in early adopter phase. We're now moving to commission the production of that product in Calgary. Then the next one we'll bring to market. We will finish the introduction this year. It will be the eight inch 750.

That means by the end of this year we will be set up in 2015 for the commissioning of both lines. But I would say that the revenue will be not material than the overall (multiple speakers) material of FlexFlow. We will still contribute to make most of our money from our core product; which is the [dry fiber wylin] product four inch and below, and the FlexCord.

It won't be until I would say the fourth quarter of probably -- certainly the fourth quarter, but very confident in the first quarter of 2015 that you really see full production of the FlexFlow product. I don't expect you'll see any revenue Q1 and Q2 next year.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Any material revenue, yes.

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**Steve Orr - ShawCor Ltd - President & CEO**

Any material revenue, yes. That's a [good fee] -- that is visible.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes, I think the sort of production ramp up is going to be very much related to the build up of the capacity. We see that sort of capacity building through 2015. Appreciate that at this stage, we're still in early adapter trials. We will be in commercial release in 2015. But the real meaningful contribution of revenue, I think we'll see that in 2016.



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**Jeremy Mersereau - National Bank Financial - Analyst**

Next on the backlog; is it safe to say that most of the growth came from EMAR and the, I guess reductions came from Asia Pac?

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Definitely, the reductions came from Asia Pac. The build in backlog was certainly evident in EMAR with the large projects. But also, we did see some growth in the Americas as well.

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**Jeremy Mersereau - National Bank Financial - Analyst**

OK. I guess back to the Asia Pac. Do you see 2015 and the '16 levels increased from the reduced rate we're expecting in the second half of the year? Or, is that the new run rate?

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Well, I think one of the critical elements in our outlook for Asia Pacific in 2015 will be a project that is currently being bid. That is the Chevron IDD project. It will, if we are awarded that project; then that would be I think significant in terms of providing a potential pick up in activity in Asia Pac. That is a key project. It's in our bid list today. Between now and the end of the year, we would hope to have some indication of which direction that is going to go.

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**Jeremy Mersereau - National Bank Financial - Analyst**

OK. Thank you very much.

Operator: Thank you. Our next question comes from the line of Dana Benner from Altacorp Capital.

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**Dana Benner - AltaCorp Capital Inc. - Analyst**

Good morning, gentlemen.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Good morning.

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**Dana Benner - AltaCorp Capital Inc. - Analyst**

I wanted to start with Shaw Deniz. You already announced some initial success there and acknowledging that there's certainly more out there that you could win. Any additional color on where you think those processes are? That would be very helpful.

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**Steve Orr - ShawCor Ltd - President & CEO**

I think we have seen an acceleration in the discussions around the contractual terms related to large projects in the Caspian area. I think in all fairness it's probably driven by the need for Europe to look for alternatives or additional gas other than Russia. Everything is moving ahead. It's being accelerated.

I would fully expect we will have a clear understanding of the award no later than the beginning of Q4. I think this is the expectation. But we are now at the point - we're now to the nuts and bolts of the negotiations and the bidding structure to secure this work.



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**Dana Benner - AltaCorp Capital Inc. - Analyst**

Right. OK, well that's a helpful update. Secondly, with respect to the... I know that you guys don't like to give too much in the way of guidance. But we appreciate any that you do. I note the comment that revenues should be higher now in '14 versus '13, given the acquisition of Desert. Having said that, I run that through my model.

It would appear that would even be higher than I would have been expecting. I wonder if that's simply a reflection of the contract wins that you've made in EMAR? Or, if there's maybe an optimism in any other part of your global business lines that might have pushed your internal expectations higher?

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**Steve Orr - ShawCor Ltd - President & CEO**

I think it was sharing the question a little bit, Dana. I think the first thing that we're actually seeing is that our day to day activity and businesses that probably are not even visible in the backlog is growing. For example, SPS is doing very well. This would not show up.

We're going back much closer to the historical numbers where our revenue stream is getting closer to the 80% of the day to day revenue is coming -- is resulting in topline growth. We're seeing strengthening in these businesses. Then I'll let maybe Gary comment in terms of how much we're going to exceed 2013 in reference to Desert, right?

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes. I think the underlying takeaway here is that whereas probably at the outset of this year, we would have expected revenue in 2014 to be less than 2013. Today, we would expect it to be on par or higher, or slightly higher than 2013. That's really the -- and a large element of that, of course, is Desert NDT.

Desert, on a revenue basis is a business generating on an annualized basis in excess of \$100 million. We will have a full six months of that contribution in our revenue in the second half of this year. That is something that certainly wasn't visible to us at the start of this year when we had provided the qualitative guidance that revenue would be down in 2014.

Now, we must stress however that we are not altering our view around margins. Margins will be lower in 2014 than they were in 2013. We've been very consistent on that point. We've restated that again today. In fact, the specific point that Steve made earlier on the call was that we will see margins coming down from the second quarter levels and in the second half of this year.

That's certainly, I think inescapable. But of that are the largest element of that is the product mix shift. But also, we have an element in our cost structure in the second half of a repositioning of activity as we have to draw down costs in Asia Pacific. We're building up costs particularly in EMAR to support what will be extremely strong volumes in 2015 in that region.

We're going to suffer from that a little bit in the second half of this year. Probably in particular in the third quarter of this year. Certainly, a good news story on the revenue side. But balanced by a challenge on the margin's side; a challenge that we do think is somewhat temporary. That then as we start to get into 2015 and see full volumes on some of the work that we are anticipating, we'll be in production. We should see a better story on margins.

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**Dana Benner - AltaCorp Capital Inc. - Analyst**

Right, just two more questions if I may. Firstly, even though you've secured a number of EMAR projects, the bid log is up by roughly \$200 million. Any additional color that you can give on the increment would be helpful. Then secondly, maybe you could address the accelerated shipments of Flexpipe into Brazil, or I guess into Latin America. I don't know if you specified Brazil, but into Latin America.

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**Steve Orr - ShawCor Ltd - President & CEO**

Well, I think Dana, [is not] the Latin America shipment of Flexpipe is primarily in the Anti-Buoyant product of FlexCord. We're moving it into Venezuela for the application in Lake Maracaibo. We will see in 2014 -- we've started seeing revenue. We're paying in advance for this work.

We recognize the revenue upon deployment of the product. We will see in 2014 in Q3; so next quarter we'll start seeing it. We're on schedule. The majority of I would say one-third of the shipment has gone out. We'll see this in Q3. The first part of your question, I'll let Gary take.



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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes. I guess when we look at the bid backlog, we were citing at the end of last quarter, an 800, roughly \$800 million bid backlog. That's now increased to an excess of a billion dollars. There are a number of additional smaller projects that are now underbid. I would have to say a fairly diverse range of smaller projects that have been bid.

In addition though as we've moved through the bidding process and as the scope of work has been firmed up, we have seen some high bid values on projects that were underbid in the prior quarter. It's probably Shah Deniz being the most relevant. That's not unexpected. Because we bid to a scope of work.

We provide a firm bid. Then clients will often ask us to rebid based on changes in scope. In this particular case and in a number of cases, we've seen higher of scopes of work. Thus, the total value of the outstanding bids has been increasing.

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**Lake Maracaibo**

OK, I really appreciate the detail, thank you.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes.

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**Operator**

Thank you. Our next question comes from the line of Sarah Hughes from Cormark Securities.

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**Sarah Hughes - Cormark Securities Inc. - Analyst**

Good morning. Gary in Asia Pacific, would you be able to tell us how much of the excess contract you delivered this quarter?

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

We, for all intense and purposes we completed the Inpex Ichthys Flowlines project. The volume on that was down a little bit from -- Off the top of my head, I do not know what the exact revenue was that we delivered in the quarter. But the project is basically done. It was \$100 million project.

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**Sarah Hughes - Cormark Securities Inc. - Analyst**

Yes.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

You will recall. It was executed basically over the two quarters. But there was a distinct tilt to the first quarter. Whether it was 60%,40%, I can't say off the top of my head.

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**Sarah Hughes - Cormark Securities Inc. - Analyst**

OK. In previous quarters, you were guiding for 2014, Asia Pacific revenue to be at least 50% of 2013, (inaudible). Is that kind of still what you're thinking about for this year?





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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes. Obviously we're, with what we've reported in the first six months, the implication is of significant reduction in the second half in Asia Pac. We said that our revenue would be down by about 50%. That's what we said. That continues to be our outlook. But year to date we've generated or we've reported \$249 million of revenue from Asia Pac. The implication is a really significant decrease in the second half. That is exactly our outlook.

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**Sarah Hughes - Cormark Securities Inc. - Analyst**

OK. What is the outlook look for Asia Pacific next year in 2015?

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Well, to the previous question, the answer (multiple speakers) would have to be repeated. It's going to very much depend on IDD. I think the good news on IDD is that project is moving ahead. Clearly, there have been announcements and contracts are being issued. The award of work on the pipecoating scope of work would translate into revenues fairly rapidly after award. It is a project that is very much potential for 2015. But, of course, we have to be awarded the work first.

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**Sarah Hughes - Cormark Securities Inc. - Analyst**

Then would you be able to tell us in your bid book approximately around how much Shah Deniz represents?

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes, we can't. If you'll see, we're bidding the work. We're not going to provide the specifics. But it's a meaningful component of the total bid book.

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**Sarah Hughes - Cormark Securities Inc. - Analyst**

Then you talk about [in your own DNA] and the Flexpipe side of things that you've seen good success in Latin America. You talked about growth in that area. Can you just talk a little bit about where that's come from?

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**Steve Orr - ShawCor Ltd - President & CEO**

Sarah, it's primarily Venezuela.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes.

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**Steve Orr - ShawCor Ltd - President & CEO**

To date with some success in other Latin America companies around small [insells] in Columbia. But primarily --

(multiple speakers)

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

[Columbia and Argentina] as well.



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**Steve Orr - ShawCor Ltd - President & CEO**

-- Columbia and Argentina in that area.

(multiple speakers)

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Argentina as well --

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**Steve Orr - ShawCor Ltd - President & CEO**

But primarily the largest is the Anti-Buoyant product into Venezuela.

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**Sarah Hughes - Cormark Securities Inc. - Analyst**

OK. That's it for me. Thank you.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Thank you.

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**Operator**

Thank you. Our next question comes from the line of Scott Treadwell from TD Securities.

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**Scott Treadwell - TD Securities Inc. - Analyst**

Thanks, good morning, guys. I wanted to maybe jump back to Flexpipe. Obviously you're talking about ramping up capacity of the six and eight inch lines. At this point, the investment you've made in the new production equipment.

Can you give us a sense that maybe at full capacity what kind of revenue that might generate? Obviously, there's a ramp up period. It's not going to get to a 100%. But what would be the sort of blue sky level based on the investment you've made to date?

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**Steve Orr - ShawCor Ltd - President & CEO**

I think I'm not sure if you were with us yesterday. We just had a Board meeting. We spent yesterday looking at the investment that we require to bring [Flexible] at full production level. I think we have to look back to what we've done with our core products. When we build a plant, we put it in. Then we have optimized volumes that continue to increase.

If you look at and the variable on -- of course, is the equipment. But also, the price that you can get with the product. I would expect when we're fully installed in the facility that we build in Calgary for FlexFlow when it's fully and up and running at our current requirement and with the lines that we -- again, we're doing the acceptance testing to prove the product. It will be in excess of in the 60 million, \$75 million range full out. But that's with the understanding of pricing point that is quite conservative.

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**Scott Treadwell - TD Securities Inc. - Analyst**

OK.



(multiple speakers)

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Be clear, though, Scott. Be clear that capacity is not in place today, far from it. The capacity we have in place today is really capacity that you would have to see us as R&D type of volumes. We're producing pipe for testing. We are able to produce sufficient pipe for early adapter trials, but on a very limited basis. We now need to undertake investment to start building up real production capacity.

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**Steve Orr - ShawCor Ltd - President & CEO**

Yes. I think Scott, we were talking about this in the past. I think it's to give people numbers for the understanding of kind of the challenges we're taking on board and where we're moving. Is our current and what Gary referred to as R&D [winder], it does a joint of FlexFlow per day. This is a one joint.

Our acceptance testing of the high speed winder that will go into production. It will do a joint of pipe of every ten to 11 minutes. We have to move all of that equipment and put it in place, and industrialize it. This will start and is underway right now. But that's why we keep referring to revenue from FlexFlow at the end of 2015.

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**Scott Treadwell - TD Securities Inc. - Analyst**

That's great. That was kind of what I was looking for. Obviously, there's a lot of distance between here and there. But at least an idea of what you're aiming for is great to start with. I wanted to move on and lots of discussion around South Stream. I'm sure you've gotten this question a lot. In your view, is there any heightened risk to project delays or deferrals given the geopolitics of the region today? Or, are you still relatively comfortable with that revenue stream proceeding as you sort of expected it would?

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**Steve Orr - ShawCor Ltd - President & CEO**

It is indeed a question we asked often. It is something we monitor very closely. I'll make a very clear point to start with. Today, we have seen no indication of delays. In Q3, and we anticipate -- in Q2, sorry. We anticipate in Q3 that we'll continue to execute and receive pipe on schedule related to the South Stream projects.

This includes the [line] pipecoating and the field joint coating that we've been awarded. We've seen nothing. I would also add that the structure of our contracts really don't give us much exposure with the exception of the projects actually being delayed. Right, and I don't think in anybody's intelligence today that the project will go away. Because Russia will continue to look for avenues to move gas to the European market without going through the Ukraine.

We're watching it. Today we don't see anything. We have an [in statement] I made earlier today in our backlog or in contracts that have been awarded. It's about \$130 million, alright. With the mechanism of how we put in backlog numbers, it's the portion of our backlog numbers of the \$130 that we'll execute in the next 12 months. We watch it all of the time. I don't think if you look at the sanctions, South Stream stands out. Because South Stream is a gas line.

Gas is absent from sanctions. However, the most recent ones that look at banking and financing may play some role. But to date, we are receiving pipe from [EUROPIPE] and the [Japanese pipe mills] on schedule on time. We don't see anything. We continue to anticipate we will receive the revenue opportunities throughout the whole project on time.

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**Scott Treadwell - TD Securities Inc. - Analyst**

OK. Good, shift to Latin America; and it feels like Mexico seems to be getting closer and closer to whatever its new normal is going to be. Have you seen an increase customer inquiries and bid activity? Anything like that, that would give you cause for sort of concrete optimism as you look into '15?

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**Steve Orr - ShawCor Ltd - President & CEO**



Yes, I think so very well said. We're seeing in some of our businesses that have a quicker cycle time, we're seeing an uptick. For example, Guardian in Mexico today is seeing increased growth and higher than we expected. On our pipecoating businesses, we also are seeing increased bidding activity. Yes, that's. We are seeing higher than expected activity at this point and time. We thought it would come closer towards the end of the year.

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**Scott Treadwell - TD Securities Inc. - Analyst**

OK, great, and the last one for me. With the bid book increasing, have any firm bids yet gone out for pipe work related to Canadian LNG projects?

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**Steve Orr - ShawCor Ltd - President & CEO**

No.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes, there are no -- none of the Canadian projects are in our firm bid list. They are in our, several of them at least, are in our budgetary or visibility list. That's another billion dollars by the way. That's where we would see some of the Canadian work. It has not reached from bid stage yet.

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**Scott Treadwell - TD Securities Inc. - Analyst**

OK. Would you characterize those projects as having progressed through that sort of budgetary estimate process in the last sort of three to six months?

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

They were, through the engineering phase, they continue to progress through the engineering phase.

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**Steve Orr - ShawCor Ltd - President & CEO**

Yes. Some faster than others; and I think you recently received an [ultimate with Apache], right? But certainly some have -- are moving on schedule for what I think a more detailed discussion towards Q1 and Q2 next year, right.

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**Scott Treadwell - TD Securities Inc. - Analyst**

OK. Great, guys as always. I appreciate the color. Thanks very much.

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**Operator**

Thank you. Our next question comes from the line of Dan MacDonald from

RBC Capital.

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**Dan MacDonald - RBC Capital Markets - Analyst**

Hi, good morning.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Good morning.



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**Dan MacDonald - RBC Capital Markets - Analyst**

Hi, I am just wondering. Is there anything else of materiality in the backlog to date for Russia? Then, can you give us a sense if there's anything material in the one billion plus in bids outstanding that would be exposed to Russia?

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**Steve Orr - ShawCor Ltd - President & CEO**

[Maybe we will] position Russia a little differently, right. The ones that are potential delays solely relates to South Stream. I think these are the ones that -- and this is the one, the scope of work. However or the potential friction of sanctions are presenting opportunities in other ways. I mentioned already Shah Deniz is moving quicker in terms of final award than we thought. I think it is a direct result of potential frictions associated with sanctions. But the only -- to answer your question very clearly, Dan. It's only the South Stream.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Just to maybe add to that, Dan. We do have additional work in our bid bank relating to South Stream, but only to South Stream. We are not bidding any other projects at this moment at least in Russia. Nor for that matter are any of our other business units active in Russia. We do not have any operations in Russia at this time.

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**Dan MacDonald - RBC Capital Markets - Analyst**

Would you classify the additional potential of South Stream work in the bid book as materially in the context of the sort of \$1 billion plus number?

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**Steve Orr - ShawCor Ltd - President & CEO**

No.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

No, they're not. What it is quite frankly, it's we're bidding on the joint protection for Line 2. We're also bidding on some concrete coating scope of work for Line 2.

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**Steve Orr - ShawCor Ltd - President & CEO**

It's a fraction of what we've already been awarded.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

Yes. It would be a fraction of the 130.

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**Steve Orr - ShawCor Ltd - President & CEO**

Great, thanks guys.

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**Gary Love - ShawCor Ltd - VP - Finance & CFO**

OK.

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**Operator**



Thanks to you. Again, if you do have a question, please press star then one on your touch tone telephone. We do have a follow-up from the line of Dana Benner from AltaCorp.

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**Dana Benner - AltaCorp Capital Inc. - Analyst**

Thanks. Yes and just one more thing. I wanted to see if anyone quizzed you a little bit more on acquisitions? You've been true to your word in wanting to build out the platform and moving into the Desert and a much broader strategic vision. I'm sure lots of people would love to hear an update on how you view the world from an acquisition perspective these days.

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**Steve Orr - ShawCor Ltd - President & CEO**

Dana, we're continuing to execute. We have, what I would call a mature M&A team in place and a mature process of doing M&A. I think as you look at the deals we've done, we're flexing that muscle. We'll continue. We can filter our opportunities in the three ways we're looking at it, which is technology, acquisitions, [truck orders], and platforms of growth.

I think we have opportunities. In particular, we then box it again in other way, which is along the integrity management, which I think Desert just fits in very nicely. It gives us a platform geographically to expand from. Probably as to other areas that we're probably focused on a lot right now is on the ability to take Shaw Flex and [Canusa DSG] into the oil field through connectivity. We're looking at this space on what we can do.

The other one that appears to be very interested right now and there seems to be scope for it is extensions of technology that bring enablement to the integrity space. This is probably the top priority that I would say you may see some visibility. But acquisitions are interesting. Because the one that you chase is not often the one that you get as you filter through them.

Other opportunities come in and out of the filtering process all of the time. We're looking for opportunities in oil fields and asset management. In addition, if the correct one came along to add on to the production system aspect of Flexpipe, we would also be very interested there.

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**Dana Benner - AltaCorp Capital Inc. - Analyst**

Great, and just while I think about it, your petrochemical segment margins were really quite strong. I know that you've synergized operations in certain parts of your business. This has become maybe a better benchmark for what we can see out of that group going forward.

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**Steve Orr - ShawCor Ltd - President & CEO**

Well, I wish. I wouldn't suggest that a 19% EBITDA margin is the new normal. It was an extraordinary quarter for that segment. It truly was. That's a very good -- we've hit that level before. We were there actually in the third quarter of last year. We have bumped up against that level before. But I think we're now very solidly in the high teens at least. That's encouraging for EBITDA margin.

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**Dana Benner - AltaCorp Capital Inc. - Analyst**

Thanks.

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**Unidentified Company Representative**

OK, thank you.

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**Operator**

Thank you. That concludes our question and answer session for today. I would like to turn the conference back over to Steve Orr for any closing comments.



**Steve Orr - ShawCor Ltd - President & CEO**

I would just like to thank everybody for taking the time to meet with us this morning. I look forward for the next quarter call again. Thank you.

**Operator**

Thank you. Ladies and gentlemen, Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone have a good day.

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