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PRESENTATION

Operator

Good day, ladies and gentleman, and welcome to the ShawCor First Quarter Results Conference Call. At this time all participants are in a listen-only mode. Later, we'll conduct a question-and-answer session and instructions will be given at that time. As a reminder, this conference is being recorded.

I'd now like to hand the conference over to Gary Love, Chief Financial Officer. Please go ahead.

Gary Love - ***Shawcor Ltd - CFO, VP - Finance***

Thank you, and good morning. Before we begin this morning's conference call, I would like to take a moment to remind our 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 2015 earnings press release, it is available on SEDAR, and on the company's website at shawcor.com.

I'll now hand it over to ShawCor's CEO, Steve Orr.

Steve Orr - ***Shawcor Ltd - CEO, President***

Thank you, Gary. And thank you, ladies and gentlemen for joining us on this morning's conference call. ShawCor released its 2015 first quarter financial results yesterday - during to our Annual General Meeting.

The first quarter revenue at $472 million continued to be at a very strong level. However, as we noted in the fourth quarter, we have experienced a year-over-year reduction in gross margins. The key areas of revenue strength continued to be our EMAR region, where we are ramping up production on the Shah Deniz project work, and North American large diameter transmission pipe coating.

The other important source of revenue growth comes from the acquisition of Desert NDT with incremental contribution of $26 million in revenue versus the first quarter of the prior year. While revenue is very strong, we did experience a year-over-year reduction in gross margins with our consolidated gross margins decreasing over 5 percentage points from the prior year.

The lower gross margin can mainly be attributed to a shift in revenue away from the high margin project work in Asia-Pacific, which declined by $79 million on a year-over-year basis. Also impacting gross margins was a downturn in market conditions in North America small diameter coating and composite pipe. In both of these markets, revenue and gross margins declined from the first quarter of the prior year.

Looking ahead to the rest of 2015, we expect that the trends seen in the first quarter, with weakness in North America well-head leveraged businesses, will provide challenges for revenue and margins, while large diameter pipeline project work is a continuing area of strength.

I will provide you with further details on our outlook, including key project activity and the impact of the decline in oil prices, particularly on our North American businesses. But first I'll ask Gary Love, our CFO, to provide you with some further information on the first quarter financial results.

Gary Love *- Shawcor Ltd - CFO, VP - Finance*

Thanks, Steve. For the first quarter, we're reporting revenue of $472 million, and that's a decrease of 1.5% from the first quarter of 2014 and a reduction of 5.6% versus the fourth quarter.

Compared to the first quarter a year-ago, revenue decreased by $79 million in Asia Pacific due to the completion of the Ichthys project. We also had year-over-year decreases in small diameter pipe coating and composite pipe totaling $21 million on weakness in North American gathering line activity.

Nearly offsetting these decreases was strong growth in our EMAR region from Shah Deniz project work, which added $62 million in revenue, plus the acquisition of Desert NDT, which contributed $26 million in revenue. Compared with the fourth quarter, revenue in our Pipeline segment declined in each region with the exception of Asia Pacific where we reported an increase of $11 million on a number of small projects at the Kuantan, Malaysia facility.

In the Petrochemical segment, revenue increased 3% over the first quarter of the prior-year and also increased by 4% over the fourth quarter. In both cases, the growth in heat shrink tubular volume at DSG-Canusa more than offset modest weakness in wire and cable shipments that are being impacted by reduced oil sands construction activity.

Although revenues held up remarkably well in the first quarter, we are being impacted by the oil sector downturn at the margin level. On a consolidated basis, gross margins in the first quarter are 35.8%, up marginally from 35.5% in the fourth quarter, but down 5.6 percentage points from 41.4% a year ago. The Pipeline segment gross margin was 36.3% versus 35.8% and 42.4% in the fourth quarter and first quarter year-ago, respectively.

The decline in pipeline segment gross margin from the prior year can be traced to the continued decrease in Asia Pacific revenue as a percentage of total company revenue, which moved from 29% of revenue in the first quarter a year-ago to only 13% this quarter.

The Petrochemical segment gross margin was unchanged from the fourth quarter at 30.8% and slightly improved from 30% a year-ago.

On a year-over-year basis, adjusted operating income decreased by $38 million from $89 million in the first quarter of 2014 to $56 million this quarter. The reduction in revenue and lower gross margin led to a decrease in gross profit of $29 million. Also impacting operating income was a year-over-year increase in SG&A expenses of $4 million. And this increase was fully attributable to the additional SG&A of $6 million taken on from the mid-year 2014 acquisition of Desert NDT.

Compared to the fourth quarter of 2014, adjusted operating income decreased by $2.5 million. Lower gross profit of $8 million as a result of the revenue decrease was partially mitigated by a decrease in SG&A expenses of almost $7 million.

We're reporting EBITDA for the first quarter of 2015 of $74.2 million, a decrease of 2.8% from the fourth quarter and a reduction of 30% from $106 million in the first quarter a year-ago. The consolidated EBITDA margin in the first quarter is 15.7%. This breaks down as to 16.9% in the Pipeline segment and 16.1% in the Petrochemical and Industrial segment. Consistent with adjusted operating income margins, the EBITDA margins marginally improved over the fourth quarter, but were substantially lower than a year-ago.

Also of note is the effective tax rate in the quarter of 25%, which is two points below the Canadian statutory rate of 27%, a rate which had also applied in the first quarter a year ago. Again, we had the benefit of a high percentage of the company's income being generated in certain low tax rate jurisdictions.

We are reporting EPS in the quarter of $0.58 per share versus $0.76 per share in the fourth quarter on an adjusted basis and compared with EPS of $1.03 per share a year ago.

I will now provide some comments on cash flows in the quarter. Before changes in non-cash working capital, cash flow provided by continuing operations was $65 million and this was unchanged from the fourth quarter, but it did decrease by $20.5 million from the first quarter a year ago with that reduction in-line with the lower net income.

The change in non-cash working capital was a net cash outflow of $49 million compared with a cash inflow of $25 million in the fourth quarter and a cash outflow of $69 million in the year-ago quarter. During the first quarter, working capital increased primarily as a result of higher receivables and inventory.

Cash flow used in investing activities in the first quarter excluding increases in short-term investments was $33 million. This consisted of capital expenditures on property, plant and equipment of $15 million and the Dhatec acquisition of $17 million.

During the first quarter, financing activities used net cash of $11 million, with dividends at $9.7 million and debt repayments of $2.5 million.

Based on the cash flows in the quarter, cash plus short-term investments decreased to $99 million from $117 million at December 31, 2014. Including available credit facilities, the company has well in excess of $500 million of available liquidity as of quarter end.

I will now turn it back to Steve for his commentary on our outlook.

Steve Orr *- Shawcor Ltd - CEO, President*

Thank you, Gary. During our fourth quarter 2014 conference call, I indicated that the company's 2015 outlook will be shaped by two divergent trends; one was strong large project activity based on our booked order backlog, while the other was weak market conditions for North American businesses that are leveraged to oil and gas drilling and completions. These two trends were apparent in our first quarter results and we expect them to continue throughout 2015.

In terms of large project activity, our backlog slipped slightly from the start of 2015, but remained strong at $703 million. The order backlog consists of the value of booked orders that we expect to execute over the next 12 months and that is a good indicator of large project activity in 2015.

We have now started anti-corrosion coating at the recently upgraded Baku, Azerbaijan plant and we expect to begin high volume and high value concrete weight coating scope of work on the $200 million Shah Deniz export line project by the end of the second quarter. Also helping to firm up our large project outlook is last week's announcement from Saipem that they will recommence work on Line 1 of the subsea South Stream pipeline, though we have not received formal notice from our clients that the project suspension is lifted and the risk continues to exist the project may be cancelled. The Saipem announcement does provide us with higher level of confidence that we will execute the $125 million in booked orders for South Stream Line 1 and 2 commencing in the second half of this year.

Subsequent to the quarter end, our large project outlook was hedged by the award of the $55 million Northeast Gas pipeline project in Argentina. The work for this project involves coating of large diameter transmission line pipe that is part of a multi-year infrastructure expansion project in Argentina. Weighing against our healthy large project outlook is emerging weakness in our North American businesses that are leveraged to oil and gas drilling and completion, including small diameter pipe coating, composite pipe, OCTG tubular management and gathering line weld inspection. As of year-end 2014, these businesses were approximately $500 million in revenue on a full-year basis or approximately 25% of the Company's total revenue. A decrease in the number of wells completed can be expected to have a proportional impact on the revenue level.

Peaking in mid 2014, North American rig counts have decreased over 50%. With the decline in rig counts has come a similar or greater decrease in the number of wells completed. We expect that the second quarter of this year will be particularly weak for these North American businesses and that the weakness will extend until the oil field operators have sufficient confidence in the economics of their production to commence completing already drilled wells and increased drilling of new wells. With this downturn in activity, ShawCor is forced to adjust our workforce accordingly. We have been successful in recruiting and retaining the talents that have allowed us to achieve our results, so it's not an easy decision to downsize.

Since September of 2014, ShawCor has reduced our total salaried staff by 19% and our hourly staff by 7%. To effect these reductions, we have incurred termination costs of approximately $4 million in the fourth quarter and $3 million in the first quarter. In the second quarter, we will be conducting even further reductions that, when implemented, will result in significant termination costs. We understand the direct impact of these reductions and what they have on our employees and their families, and we are hopeful that as activity recovers, we'll be able to once again employ many of these same individuals.

We are focused to complete the adjustment of our cost structure by June 30, 2015. We should set ourselves for improved performance in the second half of the year. Beyond 2015, the high level of bidding activity supports our future outlook. As of March 31, 2015, our list of firm bids outstanding has grown to approximately $1 billion from a little over $800 million at the start of the year. We continued to be impressed by the breadth and geographic diversity of the bidding activity and, in addition to outstanding firm bids, we are tracking an additional $1 billion in projects on which we have provided clients with engineering estimates.

One of the expected consequences of the decline in global oil prices will be the extended timeframes from project inception to final investment decisions. However, the additional time spent to reduce capital costs and project risks will be an enabler for projects to proceed post 2015. Despite the severity of the downturn in global oil and gas markets, the Company's strong backlog and market position will, we believe, enable ShawCor to generate healthy free cash flow in 2015 and emerge from the downturn well positioned to continue to execute our long-term growth strategy. With our current strong balance sheet and substantial investment capability, we fully intend to continue to take advantage of opportunities to undertake growth investments in each of the ShawCor's five growth themes.

On that note, I'll turn the call over to Karen, our operator for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Our first question comes from the line of Scott Treadwell from TD Securities.

Scott Treadwell - ***TD Securities - Analyst***

Thanks. Good morning guys. I wanted to ask first on the backlog. Was there a meaningful FX adjustment in the backlog in the quarter and what's the mechanism there as FX floats throughout the year?

Gary Love - ***Shawcor Ltd - CFO, VP - Finance***

The backlog is obviously stated in Canadian dollars and so there would be an adjustment as we would basically translate the backlog based on quarter end exchange rates. So it's going to move up and down with the change in the Canadian dollar, which is our reporting currency, versus the underlying currency of the contracts. So I would say, on a net basis, the backlog was positively benefited by the movement in the translation rate from December 31 to March 31.

But the one point I would stress is that the backlog consists of projects that are denominated in a number of currencies and the strength of the U.S. dollar, of course, is very evident versus the Canadian dollar, but in fact the Canadian dollar has strengthened versus some other currencies that we transact in. So it's a bit of a mixed bag, but net-net, there probably is a small positive impact on the backlog as a result of changes in translation mix.

Scott Treadwell - ***TD Securities - Analyst***

Okay, perfect. Wanted to ask South Stream, you gave us some details there. I think you'd referred either in the AGM or in the previous conversation that there was a 180 day grace period before a suspension has to turn into something else. Can you give us a sense of how much time is left on that fuse?

Steve Orr - ***Shawcor Ltd - CEO, President***

So there are two lines, Scott, Line 1 and Line 2. Of course the Line 1 was the one that was contracted out first and Saipem indeed has received notice within the 180 days to go back to work. We received our notice of suspension downstream of them, as they are our customers, so there was more than a couple of weeks between their formal announcement and our formal announcement.

So, the contracting of Line 2 came afterwards and we still are looking at a July, August timeframe before both lines should have some transparency on what's going to happen. And I would highlight, it's probably one of three things. Certainly the risk exists that the lines will be cancelled; the second is that there will be an additional terms and conditions agreed to continue this suspension, and then the third of course is that we all go back to work within the 180 days of suspension. Do expect to see this threshold passed in Q2.

Scott Treadwell - ***TD Securities - Analyst***

Okay, and sort of subsequent to that as a follow on, you've obviously done some headcount reductions, there is more to come. At this point, have you reduced your capacity in those plants affected or has the Shah Deniz work allowed you to basically maintain that capacity that if you were to go back to work it would be relatively seamless from a cost perspective for you guys?

Steve Orr - ***Shawcor Ltd - CEO, President***

The Ras Al Khaimah facility continues to run, so I would say that facility will absorb the South Stream work and it will be transparent to everybody. The Leith facility, which will do the concrete weight coating for Europipe in Line 1, is suspended today. And so, should it go back, this time becomes at a much higher utilization, because today it's only doing small projects.

So I don't see much of an increase in what we call salaried employees, but we will bring substantial headcount back on the hourly employees.

Scott Treadwell - ***TD Securities - Analyst***

Okay very good. I wanted to turn to North America and I know you've discussed some of the advantages that your businesses with exposure there have given their scale. How is the competitive landscape sort of shaken out here as you get in through Q1 and into Q2? I mean, I am assuming that, given the little bit less focus maybe on the drilling and completion side and a bit more on tie-in and production, the slowdown is maybe hitting that segment a little later than others, but what have you seen in terms of competitors? Have you seen material reductions in capacity or have you seen the opposite where guys are scrambling and bidding irrationally for a reduced market?

Steve Orr - ***Shawcor Ltd - CEO, President***

I think we need to break it down into different businesses. So, Guardian, you're familiar with their offering where they have strong market share in Canada, it is really an overall reduction in activity and price concessions are being asked for, but the activity is just not there. So, as the drilling has slowed down, individuals are parking their inventory of tubulars and they're working through the tubulars that are in the best shape and parking those that are questionable. So, our inspection and machine work is substantially decreased.

Now, you can anticipate when the drilling comes back, they will have worked through their tubulars that are operational and they'll have to go back and inspect and repair the build-up in other tubulars that they have. So, this is just an overall decrease. The work is just not there right now. I would say the same thing for the distributor's businesses where a lot of the small diameter distributors are stuck on a substantial volume of inventory and line pipe that has already been coated. They're in a hard spot where new line pipes can be procured at a cheaper price than their inventories. Until we get to the point that the inventories have been used up at our distributors and the activity requires the volume to go, we're not going to see an input. So, there is no crazy market share drive.

Where we are actually at a huge advantage is in our girth weld inspection business in Desert, and where we're being able to scale. If you recall, Desert has 18 locations and we're able to use our critical mass to capture work as it peaks in the different areas by moving our crews, we were also able to scale because the biggest cost is the employee cost. So, by shifting employees to the locations where the work is and by, I’m afraid, actually reducing headcount, we're able to scale that business.

Flexpipe, on the other hand, it's a function of well completions and you're probably tracking it like we are. There is a disconnect now between the number of wells that are being drilled versus the number of wells that are being completed. Our competitors in the composite world have taken actions similar to us. They're halting production or shutting down plants. We're fortune we don't shut down plants on our composite business, but we will suspend production so that we can match the output with market demand. . So, we're going to eat up some inventory in Q2.

Scott Treadwell - ***TD Securities - Analyst***

Okay, great. And the last one I wanted to ask is that you referenced an increase in the bid book through Q1 and that you're impressed with its breadth. Can you just give us a sense on the incremental? Was there any specific geography that came through in Q1 or was the additional stuff broadly based as well?

Steve Orr - ***Shawcor Ltd - CEO, President***

Let's say, no different than the projects that you already have visibility on. So, we've now moved to the bidding stage of the West Coast projects. So, that's now in that $1 billion that we quoted. We are now on several different iterations of bidding and terms and conditions on the West Coast projects. So, that would be in that number.

In the later part of the quarter, we were surprised to see projects in West Africa coming. We have several in the Middle East now that are in excess of the $20 million that are now visible in the budgetary category that has also stayed strong. So, what we're seeing is certainly a move towards the Western Hemisphere projects. The Norwegian sector of the North Sea continues to be strong and we're bidding there and I mentioned the two other areas, West Africa and the Middle East.

Scott Treadwell - ***TD Securities - Analyst***

Okay. And then sort of my last one a follow-up here. I know in the last sort of downturn when Socotherm was independent, there was definitely some price action in the bid cycle sort of through 2009 and that really took until '11 or '12 to work its way out of your revenue base. Have you seen that in this iteration now that with these bids coming in a $50, $60 oil environment that there has been some irrational pricing on -- in the industry or has it held in better like you expected it would?

Steve Orr - ***Shawcor Ltd - CEO, President***

So, I would approach the question in two ways. So, we have a differential in our offering. Certainly, it's stronger now than it was before because Socotherm and Bredero are one organization now. Both the Bredero plant infrastructure and the Socotherm plant infrastructure and the management team is only one now, that's final. Our infrastructure is by far the strongest. There is some regional work and I would say some of this is in the North America land market where we're not bidding. So, we're not going to chase the pricing down and although we are being asked for concessions on pricing, what we're able to do is couple the benefits of having plant infrastructure and the risk of project execution to maintain solid pricing.

So, I can give you a comment on Flexpipe, for example, where we figure pricing is down about 3% on the margin right now. We're not seeing it per project in the pipe coating businesses. The more technical it is and more remote, the better our pricing.

I would add one final comment. One of the biggest influences to our margins in our pipe coating business is the efficiency in utilization of the plant. So, when we're running hard in a plant is when we make the highest margins. So, when we talk about the Shah Deniz work, we have yet to achieve what I think would be the highest margin because we haven't reached the utilization. So, that's what's more important to us than the unit price. We have to get the volumes through the plants.

Scott Treadwell - ***TD Securities - Analyst***

Okay, great. As always guys, I really appreciate the color. I'll turn it back now. Thanks.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Sarah Hughes from Cormark Securities.

Sarah Hughes - ***Cormark Securities - Analyst***

Good morning. I guess the first question on Shah Deniz. You talked about you're expecting another $190 million in revenue this year. I'm wondering is it going to be more back-end loaded or we see it kind of equally Q2 to Q4.

Gary Love - ***Shawcor Ltd - CFO, VP - Finance***

Very much back-end loaded. We won't start the concrete coating scope of work until probably the very end of the second quarter. So, the concrete work, which is $200 million in total value, is going to be run essentially over probably three quarters. So, third, fourth quarter, first quarter of 2016 and probably something into the second quarter of 2016, but very much back loaded. The flow assurance work for Shah Deniz will be in the second half as well. There is a gap in the second quarter that we've spoken about, which is certainly the trough we would hope in terms of North America, but also from a large project activity perspective in other regions. We are back-end loaded in 2015.

Sarah Hughes - ***Cormark Securities - Analyst***

And then on the margins on the, say on the Shah Deniz project , will you be at that good utilization level in Q3 or would you still be ramping through the third quarter?

Gary Love - ***Shawcor Ltd - CFO, VP - Finance***

No, I think in Q3, we should be there, yes. Again, that will depend on how successful we are in ramping up, but that's the plan.

Sarah Hughes - ***Cormark Securities - Analyst***

Yeah, okay. And then just again on the bid book, Steve, you gave us a good idea of kind of where it's coming from and I know this is a bit of a moving target given the macro environment, but do you have any -- I'm just trying to get a sense of timing of the bid book, how you see it today. Do you see much coming into play in 2016 here from that and I know that can move around as the world changes?

Steve Orr - ***Shawcor Ltd - CEO, President***

You're right. We can have two different, I would say, drivers in the bids that we're seeing. So, we're tracking the conversion time from first visibility on a project to first revenue. We have two different kinds of projects that are in our bid books; the large projects that we've had visibility on for some time and they are now in the final stages of coming to conclusaion. And so I would expect some of these large projects are going to fall in the Q3 time period.

What we are also starting to see, and that's why I made the comment about West Africa, in particular, and the Middle East, projects that we had on the horizon that we knew were coming, but probably in the 2018 timeframe where operators are looking at the current situation and predicting that the commodity prices will increase and so will the cost and utilization of the vessels and associated services and products. And they are fast-tracking the procurement system to get the bids done. I certainly see several of the fast-track projects that we are bidding on now will be in the 2016 revenue for us.

Sarah Hughes - ***Cormark Securities - Analyst***

And then you commented, in North America, that you had a good large diameter outlook for this year and then potential growth in '16. That growth in '16, does that come from the LNG stuff if that go through or...?

Steve Orr - ***Shawcor Ltd - CEO, President***

When we say it's a stable large diameter outlook, it has a lot to do with the work associated with Line 3 Enbridge and the replacement works at our Camrose and Regina facilities and a lot of this is often not captured in the backlog. So our large diameter North American business is very strong.

Sarah Hughes - ***Cormark Securities - Analyst***

But the potential for growth in '16 or not, would that be contingent on some LNG stuff going through or do you see other growth opportunities beyond that?

Steve Orr - ***Shawcor Ltd - CEO, President***

LNG project FID is not expected at the best until this summer, and so probably the later part of the year. We won't be generating revenue from the West Coast until late 2016 at the earliest.

Gary Love *- Shawcor Ltd - CFO, VP - Finance*

I think our expectation is that Enbridge Line 3, that's really 2016. We are assuming that if we were awarded that work, we would start that this year, but most of it would fall into next year I think.

Steve Orr *- Shawcor Ltd - CEO, President*

I think there are two different answers to the question. So large diameter work and then there is the West Coast work. I don't think there is very strong likelihood that even if the West Coast projects and the Prince Rupert Gas we are speaking of goes in the time frame of FID that we will generate revenue from it in 2016.

Sarah Hughes *- Cormark Securities - Analyst*

Okay. And then just lastly from me. Can you just talk a little bit about kind of how Socotherm is doing and you were working on turning that around last year and improving margins et cetera in that business? Can you give us an update on that?

Gary Love *- Shawcor Ltd - CFO, VP - Finance*

Well, I think there is a great indicator which is the performance both in the fourth quarter and now again in the first quarter where the two principal Socotherm facilities, the Italian operations and the Argentine operations, had good strong contributions to our consolidated operating income. So there is work to be done yet, but both Italy and Argentina are strong contributors over the last six months which of course is a big improvement over where they were in 2013, 2014. The activity in Channelview is ramping down. We're completing some larger project work there and that will now ramp down, but certainly in Channelview the performance -- it's very evident that there has been a step change in terms of plant performance. So we are starting to see some pretty good results there.

Sarah Hughes *- Cormark Securities - Analyst*

Okay, that's it from me. Thank you.

Steve Orr *- Shawcor Ltd - CEO, President*

Thank you.

Operator

Thank you. And our next question comes from the line of Dana Benner from AltaCorp Capital.

Dana Benner *- AltaCorp Capital - Analyst*

Thanks. Good morning.

Steve Orr *- Shawcor Ltd - CEO, President*

Good morning.

Dana Benner - ***AltaCorp Capital - Analyst***

I may have missed it, because I had to hop offline, but could you give us an update on where things were on the M&A side? This would appear to be the perfect environment for a company in your position with a great balance sheet and global platform that you want to layer more things on to, so maybe give us a sense for where things are at.

Steve Orr - ***Shawcor Ltd - CEO, President***

We continue to have a fully staffed M&A team as we've now divided the team in terms of focus. So we have an Integrity Management growth M&A team and we have all others. We continue to have a strong target list. I would add that we have yet to see quality companies coming for sale at price that's reasonable. A lot of people have already removed their quality assets from the market. We are also starting to see distress sales in our area. So these are of interest for assets or unique offering.

As you mentioned, our balance sheet is strong enough. We will continue to pursue in earnest to try to do some additional inorganic growth in this year. It has been a little bit of a struggle in the first quarter to be honest because, people would engage but there were no numbers to discuss or even thoughtful synergy extraction opportunities and discussions because you couldn't get the granularity. We are now moving past this stage I believe. So I think Q2 will be a transition quarter and I think by the end of Q2 and Q3 maybe there will be a settling in the valuations.

Dana Benner - ***AltaCorp Capital - Analyst***

Great. Okay, that's helpful. And then secondly, I am not sure if you provided an update on FlexFlow, but anything there would be helpful.

Steve Orr - ***Shawcor Ltd - CEO, President***

So just to refresh. We are committed to bring FlexFlow to commercialization in 2015, If you recall, there were two major issues that were outstanding in terms of the commercialization or the industrialization of the product, because the product has been fully tested and confirmed and has reached certification in a 10,000 hour test. And we had done early installs. So it's really now the skillset that's being applied around industrializing it and building out the factory.

The two areas we were concerned about were the cross licensing of the tape, which is a core component in the construction, and the second was the ability for the high speed tape winder to be able to manufacture pipes in an economical way without large volumes of scrap that would reduce the value of the product. It's a stick product, so we have to start and stop the machine at the end of each day.

To put it in comparison, today it takes us a day to make a joint of pipe, when commercialized we will make a joint of pipe every 10 minutes. The tape is certainly now a much lower risk because of the engagement with our technology partner through the licensing agreement and now we are to the point of being able to make tape to the dimensions that we want so this risk is substantially reduced, and as of this week, a major milestone was passed, our pipe has six layers, so the way you go through the commercialization process is you run one layer and then three layers and then six layers to do a full joint of pipe and then you run the machinery at different volumes. So I am quite happy that we passed the major threshold this week of doing five continuous pipe from start up to shut down with a scrap rate that's within reason.

We are still very much on track to commercialize in 2015. We talked about cost reductions and cost sensitivity in this current environment. We have done our reduction program differently than a lot of companies. We have first highlighted those things that are critical and need to be supported and will be sanctioned throughout the cycle. FlexFlow is one of them. FlexFlow is fully funded, fully resourced and we are committed to get an extension to the Flexpipe portfolio through commercialization of a larger diameter platform this year.

Dana Benner - ***AltaCorp Capital - Analyst***

Okay, that's helpful. I think you've outlined that you may have another round of job reductions or cost cuts coming here in the next quarter and so I guess the question is, is that a read through to perhaps waning business levels or was it simply a fact that you want to be careful as you cut too quickly and too widely and assess what's going on, I'm just looking for more understanding on why the progressive cost cuts?

Gary Love - ***Shawcor Ltd - CFO, VP - Finance***

I think in terms of progressive cost-cutting, you end up doing the rationalization to the activity as presently there, so in this particular downturn, nobody anticipated it to fall as quickly as it did. And so you do the ones that are very much linked to the activity. The point that we're at now and we'll see in Q2 is that the cost-cutting measures we'll make now are being done because we have put other mechanisms in place that have allowed us to restructure. For example, in our Petrochemical and Industrial business, we have one organization, to manage factory operations.

We now have, Socotherm and Bredero underneath one organization, so now we can go ahead and maximize the restructuring of those. So that's why we are where we are, because we've taken out in Q4 and Q1 everything we could do in terms of matching the activity without fundamentally changing the structure. So in Q2, we're going to go ahead and change some of the structure of the divisions and to support those divisions with a shared services organization. That's what happening in Q2.

Dana Benner - ***AltaCorp Capital - Analyst***

Great. Okay, that's helpful. And then just the last question for me, Gary, you've already answered the question about how Socotherm is doing and I understand that Q4, Q1 you've got good contributions out of Italy and Argentina, but would you say that, I mean, a while ago, of course the goal was to get Socotherm margins up to ShawCor levels and obviously it's going to be regionally adjusted, et cetera, but do you think you're there on the margin side as well?

Gary Love - ***Shawcor Ltd - CFO, VP - Finance***

I think we're getting there, I don't think we're completely done. There were two elements; one was the integration of the commercial activities to get alignment around pricing and expectations for pricing. That's been an ongoing process and I'd say we're nearing completion on that.

And then the second element was plant operations and as I mentioned on an earlier question, we've seen good progress there, but we're not completely done. The bringing together of the Socotherm organization and Bredero Shaw organization, it does allow for actually some improvement in margins one small example; we've integrated the engineering group. So we've now got Socotherm engineering personnel who are fully involved in all global activity, whereas previously they would have been just focused on the Socotherm facilities. So that provides an improvement in cost structure across the whole company. So it's ongoing, it's continuing, we're getting there, we're not there yet.

Dana Benner - ***AltaCorp Capital - Analyst***

Okay, well, that's great. I'll turn it back.

Operator

Thank you. And our next question comes from the line of Elias Foscolos from Industrial Alliance.

Elias Foscolos - ***Industrial Alliance - Analyst***

Good morning. I have a question regarding backlog. At the end of Q4, your backlog number is a 12-month forward-looking number, you had $232 million that was excluded in backlog, but was that from orders that you have. In rolling forward to Q1, I couldn't find any disclosure on that number and I'm assuming that most of that's related to the September 26 Shah Deniz press release. I was wondering if you could add some color as to what that number is at the end of Q1?

Steve Orr - ***Shawcor Ltd - CEO, President***

Yes. We're not going to get in the habit of reporting that number every quarter and I've made this comment before that historically, we chose a 12 month timeframe for backlog because in fact that is the relevant time period. It's very rare for us to have work that extends beyond 12 months. We had it to some degree back in 2012 when we were first booking the Ichthys project, which extended beyond 12 months, but it's quite rare. Shah Deniz is another rarity and that's why we did report it at the end of the year, to really highlight the fact that a significant portion of the Shah Deniz work would fall into 2016. That’s still the case. The precise number, it's come down a bit, but there still is a significant component of Shah Deniz that will get executed in 2016. So I think I'll leave it at that in terms of that comment.

Elias Foscolos - ***Industrial Alliance - Analyst***

Okay. I appreciate that. Just in terms of getting back to North America overall pipeline and pipe services segment, do you anticipate the trough to be in Q2, Q3 or sort of a combination of both?

Steve Orr - ***Shawcor Ltd - CEO, President***

I wish I really could give you a date when it was going to turn. I'm sure many people in the call have potentially a different view but we do anticipate the rig count will continue to drop in the August September timeframe. Probably what's more important to us right now is a delta that's quickly becoming very apparent between the wells that are drilled and the wells that are being completed. This is important to us to watch because it's an indication of a disconnect between the rigs and our potential opportunity, but it will come. Because as wells are drilled and not completed, it creates a backlog at future infrastructure spend.

So then if you think about an August September timeframe for the rig count to bottom out, we should start seeing material decline in North America production, which will be a catalyst or a support for a reduction in supply versus the demand. And then I think it will depend on the economics, whether the focus goes back to a flatter rig count for a while, with a completion of the wells that are already drilled.

We are anticipating that by the time we get into the back end of 2016, we will have a strengthening in the market, certainly from where we are today. So I think that maybe it's as conservative an approach as anybody is taking right now, but we believe the $55, $60 per barrel of oil is being driven by the current parameters and it makes sense that a strengthening and maybe a stronger activity level towards the end of the second half of 2016.

I think what is becoming of great concern to us whether there will be a Canadian winter drilling season next year or not. I think potentially you're going to get divergence in the North American story between the US and Canada and it's really dependent on whether there will be a Canadian rig buildup next winter or not. If not, you are going to miss that cycle and we'll be back into the second half of 2016, before we see any puck up in Canada.

Elias Foscolos - ***Industrial Alliance - Analyst***

Okay, thank you very much.

Operator

Thank you. And that concludes our question-and-answer session for today. I would like to turn the conference back over to management for any closing comments.

Steve Orr - ***Shawcor Ltd - CEO, President***

Well, thank you very much for making the time to attend Q1 call and we look forward to catching up with you again at the end of the next quarter. Thank you.

Operator

Thank you. Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may now disconnect.