Update to Lenders

McDermott International Executive Remarks
May 8, 2020

Moderator

Ladies and gentlemen, thank you for standing by and welcome to McDermott's Lender Update conference call. At this time, all participants are in listen-only mode. I will now turn the call over to Kevin Hargrove, McDermott's Vice President and Treasurer. Please go ahead.

Kevin Hargrove, Vice President and Treasurer

Thank you, and welcome everyone to our first quarter briefing.

I'm pleased to be joining you today. For a little background, I am Vice President and Treasurer and have been with McDermott for the last four years. In my role as Treasurer, I have had the opportunity to speak to some of you before, for others I look forward to getting to know you, as I will serve as your primary contact going forward.

I'm joined today by McDermott's President and Chief Executive Officer David Dickson, Group Senior Vice President of Projects, Samik Mukherjee and Executive Vice President and Chief Financial Officer, Chris Krummel.

We have some slides to supplement and guide our remarks today. You should have received them through email and they are posted on the Investor Relations section of our website. While we will not open the call for questions today, feel free to reach out to me with any questions about our first quarter performance following the call.

As a reminder, our comments today may include forward-looking statements and estimates. These forward-looking statements are subject to various risks, contingencies and uncertainties, and reflect management's view as of today, May 8, 2020. Please refer to our filings with the SEC, which are available on our website, including our Form 10-Q for the quarter ended March 31, 2020, which provide discussion of some of the factors that may cause actual results to differ from management's projections, forecasts, estimates and expectations. Please note that, except to the extent required by applicable law, McDermott undertakes no obligation to update any forward-looking statements.

I will now turn the call over to David.

David Dickson, President and Chief Executive Officer
Thank you, Kevin and welcome, everyone to the call. This afternoon we filed our Form 10Q with the SEC, which includes a summary of our quarterly performance. If you have not already, I trust you will soon have an opportunity to review. During the past two briefings—in December and February—we focused on the presentation of the business plan and execution of that plan based on a short and consensual chapter 11 plan process. Today, our remarks are intended to provide details on how we're responding to COVID-19, an overview of our financial results, and key project milestones achieved during the quarter.

Even before the disruptive impacts of the sharp decline in demand for oil and natural gas, price decreases and production volatility, we knew that our business would continue to experience a variety of pressure points through the first quarter of the year. The distressed operating environment continued to create challenges in managing our day-to-day operations. Predicting such impacts in this operating environment continues to be a challenge, which is why we remain committed to keeping you informed.

The momentum of our financial restructuring continues. With the ongoing support of our lenders, customers and vendors, we received court approval of our plan of reorganization in just 51 days on March 12. With this progress, we continue to expect that we will emerge from Chapter 11 proceedings toward the end of the second quarter.

During the quarter, we continued to manage the business focused predominantly on cash flow and have applied the same diligence as we navigate the impact of COVID-19. Chris will discuss how market developments have heightened uncertainty and further impacted bookings. But the results of our management approach and strength of our people are evident in our performance:

- Key projects met significant milestones and are stable.
- Other projects remain on track or ahead of schedule.
- We are successfully navigating an unprecedented health crisis, which is reflected by the health and well-being of our workforce and ability to execute our strong backlog.
- We developed plans to seek recovery from customers and vendors to minimize the impact of COVID-19

- We relieved stress on our vendor base.

Now to turn to an update on the impact of COVID-19 on our people and our operations.

It goes without saying that this global pandemic has had adverse impacts on the global economy and financial markets, and on our employees, customers, subcontractors, suppliers and other parties with whom we have business relations. Throughout the quarter, we continued to closely monitor all locations as the pandemic spread to all regions in which we have operations.

Like many organizations across the globe, we have been personally affected by this pandemic. Currently, McDermott has 209 confirmed cases of COVID-19 of which 191 remain active and 17 have recovered. It is important to note that more than 80 percent of the confirmed cases occurred at one worker housing facility in the Middle East. Unfortunately, last month we had our first—and hopefully only—fatality. We were saddened to lose one of our own, who had been part of our McDermott family for 18 years.

We continued to take the necessary swift actions to mitigate impacts and protect our people:

- We implemented preventive measures and developed corporate and regional response plans to minimize unnecessary risk of exposure and prevent infection, while supporting our customers' global operations to the best of our ability in the circumstances.

- We stood up our Crisis Management Teams for health, safety and environmental matters and personnel issues, and established a COVID-19 Response Team to address various impacts of the situation.
- We modified certain business practices (including those related to employee travel, employee work locations and cancellation of physical participation in meetings, events and conferences) and implemented new protocols to promote social distancing
- We enhanced measures in our offices and facilities to conform to government restrictions and best practices encouraged by the Centers for Disease Control and Prevention, the World Health Organization and other governmental and regulatory authorities.

We have issued (and have received) a number of force majeure notices. In most instances, if we receive such a notice from a vendor, we issue a corresponding notice to the customer who may be affected. We are in daily contact with our customers and suppliers. These relationships continue to be the most valued tool as we navigate the path forward.

The primary disruption to our business since mid-March has been due to restricted access to our administrative offices around the world, quarantined personnel and assets as required by various governmental authorities, and our own safety protocols. The restrictions—such as border closures, travel restrictions, quarantines and government and business shutdowns—have caused, and may continue to cause operational delays and delays in the delivery of materials and supplies which may negatively impact project milestones or deadlines.

We are working diligently to minimize these impacts. The long-term nature of our work helps as we do not expect financial investment decisions already made to be abandoned by our customers. However, we could experience backlog or reductions in converting FEED contracts to full EPC contracts due to overall market contractions or delays prompted by material modifications or cancellations of the underlying contracts with customers.

Even in this environment of restrictions and delays:

- Our fabrication yards and customer construction sites have remained operational.
- Our vessels have continued to perform.
- We have implemented strategies to reduce costs, increase operational efficiencies and lower our capital spending.
- We are reaching out to customers to discuss recovery measures.
- And we have successfully managed absenteeism in our hourly workforce.

While we cannot predict the full impact that COVID-19 or the disrupted oil and natural gas markets will have on our business, cash flows, liquidity, financial condition and results of operations at this time, we will continue to be agile and adaptable and navigate these uncertain market conditions with a focus on business continuity and the safety and well-being of our workforce.

Now, I will turn the presentation over to Samik to cover the project highlights during the quarter.

Samik Mukherjee, Group Senior Vice President of Projects

Thank you, David. And good afternoon everyone.

It was a busy first quarter of 2020. Despite the additional challenges we all faced, our projects have remained open and achieved notable milestones.

On our legacy LNG projects, during the quarter, our joint venture at Freeport LNG achieved Ready for Start Up of Train 3, the final train. More recently, I'm happy to report that Train 3 has now entered into commercial operation.

At Cameron LNG, during the quarter, our joint venture also made significant progress with Train 3 having Feed Gas In approved. More recently, we have achieved mechanical completion and Ready for Start Up of Train 3. In addition to that progress, during Q1, we closed an amendment to our EPC agreement which gave us additional $100M in incentives for completing the project.

In our current LNG portfolio, both Golden Pass and Mozambique are progressing with their engineering. Golden Pass has completed its 60 percent model review, and Mozambique completed its 30 percent model review.

Moving now to our Subsea and Offshore projects, in our Asia Pacific region, the ONGC KG 98/2 project delivered First Gas ahead of schedule, and the Reliance KGD6 R Cluster & Bul Hanine offshore campaigns progressed to plan. At the end of the quarter, the KGD 6 project was 74% complete and is forecast to complete the final S cluster in the second quarter of 2021. With respect to Marjan Packages 1 & 4, we completed our review of the FEED and provided comments back to the customer, in addition to placing several key long lead procurement orders and on Cassia we have installed the jacket and completed the lift and weldout of the compression deck. Cassia ended the quarter at 71% complete and targeted to finish in Q2 2021.

The Tyra Redevelopment EPCI project finished the quarter at 62% complete. During the quarter, we completed almost all of our scope with respect to the Well Head Riser Platforms and maintained progress on the process platform in our fabrication yard in Batam, targeting achieving Ready for Sail Away of the process platform in the third quarter of 2021.

On Downstream, the Borstar Bay 3 polyethylene unit completed its underground tie-ins to its existing plant and started its pipe rack assembly. The project reached 25% complete during the quarter. On the Total Ethane Cracker, we completed main power connections to the power buildings and achieved 86% complete during the quarter. On both the Borstar Bay 3 and the Ethane Cracker project, we are assessing the impact that COVID-19 has and is causing. We are also having open dialogue with our clients about our schedules and how to address various impacts to the projects. Finally, on the GCGV mono-ethylene glycol project, the first modules sailed from Altamira in the first week of April.

Despite the challenges of COVID-19, we remain confident in our ability to execute projects safely and efficiently. Our first quarter progress is a testament to the dedication and persistence of our personnel. Our commitment has been appreciated by our customers, and we will continue engaging with them and solidify their support as we proceed to emergence.

Now I will turn the call over to Chris to walk you through the key financial highlights for the quarter.

Chris Krummel, Executive Vice President and Chief Financial Officer

Thank you, Samik.

Before I review the results in detail, I'd like to summarize the financial highlights from the quarter. As David mentioned, we significantly relieved the stress in the vendor base during the quarter through payment of aged accounts payable. We continued to reduce our negative net working capital. Also, as expected, our order book was impacted by the pendency of Chapter 11. Yet we were able to secure new contracts for our CB&I Storage Solutions business.

While we are in the early stages of fully assessing the impact of changes on projects due to COVID-19 and the low oil price environment, we continue to monitor, assess and implement mitigation plans. As a result of this operating environment, we also recognized impairments in goodwill, our vessel fleet and other fixed assets.

Now to review these items in detail…

We secured approximately $350 million in orders during the quarter. While we expected orders to be depressed, we are encouraged by the amount of activity and bookings in the first quarter—particularly related to our storage business. It’s also important to note that the first quarter of 2019 reached record levels of order intake. These orders, combined with the second quarter of 2019 order activity established a strong, robust backlog. Awards secured during the first half of 2019 included Golden Pass, Mozambique and Marjan packages 1 and 4.

Our backlog remains resilient and has not been significantly impacted by the current environment and no significant contracts in backlog have been cancelled. Despite depressed orders for the quarter, we have maintained our backlog at $16.4 billion. Our top 20 projects currently represent 90 percent of backlog. And to date, there has been no indication from customers of significant project cancellations.

Shifting now to revenue. Because of the planned sale of Lummus, results from the Technology business are reported as discontinued operations and therefore excluded from our revenue.

We achieved $1.9 billion in revenue during the first quarter of 2020. This is relatively consistent with revenue reported in the first quarter of 2019. Our stable revenue level reflects our ability to deliver on projects and continue operations on projects to support progress despite significant market strain caused by COVID-19 and record-low oil prices beginning late in the first quarter. The main driver in the year-over-year quarterly revenue decrease relates to revenue decreases in our NCSA operations, which were offset by increases in revenue for our EARC, MENA and APAC segments.

To get a bit more granular, revenue drivers during the quarter include construction progress on our three U.S. LNG export facility projects (approximately $368 million combined), including incentive revenues recognized on our Cameron, Louisiana LNG export facility project; and progress made on other large projects including Tyra, Mozambique and TP10 as well as progress on various petrochemical, onshore and subsea EPCI and power projects.

The diversity of our revenue stream continues to serve us well with offshore and subsea representing 43 percent, LNG 22 percent and downstream 27 percent during the quarter. The balance was from our power business.

Moving to adjusted EBITDA, I'll compare the first quarter of 2019 to the first quarter of 2020. You see here we had lower adjusted EBITDA driven primarily by gross profit in our MENA and NCSA operations and largely attributable to schedule delays, not cancellations.

Specifically, in NCSA we recognized incentives on the Cameron project and had close-out improvements and settlements of claims on our substantially complete projects. In MENA, we progressed engineering and procurement on the ADNOC crude flexibility project and the Saudi Aramco Marjan Package 1 project and made progress on the Saudi Aramco Berri Well head platforms and pipelines project, among others. In both regions, progress on projects in the first quarter of 2020 was partially offset by increases in cost estimates to complete several projects, primarily related to the impact of the schedule prolongations driven by the COVID-19 pandemic and cost impacts.

In APAC, we achieved completion of an early first gas offshore campaign in India and progressed on front-end engineering and design activities for a floating production unit for a gas field development in Western Australia. EARC contributed to income through a variety of projects and activities on the Mozambique LNG Development project and BP Tortue EPCI project. Storage Solutions realized its usual and steady level of earnings associated with atmospheric and refrigerated storage vessels, terminals and water storage facilities.

Also during the quarter, we recognized a significant amount of non-cash impairments to vessels, other property and equipment and goodwill, which are not included in our adjusted EBITDA. The non-cash impairments totaled $978 million in the first quarter of 2020. Certainly, the COVID-19 and low oil price environment are indicators of impairment and we assessed the values of our long-lived assets accordingly.

Also, on the slide we provide a quarter-over-quarter comparison of net working capital. The major driver for the quarter was a $515 million paydown of accounts payable and accrued liabilities. This is due mainly to the payment of vendor balances past due and other initiatives implemented to stabilize and relieve stress on the vendor base. An additional driver of the paydown of accounts payable was the ramp down of legacy projects—such as Cameron and Freeport—and our portfolio slow down due to COVID-19. We also had a $276 million increase in construction in progress due to COVID-19, the oil price decline, project slowdowns and billing milestone delays. These impacts were offset by a decrease in accounts receivable of $102 million primarily due to collections of retention and final progress collections on various projects.

While it was clearly a challenging quarter, we are encouraged by the new orders in the CB&I Storage Solutions business, stable revenue and resilience of our contracts in backlog. Finally, rest assured we will continue to be diligent in our cash and working capital management.

Now I'll turn it over to David to for closing remarks.

David Dickson, President and CEO
Thank you Samik and Chris for the insights on our financial results during the quarter and key project milestones.

As we navigate the current uncertain operating environment and overall economy, we will continue to closely manage our business to control costs, increase cash and stabilize revenue/backlog with agility and adaptability. Our longstanding relationships with our customers reflect the strength of our business: integrity, performance and operational experience and are key to our future.

Finally, I want to thank you for joining us for this update on our first quarter results. And we appreciate your continued support.
Good day.