

THOMSON REUTERS

# EDITED TRANSCRIPT

Q2 2018 Hill International Inc Earnings Call

EVENT DATE/TIME: OCTOBER 18, 2018 / 2:00PM GMT



## CORPORATE PARTICIPANTS

**Gregory T. Wolf** *Hill International, Inc. - Interim CFO*  
**John Glenn Grau**  
**Raouf S. Ghali** *Hill International, Inc. - CEO & Director*

## CONFERENCE CALL PARTICIPANTS

**Chris Colvin**  
**Prasad Phatak**

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to Hill International, Inc. Second Quarter Earnings for Fiscal Year 2018 Investor Call.

On this call, John Grau of InvestorCom will provide some introductory remarks on the content of the call. John will be followed by Hill International CEO, Raouf Ghali; and Interim Vice President and Interim Chief Financial Officer, Greg Wolf. Mr. Ghali will discuss the status of the company and expectations for Hill's immediate and long-term future. Mr. Wolf will detail Hill's second quarter earnings for 2018. This will be followed by an opportunity for questions and answers from our shareholders, and then we will end the call.

As a reminder, this call is being recorded.

John, please go ahead.

---

### John Glenn Grau

Thank you. To everyone on this call, please note the following: certain statements made on this call are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and it is our intent that any such statements be protected by the safe harbor created thereby. Except for historical information, the matters set forth herein, including any statements of belief or intent and any statements concerning our future plans and strategies are forward-looking statements. These forward-looking statements are based on our current expectations and assumptions and are subject to risks and uncertainties. We do not intend and undertake no obligation to update any forward-looking statement.

With that, let me turn the call over to Raouf Ghali, Hill International's CEO.

---

### Raouf S. Ghali *Hill International, Inc. - CEO & Director*

Thank you, John, and good morning to everyone on the call. In addition to detailing our second quarter earnings, I would like to explain the current status of Hill International and my expectations going forward for the company.

First, I'm sure you're aware Hill's common stock has resumed trading on the New York Stock Exchange as of today, October 18, under our previous ticker symbol, HIL. Our relisting is a result of becoming current with our periodic reports filed with the Securities and Exchange Commission, with the filings of our second quarter 2018 10-Q last Friday, October 12. The New York Stock Exchange added that it will no longer pursue delisting proceedings against the company. I would like to personally thank everyone involved in this effort and their diligence and dedication.

Second, let me address the SEC investigation into Hill International. As we have expected, given our restatement, the SEC has opened an investigation, and we have been fully cooperating with their effort. While we cannot predict the timing or the outcome of the investigation, we do not expect any material adverse consequences.

Also, I would like to announce that Interim CFO Marco Martinez has decided to leave his interim role after completing the work of bringing Hill current with its SEC filings. Our Interim Vice President and Global Corporate Controller, Greg Wolf, will assume the CFO role until a permanent CFO is found. Greg has more than 25 years of industry experience as a CPA, as a Masters in Taxation and has been instrumental in guiding Hill through the restatements and bringing the company current with the SEC. We are currently in the final



stages of our formal CFO search and expect to announce our permanent CFO in short order.

Now back to business. 2018 to date has been a challenging and transformative year for Hill. We have made significant internal changes as part of our profit improvement plan and have been impacted by challenging external, political and economic factors in various regions where we operate. In particular, the prolonged downturn in oil prices in 2016 and '17 impacted our ability to sell business in the Middle East and North Africa in 2017, which is having an impact on current revenues. The pickup in oil prices in 2018 bodes well for construction activity in these regions. Internally, the profit improvement plan is nearing completion. Although unqualified success in realizing cost savings across the company, this initiative shifted the entire company's focus away from growth. This effort is now largely behind us, and we are now again focused on profitable growth. This reflects the board's commitment to stability, profitability and growth.

We also expect to realize additional savings related to our headquarters consolidation, the conclusion of our consulting contract with our founder at the end of fiscal year 2019, as well as a number of other initiatives. We also expect to conclude our relationships with several of the consultants who have supported Hill during this transition period. These resources were brought onboard to assist in our financial audit and reporting and to develop and manage the implementation of the profit improvement plan. Now that these tasks are nearing completion, we expect that these costs and associated with personnel will be concluded by the end of this year. Year-to-date Q2 2018, the company has absorbed costs related to the profit improvement plan and other onetime costs related to the restatement and restructuring of approximately \$9 million. As these onetime costs begin to dissipate, we expect to see our future cash flows and financial position strengthen.

For an update on the Libyan receivable that was referenced in our press release earlier this week, our client has paid \$4.1 million for corporate taxes on Hill's behalf against the outstanding receivables, and we understand the government has dedicated a budget to restart our project with a general understanding that they must resolve the remaining outstanding debts in order to move work forward. As a company, we remain hopeful for a positive resolution to the situation, but we also acknowledge the reality of the political circumstances in Libya and cannot provide a time line.

As noted in the press release, we have fully reserved for a \$7.9 million performance bond that was called on a project in Kuwait. The cash was paid in the first quarter of 2018. However, we are appealing the decision of a Kuwaiti lower court against Hill regarding a major assignment. Our first hearing was dismissed and the appeal process is now underway. Again, we remain optimistic the higher courts will rule in our favor. It is important to note that Hill has never lost money on any performance bond previously.

Despite these challenges, Hill is well positioned for growth and increased profitability. We're investing in our sales force and emphasizing recruitment and expect to realize many new opportunities in the months ahead. As a result, we expect our margins to improve over time and believe that we will achieve our 10% target EBITDA margin on consultant fee revenue by 2020.

We currently expect 2018 revenues to be in the range of \$420 million to \$430 million and CFR \$340 million to \$350 million. These expectations are below our last guidance range given August 23 due to Hill's recent challenges in filling existing billable positions with qualified personnel and due to losses on new opportunities we expected to win. Both of these factors were largely due to the uncertainty surrounding Hill's restatement. Despite these challenges, new bookings year-to-date as of end of Q3 were approximately \$340 million.

To summarize, Hill has emerged from our restructuring as a leaner, more agile company, and is ready to once again grow and grow profitably. We are current with our financials. We have returned to the New York Stock Exchange. We are adding professional billable staff in all regions and are specifically growing our sales force.

All these actions are taking place among several recent and major wins for Hill. In the United States, for example, Hill will be leading a joint venture to provide program management services to the Phoenix Aviation Department's capital improvement program, with JVs capped at \$47.5 million over the duration of our contract. In Brazil, a recent -- Hill was recently awarded a contract by the global hospitality leader, GREMI International, to provide project and construction management services for the \$500 million Eco Estrela resort. And in Asia, our work is beginning on rail projects for Rail Vikas Nigam Limited, totaling almost \$4 billion. While in Europe, we will be supporting the \$585 million new international airport of Heraklion on the island of Crete as the project's independent engineer. Hill also received a 3-year contract this past August from Bank AlJazira in Saudi Arabia to provide project management services for the bank's



new regional office in Riyadh.

Given our success in winning these new projects and many others and combined with the new policies and procedures instilled across the company by our profit improvement plan, the long-term outlook for Hill is bright.

With that, let me turn the call over to Greg Wolf, who will discuss in greater detail Hill's 2018 second quarter results.

**Gregory T. Wolf Hill International, Inc. - Interim CFO**

Thank you, Raouf. I will start by providing our financial results for the second quarter of 2018. Hill's total revenue for the second quarter of 2018 was \$112.1 million, a decrease of 10.6% compared to the second quarter of 2017. The company's operating loss for the second quarter of 2018 was \$3.5 million compared to an operating loss of \$1.4 million in the prior year's second quarter. Net loss from continuing operations was \$7.1 million or \$0.13 per diluted share compared to a net loss from continuing operations of \$1 million or \$0.02 per diluted share during the prior year second quarter. The operating loss in the second quarter of 2018 was mostly due to a reduction of revenues in gross margin over the prior year second quarter of \$13.3 million and \$5.4 million, respectively. This was a result of a wind down of various projects in the Middle East and the United States. This decrease in revenue and gross margin was partially offset by the overall decrease in selling, general and administrative, or SG&A, expense of \$2.2 million in the second quarter of 2018 compared to the second quarter of 2017. This decrease was primarily related to the Libyan bad debt recovery Raouf referred to earlier, which resulted in a net benefit of \$3.2 million, and in an addition, there was a reduction of approximately \$4 million in unapplied and indirect labor that occurred primarily as a result of the company's profit improvement plan.

Offsetting these SG&A decreases, second quarter 2018 SG&A was negatively impacted by a \$5.6 million increase related to noncash net foreign currency losses incurred as a result of unfavorable fluctuation in exchange rates in several countries we compare -- when compared to the prior period. More specifically, these losses were incurred mainly due to adverse fluctuations in the euro, Turkish lira and Brazilian real.

Adjusted earnings loss before interest, taxes, depreciation, amortization, or EBITDA, for the second quarter of 2018 was a loss of \$0.9 million compared to an adjusted EBITDA of \$5.9 million in the second quarter of 2017. The \$5.4 million in noncash foreign currency translation loss incurred in the second quarter of 2018 and the foreign currency translation benefit of \$0.2 million related to the second quarter of 2017 are not included as adjustments in our adjusted EBITDA number. If adjusted for these foreign currency translation amounts, adjusted EBITDA for the second quarter of 2018 would have been \$4.5 million compared to adjusted EBITDA of \$5.7 million in the second quarter of 2017.

I would now like to reconcile these numbers with the savings from the profit improvement plan. These savings were approximately \$7.2 million in the second quarter of 2018. During the second quarter, gross profit was down \$5.4 million year-over-year.

If you add back the \$7.2 million from these savings, our adjusted EBITDA net of FX would have been up \$1.8 million, but instead was down from \$5.7 million in Q2 2017 to \$4.5 million in Q2 2018, which was a decline of \$1.2 million. This net difference of \$3 million includes incremental expenses of around \$2 million in premium, external audit costs and legal fees, and other onetime matters, which were not added back to our adjusted EBITDA number in Q2 2018. However, we do expect the \$2 million in incremental expenses to be eliminated over time.

Hill's total revenue for the 6 months ended June 30, 2018, was \$226 million, a decrease of 6.4% when compared to the same period in 2017. Operating loss for the 6 months ended June 30, 2018, was \$8.8 million compared to an operating gain of \$2.8 million for the same period in the prior year. The net loss from continuing operations for 2018 was \$14.7 million or \$0.27 per diluted share compared to a gain from continuing operations of \$1 million or \$0.02 per diluted share in the same period of 2017. The operating loss for the 6 months ended June 30, 2018, was mostly due to a reduction of revenues of \$15.5 million and gross margin of \$8.4 million compared to the first 6 months of 2017. This was mostly related to the wind down of various projects in the Middle East and the United States, as mentioned earlier.

Operating loss for the 6 months ended June 30, 2018, was also impacted by the \$7.9 million loss on a performance bond related to the



claim submitted in Kuwait that Raouf mentioned earlier. These decreases in operating profit were partially offset by an overall decrease in SG&A expenses of \$2.9 million for the 6 months ended June 30, 2018, compared to the 6 months ended June 30, 2017. The decrease was primarily related to reductions of \$9 million in unapplied and indirect labor that occurred primarily as a result of the company's profit improvement plan and the \$3.2 million Libyan net benefit from bad debt recovery. However, SG&A also included a 2000 -- in 2018, included an increase of \$6.1 million related to noncash foreign currency translation losses mainly due to a weakened euro, Turkish lira and Brazilian real. In addition, SG&A in the 6 months ended 2018 further increased \$3.3 million when compared to the prior year due to expenses related to the profit improvement plan and other onetime costs.

Adjusted EBITDA for the 6 months ended June 30, 2018, was \$7.2 million compared to adjusted EBITDA of \$11.5 million for the same period in 2017. The \$5.1 million foreign currency translation loss and the foreign currency translation benefit of \$1 million related to the 6 months ended June 30, 2018 and 2017, respectively, are not included in the adjusted EBITDA. If adjusted for these foreign currency translation amounts, adjusted EBITDA for the 6 months ended June 30, 2018, would've been \$12.3 million compared to adjusted EBITDA of \$10.5 million in the same period in 2017.

Hill's total backlog at June 30, 2018, was \$816.4 million compared to \$860.1 million at March 31, 2018. This decrease was a result of contract reductions in 3 major projects in Saudi Arabia. In response to the significant foreign currency translation losses that impacted our quarter-to-date and year-to-date earnings, Raouf and I will be considering options for the company that will help mitigate our exposure to these fluctuations in a way that will maximize shareholders' value, especially as we seek to grow our business globally.

Overall, we are excited to get the restatements and prior period reported bringing us current in all SEC filings and the resumption of trading on the New York Stock Exchange today. With the large cost related to bringing the company current and the PIP program cost, both winding down by the end of 2018 and our complete attention to operations and sales growth, the outlook is very positive for Hill.

That concludes our financial results for the second quarter of 2018.

---

**Raouf S. Ghali Hill International, Inc. - CEO & Director**

Thank you, Greg. At this point, we would like to take a few questions from those on the call.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Prasad Phatak with Tappan Street Partners.

---

### Prasad Phatak

Just a couple quick ones. You mentioned that the bookings through the third quarter year-to-date were about \$340 million. Just a clarification, are bookings that you're citing sort of more CFR, or is that total revenue? And then the sort of related question is, regarding the 10% margin target on CFR, obviously, the business gets materially more profitable as you scale higher, I'd be curious to know sort of what is the kind of minimum level of CFR you need to be able to achieve that 10%.

---

### Raouf S. Ghali Hill International, Inc. - CEO & Director

Okay. Thank you for the question. This is Raouf. To answer your first question, the new bookings is the total gross revenue number that we added to the -- to our new bookings. Second question as far as what is the growth, I think, as we reached the \$400 million level, we can start seeing our EBITDA growing significantly because the amount of profits would really trickle down to the bottom, given that we have the -- our profit improvement plan and we're implementing it and keeping a hard look at our costs as we grow, we feel that over the \$400 million, we should start seeing a much stronger EBITDA number.

---



**Prasad Phatak**

Okay. And then maybe just one quick follow-up. It'd be helpful if you could just describe sort of the length of the sales cycle. So obviously, the company's been distracted for upwards of a year, I'd be curious to know as you start to go out to the market and try and win new business, how quickly can we see potentially new project wins? Or is the sales cycle 6 to 12 months long, such that we really shouldn't expect to see much until 2020 and beyond?

---

**Raouf S. Ghali Hill International, Inc. - CEO & Director**

Well, it's a little complicated than that because, one is, it's not that we haven't been selling, I think, the company has and management has been selling in -- over the last several months, although not as focused as we should have been or could have been and based on past years. However, in public procurement, there is a bit of a longer life cycle in order to get the awards done, but we have implemented also a strategy to -- in most of the regions to go after Fortune 100 global companies as well in private sector, which have a shorter time frame on it. But as you can imagine and agree that sometimes awards are not within our controls, but we expect to have some awards imminently as well.

---

**Operator**

Our next questioner comes from the line of Chris Colvin with Breach Inlet Capital.

---

**Chris Colvin**

As I had suggested before this call to you, I think quoting things in CFR is confusing unless it's going to be disclosed in the financials anymore. So I think it'd be helpful, at least my perspective would be, providing -- focusing on gross revenue and then also providing margin targets relative to gross revenue. Because I don't think you all plan to disclose CFR anymore. So that's just a suggestion. On your revenue guidance, your gross revenue, what was that number again?

---

**Raouf S. Ghali Hill International, Inc. - CEO & Director**

Hold on. It was, I believe, \$430 million to \$440 million -- sorry, \$420 million to \$430 million.

---

**Gregory T. Wolf Hill International, Inc. - Interim CFO**

\$420 million to \$430 million, and [you account for] (inaudible).

---

**Chris Colvin**

Okay. And your bookings basically were like \$145 million, it sounded like, for the third quarter, if I did the math right, which would be -- I think you only exceeded that twice in 10 quarters. So that was nice to see. I guess my follow-up question would be, as far as the cost savings, which I know there's a lot of moving pieces, but can you quantify at all how much is recognized through the second quarter numbers? And basically, how much in savings have been executed but not realized in the future numbers? Or is that -- is the answer 0?

---

**Raouf S. Ghali Hill International, Inc. - CEO & Director**

I'll let Greg answer that.

---

**Gregory T. Wolf Hill International, Inc. - Interim CFO**

Well, we talked about the \$7.2 million savings in Q2. If you took a look at that number and you went forward with that, there are some additional benefits out there that we are -- not been captured yet that we're continuing to work on. I think we identified a couple more million dollars on an annual basis that would contribute to our savings as well and some overhead locations and stuff like that, but that's really kind of where we're at right now with our run rate, as the second quarter is kind of a good peg to what we have there.

---

**Operator**

I show no further questions. So ladies and gentlemen, that does conclude today's conference. Thank you very much for your participation. You may all disconnect. Have a wonderful day.



**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018 Thomson Reuters. All Rights Reserved.

