

## **Issue: Willbros Group—Missing Historic Window of Opportunity in US Oil & Gas Boom**

*Time for Willbros' Board of Directors to Consider Strategic Alternatives for its Oil & Gas Division.*

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### **Executive Summary:**

Advances in drilling technology have sparked an energy renaissance in the United States. According to the Energy Information Administration, the United States surpassed Saudi Arabia and Russia as the world's largest producer of petroleum and natural gas hydrocarbons in 2013.<sup>1</sup>

Specifically, unconventional oil and gas activity has created a huge opportunity for companies active in the energy industry's midstream sector. Shale and other unconventional plays are changing the pipeline landscape in the United States. Flows on pipelines are being reversed, and new pipelines are being constructed to transport natural gas and liquids to downstream markets. A report by IHS Global, Inc. estimates that oil and gas infrastructure spending increased by 60% between 2010 and 2013.<sup>2</sup> Furthermore, the INGAA Foundation estimates that over \$200 billion is needed for natural gas pipelines, crude oil pipelines, NGL pipelines, and other midstream infrastructure between 2012 and 2035.<sup>3</sup>

**Unfortunately, the Willbros Group has not been able to capitalize on this opportunity. Investors deserve a change.**

**Our Recommendations include:**

- 1) Divest underperforming oil and gas regional offices;**
- 2) Adopt a narrower regional focus to capitalize on oil and gas opportunities in the Gulf Coast;**
- 3) Hire a consultant to do a risk management analysis of the Oil and Gas division; and**
- 4) Replace top-level management at Oil and Gas division**

### **Background:**

Despite the boom in midstream development, the Willbros Group, a major energy infrastructure contractor, has been unable to fully capitalize on the opportunities. When compared to its peer

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<sup>1</sup> <http://www.eia.gov/todayinenergy/detail.cfm?id=13251>

<sup>2</sup> IHS Global, Inc. "Oil and Natural Gas Transportation and Storage Infrastructure: Status, Trends, and Economic Benefits." December 2013.

<sup>3</sup> The INGAA Foundation, Inc. "Jobs and Economic Benefits of Midstream Infrastructure Development, US Impacts through 2035." February 2012.

group, Willbros' five-year stock price demonstrates it has not returned as much shareholder value as other companies. Willbros' share price effective April 21, 2014, after its proxy release and after the sale of certain downstream oil and gas assets, only increased 3.9% compared to five years ago. The median five-year stock price growth for companies within Willbros' peer group was 71.7% during the same period.<sup>4</sup>

Company	Symbol	5-Year Stock Growth <sup>5</sup>
Willbros Group	WG	3.90%
Chicago Bridge & Iron	CBI	822.95%
Tutor Perini	TPC	79.92%
Tetra Tech, Inc.	TTEK	28.64%
Team, Inc.	TISI	193.54%
Quanta Services	PWR	50.77%
Pike Electric	PIKE	0.89%
MYR Group	MYRG	63.48%
McDermott International	MDR	-18.87%
Matrix Service Company	MTRX	255.77%
Mastec	MTZ	227.33%
Granite Construction	GVA	-2.57%
Foster Wheeler	FWLT	48.17%
Exterran Holdings, Inc.	EXH	105.15%
Dycom Industries	DY	341.51%
Median for WG Peer Companies		71.70%

It appears that Willbros' lackluster stock performance is a result of the company's inability to turn opportunities into profit. Over the last five years, Willbros' revenues have been increasing, but the company has been unprofitable in four of the last five years.

#### Statement of Operations Data (in thousands) FY2009-2013<sup>6</sup>

Statement of Operations Data	2013	2012	2011	2010	2009
Contract revenue	\$ 2,018,783	\$ 1,928,800	\$ 1,376,369	\$ 1,003,409	\$ 1,120,441
Gross Profit	\$ 216,913	\$ 189,823	\$ 127,344	\$ 116,457	\$ 125,216
Operating income (loss)	\$ 34,131	\$ 14,804	\$ (192,063)	\$ (27,552)	\$ 25,123
Income (loss) from continuing operations before income taxes	\$ (8,902)	\$ (18,564)	\$ (243,941)	\$ (53,638)	\$ 14,995

<sup>4</sup> Willbros Group's peer group as identified in the company's 2014 Proxy

<sup>5</sup> Stock growth from April 20, 2009 and April 21, 2014

<sup>6</sup> Willbros' Group 2013 10-K

<b>Statement of Operations Data</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Provision (benefit) for income taxes	\$ 14,534	\$ 4,727	\$ (33,558)	\$ (28,951)	\$ 6,003
Income (loss) from continuing operations	\$ (23,436)	\$ (23,291)	\$ (210,383)	\$ (24,687)	\$ 8,992
Income (loss) from discontinued operations net of provision for income taxes	\$ 7,569	\$ (5,944)	\$ (82,438)	\$ (11,142)	\$ 10,648
Net income (loss)	\$ (15,867)	\$ (29,235)	\$ (292,821)	\$ (35,829)	\$ 19,640
Less: Income attributable to noncontrolling interest		\$ (976)	\$ (1,195)	\$ (1,207)	\$ (1,817)
Net income (loss) attributable to Willbros Group, Inc.	\$ (15,867)	\$ (30,211)	\$ 294,016	\$ (37,036)	\$ 17,823

In fact Willbros underperformed 13 out of 14 of its competitors when measuring net income growth over a five-year period. In addition, Willbros underperformed 12 out of 14 of its competitors when measuring earnings per share growth over a five-year period.

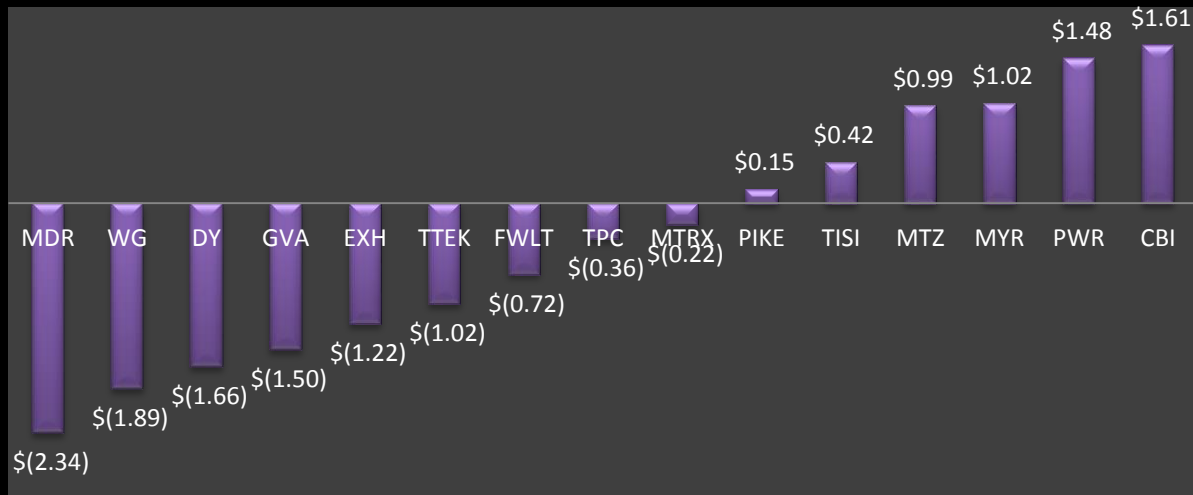
### Comparison of Revenue and Income Growth FY2009-2013<sup>7</sup>

<b>Company</b>	<b>Revenue Growth</b>	<b>Gross Profit Growth</b>	<b>Operating Income</b>	<b>Net Income Growth</b>	<b>Earnings per Share</b>
WG	80.18%	73.23%	35.86%	-189.03%	-169.57%
MTZ	166.39%	159.69%	108.73%	99.23%	96.77%
CBI	143.49%	129.38%	117.84%	160.56%	135.71%
PWR	118.37%	96.24%	136.89%	147.85%	159.72%
PIKE	49.75%	33.50%	17.57%	14.65%	8.33%
DY	45.33%	-265.18%	-206.79%	-166.17%	-179.26%
TISI	43.56%	35.60%	34.72%	41.57%	31.97%
MYR	43.03%	64.51%	102.07%	101.68%	89.66%
MTRX	29.41%	0.40%	-22.41%	-21.51%	-21.37%
EXH	16.38%	8.72%	-189.31%	-122.42%	-121.01%
GVA	15.45%	-46.99%	-142.34%	-149.56%	-149.21%
TTEK	14.26%	-3.83%	-83.41%	-102.46%	-102.07%
TPC	-18.95%	20.32%	-3.65%	-36.31%	-35.46%
MDR	-18.98%	-128.50%	-266.38%	-233.55%	-229.59%
FWLT	-34.61%	-26.31%	-66.38%	-72.25%	-64.98%

Most startling is Willbros' net income growth over the last five years. Compared to its peers, Willbros had the second lowest performance at -189.06%.

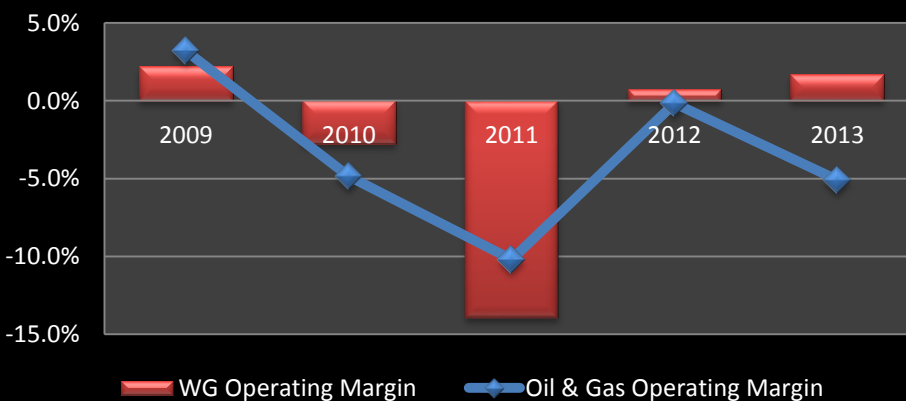
<sup>7</sup> Data from company 10-Ks

## Net Income Growth FY 2009-2013



Ironically, despite the boom in oil and gas midstream infrastructure nationwide, it seems Willbros' Oil and Gas Segment (which provides construction and maintenance services to support oil and gas activity) has depressed performance for the company. Willbros' financial reports show that in three of the last five years, Willbros' Oil and Gas Segment underperformed when compared to the overall company. In 2012, Willbros' Oil and Gas Segment had an operating margin of -0.2% compared to the company's operating margin of 0.8%. In 2013, losses in the Oil and Gas Segment depressed the company's overall operating income. The Oil and Gas Segment had an operating margin of -5.1% compared to 1.7% for the company in 2013.

## Oil & Gas Segment Compared to Willbros Group, FY 2009-2014



## Willbros Group Revenue and Income (in millions, except EPS)<sup>8</sup>

Year	Revenues	Gross Profit	Operating Income	Operating Margin	Net Income	Net Margin	Earnings Per Share
2009	\$ 1,120,441	\$ 125,216	\$ 25,123	2.24%	\$ 17,823	1.59%	\$ 0.46
2010	\$ 1,003,409	\$ 116,457	\$ (27,552)	-2.75%	\$ (37,036)	-3.69%	\$ (0.87)
2011	\$ 1,376,369	\$ 127,344	\$ (192,063)	-13.95%	\$ 294,016	21.36%	\$ (6.19)
2012	\$ 1,928,800	\$ 189,823	\$ 14,804	0.77%	\$ (30,211)	-1.57%	\$ (0.63)
2013	\$ 2,018,783	\$ 216,913	\$ 34,131	1.69%	\$ (15,867)	-0.79%	\$ (0.32)

## Oil & Gas Segment Revenue and Income (in millions)<sup>9</sup>

Year	Revenues	Operating Income	Operating Margin
2009	\$ 1,185,809	\$ 37,986	3.20%
2010	\$ 753,651	\$ (36,543)	-4.85%
2011	\$ 560,202	\$ (57,162)	-10.20%
2012	\$ 902,688	\$ (1,479)	-0.16%
2013	\$ 791,076	\$ (40,193)	-5.08%

## Willbros' Projects

A comparison of 372 major pipeline project awards in the U.S. where a contractor could be identified from 2008 to 2014 shows that Willbros Group is one of the pipeline construction leaders with 5% of total projects awarded. Therefore, why has the company failed to turn these opportunities into growth for shareholders? Of the 20 top pipeline contractors by market share of major pipeline projects, Willbros' has underperformed all three of the companies that are publicly traded.<sup>10</sup>

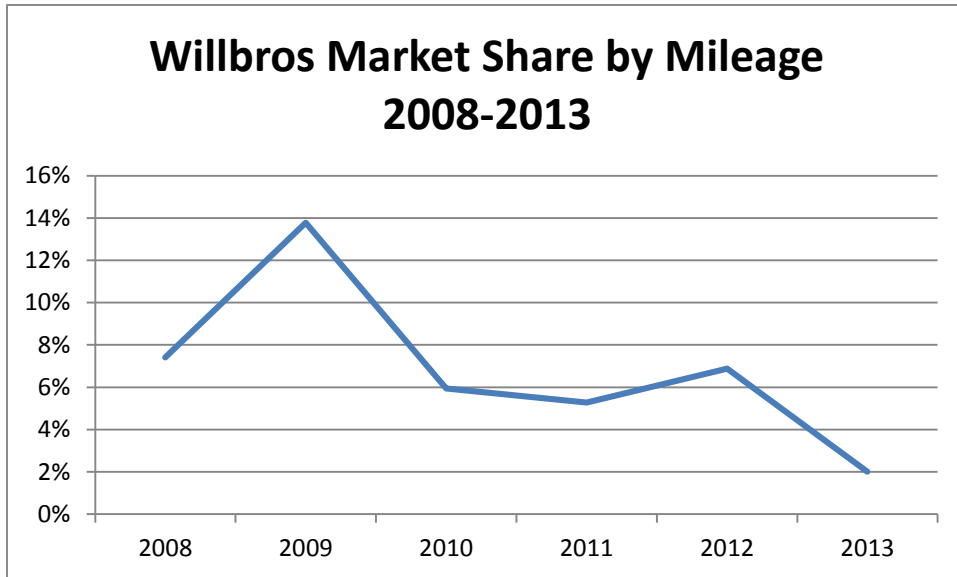
Pipeline Contractors owned by Publicly Traded Companies	Market Share of Major Pipeline Projects	5-Year Stock Price Growth
Price Gregory International (owned by Quanta Services)	5%	50.77%
Willbros Group	5%	3.9%
Precision Pipeline LLC (Owned by Mastec)	4%	227.33%
Pumpco, Inc. (Owned by Mastec)	2%	227.33%
Rockford Corporation (Owned by Primoris)	2%	504.13%

<sup>8</sup> All data from Willbros Group FY2013 10-K.

<sup>9</sup> All data from Willbros Group FY2013 10-K and FY2011 10-K.

<sup>10</sup> All project data is per Industrial Info Resources' database which tracks industrial projects related to oil and gas development in the U.S. <http://www.industrialinfo.com>

Furthermore, when comparing Willbros' project awards by pipeline miles between 2008 and 2013, Willbros' market share seems to be declining.<sup>11</sup>



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<sup>11</sup> Mileage comparisons by year are determined by the year the project commenced construction and the pipeline installation mileage of each contract. Willbros' market share was determined by dividing the mileage of its major pipeline project awards by total mileage of all major pipeline project awards as detailed in Industrial Info Resources' database. 2014 projects were not included because project awards are still pending for many pipeline construction jobs.

**Conclusion:**

Repeated statements from both Willbros management and Willbros analysts focus on the ability of its Oil and Gas Division to successfully execute pipeline projects. In addition, a historical failure to protect shareholders and investors from large litigation settlements (\$55.5 million in West African Gas Pipeline Company litigation settlement alone), past violations of the Foreign Corrupt Practices Act, and high leverage due to the InfrastruX transaction compound problems. Therefore, we believe that it is time for Willbros' Board of Directors to conduct a forceful review of options for the Oil & Gas Division. Our recommendations are below:

**Time for a Change: Willbros Group—Missing Historic Window  
of Opportunity in US Oil & Gas Boom**

**Recommendations include:**

- 1) Divest underperforming oil and gas regional offices;**
- 2) Adopt a narrower regional focus to capitalize on oil and gas opportunities in the Gulf Coast;**
- 3) Hire a consultant to do a risk management analysis of the Oil and Gas division; and**
- 4) Replace top-level management at Oil and Gas division.**

*Analysis by LiUNA! Department of Corporate Affairs.*

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## **Addendum: Excerpts by Willbros Group and Analysts Highlighting Execution Problems**

- From Willbros' 2013 10-K: "Significant losses in our regional delivery services within our Oil & Gas segment partially offset the solid financial results within our Canada, Utility T&D and Professional Services segments."<sup>12</sup>
- In describing Oil and Gas Segment results per Willbros Group's 2013 10-K: "Operating loss increased \$38.7 million primarily related to significant losses in our regional delivery services which were the result of ineffective project management and execution."<sup>13</sup>
- Analysts at D.A. Davidson and Company noted in a September 2013 research note: "Recent improvement follows inconsistent financial history. The volatility associated with large pipeline projects historically, and more recently project issues with many of the acquired operations, has led to significant and extended losses."<sup>14</sup>
- Analysts at Stifel noted in a November 2013 research note that the main variable impacting Willbros profitability is project execution: "The crux of our investment thesis is unchanged: We believe that WG's significant exposure to powerful end market trends including oil & gas pipeline construction, petrochemical and refining activity, oil sands activity, and electric transmission will drive revenue growth and improved profitability in 2014-15. The key risk to our thesis is continued project execution issues that destroy profits."<sup>15</sup>
- From Willbros' 2<sup>nd</sup> Quarter 2012 Report: "Operating income increased \$2,012 over the second quarter of 2011. However, operating income in the prior period included the impact of an \$8,236 non-cash charge related to the settlement of the facility construction project dispute with TransCanada. Operating income for the second quarter of 2012 was negatively impacted by an unanticipated delay on one project and underperformance by a sub-contractor on another project. We were unable to begin construction on a pipeline project due to a delay in our customer receiving the necessary permits. Additionally, our progress on a large pipeline project was impeded by a subcontractor's low productivity due to greater than estimated rock excavation, which put the project in a loss position."<sup>16</sup>
- From Willbros' 3<sup>rd</sup> Quarter 2012 Analyst Call: "During the third quarter, we incurred additional losses on the Red River Pipeline project in Texas, and on the Woodland Hills Pump Station project in Canada. On the last call, we reported that we were nearly finished with the Red River project. However, unforeseen equipment failures while completing the final directional drill and ultimately, loss of the entire hole, resulted in an extension of the schedule and most of this additional cost. This project is now mechanically complete and placed in service, leaving us with only minor cleanup and

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<sup>12</sup> WILLBROS GROUP, INC. FORM 10-K. YEAR ENDED DECEMBER 31, 2013

<sup>13</sup> Ibid.

<sup>14</sup> D.A. Davidson & Company. Willbros Group, Inc. (WG). "Specialty Construction Contractor Pursues Energy Opportunities Following Extended Record of Losses, Improvement Reported." September 9, 2013.

<sup>15</sup> Stifel. Willbros Group, Inc. (WG). "Erratum: 3Q Miss Masks Strong Outlook. Sell Off Too Severe In Our Opinion. Reiterate BUY." November 8, 2013.

<sup>16</sup> WILLBROS GROUP, INC. FORM 10-Q. FOR QUARTER ENDED JUNE 30, 2012.



punch list items to complete. We are no longer taking the same type of risks that we assumed on the Red River project.”<sup>17</sup>

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<sup>17</sup> <http://www.sec.gov/Archives/edgar/data/1449732/000119312512471014/d439397dex992.htm>