

**Transcript of  
Matrix Service Company (MTRX)  
Conference Call to Review 2<sup>nd</sup> Quarter Fiscal Year 2012  
February 9, 2012**

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## **Participants**

John R. Hewitt, President and Chief Executive Officer  
Kevin S. Cavanah, Chief Financial Officer

## **Presentation**

### **Operator**

Greetings and welcome to the Matrix Service Company's Fiscal 2012 2<sup>nd</sup> Quarter Results Conference Call. At this time, all participants are on a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press \*0 on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Kevin Cavanah. Thank you, Mr. Cavanah, you may begin.

### **Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Good morning, and thank you for joining us today to discuss the results for our second quarter ended December 31, 2012.

I would now like to take a moment to read the following. Various remarks that the company may make about future expectations, plans, and prospects for Matrix Service Company constitute forward-looking statements for the purposes of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those indicated by these forward-looking statements as a result of various factors, including those disclosed in our annual report on Form 10-K for our fiscal year ended June 30, 2011, and in subsequent filings made by the company with the SEC.

Before I turn the call over to John Hewitt, President and CEO of Matrix Service, I would like to review our financial results.

In the second quarter, we earned \$0.27 per fully diluted share on revenues of \$201 million compared to \$0.20 per fully diluted share on a revenue of \$175.3 million in the same period last year. The second quarter revenue represents a 14.7% increase over the same quarter last year and the highest quarterly revenue in our company's history. Improvements in both the construction services and the repair and maintenance services segments contributed to this performance.

Consolidated gross profit was \$23.1 million in the second quarter versus \$19.8 million in the same period last year. Our consolidated gross margins of 11.5% in the second



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quarter were slightly higher than the 11.3% earned in the prior year period. Construction services gross margins were 11.4% as compared to 12.1% in the second quarter last year. As we expected, our repair and maintenance services margins continued to increase as a result of improved market conditions and higher storm restoration work. Repair and maintenance margins were 11.6% in the quarter versus 10% in the second quarter last year.

SG&A expenses improved to 5.9% of revenues in the second quarter as compared to 6.4% in the prior year.

For the six months of fiscal 2012, we have earned \$0.40 per fully diluted share on revenue of \$370.3 million as compared to \$0.32 per fully diluted share on revenue of \$327.1 million in the same period last year. Consolidated gross profit has improved to \$41.2 million versus \$35.5 million in the first six months of fiscal 2011. Our year-to-date SG&A expenses were 6.3% of revenues compared to 6.6% of revenues in the first six months last year.

In the first six months of fiscal 2012, we purchased 887,000 shares of company stock at an average price of \$9.14 per share. While we don't currently have plans to purchase additional shares, we will remain opportunistic based on market conditions. Our financial position and liquidity remain strong as our cash balance at December 31 was \$37.4 million with \$116 million available on our revolving credit facility.

We also recently renewed our shelf registration statement which, combined with our strong balance sheet, expanded liquidity, and bonding capacity, provides the resources and flexibility we need to execute our growth strategy.

I will now turn the call over to John to discuss our outlook and growth strategy. John?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Thanks, Kevin.

I'm pleased with the strong performance in the second quarter and believe we are positioned for continued success. Our growth in backlog continued during the second quarter as we have a positive book-to-bill ratio along with record revenues in the quarter. Backlog was \$433.6 million at the end of the quarter, which is our highest level of backlog since the third quarter of fiscal 2009. We expect to see this trend continue as proposal volume is robust in all of our business lines.

We are definitely seeing strength return for the majority of our markets. Opportunities in all business lines have increased and we feel very good about our year. As a result, we are increasing our revenue guidance for fiscal 2012 to a range of \$725 million to \$775 million and increasing our earnings guidance to \$0.85 to \$0.95 per fully diluted share.

Due to normal seasonality we experience in our business, we would expect the fourth quarter to be somewhat stronger than the third quarter. As a backdrop to these strong

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results, I'd like to give you an overview of our recently completed long-range strategic plans and focus areas for the company.

As we successfully execute on our strategy, we will continue to make safety our number one priority, leverage and expand our core competencies and markets, create a broader North American footprint, maintain a balanced risk portfolio, continue to build our business organically to the addition of key leadership, and engage in an active and focused acquisition program.

There are four main market sectors where we will focus our growth and we are anticipating growing our consolidated revenues 12% to 15% annually while incrementally improving our earnings over the next five years.

Electrical infrastructure is a key sector focus area for us. High voltage power work and substations, transmission and distribution in the Northeast Corridor along with targeted expansion in the Midwest, West Coast, and Eastern Canada represent high growth areas for our business. In addition, our ability to offer storm restoration services on a broader geographic basis will be integral to our growth in this portion of the sector. The aging infrastructure, interconnect needs, automation upgrades, and general maintenance load presents a tremendous long-term opportunity for our business.

Related to power generation, the retirement of certain coal-fired generating stations and heightened concern associated with nuclear power combined with abundant shale gas resources will create an expansion of our gas-powered electric generation fleet. It is anticipated that opportunities associated with these projects will provide a critical part of our portfolio in the future.

In our oil and gas and chemical business sector, consisting of refinery turnaround, maintenance and repair initially in small-cap projects, and construction opportunities stemming from shale energy development will be an area of continued expansion. We also expect to create a significant market presence in industrial cleaning through strategic investments over the next three to five years. Further, we expect continued organic growth in the balance of the sector by leveraging our current operations and services.

The North American storage business will continue to be a core element of the future of Matrix. All lines in this business including AST new tank, maintenance and repair, as well as specialty vessels are anticipated to provide consistent year-over-year growth with higher expected growth in our Canadian operations. Recently, our Western Canadian office, which operates in the Alberta oil sands region, was awarded a \$34 million tank package which strengthens our market position in this region. While our market position in Cushing continues to be dominant, over 50% of our current and future business is forecasted in other regions across North America.

In closing, our industrial businesses including mining metals, material handling and other industrial project services represent fairly new business lines within our portfolio. The mining metals market throughout the Western United States and Canada is expected to provide a significant part of our portfolio over the long term.

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Our material handling business, acquired in May 2011, is beginning to create EP and EPC opportunities for the company. The global demand for various types of specialty metals, ores, and other raw materials is expected to remain strong for the foreseeable future. Our market sectors have good growth opportunities that allow us to successfully apply our skill sets as well as cross leveraging other aspects of our business. This gives us a clear path to build upon our already strong brand.

With that, I'd like to open up the call for questions.

**Operator**

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press \*1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press \*2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the \* keys. One moment while we pool for questions.

Our first question comes from the line of Matt Duncan from Stephens Inc. Please proceed with your questions.

**Matt Duncan – Stephens Inc.**

Good morning, guys.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Good morning.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Good morning.

**Matt Duncan – Stephens Inc.**

It's good to hear sort of the pillars of the growth plan. Just one question on that, on the 12% to 15% annual revenue growth target, is that a mixture of organic growth and M&A or is that all organic and M&A would add to that?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

No, I'd say that's a mixture. Obviously year-to-year, some years might be greater than other years but overall as an average, based on our plan, it would be in the 12% to 15% range.

**Matt Duncan – Stephens Inc.**

But target for that 12% to 15%, how much do you think needs to be organic versus how much would be acquisitions?

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**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Probably over the course of a three- to five-year plan, approximately 50% would be in acquisitions.

**Matt Duncan – Stephens Inc.**

You guys feel like that's going to add some additional tail to that Cushing market for you or is it starting to maybe reach a plateau and get a bit saturated? I know you said you're kind of half and half Cushing versus other markets. Just curious how you see that Cushing market developing with Keystone XL being further deferred from this point?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I mean, I would say – and we want to – that's what I want to be clear on the call, I think in some cases, Matrix is viewed as sort of a Cushing-only contractor or sort of Cushing-centric and so we've done some statistics there, I think for your benefit, to identify the fact that while we are a dominant player in Cushing, we're not totally dependent on Cushing and that for us, a delay of the XL pipeline project has had sort of a short-term impact to the amount of storages being built, not only in Cushing but in other areas of North America. So while we – our view is that the project will eventually will get done and that we should be a player in the building of tanks and other transportation-type facilities associated with that project so while I would say it hasn't really affected our current year and what we see in the forecast, but we do think we'll play a part in that once it gets approved.

**Matt Duncan – Stephens Inc.**

Okay. And on the contract you guys won in Canada, it's obviously a big developing market. How big is that tank-building business for you guys in Canada at this point?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I don't have a number significantly right in front of me, but that business has been growing since we moved into Canada a couple of years ago and it represents probably in the neighborhood of 20% to 25% of our sort of business in the aboveground storage new tank business right now.

**Matt Duncan – Stephens Inc.**

Okay. And then the last thing, I'll hop back in queue, just on gross margin. It seems like maybe that was a tiny bit below where you might have thought and I guess with the sales guidance going up relatively meaningfully but the EPS guidance at the high end of the range staying the same and the bottom end coming up, are seeing any gross margin pressure or is that just a function of the mix of the business? Or talk about what's going on with your gross margins.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

I think we could just break it down between the two segments. I think repair and maintenance was obviously had a very good performance this quarter which is 11.6% and I think we talked about that we didn't expect that to increase from the fiscal

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2011 margins that we earned. And if we look at, going forward, in repair and maintenance, you know, around 11% is a reasonable margin that we would expect to earn. It'll be up and down from there at times but that's kind of what we're looking at on that side. On the construction side, it was a little lower than we normally would've expected. I think that our views of what the longer term margins for construction services are going to be is still in that 12% to 13% range. This quarter was just the mix of work, where we're doing it, and the timing of awards impacted that margin a little bit.

**Matt Duncan – Stephens Inc.**

Kevin, is the mix in backlog in construction up in that 12% to 13% range?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Yes, I think our backlog that we've got booked will provide those types of margins.

**Matt Duncan – Stephens Inc.**

Thanks, guys.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Thank you.

**Operator**

Our next question comes from the line of Tahira Afzal from KeyBanc Capital Markets. Please proceed with your questions.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

Congratulations on a very good quarter, gentlemen.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Thank you.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Thank you.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

I have lots of questions but I'll start out with two and then I'll hop back in the queue. To the number one, obviously your downstream construction business seems to have picked up nicely, could you talk a bit about the sustainability there and what you're seeing? And, perhaps, we're hearing a lot about the chemical and petrochemical side of the industry potentially coming back very strongly in the U.S. Are you seeing any activity there and are you leveraged to any activity there? So that's my first question. Second is in regard to the T&D business, clearly you're very excited. You're seeing activity in the north starts to pick up. Is the maintenance pickup you saw in the quarter, is that related to any storm work or is it just general maintenance deferred activity coming back?

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**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Related to the petroleum business, we see that market remaining strong for the foreseeable future. We're expecting a good turnaround spring in that business and there is – the work while – there isn't long term. We don't anticipate huge growth in that sector. We do think that as we leverage our quality performance and our client relationships that we'll be able to have a larger piece of that market going forward.

In the chemical business, a lot of our skill sets that we apply on the petroleum side, we are beginning to focus some of our – and that market as you said, as the market starts to turn around because of cheaper feedstock from the all the shale gas and gas liquids, we think that there will be an increased spend in the petrochemical business throughout North America and our skill sets apply there very well so we are spending some focused time on that industry.

Relates to T&D, that market is very strong for us. Our relationships within the Northeast with some of the major utilities are very good and so we have a mixed bag of work going with them between substation, new substations, substation repair and maintenance as well as growing and expanding our transmission distribution business with them. So we see that – we'd say that market is remaining strong not only in the Northeast Corridor but in other areas of the country.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

Do you have to grow organic – can you grow organically capacity-wise or are you seeing labor constraints in that market?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I would say in almost – really in all of our businesses, the key to our business is our ability to lead and manage labor and then attract quality labor to our projects. So certainly in – related to the transmission distribution business, our ability to have high quality crews to maintain the quality of our brand is very important and so as we grow that business, that will be – I wouldn't necessarily say that's a restriction, but it's a restriction to the extent that we want to be able to provide the best with the best. And so we will not be taking – we would not take on projects with crews and leadership that we don't think exhibit that sort of values.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

Thank you very much and I'll hop back in the queue.

**Operator**

Our next question comes from the line of Rich Wesolowski from Sidoti & Company. Please proceed with your questions.

**Richard Wesolowski – Sidoti & Company, LLC**

Thank you. Good morning.

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**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Good morning.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Good morning.

**Richard Wesolowski – Sidoti & Company, LLC**

How much did the acquired material handling business contribute to the quarterly revenue?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

That business is definitely a growth area for us and we see a lot of opportunities in the future. That being said, we really didn't have much of a contribution in the quarter from the material handling business.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

So there was some integration getting the name and the brand out, repackaging how we were selling those services. So there's some investment going on, I would say, from that standpoint within the business but we've got what we think is a very good and strong funnel for that business that's been increasing on a month-to-month basis. And we have several projects that we are in, I would say, in the short list for that we believe over the next quarter, we'll have the opportunity to maybe have some positive announcements.

**Richard Wesolowski – Sidoti & Company, LLC**

Okay. So the 15% that you reported in December was organic.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Yes.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Yes, yes.

**Richard Wesolowski – Sidoti & Company, LLC**

Since your initial guidance – as we've mentioned earlier, revenue increases have outpaced the earnings increases. It kind of paints the picture that you're in the part of the cycle where the volume activity is greatly improving, but it's yet to absorb the capacity and offer you and your competitors any pricing power and I'm curious in which business lines, if any, would you say that there is a scarcity of labor that would offer you that bargaining power? And, conversely, where would you say you're still years or more away from achieving that favorable margin?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I would say, I think maybe what you're – we're seeing in today's numbers is more of sort of a mix in the timing. We think, long term, we would see where some labor

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pressure will begin to affect us is in Western Canada. That market continues to be very strong and we think is going to be strong. We talked just before here about the transmission and distribution business and their ability to attract linemen is an important part of what's going on in the country and the amount of spend that's going to happen in that side of the business. So I would see that at some point in time, they'll also provide some ability to raise margins.

**Richard Wesolowski – Sidoti & Company, LLC**

Okay. Separately you mentioned, and I may have misinterpreted, but you compiled some stats regarding your tank construction bookings and the share from Cushing. How much of your new tank work is coming from Cushing now and how does that compare with prior years?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I'm not sure I can comment on prior year, but I think the key message here is that we're expanding our footprint aggressively beyond Cushing. And so today, through the course of this year, approximately 50% of our new tank business is outside of Cushing and as far north as Western Canada, out into that West Coast, on the East Coast, and certainly up into the central part of the US. So I would expect because of our aggressive posture we're taking on moving outside of Cushing, there's going to be more – it's going to be – it's going to trend more in that regard. So – but again at the end of the day, too, it depends on what's going on in Cushing. We're still the dominant player there. We still are building the lion's share of the new tanks in the Cushing market and we don't have any reason today to believe that that's going to stop.

**Richard Wesolowski – Sidoti & Company, LLC**

Lastly, the \$34 million award or series of awards from Alberta, was that in the fourth quarter bookings?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Yes. The \$34 million award was – it was in the 12/31 construction services backlog additions.

**Richard Wesolowski – Sidoti & Company, LLC**

Did I miss that press release or was there a reason why it was not announced? It seems to be above the size threshold that you guys would usually use.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

No, that's a little bit of a timing issue because we wanted to wait to – we had to finalize the actual contract information. We needed to get some approval from our client on the release of that information so that's – we're actually caught in sort of a timing thing here actually this week. So we thought that we could announce that today but we'll be following up with a formal press release here soon.

**Richard Wesolowski – Sidoti & Company, LLC**

I appreciate your time. Thanks a lot.

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**Operator**

Our next question comes from the line of Mike Harrison from First Analysis. Please proceed with your questions.

**Michael Harrison – First Analysis Securities Corporation**

Hi. Good morning.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Good morning.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Good morning.

**Michael Harrison – First Analysis Securities Corporation**

Just sort of a broad question on just oil-related infrastructure and the build out that's necessary to deal with higher oil volumes from unconventional sources in general, but, you know, the Bakken oil sands in Canada, what inning do you think we're in in terms of that infrastructure build out? Are we fairly capable with what the infrastructure looks like now to be able to move and store that product? Or do you think we're in maybe the early stages of a major build out?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

My sense is, and it's probably a little bit different in each of those plays, but I would say we're in the first quarter of the game. So we're – for instance in the Bakkens, there's a lot of oil transport being done by trucks and rail cars and so there's a – I think there's a lot of room for opportunity for growth in those areas for the oil storage transportation handling, processing, all the things we got to go to get those energy resources out of that area and I think at the same time in Eagle Ford and a few other place. So we're certainly – I think that market and the build out in those markets, I think, is fairly immature.

**Michael Harrison – First Analysis Securities Corporation**

And then just trying to get a better understanding of the strength that you saw in downstream construction and I don't know if I'll call it weakness in downstream turnaround but, normally, I guess we'd expect to see a sequential increase in revenues in the December quarter in the repair and maintenance side. Do you see situations at all where a customer is choosing between maintenance work and a larger construction project or is it not necessarily that closely tied?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I'm not sure the maintenance work. I mean, in some cases, I'm sure it is but it's never an absolute, but I think, in general, the maintenance, the turnaround business isn't necessarily completely tied to the – what they're choosing to spend on as their capital project, where they're looking to improve either their quantity or quality of the output of the plant, the turnarounds are the things that generally have to happen just to

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maintain their current sort of utilization of the facility and so we see that – like we said earlier, it's continuing to be strong. And those are really strong in the fall and the spring of the year is usually the timeframes when those activities are the strongest.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

And as far as the turnarounds go for our second quarter, those came in as we expected. And one thing about the turnaround season this year, I believe, you know that started – we started seeing that occur. In September, we saw a big pickup there, and we continued to see that through October and part of November. So it was within our expectations.

**Michael Harrison – First Analysis Securities Corporation**

Got it. And then on the construction side of downstream, I appreciate all your comments around petrochem and sort of the long-term trends in that business, but do you think that we can sustainably get back to the kind of \$30 million to \$40 million a quarter revenue run rate that we saw pre-downturn that's kind of where that business was trending? Is that sustainable for you guys?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Yes. We see that that downstream business can improve. Part of the thing for that drove that was the tie in of the downstream services with the tank work we were doing – the terminals and the tank work we were doing actually in refineries. So depending on the storage needs, that could improve.

**Michael Harrison – First Analysis Securities Corporation**

Got it. And then last question I had was just on the nuclear side. You mentioned gas-fired plants as an opportunity as coal assets are retired and I thought I caught a reference to maybe the public opinion about nuclear plants. The tides maybe turned a little bit. Do you guys still see nuclear as a near-term or longer term opportunity or do you feel like that you're going to be hard pressed to get opportunities there?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Well, I think <26:29> the comment was around – I mean, the overall growth rate that our research says is, you know, for power – power needs in the U.S. is somewhere in the 1% per year range, which – and it's 1% of a huge number. And so as the country retires parts of the coal fleet, as the sort of the resurgence and the new build of nuclear plants probably gets delayed or stops that the need to fill that 1% growth in the power generation demands is going to be filled by gas-fired generation. And particularly because the fuel cost is very low, it can be brought to market quickly and next to a nuclear plant, it's very – it's fairly environmental – next to a coal plant, it's fairly environmentally friendly. So that's why the comment is there that we think some aspects of the construction of that, there's significant opportunities we see popping up and down the East Coast where we'll be able to play some kind of a role in that build out and as it relates to the nuclear industry in general, we provide some E&I maintenance related to nuclear plants, similar to as we do in other generating stations. So we would see that work continue and provide some minor small growth for us.

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**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

And we preserve both our nuclear construction stamp as well as repair stamp so that as opportunities present themselves, we can capitalize on those.

**Michael Harrison – First Analysis Securities Corporation**

Thank you so much.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

You're welcome.

**Operator**

Our next question comes from the line of John Rogers from D.A. Davidson. Please proceed with your questions.

**John Rogers – D.A. Davidson & Co.**

Hi. Good morning.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Good morning.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Good morning.

**John Rogers – D.A. Davidson & Co.**

I just want to follow up a little more on in terms of the margins. As you expand out of your traditional markets in Cushing and elsewhere into the other geographic regions as well as the electrical side, is there a margin gap in those newer markets before you start to get better pricing?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

There can be a margin gap but, normally, it's temporary. If we go into (inaudible) and we're doing a project, we're establishing new relationships with other subcontractors and vendors and identifying the new workforce and so there will be a potential margin gap over the short term, but over the long term and over the three- to five-year horizon, we expect our gross margins to and our operating margins to improve incrementally year over year.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I'd also add that related to the tank business is that in many cases, we're following clients that we worked with and worked with in Cushing and other places. So many times, we've got strong relationships with them and so the expectations on both sides of the project are aligned and similar. So it isn't necessarily that we're having to, in the new tank business, break into a market that may create some margin pressure.

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**John Rogers – D.A. Davidson & Co.**

No, but I was just saying that – I mean you must be highly efficient in Cushing versus a different geography.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

We're highly efficient everywhere.

**John Rogers – D.A. Davidson & Co.**

Okay. All right. Thank you very much.

**Operator**

Our next question comes from the line of Ross Taylor from Somerset Capital. Please proceed with your questions.

**Ross Taylor – Somerset Capital Advisers LLC**

Thank you. Actually a couple of questions, more on the strategic outlook. Will you comment on the order of magnitude of these opportunities with regard to alternative energy sources, Cushing, Canadian oil and gas, and the like and also whether or not the delay in Keystone actually increases the demand for storage in the short run as you commented more truck and rail transportation issues?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Well, I think certainly the – as it relates to Cushing, Cushing appears to be – while we still have opportunities in Cushing, we're working and still continue to work out there. I'll say, in some cases, some of our clients have maybe taken a breath for a second to see what the outcome of the XL pipeline decisions going to eventually be. Then in other areas around the country that may or may not be tied into XL, we still see a very strong demand for storage in our flat bottom tank storage business. So that right now, I would say the growth there for us is slightly up and the approval of the XL pipeline will probably create in some regions additional growth opportunities.

**Ross Taylor – Somerset Capital Advisers LLC**

Would you comment on idea of how short of storage capacity we are relative to the current capacity we have? Do you have an idea of what that number might be?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I do not have that data in front of me. We do have that, but the US still represents, we believe, over the next - US and North America, over the next five years or better, still fairly good growth opportunities to the storage needs within the country.

**Ross Taylor – Somerset Capital Advisers LLC**

Okay. And also in the past, natural gas was or LNG was looked at as an opportunity as an import product and you guys have the capacity and obviously spoke a little bit on maybe being tasked with a project. There's now a lot of talk with gas prices, where they are, and with the expectation of substantial long-term supplies of gas – of LNG

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going the other way. Is that an opportunity and, if so, what kind of time horizon would that be seen under?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Well, certainly we are following that market. We have the capabilities internally to play in that market for export terminals. And so I would say that right now, we're keeping in contact with some clients and some significant partners on how we can participate in some of the planned build outs. I would say some of the market dynamics there is that while the gas is relatively cheap here in the US right now, eventually there are other shale plays in other parts of the globe, China particularly, that may create a situation where gas – the cheap gas in the US may not be so cheap to export it and where those – there will be other cheap shale gas plays in other parts of the globe. So it's going to be interesting enough to watch those market dynamics and how they affect the build out of export terminals here in the US and whether we'll just be able to, as a nation, keep that gas internally here for power generation and other uses.

**Ross Taylor – Somerset Capital Advisers LLC**

Okay. Great. Thank you very much.

**Operator**

Again, if you would like to ask a question, it is \*1 on your telephone keypad, \*1 if you would like to ask a question.

Our next question comes from the line of Tahira Afzal from KeyBanc Capital Markets. Please proceed with your questions.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

Thank you. Just had a couple of followup questions. You've done a very good job in the past when the market was under pressure of really aligning your costs and integrating your systems and clearly, we see that in terms operating leverage. Is there a point at which the G&A ramp will have to sort of accompany your revenue ramp or can you go at least another year, fiscal year, kind of running at the sort of \$12 million a quarter run rate?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

I would say, and Kevin can maybe give you a more numerical answer, I would say in general, as we grow the business and we – both on – particularly on an organic side, in some cases, we would be adding some key resources to the business to help grow our services and to break into some new markets and new clients. But it's not necessarily probably a material change in the SG&A for that. So I think that there'll be a range in which the SG&A is going to operate within the organization as we ramp up revenue and increase our backlog and bookings.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

And I would just add that longer term – or long term, we hope to see that SG&A continue to be leveraged a bit. There will be times as we're making these investments as we're improving the tools that we provide our people, the systems that we have, as

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we go into new lines of business or more complex projects, there'll be times when see that SG&A step up a bit but over the long term, we should see a decrease.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

Got it. Okay. And then you talked about the pricing or really the margins in your bookings staying relatively better on the construction side of the AST business. Is that more just on volume activity as per utilization or would you say there's something improving in terms of pricing or mix as well?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

I don't believe the margins in the backlog are better than what they've been. I believe that they will support a 12% to 13% construction gross margin as we go forward – to the extent we can leverage our cost structure, we can potentially take that higher, but that's not something that we're forecasting at this point.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

Got it. But if you compare it to your sort of last two quarters, it's been closer to the lower end of that, you know, around 11%, 11.5%. So would the 13% assume utilization or pricing?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

I think it's more of the mix of work, what sectors are stronger at that time and then the timing of certain projects occurring.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

Got it. Okay. And then you obviously have a lot of fabrication capacity and as you pointed out, people focus more so for Matrix as a sort of a crude storage tank company. Could you talk a bit more about your fabrication capabilities and where else, other than T&D and storage and downstream, you can potentially leverage them particularly on the power side?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Our fabrication facility here in – outside of Tulsa and we have a small operation in the West Coast is primarily focused on and is very busy with our AST business. And so when we have opportunities to sort of leverage that fabrication facility to provide some third-party fabrication, we do that. But right now they are fairly focused on supporting our AST business and have certainly got a good workload to be able to do that in the foreseeable future.

**Tahira Afzal – KeyBanc Capital Markets Inc.**

Got it. Okay. And then my last question really in regard to Kitimat LNG, any update with that?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

No. No updates for us. I believe the project's going forward. At this point, we have not decided whether we're going to make a – try and pick up any parts of that work, but we are certainly watching the project from here.

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**Tahira Afzal – KeyBanc Capital Markets Inc.**

Great. Thank you very much.

**Operator**

Our next question comes from the line of Rich Wesolowski from Sidoti & Company. Please proceed with your questions.

**Richard Wesolowski – Sidoti & Company, LLC**

Thanks again. John, in your strategic plan within the industrial bucket you mentioned industrial cleaning, which is an area we haven't heard of in the past. What type of work is that and why would Matrix aim for that market?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

It was actually in the oil, gas and chemical bucket, but the industrial cleaning services is a relatively small business that we have in our portfolio headquartered here in Tulsa in Kansas City. They do not only \$8 million to \$10 million a year with some of the highest gross margins in our business and that is a business that we think that we can expand and grow and leverage not only on locations in different parts of the country but also the clients in which we're providing services and turnarounds and maintenance work in petroleum plants where a lot of that type of business is completed. So it's hydroblasting, steam cleaning, chemical cleaning, waste minimization. So it's a bunch of different services that is a very sort of steady active spend by many of our industrial petroleum and chemical clients and frankly into other businesses such as power generation and agriculture and food and in other areas. So we think it's an area for growth for us and it's an area that will help us to continue to drive our margins with our revenue. And so we've got a very, I would say, a very active focus area on expanding that business.

**Richard Wesolowski – Sidoti & Company, LLC**

It actually sounds a lot like some of the work that companies in another sector of mine do when they get margins just off the top of my head that are in an order of magnitude above maintenance's average. Is that a proper way to think about it?

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Yes, I would say that.

**Richard Wesolowski – Sidoti & Company, LLC**

Okay. The company recently renewed a shelf offering of \$400 million in varied securities, which is a huge number for a company your size. Would you remind us of the size parameters of the acquisitions you were in before?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

I would say we are looking at acquisitions up to \$100 million, \$125 million size acquisitions.

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**Richard Wesolowski – Sidoti & Company, LLC**

In purchase price or in revenue?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Purchase price. So we're – I would say the larger would be more of a one-off. We are looking for smaller sort of regional opportunities that we can include in our service portfolio that we can integrate quickly into the business. That's not to say over the next three to five years that we wouldn't find something a little bit – something that's more at the top end of that range.

**Richard Wesolowski – Sidoti & Company, LLC**

Okay. And then lastly you mentioned the seasonality for the remainder of fiscal '12 that June in the larger quarter and March is the smaller one. Is that a dramatic difference? I mean should we expect March earnings somewhere in the mid range of what you've put up in September and December?

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

Yes. I expect that it's – it's incrementally. I mean it's not like you're going to see our businesses drop off a cliff in the third quarter. The third quarter's going to be a good quarter, but we expect the fourth quarter to be stronger.

**Richard Wesolowski – Sidoti & Company, LLC**

Great. I appreciate it.

**John R. Hewitt – Matrix Service Company – President and Chief Executive Officer**

Thank you.

**Operator**

There are no further questions at this time. I would now like to hand the floor back over to management for closing comments.

**Kevin S. Cavanah – Matrix Service Company – Chief Financial Officer**

We appreciate everybody here joining us today and we look forward to talking to you at the end of our next quarter.

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