

Fluor Corporation (FLR)

\$17.89 (As of 01/31/20)

Price Target (6-12 Months): **\$15.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 01/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: B

Summary

Shares of Fluor have underperformed its industry over the past year. The dismal performance was mainly due to lower contribution from Energy & Chemicals, Infrastructure & Power, as well as Diversified Services businesses. Also, reduced volume of project execution activities for several downstream projects, a large upstream project and the completion of a major chemicals project added to the downside. The company's new awards during the third quarter of 2019 dropped 58.6% on a year-over-year basis. Earnings estimates for 2020 have declined over the past seven days. Nonetheless, strong end-market prospects, solid backlog level and a good business portfolio mix are expected to drive growth in the future. At the end of the third quarter, consolidated backlog increased to \$30.3 billion from \$30 billion recorded in the year-ago period.

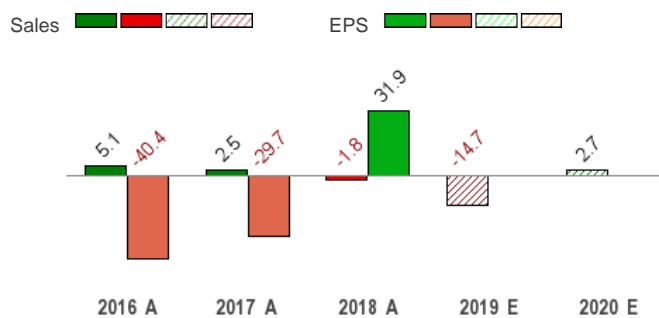
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$41.91 - \$16.00
20 Day Average Volume (sh)	1,620,276
Market Cap	\$2.5 B
YTD Price Change	-5.2%
Beta	2.22
Dividend / Div Yld	\$0.40 / 2.2%
Industry	Engineering - R and D Services
Zacks Industry Rank	Bottom 6% (239 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	86.8%
Last Sales Surprise	-16.1%
EPS F1 Est- 4 week change	-6.3%
Expected Report Date	02/18/2020
Earnings ESP	0.0%
P/E TTM	10.7
P/E F1	12.0
PEG F1	0.9
P/S TTM	0.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	3,993 E	4,228 E	4,309 E	4,680 E	16,789 E
2019	4,193 A	4,094 A	3,938 A	4,194 E	16,354 E
2018	4,824 A	4,884 A	4,658 A	4,801 A	19,167 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.19 E	\$0.23 E	\$0.53 E	\$0.41 E	\$1.49 E
2019	-\$0.14 A	\$0.33 A	\$0.71 A	\$0.24 E	-\$9.61 E
2018	\$0.56 A	\$0.81 A	\$0.55 A	\$0.77 A	\$2.15 A

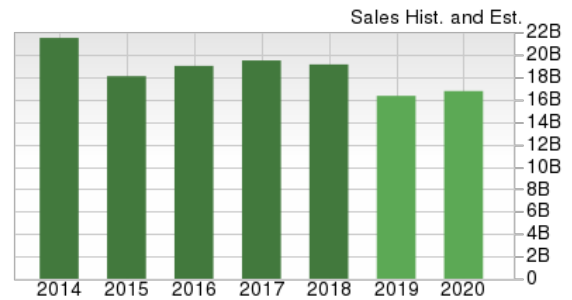
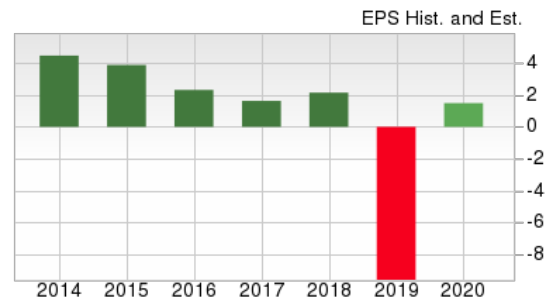
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/31/2020. The reports text is as of 02/03/2020.

Overview

Headquartered in Irving, TX, **Fluor Corporation** provides engineering, procurement, construction and maintenance services (EPCM) through a number of subsidiaries. The company also provides its operations and maintenance services to major industrial clients. The company continues to develop and implement innovative solutions for complex project issues in diverse industries, including chemicals and petrochemicals, commercial and institutional (C&I), government services, life sciences and manufacturing.

During third-quarter 2019, the company planned to sell all government and equipment ("AMECO") businesses. Going forward, any income generated from these two businesses will be treated as earnings from discontinued operations. The company reviewed its business lines, markets and geographies, and realigned the reportable segments into five operating segments, namely **Energy & Chemicals** (accounting for 40.9% of third-quarter 2019 revenues); **Mining & Industrial** (34.9%); **Infrastructure & Power** (10%); **Diversified Services** (13.2%); and **Other** (1%).



Reasons To Sell:

▼ **Lower Contribution From Segments:** Fluor has been posting dismal results over the last few quarters due to lower segmental performance. Within the Energy & Chemicals unit, revenues decreased 23% from the corresponding period of 2018 in the first nine months of 2019, primarily due to reduced volume of project execution activities along with lower volume of broad-based new awards in 2018 & 2019. The segment's margins impacted significantly, owing to charges of \$240 million related to forecast revisions for estimated cost growth on an offshore project. Resolution of certain close-out matters with a customer and lower volume of project execution activities added to the woes.

Lower contribution from Energy & Chemicals, Government and Diversified Services, volatility of commodity prices, along with intense competition pose significant challenges

In the Infrastructure & Power business, revenues declined 24% year over year in the same period. The decline was mainly due to completion of certain large power projects during 2019. Also, the segment's margin deteriorated significantly from the prior-year quarter. The fall was mainly due to forecast revisions for late engineering changes, cost growth and ongoing assessments of certain unapproved change orders related to a fixed-price project.

In the Diversified Services segment, revenues dropped 11% from the year-ago quarter, primarily due to lower contribution from the power services business, completion of certain large projects in the equipment business, a lower maintenance project in Australia, and the cancellation of a large operations and maintenance project in North America. Segment profit margin also fell 150 basis points year over year due to the above-mentioned headwinds.

▼ **Tepid Guidance:** Due to ongoing strategic review of business and operations, the company withdrew all its previously announced guidance for 2019. However, the company's projections for fourth-quarter margins are intact. Margins are anticipated within 4-5% for both Energy & Chemicals and Diversified Services units. Also, margins are projected to be 2% for both Mining & Industrial and Industrial & Power segments.

Shares of the company have declined 50.6% in the past year against its industry's 9.5% rally. Estimates for 2020 have declined over the past seven days, limiting the company's earnings growth potential.

▼ **Risk of Cost Overruns:** Fluor bears significant cost overruns risk as the price of several of its contracts is fixed. It may experience reduced profits, or in some cases, losses under these contracts, if costs increase above its estimates. It also depends on third parties to complete many of its contracts. Moreover, the company has no control over the uncertain timing of project awards, which continues to pose a major threat to revenues. Because of the nature of its contracts, Fluor sometimes commits resources to projects prior to receiving payments from client, which is sufficient to cover the day-to-day expenditure.

In the first nine months of 2019, the company incurred \$98 million restructuring charges associated with forecast revisions for Energy & Chemicals, Mining & Industrial, and Infrastructure & Power segments. Earnings in the said period were also impacted by the above-mentioned headwinds.

▼ **Commodity Price Volatility:** Volatility in commodity prices, and the cyclical nature of the company's commodity-based business lines, poses significant challenges for Fluor in the forthcoming quarters. Going forward, the company believes that clients of Energy & Chemicals segment will maintain a cautious approach while taking investment decisions which will add to the company's woes. Presently, Fluor is facing a dearth of engineering and new awards which has hurt its growth prospects significantly. Currently, the company's margins are under pressure as it is transitioning from higher margin engineering to lower margin construction activities, particularly related to Energy & Chemicals segment. This migration is a result of the natural maturing of EPC projects, as well as the low level of new awards over the last several quarters. This is also the most prominent reason which causes year-over-year variance in results. This apart, sluggish economic growth worldwide and softness in key geographic regions is also posing challenges. These conditions are hurting the company's non-oil and gas end markets. The volatility in commodity prices is expected to impact Fluor's multiple segments. Moreover, certain contracts of the company are subject to foreign currency risk, especially when project contract revenue is denominated in a currency different than the contract costs. For instance, the company's results reported by foreign subsidiaries with non-U.S. dollar functional currencies are particularly affected by foreign currency volatility.

▼ **Intense Competition:** Fluor faces intense competition in the global engineering, procurement and construction industry, which can pressurize its contract prices and profit margins. Further, the increasing competition, coupled with the inclination toward globalization, has triggered a trend of consolidation across all industries especially in the engineering and construction sector. The power market is extremely competitive and Fluor continues to face a series of challenges in this market. Amid the prevailing uncertainty, the companies are coming together via mergers and acquisitions to thrive in the global economy. Fluor's business can be negatively impacted if its competitors consolidate their businesses. In addition, demand for Fluor's services is highly cyclical and depends on engineering, procurement, construction, fabrication and management needs. Also, being a multinational company, Fluor is subject to compliance risks such as failure to comply with importing and exporting laws pertaining to the United States, as well as foreign nations. The company's projects also sometimes involve handling of hazardous and other highly regulated materials, including nuclear and other radioactive materials, failure to comply with environmental laws and health & safety regulations can pose risks before Fluor's future performance.

Risks

- **Strong End-Market Potential:** Fluor remains optimistic about its end markets, including mining. This is because leading indicators for future capital spending like industrial production and capacity utilization are improving in several regions and industries, which signal higher capital spending, going forward. Currently, the company believes to be at the start of the next commodity cycle, including commodities like copper, gold and replacement mines for iron ore. Of late, the company is experiencing a ramp up in mining activities. Its most important award was the \$8.4-billion LNG Canada project, one of the largest in Fluor's history, which was booked by the company in the prior year. This award represents the company's largest project to fully utilize the investments in data analytics and comprehensive integrated solutions model. It has been tracking solid prospects in copper, bauxite, gold, diamond and lithium.

Within the Energy & Chemicals segment, relative stability in commodity prices is expected to boost investments in downstream as well as petrochemicals. Going forward, it anticipates an increase in front-end engineering awards, which have been at a low level since the past couple of years. Fluor is also tracking multiple large projects, including derivative and LNG plants in North America, upstream projects including pipelines and downstream projects in the Middle East. Fluor remains optimistic about investment projects, particularly on LNG projects in North America including the LNG Canada project for Shell, chemical facilities as well as pipeline projects in the United States. It also expects strong prospects for the refining and chemical projects in the Middle East and Asia. Also, robust pipeline of work in North America and Europe are expected to be conducive to Diversified Services business. Moreover, the company believes that its diversified service business will improve as clients have begun to increase their maintenance spend. Recently, Fluor has grown its maintenance, fabrication and construction capabilities and invested in its systems and processes that are expected to improve its project delivery. Finally, the company's investment in new data centric execution platform will enable it to more accurately analyze and predict project outcomes.

- **Strong Backlog Level:** Fluor has a solid track record of receiving awards, and management remains optimistic about continuation of this trend in future as well, which is expected to drive growth for the company. At the end of the third quarter, consolidated backlog was \$30.3 billion, up from \$30 billion recorded in the comparable year-ago period. Fluor believes client optimism has improved over the past two quarters as mining clients move forward with development plans. The company continues to receive awards for FEED and pre-FEED work for gold, bauxite and copper projects.

The company withdrew all its previously issued guidance for 2019 during the second quarter earnings release. It anticipates margins for the fourth quarter within 4-5% for both Energy & Chemicals, and Diversified Services units. Also, margins are projected to be 2% for both Mining & Industrial, and Industrial & Power segments.

In addition, Fluor, being an industry leader in nuclear remediation at government facilities throughout the United States, is expected to benefit from the rising demand for energy across the globe. With global electricity demand on a steady rise, nuclear energy is emerging as one of the best alternatives to the world's dependence on a finite oil supply and subsequent environmental degradation.

- **Diversity in Business:** Fluor's market diversity remains a key strength that helps it mitigate the cyclicity of markets in which it operates. The company's strategy of maintaining a good business portfolio mix permits it to focus on the more stable business markets and capitalize on developing the cyclical markets at suitable times. The long-term prospects of the company also remain strong with existing growth opportunities in renewable energy, gas-fired combined cycle generation and air emissions compliance projects for existing coal-fired power plants. Further, in a cut-throat competitive environment, Fluor continuously emphasizes on cost controls so that it delivers not only the performance requirements specified by its clients but also their budgetary needs.

Fluor is presently focusing on transforming its EPC model into the one integrated solution. The company believes that this will help in expanding its scope of work on a project, improve client satisfaction and provide an opportunity to generate greater returns. Going forward, Fluor has plans to implement data analytics to projects, minimizing risks and maximizing returns. These initiatives give Fluor the extra edge and a distinct competitive advantage.

- **Restructuring Initiatives:** Fluor maintains a strong focus on enhancing its competitive position in the market through prudent leadership initiatives and strategic alliances. In this regard, the company has undertaken a restructuring initiative under its construction and fabrication operations to improve control and delivery of projects, thereby enhancing client satisfaction. Earlier, the company implemented a change in the reporting segments in order to better reflect the diverse end markets the company serves. Since the beginning of 2019, the company initiated certain restructuring plans to optimize costs and improve operational efficiency. These initiatives include rationalization of resources, real estate and overhead across various geographies, along with the liquidation of AMECO.

During third-quarter 2019, it planned to sell all government and equipment businesses, and treated these as discontinued operations. Also, it realigned the four reportable segments into five, namely Energy & Chemicals, Mining & Industrial, Infrastructure & Power, Diversified Services, and Other.

Last Earnings Report

Fluor's (FLR) Q3 Earnings Beat Estimates, Revenues Miss

Fluor Corporation reported better-than-expected earnings in third-quarter 2019. The company's adjusted earnings of 71 cents per share surpassed the Zacks Consensus Estimate of 38 cents by 86.8%. The reported figure also increased 29.1% from the year-ago earnings of 55 cents per share.

Revenues during the quarter totaled \$3.94 billion, which missed the consensus mark of \$4.69 billion by 16.1%. However, the top line rose 2.5% on a year-over-year basis. Lower contributions from the Energy & Chemicals, Infrastructure & Power as well as Diversified Services businesses were offset by solid performance by Mining & Industrial segment.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-16.08%
EPS Surprise	86.84%
Quarterly EPS	0.71
Annual EPS (TTM)	1.67

New Awards & Backlog

In the reported quarter, Fluor's total new awards of \$2.63 billion dropped 58.6% on a year-over-year basis. Nonetheless, consolidated backlog during the quarter came in at \$30.3 billion, up from \$30 billion in the year-ago quarter.

Segment Discussion

Energy & Chemicals segment's revenues fell 15.3% year over year to \$1,611.6 million. During the quarter, the segment's profit came in at \$84.9 million compared with \$50.2 million in the year-ago quarter. Segmental margin was 5.3%, up 270 basis points (bps) from 2.6% in the prior-year quarter.

New awards came in at \$256.3 million, down from \$644.1 million in the year-ago quarter. Backlog at the end of the quarter was \$13.7 billion compared with \$11.4 billion in the year-ago period.

Revenues in the **Mining & Industrial** segment totaled \$1,374 million, up 41.2% on a year-over-year basis. The segment's margin was 4.1% during the quarter, up 200 bps from 2.1% in the year-ago quarter. The uptick was led by increased project execution for several mining projects and successful resolution of a customer dispute.

New awards came in at \$118.8 million, down from \$4,286.8 million in the prior-year quarter. Backlog at the end of the quarter was \$6.2 billion compared with \$9.8 billion in the year-ago period.

Revenues in the **Infrastructure & Power** segment totaled \$392.5 million, down 4.8% on a year-over-year basis. The segment's margin was 0.3% compared with 24.8% in the year-ago quarter on continuous execution of lower margin projects that were revised in the second quarter.

The segment booked new awards worth \$1,992.7 million, up from \$1,076.9 million in the year-ago quarter. Backlog at the end of the quarter amounted to \$7.7 billion compared with \$6.7 billion in the year-ago quarter.

Diversified Services revenues dipped 0.9% on a year-over-year basis to \$521.7 million. Segment margin contracted 220 bps to 2.1% in the quarter. The downside was caused by lower volumes in the operations and maintenance business as well as divestiture of equipment business in Mexico.

New awards totaled \$259.8 million, down from \$336 million in the year-ago quarter. Nevertheless, quarter-end backlog increased to \$2.4 billion from nearly \$2 billion in the prior-year quarter.

The **Other** segment, which now includes NuScale and the Radford and Warren government projects, reported revenues of \$37.9 million. The segment booked new awards worth \$0.5 million. Backlog at the end of the quarter amounted to \$265.1 million compared with \$156.4 million in the prior-year quarter.

Liquidity & Share Repurchases

As of Sep 30, 2019, Fluor had cash and marketable securities of \$1,853.0 million, down from \$1,979.6 million at the end of 2018. Long-term debt at the end of the third quarter declined to \$1,636.9 million from \$1,661.6 million on Dec 31, 2018. Cash provided by operating activities was \$66.9 million during the first nine months of 2019 versus cash used in operations of \$11.3 million in the year-ago period.

Guidance

Although the company withdrew all of its previously-issued guidance for 2019 during the second quarter earnings release, it provided margins guidance for the fourth quarter. Margins are anticipated to be 4-5% for Energy & Chemicals and Diversified Services units, respectively. Also, margins are projected to be 2% for both Mining & Industrial and Industrial & Power segments.

Recent News

Fluor's Energy & Chemicals Unit Wins FEED Contract From BPCL - Jan 28, 2020

Fluor Corporation's Energy & Chemicals business has been selected as a project management consultant from Bharat Petroleum Corporation Limited ("BPCL") to provide front-end engineering and design ("FEED") services to the latter's Polyols Petrochemicals Project.

Per the contract, Fluor will offer FEED services for both the inside and outside battery limits, as well as implement detailed design at the integrated refinery and petrochemicals complex, located in Kochi, Kerala, India. The scope of its work also includes engineering, procurement and construction management services for the facility's utilities and offsites

Fluor to Offer Engineering Services to Neptune's Dutch Assets - Jan 23, 2020

Stork — a unit of Fluor Corporation's Diversified Services business — has received a four-year framework contract from Neptune Energy for the latter's brownfield and decommissioning project.

Per the agreement, Stork's joint venture company — Stork Worley Integrated Solutions — will provide engineering, procurement, construction, installation and commissioning, and decommissioning services to Neptune Energy's Dutch assets in the North Sea for a brownfield modification.

Fluor Inks Air Force Deal for Ascension Auxiliary Airfield - Jan 22, 2020

Fluor Corporation's Fluor AMEC II, LLC unit has clinched a contract from the Air Force Installation Contracting Agency to repair the Ascension Island Auxiliary Airfield runway. This task order, under the Air Force Contract Augmentation Program IV (AFCAP IV), spans for up to 28 months and is valued at approximately \$170 million.

Fluor's Energy & Chemicals Unit Wins EPC Contract From CKPC - Jan 09, 2020

Heartland Canada Partners ("HCP") — a 50/50 partnership between Fluor Corporation and Kiewit Construction Services ULC — has received an EPC contract from the Canada Kuwait Petrochemical Corporation ("CKPC").

Per the deal, HCP will provide engineering, procurement and construction-related services to CKPC's new propane dehydrogenation ("PDH") unit, located in Sturgeon County, Alberta, Canada.

Valuation

Fluor shares are down 50.6% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Construction sector are up 9.5% and 25.4% in the past year, respectively.

The S&P 500 index is up 17.5% in the past year.

The stock is currently trading at 11.83X forward 12-month Price to Earnings, which compares to 13.92X for the Zacks sub-industry, 15.65X for the Zacks sector and 18.51X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.93X and as low as 9.12X, with a 5-year median of 14.79X. Our Underperform recommendation indicates that the stock will perform worst than the market. Our \$15 price target reflects 9.93X forward 12-month earnings.

The table below shows summary valuation data for FLR

Valuation Multiples - FLR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	11.83	13.92	15.65	18.51
	5-Year High	33.93	16.92	18.83	19.34
	5-Year Low	9.12	9.87	10.63	15.18
	5-Year Median	14.79	13.09	15.93	17.46
P/B TTM	Current	1.49	1.87	3.8	4.41
	5-Year High	2.88	2.45	7.22	4.55
	5-Year Low	0.92	1.14	2.19	2.85
	5-Year Median	2.11	1.59	3.41	3.62
EV/EBITDA TTM	Current	2.37	11.94	19.45	12.25
	5-Year High	10.54	15.24	22.53	12.86
	5-Year Low	2.17	5.37	14.4	8.48
	5-Year Median	6.5	8.35	19.38	10.7

As of 01/31/2020

Industry Analysis Zacks Industry Rank: Bottom 6% (239 out of 255)



Top Peers

AECOM (ACM)	Neutral
Dycom Industries, Inc. (DY)	Neutral
Gates Industrial Corporation PLC (GTES)	Neutral
KBR, Inc. (KBR)	Neutral
MasTec, Inc. (MTZ)	Neutral
Primoris Services Corporation (PRIM)	Neutral
Quanta Services, Inc. (PWR)	Neutral
Willdan Group, Inc. (WLDN)	Neutral

Industry Comparison Industry: Engineering - R And D Services				Industry Peers		
	FLR Underperform	X Industry	S&P 500	ACM Neutral	KBR Neutral	PWR Neutral
VGM Score	B	-	-	A	B	A
Market Cap	2.51 B	2.65 B	23.55 B	7.63 B	3.85 B	5.57 B
# of Analysts	4	3	13	3	6	8
Dividend Yield	2.24%	0.00%	1.81%	0.00%	1.18%	0.51%
Value Score	C	-	-	A	B	A
Cash/Price	0.68	0.05	0.04	0.14	0.17	0.01
EV/EBITDA	2.80	9.17	13.97	32.46	8.67	10.10
PEG Ratio	0.94	1.32	1.97	1.18	1.21	0.69
Price/Book (P/B)	1.49	2.12	3.21	1.95	2.12	1.43
Price/Cash Flow (P/CF)	4.46	11.00	13.36	10.86	13.73	8.96
P/E (F1)	12.27	14.52	18.42	14.56	13.84	10.00
Price/Sales (P/S)	0.15	0.61	2.60	0.38	0.70	0.46
Earnings Yield	8.33%	6.88%	5.43%	6.86%	7.24%	10.01%
Debt/Equity	0.97	0.65	0.72	0.84	0.77	0.51
Cash Flow (\$/share)	4.01	1.38	6.92	4.44	1.98	4.37
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	-18.39%	13.30%	10.68%	-1.32%	16.36%	19.39%
Proj. EPS Growth (F1/F0)	115.54%	7.46%	7.59%	20.48%	16.16%	20.64%
Curr. Cash Flow Growth	14.03%	7.53%	10.81%	-0.31%	7.10%	28.58%
Hist. Cash Flow Growth (3-5 yrs)	-9.29%	8.08%	8.78%	15.22%	-6.30%	5.32%
Current Ratio	1.38	1.38	1.22	1.17	1.28	1.82
Debt/Capital	49.29%	39.52%	42.99%	45.73%	43.47%	33.94%
Net Margin	-7.66%	3.10%	11.69%	-1.29%	3.39%	2.81%
Return on Equity	8.94%	10.60%	17.33%	10.32%	12.77%	12.17%
Sales/Assets	1.96	1.13	0.55	1.37	1.05	1.53
Proj. Sales Growth (F1/F0)	2.66%	3.28%	4.12%	5.02%	13.18%	6.73%
Momentum Score	B	-	-	C	C	B
Daily Price Chg	-3.87%	-0.30%	-1.98%	-2.17%	-0.80%	-1.98%
1 Week Price Chg	-4.79%	-0.25%	-1.09%	-1.33%	-5.58%	-2.16%
4 Week Price Chg	-6.63%	-4.28%	-2.11%	12.22%	-11.49%	-4.72%
12 Week Price Chg	-5.09%	-0.69%	2.15%	14.21%	-6.82%	-9.25%
52 Week Price Chg	-51.08%	9.28%	14.15%	57.56%	58.14%	10.78%
20 Day Average Volume	1,620,276	21,217	1,808,632	1,534,852	1,202,664	1,034,107
(F1) EPS Est 1 week change	-6.27%	0.00%	0.00%	0.00%	0.00%	-0.21%
(F1) EPS Est 4 week change	-6.27%	0.00%	0.00%	0.00%	0.00%	-0.21%
(F1) EPS Est 12 week change	-6.27%	-1.01%	-0.09%	-0.20%	-1.01%	1.15%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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