Gulf Island Fabrication, Inc. (NASDAQ: GIFI)

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RESEARCH NOTE

SOUTH TEXAS YARD SALE CLOSES, NET PROCEEDS $52.7 MILLION

This report should be read in conjunction with GVRC's initiation report, dated 4/9/2018 and Gulf Island Fabrication, Inc.'s regulatory filings with the U.S. Securities and Exchange Commission.

Gulf Island Fabrication, Inc. ("Gulf Island") announced the completion of the sale of its South Texas fabrication yard in Ingleside, Texas ("South Yard") to Buckeye Partners, L.P. ("Buckeye") on April 20, 2018. Gulf Island had entered into a real estate purchase option and contract with Buckeye on December 20, 2017, which granted Buckeye the exclusive option to purchase the property through April 25, 2018. There were no adjustments to the originally-reported transaction amount of $55 million. Gulf Island will retain net cash proceeds of $52.7 million after transaction costs, in addition to $750,000 in earnest money deposited by Buckeye on January 3, 2018.

Concerns about Gulf Island's liquidity surfaced after a difficult FQ4 2017, in which the company reported an operating loss of $38.1 million and a cash balance of only $9.0 million. The operating loss and cash burn were due in large part to cost overruns and delays associated with two multi-purpose service vessels under construction for Hornbeck Offshore Services, Inc. ("Hornbeck"). On March 19, 2018, Gulf Island received a letter of termination from Hornbeck for these two vessels, further raising investor concerns that losses on the project were continuing well into FQ1 2018.

In January 2018, the company drew $10.0 million on its revolving credit facility, leaving approximately $27.5 million in availability. The obvious need for cash caused concern that the company might issue equity pursuant to its November 17, 2017 Form S-3 shelf registration filing, a particularly unattractive option given the trading range of the shares after the February 26, 2018 announcement of FQ4 2017 results ($6.90 - $8.93).

In its April 23, 2018 press release, Gulf Island forecasts total liquidity of $84 million, including cash and amounts available on its revolving credit facility, following the consummation of the sale of the South Yard. The company estimates a gain on sale of approximately $7.0 million (South Yard FQ4 2017 book value was $46.8 million), although does not anticipate any material tax liability given recent net operating losses.

Proceeds from the sale of the South Yard should go a long way in assuaging investor concerns about short-term liquidity or an equity offering. Gulf Island is nearing the completion of contracts it assumed in the 2016 acquisition of LEEVAC Shipyards, LLC (including the Hornbeck contract), which have precipitated numerous financially detrimental issues. Furthermore, the company has recently won several marine vessel construction contracts with financially stable counterparties in industries other than offshore oil and gas. In late 2017, SeaOne Caribbean, LLC ("SeaOne") selected Gulf Island as the prime contractor for the engineering, procurement, construction, installation, commissioning and start-up for the Compressed Gas Liquids Caribbean Fuel Supply Project, which encompasses a new compressed gas liquids export facility in Gulfport, Mississippi and import facilities in the Caribbean and South America.

Questions remain about Gulf Island's ability to execute these new projects at acceptable margins and without complication, although recent problems appear to be project- or customer-specific. Global Value Research Company (GVRC) acknowledges recent challenges, but recognizes Gulf Island's long history of profitability. Short-term liquidity issues are substantially less pressing after the sale of the South Yard, and projects currently in Gulf Island's backlog as well as significant opportunities identified by the company are reasons for optimism. GVRC believes significant price appreciation potential exists in the company's common stock.

PLEASE SEE ANALYST CERTIFICATION AND IMPORTANT DISCLOSURES ON PAGE 2.

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