

STOCK TRADERS PRESS

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Long-Term Report **May 15, 2003**

Strong Buy **McDermott International Inc. (NYSE) MDR \$6.19**

Company Data

52-Week Range	\$2.15-\$14.27
Market Cap	\$409.1M
Shares Outstanding	64.8M
Book Value	-\$6.48
Price/Book	N/A
Average Daily Vol.	452.2K
Target Price	\$10.00
Target Percentage	61%



McDermott International is a leading worldwide energy services company. Through one of the company's two major divisions, **McDermott** provides engineering, fabrication and installation of offshore oil-exploration platforms. The company is also a major facility management provider to the nuclear industry as well as the Dept. of Energy.

We are attracted to McDermott International as an exciting turnaround situation for the following reasons:

- During 2002, the company experienced a number of problems in three large offshore platform contracts. As a result, **McDermott** significantly reorganized its operations and absorbed a large write-off of about \$700 million. Going into 2003, **the company has lowered its operating costs and it increased its backlog to a new high of \$2.1 billion for oil related services.**
- The company's **BWX Technologies** is the preeminent facility and project manager for nuclear and national security programs. **2002 was a banner year with a strong increase in earnings and an increased backlog of \$1.7 billion (a historic high)**
- In December 2002, the company reached an agreement to settle all asbestos claims against its **Babcock & Wilcox subsidiary**. It should be noted that **McDermott had put Babcock & Wilcox into voluntary bankruptcy** (Chapter 11) because of the asbestos claims. Upon approval, the company will convey its equity in **Babcock** plus \$92 million and \$4.7 million shares on 7% of its outstanding stock to claimants. This is a very good settlement from McDermott's viewpoint and more importantly removes a negative cloud from the company.
- **McDermott International** reported first quarter of 2003 earnings of **\$.13 per share on a more than 30% rise in revenues**. These earnings results were very good and are testimony to the reorganization efforts of the company taken during 2002.
- The company has relatively strong finances and a cash position equal to about \$4.40 per share (\$283 million). We have initially established a target price of \$10 a share.

We consider McDermott International as an undervalued, turnaround investment. The outlook for both offshore oil development and government national security programs continues to be quite strong.