08-Aug-2017

Jacobs Engineering Group, Inc. (JEC)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Jacobs Third Quarter 2017 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded. I now would like to turn the conference over to Jonathan Doros, Vice President of Investor Relations. Please go ahead, sir.

Jonathan Doros
Vice President, Investor Relations, Jacobs Engineering Group, Inc.

Thank you operator, and good morning and afternoon to all. We welcome everyone to Jacobs' 2017 third quarter earnings call. I will be joined in the call today by Steve Demetriou, our Chairman and CEO and Kevin Berryman, our EVP and CFO. Our earnings announcement was released this morning, and we have posted a copy of the slide presentation to our website, which we will reference in our prepared remarks.

I would like to refer you to our forward-looking statement disclaimer, which is summarized on slide 2. Certain statements contained in this presentation constitute forward-looking statements as such term is defined on Section 27A of the Securities Act of 1933 as amended, and Section 21E of the Securities Exchange Act of 1934 as amended, and such statements are intended to be covered by the safe harbor provided by the same. Statements made during this presentation not based on historical fact are forward-looking statements, including statements regarding whether and when the proposed transaction with CH2M will be consummated and the anticipated benefits thereof. Although such statements are based on management's current estimates and

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expectations and the currently available competitive, financial, and economic data, forward-looking statements are inherently uncertain, and you should not place undue reliance on such statements as actual results may differ materially.

We caution the reader that there are a variety of risks, uncertainties and other factors that could cause actual results to differ materially from what is contained, projected or implied by our forward-looking statements. For a description of some of risks, uncertainties and other factors that may occur that could cause actual results to differ from our forward-looking statements, see our Annual Report on Form 10-K for the period ended September 30, 2016, and in particular the discussion contained under Item 1, Business; Item 1A, Risk Factors; Item 3, Legal Proceedings; and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations as well as in our quarterly report on Form 10-Q for the period ended June 30, 2017, and in particular the discussion contained under Part 2, Item 1A, Risk Factors; Part 1, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations; and Part 2, Item 1, Legal Proceedings as well as other filings with the Securities Exchange Commission. Neither we or CH2M is under any duty to update any forward-looking statements after that day of this presentation to confirm to actual results, except as required by applicable law.

Please now turn to slide 4 for review of the agenda for today's call. Steve will begin with a strategic recap of our planned acquisition of CH2M, and then provide an overview of our third quarter results, as well as industry conditions for each of our four lines of business. Kevin will then provide more in-depth discussion of our financial metrics and results for each line of business as well as our strategic investments and capital allocation. Steve will finish with closing remarks and we'll open the call for questions.

With that, I will now pass it over our Chairman and CEO, Steve Demetriou.

Steven J. Demetriou

Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

Thank you, Jon, and welcome everyone to our third quarter earnings call. Before I discuss our results, I would like to turn to slide 5 and comment on the significant announcement we made last week, the acquisition of CH2M. This strategic investment serves as the beginning of the next exciting chapter in the history of Jacobs and will significantly enhance opportunities in targeted high growth industries and reinforce our drive to be a world premier global design, engineering, construction, operations and maintenance technical services firm.

This is a significant step for both companies as we unite our complementary cultures and capabilities, expand our presence around the world and accelerate our profitable growth agenda. The deal is truly transformational and will set a new benchmark for the industry and significantly enhance opportunities for our employees, our clients and our shareholders.

The joining of CH2M and Jacobs is a compelling strategic fit for a number of reasons. The complementary capabilities of our two great companies will create an ideal mix of talent and expertise and builds on our common cultures and shared values. Coupled with Jacobs' global platform and long-term client relationships, we will enhance our ability to deliver differentiated services and solutions across key growth industries resulting in business opportunities neither company could create on their own.

CH2M further supports our profitable growth agenda and better positions us to deliver on a strategic blueprint and drive more profitable growth across our business. Most importantly, we expect the combined company to drive significant financial benefits and enhance shareholder value.

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Moving to slide 6. From the onset, leadership at both Jacobs and CH2M established open and dynamic discussions about the potential of combining our two companies and the synergistic opportunities that will result from our complementary capabilities. We conducted extensive due diligence across CH2M's business including a deep focus on their project portfolio and their project delivery capabilities and tool sets.

We're confident in our assumptions and forecast of CH2M's profitability. Significant recent profit improvement versus historical performance is primarily associated with two of their key initiatives. One, a portfolio optimization and secondly, a strategic transformation. As it relates to CH2M's portfolio optimization, they've been successful in addressing legacy project issues that were a drag on historical performance by permanently exiting the higher risk power EPC and transportation design build businesses. Enhanced risk mitigation and improved project governance are now in place and we have conservatively factored certain risk parameters into our valuation. As a result, we believe we're acquiring a very attractive business portfolio with a similar risk profile to Jacobs.

With regard to their transformation, CH2M prioritized higher value core customers, and focused on a restructuring to reduce cost and enhance client-centric offerings. As their transformation is gaining traction, CH2M is demonstrating a significant increase in sales and profitability with year to date new gross profit awards up 25% and pro forma trailing 12 month adjusted EBITDA of $324 million, up 30% from prior 12 month period.

And while their recent cost restructuring initiative has been successfully completed, there is still much more to do, and therefore we are acquiring CH2M at a very opportune time. We have assigned senior executives from both organizations to co-lead our integration management office, the IMO, on a full time basis. We also engaged an external world-leading consulting firm with significant transformational integration experience and together with the IMO, are developing a roadmap to ensure accountability, transparency and a rigorous integration plan. I'll chair an executive integration steering committee and our Board of Directors will be highly engaged.

The $150 million of cost synergy opportunities have jointly been developed with CH2M leaders during the due diligence. Over the past two years at Jacobs, our leadership has delivered cost savings in excess of $285 million by successfully rightsizing and consolidating over 90 offices and strategically realigning into four global lines of business. These results demonstrate our ability to execute and successfully deliver on our promise to improve margins, profits and enhance shareholder returns.

And so as it relates to the CH2M acquisition, we're confident in our ability to successfully deliver the targeted cost synergies and drive further upside revenue synergies. Ultimately, we believe this transaction is a win-win for all stakeholders. The combined businesses of CH2M and Jacobs will create a premier global solutions provider with the capabilities to deliver and enhanced differentiated value proposition for our clients and strengthen our portfolio with high quality project expertise.

Moving to slide 7 and a few comments regarding our third quarter performance. We are now three quarters into the first fiscal year of our multi-year strategy and we continue to see evidence across the organization that we are delivering on our commitment to improve the company through a continued realignment of our revenue portfolio, reductions in unprofitable business and strong improvements to both gross margins and operating profit margins.

Positively in the third quarter, we saw a 9% increase in sequential adjusted revenue from prior quarter driven by a 16% increase in field services work in our Industrial and Petroleum & Chemicals businesses and a greater than 4% increase in overall professional services revenue. We continue to see improvements in adjusted gross profit at $461 million. This increased by $20 million sequentially and up $9 million versus the year ago quarter. Meanwhile, adjusted gross margin remains strong at 18.3%, a 155 basis point increase year over year. This is

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indicative of our ability to drive and sustain higher margins through a combination of improved operational execution and a focus on more value-added business.

And while we did see an increase in adjusted SG&A costs for the quarter, as a percent of revenue, this was lower by approximately 16 basis points and remained down by $24 million on a year to date basis. As a result of our margin improvement and cost efficiency drive, third quarter adjusted operating profit was $139 million and resulted in a solid third quarter adjusted net earnings of $0.79 per share, an increase of $0.01 per share both sequentially and year over year.

Moving to slide 8. Our backlog reached $18.6 billion at quarter end. This represents a $100 million sequential increase and a more than $230 million improvement year over year. We saw backlog growth in three of our four lines of business, two of which, Aerospace & Technology and Buildings & Infrastructure are our highest margin, highest growth industries, while also increasing our Petroleum & Chemicals backlog in spite of continued industry headwinds.

Just as importantly, our higher value professional services work in backlog continued to trend higher, reaching $12.6 billion at quarter end, the largest in nine quarters. This is a sequential increase of almost $300 million and over $700 million higher than the year-ago quarter and supports our continued efforts to improve underlying gross profit and margins in our backlog. As a consequence of this mix, and also our sales drive to target higher margin work, the quality of our backlog continued to improve, and gross margins are up over 200 basis points versus the year-ago quarter and more than 100 basis points sequentially.

These improvements demonstrate our more disciplined sales focus and ability to win higher value work. We remain excited about the continuing potential growth prospects across each of our four lines of business, which I'll now move into in greater detail starting with Aerospace & Technology on the next slide.

On slide 9, Aerospace & Technology backlog increased sequentially to $5.6 billion and is up over $400 million versus the year-ago quarter. Of note is that our third quarter backlog continues to exclude $600 million of awarded government contracts under protest. We remain optimistic that we will be successful in the protest process and book these into our backlog soon.

Our sales focus on improving unit margins is also delivering results, as our Aerospace & Technology backlog gross margins are up by approximately 100 basis points versus the year-ago quarter. This recent trend of strong sales results is producing momentum in this line of business, and I'm pleased that the P&L revenue and net operating profit are both up sequentially.

During the quarter, we had two important wins that are not included in our backlog numbers and that organically advanced our stated strategy of growth in the nuclear sector. The first is the management and operations contract at the Nevada National Security Site where we are a major equity partner in the JV formed to execute the work. I'm delighted to note that the competitor protest on this win have recently been withdrawn and we will book this into backlog in the fourth quarter and immediately begin transitioning the contract.

The second strategic award is a contract to remediate radiological contamination at the Shallow Land Disposal Area site. While this is still under protest, we remain optimistic we will ultimately execute this important strategic win.

Our key government programs continue to receive stable funding, which is projected to hold steady despite political uncertainty in both the United States and Great Britain. Our win of the Ford rolling road wind tunnel

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project this quarter speaks to the diversity of our Aerospace & Technology portfolio. Due to our differentiated delivery model, our series of wins this year on these sorts of projects are among our highest margin projects and the associated pipeline remains robust.

Moving to slide 10. Our Buildings & Infrastructure line of business also continues to show strength with another strong sales quarter driving bookings up 18% year over year. Although backlog at quarter end appears flat when rounded, it's in fact up $75 million sequentially, increased by $500 million year over year, representing our seventh straight quarter of Buildings & Infrastructure backlog growth.

In the building sector, increasing investments in the federal healthcare and education sectors present significant opportunities across the U.S. In particular, the western U.S. continues to strengthen with large scale design, design build and PM/CM opportunities throughout the region. We're also seeing strong corporate growth in Texas.

In Europe, the corporate sector for buildings is also picking up momentum. Despite certain political uncertainty within the UK, we continue to see positive opportunities and spending plans by our major clients.

Back in the U.S., a recent strategic building award of note was our selection as the prime architect for the University of Texas at Austin Energy Engineering Building.

The global infrastructure sector also continues to present many opportunities, particularly, within transportation where commitment and spending from governments in the U.S., the UK, and Asia-Pacific is robust. Investment in U.S. transportation programs is accelerating in California, Texas, and in the Southeast, all areas where Jacobs is well established.

The Australia federal government has also announced significant investments in infrastructure, with AUD 75 billion identified for its infrastructure funding over the next decade. Similarly, the New Zealand government is forecasting an increase in infrastructure investments in excess of NZD 30 billion over the next four years.

In the UK, there continues to be cost pressures and the drive for increased value for money within the rail sector. However, the UK National Infrastructure Commission is very supportive of certain headline projects including HS2 for Phase 1 and 2, HS3 to underpin the Northern Powerhouse, Crossrail 2 and the third runway at London's Heathrow Airport, which are all driving Jacobs' opportunities.

In aviation, we're seeing increased opportunities globally with both traditional and alternative delivery model approaches. We have recently been selected as the program manager for a significant contract involving two major airport redevelopments. Some recent key transportation wins include the New Zealand Transport Agency's Northern Corridor improvements project, the Oxford to Cambridge Expressway concept design for Highways England and a 10-year contract from PennDOT to design a long-range multiple modal transportation management solution for Interstate 76 in Philadelphia.

In summary, our Buildings & Infrastructure business is well positioned for continued growth across all sectors and geographies. Our pipeline of new opportunity has grown nearly 30% year over year, and our sales and project transformations are yielding solid growth.

Moving to slide 11. Our Industrial line of business was the only LOB to see a sequential decrease in backlog, finishing at $2.2 billion, down $200 million from the prior quarter. As mentioned in our second quarter earnings call, the decrease was expected, and driven primarily by significant revenue burn on two large EPCM life sciences projects as they moved into the field.

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More positively however, gross margins in our Industrial backlog are up more than 350 basis points versus the year-ago quarter, and also up sequentially. In life sciences, we advanced our geographic expansion efforts with significant awards in China, the U.S., Europe and Ireland. Three of these wins were for long-term sustaining capital contracts, and move us toward a more balanced project mix and reliable income stream to help offset the industry's cyclicality.

In mining and minerals, we are seeing incremental signs of recovery in Australia and South America where we have a strong presence and the ability to ramp up quickly. We are building on several iron ore, copper and gold studies, but do not currently anticipate significant spend to restart before late 2018.

In our specialty chemicals business, we continue to penetrate the phosphate sector using our Chemetics technology and to expand our Comprimo services.

Consumer goods and manufacturing spend meanwhile remained steady. In this space, we're recognized for our ability to drive client value in small capital and sustaining services projects through alliance agreements. In the third quarter, we were awarded a key renewal contract with one of our core alliance partners. We're also seeing opportunities as the Make in India program, devised to transform India into a global design and manufacturing hub, gains momentum. As you know, we have significant experienced engineering talent in-country which allows us to take advantage of these opportunities.

And in field services, the construction industry in Europe is suffering from the current political climate and the effective slowdowns are weighing on this industry. Even with key sustaining services, construction and construction management wins, our global field services business remains flat.

Looking forward, our current Industrial line of business sales performance and pipeline is positioning us for more profitable growth in 2018.

And turning to slide 12. I'm pleased to report that our third quarter Petroleum & Chemicals revenue in backlog increased sequentially to $5.4 billion and is up more than $270 million year over year despite continued challenging industry conditions. As with our other lines of business, our Petroleum & Chemicals gross margin in backlog is also higher sequentially and versus the year ago quarter. These margins in backlog are a direct result of our strong focus on improving our clients' capital efficiency and sustainment of their assets, as well as continuing momentum in the execution of our new Petroleum & Chemicals transformation strategy.

In the upstream segment, OPEC's efforts to rebalance excess global supplies continues to weigh on crude oil inventories, while natural gas is gaining share across all energy sectors. However, we're seeing some signs of increasing midstream and upstream opportunities emerging. Shale recovery cost curves are improving, which may increase opportunities for additional pipeline capacity storage, gas processing and related infrastructure projects. And we're actively discussing the next wave of potential midstream gas processing investments with our clients.

Associated with these changing dynamics, we're seeing an increase in study requests for LNG bunkering infrastructure projects to support the projected increase in LNG-fueled ships. Given our experience in off-sites, utilities and jetties, we're actively pursuing opportunities associated with planning of these liquefaction projects.

In our downstream segment, we continue to operate in a state of overcapacity for refining. However, we are seeing growth from emerging economies as refined product trade flows adjust to population growth and

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urbanization of non-OECD countries. The U.S. and Middle East are positioning us as net exporters of light products to these regions, while Asia and Latin America are expected to absorb most of the global refined product surpluses to meet domestic demand.

We're also working with our clients on solutions to modify refineries to comply with the new MARPOL specifications for low sulfur bunker fuels starting in 2020, and additionally we continue to deliver and pursue smaller U.S. refining opportunities to optimize existing facilities for efficiency in naphtha processing from increasing light oil production.

We are assisting our clients to evaluate feedstock conversions to value-added chemicals options, driven by strong petrochemicals demand growth and cheap feedstocks in the U.S. and Middle East. For the quarter, our sales teams were successful in numerous downstream wins to be delivered from our India High Value Design Center. Additionally, we had a number of wins in the Middle East with Aramco and pipeline is increasing in Saudi Arabia.

We were also successful on several EPCM long-term alliance renewals with four of our global clients, which positions us for a number of sustaining capital opportunities and new CapEx projects. Our pipeline of sales prospects is also building as global growth continues to be forecast for the petrochemical sector in the next few years. We are also well positioned to win several medium and large size chemical derivatives prospects across the globe.

Overall, we're very pleased to see our Petroleum & Chemicals backlog trending up and our global pipeline of prospects strengthening in what has been a challenging environment over the last couple of years. We are moving into the construction execution phase of several EPC projects in the U.S. and remain optimistic of our second quarter half revenue and margin growth, supporting positive momentum into 2018.

And now back to Kevin.

Kevin C. Berryman

Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

Thanks, Steve. And I'm going to move on to slide 13, where you will see a more detailed summary of our financial performance for the third quarter. As indicated in our last earnings call, we expected a sequential increase in revenue driven by certain backlog projects moving into the field. And as a consequence, revenues for the quarter improved sequentially to $2.5 billion, an increase of approximately $200 million or 8.5%.

GAAP EPS was $0.74 per share, up 30% versus the year-ago period. During the quarter, we incurred certain remaining costs that had been previously identified as part of our 2015 restructuring, primarily in real estate, and they totaled $0.05 per share. When excluding these restructuring costs, our adjusted earnings per share was $0.79, the second straight quarter we have increased sequentially and versus the year-ago period. We are pleased that we're developing some year over year momentum.

Our GAAP and adjusted net earnings for the quarter also included $3.5 million, or $0.02 per share, in professional service fees associated with the company's announced acquisition of CH2M. As a result, our underlying operating profit performance was actually stronger at $0.81 per share.

Positively, we saw continued strong gross margins during the quarter, which at 18.3% as Steve mentioned, represents a significant 150 basis points improvement year over year. On an adjusted basis, while gross margins were lower than the 19% we achieved last quarter, which as you may recall was due in part to the professional services versus field services mix, professional services gross margin performance continued to improve

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sequentially. This is evidence that our profitable growth strategy continues to gain traction and that we are driving improvements through improved execution and the targeting of higher value-added services work.

As noted also by Steve, our backlog grew to $18.6 billion at quarter end, representing a book to bill of 1 time. Importantly, we will still have over $600 million of A&T protested awards that are not in our backlog and we still remain optimistic that these will ultimately be resolved favorably to Jacobs.

Our SG&A costs have also continued to benefit from our reducing restructuring costs and are down $11 million from the year-ago quarter, contributing to an overall year to date decrease of $68 million versus the prior year to date figures. On an adjusted basis, our year to date SG&A is down $24 million versus the year ago period.

Lastly, our continued discipline around cash flows resulted in a significant 4.2% decrease in working capital sequentially and a significant 24% decrease versus the year ago quarter. As a consequence, we continued to see strong free cash flow of $152 million, supporting a continued improvement in our net cash position to a total of $476 million, an increase of nearly $140 million versus our second quarter.

Moving to slide 14. Our Q3 segment operating profit continued to trend positively for two of the four lines of business on a year to year basis and is up sequentially across three of our four lines of business. Our A&T line of business did see a small decrease in operating profit versus the year-ago quarter as revenue saw some pressure due to our previously announced rebid losses in 2015 and lower level revenues from our AWE joint venture in the UK which is an area we believe has stabilized. As a result, operating profit for A&T decreased by 5.9% versus the year-ago quarter to $50.6 million. However and importantly, A&T's business operating profit margin actually improved nearly 60 basis points to 8.6%.

In addition, our pipeline and backlog continued to show growth. As we exit 2017, our comparables from the year-ago periods will ease and when combined with our strong backlog performance, will support our ability to drive incremental year over year growth next year.

Our B&I business saw significant 17% increase in revenues year over year, driving a 12% improvement in overall operating profit over the same period. While margins are slightly down versus the year-ago quarter, this was due to strong project performance and high performance fees earned in the year-ago period as well as an increase in field services during the current Q3 period. Positively, margins continued to improve sequentially, reaching a fiscal 2017 high of 8.7% during the current third quarter.

For our Industrial business, revenue increased sequentially as expected, as life sciences projects transitioned to the field. This also supported a increase in operating profit for the LOB versus the year-ago quarter by 13.7%. Positively, operating profit margin also rose by over 70 basis points versus the same period to 4.7%.

Finally, our P&C line of business also saw sequential margin improvement, helped by strong project performance and continued focus on cost efficiencies. This resulted in an OP margin increase of nearly 100 basis points year over year. Even with the nearly $170 million fall in revenues year over year, P&C's operating profit fell by only $500,000 over that same period. This bodes well for our P&C profit outlook when the industry returns to growth in the future.

Please note also that our corporate costs were a bit higher than our normal run rate in this third quarter, driven by our CH2M related acquisition costs and a year to date true-up of corporate cost reductions that were passed back to the lines of business during the quarter.

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So turning to slide 15. As stated in our Q2 earnings webcast, our 2015 restructuring costs were substantially completed in Q2, with approximately $15 million remaining to be incurred in the second half, costs that were primarily associated with previously identified office consolidation activities.

As a result, these activities continued during the quarter, and our net earnings for the third quarter thereby included $0.05 per share charges associated with these activities. Final costs associated with the 2015 restructuring are expected to occur in Q4. Our updated program to date costs are now standing at $437 million with expected annual savings of $285 million.

We also continued to make certain strategic investments to support our strategy and profitable growth agenda during the quarter from the $30 million investments we highlighted at the beginning of the year. The EPS impact of these investments in Q3 was $0.05 and we expect to spend the remainder as planned in the fourth quarter of this year.

Before turning it back over to Steve for his closing comments, I'd like to give some quick notes regarding our capital allocation on slide 16. As you know, we announced last week that we have entered into a definitive agreement to acquire CH2M and provided financial details on the deal in our associated press announcement and investor deck.

I would like you to refer to those presentations for greater detail, but highlight some key aspects here. The transaction value of CH2M equals $2.85 billion in equity paid 60% in cash and 40% in Jacobs equity. We will be using a combination of existing cash and existing revolver capacity, as well as a new committed $1.2 billion three year term loan to fund the cash part of the deal. Post close, we still expect to have liquidity of over $900 million.

With regard to our three year share buyback program, we continued to execute against the $500 million authorization in our third quarter. Consequently, we have now spent $250 million of that program to date, purchasing a total of 5.2 million shares. We believe the share buyback program fits within our broader strategy of enhancing shareholder value, and we will continue to have the capacity under our new capital structure to continue to spend against the program. At this time, we expect to continue to execute against the program in an opportunistic manner.

During the quarter, we also paid out our second dividend of $0.15 per share and recently declared our third quarterly dividend of another $0.15 per share payable on September 1 to shareholders of record at the close of business on August 4.

We believe our strong financial position continues to serve us well to invest in our business and drive our profitable growth strategy, while still providing flexibility to support and enhance shareholder value through the aforementioned items.

With that, let me hand it back over to Steve.

Steven J. Demetriou

Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

Thank you, Kevin. And turning to the final slide, we continue to be pleased with our progress over the year and the substantial improvements in operational and financial performance where we're expected to continue to improve through the remainder of fiscal year 2017 and into 2018. While expectations of our underlying operating performance for the upcoming fourth quarter remain generally unchanged, we are forecasting incremental cost associated with the acquisition of CH2M that will impact our fourth quarter earnings per share. As a consequence,

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we're revising our adjusted EPS guidance to between $3.00 and $3.15 for fiscal 2017, recognizing the incremental cost associated with the transaction of approximately $0.07 per share.

Over the last two years, we have made tremendous progress transforming Jacobs to focus on high growth, high margin opportunities. Our third quarter results are yet another sign of our success in our core operations. We are now poised to utilize the combination of CH2M and Jacobs to target additional growth in higher margin, higher growth industries. The acquisition of CH2M represents a significant step on our transformative journey and we remain vigilant and focused on delivering enhanced shareholder value.

With that, I'd like to thank you for listening and we'll now open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Yes, thank you. [Operator Instructions] And the first question comes from Steven Fisher with UBS.

Cleve Rueckert
Analyst, UBS Securities LLC

Q

Hey, good morning guys. This is Cleve Rueckert on for Steve. Thanks for all the detail on the call, it was appreciated. Steve, just going back to some of your comments on infrastructure, you said infrastructure projects are accelerating in the U.S., but a lot of the wins seem to be international. When do you think the U.S. projects could get awarded to contractors and what do you think still needs to happen to get projects into backlogs?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yeah. I really want my message to be, when I talk about global, it's in U.S. including. We're seeing very positive momentum in the U.S. across both our buildings and infrastructure sector and so the momentum is underway there, and we are booking wins into the backlog and that did contribute to our backlog growth in the third quarter.

Cleve Rueckert
Analyst, UBS Securities LLC

Q

Okay. Is there any way you can quantify how much of the 30% growth in the pipeline is coming from the U.S.?

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

Look, Cleve, this is Kevin. We don't. We're not going to provide that level of detail, but look, we fundamentally believe that the infrastructure play in the U.S. continues to be a robust one regardless of how things play out in Washington. There is an underlying momentum and need for the continued infrastructure spend. And I would say certainly that's the case in the U.S. and to Steve's point during the prepared remarks, also globally, outside of the U.S.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yeah, and just again very specifically, our transportation sector in the U.S. is where – we've had several wins that we've announced, especially in aviation recently at several major airports, and we're in excellent positions for

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some additional wins there coming up. But also across the highway sector, the rail sector, the U.S. is clearly a significant contributor to that 30% improvement.

Cleve Rueckert
Analyst, UBS Securities LLC

Q

Okay, thanks. That's helpful. And then just turning a little bit more broadly, you mentioned a little bit on optimism in 2018, but I guess keeping it in the context of the targets outlined at the Investor Day, and I think you're doing well on margin improvement. I think 70 basis points year to date is a pretty healthy portion of the 100 to 150 basis points expected by 2019. But how confident are you in the 2% to 4% organic growth by 2019? I mean is there potential to shift some margin improvement more towards organic growth as we move forward into 2018?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yeah, definitely. Again, if you go back to our strategy, it was to initially focus on cleaning up the portfolio, eliminating some of the unprofitable businesses and projects that we've had in the past and we've made great progress there. You can see the effect on margins. But the pivot to growth is underway and clearly we see and are optimistic that we can organically grow. We're doing it in our Buildings & Infrastructure with the nine quarters now in a row of backlog growth.

We're now for the most part behind us is some of the lost contract rebid initiatives that occurred back in 2015 and our pipeline in our Aerospace & Technology business, we characterize it as a record high, and we are building backlog there and we're very confident that we're going to see growth in 2018 and beyond. And then we have the timing of some of the more cyclical business, the recoveries that will occur in those industries. And we're seeing signs of life in both our Petroleum & Chemicals as well as our mining sectors that will add further organic growth opportunities as we get into 2018 and 2019. So, yes, we remain very confident in our ability to organically grow at at least the levels that we previously reported in our strategic plan.

Cleve Rueckert
Analyst, UBS Securities LLC

Q

Thanks, guys, very much.

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

So, Cleve, just a couple follow-ups on your question on the U.S. infrastructure. We've talked already about the win at the Los Angeles Airport which is an item. We're doing work at LaGuardia as well. There is also recent wins that we announced for the Georgia Department of Transportation, which was a win that we press released. We also did something for PennDOT and we also saw some incremental wins and specifically in Florida's Turnpike Expressway with the Sawgrass Expressway widening. So, a few projects that we press released that are indicative of the continuing building momentum relative to the infrastructure play.

Cleve Rueckert
Analyst, UBS Securities LLC

Q

Great. Thanks, Kevin.

Operator: Thank you. And the next question comes from Tahira Afzal with KeyBanc Capital Markets.

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Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi folks. Congrats on a good quarter.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Thank you, Tahira.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Steve and Kevin, if you look at some of the international sort of market you're seeing. And I kind of talked about this when you held your call on the CH2M HILL acquisition. Can you talk a bit more about the water market there and the opportunities you're seeing? I know you have some share here, but there seems to be a lot of opportunity here as well.

Would love to get any more color you can provide and how we should be looking at your growth target for infrastructure given this market is also seeing some momentum.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Right. So look, water is one of the most exciting things we're acquiring in the CH2M acquisition. It's a big component of that company. They're clearly an industry leader globally and very much focused on things like state and local municipalities bringing clean water solutions, innovative technology. And what's really exciting now when you put that together, not only with our Jacobs water capability, but our global platform where we bring the capability of bringing that CH2M experience and innovation and technology to our Petroleum & Chemicals and mining footprint across the globe, where our clients are looking for solutions to address regulatory pressures to reduce waste, protect the environment. And so this is in our belief going to create a company that doesn't exist today, the ability to take that across a huge diversified base globally to grow the water sector. So you asked about what's probably the heart of the acquisition when it comes to the acquisition of CH2M's water capability.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it and that's pretty helpful. And, Steve and Kevin, if I look at those growth rates represented for your end market on your Analyst Day, obviously petrochemicals is obviously going through its own cyclical elements, but if I look at the Industrial side, you're fairly off in terms of the top line growth versus that 9% to 10% sort of CAGR that you're hoping for. Are you seeing any signs of life there? What should we look for to expect that type of a revenue growth rate?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yeah, look, a couple of answers to that question, Tahira. The first one, glad you mentioned the Petroleum & Chemicals performance because we're extremely pleased with the results there. If you look at the industry performance, our backlog performance is outperforming. The fact that we're actually growing in a challenging market, I think is a tribute to that line of business' strategy to focus on where the spending is occurring and that's in the downstream sector and even some of the midstream sectors. And so we're extremely pleased there and we do believe at some point we're going to see some positive dynamics on some cyclical recovery.

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But as it relates to the Industrial business, it really is a timing situation. We're burning off two major life sciences EPCM projects that have for the most part contributed the entire decline in that backlog. We're somewhere close to stabilizing that backlog and we're excited about the opportunities moving into 2018 in the life sciences business. As I mentioned, we are seeing signs of life in the mining sector, albeit it's probably more second half 2018. And so we're in some of the early stages of some major projects in copper and some of the other mining sectors. And at some point, those advanced planning will turn to bigger design and full EPC or EPCM projects.

And in our field services business, which is really driven by what goes on in the Petroleum & Chemicals sector as well as some of our other lines of business. We're positive that we're going to see organic growth there as we move into 2018 and 2019. And so putting it all together, we're still confident in our ability to organically grow Industrial and I think we're just in a timing situation where better days are ahead.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it, okay. Thanks a lot, Steve, and congrats again.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Thank you.

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

Thank you.

Operator: Thank you. And the next question comes from Jamie Cook with Credit Suisse.

Jamie L. Cook
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Hi, good morning. Can you hear me?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yes, Jamie. Good morning.

Jamie L. Cook
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

I guess two questions. One, Kevin, I was pleasantly surprised with the gross margins in the quarter. It's the second quarter in the row where we're at sort of the 18%-ish range. So sort of just the sustainability of that and is that how margins are trending in backlog? And then also, the Buildings & Infrastructure margins too we're very strong. I don't know if there was any close-outs or anything in that number?

And then my last question, I know there is a number of large awards coming within the – potentially coming I guess – or within the Aerospace & Technology segment as in the fall or later on this year. So if you can just give us an update on what you think your potential win rate could be. Thanks.

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Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.
A

So, let me go start with the first part of the question as it relates to the gross margin percentage that we were able to achieve in the quarter. Yeah, it was over 18%, where we were pleased with that, Jamie. You know that the percentage that we have in the second quarter was even higher than that, but that was really driven by the professional service/field services mix dynamic. So, pleased that as we're coming back to a more normalized kind of a mix of the portfolio that we're able to maintain a number that's higher than 18%.

I think the most important part of that question really is that we saw continued sequential improvement in the professional service margins in our business. Whether or not we continue to be able to maintain a number of 18% is probably driven by some of the field service mix dynamics. And I don't know that we would necessarily call out a number greater than 18%, but certainly a number approaching that figure is certainly a view that we have and certainly a sustainable kind of figure that we're going to be looking to drive.

Certainly it's very much part and parcel to our strategic agenda going forward about going after higher margin opportunities as well executing better to be able to protect and deliver more of the as-sold margin. So we're obviously continuing to make good progress there. As it relates to the second – the first part of the question.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.
A

Let me take that.

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.
A

Yeah.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.
A

So you were talking about our Aerospace & Technology and the momentum moving into 2018 and beyond. As I mentioned, our pipeline is very robust, but if you go back to some of our wins, which are in protest and we're waiting to put them in our backlog. As I mentioned, approximately $600 million of awarded business that's in the protest, half of that is the site tech initiative or the Special Operations Command in Tampa. We won the five year contract. It's $0.75 billion. And based on our backlog rules, that would be somewhere about 50% of that $600 million that we're waiting to put on the backlog. We're still optimistic about converting that from the protest process into the backlog. And then when you take that coupled with the rich pipeline of opportunities, we're excited about what 2018 and beyond brings, Jamie, in that line of business.

Jamie L. Cook
Analyst, Credit Suisse Securities (USA) LLC (Broker)
Q

Okay, great. And sorry, was there anything unusual in the Buildings & Infrastructure margin? It was just...

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.
A

Good solid performance.

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Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yeah, clean.

Jamie L. Cook
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. All right. Cool. I'll get back in queue. Thanks. Good quarter.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Thank you.

Operator: Thank you. And the next question comes from Michael Dudas with Vertical Research.

Michael S. Dudas
Analyst, Vertical Research Partners, LLC.

Q

Good morning gentlemen and welcome aboard, Jon.

Jonathan Doros
Vice President, Investor Relations, Jacobs Engineering Group, Inc.

A

Thank you.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Thank you.

Michael S. Dudas
Analyst, Vertical Research Partners, LLC.

Q

First question, just following on the margin, question maybe for Kevin. You highlighted the unprofitable projects in Jacobs' current backlog going into fiscal year 2017. Obviously, that's been very helpful getting those out of the way. Can you get us an update where we are there and is there exhaustion of that ahead of us as we move and transfer in 2018?

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

We believe that we've made, obviously have made good progress and you can see that through the margin profile, Mike, so clearly good steps that have been taken. I don't think we're done yet ultimately, but we've made great progress. We don't have the absolute number as it relates to where we are in that, we called it a $50 million to $100 million opportunity as you may recall, during our Investor Day. But that's the target that we feel great about in terms of the three year plan. We still got some work to do to be able to deliver it.

And so, it's not only reorienting around going after the profitable business. It's about continuing to execute better too. So, one of the key parts that we have made really great progress on and is probably coming to the end, is our write-downs as kind of just when we leave as-sold margin on the table. We've reduced those margin write-downs

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by 50% from 2015 to now. So, we're getting down to a level that we feel as can't be perfect in write-downs, but we feel like we've gotten a big chunk of that, although we'll continue to try and drive that down further.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.
A

Yeah, let me build on that because I think that's where the CH2M acquisition comes in as well. Both companies have very similar transformation initiatives underway. I would say we're probably got started 12 to 18 months early, but CH2M has a very impressive transformational plan as well, both companies focused on investing in new tools and innovative capabilities. And I would say we're still in the very early stages of that transformation and seeing the benefits because some of the early on major investments have just been launched and so we haven't seen the benefits of those new tools that we've recently rolled out.

And there are still more transformational initiatives at both companies are going to now leverage together going forward. So, I think the margin opportunities, especially with the combined CH2M and Jacobs initiative going forward, is still going to be a very significant story in addition to the growth element.

Michael S. Dudas
Analyst, Vertical Research Partners, LLC.
Q

That's quite encouraging. And my follow-up, Kevin, is you've done a very solid job in working capital reductions. This is evidenced by the cash generation. Obviously, you're going to continue that work in JEC. How do you see that as you look at the CH2 situation, how that can maybe enhance maybe the performance since maybe they were lagging a bit to relative to where you guys were in their transformation on the financial profile side?

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.
A

Yeah look, I think it's clearly an opportunity. We called it out during the investor presentation on the acquisition working capital being an opportunity. I will tell you, they've done a really nice job in starting that journey. They changed their incentive comp structure this past year to where they're focused on cash flow and clearly that translates into a need to deliver the profit, as well as improve on the working capital side. And they, the team there has already recognized that and started to execute well.

Having said that, if we compare and benchmark their numbers versus where we are right now, we think there is continued opportunities. And as I've always said to you and others, improving working capital is, that's pick and shovel work. It's tough work and you got to work at it over time. It is impacted by many people in the organization, sales in terms of the contracts, legal in terms of the contracts, finance teams making sure they're doing a great job in providing accurate invoices and timely invoices to our customers. So it takes a concerted effort across the organization and the good news is CH2M has already started that journey, and we think with the combination that we'll be able to accelerate some progress in that area.

Michael S. Dudas
Analyst, Vertical Research Partners, LLC.
Q

Excellent. Thanks for your thoughts, gentlemen.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.
A

Thank you.

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Operator: Thank you. And the next question comes from Anna Kaminskaya with Bank of America Merrill Lynch.

Anna Kaminskaya
Analyst, Bank of America Merrill Lynch

Q

Good morning guys and good quarter. I guess I just wanted to follow up on Jamie's question on gross margin. So, I think if I recall from the prepared remarks that your gross margin's up 200 bps year over year in your backlog. So why should I not expect gross margin to be higher in 2018 versus 2017? And I think you commented that 18% is kind of the run rate. Why shouldn't it translate into higher gross margin in 2018? And do you have to give some of that margin back if you want to look to accelerate your backlog relative in the fourth quarter?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yeah. Thank you, Anna. Great question. Look, we're not ruling out improved gross margins. I think there is a lot of factors that go into it. If you look at each of our four lines of businesses, margin improvement opportunities exists. I think what's going to come into play is also potential mix. Now clearly, one of the benefits of the recent margin improvement is not only each line of business, improving their margins, but it's the fact that our Aerospace & Technology and Buildings & Infrastructure, where we enjoy the highest margins, are growing faster right now than our Petroleum & Chemicals and some of our lower margin Industrial sectors.

So, our hope is that we are going to see some cyclical recovery in areas like mining and Petroleum & Chemicals, and we do expect to see those organic growth there to be at higher margins that we've seen in the past, but still lower than our current Aerospace & Technology margins for example. So, we have to put all that together, but we want to leave you all with the expectation that we're driving each of the lines of businesses to improve margins across the board.

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

And one other thing, Anna, just from my perspective, my commentary was really more short-term oriented as it relates to how we finish the year and enter into 2018. I think longer term, clearly the margin profile we would expect is part of the story as Steve has already outlined.

Anna Kaminskaya
Analyst, Bank of America Merrill Lynch

Q

Got it. And any more commentary around SG&A picking up in the third quarter? Because it's been somewhat flat for the past couple of quarters. So do you have to reinvest back into the business and where should it trend into the rest of the year and into 2018?

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

A couple things, Anna. The first one is we did have the incremental CH2M related cost. That's part of it. But remember, we had a $10 million benefit in Q2, specifically as associated with our restructuring of the India Welfare Trust plans. And so, you add those up, that takes and explains about 80%, 75% of the total increase quarter over quarter.

Anna Kaminskaya
Analyst, Bank of America Merrill Lynch

Q

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Got it. And then my final question, one of your peers moved to cash EPS after a large acquisition. What are your thoughts on changing the EPS methodology as we prepare for 2018 guidance?

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.
A

So your question is about whether or not we will talk about cash EPS or?

Anna Kaminskaya
Analyst, Bank of America Merrill Lynch
Q

Or will you continue reporting on regular adjusted EPS or will you be moving to some sort of cash EPS reporting? Because I think in your accretion analysis, you provided 25% accretion on cash EPS basis. So just trying to figure out whether you'll continue to report as you report now or will you be adjusting for some sort of amortization charge next year?

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.
A

Okay. I think given the pending and hopeful close of the transaction relative to CH2M, clearly we're going to be providing some insights as it relates to the cash nature of that transaction and I think that will be important for us to target. So, not that we're going eliminate our current reporting expectations on current EPS, but we will be providing insight on the cash side as well.

Anna Kaminskaya
Analyst, Bank of America Merrill Lynch
Q

Great. Thank you very much.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.
A

Thank you.

Operator: Thank you. And the next question comes from Andrew Kaplowitz with Citi.

Alan Fleming
Analyst, Citigroup Global Markets, Inc.
Q

Hi. Good morning, guys. It's Alan on for Andy this morning. Kevin, you talked a little bit about how you're thinking about cash flow for at CH2. Maybe you can talk a little about the legacy cash flow. Good working capital improvement this quarter. Where do you think you are in that journey and can you continue to get DSOs down here into 2018? Maybe just talk about that.

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.
A

Is your question on CH2M or Jacobs?

Alan Fleming
Analyst, Citigroup Global Markets, Inc.
Q

Jacobs.

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Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

Yes, yes look, we're trending pretty nicely as it relates to the incentive targets that we've established for ourselves. We think we're in the neighborhood of being able to deliver against our targets. Teams are doing a really great job on that across the board in all of our businesses and like I communicated earlier, it's tough work. It's pick and shovel work. I'm really proud of the teams doing a great job. That translates into continued improvements, if in fact we continue to drive towards our opportunity. So, yes, we're hoping that that will continue to play out to be able to get us to a place where we're able to give some nice incentive payouts to our teams.

Alan Fleming
Analyst, Citigroup Global Markets, Inc.

Q

Okay. And then maybe you can think about how you're thinking or talk about how you're thinking about strategic investments. Do you expect to continue to have some of these strategic investments into 2018 and how are you measuring the returns on the investments that you've made here in 2017?

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

Yes. Remember that we had talked about $30 million or thereabouts of investments for the year, roughly $0.15 per share. We're coming to the end of that.

Some of them are one-time; some of them are ongoing. Slightly more than half of it are one-time related. So, ultimately those investments will stop over the course of [2000] here as we end 2017. That does not preclude us from making incremental investments going forward and those continue to be evaluated on an ongoing basis. And we'll provide more insights relative to that for our 2018 views.

Having said all of that, it's really about what is the investment, what are the expectations on the return profile, whether it is improving project performance which we're tracking and/or improving potential incremental growth opportunities, which we are also tracking. Those efforts are being monitored and continue to be evaluated on an ongoing basis, and ultimately we determine what the return profile looks like. And sometimes, if in fact things are going well, we might double down on the investment. In other cases, if we don't see things working, we want to understand why and we may adjust and do something differently. But we're monitoring and tracking the capabilities that are being generated and what the return profile is to determine whether or not the investments made sense.

Alan Fleming
Analyst, Citigroup Global Markets, Inc.

Q

Okay. Thanks, guys. I'll turn it over.

Operator: Thank you. And the next question comes from Brent Thielman with D. A. Davidson.

Brent Edward Thielman
Analyst, D. A. Davidson & Co.

Q

Thanks. Good morning there. Great quarter. Clearly starting to build, continue to build some P&C backlog. Was curious if the outlook anticipates any kind of return to growth in 4Q for that business, or are you thinking more about 2018?

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Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

I think we're optimistic in several prospects and really it comes down to the timing of those crossing the finish line. There is a scenario that we're going to continue to see modest improvement in the rest of this year. And, but clearly into 2018, we're expecting to see year over year profit growth. And some of that will be driven by organic improvement, organic growth improvement and other parts of it will be driven by the continuation of the transformation process that's yielding higher margins and improved cost structure, et cetera. So all in all, we continue to see the prospects of steady improvement in our Petroleum & Chemicals, irregardless of market conditions.

Brent Edward Thielman
Analyst, D.A. Davidson & Co.

Q

Okay and, Steve, the work that you're picking up there, is it in traditionally more profitable areas of the market for Jacobs within that segment?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Well, yeah, it's traditionally where we're more capable and we see positive dynamics in the market. And specifically that's the petrochemical sector, but also some of the midstream opportunities that we talked about with some of the piping and associated infrastructure for a lot of the Petroleum & Chemicals growth opportunities across the globe. So it's in areas where we believe we're going to be able to demonstrate gross margin and operating profit margin improvement into 2018 and 2019 versus historical performance.

Brent Edward Thielman
Analyst, D.A. Davidson & Co.

Q

Okay. And then, might be a better way to ask this question, but I'll try anyway with, you said with CH there isn't a lot of overlap with Jacobs. But I'm more curious as you think about managing the combined organization, does that change any of the pursuits or pipelines for the core Jacobs business today as you think about kind of reallocating certain resources to areas CH does really well?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

It's hard to answer that specifically because we now bring together two large opportunities, very diversified as you said, very complementary. Yeah, there is some minimal overlap, so if we'd looked at that minimal overlap, those may be areas where we'll have now the positive opportunity to select the highest margin opportunities.

But the majority of the story, whether it's the water example I gave earlier or it's our ability to combine these two companies and solve problems that in areas and opportunities in areas today like smart infrastructure, whether it's smart cities, buildings, highways and putting our diversified, complementary diversified capabilities on some very large scale global programs around smart infrastructure. And even nuclear and environmental where we're going to take our capability to work in very high hazard, high consequence asset management programs for Department of Defense and NASA and other examples and merge that with their Tier 1 nuclear and environmental capabilities to really create solutions in these complex high-contaminated nuclear sites at an accelerated and lower cost than previous experiences.

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So, the majority of what we get excited about is truly complementary, and therefore unlike a lot of previous acquisitions in our industry where there was a lot of overlap and primarily cost focus. Yes, we're going to get cost synergies , but the real story here is the growth opportunity of leveraging that complementary skills and capabilities.

Brent Edward Thielman
Analyst, D. A. Davidson & Co.

Q

Okay. Thank you.

Operator: Thank you. And the next question comes from Justin Ward with Wells Fargo.

Justin J. Ward
Analyst, Wells Fargo Securities LLC

Q

Hi, good morning, guys.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Good morning,

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.

A

Good morning, Justin.

Justin J. Ward
Analyst, Wells Fargo Securities LLC

Q

Just kind of building off actually some of that most recent commentary, I was wondering if you could expand a bit more on the revenue synergies of the business. Jacobs, very diversified in its service capabilities and end markets and obviously the CH2M is going to expand that. Can you just kind of rehash the initiatives you guys have implemented to make revenue synergies more systematic across the business? And then what inning are you in there? And then talk about how the CH2M will integrate into that systematic process.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yeah look, I think that we got to go back to what we talked about the strategy of, it's not only the fact that we developed a strategy and took a step back and identified where we see where capital is going to be spent globally and where we bring the capabilities to match up on that global capital spend. But we match that up with a separate process to really understand where we're making money, where we're not, by customer, by geography, by office. And therefore we do believe we now have a much more systematic system that starts with the pursuit process and going after business that is going to deliver our stated goals of margin improvement, organic growth and create shareholder value.

As we now put that together with CH2M's system, which again we're very excited about the fact that our due diligence revealed that they have a very similar culture and initiatives underway of eliminating unprofitable business, really reducing the number of clients and that they go after to core clients that have demonstrated capabilities and margin improvement, and also investing to advance what is already a company that has cutting edge technology and innovation and putting that together. And just feel like I'm repeating myself here, but the

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complementary nature of those capabilities in sectors like water and Tier 1 nuclear, environmental management, and combine that with our global platform in a history and a proven experience of high quality project delivery excellence and our client culture, core client cultures, we just think the revenue synergies are real and will be the real story here of this combination over the next several years.

Justin J. Ward
Analyst, Wells Fargo Securities LLC

Q

Okay, but so it sounds like the process is internally at legacy Jacobs for when you're going out to bid these projects, making sure you're capturing all of the project that Jacobs is capable of doing. It sounds like those processes are now fully in place and really it's a matter of just going forward, we should start to see an acceleration of the revenue synergies. Is that a good way to think about it?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

Yeah, I believe the rigor and process is in place. What's still unfolding is the rollout of our strategic investments which will accelerate those, make us even more capable, whether it's project tools and other systems in our commercial processes, all the way through our project delivery initiatives. And so, I don't want to come across here is that, we have all that now set up and it's all about winning business with this new process.

I think our process improvement is unfolding, but the fundamentals of what I just talked about is in place of really making sure that systematically, the business that we win will now get converted at a much better rate from what margin we believed was there at the time we sold it to the time we conclude that program and project a couple of years later. And I would say, we're at a much better point today than our company was a couple of years ago. But we're only going to get even stronger on that as we go forward.

Justin J. Ward
Analyst, Wells Fargo Securities LLC

Q

All right. That's helpful. Thanks, guys.

Operator: Thank you. And the next question comes from Chad Dillard with Deutsche Bank.

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.

Q

Hi, good morning guys. So you mentioned that $600 million in projects were under protest in A&T. What's been the success rate here in converting that into bookings and how should we think about the potential timing? And then also, how much line of sight do you have in getting your quarterly revenue run rate in this business back towards the mid $600 millions into the next year?

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

A

So, on the first question, the success rate is very high and converting these protests into final wins and getting them on our backlog. I will say that $600 million is just indicative of what's unfortunate, is a more prolonged protest inefficiency that in our government processes here, but that's an industry-wide situation. That's nothing unique to Jacobs. But we feel highly confident based on the historical performance, as you asked, of converting that $600 million into our backlog.

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As it relates to timing, that's the big uncertainty. We're conservatively factoring that into our forecast that that's probably most of it in 2018. As I mentioned, we did have the Nevada National Security Site, which was a small component of that $600 million that we just recently won in now the fourth quarter. And so that will convert in the fourth quarter to our backlog, but the majority of that $600 million we would say hopefully will be in the first half of 2018 or sometime soon after that.

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.
Q

And then just moving over into margins and sticking with A&T, just for this past quarter, I just wanted to make sure, were there any one-time items or closeouts that benefits that, drove the mid to upper 8% range? And then also in P&C, can you just provide more color? You mentioned in your prepared comments that you're starting to see a next wave of gas processing opportunities. Just trying to understand the timing for this and what sort of market opportunity this represents for Jacobs.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.
A

I think what I'm pleased is we've been very consistent on the story around Aerospace & Technology, that it was unfortunate that we had some rebid losses back in 2015, but those losses were lower margin compared to the wins that Aerospace & Technology has achieved over the last six to 12 months. And so a good part of the margin improvement in Aerospace & Technology is a result of that whole strategy of winning higher value business. And beyond that, there is no one-time issue that is contributing that we know of.

Kevin C. Berryman
Executive Vice President and Chief Financial Officer, Jacobs Engineering Group, Inc.
A

So one other just additional comment as it relates to A&T. What's interesting and really pleasing to see is the team has done a really great job. While we talked about some of these rebids that occurred where we weren't as successful as we wanted, most all of the rebids have been done, have been executed successfully, where we came out of a very big lumpiness of over the last two years of about a big percentage of our business coming up for rebid. And other than these items that we've talked about, which have a fairly small timetable associated with kind of running through and the comparables start to get easy pretty soon.

The interesting part is all of the other rebids, at least a vast majority of them, we've won them at higher margins. So the rebids have, because of the strong performance of the A&T group and focused on doing the business well and better and more profitably, many of the rebids of the portfolio that we won are now at higher margins. So Steve talked about new business that is higher margin. Not only that, but the rebids are ultimately coming through now with higher margins as well. So we're very pleased with the teams' ability to have driven that as well.

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.
Q

That's all for me. Thank you.

Steven J. Demetriou
Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.
A

Thank you.

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Operator: Thank you. And that does conclude the question-and-answer session. So I now would like to turn the call back over to Steve Demetriou, Jacobs Chairman and CEO for any closing comments.

Steven J. Demetriou

Chairman and Chief Executive Officer, Jacobs Engineering Group, Inc.

Yeah, thank you again to the investment community for listening to today's quarterly call. Hopefully you get a sense that our actions we're undertaking are continuing to increase shareholder value and we're driving a stronger and healthier Jacobs. So, thank you very much.

Operator: Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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