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Jacobs Engineering Group, Inc. (JEC)

Acquisition of The KEYW Holding Corp. Solutions by Jacobs Engineering Group, Inc Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Chris and I will be your conference operator today. At this time I would like to welcome everyone to the Jacobs to Acquire KeyW Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Jonathan Doros, Investor Relations, you may begin your conference.

Jonathan Doros

Vice President-Investor Relations, Jacobs Engineering Group, Inc.

Thank you, Chris, and thanks to everyone for joining us today for a special webcast presentation regarding the announcement we made this morning about Jacobs acquisition of KeyW. I'm joined on the call by Steve Demetriou, our Chair and CEO; and Kevin Berryman, Executive Vice President and Chief Financial Officer. Over the next few slides Steve will provide an overview of the transaction and strategic rationale. Kevin will then discuss the compelling financial benefits of the deal before we turn over for Q&A. Terry Hagen, Chief Operating Officer; and Cliff Reynolds, ATEN's Senior Vice President of Growth and Sales will join Steve and Kevin during the Q&A session.

Before we would begin, I refer you to slide 3 for specific legal and financial commentary as well as our forward-looking statement disclaimer. Certain statements contained in this presentation constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, and such statements are intended to be covered by the Safe Harbor provided by the same. Statements made in this presentation that are based on historical fact are forward-looking statements, including statements about whether and when the transaction between Jacobs and KeyW will be consummated, anticipated financial and other benefits thereof. Although such statements are based on management's current estimates and expectations, and currently 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. The potential risks and uncertainties include, among others, the possibility that Jacobs and KeyW may be unable to obtain regulatory approval or that other conditions to closing the transaction may not be satisfied, such as the transaction will not close or the closing maybe delayed; general economic conditions; the possibility of unexpected costs, liabilities or delays in connection with the transaction; the risk that the transaction disrupt our current plans and operations; the ability to recognize the benefits of the transaction; the amount of costs, fees, expenses, and charges related to the transaction; the outcome of any legal proceedings related to the transaction; the occurrence of any event or change of circumstances that could give rise to termination of the Agreement of the Plan Merger.

A description of some additional factors that may occur that could cause actual results to differ from forward-looking statements, please see our Annual Report on Form 10-K for the year ended September 28, 2018, in particular the Risk Factors discussion under as well as the filings with the United States Securities and Exchange

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Commission. The company is not under any update – to update any forward-looking statements after the date of this presentation to confirm to the actual results, except as required by applicable law.

With that, I will now turn it over to Steve, our Chair and CEO to discuss our agenda.

Steven J. Demetriou

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

Thank you, John, and hello everyone. Early this morning we announced a definitive agreement to acquire KeyW, another key step in transforming Jacobs into a higher margin, higher growth next-generation solutions provider. This combination unites complementary capabilities, cultures, client relationships, proprietary technology and products to accelerate Jacobs' profitable growth strategy. We have committed to maintain disciplined capital allocation and this transaction aligns with our stated M&A criteria both strategically and financially. We are confident this will translate into significant value for Jacobs' shareholders, more opportunities for employees and new differentiated end-to-end solutions for our clients.

Turning to slide 5, for those of you unfamiliar with KeyW, let me provide an overview and highlight why we're so excited about this transaction and the value we will create by bringing these two great companies together. KeyW is a leading national security provider of advanced engineering and technology solutions for the intelligence, cyber and counterterrorism communities, all key growth areas in our Aerospace Technology and Nuclear line of business. There are four key elements of the transaction that make it attractive for us. First, KeyW adds Intelligence, Surveillance and Reconnaissance or ISR, differentiated cyber technology and mission-critical IT and analytics capability to our solution set. This transaction enhances Jacobs' portfolio by adding intellectual property-driven technology with unique proprietary C5ISR solutions.

Next, it will also establish Jacobs as a leader in the high-growth space ISR market. And finally, the deal will deepen our relationships with the intelligence community and increase the number of Jacobs' personnel clear to the top secret level or higher by approximately 50%. Moving to slide 6, this transaction has an enterprise value of $815 million. This represents an attractive enterprise value multiple of 10 times estimated 2020 adjusted EBITDA. Following the completion of this transaction and as a result of the ECR divestiture, we will maintain a very attractive and flexible balance sheet with pro forma net debt just under one times adjusted EBITDA. We have identified targeted run rate cost synergies of $15 million, which is primarily duplicative public company cost and real estate. We also believe there are greater than $100 million of revenue synergies, which were not included in our base case evaluation.

At Jacobs, we are driven by maximizing returns. Therefore, we will be highly focused on delivering $0.25 to $0.30 of expected fiscal 2020 adjusted EPS accretion assuming full run rate cost synergies. Equally important is our estimated double-digit return on capital that delivers shareholder value. We expect to close this transaction by August of this year. Let's now turn to slide 7 and look at who KeyW is and why we find this combination so attractive? KeyW is a leading national security provider of advanced engineering and technology solutions that are unique and differentiated across their three lines of business. ISR Products and Solutions, Advanced Cyber Operation Solutions, and Mission IT and Analytics. 76% of KeyW employees hold a Top Secret Clearance or greater. KeyW has a strong backlog with more than $1 billion with significant upside potential in high growth areas such as ISR.

Also, KeyW demonstrates high win rates for both new business and major re-competes. This is driven by its disciplined business development approach and long-standing client relationships with recurring contracts supporting some of the U.S. government's most unique and challenging missions with over two thirds of the

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revenue with the Intel community. Importantly, due to the critical national security implications of their mission, KeyW's revenue is highly resilient from government shutdowns and budget cuts. Moving to slide 8, KeyW's business is completely focused on the security of the United States and its allies. By applying the latest technology to gather raw data and quickly convert it into actionable intelligence for operators in the field.

KeyW's mission support counterterrorism and cybersecurity needs and are focused around the intelligence community, FBI, local law enforcement and other associated agencies. KeyW is unique in their ability to rapidly develop and deploy sensor capabilities to gather and process data in austere locations. The Cyber and Mission IT businesses also support the safeguarding, transmission, storage and analysis of data. This results in the delivery of specific information required to carry out a successful mission. Combined with our existing complementary enterprise IT and cybersecurity capabilities currently supporting the intelligence community, CellCom and other similar clients, we will be able to bring to market a full spectrum of ISR, IT and cyber capabilities with an even larger pool of highly cleared, technically proven employees.

With that underpinning, let's look at each of the three sectors in a bit more detail. Turning to slide 9 for a brief overview of the ISR Products and Solutions business; to put this opportunity in perspective, the ISR sector is anticipated to reach over $46 billion of annual spend by 2024. This segment is a high technology solutions-oriented business focused primarily on sophisticated sensors, radars and communication devices to support intelligence gathering. KeyW designs, builds and deploys highly specialized sensors. In essence, turnkey delivery in response to specific client needs. These solutions are difficult to replicate and include proprietary technology, which is their intellectual property. Additionally, KeyW specializes in rapid deployment of systems for urgent operational needs, such as or counter-IED, precise geo-location, foliage penetration, tracking, and special communications and wide area surveillance.

This is accomplished through a quick reaction capability or QRC providing innovative one of a kind technology solutions that include in-house rapid sensor integration and deployment. This unique combination of innovative solutions, technical expertise, mission performance, and QRC positions KeyW as a leader in the high growth space based ISR sector. Finally, we also believe there are also significant cross-selling opportunities in our building, infrastructure, advanced facilities line of business with adjacent clients. Moving to slide 10, in Advanced Cyber Operation Solutions, there is $15 billion of annual U.S. spend on cyber with strong growth projections. In this segment, KeyW has industry-leading offensive and defensive computer network operations expertise and mission capabilities fortified by unique proprietary tools in a customized training curriculum.

KeyW will add to Jacobs' existing cyber capabilities in enterprise IT to include unique mission support, cyber intelligence, cyber security, and cyber training solutions such as intel analysis, secure mobile communications, and scenario drill exercises for the nation's most sophisticated cyber operations. Their advanced analytics allow for real-time decision-making and KeyW's intellectual property-driven solutions and offensive mission create enduring client relationships and commitment. Moving to slide 11; in the Mission Critical IT and Analytics business line KeyW provides software engineering and application development capabilities. They build and deploy highly reliable, portable, secure and resilient IT platforms for the nation's most sensitive missions for clients like NSA, CIA, FBI and other intelligence agencies.

KeyW's Mission IT focus capability is complementary to our ATEN's existing enterprise IT capabilities, allowing us to cover both ends of the spectrum. Turning to slide 12, at our recent Investor Day we focused on the importance of culture and the priority that we place on it at Jacobs. Great acquisitions start with bringing together companies that are aligned and have compatible cultures. We believe this combination achieves that. We worked closely with the KeyW team during the due diligence process to understand each other's cultures and strongly believe the two companies are a great fit. Fundamentally the core of this combination is about a world-class team with shared

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values, centered on innovation, a focus on the client's mission and recruiting and retaining the world's best talent. As we got to know each other, there were aspects of KeyW's culture that really resonated with us.

A focus on mission, always doing the right thing for their clients, encouraging innovation while remaining nimble to respond to shifts in mission or disruptors in the world. The combination of Jacobs and KeyW creates an exciting and powerful shared culture and in the process will accelerate our journey to become a company like no other. Turning to slide 13, our ATEN line of business strategy that we presented at our recent Investor Day is centered on technology and innovation and positioning Jacobs to be a premier government services player. To that end, the KeyW acquisition checks all the boxes of ATEN's strategic priorities, which includes focusing on high value mission focused programs and high margin complementary niche sectors, increasing our cyber engineering capability, driving a culture of innovation throughout the organization and accelerating margin expansion and profit growth in national priority markets.

The government services competitive landscape is highly fragmented and we have demonstrated our ability to organically take share as a result of our compelling value proposition based on deep technical expertise, a localized delivery model and an efficient cost structure. KeyW now provides us the opportunity to take it to an even higher level in this highly attractive market. In summary, acquiring KeyW directly aligns with our Jacobs strategy and represents a compelling return for our shareholders. KeyW brings new capabilities to Jacobs with proven technology relied upon by the intelligence community and associated agencies. We firmly believe KeyW's ISR technology is leading edge and they are differentiated by their ability to deliver at a faster pace and lower cost than traditional space ISR providers.

Jacobs brings the global platform and the financial strength needed to materially accelerate KeyW's trajectory in the multibillion dollar space intelligence industry. Together, our enterprise IT and defensive cyber capability complemented by KeyW's Mission IT and offensive cyber capability will enable us to offer the full spectrum of IT services. Jacobs existing clients already recognize us as a trusted provider of solutions to their most critical problems and combined with KeyW's workforce, we will be able to translate what they do into other equally challenging environments, whether it's new sensor and communication enhancements for smart city, geospatial or water security clients, cyber training and assessments to support our DoD, DoE and NASA clients or secure infrastructure technology for our Buildings and Infrastructure business. We will be able to deploy enhanced capabilities that benefit our current clients and springboard KeyW's growth into high value adjacent sectors.

Now, I'll turn it over to Kevin to present a financial overview of our acquisition.

Kevin C. Berryman

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

Thank you, Steve. Good morning and afternoon everyone. Let's turn to slide 16. As we have demonstrated in the past we have a disciplined and agile process when determining whether to allocate capital for acquisitions. This process is underwritten by the need for a strategic and cultural fit, margin enhancement benefits and risk adjusted returns that exceed the value of buying back our own shares. We also heavily focus on the integration of the acquired company, which we believe is rooted in the basis of a strong cultural fit and overlaid with a disciplined, integrated management team comprised of leaders from both companies. The KeyW acquisition fulfills all of these requirements.

One as Steve stated, the acquisition of KeyW fits squarely in ATEN's long-term strategy and provides BIAF with access to next generation technology and services that our infrastructure customers are demanding as information technology and operational technology converge. Two, the standalone margin profile is attractive and

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expected to be accretive to both ATEN's and Jacobs' corporate operating profit margin and there is additional upside in this case from $15 million of estimated run-rate cost synergies expected to be achieved by the end of 2020. These cost synergies are identified and comprised largely from the elimination of duplicative public company costs and real estate savings. Three, while we review our current share valuation is attractive from a return standpoint the acquisition surpasses our financial hurdle when considering the expected 25% plus EBITDA growth compound annual growth rate potential.

As such, the expected internal rate of return is well into the teens and the multiple in 2020 adjusted EBITDA is approximately 10 times, if we assume a full run rate at the $15 million in cost synergies. Four, finally, post close the transaction we will continue to have a strong balance sheet with under 1 times leverage, again, if we assume a full run rate of $15 million in cost synergies. Turning to slide 17, let me now discuss KeyW's adjusted EBITDA growth potential in more detail. It is important to note that our definition of adjusted EBITDA is lower than KeyW's 2018 reported adjusted EBITDA of $50 million by $5 million related to stock compensation and our estimate of approximately $7 million impacted from their discontinued flight services contract.

Our growth expectations are underpinned by both company-specific factors and attractive accelerating industry tailwinds in the areas of next generation ISR Solutions, space-based intelligent and nation-state cyber requirements. Overall, we believe the combination of KeyW's strong pipeline and cost synergy opportunities will allow us to grow KeyW's adjusted EBIT by a compound annual growth rate of more than 25%, more than doubling its 2018 adjusted EBITDA by 2022. Let me walk through the major components of the growth drivers. KeyW has a strong committed backlog with less than one-third of revenue up for re-compete through 2020. The sales pipeline is robust with just under $2 billion of opportunities pending award or in the proposal stage and a 41% trailing 12-month new win rate.

Most importantly, a key driver of this growth will come from combining Jacobs' strong platform with KeyW's leading ISR technology to meet the opportunities in the rapidly growing space-based ISR industry. In our view, customer requirements in this environment are changing whereby clients now require shorter lead time, rapid technology development. And this is specifically aligned to KeyW's core competitive advantage. Further, we believe our platform and strong track record in executing large government programs will support KeyW's competitiveness when head-to-head against larger peers. We also see opportunities to accelerate the Cyber and Mission IT businesses as we bring our leading business development capabilities and cost efficient platform to accelerate KeyW's ability to win more profitable and margin-enhancing work going forward.

This will further enhance our already strong backlog and pipeline within these businesses. Additionally and importantly, not included in our forecast assumption is upside from cross-sell opportunities within our Buildings and Infrastructure customer base. Turning to slide 18 and tying KeyW's financials back to our previous outlook for ATEN. At our Investor Day, we provided organic outlook for our ATEN business shown in the middle column on the right side of the slide of 2% to 3% estimated top line growth and double-digit adjusted operating profit growth at the high end. While we are not formally updating that outlook today, we want to make it clear that KeyW's contribution will be incremental to this outlook by approximately 100 basis points to organic revenue growth and 200 basis points to adjusted EBITDA growth, resulting in operating profit margins rising an additional 50 basis points over the forecast period.

Turning to slide 19, given we are still finalizing our Q2 results, we're not commenting on our fiscal 2019 guidance until we report earnings on May 7. However, as a result of the expected benefits from the compounding nature of KeyW's earnings combined with our continued strong balance sheet capacity, we continue to see a path to $7 to $8 of potential earnings power in 2021 and the KeyW acquisition only enhances our ability to reach these potential 2021 EPS figures. Before I turn the call back to Steve on slide 20, let me reiterate the main components

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of our capital allocation philosophy. Our number one focus remains organic growth within both businesses with acquisitions used strategically to accelerate profitable growth. We remain committed to completing our announced $1 billion share repurchase authorization and we will have $750 million remaining under that program when we complete the $250 million ASR in June of this year. At that time, we will assess the current market conditions and determine an updated view as to the pace and timing of any additional potential share repurchases in the short term.

Let me now turn the call back over to Steve for a quick wrap up.

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

Thank you, Kevin. So this acquisition is a game changer that provides us with new and enhanced capabilities in targeted high-value, high-growth sectors that align with our clients' mission-critical priorities. For employees, this combination will create exciting career opportunities as part of a larger company with a greater geographic footprint. Together with KeyW, we are expanding our leadership in the government services industry and delivering on our commitment to being a company like no other. We're excited for the future of Jacobs and the value we can create for this powerful transaction.

I would now like to open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Lucy Guo of Cowen & Company. Your line is open.

Lucy Guo
Analyst, Cowen & Co. LLC

Q

Good morning, Steven, Kevin. Thanks for doing the call, and congrats on doing something fast. So maybe talk to the timing and kind of the premise of the transaction given how quickly this came together even before you closed the ECR sale?

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

A

Yeah, I think it was really driven by the – a sale process on KeyW side that brought it to today's point. And so, we were delighted to be part of that and equally excited obviously to end up being able to make this announcement this morning.

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

A

I do think Lucy, in addition to obviously the commentary from Steve, we are quickly approaching the finalization of the ECR transaction and things are progressing and on track. So we are shortly going to be receiving a large amount of cash, which will facilitate the ability to execute against this transaction with no real cash flow related issues and the ability to have a very strong balance sheet after the transaction.

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Lucy Guo
Analyst, Cowen & Co. LLC

Q

So question about the kind of the math to get from the $50 million consensus EBITDA number to the pro forma number in the valuation and just also the context of KeyW has had a history of kind of I'm not able to sustain their profitability if I can put it that way. And maybe just talk through how you got to the $0.25 to $0.30 of EPS accretion in year one?

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

A

So there is a couple of things I think are important to recognize. Certainly, we believe that the $50 million that has been identified as kind of the 2019 figure is, one, we would adjust that by stock comp, which obviously we always reduce in terms of our recognition of what the underlying numbers are for EBITDA. If you take that and adjust for the Flight business discontinued in 2018, the underlying EBITDA growth in 2019 is approaching 20% as a matter of fact. And we fundamentally believe there's realness to that especially as it relates to the ISR momentum that is building in the portfolio. We had great clarity provided during our due diligence process and we feel like this is a very strong growth profile that's developing.

I think Steve commented on the combination impacts as well as I in terms of our prepared remarks and we do fundamentally believe that this ability to combine the capability and expertise of the talent within KeyW and its technology capabilities with the structure and discipline and resources available from Jacobs ensures that the opportunities associated with KeyW and its technologically advanced capabilities becomes a reality. And so we're excited about that opportunity and we expect that we are going to be embarking upon a very strong EBITDA growth profile from here on in.

Operator: Your next question comes from Josh Sullivan of Seaport Global. Your line is open.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Good morning and congratulations here.

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

A

Thank you.

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

A

Thank you.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Just on the $100 million of revenue synergies. How do those break down between the segments or the operational verticals?

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

A

We haven't really disclosed all of the details as it relates to that. Certainly we believe there is a benefit to our company because of our scale and ability to marry up with the KeyW team to provide greater certainty in the investment profile relative to some of the needs for the development of the ISR business going forward. We also believe that with the discipline and our leading platform capabilities it affords us the ability to offer the KeyW team a more cost-effective positioning, which will facilitate their ability to win and compete on business going forward. So I think it's across-the-board to support not only their ISR capabilities, but also their existing other businesses, which I think the ability for us to create a more cost-effective environment is going to allow them to compete more effectively with some of the larger players in this space.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

And then just as far as the long-term targets of $7 in EPS, lower leverage, $8 a little higher leverage; has anything changed? Is this deal in line with that previous thinking?

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

A

Yes. And I think, if anything, it increases the ability for those numbers to come to fruition.

Operator: Your next question comes from Jamie Cook of Credit Suisse.

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

Q

Hi. Good morning. Kevin, just a question on how you think about the multiple. I mean you're paying 16 times [ph] ex (00:29:59) synergies so how you think about that multiple on a core basis and what justifies that? And how does that – how do you think about multiples going forward for Jacobs just given all the cash that you're going to have? Is this something you'd be comfortable with and should we always assume synergies. My second question is two; can you talk about the free cash flow dynamics of this company? If you look historically, it hasn't been that great. So I'm assuming there could be some opportunities there for you. Thank you.

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

A

So, the multiple clearly is a little bit more elevated than what we have normally had execution in terms of M&A. However, we also believe firmly and explicitly in terms of the growth dynamic. So, I think if you start to look at the 2020 multiple that we talked about, Jamie, it very clearly is going to switch very soon to where the multiple dynamics of what we're paying for this company is going to be south of what Jacobs' multiple is. So, really is a function of the growth dynamic which we firmly believe in. And so, the ability for us and the belief that we think that this transaction makes sense is firmly rooted in the belief of the growth dynamic going forward. And so, as we think about 2020, 2021, 2022 the multiple dynamics and what we're paying for this company are going to be far removed and much lower than what the multiple dynamic is for Jacobs internal.

So we're comfortable as it relates to that. I don't think you should assume that this kind of multiple is the kind of multiples we should be thinking about going forward. I think it really is driven by the specificity associated with the very strong growth profile that this company affords us. So I think that it is really, really important. I think the other

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issue that is important to note is the technology that this company brings to us is extraordinary. And if you look at some of the other comparative deals and multiples associated with some of those entities, you start to get into numbers that aren't too far off of the 16 times that – what you've alluded to. So not only do we have the technology that's being included as part of this deal, you also have the growth associated with it as well.

So we're pretty excited about the coming together of those two issues in terms of the opportunity to create significant shareholder value going forward. As it relates to the cash flow, you have to peel away the onion a little bit on historical numbers because this is a highly levered company that will become a lot less levered when the transaction obviously is completed. So if you look at the unlevered cash flow, we do believe there are some opportunities there in working capital management which you know that we have very good numbers in our ATEN business and we will look to try and improve that going forward. So we think that the cash flow dynamics should be able to reach – to improve overtime as well as we look at incorporating this business into the ATEN business and look for strong profiles of not only EBITDA growth but cash flow as well.

Operator: Your next question comes from Andrew Wittmann of Baird. Your line is open.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks for taking my question. I guess, I wanted to just dig in a little bit more to the contracts, contract structure here at KeyW. And I guess maybe first part of the question here would be related to the company is obviously a lot smaller company than your company is, but it's also large in a way. The Federal government does have these special carve-outs for smaller companies to help them compete against larger companies. I was wondering if that's been benefiting some of the revenues or profitability over the years and ability to win works since they have – are they in any special class given their size. And then just is this all cost plus work? I'm assuming it is and then just related to that that flight services contract that they lost obviously that was a very significant contract for the company. I was wondering if there's any other singularly large contracts that we should be aware of inside that portfolio?

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

A

Yeah, Andrew, Steve here. Great question and we got Cliff Reynolds here, who led our due diligence team and heads up our Global Sales Business Development in ATEN. So Cliff why don't you comment on it?

Cliff Reynolds
Senior Vice President, Growth and Sales, Jacobs Engineering Group, Inc.

A

Sure. Thanks. Yeah. Obviously in the ATEN business, we're very familiar with a lot of the set asides for smaller business and [ph] Montgomery (00:34:45) contract. And that's always something we want to look at and we look at these companies as – is there anything that might not translate in terms of growth or the ability [ph] to innovate (00:34:53) contracts to our business. That's not the way that they have grown. The contract that they have are full and open contracts that will be – we'll be able to compete on going forward and they haven't been benefiting from that. So it's not a situation where it suddenly is a large business that anything will change. I was going to say material, but nothing will change at all in terms of their pipeline and the types of contracts that they're pursuing. So there is no impact from that. In terms of the types of contracts they have and the mix, I think we had a chart earlier that, do you have the numbers here exactly Jon?

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It's essentially a 60% – about a 40% cost reimbursable mix in the portfolio. And the other 60% is mix between fixed price and time and material which is essentially fixed price labor, it's very much like fixed price. So it gives a great opportunity in that, a large part of their portfolio to actually increase margins as you go forward. The cost reimbursable work is associated with some long-term contracts that will be rebid. Actually a couple of largest contract they have that really would be a driver for any type of rebid risk going forward are being extended and so going from a 2020 situation for a rebid, those contracts moving to 2021. So it really has very minimal rebid risk over the next couple of years with their larger contracts. And so that creates a great opportunity in the near term to really focus on growth rather than [ph] incenting (00:36:19) their current portfolio.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Maybe just quickly to follow-up here. Can you guys just talk about any break fees associated with this and as well as the cost to achieve the cost synergies that you've identified?

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

A

Yeah, Andrew, there is 3.5% break fee that is embedded into the current contract. So that's kind of a standard market, maybe a little bit on the higher side of the range. But yes, there's a 3.5% break fee. I would say it's entirely market related. And then of course what was the second question, again, I'm sorry? Cost to achieve the synergies, we have estimated at $25 million.

Operator: Your next question comes from Michael Dudas of Vertical Research. Your line is open.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Good morning gentlemen. Maybe Kevin, I think or maybe for Terry. Looking at the five-year EBITDA outlook that you provided for us on KeyW are there certain end markets or larger contracts that haven't been put to bid yet but are expected to be bid? And is there a thought or a change bringing the Jacobs platform on where you're – there are certain other opportunities that will allow to show that type of growth especially when you look at the 2021 and 2022 forecast?

Terence D. Hagen
Chief Operating Officer, Jacobs Engineering Group, Inc.

A

Yeah, looking forward I'll highlight two things. One is, is that we do based on the current pipeline expect the mix to evolve more towards the ISR business, which is the higher unit margin producing part of KeyW's portfolio. And secondly, it's already been referenced, given 60% of their portfolio is – time of material on fixed price, those $15 million of net cost synergies drops straight to the bottom line. There's actually a higher number of gross cost synergies that will further enhance competitiveness. So on the back of that robust pipeline that we see right now that we think given the scale of the two companies, we can actually increase the size of the playing field we're going after in combination not only produce the revenue growth numbers that we're looking at, but the evolution of the margin profile over time; the greater mix toward ISR and the increased profitability on the remainder of the Cyber and [ph] MITA (00:38:54) business.

Operator: Your next question comes from Steven Fischer of UBS. Your line is open.

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Steven Fisher
Analyst, UBS Securities LLC

Q

Thanks. Good morning, congratulations. Just on the cost synergies, to what extent do you think there is upside to that $15 million? I'm wondering if that's a conservative estimate for the acquisition of a publicly traded company. And then, how back end loaded do you think the revenue synergies will be over that kind of five-year period?

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

A

I'll start and then I'll ask Cliff to kind of add on. We're very confident in our ability to achieve the net $15 million. Do I think there's upside? Yes, but I don't want to oversell it. We believe in the return profile around that assumption. And I'm very confident in our ability to deliver it. And given that a lot of that is around redundant public company cost, I am confident in our ability to start to deliver those cost synergies fairly early in the process. And then a little further down the road as we get to combination of corporate business systems, et cetera, the rest will come.

In terms of the revenue synergy, they mature over time as you would expect as we bring the companies together not only inside of ATEN, but also it's been referenced a couple of times that we see nice opportunities to apply their ISR and cyber capabilities to the BIF business. And Cliff, I would just ask you to comment as to how we expect those to mature over time and maybe a little more specificity in areas of the BIF business to where we think is particularly – there's particular strong potential to apply some of the KeyW capabilities.

Cliff Reynolds
Senior Vice President, Growth and Sales, Jacobs Engineering Group, Inc.

A

Sure. Thank you. And to first go back and reiterate a little bit around the revenue synergies associated with ATEN and KeyW. And the kinds of contracts we pursue, those cost synergies as Terry alluded to directly beat into potential growth because they will become more competitive but on top of that what we really like is we talked a bit about the really the lack of overlap and the synergy we get between their mission-focused IT and our enterprise-focused IT. On top of that they provide those primarily to agencies where we don't have a strong presence and they have a strong relationship and a lot of our work is in areas where we have close relationship.

So we have strong cross-selling opportunities right away where we can sell our capabilities to their customers and vice versa with a lot of credibility right away. So those are some of the near term opportunities within ATEN. As we looked at BIAF and a lot of it is around the ISR business, the sensor business and while it [indiscernible] (00:41:36) space-based intelligence translate into a commercial kind of a commercial [ph] build (00:41:42), really keep in mind that what they're doing is really a data gathering, it's kind of an opportunity. So there's a lot of commercialization going on across ISR and while they haven't focused KeyW hasn't previously, their technology is leading edge and I feel ahead of what's going on commercially.

So our ability where we're doing geospatial work, precision agriculture type opportunity, the ability to do water protection – some of the water leadership we gained due to CH acquisition is further strengthened now by technology that enables us to really push that to a new level and the whole smart city application. They are a leader in software defined radios for example and other technologies that are going to be very important such as the smart cities going forward. So it brings something beyond our knowhow and our people which is very strong. Now we have a lot of backing from technology and really leading edge capabilities that are going to push some of those markets.

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Steven Fisher
Analyst, UBS Securities LLC

Q

Great. And then how much of this business is space today? Where do you think that'll be in the next few years and what impact will that have on margins? And then related to that, how do the margins in the $2 billion of pending awards compare to the $1 billion of backlog today?

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

A

It's basically you've got three – of the three businesses ISR is about 25%. So it's 50% is the [ph] MITA (00:43:06) business and the balance is cyber 25% and ISR 25%. The strongest growth profile that has hopefully clearly come out in the discussion over the last 45 minutes is ISR and we would expect that that to become a much larger piece of the portfolio going forward, certainly well above the 25% number. We haven't given specific kind of disclosures relative to the growth profile, but you can certainly imagine that a big chunk of our belief in the growth profile going forward is relative to ISR that is the highest growth profile that we expect over the next four or five years.

Cliff Reynolds
Senior Vice President, Growth and Sales, Jacobs Engineering Group, Inc.

A

I'll add on to that briefly. I think specifically around the space aspect of that – that's a – their traditional ISR business wasn't really space. They've grown a nice business with nice margins and growth year-over-year really primarily around ISR for intelligence community customers and other agencies that are really more around land and both manned and unmanned platforms with their ISR sensors. So that's a growing business. That alone is a very attractive high margin growing business and really the space piece is not really – has not really materialized in terms of big numbers at this point. They've gone successfully first on some early design phases with a lot of success and they appear to at this point be out in front of some – a lot of competitors in that market. So while we feel there's a lot of growth there, the numbers to-date have not reflected that. That's why we're really so excited about the opportunity that'll bring into the future.

Operator: Your next question comes from Tahira Afzal, a shareholder (sic) [KeyBanc] (00:44:50). Your line is open.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi there. I'm a shareholder. It looks like [indiscernible] (00:45:00-00:45:04).

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

A

Tahira?

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Yes.

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

You're coming in, we can't hear you. It's all broken up.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.
Q

Is this better? Hello. Hello.

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

Maybe you could call back in Tahira and get in the queue. Happy to take the question.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.
Q

Yeah. I think I'll just call from my cell phone. I think [indiscernible] (00:45:26) office, sorry about this guys.

Operator: Your next question comes from Jerry Revich of Goldman Sachs. Your line is open.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC
Q

Yes, hi. Good morning. I'm wondering if you could talk about the – I guess key elements of growth in 2020 versus 2019 in your outlook? It looks like, correct me if I'm wrong Kevin that you're looking for underlying KeyW organic EBITDA growth in the 35% or so range. I think that's a good deal higher than consensus. So can you just help us understand the visibility around that growth path in 2020 versus in 2019? What are the biggest pockets of growth?

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

Okay. Jerry, the clear delineation of growth is oriented while the portfolio – let me back up, the portfolio in total we believe is a growth portfolio. So we like the growth profile of the media business, we like the growth profile of cyber but the clear larger growth profile is associated with the ISR business. That is going to be a driver to the growth profile in 2020 and beyond. So I think it's consistent with what we're talking about, as it relates to the opportunity to grow on the top line and of course we also have some numbers as it relates to our opportunity to deliver the synergies as well.

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

Maybe I could add one thing relative to the ISR business. We've been able to validate not only through what we've seen through the due diligence process, but also our position as a member of the intelligence contracting community, several major space-based ISR programs and also validate where we believe is KeyW's differentiated position. So I agree with what Cliff said, it has not historically been a major part of their portfolio or their margin profile. But with what we have seen and been able to validate relative to the pipeline and their position including a very significant classified program to where they have a particularly favorite position that in particular drives some of the growth dynamics at the top line, but especially the bottom line as that mix shifts more towards the higher margin ISR business.

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Cliff Reynolds
Senior Vice President, Growth and Sales, Jacobs Engineering Group, Inc.

A

The last thing I'll add is that, as we've looked at their waterfall – their pipeline of opportunities going forward, they're very clear that this business development capability really came into being after the KeyW [indiscernible] (00:48:06) merger. And they've been working to put together this robust team and really now have a pipeline unlike anything they've had in the past that is really even outside the ISR business. If you look at the Cyber and Mission IT business as well with the longer-term contracts that we're very familiar with and it's a primary part of our business space, we understand those contracts very well and they have been able to build now a stronger pipeline than they've had before. And we feel that with the team they have adding that with, with what we can bring both in terms of passive formats and new capabilities to supplement what they're doing with that pipeline and cost synergies that their growth going forward would be unlike what they've had in the past.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Okay. Thank you. And then, just take a step back at the Analyst Day, you folks identified targets for growth investment that now it looks like you've checked the box in terms of having the organic capability on each of those five areas. So what does that mean for the M&A opportunity going forward? How active is the bid pipeline? Can you give us an update around those pieces please?

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

A

I think, obviously this opportunity we – at the time of Investor Day, we – I can tell you this clearly was some – on our radar screen but wasn't at the – up to the level that it – we thought it would get to today's point and we are delighted that it did. And we have a tremendous organic growth opportunity in front of us both the BIF and ATEN and so I think everyone should sort of understand that is our top focus as we separate out ECR shortly, we first and foremost want to deliver on the organic – tremendous opportunity with the CH2M combination that's especially focused on BIAF.

And as we've said in most recent earnings calls, our pipeline in ATEN is at the highest level ever and we've got tremendous opportunities over the next couple of years. But clearly, when we saw an opportunity to go after KeyW, as you said, squarely fits on all elements that Terry presented at Investor Day around ATEN and so was to us a no-brainer from a game changer and opportunity to really elevate ourselves and the government services space. So yeah, we're always going to be active in the M&A market and understand what's out there, but I can't overemphasize the focus on the organic opportunity we have in front of us.

Operator: Your next question comes from Andy Kaplowitz of Citi. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Hey, good morning guys.

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

A

Good morning.

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

A

Good morning, Andy.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Steve or Kevin you talked about the cultural fit between Jacobs and KeyW. We know you have some cyber already in Jacobs, but ISR tech companies tend to have their own unique culture. So what are you doing to keep some of the key managers at KeyW? And could you give us more color regarding the cultural fit between the two companies?

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

A

Let me start again, I think Cliff can provide us a good view on that since he spent many days with all the key leaders as I did as well and Terry and others. What we see is a tremendous opportunity is the cultural fit is fantastic. And like anything else as great of a company is KeyW is because of its leverage or because of its size, there was – there were some things that they were missing and an opportunity to really drive the growth opportunity. First in the base businesses around as you mentioned Cyber and their Mission Intelligence business, but also as now this tremendous space opportunities evolving is to be able to combine with us. What I'm saying is I think that is just going to further elevate and align the cultural fit, because their employees are going to see that we are prioritizing the revenue growth.

Yes, there's $15 million of synergies here, but and we're highly confident and as Terry said as always we hope there's upside, but that's not the success scenario here. The success scenario is unleashing the tremendous growth opportunity in all three of those lines of business that are highly complementary. In cyber, you mentioned – we both bring a tremendous footprint on cyber, but it's very complimentary. They're more offensive, we're more defensive. You put that together with all of the Media business and we become a world scale, federal IT player that brings tremendous skill mix now that – that we didn't have and they didn't have. So, we see a tremendous opportunity there. But Cliff, you want to talk a little more about culture?

Cliff Reynolds
Senior Vice President, Growth and Sales, Jacobs Engineering Group, Inc.

A

Sure. We had a well, maybe somewhat unique opportunity in due diligence to have just tremendous amount of engagement between not just myself. I had a very large team of Jacobs' leaders, technical level personnel, functional support staff, that got an opportunity to spend a week-and-a-half to two weeks closely engaging face-to-face with a great part of their leadership. And so, I don't want it to be lost in the fact that what we talk about a lot about their technology and proprietary tools and so forth. We recognize that that those are only as good as the people we're bringing. They have to continue to develop that.

So, really what we're looking at is making sure that the people are excited and that was our experience during the entire engagement was that the excitement level on both ends grew, the team that I had deployed doing due diligence working with their team. We saw over time the relationship we're building and both sides were excited and if you take something like cyber for example. While we both have cyber, I found that there's really nothing more than your cyber folks want to know that you're continuing to invest in that part of the business. So I think that's exciting both KeyW and Jacobs personnel in those areas because they realize it's important to us that we're

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going to invest and everything I've seen so far is everyone's embracing that and the culture seemed to fit very well.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

That's helpful guys. And Kevin you mentioned a doubling of KeyW's EBITDA by 2022. How much of that doubling do you think is just improving execution, lowering costs in the business or leveraging cost over a larger footprint? In other words what's under your control in terms of self-help? And with the EBITDA margin potential of the business from the less than 10% than it is today, KeyW doesn't look like it has several interesting and unique technologies.

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

A

Look, I think clearly the combination of the two organizations affords us an ability to execute against the self-help dynamic that you outlined. Certainly the synergies are part of that and certainly the ability to be disciplined and focused in terms of being cost efficient, which affords the team an ability to be better positioned in winning new business. And I think that that is clearly a driver on what I will call the Mission IT and the Cyber-related parts of the business. But I don't want to discount the technology play as well. Certainly, Steve talked about it and Terry and Cliff have both alluded to it. This is a business that we feel has allowed KeyW to create a competitive advantage as they sit here today.

And what effectively the combination allows is Jacobs to ensure that the nurturing and investment profile to allow that technology to become what it fully can become is a big thing. And I think that the excitement level that we have as it relates to supporting those technologies and allowing the KeyW personnel and capabilities to be unleashed I think is a big part of it. And so I think it's both. And so the self-help pieces – the rigor and discipline and cost effectiveness to make sure that that margin profile is appropriate and allows the team to win more business but the technology and the ability to unleash the potential of that technology, which obviously we feel strongly about is another large piece of it as well.

Operator: Your next question comes from Josh Sullivan of Seaport Global. Your line is open.

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

A

You there, Josh? Next question, then? Josh, you there?

Operator: Your next question comes from Tahira Afzal of KeyBanc.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi, guys. I hope this is better.

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

A

Much better.

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Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, great. So first, I was doing some quick math around your slide 18, in terms of estimated KeyW additional impact. And it seems you're not assuming anything aggressive on the revenue growth side at least maybe in line in fact with how consensus is doing there. How it worked through the operating profit and profit margin assumptions, assume they're conservative as well. So is that kind of how you're looking at it, while you're seeing the ability to double EBITDA by 2022, you baked in something, a little more conservatively into what's on slide 18?

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

A

So just I want make sure it was clear Tahira that the $100 million revenue synergies that we initially put out there are not included in our economics or in our model. So they're not reflected on that page you're looking at. And we spent most of the time here talking about ATEN but now once we get this completed, and we'll start here forming our integration process, et cetera, that there's a tremendous opportunity we believe in BIF as well. So these are some things that we'll be able to provide some more color on as we move forward.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Okay. And I guess the whole cyber side obviously – if you go through even the quadrennial review of all the subsequent defense strategy documents that have come out since then. They clearly are pointing to this being one of the highest growth areas of investment not only for the U.S. government, but really for many more other than themselves. But I mean do you feel as you look three to five years out, as you look to balance the company in terms of end market exposure that your next strategic acquisitions are now clearly meant to balance out how much you're growing on the sort of defense side?

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

A

I think we have two business lines that we are moving forward with the sale of ECR and we are equally excited about both. We believe that there will be, as I mentioned first of all, tremendous organic opportunity on both. But from time-to-time there will be bolt-on opportunities for BIF as well as ATEN. This obviously provides a new platform for us to do future potential bolt-ons, which will further differentiate ourselves and bring tool sets, et cetera. But clearly we're excited about the fact that this gets us bigger and in a very value creating way and a high quality driven by IT and technology in our ATEN business. But there's no intentional sort of balancing, if you will, more around as opportunities present themselves, which creates the best value always against the backdrop of deploying our capital and buying back our own stock. And this clearly is our priority over the last month or so.

Operator: Your final question comes from Josh Sullivan of Seaport Global. Your line is open.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Sorry about that. Can you hear me now?

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

A

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Yeah.

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

A

Yeah. Great, Josh. Glad you made it.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Just on the space exposure, in particularly small SATs. KeyW has an important launch for a customer this summer. Can you expand on how Jacobs space hardware, launch capabilities may bring some overlap? Is there a vertical integration play here with small satellites or even in that contract?

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

A

Hi. So, I'll take that clip by all means. In essence, no, but if you look at what we do in space right now, which is principally with NASA, while we are in the Launch Support business at Kennedy Space Center in reconfiguring that infrastructure for a post-shuttle scenario, we're not in the defense for the intelligence community launch business and it's not part of our near-term strategy at least at this point. So, I think the short answer is not really at this point.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Got it. And then just one on the cyber security side, Blue Canopy already gave you guys some good access to cyber consulting. But does KeyW expand on that position? Does it give you better position versus larger players like [indiscernible] (01:02:04)? Do you see consulting as a key area going forward?

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

A

The answer is, yes. And I'll link this to one of our strategic popular areas from Investor Day, which was to drive growth in a Cyber-Engineering business. We think they bring new capabilities including on the offensive side, which also as you would expect as you're trying to defend, brings you relevant expertise. They bring scale which is very relevant in the ability to grow and export a cyber-capability across Jacobs' entire customer set. Another thing we said we wanted to do at Investor Day and so that combination of enhanced capability, enhanced scale we think will be an important driver for that element of the ATEN growth strategy around cyber engineering.

Cliff Reynolds
Senior Vice President, Growth and Sales, Jacobs Engineering Group, Inc.

A

One thing that I'll add is that a large portion of the cyber portfolio while they do have quite a bit of that work is around operations and analysts and so forth a large portion is around training actually and so a lot of the IT there is training. So a couple of things about that having a large cyber training capability around offense and the defense in cyber allows us access and exposure to a large part of the community from the government side to come through that training. And we also view it as a way going forward to, it's very challenging to develop a workforce, a trained workforce of cyber experts these days and having that in-house capability to train, we view as something that going down the road will give us an opportunity to build an even larger and more robust cyber workforce.

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Operator: That concludes our question-and-answer session. I'll now return the call to our presenters.

Steven J. Demetriou

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

Okay. Thanks everyone for calling in and we'll look forward to talking to you soon on our earnings call. Thank you.

Operator: This concludes today's conference call. You may now disconnect.

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