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Jacobs Engineering Group, Inc. (JEC)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Michelle and I will be your conference operator today. At this time, I would like to welcome everyone to Jacobs Fiscal Second Quarter 2019 Earnings Conference Call and Webcast. 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]

I would now like to turn the call over to Mr. Jonathan Doros. Please go ahead.

Jonathan Doros
Head-Investor Relations, Jacobs Engineering Group, Inc.

Good morning and afternoon to all. Our earnings announcement was filed this morning, and we have posted a copy of the slide presentation to our website, which we'll 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 in 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.

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Statements made in this presentation that are not based on historical fact are forward-looking statements. Although such statements are based on management's current estimates and expectations and currently available competitive financial and economic data, forward-looking statements are inherently uncertain. 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 these and other 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 year ended September 29, 2018, and our Quarterly Report on Form 10-Q for the second fiscal quarter 2019 which is filed this morning. We are not under any duty to update any of the forward-looking statements after the date of this presentation to conform to actual results, except as were required by applicable law.

During the presentation, we'll be referring to non-GAAP financial measures. Please see slide 2 of the presentation for more information on these figures. In addition, during the presentation, we'll discuss comparisons of results to prior periods on a pro forma basis. See slide 2 for more information on the calculation of these pro forma figures. We have provided historical pro forma results in the Appendix of the investor presentation. We believe this information helps provide additional insight to the underlying trends of our business when comparing current performance against prior periods.

Now, turning to slide 3 of the agenda. Steve will begin by discussing the Aerospace, Technology and Nuclear, ATN, line of business leadership transition we announced last week, then move to a highlight to our cultural initiatives, then provide a recap of our second quarter results, including a market review of our business. Kevin will then provide some more in-depth discussion of our financial metrics, then provide an update on our M&A, cost and synergies as well as review our balance sheet and cash flow. Finally, Steve will provide an updated outlook along with some closing remarks, and then we'll open up the call for your questions.

With that, I'll now pass it over to Steve Demetriou, Chair and CEO.

Steven J. Demetriou

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

Thank you and welcome to our fiscal year second quarter 2019 earnings call. Before we begin, on slide 4, I'd like to discuss the Aerospace, Technology and Nuclear, ATN, line of business leadership transition that we announced last week. After more than 30 years of exceptional leadership at Jacobs across multiple businesses and operations, Terry Hagen, COO and President of ATN, has decided to begin transitioning to retirement. Over the last several years under Terry's leadership, our ATN line of business has developed a deep bench of leaders with proven execution capabilities and a roadmap for continued strong, profitable growth. And while I'll miss Terry's amazing leadership on top of ATN, we're in good hands with the strong set of ATN leaders across the globe.

I'm very excited that Dawne Hickton has agreed to become the COO and President of ATN, replacing Terry effective June 3. Dawne, who stepped down last week as a Director of our board to take this Jacobs' executive position, is the former Vice Chair and CEO of RTI International. She has built numerous relationships across the aerospace industry, bring strong business acumen, and has a track record of shareholder value creation. And most importantly, Dawne is an inspirational leader who fit well with our ATN organization and government services client base.

She comes to ATN with momentum. For example, Dawne was engaged in the development of our new Jacobs strategy that was presented at Investor Day, and she was also involved in the due diligence and decision to

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acquire KeyW. As Dawne takes over the leadership of our global ATN business, Terry will become executive strategic advisor reporting to me. Terry will leave the KeyW integration process working closely with Dawne and the ATN leadership team.

Turning to slide 5, our second quarter results demonstrated continued momentum toward achieving our 2019 outlook and our first half performance is a great start to ultimately realizing our 2021 strategic targets. On a year-over-year basis, second quarter net revenue grew 9%; operating profit increased significantly; and our adjusted EPS of $1.19 was up 37%.On April 22, we announced the acquisition of KeyW, a leading federal technology provider. And then on April 26, we closed the sale of our Energy, Chemicals and Resources business. These strategic actions represent key steps in the continuing Jacobs transformation to provide client solutions that are aligned to secular growth trends such as space, urbanization, sustainability and the convergence of information and operational technology. Also, the CH2M acquisition continues to be successfully executed and revenue synergies are now materializing in our backlog.

I'm very proud of our organization's capability to drive these significant and transformative initiatives while staying focused and delivering strong second quarter financial results. We're driving a culture of innovation and accountability deep into the foundation of our company, which will propel our success even further as our markets evolve.

Now, onto slide 6 to discuss our focus on culture and specifically our talent. Jacobs employees are our most important asset and therefore, we're relentlessly focusing on attracting, retaining and developing the world's best talent. Talent retention is a business imperative and I've made it a personal goal to further increase our industry-leading employee retention rates. We believe higher retention is a multi-faceted approach that consists of top-down inspirational leadership and clarity of strategy throughout the organization, an inclusive and diverse workplace so all employees feel engaged and empowered. And that we have innovative and entrepreneurial opportunities for our employee development.

Let me share two examples of our focus to create a healthy and attractive workplace. First, this week at Jacobs is Safety Week. We use Safety Week to refocus our commitment to be leaders in making health and safety a priority, both physical and mental. Throughout this week, across the globe, we'll raise awareness of key health and safety topics, engaging our workforce, clients, contractors, family and friends by sharing information, ideas, and celebrating success. As evidenced that our diversity initiatives are gaining traction, I'm excited to share that Jacobs was recently awarded the highest designation by the Human Rights Campaign Foundation for LGBTQ equality at 100%. This is something that we're immensely proud of. We truly believe that our focus on our cultural priorities creates an environment where all employees can bring their whole self to work, enabling them to thrive, innovate, and ultimately solve critical challenges for our clients.

Turning to slide 7, let's discuss another key component of our strategy, innovation. At Investor Day, we outlined a strategy for accelerating innovation, part of which were investments in five focus areas of cybersecurity, applied geospatial science, automated design, Internet of Things, and predictive analytics. Our announced acquisition of KeyW directly aligns to this strategy by strengthening our capabilities in these areas. In addition, KeyW's intelligence, surveillance, and reconnaissance team brings new capabilities to Jacobs with proven technology relied upon by the intelligence community and associated government agencies.

Now, let me recap the strategic rationale and benefits of the KeyW acquisition on slide 8. KeyW's ISR business 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 financial resources needed to materially accelerate KeyW's trajectory in the multibillion-dollar space intelligence industry. Jacobs Enterprise IT and defensive cyber

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capability complemented by KeyW's missions 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 in communication enhancements for smart city, geospatial or water security clients, cyber training and assessments to support our Department of Defense, Department of Energy and NASA clients or secure infrastructure technology for building an infrastructure business, we will be able to deploy, enhance capabilities that benefit our current clients and springboard KeyW's growth into adjacent high value sectors.

Now, moving on to a review of each line of business on slide 9. Starting with Aerospace, Technology and Nuclear, ATN. During the quarter, our ATN business continued to outpace the growth of the market with 15% year-over-year revenue growth. ATN backlog continue to grow in the second quarter, up 2% versus last year to $7.3 billion. As previously noted, we're approaching two major ATN rebids, the Hanford Plateau Remediation contract and a confidential contract with the U.S. government. These contracts are burning revenue without a corresponding increase in backlog. And when adjusting for the impact of these two contracts, which we expect will have favorable outcomes, backlog growth would have increased 4%.

Furthermore, second quarter backlog does not include the upside from the $785 million Army HTASC award which has now cleared protest and will enter our backlog in the third quarter. Also, approximately 85% of bookings during the quarter were from new business and when considering the full value of our contracts including options and extensions, ATN's backlog would be more than 50% larger than the $7.3 billion reported in the second quarter.

As I just mentioned, during the second quarter, we had the large U.S. Army HTASC win. Under this seven-year $785 million single-award IDIQ contract, Jacobs will support the Army Training Intelligence Center of Excellence including hands-on practical performance and simulated virtual training for the overarching training support missions of the U.S. Army. We are also continuing our work on the Patriot Excalibur Software and Systems Engineering for the U.S. Air Force. This renewed five-year $84 million contract provides a software solution to conduct real-time operations and tracking of mission readiness.

Continuing along the lines of high-end government contracts, we were awarded the Department of Homeland Security intrusion prevention security services contract. This is a $31 million contract that enhances cybersecurity analysis, situational awareness, and security response to the Department of Homeland Security.

Also during the quarter, we supported the first-ever salvo test of the ground-based midcourse defense system involving two interceptors against an intercontinental ballistic missile conducted by the Missile Defense Agency. We provided integrated solutions to support the test in all phases, launch, ground, sea-and space-based sensors providing real-time target acquisition and tracking, operation of the command, control, battle management, and communication system, and finally target discrimination and ground-based launch and intercept.

In our civil portfolio, we received an 18-month contract extension at the Department of Energy Savannah River Site. This contract is part of the environmental management portfolio where Jacobs has strong leadership. Bids have now been submitted for multiple contracts at the DOE's Hanford site. For the Hanford Central Plateau contract where Jacobs is currently the majority JV partner, we've submitted as a minority partner. If successful as a minority partner, we will only recognize our portion of the fee from the joint venture. However, on the Hanford tank farms, we bid as the majority joint venture partner, which would be a new win and add material revenue and

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incremental operating income. Finally, as part of our international portfolio, we are a shareholder in AWE Management Limited, which operates the Atomic Weapons Establishment, AWE, in the UK. AWE has secured the next phase of the program which covers the next three years, successfully continuing the operating profit contribution to the ATN bottom line.

In summary, the ATN business had outstanding performance in the second quarter of fiscal 2019. And looking forward, we're excited about our record high $30 billion pipeline of new opportunities. We are focused on growing high-quality operating profit with emphasis on mission critical government programs that bring resiliency to our business. We're optimistic that our strategy which combines strong technical expertise, a unique localized delivery model, and an industry-leading efficient cost structure will allow us to continue to gain share over time.

Now turning to slide 10 to discuss the performance of our Buildings, Infrastructure and Advanced Facilities, BIAF, line of business. BIAF maintained a solid growth trajectory with second quarter net revenue up 5% and operating profit up 9% year-over-year. This strong performance was driven by continued positive momentum across all our industry sectors and further optimization of CH2M integration synergies. North America had solid top-line growth, outpacing the market. In the UK, despite geopolitical headwinds, we see continued capital commitments for infrastructure. And similarly in the Middle East, our business remains strong. In Australia, New Zealand, we continue to experience some softness but we made solid progress against our sales forecast with key bookings across the geography.

Our second quarter BIAF backlog was up 11% year-over-year to $13 billion. Backlog growth can be attributed to capitalizing on CH2M revenue synergies, traction with our BIAF global delivery model, contract extensions on several long-term engagements and large scale wins in our Advanced Facilities business. Operating profit margin as a percent of net revenue grew 40 basis points to 12%, demonstrating our continued drive to a higher value solutions-based portfolio.

As we look across the BIAF industry, we see strong and steady growth in all our key infrastructure sectors, specifically in life sciences and electronics. Capital spending in the U.S. life sciences sector is increasing. And electronics CapEx investment continue to be strong globally to support future demand for leading edge products. Two significant wins this quarter include a confidential vaccine manufacturing plant in the Southeast U.S. and the design of a micro-processing chip manufacturing plant in the U.S. The U.S. federal sector continues to have a promising outlook, reporting several wins including IDIQ contracts with the Army Corps of Engineers and the U.S. Department of State, Bureau of Overseas Buildings Operations.

In the Climate Leadership Conference in March, I was honored to accept multiple awards on behalf of Jacobs from the Environmental Business International group for our leadership in technology, environmental, restoration and remediation and climate adaptation. We anticipate healthy growth by leveraging our environmental services as an enabler across all infrastructure sectors.

Our transportation business continues to perform well globally. Our ports and maritime business experienced the highest growth, driven by expansion of global container terminal operators and containerized bulk shipping.

In aviation, we have a strong pipeline of opportunities in the U.S. as well as the rapidly expanding market in Europe and Southeast Asia. We had significant contract wins with Metrolinx Rail in Toronto and a one-year contract extension for Heathrow's runway expansion.

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Our water business remains strong with solid year-on-year growth, continued recognition as a global innovation leader. We were recognized by the Global Water Summit with various awards including global desalination project of the year for the Tuas desalination facility in Singapore.

As we mentioned at Investor Day, information technology and operational technology are converging. We believe those that can combine digital expertise and domain knowledge will take share. An example of where we are leveraging our domain knowledge and digitally-enabled solutions is the recent win for a confidential client where we're developing the cyber defense architecture for protecting their operational technology attack surface. Another key strategic win was an artificial intelligence transportation control system with Delaware Transportation Management that collects and analyzes high-resolution data to disseminate real-time travel information to generate traffic congestion solutions.

In summary, our BIAF business continued to outpace the market including double-digit backlog growth. We're well-positioned for strong growth for the remainder of fiscal year 2019.

Now, I'll turn the call over to Kevin to discuss our financial results in more detail.

Kevin C. Berryman

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

Thank you, Steve. Before we review our results, let me comment on KeyW's results which were also filed today. As you might imagine, we had the opportunity to review KeyW's preliminary March quarter results prior to the signing of the acquisition agreement. We are encouraged by the progress the company has made with key project extensions and new awards. As a result, the company has strengthened its growth profile with backlog up over 10% year-over-year when excluding the impact of the discontinued flight services contract. The company reported $1.6 billion in proposals submitted and awaiting award, up 23% versus the year-ago quarter. We remain confident in achieving the financial outlook we outlined at announcement and are excited to welcome the KeyW team to Jacobs.

Let me also comment on our pro forma adjusted figures that have been included in our appendices to this presentation. We have updated and provided results for all quarters in fiscal 2018 and 2019 on a consistent basis. We have done this to ensure clarity as to how the business is performing on a comparable basis year-over-year. I will be referring to these figures throughout my remarks.

So now, I'll discuss a more detailed summary of our financial performance for the second quarter of fiscal 2019 on slide 11. Second quarter gross revenue increased 8% year-over-year with net revenue up 9%. Both ATN and BIAF contributed to the strong growth profile with ATN leading the way with a 15% increase versus the year-ago quarter. Please note that we expect our second half year-over-year total net revenue growth to moderate somewhat. Second quarter adjusted gross margin as a percentage of net revenue was 24.9% and was impacted by a higher mix of ATN revenue during the quarter which carries, as you know, a lower gross margin. Our adjusted G&A as a percentage of net revenue was down nearly 200 basis points year-over-year as we've benefited from CH2M cost synergies and our relentless focus on maintaining an efficient cost structure.

GAAP operating profit was $103 million and included $94 million of restructuring and other costs related to the acquisition of CH2M and the divestiture of ECR, $90 million of amortization from acquired intangibles, and $6 million of stranded costs from our ECR divestiture to be eliminated or reimbursed through a transition services agreement. Adjusting for these items, adjusted operating profit was $222 million, up 27% versus the year-ago period. Our adjusted operating profit and net revenue, our new margin metric announced at our recent Investor Day was 9% and up 130 basis points from the Q2 2018 figure of 7.7%.

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Adjusted EBITDA was $250 million or 10.2% of net revenue. GAAP EPS from continuing operations for the quarter was $0.82 and was impacted by the after tax per share amounts I outlined earlier above when discussing operating profit. And it was also impacted by some items below the operating income line. GAAP EPS was further impacted by $0.10 of after tax interest expense associated with debt that was paid down with ECR sale proceeds, a $0.27 benefit from a noncash deferred tax adjustment related to the ECR sale, and a one-time $0.18 benefit, primarily associated with a settlement gain associated with the closure of the CH2M retiree medical plan.

Excluding all of these items, including operating profit and below operating profit adjustments, second quarter adjusted EPS was $1.19. This figure benefited from $0.03 due to a lower tax rate. For the year, we now expect our effective tax rate to trend down to slightly below the 25% level we had previously guided to.

Finally, turning to our bookings during the quarter, our pro forma book-to-bill ratio was just over 1.1 times for both the trailing 12-month period and the quarter. The pipeline of opportunities across both businesses are strong and, as Steve mentioned, we are beginning to see revenue synergies from CH2M materialize in our backlog.

Regarding our LOB performance, let's turn to slide 12 and begin with ATN. Revenue for ATN grew 15% percent year-over-year. But please note that the revenue mix in the quarter had a lower associated unit profit margin associated with some of the larger enterprise contracts during the quarter. As a result, operating profit margin for the quarter was 7%. Longer term, we continue to expect operating profit margins to improve in ATN as we shift the portfolio to a higher value mix. It is important to note that our focus remains on driving operating profit growth versus revenue growth given factors that include the structure of joint ventures which can actually impact how revenue may or may not be reported on our P&L. We believe operating profit growth is the best indicator of performance and we continue to expect an over 10% operating profit compound annual growth rate through 2021.

Moving to BIAF, second quarter BIAF grew net revenue 5% year-over-year and pro forma operating profit was up 9%. Operating profit as a percentage of net revenue was over 12.3% for the quarter, up 45 basis points on a pro forma basis from the year-ago period. While we are pleased that BIAF's operating profit margin during Q2 was at the high-end of the target provided at our recent Investor Day, it is important to note that on a quarterly basis, the profitability can fluctuate depending upon the revenue mix in the quarter. Regardless, we are confident in the margin expansion for BIAF from a combination of leveraging the benefits of scale from our global model, strong project execution and higher margin opportunities currently in our pipeline.

Finally, our non-allocated corporate overhead costs were $25 million for the quarter, down $17 million from Q2 2018, driven by the realization of CH2M cost synergies. We continue to be focused on driving cost effectiveness into our corporate-related cost structure, especially now that we have divested the ECR business.

Let's turn to slide 13 where I would like to just update our initiatives relative to our onetime costs and expected synergies related to our recent transactions. As you know, the company has undergone significant transformation over the last two years, including the $3.3 billion acquisition of CH2M and the $3.3 billion divestment of our Energy, Chemicals and Resources business. In addition, we recently announced the pending acquisition of federal technology provider KeyW. All of these actions are clearly resulting in a higher margin, higher growth company, with more predictable cash flows.

Let me provide an update on each, starting with the CH2M integration and cost synergies. We achieved a run rate of more than 90% of expected CH2M synergies as of Q2 2019 and continue to anticipate achieving our synergy run rate target of $175 million as we exit fiscal 2019. Through Q2, we've incurred approximately $250 million of

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the expected $265 million in costs to achieve these synergies. We remain on track to significantly outperform our original synergy estimate.

Turning to ECR, as you know, the divestment of ECR closed on April 26, 2019. As a result, we received $2.6 billion in net pre-tax cash proceeds on that date. We now expect $200 million of one-time ECR related transaction, separation and restructuring costs to reflect the shift to a two line of business company. During the quarter, we incurred $40 million of these one-time cost comprised mainly of IT and labor to achieve separation. We expect all costs to be incurred by the end of the calendar year.

Finally, as outlined when we announced the KeyW acquisition, we expect to achieve $15 million of run rate cost synergies by the end of fiscal 2020 with approximately $25 million of cost to achieve those synergies. Additionally, we expect approximately $16 million of transaction fees and other one-time acquisition-related costs.

Now, on to the cash flow generation and the balance sheet on slide 14. During the quarter, free cash flow from continued operations excluding restructuring, integration and deal-related costs totaled over $200 million. Free cash flow substantially improved in the quarter from our Q1 figures as our focus on driving improved cash flow gained traction. Certainly, part of that improvement was driven by improved DSO levels, although there still remains more work to be done. We remain confident that the elevated DSO figures that we saw in Q1 were a short-term issue and not related to any structural changes in our normalized levels of day sales outstanding. In fact, we continue to expect to see a reduction in DSOs for the second half of fiscal 2019. During the quarter, capital expenditures totaled $39 million, of which nearly $15 million was associated with nonrecurring IT and real estate restructuring related to our cost synergy efforts.

As a result of our improved cash flow, we ended the quarter with cash of approximately $900 million and a gross debt level of $2.8 billion. On April 26, we received $2.6 billion in pre-tax net cash and approximately $600 million of Worley equity. We expect to pay approximately $500 million to $550 million in cash taxes and $200 million of transaction, separation and restructuring costs related to this transaction.

As a result, on an after-tax and fee basis, we expect $2.5 billion in proceeds from ECR including the Worley equity stake. So looking at the right side of the chart, when accounting for the proceeds from the sale of ECR and the upcoming cash outflow related to the acquisition of KeyW, we expect Q2 pro forma net debt assuming full taxes paid on ECR transaction to be approximately $400 million or well under 1 times adjusted EBITDA. Regarding our accelerated share repurchase, we expect the ASR to be completed in June with the delivery of the remaining 20% of the shares of the ASR. At that time, we will evaluate further future share repurchases.

And finally, given our strong balance sheet and continued expectation of improved cash flow, we also announced our quarterly dividend of $0.17 per share, and as you know, our dividend represents an increase of 13% versus our year-ago dividend level.

Now, I'll turn it back over to Steve for some closing thoughts.

Steven J. Demetriou

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

Thank you, Kevin. I'm very pleased with our solid start to the first half of 2019 and the strong demand environment we're seeing within our core industry sectors. We have an ambitious strategic vision for Jacobs, a strong track record of execution, and disciplined philosophy of allocating capital, the combination of which we believe is paramount to delivering above-market returns for our shareholders.

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As we look forward, we continue to expect fiscal 2019 adjusted EBITDA to be in the range of $920 million to $1 billion, and we're increasing our total fiscal year 2019 adjusted EPS guidance to $4.45 to $4.85 per share from our previous guidance of $4.40 to $4.80.

Operator, we'll now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] First question comes from Josh Sullivan from Seaport Global. Your line is open.

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

Hey, Josh.

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

Hello, Josh. Are you there?

Operator: Go ahead, Josh.

Josh Sullivan
Analyst, Seaport Global Securities LLC
Q

Okay. Can you hear me now? Can you hear me now?

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

Yes.

Josh Sullivan
Analyst, Seaport Global Securities LLC
Q

Hey, sorry about that. Just given one of your competitors successfully change its GICS code designation, what would be the timeline for Jacobs to potentially make a similar transition?

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

Well, as you know, the makeup of our revenues currently are associated with BIAF and ATN and our government services piece of that represents a smaller proportion of the total revenue base right now. We're in the process of further evaluating a re-characterization of some of our revenues which we know have either government services and/or IT-related activities, which ultimately will translate into our ability to probably near the end of this fiscal year be able to talk to S&P in order to look to try and change our GICS code longer term. And I think that that's going to be work in progress that we're going to be working on over the next six months.

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Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Okay, great. Thanks. And then just on the free cash flow and the DSOs, what do you think a normalized level including KeyW looks like? And then will the new design centers in Poland and elsewhere have any impact on DSOs positive or negative?

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

A

Ultimately, we believe that we should be receiving a conversion against net income which translates into 1 times. And we think that that is a – the viable view of how our cash flows will be driven longer term including KeyW. And I think that KeyW will ultimately be accretive to what we're able to do primarily because of the higher margin profile that we are expecting out of that business longer term. As it relates to our, let's call it, our global business services efforts, the more that we can get structured and disciplined as it relates to our processes, which GBS will ultimately be a big part of, the better our ability to drive down DSOs will be. So, we would expect that, longer term, that's going to be a positive versus our ability to continue to drive improved profitability for the quarter or for the years going forward.

Josh Sullivan
Analyst, Seaport Global Securities LLC

Q

Great. Appreciate the color. Thank you.

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

A

Yeah.

Operator: Your next question comes from Lucy Guo from Cowen and Company. Your line is open.

Lucy Guo
Analyst, Cowen and Company, LLC

Q

Good morning. Thank you for taking my question. I want to say congrats to Terry on his pending retirement and I look forward to working with Dawne going forward. So, first question perhaps for Kevin, if you can – so you reiterated the adjusted EBITDA guidance for FY 2019. Q1 came in at more than 25% of the year at the midpoint. Can you just talk about where you may be conservative versus if there's anything that is trending downward in the rest of the year?

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

A

Look, I think what we've done is we've included a raise to our guide $0.05, let's call that primarily around taxes. We still feel good about the ramp-up in the second quarter and effectively we think that our ability to drive our growth in the second half, which is substantial, is still there. So, I think we're just being prudent as it relates to our ability to continue to deliver against the numbers that we've provided to you.

Lucy Guo
Analyst, Cowen and Company, LLC

Q

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Okay, great. Second question is on KeyW. Their results also came out this morning that was kind of below where the Street expected. Can you just talk about maybe into the second half of the calendar year if there's anything that changed versus your expectations?

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

Good morning, Lucy. The – so we're confident in the projections that we put in place that model the acquisition including 2019. We see a timing situation going on with KeyW that some awards got pushed into the second quarter and second half of the year. We've been following it closely. We believe the second quarter is going to be a very solid quarter. There's been some good wins that they should be announcing soon. And so, we're confident in the remainder of 2019.

Lucy Guo
Analyst, Cowen and Company, LLC
Q

Good to hear. And finally, just wanted to see if there's any changes in the re-compete timings of the two large ones that you have highlighted? And I'll pass it on. Appreciate it.

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

Yeah. The confidential contract that we have in ATN continues to move to the right which is good for us. We believe that there's going to be some extension opportunity there over the near term. And then, I mentioned, I think the other one you're talking about is Hanford where we're excited because we're actually involved in two programs there, the rebid as well as the new tank farm opportunity. So, we continue to feel very positively about those and other opportunities. I think I mentioned earlier that our pipeline is at a record high $30 billion in the ATN business and then we're very excited about the pipeline in KeyW and the margin improvement there that's going bring to Jacobs. So, all-in-all, a great pipeline going forward.

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

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Good morning, gentlemen.

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

Good morning.

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

Good morning, Michael.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Steve, I think in your prepared remarks you talked about how you felt with the first half of 2019 from a book of business backlog positioning standpoint as you try and execute looking at 2020. Now, not to get into 2020 expectations, but were – relative to where you were six months ago to where you finished up second quarter and

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taking into consideration KeyW, how better or how much more confident relative to your plan or to your backlog or order roll-off do you anticipate in each of the businesses for 2020?

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

Yeah. We feel very confident about our three-year ramp associated with our strategic plan that we outlined at Investor Day and we're off to a great start in the first half. When you look at some of the macros going on, we continue to feel like we're extremely well-positioned. There's a lot going on as far as budget's being set by the federal government as well as state and local. NASA remains very aggressive in their whole program of getting to the moon by 2014 (sic) [2024] (40:33). And the good news is there's a debate on how much more will be spent at NASA moving into 2020 and beyond. But the good news is all the talk is more, whether it's $1 billion to $2 billion more or something even higher than that. So, we feel good about NASA and our position there.

The – and then when we look at the Department of Defense budget which I think the talk is somewhere between $730 billion and $750 billion, when you peel the onion and look at the specific programs, really almost right on top of all the mission-critical programs we participate in, a lot of the programs are actually being discussed as double-digit growth opportunities moving into 2020. And so, whether it's cyber or some of the other mission-critical intelligence community areas that we and KeyW participate in, we feel very, very confident there. And then, of course, on our BIAF program, the recent news around the Democrats and Trump talking about finally getting at this federal infrastructure spending, whether it's $1 trillion or $2 trillion, we're talking about a heck of a lot more spending opportunity in the U.S. around infrastructure.

And then when you look overseas, the infrastructure opportunities are very robust. The Middle East continues to be strong for us. But even in the UK with what's going on with Brexit, the spending has been preserved, a lot of the major programs on rail and highways that we're participating in are moving forward. And we believe that once Brexit is resolved, the very first thing they're going to focus on is infrastructure to be a stimulus to the economy there. So, our second largest market, in our BIAF market, bodes very well.

And then we continue to just be very excited about our Advanced Facilities business. I mentioned a couple of key wins in life sciences and electronics but we're well-placed with regard to the clients that we're focused on in both of those sectors. And so all-in-all, I would say we just – we continue to be very confident in our three-year strategic plan.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Well put, Steve. And just, Kevin, a brief follow-up. When you talk about once KeyW is in the mix and you look at the ATN operating profit and you mentioned about minority [ph] shifting (43:01) at some of your joint ventures, majority to minority, how much of a percentage or a contribution on normalized basis would those be to the overall operating profit going forward of ATN?

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

I don't have that. Really kind of depends on what the win profile looks like.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Sure.

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

But obviously, if in fact we go from a prime to a sub on a JV or something like that, managing partner versus not, you're going to effectively see – all you're going to see in our financials is the fee that we're earning as it relates to that. So, obviously, it will be a big number in terms of profitability with no revenue. The numbers probably are not exactly hugely material in terms of numbers but it will be accretive and certainly we can get that information back to you after the fact when we start to get a better sense of how it's going to play out.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Excellent. Thank you, gentlemen.

Operator: Your next question will come from Jamie Cook from Credit Suisse. Your line is open.

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

Hi. Good morning. Just a couple clarifications on the guidance, Kevin and I think in your prepared remarks, you mentioned something about growth – revenue growth through the top-line in the back half sort of moderating. Can you just talk about the drivers behind that or just get a little more specific in particular with restating things year-over-year?

And then my second question is obviously this changes with KeyW but the operating margins in ATN, how you're thinking about that in the back half as well? Thank you.

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

Yeah. I think clearly, Jamie, as it relates to the back-half moderation comment, it's really more about the fact that the comparables for ATN specifically continue to expand and grow last year in the back half as the ramp-up on the large enterprise contracts occurred. So, the comparables in the back half of 2018 are strong – stronger than what the first half was. So, we're just comparing to a bigger part of those ramp-up to actually having occurred. So, that's probably the biggest piece of the ramp-down, I think that – or the moderation down. I think the other point as it relates to margin profile, as we think about going forward, certainly the ATN business has an expectation level that we're going to be improving margin consistent with the strategic plan in – that we outlined relative to the Investor Day and we would expect to see part of that occurring in 2019 back half as well.

Relative to KeyW, it depends on really when it closes and to the extent it does close with enough time to really have an impact in the back half, we would expect to see accretion relative to the fed as well. But it will be pretty immaterial given where we are in the year and when the close might occur. Some potential limited benefit in fourth quarter but it really depends on when the deal closes.

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

Okay. Thank you. I'll get back in queue.

Operator: Your next question will come from Jerry Revich from Goldman Sachs. Your line is open.

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Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Yes, hi. Good morning, everyone.

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

A

Morning.

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

A

Hi, Jerry.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

I'm wondering if we were to just flesh out in BIAF really strong bookings this quarter, can you give us a sense for how much of the growth was in water versus transportation. So, what part of the portfolio are you seeing backlog growing? And related question, the $2 billion plus CH2M revenue synergy pipeline, how much contribution are you expecting over the next, call it, 12 months to 18 months? How much have we already seen flow through the results? Can you just give us a touch more granularity on that part of the opportunity set, please?

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

A

Yeah. Thanks, Jerry. It's been, for BIAF, pretty much across the board. We've seen it both in the B&I side as well as the Advanced Facilities side. When we look at our business, we're ramping up some major water programs out – that we've announced out in California and Houston and some others that clearly we attribute to a combination of Jacobs and CH2M. We had a major highway win in the Washington, D.C. area. That was something that we don't believe either company would have won on its own and together. And the other story on that, Jerry, is that it's margin improvement as well whereas both companies in the past would have partnered with others, including each other, and would have had to share the margin. As an integrated company now, we're getting more of the pie as we're winning rail or highway or airport or water, environmental solutions wins because of the fact that we can bring now most everything we need other than having to team up from time-to-time with small set-aside business partners.

So, it's – just can't overemphasize it's across the board. The Advanced Facilities was a major contributor this quarter and as they are ramping up programs both in the electronics and the life sciences area, and it's been global across the globe with really the only soft point that is in the Australia and New Zealand area after several great years there. So, we really like what we're seeing across the globe in all sectors.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC

Q

Okay. And then, Kevin, back to your comments about sales growth moderating in the back half because of the tough comps in ATN, on the flip side, you have really strong bookings momentum in BIAF and organic growth has, generally year-to-date, been, call it, towards the midpoint of your long-term targets, and it feels like you've got better bookings momentum at least near term. Can you just address what your expectations are for BIAF organic growth? Is that – any comps that we need to be aware of?

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

No, look, I think if we were to characterize the growth outlook for both of the businesses, ATN while we still like the growth, BIAF has the stronger kind of near-term momentum over the back half of the year because they're not facing some of the ramp-ups that ATN had in back half of last year. So, year-over-year is certainly going to be stronger for BIAF in the back half than ATN. And I would say that we feel good about those bookings and how they've come into the mix. I think it's very clear with the backlog being up $1.3 billion in BIAF at the end of the quarter. Clearly, that's indicating some stronger near-term opportunities in terms of the burn in the back half. So certainly stronger in BIAF, more muted in ATN, but still we feel pretty good about the back half in terms of the revenue growth, but moderating a tad.

Jerry Revich
Analyst, Goldman Sachs & Co. LLC
Q

Okay. And let me add my congratulations to Terry as well. Quite a contribution to the business, Terry, and, Dawne, welcome and we're looking forward to working with you. Thanks, everyone.

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

Thanks, Jerry.

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

Thanks.

Operator: Your next question will come from Tahira Afzal from KeyBanc. Your line is open.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.
Q

Hi, folks. Congratulations on a good quarter.

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.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.
Q

I guess first question, and I hate to beat the ATN horse again, Kevin, but I'm looking at your 2% to 3% CAGR guidance. And do you know, even if I assume a massive fade for the rest of the year, it seems it's tough to build my CAGR even at the upper end of that as I'm well exceeding that unless I assume that your revenues in ATN are flat or even was for the outer years. So, I assume that's conservatism on your part and to the extent it is and the rate actually ends up being higher, how does that impact or benefit your margins?

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

So, for the ATN guide, we haven't really given specific guidance, first point. And as it relates to our revenue for ATN, had a good quarter obviously this quarter and consequently, I think that the back half is still going to be showing some growth and perhaps what you're talking about is the guide previous to this quarter. So, I think effectively, we will see incremental revenue versus what we had been thinking last quarter. I will say the margin profile was a little bit less strong given the mix of the profile.

And consequently, we saw a little bit lower profitability margin associated with that relative to the dynamic. But I think 2019 shaping up to be a pretty good look for ATN in terms of revenue and BIAF. So, if you're talking about the longer term guide in the Investor Day, clearly...

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.
Q

Right.

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

...that plays into the whole dynamic relative to joint ventures and how that may or may not play into the profile and there's a big chunk that if we do our strategy which has been to participate as a – it's not the general partner and some of the JV work, that will ultimately affect our reported growth profile and that's one of the reasons for that guide.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.
Q

Got it. Okay. And, Kevin, I remember I recall you guys bought a communications-oriented business a while back, maybe a Verizon piece. How does that – can you leverage that towards a lot of the satellite work or the lower, newer work you might be doing once KeyW gets going?

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

I think you're talking about the FNS acquisition, which was, oh, boy, four, five years ago maybe, I can't – so, yeah. Look, I think that certainly was one of the initial stages of the transformation of the ATN organization in terms of getting into that business with, but they're certainly being very high technology-oriented and work associated with managing telecommunications for some of the three-letter agencies in the U.S. government. So, clearly, a high-technology play. We've been very, very excited and happy with that deal.

I think, ultimately, the KeyW, while I think there's opportunities in ATN to further leverage those capabilities, I would say we're actually excited about the opportunity associated with BIAF as well because of the sensoring capabilities to bring some of that technology into play in terms of the portfolio BIAF longer term. So, yes, I think there is some opportunities in ATN, and we think there's good – we talked about there being strong revenue synergies which were not included in our analysis on the KeyW acquisition, but they don't only exist in ATN. They also exist in BIAF as well.

Tahira Afzal
Analyst, KeyBanc Capital Markets, Inc.
Q

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Got it. Thank you, Kevin.

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

Piyush Avasthy
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. This is Piyush on behalf of Andy.

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

A

Morning.

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

A

Good morning.

Piyush Avasthy
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Good morning. Can you give us some color on what's underpinning the continued strength in Middle East infrastructure that you just referenced, given that we have seen some more mixed trends in other industrial end markets in the region?

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

A

Yeah. I think it's in different areas. We're doing a lot of work in places like Abu Dhabi and Dubai. And there's things going on with the expo, there's major rail expansions. There's economic growth that's driving the need for new infrastructure. You've got Saudi Arabia with the 2030 vision and just a real relentless pursuit of expanding everything from healthcare to entertainment to smart cities. And so, it's – I can't compare it to what's going on in other areas. But if I do look at Saudi, for example, it's a diversification and it's now spreading. It's funding which in the past has been exclusively around the energy and chemicals, refining sector to areas around infrastructure is a good example.

Piyush Avasthy
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. That's helpful. And my follow-up would be, would EC&R (sic) [ECR] (56:39) sale complete and given that you noted that CH2M integration is near complete. You can – can you talk about how you think about the pace of potential incremental M&A activity going forward? Should we expect some pause coming into the activity until you close out the KeyW or should we see more bolt-on acquisitions?

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

A

Well, I think as – we still have a tremendous runway of opportunity to maximize the integration and synergies of CH2M especially with our BIAF business. I expect that from time-to-time, we'll have some bolt-on opportunities to take that combination of BIAFs, Jacobs and CH2M capability and bring some additional capabilities. Bob Pragada talked about it in Investor Day, digital consulting is an area that we're interested in and there could be other bolt-on opportunities.

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ATN, I think where the KeyW was an initial step of our strategy to really become a Tier 1 government services player especially focused around areas like federal IT and mission, intelligence community and those priority areas for us. And so, I would expect over the next several years from time-to-time some bolt-on opportunities. But we're very mindful and balanced around our capital deployment. We still believe Jacobs is a great investment. And we're – we've launched our first step with ASR and we've laid out the fact that we expect to not only continue our dividend but increase it as our earnings increased. So, we have – we believe a good discipline, patient capital deployment strategy.

Piyush Avasthy
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Operator: Your next question comes from the line of Steven Fisher with UBS. Your line is open.

Steven Fisher
Analyst, UBS Securities LLC

Q

Thanks. Good morning. Just a competitive question around ATN. I know you expect to pursue and win higher margin contracts in ATN. I guess to what extent are you guys seeing a convergence of bidders on a relatively narrow batch of higher margin, attractive technologically-driven contracts or is the overall pie of higher margin contracts just getting bigger? I'm sure everyone wants to pursue higher margin work. Are there more opportunities for everyone or is there a convergence on sort of a select set?

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

A

Well, we've talked about the fact that ATN, unlike most of our other markets, is very highly fragmented. And we still have a relatively small share of the whole big pie there when we talked about just in the U.S. market. And so we see our ability because of our differentiated models that we've talked about around our ability to tailor our offerings to our client rather than some of our competitors bringing sort of their overhead structure to the clients and to work in a swift basis. And I think KeyW is only going to get us even at a higher level there with their rapid deployment that's been their proven differentiation.

And so, we look at it less around how much are we all going after the same thing versus our ability to bring unique offerings. Our wind tunnel business, for example, in ATN, we bring it a unique technology there that enables us to command good solid margins and win more than our fair share of business there. And our ability now to work with our clients around 5G deployment is a very positive area. Cybersecurity and what we've done now with KeyW to strengthen our cybersecurity platform is only going to make us stronger there. And we're excited again with KeyW-Jacobs around analytics capabilities, artificial intelligence, machine learning, and what we're going to be able to do. And I mentioned that some of the specific focal areas by the Department of Defense are really in these high margin differentiated areas where we bring unique capabilities. So, all-in-all, we feel confident on our ability to not only win more than our fair share but to focus on the best-value sectors in our ATN industry.

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

A

There's another comment to make too relative to the strategy that the ATN team has developed, and it's really relative to some of the contracting strategies, and they really are looking because of their very strong position on cost profile and in capabilities, which Steve has just outlined. There is an ability for the team to be doing fixed

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price services work, which is low risk but ultimately allows for margin enhancement, and Terry outlined that as part of Investor Day, and I think that that continues to be an opportunity for the team in ATN to continue to drive that business.

And so not only do we have the opportunity on the enterprise contracts, the larger ones, which sometimes can be a little bit more challenging from a margin perspective, there is a very specific focus on the other side, which are some of these smaller, more fixed price services which really don't have risk that's any different than some of the other jobs that we do or projects that we do. And consequently, that's going to be part of the strategy and already is part of the strategy that's being executed by the ATN team.

Operator: Your next question comes from the line of Chad Dillard with Deutsche Bank. Your line is open.

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning, everyone.

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

A

Good morning.

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.

Q

So, I just want to dig into the ATN procurement cycle. So, I just want to understand from where we are today, do you think you can continue growing backlog through the balance of the year? And then a little bit longer term relative to the $30 billion pipeline, can you just talk about the balance of smaller projects driving the potential wins versus larger wins? I know you mentioned that Hanford was one potential. But is there anything beyond that?

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

A

Yeah. Again, it's such a broad-based answer, so I'll try to be succinct around it. But I'll just start with NASA. A lot of the ability to grow with NASA starts with performance and we've had great outcomes recently on our award scores. And so when we look at NASA being aggressive on going after their programs and we see an increasing budget, we clearly see ramp-up at NASA across the board there.

I mentioned automotive, where we have unique capabilities and a very high value wind tunnel, commercial automotive business. We've been very strong in the U.S. We're expanding into Europe with a lot of the automotive players there as fuel efficiency in acoustics and some of the other areas that the automotive industries was focusing on. Missile defense, that program is going great for us and we're finding opportunities to grow. We see that continuing to ramp up. And then when we look at, as I mentioned earlier, cybersecurity, that's an area now that where this whole IT/OT convergence, really excited to see the clients lock in now to see Jacobs as a major player there and the KeyW acquisition only further increased our brand awareness there for penetrating that business.

So, it's pretty widespread. And then internationally, in the UK, we're – and also Europe, we're focused there. There are some initiatives we're working on to get bigger outside of the U.S. on ATN and to some adjacent markets. And then the opportunity is, as I mentioned earlier, this ability to take what we're doing in ATN and BIAF together and looking at opportunities, whether it's smart cities or the 5G rollout or other opportunities to bring our

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domain knowledge and capability that we've established in Buildings, Infrastructure and Advanced Facilities and bring the ATN capabilities to those markets. So it's – there's a tremendous opportunity that's driving that $30 billion pipeline that we mentioned earlier.

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

I think it's important to augment or reinforce Steve's comment that he also made during the prepared remarks which talks about kind of this is a government services business that we have, and everyone talks about DoD and what the total increase is. But if you peel away the onion and you look at what we do for the DoD and NASA and other agencies, the increases are not the kind of single-digit numbers that everyone's talking about. It's more in line with double-digit increases in 2020 for the federal government business. Now, that still has got to be worked through, but clearly, indications are where we do our work, we're talking more in line with double-digit increases and spend for the government in the 2020 budget. So, it obviously, on top of what Steve has talked about in terms of capabilities, sets a foundational element of there being a general boat that's floating a little bit higher in the water.

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.
Q

Great. That's helpful. And just a clean-up question here. How should we think about the cash conversion for the business through the balance of the year?

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

Well, we think that clearly, we saw an improvement in Q2 which – that was important to do given what we saw in Q1. Q3 and Q4 tend to be strong cash flow periods for us. So, I would think that we should be seeing an improvement. It's ultimately going to be driven by the ability for us to deliver against the DSO expectations that we have for ourselves. We've got to continue to drive that down over the second half of the year. And I make these comments ex, I would say some of the restructuring one-time costs that we're continuing to execute through given the issues associated with our myriad of transition opportunities, transformation opportunities on ECR, on CH and what will begin to happen which is KeyW. So, we feel pretty good about the second half cash flow in the back half. And like I said, not sure we'll get to the one-times conversion for the full year this year, but we certainly believe that that's going to be the expectation for this portfolio. And we should expect that going forward longer term as we communicated at our Investor Day.

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.
Q

Thanks. I'll pass it on.

Operator: Your next question comes from the line of Justin Hauke with Robert W. Baird. Your line is open.

Justin P. Hauke
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah. Good morning. I guess I just wanted to maybe get one more clarification on the big ATN contracts that you have. You've got the two recompetes that are outstanding and then you've got the Hanford tender that you submitted. And so, is the timing for the award decision on all of those the same September of this year? And just

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in terms of relative scope, how big are the recompetes versus the incremental opportunity of Hanford just so we can think about how those go, what it might be?

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

A

Yeah. The Hanford ones, both of them should play out around the same time and it will be later this fiscal year, whereas the confidential contract is more moving into 2020 timeframe. So, those are not overlapping. And the – what we're excited about is, especially when we look about the $30 billion pipeline, the majority of that's new business, and it's not expansions or rebids although there will be from time to time but we're really expanding into. When you look at the wins that have moved the needle for ATN over the last 12 months to 18 months, whether it was the special ops command or missile defense as an example, we moved into new areas there.

The KeyW acquisition is only going to accelerate that now when we talk now about getting into ISR space and being able to take their capabilities and move them into our water business or sustainable solutions or agricultural solutions when we talk about this whole IT/OT convergence that's moving into new areas. So, I think we're well-balanced when it comes to contract extensions or rebids and new business.

Justin P. Hauke
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. And then I guess my second question here is just on the DSOs, Kevin, appreciate your comments on that, but the unbilled was up fairly significantly quarter-to-quarter, $230 million or so. I know, last quarter, there is issues with collections on the federal government, but is that still tied to that or is that the federal billings, have those been billed or is the $230 million still on that or is it something else?

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

A

No. Look, I think the – we track both of these metrics obviously and then net against that, the billings in excess which is prepayments that our customers have made, which is how we track our DSO figures. So, we did see some of those challenges at the – let's call it, at the beginning of the quarter, but not so at the end of the quarter because of the ability for the government to get back on track as it relates to the shutdown that we had there for a bit. So, look, I think there's a lot of moving pieces in terms of our system environment and implementations which will create some volatility in those numbers in the short-term. Remember that we've gone to – on the CH2M integration, we, effectively at the beginning of the year, went to 80% of the CH2M business roughly plus or minus, went on to the Jacobs system environment that we're still working through the adjustments and necessary improvements as it relates to that go-to-live in anticipation for the next 20% going live which is probably at the end of our third quarter which is coming up here shortly.

And so, there are some kind of moving pieces right now. We're expecting that at the end of the day all of this is going to translate into lower DSOs going forward. We have to because we saw the tweak-up in Q1 to levels that we believe we need to get down quickly.

Justin P. Hauke
Analyst, Robert W. Baird & Co., Inc.

Q

Thank you.

Operator: There are no further questions in queue at this time. I will turn the conference back over to our presenters.

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Steven J. Demetriou

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

Thank you. So, as I reflect on our second quarter results, we're immensely proud of our organization. We're performing at a high level during a period of extraordinary transformation where we're focusing and progressing the integration of CH2M successfully. We're executing on our three-year strategy which we laid out at Investor Day. We made an important acquisition with KeyW in the government services sector and, obviously, completing the transformational divestiture of ECR and separating that from Jacobs. And concurrent with all of these activities, our people are focused, delivering exceptional results. So, the bottom-line is we have extraordinary people and delivering extraordinary outcomes. And I hope you're as excited as I am about our growth here at Jacobs. Thank you.

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

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