Company Name: Jacobs
Company Ticker: JEC US
Date: 2019-11-25
Event Description: Q4 2019 Earnings Call

Market Cap: 12328.911183
Current PX: 92.8000030518
YTD Change($): 34.3400030518
YTD Change(%): 58.741

Bloomberg Estimates - EPS
Current Quarter: 1.21
Current Year: 5.603
Bloomberg Estimates - Sales
Current Quarter: 3355.2
Current Year: 13141

Q4 2019 Earnings Call

Company Participants

- Jonathan Doros, Head of Investor Relations
- Steven J. Demetriou, Chairman and Chief Executive Officer
- Kevin C. Berryman, President and Chief Financial Officer
- Robert Venkat Pragada, President and Chief Operating Officer

Other Participants

- Jamie Cook, Analyst
- Andy Kaplowitz, Analyst
- Jerry Revich, Analyst
- Andrew Wittmann, Analyst
- Steven Fisher, Analyst
- Gautam Khanna, Analyst
- Michael Dudas, Analyst
- Michael Feniger, Analyst
- Chad Dillard, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Jacobs Fiscal Fourth Quarter 2019 Earnings Conference Call and Webcast. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Jonathan Doros of Investor Relations. Thank you. Please go ahead, sir.

Jonathan Doros, Head of Investor Relations

Thank you. 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 will reference in our prepared remarks. I'd like to refer you to our forward-looking statement disclaimer, which is summarized on Slide 3.

Certain statements contained in this presentation constitute forward-looking statements as such as 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. 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, and you should not place undue reliance on such statements as actual results may differ materially. We caution the reader that there are a variety of risks, uncertainties and other factors that could cause actual results to differ materially from what is contained, projected or implied by our forward-looking statements. For a description of these and other risks, uncertainties and other factors that may occur

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that could arise actual results to differ from our forward-looking statements, see our Annual Report on Form 10-K for the year ended September 27th, 2019. 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 required by applicable law.

During this presentation, we will 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 will discuss comparisons of current results to prior periods on a pro forma basis. For more information on the calculation of these pro forma metrics, we've provided historical pro forma results in the appendix of this investor presentation. We believe this information helps provide additional insight into the underlying trends of our business when comparing current performance against prior periods. Included in our historical figures is an adjustment to backlog to conform [ph] KeyW's backlog methodology of bookings, only the first two years of large multi-year contracts.

Let me also provide a bit of color on the accounting treatment related to our Transition Service Agreement, TSA, with Worley related to the sale of our ECR business. From a GAAP standpoint, the cost provided in the TSA services provided to Worley are reflected in SG&A, but the reimbursement of those Worley related costs are recorded in other income below operating profit. As a result, this treatment understates the true operating profit associated with the TSA effort as these costs are being incurred specifically to support services provided to Worley. In our non-GAAP figures, we have reclassified this income as SG&A from other income. We have made this adjustment to reflect a more accurate representation of our underlying operating performance.

Let me also review the components of our adjusted EBITDA outlook provided today. Presently, our adjusted EBITDA results and outlook are based on adjusted operating profit plus depreciation methodology. We will be transitioning to referencing and providing guidance on adjusted EBITDA that includes the net impact of other income and non-controlling interests. Please see a reconciliation on Slide 24. We believe the current consensus expectations include mix of EBITDA methodology. So we encourage our sales side model, adjusted EBITDA calculation to include the net impact from non-controlling interest in other income. In addition, when calculating EBITDA from adjusted operating profit -- remember that our adjusted operating profit already add backed amortization from intangibles.

Turning to slide -- turning to the agenda on Slide 4. Speaking on today's call will be our Chair and CEO, Steve Demetriou; and President and CFO, Kevin Berryman. In addition, President and COO, Bob Pragada, who joined today will be participating in the Q&A session. Steve will begin by providing a recap of our financial results, discuss key elements of our strategy and review our performance by line of business; Kevin will then provide some more in-depth discussion of our financial metrics and provide an update on our acquisitions in ECR divestiture, 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 the call for your questions.

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

Steven J. Demetriou, Chairman and Chief Executive Officer

Thank you, John. Turning to Slide 5. Thanks for joining us today to discuss our fourth quarter and fiscal year 2019 financial results, and the progress we're making, executing against the strategy we outlined at our February 2019 Investor Day.

Before we discuss our results, I'd like to recap last week's announced expanded leadership roles for Bob Pragada and Kevin Berryman. Bob is promoted to President and Chief Operating Officer of Jacobs, and will now oversee all global operations. Kevin is promoted to President and Chief Financial Officer, adding to his current responsibilities, our Jacobs' digital and information technology functions. Both these leaders have been instrumental in driving Jacobs' industry-leading financial performance and superior shareholder value creation. As CEO, I'll continue to lead Jacobs, working closely with Bob, Kevin and the rest of the executive leadership team to build on our momentum and execute our strategy to deliver compelling value for our clients and shareholders.

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As you've heard me say, we're on a journey to create a company like no other. And over the last few years, we've been transforming our business to a higher value, higher growth, solutions-focused company. Today, our Company is well diversified across sectors and geographies and exposure to multiple secular growth trends of climate change, environmental resiliency, space intelligence, urbanization in the convergence of IT/OT, as well as exposure to long-term sustainable cash flow streams such as national security and nuclear cleanup that enhanced the stability of our portfolio. More importantly, we believe the combination of our relentless drive to achieving a high performance culture, demonstrating a strong execution discipline to profitably grow and making innovation, our connective foundation, will be a competitive advantage for decades to come.

For the most recent quarter, our financial results were strong. On a year-over-year basis, fourth quarter net revenue grew by 10% on a pro forma basis, including KeyW. Fourth quarter adjusted operating profit was 15% higher than last year, and adjusted EPS of $1.48 was up 29%, including $0.09 of discrete tax benefits. For the fiscal year, we posted double digit adjusted EBITDA and EPS growth, even when excluding the benefit from acquisitions and discrete tax items.

During the quarter, we executed a $250 million accelerated share repurchase and have bought back approximately $850 million of our shares during fiscal 2019. From a flexibility standpoint, we maintain a healthy balance sheet that provides the opportunity to further deploy capital toward high return investments. Given our strong operating performance and positive outlook, we're introducing adjusted EBITDA and EPS guidance, which at the midpoint represents double-digit growth and we're well positioned to reach our 2021 EBITDA growth targets.

Now on to Slide 6 to discuss our new brand. Many of you may have seen our new brand video when you joined today's earnings call. For those that have and I encourage you to visit our Investor site, where we've included a link on the earnings call slide deck. It's proven that companies with strong brands have a significant competitive advantage in terms of attracting and retaining the best talent and building stronger relationships with clients, unlocking velocity to compound above market growth rates. We have created a new brand to reflect our transformation, unite our people under a common purpose and showcase the innovative and meaningful work we do for our clients and communities. Given our transformed business, now was the opportune moment to tell our story to the world, combining our rich history on future strategy.

Central to the brand is our new tagline, challenging today, reinventing tomorrow, signaling our transition from engineering and construction to a global technology forward solutions company. Challenging today is our response to the increase in complexity our world is experiencing that calls on us to join forces, putting our knowledge and imagination together to reinvent the way we solve problems and shape the next generation of innovative solutions. Reinventing tomorrow is our promise and an invitation to challenge what's accepted and raise the bar in everything we do, from the brilliant solutions we create with our clients, to the open inclusive culture we create for our people, from the positive difference we make in our communities, to the added value we deliver to our shareholders. Together, we are pushing the limits of what's possible. We stay ahead to create the new standards our future needs. The combination of the -- is symbolized within our new logo. As you have seen, we chose to change our ticker symbol to J, to signify our focus on delivering integrated solutions and we're also preparing to change our legal name to Jacobs Solutions.

Considering with the discussion on our brand, let's turn to Slide 7. At Jacobs, it's crucial to our strategy to align around common values that guide our behavior and unify us as one company worldwide, when interacting with clients, employees, communities and shareholders. While the values our company has always stood for haven't changed the way we articulate them has.

First, we do things right, which means we always act with integrity, taking responsibility for our work and caring for our people. We make investments in our clients, company, community, so we can grow together. An example is our sustainability strategy and planning beyond, which focuses on planning beyond today for a more sustainable future for everyone.

Second, we challenge the accepted, to create a better future we must ask the difficult questions, always staying curious. We're not afraid to try new things. Beyond If is our global innovation program focused on our agility to challenge the accepted, with the domain expertise to push beyond our boundaries and deliver for today and into tomorrow.

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Third, we aim higher. We don't settle, always looking beyond to raise the bar and deliver with excellence. We are committed to our clients bringing more valuable solutions for shared success. This value is reinforced with our Beyond Excellence approach to solving our customers' challenges with the highest standards of quality and performance excellence. And finally, we live inclusion. We have an unparalleled focus on inclusion, with a diverse team of thinkers, visionaries and doers. We embrace all perspectives to make a positive impact. TogetherBeyond is our approach to living inclusion and enabling diversity and the equality globally. For us, this means creating a culture of belonging where we thrive and embrace all perspectives.

Turning to Slide 8. Earlier this year at our Investor Day, we announced five innovation hubs. Today, I'd like to discuss how we're leveraging two of those hubs, IoT and predictive analytics. Across our businesses, we have accumulated decades of domain intelligence contained in both structured and unstructured data sets, that when applied against advanced algorithms powered by nearly infinite compute capacity are driving revolutionary outcomes for clients and higher margins for Jacobs. We're only at the tip of the iceberg in terms of what's possible.

For example, today we're partnering with a leading technology provider to bring to market an artificial intelligence solutions for our water customers. For decades of work in water sector, we've created one of the most extensive video datasets and classifying defects in various infrastructure. We have taken this data set and adjusted it into a specialized cloud-based AI algorithm to auto score water infrastructure inspection video to deliver higher quality and more consistent risk scoring. The result is a ten-fold increase in the analyzing throughput of this inspection technology. We plan to formally introduce this to our client base over the next 12 months. The return profile of this type of solution as orders of magnitude higher than a traditional approach as this capability lowers the cost for our customers, increases our per unit profitability, and establishes an incremental network effect on data, which further enhances the quality and insights of our technology.

And now moving to Slide 9. Before I go into each of our two businesses, I'd like to highlight our new line of business names. Using the new brand as inspiration, we renamed our lines of business to reinforce our transformation to a solutions-based company, and reflect the sense of pride our people have for the outcomes they are delivering with our clients. Our new line of business means our Critical Mission Solutions, formerly Aerospace, Technology and Nuclear, which puts our clients mission at the center of everything we do. And People & Places Solutions, formerly Buildings, Infrastructure and Advanced Facilities, which reinforces our drive to improve the lives of people everywhere in a positive impact and value our solutions bring to our clients, communities and society as a whole.

So now starting with Critical Mission Solutions. Our pro forma backlog is up $400 million last year to $8.5 billion, and when considering the full value of our contracts including options and extensions, Critical Mission Solutions backlog will be almost 40% larger. We continue to call out two significant Critical Mission Solutions contracts, Hanford Plateau Remediation and a classified network security program with the US government that are burning revenue without a corresponding increase in backlog. Without this dynamic, our Critical Mission Solutions backlog would have increased in a high single-digit for prior year.

Critical Mission Solutions' unique delivery model combines strong technical expertise, localized delivery and an efficient cost structure, and continues to deliver growth and ultimately a transition to higher unit margins. From an industry sector standpoint, space exploration continues to be an attractive opportunity. Jacobs was proud to be NASA's largest provider of professional technology services. In fiscal year '19, our NASA portfolio continue to grow as we delivered solutions to their most important missions. In partnership, with the Johnson Space Center, Jacobs plays a crucial role across five NASA centers supporting the Artemis Moon Program. Through our intelligent asset management solutions, we continue to improve operations and reduce the cost of maintenance of NASA facilities. A great example is our work on the five-year modernization program at the Ames Arc Jet Complex.

Critical Mission Solutions also provide strong technical expertise in mission critical sectors, serving the US military warfighter and intelligence agencies. We saw a significant incremental revenue during the quarter from our recent win of the Army's military intelligence, Huachuca Training and Support Contract, where Jacobs provides critical training and testing programs.

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In addition, we were recently awarded a role to provide intelligence analysis services for the Defense Intelligence Agency under a multi-billion dollar five-year IDIQ contracts. We also recently won a recompete assignment for the National Science Foundation, our superior agile software development capability was critical to winning. This was originally a contract from Blue Canopy, demonstrating the continued benefits from this strategic acquisition. And consistent with our organic growth strategy, Critical Mission Solutions is successfully expanding further into higher growth and higher margin sectors like telecom 5G, data analytics, cyber security and C5ISR.

Our telecom business grew by approximately 50% in fiscal year 2019, benefiting from a shift to 5G small cell sites as cities deployed intelligence infrastructure. Our telecom team provides differentiated consulting and infrastructure services to support this multi-decade opportunity in close collaboration with our People & Places Solutions line of business.

The KeyW acquisition closed in June. Fourth quarter performance was in line with our expectations. We're off to a great start with our integration process and well positioned to achieve both cost and revenue synergies in fiscal year 2020. KeyW is a strategic game changing investment, delivering mission IT, and cyber security solutions along with intelligence, surveillance and reconnaissance products. During the first quarter of 2020, leveraging the combined Jacobs KeyW capabilities, we won a five-year $216 million contract with the Department of Defense Cyber Crime Center for specialized cyber security training. This win represents the first of many KeyW revenue synergies that we expect to achieve and it is exciting to see our teams come together so quickly in delivering incremental strategic growth opportunities.

In summary, we're pleased with the Critical Mission Solutions performance, and as we look forward, our in-factored pipeline has grown to $33 billion in opportunities, up 10% from last quarter. We're excited to begin the new fiscal year with such momentum, positioning us for the next major set of incremental awards towards the end of fiscal year 2020.

Now moving to Slide 10. People & Places Solutions posted strong fourth quarter results with backlog growing 10% year-over-year to $14 billion. Our People & Places Solutions business has a diversified set of high value industry sectors and geographies. We're well aligned to multiple secular growth trends, such as climate change resiliency, access to clean water, urbanization, advances and cell and gene therapy, cloud computing and the convergence of information and operations technology.

At our Investor Day earlier this year, we focused on three areas market, digital and global connectivity. Together we believe these strategic pillars allow us to execute against higher value opportunities and respond quickly to ever evolving market conditions. Our market connectivity is a differentiator during customer pursues, as advancements in technology drive connected infrastructure. We're a clear leader across multiple sectors such as environmental, water, transit, advanced facilities, as well as delivery platforms such as program management and strategic consulting. We believe combining our deep domain expertise across different sectors of scale will lead the share gains through cycles. We've institutionalized the execution of this strategy through our global solutions and technology organization which aligns Jacobs' subject matter experts to drive thought leadership and to develop the next generation of global talent.

We are clearly capturing a higher percentage of opportunities as we continue to leverage the Jacobs CH2M combination. Let me provide a recent example. In Germany, we were selected as program manager for SuedLink, a new renewable energy project to integrate wind and solar power into Germany's electricity grid. Jacobs was chosen based on our differentiated delivery solution and comprehensive expertise in complex one of a time programs.

Moving to digital connectivity. We're leveraging our deep domain expertise in existing digital capabilities across the entire company to provide our clients world class solutions. For example, we recently won a project to deliver enterprise IT operation solutions with a major US airport. The project incorporates cyber security and data analytics from our recent KeyW acquisition, with our smart cities technical expertise. We integrated our industry-leading aviation domain knowledge with our advanced security operations capabilities to win this multi-year opportunity. Going forward, we expect our digital solutions to be a major driver of growth as we further connect our technological expertise and intellectual property across our businesses.

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Our global connectivity affords us the ability to utilize global Jacobs talent to provide unique solutions to local clients. We do this primarily in two ways, deploying highly technical expertise in a variety of disciplines to local projects around the world and digitally delivering complex solutions from our global delivery centers. During the quarter, the volume of work we delivered through our global integrated delivery model more than doubled with further potential for strong growth. This increase provides benefits to profitability through better utilization and creates multiple centers of excellence to attract, develop and retain the best and brightest talent.

An example of a recent win driven by our global connectivity is in Asia, our fast growing aviation market. We were able to leverage the best thought leaders within our global aviation practice, who have delivered many of the world's largest, most complex airports with our local expertise to win the program management for the Manila International Airport. This aviation facility will include three new terminals, four runways and support facilities on over 6,200 acres of reclaimed land, it will accommodate up to 100 million passengers per year, making it one of the world's largest air travel hubs.

Linking our connectivity strategies together is our acquisition of a 50% share in Simetrica, a UK-based organization with global reach that specializes on social value measurement and well-being analysis. As the public and private sectors make infrastructure investments that impact local communities, returns are not always straightforward to assess and involve understanding the overall impact on society, including economic, environmental and wider social impact. Simetrica has developed industry-leading techniques and technologies for assessing social value deployed today over 1,000 clients. We will work with Simetrica to scale these offerings and solutions, both locally and globally.

As you can see, our People & Places Solutions business is making meaningful progress in implementing its strategy and driving the benefits of market, digital and global connectivity. We see a continued expansion of our sales pipeline on a year-on-year basis, with many of our larger opportunities slated for award in the second half of fiscal 2020.

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

Kevin C. Berryman, President and Chief Financial Officer

Thank you, Steve. So before we review our results, I would like to remind everyone that recast pro forma adjusted figures have been included in our appendices to this presentation. We have updated and provided results for all quarters in fiscal 2018 and '19 on a consistent basis from the time they were provided in the second quarter of fiscal 2019. We provide this updated historical disclosure 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. Our fiscal 2019 growth rates factoring a full quarter of CH2M for fiscal Q1 2018, which closed during that quarter. I would also note that the change to our line of business names does not impact our line of business financial reporting.

So let me turn to Slide 11, where I'll discuss a more detailed summary of our financial performance for the fourth quarter Fourth quarter gross revenue increased 13% year-over-year with pro forma net revenue including KeyW up 10%. Both Critical Mission Solutions and People & Places Solutions contributed to the strong top line growth. Fourth quarter adjusted gross margins as a percent of net revenue were 24.9%, up 100 basis points sequentially, but down a bit, 50 basis points year-over-year primarily due to a mix of larger contracts, and People & Places Solutions that tend to have lower gross margins, but also delivered substantial absolute gross margin dollar levels. We also continue to recognize meaningful procurement related revenue within Critical Mission Solutions, which also carry a lower reported gross margin, but again, attractive and lower risk return on capital dynamics.

Our adjusted G&A as a percentage of net revenue fell by 50 basis points year-over-year and 75 basis points on a pro forma basis, including KeyW to 15.4%, indicating continued strong cost control and the realization of cost synergies from CH2M and KeyW. It is important to keep in mind that as we scale and become more efficient, part of any G&A savings pull back to government services via lower reimbursable rates. This phenomenon is associated with federal pricing requirements by both federal and state and local clients. While this lower our gross margins, it has a clear benefit to G&A and operating profit levels, and also of course increases our competitiveness when pursuing these types of contracts.

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GAAP operating profit was $99 million and include $103 million of restructuring and other charges, $5 million of transaction costs incurred primarily in connection with the Wood acquisition, and $45 million of other adjustments, consisting of $23 million of amortization from acquired intangibles and $22 million of costs associated with the Worley Transition Services Agreement previously noted by Jon, of which $21 million of costs were reimbursed and reported in other income. Adjusting for these items, adjusted operating profit was $253 million, up 15% from the prior year, and 11% on a pro forma basis, including KeyW.

Moving on, our adjusted operating profit to net revenue was 9.4%, flat year-over-year. The margin included a headwind from Critical Mission Solutions, offset by strong operating margin expansion in People & Places Solutions. I'll discuss further the underlying drivers by line of business later in my remarks.

Q4 adjusted EBITDA was $274 million or 10% of net revenue. GAAP net earnings and EPS from continuing operations were $22 million and $0.16 per share, impacted mainly by $0.61 per share of after-tax restructuring and other charges as noted above, $0.04 per share of after-tax transaction costs, primarily associated with the Wood acquisition, and $0.67 per share of adjustments consisting mainly of intangible of amortization of $0.13, mark-to-market adjustments associated with Worley equity and other ECR-related matters of $0.36, and tax reform related adjustments of $0.18. Additional reconciliation detail can be found in the press release and in the appendix of this investor presentation. Excluding these items, fourth quarter adjusted EPS was $1.48, including a $0.09 benefit from discrete tax items. KeyW did not materially contribute to EPS during the quarter, as the operating profit was effectively offset by the incremental interest expense associated with the transaction.

Finally, turning to our bookings during the quarter. Our pro forma book-to-bill ratio was above 1.1 time for Q4, and note that our backlog only includes the first two years of SuedLink win for our bookings policy. In addition, the backlog does not include the recently awarded Q1 2020 cyber security awards discussed earlier by Steve.

Turning to the review of our fiscal year 2019 results on Slide 12. Gross revenue increased strongly to 20% year-over-year and pro forma net revenue increased 11%. Pro forma book-to-bill for the year was 1.1 times. Overall, the pipeline of opportunities across all business remain strong, as we begin to see CH2M and KeyW synergies flow into revenue. GAAP operating profit was $405 million and adjusted operating profit was $893 million, an increase of 17% year-over-year on an organic and pro forma basis. Adjusted operating profit margins were 8.8% for the year, up 50 basis points year-over-year.

We have made strong initial progress against our strategic target objective of over 150 basis points of margin expansion by the year 2021, driven by successfully executing against CH2M cost synergies and we see further upside to adjusted operating profit margins as we leverage our global delivery model, executing against higher margin opportunities in the pipeline and also being able to benefit from operating leverage as we continue to grow the top line.

GAAP earnings and EPS were $291 million and $2.09 respectively, and included $1.75 of restructuring costs -- $1.75 EPS that is $0.12 was related to transaction related costs, $1.10 of other costs and that includes $0.42 of amortization of intangibles. In addition, it also includes $1.75 of restructuring charges. Going forward, we expect our GAAP to adjusted EPS differential significantly improved as we entered our second quarter 2020 after completion of the ECR separation and other restructuring actions.

Adjusted EPS was $5.05, up 30% year-over-year, and at the high end of our $4.75 to $5 outlook, when excluding the benefit of the $0.09 of discrete tax items in the fourth quarter. It is important to note that adjusted EPS includes $0.32 of fiscal year discrete tax benefits. Excluding the impact of these tax -- discrete tax benefits, actually in this year and last, adjusted EPS grew over 20%. Finally, adjusted EBITDA was $981 million, up over 13% on both a pro forma and organic basis, and was at the midpoint of our updated $965 million to $1 billion outlook.

Regarding our LOB performance, let's turn to Slide 13. Starting with Critical Mission Solutions, pro forma revenue including KeyW grew 10% year-over-year during the fourth quarter. In line with last quarter, the revenue mix was impacted by large reimbursable enterprise contracts and higher procurement activities, resulting in operating profit for the quarter -- margin at 6.7%. Importantly, these contracts remain highly attractive from a total return basis as they offer multi-year stability, lower risk, and minimal working capital investment level.

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For the year on a pro forma basis, including KeyW, revenue and adjusted operating profit were up 13% and 14% respectively. Fiscal year operating profit margins were 6.8% of revenue. Over the course of fiscal 2020, we expect operating profit margins to benefit from our shift to a higher value mix, including more fixed price services contracts and a higher contribution from the recently acquired KeyW. Again, it is important to note that our focus in Critical Mission Solutions remains on driving operating profit growth, given that the structure of joint ventures can impact our revenue may or may not be reported on our P&L, which can impact headline margin percentages. We continue to believe that operating profit growth is the best indicator of our performance and we expect that Critical Mission Solutions operating profit compound annual growth rate in line with our previous guidance provided.

Regarding KeyW, September results were in line with our expectations and the strategic logic for the acquisition and associated revenue synergies over the medium term is proving out actually real-time as our pipeline and bookings efforts are already building momentum. As Steve mentioned, our joint teams have already won a major cyber contract, a clear indication that synergies are materializing.

Moving to People & Places Solutions. Q4 net revenue grew 9% year-over-year and operating profit was up 19%. As a percentage of net revenue, operating profit was 14.3% for the quarter, up 120 basis points from a year ago. People & Places Solutions had a very strong fiscal year 2019. Including the Q1 2018 pro forma impact from CH2M, net revenue was up over 9% and operating profit was up 14% year-over-year. Operating profit margins were 12.7%, up 50 basis points versus year ago. Our strategy to target continued margin improvement going forward will be driven by aligning the portfolio through secular growth opportunities, leveraging the benefits of scale from our global model, strong project execution and focusing on higher margin opportunities.

Our non-allocated corporate overhead costs were $33 million for the quarter and $131 million for the year. As we continue to be focused on driving cost effectiveness into our corporate related cost structure, we expect $25 million to $35 million per quarter of unallocated corporate expenses. Notwithstanding our continued focus on cost discipline, we will proactively evaluate incremental investments that will support our digital and innovation journey.

Now turning to Slide 14, I'd like to update our initiatives relative to our recent M&A and divestiture transformational actions. As we have previously stated, the CH2M integration is near complete with net cost of revenue synergies exceeding our original business case for the acquisition. Regarding the sale of ECR, to-date, we have incurred $153 million of the over $200 million in related transaction, separation and restructuring costs. We expect nearly all remaining cost to be incurred near the end of the first half fiscal 2020.

Regarding KeyW, our synergies realized in the quarter were quite minimal. As of the end of Q4, we achieved a run rate of $11 million of our target of $15 million in cost synergies, which resulted in our spending $17 million of our estimated $25 million of costs to achieve those synergies. To date, we have also incurred $13 million of transaction fees and other one-time acquisition-related costs.

Regarding Wood's Nuclear business, our acquisition remains on track to close in our fiscal Q2 quarter. Our integration team is proactively finalizing integration plans. As Steve discussed, we also acquired a 50% ownership in Simetrica, which was immaterial from a financial standpoint, but certainly quite strategic in our drive towards becoming a more value-added solutions provider.

Now on the cash flow generation and the balance sheet on Slide 15. During the quarter, underlying free cash flow again improved. Well, reported free cash flow for the quarter was negative, this included multiple one-time items related to our transformation efforts. Specifically, we paid $300 million -- $390 million of cash taxes related to the gain on our $3.4 billion sale of ECR, which actually closed in the fiscal third quarter, a $100 million for the settlement of the newly filed legal matter, which is also related to the ECR business, $4 million net cash flows related to restructuring and sale of ECR, and one-time expenses related to the KeyW acquisition. Excluding these amounts associated with our transformation and consistent with normal seasonality, our Q4 cash flow conversions factor was well above our long-term target. We believe that this provides further evidence of our ability to drive to a free cash flow conversion factor of one-time longer term.

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DSOs ticked down compared with Q3 2019, consistent with our drive to reduce this key metric. We remain focused on improving collections now that we have made great progress moving to a common ERP platform and improving associated working capital processes. In fact, from Q1 this year, DSOs improved by 4 days.

We ended the quarter with cash of approximately $630 million and a gross debt of $1.4 billion, resulting in $770 million in net debt before attributing the benefit of our $0.5 billion in Worley equity. Treating the Worley equity as cash, our pro forma net debt position would be approximately $300 million or less than one-time adjusted EBITDA. It is clear, we have strong financial flexibility even when excluding the Worley equity and believe the addition of our talented ECR team which Worley will support long-term value creation opportunities for the shares. While our lock-up period ends in December, we will remain thoughtful and strategic regarding our position in the company.

Regarding our capital deployment. In August, we executed a $250 million ASR with final delivery of the remaining 20% of shares expected in December. We continue to believe that our shares are trading at a discount to their intrinsic value and we expect to fully utilize our remaining share buyback authorization over time. For modeling purposes, we would expect an average share count of $134 million (sic - 134 million) for fiscal year 2020, although the timing of future share repurchases can be driven by short-term dislocation in share price. We also expect an effective tax rate of approximately 24% for fiscal 2020. When modeling quarterly EPS, we would suggest incorporating into historical seasonality on an underlying basis, especially when considering the sequential change from the last quarter in fiscal 2019 after adjusting for discrete tax items to the first quarter of fiscal 2020.

Given our strong balance sheet and free cash flow, we remain committed to our quarterly dividend, which was previously declared as $0.17 per share on September. As you know, our current dividend level represents an increase of 13% versus a year ago.

Now, I'll turn it back over to Steve for some closing thoughts on Slide 16.

Steven J. Demetriou, Chairman and Chief Executive Officer

Thanks, Kevin. I'm excited about the continued traction of our business transformation. We're seeing a strong inclusive culture developing across Jacobs. Our pipeline is increasing year-over-year with larger higher margin opportunities and we're strategically leveraging our balance sheet, investing in ourselves through timely share buybacks, as well as disciplined and targeted M&A activities in strong growth sectors. We're introducing fiscal 2020 adjusted EBITDA outlook in the range of $1.05 billion to $1.15 billion. We're also initiating fiscal 2020 adjusted EPS guidance to a range of $5.30 to $5.80, which at the midpoint represents a 17% year-over-year growth when excluding the impact from fiscal 2019 discrete tax items.

In summary, fiscal 2019 was a strong year performance. We have a clear vision and strategy for Jacobs and will remain disciplined in executing against it. We're well aligned to capture secular growth opportunities, we have a strong balance sheet and we're well positioned to deliver on our financial targets.

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question comes from Jamie Cook of Credit Suisse. Your line is open.

Jamie Cook, Analyst

Hi, good morning. I guess, just two questions. You know, first, if I could talk to Kevin, just what's implied for organic revenue growth in margins by segment in the 2020 guidance and what we're assuming for KeyW and Wood? And then

my second question, just where we sit today, your comfort level with the $7 to $8 of, sort of, EPS targets that you guys gave at the Analyst Day last February for 2021. Thank you.

Kevin C. Berryman, President and Chief Financial Officer

Yeah, we haven't disclosed actually the specific number, Jamie, and thanks for your question relative to the growth factors in 2020. But on a net revenue basis, we certainly believe we're in the higher as opposed to lower single digit numbers in terms of our organic revenue growth, and we're excited about that. And of course, all of this is consistent with what I would characterize as performance numbers. So we've adjusted history relative to that. So good solid mid-to-higher single digit level growth factors for the businesses.

I think that as we think about the other comment, we still believe that the $7 to $8, kind of, what I would call earnings potential power is potentially out there and available to us. Our ability to ultimately deliver against that, it is going to be driven a lot by our ability to continue to execute against share buybacks in a manner that's consistent with creating incremental shareholder value, and obviously the potential for incremental M&A activities, which ultimately have to work from a strategic perspective as well as the financial one. So we feel great about where we are relative to that, although it's clear that while the earnings potential is there, it's got to make economic sense for us to be able to deliver against that, and I think that's exactly consistent with how we thought about it back at Investor Day, and so really no fundamental change from our perspective.

Jamie Cook, Analyst

Thank you.

Operator

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

Andy Kaplowitz, Analyst

Hey, good afternoon guys.

Kevin C. Berryman, President and Chief Financial Officer

Good afternoon, Andy.

Andy Kaplowitz, Analyst

Could I ask Jamie's question on a slightly different way. So pro forma net revenue growth for FY19 was up 11%, as you said, your guidance for this three-year period is 3% to 5% NSR growth, obviously good start to the three-year plan. So could you talk about what in your businesses is performing better than you thought and would you agree that that 3% to 5% at this point may end up being a bit conservative, I know it's only a year into the plan.

Steven J. Demetriou, Chairman and Chief Executive Officer

So we've characterized our growth in terms of a range of levels. And certainly, at this particular point in time, our net revenue growth would be kind of at the high end of our range right around that. So I don't know that we would

ultimately say that we're executing at a different level than what we've always said. This is clearly within the range of what we said, we're very pleased with the fact that we're at that upper end of the range and we would expect that hopefully we'll be able to continue to deliver against it. What we see right now is what is in front of us for 2020. If we think about going beyond in to 2021, we will play it year-by-year and execute accordingly, but we feel pretty good about where we are right now.

Andy Kaplowitz, Analyst

Kevin, have you won more than you thought in terms of re-ups on the government side or infrastructure side, I mean, any sort of more color on where you've done better?

Kevin C. Berryman, President and Chief Financial Officer

Yeah, I mean, starting with the building -- the People & Places Solution. Clearly, the momentum of Jacobs and CH2M in unleashing the strength of that combination has been exciting and is contributed to some of the higher numbers that you're seeing. I think we've been also pleased with the continuation on the advanced facility side in both life sciences and electronics. We keep thinking about whether there's going to bit of a pull back, and the good news is it continue to stay strong all the way through 2019, and we actually see ourselves entering 2020 still in a very robust environment on that sector. And so overall, the People & Places Solutions business is really strong across the Board with everything going on with infrastructure globally.

I think on the Critical Mission Solutions, we're seeing better than expected results on the NASA side of things. We've got our existing contracts, but there has been some pretty good plus ups going on. NASA is aggressively now going after the whole Artemis mission, and that cuts across about five different space centers where we participate. So things have gone well there. The missile defense program that we won 1.5 years or so ago, we're actually finding that we're getting some add-on opportunities as a result of the solutions that we're providing now that we're demonstrating in that relationship. So the existing programs, I think, are going very well and we're winning what we're supposed to win. So very pleased across both side of the business.

Operator

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

Jerry Revich, Analyst

Hi, good afternoon, and good morning everyone. I'm wondering if you folks can just give us an update on the M&A pipeline and the strategic capital allocation opportunities where you folks have been able to do really well is reshaping the portfolio. And I'm wondering, as you look at the opportunity set today, how does that compare versus when you initially laid out the strategy in terms of what's out there and what's feasible within the new portfolio?

Steven J. Demetriou, Chairman and Chief Executive Officer

Yeah, the M&A pipeline is -- it continues to be pretty rich, because we -- our M&A team is doing a great job working with two business lines on exploring some of the traditional bolt-on opportunities as well as the differentiated opportunities as we really look at strengthening ourselves in areas like consulting, strengthening ourselves in digital capability, and innovative technology. And so there is lots of opportunities out there.

But as Kevin said and I said in both our remarks, we're going to remain very discipline. And obviously, we're not going to make M&A moves just for the sake of scale. They've got to be value creating and we continue to believe that we've

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got a great investment opportunity in ourselves and so this is going to be a balance of just monitoring the M&A market against buying back our own shares, and so our capital deployment strategy will remain disciplined.

Jerry Revich, Analyst

Okay. And then on KeyW specifically, I think the initial target was 2020 EBITDA of about $80 million or so, can you just comment on whether it's still tracking in line with those expectations. And this -- the classified network security program with the US government, can you just give us an update on timing of when that could proceed to the booking space, I think that was distinct from cybercrime center award that you mentioned, right, those are two separate platforms?

Steven J. Demetriou, Chairman and Chief Executive Officer

Yeah, so as I mentioned in my remarks, we believe in the long-term benefit of KeyW. We do think it's going to be a game changer for Jacobs. Nothing has changed from the time we bought it, and if anything what has excited us are the synergy opportunities across all of Jacobs. So the benefits that we're seeing, our People & Places solutions now going after in combination with KeyW organization. I think overall our opportunity is the same, the mix of where it will come from, some of it we may actually see spillover into the People & Places Solutions business versus some of the specific businesses that maybe we thought we're going to show up in a traditional KeyW where it's just based on timing.

The special project that you talked about, we remain extremely confident, if not more confident, but the timing of it is still sort of something that isn't obviously in our hands and we're continuing to demonstrate the success on the staging of that, but actually that will play through completely in 2020 as we had previously expected. But as I said, our team is more confident today that that's going to ultimately come to fruition, and whether it spills over into the first half of '21 or second half of 2020, we can't say for sure here today.

But I'll just give you one sort of example of why we're excited about KeyW in the combination with Jacobs. Prior to KeyW, we were -- we, Jacobs, were at about 50% of the Intel agencies across the whole $60 billion Intel business. And now with KeyW, we're 100% covered with all of the agencies and that's where we're getting excited about the pipeline, maybe more than we had thought prior to acquiring it. And so -- whereas we've talked about the space intelligence is a tremendous opportunity. We're now getting even more excited about the cyber side and the intel side, the mission IT side, and so therefore, my comments were -- the mix is different, but the overall opportunity is very exciting going forward.

Kevin C. Berryman, President and Chief Financial Officer

Jerry, you also made the comment about the $80 million of EBITDA. It was actually not $80 million in 2020. What we assumed when we quoted that number was, understanding, if we have received and got in all synergies in place by that. So our actual numbers that we were targeting as it relates to the newly announced acquisition was closer to $70 million for the 2020 year, not $80 million.

Operator

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

Andrew Wittmann, Analyst

Great. Guys, I wanted to just talk about -- a little bit about cash flow. I guess, we'll pin this one on to the outlook for 2020 more than anything. Understanding, here Kevin, you made the point on the fourth quarter when you add back a

couple of things that cash flow is in line with your long-term target. I guess, for 2020, can you give -- kind of what the actual cash flow will be or what your guidance is considering that there are still our restructuring programs and other things that are going on. So I just want to understand, kind of, what your -- I don't know, kind of GAAP guidance is for cash flow and just -- if you just can update us to bridge us to the -- what the underlying number would be?

Kevin C. Berryman, President and Chief Financial Officer

So we have -- we don't -- we haven't guided to ultimately the cash flows. But then, let me make some, Andrew, comments that help give you some incremental perspective and insight as it relates to that. In our numbers for the year 2019, at the end, there was a chunk of cash that ultimately went out excluding the receipt of the proceeds from the ECR, but a lot of the other cash, whether it was restructuring or taxes or whatnot, probably at the end of the day over $450 million for the full year. So that's one point that's going to obviously start to significantly go away. I would say Q1 is still going to be a fairly large investment profile in the restructuring and efforts to disassociate and separate the businesses as we exit from our TSR -- TSA arrangement with Worley. So a big chunk of cash will go out in the first quarter and that will start to tail off in the second quarter, probably have another $50 million plus of costs, mostly in, I would say, in the fourth quarter I would say, or excuse me, our first quarter of 2020.

CH2M is effectively dwindling to not much. And then really what we're talking about is the incremental stuff associated with KeyW, and Wood which we've already talked about in terms of what those one-time costs are. So there still is a chunk of, let's call it, restructuring-related activities, less than 100 probably, but certainly a heck of a lot less than what the numbers that we incorporated in 2019.

So our cash flow as we enter into 2020 and then get to the end of the 2020 is going to become much cleaner and more operationally oriented. If you kind of peel away all of the one-time items that were associated with our significant transformation, and I would say, 2019 is the year where all is happening at the same time, finishing up CH, driving ECR that fundamentally if you peel away all of that, we were kind of approaching 85%, maybe a conversion factor, relative to the income levels -- the net income levels associated with that, after adding back amortization. So that's a baseline in my mind in terms of how we would think about driving our business going forward from a cash flow. I said to you in the past and I think that's certainly our view is that our expectation is that over the course of 2020, we're going to be able to get to that conversion factor that we've talked about at 1 times.

Andrew Wittmann, Analyst

Okay, that's helpful. Just my follow-up was just going to be, is the Wood Group Nuclear acquisition in the guidance?

Kevin C. Berryman, President and Chief Financial Officer

I would say technically, yes, but we've adjusted -- risk adjusted it because of the lack of clarity as to when it's going to close and when that might be. I think what -- maybe I would say that, when we ultimately get the final hopefully completion of the deal, sometime around the middle of our calendar -- excuse me, our fiscal year, we'll give you an update, and let you know exactly where we are relative to what the implications of what will be relative to that. But I would say, technically, yes, but it's not really very material because we risk adjusted it to some extent because of the unknown in terms of the timing.

Operator

Your next question comes from Steven Fisher of UBS. Your line is open.

Steven Fisher, Analyst

Thanks. Good morning. The $25 million charge that you guys cited in the footnotes, was that in the fiscal fourth quarter and can you give a little color on what caused it? And then more broadly on margins, can you just talk about which segment do you see has the better potential to drive higher margin improvement over the next couple of years?

Kevin C. Berryman, President and Chief Financial Officer

So the $25 million is where, I'm sorry?

Steven Fisher, Analyst

You added in the footnotes in the release as it was a $25 million charge in the fiscal year and I couldn't tell if it was in -- if that was a project charge, I couldn't tell if it was in the fourth quarter or sometime earlier in the year?

Kevin C. Berryman, President and Chief Financial Officer

So yes, it was related to a specific project in the People & Places Solutions businesses. It was spread over the course of the year, bulk of it in Q3 and Q4. So, yes, that was in our 2019 results.

Steven Fisher, Analyst

Okay. Can you just talk a little bit more about what caused that and is it completely done or -- is there any ongoing risk there?

Kevin C. Berryman, President and Chief Financial Officer

No, we believe that it's effectively done. As a matter of fact, the profitability associated with that project was quite good, and ultimately I would say even with that $25 million cost, it was almost pretty close to our -- what we expected to be the margin -- of the project was when we actually won the award when -- a couple of years ago. So we're actually unhappy that we had -- to have those adjustments, but ultimately the profitability is very consistent with what our original expectations were on the project.

Operator

Your next question comes from Gautam Khanna of Cowen. Your line is open.

Gautam Khanna, Analyst

Hey, thank you guys. Couple of questions. First, I was wondering, on the bid pipeline, I think you said there was $33 billion in the pipeline, what is the outstanding bids? And if you could talk to what you anticipate in terms of book-to-bill in the December quarter, maybe it just based on where the adjudication timelines lie and how you think the rest of the -- how bookings cadence were going to play out through the year?

Kevin C. Berryman, President and Chief Financial Officer

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So, thanks Gautam. Just a couple of quick comments. First thing is that, there is a couple of very large ones that probably will happen not now but into the -- in the second or third quarter of our fiscal year, and so a big chunk of those will probably get to the finish line half years or beyond. And so there is, of that $33 billion, a chunk, that is, I would say, more in the back half than in the front half of the year. And of course, as you well know, in this business award is granted, and then we all see what happens relative to protest and whatnot. And our policy is that we don't book things until we get clear of those protest situations in that oftentimes result in that kind of happening more later as opposed to earlier as it relates to some of these major initiatives.

So I would say in general, the expectation is second to third quarter is when we start to see things pop as it relates to book-to-bill ratios, but perhaps I'll turn it over to Bob if he has any additional commentary he'd like to make.

Robert Venkat Pragada, President and Chief Operating Officer

Yeah, I think our pipeline is robust and continues to -- from a pipeline standpoint be in the double-digit percent year-on-year business. If I think about a book-to-bill over the course of the year, I do agree, it's going to be higher on the second half, but it won't go below 1. It's going to continue to be on positive side.

Gautam Khanna, Analyst

Even in Q1, you would expect it to be above 1?

Robert Venkat Pragada, President and Chief Operating Officer

I do.

Gautam Khanna, Analyst

Okay. And just to clear, was that $33 billion in outstanding bids number or was that in the aggregate of the pipeline...

Robert Venkat Pragada, President and Chief Operating Officer

That's the available opportunity.

Gautam Khanna, Analyst

Okay. What's actually outside opportunity? [ph] Do you have that number?

Steven J. Demetriou, Chairman and Chief Executive Officer

As far as projects that we bid.

Kevin C. Berryman, President and Chief Financial Officer

I'm sorry. Gautam, are you saying what's actually been bid versus in the pipeline and we're going after. What's -- how to interpret your question?

Steven J. Demetriou, Chairman and Chief Executive Officer

We lost him.

Kevin C. Berryman, President and Chief Financial Officer

We lost Gautam. So look there, I would say just make an additional comment about, clarity relative to the backlog. Certainly there is a couple of large ones that are in the midst right now as it relates to some of the activities surrounding Hanford. Those are big bids that are coming to fruition near the end of this quarter and in the -- our second quarter fiscal year. We'll see how those play out, but certainly those are expecting to get some adjudication in next three months we would hope, notwithstanding potential protest.

Operator

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

Michael Dudas, Analyst

Good afternoon gentlemen. Thinking about the digital connected enterprise or Jacobs Connected Enterprise and what you're doing to drive that both lines of businesses. Where in 2020 we will receive more of the revenue, and I guess, potential margin benefit. Is it from CSM to PPS or vice versa? And on top of that, when you're looking at acquisitions, is that an area where you're really focusing much more on relative to traditional trying to look at either skill sets on the aerospace or the infrastructure side?

Steven J. Demetriou, Chairman and Chief Executive Officer

Yeah, Michael. I answer the second one first. The skill sets, I'd say, we're looking for would be more cost cutting and it's probably focusing more on cyber, right now -- cyber as well as predictive analytics. As far as which way they're going, it's pretty bilateral right now. It's that we're seeing a lot of our cyber expertise that we have within our Critical Mission Solutions have an effect on what would traditionally be infrastructure project. And then, going the other way -- well actually going both ways, our geospatial expertise, but utilizing what we have within our Critical Mission Solutions, as well as in People & Places or infrastructure as well as for other applications. So it's pretty broad. It really is the connectivity between both lines business, in the technology piece.

Michael Dudas, Analyst

And where -- in which areas or is in either line of business where we see that more benefit as you look at the 2020 plan?

Steven J. Demetriou, Chairman and Chief Executive Officer

I think it will be pretty even.

Michael Dudas, Analyst

Okay, great. And just to follow -- my follow-up would be, when you -- looking at the initial opportunities for 2021, is that assuming because the second half is -- could be a little bit more weighted on the booking side or there is some

economic or company or end market or country-specific opportunities that are giving you that much more confidence in the early stage to achieving 2021 targets? Thank you.

Kevin C. Berryman, President and Chief Financial Officer

Look I would say -- this is Kevin, Michael. So look, I think that clearly the timing of our bookings are more oriented around second quarter and beyond. It's clear relative to that. It doesn't mean that the bookings in Q1 will not be okay, it's just that the upside is more second quarter beyond. And depending upon the timing of the adjudication of those opportunities, it certainly could translate into much more of a stronger booking in the third and fourth quarter than in the first half of the year, and I think that clearly indicates that as we would exit 2020 and into 2021, we're feeling like we're getting a set up for our performance in 2020 that will continue to be quite positive relative to our ability to execute against our strategy. So more to be seen and we'll see how that plays out in terms of the timing, but there is this developing view that the second half is going to end up being pretty strong in terms of the bookings and that obviously positions us well for 2021.

Steven J. Demetriou, Chairman and Chief Executive Officer

I think just in the Critical Mission Solutions side specifically, we've been -- we're excited about some unusually larger opportunities that are in the pipeline and so the exciting thing is that they are larger than normal but because of the size, it's going to take a little longer to play out to go through the bid process and hopefully win these. We feel very positive about our positioning on it. So just building on Kevin's comment, it's why we -- when we were talking about the pipeline going up, it's some significant sized projects that will most likely play out in the second half of this year.

Operator

Your next question comes from Michael Feniger of Bank of America. Your line is open.

Michael Feniger, Analyst

Hey guys, thanks for taking my questions. You mentioned the bookings and the large opportunity that we could see come through in the second half. Just with your exposure to some of these government agencies and even on the municipality side, how do we view this bidding activity as we head into a rather dynamic 2020 election cycle? Does that have any impact on how we should view some of these opportunities in the second half of 2020?

Steven J. Demetriou, Chairman and Chief Executive Officer

Bob, you want to comment on that from...

Robert Venkat Pragada, President and Chief Operating Officer

Sure. Yes. We're actually doing relatively comfortable in that. On some of the larger opportunities, most of them, we're actually being incumbent. And so regardless of what happens from the political environment that we sit in today, it will get delayed as a result of, for whatever reason. We would continue on the work that we have with ongoing task orders. So that gives us a bit of comfort on those not totally immune from what happens from a political standpoint, but relatively comfortable.

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Michael Feniger, Analyst

That's helpful. And then you addressed the margins in Critical Missions and the mix impact there and how we should think about 2020. Just on the operating margins for the Peoples and Places segment, Q4, we saw the strength there just going to 2020, looking at your backlog now, is there anything special we should be aware of in terms of mix on how to think about the operating margins in to 2020?

Robert Venkat Pragada, President and Chief Operating Officer

Yeah, I think if you look at what we said during Investor Day on the three-year hurdles, we're on path to that. We do see from quarter-to-quarter, a bit of seasonality, specifically in the first half, and then that kind of makes its way through and we saw for two consecutive years, a bit more robust operating profit margins at the second half of the year. We see that continuing in the next year with the incremental growth when you evaluated on a year-on-year basis.

Kevin C. Berryman, President and Chief Financial Officer

Yeah, I would augment Bob's comment and say you shouldn't necessarily assume the strength in Q4 as the new norm. Q4 tends to be a very good quarter in this business and tends to be our strongest quarter profile. So it doesn't mean that we're not going to see some good gains over the course of the year consistent with what our strategic objectives are, but I don't necessarily assume that that's the new norm, because I think that would be inappropriate assumption as you think about what the future margin profile, how that will play out over the course of the year.

Operator

Your next question comes from Chad Dillard of Deutsche Bank. Your line is open.

Chad Dillard, Analyst

Hi, good morning everyone.

Steven J. Demetriou, Chairman and Chief Executive Officer

Hi, Chad.

Chad Dillard, Analyst

So I think, Kevin you mentioned that the operating cash flow conversion rate when you exclude all other the one-time items, it is about 85% in the fourth quarter, but then I mentioned that kind of the longer-term target is one times. Do you think at any point during 2020, you can get to a one-times conversion rate if you exclude something like the other, I guess, one-time items that will occur in 2020 and just to make sure we have our arms around all the one-time items, I think you call it $100 million of restructuring, just want to see if there is anything else to be aware of?

Kevin C. Berryman, President and Chief Financial Officer

No, look, I think just a point of clarification, Chad, to make sure everyone is understanding. The conversion factor that I was talking about was an adjusted cash flow versus our adjusted earnings, so excluding some of the restructuring activities. Just to make that clear. The number that I said which was approaching 85% wasn't for the quarter, actually

the quarter numbers were extraordinarily better than one times in terms of the conversion factor it was associated with the full year numbers on the basis that I just described. So look, I think that those are things that I think give comfort to us collectively as a team here and certainly are an indication to you that we do have the wherewithal to be able to improve the dynamic going on. Of course, clearly, acquisitions could potentially play into that. We could have other matters that come into the mix that we would have to incorporate into our analytics, but certainly from our perspective, we feel like we're well positioned on an underlying operating basis to try to get to those numbers that we've been talking to strategically for certainly the last 9 to 12 months.

Chad Dillard, Analyst

Got it. And just another question for you Kevin. I think on -- in the prepared remarks you talked about some discrete tax benefits and the impact on 1Q earnings for 2020? I was hoping you could flush that out on how to think about, I guess, 1Q earnings seasonally?

Kevin C. Berryman, President and Chief Financial Officer

Well, if you -- we don't give guidance specifically by quarter, but I would just make the comment Chad that, if you take away the $0.09 from our few fourth quarter results, go back and look at the normal seasonality that we have, Q4 to Q1, because Q1 is our weakest EPS quarter and Q4 is our strongest EPS quarter. So just be thoughtful as it relates to comparing strong to the weakest and that has a implication relative to the underlying EPS and profitability associated with Q4 and Q1, and I'll leave it there. So just make sure you guys are thoughtful as it relates to that process.

Operator

And that was our final question for today. I will now return the call to our presenters.

Steven J. Demetriou, Chairman and Chief Executive Officer

Thank you. So it's exciting time for Jacobs new brand. We've made a bold change shaped by our employees, clients, shareholders. Our brand reflects our proud history, centered around our belief that we can create a more connected sustainable world together. Challenging today, reinventing tomorrow. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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