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# Jacobs Engineering Group, Inc. (J)

## Q3 2021 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

**Operator**: Ladies and gentlemen, thank you for standing by and welcome to the Jacobs Fiscal Third Quarter 2021 Earnings Conference Call and Webcast. At this time, all participants' lines are in a listen-only mode. After the speaker's presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised today's conference is being recorded. [Operator Instructions]

I'd now like to hand the conference over to Jonathan Doros. Thank you. Please go ahead.

## Jonathan Doros
*Senior Vice President - FP&A, Investor Relations and Treasury, Jacobs Engineering Group, Inc.*

Thank you. Good morning to all. Our earnings announcement was filed this morning, and we have posted a copy of the slide presentation on our website, which we'll reference during the call. During this presentation, we will be making forward-looking statements including with respect to the continuing effects of the COVID-19 pandemic, financial government stimulus program, expected benefits of our strategic investments with PA consulting, our financial outlook amongst others. I'd like to refer you to our forward-looking statements disclaimer which is included on slide 2 regarding these other forward-looking statements.

During this presentation, we'll be referring to certain non-GAAP financial measures. Please refer to 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. See slide 2 for more information on the calculation of these pro forma measures. For pro forma comparisons, current and prior periods include the results


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of the Buffallo Group which closed in November of 2020 and the PA Consulting Investment which closed in March 2021.

Turning to the agenda on slide 3. Speaking on today's call will be Jacobs' Chair and CEO, Steve Demetriou; President and Chief Operating Officer, Bob Pragada; and President and Chief Financial Officer, Kevin Berryman. Steve will begin by updating the progress we are making against our strategy and the future of ESG at Jacobs, Bob will then review our performance in our line of business, and Kevin will provide a more in-depth discussion of our financial metrics, followed by a review of our balance sheet and cash flow. Finally, Steve will provide a detailed updated outlook along with some of our closing remarks, and then we'll open the call for your questions.

In the appendix in this presentation, we provided further ESG-related information, including additional examples of our leading ESG solution.

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

## Steven J. Demetriou

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

All right. Thank you for joining us today to discuss our third quarter fiscal year 2021 business performance and key initiatives. Turning to slide 4. Before reviewing our third quarter results, I'd like to reiterate our commitment to our current strategy, which includes aligning our portfolio toward large secular growth opportunities where we can deliver sustained, double-digit profit growth. As I mentioned last quarter, we're developing our new corporate strategy, and just completed a midpoint review of our business and competitive landscape. We look forward to sharing our new strategy along with updated, multiyear, financial targets at our Investor Day later this year.

Turning to our financial results, I'm pleased with our strong third quarter performance with net revenues increasing 11% year-over-year and adjusted EBITDA growth of 26%. Backlog ended the third quarter up 7% year-over-year and up 3% on a pro forma basis. And our backlog excludes our significant Idaho National Labs remediation win. Now that the award has cleared protest, when including Idaho, total Jacobs reported third quarter backlog would be up 11% and on a pro forma basis for Idaho up 6%.

Total PA Consulting continued to post exceptional performance with 36% revenue growth. More importantly, PA delivered this growth while maintaining adjusted EBITDA margins up 23%, making it one of the fastest growing and most profitable consultancy firms. Given the strong year-to-date performance across all of Jacobs, including PA, we're, again, increasing our full fiscal year 2021 adjusted EBITDA and adjusted EPS outlook.

Looking beyond fiscal 2021, we believe we are entering an attractive growth period for Jacobs, driven by strong global trends and infrastructure modernization, energy transition, national security, and a potential supercycle in global supply chain investments, most notably in our semiconductors and life sciences.

We are anticipating an increasing and robust sales pipeline for both fiscal year 2022 and 2023. We are aligning our strong culture, deep domain knowledge, and investments of technology-enabled solutions to help solve our client's challenges, and to convert this pipeline into meaningful growth opportunities for our shareholders.

Turning to slide 5. At Jacobs, our company's purpose is delivering solutions for a more connected sustainable world and our values are, we do things right, we challenge the accepted, we aim higher, and we live inclusion. This is critical for our people, to work for a company that believes sustainability is fundamental to what we stand for as an organization. Building on our PlanBeyond 2.0 Strategy, which we released externally last week, we have now launched an ESG-focused digital thought leadership publication, Reimagined Perspectives to share with the


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world what our talented teams are thinking relative to high priority challenges like climate change, and how they're creating and delivering innovative solutions in response.

Living up to our brand promise begins with thought leadership by stimulating discussion, asking the hard questions, and seeking new ways to meet challenges. The first publication is focused on resilience from a number of perspectives, and throughout today's presentation, you'll see examples of our people and our solutions in action. We encourage you to follow us on social media or visit our website to learn more.

Turning to slide 6. We are seeing an acceleration across our global customer base and communities to provide solutions for their net zero carbon commitments. For example, at one of the largest US consumer goods companies, we are providing consulting services to help them drive carbon neutral facilities as part of their journey to net zero emissions, an effort that may result in rethinking their entire global supply chain.

And for a transportation customer in the US, we're helping them leverage renewable energy sources for their rail operations to enhance electric grid reliability during critical times. And in the UK, we're researching how airports of the future will accommodate hydrogen aircraft. And in Germany, we're supporting Shell's goal of becoming a net zero emissions company by planning for their new sustainable campus. And moving further east, we're supporting the development of a new solar photovoltaic power plant in Malaysia. In Australia, we've been awarded another wind energy project with a confidential customer.

Altogether, sustainable solutions are a high growth business for Jacobs today comprising nearly $5 billion of our revenue which makes Jacobs one of the largest ESG solutions providers. And now with PA Consulting, Jacobs is uniquely positioned across the entire end-to-end ESG opportunity.

With that, I'll turn the call over to Bob Pragada to provide more detail by line of business.

## Robert Venkat Pragada

*President & Chief Operating Officer, Jacobs Engineering Group, Inc.*

Thank you, Steve. Moving on to slide 7 to review the quarterly performance for Critical Mission Solutions During the third quarter, our CMS business continued its solid performance. Total CMS backlog is at $9.6 billion, representing 6% year-over-year growth. Backlog in the quarter was impacted by protests, but we expect these to clear in Q4 resulting in strong backlog growth.

Our CMS strategy is focused on creating resilient revenue growth and margin expansion by offering technology enabled solutions aligned to critical national priorities that drive innovative outcomes. As discussed in prior quarters, we are pursuing sectors with strong positive growth trends including global energy transition, space-based ISR, intelligence analytics, and 5G networks. I'd like to discuss several of those trends and recent related wins in greater detail beginning with energy transition.

Progressive leaders across the world are driving initiatives to cut off CO2 emissions through investment in clean energy solutions. And Jacobs has recently realigned its North American and European nuclear practices to better deliver our global lifecycle nuclear capabilities. This includes advanced modular reactors or AMRs that can be used for electricity generation and with the global community to bring fusion power to commercial viability.

During the quarter, Jacobs was awarded the Idaho Cleanup Project at Idaho National Laboratory as the majority partner in the Idaho Environmental Coalition. The contract value is estimated at $3.9 billion over a 10-year period and recently cleared protest. Approximately $780 million will be included in Q4 backlog.


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Together with the DOE, we will use Jacobs technology driven solutions to reduce the environmental legacy of the Cold War while delivering social value by supporting high quality jobs in the region and protecting the Snake River Aquifer, a critical element of Idaho's agricultural industry.

Moving on to space-based ISR, the US military predicts that future conflicts will be won by those with an information advantage, enabling the ability to outpace, outthink, and outmaneuver adversaries across multiple domains, land, sea, air, cyber and, increasingly, space. Low-orbiting surveillance satellites can collect and process data much quicker than air ISR.

And advanced satellite sensors are a critical component in the effectiveness of these military small sats. Jacobs won a two-year contract from a classified client to perform demonstration of its active, electronically scanned arrays or AESA technology similar to the technology utilized in our Mango satellite launch. A key differentiator for Jacobs in this area is the use of our commercial 5G technology in reducing the cost of space radar by up to 5 times less than legacy space radar systems. This further advances Jacobs as an aerospace and defense prime, delivering value-added, commercial, space-based AESAs.

Now turning to a related national security trend, intelligence analytics. Intelligence data often collected from multiple sources are analyzed with support from AI technologies and transformed into information that generates a picture of adversary activity, ultimately informing and driving a commander's decision-making.

Jacobs' recent Buffalo Group acquisition won two attractive awards during the quarter in support of the Army's Intelligence and Security Command, INSCOM. The 902nd  military group CI, human intelligence, analytical services contract is a $234 million, five-year award to provide advanced cyber and intelligence solutions for INSCOM's counterintelligence and counterterrorism operations. This award is expected to clear protest and added to our backlog in Q4. Jacobs also won an annual extension of the US Army's biometric and identity intelligence analytical support services contract.

A final trend is the growth in 5G networks. Our telecom business had a strong quarter in part from the accelerating rollout of 5G investment from clients like AT&T, DirecTV, and T-Mobile, as well as health systems and the US Department of Defense.

The increased demand is the result of clients seeking the benefits of 5G's higher bandwidth to operate in advanced environments for commercial and consumer applications, including telemedicine, augmented reality, and next-generation gaming. And the DoD is also heavily in 5G technology in support of virtual mission planning and training. We're excited about the continued increase in opportunity fueling growth in our telecom business.

In summary, we continue to see strong demand for our solutions for the remainder of fiscal year 2021 and beyond. The CMS sales pipeline remains robust with an 18-month qualified new business remaining above $30 billion, including $10 billion in source selection and, importantly, with an increasing margin profile.

Now on slide 8. I'll discuss our People & Places Solutions business. We continue to demonstrate strong performance driven by our strategy to focus on high-value sectors and key geographic regions, leveraging our strong global integrated delivery platform. Third quarter backlog was up 6%, resulting in greater than a one-time book-to-bill for both the revenue and gross margin. The global trends of climate change, infrastructure modernization and digitalization, as well as accelerated supply chain demands in areas driven by the pandemic are catalyzing our clients' mid- and long-term investments.


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As demonstrated by our results, we remain well positioned to grow. These multi-year trends align strongly with our purpose to make the world more connected and sustainable. I'd now like to provide more insight into the effect these global trends are having on our business, starting with climate change.

As a recognized leader in forward-leaning solutions, including specific ESG actions aligned to decarbonization and energy transition, we are very well positioned to convert our growing pipeline into tangible results.

On the environmental front, we continue to win strategic work with our key clients as demonstrated by our recent win to support the US Air Force, and their mission to protect human health and local communities, with a focus on combating emergent contaminants including PFAS. In addition to new wins, we were recently named by environment analysts as the number one leader in water quality and resources and our work on the Tyndall Air Force Base coastal resilience study in Florida was recognized as a global winner at the UK Environment Agency's 2021 Flood & Coast Awards.

Moving to infrastructure modernization. As part of our rapid uptick in our transit and rail portfolio, we are winning major projects around the globe such as the East West Rail Program partner in the UK, a major US Transit Authority Metrorail Platform reconstruction, and the KiwiRail Modernization Program in New Zealand. These important wins leverage our capability in digitally-enabled solutions.

We are also developing digital solutions that apply to a wide cross-section of clients and sectors around the world, allowing us to use our global platform and client base to deploy solutions and creating new recurring revenue streams. One such product is Kaleidoscope launched today. Kaleidoscope is a predictive analytics application which supports clients and capital planning, and maps the true risks, costs, and vulnerabilities of interconnected infrastructure systems.

Our cross-sector domain knowledge gives us a distinct competitive advantage in developing innovative solutions, and creates stronger growth opportunities. As an example, for the healthcare sector, we're creating one of the world's first digital twin to support operational decision-making based on predictive analytics and scenario forecasting.

We are integrating artificial intelligence and machine learning to analyze historical health and location based service data, alongside real-time meteorological, traffic, and large public event data to optimize patient demand and capacity scenarios. This is a fantastic example of how Jacobs is partnering with their clients to reinvent healthcare of tomorrow.

Shifting to our advanced facility sector, we believe we are entering an unprecedented, multiyear growth cycle. In our electronics sector, we are seeing a sharp rise in semiconductors in response to the global chip shortage given long-term demand in cloud and edge computing data storage, and smart infrastructure such as electric grids. Multiple government initiatives have been launched with the goal of supporting semiconductor manufacturing in their respective countries. As a global leader in the space, we are well positioned for strong growth with our clients in the US, Europe, and Asia.

Additionally, biopharmaceutical companies are increasingly utilizing contract manufacturing capacity as a means to supplement their own production. We have secured several large programs including the recently announced FUJI Diosynth Biotechnologies new greenfield campus in Research Triangle Park, North Carolina. We have also secured a major contract with NatureWorks to design a manufacturing facility in Thailand dedicated to producing biopolymers from sugar, resulting in products that are biodegradable and produced from sustainable resources. The design will be executed through our global delivery model including talent from India and the Philippines.


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Finally, as it relates to pandemic-driven solutions, we have an exciting win that, once again, combined our world-leading domain expertise in water with our digital AI capabilities for a breakthrough project in the Middle East. We're performing program management services to the Abu Dhabi Department of Energy to deliver a wastewater laboratory that will screen and detect COVID-19 virus and other infectious diseases.

Turning to PA Consulting on slide 9. As Steve mentioned, PA continues to outperform expectations. New wins include recent revenue, a recently large revenue synergy in the UK that has built excitement across our teams. Working together, PA and Jacobs won the new UK Department of Food and Rural Affairs management consultancy contract, a large scale strategic advisory program for business transformation and delivery. Joint research continued to be across other regions and geographies, and I look forward to sharing additional details in the coming quarters.

As we looked at specific growth areas, PA continues to support the UK's government – UK government's COVID response. With their efforts now focused on vaccine deployment and test and trace activities. On a related note, PA is also seeing growth projects both in the consumer and life sciences sectors. As disruption from the pandemic changes business for good, we're seeing increased interest in digital and online products, experience, and service models. Examples include a major retailer that is revolutionizing their online offer to create new customer experiences by moving from face-to-face to a subscription model. And in health and life sciences, virtualizing the clinical trials process for patients through telemedicine.

On the digital solutions front, PA and Unilever teamed up to create a world-leading predictive tool. COVID-19 Awareness and Situation Intelligence or CASI which redefines how data can be harnessed to unlock predictive insight. The team combined their expertise in consumer goods, business intelligence, data analytics, AI, machine learning, operational resilience, and global supply chains to create a live dashboard that monitors and provides real-time and predictive intelligence from a worldwide perspective.

PA's product innovations for TeakOrigin and Guide Beauty were recognized by this year's prestigious iF Design awards.

With that, I will now turn it over to Kevin to discuss our financial results.

## Kevin Christopher Berryman

*President & Chief Financial Officer, Jacobs Engineering Group, Inc.*

Thank you, Bob. Turning to slide 10 now for a quick financial review. Third quarter gross revenue increased 10% year-over-year and net revenue was up 11%. In line with last quarter, acquisitions and our tax benefits contribute to growth by more than offsetting the previously disclosed burn-off of two lower margin contracts in CMS. Including the pro forma impact from all acquisitions, net revenue was up low single digits.

For the fourth quarter, we expect total reported net revenue growth to be up nearly double digits year-over-year, and up slightly on a pro forma basis. This represents strong underlying growth considering our fiscal fourth quarter of 2020 at 14 weeks compared to our normal 13-week quarters, which will impact our 2021 fiscal fourth quarter reported growth rate by approximately 8 percentage points on a year-over-year basis.

Adjusted gross margin in the quarter as a percentage of net revenue was 27.6%, up 400 basis points year-over-year. The higher gross margin on a year-over-year basis was driven by a few factors, a favorable revenue mix in both People & Places, and CMS as well as the benefit from PA Consulting because of strong accretive gross margin profile.


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Adjusted G&A as a percentage of net revenue was up year-over-year in line with our expectations to 17%. GAAP operating profit was $264 million and was mainly impacted by $50 million of amortization from acquired intangibles. Adjusted operating profit was $315 million, up 32% with both CMS and People & Places showing strong organic profit growth.

In addition, PA posted strong growth and operating profit during the quarter versus their year-ago figure. Our adjusted operating profits and net revenue was 10.6%, up 170 basis points year-over-year on a reported basis.

GAAP EPS from continued operations rounded to $0.82 per share and primarily included $0.44 related to an updated non-cash valuation allocation between PA Consulting preferred and common shares with no impact to the original consideration, $0.34 related to the UK statutory tax rate changes, and an updated estimate of our annual adjusted effective tax rate, $0.24 of amortization of acquired intangibles, all of which were partly offset by $0.23 related to the positive mark-to-market investment in Worley and the impact of monetizing the remaining portion of our C3.ai investment. Excluding all items, third quarter adjusted EPS was $1.64, up 30% year-over-year.

Included in the tax item noted earlier, third quarter adjusted EPS is impacted by 20% – by, a, 20% effective tax rate to reflect a change in our estimated adjusted annual effective tax rate to $0.225 from 23.8%. This change in estimated tax rate resulted in an $0.08 per share tax benefit in our adjusted results during the third quarter.

During the quarter, PA contributed $0.15 of accretion net of incremental interest. We now expect $0.35 to $0.37 of 2021 PA accretion, up from $0.32 to $0.34 in our previous quarter. As a reminder for modeling purposes, before we consolidate the impact of the PA investment in our operating results, with 35% minority interest backed out in noncontrolling interest.

Q3 adjusted EBITDA was $321 million and was up 26% year-over-year, representing 10.8% net revenue. Our adjusted EBITDA calculation also improves the burden of the 35% minority interest impact from PA. Excluding PA, adjusted EBITDA growth was up 9% year-over-year. Finally, turning to our bookings during the quarter, our pro forma book-to-bill ratio was 1 times for Q3 with, actually, a little bit higher book-to-bill of 1.1 on a gross margin level.

Regarding our LOB performance, let's turn to slide 11. Starting with CMS, revenue was up 1% year-over-year on a reported basis and down 2% pro forma when the acquisition of The Buffalo Group is considered. As previously communicated, we are transitioning off two lower margin contracts which represented $190 million year-over-year revenue impact during the quarter. And excluding the contract run-off and FX benefits, pro forma CMS revenue was up double digits year-over-year. We expect approximately $200 million quarter of year-over-year impact from these two contract roll-offs to the balance of this year and our first quarter fiscal 2022.

CMS operating profit was $108 million, up 21% and up 19% year-over-year on a pro forma basis. Operating margin was up 150 basis points year-over-year to 8.9%. The improvement was driven by our strategy to focus on higher margin opportunities. For the fourth quarter, we expect relatively flat CMS reported revenue effectively offsetting the impact of the extra week of revenue last year and we expect mid-single-digit operating profit growth as the timing of recent wins are now expected to ramp in fiscal year 2022.

Moving to People & Places Solutions. Q3 net revenue was up 1.4% year-over-year driven by a rebound in our international regions, as well as benefits from FX. While the Americas business saw near-term delays on larger projects, the positive developments regarding infrastructure stimulus over the last week is expected to result in


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customers beginning to leverage existing framework agreements as we enter 2022. We anticipate seeing awards associated with the stimulus beginning in our second half of next fiscal year.

This developing momentum when combined with the strength of our advanced facilities business noted earlier by Bob positions us well into 2022. Total P&PS operating profit was up 8% year-over-year, including the benefit from FX. Operating profit as a percentage of net revenue was 13.8% for the quarter, up 80 basis points year-over-year driven mainly by a gross margin benefit from a more profitable revenue mix.

In terms of PA's performance, PA contributed $256 million in revenue and $57 million in operating profit. PA's Q3 revenue grew 36% and 20% year-over-year in local currency. Q3 operating profit margin was 22%, in line with our expectation.

Finally, our non-allocated profit cost was $55 million for the quarter and up year-over-year and in line with our expectation. The increase was driven primarily by the expected increases in medical costs, IT investments, and other expenses. We expect non-allocated corporate costs to also trend slightly higher in Q4 given continued increases in the medical costs and other investments as we begin to position the company for the growth momentum that is expected in fiscal 2022 and beyond.

As we turn to slide 12, I would like to comment that our restructuring and other charges has significantly decreased. And as a result, we have not included a specific slide on this subject in this presentation. To comment quickly, during this quarter, we incurred only $2 million of total net charges for Focus 2023 as well as other restructuring and integration activities. As a result, both P&L and related cash outflows for these items remained in line with our outlook, and we are focused on significantly decreasing these adjustments going forward.

During the third quarter, we generated $153 million in reported free cash flow as DSO again showed strong improvement. It is important to note this cash flow included the $261 million of purchase price consideration for PA treated as post-closing compensation that we discussed last quarter and a net $19 million associated with Focus 2023 restructuring and other items cash flow. Considering these items, underlying free cash flow was over $430 million, putting us on track for greater than 1 times adjusted cash conversion for the fiscal year. During the quarter, we also monetized our investment C3.ai for $39 million which is reflected in cash flow from investing activities.

As a result, we ended the quarter with cash of $966 million and gross debt of $3.1 billion, resulting in $2.2 billion in net debt before attributing the benefit of our Worley ownership. Treating the Worley position as cash, our pro forma net debt to expected adjusted 2021 EBITDA is approximately 1.4 times, a clear indication of the strength of our balance sheet.

And finally, given the strength of our balance sheet and free cash flow, we remain committed to our quarterly dividend, which was increased 11% this year to $0.21 per share.

Now, let me turn it back over to Steve for slide 13.

## Steven J. Demetriou

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

Thank you, Kevin. Now, let me review our total company outlook for fiscal 2021. Given our strong year-to-date performance, excellent results from our PA Consulting investment, and the benefit from the lower tax rate, we are raising our full year guidance. We now expect adjusted EBITDA outlook to be a range of $1.21 billion to $1.275


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billion versus our previous outlook of $1.2 billion to $1.27 billion. We expect adjusted EPS to now be in the range of $6.15 to $6.35 per share versus our previous outlook of $6 to $6.30.

Looking beyond fiscal 2021, the likelihood of a US infrastructure stimulus package has substantially increased over the last week, which would become a significant benefit to our Jacobs P&L in the second half of our fiscal year 2022 and beyond. With the strategic repositioning of our portfolio, we are aligned to strong secular growth trends including global infrastructure modernization, climate change, national security, digital transformation, and global supply chain investments. As a result, we expect this to drive double-digit adjusted EBITDA growth in fiscal 2022 and beyond.

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

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] Your first question comes from the line of Joseph DeNardi from Stifel. Your line is now open.

### Joseph W. DeNardi
*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Thanks. Good morning. Bob, can you just talk about the space intel contract a little bit. I think that was the competitive process. Correct me if I'm wrong. And then can you remind us what the additional opportunities are going forward with that capability? And then, Kevin, can you just level set kind of what the outflows are that are being excluded from the free cash flow conversion? Thank you.

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

A

Yeah. Joe, good morning. On the space intelligence, this really has to do with our – some of the unique technologies around array technology, and we're not – I can't disclose the client, but this is a multi-phased type project. And so, we're on the front end of the development of that project. And so, we see continued growth there. Just to add on to that, we're also seeing with our SAR technology or the synthetic aperture radar is the air based component of what's coming out of Rapid Solutions business. A couple of really nice wins, confidential there. Again, early phases but seeing investment on that front.

### Kevin Christopher Berryman
*President & Chief Financial Officer, Jacobs Engineering Group, Inc.*

A

Joe, just real quickly on the adjusted free cash flow that we talked about. There's two items effectively. The most material one is the $260 million – $261 million of the compensation treated numbers associated with PA that was ultimately originally part of our consideration. But because of GAAP, we had to run it through the P&L. That's $261 million, and we have another $19 million of restructuring related matters which is just timing relative to the P&L that you also heard me talk about which was $2 million. Those two added together take our reported free cash flow to the $430-plus million for the quarter. Really strong and we're very pleased with it.

**Operator**: Your next question comes from the line of Andy Kaplowitz from Citigroup. Your line is now open.


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**Andrew Kaplowitz**
*Analyst, Citigroup Global Markets, Inc.*

Q

Good afternoon, guys, or good morning, guys.

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

A

Good morning.

**Kevin Christopher Berryman**
*President & Chief Financial Officer, Jacobs Engineering Group, Inc.*

A

Good morning.

**Andrew Kaplowitz**
*Analyst, Citigroup Global Markets, Inc.*

Q

Steve or Bob, I know you mentioned a potential super cycle in supply chain related build out which is most bullish commentary yet regarding events, facilities, life sciences. You mentioned, I think, Bob, you mentioned a sharp uptick in semiconductor activity but is your Advanced Facilities business actually contributing meaningfully to P&PS growth yet? I know Bob, last quarter; you talked about the ramping up over a longer term period. When do you think you can start to meaningfully contribute to quarterly revenue and earnings growth? Is it imminent at this point or is it more FY 2022?

**Robert Venkat Pragada**
*President & Chief Operating Officer, Jacobs Engineering Group, Inc.*

A

Yeah, Andy. It would be in FY 2022. Right now, you know how those programs and projects go. We start off with early concept and we call it basis of design activity, higher margin consultative type work, but to really see it flow to the P&L would be in subsequent phases of the project which these are fast projects. So, we're measuring in quarters, not years, with regards to how those would burn through the P&L.

**Operator**: Thank you. The next question comes from the line of Michael Dudas from Vertical Research. Your line is now 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 Christopher Berryman**
*President & Chief Financial Officer, Jacobs Engineering Group, Inc.*

A

Good morning.

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

Q


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Yeah. Steve, you indicated about the optimism, which I guess is fair relative to the US infrastructure opportunities. Maybe you can delve a little bit more deeply. And from your framework agreements with your customer base, and some of the myriad of whether it's energy transition, grid, climate change, there's a lot of numbers there. And I'm – but how – what kind of leverage and potential opportunities could we see from your US business on the PP&S (sic) [P&PS] (00:35:56) side given what could be coming down the pipe over the next several years?

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

A

Yeah, Michael. Thanks for that. So, look, this – we are building optimism, obviously, based on the news we're all reading, and we're very highly engaged. And I do want to start with that. Our US government relations team have done an outstanding job to help influence this outcome which, of course, it's important for Jacobs, but it's highly important for the United States.

So, what we got here is a five-year authorization that's going to provide our state and local clients significant certainty, and that's huge. And it's also significant for Jacobs because we've evaluated that over 95% of this trillion dollar $550 billion of new money is totally aligned to our Jacobs offerings. And when you go through that, obviously, highways, bridges, rapid transit is going to be a significant growth. But when you look at some of the other components like Amtrak and freight rail which is going to quadruple in funding, drinking water and wastewater which is going to be up 2.5 times, airports more than doubling, ports and waterways where we're industry leader, same thing. And then you then tack onto that things like Superfund and Army Corps civil works, which are right up where we're the leader in the industry across that growing significantly, and that's pretty fast-starting opportunities the way the money will flow.

And then, of course, we – you talked about, Michael, energy transition resilience and a whole host of other things, $8 billion in hydrogen hubs, which we're right in the center of providing solutions. So, just a great opportunity for Jacobs moving forward.

**Operator**: Your next question comes from the line of Sean Eastman from KeyBanc Capital Markets. Your line is now open.

**Sean D. Eastman**
*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hi, gents. Thanks for taking my questions. I just wanted to touch on Focus 2023, maybe at the risk of stealing a bit of thunder from the planned Analyst Day. But I think the initial perception around Focus 2023 was it was a real estate kind of cost-save type of strategy. Talking to you guys through the quarter, it seems like it's much more than that. Could you just talk about how Focus 2023 is reflected in the double-digit EBITDA growth outlook for fiscal 2022 and beyond, maybe kind of clear up how we should think about how it hits the model?

**Kevin Christopher Berryman**
*President & Chief Financial Officer, Jacobs Engineering Group, Inc.*

A

Yeah. Thanks for the question, Sean. I'm glad you asked it because the Focus 2023 is a far-reaching effort that's being executed across the entire company about transforming the way we work. So, yes, real estate is certainly part of that because we're changing the way we're utilizing our real estate footprint and changing the way we work relative to that. We've talked about how we want to ensure that our footprint becomes more about collaboration, team building, training, and less about a place where you go and do heads down work. So, it clearly is part of that, but it's much more than that.


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And effectively, what we're doing is aligning, creating more discipline in terms of the management of our processes, which is going to facilitate our ability to automate, create integrated process designs, which will facilitate people to spend less time in what I would all the administering of our projects. That's a huge effort when we talk about our project teams around the world. So, we think this unlocks talent and the time of that talent to really drive future innovation.

Now, relative to the double-digit numbers, what we said, and certainly in 2022 our plan is that the bulk of the savings which we're working on finalizing right now in 2022 will be reinvested back into the business by the next wave of potential opportunities that will allow us to deliver even incremental benefits in 2023 and beyond.

So, while it's a piece of the 2022 guide for at least preliminary double-digit number that we talked about, it's not a substantial piece of it because we're planning on reinvesting back into the business. We think our ability to continue to drive a company that is doing different type of work, becoming more digital and its ability to deliver work, all of that translates into a need to invest. And so, consequently, a vast majority of the savings will be reinvested back into the business over the course of 2022.

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

Q

Hi. This is [ph] Adam (00:41:10) for Jerry today. I was wondering in PA Consulting if you could just help us think about the incoming cadence of engagements there over the next several quarters?

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

A

Yeah, [ph] Adam (00:41:24). The engagements are on the rise. Pipeline is growing. I think Kevin talked about the backlog growth. We're seeing, when we talk about – just concentrate on the private sector for a moment, kind of this investment in supply chain resiliency as well as business transformation, PA is playing on both sides. And so, we're seeing those engagements definitely on the rise. And it's forming itself or showing itself from pipeline growth as well as booking growth. So, we see that tail having a nice outlook on it.

**Operator**: Thank you. Your next question comes from the line of Chad Dillard from AllianceBernstein. Your line is now open.

Q

Hi. This is [ph] Carolina (00:42:13) on behalf of Chad.

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

A

Good morning. Thank you.

Q


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As you think about – morning. As you think about double digit EBITDA growth over the medium term, can you pass forward the contribution from PA Consulting revenue growth and secular margin expansion?

### Steven J. Demetriou

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

A

I think when we talk about the robust opportunity moving into 2022 and beyond, we're really talking about all three legs of the business. PA Consulting, CMS, and P&PS almost from a standpoint of them directly contributing to that double-digit growth. I mean, CMS specifically, we talk about this $30-plus-billion of new business pipeline. We're excited about the wide range. We – the Department of Defense, for example, is shifting into a major focus on upgrading, modernizing, and making all of their systems more intelligent. And we play a central role there because of the capabilities that we bring, and some of the proven abilities, and most recent projects. Bob talked about the space side, both deep space exploration as well as space intelligence. And then we move over to even things like 5G networks where that is growing significantly as we talked about in our – during our remarks.

But the cyber and intelligence business, the pipeline there is rising. I mean when you look at the capability that we created going back to over the last seven or eight years starting with FNS acquisition, then Dyke, Blue Canopy, and most recently KeyW and Buffalo Group. The leadership there in Critical Mission Solutions are now – have really put that together to expand our offerings, and be directly in the center of all of the cyber and mission intelligence. The fact that now we're up to 12 of the 18 intelligence agencies that we're working for. So, very exciting opportunity that CMS is going to contribute to alongside of PPS and PA.

**Operator**: Thank you. [Operator Instructions] Your next question comes from the line of Andy Wittmann from Baird. Your line is now open.

### Andrew John Wittmann

*Analyst, Robert W. Baird & Co., Inc.*

Q

Great. Good morning. Thanks for taking my question. I just had – I guess three clarifications for Kevin to make sure that I'm understanding the financial statements correctly. The first one has to do with the $267 million from the last quarter that you had to expense for GAAP rules on the purchase consideration. It looks like net of some people retiring or quitting or whatever happened to PA that the net number here was $261 million like you called out in your press release. So, there's a $6 million difference there. And I was wondering if that benefit showed up in which segment, was that in the PA segment, was that in SG&A? And then was that excluded or a benefit to adjusted EPS as a gain in the quarter?

And then, secondarily, I was noticing that there was $158 million of accounts receivable which, as far as I can tell, is the best quarter you've ever had in taking down accounts receivable. So, I was just wondering, Kevin, if you could talk about whether that's just timing related or do you think there's a structural element to what you did in the quarter on the very good account receivable performance?

### Kevin Christopher Berryman

*President & Chief Financial Officer, Jacobs Engineering Group, Inc.*

A

Yeah. So, the – let me go to the first one quickly. The accounting and the complexity associated with PA, because of not only the equity pieces that we've been talking about, but also the backing out in noncontrolling interest, and all that kind of stuff, all of that, we did not take that benefit to our P&L, that $6 million that you're alluding to. But maybe we can follow up, and Jon can provide you a little bit more detailed bridge on that.

Second thing is as it relates to – drawing a blank.


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A

Accounts receivable.

**Kevin Christopher Berryman**
*President & Chief Financial Officer, Jacobs Engineering Group, Inc.*

A

Accounts receivable. Sorry. No, we – look, I think that while certainly a number of $430 million of free cash flow in a particular quarter is indicative of something that is not necessarily sustainable every single quarter, and so there could be what I would say some timing associated with that dynamic. It has nothing to do other than the good work that the teams are doing around the globe that we've been talking about for the last two or three years. And we've really started to see that come to fruition over the 2020 and 2021 years. So, very proud of the teams. They're doing a good job.

This is ultimately having something to do with some of the Focus 2023 work we're doing where we're fine-tuning and aligning our processes where people are being able to get invoices out faster and ultimately more accurate invoices, which is facilitating our ability to collection. So while there certainly is some timing associated with it, it's still old fashioned just doing good work, collecting sooner, and ultimately don't necessarily assume that that happens every single quarter to the extent it did. But we think these kind of numbers will be sustainable going forward. And while there will be blips up and down, we're continuing to work hard to improve on our efficiencies in total working capital.

**Operator**: Your next question comes from the line of Jamie Cook from Credit Suisse. Your line is now open.

**Jamie Cook**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Hi. Good morning. Two questions, first, Kevin, the margins in PP&S (sic) [P&PS] (00:47:48) were pretty good at 13.8%. I just wanted to know if there was anything in that number to help boost the margins or is that just core performance? And then, second, on the – on CMS, as we're thinking about 2022, what's the opportunity here at some point to get those margins more in the double-digit range?

And then, my last question, my understanding right now, you're focusing on deleveraging, but the cash flow is pretty good, and the net leverage is looking pretty good. As we look at 2022, at what point would you feel comfortable doing deals again or do you think you have too much on your plate? And how should we be thinking about more opportunities to do deals that would – like more of the PA Consulting type acquisitions? Thanks.

**Kevin Christopher Berryman**
*President & Chief Financial Officer, Jacobs Engineering Group, Inc.*

A

Bob talked about it, $30 billion. It's typically higher-margin profile. And as that plays out, we'll see given the mix of that what the driver is to margin. Our objectives longer term is that our margin profile continues to grow across all of our businesses including CMS. You're probably getting into a strategic commentary that we're going to wait and hold on relative to our discussion at the end of the year at our Investor Day, but ultimately, our expectation is that our margins will be able to go up in all of our businesses, and certainly CMS would be included in that. So, I think that that's one thing. The second one?

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

A


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So, let me just add, the P&PS questions, Jamie, that you started with, there is nothing special. I mean, it's really driven by strong value-add strategy that we've been talking about. So, nothing to point out there from a P&PS standpoint other than great performance.

The M&A side that you talked about, clearly, we're very pleased with our cash flow and the improved balance sheet. We're obviously very excited about how fast of a start we're off to on the PA Consulting. It's proving our what we talked about as far as high margin, high growth business, and the significant synergies with our total Jacobs platform. And so, we're going finalize our strategic approach as part of this new strategy we're developing, and we'll give clarity towards the end of the year. But, clearly, the strategic consulting side is going to be one of the key components going forward.

**Jamie Cook**
*Analyst, Credit Suisse Securities (USA) LLC*

Q

Thank you.

**Operator**: Your next question comes from the line of Andy Kaplowitz from Citigroup.

**Andrew Kaplowitz**
*Analyst, Citigroup Global Markets, Inc.*

Q

Hey. Good morning, again. I just want to follow-up on PA Consulting. It's obviously still early in your ownership, but maybe you could talk about how successful so far you've been in bringing PA into markets where it has lower penetration such as the US? And how successful in general you've been so far in capturing more of front-end consulting work because, obviously, the push towards more front-end work could be a big deal for you guys.

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

A

Yeah. Andy, on the first part of the question, I would say, we've exceeded expectations in the first three months of the investment on bringing PA into the US. And I'd probably point more to the private sector of that piece. The PA traditionally in US has, just to be even more specific, PA traditionally had relationships at the kind of Tier 2, Tier 3 life sciences clients, and whether it be medtech, and kind of product technology or looking at the digitization of the components of their business such as clinical trials or other types of health information items, honed it in on a few Tier 2 or Tier 3. We've immediately been able to bring them into the Tier 1 ranks. And those same offerings at larger scale we're getting penetration on. So, that's been a big, big piece.

Secondly – and we're seeing it in the numbers with regards to kind of the percentage of their bookings and where those are coming from leading to P&L growth in the out-quarters. Second big piece, and this is – this was publicly announced and we had it in the script. So, on the FUJI job, as we look at how we can continue to deliver next-generation type services to go faster, quite frankly, PA is working with us on FUJI to automate our entire – our design approach. So, it is a – it's a great example of the digital skills of PA being brought into our core domain expertise and moving us up the value chain. So, really, really strong.

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

**Steven Fisher**
*Analyst, UBS Securities LLC*

Q


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Great. Thanks. Good morning. I apologize. I got on the call a little late. So, if you've covered this, we can take it offline, but just curious about organic growth and the pace of growth there. I think Kevin and the comments and the press release you talked about being set up, or maybe it was Steve, for nice structural growth from a number of initiatives over the next several years. Just curious about the timing of the acceleration that we can see here in your core CMS and P&PS segments. Do you think we're sort of at that inflection point right now? Is it still – and these are fairly longer cycle businesses. Is it still going to be something that takes place more in 2022? I know you talked about double the EBITDA growth. How much of that is a function of accelerating revenue growth? If you can just fill in a little color there. Thank you.

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

A

Yeah. So, look. Let me mention a few things we had talked here with regard to the – in the Q&A is we talked a lot about what's going on in the US. But outside of the US, our organic growth activity is clearly ramping up. We have a strong pipeline in the UK, similar drivers there with infrastructure stimulus and focus on modernization especially in the rail side, and decarbonization, and we're expanding into Europe with some new programs in the airport sector.

And then when we move over to the Middle East, we're seeing a really good pipeline and organic opportunity in places like Saudi and across the region in high-speed rail and also on the defense side as well. And then similar things going on in parts of APAC and Australia and New Zealand. Solid pipeline in Australia and New Zealand across transportation, also the power sector there, and the whole sustainable solution. So, I wanted to kind of start with that. When you take a step back and look at Jacobs' opportunity to grow organically. What we see is every – things are in different phases. Clearly, what Bob talked about around electronics and life sciences, that's going to – that's going to be a more rapid ramp up as we get into over the next several quarters because of what – especially what's going on around semiconductors.

When we talked about this US infrastructure opportunity, a bulk of it's going to be programmatic funding. And so, therefore, formulaic funding I should have said. And so therefore, some of our frameworks and the way the funding will flow will happen with more sort of ramping up and some of it even in the early parts of 2022. But as we get into some of the newer initiatives that the government is focusing on around resilience and energy transition and some of the other digital opportunities, some of that will take a few extra quarters for that funding to flow to the various agencies.

And on the Critical Mission Solutions side, if you look back to our – the way Jacobs has unfolded over the last several years, it tends to come in in certain peaks. And we're building up this great pipeline. We're very optimistic around the things that we've talked about. And then the only question is does it hit next quarter or does it hit a couple of quarters later. But when it comes it's going to have a meaningful impact to our 2022 and moving into 2023 and beyond.

So, overall, we just continue to be very bullish on our ability to grow organically before we even think about deploying capital to – on the M&A side.

Okay. So, I think...

**Operator**: Speakers, there's no further questions on the queue. Please continue.


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### Steven J. Demetriou

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

Thank you. Okay. Thanks, everyone. Appreciate the questions. Stay safe and look forward to staying close with all of you.

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

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