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Jacobs Engineering Group, Inc. (J)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Rob, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Jacobs' Fiscal Third Quarter 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Jonathan Doros, you may begin your conference.

Jonathan Doros

Senior Vice President-Investor Relations, FP&A & Treasury, Jacobs Engineering Group, Inc.

Thank you. Good morning to all. Our earnings announcement and 10-Q were filed this morning, and we have posted a copy of the slide presentation on our website, which we'll reference during the call.

I would like to refer you to slide 2 of the presentation material for information about our forward-looking statements, non-GAAP financial measures and pro forma figures. For pro forma comparisons, the current and prior periods include the results of recent acquisitions, including StreetLight Data and BlackLynx, as well as our strategic investment in PA Consulting for the full fiscal period.

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 the CEO of PA Consulting, Ken Toombs; and President and Chief Financial Officer, Kevin Berryman.

Steve will begin by reviewing our third quarter results and then discuss how Jacobs and PA are accelerating positive social impact. Bob will then review our performance by line of business, Ken will provide an update on PA Consulting, and Kevin will provide a more in-depth discussion of our financial metrics, as well as review of our balance sheet and cash flow. Finally, Steve will provide details on our updated outlook, along with some closing remarks, and then we'll open the call for your questions.

In the appendix of this presentation, we've provided additional ESG-related information, including examples of our leading ESG solutions.

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

Steven J. Demetriou

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

All right. Thank you for joining us today to discuss our third quarter fiscal year 2022 business performance and our near-term outlook. We're excited to be conducting today's call from PA Consulting offices in London, and I'll provide more color in just a moment on our strong early on success of our investment in PA.

But first, turning to slide 4. At Jacobs, the combination of a proactive approach to strategic portfolio management and driving a high-performance culture has created a top-quality business with substantial recurring revenue that's resilient during a variety of macroeconomic conditions. This is complemented by our focus on secular growth in the areas of climate response, consulting and advisory, and data solutions.

Our competitive advantage is based on staying true to our values. We harness our deep technical expertise to reinvent the way we solve problems and shape the next generation of innovative solutions for our clients. As I shift to the quarterly results, we're clearly seeing strong underlying trends and accelerated growth at Jacobs. From the velocity of our sales pipeline, our recent major wins that we'll talk about today and next quarter, to increasing trends in utilization, we're positioned for strong profitable growth going forward.

During the quarter, net revenue grew 8% year-over-year and double digit on a constant currency basis with growth across each line of business. More importantly, bookings were strong across the company, resulting in revenue backlog up 10% year-over-year, and actually up 13% in constant currency.

We saw continued strong performance in our advanced facilities business, as demonstrated by our 25% year-over-year top line growth and an acceleration in P&PS bookings during the quarter within our Americas business, driven by awards related to the US infrastructure modernization. Within Critical Mission Solutions, we were awarded a strategic \$3.9 billion NASA Johnson 10-year rebid, significantly larger than our existing contract and which will be added to our backlog in the fourth quarter. This is one of many long-term recurring contracts that provide revenue visibility for the business.

On a constant currency basis, PA Consulting continued to show strong growth with revenue up 22%, and backlog up 19% year-over-year. The strong visibility of our diverse business with upside from secular growth trends combined with robust cash flow generation affords us the ability to generate returns for our shareholders through times of economic uncertainty.

Now, turning to slide 5. This time two years ago, in the height of the pandemic, we were zeroing in on the PA Consulting transaction. And today, PA is significantly exceeding our financial expectations and revenue synergies are accelerating. Results are strong across all PA's key performance indicators. In culture and talent, the number of partners has increased more than 20% since the transaction closed with additional key hires across operations, research, technology and sales, further strengthening PA's capabilities in client solution. And very exciting is their women and leadership program with the current PA leadership team now at 50% female.

Financial performance continued strong with the weighted pipeline up more than 40% compared to the prior year. Fiscal year-to-date revenues are up 20% in constant currency, with an operating margin of 21%, which is an indicator of PA's high quality business. On the operations and strategy front, PA is seeing success following the launch of its IP monetization, and they are gaining momentum in the US with new leadership in an expanding portfolio. And in the area of revenue synergies, we have posted 18 joint wins since the beginning of the partnership and are seeing significant collaborative opportunities in multiple markets, including health and life sciences, energy and utilities and consumer products. Our partnership with PA has been one of the most successful and value creating investments. And our consulting and advisory accelerator is a clear priority for future capital deployment.

Turning to slide 6. A key to our successful partnership has been the close alignment of our purpose around creating solutions that have positive social impact. Whether it's working together to improve healthcare for families, for leading edge cell and gene therapy, addressing patient safety in emergency departments across the US, solving issues of connectivity and decarbonization for global rail market, delivering resilient solutions in the areas of deforestation and fire prevention in the UK, and the undergrounding of 10,000 miles of cable for PG&E to mitigate forest fires in California, and on the clean energy front, collaborating on analyzing investments for private equity in green hydrogen. Once again, looking ahead, we believe our partnership with PA is critical to delivering our new Jacobs strategy.

Now, I'll turn it over to Bob Pragada to discuss our line of businesses.

Robert Venkat Pragada

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

Thank you, Steve. Moving on to slide 7 to review Critical Mission Solutions. The CMS business continued its strong performance in the third quarter, with total backlog increasing 7% on a reported basis and -reported and pro forma basis to \$10.2 billion. Our CMS strategy is focused on creating resilient, recurring revenue growth and margin expansion by offering technology-enabled solutions aligned to critical national priorities. Our services solution offering are delivered across our core customer's markets: space, national security, cyber intelligence and energy environment. And we are leveraging our growth accelerators of data solutions, climate response and consulting and advisory to catalyze the business.

We have substantial revenue visibility as approximately 85% of CMS' portfolio consists of large enterprise contracts, with durations greater than four years and 88% from federal level government funding. Although economic and geopolitical uncertainties continue, our strong Q3 ending backlog gives us confidence in our next 12 months forecast revenue. Three market trends that we see contributing to our continued growth include space debris management, robotics and 5G network build-out.

Beginning with space debris management, decades of space travel has resulted in large amounts of space debris, damage to the satellites and future launches, adding to the cost of operating satellites and other space [indiscernible] (00:08:51) like the International Space Station or ISS. If debris destroys the satellite, it can take months and cost hundreds of millions of dollars to restore the service. We support the orbital debris tracking program at NASA and provide plume analysis and communication systems simulation for vehicles visiting the ISS. In addition, we provide meteor tracking data for multiple government agencies.

Space debris tracking is one of many services Jacobs provides on a recently awarded Johnson Engineering Technology and Science or JETS II contract, which builds on Jacobs' more than 17 years of continuous support at Johnson Space Center. Under this contract, we will provide multidisciplinary technical services to support the future of human space exploration, as well as help NASA incubate the emerging commercial space economy. This 10-year \$3.9 billion win we'll book in Q4 and represents a \$1.8 billion increase to our existing contract. This serves to illustrate the continuing strong NASA-Jacobs partnership.

Moving on to robotics, we are increasingly delivering valued solutions to our clients by utilizing robots that reduce costs and increase accuracy and safety in otherwise manual human processes. And we're excited to announce in the last quarter, we integrated the Resolve Robotics team in the UK into CMS who bring software expertise and IP to help accelerate our growth.

Our existing CMS robotics team already delivers groundbreaking innovations, developing and deploying robotic systems in challenging environments such as the robotic tool to retrieve sand-like debris from inside a damaged nuclear reactor at Fukushima in Japan; autonomous systems to map river beds for the British Army; and designing robotic systems for ITER, the world's largest fusion power experiment.

Finally, demand for 5G telecommunications. Our telecom group provides full solutions for the deployment of next generation wireless and wireline networks for leading telecommunication companies like AT&T, Verizon and T-Mobile, as well as Fortune 1000 healthcare and commercial companies looking to build their own 5G networks. We also support the infrastructure market providing 5G integration, network optimization and technical services alongside our P&PS teams to accelerate growth.

While rollout of 5G infrastructure deployment is still in its early ramp phase, we continue to see increased demand for both integrated 4G and 5G solutions from our commercial telco infrastructure, healthcare, and government clients. During the quarter, our telecom group added several new awards totaling more than \$150 million to deliver projects advancing 5G nationwide. We are excited for the team's recent successes and are well positioned for growth as adoption of 5G use cases and penetration grow.

In summary, we continue to see solid demand for our CMS solutions. Last week, we were notified that we were awarded a \$470 million six-year cyber and intelligence related task order, which we expect to benefit beginning – and begin ramping at the end of this current quarter. The sales pipeline remains robust with the next 24-month qualified new business pipeline at approximately \$25 billion, including \$10 billion in source selection with an expanding margin profile.

Turning to slide 8. During the quarter, People & Places Solutions delivered record-setting quarterly bookings that topped pre-pandemic levels. We also enjoyed year-over-year bookings growth of 11% and backlog growth of 13%, delivering a high mark for operating profit in the quarter. Despite macroeconomic concerns, we performed well due to the balance of public and private sector clients with a multinational focus, resulting in continued high percentage of revenue already booked in backlog.

As I talk about the quarter, I'll address our four ongoing themes of supply chain diversification, infrastructure modernization, climate response, and data solutions. Starting with supply chain diversification. With continued breakthroughs in biotechnology, strong customer demand and robust operating cash flow, life sciences clients are investing in manufacturing expansion and contract operations capacity globally. As a leader in the market, Tier 1 clients have confidence in Jacobs' ability to deliver highly complex greenfield and expansion projects at speed that provides time to market for a client to maximize their competitive advantage in new therapeutics.

Growing health service needs are leading to innovative approaches to care. We are optimizing facilities for clients such as the University of Iowa Hospitals and Clinics where we serve as their project delivery partner. We are improving the sustainability access and energy efficiency for NHS Scotland as well as increasing much needed access to critical mental healthcare in Australia.

We continue to see robust demand for semiconductor chips, data center capacity expansion and growth in the electric vehicle market and have secured recent confidential wins in all three categories. On top of strong secular demand for semiconductors, we are pleased to see the passing of the \$53 billion US CHIPS bill, which will incentivize investment in US semiconductor manufacturing and specialized tooling.

Infrastructure modernization, increased client investments in mega and giga-scale infrastructure continues. And with our number one ENR ranking in program management, our delivery reputation has been a key differentiator in staying ahead of our clients' needs in a dynamic global environment. We recently have been awarded several strategic full lifecycle programs for new transformative scale cities in the Middle East that will address social, economic and climate priorities, and will have flexible and long-term contract engagements.

With a renewed interest in equitable, sustainable transportation, we are experiencing a significant investment in the transit and rail sector with wins across the globe such as Irish Rail, British Railways, multiple clients in Australia, and resilient transit planning for Sacramento Area Council of Governments here in the US.

The Infrastructure Investment and Jobs Act is resulting in a steady increase in new projects awards to modernize and increase the resiliency of US infrastructure. For example, we won a major water supply resilience program for Eastern New Mexico Water Utility Authority, a five-year storm water implementation program for the city of Baton

Rouge and a funding strategy with Oklahoma DOT. Additionally, our IJJA advisory team is positioning our clients to win funding opportunities with over 50 differentiated grant applications across transportation, water, and energy. We anticipate additional awards in the coming quarters as the opportunities in our sales pipeline move into the next phase of procurement.

Moving to climate response. We see our clients continuing to invest in clean energy across all sectors with primary spend related to grid modernization, cost-effective renewable energy generation, and EV charging infrastructure or EVCI. Our progress in these areas is demonstrated globally: in Asia, through advisory and policy consulting for the Asian Development Bank; in Canada, with a pipeline utility program; in Australia, through transmission and distribution design projects with AusNet Services; and in the US via a new consulting and advisory framework to advance energy transitions with a leading provider.

Transportation electrification, and advanced charging infrastructure plans have topped our clients' agendas across all regions for aviation, ports, highways, and rail and transit. This includes projects for Heathrow Airport in the UK to implement landside EVCI; Ohio DOT's statewide EV infrastructure program, and a major US transportation authority transitioning operations to zero emissions for one of the world's largest bus fleet by 2040. Collectively, this is a very exciting space for us and aligns strongly with our climate response accelerator.

Moving to data solutions. We are using advanced data analytics to optimize our clients' decision making as well as their ability to de-risk long-term investments. For example, in collaboration with the California Air Resources Board, our StreetLight Data team is using advanced analytics to better measure and manage transportation emissions. We're also continuing our technology consulting support for the US State DOT with integrated corridor management, connected automated transportation systems and other advanced mobility solutions to maximize use of their existing transportation infrastructure.

In the water market, we were awarded a contract with The Water Research Foundation to develop the first full scale deployment of machine learning predictive control for wastewater systems, a new technology to advance the global water industry. Our cyber and digital services teams were awarded projects in support of the operational technology resiliency plan for a major UK utility network operator. And in Australia, we have secured the digital and data advisory services scope to support advanced analytics across Brisbane City Council's entire asset lifecycle.

In summary, our strong sales pipeline is supported by well-funded government budgets to modernize their infrastructure and commercial clients that are addressing secular growth opportunities. The ingenuity of our global workforce, combined with elevated spend on transformative, complex infrastructure, uniquely positions us to deliver differentiated value to our clients. Given these dynamics and the visibility of our revenue in backlog, we are excited in the growth trajectory for our People & Places business both now and into the future.

As Steve mentioned, we are impressed with PA's strong results, which underscores the strategic logic for our investments. We are excited to be joined by PA's CEO Ken Toombs to provide a quarterly update. Ken, over to you.

Kenneth John Toombs

Chief Executive Officer & Director, PA Consulting Group Ltd.

Thanks, Bob. Moving to slide 9. PA's current quarter continue to see strong sales bookings up 25% and backlog was up 19% in constant currency. Here's what I see driving that. With unique value proposition that starts with our purpose, bringing ingenuity to life to build a positive human future. This enables us to deliver [audio gap] (00:19:45). Our purpose is critical in our ability to attract and retain top talent. Our differentiation extends to our

strategy, which is focused on helping clients address some of the biggest forces shaping society with our unique end-to-end innovation offerings. Indeed, having technologists, scientists, engineers, and designers working together creates a unique set of propositions.

Let me shift gears and talk a bit about our partnership with Jacobs. As Steve mentioned, our partnership supports key aspects of our strategy. We have numerous key accounts in common. Those accounts are ones where we can leverage PA's relationships at the C-suite to bring Jacobs into the mix early and create a differentiated solution. In some cases, it could be the advantage of scale that Jacobs has or a specialized expertise. It can also work the opposite way where Jacobs has a key relationship and brings PA into complex deals.

A great example is PG&E in California, where Jacobs has a strong existing relationship. The differentiation on this project was the combination of Jacobs' program management expertise with PA's strategic consultancy advice and deep domain expertise. And more than a year into the partnership, these types of opportunities are growing.

Another area of our strategy is expansion in the United States where the outlook is very promising with strong double digit revenue growth over the last six months. Beyond the synergies with Jacobs, we see a big demand for our end-to-end services. We're focused on three sectors in particular: energy and utilities, health and life sciences, and consumer and manufacturing. In each of these areas, we're winning and delivering exciting purpose-driven work.

For example, innovating cell and gene therapy manufacturing with Ori Biotech and creating a growth strategy for Green Boom, a start-up which has developed a sustainable way to prevent, reduce, and clean up oil spills. Over time, we've made several US acquisitions which have provided a platform for further organic growth. Additionally, the significant hiring of great new talent at the partner level is another way we are stimulating growth. Since the beginning of 2020, we've grown the number of US partners by 60%.

Now, I'd like to spend a minute on resiliency of our business. We enjoy a loyal client base with approximately 90% of revenue typically coming from repeat clients over the last five years. And our expertise continues to be in high demand. We also enjoy resiliency given our balance in private and public sector work. For example, during the pandemic, we transformed entire corporate business models to account for new customer behaviors, while on the public sector, we work with some of the biggest government agencies that provide critical services that are largely unaffected by short-term budget decisions like the UK National Health Service and Ministry of Justice. This helps to mitigate risks from future macroeconomic trends.

So, to summarize, we're running a purpose-driven business with a clear strategy to address our clients' biggest challenges in an end-to-end manner that separates us from the competition. And structurally, we're set up to be able to pivot in response to external factors, ensuring we're well positioned for the future.

Kevin, I'll hand it over to you.

Kevin Christopher Berryman

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

Thank you, Ken. I'm going to turn to slide 10 for a financial overview of third quarter fiscal 2022 results. Third quarter gross revenue grew 7% year-over-year and net revenue grew 8%. Pro forma for acquired revenue, net revenue also grew 7% year-over-year, which is an acceleration in growth from the second quarter. Currency negatively impacted revenue growth by nearly 400 basis points. And given current foreign exchange spot rates, we expect FX to impact our Q4 revenue by nearly 450 basis points on a year-over-year basis. On a reported

basis for the fourth quarter, we expect revenue growth in the mid- to high-single digits, which translates into double-digit growth on a constant currency basis.

Adjusted gross margin in the quarter as a percentage of net revenue was 25.8%, down 180 basis points from year ago, primarily driven by our CMS line of business related to newly ramping remediation contracts and the timing of the ramp on higher margin federal contracts and the investment in incremental resources in PA in advance of expected growth. We expect gross margins to marginally improve in the fourth quarter and expand further during fiscal 2023, driven by a higher margin backflow and sales pipeline, favorable revenue mix within CMS, an acceleration in P&PS revenue, and continued strong PA performance.

Adjusted G&A as a percentage of net revenue was 15.6%, down nearly 100 basis points from Q2 and down 130 basis points year-over-year. We expect our G&A as a percentage of revenue to remain at this level in Q4 as we balance our investments to support growth in fiscal 2023 and beyond. GAAP operating profit was \$266 million and was mainly impacted by \$52 million of amortization from acquired intangibles and other acquisition deal related costs and restructuring efforts of \$10 million, with over half of that associated with integration costs associated with acquisitions.

Adjusted operating profit was \$327 million, up 4% year-over-year on both a reported and pro forma basis. On a constant currency basis, adjusted operating profit was up 8% year-over-year. Our adjusted operating profit to net revenue was 10.3% and we expect a similar level in Q4. I'll discuss the moving parts later when reviewing the line of business performance.

GAAP EPS from continuing operations was \$1.52 and included a \$0.27 impact related to our amortization charge of acquired intangibles, \$0.04 from transaction-related costs, only \$0.02 of other restructuring costs, and a \$0.01 benefit adjustment to align to our effective tax rate. Excluding these items, third quarter adjusted EPS was \$1.86, up 13% year-over-year. On a year-over-year basis, FX impacted our EPS negatively by \$0.09.

Within the other income line on the P&L, important to note, we realized a cash pre-tax gain of approximately \$14 million or \$0.08 in after-tax EPS from the sale of our ownership and commercial cybersecurity provider, WatchGuard Technologies, that came as part of the KeyW acquisition. This benefit was captured within our other income line and adjusted EBITDA, but not reflected in operating profit results. The sale of this strategic investment was driven by contract terms associated with our interest, which would have limited future monetization of our investment. We remain excited about our continued partnership with WatchGuard.

Jacobs' consolidated Q3 adjusted EBITDA was \$363 million and was up nearly 13% year-over-year, representing 11.4% of net revenue. On a constant currency basis, adjusted EBITDA was up 16% year-over-year.

Finally, turning to our bookings during the quarter, the revenue book-to-bill ratio was 1.1 times and did not include the estimated \$550 million backlog value of the 10-year \$3.9 billion NASA Johnson win, which were recognized in backlog in our fourth quarter. As Bob mentioned earlier, the contract savings of this rebid win is significantly higher than our existing contract and is an agency-wide contract not limited to Johnson Space Center. We plan to backlog the first two years of the approximate current revenue run rate, but expect on-contract growth to the ceiling value over the life of the contract.

Regarding our LOB performance, let's turn to slide 11, starting with CMS. Q3 revenue was up 8% year-over-year and up 7% on a pro forma basis. FX negatively impacted growth by over 200 basis points. For the fourth quarter, we expect revenue growth to approach double digits and after adjusting for an estimated FX impact of 250 basis

points, delivered constant currency double-digit growth. Q3 CMS operating profit was \$104 million, down 3.5% year-over-year, but flat on a constant currency basis.

Operating profit margin was down over 90 basis points year-over-year to 7.9%. Q3 operating profit margin percentage continued to be impacted by the delay of the higher margin, shorter cycle awards that were pushed to the right due to the continuing resolution, as well as related timing of our investments ahead of new cyber and intelligence contract wins. Due to these investments and the timing of both new and anticipated awards, we expect CMS operating profit margin to remain under 8% for the fourth quarter, but improving in 2023 and beyond.

Moving to People & Places. Q3 net revenue accelerated to 7% year-over-year growth, including a negative effect of 350 basis points from FX. On a constant currency basis, P&PS overall grew double digits year-over-year. Also on a constant currency basis, each People & Places segment demonstrated net revenue growth with strong year-over-year growth acceleration in our Americas business as impact from US infrastructure spending begins to materialize.

Our advanced facilities business continues to demonstrate robust double-digit net revenue growth, with strong performance in both semiconductor and life sciences. We expect this performance to continue, given our strong backlog and sales pipeline. Our international business growth on a constant currency basis also remains strong as those governments continue to prioritize infrastructure modernization and investments related to our ESG solutions. Total P&PS Q3 gross profit grew year-over-year, and gross margins were consistent with Q3 2021 with Q3 operating profit up 2% year-over-year, and up 8%, when eliminating the impact from FX translation.

In terms of PA's performance, PA revenue grew 8% year-over-year in US dollars, and impressive 22% in PA's local currency. Q3 adjusted operating profit margin was 18.5% due to lower utilization, but still up 2% when factoring the impact of currency. The lower utilization during Q3 was driven by a proactive effort to add resources for additional growth expected in 2022 and 2023 for the PA team. Consequently, we expect PA's operating profit margin to return to greater than 20% next quarter and continue to strengthen further in 2023. We also expect continued double-digit revenue growth on a constant currency basis.

Our non-allocated corporate costs were \$38 million, down year-over-year as we benefited from continuing moderation in medical costs and, to a lesser extent, from a positive currency impact on our support costs and other benefits. We now expect non-allocated corporate costs to be in a range of \$170 million to \$190 million versus our previously communicated range of \$200 million to \$250 million for fiscal 2022.

Turning to slide 12 to discuss our cash flow and balance sheet. We had another quarter of solid underlying cash flow generation. On a reported basis, free cash flow was a negative \$281 million, but included a \$480 million cash outflow related to the previously discussed Inpex legal settlement, as well as \$10 million related to transaction costs and other items. Excluding these outflows, free cash flow was strong and conversion was in line with our expectations. DSOs were relatively flat year-over-year.

We expect solid free cash flow in the fourth quarter, again, in line with our previous conversion expectations for the full year. During the quarter, we've repurchased approximately \$200 million of our shares. As we have said before, we will remain agile and opportunistic in repurchasing shares as we see dislocation in the market.

As a result of the strong underlying cash flow, we ended the quarter with cash of \$1.1 billion and a gross debt of \$3.6 billion, resulting in \$2.5 billion of net debt. Our net debt to adjusted 2022 expected EBITDA of approximately 1.8 times is a clear indication of the continued strength of our balance sheet. As of the end of Q3, approximately 60% of our debt is tied to floating rate prepayable debt, and as a result, we are expecting incremental interest

costs going forward, which we have incorporated into our outlook. Finally, given our strong balance sheet and free cash flow, we remain committed to our quarterly dividend, which we recently announced.

Before I turn it back to Steve, I'd like to talk about the resiliency of our portfolio. The portfolio is strong and resilient, aligned around high-priority federal government spend areas and state and local institutions supported by government stimulus programs. Our private sector business is centered on high margin markets like semiconductors and life sciences, which are currently focused on incremental investment and capacity to resolve supply chain constraints and support novel therapies. As a result, while we may not be totally immune to the global economic uncertainties, we're confident that we are positioned to deliver the levels of growth identified in our strategy.

Over to you, Steve.

Steven J. Demetriou

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

All right. Thank you, Kevin. As Kevin described, we have a diverse portfolio with significant reimbursable recurring revenue. It provides us the ability to grow under multiple economic scenarios and manage the impacts of inflationary pressures on our business. With this diversity comes some exposure to foreign currency translation as we have approximately 34% of our revenue outside of the US, with 21% of that revenue in UK pound sterling.

As a result of the latest foreign exchange dynamics, we're providing updated guidance for the fourth quarter of adjusted EBITDA in the range of \$340 million to \$360 million, and an adjusted EPS of \$1.75 to \$1.85 with the midpoints tied to the current FX rates. We feel very confident in our underlying business trends in the fourth quarter, and it provided the lower end of the range to reflect the possibility of any FX erosion. It is important to note that relative to our fiscal 2022 forecast back in November, foreign currency translation has impacted our full year expected fiscal 2022 net revenue outlook by approximately \$320 million, adjusted EBITDA by approximately \$40 million and adjusted EPS by nearly \$0.20. So in short, our change in annual guidance and EPS is effectively driven by currency volatility versus our original expectations.

In closing, we are excited about the momentum across all of our business as demonstrated by our accelerating revenue growth, our strong bookings and backlog and a robust sales pipeline globally.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jamie Cook from Credit Suisse. Your line is open.

Jamie Cook

Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning. I guess two questions. First, Kevin, you talked about the resilience of your business model in a macro downturn and understanding the guide lower was largely FX. One, can you sort of speak to are you seeing any signs of macro weakness when you talk to your customers and which parts of your portfolio would be most impacted assuming we are going into a recession or are in a recession?

And then the second question is just a clarification, if the gain I think was from WatchGuard that is included in the EPS number that you guys laid out, the \$1.52 and the \$1.86. Thanks.

Kevin Christopher Berryman

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

A

First point relative to client, look, we're really not sensing any significant commentary from clients which are indicating concerns on the impact to their business associated with their investment profile. And look, if you look at the – I'm going to call it the private parts of the portfolio, specifically, life science and semiconductors, those clients are really continuing to be quite robust in their outlook.

And I'll go into your second question and see if my colleagues want to add any color on that. But your question about the WatchGuard, yes, it was included in the \$1.86 EPS that we had for the quarter. It's important to note that we had about \$0.09 of FX challenges in the quarter associated with kind of the strengthening of the US dollar. But in addition to that, we took the opportunity to accrue some additional expenditures in support of employee-related costs in the quarter, offsetting some of the benefit of that WatchGuard gain.

Operator: Your next question...

Steven J. Demetriou

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

A

The only thing I'd add...

Robert Venkat Pragada

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

A

Go ahead, operator.

Operator: Your next question comes from the line of Bert Subin from Stifel. Your line is open.

Bert Subin

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hey. Good morning.

Steven J. Demetriou

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

A

Good morning.

Robert Venkat Pragada

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

A

Good morning, Bert.

Bert Subin

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Bob, you mentioned the CHIPS bill in your prepared remarks. How much of a tailwind, if any, should we expect that to be for your fab design business? And then just a quick follow-up to what you were talking about on the resilience side, is it fair to think that PA Consulting would be sort of the most volatile piece of your business as we think about sort of going through a potential economic recession? Thanks.

Robert Venkat Pragada

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

A

Yes. Bert, on the first part on the CHIPS bill, I think the way that we're thinking about it is that that was already such a robust business for us based on the clientele that we have and with the business drivers for them. What the CHIPS bill did though is put even more credibility as well as substantiation of continued growth for those clients that are actually changing their business model. So, I think it's putting more confidence that the cycle that we used to talk about being traditional 18 to 36 month cycles, going even further with now support from the federal government. So we're excited about that.

With regards to the volatility in PA's business, PA's very unique model is structured where the traditional management consultant relying on discretionary spend of their clients for business transformation activities is not really where PA sits. PA sits in product innovation and using that product innovation to transform businesses. And so, these are really the core of the clients that they serve. So we're not really – we're not seeing that as evidenced by the bookings trends that we saw with PA this quarter being at the highest that they've been eventually ever, which is really putting some credibility in the backlog moving forward.

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

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

Yes. Hi. Good morning, everyone.

Steven J. Demetriou

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

A

Good morning. Hi, Jerry.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Q

I'm wondering if you could just expand , Kevin, on the – hi. Kevin, If you wouldn't mind just expanding on the margin comments in your prepared remarks for Critical Mission Solutions and People & Places exiting the fourth

fiscal quarter. It sounds like you've got some idiosyncratic moving pieces that might impact normal seasonality as we head into the December quarter. Can you just tease that out a bit based on contract cadence, et cetera, that you alluded to in -for full fiscal year 2023? Thanks.

Kevin Christopher Berryman

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

A

Yeah, Jerry. A couple a couple of points. First is on the win profile associated with our CMS business, we've been ramping some of the big environmental contracts, the nuclear remediation contracts which are embedded into our forecast, which, as you know, is lower margin. And we've previously discussed that the balance of the year would start to see an uptick in margins because of all of the shorter cycle and cyber and intelligence wins which are coming, and actually Bob announced that one was we just heard about this week actually. And so – or last week.

And so, look, at the end of the day, all of those are happening. They're just not happening and won't ramp in Q4, which was our original expectation. So, if you look at that dynamic, that puts a little bit of pressure on the Q4 margins that we have. In addition, we continue to have the investment profile and we're not backing off of that in Q4, because of the anticipation of the growth in 2023 and beyond.

So, it's a double – kind of double impact on Q4, but ultimately then translates into 2023 starting to [audio gap] (00:42:26) back into the margin profile that we've seen in the past. Now, it's going to take a while to get there, but ultimately we're confident that the margin profile will start to kick back up in 2023.

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

Steven Fisher

Analyst, UBS Securities LLC

Q

Thanks. Good morning. Just wanted to follow up on that discussion about the cyber contracts. And you mentioned that \$500 million one, I guess that's the one from last week. I guess I'd call that a mid-size award compared to the NASA type opportunities. Can you just talk a little bit more about how much more of that you have in the pipeline and the timing of those and then how relatively important they are to that 2023 plan?

Steven J. Demetriou

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

A

Yeah. Steve here. Yeah. The good news is we actually had two wins in the last 30 days in the cyber intelligence business. There was a \$500 million one that did get booked late in the third quarter, and then we had one just the last week that Kevin just talked about that's just under \$500 million. And those are two good sized cyber intelligence awards with better margins than some of our longer term enterprise contracts that we have in CMS. So, they're going to be margin accretive and we're really going to see those playing out as early as – as far as the P&L in the first quarter of 2023.

So – and then on top of that, we have about \$1.5 billion of things that could hit sometime in the fourth quarter as far as pursuits out there. And if you look at our normal win rate, that's going to add on top of that. And then on the back of that, there's a series of other pursuit opportunities that will play out sometime in the first half of 2023.

So we are excited about cyber intelligence, a little frustrated that it's taken a few quarters longer than we had expected. And then, I just want to add on the back of that, outside of cyber and intelligence, which also gives us some optimism, is that the America's IIJA initiatives. We are clearly seeing momentum now in that. The pipeline is building. We've had some earlier on wins. We've got about grants out there that we are highly confident of

winning a large share of and that now translates into business. And we see that it's starting to accelerate in 2023. And so, it really hasn't been a material impact on our business to-date, and we all know that that's coming because of the commitment of the US Government around that IIJA. So, those are reasons for optimism as we get into all topline and margin improvement as we enter 2023.

Operator: Your next question comes from the line of Chad Dillard from Bernstein. Your line is open.

Chad Dillard

Analyst, Sanford C. Bernstein & Co. LLC

Hi. Good morning, guys.

Q

Steven J. Demetriou

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

Good morning.

A

Kevin Christopher Berryman

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

Hi, Chad.

A

Chad Dillard

Analyst, Sanford C. Bernstein & Co. LLC

So, on the back of the announcement of the 2022 Inflation Reduction bill particularly the climate change portion, can you give a little bit of color on that and just like how much would be addressable to Jacobs?

Q

Steven J. Demetriou

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

Yes. The – very similar to the IIJA. When you look at the climate change portion, which is in the high \$300 billion, I think it's somewhere in the \$370 billion, \$380 billion. We see somewhere in the 85-plus-percent coverage by Jacobs of when you break that bill down to what we're able to see so far. And we haven't been able to get 100% of it. But based on some of the specifics and what we're hearing, it's going to be – a majority of that is going to be an opportunity for Jacobs.

A

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

Andrew John Wittmann

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

Yeah. Great. Thanks for taking my questions. I guess just a clarification. I think, Kevin, in your remarks, you made a comment there is an FX benefit in your corporate unallocated. Is that the \$8 million? And was that like a – did you sell a swap or a currency hedge there to realize that? I'm just curious if that was cash or non-cash as well.

Q

Kevin Christopher Berryman

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

No. This is basically translation-related efforts – or impacts, I should say, Andy. So effectively, if you think about the revenue and gross margin, all of that is negatively impacted by the dollar strength as foreign currencies get translated into more revenue and gross margin. That's partially offset by the fact that our costs are also reduced in

A

terms of our international operations. So, it's really driven more by that. No effective kind of transaction was related to that.

Operator: Your next question comes from the line of Louie DiPalma from William Blair. Your line is open.

Louie DiPalma

Analyst, William Blair & Co. LLC

Good afternoon, Steve, Bob, Kevin, and Ken.

Q

Kevin Christopher Berryman

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

Hey, Louie.

A

Steven J. Demetriou

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

Hello.

A

Louie DiPalma

Analyst, William Blair & Co. LLC

With the announcement of this earnings call from PA Consulting's headquarters in London, do you have any plans to acquire the remaining 40% of PA Consulting that you don't already own?

Q

Steven J. Demetriou

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

No. We've talked about this in the past and continue to have the same view that we really love the model that we've set up for the investment. PA, I think, not only is unique, but it's one of the reasons why we were able to get that and to get this investment across the finish line. And there could be a scenario where we incrementally grow our ownership. But right now, over the long term, we think having the PA partners and employees have ownership and the collaborative opportunities that that gives us is really part of – is really a key reason why we're off to such a strong start in the first-year plus. And so, we see that kind of model continuing going forward.

A

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

Michael Feniger

Analyst, BofA Securities, Inc.

Yes. Thanks for taking my question. I realized you added in some areas investing in people, adding resources for the stronger growth outlook. You're talking about CMS, have some of these cyber contracts which are higher margin you're going to pick up next year. Just based on what you're saying and the expected pick up in funding, should we be seeing an outsized level of margin expansion in 2023 as utilization levels are likely to pick up?

Q

Kevin Christopher Berryman

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

Hey, Michael, this is Kevin, is your comment about CMS specifically or...

A

Michael Feniger

Analyst, BofA Securities, Inc.

Q

It's about [indiscernible] (00:49:48) and overall the mix of the business.

Kevin Christopher Berryman

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

A

Well, look, if we look at our margin profile just in Q3 and Q4, we do believe there's going to be an ability to increase margins as we come out of this dynamic that we're facing in Q3, Q4, where growth hasn't kicked in as much as we want or continuing [ph] to vest (00:50:10). So we do believe that there's margin upside in 2023 versus current level. But I wouldn't say extraordinary because we're going to ultimately continue to drive investments and support our business' ability to grow longer term and at higher gross margins.

Operator: Your next question comes from the line of Josh Sullivan from The Benchmark Company. Your line is open.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Q

Hey. Good morning or good afternoon. As far as the Russian war in Ukraine rising tensions in Taiwanese trade, could you just talk about if you've seen any specific uptick in demand for Jacobs' capabilities in space, cyber? Have you've seen international demand or mostly domestic? And then, I guess a related question on the commercial side, what is the flow of European energy projects look like at this point?

Robert Venkat Pragada

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

A

Yeah. Josh, I'd say two points. The short answer is yes. We have seen an uptick in the client conversations and the – and just the dialogue around potential opportunities, and break it down into two main parts and then to address your energy comment in Europe.

For cyber services, yes, these are predominantly US-based framework agreements that we have in place. And we've seen efforts around those agreements be applied to cyber intelligence activities, specifically surrounding what's going on in the Ukraine. And then the second part has been around defense infrastructure. And so, you mentioned what's happening in the Taiwanese trades. You'd probably say that our posture – well, and I say the western hemisphere's posture around defense infrastructure in Asia has been going on for the better part of the decade. But now, in addition to that, we're seeing more requests. In fact, we've been awarded a confidential – a few jobs already in Eastern Europe around similar types of laydown platforms in defense infrastructure in Eastern Europe as a whole.

On the second part around energy in Europe, the answer again is yes. Energy transition in that effort, not just in Continental Europe but in the UK and in Ireland as well, is probably at an all-time high with regards to the activity and that continues to be a strong catalyst for growth for us in our European business.

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

Gautam Khanna

Analyst, Cowen and Company

Q

Yeah. Thanks, guys. I had a couple quick questions. First on the CMS segment, you talked about the \$10 billion of source selection bids out there. Does that – is that net of the \$4 billion NASA contract? And in general, what are you looking at for the September quarter? Were you looking for some fairly sizable bookings? And if you could also refresh us on the recompile dynamic over the next 12 months. How much of the CMS business is up for rebid?

Steven J. Demetriou

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

A

Let me just start and, Bob, you can pick up this. So, the in-source selection around the \$10 billion...

Robert Venkat Pragada

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

A

It's net.

Steven J. Demetriou

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

A

...it's net. So, I just want to be clear that the Johnson win is not in our backlog in the third quarter and will be added to the backlog in the fourth quarter. But what we're talking about now, moving into the fourth quarter with our bid processes, I already covered several billion of that being around the cyber and intelligence business and also some opportunities specifically in our aero segment working with the US government. So, we're talking about net around all of that. Bob, do you have anything to add?

Robert Venkat Pragada

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

A

No, I mean the probably the biggest recompile is NASA Kennedy that is coming up later in the year. We're currently an under extension there. So, we like our – we're confident about our opportunities in both Q4 and Q1.

Steven J. Demetriou

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

A

Let me just clarify that the \$10 billion is new business, not rebid. So, it's new awards pending.

Robert Venkat Pragada

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

A

New awards in source selection and it's net of NASA.

Steven J. Demetriou

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

A

Yeah.

Robert Venkat Pragada

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

A

Yeah.

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

Sean D. Eastman

Analyst, KeyBanc Capital Markets, Inc.

Q

Hi, team. Thanks for taking my questions. I just wanted to come back to the investments being made this year. I think it's been clear all through this year that this is somewhat of a major investment year for Jacobs. And it sounded like they actually ramped up in the third quarter with sort of incremental investments offsetting that gain on sale. I just wondered how much of that ramp is Jacobs really getting more aggressive and really bolstering that personnel to support growth versus it ending up costing more than you thought at the start of the year to build up that personnel to support growth. I hope that's a fair question.

Kevin Christopher Berryman

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

A

So, let me characterize our investment profile. Certainly, we entered the year with, as we've talked about over the course of the fiscal year, some pretty strong investment profiles associated with the expected growth. We've actually reduced that a tad in Q3 and Q4 as we've seen a delay in some of the revenue build that we envisioned happening faster and sooner in the second half of 2022.

Now, this one particular investment partially offset the WatchGuard benefit, but I think we've continued to be very proactive in supporting people. I know that PA has invested in terms of salary improvements and have increased their pricing associated with efforts in that regard. So effectively, I think it's been broad based that we've continued to be investing against our people and supporting our people, but actually probably faster in the first half versus the second half other than this incremental investment we just made because of the WatchGuard benefit.

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

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Good morning, everyone.

Kevin Christopher Berryman

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

A

Hey, Andy.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Can you give a little more color into the PA Consulting margin? I know you talked about it being pressured by FX and the incremental investments. Can you quantify those investments possibly? And I know you mentioned margins, you've returned over 20% in the short term. But do you still have confidence in your longer term margin expectation for PA, that sort of [ph] 23% (00:57:14) flattish as you [indiscernible] (00:57:16) over the next several years?

Kevin Christopher Berryman

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

A

Yeah, I'll take a crack at it. And then, we have Ken here with us, so I'll turn it to him to see if he has any additional color. But the PA team has been very aggressive in getting new talent into the organization, both at an executive level and at a partner level, which ultimately helps drive and support incremental growth going long term. They

were very successful, especially in Q3 and bringing on board a bevy of talent, which is going to be positioning them for really strong growth going forward in 2023. That all came together and, fundamentally, when they brought those folks on board, they're not obviously originally billable from day one. And so that put some pressure on the gross margin.

Now, it's just about adjusting the hiring going forward, determining how much they need and they'll start to see an improvement back up to the operating profit margin that we discussed in the prepared remarks over 20% in our fourth quarter and, ultimately, beyond into 2023 and beyond. And we feel confident on that. Ken?

Kenneth John Toombs

Chief Executive Officer & Director, PA Consulting Group Ltd.

A

Yeah. I think I think you hit it, Kevin. Two things, one was a significant amount of senior executive hiring, which came together all at the same time. So, we actually had five senior executives join in the same quarter, which had significant costs with it. And then, the second part was given the large deals that we have in pipeline that we historically have not had, we started to ramp up hiring in advance as to make sure we can actually service those if we win one or more of them. So we're very confident about the profile going forward. We, obviously, watched our recruiting [indiscernible] (00:58:52) the pipeline remains very active and strong [indiscernible] (00:58:56).

Operator: Your next question comes from the line of Sabahat Khan from RBC Capital Markets. Your line is open.

Sabahat Khan

Analyst, RBC Dominion Securities, Inc.

Q

Hey. Great. Thanks and good morning. Just kind of first question is, the 50 grants that I think Steve called out earlier related to the IIJA, any way you could quantify sort of the dollar amount or how much of that money sort of come through already?

And then just a second question is maybe a bit more philosophical, but as you mentioned earlier, you're seeing not really any meaningful slowdown in the outlook, but in the past downturns, governments really stepped up with spending across some of your end markets and regions. In the conversations you're having and how much those governments have spent over the last couple of years, what do you think the propensity of there to step up, if there is any meaningful slowdown as you look over the next one, two, three years? Thanks.

Steven J. Demetriou

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

A

Yeah. Let me start. Steve here. Let me start with it and then I'll turn it over to Bob. But first of all, congratulations. We understand you just got a new baby and wish you success on that. [indiscernible] (00:59:58).

So, on the grant side, I mentioned 50, there's – we really right now just some small fees associated with that. But the big opportunity is that we see the first 12 coming to fruition as far as the gov decision over the next few weeks. And then those will start to ramp up, and there's other grants on the back of that. So, we have yet to see the benefit of those and we're pretty excited about what those will lead to as the procurement cycle progresses on those.

Bob, [indiscernible] (01:00:32).

Robert Venkat Pragada

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

A

Yeah. Maybe just to add on to that, which would then lead into those growth trajectories that we highlighted in our strategy, which we're gaining more confidence around that specifically in our infrastructure business in three major markets, which – actually four, [indiscernible] (01:00:52) Middle East, but in the US, UK and Australia.

On the government's historical reaction to recessionary type period, and then how does that compared to what's happening right now, we actually see that step-up as being positive again. We're seeing governments pretty bullish on infrastructure spend, and then in areas where there might be a little bit [indiscernible] (01:01:12). Those political candidates that seem to have some traction in the marketplace or making very vocal comments about putting more money into major programs in those geographies. So all in all, we're feeling very positive about what the future looks like in infrastructure.

Kevin Christopher Berryman

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

A

Gautam (sic) [Sabahat] (01:01:31), you also asked about the percent of money that's out there. I think it's over 30% now on IJJA. I don't know exactly what the number is right now, but it's over 30%.

Operator: And there are no further questions at this time. Mr. Steve Demetriou, I turn the call back over to you for some closing comments.

Steven J. Demetriou

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

So, I just want to thank everyone for calling in and we look forward to updating you next quarter.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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