

Company Name: Jacobs Solutions Inc
Company Ticker: J US
Date: 2022-11-21
Event Description: Q4 2022 Earnings Call

Market Cap: 15374.00604587645
Current PX: 121.69499969482422
YTD Change(\$): -17.535
YTD Change(%): -12.594

Bloomberg Estimates - EPS
Current Quarter: 1.683
Current Year: 7.7250000000000005
Bloomberg Estimates - Sales
Current Quarter: 3519.417
Current Year: 15028

Q4 2022 Earnings Call

Company Participants

- Jonathan Doross, Investor Relations
- Steve Demetriou, Chair of the Board & Chief Executive Officer
- Bob Pragada, President & Chief Operating Officer
- Kevin Berryman, President & Chief Financial Officer

Other Participants

- Bert Subin, Analyst
- Louie DiPalma, Analyst
- Michael Dudas, Analyst
- Jamie Cook, Analyst
- Jerry Revich, Analyst
- Steven Fisher, Analyst
- Andy Kaplowitz, Analyst
- Sean Eastman, Analyst
- Chad Dillard, Analyst
- Michael Feniger, Analyst
- Gautam Khanna, Analyst
- Andrew Whitman, Analyst
- Sabahat Khan, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Brent, and I will be your conference operator today. At this time, I would like to welcome everyone to the Jacobs Fiscal Fourth Quarter and Full Year 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.

It is now my pleasure to turn today's call over to Mr. Jonathan Doross, Investor Relations. Sir, please go ahead.

Jonathan Doross, Investor Relations

Thank you. Good morning to all, our earnings announcement and 10-K were filed this morning, we have posted a copy of the slide presentation on our website for your reference during the conference call. I'd like to refer you to Slide 2, of the presentation materials for information about forward-looking statements and non-GAAP financial measures.

Now 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; President and Chief Financial Officer, Kevin Berryman. Steve will begin by reviewing our fourth quarter results and then provide an overview of our software and technology platforms. Bob will then review our performance by line of business and Kevin provide a more in-depth discussion of our financial metrics as well as a review of our balance sheet and cash flow. Finally, Bob will provide details on our updated outlook

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along with some closing remarks and then we'll open up 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'll now pass it over to Steve Demetriou, Chair and CEO.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Thank you for joining us today to discuss our fourth quarter and fiscal year 2022 business performance and 2023 outlook. As I transition to Jacobs Executive Chair, I'm excited and confident about the next phase of our strategy boldly moving forward. This strategy continues to unlock and elevate our transformed high-performance culture to capture significant growth opportunities we've identified across climate response, consulting advisory, and data solutions, while benefiting from the recurring nature and diversity of our core businesses.

From a financial standpoint, we believe the rigorous execution of this strategy will result in enhanced long-term revenue growth and expansion in our profit margin profile. During our last two strategies, we maintained and focus on continuing to reshape our business through organic investments, acquisitions, and divestitures, and by doing so we were able to deliver value for all of our stakeholders, including our shareholders. Since we started our journey together in 2016, we intentionally transformed our culture and our brand through revenue and expanded profit margins leading to a total shareholder return of approximately 250%, almost twice the return of the S&P 500. We believe the next phase will be equally as transformative as we maintain our brand promise of challenging today and reinventing tomorrow.

Let's now discuss our fourth quarter results. We're seeing strong demand with robust opportunities in our sales pipelines and a number of marquee recent wins, which underscores our strategy. During the quarter, net revenue grew 6% year-over-year and grew 11% on a constant-currency basis with another quarter of constant-currency growth across each line of business. Backlog was up 5% from the prior year's quarter and 8% on a constant currency basis.

Within People and Places solutions, our advanced facilities business again posted double-digit year-over-year top-line and operating profit growth in the fourth quarter, and the remaining P&PS units in constant currency also experienced year-over-year growth. During the current quarter, Critical Mission Solutions is beginning to see previously delayed opportunities enter the final stages with a major cyber win last week and with another one close declaring the protest period.

PA Consulty -- PA Consulting and constant-currency continued to show strong Q4 growth with revenue up 9% and backlog, up 8% year-over-year. PA successfully won a large multiyear contract with the Ministry of Defense to secure the next-generation soldier in what's proving to be a digitally-enabled battlefield. From a full-year standpoint, we finished the year within our original guidance range even when recognizing the translation impact from the strengthening US dollar with double-digit net revenue and operating profit growth on a constant currency basis.

Turning to Slide 5. Let me discuss some element of our data solutions accelerator that's housed within the Divergent Solutions business unit which we will formally breakout starting in our fiscal first quarter of 2023. We have consolidated the majority of our software and data solutions into a single unit to gain benefits from consistent product management, marketing, and research and development.

Our data solutions are aligned three high-growth verticals transportation, water, and national security. A competitive differentiation of our vertical software platform is access and integration of unique datasets and the ability to turn that data into actionable outcomes for our customers. For example, our StreetLight Data platform is a SaaS solution that in just a variety of mobility, data sources into proprietary algorithms that provide data analytics for both traditional transportation clients and get projects within the broader infrastructure market.

Our GeoPod technology creates mapping data from multiple confidential customers as they plan for autonomous driving, precision agriculture, and other aerial surveillance requirements. In water, we continue to leverage smart algorithms developed by our domain experts to optimize our clients operations and maintenance. Both AquaDNA and our intelligent O&M -- both AquaDNA and our Intelligent O&M solutions can save 10% to 30% in energy used for wastewater treatment.

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We continue to expand our water solutions across our client's assets lifecycle. From a national security standpoint, our extreme search solution has proprietary algorithms that compute ability that can rapidly search large volumes of real-time or a lot of data. One critical use case is quickly finding indicators of compromise to prevent cyber breaches. Given the significant amount of data that will be created and utilized in IT and OT environments, we believe the applications of these type of solutions are in the early stages of decades of robust growth.

Before I turn the call over to Bob. First, I'd like to thank the amazing people at Jacobs for living our values and progressing our culture over the last several years. Every single day Jacobs is providing critical solutions globally. For example, most recently supporting NASA for the Artemis launch to the moon or consulting on green hydrogen solutions for sovereign nations, delivering world-scale biotechnology manufacturing solutions, remediating harmful chemicals from our water, or planning autonomous transportation for the city of the future. It is truly our people that make Jacobs a company like no other.

Now, I'd like to congratulate Bob on his appointment to CEO and say that I'm excited we have an experienced and dynamic leader who brings decades of industry domain knowledge and a proven track record to leave -- to lead our boldly moving forward strategy into the future. Bob?

Bob Pragada, President & Chief Operating Officer

Thank you, Steve. I'm honored to take on the role as CEO early next year and advance exciting work underway to further diversify our capabilities and offerings, increasing opportunities and value for our people, our clients, and our shareholders alike. I want to thank Steve for his partnership and guidance over the past seven years. He is an incredible leader who inspires all around in the lebit for members like the CHA at Jacobs.

I'll begin on Slide 6, discussing our People and Places Solutions business where we achieved strong top and bottom-line results with backlog up 8% year-over-year and 12% in constant currency. The critical infrastructure priorities on the rise over the past year, our quarter results show that we've been successful in converting opportunities into accessible backlog. This success is underpinned by our global workforce, which expanded 12% this year. For example, in FY '22, advanced facilities operating advanced facilities unit operating profit grew by well over 25% on a constant-currency basis due to our scalable multi-geography delivery teams.

Overall, we see our quarter results as Jacobs strategy and action. it's proved that Jacobs deep domain expertise can transform client outcomes by replacing conventional infrastructure delivery with modern data-enabled solutions. I'll discuss results under the themes of supply-chain diversification, infrastructure modernization, and climate response. Across these themes, I'll highlight how our technology and data solutions enable our success.

First, supply chain diversification has led to expanded delivery for clients with long-term investment profiles that continue through changing economic conditions. In Life Sciences, our clients are in the middle of a generational expansion of therapeutics and vaccines as well as advanced healthcare impacting people on a global scale. Our confidential clients can accelerate production capacity for lifesaving medicines for the most widespread chronic diseases by leveraging Jacobs expertise in digital design to optimize delivery across multiple large-scale biotech campuses. We are also advising and delivering predictive analytics for point of care treatment resulting in improved outcomes for a growing and aging population with clients such as New South Wales Health Infrastructure in Australia, Children's Hospital at Philadelphia, and the Centers for Disease Control in the US. Jacobs remains uniquely positioned across the entire electric vehicle ecosystem to address all aspects of this rapidly expanding market from manufacturing capacity to EV charging infrastructure to advanced mobility implementation. With favorable tailwinds, and expanding this with automobile and EV manufacturing clients are seeking Jacobs leading support to develop sustainable production capacity.

Moving to Climate Response, global demand for affordable green energy led to an increase of over 33% in bookings with wins across multiple geographies, including the UK's National Grid, US Department of Energy, Elenergy in Korea, where we are developing a new green hydrogen production and import facility.

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In the US, IJA supported pipeline is building momentum and projects are moving through the sales cycle linked to delivery. For example, there is a broad focus on transportation decarbonization with support for the National Electric Vehicle Infrastructure Program (NEVP) across multiple NDOT. Charging infrastructure for the Navy and in multiple states under the low or no emission vehicle grant programs. For the Environment Agency in the UK, we are delivering a digital proof of concept leveraging spatial, predictive analytics to avoid extensive damage and human casualties due to flooding and other climate driven disasters. At the same time, national highways chose us to streamline their complex data landscape thanks to our cyber and digital capabilities partnered with PA Consulting. With StreetLight Data Multimodal Transportation Insights platform, we've expanded opportunities for both traditional public sector transportation clients and new private sector clients to prioritize marketing and real estate investments.

Water sector clients are investing in our new technologies, such as AquaDNA, Dragonfly and intelligent operations and maintenance. These integrated AI and ML cloud-based technologies enable clients to provide reliable clean water access for all communities leading to expanded services this quarter from wins in Puerto Rico, Florida, Louisiana, the UK, Singapore, and Australia. These innovative platforms are driving new standard for asset management. In Hawaii, we are delivering a 20-year installation development plan to address climate adaptation for the Joint Base Pearl Harbor hiccup.

Under infrastructure modernization, mega-program delivery trends continue as clients look for a more efficient way to deliver sustainable livable places. In Scandinavia, we are designing the Nordhavn tunnel across the harbor in Copenhagen, Denmark, and in Toronto, Metrolinx recently awarded Jacobs a multi-year expansion to support their \$85 billion regional transit expansion.

In summary, people and place exclusions is positioned for long-term growth as evidenced by strong performance across all geographies and client segments. Clients are continuing to partner with Jacobs to deliver transformative infrastructure, advanced manufacturing expansion, and energy security projects with sustainable lasting outcomes.

Moving to Slide 7 to review Critical Mission Solutions line of business. CMS delivered a solid performance in the fourth quarter with backlog remaining strong at \$10.6 billion, flat year-over-year, with gross profit and backlog was up 10% year-over-year and 12% in constant currency. Our CMS strategy is focused on creating resilient revenue growth and margin expansion by offering technology-enabled solutions aligned to critical national priorities. CMS's servicing solutions offering are delivered across our core customer markets base, cyber, intelligence, defense, and energy, and we continue to see strong demand for our solutions across all of them.

In space, Jacobs played a critical prime contractor to NASA's Artemis program including being the key integrator of the successful unproved launch last week of the Space Launch System rocket in preparation to send US astronauts back to the moon by 2025. The Artemis I launch its historic and we are proud of Jacobs growing emission. Also, we were awarded contracts by the Scottish rocket manufacturer and small sat launched service provider Orbex. We helped them build and operate a vertical launch site for satellites in the UK.

Several trends in other Jacobs key markets that we are seeing contributing to our continued growth include zero-trust architecture, hypersonics, and modular reactors. Beginning with zero trust architecture or ZTA. White House Executive Order 14028 mandates adoption of ZTA cyber security models across the Federal government. Importantly, ZTA requires continuous verification of identity as movers, as users move laterally through network systems.

Jacobs cyber and intelligence team which is now part of our new Divergent Solutions operating unit is the program manager for one of the intelligence communities' largest directorate responsible for Identity, credential and access management, ICAM. ICAM is a critical architectural component of perspective, zero trust models, and Jacobs technical leadership in this area positions us to help clients across the federal government meet the White House Executive Order.

Our cyber and intelligence business unit has a significant pipeline of opportunities requiring ZTA adoption. In Q4, our cyber and intelligence team also won several new large non-ZTA contracts including an agile software development and sustainment contract for a classified contract, and one assisting the Navy to advance our radar sensing capability at the Naval Research Laboratory. We also recently cleared the protest period for a \$470 million six-year IDIQ providing identity intelligence supports to the DoD, which is not yet reflected in the backlog.

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Moving on to hypersonics. With advances in hypersonic missile technology by China and Russia, the US Department of Defense is developing missile defenses to defend against hypersonic weapons and other emerging missile threats. Because hypersonic weapons fly at speeds of at least Mach-5 roughly one mile per second and can maneuver en route to their target, they are more difficult to defend against. Jacobs has decades of experience supporting the US Air Force and NASA and is positioning itself as a leader in hypersonic solutions.

In last quarter Jacobs was awarded a five-year \$100 million IDIQ to help the US Navy design and operate an underwater launch test system at the Naval Surface Warfare Center. The contract also covers modernization, design, fabrication, and operation support for an in air launch testing platform at the Naval Air Weapons Station China Lake in California. Finally, demand for modular reactors. Nuclear power is coming into favor as a clean-energy alternative to fossil fuels. For countries to achieve their net zero carbon emission goals and ensure energy independence and security leaders are realizing they need to include the always on emission-free generation.

Small modular reactors or SMRs are reactors with electric generating capacity of 300 megawatts versus traditional large reactors with generating capacity of one gigawatt or more. SMRs have numerous benefits including lower initial capital investment, greater scalability to battery manufacturing processes, greater siting flexibility on smaller grids in isolated areas, and greater energy efficiency. In the UK, we are delivering engineering and technical services to the Rolls Royce SMR program and licensing advice to GE Hitachi nuclear energy as they look to enter the UK market.

There is also increased interest in new advanced modular reactors or AMRs that can be designed to provide specific benefits that's just producing high heat for green hydrogen production. We are supporting multiple AMR vendors in the US and UK. Jacobs is a leader in global nuclear solutions building on our long legacy of organic capabilities and acquisitions of CH2M and Wood Nuclear.

In summary, we continue to see solid revenue visibility for our solutions in FY '23 with approximately 85% of CMS's portfolio consisting of large enterprise contracts with durations greater than four years and 88% from federal level government funding. We are also pleased with the Government Accountability Office's recent guidance to have the US airports reevaluate proposals for its large integrated support contract, ISC 2.0 in support of a new source selection decision, and, therefore, this remains in our pipeline as a potential multi-billion dollar opportunity. The CMS sales pipeline remains robust with the next 24 months qualified new business at approximately \$30 billion including \$10 billion in source selection with an expanding margin profile.

Moving on to PA Consulting on Slide 8. PA continues to deliver its strategy and a secure exciting and enduring work. PAs deep client insight, lasting relationships, and ability to serve clients through economic cycles. It's also generating consistent demand for its expertise. This quarter PA was awarded marquee wins across its key markets. As Steve mentioned in the UK public sector where it's a major player, PA was selected as the lead systems integrator for Chrenic, a multi-year contract providing next-generation solutions to counter threats posed by radio-controlled improvised explosive devices IEDs.

The contract leverages PA's extensive experience in major program delivery as they need the delivery consortium team protect. PA was also appointed to oversee the delivery of a once in a generation program for social care reform in the UK, further cementing its position in government and public sector. Transport continues to be a major focus with additional awards one at Schiphol Airport in the Netherlands, where the joint capabilities of Jacobs and PA continues to create further opportunities to include boardroom advisory and digitalization of airside operations.

The Jacobs PA partnership is strongly positioned to continue to capitalize on substantial market opportunity. Jacobs global footprint and broad-based domain expertise together with PA's high-end digital consulting creates a compelling value proposition in distinct areas of opportunity.

Now I'll turn the call over to Kevin to review our financial results in further detail.

Kevin Berryman, President & Chief Financial Officer

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Thank you, Bob, and turning to Slide 9, for a financial overview of our fourth quarter results. Fourth quarter gross revenue grew 8% year-over-year and net revenue is 6% and, up 11% year-over-year on a constant currency basis. All lines of businesses grew fourth quarter revenues over 9% versus a year ago in constant currency. Adjusted gross margin in the quarter as a percentage of net revenue was 26%, and improved slightly from the third quarter but was approximately down 130 basis points year-over-year, primarily driven by one, our CMS line of business due to the newly ramped remediation contract and two, investments in incremental employees and PA in advance of the large ones such as the UK MoD award that will ramp over the coming months. We expect gross margins to modestly improve from Q4 levels during fiscal 2023 driven by recent wins in cyber.

Favorable revenue mix, the recent wins in PA Consulting, and continued strong performance in our People and Places Solutions business. Adjusted G&A as a percentage of net revenue was 15.2%, down 40 basis points from Q3 and down 200 basis points year-over-year. During the quarter we benefited from lower labor expenses as we managed our cost structure. We are targeting G&A as a percentage of net revenue to stay below 16% for the full fiscal year 2023.

GAAP operating profit was \$309 million and was mainly impacted by \$52 million of amortization from acquired intangibles, and other acquisition deal-related costs, and restructuring efforts of \$14 million with over half associated with integration cost of acquisitions, and finally a positive benefit from third-party recoveries of \$27 million pre-tax which we excluded from our adjusted results. Adjusted operating profit was therefore \$347 million up 15% year-over-year and on a constant-currency basis, it was up 19% year-over-year.

Our adjusted operating profit to net revenue was 10.7%, up 80 basis points year-over-year. I'll discuss the moving parts later when reviewing the line of business performance. GAAP EPS from continuing operations was \$1.75 per share and included a \$0.16 benefit from the third-party recovery receivable, a \$0.12 benefit to align to our effective adjusted tax rate offset by a \$0.27 impact related to the amortization charge of acquired intangibles and \$0.06 from transaction, restructuring and other related costs. Excluding these items, third quarter adjusted EPS was \$1.80, up 14% year-over-year and up 18% in constant currency. Jacobs consolidated Q4 adjusted EBITDA was \$350 million and was up 13% year-over-year, representing 10.8% of debt revenue. On a constant-currency basis, adjusted EBITDA was up 17% year-over-year.

Finally, backlog was up 5% year-over-year and 8% on a constant-currency basis. Sequentially, backlog was impacted by the strengthening US dollar at year-end compared to the end of the third quarter. As an example, the dollar strengthened 8% versus the pound sterling from the end of Q3 to the end of Q4. As a result on a constant-currency basis, backlog was flat sequentially.

The revenue book-to-bill ratio was 0.94 times with our gross margin book-to-bill at 1.05 times, given the higher-margin profile within backlog on both a year-over-year and sequential basis. Our book-to-bill ratios continue to be impacted by the burn of the approaching Kennedy NASA rebid as backlog continues to fall until which time the rebid is awarded.

Now moving to Slide 10 for a brief recap of our full-year 2022 performance. Final year gross revenue grew 6% year-over-year and net revenue grew 10% in constant currency. On a reported basis, we expect fiscal 2023 revenue growth in the mid single digits and high single digits on a constant currency basis. GAAP operating profit was \$918 million, up significantly year-over-year driven by a material decrease of one-time items related to transaction and restructuring as well as solid underlying constant currency growth in the business.

GAAP EPS was \$4.98 and adjusted EPS was \$6.93, up 10% year-over-year and up 13% on a constant currency basis. Adjusted operating profit grew 10.6% and was up 13% on a constant currency basis. Operating profit margins expanded nearly 30 basis points to 10.4% driven by revenue mix benefits and lower support costs. Adjusted EBITDA was \$1.36 billion, up 10% and up 12% in constant currency. As a percentage of net revenue, adjusted EBITDA was 10.8% up 20 basis points from fiscal 2021.

We expect modest adjusted operating profit margin expansion in fiscal 2023 driven by a combination of a higher-margin revenue mix and lower employee-related costs. However, adjusted EBITDA margins are expected to be flat year-over-year as other income will be burdened primarily by unfavorable pension costs driven by the higher interest rate environment. On a trailing 12-month basis, book-to-bill was 0.97 times and gross margin book-to-bill was

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over at 1.05.

Regarding our LLP performance, let's turn to Slide 11 for Q4 performance and Slide 12 for full-year performance. Starting with CMS, Q4 revenue was up 10% year-over-year and up 12% in constant currency. BlackLynx contributed approximately \$22 million to the fourth quarter revenue. Fiscal 2020 revenue on a reported and constant-currency basis grew 3%. As a part of the year -- as the first part of the year do not benefit from the ramp of the Idaho nuclear remediation win. BlackLynx contributed \$59 million of revenue for fiscal year 2022. For fiscal year 2023, we expect revenue growth in the mid single digits for the CMS business and higher double-digit growth in our Divergent Solutions-- Divergent Solutions unit.

Q4 CMS operating profit was \$95 million, down 17% year-over-year and down 14% on a constant currency basis. Operating profit margins as a result were down 220 basis points year-over-year to 6.9%. Consistent with our previous outlook, Q4 operating profit and operating margin percentage were impacted by a rate true-up in our cyber and intelligence business. The rate true-up was related to higher G&A cost over the course of the year given the slower ramp-in the business during the continuing resolution.

Looking forward we have successfully been awarded a large new classified cyber when that was previously delayed during the continuing resolution indicating developing momentum. Looking into fiscal 2023, we expect approximately 75 basis points of sequential operating margin expansion in Q1 driven by immediate rebound from the one-time rate true-up in Q4. We're also targeting further margin expansion through fiscal 2023 as we win and ramp new higher margin awards.

Moving to People & Places Solutions. Overall P&Ps delivered strong revenue and operating profit results. Q4 net revenue was up 6% year-over-year and up 10% in constant currency. On a constant currency basis, each P&Ps region demonstrated net revenue growth, for the full-year P&Ps grew 4% on a reported basis and 7% in constant currency. Looking deeper into our business units, our Advanced Facilities unit, which benefits from investments in the life sciences, semiconductor, and EV supply chains posted another stellar quarter of double-digit revenue and operating profit growth.

For the fiscal year, the business grew operating profit well north of 25%. We expect our Advanced Facilities growth rate continue to remain robust during the fiscal year 2023 at approximately 10% despite the strong year-over-year comparisons. The P&Ps International business, Q4 revenue, and operating profit was essentially flat year-over-year on a reported basis but grew double digits in constant currency. For the full-year International operating profit was up 10% year-over-year on constant currency. Our international business will continue to be materially impacted by FX during fiscal 2023, resulting in flattish reported revenue growth but it's poised for full-year growth on a constant currency basis.

Total P&Ps Q4 gross profit and margins were up year-over-year with Q4 operating profit up 31% and operating profit as a percentage of net revenue up 275 basis points driven by revenue growth and mix as well as lower labor cost during the quarter. Full-year People & Places operating profit was up 5.5% on a reported basis and up 10% in constant currency with operating margins of 13.2%, up 20 basis points versus a year ago.

In terms of PA's performance, PA Q4 revenue declined 7.7% year-over-year in US dollars, grew 9% in pound sterling. Q4 adjusted operating profit margin was 19.4% during the quarter due to continued lower utilization and investments in pipeline pursuits. As Bob mentioned, PA Consulting has been successful in winning the large clinic award with the MoD, for which we expect to show benefit later in 2023. We continue to target double-digit revenue growth on a constant currency basis with operating margins returning to above 20% throughout 2023 driven by improved utilization.

Our non-allocated corporate costs were \$28 million, down year-over-year as we benefited from lower incentive costs and to a lesser extent from a positive currency impact on our support costs and other benefits. We now expect non-allocated costs, corporate costs to be \$190 million to \$210 million for fiscal 2023 which is slightly higher than fiscal year 2022 as we expect higher incentive costs on a year-over-year basis.

Now turning to Slide 13 to discuss our cash flow and balance sheet. Cash flow generation continues to be strong. Free cash flow was \$230 million in Q4 and included \$12 million related to transaction costs and other items. On a full-year

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basis, reported cash flow was \$347 million but included the net \$475 million of cash outflows related to the previously announced Inpex settlement. The first \$55 million repayment of CARES Act payroll tax deferral and a net \$4 million cash benefit related to other items. Excluding these items, free cash flow conversion to adjusted net income was 97% for the year.

For fiscal 2023, we expect two items to impact cash well, and approximately net \$15 million of further cash outflows from restructuring, transaction, and other related costs and a final repayment of \$60 million of CARES Act payroll tax deferral benefit. Excluding these items, we anticipate again to achieve a 100% free cash flow through adjusted net earnings in fiscal 2023. We also continue to evaluate further real estate opportunities given our developing insight as towards longer-term needs given the hybrid work environment, and we will update on our Q1 earnings call with further developments in this regard.

During the quarter we repurchased approximately \$31 million of shares and for the full year, we repurchased \$282 million. After September we have continued to be actively purchasing shares with approximately \$135 million repurchased as of last week. As we have said before we will remain agile and opportunistic in repurchasing shares as we see disruption in the market.

We ended the quarter with cash of \$1.1 billion and gross debt of \$3.4 billion resulting in a \$2.3 billion of net debt. Our Q4 net debt to 2023 expected adjusted EBITDA of approximately 1.6 times is a clear indication of the continued strength of our balance sheet. As of the end of Q4, approximately 60% of our debt is tied to floating rate debt and as a result, we are expecting incremental interest costs going forward which we have incorporated into our outlook. As of the end of the fourth quarter, our weighted average interest rate was approximately 3.6%.

Early in the fourth quarter, we entered into a notion of \$500 million interest rate lock at a rate of 2.7% as related to a planned future fixed-rate issuance. The mark-to-market benefit from in the money interest rate lock is currently recognized as other comprehensive income but will offset interest expense of our future expected fixed income issuance. Also in early October, we redeemed \$481 million of private notes at par.

In the appendix on Slide 16 of this presentation, we included additional detail related to our debt maturities, interest rate derivatives and quarterly interest expense. Finally given our, strong balance sheet and free cash flow, we remain committed to our quarterly dividend which we announced at the end of the fourth quarter of fiscal 2022 and paid on October 28.

I will now turn the call back over to Bob.

Bob Pragada, President & Chief Operating Officer

Thank you, Kevin. Turning to Slide 14. As we discussed throughout our remarks, through proactive portfolio management we have aligned our business at sectors bay that can demonstrate robust growth through multiple economic scenarios. We continue to enhance our overall growth rate with our climate response, consulting and advisory, and data solutions strategic accelerators. Given the volatility of FX rates, we are providing our outlook under two FX scenarios. One, an outlook based on constant currency, which provides greater insight of underlying business performance; and two, an outlook based on more recent FX rates.

Although we transact in multiple currencies one example for reference is the pound sterling. The fiscal year 2022 average conversion rate for the pound sterling was a \$1.28 compared to \$1.15 in early November 2022. As footnoted in our earnings release and investor presentation based on fiscal 2022 average rate, our outlook for fiscal 2023 adjusted EBITDA is \$1.465 billion to \$1.545 billion and adjusted EPS of \$7.60 to \$7.90 up 10% and 12% respectively at the midpoint.

Based on rates in early November, our outlook for fiscal 2023 adjusted EBITDA is \$1.4 billion to \$1.48 billion and adjusted EPS of \$7.20 to \$7.50 both up 6% at the midpoints. On a net revenue basis, the difference between these two scenarios is approximately \$430 million. Looking beyond fiscal 2023, we remain confident in achieving double-digit constant-currency adjusted EBITDA growth consistent with our strategic plan.

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YTD Change(\$): -17.535
YTD Change(%): -12.594

Bloomberg Estimates - EPS
Current Quarter: 1.683
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Bloomberg Estimates - Sales
Current Quarter: 3519.417
Current Year: 15028

Operator, we will now open the call for questions.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Bert Subin with Stifel. Your line is open.

Bert Subin, Analyst

Hey, good morning, and congratulations to both Bob and, Steve.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Thanks, Bert.

Bob Pragada, President & Chief Operating Officer

Thanks, Bert.

Bert Subin, Analyst

Bob, maybe start out with you. You ended talking about, you are feeling pretty confident on sort of double digit growth. You guys had previously provided your fiscal '24 targets by segment on both the margin in a sales basis. If we exclude the impact of FX, do you still remain confident in those bands across each segment.

Bob Pragada, President & Chief Operating Officer

We do, Bert. The tailwinds that we see in the markets that we're serving, we stand by those commitments that we made on to '24, in the '24 strategic plan.

Bert Subin, Analyst

Okay, and just a quick follow-up in terms of thinking about P&PS performed really well during the quarter, and you made some pretty positive comments on what you're seeing on the advanced facility side, should we expect any sort of incremental softness just as your semiconductor clients slow their CapEx spend, and in terms of the infrastructure side of things in this segment, are you starting to see a material uptick from IJIA or is that just the plan as you progress through '23.

Bob Pragada, President & Chief Operating Officer

Sure. so let me answer the first question. On the semiconductor spend, the industry as a whole from a demand standpoint is in a bit of soft period. The client base and the geographies that we're working we have not seen that and so the front-end work, the design work, the momentum that we've seen over the course of the last six to eight quarters that has not slowed at all, and so we're feeling comfortable about where we fit in that ecosystem of consultants to that industry specifically with our client base. So we're positive on that front.

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On IJJA, we are actually, we are seeing those projects that we had been tracking through the development of both grant as well as the formula funding coming to fruition. Probably the bigger element to that is that the lease of those monies is actually unlocking the base funding that the states previously specifically during COVID had locked up, not knowing kind of what the future looks like so overall the pipeline is up in the US basis in infrastructure our pipeline is up 4% to 5%, I'm sorry, 5% without IJJA, 18% with IJJA from a pipeline standpoint so we are seeing that.

Operator

Your next question is from the line of Louie DiPalma with William Blair. Your line is open.

Louie DiPalma, Analyst

Good morning Steve, Bob, Kevin, and Ken. I would like to echo, congrats to Steve and Bob on your new role.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Thank you.

Bob Pragada, President & Chief Operating Officer

Thanks, Louie.

Louie DiPalma, Analyst

For Steve and Bob, you referenced several cyber intel awards associated with your KEYW and Buffalo Group acquisition. Are these awards margin accretive and should the critical missions operating profit in 2023 be back to the 2021 level?

Bob Pragada, President & Chief Operating Officer

So both questions, Louie, the answer is, yes. The two awards that Steve and I specifically spoke about are coming in through those two at the portals or through those relationships that we have and the acquisitions that we made during that period. So we are seeing that they are margin accretive. The flip side of this is that these are awards that we had expected in previous quarters and we talked about it a lot in previous earnings calls. The knock-on effect of the CR has now had an effect on kind of when those things start. So, we do see margins going up, and these are serving as catalyst for that too.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Yeah, another thing Louie '21 was the high point. So, I would say that the underlying business is returning. We had some other events in 2021 that accelerated the margin a little bit higher. We had some one-off closeouts which were pretty strong but I think in 2023 the underlying is getting back up well into the 8%. I would say so maybe not all the way back up to that, I think we are at 9% in 2021 but we're going to get underlying to be quite consistent with 2021.

Operator

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

Michael Dudas, Analyst

Good morning, gentlemen.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Good morning.

Bob Pragada, President & Chief Operating Officer

Hello, Mike.

Michael Dudas, Analyst

Maybe for Bob or Kevin, you call out in your CMS, the improvement in the book-to-bill but also the gross margin book-to-bill and maybe you can talk a little bit about PP&S and PA seeing a similar way, you won't give out the actual numbers and, how much is as you look into timing of awards and ramp-up and some of the utilization issues that you were fighting through in '22. Is that more a mid to later '23 to show some much better pay for FX better growth as we move towards the end of '23?

Bob Pragada, President & Chief Operating Officer

I'm sorry Mike, you're breaking up, I was having trouble understanding you, I apologize.

Michael Dudas, Analyst

My wife says all the time. So first Kevin, I'm just talking about like your book-to-bill, you talk about the CMS gross margin book-to-bill maybe you can highlight in PP&S and PAC similar just observations, relative to what's in backlog, what do you anticipate in new orders and maybe the timing of those orders relative to your outlook for 2023?

Kevin Berryman, President & Chief Financial Officer

Yeah, okay. Got that. All right. Thanks, Mike. So, look People & Places continues to show good margin profile and backlog as well so so I think that's obviously a very critical part of our strategy when we think about delivering more value-added solutions. The margin has started to come with it so the backlog margin profile is better in People & Places and also it's better in PA as well and the dynamic of PA relative to the Q4 number really was effectively the continued utilization, we had expected to get up to around 20%, we felt a little bit short of that but it's continuing to improve and we would expect that will get back up to those more normalized levels that we saw over the course of '22 early '22 relative to the margin profile there.

Operator

Your next question is from the line of Jamie Cook with Credit Suisse. Your line is open.

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Jamie Cook, Analyst

Hi, good morning, and congrats Bob, and congrats, Steve. I guess, first question, over the long-term can you just talk to, on CMS can you talk to the strategic importance of CMS to the portfolio, and if margins continue to sort of underperform, would you consider sort of other options, or do you see a path over time to get to -- I think the margin improvement targets that you laid out in the 2024 targets like how long before we get there. And then my second question, Kevin the cash flow generation that you're implying for 2023. It's quite strong and your balance sheet is in good shape. So just trying to understand how you're looking at -- how you're thinking about the M&A profile versus our share repurchase. Thanks.

Bob Pragada, President & Chief Operating Officer

Just wanted to first.

Steve Demetriou, Chair of the Board & Chief Executive Officer

It's Steve here, Jamie. So I can speak for both the Board and Management around the question is. First of all the whole strategy around Divergent Solutions was to break out the elements of CMS that are highly consistent, especially with the Data Solutions side of our three accelerators. And so obviously, we're often running on that, we're excited about that, that's where we're really going to see accelerated margin growth, especially with these recent cyber wins that we've talked about but also across the entire platform and then when you get into the remaining CMS business just as an example nuclear, most recently has been surging with regards to becoming a clean energy, energy transition solution. And as you know, we are a major player in nuclear not just on the remediation side but the new build side, especially, on the new technology of advanced small modular reactor. So, we're excited about the future of those and we'll continue to monitor the entire company as far as et cetera long-term as we've done in the past and I mentioned in my remarks but we're very optimistic about the CMS business as we move into 2023.

Kevin Berryman, President & Chief Financial Officer

Jamie, about the cash flow. Yeah, we feel continued strength on our cash flow is expected over the course of 2023. That provides us degrees of freedom to your point about how we will deploy that additional capital that's available. So look I think we continue to monitor the M&A front, I think we were very clear during our strategy as to where we would be probably be focusing those ideas and thoughts relative to the three accelerators that we outlined in the strategy and we're continuing to monitor those opportunities. There are things out there that are being evaluated.

Obviously, got to result in better equaling ask where we feel like we can add an ROIC and return profile to our shareholders that are appropriate, and so we'll see how that plays out. Of course, we also talked about during the prepared remarks the proactive stance we've taken on the share repurchases and so we feel like we're well-positioned to be able to act when appropriate relative to a potential strategic opportunity and/or through share buybacks when there is market dislocation.

Operator

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

Jerry Revich, Analyst

Yes, hi, good morning, everyone. Steve and Bob congratulations.

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Steve Demetriou, Chair of the Board & Chief Executive Officer

Thanks, Jerry.

Bob Pragada, President & Chief Operating Officer

Thanks, Jerry.

Jerry Revich, Analyst

Bob, I'm wondering if you could just talk about your strategic priorities over the next three to five years just from a high-level standpoint, anything that we should be keeping in mind.

Bob Pragada, President & Chief Operating Officer

Yeah, Jerry, it wasn't something that-- we're bidding-- I've been thinking about a lot. Maybe a couple of precursor or comments and then directly to the question. The precursor or comment was and I tried to infer (inaudible) paid almost exclusively to which Steve has run the executive team and the company has been really a very inclusive and so when you look at our strategy and that's just not a one that we released last March but even in '16 and '19, so that's a strategy that was developed by all of us as a team. So, it's not me coming in with a new strategy, still very, very bought in and tied to the strategy that we have. So, the first big area around our clients, the accelerators that we have for the Mac -- the national and global priorities that are driving the world and so that's going to continue to drive our business as we come up with more technology enabled and client-driven type solutions.

The second is around investments in our people. Our people have delivered time and time again over decades but if you look at the profile of our people though our business is weighted towards the US, we have about a 55, 45 US versus outside of the US profile of our people really driven around that global delivery that we've accounted for so long and so those investments and continued driving around inclusion and diversity and sourcing talent from all over the world is going to be really, really important.

And the last piece I'd say is around resilience. Resilience in our business with regards to our systems and how we run the company but also simplicity of our business. We've diversified the business and we tried to have direct access to our clients but making that having simplicity in the forefront is really key as well. So, we're kind of segregated in those three main areas.

Operator

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

Steven Fisher, Analyst

Thanks, good morning. So we have about a month left on the current continuing resolution. So I'm curious what you've baked into the guidance for continuing resolution across your segments and then I guess there's clearly a lot of cross currents in the global economy at the moment. What do you see as any other big risks to your guidance and maybe what contingency plans you have in process to address those risks, Thank you.

Steve Demetriou, Chair of the Board & Chief Executive Officer

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Maybe I'll make some of these comments first and then I have my partners here add any additional commentary to think appropriate. So look I think we feel pretty good about the continuing resolution given the makeup of the Senate and the House and how that's going to be coming together and we just had a really deep-dive review from our government relations team feeling pretty good about how things are going to play out over the course of this quarter. So, we don't believe that there is going to be a continuing resolution that extends well into 2023. We're hoping that will become resolved near the end of the calendar year. So I think that we're already starting to see regardless of that continuing resolution some momentum building relative to what Bob alluded to is and I made some comments on, in terms of the cyber and intelligence business starting to get unlocked relative to bids being awarded and whatnot, so we think that the combination of those two things are embedded into our guidance and so we feel pretty good about it actually.

Operator

Your next question is from the line of Andy Kaplowitz with Citigroup. Your line is open.

Andy Kaplowitz, Analyst

Good morning, everyone. Steve and Bob, congratulations.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Thanks, Andy.

Andy Kaplowitz, Analyst

So you mentioned you're still targeting double-digit constant currency revenue growth for PA Consulting but I think constant currency growth in Q4 was in the high single digits but the recent large contract when you mentioned gives you the visibility you need to be confident around constant currency double digit growth for FY '23 despite UK economic concerns and does margin normalize higher quite significantly in PAs revenue ramps-up towards that 23% goal that you've given us before. Should we think about a gradual margin ramp-up from here in PA?

Kevin Berryman, President & Chief Financial Officer

So if you look at the ramp-up of the year, certainly, that large win is part of the equation but it ends up kind of building over the course of 2023 and so it's less of a direct impact in 2023. What we do believe and our view on the UK is that we have, I guess I would characterize us as being underwhelmed by the level of activity -- productive activity in the government which has actually put some pressure in the short-term relative to the UK, but with the recent budget that was announced and some of the activity of our clients are starting to look much better, so we're feeling like longer-term into 2023 that we're going to start to see some incremental momentum versus kind of what we've been seeing over the last, I'm going to call it six months.

So we're feeling that things will start to improve. The other thing is that the backlog and the pipeline of PA we're seeing no challenges associated with that, seen a little bit of the burn profile as mentioned just earlier relative to the, I'm going to call it the unknown relative to the UK government but we're starting to see that instance and that issue going away as we speak.

Bob Pragada, President & Chief Operating Officer

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Just to put some just to quantify, Kevin's last comment the pipeline growth in PA alone this quarter was 52% year-on-year. So the pipeline continues to grow, and the way we evaluate pipeline within the PA work and since it's a pure play consultancy our projects, programs, engagements where we already actually have started a bit of them too, so those are promising as well as the programs that were announced in the budget that Kevin referenced. Those are the programs that PA and Jacobs are actually partnered on right now. So hence a bit of positivity there along with some realism of the last couple of months on what's gone down.

Operator

Your next question is from Sean Eastman with KeyBanc Capital Markets. Your line is open.

Sean Eastman, Analyst

Hi, guys, thanks for taking my questions. I just wanted to confirm whether we should still anticipate Divergent Solutions to be broken out as a new segment starting in the first quarter and perhaps in advance of that, just trying to get a rough expectation as to what that business line is contributing to this initial fiscal '23 outlook maybe from an EBIT perspective.

Kevin Berryman, President & Chief Financial Officer

So the business is effectively operational right now, and we will be executing against the promise that we made relative to reporting that as a separate segment on the financials. So, Sean, we're on track to do that. So I think that -- what we're going to provide additional color commentary because we're still working through all of the accounting mechanisms to make sure that our systems are reporting accurately and the controls are in place because it's a pretty large change but I will tell you that it will be one of the highest growth areas that we're expecting in the company for 2023 and effectively it will be a margin profile that will be growing substantially over-time, a little bit lower in 2023 than what we expect at the exit rate but at the end of the day, we'll provide a lot of details in Q1 relative to that.

Operator

Your next question comes from Chad Dillard with Bernstein. Your line is open.

Chad Dillard, Analyst

Hi, good morning, guys.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Good morning, Chad.

Bob Pragada, President & Chief Operating Officer

Good morning, Chad.

Chad Dillard, Analyst

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Good morning. So, I was hoping just to expand on just like the opportunities for increased wallet share on infrastructure work. I mean, we can weave in some of the recent acquisitions and some of the expanded digital capabilities, and if you can just talk about just what sort of margin we should be kind of thinking about for these new projects.

Bob Pragada, President & Chief Operating Officer

Sorry, Chad, you were a little broken up there, can you repeat the question?

Chad Dillard, Analyst

Yeah, so can you just expand on what sort of incremental wallet share opportunity you have in your infrastructure business, and maybe weave into the recent acquisitions that you had in terms of our expanded digital capabilities?

Bob Pragada, President & Chief Operating Officer

Good. In infrastructure does that get that part?

Chad Dillard, Analyst

Correct.

Bob Pragada, President & Chief Operating Officer

Yeah, got it, okay. Yeah, in infrastructure the opportunities continue to grow, I'd say broadly driven mostly in the US but we're seeing this, Steve talked about the international, I'm sorry Kevin talked about the international business but heavily geared towards transportation and water with a growing profile around energy transition. And so those are kind of the three main areas, environment continues to be robust. So we see those, I mean the pipeline growth we talked about before has been really strong.

On the acquisitions, that's a business where Streetlight Data probably looks the last the one that we did with a smaller acquisition and we are immediately seeing the fit that we had anticipated in the deal kind of thesis around Streetlight all around that data enabled, use of data in driving a different type of solutions for our clients. They had clients before. Predominantly, the steep DoD in the US but that's been expanded with our relationships and then we're seeing private sector utilization too, as private sector firms have looked at the use of data in order to site different investments that they're making from a capital perspective. So, they're very positive news on that front.

Operator

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

Michael Feniger, Analyst

Hey guys thanks for squeezing me in. I believe you're guiding 2023 growth, mid-single-digit or high single-digit on a constant currency basis. You're citing some really robust sectors EVs, life sciences, reshoring, hydrogen, autonomous. So what isn't growing that fast in the portfolio, does it just take longer, is there momentum, or the project dollars get going or the organic growth profile actually reaccelerate further in 2024 and 2023 get just better operating leverage off that type of growth with higher utilization? How should we kind of think about that as we move forward into 2024?

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Steve Demetriou, Chair of the Board & Chief Executive Officer

Well, look if you think about the high single digits in terms of constant currency growth, I think that's pretty strong, actually. And look I think that the bottom line is, for example, Bob just quoted the pipeline growth in the United States, near 20% kind of growth in the pipeline. It just takes a while for that to kind of when it be one and then start to build the burn associated with that. So you're relying on your clients as much as you are anything else to be able to execute against that, sometimes not as quick, as we are ready to execute. So look I think it's a growing momentum and I think we're being prudent in assuming how that's going to build over the course of 2023.

Bob Pragada, President & Chief Operating Officer

If I could add, Kevin while we're adding on those end markets that do have a quicker burn profile. All three of us today talked about the growth in Advanced Facilities where that has been a catalyst for growth. So though the topline might be in those numbers that were quoted, we did say on a constant currency basis our bottom line growth would be double digits. So, I think there is some real optimism in the portfolio.

Operator

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

Gautam Khanna, Analyst

Hey, congrats, Steven and Bob.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Thanks, Gautam.

Gautam Khanna, Analyst

Just following up on some of the recent questions. Can you frame re-compete exposure in fiscal '23 and maybe even opine on '24 at CMS and wherever you think it's noteworthy, percentage of sales up for rebid or if there are any lumpy individual contracts that are up and maybe the timing of those?

Bob Pragada, President & Chief Operating Officer

Sure, I'd say that the re-compete exposure in '23 is moderate to low. We, it's predominantly in our CMS business and we've already got some real positive indications at some of those larger ones that are, actually there's only a couple, so I would not characterize that as a big exposure in '23.

Gautam Khanna, Analyst

Okay.

Operator

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Your next question.

Steve Demetriou, Chair of the Board & Chief Executive Officer

We've called out the one at Kennedy, which is that's a big one but we feel good about our position there.

Jonathan Doross, Investor Relations

Next question, operator.

Operator

Your next question is from the line of Andy Wittmann with Baird. Your line is open.

Andrew Whitman, Analyst

Great, good morning, and Bob congratulations on your promotion, Steve yours as well. Kevin, I just thought maybe a question for you. I wanted to understand the fourth quarter results here a little bit clear. I guess, your corporate unallocated expenses \$28 million and I think kind of suggesting was higher than that for the quarter as well as your guidance for '23 is implying a run rate of about \$50 million per quarter. So I was wondering I guess you called out incentive comp you also mentioned an FX impact keeping that number down this quarter. So could you comment on the size of the FX impact and was that what the nature of that was like a noncash accounting thing for some hedge? Did you have an FX or was there something else there that was driving that benefit for the quarter?

Kevin Berryman, President & Chief Financial Officer

Now look the dynamic. I don't have the FX dynamics specifically outlined but certainly, I will follow up with you Andy on that but if you think about it our corporate-related costs, the support costs are embedded around the world and so effectively if you have UK, for example, corporate-related costs they're getting translated into a lower rate effectively. So the value of those costs go down and that effectively had some benefits associated with us because it's effectively corporate costs and that's corporate revenue. So if you get the difference between the two.

And then look we have known that the constant currency dynamic was still robust but we knew that the reported currency continued to be a challenge and we are very proactive in terms of taking steps to ensure that we reach the commitment levels that we had established for the company so, we pay attention to this and very-very proactive in terms of of the management of our cost structure during Q4.

Operator

Your final question comes from the line of Sabahat Khan with RBC Capital Markets. Your line is open.

Sabahat Khan, Analyst

Great. Thanks and good morning. Just, I guess the earlier commentary around how much the pipeline is building up including the IIJA. Kind of if we, think about that, Bill and the other ones starting to flow through maybe some offset with pricing maybe moderating. How do you expect I guess backlog just to trend over the course of next 12 to, 18 months? I guess it is fair to assume would that extra government funding could continue to grow. Just want to

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understand what you have embedded in the guidance that you provided today.

Steve Demetriou, Chair of the Board & Chief Executive Officer

Well, I will tell you that. As you may know, backlog is one of our incentive metrics and I can assure you that our incentives are based on backlog continuing to show very strong growth year-over-year.

Bob Pragada, President & Chief Operating Officer

Maybe if I can add one more thing, just time what drives backlog which is sales. Sabahat, we put a tremendous amount, we're kind of a sales driven company for since inception which got to Jacobs published started that mantra. Our sales driven growth and the investments we've made, namely, now our new Chief Growth Officer as well has been very, very specific as our portfolio has developed over the most recent period of time. So we're putting the full force effort on our sales effort as the pipeline continues to grow. So timing is good.

Operator

There are no further questions. I will now turn the call back to Mr. Bob Pragada.

Bob Pragada, President & Chief Operating Officer

Yes, thank you, everyone, for joining our earnings call. I'm looking forward to providing further updates on our progress and upcoming events and calls. Have a -- for those of you in the US have a wonderful, Thanksgiving. Thank you.

Operator

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

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