Company Name: Jacobs
Company Ticker: JEC US
Date: 2019-02-19
Event Description: Investor Day

Market Cap: 9,940.58
Current PX: 71.25
YTD Change($): +12.79
YTD Change(%): +21.878

Bloomberg Estimates - EPS
Current Quarter: 1.162
Current Year: 4.921
Bloomberg Estimates - Sales
Current Quarter: 3412.308
Current Year: 14030.071

Investor Day

Company Participants

- Jonathan Doros
- Unverified Participant
- Steven J. Demetriou
- Darren Kraabel
- Heather Wishart-Smith
- Terence D. Hagen
- Robert Venkat Pragada
- Kevin C. Berryman

Other Participants

- Jerry Revich
- Lucy Guo
- Jamie L. Cook
- Michael S. Dudas
- Andrew Kaplowitz
- Steven Fisher
- Chad Dillard
- Andrew John Wittmann
- Anna Kaminskaya
- Alan Fleming

MANAGEMENT DISCUSSION SECTION

Jonathan Doros

Welcome to the Jacobs 2019 Investor Day. I'm Jon Doros, Head of Investor Relations. We have an exciting agenda for you over the next few hours, with over 30 plus Jacobs' executives in attendance as well as some fascinating demos that showcase the transformed Jacobs. But before we turn to the agenda and in line with our BeyondZero culture, please welcome [ph] Chris from the 1 Hotel (00:00:26) to provide some a few safety tips overview. [ph] Do you mind, Chris (00:00:29)?

Unverified Participant

Okay. In the event a fire alarm does goes off in the building, the first thing you will initially hear is an announcement, an investigation announcement that we are investigating an emergency. The second announcement you'll hear will either be an evacuation or an all-clear announcement. In the event it is an actual emergency, the first thing you want to do is exit through these double doors, where you see the red exit sign, down the escalators and there's four sets of double door – glass doors and you go straight out those doors and you can either go either on the 23rd or 24th Street and straight out to the beach would be your safe point in the event of an actual alarm.

Jonathan Doros

Okay. Thanks, Chris. Let me review the agenda for today. First, Steve will provide an overview of our vision and strategy. And then Heather and Darren will then share more detail on our innovation initiatives at Jacobs. And Terry and Bob will give a deep dive into our line of business strategy and we'll take a quick break for a Q&A. When we return, Kevin will provide a financial overview and Steve will end with some closing remarks before our formal Q&A session.

Finally, we encourage everyone to join us in the reception to see firsthand how we're driving innovation, inclusion and sustainability at our company.

Before we begin, please let me review some forward-looking statements, non-GAAP and pro forma disclosures at the beginning and in the appendix of the presentation. So please review these. We understand there's a lot of moving parts to the presentation and there's a whole appendix in the back of the presentation to walk through our pro forma numbers.

Now, I'll turn it over to Steve Demetriou, our Chair and CEO.

Steven J. Demetriou

All right. Once again, welcome to the 2019 Jacobs Investor Day. Many of you were here back 2.5 years ago when we presented our first-ever strategy in the company. As you know, I joined the company in late 2015 and spent some time taking a step back with the leadership team and we're excited today to recap how we did against that strategy, but more importantly discuss how we're taking it to the next level.

Before I do that, I want to comment about the fact that we're here in Miami and it really symbolizes a lot of things what you're going to hear about today. Of course, I know you are all thankful, for those of you that came in from 25 degree weather in New York or Chicago and many of you walked up to us, but really it has a much deeper meaning around the business that we do here.

Florida, our workforce is about 5,000 people and it really represents what we do across both our ATEN and BIAF businesses. We have more than 2,000 people at the NASA's Kennedy Space Center where we've been working with them for many years and we have a long-term 20-year relationship with the Special Operations Command headquartered at MacDill Air Force Base in Tampa. And last year, as many of you know, we won a major $800 million six-year contract to provide innovative IT enterprise solutions.

And Florida is one of our top three buildings and infrastructure markets and specifically right here in Miami, we're doing some of the most sustainable innovative things for both the Miami-Dade County and the City of Miami Beach. We're on an 11-year program with the Miami-Dade County on a $3 billion Ocean Outfall Program, where we're providing the solution to stop wastewater discharge into the Atlantic by 2025. And most recently, we won a major resiliency program with the City of Miami Beach, $1 billion program to work on sea level rise, mitigate storm water surges and some other solutions for climate change that the city is facing. And it was fun last night where the Office of the Mayor – Mayor Giménez from Miami-Dade County presented the proclamation, because he was honored by the fact that we were doing our Investor Day here in the Miami area. And specifically right here at this hotel, pretty amazing hotel, it's got to be one of the most sustainable eco-friendly hotels in the world, which really represents our taking our sustainability strategy and plan beyond to a new level.

So back to what we're going to do today. The bottom line is what you're going to hear today is we do what we say and that sets the foundation as we move forward with our new strategy totally focused on our high growth, high value ATEN and BIAF businesses. We've talked about how we're transforming our core and we're going to take it to a new level with a goal of achieving top decile performance in everything that we do, especially operating and quality performance. We're doubling down on culture which you're going to hear about we believe underpins a lot of the success we've had and is critical to where we're taking the company going forward and you're going to hear a unique story on innovation. Everyone's talking about innovation and technology, but today you're going to hear a unique story that really differentiates us on how we're scaling innovation across everything that we do. And all of that our goal is to lead to a continued outperformance on shareholder return versus our benchmarks and what you're going to hear is we're raising the bar on who we benchmark as we take our shareholder return to a higher level.

Many of you were here in 2016, when I stood up with the leadership team and we talked about how in 2015, when I arrived along with Kevin and we put together the leadership team that's here today that the company had hit a wall. Jacobs was a great company for many decades but somewhere leading up to 2015, the culture that fragmented, confusing, there was a lack of growth, there was challenges associated with M&A and it was time for a massive change.

We laid out that strategy in 2016 that was basically getting back to the basics, getting the fundamentals right, investing heavily in our culture and getting back to an organic growth strategy. I'm pleased to report today that we've met or exceed all of our goals for both strategically and financially and we're now poised for significant accelerated growth. What was critical coming out of that strategy in 2016 is we took some bold swift actions. There were very aggressive moves around restructuring and taking excess cost out, a much deeper rigorous focus on cash flow, especially in the area of DSOs, where we've had some initial success and we plan to do a lot more. You've heard about the fact that Jacobs has always been one of the highest quality executors in the industry, but we still had some issues that we had to solve and you see that we decreased our write-offs by 60% and had significant productivity and efficiency improvement that all led to above $400 million of cost taken out of this company.

But I think what's really important on the left hand side here is the organizational enhancements that we made to really drive a massive culture change in the company to move from what was a complex confusing regional organization to a global line of business structure that created empowerment and accountability at a much higher level and has really driven a lot of the benefits that we see today with the leadership culture we have in place now in this company.

Now, there's a lot on this page, but the real message here is if you ask what was the single most important fundamental thing that we did to develop the right strategy and then to execute against that strategy was a very unique deep dive understanding when we started this whole process of where our culture stood and we engaged a consultant to help us that had world-class capability on understanding organizational health. They taught us that companies that have superior organizational health, superior cultures outperform their competition by a factor of three. We believe that it's at the heart of everything we do now going forward and what we ended up doing was benchmarking ourselves against not only a set of peers in our professional services scope but over 1,000 companies across the globe, many with best-in-class cultures. The 37 business practices that drive cultures, it all leads to an output of organizational health in these nine categories in the middle and what I'm pleased to report is that two years later just as we were completing the CH2M acquisition, we took our second measurement in our organizational health assessment and we ended up moving up to two quartiles. You can see that we're in the first or second quartile in each [ph] output (00:10:06) area. We still have work to do, but this is one of the most significant improvements over two years that our consultant reported back on doing this for many years with other companies. So we're proud of the improvement. We have measurable improvement in our culture. It's just not a lot of lip service. But this is also driving the actions when we talk about prioritizing the gaps in the company, what we need to do to adjust organizationally all the way to our business strategic initiatives.

When you when specifically we look at our culture, the great thing we had at Jacobs that helped us achieve what I just talked about is we had some elements that were best-in-class. Our BeyondZero safety culture by far is superior to all of our competition and in most companies across different industries, and we've taken that mindset that going beyond just achieving the basics is the heart and soul of everything we're doing now with regard to our culture. We have transformed the accountability in this company from where it was three or four years ago. We have a much more inspired workforce. We have a clear strategy and direction where everybody understands where they fit in and is engaged. And we have the discipline around operational excellence that's at the heart of everything we do.

And as you move to the right of this page, it's some of the more recent initiatives on how we're taking our culture to an even higher level. We have a workforce of almost 80,000 people right now. It's a people business. What do our employees want? They want to work for a company that has a culture of caring that goes beyond just the basics, positive mental health, one of the biggest epidemics that companies are facing around the world. We are going to be an industry leader in attacking and working on positive mental health with our employees.

And inclusion and diversity is the most recent focus as well. And when you hear a lot of companies talk about diversity and inclusion, for us it all starts with inclusivity. That means 100% of our 80,000 employees need to feel included, they belong. They're inspired. They understand where they fit in in taking the company. And as we get that right, we're clearly going to become a more diverse company in the fullest extent and I'm proud to say that our Board of Directors and our senior executive leadership is walking the talk with good diversity that will only get stronger as we go forward.

Why am I talking about all that? Because those initiatives around culture, transforming the core, getting more efficient, more productive gave us the confidence to go in over the last 12 months and execute on an unprecedented portfolio transformation. In December of 2017, we acquired CH2M and 10 months later we announced a significant divestiture of our ECR business to reshape our portfolio and position for this next phase of our strategy.

The CH2M acquisition was clearly a strategic move for the company to the fullest extent. When we were here in 2016 presenting to many of you, we talked about priority market areas that we wanted to organically grow in and in some cases, find some good thematic acquisitions to fill out the scope and go after these growth markets. The CH2M acquisition picked up almost every single thing we told you in 2016. And not only as it relates to market growth, but cultural advancement, innovation, sustainability. Putting these two companies together has clearly unleashed the full scope of what we initiated with our strategy in 2016 and we've only just begun.

From a financial standpoint, we've exceeded the promises we made. So we not only culturally have focused – the cultural integration is going well, we're delivering the bottom line financials. We promised $150 million of synergies over 2.5 years. Including the ECR business, we are on track to get well over $200 million. Even as we divest the ECR business, we're going to exceed the $150 million target to a level of about $175 million and Kevin will go into more detail.

We also promised a 15% accretion – EPS accretion in year one, we achieved 21%. And most importantly, we're at the early stage of a very significant revenue synergy opportunity with a huge pipeline, that's clearly attributable to the combination of Jacobs and CH2M.

And the final message is that we've developed the playbook now to be able to periodically make the right acquisitions and be able to integrate and deliver the promises across the board.

And then as I mentioned, the divestiture of ECR, this was a big choice; strategic move for the company. The ECR business is essentially the legacy of Jacobs, what Jacobs was all about, going back when Joe Jacobs started the company in the 1940s. And this is a great business, it's where I came from. It's what I thought I was coming into grow when I got hired 3.5 years ago until we saw with the leadership team the power of what we were doing at ATEN and BIAF and the combination with CH2M and how that took it to another level. And the fact was that this business didn't fit with our approach of focusing on high-margin, high-growth businesses that are in the positive secular trends that we see in the company going forward around the world.

And so we've made the decision to divest, it should close in a couple of months. And once we close, we will have shed our most cyclical commoditized businesses and be able to focus and double down on our focus on BIAF and ATEN.

And we're delivering on the financial commitments we made back in 2016. We committed to a revenue growth of 2% to 4%. The headwinds in the oil and gas arena was stronger than we had expected but in spite of that, we're going to hit the range at north of 2% growth. The operating profit margin is a huge success. This is what we talked a lot about combining the efficiencies we were putting in and making smarter choices to shed low-value, low-profitable business and shifting focus into the high-margin arenas and greater than 150 basis point improvement.

And we were on track to exceed the return on invested capital targets that we set because these targets were all organic growth targets. And even with the use of $3.3 billion of capital, we've been able to increase our return on invested capital and you'll see with our new targets going forward, we expect a significant growth and improvement on ROIC. And this has led to superior shareholder return. We're very proud of this chart. I'd like to pause and basically say on behalf of our 77,000 employees, we're thrilled and we're really proud of how we've created value for our stakeholders and specifically our shareholders. A lot of hard work has gone into this.

As we compare against the traditional peers, you can see a basic flat environment on their side and up around 80% or 90% on our side and exceeding the S&P 500. And more importantly, we were trending positively, widening the gap throughout this period and of course, the equity markets hit the wall in late 2018 and now has come back and you can see a good acceleration by Jacobs as of last week and we want to continue this journey as we go forward as we execute against the next three year strategy.

So, what I'd like to do now, before I go into our new strategies, ask that you take a minute or so and take a look at this.

[Video Presentation] (00:18:40-00:20:18)

Steven J. Demetriou

Couple of things about that, that hopefully you felt and feel especially those of you that have been around Jacobs for over the last many years is that's a massively different picture than what Jacobs was 5 to 10 years ago. And [indiscernible] (00:20:38) we talked about what if we could show you how, well, Darren and Heather are going to give you a little taste of how. And then after all of these presentations, we've got a great reception where we've got a lot more of our innovative talented employees who want to show you a little more of what we're doing and how we're doing it.

But this is the new Jacobs on this page. It's a company that is clearly focused now as we go forward on two very high-value, high-margin businesses that we believe have tremendous growth potential. Our geographic and client mix is extremely attractive and we're flexible to go where the growth is. Right now, we're 70-plus-percent in North America, U.S. because that's where some of the best growth opportunities are. But we have a global footprint where we can move to wherever the demand is and you'll hear more of that especially from Bob in the BIAF side.

But we've always talked about Jacobs from having a strong risk profile. Our risk profile now focused on these two businesses is even stronger. We had over 10,000 direct hire construction workers as part of our ECR business. As you can see here, we have very little direct construction business and anything we do around construction or fixed services is low risk. This is to me is the best profile in our industry cutting across the BIAF and ATEN scope.

We're at a huge pivot point in our company based on this portfolio transition and you all know about the disruptors that are out there, technology and environmental and urbanization, climate change, political issues going on. These are tremendous growth engines for Jacobs, because we provide innovative solutions for complex challenges and opportunities. And all the things I've talked about that we've been developing over the last couple of years and are going to further strengthen around our culture in, in the way that we excel in operational excellence with innovation cutting across everything is going to put us in an area in a much more unique way that any other company out there to be able to connect our businesses and drive solutions for more connected and sustainable world.

Now, we've been talking for the last three years about three pillars: a high performance culture, transform the core and grow profitably. This playbook is working and we're going to stick with it. We're going to continue to make sure first and foremost we get the basics right that we focus on the fundamentals. But what you're going to see as a much more now targeted, more sophisticated approach in executing against this strategy around becoming the unquestionable employer of choice, applying technology to our internal processes and operations to become a top decile performer and drive innovation across everything we do with our clients, so together we can profitably grow with innovation being that connected tissue.

It starts with culture. As I said earlier, we truly believe that a great culture at Jacobs is going to continue to deliver outsized performance. We have an opportunity to differentiate ourselves also in the way we attract, retain and develop our people. And that's our goal over the next three years is to have measurable improvement not only in our organizational health, but in areas like talent attraction and retention.

It starts with the leadership team. We've clearly diversified and strengthened our leadership over the last three years. I'm extremely proud and excited about this leadership team, because we're aligned. We're energized. In a way, we are together aligned on how we want to take this culture forward and inspire and engage our employees and so this is very important moving forward. But it has to cascade down through the entire organization.

One of the great outcomes of the CH2M acquisition was the ability to merge our employee networks, and now we have 23,000 plus people involved in these eight networks, and each of our executive leaders are sponsors of one of these networks. I'm the sponsor of the Women's Network. I Chair the Inclusion and Diversity Council for the company that meets every two weeks and has – all of our executive leaders is part of the council along with the leaders of each of these networks. I'm also spending a lot of time externally benchmarking and engaging with other CEOs and experts around inclusion and diversity and culture. For example, the Catalyst CEO Champions of Change (sic) [Catalyst CEO Champions For Change] (00:25:54) on how to accelerate women in the workplace. You're going to meet some of the members of these networks in the reception. These networks go far beyond just getting together and talking about common career development and like-minded people. These networks are engaged with our clients. They are helping us accelerate solutions and they're also involved with communities and stakeholders.

And one of the things, our networks appealed to us around was a much more robust and broad-based sustainability strategy. This is important, our new PlanBeyond sustainability strategy for all of our stakeholders, including our shareholders that are demanding companies and wanting to invest in companies that go far beyond just the short-term profitability and cut across the triple bottom line of social, environmental and economic benefits.

We're committed to taking this forward, we announced PlanBeyond a few weeks ago on our earnings call and we've designed it, as we call it People, Places and Partnerships. And we're excited about how this is not only going to elevate our company's culture, but it's actually going to create additional business and capabilities with our clients. As I mentioned, we're taking our transform the core to a much higher level around applying our existing technology capability into our Jacobs' processes, we call it Jacobs For Jacobs. We've got great cybersecurity, data analytics and a whole host of other innovative technologies that we are going to take into our company at a much higher level to improve the quality of our execution and drive further productivity and efficiency. We're committing to $75 million to $100 million further additional cost reduction during the strategic period.

And of course as it relates to profitable growth, it's to accelerate and scale innovation across our entire domain. We talked about Jacobs Connected Enterprise back in 2016 where we had the unique opportunity in selected projects and programs to take existing capabilities such as Internet of Things and data analytics and even cybersecurity that we were building up in ATEN and apply it across different LOB markets.

We're going to scale that now to the fullest extent across everything we do and focus it around five innovation hubs: cybersecurity, applied geospatial science, automated design, Internet of Things, and predictive analytics. Darren and Heather are going to go into this in more deeper dive, but what you're going to hear is that we have the unique capability of taking these in-house existing capabilities that we're strengthening and bring that across our domain of BIAF and ATEN in a way like no one else can do.

As far as our two lines of businesses, you're going to hear really exciting strategies from Terry and Bob. For Terry, it's all about growing in a very attractive government services business and specifically accelerating some of the differentiated capabilities we have like cybersecurity and leveraging this technology and position to increase margins. So, BIAF, it's really to build on the strength of the CH2M acquisition which is in the early stages of significant growth opportunity, first and foremost by synergies, but capitalizing on the unique footprint now on our global integrated delivery capability in the markets that we serve, with an opportunity to expand geographically. But what's going to enable those two lines of business that have – those two lines of business that have attractive growth potential to do even higher, better than what the market will give them, is the opportunity to connect the two businesses and unleash further growth and power. Both units, both businesses have common set – have customers with common sets of issues and opportunities.

ATEN and BIAF customers are looking to reduce operating and energy costs. They're looking to get more out of their assets, their infrastructure, extending the life. They're faced with data privacy issues. They want to enhance safety. They want to apply technology and innovation in a much deeper way. These innovation hubs essentially lie in one of the two businesses; cybersecurity, Internet of Things. Predictive analytics is the capability that's been built up within ATEN for the past several years and now we have the efficiency to leverage that across both lines of business.

And similarly, BIAF has built up the capability around geospatial design and – geospatial design and automated design, and are now going to leverage that in an efficient way across the ATEN and BIAF business. This enhanced strategy will enable both of these businesses to grow at a higher level than if they were standalone.

We're reporting now or coming out now with new strategic financial targets. Our organic growth at 3% to 5% CAGR over the next three years. We're going to continue the journey of margin growth at 125 basis points to 175 basis point improvement.

We're committed to double-digit EBITDA growth and a return on invested capital that increases by 100 basis points to 150 basis points. When we complete the ECR divestiture, we've got a tremendous opportunity with our strong balance sheet and to deploy capital in a value creating way.

First and foremost, we're going to focus on the strategy that we just talked about to drive our organic growth around these innovation hubs, other technology enhancements, and in our culture, as it relates to training, benefits, and other ways to take our culture to the next level. But the big opportunity there is the balance of deploying capital back to our shareholder and out in value creating M&A. We just announced a 13% increase in our dividend and we plan to continue to increase our dividend as our earnings grows. But we commit to remaining agile and disciplined as it relates to the major capital deployment decisions around investing in our own stock versus value creating M&A.

Clearly, most recently, the best use of our capital has been to buy back Jacobs' stock. We announced the $1 billion authorization. We announced this morning the first stage of that with the $250 million ASR, and we'll continue to evaluate the balance of investing in Jacobs' stock versus value creating M&A.

We have some things, we'd like to grow and as we talked about earlier; government services, technology, higher margin activities, possibly some geographic expansion. We'll continue to evaluate in above, but we commit that if we decide to go into the M&A market that will be clearly aligned to our strategy. It will have significant EPS for accretion, and most importantly, it'll be superior to buy back our stock.

It's important for us to continue to reflect the fact that we have strong governance through a highly engaged board. This board has been aligned with the strategy that we've been executing on and is aligned with where we're going. And not only are they aligned and engaged, they really do provide a unique expertise and experience base that we can tap into from time to time as management.

Linda Levinson, our Lead Director, is here today and hopefully many of you will get a chance to meet with her, and she was the Lead Director for the entire period that we were executing on this 2016 strategy, our longest standing board member; and Chris Thompson, our new Lead Director, is also here, and hopefully, you'll get to meet both of them in the reception.

So, what you've heard today is, we have a massively different company than where we were five years ago. We deliver on our commitments. We've got two great exciting businesses going forward. We're going to double down on our culture. We're going to apply innovation unlike no other company and we're going to continue to drive industry-leading shareholder return.

So, with that, I'd like to introduce you to Darren Kraabel and Heather Wishart-Smith. Darren most recently moved from our ATEN business to become the first ever Chief Technology and Innovation Officer of the company, as we have decided to focus on innovation as the heart of what we're doing going forward. And Heather Wishart-Smith is Vice President of Jacobs Connected Enterprise in the BIAF organization by coming across the company as we talked about, and so, let me hand it over to two of you. Thank you.

Jonathan Doros

Thanks, Steve.

Darren Kraabel

Thanks, Steve. And Heather and I are really excited to be here with you today. We realize that most of you don't know who we are. We haven't had a chance yet to engage with you. So, we thought we'd just take a second or two to give you a little bit of background. And so, since I got the mic right now I'll go first. I've been with Jacobs for 16 years, and prior to that, I was in the U.S. Air Force for 10 years. And when I was in the Air Force, Jacobs was my contractor, not just on one assignment but on two different assignments over that 10-year period. So, when I had the opportunity to come work for Jacobs, I knew exactly where I was headed. And while I was excited at that point, it's 16 years ago, and the company then looks much different – looked much different than the company that we have set today and where we're moving in the future. I am even more excited about where we're headed now than it was when I joined the company 16 years ago.

Heather Wishart-Smith

And I'm Heather Wishart-Smith. As Steve said, I am the Vice President of Jacobs Connected Enterprise within our BIAF line of business. Like Darren, I have a military background. I served in the U.S. Navy as a Civil Engineer Corps officer, and I am just incredibly passionate about what we're doing with innovation and with Jacobs Connected Enterprise within our business. There is so much potential for what we're doing. It's been so exciting to be a part of it and I really look forward to you all getting excited about it as well.

Darren Kraabel

So, we take back to that video. What if we showed you how? That's exactly what Heather and I are going to do today? We're going to give you some real tangible examples of where we're deploying smart solutions, digitally-enabled solutions to derive significant value for our client. We're going to show you how as we invest in innovation, we're not only leveraging the thing that makes us different. That unique combination of domain expertise and digital technology capability, that gives us a unique perspective on how to solve problems.

But we're also further differentiating ourselves from our customers via the solutions that we're deploying on the – in the field today. And the other thing that's important is that we're going to show you how we are at our absolute best when we take experts from both lines of business, those subject matter experts from ATEN and BIAF and bring them together to solve those really complex problems that are facing our clients today. We're going to get some real casual examples of that, and I think, I hope you'll find that to be inspiring.

So, important note here is that innovation is a buzz word, but it is not a buzz word for us and it's not something new for us. Innovation has always been a part of our heritage. You see it in the patented technologies that we have for adaptive wall or rolling road wind tunnels, where we're helping Formula One and NASCAR racing teams deliver more effective, faster, more reliable vehicles, and then doing the same thing for the automotive industry. You can see that in the surveillance and response system that we've deployed for the New York City Water System, where we're helping them with – to minimize the impact of non-revenue water loss, as well as detect potential biological contaminants in the system and improve public health.

The other aspect that's important is that the last – in 2016, we've talked to you about Jacobs Connected Enterprise as a fundamental part of our strategy moving the company forward. And what you're going to hear today is how we're committed to that strategy. We've tested that value proposition, that unique combination of domain expertise and digital capability with our clients over the last several years, and our clients – that message resonates with every client that we talk to. That domain expertise gives us a different credibility and a different context through which we understand those – their problems and gives us a different perspective on how to solve those problems. So, everything you're going to hear about today relative to innovation is about how we are accelerating taking the next steps from what we talked about relative to Jacobs Connected Enterprise in 2016, accelerating that and moving forward into the future.

Heather Wishart-Smith

Our applied digital capability and end market diversity means that at Jacobs we have a different perspective than many others. It allows us to not only see problems differently but in some cases even develop solutions that others may have failed to recognize. For example, we have a client, a confidential client that was experiencing problems with one of their production lines in Asia. They've tried a number of different solutions without success and then finally turned to Jacobs, and we developed for them a very innovative 3D printed solution that allowed them to not only decrease the change over time on that line from six hours down to just five minutes but also decreased the cost of that line by 75%.

We are unleashing more client value by focusing on real problems that are framed by our diverse experience, and we're at our best when we're combined, when the ATEN and BIAF lines of business are working together, leveraging our very diverse perspective. We're combining our digital capability with our deep domain expertise to ideate, develop and deliver solutions for our clients' most difficult problems.

At Jacobs, we're combining operational technology with information technology and framing it all with the deep domain expertise that we bring as a result of having designed and operated our client facilities and infrastructure for, in some cases over 50 years. What this means is that Jacobs is not a traditional E&C that is just now trying to understand the digital domain. It also means that we're not a tech company or a consulting firm that's just now trying to enter into the infrastructure and built environment. And that's what we feel makes us so different from those that we feel we're now competing against.

As Darren said, we tested this value proposition with some of our clients as part of our Jacobs Connected Enterprise strategy, and we find that it really resonates. For example, we have a telecom company that came to us, one of our clients, and told us that they see Jacobs differently because we're able to deliver for them not only that digital capability that they're looking for, but also the more traditional engineering types of services. This means that we're better able to understand the root causes and envision new ways to solve problems that will actually work in our clients' environment.

Darren Kraabel

So, when we think about investing in innovation, we're going to start at the bottom of this chart and work our way up. And Steve already covered a lot of that, but again, it goes back to that deep domain expertise in a wide diverse set of industries. And if you think about that diversity may manifest itself in having lots of different client challenges, there's actually some commonality there that Steve already alluded to. And when we think about how do we solve those challenges, particularly around technology, there are a handful of technologies, in this case five, that keep coming to the top of the list. And Steve already listed them off here, those being cybersecurity. And in this case, we're talking about both the IT, the information technology aspect of that, as well as the OT or the operational technology aspect of that, and particularly as the IT and the OT converged into an environment that's different from what most of our clients are dealing with today.

Relative to applied geospatial science, it's not just about making maps anymore, it's taking advantage of the reality that just about everything on this planet has a geotag. As a matter of fact, I'd venture I guess that everybody in this room is geotagged today because you're carrying a cell phone around. And so, what can you do with that data? How can you use that data to enhance response to a natural disaster, to enhance resilience, or come up with other – some other sort of value creating idea for a client?

Relative to automated design, that's an artificial intelligence-based approach to figuring out how we shorten the cycle from concept design to detailed design and delivery and – while also opening the aperture for the new design possibilities that we might not have ever thought of.

Relative to the Internet of Things, that's a broad term that means a lot of things to different people. But in this context, we're really talking about the explosion of 5G telecommunications and what that means especially in the smart city environment, the extra bandwidth and the high volume of transactions that it enables. But we're also talking about edge sensors, low-powered small sensors that are deployed at the edge of the network that are also doing a bunch of edge computing, thereby eliminating a lot of the concerns about that excess bandwidth or that limited bandwidth problem or even latency issues.

And predictive analytics, I know again it's another broad term, but for us that's at the heart of machine learning as a subset of more advanced artificial intelligence, and how can we use that data both internally [ph] and internally (00:45:02), and the analytics that those technologies allow to drive value for ourselves in the way we operate the business, as well as value for our clients in terms of making sense of their big data problems.

So, when we think about what that opportunity really is and I give you four pieces of context that I think give you a little more insight on how we look at it. So, the first is that we see this opportunity – this opportunity for smart solution deployment as being a market scaling opportunity rather than a product scaling opportunity, because the reality is that each one of our clients, well, there is some commonality in the problems they're having. The environments in which they operate are unique and that's going to require a degree of customization in each case. That's a really good opportunity for us because that's where our domain expertise and understanding that environment, understanding that context really comes to bear.

The second element of this is that we see this as a decades-long trend. This isn't something that we think about, where most of our clients in the early stages of adopting these technologies and that's really driven by two things. The first is that it's only been in the last couple of years that the technologies I mentioned on the previous slide have matured to the point where their deployment at scale generates in a positive return as – appropriate return on investment for our clients.

The other aspect of this is lot of our clients don't know how to get started. It's easy to think about the theoretical possibilities of smart technologies and what they bring, but they just don't know how in their installed CapEx environment, how – where do I start to get there? And so, we tell them, look, there's a simple framework they should think about. Think big, start small and act really fast. And what we mean by that is, think big, start with your – develop that digital roadmap that takes you from where you are today to where you want to be tomorrow. That's a digital consulting opportunity that we're engaged with a lot of our clients today already and you're going to hear Bob talk a lot more about that as an opportunity for goal for us in the future.

And then we tell them to start small, pick a pilot project or two to implement, gain some confidence, build some momentum. And as you do that and have some success, scale really fast because the clock is ticking and the pace of technology evolution is not slowing down.

The nice thing about that particular model is that Jacobs is involved in every aspect of that, from that digital consulting piece to helping identify and deploy those pilot projects to then getting into the media of larger design development of large-scale projects at scale. It's a neat opportunity as we talk to those clients. They're actually offering us an opportunity more and more to come under their tents to get engaged with their own innovation teams and help co-create some of those solutions. And the nice thing about that is that co-creation opportunity still allows us to take pieces of those solutions and apply them and reuse them to the point that it makes sense still knowing that a degree of customization is required.

The other element is that this is a global opportunity. This is not just a U.S. thing or a North American thing, everywhere we go [ph] on – just about every continent that (00:48:07) probably Antarctica, all of our clients are talking to us about the need to go do this and wanting to figure out how to get started. It's going to take a company like Jacobs with a global reach and local delivery capability that we have is accelerated by the use of our global design centers that Bob is going to talk about here in a minute, to be able to capitalize on that opportunity.

The last element of this and probably the most important for most of the folks in this room is that if we do this right, when we do this right, we win more and we earn more. And you're going to see the impacts of those financial results in the numbers that Kevin is going to talk about at the end of today.

So, we're going to switch gears right now. We're going to get into that what if I showed you how? And we're going to cover just two examples of solutions that we've delivered today and have generated tremendous results for our clients, the first being an intelligent asset management solution that we've deployed for NASA Langley in Virginia, and then

Heather is going to go into detail about a digital twin solution or actually multiple instances of that but focusing on water, wastewater treatment plant that we've delivered on the West Coast.

So, I'm not sure how many of you are familiar with NASA Langley. NASA Langley is not just a research facility with wind tunnels and hypersonic chambers and other advanced electromagnetic and other test facilities. NASA Langley is a smart city. A small city but a smart city. It's got all that test infrastructure plus all the typical utilities, high-power electrical – electrical distribution systems, railheads, a small harbor, buildings, roads, all the things that you would find in a smart city.

We've been working with NASA Langley since the mid-1990s and our scope of work there is focused on operating those high-tech test facilities as well as doing capital project work to modernize those facilities, but we also have as a piece of our responsibility there to operate, maintain the entire infrastructure, that is NASA Langley, small city. And so, when we started working for them in the mid-1990s, we were doing maintenance there, just like everybody else. We were turning wrenches according to the manufacturer's recommendations. We were monitoring alarm levels based upon what the manufacturer told us we needed to monitor. In the end, the result of that was underwhelming. It's a very reactive posture. We – it results in high maintenance costs and unplanned outages. And unplanned outages in this case means loss of test revenue. Those customers who come to NASA pay money to test their system or their technology in their facilities, and when the facility is not available that's a loss of test revenue for NASA. And in a budget-constrained environment that NASA typically finds itself in, that's a – not a good place to be.

And so, as these technologies that we talked about started to mature and we started thinking about think big, start small and act fast, a couple of years ago we got to the point where we started recommending intelligent asset management as a solution to those problems, a move from being reactive to being predictive.

So, over the last several years, we have instrumented an enormous amount of infrastructure at NASA. We're pulling data right now from 120,000 sensors, the temperatures, pressures, vibrations, accelerometers, strain gauges, you name it, across 42,000 assets. And we're generating an immense amount of data, and while – as we move that data across our wired and wireless networks back to a place where we first started centrally monitoring it and now getting into the predictive analytics element of that, all doing that with a cybersecurity [ph] envelope (00:51:45) around the entire system. We are starting to generate some really impressive results for our client.

So, the way to read this chart is a little bit [ph] different (00:51:54) from what you're normally used to. On the right-side of this chart towards the red is a bad event. In this case, this is a vibration signal from a NASA fan motor, and on – in this case there that fan broke in the red. And through traditional monitoring techniques, you don't have a whole lot of time to respond to that. The idea on this chart is to move as far left on the chart as you can, left on the chart means time, it means time to respond to that event, that detected anomaly before something bad happens. It means time to eliminate that unplanned outage and preserve that test revenue for your clients.

And so, as we moved into the predictive analytics realm, [ph] pass that (00:52:34) just monitoring with our own subject matter experts, we're now using machine learning techniques to optimize some out-of-the-box analytics algorithms that we are working on with SaaS. The SaaS analytics platform is one of the platforms that we use, and we're very comfortable within this particular environment. But out-of-the-box, those algorithms don't do much for you. They require that domain expertise to be able to teach the algorithm, what's good data and what's bad data, what's a false alarm and what's a real anomaly? And without that domain expertise, that machine learning really just isn't possible. And when we do this right, we're creating algorithms to detect things not only earlier but detect things that our folks in the control room probably wouldn't have seen.

And so, it might be a little hard for you to see within that circle, there's a step change function in the average vibration level of that particular fan motor and detected by our algorithm, not likely detected by somebody sitting behind a computer monitor in a control room, right? So, that detection is great, but what does that mean in terms of results to the client. The results like this, we've been able to reduce the maintenance, the OpEx budget, the maintenance budget for NASA by 35% since our baseline four years ago. That's a significant savings that they can deploy to other capital projects that we actually get the benefit of in terms of modernization efforts.

We've also reduced the consumption of natural gas by 47% and the consumption of water by 200 million gallons. It's also got some great prestige and recognition for NASA, but that's not just the only element of value here, because from a Jacobs' perspective, we get a tremendous amount of value around repurchased loyalty. You can see multiple contract rebids. These are large contracts, long periods of time. We've got a very strong customer relationship here as a result of that continual value delivery model that we've got for them.

And we actually use NASA as a showcase now as we think back to helping other clients who are trying to figure out how to get started. We sometimes bring them to NASA and say, this is the art of the possible, this is what you can do, and when we do that, the light bulb goes off. They get it. They start to think about how they can implement similar sorts of solutions in their environment, still requiring that degree of customization that Jacobs is uniquely positioned to provide.

And so – so, this isn't just an advanced research or industrial operations opportunity for us, right? Intelligent asset management for us is an opportunity across every market, every end market that we serve today. It doesn't matter if you're talking about defense or nuclear or automotive or water or life sciences. We're deploying this everywhere we have the opportunity to do that and delivering similar sorts of outcomes for our clients. And while we've got a lot of great case studies, we still see this as an upward trend in our future.

Heather Wishart-Smith

Digital twins connect the physical environment with virtual models, all of which are fed by real-time inputs like Internet of Things, sensors, artificial intelligence, data analytics and other inputs. These digital twins update and change as the physical conditions change, which means that they're constantly evolving; they're not just a static model.

Digital twins are used for a variety of different applications, to include evaluating different options during design, analysis of alternatives during operations, used in training like a flight simulator to analyse different sorts of atypical scenarios, and also to predict asset life based on existing operating conditions and also using synthetic data.

Synthetic data is what we use to feed into the model, to feed into the digital twins in order to simulate these very atypical events that would be far too risky to try to optimize in real-time. Digital twins are a differentiator, a catalyst for Jacobs that provides us with a competitive advantage. And you are going to hear more from Terry and from Bob about how we're very uniquely positioned within these markets.

We've created digital twins to optimize everything from Formula One race cars to long-distance truckers in very austere environments. And I'll also tell you a bit about how we use the digital twins for wastewater treatment plants.

Jacobs is really good at this, creating these – re-creating these assets using the Internet of Things and artificial intelligence and data analytics. So, what makes Jacobs application of digital twins so very impactful is our deep domain expertise. This is what provides us with the real world context with the ability to have – to anticipate future conditions based on past performance, and the ability to run through what-if scenarios and understand what those model outputs are in the real environment. And all of this is because as I've said we've got decades of working for our clients, designing and operating for them, their facilities, which then allows us to understand not only the challenges but also the opportunities of their infrastructure and of their built environment.

Clients in all markets are faced with a number of these challenges. Things like shrinking budgets, increased maintenance cost, lack of qualified resources due to the aging of the workforce and the race for talent. All proprietary Replica digital twin simulation tool was developed by CH2M and came to us with the acquisition and has been proven on over 70 water projects around the world.

Water, of course, is one of the largest growth markets globally. Our digital twin model, Replica, our simulation platform is very sophisticated. It allows us to apply it on a number of different complex environments; everything from wastewater treatment plants, water treatment plants, conveyance. And it allows us to take a system-wide approach. So, rather than just looking at one variable at a time, we're able to look at in a very holistic fashion and optimize all of them simultaneously.

Replica is unmatched in the industry for the ease and speed with which digital twin models can be created for water environments. It saves our clients' time, money, energy, and of course, the public relations fallout that comes from systems that fail to perform. Replica is a key differentiator for us within Jacobs. We use it both to win work interviews, but it also generates repeat engagements when our clients' needs change and they bring us back for repeat engagements. Jacobs is typically tech agnostic, but this is an example of where we'll develop solutions in conjunction with our clients when we find that there is a need in the market that can't be met.

The West Point wastewater treatment plant in Washington, [ph] the United States (00:59:26) is a combined sewer overflow facility, which means that when it's overwhelmed by a very severe storm event, untreated or partially treated sewage can be released into the waterways. It experiences very large fluctuations between their wet weather and their dry weather events and these variations can happen very, very frequently. It's further complicated by the fact that it's an aging facility, it's at sea level and that is within a constrained footprint. Jacobs was originally brought in to develop a new control algorithm for the plant to overcome some of the design deficiencies that occurred from back long before [indiscernible] (01:00:08) became involved and we were also brought in for the start-up of this new design algorithm.

But following a catastrophic power failure, the client brought us in to use Replica as a flight simulator [ph] of sorts (01:00:20) to test out multiple scenarios to see how the operators ought to react and perform when there were events like a storm event, a power failure, a pump failure, pump transition. All of which would have been far too risky to try to optimize real time during the actual event. This is one example of where we're using Replica to help our clients optimize capital investment and has been doing so for years. There are so many other benefits, things like lifecycle extension, increased efficiency, decreased cost. In fact there's one client in Texas where we were able to use Replica to identify $5 million in initial annual energy savings. The value to our client is top line growth through greater productivity and decreased costs which of course leads the higher profits.

[ph] Partner (01:01:11) has predicted that by the year 2021 half of large industrial companies will be using digital twins, driving a 10% improvement in effectiveness. Jacobs is not just responding to that demand, but were creating new applications for digital twins in a variety of markets and geographies. For example, for a confidential client in the industrial sector, we use Replica to identify a 33% decrease in energy consumption on their industrial process water. In the automotive industry, we worked with one of Ford's Tier 1 suppliers to create detailed robotics simulations in order to increase the productivity on one of their lines by 20% that has been struggling with productivity for 18 months.

In the Buildings market, we're the program manager for a very historically significant landmark and we're actively promoting the development of digital twin for opportunities during design, construction and service in order to drive better decisions on capital investments. And there is a very significant international city for which we have been the custodians for all of their geospatial data for the past 20 years. The scope to this point has really been just basic data management, but the next step is going to be to operationalize that data and convert it into a city-wide digital twin. We anticipate for this next phase to be competing against IT companies that don't have the history, trust or [indiscernible] (01:02:44) of deep domain expertise that we have with this client. The components of digital twin have been around for quite some time. What makes them so significant now is the full integration of components like the Internet of Things, artificial intelligence and data analytics. What makes them so significant for Jacobs is to have not just a digital capability in order to bring this transformative solution, but to have all of the clients that we currently have particularly within BIAF who have trusted us for decades to now be able to bring this solution in.

The market is poised for explosive growth and Jacobs is positioned with the technical skills and the clients to capitalize on that growth. Jacobs is different because we have the combined strength and capabilities of both the ATEN line of business and BIAF and of digital capability and domain expertise, which then creates opportunities and values that go far beyond just the intelligent asset management that Darren described or the digital twin that I've just described with you.

For example, we're designing a very innovative test track for connected and autonomous vehicles for the Florida Department of Transportation. I'm really excited that we were recently selected for the Dubai 2014 Smart Urban Master Plan which is an emirate-wide project that will drive city-wide smart transformation [ph] rooted (01:04:07) in data. We're supplementing BIAF digital capability with ATEN and finding new opportunities for ATEN solutions within our

BIAF markets. This means that we're expanding our reach and we're delivering new and differentiated solutions for our clients.

For example, we've got a BIAF pharma client that we brought ATEN in in order to optimize their manufacturing opportunities. And we're also working together between BIAF and ATEN to develop and enhance safety, compliance, and productivity sort of solution for one of our environmental clients by taking together and developing in conjunction with our client a very unique and innovative drone, laser scanning, and data analytics solution.

All around the world, ATEN and BIAF are working together to develop and provide new, innovative smart city solution, not just to our traditional clients, but we're attracting new clients along the way. And that is exactly what makes Jacobs the company like no other. With our digital capability and our deep domain expertise and with the combined capabilities of ATEN and BIAF, we are winning more, earning more and creating substantial value for our clients, for our employees and for our investors.

Darren Kraabel

So, [ph] what if we showed you out (01:05:32). Hopefully, what we showed you today is how excited Heather and I are about our future and we are a representative of the entire management team and the almost 80,000 employees that work for us across the globe every day. That excitement, it's hard to – hard to overstate in my opinion. We're also excited about the opportunity to further differentiate ourselves, learn more – generate more margin parts for the company and for our shareholders and unlock differentiated value as we move up the value stack from our clients perspective.

We're excited about the opportunities [ph] for some (01:06:03) new commercial model with some of those clients, it's going to open up even more margin generating opportunity for us. But today, I'm also really excited and encourage every one of you to join us in the reception after the speaking event here, because we've brought in some of our subject matter experts. Heather and I are not on this page for a reason. We've brought the [ph] true (01:06:25) subject matter experts here to talk to you not just about intelligent asset management and digital twins, although we've got some great more in-depth case study data for you there as well. But we've brought experts from our cybersecurity, industrial analytics, geospatial Intel – applied geospatial science and environment and the Internet of Things. Take some time, go learn, engage with those folks, let them show you how we're going to make a difference.

With that I'm pleased to introduce Terry Hagen to talk about the ATEN portion of the company's strategy. Terry?

Terence D. Hagen

Great job, Heather and Darren. My name is Terry Hagen. In addition to some corporate responsibilities, I look after the ATEN portfolio. I went to work for Jacobs Engineering Group, as we called [ph] our sales (01:07:17) back down in June of 1987. And in those 32 years, I've had sales and operations, responsibilities, [ph] expand the (01:07:25) entire company including BIAF and ECR, but the majority of my experience base has been in government services, starting in environmental, moving on to nuclear clean up and in the back half of my career, touching aerospace and defense.

So, 32 years, I'm the Jacobs lifer on the leadership team and I'm proud of that legacy. But like Darren, I've never been more excited about where the company is and where it's going, because we're transforming it. I'm grateful to have been a part of that and I'm also grateful for the opportunity to talk to you about ATEN's part in our future. We, like everybody else that will be up here talk about meeting what we said we were going to do a few years ago and in the process maturing a rapidly growing healthy business that demonstrates quality around technical capability and business fundamentals including free cash flow conversion characteristics. That's the foundation for where we're going.

Growing in our core markets and expanding our reach into new areas that offer the promise of margin enhancements and then also being a catalyst for growth across the entire company because of the technical capabilities that are resident in ATEN. So, again, the theme you're here throughout is we do what we said we would do. So that starts with the numbers and by the way these numbers include environmental because up through 2018 it was part of ATEN and even though these are great results, they're actually even more powerful because of -- those of you that saw my 2016 presentation, you'll remember, it was $40 of net operating profit in the 2016 numbers that came out because of anomalous conditions that had their origin in 2015. So the underlying performance was actually even stronger than these good numbers, numbers matter a lot but so do some other fundamentals. We talked about growing a leadership team that would be able to sustain this kind of differentiated growth going forward and we've done that and it's populated by high performance women, men and people of color who are our commitment to diversity in action delivering results.

Steve talked earlier about the important linkage of organizational health [ph] I'm sorry, to results (01:09:53). In 2016, ATEN was actually top quartile and since then we've matured that to where most of those key categories were now top decile and that shows we have superb operational delivery and one indicator and knock on wood. We're forecasting virtually no write-offs as in a few hundred thousand dollars for ATEN in all of FY 2019 and I think that we've got the fundamentals that can sustain that. And finally I committed, we committed in 2016 to maturing the capacity and capability of a sales organization that would be the lifeblood of profitable growth. We've done that with industry leading win rates as measured by gross profit pursued versus gross profit won and I believe all of these things [ph] apply (01:10:44) the foundation for continuing to deliver differentiated results going forward.

When we created the line of business concept a few years back, the one thing that became immediately evident is there was an under-recognition and certainly unbiased, so I'll say an under-appreciation of the ATEN or the legacy ATEN components of our portfolio. And while that's changing because of the transformation of the company that you all are seeing, I still think there's an opportunity to better explain the ATEN story and what I see is the fundamental quality of the business.

So, if I just ask you to look at the pie chart. This contrast to seven, eight, nine years ago where we were dominating our market share around NASA and the Air Force Materiel Command that's good if things go well, but it leaves you vulnerable if there's some kind of perturbation such as Air Force Materiel Command's decision to set aside most of its work for small business. So we've built a much more diverse customer base that gives us great opportunity to expand in high growth areas around defense and intelligence with a much more resilient base to start. We've got a low risk profile. 98% of the ATEN portfolio is low risk and there's also opportunity there. Included in that 98% is a relatively small percentage of fixed price services which I argue is appreciably no different in terms of the risk profile than cost reimbursable work and as you'll see here in a little bit that represents an opportunity to enhance our unit margins. And the third circle is the inherent stability and sustainability of this into the business. 92% of our revenue deriving from contracts that are three years in duration, 75% of that margin derive -- I'm sorry, well that's true too, operating profit, which is what matters most, but revenue derives from what I call enterprise contracts that [ph] are programs of work, but (01:12:49) where our contract period of performance is 5 years to 10 years or more and with an opportunity to sustain that work with successful rebid. So this paints a picture of a very stable, predictable low risk business, that's a great foundation going forward.

On this next slide, representing that 75% component that is indicative of what we do. You see some numbers here [ph] word size (01:13:16), big contracts drives home the long duration. But what I really want to point your attention to is the high technical, high value nature of our portfolio which -- this particularly I think can be under-represented. I'll just pick a few here. The Missile Defense Agency, that $4.6 billion contract we won about a 1.5 ago, this is the IT enterprise underpinning of that National Security Program that is vital to the defense of our country, sophisticated modeling and simulation capabilities on top of that. Going to NASA and Marshall Space Flight Facility, Space Center, we are the engineering partner of NASA as they develop the next generation rocket that'll take Americans to the moon and beyond. Steve referenced Kennedy Space Center, we are writing the launch control software for the new SLS or Space Launch System, high tech work.

Finally, I'll also talk about our nuclear remediation work. These are highly complex environments with high degree of radiological contamination. We design, construct and operate truly one of a kind [ph] in a (01:14:29) world remedial systems. This is a foundation of strong recurring revenue, but it's also a foundation of immense technical capability that we can then use these long durations as incubators to develop even more managerial talent, more technical capability to grow and sticky hi-tech areas of the government services area -- market.

To kind of bring home the [ph] light that we (01:14:58) like our portfolio. I've already talked about the long-term stability, which we believe is very valuable. Talked about the low risk nature, very valuable. What I want to drive home here are the free cash flow conversion elements of the portfolio. When you talk about low DSO, market leading DSO, think low 50s, right?

That comes from these contracts being such that the government pays for the entire loading to run that job, any kind of IT systems, any kind of facilities requirements to house your people, the full cost of the local leadership team directly reimbursed by the customer. So, very low capital intensity leading to very high returns from an asset perspective and in invested capital view. And again, when you couple that with discipline and our billing practices contracts to where we're allowed to bill multiple times a month and in some instances get advance cash payments, we're a cash generation machine and we're not going to take a foot off the pedal.

Talked about why we like our portfolio. Now I'm going to switch to the market and our position in the markets and we like where we play. And the point is this is the resiliency of the ATEN portfolio as measured by operating profit, index back to defense spending in 2008, I'm sorry, when the great global recession was going on and then moving through with reductions in defense spending associated with the pull back from Afghanistan, Iraq and then sequestration, which led to some fairly draconian caps on defense spending. And so make no mistake, we are about profitable growth, but there is also value and resiliency around downturn, both global economic conditions and even conditions inside the market in which we operate. And this track record proves that not only do we have a great foundation for growth, if and when some of the perturbations in markets come, we can weather that very well.

[indiscernible] (01:17:14) looking at where our primary position is and as you'll see our primary focus around government services. It's a huge market. You can slice and dice it differently and maybe come up with some different number than [ph] $340 billion (01:17:27), but it's going to be huge no matter what you come up with. You marry that up with a little donut on the right hand side which takes services market and looks at the existing market share by company. We didn't put names on there. But in essence, in combination, we like government services because it's a huge market and nobody's got scale. So if you can differentiate you can grow even in the face of modest CAGR and there are areas of the federal services market independent [ph] of it (01:18:01) that even flattens out from a CAGR perspective that goes negative that we anticipate to be high growth for the foreseeable future around enterprise IT and particularly cyber.

There is an organization or person on earth that doesn't have cyber vulnerabilities and we believe that will continue to play out in funding going forward. We also like by the way our international and commercial markets are much smaller, but there are high unit margin for us, double-digit, and they offer skill sets that not only add value to our customers in the commercial, international side in their own right but they're complimentary in terms of things that we can bring back into our U.S. government services that skillset our customer base to differentiate there as well. So, we like it, because it's big. It's inherently stable, if you've got a good platform, especially if you are supporting national priority programs. And as I said, if you can differentiate, you can grow. So, what's the ATEN story, as to how we differentiate, and some of you have seen this, I've talked about this publically. And this is a model geared towards those big national priority long-term programs and the first one is customer responsiveness and simplistically we have an operating model that allows us to tailor the working [ph] phase (01:19:23) to unique requirements of a customer. If our ERP has to be modified basically because of some unique customer need as to how it interfaces with our customer, the local leader has the ability to do that. If we've got a tailored pay and benefits to meet whatever the local conditions are. The local leader has the autonomy and the authority to do that. And remember, in an environment where the customer fully pays for whatever that customization or tailoring is, I always say that may sound subtle, but it's proven to be powerful in the eyes of customers that are more used to organizations that operate from a very centralized functional support perspective without the same degree of responsiveness, past performance.

We've got a great track record which I think you can quantify, [ph] read that (01:20:14) track record, 94% over the last 10 years. Things like customer [ph] award (01:20:20) these scores, more than 95% over the last 15 years. The relevance of this and U.S. government space is an explicit criterion for selection in many of these big programs is past performance where you demonstrate on projects or programs of similar complexity size and scale that you can deliver.

We got a great track record, and in fact breaking through on that big Missile Defense Agency contract is on the back of our past performance with NASA efficiency. We sell solutions but price matters. And so we are benchmarked in ATEN relative to primes and pure play peers as either [ph] upper quarter or (01:21:02) directly compared to the primes best-in-class. That allows us to effectively compete without perverting any of our unit margins, and finally innovation, everything you've been hearing about from Heather and Darren.

I look at the one contract that I didn't reference, which was the Special Operations Command, the way we provide their global IT enterprise, Steve referenced it, thanks, you noticed too. That was a win for us not because a lot of people in that community view us as a name brand IT provider, it's because we came in with unique innovative solutions and we won even though we were nowhere near the low cost provider, notwithstanding my comment on efficiency. These are the things in combination that we think have led to our significant growth over the last few years and are foundational for delivering on our next-generation commitments that we're going to make today.

I'm not going to go through all of these, which people always tell me don't use that phrase, because there's a lot here, but secular trends that we think impact our government services business, commercial, international are all favorable not only from a market perspective, but where we play. And I'll just highlight one, the second one there, which my screen went blank.

If you go back three and four years, those of you that follow the Aerospace Government Services industry, you'll know there was a large trend toward what are called technically acceptable low price contract selection, where if you could demonstrate some modicum of capability or qualifications, the selection basis was on price alone, and ultimately that led to commoditization, [ph] depression (01:22:46) of unit margins et cetera. Well, the government finally sort it out, they were getting what they paid for and that pendulum has swung back nicely, the way they're paying for value and including paying higher returns, where you can demonstrate you've got something unique to offer and I'll go back again to our SITEC contract win with [ph] USSOCOM (01:23:07) as an example of that.

So talked about what we like about our portfolio as it exist today, as a foundation for going forward, talked about what we like around the markets we participate in, so what's our strategy. So unambiguously, it's to double down in government services and I would say continue to do what we do today around these long duration enterprise contracts that underpin national priority programs, but also open the aperture particularly around higher growth, what are perceived to be a higher value elements for the government services market, including with contractual terms that allow us to see a higher return and reward to Jacobs, higher unit margins. So I'll talk about that more in a little bit. We're going to put a particular focus on cyber engineering and I'll define by what I mean there coming up. But this is one of those areas where we think we can exploit 600 cyber professionals that we have today, primarily working but not exclusively in U.S. Intelligence [ph] into via (01:24:15) federal spectrum and export that out at scale to help [indiscernible] (01:24:20) his business and take advantage of an emerging market around that conversion of operational technology and IT Darren talked about earlier. And this is an organic growth strategy. But where there are opportunities that match this strategy and with this [ph] turnaround (01:24:39) return requirements, we will use M&A to accelerate the strategy going forward.

On this slide, you will see a spectrum of general categories of government services, a little bit more detail on the grey. What I can tell you is right now ATEN provides these services very well to government customers across this entire spectrum. And our strategy will be to continue to grow across the spectrum where those opportunities demonstrate the business fundamentals and positive attributes I talked about at the beginning. And as an example, we've got an asset management opportunity for late this year, early 2020. That's confidential in nature. But, probably could be on the order of $100 million a year in revenue with margins well north of 10%. I'm going to stop there for competitive reasons. So my point is, there are great margin enhancing opportunities that we can pursue and grow across the spectrum. With that said, we'll put a differentiated focus on the types of opportunities that you see in the enterprise, systems, services and data analytics bar inclusive of cyber by the way as we see those as particularly high growth areas with contract terms and conditions that should allow expanded unit margins.

Talking about cyber engineering. Bear with me. I'm going to take a drink. I referenced a while ago 600 professionals doing cyber for the U.S. government mostly in the intelligence community that provides a powerful platform of capability to expand. The first place we want to do that is in government services where we're playing right now because of the sheer fact that pure play contracts of size and duration are most prevalent there that we see as [indiscernible] (01:26:42). But to link back to what you heard from Heather and Darren and where I'm especially excited is we see tremendous opportunity and that opportunity is actually already in play today to leverage this cyber capability as part of an integrated service offering in Bob's business to where under one roof, Jacobs. You can take the expertise around cyber which will be a component part of any major program in the world. I don't care what it is, where it is, what sub-market it is; and marry that up with the domain expertise that sets the Bob's business to help differentiate and drive the very exciting things you're going to hear from him in a few minutes.

On the bottom, we also see in the long term, it's not very large now, and so admittedly it's not that material in our modeling going forward. But looking three years to five years down the road, I think there's incredible opportunity around this emerging market.

So what is the convergence that OT and IT? I'll give you an example. It'll will be little cryptic, but in the headlines, in the last several months, it was a major publicly-traded company that had a significant cyber attack that was successful. Their proprietary information got a lot of their customers information. This is really not out there, but the hackers got in through the air conditioning control system. So think about your smartphone, if you're going to start messing around to change the lights at home or raise the temperature up and down, as the conduit for the bad person to get into your PII. That's the convergence between IT and OT in this unique combination of capability and expertise that we've got in ATEN around cyber married up with domain knowledge across the spectrum of our customer base is going to become an emerging market. And I see this being a place where we're going to play commercially at a dramatically larger scale down the road at dramatically larger unit margins than you typically see from us right now. Pardon me, just one second.

Looking in the near term, near term is the model period that we've talked about. We've got a rock solid pipeline of work. So, let me just explain what this is. In the orange going back last year, these are the number of real-world opportunities we have in our pipeline that we think we're qualified to pursue that are large, that are $100 million in total contract value or more. Marrying that up with the little blue bars or the blue dots connected on top, the average duration is actually increasing. So, that idea of high technology large contracts that we execute over a long duration of time and all the benefits I've talked about earlier, our pipeline says that we can continue to grow along those with a very robust customer set that I think is only going to get better as we open the aperture and start to look at some shorter cycle project work, more fixed price services, low risk with a broader customer set that will build on and hopefully even get some upside potential to this.

The next one that I want to talk about, and by the way I should have said that these two slides get to my degree of confidence that we're going to deliver on what we said we're going to do. So a pipeline that supports that – supports good growth in all the areas that we've talked about playing in for the reasons I've talked about going forward. This one gets to a number of different concepts. So, if you'll allow me just to build from the bottom up, the amount of work right now that we have over the model period that's already in backlog or unawarded options that we're highly confident that we'll get is very high, and this is meant to be illustrative, okay. So again, that strong stable base of recurring high value work.

If you go into the next one working up, that's rebid cycle. I said earlier that we've had historically a great rebid track record, 94% for contracts of $100 million in total value or more over the last 10 years. So, my degree of confidence that we're going to fare pretty well through the rebid cycle is high sustaining then the base that we've got today. And as we pursue new business, both in our traditional field sets, traditional customer bases, so we've got that industry-leading 50% win track record. We expect to do well. And as we become more aggressive, more assertive and expand into some other areas, even with more conservative assumptions about win rates, this is a track record for stability with growth on top of it. In that rebid cycle, by the way, I wanted to mention that we've been – we haven't lost one since 2005, and in virtually every rebid instance, we've been able to materially increase our unit margins, because of business acumen improvement in the sales team, and I'm talking on the order of 20% to 40%. So, think about going in from 5% unit margin on one of these big long-term contracts to 7% as an example, that potential for unit margin expansion is in there, as is the higher unit margin opportunity that sits on the top of the curves.

So what are we promising and I always talk about growth in the context of unit profit, these are numbers that we think are achievable but very attractive compared to our pure play new peers. I've talked about expanding our unit margins in the various ways possible. Top line matters, but I'll tell you, adjusted operating profit growth, unit margin expansion and preserving that cash generation machine dynamics, that's what's most important to me. The reason is that not all of our revenue is created the same. We're participants in JVs to where every dollar of revenue is the same as net operating profit. There's other instances to where we consolidate as the lead partner, but then share profit. So, we've got some diversity, if you will, and how the revenue stream translates to the bottom line. That's why we focus much more on the bottom line. So, putting all of this together, what we've achieved over the last few years we believe is the foundation going forward, a very resilient business, strong technical capabilities that are a platform for continued growth, tremendous free cash flow conversion generation characteristics, and also a foundation for industry-leading net operating profit growth.

So, I look forward to questions here in a little bit, but right now I'm going to hand it off to Bob Pragada, Co-COO and Head of BIAF.

Robert Venkat Pragada

Hey, welcome, everybody. Good afternoon. I know now we're at the kind of the homestretch before the break and for the Q&A. So, I'll keep it lively and I'll try to keep everyone's attention as well. It's great to be in Florida. It's interesting. I had to be reminded, you know your challenge, and you know you've got a lot in your mind when you have to be reminded of where you were born. And so, when Steve was welcoming everybody this morning to Florida and more specifically kind of highlighting the work that we have here in Florida and mentioned the Kennedy Space Center, I in fact was born in Titusville, Florida, and my dad worked at the Kennedy Space Center way back when. So, though I moved away very early and up to Chicago, it's – a part of me is still here in Florida. So, it's great to be back as well.

Like my colleagues and Heather and Darren and Terry, I too served in the military and have been in private industry for several years as well, all within the same industry in the engineering, construction and services business. I also had to be reminded especially with the milestone birthday last year that it's now almost going on three decades in this business, been with Jacobs for several years and having a great time.

To level set on what you're going to hear today, this is the line of business that actually for those of you that were in our 2016 Investor Day, this line of business didn't exist. So, I'm sure there's a lot of analysts and a lot of quant folks that are trying to tie together what we said in 2016 and how that ties to now, it's going to be really difficult because we had several lines of businesses. This line of business is now made up of what used to be buildings and infrastructure, as well as advanced facilities that sat in another line of business, coupled with CH2M and now today is a $7.7 billion business, 38,000 employees that operates around the world, delivering services in our core infrastructure markets, transportation, water, buildings environmental, and our advanced facilities end markets in electronics, life sciences and specialized manufacturing.

So, it's been a great three years. And some of the key messages that you're going to see throughout the entirety of the presentation is that we had a strong three years and what we said we were going to do and we achieved our 2016 strategy commitments a year early, BIAF organically. Need to point that out and you'll see what I mean on the next slide. BIAF was the line of business, a portion of the CH2M acquisition, went into Terry's business, but BIAF had about 80% of what the CH2M brought to us to – came into this line of business and it really did transform our portfolio and I'll go through that.

That transformation of our portfolio has really positioned us well for the next three years. And we feel very confident that we'll be able to deliver continued double-digit operating profit growth numbers for the next three years as well based on a strategy that breaks down into three predominant facets: market connectivity, our ability to take our solutions and leverage them across a variety of markets; global connectivity, optimizing our talents all around the world; and digital connectivity, digitally-enabled solutions to really bring innovation to the forefront of what we do.

So, before diving into this slide, I do want to take one step back before diving into the financials of what's going on over the course of the last three years. Both Steve and Terry brought up organizational health assessment, talked about where the origins of this line of business came from. But to put it in perspective, I was not as fortunate to get the results that my colleague, Terry, had built in the ATEN organization. Our organizational health assessment with the folks that were in this line of business or those that they represented, was in the bottom quartile. And so the fourth quartile for the majority of the folks that were here, happy to say that over the course of the last two-and-a-half-years, we brought that fourth quartile performance up to the second quartile and still moving up into the next quartile as well. So, that culture means everything and what Steve talked about that drives performance, really been focusing on that. And so, how do the results turn out? So, let me level set here for a moment. In 2016, we said our commitments to be achieved by 2019 were $293 million of operating profit with the top line growth of 5% to 7%, segment operating margin between 6% and 7%.

We said that we would achieve that through a strong focus on growth markets, growth geographies and a real focus on high-valued services. So, 2019 is the baseline there from where we started in 2016. And so, where did that growth come from? Clearly, we were very fortunate to be positioned extremely well in the transportation market and we saw better than market performance growth in our transportation business.

Our water business, and again this is organic and this is pre-CH2M. Our water business actually outperformed where we thought we would be in that we have a solid platform in the UK and Australia, and we're positioned extremely well to capture the growth that was going on in those markets. And then, our advanced facilities business. Our advanced facilities business affectively doubled in the last two years from where it was in 2019, so you say why, how did that happen. And that really was that's something that actually came out of our core client and key client focus that we've had for several decades. And those clients that we've stuck with for decades all along and really providing high value services for, we're growing during this period and we capitalized on that entire thing.

So, at the end of the day, we did it, we made it. Two years, 41% operating profit growth over that period compounded annually at 20%, and did that while achieving higher margins with enhanced project delivery and I'll talk about that in a second. This was all accentuated in 2018, and again CH was incremental to this, which probably and as Steve mentioned it in his remarks one of the most transformational acquisitions that the company has ever done and one that probably you could argue was transformational even in the industry, and it really hyper-accelerated the strategy that we had outlined in 2016.

So, let's reflect on what that 2016 strategy was? We said in 2016 that we were going to make incremental, we were going to be focusing on markets, geographies and services, and then from a market standpoint that we were going to make select investments to grow our business in water, environmental and grow our transportation business as well, which we already had a pretty solid installed base.

And so, when we had the opportunity and we were going to do that through thematic acquisitions, that was going to be our plan. So, when we had the opportunity kind of in the mid of 2017 to come together with CH2M with the proper diligence and analysis and really understanding the culture of that company, we took it and we went right down the middle and said, hey, if we're going to do this, we're going to do it right. And if you see the table there on the left-hand side of the screen, from a market leadership standpoint in those markets that we said we wanted to grow, we got that market leadership with one acquisition, but even better we were able to expand our footprint, really accelerate our digital solutions and our innovation play and get a balanced portfolio, all while having similar cultures and those cultures coming together during the course of 2018.

From a personal standpoint, I was deeply involved not only in the selection but also in the integration, and on behalf of thousands of people that aren't in the room, it's been really a great run and we're looking forward to now being a combined company and doing great things in the marketplace.

So, what do we look like today? Today, we have the ability to have differentiated value to our clients with a balanced portfolio as a percentage of growth revenue. So, all of these figures are of growth revenue. And so, let me start with the pie chart that's on top left, fairly balanced portfolio in those end markets that we said we wanted to be a market leader in, low risk profile with over 90% of our business in the services sector, high margin diversified delivery types with now the added benefit with CH2M of an operations and maintenance platform in the water business as well as in transportation and a few others, that as Heather and Darren talked about really serves as a nice platform in addition to the rest of our portfolio, they accentuate those things like intelligent asset management and predictive analytics. We have a 50/50 public-private platform and we're in geographies that are targeted geographies and ones that are growing.

So really, really excited about the portfolio and today because of this and as a result of a lot of hard work that's gone on from a lot of people, we're now executing on some of the world's most iconic and global priority projects. And so, let me highlight a couple. First Etihad Rail. Etihad Rail is one of the -actually it is the longest freight rail system that's being built in the Middle East. And when complete, will be a freight rail system that connects all of the Emirates. Highly complex and the client really needed to get it done in a fast period, came to us probably before this acquisition happened or this coming together of two companies happened, I don't even know if we'd be on the bid list. Not only were we on the bid list, we won it and today we're delivering that work. I'm going to talk about that a little bit later.

California WaterFix. California WaterFix is now – it's in design. But it is the largest conveyance project in the world, maybe not in the world, but definitely in the U.S. and it is solving a water drought situation and a water issue as well as an environmental issue for 27 million Californians that have been suffering for a long time and we're right in the middle of that as well. So, national priorities, global priorities, we're in the middle of all of it, all of these represent great revenue synergies that we've got with CH2M.

So, we keep talking about core markets. So, I want to take the next couple of slides and go into where our core markets are and how we fit into those core markets. I'll highlight five core markets: water, transportation, advanced facilities, environmental and buildings. We've got the unique ability to have two of our end markets that also serve as enabling markets too in environmental and in buildings. I'll talk about that in a second. The addressable market and these numbers you've seen a whole slew of people try to handicap what is the actual available market. Here's the Jacobs' view. This available market are Jacobs services that we offer and Jacobs markets that we're positioned. Each one has a healthy growth forecast, and over the next five years approximately 3% to 6% growth in each of these end markets with a degree of stability in each end market.

You saw this in Terry's slide and you saw it in Steve's slide as well about disruptors. Some of these disruptors are the same, some of them are different. Point here is, is that, each of these are now industry trends and these are disruptors that are creating growth in our end markets. With regard to urbanization and the technology revolution, we're seeing the most pronounced effect of those two trends in the end markets that we have a leadership position in. So, these trends are really providing a nice catalyst for growth for the business based on our previous strategy and what I'm going to talk about as far as our future in the strategy moving forward.

Again, further strengthened with the acquisition CH2M. So, how do we differentiate? Why us, how did we create this leadership position beyond an acquisition of a like company and more is better in each of the end markets? And it comes to key areas of that differentiation and I'll start with performance excellence. In 2016, we said we were going to have a strong, strong internal effort around what we call Transform the Core, and really driving performance excellence, taking what we've had with great customer relationships and customer and client [indiscernible] (01:47:45) over the years and coupling that with performance excellence.

Kevin is going to show a slide after the break that will talk about our writedowns over the course of the last three to four years. And the number has come down dramatically from a high number to a number that is getting lower with the debt. Most of those writedowns were sitting in this business. And today, we've reduced that number by over 50% innovation. You've heard a lot about innovation. We have our BIAF organization that's centered around a component of it that we're calling Solutions & Technology. These are technology leaders, a lot if which – a few of which you'll meet at the reception that are here today, and they are right in the middle of driving technology not only internally, but staying with our clients technology roadmap as we continue to deliver solutions to the marketplace. Global Integrated Delivery. Today with CH2M, we've got great global access we didn't in our private sector business as legacy Jacobs. Today with CH2M in these core markets, we've got great access to talent that resides around the world. And I'll talk about in our strategy moving forward how we're going to optimize that. And then infrastructure leadership. It's one thing to be a number one or number two player in each of our end markets, it's another to take the core skill sets that we have in those end markets and be able to provide end-to-end solutions for our clients. It's a unique differentiator and today we're capitalizing on it.

So, what is the future like, what's our strategy, how're we going to move forward? Sketching out the strategy moving forward is our strategy right now. We're in the middle of it, the strategy moving forward is happening today and it's based on three main facets. One, market connectivity, leveraging our expertise to provide end-to-end solutions for our clients' most complex projects. Global Integrated Delivery, utilizing global talent to deliver solutions locally. Digital, we've got a strong foundation for digital connectivity. And investment in those five innovation hubs as Darren and Heather and Terry have already talked about is going to be key moving forward.

So, let me describe each one of these in just a little bit more detail. So, you saw this chart before. This is how it comes together. In each of these end markets with two providing an enabling feature, we have a great leadership position in order to offer complete solutions to our clients. The core to our strategy is using that end-to-end skill set and driving solutions for our clients that are now connecting those end markets together. So, what does that mean? I'll give you an example.

We're seeing a convergence not only in – you hear about smart cities and smart solutions all the time. We're seeing that convergence of end markets happening in airports, happening in military bases, happening in educational institutions. And so now that that connected enterprise really is meaningful for our client and is driving their business forward too, let me give you an example, Heathrow. London Heathrow, I'm sure a lot of you here have flown to London Heathrow, probably heard the announcement of a third runway, right.

On the third runway, you think that a supplier that was going to be or a partner that was going to be doing work there would have skill sets on designing and building a runway, right. If I asked my 19-year-old son that, he'd probably say, yeah, that's what you need to build a runway. What we're doing is a little different. Today, we understand that that runway is going to create more passenger traffic at Heathrow. There's only one Terminal 5 in Heathrow. For those of you who've been there, the other terminals are pale in comparison, it's painful.

So, there's going to be utility requirement that's going to increase as those buildings continue to rise. There's going to be rail needs that are going to happen. So, Heathrow Express is going to need some assistance on building out those rails. And then, the highway infrastructure driven by Highways England. With Heathrow Express, Thames Water and Highways England, we're already in discussion with pulling all of those agencies together along with the Heathrow authority to provide a steady solution, this is what we're talking about market connectivity.

A couple of other examples that I'd like to bring up that really drives this home and I'm going to talk about it more when I talk about digital consulting. But it's around what Darren talked about with regards to digital consulting. These are digital and digital master plans that are turning into physical master plans for full smart cities, and these aren't just in the Western Hemisphere. We're doing right now physical and digital consultative or master plan support for places like Aurangabad, India, Amravati, India, Dubai and in Australia across multiple cities in Australia. So, this is something that's happening right now and we're right in the middle of it.

Global connectivity. STEVE talked earlier about cultural priorities and mentioned inclusion and diversity. Our effort right now around global connectivity is right down the center of inclusion and diversity, and here is what I mean. Today our infrastructure clients – for several years, our infrastructure clients buy local projects delivered by local talent, it's probably more structural in the U.S., but it exists all over the world. And what does that do for us as a partner or as a provider of services trying to deliver the max value that we can, it's very limiting, it limits our access, it limits – it really puts us in a – our back is up against the wall in the race for talent, it limits our ability to bring technical horsepower for a better solution in the local area and really puts us in a really handicapped spot because then your value proposition ends up being how many people can you hire in a local area when there's new infrastructure that's going up.

At Jacobs, we have top talent that sits all over the world and we have the ability to bring the right talent from anywhere in the world to deliver locally the best solution for our clients. This is about talent. Yes, there are efficiencies and there's cost implications that are affiliated as well, but this is about bringing the best talent around the world to where the projects are day in and day out.

I'll give you a couple of examples. We just completed a [ph] bulk (01:54:43) biotech facility in Ireland that's going to be producing some absolutely science-defining oncology products, confidential client. It had to be built in record time for those of you who're familiar with the biotech world, it's all about product to market. So, we were able to, without sacrificing talent at all, mobilize teams that came from the Central U.S., Eastern U.S., India and Singapore along with Ireland to design the project around the world deliver locally without sacrificing anything from a safety or quality or schedule standpoint.

Secondly, I mentioned Etihad Rail before. What I didn't mention is, is that they wanted – that client wanted a 900 kilometer freight rail system to be designed and built in record time. So, yes, there's a scale element of how're you going to do that in a short amount of time, but there also was a skill set going and putting thousands of people that you can find from all over the world, would be one solution. The solution we took on-board and now with CH2M have the great opportunity to do so is we were able to get the world's best transportation planners, bridge designers from India, from Poland, from the UK and from New York City to come together and be right in the middle of Etihad's Rail iconic program. This is no longer going to be the exception that we're going to have in our business. This is going to be the norm.

And then lastly, digitally-enabled solutions. I probably can't do a greater job as Heather and Darren did in describing this, but this is core to our business. Today, digitally-enabled solutions are woven into every project we deliver and just as we said before, they solve our clients' needs and their complex problems efficiently, cost effectively and predictably, right. These are the same issues and same challenges the clients have had in the past. Look at the NASA Langley example that Darren highlighted. But today, we're able to do that, solve the problem, but also anticipate the problems down the road with tools such as predictive analytics and other elements of our innovation hub.

So, why us? And you're going to hear this over and over again. Us because we know the clients, we have a talent base and we have the ability with domain knowledge to understand our clients' business as well as the science of our clients' business. So, I use an example here, a lot of people have heard it's almost – this has become a buzzword for us, so there's several meetings, but Intelligent Transportation Systems, there're a lot of people that have heard about that.

Why ITS? ITS has come into play, because in the old days with regards to aging infrastructure, roads broke, trains broke. There's an overcapacity issue. There's an undercapacity issue. How do we solve all of these different things? But really is the infrastructure – is the broke infrastructure the issue or is mobility the issue. When we deploy things like ITS around the world, and today, we, Jacobs, are using ITS in the U.S., in the U.K., in Australia, all over, we're using ITS to solve mobility issues not necessarily the symptom which is broke infrastructure.

So, while we've been in the middle of this, Darren referred to this a little earlier. We're starting to see an adjacent market that's showing up that we're in today already. And again these estimates, please don't hold us to these estimates on the TAM, this might've been a generated TAM and what we're seeing as a percentage of the overall management consulting world. But it's about a $25 billion business with a nice annual growth rate around it and it's all around digital consulting. So, Darren's comment think big, start small, this goes right into the middle of that and this is why we, with a little bit of repositioning, you can see some of those on this slide here, are really – we're doing it today. So, we are doing this today, but we're ideally positioned to grow in this market with all of the great, and again you're going to hear it over and over again access to client deep domain knowledge, global talent reach as well as this will be a place that we put some investment capital to work. It's a great market. And with our domain knowledge, we feel pretty strongly that this is a place where we want to be because not only is it a nice pull through for delivery solutions that we have, but it's a good business as a business.

So, what does all this mean? We believe as we execute on our strategy, we have confidence. We have confidence that we can achieve attractive, organic growth targets in the next three years. Achieve those growth targets with margin expansion, I'll go through each one, solid revenue growth ahead of end market growth rates, continued double-digit operating profit growth, all the while producing strong unit margins along the way. And I want to reiterate it again. We're in this position today because of a successful CH2M acquisition as well as successful integration that you're going to hear more about when Kevin gets up here shortly.

So in conclusion, it's been a great three years. And we're all very proud of what we've achieved as well as are proud of all of our great employees that have been right in the core, thousands upon thousands that don't fit in this room and are not part of the 30 that Jon talked about, that have done a great job and a lot of sweat equity put in this. But there is, I am going to and I know with now my boss standing up, it's not good to say something contrary to then what your boss said, is there is something that we're really, really bad at. And I'm going to admit it now. We're really, really bad at doing a victory lap. And so, there is no time for a victory lap. We're on to the next one. And I think Jay-Z has a song on that too. We're on to the next one. And our strategy is going to drive us to the next level. That strategy is around leadership in our core markets, drive global connectivity, and capitalize on digitally-enabled solutions. And we're on track to achieve great results moving forward. And we're really excited about the future.

So, with that, I'll turn it back over to Steve and take some Q&A.

Steven J. Demetriou

Thank you. Okay. What we wanted to do here was reflect on what you've heard so far. Hopefully, you'll save your financial questions when Kevin and I come up after his presentation where he does a deep dive into the financials. So, why don't we see what the first question is right here, front?

Q&A

<Q - Jerry Revich>: Yes. Hi. Good afternoon. Jerry Revich, Goldman Sachs. Can you gentlemen talk about really impressive margin targets that you've laid out for each of you over the next couple of years? How dependent is that on getting the wins that you spoke – scoped out that are still in front of you? What happens if the markets don't cooperate? How much is locked in in margin expansion from SG&A efforts that you laid out, and maybe talk about gross margin improvement as well?

<A - Steven J. Demetriou>: Go ahead, Bob, you go first.

<A - Robert Venkat Pragada>: Yeah. So, we have a shelf life on our projects. I highlighted the iconic and the real attractive programs. But if you look at – we've got a portfolio of over 10,000 projects in BIAF, it's over 10,000. And so, yes, there are a couple that might drive it, but they're not needle movers, even if they have some size and some breadth about it. And so that, the size of the portfolio coupled with the duration, the average duration, Terry had a slide up that showed, and this is why this is a great balance of each other having two lines of businesses, so the average duration of our project is about six months.

So, we have those outliers that are three years and we have some engagements that might be a couple of weeks. So, if you take the size of the portfolio coupled with the average duration of the engagement, I don't think that there's a real issue there as far as materially affecting the margin.

<A - Terence D. Hagen>: Yeah. I feel comfortable, and it's because of where we seek to play. I've talked about national priorities. And so, if there is going to be a Missile Defense Agency as an example to provide against threats such as North Korea, there is going to be an IRES type contract, it's just foundational to that agency's existence. So, we put focus on identifying long-term opportunities that we think are going to be very resilient even if there is downturns in funding inside the industry, that's why I put that one slide up that shows our operating profit performance and growth over a long cycle in the face of those sorts of perturbations. Obviously, the first part of your question is, is that we've got to pull our weight in the sales process. But I'm confident that we can tap into those differentiators and continue to win at the kind of rates that we've shown and grow again around government priority contracts that are going to be there because of their importance to a variety of national priorities, at the front being security.

<Q - Jerry Revich>: And just...

<A - Steven J. Demetriou>: Yeah. Okay.

<Q - Jerry Revich>: One just quick follow-up. So Terry, you folks have had really impressive win rate, you're assuming a slowdown in that win rate on new projects to 30%. Can you just expand more on why the assumption of lower win rate going forward, how much of a reach are the new opportunities that you're looking at?

<A - Terence D. Hagen>: Yeah, and I may not have explained that very well. For the types of long-term enterprise opportunities that make up the bulk of our portfolio today and will continue to be a point of emphasis, we don't see any degradation of the win rate. I'm going to press the team as you would expect to even improve that. But one of the things I said is we're going to open the aperture to new federal customer services using new contract vehicles, including with some fixed price services components to where we think we can accelerate margin enhancement. Any time you kind of go into a new part of a broad sector, I think you've got to be realistic, prudent is the word that I'm using, and so it's only in that new focal area of our strategy to where we're modeling a lower win rate, but still reasonably attractive compared to industry norms.

<Q - Lucy Guo>: Hi. Lucy Guo with Cowen. First question is in terms of what you project for market growth and market share gain potential. And also with the backdrop of pro forma growth in 2018 was 12%, right, as I understand, kind of maybe just address your respective segment market growth versus your thoughts on share gain?

<A - Steven J. Demetriou>: Do you want to start there?

<A - Terence D. Hagen>: Sure. And so to repeat, like we do see based on all sorts of industry analysis, some modest CAGR growth in our biggest market, which is broadly lumped together as government services. I'll say again what I said in 2016 that even if we see a straight flattening or a slight erosion of that, I still think the combination of discriminators can allow us to gain market share.

One thing that you're seeing in the model is we were fortunate, by the way let me correct something I misspoke. I said we haven't lost rebids since 2005, it was 2015, which I'm proud of but now it doesn't sound like damn good [indiscernible] (02:07:06).

Basically, we do have more of our portfolio that is up for rebid in 2020 and 2021. I'm confident of our ability to perform well, but that's also factoring in the model. And you saw it a little bit on the top line, but I put still all that together, I'm confident in our ability to grow even if that CAGR depresses a little bit.

<A - Steven J. Demetriou>: Bob, anything to add?

<A - Robert Venkat Pragada>: It's [ph] interesting (02:07:34). I think that our – my comments around outpacing the CAGRs for the end markets we represent is based on share growth.

<Q - Lucy Guo>: You also addressed in terms of your margin trajectory that would probably be considered industry-leading, even though you seemed to be a little bit more conservative on the revenue growth side. What is baked into the margin trajectory, if any, in terms of restructuring, any more cost actions that you have to take? And what sort of mix profile are you thinking of in order to drive that margin growth?

<A - Steven J. Demetriou>: So, as far as restructuring, I'm going to allow for – Kevin is going to talk about that in the afternoon, but we're assuming running our business efficiently. And that – if that – if that entails having to take cost measures, I can make sure that if we're getting the most efficient operation and leverage from our cost structure, we're going to do it. Right now, we're in the mode of growth. And so, we're – we're really focused in on operating profit increases through growth in the business. Kevin?

<A - Kevin C. Berryman>: Yeah. For my end, as I said earlier, we're benchmarked as very lean. I would get the speech from my boss after I say that about being complacent, but I don't see our trajectory of the unit margin being significantly enhanced efficiency, it's more evolution of the mix over time.

<Q - Jamie L. Cook>: Hi. Jamie Cook from Credit Suisse. I guess, a question both for you – both you Terry and Bob. As we sit here today, I understand you don't want to take a victory lap, but you guys have done a good job. So, in terms of thinking about the next leg, how much of your time for each of you will be spent over the next sort of two to three years on organic – how much of your time will be spent on organic versus inorganic opportunities in those certain markets within each segment where inorganic really has to happen to put you to where you want to be?

And then my second question it sounds like Jacobs is expanding their service offering in each divisions to markets that you haven't historically been in. As you win services in those areas where Jacobs hasn't been historically in, your margin assumption, do you assume lower margins or do you assume you can win those projects at a consistent – at an industry margin rate? Thank you.

<A - Terence D. Hagen>: So, the first part about my personal focus. I talked about the strength of the team in my own personal leadership style, it's to empower and hold accountable and largely – and I'm not being disingenuous, stayed out the way. And that team has proven itself relative to operational and business delivery. So, I am going to focus more on the strategic side of things, customer relationship side, and where opportunity, as I said earlier, meets strategy and discipline, M&A opportunity exists. I'll put some personal focus there because I'm so confident in the team that gets it done.

In terms of priorities, it would be, I'm going to be a little general because it's a combination of attributes that government services, that's not to say that if something interesting and unique were to come up internationally, we wouldn't take a look at it as a catalyst to further that high-margin business that we've got today. But in general, I would say, we're looking for M&A opportunities if they exist that continue to advance our technical capability at scale. I talked about that I'm proud that we basically play across that spectrum, but building scale there and being able to play on an even wider customer base, I think, would matter.

Certainly, you'll hear from Kevin, you already heard from Steve talking about some of the financial thresholds that come into play that's a given, right? I'm not going to advocate, not only because my boss wouldn't let me, but I'm not advocating for done deals, right? So, it's not only where it takes us in terms of our capability and customer set, but it's got to marry up nicely and I would see that meaning given where I'm at today being margin-accretive. Bob, anything to add?

<A - Robert Venkat Pragada>: Yeah, so Jamie, I'll be a bit – I'll be bored on this when – if you don't count what we just did over the course of last year, a 100% of my effort is going through organic growth. If you were to count continued integration that we go through, whether it be cultural or otherwise, I'm counting that as organic now. We're all one family.

On your second question with regards to the margins, we did not assume that if we were going to go into another geography, or in markets that we're not in right now, that we would have lower margins. We'd only do that if we're able to either retain or increase the margins that we have today.

<A - Steven J. Demetriou>: Yeah. So, I just want to pull that together as well that everything you've heard up to now and maybe for the rest of the day is all around this organic growth strategy. And just like when we were in 2016, we set our targets, it was all about organic growth. That's – right now, that's where we're spending 100% of our time on. If and when an M&A opportunity surfaces, clearly the three of us and Kevin, first and foremost are getting together, and as an executive leadership team trying to figure out if that's something we're going to spend time on. But our accountability walking out of this room is that organic growth strategy.

[indiscernible] (02:13:08) we have over here, let's raise their hands. We have good diversity in the room. Please, Mike. Mike, go ahead, Mike. [indiscernible] (02:13:18) whoever wants to go next on this side [indiscernible] (02:13:22), go ahead with your question. We have some microphone over here.

<Q - Michael S. Dudas>: Yeah, that's good. Mike Dudas, Vertical Research. For either – I mean three of you. You talked of – wonderful presentation on Jacobs Connect Enterprise, look forward to learning so much more about it post the discussion today. What customer base has been more receptive on each of your end market decisions, what customer base has been more receptive to this, and in your three-year plan, which ones you need to really work on, kind of get it more integrated to meet some of the targets which appear to be relatively aggressive on some of those opportunities.

<A - Darren Kraabel>: You want me to start off?

<A - Terence D. Hagen>: Sure.

<A - Darren Kraabel>: UK public sector, by a margin from other public sector clients around the world, that I would say one from a private sector standpoint it's probably been U.S. industrial, manufacturing predominantly, but U.S. industrial clients. On the flip side, U.S has probably been the most resistant, for those U.S. tax payers in the room that probably not going to like my answer, it's been the U.S. Department of Transportation, where we've got some room to work. It doesn't mean to zero, but we have to – we've got lot of room to grow, we are starting to see some early signs. Terry?

<A - Terence D. Hagen>: And I guess so, what I would say in the government sector which dominates our client base, there has been a real receptivity to this broad suite of capabilities that enhances efficiency, availability, and reduces cost because, as Darren said it, they're almost always under serious cost constraints and they view as a drain any cost that goes into maintaining a very expensive high-tech infrastructure, and the degree to which you can improve the state-of-the-art for them, they've been very receptive. And fortunately, we've got some very powerful proofs, like NASA, Langley and others, and so it's really gaining steam.

<A - Jonathan Doros>: Who has the microphone?

<Q - Andrew Kaplowitz>: It's – I think this question is for Steve. It's Andy Kaplowitz from Citigroup. Well, I think one of the attributes of being an E&C is that you're viewed as an E&C until proven otherwise. And obviously you're going through a major transformation here, but you spent a lot of time talking about this sort of digital transformation that you have and I think we will give you credit for domain expertise in BIAF. But you're going against these new competitors, so to speak, in government services. How do you prove that you are like them or better? And how do you get rid of the inherent volatility that sort of plagues E&Cs to date, not necessarily you, but that sort of perception is still that maybe there's still too much lumpiness, all that kind of stuff, and it's going to go away with this sort of digital focus?

<A - Steven J. Demetriou>: Yeah. Well, there's a variety of things. First of all, we've got to complete the sale of ECR and that's going to go a long way, because they're still amazing. It's amazing how so many people I interact with, including shareholders, that they're still coming to grips that we're getting rid of that business, right? So, we're selling that business, I should say. So, I think that's number one.

Number two is we've launched the brand awareness strategy that we're going to discuss soon that is going to attack a lot of what you're all talking about. But I would say the biggest thing that we're already doing and as we continue to do it, I think it will widen the awareness is beat those competitors that you're talking about in that space and we're doing that. And some of the recent wins that Terry just had over the last year, the big ones, have been against some of those government service providers that are not [ph] whole E&C (02:17:25). And then, the same thing as it relates to these [ph] smart city solutions resiliency (02:17:31), all that stuff that we're doing at BIAF, it's – it really go after those innovative technology oriented and beat those competitors as well. So, I think it's going to be a combination of things.

<Q - Andrew Kaplowitz>: Along those lines, you talked -- that's probably more for Terry, you talked about the 2%, 3% growth that you expect through 2021, then -- but you showed us this pipeline of opportunity, this $100 million and looks like it doubles in 2019 and doubles again in 2020 approximately. So 2% to 3% just -- it's pretty, it seems conservative in the context of sort of winning against these other guys, considering you're ending this last quarter at 8% backlog growth. I know you have tough comparisons, but, is it just three year plan need to be conservative. Are you pursuing margins more in this cycle than you were growth before?

<A - Terence D. Hagen>: So my first answer and I'm repetitive, when you talk about growth, don't start with revenue, because it's not as indicative to the trajectory of ATEN as people assume because there is a wide variety in basically the revenue to unit margin profile [ph] in there (02:18:45). We think there is strength in all elements of the portfolio for some of the reasons I gave today. But what I think is much more [ph] illustrative (02:18:54) is that net operating profit growth commitment of 8% to 10%.

As I said, what is impacting the top line number as we've modeled it is the impact of some of the rebids to where we've been prudent. I'm confident in rebid space, but we wanted to make sure we can deliver on very solid operating profit growth commitments. Also, to your point, we see some opportunity and I think I referenced this in my presentation. The target was a fairly limited element of the portfolio that does tend to have higher revenue but lower returns, especially in some of our classified space. So there is a part of reshaping the portfolio there. But, again, I'm always going to say my focus is on unit profit growth. My focus is on bottom line operating profit growth in that combination preserving great free cash flow conversion characteristics. Top line matters in the long-term, but it's secondary to me. And you're just seeing that as an [indiscernible] (02:19:56) of the model of what individual opportunities were pursued -- pursuing, sorry, coupled with the implications of assumptions around rebids.

<Q - Steven Fisher>: Great. Thanks. Steve Fisher, UBS. Just a follow-up on Andy's question, mean, clearly the marrying of technical expertise with your domain expertise is core to your achieving your results over the next few years. But these are people-based skills and to your point the more you beat into some of these other players maybe they're more encouraged, they're to try and take those assets. So, how can you transfer that knowledge from a people-based skillset to an institutionalized-based skill within Jacobs as hard to – to replicate and how quickly can you do that?

<A - Terence D. Hagen>: So I think Steve, [ph] core to (02:20:52) that is, is that we've always been a people business, right. And so, with the people business probably the biggest lever that we have is to drive a culture of collaboration and a culture of integration, and that's where we feel very strongly that we're going to be on the forefront of doing. And so, yes, the skillsets that are driving our innovation trajectory fit in both lines of businesses. Two lines of businesses that have proven that we can collectively deliver world-class solutions to our clients. So I think we're just going to continue on with driving that [ph] culture (02:21:35).

<A - Steven J. Demetriou>: So I just want to build on that. Again this is where I just think people don't understand our company enough yet and we just have to continue to clarify that. And I think with the sale of ECRs where now everyone's going to focus on these two businesses and watch the connectivity that we talked about today and you'll see this when you go to the reception area of how BIAF and ATEN is working together and I think that's systematic culture that you're talking about is happening. I think it's – I go back and repetitive, but some of the recent wins that we've had what's differentiated us is the Jacobs connected enterprise solution that we brought, the cybersecurity, the data analytics, the – and again we're winning against not traditional E&C players, but the more technology-oriented competitors that were – that when I talked about earlier in the afternoon that we're raising the bar on our peer group, we're looking at that how is – how we're going to create superior shareholder value versus the traditional peers that we've been marketing ourselves against over the last three years.

<Q>: Hi, guys. So first question, Steve, at the beginning of your presentation you talked about being the employer of choice, how do you measure that at Jacobs and how do you sort of incentivize people particularly around that?

<A - Steven J. Demetriou>: Yeah. Well, a few things. One is, we do have the organizational health assessment tool, that allows us – that tool, I didn't go into a detail, but it is direct feedback from all of our employees and we got a very high participation rate in the two surveys that we did, that's above average when you do that kind of employee survey and it is pretty powerful the feedback that we get, eye opening at times, and it leads to, for the most part things that are either frustrating them or inspiring them and so we are able to get that information. We rigorously tracked attrition and that as we know move forward, our industry is typically on the 10%, 11%, 12%, 13% attrition rate and we've just accepted that. The whole professional services, forget just E&C, professional services. We -- by the strategy that we're putting in place where you heard a lot of our culture, culture, culture, that we're going to be investing and doing some differentiated things that we're going to set the goal and hold ourselves accountable to reduce that attrition rate.

One of the slides talked about cascading CEO goals that I've presented to the board and I'm holding myself accountable to the board of directors on [indiscernible] (02:24:26) many of my goals involve reducing attrition, increasing the diversity of the organization and that's not just typical percentages, it's leadership level, leadership players at all levels being truly diverse that we just all have a lot of diversity at the lowest level and these are the type of things that we're now holding ourselves measurably accountable for and a lot more I could talk about.

<Q>: The second question is for Bob, Bob, you know earlier on in one of your slides you pointed to having successfully gained top rankings in the ENR. So, where do you gain market share from, when I talk to your customers, they would like to have at least two contractors in the mix, so when you're number one in a lot of your categories where is the market share coming from?

<A - Robert Venkat Pragada>: Couple of [ph] progresses (02:25:21), one is that we had with those clients, we had a section of their work, a share of their own wallet, so there is – there are other elements of our clients business and they've been core clients for a long time that we have the ability to access, leveraging off of that relationship, right? So that's a big win. And I would say that one of the biggest ones in that is now our [ph] city pollution (02:25:50), where in the past we were doing transportation work for the City of Atlanta, right? But we didn't even know the water [indiscernible] (02:26:01), today, we now have the ability to go and discuss the work through, like I was giving the Heathrow example and really bring other elements of a client and the client now is turned into the major metropolitan area.

So that's one area. In the private sector, it's right down the path of the enabling market, right? In the private sector, we, specifically, [ph] legacy (02:26:27) Jacobs concentrated on what we were really, really good at and that was in the envelope of the manufacturing corridor, right? And so, again, we couldn't even spell the water treatment plant that was outside of the manufacturing corridor, today not only can we spell it, we're designing and building it, operating it, and now that's kind of tightened, so there is the rest of the share around the private sector as well.

<A - Robert Venkat Pragada>: [indiscernible] (02:26:53).

<Q - Chad Dillard>: Good afternoon everyone, this is Chad Dillard from Deutsche Bank. So I just want to go back to you Terry about your plan to broaden the aperture within the ATEN business. So, just what sort of new incremental investments needed – do you need to go out and picture anything like externally and then also are you looking for most immediate opportunities as more new customers, existing customers, just trying to understand more of the execution to get there?

<A - Terence D. Hagen>: Sure. And so, it is first and foremost an organic strategy, I will come to if there was an opportunity to accelerate it via disciplined, strategic M&A we would take it. But think about it as organic. And because I believe we've got the inherent technical capability today, this isn't about building some new ability to deliver that we don't have. I think that we do have to put some additional investment in our sales structure, because we're really geared around these big long-term enterprise programs versus shorter duration, shorter cycle project work. But, I don't see that as a difficult transition, it's just something to do and you still apply the fundamentals of the sales process to get there. So this is not a major investment required to go make this happen in my view. I'll repeat, if there were an opportunity to accelerate it via strategic disciplined M&A, we would look at that and take it as long as we met our thresholds.

But, this is really more a sales focus as opposed to we've got to develop new capability. Your question about the customer base, in some instances, this is an opportunity that we can go pursue within our existing customers, but there's additional client basis that largely operate because of the nature of the requirement around shorter duration project contract vehicles versus what we see with NASDAQ. What we've got with some of those iconic wins that we referenced earlier and so that we believe will take us into some customer bases and think the army as a big thing. We work for the army, but there are multiple commands that are independent almost like their own little fiefdoms, right? So in that context, we will absolutely expand into new government services sectors that maybe under the umbrella of the army with new commands and I [ph] throw (02:29:14) the army out to be illustrative, not to suggest that that's the focal point.

<Q - Chad Dillard>: That's helpful. Thank you. This question might be more for you Bob on the digital consulting side, a very similar question. You know, first of all, how big is the business? And then, over the next three years, how do you expect to grow [ph] and (02:29:33) what sort of investments needed and then just your go-to-market strategy for customers?

<A - Robert Venkat Pragada>: Yeah. Right now it's not too far off [indiscernible] (02:29:40). Right now it is a – it's an average sized business for us. I'm a little hesitant on describing just how big it is, but, I'll put it this way, if it would be akin to one of our kind of mid-sized operating areas, right? It's about that size. But it's a catalyst business and what drives if you look at it in the entirety of the value chain that it can unlock value for, that's huge, right? And so, our investments that we're going to put in people and systems and technologies around that, yes, it's to grow that what I describe the adjacent market. But the bigger prize around that is to grow the bulk of our business. So, we're going to balance it. So we're going to take two more questions before the break and then obviously take more questions after Kevin's presentation, there is one over here who has the microphone.

<Q>: Yeah. So this question is for Steve. Steve, what learnings did you take away from the Aleris experience in bringing to Jacobs. I know there's been a lot of work on operational rigor, but I wonder if you could just [ph] expound (02:30:54) on that?

<A - Steven J. Demetriou>: Yeah. This is my third CEO job, I actually had a CEO job before Aleris running a chemical company called Noveon and then Aleris and now Jacobs and its' amazing how the issues and opportunities are very similar even though all three were completely different industries and it is about leadership culture. It's about accountability, it's about the business rigor, it's about teamwork and functionality and there were a lot of mistakes I made along the way that helped me come here and say I'm – I'm going to learn from those mistakes and there obviously was a lot more certain things that I learned which we're successful that I applied here. But I'd say the majority of what you heard me present today around high performance culture and transforming the core which you have to have if we're going to profitably grow has come from my experiences, 11 years of running Aleris.

I'll make a joke on another thing is, one of the things that Aleris has struggled with to a private -- a private equity owned since I left to sell the company is they couldn't get a sale to the Chinese done because of Cepheus and Cepheus is the last step for WorleyParsons for that project to get approved. And the good news is there's no Chinese issue there that [ph] Trump (02:32:16) is worried about. So, we expect that to close in a couple of months. We got one more question over here.

<Q - Andrew John Wittmann>: Thanks, Steve. It's Andrew Wittmann from Baird. I guess, as I kind of at the business today, your end markets are as good as they've been in a really long time. Federal government is obviously after tax receipts growing in the state and local business. I guess two part question is, first off is, what's the assumptions in the three-year plan in terms of the overall economic health and I get that you guys are trying to take the cyclicality out but still matters to some extent? And what does the business look like in a software economic recession, Steve, in your mind as you've drawn it out here?

<A - Steven J. Demetriou>: I'm glad you asked that question because even though we assumed just steady growth that is still out there and the GDP statistics around the – around the world. We didn't assume any significant slowdown and we didn't assume any ramp-up that we think it's going to be better than anybody expected. But part of our conservatism and the targets that we've set, especially on the top line, does take in the fact that there is some risk either way. And I say either way because what you brought up could provide some potential modest headwind. But also, we got a couple of these large scale wins, Terry talked about a lot of $100 million and above wins. He's got a factored revenue. We go on a bit of a winning streak there then there's significant upside on some of our revenue targets for example. But, I go back to the chart that I think Terry showed around the resiliency of our business compared to things like [ph] defense (02:34:03) spending. Kevin's going to show a real interesting chart as well, so you may want to come back with this question. But, I think that one of the other hallmarks of our portfolio realignment is, we believe that we with the sale of our [ph] grade (02:34:18) ECR business that we are taking out a lot more of the risk that you talk about that's directly tied to economy and global supply demand and all that. The one where aging infrastructure and the importance of defense and a whole host of other drivers that Terry and Bob rely on, are typically a lot more stable even in fluctuating economies around the world.

Okay. So, we're going to take a break for 10 minutes, 10-minute break. And we'll be back and Kevin Berryman will begin.

Unverified Participant

Thank you, ladies and gentlemen. As mentioned, we are now going to break for 10 minutes and we will be resuming the second portion of the presentation at 3:15 p.m. sharp. So if you kindly be back here in your seats with mobile devices on silent and ready for our conclusion to today's presentation, we much appreciate it.

[Break] (02:37:20-02:47:46)

Operator

Good afternoon, again, ladies and gentlemen. If you kindly make your way back to your seats there to early as convenient and also of course silence, all mobile devices, out of courtesy for our remaining speakers this afternoon will be highly appreciated. Again, ladies and gentlemen, we will be proceeding in just a moment with the second half of today's presentation.

So, if you can make your way back into your seats, management would certainly appreciate it. We can get underway with our financial overview and closing remarks this afternoon. Thank you.

[Break] (02:48:20-02:54:14)

Operator

Ladies and gentlemen, our program will now begin in just under one minute. If you'd be could be so very kind to make your way back into your seats and kindly also silence all mobile devices, out of respect for our speakers that are going to be completing the session this afternoon. Thank you.

[Break] (02:54:30-02:56:29)

Kevin C. Berryman

Good afternoon, everyone. Hopefully, the afternoon has been – been great for you. I'd like to introduce myself. I think I know almost all of you. My name is Kevin Berryman, Executive Vice President and Chief Financial Officer of Jacobs. I came to this company a little bit before Steve, so we've been joined [indiscernible] (02:56:50) on our journey of transformation over the last four-plus years, at least for me. And I will tell you it's been an incredibly exciting time to be part of this company. And it was something that was only a glimmer when I first came to the company in the beginning of 2015 about what this company was all about and what the capabilities were of this company going forward. And so, it's an exciting time not only to have been with the company over the last three-plus years, but it's even a more exciting time when we talk about the strategy that's being outlined today.

What really intrigues me and what strikes me and I'm sitting there and I'm listening like you guys is probably the 23rd time I've heard this presentation by the collective teams, I get excited every single time and I'm not kidding. This is real, it's tangible and it's executable. That's what the strategy is all about.

We've been able to take this company and position it in a manner that allows it to become something even more special than it already is today. So, I get really excited when I hear my colleagues up there talking about what's going on in the company and how they're driving the business. And it really, really is impressive and I'm excited about what that translates into for the next three years from our community of team within Jacobs being one of the employees, exciting from their perspective, exciting for our clients, but ultimately and why you're all here, exciting for our shareholders.

So, I'm really pleased that the team has been able to communicate some of these key things for us. So, let me jump in and kind of – I'm going to spend a little bit of time on the past, and I got to tell you I'm going to be so excited not to talk about the past anymore and I'm going to be able to talk about the new company. But I think it's important to understand, as Steve kind of outlined, that we did what we said we were going to do over the last few years. I think it's really critical to reemphasize that and talk about that. And so, if you think about when we started our strategy back in 2016, the stronger financial profile that we suggested we were going to deliver at that particular point in time, yes, it has happened. And ultimately that organic strategy, I'm going to talk about the organic strategy, not only created environment and a performance level for the legacy Jacobs organization, forget the acquisition of CH2M, it's fundamentally reshaped the company and started to focus our teams on making choices.

So, if I think about that, not only execution from a financial perspective but making choices. And then, you'll augment that with kind of the reshaping of the portfolio which was happening organically, add on top of that some pretty significant transformational acquisition and divestiture opportunities there in the mix of playing out very favorably, I might add, and I think that is very clear we delivered on our commitments over the last three years.

We are positioned for a strong level of incremental performance as we think about it going forward. And one thing that is clear is while we're talking at length about our organic growth strategy today and you're hearing a lot about that, with the plays that have been made relative to the acquisition and the divestiture, we are ending up in a net cash position. And that translates into an earnings power that we're going to talk about. Doesn't mean it's automatically going to happen, but I can tell you with the cash generative nature of our company going forward, and you overlay on top of this pretty significant moves in terms of the acquisition and that divestiture and the net cash position that remains, we have a lot of degrees of freedom in how we're going to drive this company going forward.

So, Steve talked a little bit about the 2016 to 2018, I'm going to focus on the left which is really reemphasizing the organic piece of the strategy. We did a lot of great work, and ultimately we talked about cost discipline, we checked that mark. We talked about operating profit, improvements, we checked that mark. We talked about a lot of cultural aspects as it relates to transforming the company, we checked that box as well.

But fundamentally, the organic growth strategy that we put in place in 2016, we executed against that. We executed against it very, very well. And now let's talk about the recent very large transaction, CH2M. Look, I can't tell you, I think Bob said it so very well. It's kind of checked all of our strategic growth aspiration boxes. But what made that thing really, really shine was all of the things that both Bob and Steve talked about in terms of culture. We are a people business, it matters. You spend time, you engage, you get people excited about becoming something bigger and having them understand how they play a role in it, that is a powerful thing. And I think it's very clear that we're on the way to create the benchmark for doing large transactions in the professional services industry.

That's great. $3.3 billion under 7 times EBITDA when you take into account the synergies. And then, you lay that up against the trade of the sale of ECR, $3.3 billion, same number, 11.5 times EBITDA, more cyclical, lower margin, great business within the construct of that industry but less aligned with our strategies and the fact that WorleyParsons was willing to step up and pay the kind of monies that they were willing to pay for that business is a clear indication of how great that business was. But it wasn't aligned with our strategy.

So, if you think about all of that, net trade of $3.3 billion one way or the other way, I like that trade. And I think we come out with a more stronger, less cyclical, higher margin, more stable and aligned with secular growth trends long term. So, really, really powerful.

Some specific numbers. I'm not going to spend a lot of time on this, but we did it, right. So, if you look at the first one. Bob talked about our write-downs, right. In 2015, first year I came to the company, we had a historically high level of write-downs. Now, Jacobs has never had the big write-offs that you hear from some of our other peers, historical kind of peers, we never hade those kind of write-offs. But we had a nickel here and a dime there and another nickel there and another dime there, and it was adding up. And it was a death by a thousand cuts. And you add it all up, it's margin. And we got back to basics. Is that strategy was back to basics, it was fix and focus. I called our strategy in 2016 fix and focus, back to basics, make it happen, make some money, focus on where we're good. All of that translate and you can see that 60% reduction. BIAF was certainly a big part of that as Bob alluded to. ECR contributed immensely to that write-down as well. So, it was a collective process associated with our team across the globe. G&A as a percent of gross profit, it was clear that we needed to be more cost effective. We took actions. We are now G&A as a percent of our gross profit number, it's lower and that's going to be something that we would expect to continue as we go forward longer term.

And pro forma operational DSO, look, it's an opportunity for us to communicate to our teams in the company the importance of cash flow. Don't get as [ph] rhetoric (03:05:17) as it relates to accounts payable and this and that and whatever. The only asset that matters on our balance sheet other than goodwill is accounts receivable and if everyone in the company and probably everyone in the company touches the accounts receivable, legal, project managers, whoever it is, that is where you get people focus and if you're able to do a better job on that, that translates into improved cash flow.

So, the 2016 baseline we talked about, where we are in terms of the new targets that we're going to establish here and look at the forecast for 2016 to 2019, have been exactly right on what the numbers are. I don't want to give you the numbers for 2019, you need to work for them, but ultimately 2% and Steve talked about this 2% organic growth versus that 2% to 4% number that we had in 2016 as a target.

That's pretty extraordinary in an environment where our ECR business was falling in the midst of a fall from peak to trough of that business, 60%. We didn't exactly have that built into our 2% to 4% growth target, trust me. But that is in itself a very extraordinary number. Look at the revenue in priority growth areas, we got out of businesses that ultimately we didn't think we were going to be competitive in or make the kind of margins that were appropriate. We got out of businesses that didn't have appropriate cash flow dynamics and that translated into the operating profit margin that you see there greater than 150 basis points over the period and our pro forma ROIC.

ROIC is going to be up probably a little less than 50 basis points, so you know what? We also spent $3.3 billion in a year ago. And the fact that we're even up on an ROIC basis, given $3.3 billion of capital deployed, not a bad measure. So, our fundamental belief is that we are going to be able to further the enhancement of our ROIC figures going forward.

But now we get to start to talk about the future and what the new company looks like? We've actually obviously performed as we talked about in the last previous few slides. But look at the metrics associated with our – our new company. 71% associated with the U.S., 29% global. We are very global in our footprint. The fact that we're now a little bit 71% more oriented around U.S., I like that mix, especially today, given the environment of where we think the strongest growth potential is actually in the U.S.

Love the risk profile. We are not the company that has high-risk project work. We do a lot of fixed price design work, a lot of fixed price engineering, a lot of fixed price consulting, we love that work, it's high margin, it's low risk, and ultimately, if you see where we are at the 94% kind of lower risk profile, that's the kind of portfolio we're excited about having.

And then stability, our new portfolio is very much aligned with secular growth trends. You can see the backlog figures that we have here and [indiscernible] (03:08:33) shows and indicates that. And then, of course, the amount of the next 12 months of revenue in backlog, already 70% there. So, ultimately, stability of our revenue stream is strongly enhanced with the new portfolio.

And we don't often times talk about the specifics, but look at the technical deep technical expertise we have there. In the new company which is roughly 50,000 employees, we have 600 cyber engineers, which is measured up very nicely against any of the major IT players in the field. We do all have a kind of consultants and engineers and designers, very strong profile associated with the talent. And Steve talked about employer of choice and how it's so important for us to engage and make people excited about being part of this company, that's what it's all about, making sure those folks are happy, make sure their interest and working on the most special things around the globe that we are able to deliver to our clients.

And then, of course, to the right, 7.2% in terms of profitability against net revenue, and basically, if we were to lever up after we do everything with the ECR Money coming in, that's $3 billion of balance sheet capacity. So, we are a strong margin, strong stability, strong cash flow generative company as we think about going forward.

There is a slide that I think is really important for you guys to understand. There's always been this discussion about cyclicality. We are not a cyclical company anymore period non-stop. This is a chart that shows our organic growth over the last 15 years and you can see the [ph] Remain Co (03:10:34) which is the company that we have today, Jacobs excluding ECR and the ECR, and I think it's pretty clear that the stability of our remaining company is pretty extraordinary.

As a matter of fact, look where the number has started to accelerate upwards, that's when we started focusing on the growth algorithm associated with those businesses which were higher margin and more return profile oriented.

So, this is, our portfolio today is that Jacobs excluding ECR. I think that is a clear indication that this is a stable and a growth business for us. If you take 2016 to 2019 strategy, okay, I'm going to kind of talk about this, fix some focus, it's kind of my way of thinking about it. Fix and focus on 2016 and 2019, we were [ph] playing a big, big pot (03:11:32) of business, right? Engineering, construction, construction, design, whatever, and what we had unfortunately started to do up until the time of through 2013, 2014, where we're kind of doing anything for anyone anywhere in the world, right?

So, let's focus – let's focus where we can make money, focus on where our capabilities are and you can see what we did in 2016, the strategy was [ph] why don't we go play in that big pot (03:12:00) of opportunity. We're going to play in a much smaller opportunity mix and that opportunity mix was something that we were excited about and thought we could make some good money on it.

That was a 2016 strategy. So, 2019 to 2021 strategy, it's exactly the same. It's a continuation of a focus on where we fundamentally believe we can have incremental margin, incremental cash flow and incremental innovation translating into dollars for our shareholders. And that is as you can see, we're effectively now exiting our direct hire construction that goes completely away with the sale of the ECR business, and we're becoming a much more consulting, engineering and designing firm talking about aligning on all of the innovation opportunities that you guys have been hearing over the last few hours and translating that into higher margin and ultimately better cash.

So, let's talk a little bit about cash flow, okay. So, we believe that there is an opportunity for the cash flow dynamics of the company to also improve and what we've attempted to do in this particular slide is to show a 2018 pro forma, and I know it makes everyone nervous talking about pro forma, but it was our best shot to say, if you take the underlying cash flow associated with our 2018 results and you peel away some of the one-time things that are going on because of restructuring and the CH2M which won't be forever, and you take away some of those discrete items in the cash flow dynamics for the year and you peel away the ECR business, you ultimately get to in 2018 a cash flow conversion number that's approaching close to [ph] $1 billion (03:13:53), about 90%, on this chart.

What's interesting and clear in our own minds is we still have a ways to go on DSO management. We think working capital management continues to be an opportunity for us to improve. 2018, we actually didn't hit the targets that we wanted to hit, in terms of our DSO efforts, we got a lot going on, in terms of the people and the integration of CH2M into Jacobs, a lot going on, and ultimately, we think there's a continued opportunity to bridge that gap and ultimately get to that one-time cash flow conversion that we think we're going to be able to deliver over the course of this strategic period.

So, again, not only the margin profile, not only the stability, not only the innovation play, but obviously it's got to come with the cash, and you heard a lot of what Terry said, I think it was cash flow generation machine or something like that, right? That's a great thing for our LOB CEOs to be talking about. Talking about cash, talking about driving it, and absolutely that is something that we weren't talking about five years ago as a company. And I think that that fundamentally is shifting the opportunity for us to continue to be even a better cash flow generator going forward.

So, this is going to be the last time when I talk about the first bullet on this page that I'm going to talk about the historical company. I'm really excited. I'm very excited about that. Now I don't have to talk about the old company, I can talk about the new company.

Okay, we've given guidance, beginning of the year with the ECR transaction being announced, what is that all result in and what are the expectations for our company, we gave guidance. We gave guidance in 2019 for fiscal year that said, look, we're not sure how this is going to play out in terms of where – when it's going to close. Just know that our business, including ECR, was a number of $5 to $5.40; that was our original guidance that we put in 2019. We increased that at the end of our Q1 to $5.10 to $5.50, okay.

So, let's be very clear, anything that we're talking about in terms of how we're going to talk about [ph] Remain Co (03:16:16) and what our new business ultimately looks like, nothing has changed in terms of our expectations from an overall perspective. We believe that the business, including ECR, would deliver $5.10 to $5.50, and we also believe the second piece of the – of the commentary up here is that we gave additional guidance to provide some perspective that we were expecting an EBITDA figure of somewhere between $920 million to $1 billion in 2019, excluding ECR, okay. Those two expectation levels have not changed. Okay. So the first message I want to deliver is that nothing has changed in our expectations for the full year are the same, okay? Nothing has changed.

We're going to start talking about the new company and we're going to start talking about some different metrics which we think are appropriate to talk about the new company about, but this fundamentally has not changed, first point, really important to understand that. So, we're going to change some metrics and we're to go -- so updated financial metrics which we think given our new portfolio are the right metrics to communicate the health and the growth aspirations and the opportunity for our company going forward.

So, first one, [ph] stick (03:17:38) on the left side, we're going to now start to talk about our margin profile in a net revenue – on a net revenue basis, not only is that consistent with some of our – I would say higher performing peers that we're now going to be comparing ourselves to, it is I think clearly a greater indication of what the earnings power of the company is, if you include pass-throughs which ultimately is the difference between gross revenue and net revenues, pass-throughs tend to not have very high margins, so your margin profile ultimately is driven by your net revenue number and so we are now going to be communicating our profitability which by the way is aligned with peers about how we are delivering profitability against that net revenue figure and that is really driven by the BIAF business. For ATEN, gross revenue actually is effectively equal to net revenue because the margin profile on things that are associated with ATEN pass-throughs are effectively still robust. So, what we're doing is we're going to be talking about a net revenue figure which [ph] takes that gross net (03:18:48) for BIAF and we're going to talk about our profitability relative to that. I think it's more aligned with what our profitability is driven by and gives a much clearer indication to you as an investor as it relates to what the underlying profitability is.

And we're going to talk actually now first time ever about what the outlook is for 2019 excluding ECR. But what I put on this chart ultimately is, I am starting with the $920 million to $1 billion and I'm not going to go through all the numbers and machinations to get to the new EPS. But, I did that to be very clear for you that nothing has changed, the $920 million to $1 billion is still the number that we think we're going to be driving towards in 2019. Okay. So, couple changes. What we are going to be doing as it relates to our discussion on EPS and we've had some discussion over the course of the day already about M&A or capital deployment or whatever that means, we are going to what I would call a cash EPS number. It's in a different definition of an adjusted EPS figure. It's going to be adding back amortization. Because clearly as we will talk about over the balance of the presentation is that there is clearly capital deployment opportunities for us as a company and there will be opportunities for us to exercise that and consequently being adding back amortization to the numbers is actually clearly more aligned with cash and gives you a clear definition of what the cash flow generative capabilities are.

So, [ph] got to (03:20:39) say what the number is $4.40 to $4.80, okay. So $4.40 to $4.80 adds back to amortization, takes into account our recent share buyback announcements, does all of those types of things and puts us in a position with that kind of guidance provided for 2019, our expectation is we'll be into the $5s in 2020, okay. So talked about the targets, Steve has already alluded to what the targets are, I'm not going to spend a ton of time on here, but 3% to 5% compound annual growth rate for the new portfolio, adjusted operating profit margins continuing to accelerate.

We talked a lot about that and Terry and Bob highlighted along with the innovation pieces from Darren and Heather, certainly providing a vehicle to provide incremental profitability going forward. Translating into a double-digit EBITDA growth number, Steve talked about that and our ROIC as well. These numbers are our organic growth strategy. We are presenting to you today an organic growth strategy, right? This is not assuming acquisitions. This is driven by what this new portfolio can deliver going forward.

There may be some incremental benefits on top of it as we think about capital deployment, given we're going to be in a net cash position, but this is what we're presenting. This is what we're committing [ph] to do (03:22:14) today, okay. So let me go into a little few things that, [ph] remember (03:22:20) I said it's real, it's fact, exciting. I'm going to talk a little bit about why we feel like that and it's very clear that the specifics that drive to each one of the metrics that we put forth, it's there. It's to be had for committing to it and we're going to drive towards it. So if you think about the 3% to 5% organic growth strategy that we outlined today, okay, it's clear that the last side of this chart talks about the stability of our portfolio, we're targeted right towards secular long-term growth trends [ph] water (03:22:55), U.S. government, special operations of the U.S. government which are very much high priority spend areas. All of these kinds of things are positioning us as a secular potential long-term growth algorithm for our business which translates into us being able to not only grow our business but also to potentially incremental shared profile given some of the stuff that we're talking about in terms of innovation.

Second piece, sales pipeline, robust sales pipeline. Our pipeline today versus 12 months ago up 15% year-over-year. So the pipeline is growing and as a matter of fact the win rates are robust. When I see some of our win rates, I say, we should hire more salespeople because if we're that good at all of the win rates we have we should just be going for more. But at the end of the day it really is about what are the right opportunities that we're going after. That's what it goes back to. Make the choices, understand where we're good. Where is the innovation, where is the margin and go fish where the fish are. And that's what we're doing. And that's why the win rates are good and that's why it translates into a stability of our revenue growth of longer-term.

The CH2M revenue, Bob talked about some revenue synergies that are coming into play and that's actually started to already come into account in terms of his revenue. But we are tracking revenue synergies from the CH2M deal. We're actually at -- the pipeline is about $2 billion plus and it's growing and it's accelerating. So these are opportunities again that with that acquisition and the combination of those two companies, it's a powerful opportunity for us going forward. And then of course some of the other comments about innovation and expanding into other kind of tangential opportunities with high margin, all of that I think gives us great comfort that we are committing to that 3% to 5% organic growth target and we think it make sense.

Let's talk a little bit about the operating profit. One thing that we will never lose as a company is a focus on cost effectiveness, have to do it. Job one, every single day we got to be making sure that we're doing the right thing in terms of maintaining our cost structure in a manner that facilitates the ability to have the margin profile longer term. Steve talked about some additional things that we're going to be considering, they're listed here. We think there's a $75 million to $100 million opportunity over the next few years to be able to have a run rate reduction in our cost structure to the tune of $75 million to $100 million, okay.

Now, clearly combined that with the fact the innovation, the higher margin, the gross margin and backlog that we have today versus two years ago is 200 basis points higher. So when that starts to burn ultimately, that fundamentally is going to translate into potential incremental gross margin [ph] line down (03:26:06) with the cost effectiveness and by the way the information or the capabilities or the people oriented or becoming the employee or choice or the innovation or the IT investments they don't come for free. So while we're talking about $75 million to $100 million in investments, we also recognize there's going to be some substantive investments that we're going to be making as well 30 to 60 in terms of incremental investments that we're going to be making as well, $30 million to $60 million in terms of incremental investments to support all those things that we're talking about. Net-net, it's a positive to our margin profile, but it's not the one allows the funding of the other effectively, so we're self-funding these investments to the work that we're doing. And of course, the 100 to 150 basis points obviously the margin profile which is a big kind of dynamic, which drives ROIC, obviously that's happened and that's a good thing. So, the strong operating growth leverage certainly will play out as we would expect. The working capital continues to be an opportunity for us to continue to drive going forward and what's interesting about this company is that it's the fixed asset entities is non-existent actually. We took a $10 billion company of Jacobs few years ago, combined it with $5 billion of CH2M, and combine those two companies together and our fixed asset investments, they're fundamentally changed at all.

So as continue to grow the business, we fundamentally believe that lack of success and intensity remains and if we're focused on the other items, that is the real important driver to the invested capital, i.e. accounts receivable and DSO, then this fundamentally translates into a nice ROIC picture going forward.

So, let me talk a little bit about this, capital allocation. First point, really strong point that I want to make. We're going to be focused on organically growing this business. That's all in that first box up there. That's a focus on what we are going to be driving day in, day out, as the management team. It's critically important. Organic growth investments tend to have a very nice return longer term and consequently that's job one. And we are committing to that organic growth strategy today.

Second one, value-creating M&A and the watchword there is discipline. When we do, or when we evaluate, or when we think about doing transactions, we do it within the construct of evaluating what the opportunity is, what the cash flow dynamics are, what our cash outlay will be, and what are the cash returns associated with that. That translates into good old fashion internal rate of return numbers that got to be well under the double digits. But we're not going to do them because there is a risk profile associated with deals that you have to be cognizant of, work through the culture, deliver the synergies, ultimately deliver the people and get them excited about being part of the organization. All of that really, really matters. We will be disciplined on that, okay. We will figure out if it's strategically aligned, we'll figure out if we believe it's fundamentally a value-added potential opportunity for us to go after and we'll execute against it. And then, we also got to make sure it's probably the best use of capital versus doing something else like a share buyback.

So, we will go through that discipline process all the time. And look, I will tell you that there was some skepticism at least from my perspective that I sensed when we did the CH2M deal, right. And it was legitimate. The skepticism was legitimate because of challenges that the industry has seen longer term with CH2M kind of transactions transformational. It's pretty clear that we're setting the bar after one year in that we know how to execute on transactions. It's planning, it's culture, it's planning, it's culture, communication, it's execution and it is a painful very hard long-term project that Bob and Terry and the rest of the team have been working on for 18 months, not since we bought and closed the deal. We were working on it for a year – half-a-year before that, it's about putting ourselves in a position to be able to execute against that strategic acquisition.

And then of course return of capital, okay. We just increased our dividend by 13%, you heard about that. We announced that at our results and we have been somewhat active over the last couple of years in share buybacks, close to $1 billion of share buybacks over the last few years. And I would point out the value of those share buybacks and where they were executed at effectively. The first tranche, a really good number is under $50 million, the second tranche which we just did, when we saw disruption in our share price after our Q4 results and then some of the challenges and the risk off market subsequent to that, we were proactively in the market and did almost $240 million at $61, okay. I like that price right now versus where we are as a company and I especially like the other price. So our idea is, when we were thinking about doing any particular deal if we had been considering a deal back when we were doing our fourth quarter earnings, we probably would have said best use of our capital at that point in time, going after share buybacks, that was the best investment – invest in ourselves, okay. And so, that discipline of how we're thinking about it that's what it's all about and we think we know that that will fundamentally transfer or translate into incremental shareholder value for all of us.

I think this is a really important point to make because coming up here we're going to get a few billion dollars. ECR $3.3 billion transaction, we're going to get cash effectively of almost $2.5 billion, and effectively that is now going to be on the balance sheet whenever that ultimate deal closes, right. Now, some of it, we've included the equity value of our shares, the 11% of WorleyParsons that we will own. We're going to hold that for at least six months, but ultimately we're going to have a net cash position. And I think the story that we would like to provide to you is that our organic growth strategy, which is going to be cash generative over the next three years, combined with this, provides a substantial degree of freedom as to how we think about deploying our capital going forward. That's the message.

And so, what do we think about that. We think that if we just were to do our organic growth strategy today, we think that in itself is going to be a nice return profile for a potential EPS figure into the future. But I would tell you associated with that EPS figure will be a big chunk of cash on the balance sheet. I'm not so sure we think that that's the right thing to do at all times is have a big chunk of cash on the balance sheet forever more. So, our fundamental belief is that there're opportunities for us to utilize that cash flow and utilize the free cash flow that will come as it relates to the ECR transaction and be very thoughtful and disciplined into how we deploy it. And what we've provided here are two examples. We're not committing to these numbers per se, we're committing to the organic growth strategy, but we also know that there're degrees of freedom on top of what we're going to be able to do that can potentially lead to these numbers.

Look at the title, it says potential 2021 earnings power, potential cash is there, we're going to be thoughtful as to how we deploy that cash. The way I would describe it to you in terms of range of the numbers here is the 2021 figure of $7 that is a lower leverage factor, probably more about share buybacks because I will be less inclined to lever up to do share buybacks. On the right side, probably more M&A related and I'd be more inclined to lever up to support M&A transactions. So fundamentally, that's the idea. So, if you think about what our organic growth strategy is today, we're probably well under the [indiscernible] (03:35:02), right. And then we have this incremental firepower associated with the cash that's going to be on the balance sheet as it relates to the ECR transaction plus the cash generative nature of our new company going forward, which is going to be strong, we've already talked about that opportunity, and so we have a lot of degrees of freedom.

And I think this is an exciting opportunity not only for us at Jacobs to be able to drive a fundamental shareholder value proposition that's robust. So, I think it's a potential very intriguing opportunity for our shareholders as well.

So first point, organic. Our strategy is about organic growth strategy and that's what we're communicating to you and that's what we are going to be delivering against. There is an opportunity for us to augment that with potential incremental capital deployment opportunities. The whole left side of this as it relates to our new business and where it's focused, the inclusive culture that Steve talked about and our ability to do that, the execution excellence which will translate into that cash flow that I was highlighting, that's the organic piece. The other piece is then the incremental discipline and thoughtfulness as it relates to that deployment of capital and how we think we should be doing that if in fact we do.

So, that's the story of today. It's the story of innovation. It's the story of fix and focus from 2016 to 2019. What I think about our strategy going forward is about innovating and leveraging what we put in place. Fix some focus 2016 to 2019, leveraging and innovating against that new portfolio that we have going forward. Look, I really thank you for some time. I'm going to call up Steve to make some closing comments. I think it's a really exciting time to be part of Jacobs.

Steven J. Demetriou

All right. Thank you. [indiscernible] (03:36:59). I was thinking of some closing comments. But I think what you heard from all the presenters is just total alignment on the message that if I say anything at this stage, I'm going to be repetitive. But I wrote down a couple of notes that I took – got some excitement about. The first one was Terry Hagen's cash generation machine and not taking our foot off the pedal. And so, I was thinking that your next car should be a Bugatti or a McClaren, right? They go about 250 miles an hour. So, I look forward to seeing how fast you could go, Terry.

And then, Bob, BIAF set hyper-accelerated growth. So, Bob, how fast is that growth? And then Kevin, I am excited, it's real, it's tangible, and it's executable right from the mouth of the CFO, how do you not believe that, right? So, I think that summarizes everything at this point. We really want to get to the final questions which you have a great opportunity now to focus in on the numbers or anything else that we haven't talked about because we didn't want to move on to the reception. So, Anna, you want to go.

Q&A

<Q - Anna Kaminskaya>: Yeah. I was promised that I'll go first. So, Kevin, I'm just as excited as you are about what's happening inside of the company. So, I guess, the question in everybody's mind is can M&A derail the excitement and how disciplined you'll stay. To the extent that you can comment on the pipeline of opportunities, multiples, because obviously the verticals you're going after are not cheap. Would you go for something that's not necessarily broken but where you see significant cost takeout opportunities and would you consider doing something with equity as a ...

[indiscernible] (03:39:05)

<A - Kevin C. Berryman>: So, look, we've shown the willingness to do something with equity when we just say it's doing. So, let me just take that particular piece of the question and answer that. I think the rest of it is it gets back to the discipline of our process. And, yes, there may be targets out there that have high multiples which challenge us to have a return profile that we think make sense.

I can assure you that we will not do deals that we do not believe result in an internal rate of return that is double digits, period, that's why we're not going to do it. And we're not going to do it if in fact there's opportunities to reinvest in Jacobs at a point in time where the return profile is better than doing the deal.

So, it's hard to answer specifically your question because it matters – it depends, it really matters on the specifics of the opportunity, what the synergies are, what that translates into in terms of our new combined business of BIAF and ATEN, and as a synergy play that – that might play into that. You've already heard a lot of the connectivity and the connective innovation [ph] issue (03:40:11) that Steve talked about. It will depend.

<Q - Anna Kaminskaya>: Maybe switching to free cash flow conversion targets, so when we talk about one-time conversion, is it on cash EPS or is it on reported cash flow EPS?

<A - Kevin C. Berryman>: Cash EPS. Cash EPS.

<Q - Anna Kaminskaya>: Cash EPS. And then where is the most upside, because Terry highlighted the cash machine and then so is the opportunity in BIAF, is opportunity in both segments kind of, and what should we expect for 2019 because the first quarter to start was a little bit weaker, can we get to that one-time in fiscal year 2019?

<A - Kevin C. Berryman>: So, we're talking 2021, not 2019 today, so I'll switch gears and talk more about the long-term. Look, I think it's very clear that both Bob and Terry talked about their business in a manner that suggests there's incremental opportunities to improve, period, okay. And while the plays on that opportunity may be a little bit different between the two businesses, Terry talked about some pretty good DSO figures that he has, but that doesn't mean he's stopping at the DSO figures. And ultimately, I think that team is focused on trying to improve just as much as Bob's team is on DSO.

So, look, I think both of the companies and both of the LOBs feel like they have an opportunity to improve their cash flow dynamics longer term. I would say the DSO probably in the near term is more oriented around the BIAF business, I think that's clear. But that doesn't mean that Terry's not putting his foot down on the gas harder as well. 2019, we're going to go after.

<Q - Anna Kaminskaya>: Hello. Okay. So, Kevin, if you look five years out, how big good digital consulting be for you right now with the ECR sale, your valuations getting redefined into the technology-oriented E&Cs and defense contractors, et cetera? But if it's digital consulting and so it being 10% plus of your business, could we start to look at some of the [indiscernible] (03:42:21) type of multiple spending in this now?

<A - Kevin C. Berryman>: So, look, I think we're already doing. Let's be clear, we're already doing digital consulting, right? So, it's not like this is something that we're not doing. We are doing it. And I think that our view of how that translates into margin profile is obviously a positive and obviously a piece of when Bob talks about his margin improvement opportunities. Fundamentally, that's part of it. I don't think that this is necessarily the part of our organic growth strategy that translates into that being a huge business, but I think across [ph] subsectors (03:42:58), strategic part of our growth algorithm.

<A - Steven J. Demetriou>: I think I'll build on that by saying, clearly there is organic growth opportunity but how big it could be depends on whether there is some interesting acquisitions over time as well.

<Q - Anna Kaminskaya>: Got it, okay and second question is you did the first tranche at roughly $50, second at $60, are we looking at $70 now, Kevin?

<A - Kevin C. Berryman>: For the ....

<Q - Anna Kaminskaya>: Buybacks.

<A - Kevin C. Berryman>: For the buybacks, we are right there, we just announced a .....

<Q - Anna Kaminskaya>: Right.

<A - Kevin C. Berryman>: [indiscernible] (03:43:29) right now at [indiscernible] (03:43:29).

<Q - Anna Kaminskaya>: So, I mean your stock sitting at $70, so would you say this is kind of where you would support it.

<A - Kevin C. Berryman>: I would say that we believe our value is greater than $70.

<Q - Anna Kaminskaya>: Okay, thanks.

<Q - Andrew John Wittmann>: Hi, it's Andrew from Baird again. I just have one – I guess for Kevin, as we evaluate the achievability of your margin target to 150 basis points at the middle. I guess, you talked about the $30 million to $60 million of reinvestment in the P&L, you also have about $20 million, I believe was stranded costs that you're going to work to offset, can you just make sure – can you clarify that those are both in, is that $75 million to $100 million net of those two items that we are aware of?

<A - Kevin C. Berryman>: $75 million to $100 million is over and above anything else as it relates to stranded cost.

<Q - Andrew John Wittmann>: Okay.

<A - Kevin C. Berryman>: So, we're talking about our stranded cost opportunity. We were attempting to get to, the ECR transaction, we believe, will close, and Steve talked about next couple of months. And the idea is that when that transaction closes, that either – any cost that was allocated to ECR is either part of ECR and goes with the transaction, it's part of transition services agreement that they would end up paying for, or we would eliminate it. That's the idea.

<Q - Andrew John Wittmann>: Great. Thank you.

<A - Kevin C. Berryman>: Thanks.

<Q - Alan Fleming>: Alan Fleming from Citi. Just following up on to Andrew's question, so why is $250 million the right number for the ASR right now? Clearly, you guys believe in the cash generative potential of the business, you talked about not wanting to or it's not your goal to build cash on the balance sheet. So, why not do something more aggressive today because that's if you achieve everything you're going to achieve, the stock is going to move higher I would expect.

<A - Kevin C. Berryman>: $250 million does that mean we end at $250 million; it's what we're doing right now.

<A - Jonathan Doros>: Okay, right here.

<Q - Lucy Guo>: Thanks. Lucy Guo from Cowen. I wanted to ask in terms of your guidance ranges through next three years, right? The high-end of the range on growth, would that be able to give you more leverage on margins, meaning is there opportunity for additional [ph] efficiency (03:46:06) or additional pricing power if you were to grow faster?

<A - Kevin C. Berryman>: I would say, in general, that is true. But ultimately if we're growing faster, certain parts of that may be some of these bigger enterprise contracts that may have a little bit lower margin, so that may offset it.

<Q - Lucy Guo>: And can you also address to [ph] some of the (03:46:27) M&A question, areas of interest, what you consider as priority growth, what you would want to focus on particularly within government services?

<A - Kevin C. Berryman>: [indiscernible] (03:46:40).

<A - Steven J. Demetriou>: I think Terry laid out in his presentation and I think we're, first and foremost, looking for thematic acquisitions that continue to give us the capability to gain share in a very fragmented government services area there. And we've demonstrated the ability to do that with some of the acquisitions over the last three or four years, actually go back five years or six years with FNS, Van Dyke, Blue Canopy. Those three acquisitions, none of them what we would call major acquisitions, have all been critical to the significant growth that Terry showed over the last period, where the market's been relatively flat spending and Jacobs ATEN has been going up significantly. So I think continuing to add on sort of technology capabilities to differentiate ourselves in the government services sector is what we're talking about. Who is next?

<Q - Michael S. Dudas>: Oh, hey, [indiscernible] (03:47:41) here Steve. To follow along the lines of acquisitions, you mentioned Van Dyke, Blue Canopy. I guess, people think you have all this balance sheet capacity and the next one is going to be – going to absorb half of it or two-thirds or however you want to portray it. But is it more those types of [ph] in this (03:47:58) very fragmented business especially with the digital area you're working on some of the shared opportunities in government services that probably fits you guys more as you're trying to not to continue to flywheel up this organic growth opportunities?

<A - Steven J. Demetriou>: Yeah. Mike, we think so, but I was talking to few others at the break. When we were in our strategy in 2016, CH2M was not anywhere near on our radar. We knew about them. We didn't know whether they would decide to sell the company or anything like that. And we were sitting there at that time thinking about a set of thematic acquisitions. We've also in 2016 had no priority to be selling the ECR business. We were focused on zeroing in on the downstream, walking away from most of the upstream sector. But at that stage, we weren't considering selling the ECR business. And my whole point is that's the agile nature of we want to maintain is we're not going to get overly excited on any acquisition opportunity until we methodically progress to where something clearly presents itself or we proactively go after a few specific targets that squarely fit in the strategy and the financial criteria that Kevin talked about.

<Q - Michael S. Dudas>: And just one follow-up. Going back to net of the ECR sale, how many employees is going to be Jacobs, about 50,000?

<A - Steven J. Demetriou>: About 50,000, yeah.

<Q - Michael S. Dudas>: Given your three-year plan, do you have – how much does that number have to grow, the strategies towards that? Is it [ph] – organic, ones and twos, (03:49:35) can you get to execute that plan or will it be lot more aggressive with the attrition levels that you're trying to shrink down?

<A - Steven J. Demetriou>: Well, I think, first and foremost, if we can really go after that retention strategy that we talked about, it's going to be a whole different focus on what we need to hire to achieve our growth. And I think clearly will provide not only growth, but higher margins, because attrition is expensive in the professional services industry. I also hope that as we deploy more technology and innovation, that we need less people on the increment going to higher growth rates. But as we progress the strategy and the culture and everything we talked about, we believe we should be able to attract at a higher rates than others to be able to fulfill the growth needs that we have in this company.

<A - Steven J. Demetriou>: Thank you, gentlemen.

<A - Kevin C. Berryman>: There's another piece actually to that, Mike. When Bob was talking about his connected team around the globe, what he's effectively doing, it's a local business in many ways as he characterized it, but he's connecting and manages his resources at the global level. The volatility at the local level is so much lower and consequently your need to ramp up your people and your talent is so much less when you do have that strong integrated global delivery kind of capability. And that's a key part of his strategy, which ultimately allows for people to be less volatile in terms of how the people come on board and how they may feel in terms of what the growth aspirations are, much more stable and exciting for people to join the company under that scenario.

<Q - Jerry Revich>: Thanks. Jerry Revich, Goldman Sachs. I know M&A timing is very tough to peg, and so maybe you could just talk about it conceptually your level of confidence that you'll be able to deploy significant amount of capital in M&A that meets the performance hurdles that you folks have laid out, and let's say the valuations just don't fit the bill. What level of the leverage would you feel comfortable with if we're deploying net cash position, Kevin, that you laid out and levering up to do a buyback instead of M&A, how does that impact the level of leverage that you folks would think about?

<A - Kevin C. Berryman>: I would say the quick answer to that question is we're less excited about leverage levels when we're doing share buybacks than if we're doing M&A. I would say the big driver to us as, we think about our capital structure going forward longer term, when transactions are potentially available, when they have that strategic alignment, when they have the margin profile, when they have all the things that we talk about in terms of what that translates in terms of shareholder value, then I think those are of the times when we would be thinking about being more aggressive on levering up.

<Q - Jerry Revich>: The level of optimism about potential for deploying meaningful amount of capital and transaction that means the returns hurdles that your outlined?

<A - Steven J. Demetriou>: I look at the next three years and I'd say we're pretty optimistic that there will be some value creating opportunities. So, just leave it at that. We're not going to chase anything. There're certain areas that we look at today that the multiples are too high and we'll be patient. I think we're in a very unique situation on the capital power that Kevin outlined and who knows where multiples are going to go or if things tend to cycle, and so we'll be patient, but we'll also be very strategic.

<Q>: Kevin, I just want to be clear on the $7 earnings potential. I know you said that scenario would be more likely to be buyback-driven. But does that number – could that be achieved just with buybacks and organic, or would you intend that to mean some M&A and buybacks?

<A - Kevin C. Berryman>: I think both of the scenarios that we provided on that chart are probably not going to happen, because there's probably going to be something associated with an M&A that might be part of the $7 version or vice versa. But, look, I think those are representative examples that we said, if you have a lower level of leverage and it's primarily driven by share buyback, I think the $7. If you're on the other end of the spectrum with leverage and M&A is proactive part of that, I think the higher number.

<Q>: Okay. And then...

<A - Kevin C. Berryman>: That's the way I'd like to you think about it.

<Q>: Great. Thanks. And then just a follow-up. In terms of execution, how quickly do you think you guys could get down – and this may be a question for Bob – get to the point where you really want to be particularly on BIAF? Because it sounded like sort of the givebacks, the nickels and the dimes were really in hundreds of thousands on ATEN, and maybe there is a little more work to do on execution on BIAF, because I still think couple of quarter ago it was a little bit of a giveback there in performance. So how quickly do you think you could get execution in BIAF where you want it to be?

<A - Kevin C. Berryman>: I think those numbers that we presented, first off, included ECR. So, that 60% reduction also had ECR in those numbers. And Bob, obviously, talked about a really strong performance level there. We're actually getting to a point where the write-down numbers are kind of at a base level where it's actually okay. I don't think we ever want our write-down levels to be zero. That means we're not pushing ourselves a little bit in terms of technology or innovation or growth or whatever. So, it'll get down to a level which is pretty extraordinarily low and aligned with kind of the history of Jacobs, its legacy of being great project executers and at the end of the day that's what we are as a project management company. And I think the levels that we're at, we don't see there being a huge opportunity there, because there'll be a continuation of Bob to try and drive it further down absolutely. But I don't see it as the driver to his margin expansion.

<A - Steven J. Demetriou>: Other questions. Yeah. Okay, [ph] Jenny (03:55:58).

<Q>: Just you talked about the $2 billion in revenue synergy opportunities between the two businesses. Could you just provide some [ph] meat (03:56:10) around that and where you think that number can go? And I guess the other strategic question we get a lot is does the ATEN or ATN business and BIAF business make sense being together longer term and given what you're seeing in successes in terms of sort of revenue synergies, is that sort off the table now?

<A - Steven J. Demetriou>: Yeah. So, when you talk about the $2 billion, I think you're referring to the Jacobs-CH2M...

<Q>: Yeah, sorry.

<A - Steven J. Demetriou>: ...synergies. And that's where we stand now, we hope that number is going to grow, it's pretty impressive week after week the opportunities that are surfacing because of the new combined power. And Bob has put a very aggressive plan out there on BIAF and as I just – and I said earlier for Terry, we get on a winning streak around those synergies coupled with Bob's organic strategy, we can see higher numbers. So, we'll see how that goes. As far as ATEN and BIAF, and do they belong together, I hope we did a good job today outlining the fact that having these two lines of businesses, first and foremost individually, meet the profile of the type of businesses we want to have in our portfolio and the opportunity to grow and apply our capabilities.

Now you put them together with a whole innovation platforms and taking Jacobs' connected enterprise to a higher level, we believe that that's going to give us the growth opportunity in both businesses to exceed the market growth dynamics in those businesses. And so for that, it's just unquestionable at this point to think of anything else, it's just – we're really excited about the future.

<Q - Chad Dillard>: Hi. Chad Dillard from Deutsche Bank. I just want to go back to your operating margin walk. You called out some opportunities to ship some commercial terms and I just wanted to get a sense for how big of an opportunity is, how far along you are?

<A - Kevin C. Berryman>: I think it's a journey. I think – Terry, I think alluded to in his commentary about these rebids that are coming up where fundamentally he's finding that they can get a 30%, 40%, 50% jump in margin profile by being smarter and restructuring the contract in a different way that translates into incremental margin. So, there's a big chunk of rebids that will ultimately be there which should facilitate margin.

I think the journey on the BIAF side is a combination of a lot of things, but driven by a lot of the innovation that we're talking about and pushing forward our ability to be recognized as that player that is kind of providing that consulting innovation solution that our customers and clients aren't even really thinking about today.

So, clearly there's our push. So, I'm going to call it the fix and focus that we had back, and 2016 to 2019 was a lot about just getting back to basics and making sure that we don't sign up for 120-day terms, we just don't do that, right. We have the right kind of terms given the margin profile to make sure we get a return profile that makes sense.

<Q - Chad Dillard>: Thank you.

<A - Steven J. Demetriou>: Any other questions?

<Q>: Yes. Two quick ones from me. So, you talked about pipeline has increased 15% year-on-year in terms of opportunities. Should we think that will translate into 15% backlog growth by the end of the year or how should I square off the opportunities versus the backlog outlook for fiscal year 2019?

<A - Kevin C. Berryman>: So, look, our pipeline is strong obviously. We heard about – you heard about our win rates, we can't guarantee anything as it relates to win rates, but I would say a 15% increase in pipeline is indicative of us being able to grow our backlog going forward. But it's exactly that number or lower or higher, we'll see how that plays out?

<Q>: One on the $3 billion backlog, sorry, balance sheet capacity. How does some of the legacy arbitration issues or arbitrations outstanding, how does that play into the $3 billion number and your appetite for leverage in 2019?

<A - Kevin C. Berryman>: I think, we've talked a lot about that in terms the history of that and we had an opening balance sheet adjustment that we made at the end of our December quarter-end. And fundamentally at the end of the day, I think that we are – it's very clear that what we believe is on the opening balance sheet is an appropriate number and that's not a number would fundamentally make us think differently in terms of how our leverage will go forward.

<A - Steven J. Demetriou>: Any other questions?

Steven J. Demetriou

All right. Thank you. I wanted to just move on to this final slide to give you a preview. We have the Showcase Reception next door: innovation, sustainability and inclusion. And hopefully, you'll take the time to warm around, talk to our people. It's really an interesting way to really get another layer of depth on our company.

I want to say thank you. It's really impressive to see this room filled with so many existing shareholders and potential investors and really want to express our appreciation that you've taken several hours with us today. Thank you very much.