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Jacobs Engineering Group, Inc. (J)

Q4 2021 Earnings Call

CORPORATE PARTICIPANTS

Jonathan Doros

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

Steven J. Demetriou

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

Robert Venkat Pragada

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

Kevin Christopher Berryman

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

OTHER PARTICIPANTS

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Josh Sullivan

Analyst, The Benchmark Co. LLC

Jamie Cook

Analyst, Credit Suisse Securities (USA) LLC

Steven Fisher

Analyst, UBS Securities LLC

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Chad Dillard

Analyst, Sanford C. Bernstein & Co. LLC

Sean D. Eastman

Analyst, KeyBanc Capital Markets, Inc.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Gautam Khanna

Analyst, Cowen and Company, LLC

Michael Feniger

Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thanks for standing by. Welcome to the Jacobs' Fiscal Fourth Quarter 2021 Earnings Conference Call and Webcast. At this time, all participants are in a listen-only mode. Please be advised that today's conference is being recorded. [Operator Instructions]

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

Jonathan Doros

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

Thank you. Good morning to all. Our earnings announcement and 10-K were filed this morning, and we have posted a copy of the slide presentation on our website, which we will reference during the call. During this presentation, we'll be making forward-looking statements including the anticipated timing of the impact of the recently signed US Infrastructure bill, benefits of our strategic investments in PA Consulting and our financial outlook among others. I'd like to refer you to our forward-looking statement disclaimer which is included on slide 2 regarding these and other forward-looking statements.

During this presentation, we'll be referring to certain non-GAAP financial measures. Please refer to slide 2 of the presentation for more information on these figures. In addition, during the presentation we will discuss comparisons of current results to prior periods on a pro forma basis. See slide 2 for more information on the calculation of these pro forma measures. For pro forma comparisons, current and prior periods include the results of recent acquisition and the PA Consulting investment. We're also providing pro forma net revenue comparisons which also exclude the impact of the extra week in Q4 fiscal 2020.

Turning to the agenda on slide 3. Speaking on today's call will be Jacobs' Chair and CEO, Steve Demetriou; President and Chief Operating Officer, Bob Pragada; and President and Chief Financial Officer, Kevin Berryman. Steve will begin by updating the progress we are making against our strategy and the future of ESG at Jacobs. Bob will then review our performance by line of business. Kevin will provide a more in-depth discussion of our initial results, followed by an update on our Focus 2023 and M&A initiatives, as well as a review of our balance sheet and cash flow.

Finally, Steve will provide the detail on our updated outlook along with some closing remarks, and then we'll open the call up for your questions. In the appendix of this presentation, we provided additional ESG-related information including examples of our leading ESG solutions.

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

Steven J. Demetriou

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

Thank you for joining us today to discuss our fourth quarter and fiscal year 2021 business performance and key initiatives. Turning to slide 4, before I review our results, I'd like to share that we're in the final stages of completing our new strategy. We will be hosting an investor event the week of March 7 for a deep dive of the next phase of our Jacobs' transformation.

Three key initiatives have emerged. First, we're putting in place a purpose-driven roadmap rooted in our values and strong culture to maximize our next stage of growth. Secondly, we identified and have aligned investment resources to capture three multi-decade growth opportunities; global infrastructure modernization, climate response, and the digitization of industry.

And third, we're taking a transformational approach to executing against these opportunities as we are unlocking the innovation engine at Jacobs, expanding our technology ecosystem while accelerating our trajectory of profitable growth and durable cash flow generation. We look forward to illuminating the strategy at our upcoming investor event.

Now turning to our financial results, I'm pleased with our strong fourth quarter and fiscal year performance, with net revenue increasing 7% year-over-year. Adjusted EBITDA grew 12% during the quarter and 18% for the full year. Backlog ended the fourth quarter up 12% year-over-year and up 7% on a pro forma basis. PA Consulting continued to post exceptional performance with 41% revenue growth. More importantly, PA delivered this growth while maintaining adjusted operating profit margins up 24%. For the full year, PA revenue surpassed \$1 billion, far exceeding our deal investment model.

As we look at overall Jacobs' growth going forward, we now have certainty surrounding the unprecedented US infrastructure funding with the passage of the \$1.2 trillion Infrastructure and Jobs Act last week. And more broadly, global infrastructure modernization and national security needs are accelerating, as our government and commercial clients address the challenges of climate change, advancement of their digitization strategies and increasing cyber threats.

On top of that, our advanced facilities business is expected to show significant growth driven by the need for additional semiconductor manufacturing capacity and post-pandemic life sciences priorities. Given these strong growth dynamics, we're introducing fiscal 2022 guidance for double-digit adjusted EBITDA growth. Looking beyond 2022, we expect our strong organic growth to result in approximately \$10 per share of adjusted EPS in fiscal year 2025.

Turning to slide 5. As we reflect on climate change, it is globally accepted that humanity is at a critical juncture in our efforts to limit global warming. Jacobs and PA participated at the recent UN Climate Change Conference of the Parties, COP26, in Glasgow, to demonstrate our commitment to reinvent tomorrow with immediate and sustained action in the transition to a net zero economy.

We stood alongside other business, financial and government leaders, as well as activists and students to make sure our voice was heard. We engaged in activities to accelerate solutions to ensure the world stays on track to meet the critical 1.5 degree Celsius trajectory, while preparing to adapt to the changes already locked in from climate change.

As we move to slide 6, given the nature of our business, it's clear that Jacobs' greatest opportunity to positively address climate change comes from a sustainable and resilient solutions that we co-create and deliver in partnership with our clients. To spearhead this effort, we have established a new Office of Global Climate Response & ESG to ensure that sustainability is woven into all of our solutions across markets and geographies. We are accelerating our established partnerships with the public and private sector to advance net zero carbon outcomes, climate resilience, natural and social capital, as well as ESG business transformation in alignment with the United Nations Sustainable Development Goals.

Annually, we generate approximately \$5 billion of ESG-related revenue and expect to grow significantly over the next several years, driven by strong capability in energy transition, decarbonization, climate adaptation, and natural resource stewardship. Our culture is a competitive differentiator. Our people have the knowledge, curiosity, and the trust of our clients to achieve our purpose to create a more connected, sustainable world.

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

Robert Venkat Pragada

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

Thank you, Steve. Moving on to slide 7 to review Critical Mission Solutions. During the fourth quarter, our CMS business continued its strong performance. Total CMS backlog increased 16% year-over-year, 7% on a pro forma basis to \$10.6 billion, driven by our strategic new wins in cyber and intel and nuclear and remediation. Our CMS strategy is focused on creating recurring revenue growth and margin expansion by offering technology-enabled solutions aligned to critical national priorities. Three market trends that we see offering continued strong growth include cyber, commercial space, and 5G technology for national security.

Beginning with cyber and intelligence, we're seeing several major emerging threats to national security. First, cyber attacks on mission-critical infrastructure which are even more stealth and as destructive as a traditional attack. Second, the speed and complexity of near-peer threats, which requires real-time coordination between space and other domains, as the severity of nation state sponsored attacks continues to increase.

And third, the adoption of data-intensive, AI-based applications are dramatically increasing the need for real-time data security and integrity. The funding for addressing these threats are partially reflected in the unclassified federal government spending on cyber in FY 2022, which is expected to be over \$20 billion, up 10% from prior year. Additionally, we expect the spending within classified budgets to be up higher.

During the quarter, we were awarded a \$300 million, seven-year contract with the National Geospatial-Intelligence Agency to modernize the NGA's ability to rapidly gain and share insights from cross-domain imageries, including top secret data classification. And within the classified budget, we're awarded a \$170 million five-year new contract to develop highly secure and hardened software applications that are leveraging the latest advances in AI and machine learning.

We recently closed the BlackLynx acquisition, which provides software-enabled solutions for automating the collection of data at the edge and quickly gaining insights into extremely large volumes of structured and unstructured data. Our strong presence across the DoD and intelligence community, as well as our digital enablement center, will provide the escape velocity for BlackLynx to commercialize and scale their solutions, resulting in highly profitable recurring revenue. We also recently announced a strategic investment and distribution agreement with HawkEye 360, which will enhance our digital intelligence suite of technologies with their RF spectrum analytics and collection automation offering.

Moving on to space. With a significant amount of capital being infused into the commercial space companies, the affordability of space tourism is becoming a reality, as well as other emerging opportunities such as acceleration of satellite-based technologies and the need to understand the impact of space debris. Today, we support commercial space companies with manufacturing process optimization, system and subsystem prototype work, and test facility studies and projects. As commercial space matures, we are positioning our solutions for this emerging opportunity.

During the quarter, we're notified of a significant increase to the ceiling of our contract in Marshall Space Flight Center that also supports Artemis and SLS. The U.S. Space Force selected Jacobs for a five-year contract to provide software and system support for its Patriot Excalibur system, which coordinates the scheduling, training and status of U.S. Space Force aircraft.

Finally, our telecom business has had a strong quarter, and we see the rollout of 5G investment from clients like AT&T, Verizon, DIRECTV, T-Mobile and Dish Network accelerating in 2022 and beyond. In addition, the new bipartisan infrastructure bill includes \$2.5 billion for 5G rollout at US military bases, and the DoD is investing heavily in 5G technology in support of national priorities.

In summary, we continue to see strong demand for our solutions in 2022. The CMS sales pipeline remains robust, with the next 18-month qualified new business opportunities remaining above \$30 billion, which includes \$10 billion in source selection with an increasing margin profile.

Now on to slide 8, I'll discuss our People & Places Solutions business. We finished the year with strong financial performance, with a year-over-year backlog growth of 7% and annual net revenue growth. I'll discuss our results across the major themes of climate response, pandemic solutions, infrastructure modernization and digitization.

Starting with climate response, as the top-ranked global environmental consulting firm, Jacobs is leading the effort to mitigate the impacts of climate emergency, advanced transition to a clean energy net zero economy, and rapidly respond to natural disasters. This quarter, Jacobs was awarded a multiyear contract by the US Army Engineer Research and Development Center to integrate nature-based solutions that grow climate resilience across Defense Department facilities.

Jacobs has recently been selected to reimagine New York's Rikers Island, taking the site through a full community revitalization with an equitable, resilient, multi-use approach incorporating our innovative social value analysis. As the first phase in a 20-year program across the entire city, Jacobs' plan will consolidate four aging wastewater facilities into a state-of-the-art 1 billion gallon-per-day water resource recovery facility that includes a renewable energy hub.

In the transportation market, our specialists have pioneered advanced charging technology that enables clients to transition to decarbonized operation, a key focus of economic stimulus packages. Our transit team continues to win contracts that support clients with assets, operational and technology shifts towards green fleets. For example, we recently won and commenced a hydrogen rail facility (sic) [feasibility] study with Caltrans, and our long-term work with Brisbane Metro continues to showcase cutting-edge green transit solutions.

With exponential growth forecasted in the electric vehicle market, Jacobs has become the go-to firm to support leading EV battery and vehicle manufacturing companies globally. We've doubled our EV book of business in the past year and are forecasting continued growth. We also announced a strategic partnership and investment in Microgrid Labs, a provider of commercial fleet electrification and infrastructure solutions, including a proprietary SaaS platform.

The green economy transition is driving increased investments in hydrogen and renewables, and our team is delivering diverse solutions for a range of clients, from our participation in the Bacton Energy Hub consortium in the UK, to energy transmission plans for a potential offshore wind development in the US, and additional contracts with Iberdrola's renewables Avonlie Solar Farm, and the Swanbank waste to energy facility in Australia.

Moving on to the theme of pandemic response. With ongoing impact to the supply chain, health systems and semiconductor chip shortage, Jacobs is gaining momentum with multi-year backlog across sectors with new wins in biopharma, such as the next phase of a new \$2 billion biotechnology facility. Jacobs has successfully won several health opportunities in the US, Europe and Australia, as they rethink pandemic response operations.

The most significant aspect of the global supply chain disruption involves semiconductor shortages. As the world's leading technical services provider to the semiconductor industry, we are poised for significant growth in the electronics sector this year and expect our electronics business to further accelerate over the next several years. In fact, Jacobs is engineering several major investments for large chip manufacturers. Projects like Intel's new Arizona Fab which Jacobs is designing, are scheduled to be fully operational in 2024. The new fab will manufacture Intel's most advanced process technologies and represent the largest private investment in Arizona's history.

Interconnected with climate response, pandemic solutions, infrastructure modernization, and digital transformation, are leading to long-term transformative growth with significant wins across all markets. Globally, we are continuing to win pioneering transportation projects across all sectors and modes. In highways, we were recently selected for transport for New South Wales along with consortium partners to undertake the \$1.2 billion Warringah Freeway upgrade project to accommodate a third road crossing Sydney Harbor.

In ports and maritime, we won the sustainable ports design and program management for King Abdulaziz Port in Dammam, Saudi Arabia. And in air transportation, we were selected as the integrated program manager for the Solidarity Transport Hub in Poland, a greenfield airport, and multimodal including a high-speed rail network with an initial planned capacity of 45 million passengers. The program is of national significance. It will become the benchmark for zero carbon delivery and be a sustainable transportation platform for Eastern Europe's future travel demand.

Our longstanding relationships and existing framework agreements supported major wins with US State Departments of Transportation and Transport for London, emphasizing our market-leading position for solving our client's most complex transportation challenges. In summary, we see continued investment across the P&PS client sectors. We are already experiencing exciting global wins in the first quarter of our new fiscal year, indicating that we are well-positioned to develop and deliver unmatched value and capability to our clients as investment momentum builds from the US Infrastructure Act and other economic stimulus.

Turning to PA Consulting on slide 9. As Steve mentioned, PA continues to exceed expectations. Supported by an extension of consultative service to UK's National Health Service, PA's efforts have extended into a longer-term vaccine deployment, testing trace and future pandemic preparedness plan. Additionally, PA growth is being accentuated by recent digital solution wins for confidential US biopharmaceutical clients in the areas of cell and gene therapy and next-generation patient care model. We continue to progress our synergy growth and long-term collaboration.

The Jacobs PA team were recently awarded a biotechnology manufacturing plant expansion to provide an end-to-end life cycle solution, incorporating critical digitized clinical trial information into the process design and facility layout. Additionally, we continue to receive joint strategic consultancy awards in the transportation sector globally. I look forward to our continued success with collaborative and integrated offerings to our customers.

At COP26, PA displayed its deep ESG expertise and successfully unveiled its innovative EV battery charging technology, ChargePoint. Further, PA received industry recognition for their jointly developed COVID-19

awareness and situational intelligence tool with Unilever. The business exceeded current expectations, current expansion targets for the year and is well-positioned for continued out year growth.

I will now turn it over to Kevin.

Kevin Christopher Berryman

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

And thank you, Bob; and good day to all listening on the call today. Turning to slide 10 for a financial overview of fourth quarter results, followed by our fiscal year review. As we have previously communicated, our fiscal fourth quarter 2020 had 14 weeks compared to our normal 13-week quarters, which impacted our quarter year-over-year growth rate by 7% and our full year growth rate by 2%.

Fourth quarter gross revenue increased 2% year-over-year and net revenue was up 7%. Including the pro forma impact from all acquisitions and adjusting for the year-ago extra week, net revenue was up 6% for the quarter. Adjusted gross margin in the quarter as a percentage of net revenue was 27.2%, up 370 basis points year-over-year. Consistent with last year, the year-over-year increase in gross margin was driven by a favorable revenue mix in both People & Places, CMS, as well as the benefit from PA Consulting, which has a strong accretive gross margin profile of nearly 50%. We will continue to focus on increasing gross margins as we bring to market higher-value solutions for our clients.

Adjusted G&A as a percentage of net revenue was up year-over-year to 17%. Within G&A, during the quarter we incurred an approximate \$20 million or \$0.12 per share charge to a legal settlement cost, which burned both GAAP and our adjusted results. This charge was related to a CH2M legacy matter surrounding a previously completed product advisory arrangement. GAAP operating profit was \$252 million and was mainly impacted by \$46 million of amortization from acquired intangibles.

Adjusted operating profit was \$303 million, up 17%. Our adjusted operating profit to net revenue was 10%, up 85 basis points year-over-year on a reported basis. GAAP EPS from continuing operations rounded to \$0.34 per share and included \$0.45, primarily related to the UK statutory tax rate changes and other tax-related items, \$0.40 related to the final mark-to-market of the Worley stock and related FX impact, \$0.23 of net impact related to amortization of acquired intangibles, \$0.10 of transaction and other related costs and \$0.06 from Focus 2023 and other restructuring costs.

Excluding these items, fourth quarter adjusted EPS was \$1.58, including the \$0.12 burden from the previously discussed legal matter. During the quarter, PA's continued strong performance contributed \$0.23 of accretion net of incremental interest. Q4 adjusted EBITDA was \$310 million and was up 12% year-over-year, representing 10% of net revenue. Finally, turning to our bookings during the quarter, our revenue book-to-bill ratio was 1.3 times for Q4, positioning us well for the developing growth momentum we expect over the course of fiscal year 2022.

Now, turning to a recap of our full year fiscal year 2021 on slide 11. Gross revenue increased 4% and net revenue was up 7%. Including the pro forma impact of all acquisitions and adjusting for the extra week in the year-ago period, net revenue was up 3% for the full year. We continue to enhance our portfolio to higher value solutions which is evident, as gross margin as a percentage of net revenue was 26% for the year, up 235 basis points year-over-year.

We expect mid-single-digit reported revenue growth in the first quarter of fiscal 2022 with an acceleration in the second half of our fiscal year, driven by US infrastructure spending and the ramp up of new awards in our CMS business. GAAP operating profit was \$688 million and was mainly impacted by the \$261 million of purchase price

consideration for the PA Consulting investment and \$150 million of amortization of acquired intangibles. Adjusted operating profit was \$1.188 billion, up 23% and represented 10% of net revenue.

Adjusted EBITDA of \$1.244 billion was up 18% year-over-year to 10.6% of net revenue and just above the midpoint of our increased fiscal 2021 outlook. GAAP EPS was \$3.12 and was impacted by \$1.96 from the PA Consulting purchase price consideration and valuation allocation, \$0.77 of amortization of acquired intangibles, \$0.57 related to the UK statutory rate change and other UK related tax items, \$0.35 of net charges related to Focus 2023, deal costs and restructuring, and all of this being partially offset by a net positive \$0.48 from the final sale of Worley and C3.ai equity stakes.

Excluding all of these items, adjusted EPS was \$6.29, also above the midpoint of our previously increased outlook. Of the \$6.29, PA Consulting contributed \$0.48 to that figure. Before turning to LOB performance, I would like to highlight that we are currently working on a further optimization of our real estate footprint. As a result, while we are still reviewing key components of the plan, we expect the potential noncash impairment charge ranging from \$60 million to \$70 million in the first half of fiscal 2022. Our new footprint will facilitate virtual work options that leverage new technology and more collaborative workspaces in our offices.

Regarding our LOB performance, let's turn to slide 12. Starting with CMS, Q4 2021 revenue was down 5% year-over-year, but when adjusting for the extra week in Q4 2020, was relatively flat on a pro forma basis. Let me remind you of the transitional dynamic impacting CMS revenue growth related to the transitioning off of two lower margin contracts. This represented \$175 million year-over-year revenue impact during the quarter. When excluding the contract run-off and adjusting for the extra week a year ago, pro forma CMS revenue was up double digits year-over-year.

In 2022 Q1, we continue to expect an approximate \$210 million year-over-year impact from these two contract roll-offs, and this will phase out in Q2. As a result, we expect reported revenue in the first quarter 2022 to be down slightly on a year-over-year basis, with underlying growth being much stronger. We expect the CMS growth trajectory to improve over the year, resulting in a reported mid- to high-single digit full year 2022 growth rate.

Q4 CMS operating profit was \$115 million, up 7%. Operating profit margin was strong, up 100 basis points year-over-year to 9.1%. For the full year, CMS operating profit was \$447 million, up 20%, with 8.8% operating profit margin. The improvement for the quarter and the year in operating margin was driven by our strategy to focus on higher margin opportunities across the business. We expect operating profit margin to remain in the mid-8% range through fiscal 2022.

Moving to People & Places, Q4 net revenue was flat year-over-year. When factoring in the impact from the extra week, P&PS grew net revenue approximately 8% year-over-year for Q4 and was up 2% for the fiscal year 2021. In Q4, total P&PS operating profit was down year-over-year, driven by the \$20 million legal settlement cost I described earlier. Adding back that legal settlement cost, operating profit growth would have been up 8% in Q4. For the fiscal year, operating profit was up 5%, or 8% excluding the legal settlement.

In terms of PA's performance, PA contributed \$273 million in revenue and \$66 million in operating profit for the quarter. Q4 revenue grew 41% and 32% year-over-year in sterling. Q4 adjusted operating profit margin was 24%, in line with our expectations. On a full-year basis, PA Consulting grew revenue 33%, 24% in sterling, with adjusted operating profit margin up 23%. Our non-allocated corporate costs were \$55 million for the quarter and \$190 million for the full year. These costs were up year-over-year and in line with our expectation. The increase was driven primarily by the expected increases in medical costs and IT investments related to our new ways of working.

In fiscal 2022, we expect non-allocated corporate costs to be in the range of \$200 million to \$250 million, given continued increases in medical costs and other investments. These corporate costs, as well as Focus 2023, CMS, P&PS investments will precede our expected acceleration in revenue growth and profit later in 2022. In summary, these increased investments ahead of our growth will likely result in our Q1 profitability and EPS being relatively flat versus our Q4 results, with Q2 then showing improvement and further acceleration occurring in the second half of the year.

Turning to slide 13 to discuss our cash flow and balance sheet. During the fourth quarter, we generated \$176 million in reported free cash flow, as DSO again showed strong improvement. The quarter's cash flow included \$22 million of cash related to restructuring and other items, with \$16 million related to a real estate lease termination as we take advantage of virtual working. For the year, free cash flow was \$633 million, which was mainly impacted by the \$261 million of PA purchase price consideration treated as post-closing compensation that we discussed last quarter. Regardless, our reported free cash flow represented 133% conversion against our reported net income.

For the whole year 2022, we will again target an adjusted free cash flow conversion of at or above 1 times. As a result of our strong cash flow, we ended the quarter with cash of \$1 billion and a gross debt of \$2.9 billion, resulting in \$1.9 billion of net debt. Our pro forma net debt to adjusted expected 2022 EBITDA is approximately 1.3 times, a clear indication of the strength of our balance sheet.

During the quarter, we monetized our Worley stock for \$370 million and executed a \$250 million accelerated share repurchase program. We will continue to monitor for any material dislocation in our share price, given the strong, long-term secular growth opportunities for our company. And finally, given our strong balance sheet and free cash flow, we remain committed to our quarterly dividend which was increased 11% earlier this year to \$0.21 per share.

Now, I'll turn it back over to Steve.

Steven J. Demetriou

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

Thanks, Kevin. We are introducing our fiscal 2022 outlook for adjusted EBITDA to be in a range of \$1.37 billion to \$1.45 billion, which, at the midpoint, represents double-digit growth. Our adjusted earnings per share outlook for fiscal 2022 is in the range of \$6.85 to \$7.45. We expect a multiyear benefit from the US Infrastructure Investment and Jobs Act to support our growth in the second half of fiscal 2022.

As we look beyond this year, we see substantial opportunities for sustained organic growth driven by infrastructure modernization, climate response and digital transformation. We anticipate approximately \$10 of adjusted EPS in fiscal 2025, that our in-person investor event in March will further expound on our long-term strategy and financial model.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Jerry Revich of Goldman Sachs.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Yes. Hi. Good morning, everyone.

Q

Steven J. Demetriou

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

Good morning, Jerry.

A

Kevin Christopher Berryman

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

Good morning.

A

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Steve, as you built the portfolio, it's clearly been a focus to bring together green businesses and because of the idiosyncratic ESG scoring, unfortunately, you folks aren't getting much credit for that. ESG funds are 80% underweight Jacobs. How does that impact the way you folks view the CMS portfolio or portions of the CMS portfolio going forward?

Q

Steven J. Demetriou

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

Well, look, there are some investors that are holding back because of some of our work, which is really a very small portion, probably less than 2% of our overall revenue, that is really focused around what I would call critical national security for the US government. And we are reaching out to those investors to try to explain that we're not involved in things like the manufacturing of nuclear weapons or whatever is holding them back.

A

But I really think that, as people understand sort of the fact that we're probably the largest public company delivering ESG climate change solutions out there, that – as they see that ramping up and get more clarity, I think we're going to attract a lot more investors that want to be part of the ESG story.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

And Steve, just a clarification, is divestiture of that 2% on the table at all? How are you thinking about that within the portfolio context?

Q

Steven J. Demetriou

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

Look, again, it's so small that we haven't really thought about that. But like anything else, Jerry, over the next few years, you'll hear a little more about this during the strategy. We're going to continue to look at our portfolio and

A

make sure we're aligned with all the right growth dynamics. And I think we've proven that up to now, we'll continue to transform our portfolio in the right direction.

Jerry Revich

Analyst, Goldman Sachs & Co. LLC

Okay. Thanks.

Q

Operator: And your next question comes from the line of Josh Sullivan of The Benchmark Company.

Josh Sullivan

Analyst, The Benchmark Co. LLC

Hey. Good morning.

Q

Steven J. Demetriou

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

Good morning.

A

Josh Sullivan

Analyst, The Benchmark Co. LLC

I was curious if you could just give us some perspective just on global CapEx expectations into 2022. You guys have such a large global portfolio and touched so many different markets. From your view, what are customers generally planning for CapEx heading into 2022, as they look to move out of the pandemic?

Q

Kevin Christopher Berryman

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

So look, I think there's a couple of things that we need to point out, specifically the customers that Bob highlighted in his comments really about our advanced facilities. Clearly, very, very, very strong there. And the semiconductor shortage is acute, and we have many of our clients that are looking to build significant capacities over the next several years.

A

I do think our private clients ultimately are now all thinking more robustly about spend as it relates to environmental solutions and thinking about how they can transform their footprints in a way that are facilitating our ability to become a more sustainable global economy. And I think that that's clear. And then I would augment that is, with our government services side, exactly the same comment. So I think that CapEx is very strong in that regard.

The last piece I would call out is our environmental business and energy transition business is touching the oil and gas space as well, where we are working with them to ultimately provide incremental capability sets that will help them in them becoming a more viable, sustainable contributor to the global climate actions being taken around the globe. So I think you're right. There were focused across a wide swath. And actually a lot of them, given the work we do, are very, very strongly focused on these areas which we think will encourage incremental CapEx longer term.

Operator: Your next question comes from the line of Jamie Cook of Credit Suisse.

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

Q

Hi. Good morning. I guess, first question, the EPS target that you put out there for 2025, the \$10 supports obviously good growth there. Kevin, can you just talk about, one, are the costs to achieve the \$10 in terms of restructuring or investment? And then, on the \$10, can you provide some parameters, sort of top line margins, do we need to utilize the balance sheet in terms of M&A or share repurchase to help achieve the \$10? So, I guess that's my first question. I'll start there.

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

A

Yeah. Jamie, thanks. Thanks for that. The \$10 is really an organic number that we're alluding to and really doesn't involve capital deployment in any material fashion. And so, I think clearly there could be potential upside to those numbers, but we're working through all of that with our strategy, which we will talk more about in March, as Steve outlined.

So, some of your questions are a little premature as we're finalizing all that work for margins and whatnot. Rest assured, though, I think you can pretty much assume that the margin is not going down as it relates to what we're trying to get accomplished from an overall perspective. As it relates to cost to get there, look, we think that most of the things that we're going to be able to do are going to be embedded in our normal course operational expenditures. I did highlight the fact that we're working on a further optimization of our real estate footprint.

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

Q

Yes.

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

A

We're expecting a potential impairment of \$60 million to \$70 million, maybe up to \$70 million in the first half, maybe even in the first quarter. And then if I think about other things, there's not going to be significant moneys on top of that, maybe \$25 million to \$50 million in 2022; and then 2023 and beyond, TBD, I would say. And so, we're really thinking that we like the portfolio and other than things that would occur relative to integration of acquisitions and deal costs and those kind of things probably somewhat de minimis in terms of restructuring costs outside of those.

Operator: And your next question comes from the line of Steven Fisher of UBS.

Steven Fisher*Analyst, UBS Securities LLC*

Q

Great. Thanks. Good morning. One of the things I think the business and the stock really needs is kind of a breakout to the upside on the P&PS organic revenue growth, and it seems like we started to see that this quarter. But I think, Kevin, you said maybe 8% NSR growth which is I think up from about 1.4% for the last couple of quarters.

So, maybe just more qualitatively, to what extent are you really seeing a breakout on that P&PS growth now? So what's the organic assumption you have for the rest of fiscal 2022, because you give us some color on Q1? And what have you factored in there exactly for stimulus as part of that growth? Thank you.

Kevin Christopher Berryman

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

So let me take it; and then, Bob, you can add any commentary if you'd like to.

A

Robert Venkat Pragada

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

Sure.

A

Kevin Christopher Berryman

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

Look, we're in this period of time in our Q1 and Q2, primarily where the numbers aren't really going to be impacted yet by the stimulus. We believe that's more a Q3 event; maybe we get a little bit in Q2, but likely not. And that is more Q3 and an acceleration into Q4 that we would expect the benefits associated with the stimulus. And so, we're excited about that.

A

Having said all of that, I do believe our incremental growth going forward in Q1 and Q2 is going to be more solid than what we've been seeing over the last few quarters. So, we're starting to see some of that benefit of the advanced facilities, certainly not as much in Q1, but in Q2. And so, I do think we'll see some good solid growth in Q1 and Q2 on People & Places. And then it will accelerate again, hopefully into the Q3 and Q4 numbers.

So we feel good about the developing momentum. I did make the comment that we're investing in front of that growth, too. So we're not going to see a lot of incremental margin associated with that because we're investing heavily.

Robert Venkat Pragada

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

Yeah. What I'd add to that, Kevin, is that, Steve, what's giving us optimism around there is our bookings. If we look at just what the way we started out the year from a bookings perspective, it's been solid. What the other part of that is, is that we have to think about the project life cycle. So, these bookings are starting off with consultative services that are on the front end of some of these programs and projects. And then they go through the subsequent phases where our services will escalate. So overall, very good leading indicators that support what Kevin is saying.

A

Operator: And your next question comes from the line of Andy Kaplowitz of Citigroup.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Hey. Good morning, guys.

Q

Steven J. Demetriou

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

Good morning.

A

Kevin Christopher Berryman

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

A

Hi. Good morning.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

Can you give us a little more color into what's going on in CMS. I think having you said that CMS margin would stay in the mid-8% range in FY 2022, but the margin had already risen to over 9% in the last quarter, despite still significant contribution from the lower margin contract work that's flowing through.

Is there something else now impacting your margin in FY 2022? And then on the revenue side, your CMS backlog up double digits seems to suggest that you can deliver the mid- to high-single digit guidance that you have, but you need to see an acceleration of awards and/or revenue burn versus what you've been recording in Q4 to get there.

Kevin Christopher Berryman

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

A

So CMS specifically, as you may recall, two, three, four years ago, when we did have these lower margin large contracts, we were in the 5% to 6% operating profit margin. And we've now built over time that to mid-8% number which is great and it's consistent with our strategy. As we look about 2022 specifically, we'll have ramp on some other lower margin business associated with Idaho and other nuclear remediation work.

But that's not going to dampen our margin; it's just going to hold it flat for 2022. And then in 2023 and beyond, we start to see incremental margin above that as well. So it's a continuation of a long-term margin play. It's just ebbs and flows of when the big contracts come in, the margins associated with them. So, 2022 is a little limited in terms of incremental margin and then start to build again in 2023 and beyond.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Q

So just from the operator, there's some background noise. I don't know if it's your side after your opening it up for questions. So, could you double check that?

Operator: Yes, sir. And your next question comes from the line of Chad Dillard of Bernstein.

Chad Dillard

Analyst, Sanford C. Bernstein & Co. LLC

Q

Hi. Good morning, guys. So just wanted to dig in to P&PS. It seems like you have so many opportunity ahead of climate change, semiconductors, infrastructure and digitization. How are you guys sizing your bets? Can you just like talk about the relative rank of the size of the opportunity? And then just thinking through just where you guys stack up in terms of competitive dynamics in those segments?

Steven J. Demetriou

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

A

Chad, can you repeat the front part of that question again? It's a little broken.

Chad Dillard

Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah, sure. So I was just saying, in P&PS, it seems like you have so many different opportunities ahead from climate change to semis, infrastructure, digitization. I just wanted to understand just how you guys are sizing your bets across all of those opportunities? If you could talk about the relative rank in terms of the size of opportunity and your relative competitive positioning in those?

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

A

Sure. So as far as prioritization goes, I would say that kind of, if you were to segregate into two buckets, one around climate change and the second around all those things that are creating the supply chain disruption, those are the ones that are coming to priority right now. I'd say, on the climate change piece and this is where the portfolio optimization is really helping us, we're honing in on those areas that we have a sound market leadership, long-term client relationships, and where we can deliver immediate value. And those are squarely around transportation, water resiliency, and all of the environmental impacts that are affiliated with climate change.

And so, those client relationships that we've had have been pretty robust for several years and are supporting those opportunities. Around advanced facilities, this is a multi-decade type of leadership approach that we've had specifically in semis, but also in life sciences that's been a legacy business of ours forever. And so, we're seeing those opportunities again not searching for them. These are long-term client relationships that we've had and we're kind of in the capital planning for those clients. And so, it's really gaining share with long-term clients that's setting the priorities.

Operator: And your next question comes from the line of Sean Eastman of KeyBanc Capital Markets.

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

Q

Hi, gentlemen. So, I'm just looking at the 2025 target. I think that implies around 12% earnings growth CAGR over the next couple of years. Seems like at the midpoint of the fiscal 2022 guidance, you're going to outpace that. And I just wanted to reconcile that considering the way you described the cadence of fiscal 2022 earnings, it seems like the exit velocity is going to be quite strong and that we should actually see accelerating earnings growth out of fiscal 2022. So, I hope that question makes sense. Just wanted to talk through the mechanics there. Maybe there's some conservatism. Any commentary there would be helpful.

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

A

Look, I think what we do when we put forth our indications of what we expect our business to do, we think those are numbers that are obviously going to be able to be executed against. And so, yeah, there's a lot of moving pieces. And you're right, we will hopefully exit this year with a greater velocity than what we entered clearly. And so, we'll see how that plays out.

But I think, ultimately, what's clear is that we've got to – whether it's 12% or 11% or 13% or whatever it ends up being, we're going to have a long haul of good, solid, margin-enhancing growth in front of us.

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

Q

Okay.

Operator: And your next question comes from the line of Michael Dudas of Vertical Research.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Q

Good morning, everybody. Maybe, Bob, you can share a little bit of your thoughts on your recent acquisitions and other opportunities in the pipeline from CMS, certainly increasing your cyber/intel higher margin business. But also on the P&PS side, I know you put things out into your long-term guide on acquisitions, but how do you see that? And is the company set to achieve these targets with the employees and professionals that you have? And is there going to be some interesting opportunities to leverage some of that PA work, as you get more collaborative to drive even further growth to serve the client base?

Robert Venkat Pragada

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

A

Hi, Michael. Let me unpack that here a bit, first on the acquisition piece. We're excited. If you look at the last two that we did within CMS about a year ago with The Buffalo Group and most recently with BlackLynx, these are right in the bull's eye of where we're going in cyber and intelligence, where we're bringing in whether it'd be client diversification with The Buffalo Group and higher end advisory services and that has played out extremely well. If you look at some of the – we have code names for them, but some of the wins that we've had over the course of the last nine months, that has played out perfectly.

And then BlackLynx is getting us into those software solutions coupled with advisory services on automation and collection of data with processing engines that are working at the edge all around security. And so, we're excited about both of those and coupled with long-term advisory platforms that we've had and the agencies that we're already in, that's going to serve us extremely well.

With regard to prospects in the P&PS world, I targeted more towards – it's not too dissimilar than our cyber and intelligence prospects, around technology. We've got a strong position with our domain knowledge for several decades. Within those end markets that we're talking about, coupled with now technology-enabled solutions, is really what our acquisition strategy has been as accelerants to our strategy. So, we're looking at the pipeline right now. It looks really good. And more to follow on that front, as Steve mentioned, at the Investor Day.

The employee base, it's something that we are acutely focused in on right now. This is where our globality really, really helps us; and that we're in multiple locations around the world with high-end talent that are delivering global talent utilized to deliver local solutions. And so, our ability to scale, you hear about some of the labor shortages in labor topics that we're faced with in the western hemisphere, we're scaling in multiple locations for jobs that are all around the world. And that's been a big piece of ours.

And then that last part with regards to PA, mentioned a couple of the collaborative opportunities. But where PA sits in, a lot of the same clients that we have in that C-suite as well as in kind of the front end of technology as our clients are developing new innovative ways of delivering the global topics, we're seeing the collaboration accelerate. And hopefully, we'll have some more wins. We talked about the Defra win in the UK last quarter. This win – can't disclose client in the biotechnology world. It's just shown that having the ability to offer expertise at this entirety of the lifecycle of a project, a program or an issue is powerful and is one that's picking up some significant momentum. So, we're excited on all fronts.

Operator: And your next question comes from the line of Gautam Khanna of Cowen.

Gautam Khanna*Analyst, Cowen and Company, LLC*

Q

Hey. Good morning, guys. I wanted to follow up on the outstanding bids, and I think you said \$10 billion in source selection, and just get a sense for what is sort of the phasing in terms of adjudication timeline? Are you expecting a strong December quarter in terms of bookings? And just how does your – if you could talk to us about the continuing resolution and how that might change kind of the range of outcomes with CMS and, relatedly, recompile concentration over the next fiscal? How much of the business space is up for rebid? Thank you.

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

A

Look, we're pretty positive, confident that this whole continuing resolution, defense budgets, all that will play out over the next several months and get concluded. And we're expecting an increase in the DoD budget and we're pretty positive about space and cyber and the growth rates, especially in the classified work where we're significantly aligned to in the telecom and we feel very well positioned at places like NASA and how the budgets played out there.

So, really it comes down to the whole timing question that you asked there. There has been some delay, very modest delay as the government clients are waiting just to see the outcome of this budget. And so, as soon as that gets finalized, we see a few of these near-term prospects that we've hinted to unleash. Whether it happens in December or the second quarter, I think we're talking about sort of that kind of timing. So, that's why we're very optimistic about the upward trend in CMS revenue growth as we move through 2022.

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

A

Just a follow-up on your question on rebids. There is, at the end of the year, a couple larger rebids that we're going to have to be thinking through, but there's really no rebid risk embedded into the 2022 year assumptions.

Operator: And your next question comes from the line of Michael Feniger with Bank of America.

Michael Feniger*Analyst, Bank of America Merrill Lynch*

Q

Hey, guys. Thanks for taking my question. Kevin, just – so we're not missing anything here. To follow up on Sean's question, you guys just did the high end of your EPS range in 2021 and the midpoint is 14% growth. So just conceptually, with infrastructure ramping up, the CMS incrementals really taking off in 2023, is there anything we should be aware of big picture of why earnings growth would not accelerate, why it would step down to 2025?

As you were kind of alluding to, is it recompile risk? Is it just higher level of SG&A or where the margins are? Just kind of help us understand. I know you'll flesh out more at the Investor Day. When we see that \$10 of EPS and the earnings growth you guys are getting this year which is backend-loaded, just the bridge there, just what are the things that would hold back that earnings growth?

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

A

Well, look, we're talking 2025 here. That's four years from now. We're still in the midst of a pandemic, and I think it's prudent to put some variability about what the world looks like four years from now. So I think the most powerful message about the \$10 is, we're putting that number out there even if economic situation is in not a good

place in 2025. So look, I think it's prudent; prudent to put out numbers that are appropriate and we feel like we can get after. And by the way, that's four years from now. So, a lot can happen in four years.

Michael Feniger*Analyst, Bank of America Merrill Lynch*

Thank you.

Q

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

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

Hey, guys. Good morning, again. I just want to follow up on PA Consulting because you recorded almost \$0.50 of accretion in 2021. I think that's essentially double your original guide when you announced the deal. I know you probably don't want to tell us what's embedded exactly in FY 2022. We know what your original guidance there. But maybe you can give us color and what has at PA exceeded your expectations by such a wide amount and what does that mean for Jacobs moving forward?

Q

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

So, couple of things, and maybe I'll turn it over to Bob for any additional color. I think, Andy, the first thing is that the acceleration in their growth which is really the driver to what's been happening in 2022, a lot of it, a chunk of it is in – related to that specific work Bob was alluding to on pandemic related and the work that they've been doing for the UK government, really, really strong, really strong performance.

A

Now, as we look into 2022, they're going to be growing, but it's not going to be at that same rate that we've been talking about. They've got to figure out a way to recover and get new business to replace some of this business that's going to go away. So, it's not a slam dunk as it relates to what's going to be happening in 2022 by any stretch.

So having said all of that, what they've done in 2022 or 2021 has been extraordinarily strong, good margins, and they've been executing well. And actually, the exciting thing is the collaboration between PA and the People & Places and CMS is very strong and we're seeing that develop into longer-term growth opportunities for maybe PA, but certainly Jacobs as well.

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

Maybe two areas that we knew about, we probably didn't fully give credit to the depth of the two things I'm about to mention. One is, the applied technology ability that they have. You see consulting firms that have kind of a roadmap or a recipe or a methodology that they utilize for different challenges and then proposing solutions. PA is applied; applied technology to solve a unique issue. And so, that has really paid some dividends, especially with the new work. Kevin and I talked about the UK work, but this is now what we're seeing in the US.

A

And then the second is around the depth of relationship. The depth of relationships that PA has and where to connect in the client organization and really hone that relationship through performance, has been extremely impressive and is – again, we knew about it; it exceeded our expectation.

Operator: And there are no further questions.

Jonathan Doros

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

Okay. Thank you very much. Look forward to talking to you again next quarter.

Operator: And this concludes today's conference call. Thank you for participating. You may now disconnect.

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