Company Name: Jacobs
Company Ticker: JEC US
Date: 2018-10-22
Event Description: Business Update Call

Market Cap: 10,952.87
Current PX: 77.185
YTD Change($): +11.225
YTD Change(%): +17.018

Bloomberg Estimates - EPS
Current Quarter: 1.231
Current Year: 4.375
Bloomberg Estimates - Sales
Current Quarter: 4272.455
Current Year: 15113.750

Business Update Call

Company Participants

- Jonathan Doros
- Steven J. Demetriou
- Kevin C. Berryman
- Unverified Participant

Other Participants

- Jamie L. Cook
- Tahira Afzal
- Steven Fisher
- Michael S. Dudas
- Chad Dillard
- Andrew John Wittmann
- Jerry Revich

MANAGEMENT DISCUSSION SECTION

Operator

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

Jonathan Doros, you may begin your conference.

Jonathan Doros

Good morning and thank you for joining us today. We've posted a copy of the slide presentation to our website which we'll reference in our prepared remarks.

I would like to refer you to our forward-looking statement disclaimer, non-GAAP financial measures and pro forma disclosure which are summarized on slide 2.

Certain statements contained in this presentation constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as such statements are intended to be covered by the safe harbor provided by the same.

Statements made in this presentation that are not based on historical fact are forward-looking statements, including statements regarding whether and when the transaction between Jacobs and WorleyParsons will be consummated, anticipated benefits thereof.

Although such statements are based on management's current estimates and expectations, and currently available competitive, financial, and economic data, forward-looking statements are inherently uncertain, and you should not place undue reliance on such statements as actual results may differ materially.

We caution the reader that there are a variety of risks, uncertainties and other factors that could cause actual results to differ materially from what is contained, projected, or implied by our forward-looking statements.

The potential risks and uncertainties include among others the possibility that Jacobs and WorleyParsons may be unable to obtain regulatory approval or that the conditions to closing the transaction may not be satisfied. Such thatThe transaction will not close, so the closing maybe delayed, general economic conditions, the possibility of unexpected cost, liabilities or delays in connection with the transaction risks, the transactions disrupt, our current plans and operations, the ability to recognize the benefits of the transaction, the amount of cost of these expenses and charges related to the transaction, the outcome of any legal proceedings related to the transaction, the occurrence of any event change or circumstance that could give rise to termination of the stock, and asset purchase agreement.

For description of some additional factors that may occur that could cause actual results to differ from forward-looking statements, see our annual report on Form 10-K for the period ended September 29, 2017, in particular the Risk Factors discussion thereunder as well as other filings with Securities and Exchange Commission. The company is not under any duty to update any of the forward-looking statements after the day of this presentation to conform to actual results, except as required by applicable law.

During this presentation, we may refer to certain non-GAAP financial measures. Please refer to the information on slide 2, and in the reconciliation tables at the end of the presentation regarding non-GAAP measures. During this presentation, we may discuss current estimates of the pro forma impact of the proposed transaction to the estimated fiscal 2019 operating results of the company.

The estimated pro forma fiscal 2019 operating results were calculated by excluding the estimated segment operating results of the ECR line of business, as if the transaction closed immediately prior to the beginning of 2019, and adjusted to reflect assumed estimated net proceeds of $2.6 billion from the sale, the repayment of the company's $1.5 billion term loan in outstanding balance under the company's revolving credit facility with the cash proceeds from the transaction, the elimination of estimated annualizedcredit cost by the end of fiscal year 2019 and the exclusion of estimated restructuring integration costs related to the CH2M acquisition and estimated restructuring and separation costs related to proposed transaction. Reconciliation of the adjusted pro forma EBITDA outlook for 2019 to the most directly comparable GAAP measure is not available without unreasonable efforts because the company cannot get sufficiently synergy all the components required to provide such a reconciliation.

We believe this information helps provide additional insight into the estimated impact of proposed transaction on the company's fiscal 2019 financial performance. However, such estimates are forward-looking statement and inherently uncertain. We should not place undue reliance on such statements as actual results may differ materially.

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

Steven J. Demetriou

Good morning. Thank you for joining us today.

With the $3.3 billion sale of our Energy, Chemicals and Resources or ECR segment to WorleyParsons. We are marking a breakout moment for Jacob's transformation as the leading next generation solutions provider, solving the world's critical challenges. As many of you know we've been successfully executing our strategy to transform Jacob's culture, capabilities and business portfolio to become a more innovation and technology driven solutions company.

Less than a year ago, we completed the largest acquisition in the history of our company. And welcome CH2M to our ranks. And this acquisition is exceeding our financial targets and has significantly broadened our leadership in providing sustainable solutions, and with today's announcement of the divestiture of our ECR business, we will be totally focused on further strengthening and expanding Jacobs into a more consistent, high growth, high margin enterprise.

However, before I go further, I want to express my personal admiration for our Jacobs CCR team and the substantial improvements they made during the industry's recent prolonged down cycle. They bring a legacy of leadership, longstanding client partnerships, industry leading safety and operational performance and professionalism second to none. This historic acquisition by WorleyParsons is a testament to the quality of our ECR people and I'm extremely excited for the great opportunities the combination presents for our global Jacobs ECR talent force.

Now let me turn to the drivers for Jacobs going forward. Think about the unprecedented convergence and acceleration of ships across the globe; climate and security threats, resource scarcity, urbanization and the Internet of Everything. Jacobs the company working with clients to address these challenges with ingenuity and technology applied. We deliver solutions enabling a more connected sustainable world everywhere every day. We have only begun to realize the full potential of that purpose. We expect our new portfolio to create substantial value for our employees, customers and shareholders. By shining more light on our higher margin businesses and our strong financial profile, we expect to unlock immediate shareholder value be a multiple expansion while also offering a greater opportunities to attract and retain the best talent in the business.

Focusing our resources on the most attractive sectors such as infrastructure and government services enables us to deliver technology, innovation and sustainable solutions to accelerate profitable growth while yielding superior outcomes and returns for customers. And our improved financial flexibility will support meaningful earnings per share growth through a disciplined deployment of capital.

Now turning the slide four. Today's announcement marks another leap forward in the successful

execution of the strategy we outlined in 2016 to build our high performance culture, transform the core of how we execute, and to grow profitably in the most attractive end markets.

As shown on slide 5 our execution on the strategic priorities combined with operating discipline and value driven capital allocation have resulted in superior shareholder returns. In fact since initiating our transformation in October 2015 Jacobs' total shareholder return of more than 100% is significantly above the S&P 500 and far exceeds historical industry peers. We expect the benefits of the transaction announced today to add further momentum to our record of value creation well into the future.

Now let me review the key details of the sale on slide 6. As noted the sale includes the entire ECR segment primarily our petroleum, chemicals, and mining businesses. The $3.3 billion enterprise value is comprised of $2.6 billion of cash and $700 billion of WorleyParsons equity. We expect approximately $2.6 billion dollars in net proceeds at closure. The $700 million in equity will represent approximately 11% in the pro form a combined company which will be subject to a six-month lockup period post closure.

The sale price represents more than 11.5 times our ECR's trailing 12 month June adjusted EBITDA, a multiple that represents a premium to comparable industry transaction and a compelling value for our shareholders.

On a pro forma basis we now expect our fiscal 2019 adjusted EBITDA to be in the range of $920 million to $1 billion which includes our plan to eliminate any stranded costs associated with the sale of the ECR business.

Moving on to Slide 7, with this transaction, we are now 100% focused on our aerospace technology, environmental and nuclear business, ATEN and our buildings infrastructure and advanced facilities BIAF businesses. This newly focused portfolio reflects a stronger revenue mix and higher value end markets aligned to growth trends where Jacobs already has a leadership position, including national government priorities sustainable, infrastructure and digitally enabled solutions. We intend to leverage our full complement of differentiated capabilities across our portfolio. As one example, in the smart city space, we're combining our deep infrastructure expertise in BIAF with digitally connected data driven analytics and cybersecurity solutions that are foundational within ATEN to deliver further innovation and value to our clients. And our collective strength in areas such as intelligent asset management and enterprise IT services have us uniquely positioned to deliver lifecycle solutions in a rapidly changing digital economy.

In short, we are leveraging growing demand for these types of solutions across our business more knowledge based, less asset intensive which yields higher profitability than Jacobs legacy portfolio positioning us for more favorable returns over time.

Turning to Slide 8, I'd like to discuss each line of business in more detail and on this slide starting with BIAF. This is an exciting business with strong margins and growth fueled by innovation and extension of opportunities across our global platform.

Investment priorities for our BIAF customers encompass a wide scope of large scale long-term programs. From a connect infrastructure to smart cities innovative resiliency re-enforcements and quick turn disaster recovery. Advanced digital enabled facilities and mobility solutions, modernization of the world's busiest airports and innovations for water and land management. BIAF will now represent approximately 60% of Jacobs total revenue with healthy segment operating margins north of 8%. Furthermore, we see growth in this line of business driven by global megatrends as well as demand for digitally enabled solutions and aging infrastructure. When it comes to multi-year long-term partnerships and programs with customers, we are leading the way bringing global expertise and in local delivery to major opportunities. For example delivering Etihad Rail in the United Arab Emirates a seven year program that will become one of the world's largest freight and in passenger rail lines. In our decade long partnerships managing major water programs and population centers including Singapore, London, Sharjah, Miami and San Diego. We also are working with some of the world's most advanced companies from biologics to semiconductors and we're reshaping education and healthcare delivery as an indispensable partner delivering expertise and execution for a efficient operations and collaborative spaces with connectivity and sustainability embedded.

Similarly on slide 9, our ATEN line of business performs extraordinary work, including proprietary capabilities, big data analytics, mission solutions, nuclear remediation and scientific exploration that speak to the level of sophistication our people bring applying deep experience and in a breath of technological innovations that set high barriers for competitor

bring applying deep experience in a breadth of technological innovations that set high barriers for competitors. The business segment is growing at a healthy clip currently contributing well over $4 billion of recurring revenue to our portfolio with double digit revenue growth over the past two years. ATEN currently is delivering operating margins north of 7% and we expect to improve in the long term. This business is on the leading edge of technology advancement for example in the race to deploy 5G networks where we have secured more than $250 million in new contracts in the last three quarters alone.

ATEN also lead in commercial technology solutions including aerodynamic, acoustic and environmental test facilities for the automotive sector. And it is well positioned for continued growth given its strong alignment with national priorities such as defense, deep space exploration, cybersecurity and nuclear remediation. Our success in the government services space reflects Jacobs' leading scale and unique delivery model which combines deep knowledge of client applications with strong technical expertise. localized delivery and an efficient cost structure to gain share. And as you can see on slide 10 our ATEN business now stands among the largest leading U.S. government services providers and we see significant organic growth opportunities to further penetrate high value solutions such as Enterprise IP and intelligent Asset Management to contribute further margin expansion over time and make Jacobs an even larger player in this very attractive sector.

I'll now turn the call over to Kevin to discuss our financial profile and capital allocation strategy.

Kevin C. Berryman

Thank you Steve.

Before review our pro forma financial profile on slide 11, for modeling purposes let me discuss the puts and takes to our outlook in more detail. As you saw in the release last night I am pleased to

Let me discuss the puts and takes to our outlook in more detail. As you saw in the release last night, I am pleased to report that our current view for 2018 remains materially consistent with the guidance we announced during our Q3 earnings call.

In addition, absent the impact of this transaction, we remain comfortable with the adjusted EPS guidance we provided for 2019, which importantly reflects achieving the CH2M acquisition cost synergies. To provide clarity on fiscal -- a little bit better clarity on fiscal 2019 and given the announcement of this transaction, when excluding ECR for the full year, we believe our adjusted EBITDA would be in the range of $920 million to $1.0 billion for our fiscal 2019 year. When you compare this with current consensus estimates of slightly over $1.3 billion, the implied 2019 adjusted EBITDA for ECR is approximately $320 million to $380 million. Our revised 2019 figures assume we will eliminate the stranded costs from the sale of ECR over the course of fiscal 2019.

So now let's turn to some additional details on the slide where you can see that the profitability and return profile of the company will materially improve. As Steve noted, more of our revenue will now be aligned with less cyclical end markets that offer greater stability and long term growth opportunities. We expect to achieve a gross margin increase of over 150 basis points, which illustrates our focus on shifting to higher value business. Our EBITDA margin is also expected to increase over 25 basis points and we see room for additional increases to this figure as we continue to execute our profitable growth strategy.

as we continue to execute our profitable growth strategy. While EPS will be initially dilutive from the sale, we expect our robust capital deployment efforts to more than offset this impact.

In addition, our new business will have to lower working capital needs which when combined with our higher profitability will improve cash conversion and lead to greater returns on invested capital over time. And finally the stability of our earnings and cash flow should improve since the ECR sale largely eliminates our exposure to more cyclical commodities markets.

In summary we believe our improved financial profile combined with the expected growth of our pro forma EBITDA offers a compelling value for shareholders. So it's further detailed on slide 12. Let's talk a little bit more about the valuation of our remaining portfolio. As you know, Jacobs historically has had a large exposure to the energy, chemicals and resources sector. We believe the fundamentals of that sector and its cyclicality have overshadowed the strength within our government services and infrastructure businesses. Our recent executed – execution against our strategy and now combined with this transaction now has substantially reshaped our portfolio which we believe will shine a spotlight on the growth, visibility and cash flow durability within our remaining businesses.

As shown in the bar chart on the left, Jacobs trades at about nine times forward EBITDA consensus versus multiples of 10.9 times for our infrastructure peers and 11.8 times for our government services peers. This discount has been consistent over time which you see in the line starts on the right.

As shown below the bar chart on the left, this current discount is despite Jacobs having stronger Which you see in the line charts on the right. As shown below the bar chart on the left this current discount is despite Jacobs having stronger forward EBITDA growth of 18% nearly double the average of the combined infrastructure and government services peer groups.

And even if one were to adjust, to eliminate the benefits of our external growth that is largely associated with our recent CH2M acquisition our underlying organic EBITDA growth profile still exceeds the average of the peer group, which even when including their acquisitions shows the underlying strength of our portfolio. We expect this visibility on our higher value infrastructure and government services portfolio mix strong growth and improved financial metrics will result in a greater appreciation of the inherent value of our company.

So let's turn now to slide 13 where information highlights one of the key benefits of this transaction which is the significant financial flexibility it affords us. We will be receiving approximately $2.6 billion in net proceeds which for purposes of this slide includes the cash received plus the $700 million dollars in WorleyParsons shares.

In the short term with these proceeds we will plan to pay down our variable pre-payable debt. This results in our gross debt being reduced to $500 million or about 0.6 times pro forma EBITDA.

We will also have the remaining pro forma net cash position of about $1.1 billion improving from the net debt position of$1.5 billion before the transaction. We also recognized our near-term leverage will be reduced to a figure lower than our long-term target. But we'd anticipate that we will just back to our expected leverage targets longer term. It is clear post transaction, we will have a strong inflexible balance sheet. This clearly sets us up well for value creating capital deployment, which we'll describe on the next slide, slide 14. As you know we have a track record of disciplined value driven capital allocation, which has created strong returns for Jacobs' shareholders.

Our recent successful acquisitions are evidence of this track record based on their accretion and our delivery against the strategic synergy and IRR objectives that we had. Looking ahead, we intend to maintain the same disciplined approach to deploying capital that we established for our previous transactions. As always we will look to maximize our profitable organic growth and we will accelerate this growth with value driven M&A. We will continue to apply a rigorous set of evaluation criteria to ensure that acquisitions enhance our strategic goals and meet our financial performance expectations.

And finally, we believe our unique strong focus on cultural fit and disciplined operational integration is a key component of our ability to successfully execute M&A. This will be important as within our remaining businesses we do see a pipeline of strategic M&A opportunities that will allow us to drive innovation and develop talent and expertise to further strengthen our company. Finally, we believe even with our focus on growthFinally we believe even with our focused on growth, there will be additional flexibility to return capital to shareholders. At a minimum, we will have the flexibility that execute repurchases to offset annual share dilution from share based compensation. We are also committed to our dividend or in the process of evaluating a dividend growth policy. And finally, we also believe there will be flexibility for incremental share repurchases if there are valuation dislocations or if we have excess cash assuming growth investments do not materialize. Overall, we remain committed to our capital allocation principles and we'll prioritize deploying the proceeds from this transaction in a manner that will offset transaction dilution. We'll have more details for you at our February Investor Day and as we get closer to the completion of the transaction.

With that, I'll turn it back over to Steve.

Steven J. Demetriou

Thank you, Kevin. In summary, on slide 15, we're building a stronger Jacobs that presents a compelling proposition for employees, clients and investors and superior value for our shareholders. Our portfolio transformation creates inspiring opportunities for employees while driving a high performance culture that reflects accountability and inclusion bringing together diverse people capabilities and perspectives. Amidst the convergence and acceleration of significant global challenges were capturing attractive long term growth opportunities, where we are uniquely positioned to compete and win.

And while proceeds from the sale of our ECR business provided excellent catalyst to accelerate innovation and growth furthering our portfolio transformation. We have demonstrated our accountability for disciplined strategic capital allocation to build on Jacobs record of leadership and value creation.

Now if the operator would please open up the queue, Kevin and I are pleased to respond to your questions.

Q&A

Operator

[Operator Instructions]

<A>: While the operator is polling for questions, we'd like to note that we'll be hosting our Analyst Day on February 19 in Miami, Florida which is the afternoon before the Barclays and Citigroup Global Industrial Conferences also in Miami. A formal invitation and registration link will be sent in the coming weeks. Operator?

Operator

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

<Q - Jamie L. Cook>: Hi. Good morning, and congratulations on the transaction. I guess just a couple of questions. One, Kevin, obviously your balance sheet will be in great shape here, you talked about offsetting dilution. I mean should we assume in the short term, in particular given the dislocation of your multiple relative to your peers that repurchase will be – you'll offset all of the dilution with repurchase in the short term? And then my second question just strategically, I think everyone's trying to figure out what the next step is for Jacobs, considering you guys also announced the co-COO of Strategy. So if you could sort of talk about that? And on the M&A front, do we think about more of a focus on the ATEN business or the opportunity to enhance the water business within BIAF? Thanks.

<A>: So, Jamie thanks for the question. Maybe I'll take a stab at certainly the first part, and then makes a comment on the second part, and then Steve may want to chime in with some additional commentary. Look, I think, it's very clear in our prepared remarks that we are going to be focused on being able to target and drive incremental external growth that we believe will be consistent with building an even stronger company going forward. So I wouldn't necessarily assume that there's going to be an immediate share buyback

So I wouldn't necessarily assume that there's going to be an immediate share buyback. Remember this is a transaction that will close around six months from now, maybe a little bit sooner than that. Maybe a little bit later than that. So we have plenty of time to work through the specifics.

It is clear that with the balance sheet that you noted though we have a lot of degrees of freedom, but our primary use certainly is going to be about ensuring that we're growing this company and becoming an even stronger one going forward.

<A>: Yeah. A far as the two line of businesses A-10 and BIF I think everything is on the table with regard to looking at how to individually make those businesses higher margin. And I think going into the most attractive segments, but also the opportunity to connect those two businesses together even further as I mentioned before the technology and the digital big data analytics and activities that we're working on and A10 are highly complementary to all those smart buildings, smart transportation, intelligent work that we're doing across the BIF scope.

So we're pretty excited about developing strategies to really move both of those businesses to a much higher profitable growth, higher margin.

<Q>: Okay. So don't view it as splitting the businesses. I mean that's not the next sort of step here and then I guess my other question is Steve just given people underappreciate the two businesses I mean our people actively pursuing you guys as well outside of guys just looking external for acquisitions?

<A>: We -- again we're totally focused on driving the BIF and A-10 businesses. But I want to reemphasize Jamie that we see a strong connectivity across the new Jacobs portfolio. So I don't think anyone should take away anything around separating these businesses or splitting. And in fact the opposite of much more connectivity driving in the future to capitalize on the you know the complementary strengths.

Operator

Your next question comes from line of Tahira Afzal with KeyBanc. Your line is open.

<Q - Tahira Afzal>: Thank you very much. And first of all congratulations to yourselves and WorleyParsons obviously of ECR, while it's leaving your mixes has been an incredible business for yourselves.

<A>: Thank you, Tahira.

<Q - Tahira Afzal>: I guess first question just following up on Jamie's train of pot. You know when I look at the different avenues of where how you can grow, your know core business going forward, you know I do think of consulting higher value added technology AI being big drivers within your industry. Any thoughts around as you look strategically and how you view you sort of introducing more of a technology blend to your portfolio.

<**A**>: Right. Well first of all I appreciate your comments about the ECR business. It is the foundation of Jacobs and not only from a business standpoint but the values of safety and integrity and just the quality execution. And so it's – I have a lot of admiration for that team and I really think WorleyParsons has created something special with their combination. But as far as where we're going, I think you hit it right square and what we're going to be talking more about in February and won't get into any detail here but you probably saw that we announced a new Technology and Innovation Officer for the company. It is – so what is clearly what we're looking to drive when we think about our infrastructure and government servicesand advance facilities and the whole host of sectors that we're in between BIF and 810. So technology and innovation will be part of both our organic and potentially our inorganic strategy as we move forward.

<**Q**>: Got it, Jay. And as a follow-up question just curious you know the ectase element that you inherited. Do this stay with yourself or you know as it is kind of part of oil and gas, in the sense where do they end up?

<**A**>: Yeah. That stays within. It's a discontinued business. So obviously and Wills will continue to keep that at Jacobson work through that.

<**Q**>: Got it. Thank you very much, Steve.

<**A**>: Thank you.

Operator

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

<**Q - Steven Fisher**>: Thanks. Good morning. It seems like you guys have a pipeline of deals in the works already. To what extent was the balance sheet that you had over the last handful of month, a constraint in doing any of these deals or was it just really a matter of we needed to time to digest CH-2 and get that leverage down and move forward?

<**A**>: So I think the bottom line measures there, quite question is that this is a proactive move, not a reactive move of any sort. If we had a very healthy balance sheet, prior to this announcement currently and could that continue to make some investments if they present themselves. But we were approached and presented with a very compelling opportunity and took our time going through it and hope you're sort of share with us the point that this is a great move from a standpoint ofhope you sort of share with us the point that this is a great move from a standpoint of progressing our strategy and preparing ourselves for continued organic and potentially inorganic growth in our two higher margin higher growth businesses.

<**Q**>: Okay. And then, to what extent do you plan to more aggressively pursue global geographic diversification for the ATEN business and you'll be more reliant on the U.S. government here and the event that we do have to eventually go through a series of federal budget cuts at some point and are you planning to have intentionally a more diversified international government mix than you currently have?

<**A**>: We already do have an international government mix to some extent, I mean, clearly the largest by far is our U.S. but we're working on some very important programs with the UK government and our ATEN business Australia we also have some important activities. But with our aerospace technology nuclear footprint there, there is some activities going on where we see great geographic expansion, and then bringing the whole technology footprint into the commercial space globally is another great opportunity for ATEN. And that kind of goes back to my point earlier of connecting the capabilities of ATEN with the buildings, infrastructure, advanced facilities global footprint we have, there is a tremendous opportunity, and until someone referenced the announcement recently about the new two co-CEOs of Bob Pragada and Terry Hagen and the two of them have tremendous opportunities working together to leverage off each other and drive accelerated growth in the combined businesses.

Operator

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

<Q - Michael S. Dudas>: Good morning, gentlemen.

<A>: Good morning, Michael.

<Q - Michael S. Dudas>: First on the transaction,<Q>: Good morning, gentlemen.

<A>: Good morning, Mike.

<Q>: First on the transaction, Kevin maybe share a little bit what needs to be there I guess Worley market for rights offering this morning and the timing and approvals that are required, and the investment that you made certainly helping the financing, but how that you see relative to your liquidized monetization and the investment in Worley as this transaction closes?

<A>: Sure, Mike. So a little bit of details behind the transaction, there are no financing conditions associated with this transaction. They're going through the rights offering as we speak over the next few days, and an effective way that's expected to be finalized in momentarily, I would say, as it relates to their efforts, their high level of confidence that that's going to be executed successfully, had a lot of discussions with WorleyParsons team as it relates to that.

I think as we think about then the other piece, they will be looking to have some additional leverage, some debt that will also be supportive of providing the cash, cash to us. All of those again have been worked out on a preliminary basis with WorleyParsons and their financial partners, again, no conditions to the close.

And I think the final commentary is, we're excited about what WorleyParsons coming together with Jacobs creates, not only for WorleyParsons shareholders, but for our people and the combination of those two companies coming together. It's clear that that is a leader in that industry. And I think the positive for our people are certainly about the ability to become that leader singularly focused on driving that business, which I think is very important.So with our approximate 11% interest in the new company, again we're expecting that we're going to be able to participate in some of that upside. Of course we have a six month hold, not actually able to move on that until August 31st at the minimum depending upon when we close. So prior to that we certainly are excited about the ability to participate in the upside which we believe is real for the shareholders of that company.

<Q>: And I'm sure the culture is fit pretty well existing to – that's very important in these types of transactions.

<A>: Yes very complimentary.

<Q>: My follow up for Steve. As you look as Bob and Terry run their businesses and looking forward with now this new found or excess dry powder where do they see or where does you guys look relative to the opportunities the public market valuations some of them and some of the aerospace can pretty, pretty hefty. Our private market – private companies in both either E10 or BIF a bit more reasonable and I think that's going to be an issue relative to keep your core and discipline as people anticipate your excess liquidity here and ability to grow on an acquisitions. How you balance that relative to growing and getting the connectivity of these two large growing businesses they have remaining.

<A>: Yeah. Great question. So couple of comments. First of all I want to reemphasize we are very excited about our organic growth opportunities and feel like we have a good runway for growth associated with what we've been developing with our asset base and talent base. So we're not in any rush or under any pressure to just invest for the sake of investing, we'll be highly disciplined. As I mentioned this is proactive and part of being proactive is timing and be patient.

rush or under any pressure to just invest for the sake of investing, we'll be highly disciplined, as I mentioned, this is proactive and part of being proactive is timing and be patient. And so I think unless we feel like we are able to acquire assets at proper multiples that yield, the returns that we expect in this company and can demonstrate the quick returns that we've been able to do with our acquisitions recently over the last several years and that all has to fit. So we're not worried about where multiples are because we'll only execute a deal when we feel like we have the right multiple in hand.

Operator

Your next question comes from the line of Chad Dillard with Deutsche Bank. Your line is open.

<Q - Chad Dillard>: Hi. Good morning, everyone.

<A>: Good morning, Chad.

<Q - Chad Dillard>: So, how does this asset sale change the post-merger cost synergies? I'd be curious on ex-ECR as well as the timeframe? And then secondly, how is it change your net income to operating cash flow conversion profile?

<A>: Chad, I'm assuming you're referring to the CH2M profile of costs and so on and so forth, was that your question?

<Q - Chad Dillard>: Yeah, yeah, that's it exactly.

<A>: Look, we've been continuing to execute against our synergy creation and that was a plan that was disciplined in place and already being executed upon. I don't see there as being really any fundamental shift in that, we were aggressively going after those efforts prior to the announcement of this transaction and we will continue to be aggressively going after that post this transaction. So, I don't believe there's really much fundamental change as it relates to this particular announcement. So, I think that as we go forward

really much fundamental change as it relates to this particular announcement. So I think that as – as we go forward, you should be considering this is you know a separate effort that that then allows us to ultimately go after stranded costs from this announcement and we will continue to look at opportunities to continue to drive down our cost structure over time. That's – that's part of being competitive. That's part of adding value to longer-term and consequently we'll continue to be focused on that agenda. I think you had a second question about the cash conversion?

<Q>: Yeah, exactly. It is, yeah.

<A>: So just very – real very briefly. The working capital intensity of the ECR business is higher than the working capital intensity associated with the other businesses. And as you know – already know that the margin structure of the business is lower versus the remaining portfolio that we will have. Combination of those two things obviously affords us an ability to improve our – our conversion, our cash conversion metrics and while we haven't provided any additional detail on that, we'll – we'll be working through the transition from our company to theirs and be working towards finalizing what the implications are for that. But it's positive, that's for sure and I'll leave it at that point in time. I'll leave it at that at this point in time and then we'll continue to drive it going forward.

<Q>: That's helpful. And then just to go back to the plans for the proceeds beyond paying down the floating rate debt that. Maybe you can kind of you know rank order you know as you stand here today, you know what your priorities are between M&A, investing in organic growth, dividend increase, buyback, just to get a sense for how your thinking about the priorities?

<A>: Look let me make some comments Steve can jump in. Look, our priority always is about organic growth and I think you have to understand the discipline of our process where typically organic growth is the best value creator just because of the ability to make the investment and start to see the return profile immediately and so we like the organic growth opportunity, associated with our new portfolio. Steve has mentioned it a couple times in his comments already.

So look that's always a priority. I would say the second priority, however, is we do believe there's a pipeline of activities out there that allow us to be able to fundamentally continue our portfolio building capabilities in higher value added areas. I certainly think that that's a priority but I also think after you look at the end result over after those two things, that still is going to provide us some degrees of freedom on cash being returned back to shareholders which we highlighted in our slide. And I guess I won't necessarily resay what we already said, but but certainly with the profitability and the cash flow we have ample capabilities to build the portfolio both organically and inorganically. And I think there will be some, some cash left over ultimately that will afford us the ability to be consistently doing share buybacks and will also be exploring a dividend growth program. So I'll leave it there.

Operator

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

<Q - Andrew John Wittmann>: Great thanks. I guess, Kevin, on the stranded cost you guys talked about kind of how you're thinking by the end of the fiscal year, you will have that captured or dealt with. Can you just give us an order of magnitude or a thought about how much stranded costs are seen in this organization? Maybe one way ofLooking at that, maybe just to talk about what the corporate – what the corporate cost on an corporate segment could look like next year?

<A>: So to kind of describe what's happening in the transaction, there are certainly some corporate costs that are firmly embedded into the business and spending nearly 100% of their time focused on driving and supporting the business itself. Those corporate costs will certainly go with the transaction. That's an important part of the people that are driving the success of this organization and so WorleyParsons is excited about having those particular folks as part of the transaction. There is a remaining piece which is what is a corporate allocation that has you know some focused on ECR and some focused on the rest, it's approximately $20 million for purposes of your modelling, which is embedded into the ECR reported figures. And so, we're working to get that out. Now one caveat that I have to do is make is that we're in the process of negotiating the transition services agreement with WorleyParsons, so we'll have to work through that and what the costs of that are. And so, that will have an implication on stranded costs in the short term versus the long term and we just got to continue to work through that.

<Q>: Okay, that's helpful. Thank you for that. I guess just as you looked at this one of the things you talked about is kind of reshaping the risk profile to be the lower risk. I think that's evident, but maybe just for some help here clearly it looks like when you look at the head count, it's actually going to go with this business over to WorleyParsons. It's like 60/40 professional versus Kraft labor. What does it mean for what's left at Jacobs, could you talk about maybe the head count mix that you'll have

Left Jacobs. Could you talk about maybe the head count mix that will have pro forma for this year or maybe even the old fashioned revenue breakdown that you've given us between professional services and field services. How does that look on a pro forma basis.

<A>: So, for the total count, we'll probably be depending how we're growing but let's say just pro forma number on where we currently are little less than 50,000 that Jacobs will have. It's a rough number post transactions. So as you know we're up kind of 77,000, 78,000 and that will fall to a little bit less than 50,000 people and we're rounding it to 50 for purposes of how we're thinking about it. Clearly, our risk profile if you look at the two businesses right now 90% of the portfolio of VIF [ph] is either reimbursable work or fixed price design or consulting work which is low risk. So a very nice risk profile for that business and if you look at the A10 business under Terry's leadership that's roughly about 85% I would say in terms of reimbursable versus fixed price work. So if you look at the combination of those two you're approaching 90% in terms of the risk profile of our business and less risky kind of oriented business more consulting higher value added actually. So it really does improve our risk profile with the new portfolio once the transaction is closed.

<Q>: It's a much more heavier professional service versus field service.

<A>: Yes.

Operator

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

<Q - Jerry Revich>: Hi. Good morning, everyone.

<A>: Hi, Jerry.

<Q - Jerry Revich>: Kevin, can you talk about the gross margin outlook that you shared for 2019. What would the organic gross margin expansion be that's embedded in your guidance.

And also if I heard you right, I think that the EBITDA margin expansion was just significantly lower than the gross margin expansion that you have spoken about, if you can you just flush that out because with CH2M synergies I guess that to me it would suggest better operating leverage at the EBITDA line.

<A>: So, Jerry couple a couple of comments. First point is that the 100 basis points and greater than 150 basis points we discussed is a pro forma number half of current figures. So it's just when the transaction closes we will have that kind of pro forma number. So that's the first point.

We haven't given guidance specifically on gross margin. As you know our strategy is about fundamentally improving margins over time. So I think you can assume in the margin profile that we've provided to you relative to our guidance in 2019 that's expecting margin improvements but we haven't really disclosed how much but clearly it is positive.

So the final question about the greater than 25 basis point EBITDA margin talked about for the pro forma. So there's a couple of things going on. One is that our corporate costs, that margin doesn't assume that we have any additional reduction in unallocated corporate costs, that will be something we'll look at. And we'll have to do that as we work through what the transition services are being provided to them, how long it's going to be, what are the costs associated with that. But what we've assumed at this particular point in time is that our remaining corporate costs remain unchanged, okay, which kind of is lumped into that other category that we have reported on our financials.

And I think that if in fact we're able to make some progress there that will help support the lowering or the improving of the remaining excuse me improve the cost structure of the remaining corporate costs which will ultimately help a higher EBITDAAnd I think that if in fact we're able to make some progress there that will help support the lowering or the improving of the remaining – excuse me – improve the cost structure of the remaining corporate costs which will ultimately help higher EBITDA figure, but we got a lot of work to do to work through early [ph] Parsons on transition services agreement before we're willing to discuss that in more detail.

<Q>: Okay. Thank you. And then on the capital allocation discussion, you folks who've obviously been really disciplined from the capital deployment standpoint, if there's nothing in the market available by set data or you folks are thinking about buyback and that's an area, can you just flush it out, you spoke about a pipeline, but let's say in a bad case scenario where the valuations don't pan out for what you folks are willing to pay. Is there a set timeframe where you folks would look to reinvest and buyback even if you don't find any assets that makes sense for you?

<A>: We'll provide more detail on the Investor Day on that particular question. Obviously, we highlighted the fact that we think there's a pipeline out there. We think that that is probably the direction that we're going on relative to that and we'll have to obviously adjust if in fact some of that doesn't come to fruition. And maybe I'll leave it there and Jerry and let you know that would be giving you additional insights as it relates to when we talk on our Investor Day in February.

<Q>: Okay. Thank you. Congratulations.

Operator

Your final question comes from the line of Andrew Kaplowitz with Citigroup. Your line is open.

<Q>: Hey good morning guys.

<A>: Good morning.

<Q>: Steve or Kevin, so just being [ph] devil's advocate for a second one could argue that Jacobs hadn't established and or hasn't established [indiscernible] being known as the sustaining capital focused [ph] EMC company and now one could also argue that by selling EC&R you were left with obviously solid government

sustaining capital for [indiscernible] company and now one could also argue that by selling your the ENR you were left with obviously solid government services and infrastructure businesses, but you're also basically in the middle of the pack versus more established government services providers moving forward. So could you talk about your competitor manage and maybe how to think about Jacobs positioning versus these players moving forward?

<A - Steven J. Demetriou>: Yeah, I think what you just outlined is exactly what excites us about our strategy that the share growth potential and that's a – let's say move up the chain is going to be fit there for us and that – you know we've talked about before that we think that our operating model in ATEN sets us up for our continued share great gain. I think the organic wins that we've demonstrated over the last couple of years, which have built several billion dollars of backlog growth and bookings growth for that business is evidence that that that's playing out positively, and so, – so we're very confident. And then, you know from time to time finding additional acquisitions that help accelerate that, I think most recently, if you look at the small cyber security, smaller cyber security oriented acquisitions we made, we'll can at be in [indiscernible] over the last couple of years and putting that together with our already established IT capabilities. Those have been critical to some of the major wins. And so, we're – we're very confident on the cyber base, the IT enterprise you know intelligence asset management and the deep client application knowledge to be able to accelerate organically those businesses.

<A>: And Andy, I would reemphasize Steve's comment about the fact that we're building scale without acquisitions or substance really, and you the – that recent win shows the capability of the team to fundamentally reposition itself through the strategy, through the discipline process of finalizing that strategy and investing against it, I think we have a powerful combination of being able to not only organically grow and build scale, but also augment that with the external growth as well.

<Q>: That's helpful, guys. And then, Kevin you mentioned that while you're finalizing your FY 2018 results that your current view is materially consistent with current guidance, and I guess for FY 2019 our new guidance remains appropriate. Can you give us any more color on what you saw in Q4? I know it's early, you want to update us in a month. But with backlog sequentially up, will you able to resolve any of the issues that you had last quarter on the U.S. project and as your visibility continue to increase in general regarding the guidance for FY 2019?

<A>: No additional commentary. I'm pleased with where we are.

Operator

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

<Q - Andrew John Wittmann>: Oh great. Thanks a lot for taking my follow-up question. I just wanted to clarify the earlier comment here just to make sure that we're all on the same page, but it was regarded the I guess the consensus estimates and then kind of backing out the implied EBITDA contribution from ECR. Were you guys saying that that's what consensus is implying or were you endorsing that range that you suggested earlier as the contribution that you expect because that the trailing 12 months EBITDA contribution that was $286 million, so you're implying at the midpoint about 22% EBITDA growth in ECR if you guys are endorsing that? I just want to make sure I was – you're just pointing out what we already know from consensus or if you're endorsing that range.

<A>: We are taking the consensus of EBITDA that's out there and adjusting it down by what we think the remaining company is with no implied commentary on ECR.

<Q - Andrew John Wittmann>: Okay. Cool. And then, could you just clarify the I thinkthe remaining company is. With no implied commentary on ECR.

<Q>: Okay. And then could you just clarify the, I think it's like $26 million of adjustments that come between what would be kind of standard EBITDA and the adjustments. What are the adjustments that were in there?

<A>: Well, look it is effectively consistent with our discussions that we've had in the past and you know that there is corporate activities that are sometimes associated with the ECR and or other businesses and consequently for the numbers for 2018 those are corporate numbers that ultimately can be assumed to be associated with ECR. And that number is tends to be consistently around that figure. So it's a way to try and figure out from your guy's perspective, when this business gets carved out, what – what the total impact is to our company.

Operator

There are no further questions at this time. I would now like to turn the call back over to the presenters for closing remarks.

Unverified Participant

I want to thank you for taking time to learn more about our big news today making the emergence of a new Jacobs, a new generation company. Curious, sharp, innovative people combining diverse talents to capitalize on the big issues and opportunities. Our talent to make a positive, smart, sustainable difference in the world. So we appreciate the confidence you've placed in us during this time and we remain committed to returning great value over the long term. Thank you.

Operator

This concludes the Jacobs Portfolio Transformation Call. We thank you for your participation. You may now disconnect.