TRANSCRIPT
2014 ANALYST AND INVESTOR DAY

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3:15 PM ALEXANDRE L'HEUREUX, Chief Financial Officer
Financial Review

Alexandre L'Heureux: It works? Everybody can hear me? Good afternoon. Today, I just want to, just do a quick financial outlook. Not so much talking about numbers, but perhaps looking back at what we've done, where we are, what are the trends, what are we going to do to create additional value, I would say, shareholder value, if you will, and opening up for question.

Since our IPO, clearly, I think WSP is a true statement that we had strong revenue growth, consistent profitability over time. Clearly, there's been some fluctuations. But overall, I think we're steady. We are clearly focused on growth since day one. And this is a true statement to our model. But above all, the point I want to make today is that even though we place a lot of emphasis on earnings, what really speaks to us is cash.

Cash to us is, at least to me, is the essence of value creation, and that's what we've been trying to do; really to generate quality top line and convert it as fast as we can into cash. That's the essence of our business. That's the essence of our model. And you see on this slide behind me, (that's since 2010), we've made major, major improvement in generating that top line and converting it into cash.

Moreover, if you look at our balance sheet's strength, our management team is a management team that is conservative, a management team that is disciplined. Never wanted to trade-off the strength of my balance sheet at the expense of accretion, at the expense of short-term gain, at the expense of the future. And I think if we remain disciplined and if we remain true to this philosophy, I think the long-term outcomes of this business are good and (they would last).

I've talked about growth. I've talked about cash flow and the fact that, to us, this is the heart of our business. I just want to talk about the shareholder value creation. Growth will only be rewarded if growth is supported by shareholder value and will only be rewarded if supported by some strategy and executed by talented people. I think, again, the slide behind me is a true statement of how we can create value. Since the IPO, we created north of 500 percent of total shareholder return. And if you compare our annualized total return against three major stock indexes in North America, you'll find that the excess annualized return range from 17 percent to 19 percent.

So I do believe that our model works. And I just want to spend a second on our model. I just want to be very clear. We do not want to have any exposure at this point in time to construction risk. We really believe that the pure consultancy model, pure professional services business model is an ideal model for a public vehicle like ours. We, over time, demonstrated that it works. We have more and more precedent in the industry right now that, perhaps, the marriage of the construction culture and the consultancy of consulting culture may not work. Historically, people thought that by marrying these two culture together, we could really derive major synergies. Well, as I've said before, there are examples now in the market that maybe it's not working as well as we thought. So for us, at least for the foreseeable future, we have no plan to take on construction risk. This is certainly not in our DNA.

And the other thing that you can rest assure of is that we're only going to invest in things that we understand and things that we know. And I think that has been the secret of our success.

Today, our business portfolio is more diverse. Today, our business portfolio is more diversified. Today, our business portfolio is more resilient. Today, we can tackle bigger project. We can compete on bigger job. Today, we can follow plans wherever they are. Something that, in 2010, we were not able to do when we announced that we wanted to expand internationally.

Today, I have certainly the feeling that we have a much stronger business than we had in 2016 – 2006, I'm sorry, when we IPO. And I certainly believe that we have stronger business today than we had last year. But let me just walk you through why.

If we look at the Americas for a minute, I'm not going to go into too much detail. Today, you've heard from David Ackert, you've heard from David Cooper, spent a bit of time in Colombia. But the fundamental trends are up. Clearly, in Canada, David mentioned it today, 2014 will still be a challenging year. We hope and I don't have a crystal ball that 2015 will be better. But clearly with a focus acquisition, there's no doubt that an absolute turn, the outlook for Canada is up compared to last year.

In the U.S., same thing. David mentioned it this morning, organic growth, strong backlog, things steady, EBITDA margin, although, we do have additional EBITDA margin initiative in the mix. So quite comfortable with the way the U.S. business is gaining right now.

Colombia, great success story. I don't know if Howie is in the room today and you have the chance to meet with them. Howie is taking care of our South American operation. Great business, as I said. Great success story, strong backlog, strong revenue growth, solid EBITDA margin and the process of investing in the business so that we can bring the firm to the next level in South America.

So we're all in the Americas, which at the moment, represent probably 60 percent of our total profit is in good shape. Again, wish to qualify that and we mentioned it this morning by saying that, yes, Eastern Canada remained challenging, but I think the long-term outlook of the Americas is good.

EMEA. Again, Mark Naysmith this morning talked about the U.K. I've asked Mark yesterday, what are the chances of a triple-dip recession in the U.K.? How do you feel about it? I think people are cautious and optimistic in the U.K. People are feeling good about the prospect, proposal activity. Net revenues are up. Backlog is up, EBITDA margin, there are some EBITDA margin initiatives right now taking place in the U.K., strong program that was launched at the back of Q4. And I feel good about this country.

Sweden. We heard about Sweden this morning. Good backlog. Procurements, procurement process is changing, but I feel we'll be ready for it. Stable EBITDA margin, very, very resilient region. So feel good about Sweden.

Finland. Structurally, a difficult economy in the moment; very dependent on Germany, very dependent on Russia. But overall, we have a very strong operation over there, very strong management team. I have a lot of faith in the team and they're doing well. So stable environment. Do I expect a lot of growth in Finland? Probably not, but they're doing well.

Norway. We don't have, per se, an operation in Norway, but we do investment in two businesses over there. Business is doing well, up from last year. So, again, I think in the Nordics, we are in relatively good shape.

Continuing into Europe, Germany has been a very challenging environment for us. I mention it time and time again when I have the chance to meet with all of you. Not so much because of the economy, but more because of a lack of leadership in the organization. And changing a culture, changing leadership takes time. I think 2014 will be a better year than 2013, but still will be challenging.

Moving on to France. The acquisition that we completed. Net revenues up for the year. Stable margin environment. Feeling good about it.

The Emirates. Tom was there this morning to talk to you about the growth, growth path of this business. Always feeling very strongly that we're on the right track. Solid business. But always have to be mindful about cash. I mentioned it at the beginning of my presentation. As far as I'm concerned, cash is the essence of shareholder value and creation of value, and this is a great location. But we have to be mindful of cash.

South Africa. Difficult environment, still difficult environment and I expect that this year will also be difficult. Smaller operation in nature. Matthew is with us today. I'm sure you've have the chance to speak with him over lunch. We have to do better and we are working hard to do better, improving margins, getting the job done. So fundamental trends at this point for 2014 will still be an OK year. We're working hard to have a good start next year.

Finally, Asia-Pac. China. Didn't get the chance to hear from China today by one of our M.D. today, but China is doing well. Strong organic growth, strong double-digit growth. We've been growing from 100 people to 700 people over the course of the last six, seven years, doing iconic project, major project in the property sector. Net revenues are up, stable EBITDA margin. So we're good.

Australia, last year a bit like Canada. You all know that Australia has the same DNA, very similar DNA to Canada, commodity-based country. It was a very challenging year for Australia. Today, I think we're doing better, just announced a smaller acquisition. Good momentum. But so long as the mining resource sector remained slow or depressed, it will also be a bit difficult for Australia despite all the announcement in the infrastructure sector. However, again, I think the fundamental trends in this country are good.

So as you can see, we're no longer dependent on one country. We're no longer dependent on one region. We are now getting the benefit of diversification. That's something that you should all be aware of. Now we can really benefit from clients that are traveling. We can really work and leverage our expertise wherever they are, and that's how we create value.

I was asked today at lunch, at which point should we stop growing? First of all, I don't think that's a question we should ask right now. I do believe that this industry is consolidating and we should and try to really complement our platform with targets that wish to join us, but also to grow, complement this platform with expertise that we don't have today. And the reason is very simple. Oftentimes, we don't have the expertise where the needs are. And the concept of Centers of Excellence that you may have heard from time to time either from us, from our peer group, is really true. It's impossible to have all the expertise in one office to be in a position to service all the needs in the local market. And that's why I believe that growth at this point is a good thing, and that's not only growth is really creating shareholder value but is also creating value for employees and also creating value for our clients.

So how are we going to be creating value going forward, completely? That's quite simple. To me, this is the dashboard for value creation. And behind me, you'll see in the title, the word responsibility. As far as I'm concerned, capital allocation is one, if not the most important, responsibility of the corporate group. You can delegate a task, but you cannot delegate responsibility. And this is how you create value. Capital allocation is at the heart of creating value. If you take two firms with identical results, with different capital allocation approaches, I can assure you that you have very long-term outcome that will be very different from one firm and the other. That's why you cannot delegate capital allocation responsibility. And that's why investing in the business or deploying capital towards an acquisition really has to be – will be discussed as a group, and really that's the role that Pierre's playing, with the role that Paul and myself will be playing together. But this is, to me, how we can create value.

Our linking, and I mentioned cash a lot today, by linking our strategic priorities to cash, we will increase our return by recognizing that different growth generate different return, we will be creating value. And just one small observation, we at WSP as a group are competing against our competitor. But our regions are competing against each other for capital, and that's an important point. It is important that operationally, we drive the business. It is important that we increase margin and it's important that we demonstrate the ability to drive a good business. There is the world in front of us, and there's a limited amount of capital to be deployed. We do have to allocate the capital where we can return the best return for investors.

Just a word on capital structure and dividend policy. I mentioned that we are disciplined-management team. I mentioned that we are conservative team. Right now, we have a very solid balance sheet position. Having said that, I also made a statement that we have a more resilient business to date than we had a year ago. We have a more resilient business than 2010, and I think it would be wise and smart to take advantage of this.

I mentioned it at our last AGM. We talked about it over a number of conference call with analysts to increase our capital structure between 1.5x to 2x, is a place I would be comfortable to act on. We also should look at our capital structure and see how we can improve it. Let's remind ourselves that two, three years ago, we were an income trust fund. We're heavily relying on distributing all our cash to our income trust holder. Now that we have migrated towards a corporate structure, there are many untapped territory for us in terms of capital structure. And certainly, I would like to explore that over the course of the next year and see how we can, again, optimize a structure and create value.

One of the biggest irony about this company is that we always had a growth profile, but our business has been supported by a value-oriented story. We have a strong yield. Perhaps, the highest in our industry. Having said that, it never altered our capacity or capability to grow. And that's quite unusual. And that's probably why we were able to create shareholder value. We have been able to pay a healthy dividend. We have been able to grow. And the reason is very simple, because of cash. We're working extremely hard to run a tight ship and we have been – we've made amazing progress in really reducing our DSO and having a very strong balance sheet.

We like the dividend. It keeps us discipline. With a dividend every quarter, we have to collect. It keeps our operation on their toes, because we know that quarter end, we have a major dividend to pay to our investors. So for all those reasons, we will keep the dividend. Our dividend policy will remain intact for the time being. We paid historically an EBITDA course of the last two, three years since we migrated to a corporation, a corporate structure, $1.50. And for the foreseeing future, that's what we'll be paying, $1.50 to our investors. And only then – and only when, I'm sorry, I will get to a comfortable place in terms of our payouts. Let's say 50 percent of our EPS, only then, perhaps, we will be able to discuss about an increase. But for the time being, though, I mean we will keep our yield – not our yield but our dividend payment. And I think that investors should be happy with it. It is our preference to really reward our investors with other means than only stock appreciation. And I think dividend, obviously, is a good thing, a good place to start.

Key takeaways. Again, behind me, you see our financial priorities for 2014. We are clear. I just want to make one statement and Paul talked about the operation today. We're not a serial acquirer, we acquire businesses and we believe in acquisition growth because it adds value. But we're also very concerned in running a very strong business. And I think over the last six, seven years, we have demonstrated that. So I really believe that if we focus on operation first, generate organic growth, target good acquisitions that will complement our platform with expertise and we'll remain agile, entrepreneurial and opportunistic, I have every confidence that we will be able to add shareholder value for years to come.

So I would like to thank you and believe it was my last slide, and would like to open it up for question, if there are any.

Sara O'Brien: Sara O'Brien, RBC Capital Markets. Alex, you talked about optimizing the capital structure to between 1.5x and 2x EBITDA. Is that a level you're comfortable getting to for an acquisition? Or do you expect to maintain that type of level capital structure going forward?

Alexandre L'Heureux: I would like to increase it to 2x with an acquisition. With time, clearly, I would like to bring it down again with the objective again to go up as the economic environment is suitable for that. There's no quick-cut approach to it. I always say that the judgment should be supported by rule and not the other way around. At this time, I feel comfortable in the environment were in, with the business that we have to increase it. And we'll see the future.

But I wouldn't want to go too high or to get to a place where I'm incapable of reducing it, because it's just the beginning of a journey for us. It's not the end of the journey, and there are so many opportunity right now in the business and the industry that I think we should be wise and be conservative. But at the same time, if we can create or do more accretive deals, I think we should take advantage of it.

Sara O'Brien: Thanks. And also, return on invested capital. Just wondered if you have any returns in mind as objectives over the next few years?

Alexandre L'Heureux: Well, rule of thumb, if you look at the S&P 500 over the last 20 years and the industrial sector, return on invested capital range was between 12 percent, 13 percent, 14 percent. So clearly, it's a good place to be. Clearly, we'd like to beat that. But again, Sara, there's always a trade-off between absolute short-term return on invested capital and long-term investment. Investment that you make today will pay off later than may impact, in the short run, your ROIC. But you need to believe that you're on the growth path.

So I never look at ROIC in absolute term, I look at it – it's more trend. And take the WSP acquisition, that's a fact. If you look at what our ROIC was in 2012 and you look at today, you'll see that we're going like that.

So at the time of the acquisition, I really truly impacted my return on invested capital. But in the longer term, you can see that we're in the growth path again for the improvement. So, again, it's always just find your right balance between the two.

(Benoit Poirer): OK, (Benoit Poirer) from Desjardins. Looking at some of your peers, they've been successful with concession over time. So given you have a very good balance sheet, so I'm just wondering what's your view about the overall concession model, whether you would be interested to go in that segment over time?

Alexandre L'Heureux: I mentioned that we would be investing in things that we know and investing in things that we master. I think we should remain true to this. I'm not suggesting that the alternative better view or the concession is not an interesting place to be. But for the foreseeing future, I think we should stick to what we do best, and so far, it's been paying out for us.

(Benoit Poirer): Thank you.

Adel Kanso: Adel Kanso, BMO Capital Markets. My first question is what is the minimum amount of cash do you think you need to have to operate the business? And second, are you considering to still utilize the current facility for acquisitions moving forward? Or would you potentially consider pursuing debt capital markets for like public issuance of debt, given likes rates are still at low levels?

Alexandre L'Heureux: Let's start with the last question, while I mentioned I'd like to explore different options, clearly, it's up for grab. We'll see how it goes. But clearly, there is, right now, it's a very good environment for someone who would like to take advantage of it. So I think we'll look into it. And the context of an acquisition, (maybe not actually), I'd like to take advantage of it. And in terms of working capital, I want to get into the details of it. I think it's quite easy to calculate.

Clearly, all else being equal and relatively speaking, we need less cash today than we need it a few years ago. In relative terms, obviously, business is much bigger. But that's what I'm really trying to do is really to convert to (start buying) quality cash. And the sooner we do this, the better it is for the business.

Adel Kanso: Thanks.

Male: Just following on that question. If you're going to tap for the long-term debt markets, what kind of a credit rating would you target? And will that impose any restriction to your ability to leverage up, to pay out dividend? I mean does that curtail you in any way shape your performance in terms of what your growth (is)?

Alexandre L'Heureux: We'd like to get the best rating possible. But I mean it's a good question. And clearly, we'd like to get the best rating. I'm always mindful of covenants. A long-term debt, price of debt is a good thing, but they also can be an impediment to growth. When you have to get a number of people around the table and make an acquisition and get consent, it can be difficult. So again, it's all about striking the right balance between getting the right capital structure for your business. But at the same time, making sure you have the necessary flexibility to grow.

Male: All right. Thanks.

Alexandre L'Heureux: Don't like the answer, huh? I think there's another one.

Male: Yes, we are getting closer about 2015 and obviously close to the objective that you announced a few years ago. So I'm just wondering, as we get closer, what we should be thinking about the next path going forward. And how would you compare plan post-2015 versus what you've announced between 2013 and 2014?

Alexandre L'Heureux: Can you wait five to 10 minutes? There's someone who will be giving you this answer.

Male: OK, perfect.

Alexandre L'Heureux: Well, thank you very much.