TRANSCRIPT
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11:15 AM — TOM BOWER, Managing Director, Middle East

Middle Eastern Operations

Tom Bower: Good morning, everybody. My name is Tom Bower. I've been with WSP for 15 years. I originate out of the U.K. And for the last four years, I've been the Managing Director for WSP in the Middle East. And since the beginning of this year, I've also taken over our India business, which you've heard from some of my colleagues about. And I'm just going to quickly cover India before I start the presentation, as I don't cover it in the presentation.

Our India business is set up as an off-shoring business. It supports the wider group with low-cost design and consultancy support, and is a key part of our strategy going forward. You would have seen the acronym, CRC. That stands for Complementary, not free, but support, Complementary Resource Center.

OK. So in the Middle East, the business is around 560 people at the moment, with all the 200 that are in India, 60 supporting the Middle East business. We have four offices -- three in the UAE, which is our main center, and one in Qatar. Now I'm imagining that for many people, what's on the screen at the moment is not necessarily well known, as the Middle East is quite a long way from here. The Middle East, in terms of WSP, is really focused on the GCC countries, which are the Gulf Cooperation Countries. And I will cover their contribution to our business in a minute.

So in terms of our diversification, it's a very well-balanced business at the moment. So there were four segments that I talked about at WSP. Our strongest is the Property segment. And generally, I'd say that WSP is one of the strongest, if not the strongest, property consultant in the UAE, with a growing reputation in Qatar. We have a strong infrastructure business as well, so 45 percent in the property and 40 percent in infrastructure. That's a growing business, and I'll talk about that.

We have a strong environmental practice. We're about 50 professionals, which it makes our Environmental business one of the largest in the region. And those segments that we work in cross sect a number of different sectors, which is shown in the pie chart below, and that's very evenly based across all the sectors that we could work in. From a property perspective, our primary ones are retail, residential, and hospitality.

OK. In terms of our clients, we have at the moment around 250 clients that we're working for in the region. But since 2010, we've had a very targeted key account management program, and that key account management program concerns about 12 clients in the Middle East. And on top of that, we also have a global account management program, which Tom Smith has been leading. And the result of that focus is that 80 percent of our revenue comes from only 20 clients, which enables us to focus on those 20 clients very well and make sure that the relationships that we have with them helped not only our profitability, but also our management of our working capital.

Our split between public and private is very even. And generally, the market is a fixed-fee market. So the time charge element is fairly limited, quite similar to the U.S. and how David explained it. I think the thing to note about fixed-fee market is everything is about productivity when you're working in a fixed-fee market. It's all about how quickly can you do the projects. So we're very focused on our effectiveness and our efficiency and our productivity.

The story over the last three years and the start of 2014 is a very positive story. So we've seen growth since the start of the decade. I think it's probably worth mentioning that at the end of the last decade, so in 2008, 2009, the Middle East was very much hit by a global recession. So we were starting from a fairly low base. But that growth that you see there is not only a combination of the market growing, it's also WSP taking market share as well.

In respect to our profitability, that's also a growing story. It's quite important in the Middle East that our revenue recognition is done in a fairly conservative manner because we need to manage the risks that we have on our contracts. We, in 2013, had about 8.4 percent, and our focus and target is in line with the group's expectations of around 11 percent to 11.5 percent, and we believe we can achieve those fairly shortly.

So I mentioned about the DSO. Back in 2011, we had DSO of 244 days, not a great picture for the firm. But we've been, again, very focused on that over the last three years. So we're down to a rolling average of 120, but actually an actual figure at the end of May of 105. And our focus is to get that down to be in line with the overall global target as well.

And then if we look at the backlog, that's going the same way as the revenue has gone. So as I said, the business has taken not only market share, but has benefited off the back of good market performance in the UAE and Qatar. And at the moment, we stand at record highs for our backlog.

So earlier on, I just talked about what the market in the Middle East is for WSP. So it's a combination of the countries that formed the Gulf Cooperation Counsel. So that is shown in the screen. The biggest of those is Saudi Arabia. And then Qatar and the UAE are the next two largest.

In 2013, which is shown, that's a combined construction value of about CAD 300 billion, so it's a huge market from a construction point of view. And whilst that only appears on the map as a very small location, the focus in terms of construction, which is both from a property, infrastructure and industrial point of view is very high. The ambitions of the countries that are shown there are very high. And they are taking the opportunity of their economies, which are generally built on oil and gas, to invest that money in developing their cities and their infrastructure so that they are ready for the future.

Just going to quickly focus a little bit more on the UAE. So at the moment, it's a growing construction sector in the UAE. It's expected in 2016 to be worth around USD 50 billion, just over the $50 billion cap. So it's a very large market for such a small location. In 2013, the breakdown of that is about $40 million, $45 million in 2013. The majority is in, is what here is reported as the commercial sector. And for WSP, that is really about our property business. And that covers hospitality, so hotels, stadiums and the like. It covers retail. WSP in the Middle East, definitely one of the biggest retail consultants, and for anyone who has been to Dubai, you have seen the size of the retail developments that they have. The other sectors there -- Transport, an area that we're getting into; and then Energy and Resources, that's something that our Environmental business is focused on.

We're just going to cover two of the market segments that I've have discussed. So the first of those is the Property segment. The circles that are shown there contain some of our major competitors. And those circles show the size of our competitors. So in the Property – and that's the size across all of the services they do, so that's size in the Middle East. So from a property point of view, whilst we are, overall, one of the smaller businesses compared to our competitors in the Middle East, in terms of our market share and our market perception, we believe we are (upwardly) top. So that's an area of continued focus, and it's built on our reputation of delivering a very high-quality multidisciplinary service.

The other segment that I talked about, which is a growing segment for WSP in the Middle East is Infrastructure, where a number of our competitors are a lot larger than us and do currently have more market share and maybe a higher perception in the market. But WSP, this is an area where we're growing. And at the end of the presentation, I'm going to talk about a couple of projects that we've recently won, and one of those is very much in this segment.

So our top three areas for growth, while the first of them is just continued focus on organic growth. To date – year-to-date in 2014, we've grown by 20 percent. In 2013, we grew by 40 percent. And in 2012, we grew by about 20 percent. So we've had year-on-year organic growth, and that's across all of the different things that we do. So we're very focused on the Infrastructure segment, and that's going to be utilizing the skills that you've heard about elsewhere in the group. For example, from a rail point of view, there's a huge amount of investment in rail in the Middle East. And our skills based in Sweden and the U.K. are skills that we can leverage into the Middle East market, and we're very focused on that.

The other thing to note about the Middle East market is that it's a meeting point of professionals within our industry from across the world. So it's a great opportunity to leverage the skills that we have across the group, and it's very pleasing to hear from both David and Mark about the activity that they're engaged on in the Middle East market which we assist them with as well. So it's very much coordinating our services across the group and making sure they're focused on the Middle East.

You might wonder why an International business like WSP would have a focus on the Middle East. One of the reasons is those ambitions that the country has is about buying world-class expertise, and they are most certainly willing to pay for that expertise. So there is a great opportunity for us to do that.

There are two very major events coming up in the region. The first of those is Dubai Expo. So, you might be aware that Dubai pitched for the Expo 2020 last year and we're awarded in November. The current expectation on additional construction, which was over and above what I showed you earlier on, is around CAD 100 billion to be getting Dubai into a position where they can deliver a world-class expo. And the focus of that expo, which is about connecting people, one of the themes; and another theme is sustainability, fit very well with WSP as an organization.

The second one, which is clearly happening at the moment in Brazil and is planned to happen in two World Cup's time in Qatar, is the Qatar 2022 World Cup. Qatar (are) very busy at the moment, focusing a lot of effort in developing that country to be ready for this event. But what they're doing at the moment is not just focused on this. They also have a 2030 vision as a country. And so the development that we're seeing is about developing for that 2030 vision as well as the World Cup on the way through.

So you saw our margins earlier on. There's a lot of focus in the business on margin improvement and I talked about the use of the low cost off-shoring delivering mechanism. So we're very focused on doing that. With the large amount of fixed-fee work that we undertake, we need to be very focused on productivity and our utilization. And maybe I'll get a question about utilizations. But before I do, I'll just say that our utilization on available time is running at about 105 percent to 110 percent at the moment because of how busy we are so we're very utilized on projects.

We're also very focused on our indirect cost base on the way we do our work. We're looking at how we use our properties to the highest effects so that we can reduce our cost base. The picture you can see here – so I haven't explained any of the pictures that you might have seen, but I am going to explain this one because it does look slightly strange. That is a picture from the top of the Burj Khalifa, which is the tallest building in the world, which is based in Dubai. So, it's 828 meters high. And what you can see there is a platform that WSP designed. It's only three meters long and about one meter high, so it's very small. But WSP designed this for two Spoken in French guys to do a base jump off the building. You can see it on YouTube, if you're interested to have a look, it is quite interesting. And that would set the world record for the highest base jump in the world.

The platform also sets the record for the highest constructed thing the world. Whilst we didn't construct the actual building, we did do the thing on top, which extend there by about two or three meters. So we're very proud of that. It has actually now gone, so it was only a temporary structure.

So I just talked about the two projects that we've won recently. The first of those is in Qatar, and this is part of their 2030 vision development focused on infrastructure. So we've won 2 very large expressway designs, so that's designing the roads and all the utilities and environmental services and everything that goes around those. So our total design piece of those 2 projects, CAD 15 million.

And the final project and Dubai likes to do things in a big way, this is called Blue Waters Island, it's a new island off Dubai that they're just constructing at the moment. The Ferris wheel that you can just see on the left hand side is going to be another world record. I can't actually say how big it's going to be, though we are involved in the design of that. It is going to be over 200 meters high. And that development, which is going to be a mix of retail, leisure, residential, hospitality, has a total built-up area of over 500,000 meters squared, which is a huge development. And as you can see, our design fees alone are in the order of CAD 40 million.

So hopefully, that just left you with a message about how positive our business is in the Middle East and how well positioned WSP are to grow into it. So anybody has any questions?

OK. I (inaudible).

Male: Yes, I was interested to hear you talking a bit more about the revenue recognition conservativeness that you have and what it means for margins at some point. You know, is it that we will have a lumpy profile for margins and you get profits recognized at the end of the contract? Or how should we read that?

Tom Bower: I think we should just read it. But because the way the industry works in the Middle East is more challenging than some of the other markets that we work in, we have to make sure that the revenue we do recognize is recoverable, which means that we like to be on the slightly more prudent side of that equation than the more aggressive side of that equation and that's the policy that we take.

In general, that should mean it's still fairly flat and fairly even. And we've been working on that for the last – you saw our DSOs coming down for the last four years and the revenue going up. We've been working on that the last four years, so it's a constant process which should result in a fairly smooth profitability as well.

Male: I have two separate questions here in the back. With respect to the employees, what's the mix between expats and locals? And is that, in any way, a competitive advantage or disadvantage versus any indigenous firms that the countries may want to promote? (But) …

Tom Bower : OK, sorry. So I'll just answer the first one quickly.

Male: Go ahead.

Tom Bower : So first question is we have about 99.7 percent expat employees and a 0.03 percent indigenous. So in the UAE, we have a requirement to employ one Emerati for each license that we trade under. And we trade under three licenses, so we have three Emeratis. The Emeratis in the UAE don't particularly work in private industry. They will work in public, in the public sector. They are a fairly wealthy country.

Male: Perhaps even more comical, how do you assess the risk that Qatar will actually keep the World Cup? There are some allegations and so on and it may not be feasible ultimately to have it in the summer. Do you have any risk mitigation with respect to any potential there?

Tom Bower: Yes. I think as I said, the development in Qatar, and particularly the development that WSP are engaged on, is more focused on their 2030 vision than just delivering the World Cup for 2022. Qatar have already got secured, a number of other global sporting events but they tend to be sporting events which look East rather than West, so not ones that we would necessarily hear of. For example, they are holding the Handball World Cup, a very interesting World Cup as you can imagine. But they are helping that Handball World Cup in 2015, and they're focused very much on becoming one of the sporting event-focused countries in the Middle East. They're all going to be going for – they went for the Olympic Games 2024, I believe, and they will continue to go for future Olympic Games as well.

So I think for them and the enormous amount of money that they do sit on, whilst if things happen on the World Cup, it will be a hiccup. It will not change their focus as a country to recognize that whilst they're sitting on the gas, 10 percent of the world's gas reserves, or it was before shale gas, they don't want to just squander that money. They want to invest that money in the development of their country. Any other questions?

Female: On slide 63, you don't have to go back, it's a slide with that EBITDA in the margin …

Tom Bower: Yes.

Female: … so it's going from 4 percent to 8 percent plus. Is that variance recession-related or is it better project job management?

Tom Bower: So I think it's a mixture of both. Some of it is recession-related. We did have a number of contracts that we needed to complete after the recession. And one of our focuses is making sure we do complete those contracts so that clients will come back to us and we build our reputation. And quite a lot of it is a renewed focus on the way we manage our projects to make sure it's effective and efficient, so it's a combination.

Female: So (it should follow the trend) (inaudible). Secondly, you stated the construction boom and the growth in the Middle East. I'm just wondering, is that equally spread across your four areas? Or are you seeing that more in one because Abu Dhabi was bailing out Dubai. Is that now done with or is that an even playing field or what's going on?

Tom Bower: So I guess there are two questions there. The current investment is pretty broadly spread amongst the segments we're in. So a lot of the investment in property that you might have quickly seen for the Expo 2020, the amount of hotels that Dubai, they need to double their hotel numbers that they have now, and they do have a lot of hotels today. So there's a lot of property investment. There's also a lot of infrastructure investment as well.

So the GCC are currently developing their rail network. They plan to have a complete high-speed rail network across the whole of the GCC, as well as both Abu Dhabi and Dubai continuing to – or Abu Dhabi developing a metro network and Dubai extending the metro network that they currently have. So I think it's a combination of both.

In respect to Abu Dhabi bailing out Dubai, that is an ongoing situation that Dubai has. I think they have fairly good terms on the bailout that they've received, and it's something that Abu Dhabi would continue to support Dubai on. Whilst the Expo for 2020 is called the Dubai Expo, it's also the UAE Expo. And for the UAE as a nation, it's very important that it's seen as a UAE thing rather than just Dubai. OK.

(Benoit Poirer): (Benoit Poirer) from Desjardins. Just in terms of employees, you have about 10 percent of your work force from a low-cost sourcing from India. I was just wondering if you have a target in the future. Where would you like to bring that number? And what is the impact overall on margins?

Tom Bower: OK. So overall, it's 10 percent but that's not quite comparing like-for-like because of the 5.60 we have in the Middle East, a number of those are doing things that you couldn't do in India. But if you compare like-for-like, so the services that we do in the Middle East that could also be done India, we're targeting around 35 percent of our work to be done out of India. And broadly speaking, India can be – the work in India can be done for around half the cost of perhaps doing it in the Middle East. I mean it's a complex situation and calculation.

Sometimes, we use India to make ourselves more competitive and therefore, the client doesn't pay what they'd expect to pay for resources in the Middle East. Sometimes we use India where we have agreed a fee which is relating to doing it in the Middle East. So it's a bit of a mixture, but it has very good opportunities.

(Benoit Poirer): OK. And is the strategy with low-cost sourcing in India can be also applied in other regions like the U.K. and Sweden or …

Tom Bower: Yes. So I think you heard from Magnus that Sweden at the moment are focused on building the amount of work that is done in a (low cost center). Some of that would be India and some would be in Romania. You also heard from Mark that for the U.K., it's a major part of their strategy going forward. So, they currently have 120 people in India focused on the U.K., and I think that's strategically set to increase. You heard from David in respect to the U.S., Canada, it's an ongoing discussion, and I think it's something that we'll see more of. And David who has recently joined and talking later on, we've had discussions over the last couple of days about this.

It's a great opportunity for the group to utilize not only a place where the costs are lower but actually the skills are also very good. Very high-quality engineering coming out of India. India is a huge country as we all know and I think there are number of qualified engineers coming out of university (a year) are in the sort of 0.5 million to 1 million number. It's a huge market for them.

(Benoit Poirer): OK. And just maybe last question on the utilization rate. You mentioned that you're at 105, 110, so it seems extremely busy. And you said that it's one of the key drivers that will allow you to improve margins. I'm just wondering what is the number that you're looking at down the road?

Tom Bower: For utilization?

(Benoit Poirer): Yes.

Tom Bower: We're not maintaining them at that level. So we're such a growing business, we're very focused on recruitment and we will continue to recruit into the business, recruiting to India to deliver the work. But we would always try and run at a high utilization. It's a very project-focused market, and a very high level of our people are focused on delivering projects. And it's not the utilization, I have to say, we drive. It's the utilization that's driven by our clients and the projects that we are winning.

(Benoit Poirer): OK, thanks.

Tom Bower: OK.

Adel Kanso: Adel Kanso, BMO Capital Markets. With respect to growth, you mentioned $300 billion of future investment in that region. Is the goal mostly to grow organically or are you also looking for acquisition opportunities? And you mentioned you have the reputation for high-quality, which is, as you can see, the way they do things over there, it's priority in the region, so I'm sure there is an edge. So is there like any acquisition thing that's ...

Tom Bower: The majority of the growth will be supported organically because we can grow organically quite rapidly. We're looking to, as I say, develop market share from our competitors using a reputation of being one of the best businesses in the region and a great business work for, and that is working. I think from an acquisitional point of view, there will be opportunities in some small niche areas, some of the specialty services that we do where there are firms in the region that could be potential acquisitions. Domestic, as in to where they're based is, they'd be based the Middle East; generally ran by Western international people but based just in the Middle East, yes.

Male: Yes, where were the margins back in the cyclical peaks of 2006, 2007?

Tom Bower: That's a good question. So I moved to the Middle East in 2010 so I don't necessarily have a lot of visibility as to what they were back in 2006, 2007. I think they would be up around the 11 percent, 12 percent, 13 percent type area.

Chris Murray: Chris Murray, AltaCorp Capital. Just looking at your comments that you're looking for margins to move to that 11 percent to 11.5 percent range, can you give us some idea of the pacing of how you expect that? And really, what are the key drivers to go into that? Is it going to be more content out of India? Is it going to be backlog turnover? Just give us some idea of some of the key milestones we should be looking for as you start transition there?

Tom Bower: Yes, I think some of that is about our growth. So we are leveraging the overhead that we currently have by having a larger business and that will contribute there. As we increase the use of India and our off-shoring center, that will contribute. And also, our focus on the way we deliver projects, so the project management side, what we call design management side will also contribute. I would expect to see those figures moving towards the group target during 2014, 2015 time. Any other? No? OK, thank you.