TRANSCRIPT
2014 ANALYST AND INVESTOR DAY

JUNE 19, 2014, MONTREAL

10:45AM **DAVID COOPER, Managing Director, US**
US Operations

David Cooper: Good morning. So the last time I stood here was, I guess, the fall of 2012. And I talked about our ambitious agenda for the U.S. of integrating four independent businesses into a common platform on which to grow the region. So over the course of 2013, we not only implemented that plan, we developed a strategic plan for the future, delivered organic growth, margin increase and had, overall, a fabulous year. And so, I'll tell you about where we are and what we're doing and how we break down in the marketplace.

So, we have now about 1,100 people, it's up about 10 percent from where we were a year ago. We're focused on three sectors in the market -- Buildings, Transportation and Environmental. Our Buildings practice is a premier practice nationally. Our Transportation practice is a relatively small practice for the scale of the transportation market in the U.S. and focused in the Northeast, from North Carolina up to New Hampshire, but primarily in the New York tri-state area. Now, Environmental practice is also small from a market scale perspective but very specialized and high-performing, and it has a national footprint as well.

In Buildings, most of our work is private sector phasing. We do public sector – we do a bit of public sector work as well. And some of that is delivered to the private sector, design build and other methods. We're very diversified in our practice. We work in a lot of more sectors, the biggest sectors being commercial and high-rise residential, which are the strongest sectors in the U.S. coming out of the recession. But we also are well diversified and very nimble and agile and be able to move to where the market sectors are growing, in particular, locations, whether it be academic, science and technology, aviation. And with that, we've chosen a couple of sectors to really focus on to drive our organic growth going forward, to leverage both our expertise, the marketplace and the global capability. And those are aviation, science and technology, sports and entertainment, and healthcare.

Aviation is a particularly strong sector in the U.S., and the global capabilities are outstanding. We're presently working on supporting the U.K. and the Middle East on a project in Doha, the Doha Airport expansion, where we're doing all the terminal systems work from New York and San Francisco. We're actively pursuing the Mexico City airport in an international design competition. And we're also pursuing the LaGuardia Airport on one of the P3 – it's a P3 project, and we have one of those teams pursuing that. So our aviation is a very important sector for us. And some of that, we've identified a national market sector leader for in targeting that sector. We have the same approach for our science and technology and sports and entertainment, where we're now looking at that as a national market sector and a global market sector to help drive our Buildings practice.

Most of our work is fixed fee. Even what we said, 20 percent of our work is time and material work. Most of that is on variations to base contracts. So the vast majority of our base contract work is fixed fee. We're rigorously focused on one key metric to drive our performance in that regard, and that's revenue factor, which is our combination of utilization and net label multiplier, effectively measures how effectively are converting every dollar of labor into dollar of revenue. It's a key metric for our Buildings practice.

In Transportation, again, we're very small scale, but we outbox our weight and where we play in the marketplace. We have very high expertise around high urban traffic interchange design and bridge inspection. We do most of the long-spend bridge inspection in the tri-state area. We have for many years. And those two things are really what we're known for in the marketplace. And when there are big projects to be had in the New York tri-state area, the bigger plays in the market, probably the horsepower to win those bigger jobs usually come to us and look to JV, and we team with them. We compete with them for what we can, and we also JV with them and take advantage of their skill and our expertise and relationships in the marketplace.

But Transportation's a very regional market, your relationship to the local departments of transportations in the different states and regions. And so we're a bit limited in our footprint and we need to – we have a big opportunity, obviously. The scale of the country and the markets were not, we have a big opportunity to grow our Transportation sector in the U.S.

We have done a really good job of cross-selling with our Transportation business into our Buildings sector especially in geo-spatial realm. We have a very active laser scanning practice with some survey work and GIS work. And we now have taken it into the Building sector in a very meaningful way to do laser scanning and 3D imaging of existing structures and buildings. And that's becoming a very beneficial cross-selling opportunity for us.

In our Environmental sector. Again, it's relatively small footprint. It's about 15 percent of our business. I should say Transportation is about 20 percent of our business. Buildings is about 65 percent of our business. But Environmental sector, we had very strong on-site, contaminated site services. On the chart of CFF, we do a lot of due diligence work and support of M&A activity in purchased activity. And that also is a great lead-in into other work to actually do site remediation services. We're very strong in engineering and overseeing site cleanup work.

We have a very strong, sustainable and energy practice. It's really geared around corporate sustainability strategy, supply chain management for corporations, and we're getting – and now we're very also active in climactic, climate adaptation and impacts on urban centers. And then there's a lot of cross fertilization with our Buildings practice in the sustainability front, which is something our Buildings practices are for also within the building realm.

We've seen great organic growth over the last four years. And some of it, in 2013, it picked up tremendously. It's about 9 percent to 10 percent organic growth. Some of – a lot of which is – some of which is due to market picking up. But a lot of it – we've outpaced the market in organic growth. And we have tremendous amount of synergies that we're creating, both in how we combine two of the businesses into a common Buildings practice, Structures and Systems, and leveraging those clients and cross-selling those services, as well as those lengths that I talked about, selling Transportation, Environmental services into the Building sector and supporting those sectors, those clients. So we've done a really nice job of growing our net revenue, and we've also done a really nice job of improving our margins.

In 2013, by integrating the four businesses, we've basically gotten down from four separate financial teams, four separate HR teams, all the back-office support. We've integrated into one common platform. We have everybody into common ERP system. One set of employee practices, one compensation strategy around the business. And with that, we've reduced our overhead substantially. So not only in our growth we felt seats and leveraged our overhead, our fixed overhead, but we also managed to gain a lot more efficiency and drove our margins up quite nicely in 2013. And we're maintaining those margins as we grow into 2014.

The one area where we did not do as well is our cash performance, our DSO days. Again, integrating our financial teams into one platform, integrating everyone into a common financial system, we've had a little – some hiccups along the way. Our DSO performance was not as strong as it should have been. It's been a major focus in the business through 2013 and into 2014. And I'm happy to say, we're seeing a lot of improvement. The numbers don't show it because it's a 12-month trailing average. They were actually down to 106 days today and moving in the right direction. And our goal is to get below 100 days by the end of 2014.

Backlog growth supports our organic growth. Our backlog has grown nicely. We're at our strongest position we've had across all of our services in at least five, six years. Right now, our Transportation business has a secured backlog going out of two years of work. Our Buildings practice has a secured backlog going out about 18 months. And by secured, I mean projects that are actually under contract and within active, a near schedule and in progress. We also have unsecured work, which is one, but not actively moving yet. To fill in as projects get done. And our Environmental business, which usually works on much smaller-scale projects, much quicker turnaround, has about a six- or seven-month backlog of secured work and a much deeper backlog of unsecured work, because they have a lot of framework agreements with clients that they've been servicing for 10, 15, 20 years.

The U.S. is in an interesting place. The stock market is doing great, but the overall economy, in the first quarter this past year, the economy was actually negative 1 percent. You know better than I, probably. But the overall expectation going forward is a little bit – is GDP growth that's a little bit below the historical standard for the U.S. That said, it's really primarily due to public sector pullback, public sector debt and public sector cut back on costs and spending, but private sector is actually doing better. Most of our work is in the private sector, and so, we are benefiting from that. And even with that, even with public sector pullback, the infrastructure in the U.S. needs about $2.6 trillion of investment between now and 2020 according to most major experts and the Association of Civil Engineers. And the reality is that there's not much money out there to do that. And so, they're expecting to spend about $1.1 trillion, $1.5 trillion between now and 2020 in infrastructure work. We are such a small piece of that market that we have a tremendous opportunity. Even as the public sector does slow down, we have tremendous opportunity to grow into that public sector realm.

And the market in the U.S. is extremely fragmented. We have big companies in the U.S. -- the (aa.com's), the (URS's), the (Jacob's). Nobody has significant market share. It's especially true in Buildings. Most of the competition in Buildings are very small, regional, local players. We are small players in a big market. The market is extremely fragmented, and we have great opportunity to pick up market share.

We're actually rated 64 in ENR in the U.S. in terms of our revenue scale. If you actually look at the pure engineering consultants of that list, we're actually number 12 because that list includes firms that do construction, architecture and other things, and we're a pure engineering play.

On the Buildings side, ENR ranked us as number 10 in 2013 on Building systems, what we call mechanical, electrical, plumbing work. We're actually number 10. Some of those, I don't – some of those numbers, if you look at the numbers and correct them properly, we're actually number 10. But in the markets we're in, we're actually top one or two in the big markets -- New York, Boston, San Francisco. There are a tremendous number of cities we're not in, the big cities, L.A., Dallas, Chicago, Miami, Philadelphia, great opportunities. Urbanization is driving those populations up and our high-rise expertise is placed into that perfectly, beautifully.

So we are one of the few national footprint buildings practices that are actually in the U.S., so in the space that we work in. And we're actually – and then we have a preeminent reputation. So we have a great opportunity to build on that and grow into the urban centers that we're not in, and actually be the number one national player in Buildings in a multidisciplinary level, which is our strategic objective.

We do have, in 2013, in addition to our integration and our focusing on organic growth and our clients, we also developed a strategic vision, a strategic plan for the next five years. A very aggressive one -- to drive organic growth, acquisitive growth, and focus on our talent and what we need to do in the business to deliver high-performing business.

From an employee perspective, we have a very strong HR leader. Given great – made great strides in developing that common employee practice platform, focusing very much on college recruitment, on recruitment from the industry in a very tight label market. We lost a lot of mid-level, I would say, at this point, 10 to 12 to 15 new engineers due to recession. And the market is extremely challenged from a talent perspective. So being an employer of choice and being attractive to that talent is key to our success. We're very focused on that. We have a national college recruiting program now. We've hit our target to bring in 50 college recruits and 35 interns into the business in 2014. We have relationships that we built on college campuses in our target markets. And so, we're actively working on things to develop our talent profile, both coming out of school, recruiting from the marketplace and internal leadership development and succession planning.

Very much a seller due our culture. We have very few people that are not engaged with clients and projects, at least the most senior levels of the business. It's a very thin – very light management. But by the same token, we're very focused on developing our leadership depth and breadth to accommodate the growth, our growth agenda. And that's an important thing, to make sure we have people out who are working on the business, not just in the business.

Organic growth, and you saw the numbers, we're doing very well. We're focused rigorously on cross-selling our services, both across offices and supporting each other with clients that are national footprint. And we're one of the few companies that can deliver nationally on the Building sector, cross-selling between our service lines and cross-selling globally with the business and leveraging the business, the global expertise in our marketplace and global clients coming into our market.

I mentioned our four market sectors. We think we have tremendous opportunities to pick up market share in those sectors, as well as maintain our leadership position in the commercial and residential high-rise work. And alternative delivery is becoming a growing, very growing method of procuring and delivering projects in the U.S. In the Buildings, well, not so much; although there are pockets like Seattle, where most of the Building sector has delivered through design build. It's moving around the country. We recently delivered the newest arena in the U.S., the Brooklyn Arena in New York, to a design build contract. (We've done) construction. Very successful project.

So design build is growing, it's growing in transportation and public sector work as well. Thirty-five states have enacted legislation now that allow public sector work to be delivered to a design build strategy versus traditional design build. And P3 is obviously coming to the market because the public sector doesn't have the funds to do everything it needs to do. And I mentioned LaGuardia Airport is one example.

We've won our first design build transportation project in New York. That's one of the first ones that was available to bid on beyond – after the Tappan Zee Bridge. And we're actively pursuing P3 work in, I guess, the LaGuardia Airport. And we're working very actively with Canada in the Transportation market on P3 because our combined horsepower makes us so much more attractive in the market in the U.S. than our standalone scale in the U.S. for the P3 market. So that scenario, we think, is another area for growth potential for us.

In acquisitions, we have a very focused and targeted strategy on acquisitions around the U.S. to grow each of our service areas, fill in skill sets and services that we don't offer. In Buildings we have a lot of specialty services we don't provide that the broader group does around the globe, whether it'd be fire consulting and code consulting acoustics, vertical transportation, a lot of specialty services in the Buildings marketplace we want to add to our portfolio. There's obviously a lot of geography that we're not in and major urban centers that we're not in and don't plan as well as we could if we were there. So we have a very targeted acquisition strategy for geographic growth market sector penetration, skill sets, specialist skill set addition to the business.

We have done a great job improving our margins in 2013, but there's always room to improve. Continuous improvement is part of our objective. And one of the biggest areas we're focusing on is our project management skill set and our project planning skill set and technology to enable that as well as how to employ technology into our business in general, in terms of making us more efficient in how we process and find documents and do all the different things that we have to do on a daily basis.

We've done a good job of using the Resource Center in India, and you'll hear more from Tom Bower next about the Middle East and our India capabilities. But we have a great pool of low-cost resource, very highly skilled resource in India. And we're using that in our U.S. market in our Buildings practice. It's been growing slowly and we have a big agenda to improve that tremendously going forward to help improve our margins. And as our Transportation business starts doing more work through design build and lump sum work in that private sector delivery model, they'll be able to take advantage of the India resources as well. That's part of our margin improvement initiatives.

And while not necessarily margin improvement, we have a very rigorous focus on cash performance and driving our DSO days down. And as I said, by looking at our billing processes, our collection processes, the interface between our financial teams and our operational teams, we're making good headway and we're going to continue to drive that.

So a couple of projects is representative of what we do and how well we do it. Tradewinds square is a very large project in Malaysia. Our New York office has been working in Malaysia for 20 years. We did the Petronas, the Twin Towers, the Petronas Towers. And so, at the time, they're the two tallest buildings in the world, and then working on that site with that client for 20 years as they've done another projects. We just recently finished up. We're locating one of the major central plans there to make room for our future development, which we are now doing as well. But this is a project that's a collaboration between our San Francisco office, our New York office, WSP in Singapore and Australia. The architect is based out of

Australia with a presence in San Francisco. The client has relationships to our Middle East offices as well.

So it's really pulling in together. Our Malaysia experience, our high-rise expertise, the project has 111-story tower and our local capabilities on the ground and our relationships across the world. It's a phenomenal project. It is great win, and it really just shows the strength of our global Buildings practice and our global relationships.

I talked about our Environmental practice being subscale but very technically capable and expert. We, in our due diligence practice, we helped a company do a major pipeline acquisition. And in that due diligence process, we discovered certain, the seven sites that needed remediations work done. Through our good work, that client has procured us to do the site remediation engineering and oversight without going out for bid, which was actually an exception to their procurement process. So our due diligence work led into the actual site engineering remediation services of what we find a lot happening in our business and a great vehicle for growth and opportunity for us. Just two examples of great projects and our work.

And I'll open the floor for questions.

Michael Tupholme: I'm Mike Tupholme, TD Securities. Can you talk a bit about the geographic expansion strategy, be it organic or acquisition? You're sort of spread out in different areas the U.S. a lot of (wide) space on the map. Can you just get the – how do you think about that?

David Cooper: So most of our geographic expansion, we're looking to do through acquisitions where we have – can pick up pockets of expertise or specific experts in our marketplace. We'll grow organically through strategic hires or key hires. We will leverage offices that we have in places where we don't have a service and maybe land somebody there to grow practice organically. But for the most part, our geographic expansion is targeted to be acquisitive. And we have a targeted – the targets around the country in all of our sectors for that.

(Off-mike)

David Cooper: So primary regions, the Southwest, the L.A., Southwest market, Texas market in the Southeast as well. But right now, we're focusing on – we'd like to see the Southwest and South Central markets. They're very robust, very strong and great opportunities for us.

Any other questions?

Male: Can you tell us what margins we can expect on a sustainable basis? Because I understand in Q4, if I remember correctly, a one-time item that really helped your Q3 margins or your Q4 margins. So, what can we expect on a go forward basis?

David Cooper: So that's a good question. As we grow it towards – as we grow our Transportation business, the Transportation business typically is a lower margin business than our Buildings practice. Especially, today, the traditional way of delivering its public sector work, its time and materials, there's – and our Transportation business delivers margins that are 10 percent, 11 percent versus the Buildings business that delivers margins that are more in mid-teens.

So as we grow it to our public sector phase in the infrastructure world to kind of continue to deliver in a traditional design, they build timecard methodology. It may depress overall margins, although it will be growing and obviously improving our overall performance. But to the extent that, that works us being more delivered in the private sector model, design build, P3, lump sum project delivery, we can actually improve our margins in the public sector realm. So it's tough to say exactly where we're going to end up, but I would not expect our margins – our goal is to have our margins – to grow our public sector phase and work our infrastructure work and maintain our margins and hopefully grow them.

Male: Sort of a follow-on to that. You had a big opportunity relative to some of the other areas in terms of combining the four businesses, so we saw a big step-up in the margins from that. In terms of some of the other initiatives you mentioned, maybe relative to other areas, you know, has most of the low-hanging fruit gone? Or how meaningful could some of these other things you're working on be in terms of margin improvement?

David Cooper: I think in the short term, we've gotten the low-hanging fruit. Longer term, doing a better job of employing technology to drive efficiency improvements and things of that nature, space efficiencies due to technology gains. We've been – we'll be – we're constantly looking at driving our overhead down and our efficiency model up in terms of how we deliver our projects. So we do have room to improve, but we did get the low-hanging fruit in 2013.

Male: Just a question about that P3 projects. I'm just wondering, what is your current capacity or how many projects would you like be able to bid a year in terms of U.S. or kind of dollar amount that you'll be looking at?

David Cooper: The challenge about P3 is that winning those projects tend to being out of our control. Now we are not competing with your peers on a straight-up value-added capabilities fee basis because of the P3 is about what's the best financial arrangement or (whose the) contract or what are they estimating the cost to be. So you got to pick the right team and hopefully you win at least one out of three because the pursuits are expensive.

So right now, I would say, a few pursuits a year would be the most we would look to do and grow as we grow the business and get better synchronization with Canada especially on the P3 pursuit opportunities. On infrastructure – on the Transportation side, that will increase. But right now, given our scale, I would say just a handful.

Male: Can you talk a bit about the policies that are ongoing in the U.S. that might impact your business favorably or unfavorably, and, you know, just to give us some kind of an outlook there?

David Cooper: Policies?

Male: Yes, policies. Government policies.

David Cooper: There's not so much policies that may impact the business, but one of the challenges in the U.S. on the transportation side is the transportation funding. MAP-21, which is the federal government funding of service transportation is set to expire in September. That feeds a lot of the state allocation of funds for their project. And if federal government doesn't get their act together soon and reappropriate transportation funds for, hopefully, a longer visibility than two years, the states may start to slow down (there outright).

So that's probably the biggest issue in the U.S. around the transportation market. Otherwise, there really aren't – the other piece I would say is just in continuing the enacting of legislation, allowing alternative delivery to deliver public sector work, P3 included.

Male: On the Environmental front, do you see anything special that we should be monitoring there?

David Cooper: Well, the whole – in the work we do, not so much. And I think we're not into the – we're not very heavily into the oil and gas market in the U.S. yet, and the whole issue about frac-ing in that energy sector. But that scenario, being brought on to work that we actually have a hole and we want to build very rapidly is our environmental impact, the EIS, EIA, EPA work because that also – that ties into other development opportunities and links better with our Transportation business. So that's a scenario of growth that we want to focus on within our Environmental business.

OK. Thank you very much.