WSP Global Inc.

Forth Quarter 2018 Results

Conference Call

THURSDAY, MARCH 14, 2019 – 4:00 PM ET

TABLE OF CONTENTS

PRESENTATION

Operator

Bonjour, mesdames et messieurs. Good afternoon, ladies and gentlemen. Bienvenue à la conférence téléphonique sur les résultats financiers du quatrième trimestre de l'exercice 2018 de WSP. Welcome to WSP's fourth quarter and fiscal 2018 results conference call.

I would now like to turn the meeting over to Isabelle Adjahi, Senior Vice President, Investor Relations and Communications. À vous la parole. Please go ahead, Ms. Adjahi.

Isabelle Adjahi, Senior Vice President, Investor Relations & Corporate Communications

Good afternoon and thanks for taking the time to join the call, during which we will be discussing Q4 and fiscal 2018 performance. We will first make a few remarks and then we will follow this by a Q&A session. With us today are Alexandre L'Heureux, our President and CEO, and Bruno Roy, our CFO.

Please note that this call is also available on the Internet via webcast.

During the call we may be making some forward-looking statements and actual results could be different from those expressed or implied and we undertake no obligation to update or revise any of these statements.

With that, I will now turn the call over to Alexandre L'Heureux. Alex?

Alexandre L'Heureux, President & Chief Executive Officer

Thank you, Isabelle, and hello, everyone.

We are pleased with our 2018 performance and before we get into the details I would like to outline the main highlights for the year. First, we posted organic growth in net revenues of 3.5% spanning across all of our reportable segments. Second, we met our key 2015-2018 global strategic plan objectives. Adjusted EBITDA margin reached 11%, headcount reached approximately 48,000 people, and free cash flow hit $547.4 million or approximately 221% of net earnings attributable to shareholders. Lastly, on the strength of our 2018 reported financials, we recently presented our ambitious 2019-2021 global strategic plan to our different stakeholders.

Let me now elaborate on these points further and make a few comments on our overall 2018 financial performance, which Bruno will discuss in greater detail shortly. For the year, we generated net revenues of $6 billion, in line with our expectation. This represented a 12.4% increase compared to 2017. Adjusted EBITDA was $660 million with adjusted EBITDA margin of 11%, hitting our target for the year. Lastly, our backlog grew from $6.4 billion last year to $7.7 billion at the end of 2018, increasing 4.2% organically year over year and remaining stable at 10.1 months. During the year we acquired four companies, adding over 5,000 employees to our workforce, expanding our geographical presence in the United States, Continental Europe, and Australia, while strengthening our expertise in other regions. These acquisitions were financed using our balance sheet. And before I continue, I would like to take this opportunity to once again welcome all of our new colleagues to the WSP family.

Looking at the performance of our regions, Canada posted organic net revenue growth of 3.5% and 14% adjusted EBITDA margin before global corporate costs for the year. This performance was a result of a steady utilization rate, improved project delivery, and cost containment efforts. Shortly after the close of the year, East-West Connectors, a consortium we are part of along with Kiewit, VINCI, and Hatch, was officially selected by the City of Ottawa as the preferred proponent for the $2.6 billion Confederation Line extension project. This project includes 27 kilometres of new LRT tracks, several new bridge structures, 16 stations, tunnelling, lining of several new roads, and construction of a new road. We will be the lead designer for this project. As you know, we do not press release project wins, but this iconic award is a testimonial of our multidisciplinary expertise. I would like to congratulate of our experts involved in this project. With an expanding pipeline of opportunities, we expect further momentum and are optimistic about the long-term prospects in the Canadian market.

The Americas reportable segment posted 0.7% organic growth in net revenues for the year, in line with our expectation. Recall that in 2017 our US operations derived a significant amount of FEMA-related revenues, which were in excess of our expectations. Adjusted for these 2017 FEMA-related revenues, the Americas reportable segment would have reported mid-single-digit organic growth in net revenues. This region delivered adjusted EBITDA and adjusted EBITDA margin before global corporate costs of $257.3 million and 14.6%, respectively, once again the highest among all of our reportable segments. The pipeline of opportunities for the Americas remains healthy with a book-to-burn ratio above 1.2 for the year. Shortly after the close of the Louis Berger transaction, we were selected, in collaboration with LB, by the Europe District of the US Army Corp of Engineers for a five-year contract of general engineering design work to be performed in various European countries. It is the direct result of a collaborative effort between our US team and US Berger team.

Across the ocean, the EMEIA reportable segment delivered organic net revenue growth of 5.1%, slightly above our expectation. The Nordics delivered organic growth in net revenues of approximately 6%, led by our Swedish operation. Our UK operation, despite the uncertainty surrounding Brexit, delivered organic growth in net revenues slightly over 7% for the year and I would like to commend the entire team for this achievement. We have been reappointed by the North and Mid-Wales Trunk Road Agency on a four-year transport framework to provide consultancy services in support of projects to maintain and improve capacity, resilience, and safety across the 680 miles of strategic trunk roads in the region. The contract will involve utilizing a wide range of expertise across our 2,500 strong transport and infrastructure business, which includes highways and intelligent transport systems, ground, civil, as well as bridge experts.

Continuing in our EMEIA for both the Middle East and South Africa, most performance metrics were in line with our expectation. In December 2018 our Middle East operation obtained a two-year contract extension from the Public Works Authority of Qatar pertaining to the local roads and drainage program initiated in 11.

The capital cost of the entire project is estimated to be approximately $30 billion. The EMEIA region as a whole delivered adjusted EBITDA and adjusted EBITDA margin before global corporate costs of $225.4 million and 10.3%, respectively.

Our APAC reportable segment posted organic net revenue growth of 5.6% for the year. Looking specifically at Australia, the operations performed ahead of expectation with a 16% organic net revenue growth while our Asian operation continued to be impacted by a slowdown in the private property market. Subsequent to our fiscal year end, we were appointed as co-lead designer of the Westconnex Rozelle Interchange Project, considered as one of the most complex infrastructure projects ever undertaken in Australia. At peak, we anticipate this project to require over 200 WSP employees. We continue to be pleased with the performance of our New Zealand operation, which benefitted from our Opus acquisition. Results were slightly above our expectations.

Overall, 2018 was a fruitful year during which we strengthened our business around the globe and pursued our acquisition strategy, leading us to attain our key 2015-2018 global strategic plan objectives. I would like to thank all of our leaders and employees for this outstanding performance and for their continued dedication.

Speaking of people, we continued to strengthen our leadership team with four key executive appointments during the first quarter of 2019 and these include, first, Ryan Brain, as President and CEO of our Canadian operation; second, Ivy Kong as a Managing Director of our Asian Operation; and lastly, Alain Michaud, who recently came on board as Senior Vice President, Operational Performance and Strategic Initiatives. In parallel, André-Martin Bouchard was promoted to Global Director Environment and Resources. I would like to once again welcome each of them to WSP's global leadership team, where their talent and expertise will be a great asset to support our continued growth in the next strategic cycle.

It is also with mixed feelings and emotion to inform you that Steeve Robitaille, Chief Legal Officer, Executive Vice President, Merger and Acquisitions, and Secretary of the Corporation will leave his position in the next few weeks to assume a new role at another firm. On behalf of the Board of Directors and the Management team, I would like to thank Steeve for his contribution to the Corporation and wish him the very best in his future endeavors. The search process to identify a successor will begin soon.

I will now turn the call over to Bruno, who will review our fiscal financial results in more detail and share our 2019 outlook. Bruno?

Bruno Roy, Chief Financial Officer

Thanks, Alex. I'm pleased to share our results for the fourth quarter and for fiscal 2018.

Before I jump in, let me highlight a few elements. First, we posted organic growth in net revenues of 3.5% for fiscal 2018. Adjusted EBITDA margin reached 11%, in line with our expectations. Our DSOs have improved to 76 days, reflecting continuous process improvement in both billings and collections. Our free cash flow for the full year was nearly $550 million for a net earnings conversion ratio of 221%. Our balance sheet remained strong at 1.8x net debt to EBITDA. As Alex mentioned earlier, all 2018 acquisitions were financed with available cash and credit facilities. All-in, we are entering this year and our 2019-2021 global strategic plan on the front foot.

Let me know dig into the details. For the quarter, revenues and net revenues were $2 billion and $1.5 billion, up 4.6% and 4.2%, respectively, compared to the same period in 2017. Organic growth in net revenue was negative 2.4% on a constant currency basis. Adjusted for 2017's FEMA-related revenues in excess of expectations, organic growth in net revenues would have been 2.6% for the quarter. For the full year, revenue and net revenue were $7.9 billion and $6 billion, growing 13.9% and 12.4%, respectively. Organic growth amounted to 3.5%, in line with our disclosed outlook.

Let's move to adjusted EBITDA. For the fourth quarter, adjusted EBITDA was $169.5 million, up $29.5 million or 21%. Our adjusted EBITDA margin was 11% as compared to 9.5% last year. For the full year, adjusted EBITDA was $660 million, up 18.9%, with adjusted EBITDA margin also at 11%, up 10.4% in 2017.

Now turning to adjusted net earnings, for the fourth quarter adjusted net earnings and adjusted net earnings per share were $59 million or $0.50 per share, both metrics up 50% compared to Q4 2017. For fiscal 2018, our adjusted net earnings were $295.2 million or $2.83 per share, up 26% and 24%, respectively, compared to 2017. Non-cash finance expenses had a negative impact of approximately $0.14 per share and $0.12 per share for the fourth quarter and for the full year, respectively.

I will now review a few key cash flow metrics. For the year, cash flow from operating activities stood at $669.7 million compared to $395.4 million in 2017. Our free cash flow for the year came at $547.4 million or 221% of net earnings, above our cash flow conversion target of 100% of net earnings. At 1.8x, our net-debt-to-adjusted-EBITDA ratio remains within our target range of 1.5x to 2x. We remain below the 2x threshold while making acquisitions requiring over $500 million without the need for equity. The upper range of the net-debt-to-adjusted-EBITDA ratio was increased to 2.5x in our 2019-2021 global strategic plan, which is reflective of our increased inventories. Lastly, our DSO was strong at 76 days at the end of 2018 as compared to 79 days at the end of 2017. Sustained collection efforts during the year were at the heart of this improvement. During the quarter, we also declared a dividend of $0.375 per share to shareholders on record as at December 31, 2018, which was paid on January 15, 2019. At 50.1% DRIP participation, the net cash outlay was $19.6 million. In conclusion, we've delivered, in many cases over delivered, on all our key 2018 financial outlook metrics.

I'd like now to take a few minutes to discuss our 2019 financial outlook, which is aimed at assisting analysts and shareholders in refining their perspective on our performance. This outlook has been prepared based on the foreign exchange rates effective yesterday, March 13, 2019. We anticipate net revenues to be in the $6.6 billion to $6.9 billion range and to post organic growth in net revenues in the 2% to 5% range. Adjusted EBITDA is expected to range between $740 million and $790 million. This adjusted EBITDA range does not take into consideration the adoption of IFRS 16, effective January 1, 2019, in order to provide a common base comparison with our 2018 results.

While non-cash in nature, the adoption and application of IFRS 16 will impact the presentation of our financial statements. On our balance sheet, it will result in an increase to our asset and liabilities through the recognition of right-to-use assets and lease liabilities. On our P&L, our operating lease expenses will be replaced by depreciation expense on the right-to-use assets and in interest expense on our lease liability. We will update our 2019 outlook to take into consideration the adoption of IFRS 16 on May 14 with the release of our Q1 2019 results. On the same day we'll also provide an update for our 2019-2021 strategic plan financial ambitions to take into account the adoption of IFRS 16.

As in past years, we provide the market with a quarterly adjusted EBITDA range of our anticipated full year adjusted EBITDA. For 2019 we anticipate our quarterly adjusted EBITDA to range between 18% and 30% of the total annual adjusted EBITDA. Given the proximity to the first quarter 2019 reporting close, we are forecasting that our Q1 2019 adjusted EBITDA will range between 18% and 20% of the full year adjusted EBITDA guidance provided.

Turning to tax, we expect that our effective tax rate for fiscal 2018 to be in the 26% to 28% range. In 2019 we are targeting a net-debt-to-adjusted-EBITDA ratio ranging between 1.5x and 2.5x, excluding potential 2019 acquisitions, and we anticipate capital expenditures to range between $120 million and $135 million.

Lastly, we anticipate between $30 million and $40 million in acquisition, integration, and reorganization costs, driven by the integration-based operational optimization, real estate consolidation, and restructuring related to our Louis Berger acquisition, as announced at the time of the acquisition. Global corporate costs in 2018 will range between $90 million and $95 million compared to $87.3 million in 2018, mainly due to the acquisition of Louis Berger in Q4 2018.

Alex will now comment on the operational outlook for each of the regions. Alex, over to you.

Alexandre L'Heureux, President & Chief Executive Officer

Thanks, Bruno.

Let's start our 2019 operational outlook with Canada. With the solid 2018 performance and a strong transportation and infrastructure sector pipeline, we do anticipate organic growth in net revenues to range in the low to mid single digits. We also anticipate a strong year for the Americas. An expanding transportation and infrastructure market sector in the US should provide solid base for continued growth.

As far as Latin America is concerned, after the acquisition of ConCol, Poch, and the recent addition of Louis Berger operation in region, we are entering the final stages of integration. Organic growth in net revenue for the region is anticipated to be flat with some improvement in operating margins. On a consolidated basis, we anticipate mid to high single digits organic growth in net revenues for the Americas reportable segments.

For the EMEIA regions as a whole, we anticipate delivering organic growth in net revenue in the low single digits, mirroring the expectations for our UK and Nordics operation. After several years of strong organic growth in net revenues in the Nordics regions, economic indicators now point towards somewhat of a cooling-off period for Sweden and Scandinavia. In light of the numerous acquisitions made over the last few years, the focus in the Nordics for 2019 will be on operating margin improvement. In the UK, prospects for the public sector remain solid; however, concerns over Brexit and its potential negative impact on private sector activity levels has led us to a slightly more cautious outlook when compared to 2018. We therefore anticipate organic growth in net revenues in the low single digits.

Turning to APAC, we anticipate another solid year from our Australian operation with organic growth in net revenues to range in the mid to high single digits, stemming from several large project wins in the transportation and infrastructure sector obtained early in 2019 and a strong pipeline. Our New Zealand operations, now representing approximately a quarter of our APAC's net revenue, are anticipated to post organic growth in net revenues in the mid-single digits, derived mainly from the transportation and infrastructure sector. In Asia, we anticipate organic growth in net revenues for 2019 to range in the flat to single-digit range as we continue to focus our efforts on profitable business development. On a consolidated basis, we anticipate the APAC region to deliver organic growth in net revenues in the mid-single digits.

Now I would like to open the line for questions.

QUESTION AND ANSWER SESSION

Operator

At this time, if you'd like to ask a question, simply press star then the number one on your telephone keypad. Si vous voulez poser une question, composer l'étoile suivit du numéro un sur votre clavier téléphonique. Your first question comes from the line of Jacob Bout of CIBC. Please go ahead.

Jacob Bout, CIBC World Markets

Good afternoon.

Alexandre L'Heureux, President & Chief Executive Officer

Hello, Jacob.

Jacob Bout, CIBC World Markets

Just going back to your outlook, so it sounds like your pipeline is pretty strong, so the softness that you're seeing is primarily in the UK and Nordics?

Alexandre L'Heureux, President & Chief Executive Officer

Look, the pipeline is pretty strong. The book-to-burn is good. I think in the UK, what I just said is we are taking a more cautious approach to it. Having said all that, you know, the Brexit issue has been there now for 24 months and last year we posted 7% organic growth. So, we could be pleasantly surprised. But given the current environment, all I'm saying is we're taking a more cautious approach to it. But so far, I mean our backlog is good, the beginning of this year is also good. So I would like the investors to keep that in mind.

In the Nordics, look, Sweden has been delivering now for 19, 18 consecutive years. They've been posting great results since the early 2000s, way before we acquired WSP, so all I'm saying is that the region has been doing very well for many, many years now and we are also taking a bit of a more cautious approach to it. But that doesn't mean that the performance is not going to be good.

Jacob Bout, CIBC World Markets

Okay. And then the flip in organic growth from being negative in 2018 to being flat to positive in 2019, what is that a function of?

Bruno Roy, Chief Financial Officer

That's a function of FEMA, Jacob. If you adjust for FEMA, our organic growth was very positive, 3.5% (inaudible) in 2018.

Jacob Bout, CIBC World Markets

Sorry, I was asking specifically about Asia.

Alexandre L'Heureux, President & Chief Executive Officer

Okay. Asia, I mean, well, look, a lot of work has gone into the business over the last two years, so we've worked tirelessly to really streamline the operation, to reduce costs, to look at our book of business to perhaps do a better job at client selection, project selection, such that we run a tighter ship with a better business in a difficult environment. And that's why this year we believe that we should hopefully be generating organic growth for 2019.

Jacob Bout, CIBC World Markets

But not taking on anymore additional risk.

Alexandre L'Heureux, President & Chief Executive Officer

No. Absolutely not.

Jacob Bout, CIBC World Markets

Okay. And then on FEMA, is there any... So, obviously a large impact in the fourth quarter for year on year, but is there any impact in the first half of the year?

Alexandre L'Heureux, President & Chief Executive Officer

No. Not at this time. I mean FEMA, the work we do with FEMA mostly is, you know, it's inspection. So it's extremely difficult to, it's actually it's try to determine when the weather, the winter will end in Montréal. It's extremely difficult to predict. So we don't know when and how many inspections and inspection work we'll be doing in any given year. Every year is different.

So it's a bit different than the type of work we typically do in our business, so that's why we tend to try to give you a bit of an outlook on FEMA. Not an outlook but I mean to give you a bit more granular details around FEMA, because sometimes it can skew the numbers and the quarter when that happens.

Bruno Roy, Chief Financial Officer

Keep in mind, Jacob, that in 2017, in one quarter we had hurricanes Harvey, Irma, and Maria, and that's what truly spiked the results for 2017. We've had nothing of the sort in 2018. So, as such, you can expect a more normal first half of this year.

Jacob Bout, CIBC World Markets

Yeah, I mean that's basically what I was getting at. So there was no bleed from fourth quarter 2017 and this work could continue into first quarter 2018.

Alexandre L'Heureux, President & Chief Executive Officer

Oh, sorry. Okay. You meant the first half of 2018. I thought you meant the first half of 2019. Sorry about that. I misunderstood. No, there's no, there's no trickle effect.

Jacob Bout, CIBC World Markets

Okay. I'll leave it there. Thank you very much.

Alexandre L'Heureux, President & Chief Executive Officer

Okay. Thank you, Jacob.

Operator

Your next question comes from the line of Benoit Poirier from Desjardins. Your line is open.

Benoit Poirier, Desjardins Securities

Good afternoon. My question is on the free cash flow. You finished the year with a very strong free cash flow conversion, obviously driven especially by working cap, so I was wondering if you could provide more details about the conversion, whether we should expect a reversal from a working capital standpoint or if there's something non-recurring going forward on the free cash flow side.

Bruno Roy, Chief Financial Officer

Thanks, Benoit. Bruno here. So, the big driver in our improved free cash flow, as you indicated, was working capital, specifically our DSOs have improved three days year on year. Very pleased with the results there, mostly due to better collection.

And look, at the end of the day, when your teams do good work, it's always easier to go out and collect your clients. Your clients are happy to pay you bill. So this is a testimony not only to the finance teams globally but for all the teams that are doing terrific work. Going back to the conversion ratio, our target remains to be above 100% and that target is the same for this year.

Benoit Poirier, Desjardins Securities

Okay. And do you still expect a lot of improvement from the DSO or would you say that you're at a more sustainable level right now, Bruno?

Bruno Roy, Chief Financial Officer

I wake up every morning trying to improve it, Benoit.

Alexandre L'Heureux, President & Chief Executive Officer

But if you look at the outlook...

Bruno Roy, Chief Financial Officer

Yeah. And if you look at our outlook, so again, it's ranging between 78 to 83 days. But again, we'll be trying to do better than that as we (inaudible).

Benoit Poirier, Desjardins Securities

Okay, perfect. Very good colour. And there's been a recent budget proposed by the US President over the last few days. I was wondering if you could provide any colour, how do you read the recent budget proposed for the US for the Department of Transportation, if you see any read through for your transportation business in the US.

Alexandre L'Heureux, President & Chief Executive Officer

Well, I'd say, Benoit, any time governments are talking about investing infrastructure it's good news for WSP. So I'll leave it at that, because I just don't know how this would translate into the marketplace just yet. But it's always good to hear that governments are mindful about reinvesting in the country, in their respective countries, so obviously, from what we heard, hopefully it will translate into a positive outcome, but who knows. So I'll leave it at that for the time being.

Benoit Poirier, Desjardins Securities

Okay. And from a booking standpoint, you ended up with a 1x book-to-burn ratio in 2018 and got also some major contracts in Canada and APAC early in 2019. So I was wondering if you could provide some colour about the expectation in terms of a book-to-rate for 2019.

Alexandre L'Heureux, President & Chief Executive Officer

Look, I mean so far it's looking good. That's all I can say. You will recall, when we lost, we didn't get the assignment on the Ram(sp.). I mean, if you all recall, I said sometimes you lose some and you win some. I mean I'm extremely pleased and delighted by the recent win in Ottawa. That's not something we could disclose before but I'm very pleased about this. This is a major win for WSP in Canada. So obviously, the backlog is doing better today than it was at the end of December given the two, three recent big wins that I just talked about. Definitely.

Bruno Roy, Chief Financial Officer

Our book-to-burn was 104%, Benoit, last year. 104%.

Benoit Poirier, Desjardins Securities

Okay, perfect. Okay. Thank you very much for the time. I'll leave it there.

Operator

Your next question comes from the line of Michael Tupholme of TD Securities. Your line is open.

Michael Tupholme, TD Securities

Thank you. Good afternoon.

Alexandre L'Heureux, President & Chief Executive Officer

Hello, Michael.

Michael Tupholme, TD Securities

Hi. In the outlook you have talked about aiming to improve margins in Canada and we've actually already seen some pretty healthy improvements over the last couple of years. Just wondering if you can talk a little bit about how much more room you think there is to go there and maybe help us understand what sort of degree of improvement we could think about in Canada.

Alexandre L'Heureux, President & Chief Executive Officer

Look, Michael, I mean typically we are not providing an outlook country by country. I mean that would be a bit too granular at this point in time. All I can tell you is, and we talked about this when we unveiled our strategic plan, we have a defined operating plan between now and 2021 to get to the 11.5% and 12.5% EBITDA margin. That's globally on the aggregate. And in order to achieve that, every country will have to be aligned and push in the same direction, and that's not different, that is no different for Canada. So, clearly this year we are aiming and hoping for margin improvement in Canada. You will recall that not too long ago we were posting close, slightly below 10% EBITDA margin, like 24 months ago, and I had mentioned back then that we would steer the ship in a different direction and really work hard to improve our margin and generate quality organic growth in Canada. And that's what we've done, but that's unfinished business. We have the aspiration to bring Canada higher and will continue to do that this year, to work to achieve that.

Michael Tupholme, TD Securities

Okay. Thank you. I noticed it looks like you stopped disclosing a soft backlog, which was a metric you had been giving us previously. Just wondering what the rationale for that, for no longer disclosing that was.

Bruno Roy, Chief Financial Officer

Because the hard backlog is a better, stronger number. Simple as that.

Alexandre L'Heureux, President & Chief Executive Officer

The soft backlog could be useful, and I know most of our competitors, they like to release and provide a bigger number. I'd rather take a more conservative stance personally, Michael. What we know for sure we're going to be working with is the hard backlog that's signed and approved and, personally, I think that's the best measure for you to measure the future trend of the company.

Soft backlog oftentimes are master service agreements that we have with a large client. They approve for millions and millions and millions, but they approve a bit at a time. So that may sound and look sexy to hear that we have a big soft backlog, but in effect I cannot guarantee you that that will translate into hard backlog. So I'm not sure that this is a measure that we'd put a lot of weight in, despite what others may say.

Bruno Roy, Chief Financial Officer

And the hard backlog, again, for us is approved, signed, and funded projects. These are real projects.

Michael Tupholme, TD Securities

Okay. Makes sense. And then just, Bruno, with respect to IFRS 16, if I understood correctly, you're going to providing us with more information when you report Q1, but will you also provide enough information for us to sort of disaggregate whatever you do report in Q1 and sort of look at it relative to the guidance you've provided now? So, without some further guidance at this time, it's a little bit hard to come up with IFRS 16 compliant numbers, so will you provide enough detail to sort of break it out and look at it, I guess, on a historical basis as well?

Bruno Roy, Chief Financial Officer

So we'll do the modified retrospective approach, which means that you'll be able to compare what our results will be under IFRS 16 versus what they would've been beforehand to be able to make that, ah, so 2019 to 2019.

Alexandre L'Heureux, President & Chief Executive Officer

We'll try, Michael. We realize for you, our analysts following WSP, that this is a bit of a curveball, so we'll work internally to try to provide you with the best information for you to make the best informed reports. So we'll look at what can be done to make sure that you fully understand the lay of the land with WSP.

Michael Tupholme, TD Securities

Okay. Appreciate that. Thank you.

Operator

Again, if you'd like to ask a question, simply press star then the number one on your telephone keypad. Your next question will come from Derek Spronck of RBC. Please go ahead.

Derek Spronck, RBC Capital Markets

Good afternoon. Thank you for taking my questions.

Alexandre L'Heureux, President & Chief Executive Officer

Hi, Derek.

Derek Spronck, RBC Capital Markets

Hi, guys. Just on the M&A environment, have you seen any changes in seller expectations just with the kind of broader macro uncertainty that kind of crept into the marketplace in October?

Alexandre L'Heureux, President & Chief Executive Officer

I'm going to repeat what I said that when we unveiled our strategy, Derek. This is not something that we have control over. And if you recall what I said that during the last analyst call, I said, look, I'm entering this strategic cycle positively for a very simple reason. If the market is holding on for the next three years, I think WSP will do very well. And if, for some reason that we have more control over, the market is turning, I really believe there will be plenty of opportunities for us to be creative and innovative and find firms, perhaps, at attractive price for us to take advantage of. And given the support that we have from our long-term shareholders, I feel that, you know, I don't spend too much time looking at the stock market, we're quite busy and I believe I should be and the team should be busy executing on the plan and not be distracted by what's happening in the stock market, and essentially that's what we're doing. So, we're going to continue to execute, we're going to try to find the best available opportunities for us, and I'm confident that they will come our way in next cycle.

Derek Spronck, RBC Capital Markets

Okay. No, that makes sense. I'm just trying to get a sense of whether you're operating right now in a more elevated M&A environment and perhaps the seller multiple expectations might have come down a little bit here with the recent pullback. And to that point, I'll just ask one more question, kind of in the same context. In the US, do you see a more elevated M&A opportunity environment with potential sellers looking to get, maybe, the company sold ahead of or during the current tax regime in the US? Is that providing a more robust M&A environment in the US?

Alexandre L'Heureux, President & Chief Executive Officer

Well, you could argue the flip side as well, why selling now when things are quite heated and the tax, ah, and perhaps sellers would like to take advantage of the tax break. The reality is, you know, I spent most of last year trying to, not trying, been spending most of last year reaching out, meeting a number of different interesting firms and CEOs within the industry. I will continue to do that in 2019. I think the target pipeline is good. And I'm sure I'll sound like a broken record here but what has made our success, our recipe of success, is that we remain disciplined and focused in our M&A approach. So I don't feel we have gun on our head to do something if the stars are not aligned. So we will action when we see that all the investment criteria and theses are met. But I can tell you that the dialogues that I have are good, are healthy. I think that there are some firms out there that will be fitting our strategy at some point in time; we just need to be patient and wait for the right opportunity to come our way.

Derek Spronck, RBC Capital Markets

Okay. That makes sense. And the recent hiring of Alain Michaud, does that kind of highlight the fact that potentially this could be a big four-like accounting firm but in the consultancy space and eventually, you know, a 100,000-employee firm at some point?

Alexandre L'Heureux, President & Chief Executive Officer

Are you suggesting that because I'm an ex-Deloitte and he's an ex-PwC? Now look, the secret of a—our first guiding principle, Derek, as a company and as a firm is that our people and our reputation are great assets, our greatest assets. And we're going to be able to attract good clients and good projects if we attract and devote an enormous amount of time and energy attracting and developing the best talent out there. I think Alain was a talent. I've been working with Alain for many years. I knew of him in prior lives and I think he's a talent and I feel very fortunate that we were able to attract him to WSP. But we're not managing an accounting firm, we're managing a great professional services firm in the E&C space and we'll continue to do that. That's the goal. And we're not going to change our business model.

Derek Spronck, RBC Capital Markets

Okay, I got you.

Alexandre L'Heureux, President & Chief Executive Officer

But clearly the goal is to grow the business and when I see talent out there that I believe can add value to the business I try everything I do to attract them to the business.

Derek Spronck, RBC Capital Markets

Okay, that's great. Just one quick housekeeping and I'll turn it over, if I could. The net-debt-to-EBITDA ratio for 2019, you have it at 1.5x to 2x. You're at 1.9x now. Like is there an anticipated cash drawn first half of the year? Or how should we be thinking about that?

Alexandre L'Heureux, President & Chief Executive Officer

Well typically, in the first half of the year, typically our DSO, given our seasonality, tends to go up a little bit. In 2018 this was less true than in years before. I think Bruno did a great job with the finance team and our project managers worldwide to actually reduce the standard deviation around the mean. But yet, I do expect working capital still to increase in the first half of the year and the reversal effect in the second part. But do I expect significant drawdown on our facility? The answer is probably not.

Derek Spronck, RBC Capital Markets

Okay, got it. Appreciate the colour. Thank you.

Bruno Roy, Chief Financial Officer

We're at 1.8x, not 1.9x. 1.8x.

Derek Spronck, RBC Capital Markets

Got it.

Operator

Our next question comes from the line of Frederic Bastien of Raymond James. Please go ahead.

Frederic Bastien, Raymond James

Good afternoon, guys. Can you share with us whether Steeve has accepted a role in the industry or is he switching gears completely?

Alexandre L'Heureux, President & Chief Executive Officer

Yeah, I mean I don't mind saying it, because this is a great client of ours, but Steeve will—it's been just press released, I think, not minutes ago, if I'm not mistaken. Steeve is joining one of our clients, Bombardier, as (inaudible). So he's not going to a competing firm.

Frederic Bastien, Raymond James

Okay, great. Good to hear. We wish him luck. I don't know if you have answered this, and I apologize if you have already, but with respect to this deferred comp plan in the US that increased your interest rate expense in Q4, is there anything that we should be thinking about for the modelling going forward?

Bruno Roy, Chief Financial Officer

Hi, it's Bruno. You've got quite a bit of details in the financial statements in Note 2 and Note 17 related to pensions. So, in a nutshell, we do have deferred compensation and assets related to the US plan for $120 million. Through IFRS 9 this now needs, the variations in those assets now need to be recorded as essential expenses in the P&L whereas beforehand they would have been in comprehensive income. So this is all related to IFRS 9. For this quarter the delta was worth about $0.06 per share. And again, on a quarterly basis these will move depending on whether the assets appreciate or depreciate. And we'll clearly describe the impact on our EPS as we go forward. But if you want more details, we've got a bit of meat on page 22 of the MD&A. But dig into the financial statements, it's in Note 17.

Frederic Bastien, Raymond James

All right, I'll leave it over. I've got some more work to do.

Alexandre L'Heureux, President & Chief Executive Officer

Thank you, Fred. Bye.

Operator

We have no further questions at this time. I'll now turn the call back over to the presenters.

Alexandre L'Heureux, President & Chief Executive Officer

Okay. Thank you for attending our Q4 2018 results and I look forward to updating you at our next conference call and our AGM in a few weeks' time. So, thank you very much and have a great day.

Operator

This concludes today's conference call. You may now disconnect.

Ceci met fin l'appel conférence d'aujourd'hui. Vous pouvez maintenant raccrocher.
