WSP Global Inc.

WSP Global Inc. third Quarter 2019 Results Conference Call

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PRESENTATION

Operator

Bonjour, mesdames et messieurs. Good morning, ladies and gentlemen. Bienvenue à la conférence téléphonique sur les résultats financiers du troisième trimestre de l'année 2019 de WSP. Welcome to WSP's third quarter 2019 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, Ms. Adjahi

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Isabelle Adjahi, Vice President, Investor Relations & Corporate Communications

Thank you and good morning, everyone, for taking the time to join us for the call, during which we will be discussing our Q3 performance followed by a Q&A session.

Today we are talking to you from our Dubai office where we had our board and dealership meetings, so I would like to apologize in advance if we get disconnected. We will reconnect shortly.

With us are Alexandre L'Heureux, our President and CEO, and Bruno Roy, our CFO. Joining us as well is Alain Michaud, who, as announced in yesterday's press release, will succeed Bruno Roy as CFO effective at the end of March.

Please note that the call is also accessible on our website as a webcast.

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

Relevant factors that could cause actual results to be different materially from those forward-looking statements are listed in our most recent MD&A.

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 good afternoon, everyone.

I'm very pleased with our strong Q3 results, which I will be commenting in a few minutes, but before I do so I would like to take a few minutes to discuss the announcement we made yesterday about the transition at the group CFO level.

As part of this transition, Bruno Roy will be leaving WSP at the end of March 2020 to pursue new professional endeavours. Alain Michaud, currently Senior Vice President, Operational Performance and Strategic initiatives, will succeed him as Chief Financial Officer at such date. Until then, Bruno will continue in his role, complete the current fiscal year, and work closely with Alain to ensure a smooth transition.

Having joined WSP in 2016, Bruno assisted in delivering on our 2015-2018 financial ambitions. He leaves behind a strong balance sheet and improved working capital management. On behalf of the entire global leadership team and myself, I would like to wish you all the best in your future endeavours, Bruno.

I also want to wish Alain continued success in his new role. Alain has a profound knowledge of WSP. Not only has he spent the last few months with regional leadership teams to fully understand our operation and business model, but in his previous role as senior partner at Price Waterhouse Canada, Alain has advised WSP's senior management and the board of directors on various matters during the last six years. Alain, who received his CPA and CA designation in 1997, has an impressive track record of achievement in the professional services industry and a broad range of experience in mergers and acquisitions and strategic planning acquired over his 25-year tenure at Price Waterhouse.

Separately, the process to develop a transition plan for Alain's current role is underway. Over the next few weeks you will have the opportunity to meet with both Bruno and Alain, as we will be organizing breakfast meetings in Montréal and Toronto on November 12 and 13, respectively. Details and registration forms are available on our website and will be emailed to you after this call.

Perhaps, Bruno, you may want to say a few words?

Bruno Roy, Chief Financial Officer

Thank you, Alex.

First, I want to thank you, the board, and the team. I truly consider myself privileged to have had the opportunity to serve as CFO of this terrific company. I take pride in our accomplishments over this period and I am particularly proud of the finance teams, not only in Montréal but around the globe. I leave a company which is both financially and operationally strong and I am very confident that WSP will continue to deliver shareholder value while continuing to deliver on its mission. As Alex said, I will continue my current role until we deliver fiscal 2019 and will have the opportunity to interact with most of you over the next three months.

We could not have chosen a better successor since, as Alex mentioned, Alain has not only the operational and business model understanding, but also the financial leadership to lead the team in the next chapter of its successful journey. Alain, welcome to the role.

Alexandre L'Heureux, President & Chief Executive Officer
Thank you, Bruno.

Let me now comment on our strong third quarter financial performance, which Bruno will further elaborate on later on on this call.

For the third quarter, net revenue was $1.7 billion, up 15.3% compared to Q3 2018. On a constant currency basis, organic growth in net revenue spanning across all reportable segments amounted to 4.4%. On a post-IFRS 16 basis, adjusted EBITDA was $288.2 million with adjusted EBITDA margin reaching 17% compared to 12.7% last year. Backlog stood at $7.9 billion at the end of the quarter, representing approximately 10.5 months of revenues. Our backlog grew organically by 4.7% when compared to Q3 of 2018 and 2.4% over the first nine months of the year. Last 12 months free cash flow remained strong at $423.9 million or 147% of net earnings attributable to shareholders.

Now I would like to turn to our regional operational performance highlights.

Our Canadian operation generated 1.2% net revenue organic growth, reversing the trend we had seen in the first half of the year. For fiscal 2019 we anticipate low organic growth. Adjusted EBITDA and adjusted EBITDA margin before global corporate costs amounted to $61.4 million and 22.4%, the highest margin among all of our reportable segments. On a pre-IFRS 16 basis, adjusted EBITDA margin before global corporate costs stood at 18.1%, in line with our expectations. Project wins continued to be strong with Canadian backlog growing organically by 7.7% over the first nine months of the year. The Ontario government recently released its 2019 P3 market update, announcing more than $65 billion in potential projects in the years to come, which bodes well for future growth in the province.

More specifically on our wins for the quarter, we are pleased to share that, following a 10-year process, the Public Works and Government Services of Canada awarded Innovate Energy, a private partner consortium including WSP, the 35-year Energy Services Acquisition Program, or ESAP, a contract valued at $2.6 billion, to design, build, finance, operate, and maintain the modernized heating and cooling plants in the national capital region of Ottawa. This project, which is the federal government's green initiative's aim at promising a safer environment for future generations, will encompass the implementation of a new electric system to power the heating and cooling plants that support 80 federal buildings. WSP will be the lead designer for this project, which is the result of collaborative efforts across our teams in Canada, Sweden, the UK, and the US.

Our Americas reporting segment posted organic growth in net revenues of 8.2%, stemming mainly from our US operation. This increase was mainly due to the timing of the revenue recognition of some of our large assignments. For fiscal 2019 we anticipate mid-single-digit organic growth. Adjusted EBITDA and adjusted EBITDA margin before global corporate costs were coming in at $127.4 million and 21.3%, respectively. On a pre-IFRS 16 basis, adjusted EBITDA margin before global corporate costs stood at 17.9% and organic backlog growth was particularly strong at 13.9% when compared to Q3 of 2018.

In the US, WSP has started to work on the pre-construction phase of the Texas high-speed rail project, providing civil and structural works engineering, as a member of the Texas High Speed Rail LLC, a Salini-

Lane joint venture. Once completed, this multi-billion dollar 240-mile rail line will connect North Texas and Greater Houston in 90 minutes at speeds of up 205 miles per hour. We are also pleased by the renewal of our FEMA contract, which runs over a five-year period and is capped at US$943 million. This amount is included in our soft backlog and, for comparative purposes, during the last five years we have generated approximately US$430 million in revenues from our FEMA work. As often mentioned before, these revenue streams are unpredictable, as they are clearly triggered by emergency or natural disasters.

Our EMEIA operating segment delivered posted organic growth in net revenues of 2.1%, led by continued strength in the UK transportation and infrastructure sector. For fiscal 2019 we anticipate low to mid-single-digit organic growth and adjusted EBITDA and adjusted EBITDA margin before global corporate costs amounted to $75.6 million and 14%, respectively. On a pre-IFRS 16 basis, adjusted EBITDA margin before global corporate costs stood at 10%.

In the Middle East, as part of the China Rail/Ghantoot joint venture, we were appointed as the design consultant for phases 2B and C of the Etihad rail line, a 310-kilometre rail project which construction cost is estimated at US$1.2 billion.

Our APAC operating segment posted organic growth in net revenues of 6%, mainly driven by our operations in Australia and New Zealand, which posted double-digit organic growth in net revenues. For fiscal 2019 we anticipate mid-single-digit organic growth. Adjusted EBITDA and adjusted EBITDA margin before global corporate costs amounted to $48 million and 17.1%, respectively, and on a pre-IFRS 16 basis, adjusted EBITDA margin before global corporate costs stood at 13.4%.

In Australia we were awarded the contract for the Independent Certifier role on the Western Sydney International Airport, one of Australia's largest ever infrastructure earthworks projects. Under the agreement we will complete certification of the bulk earthworks, pavement works, airfield, terminal and speciality work, as well as landside civil and buildings, so a significant project for us.

Now on to our acquisition activity during the quarter. In line with our 2019 and 2021 global strategic plan, we strengthened our strategic advisory services offering in environment with the acquisition of Orbicon, predominantly based in Denmark. With the subsequent acquisition of Lievense, we established a presence in the Netherlands, bringing our total workforce in Continental Europe to well over 1,000 people now. Once again, I would like to welcome our newest colleagues. And, as for Ecology and Environment, we continue to expect the transaction to close during the fourth quarter of this year. Once part of WSP, E&E will also add to our expertise in environment, bring our total workforce to approximately 50,000 people, and our environmental platform to approximately 7,000 employees, an increase of over 20% in this year alone.

Bruno will now review our Q3 financial results in more detail. Bruno?

Bruno Roy, Chief Financial Officer

Thank you, Alex.

We are pleased with our strong Q3 financial performance with key metrics exceeding or in line with our expectations.

For the third quarter, revenue and net revenue rose to $2.2 billion and $1.7 billion, respectively, an increase of 16.2% and 16.3%, respectively, compared to Q3 2018. Organic growth in net revenue amounted to 4.4% for the quarter and 3.3% for the first nine months of the year, in line with our outlook.

Adjusted EBITDA for the period stood at $288.2 million, up $100 million or 53.7% compared to Q3 2018. Adjusted EBITDA margins reached 17% compared to 12.7% last year. Excluding the impact of IFRS 16, adjusted EBITDA would have been $224 million or 13.2% of net revenues.

Our backlog stood at $7.9 billion, representing approximately 10.5 months of revenue, and increased 21.5% when compared to Q3 2018, including 4.7% in organic growth.

Turning to our balance sheet, we ended the quarter with a DSO of 80 days. Excluding the impact of the integration of Louis Berger, DSO would have amounted to 76 days, essentially the same level as the same period last year.

Trailing 12-months free cash flow amounted to $423 million, or 147% of net earnings attributable to shareholders. Incorporating a full 12 months adjusted EBITDA for acquisitions, our net-debt-to-adjusted-EBITDA ratio came in at 1.4x including the impact of IFRS 16 and 1.7x excluding it.

Finally, we also declared a dividend of $0.375 per share for shareholders on record as of September 30, 2019, which was paid on October 15, 2019. With a 51% dividend reinvestment plan participation, the net cash outflow was $19.3 million.

This concludes my remarks. Alex, over to you.

Alexandre L'Heureux, President & Chief Executive Officer

Thank you, Bruno.

Before we open the lines for questions I would like to reiterate that we are pleased with our Q3 and year-to-date performance, as we delivered solid results, which translated into positive trends on our key financial metrics, strong free cash flow, a strong balance sheet, and a healthy leverage ratio, which by year end is projected to land at the low end of our target range. Based on this continued momentum in the regions, we are reiterating our full-year 2019 outlook and expect net revenues and adjusted EBITDA to be at the high end of the range disclosed in Q2 of 2019.

Finally, as you remember, last quarter we have increased our full-year adjusted EBITDA outlook range to $970 million to $1.03 billion to reflect the impact of IFRS 16. Therefore, we are also updating the adjusted EBITDA margin on our 2019-2021 global strategic plan to now reach between 15% and 16%.
I would like now to open the call for questions.

QUESTION AND ANSWER SESSION

Operator

Pour poser une question, s'il vous plait composer l'étoile suivi du un sur votre clavier téléphonique

As a reminder, if you would like to ask a question, press star one on your telephone. To withdraw your question, press the pound key. Thank you.

Your first question comes from the line of Chris Murray with AltaCorp. Your line is open.

Chris Murray, AltaCorp Capital

Thank you. Good morning. Can we just turn back a little bit to your commentary around some of the stuff that you saw in Ontario and any thoughts around whether or not that new P3 package or anything else could actually start shaking loose some more activity for you?

Alexandre L'Heureux, President & Chief Executive Officer

Good morning, Chris. I'm not used to that; it's usually good afternoon. We typically hold our call in the afternoon.

Look, the announcement is obviously positive. Having said all that, I'm only going to believe it when it happens and it materializes. So, at this point in time, as I mentioned in my address, the backlog is there, the opportunities are there, we actually have a good backlog in our Canadian business, but I would like to see some progress being made on a consistent basis and less, less so than just being anecdotal for me to tell you that this is really promising. So, at this point in time I'm remaining prudent, but I think when this is being unlocked, I think we will be very well positioned to take advantage of that.

Chris Murray, AltaCorp Capital

Okay. Fair enough. And then just turning to your US segment, you talked a little bit about some margin pressures, I guess, with the integration, but you also talked about the fact that the integration feels like it is on track. Any thoughts around when you believe or if it's possible to believe seeing margins get back to kind of a normal rate in the US?

Bruno Roy, Chief Financial Officer

Hi, Chris. It's Bruno. On the US, again, throughout the year, as you know, we've integrated Louis Berger, which had lower margin than we had in the past. We're raising them towards our level slowly but surely. Over the course of 2020 you should see some of that gap being closed.

Chris Murray, AltaCorp Capital

Okay. Thanks, folks. I'll leave it there. Thank you.

Bruno Roy, Chief Financial Officer

Thank you, Chris.

Operator

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

Benoit Poirier, Desjardins Securities

Good morning, gentlemen. Alex, could you talk a little bit about the alliance contracting and what are the implications for WSP? I mean Ontario recently launched a new procurement model with Union Station, their RFQ, and it seems that it's a growing trend across the globe, so just would be curious what the implications are for WSP.

Alexandre L'Heureux, President & Chief Executive Officer

We were awarded the contract, so it's not like we have to go through a new procurement process or being impacted by a new model. We won this contract and it's signed and that's why I'm disclosing it right now, so I'd say that there are no real implications for us.

Benoit Poirier, Desjardins Securities

Okay. Okay, perfect. And if we look, with respect to the closing of Ecology and Environment, could you talk a little bit about the potential for margin improvement and do you see other opportunities to acquire some public companies that might not perform well but have a strong brand or a strong foothold?

Alexandre L'Heureux, President & Chief Executive Officer

Well, Ecology and Environment, I'm very pleased with this acquisition. It's not the largest, but Ecology and Environment, historically and for the last 40 years, they've had an extraordinary brand, they have a great list of clients, and I think that this, combined with our Louis Berger acquisition, our legacy WSP business and additional acquisitions in the environmental sector that we hope to complete at some point in time in the future in the US, we will be building a very strong brand in the US.

Already when you look at our headcount in the US, not so long ago we were de minimis, essentially very little or zero, and now, with the recent acquisitions, we'll be well above 1,000 people. And we're not a top firm in the environmental sector yet but that's certainly the ambition, to continue to build our presence, and I think Ecology and Environment is a great step in that direction. So that was the first part of your question.

On the second part, look, I mentioned it when I finished my keynote address that certainly by the time we get to the year end, and assuming that we are generating the free cash flow that we've generated in past years, clearly we're going to be in the low end of our range in terms of leverage. So, clearly we have a very strong balance sheet position.

But what has made us successful in the past, Benoit, that we've always remained very disciplined and focused on our strategy but also on the price that we pay, so I think our goal is really to be on the lookout, and I have been and the team has been, as usual. The pipeline is good, but it needs to make sense.

So, clearly there will be some opportunity. I'm confident that some will show up actually, in a good market, but also one day maybe in a downturn, if you have a good balance sheet. So, of course, I'm remaining optimistic in the months and years to come.

Benoit Poirier, Desjardins Securities

Okay. And last one for me. When we look at the Americas, you mention a favourable timing in Q3, but does it mean that Q4, should we expect a little bit more softness in Q4 given the favourable timing issues in Q3, Alex?

Alexandre L'Heureux, President & Chief Executive Officer

As I said, we are going to finish the year in the upper end of our range, both on net revenue and EBITDA; therefore, I wouldn't argue. I don't think what you just mentioned is a fair statement. I think we're different than other companies in the sense, than other industries, I should say, in the sense that the income recognition will change from one quarter to the other, depending on the degree of advancement of your work. It's not like selling widgets between quarters.

So, obviously, income recognition is going to vary from one quarter to the other, but I do not expect any adverse impact in Q4 given that we're going to finish in the higher end of our range.

Bruno Roy, Chief Financial Officer

On aggregate.

Alexandre L'Heureux, President & Chief Executive Officer

On the aggregate, yes.

Benoit Poirier, Desjardins Securities

Okay. That's great colour. Congrats for the quarter and thanks for the time.

Alexandre L'Heureux, President & Chief Executive Officer

Thank you, Benoit.

Operator

Your next question comes from the line of Jacob Bout with CIBC. Your line is open.

Jacob Bout, CIBC World Markets

Good morning or good afternoon there. Maybe just going back to Canada, your thoughts on the results of the federal election, does that actually help or hurt your outlook?

Alexandre L'Heureux, President & Chief Executive Officer

Well, it's not for me, Jacob, to comment on politics. Our job is to deliver services to our clients with or without the government that is right now leading the country, so I don't necessarily have an opinion on it. I think the jury is out. We'll see what the liberal government will come up with from an infrastructure point of view.

But we're not trying to be distracted by who won in politics and really try to deliver the best services. As I said before, the backlog is good and with a bit of luck and some momentum, hopefully things will pick up and we'll be in a position to really take advantage of it.

Jacob Bout, CIBC World Markets

I know you've talked about the Nordics slowing from a very robust level but, outside of that, are you seeing any areas of weakness at all from where you were last quarter?

Alexandre L'Heureux, President & Chief Executive Officer

I'm sorry, Jacob, I missed the first part of your question. Can you repeat it, please?

Jacob Bout, CIBC World Markets

Yeah, the first part of the question, I was just commenting on the Nordics, and I know in the past you said you'd seen a little bit of slowing there, but I'm just trying to get a feeling as far as how you're thinking globally. Versus last quarter, are you seeing any slowing globally?

Alexandre L'Heureux, President & Chief Executive Officer

Look, we're going to finish the year in the Nordics on a good note. I think it's fair to say when you look at the public data that the private sector residential market has cooled off a little bit. And I'm not talking about recession here, not at all, not even close, but all I can tell you, and I think I've talked about this for quite some time, a few quarters now, that yes, the private residential sectors has cooled off a little bit, but this year the Nordics will be delivering on budget, will be delivering good organic growth, and action improve the margin profile, which is refreshing given that the Nordics had a decline in margins for the last two years. So, this year we're back on the right trajectory and I'm very pleased about that.

Jacob Bout, CIBC World Markets

And outside of the Nordics? Are there any signs of weakness globally?

Alexandre L'Heureux, President & Chief Executive Officer

Look, you read and listen the news like I do. Of course, I'm always quite impressed, that's probably the right word, by the way our business in the UK has been performing given the uncertainty that the country is going through. I'm very impressed and, as I said in the last quarter, I think our team should be commended for the good work that they've done. Globally, clearly, of course, there is some uncertainty on tariffs and trade wars and elections but, as I said to you early on, we cannot stop thinking about uncertainties that we don't have any control over, nor we can think about politics. Our job is to win work, create shareholder value, and deliver on ambitions. So that's what we're busy doing and we're going to do the best that we can in the environment in which we operate.

Jacob Bout, CIBC World Markets

And just a housekeeping item here on the IFRS 16 impact and guidance reconciliation. So, if I remember correctly, you're guiding that the full-year impact of IFRS 16 on EBITDA is around $240 million. If my calculation is correct, you're around $192 million year to date. So, does that guidance still hold?

Bruno Roy, Chief Financial Officer

Yeah, we'll be, again, in the upper end of the guidance we have given on that, so $240 million-ish is not a bad number at this stage.

Jacob Bout, CIBC World Markets

Okay. All right, thank you.

Alexandre L'Heureux, President & Chief Executive Officer

Thank you, Jacob.
Operator

Your next question comes from the line of Derek Spronck with RBC. Your line is open.

Derek Spronck, RBC Capital Markets

Good morning. Thank you for taking my questions. Your organic growth rate seems to be tracking ahead of the industry and potentially gaining market share. Would you say this is accurate? And what do you think are some of the key drivers of this dynamic?

Alexandre L'Heureux, President & Chief Executive Officer

Well, a couple of more granular observations and they are more intuitive. I don't have the data in front of me, but just to give you a bit of colour, indeed I believe right now in Australia we are gaining market share. I think in Asia Pacific over the recent years, I believe we've been growing at faster rates than some of our peer group. I believe in the UK, despite, as I said before, a more challenging environment, I do feel that WSP, over the recent years, has been gaining market share and doing extremely well in the marketplace.

And while doing that, we were able also to improve our margin profile in the UK. In Canada, I think we are certainly a leading firm in the Canadian market, probably the leading firm now in the Canadian market, but it's been, I believe, a challenging environment for everybody. So, I wouldn't argue that we are, at this point in time, gaining market share, but we're certainly not losing any. I think we're doing well. But I'd like to see a better organic growth rate for me to suggest that we are. And in the US, I mean we have definitely a plan to gain some market share in pillars or business lines where we don't have a strong presence. So, in the years to come, we will try to grow them aggressively. And then in our main markets, I believe that we've been growing at a good rate and we've been doing very well and I'm feeling good about the future of our US business.

Derek Spronck, RBC Capital Markets

Okay. No, that's great. Do you think, you know, is a driver, obviously, with the margin profile improving, it doesn't appear like this is a price-led sort of market share strategy. Would you say it's your positioning and your positioning within the marketplace being more of a specialty-type of engineering shop versus a more commodity-type of engineering shop? And if so, how do you think about your peers, who your true peers are from a valuation perspective?

Alexandre L'Heureux, President & Chief Executive Officer

Well, I'm glad you're raising this point, because I have rarely an opportunity to comment on WSP's expertise. I'm not going to comment on our peers, I have the utmost respect for our competitors, but I can comment on ours. I believe that WSP, and I mentioned it many times, is uniquely positioned to take advantage of the trends that are taking place in our industry. I think the brand, the rebrand of our organization and the brand awareness over the recent year has been tremendous. We've added a lot of momentum.

But, at the end of the day, we're selling brainpower and we're selling expertise. And both organically by attracting top talent in our organization and also through acquisition where we acquired a lot of very strong expertise, I think we've been able to develop a really solid offering for our clients. And I think we are witnessing that right now and I must say that I'm quite pleased with the way we've positioned WSP as a trusted adviser to the main clients in this industry and I think if we do it well, I think it's going to bode well for the company in the years to come.

Derek Spronck, RBC Capital Markets

Okay. That's great. Thanks, Alex. I'll turn it over.

Operator

Your next question comes from the line of Devin Dodge with BMO Capital Markets. Your line is open.

Devin Dodge, BMO Capital Markets

Good morning.

I just wanted to come back to the UK. You've touched on this a couple of times here but some of your competitors have suggested that uncertainty related to Brexit has started to impact the timing of certain projects. Just trying to get a sense for—have you seen any impact on your business in the UK? And if not, can you help us understand how you've been able to avoid any kind of slowdown there?

Alexandre L'Heureux, President & Chief Executive Officer

Look, I mentioned it previously in previous calls, you know, to suggest that Brexit has not had any impact on our company is untrue. Clearly, I think it's impacting everybody and I would agree with our competitors that clearly, for instance, in the private sector real estate sector that real estate developers oftentimes are on a wait-and-see approach. They want to see what may come up and how things will shape up before putting a massive project, to start working on a number of significant projects. So, clearly, in the UK we have seen a bit more of a wait-and-see approach from some of our clients. But, at the same time, it's still formidable to see that the country is fairly resilient despite the uncertainty that we've been seeing. I think we have a good backlog. We shouldn't take our backlog for granted and we're absolutely not, we're monitoring that very carefully, but I have to tell you, and as I said before, I myself am very impressed with the way our team has been performing in this uncertainty or this environment essentially. So, I'd say that we're going to have a good end of the year in the UK and we are in the middle of our budgetary process in 2020 but right now I think we're entering the year thinking that we're well positioned in the UK

Devin Dodge, BMO Capital Markets

Okay. That's helpful. Maybe just switching gears here, but just given the tight labour markets across many of your regions, have you seen employee turnover pick up at all? And just maybe further to that, what sort of wage inflation are you seeing across the company and where are you seeing the most wage pressures?

Alexandre L'Heureux, President & Chief Executive Officer

Yes. The wage increase, I'm not going to disclose due to competitive advantage. So, it's something that clearly we're using oftentimes to attract talent, so I'm not going to comment on this. But it's not—just to put things in perspective, it's not more than it has been in previous years. It's certainly not the top lever that we're using to attract talent. But clearly, you're right. I mean we're a people business. Although we are using and we're digitalizing our services more and more, it's very much a people business environment, and creating the perfect environment to attract the top talent is really important. And you're right; there is a war on talent. But it's not consistent and the same across the globe. So, there is some more turnover in some places more than other places, but I think you're right to point out that, yes, we're all chasing the same talent. It's our job to attract the best talent in the industry by offering very exciting career opportunities. So, there is some higher turnover in some places, but in other places, in our large hubs, the turnover is actually below industry average, because I believe we're doing a great job at creating a (inaudible) environment for our people.

Devin Dodge, BMO Capital Markets

Okay. Thank you. I'll turn it over.

Operator

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

Michael Tupholme, TD Securities

Thank you. Good morning.

Alexandre L'Heureux, President & Chief Executive Officer

Hello. Good morning, Michael.

Michael Tupholme, TD Securities

Alex, can you provide a little bit of an update on the integration of Louis Berger? And I believe Bruno mentioned something to the effect of expecting some margin improvement in the Americas region as that integration occurs next year, but I didn't quite catch the comment there, so if you could reiterate that, that'd be helpful.

Alexandre L'Heureux, President & Chief Executive Officer

Yes. So, for the first nine months, Louis Berger turnover has been below 10%, which is, by industry standard, very low. So that means that I think we've done a very good job at selling the vision, selling the strategic rationale of the combination between Louis Berger and WSP in the US. Today, the subsidiary of

Louis Berger, ABAM, a port and marine business, is fully integrated to WSP. LBUS is well underway to be completed. So, by year end this will be fully integrated. I think benefits have been fully integrated. But, more importantly, I mean we've won a number of assignments already together as a corporation, especially in the federal space that would have not been won by Louis Berger had we not been there. So, I think there's a lot of good momentum. It's very complementary to what we do. As a friendly reminder, we do some great environmental work in the federal space. They have a very strong planning advisory piece to their offering, something that is very complementary to what we do. And finally, in bridges, they're very strong. So, I think it's been great news and I think it bodes well for the future.

There will be a bit more, I would say, cost synergies, or I should say integration costs in 2020 when we turn our eyes on Louis Berger International. We mentioned at the time of the announcement that there is a certain part of the Louis Berger International that we would want to restructure. So, we're working on this right now, but things are going as planned and we're very pleased with that.

Michael Tupholme, TD Securities

Okay, thank you. Just on the—

Alexandre L'Heureux, President & Chief Executive Officer

And your last point, sorry, Michael, on the last point, clearly, of course we are working at improving the margin level of Louis Berger to our level and actually this year we've had a good year in that regard.

Michael Tupholme, TD Securities

Okay. That's helpful. On the subject of acquisitions just more generally, I think you maybe touched on this a little bit, but any commentary on the acquisition pipeline in general. And beyond that, are there any regions that you're more focused on now than previously? Any changes in terms of the regions you're focused on for acquisitions? And specifically I'm looking at the fact that you recently announced the Lievense acquisition in the Netherlands, so wondering if Continental Europe has become more of a focus for you.

Alexandre L'Heureux, President & Chief Executive Officer

At the time when we unveiled our strategy in early January, I mentioned the geographies of interest to us. So, clearly we are going to continue to deploy the vast majority of our capital in the OECD countries. We will continue to deploy capital in places where we are subscale. Back then, I mentioned that there are a number of geographies in the US where we are subscale. As an example, California has the economy of Canada and Texas has the economy of Australia, so on its own, the US is multiple countries. And we are subscale in many places in the US, so we'll continue to look for good opportunities to scale up our US business.

But equally, in Europe, not so long ago in Central Europe we were very small with very little presence and when you look at Holland and Spain and France and a number of jurisdictions and countries, we talked about a pool of 300 million people, population, and our work is not always correlated to GDP growth. It's correlated to needs in the countries. And therefore I think it's really important for us, if we aspire to become the best professional consultants in our industry, to grow our presence in that region. And the Netherlands are known to have very, very solid engineers and a lot of great expertise and it was important for us, and frankly for many years now, to enter the Dutch market, and I'm very pleased about this acquisition.

Michael Tupholme, TD Securities

Okay. And then lastly, just wondering if it's possible to get a bit of an update on your thoughts around capital allocation. Clearly, it sounds as though acquisitions will continue to be an important part of the mix, but you did talk about your leverage ratio coming down further by year end, so I'm just wondering if you can provide some more general comments on overall capital allocation priorities and whether other parties are likely to be in the mix as well.

Alexandre L'Heureux, President & Chief Executive Officer

Well, it's fairly simple, right? I mean there are three things we can do. We can increase the dividend, we can buy back stock, or we can deploy our capital by making additional acquisitions. Obviously, I do feel at this point in time that the pipeline of potential acquisitions in the next 12, well, by the end of our strategic plan is still intact. We have a good pipeline and therefore this is certainly my first choice, and so therefore monitoring that very carefully.

But it's our job also to always review our capital structure and in December, this is when I'll be discussing with to our board about what we want to do next. But you look at our yield, dividend yield, I mean we have a very attractive yield compared to our peer group despite our stock appreciation. If you look at our payout ratio, with or without the DRIP, I think we are tracking very well. I'm pleased about that. So, I think we are in a good place. I see this, to me, as a real opportunity to take advantage of it if a good opportunity presents itself. But we'll see what 2020 will look like and then we will inform you in due course. But I think the fact of the matter that we are in a position to already be, on a pre-IFRS basis, I'd say at 1.5x by year end, I think would be a great place to land, and that, the credit should go to our team who have created very strong free cash flow over the last few years and we were able to de-leverage fairly quickly.

Michael Tupholme, TD Securities

Okay. Thank you.

Operator

Your next question comes from the line of Frederic Bastien with Raymond James. Your line is open.

Frederic Bastien, Raymond James

Hey, guys. Just building on that, you do have the balance sheet strength to continue buying several more businesses down the road, but how are you feeling about your capacity to absorb and integrate them?

Alexandre L'Heureux, President & Chief Executive Officer

I think I'm feeling very good, Frederic. I look at recently, over the last few years, we've done a number of smaller-sized acquisition, but also a number of mid-sized acquisitions, and Louis Berger and Opus and Mouchel, just to name a few in recent years, and clearly, I mean the Opus integration is history, the Mouchel integration is history, Louis Berger will be very soon a history as well. So I'm feeling good about it and I think we are good integrators because we do a lot of work upstream ahead of signing an agreement and so therefore I do feel good about it, yes.

Frederic Bastien, Raymond James

And are you agnostic to the size of the firms you're kind of looking at? I mean would you rather do a 5,000-employee firm acquisition versus five acquisitions of 1,000-employee firms?

Alexandre L'Heureux, President & Chief Executive Officer

I don't think it would be fair to say I'm agnostic because, to me, every acquisition is different, whether it's a 50-people firm or a 15,000-people firm. Should we choose to complete them, it's because they bring something to the table and they're allowing us to strengthen our platform. So, clearly I think we have the capacity to do those 500-people firms, we have the capacity to do the 5,000 people firm, and obviously, clearly, given our fire power now, we have the capacity to do bigger, much bigger. But it needs to make sense at the end.I see a lot of potential transactions that make sense financially on paper, but I also know that strategically and practically that products would not create long-term value for our shareholders and I'd rather not do them. So, we're very disciplined, but I'm open-minded, and it's not because we're now a 50,000-people firm that we're not looking at the smaller-sized firms. That's not our culture and that's not the way we work.

Frederic Bastien, Raymond James

Okay. Thanks for that colour. My last question: How are you feeling about the state of the US markets and your position within those markets?

Alexandre L'Heureux, President & Chief Executive Officer

Well, look. You look at recent data on a high-level basis, I think, you know, banks don't seem to be in a position to agree whether we are facing, on a relatively short-term basis, a recession or not, so it's obviously not my job, but it's also tough for us to see what's coming up. At the same time, you look at our backlog, our backlog is growing. I think our 2020 backlog is in a good shape. I feel we have the team to execute. So, we'll continue to execute on our strategy despite the environment that we operate in. And so we have a very, very clear strategy in the US and, as I said, we'll continue to execute on it and I feel good about it.

Frederic Bastien, Raymond James

Okay. Thank you. Merci.

Operator

Your next question comes from the line of Dimitry Khmelnitsky with Veritas. Your line is open.
Dimitry Khmelnitsky, Veritas Investment Research

Good morning. I have two questions. First has to do with the 2019 acquisitions. Do the other acquisitions, going beyond the Ecology and Environment acquisition, do they have similar financial profile or performance as the E&E acquisition? That's first part of the question. And second is if you can talk a little bit more about how you can improve profitability at Ecology and Environment going forward. Thanks a lot.

Alexandre L'Heureux, President & Chief Executive Officer

The answer is no. The profile is not the same in all of the acquisition that we completed, for a number of different reasons. Some may have a very healthy EBITDA margin profile, some others may need some operational excellence. We need some best practices to be implemented. I am convinced that that's the case with Ecology and Environment. Ecology and Environment is a very strong brand and had a very strong brand for many, many years with great people, and this company needs to join a group that will allow them to spread their wings, take advantage of our network in the US and abroad, and work with us to improve the margin profile of it. (Inaudible) is a proof that we are good at joining forces with companies and working with them to improve the margin profile, so I am confident that we will be able to improve the margin in Ecology and Environment. But, as I said before, the profile is not the same. And also, the country margin profile is not the same, whether you buy in one place or the other. I hope that this answers your two questions.

Dimitry Khmelnitsky, Veritas Investment Research

Thanks a lot. And maybe if you can provide a little bit more colour in general on how would you address margin improvements related to acquisitions. What will be some of the measures that you'll take?

Alexandre L'Heureux, President & Chief Executive Officer

Margin improvement is not just in acquisition. Margin improvement relates to our existing business as well. We can always improve as a business. You're never going to hear me saying that now we've reached a level where we're no longer in a position to improve. We constantly have to challenge the status quo and reinvent ourselves and that's what we're doing right now. But there's not one single answer to your question. The levers that are needed, for instance, to improve the margin profile in Australia can be completely different than in the US. And on acquisitions, some companies may have a pricing issue or a client selection issue or project selection issue. Some others may be more of a matter of utilization and better use the resources that they have internally. Also, it may be just the position in the marketplace, are they have service offering that you may want to use. So, in our industry, it's not one single lever that will move the margin. It's a number of small but very important actions that will drive performance in a company.

Dimitry Khmelnitsky, Veritas Investment Research

I appreciate it. Thank you.

Operator

Your next question comes from the line of Nauman Satti with Laurentian Bank. Your line is open.

Nauman Satti, Laurentian Bank Securities

Hello. Good morning, everyone.

Alexandre L'Heureux, President & Chief Executive Officer

Good morning.

Nauman Satti, Laurentian Bank Securities

So, Alex, if you could comment high level on the competitiveness of the bidding activity as compared to last year and has that impacted in any way the pricing?

Alexandre L'Heureux, President & Chief Executive Officer

My intuition, like a first gut-feel answer is that is hasn't changed materially or at all, frankly. Let's not kid ourselves. We are operating and evolving in an industry with formidable companies and we're competing every day against very good companies and therefore it's a very competitive environment. Whether you operate in the UK or in Canada or in the US or elsewhere, you always bump into great players and you need to be on your A game to win the job. So, I think my answer, very simple answer, is that it hasn't changed much, or at all, frankly, since last year.

Nauman Satti, Laurentian Bank Securities

Thank you. Thanks for that colour. And just going back to the Canadian operations and its margin, what will you attribute this? Is there anything specific or, again, is there multiple levers at play?

Alexandre L'Heureux, President & Chief Executive Officer

It is multiple levers, but I can tell you, being very close to our Canadian operation, that the team should be commended. Cost containment, they've done a very good job this year at managing the business, at streamlining the business, at reacting to market conditions very quickly in our space. And I may have mentioned it before to you, you know, we are a variable cost business. We have very little fixed costs, we have very little CapEx as a percentage of our net revenue. So, the beauty of our model is that if you have good leaders and a good management team, this team is able to react very quickly to changing environments, and Canada has done that this year. So that's why they have a good margin profile and this has been, by all standards, as far as I'm concerned, a good year for Canada despite the difficult market environment.

Nauman Satti, Laurentian Bank Securities

Thank you and congrats on the great results.

Alexandre L'Heureux, President & Chief Executive Officer

Thank you very much.

Operator

Your next question comes from the line of Mark Neville with Scotiabank. Your line is open.

Mark Neville, Scotiabank

Good morning. Just on the Ecology and Environment acquisition, again, I appreciate it hasn't closed yet, but looking at sort of trailing numbers, profitability looks to be fairly muted. I mean is there any specific targets you could share with us or, I guess, is there any structural reason why the margins there couldn't look sort of comparable to your Americas or US business?

Alexandre L'Heureux, President & Chief Executive Officer

Well, like I said before, it's a number of different levers. For example, just to give you a bit more detail, they have a great multiple and great pricing, great pricing metrics within E&E, but utilization, perhaps leveraging our platform will be able to improve significantly the utilization. Perhaps also the cost structure of the company is a bit too high relative to what we would come to expect in a company of this size. So, we are working closely with management to really improve performance or we will be working very closely with management to improve performance. But beyond and above that, this deal is a revenue synergy game. It's not a cost synergy game. I am confident that E&E, within our platform and within our network, we will be able to create a lot of cross-selling together and grow the business very rapidly and leverage the cost structure that they have. So, I'm very excited about this transaction.

Mark Neville, Scotiabank

Yeah, no, that's helpful colour. Earlier or previously you talked about environment being a big focus. I think now you've said you're up to sort of 7,000 employees in the practice. Sort of longer term or sort of where you're at now, how much larger could this get or how much bigger would you like to make it as part of sort of the whole?

Alexandre L'Heureux, President & Chief Executive Officer

What we said in our strategy is that we want to grow significantly in the years to come our advisory services. We have an enviable position in the design space and we continue to capitalize on our strength in the design space and we continue to strengthen our platform in design. But in parallel, we have great ambitions to expand our other pillars and I think in the years to come it's certainly going, in the underlying circumstances, obviously, it will be our goal to really strengthen our other pillars such that from the beginning of a project when the client needs a permit to the full design of what a client envisions in terms (inaudible), we are sitting next to this client and act as a trusted advisor from beginning to the end. And leave the construction for someone else.

Mark Neville, Scotiabank

Understood. Sorry, for Bruno, the lease expense, you're tracking roughly $65 million per quarter. Is that a good number to use?

Bruno Roy, Chief Financial Officer

Yeah, again, the top of our range is around 240-ish and it's not a bad number.

Mark Neville, Scotiabank

Okay, but I guess—okay, so 60, 65-ish, I guess? Again, it would imply a fairly big step down in Q4, but I think you're sort of talking 60, 65. Am I reading that right?

Bruno Roy, Chief Financial Officer

Yes.

Mark Neville, Scotiabank

Yeah, okay. And just maybe just one last question, just to confirm, the 15%, 16% EBITDA margin for 2021, that's after corporate, correct?

Bruno Roy, Chief Financial Officer

After corporate and after IFRS, yes.

Mark Neville, Scotiabank

Yeah, okay. All right. Thank you.

Alexandre L'Heureux, President & Chief Executive Officer

Thank you.

Operator

Your next question comes from the line of Maxim Sytchev with National Bank Financial. Your line is open.

Maxim Sytchev, National Bank Financial

Hi. Good morning. Alex, just one very quick follow-up on M&A: Wondering if the landscape for transactions has changed or evolved at all in terms of, you know, are you seeing emergence of other competitors, maybe private equity, looking at the assets that potentially you could be looking at, because some of your peers as well are trading at pretty healthy multiples. So, any colour you can provide there, please.

Alexandre L'Heureux, President & Chief Executive Officer

Well, every day we're competing against some parties that may be or may not be playing in our industries. And you're right in saying that in the last few years there has been some companies that chose to sell to a private equity versus strategic. But it doesn't change our focus and it doesn't change our approach. We want to merge or join forces with companies that want to join WSP, want to be part of our story, want to be part of our ambitions and visions to build something special and different. So, those companies that wish to join with private equity probably will not share our vision and culture in the first place, so it's not like we are targeting essentially the same targets.

If I was to end up, just for argument's sake, in a process and I was competing head-to-head with a private equity, this would lead me to believe that we might not be the right fit for a target like this, because we don't have a short-term view. We take decisions for the long-term benefit of the organization. And, more importantly, what we want to build is not about creating money in the next year or two and offload the asset. It's really creating long-term value for our shareholders.

So, I'm not sure I'm answering your question, but that's how I view the world And first and foremost, I mean we do participate in very little process. We do tend to (inaudible) source our deals and develop the relationship over a long period of time before we can consummate the transaction. So, oftentimes we're not playing in the same field and the same space as private equities.

Maxim Sytchev, National Bank Financial

Okay, for sure. No, that's very helpful. That's it for me. Thank you very much.

Operator

Your next question comes from the line of Yuri Lynk with Canaccord. Your line is open.

Yuri Lynk, Canaccord Genuity

Hey, guys. Just a quick one for me. Great quarter, but I couldn't help but notice earnings, EPS kind of flattish year on year. It looks like your interest expense kind of doubled sequentially. I'm assuming a portion of that is non-cash. Bruno, any colour you can put on that?

Bruno Roy, Chief Financial Officer

Yeah, you've got details in our financial statements on it. So, a chunk of it is IFRS 16. Obviously, if you take the year-to-date number, there's $35 million, a charge we didn't have last year, so just (inaudible) the year-to-date number. We do have more debt than we had last year in aggregate at this stage, so obviously the interest rate (inaudible) facility is a little bit higher than it was last year. And then last but not least, we have a bit of FX in the well, which accounts for about $7 million.

Yuri Lynk, Canaccord Genuity

Okay.

Alexandre L'Heureux, President & Chief Executive Officer

And that's one thing that I've noticed, you know, I'm making an observation to all of our analysts and the investment community, I think like that line, the finance expense line, I do feel, from one quarter to the other, on a consistent basis, there seems to be some discrepancies. But Bruno is right, our debt level, I mean we incurred more expenses this year, finance costs, and there is IFRS, and lastly, it's the FX that took place in the quarter that has been impacting us. That's the only reason. There's no real other explanations.

Yuri Lynk, Canaccord Genuity

Right. I mean I was obviously excluding the IFRS impact, but it was still a big step up relative to kind of unchanged debt levels versus last quarter. Anyway, I'll maybe take it offline after the call.

Alexandre L'Heureux, President & Chief Executive Officer

You should take it offline with Bruno, yes.

Yuri Lynk, Canaccord Genuity

Yeah. Okay, thanks, guys.

Operator

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

Alexandre L'Heureux, President & Chief Executive Officer

Well, I would like to thank you for attending this call this morning. We are, again, very pleased with the way our quarter turned out and we look forward to providing an update during our Q4 on the performance of our year and our 2020 prospects and views on what 2020 could look like. So, I look forward to continuing the discussion and wish you a great day. Thank you very much.

Operator

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