

# TRANSCRIPT

## 2014 ANALYST AND INVESTOR DAY

JUNE 19, 2014, MONTREAL

9:30 AM

**MAGNUS MEYER, Managing Director, Sweden**  
**Swedish Operations**

**Magnus Meyer:**

OK. Thank you, Pierre. Can I turn this off? OK, good. Thank you. Well, good morning, everyone. I'm Magnus Meyer. I'm the MD of Sweden since March this year. So I'm brand new to the company, and I was thinking I would just give a very, very short introduction of myself since I'm new to the company so you know my background.

I'm a civil engineer, training. However, I never worked as a civil engineering, so this is really coming home to a great engineering firm. My background is really after graduating in the early 90s with the huge financial crisis in Sweden, so I started doing management consulting and really working with the construction sector in downsizing. And since then, essentially, I worked in real estate and finance up until a few years back when I took over as MD of one of the biggest and oldest architect firms in Scandinavia. So I was running that firm for two years until WSP contacted me, and I'm very glad they did because I got the opportunity to run what I believe is a truly fantastic business.

WSP Sweden, it's an old firm. You know, it's more than 75 years old. It was a listed company in Sweden when WSP bought it in 2001. So it's a very solid, well-known business in Sweden and in Scandinavia. We have roughly 2,600 people in 40 offices around Sweden, obviously, mainly in the bigger regions of Stockholm, Göteborg and Malmö, but also across Northern Sweden, where there's a lot of mining and industrial activities. So a lot of similarities with Canada, we think, in the setup of the offices.

Let's see if we can get this to work. What we do is pretty much like Canadian business, a well-diversified multidisciplinary business. We do a lot of infrastructure, a lot of property, a very well organized and profitable environmental business, and to some extent, industrial business. But that's a fairly small portion. So the stuff we do for industry is mainly building-related. So it's not a lot of Industrial Services. So it's more building-related services to the industry.

We have one fairly interesting business area called Analysis & Strategy, which is unique at least in Sweden. Roughly 120 people working in – most of them being economists and PhDs in doing analysis of – to give a few examples, when Sweden decided to have, you know, tolls, traffic tolls, in Stockholm and Göteborg, we did all the analysis of pricing, what the effects would be on the businesses if people would stop taking their car and how would that impact retail and so forth. We did everything on those analyses. So we're clearly number one in these kinds of analytic services in Sweden. So that's a very interesting business next to our more traditional engineering services.

We have a very strong client base, roughly 4,500 clients, a lot of them are repeat customers. Our top line, 12 percent of revenue, is the national road and traffic administration, Trafikverket. There's roughly 12 percent of the revenue, and it's been fairly stable over a long time.

We do a lot of projects, roughly 20,000 projects yearly, which indicates that the average size of our projects are fairly small, which is good and bad. It's good because it's very resilient. It's part of the success that I will come back to shortly of the Swedish business, being very resilient to downturns in the economy. So that's partly due to the fact that we have a very, very broad spectrum of projects.



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We're also very, very focused on public clients, which is a bit different to other parts of WSP. Again, this is also good and bad. Public clients are stable and they pay their bills, which indicates, you know, down to very, very good DSO days for Sweden. But then, again, there's a lot of price pressure in the public sector so, you know, we need to focus on keeping the margins up.

Another thing that is kind of specific for Sweden is that 95 percent of our business is charging hours fee-for-service, and again, that's good and bad. It's very stable, very little risk in what we're doing, but then, again, a lot of price pressure is, you know, for fee-for-service.

Looking at the market, WSP Sweden is and has been for a long, long time, number three in the market. As you can see, two players have really moved away in the Swedish markets, AF and Sweco. Both are listed firms in Sweden. And the reason that these are estimated numbers is simply that being local firms, Swedish firms, but doing a lot of business outside of Sweden, it's – they don't present those specific numbers on Sweden. So these numbers for, you know, AF and Sweco might be a bit skewed, but the trend is very clear anyway. You know, there have had a growth that is way ahead of the rest of the market. And WSP Sweden has sort of, had a decent growth in line with the market, I would say. So these two players are really pulling ahead, and this is one of the main objectives for us now, of course, to catch up with these guys because they have really taken opportunities that have been in the market.

So looking at the Swedish business, again, very stable, solid, positive increase in revenues, and this also links over to very stable margin and very good results. I see no reason that this should change. You know, it's a stable business, has been and will be. Obviously, we're going to work hard on trying to improve it further. But our main objective is not improving margins, it's in getting growth really kick started because we have a really, really good margin to start up with.

And the same really goes for DSO days. We're in a good place. We have a good friend. Obviously, we're pushing to decrease it further, but there's only so much you can do. So again, main objective is not to move DSO days, but rather to keep our margins and DSO days and increase growth.

Also, looking at the order book, very stable. We have a bit of a difference, of course, since 95 percent of what we do is fee-for-service, meaning that an order can always be canceled. It's not the big cost for clients. But then, again, as long as the market is strong and we're doing a good job, that is not the risk, and we've been doing it for 75 years so – but just to get a feeling for the business and how it works.

This is, by the way, our headquarters in Stockholm. It's just next to the Globe Arena, where Sweden has beaten Canada in ice hockey a couple of times, and unfortunately, lost a couple of times as well. So our main office is just next to this fantastic arena. And next to this arena is another soccer arena that WSP has been working on for a couple of years, Tele2 Arena, and a couple of weeks ago, it was actually voted the Arena of the Year in London in a big event. So we're very proud of that. It's been one of the biggest projects we've run over the past few years.

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Then moving now to Sweden. Many of you might have heard the story before. The Swedish economy is very solid, strong. Public finances are strong. For many, many years, we had a positive public finances now. You know, this year is election year. So the government starts spending a little bit more, as often happens, when it's election, but it's still extremely solid. Current accounts, very positive; real growth, 2.6 percent this year, zero inflation and 2.6 of GDP. So in real terms, that's fairly solid. Expect similar figures next year. So it's looking very, very good for the fundamental perspective in Sweden.

Moving on to looking at infrastructure. I mentioned that infrastructure is maybe our most important area, and the Swedish Parliament just passed the new long-term plan for governmental infrastructure investments, moving it up from the previous plan with SEK 100 billion. So it's clearly strong emphasis on getting more cash into the system of improving infrastructure and also investing in new infrastructure.

The big discussion in Sweden is that this is good, but it's not enough. So – but we'll most likely be the new government in Sweden because in the past, they are way ahead of the current government. So, most likely, we'll have a new government in September. They have already announced that they will increase this number. But we'll see if it happens, but it's a very strong emphasis on infrastructure. So we're pushing a lot in that area as well. But also buildings, I have put the slide up to give perspective on the stability and the growth in investments in buildings, which is clearly also very stable and a few percent up every year.

Just a few comments on the infrastructure. We have currently bids out for projects worth of 1.5 billion in the Swedish market just in infrastructure, and there will be projects up for grabs this fall for another 2 billion of infrastructure products, just governmental projects, and obviously, the competition is fierce. Many players, Swedish and internationals, are bidding for it. So if we can get a small portion of it and the right portion of it, we will be happy, but there's a lot of opportunities. These are roads, highway and road projects that we're working on right now, we're bidding on right now, so we don't have them. These are our rail projects. It's a very, very strong emphasis on rail and refurbishing the Swedish high-speed rail system and also building new high-speed rail.

But also, my team is actually in negotiation right now on one of the extensions of the metro in Stockholm, a huge project for us. So there's tons of opportunities in infrastructure, looking very, very positive. But we need that. We have a big team. We have 800 people working in infrastructure. So we need the projects as well so it's – but there's plenty of opportunity, and I expect this to grow over the coming years.

Looking at where we want to drive the business going forward. Well, I mentioned growth. Obviously, growth is, in essence, part of any business. I think if you're not growing, you're going to die. So either way, we're going to grow, but it's also a growth in different ways. And what we're specifically trying to grow in the Swedish market is not only our existing business, but also an increased focus on strategic advisory. I mentioned earlier on that we have an area called Analysis & Strategy. It's a profitable business, high margins, higher fees, and we're looking at increasing our strategic advisory in different ways.

So that's part of what we're working on to really get the business in shape for more work of that kind, going forward, also taking on a wider role in the progress where we're working, trying to get into a position as a lead consultant in all the projects and getting a firmer grip of the client relationship, and consequently, also controlling the projects, and in the end, controlling that we can get further business.

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The long-term goal is to double the Swedish business. As you saw earlier on, we have our main competitors, are more than double the size of WSP Sweden. So in order to catch up, this is a goal that I want to be a top three player, but I don't want to be too far behind the other two. So we're clearly looking at doubling the size of the business. How long that will take? Who knows, but we're clearly indicating that we're going to grow.

As I mentioned, areas to focus on is a lot of infrastructure, but also property sector. The Swedish property sector is unique in many ways. Just looking at transactions, the churn of Swedish commercial real estate is four times as fast as the European average. So simply put an office building in Stockholm is sold four times as often as an office building elsewhere in Europe with the exception of London. The U.K. property market (is) also very quick churn, but otherwise, Sweden is unique in that sense. And this is – there's a lot of reasons for that, but I don't have time to walk into right now. But what it – the effects of this is that it's a lot of transactions. They're transaction driven and a lot of consulting linked to those transactions. So we're looking to get a bigger part of that kind of work. We're already doing it, but we want to do more of that going forward. And then lastly, also, more strategic advisory in all sectors of work.

I mentioned that we're already in a good place when it comes to margin. But to improve it, and on the first place, to defend the margins we have and hopefully improving them, we have since a few years back worked on client resourcing and off-shoring. We have, specifically, working with WSP India. We also have WSP in Romania, which is a part of the Swedish operation, even though it's Romania, because essentially, what they do is work for Sweden. And we're going to increase this spot to keep the cost base at a decent level.

We're also moving into developing our sales and marketing teams, especially to go for bigger and more complex projects and to develop our key account program. We started the key account program in Sweden a few years back. That has been very successful. So we're now trying to increase the number of clients, but also, the way we're working in trying to also leverage the fact that we're a global business working with the big multinationals of Sweden, trying to get work for WSP all over the world.

And as I said, we're looking at really focusing on the big projects. The big projects are needed to keep the margins up, the utilization rates up. So we've had a trend of smaller projects, which is good in one sense. But again, I want to keep the balance with more bigger projects to have a pyramid of the sizes of projects that we're doing.

Growth opportunities. Well, Stockholm is clearly one. You know, it's a city. It's actually the fastest-growing city in Europe, albeit it's a small city. Stockholm is not a big city, but percentage-wise, it's growing faster than any other city in Europe. And this implies a lot of opportunities in Stockholm in healthcare, in public buildings, in residential and infrastructure, everything.

And specifically, on the residential sector, Sweden has been undersupplied for a long, long time, for political reasons. We have a rent control system in Sweden that has been not functioning 100 percent. That's meant that investors do not invest in apartments for rent. Now this has loosened up and the rent control system is more in balance with the market. So that's really pushed off residential investments. So I see a lot of opportunities in residential going forward.

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And I've mentioned rail a couple of times. As in many parts of Europe, the backbone rail network is (inaudible). There's a lot of investment needed in that. So we see huge opportunities, because from an engineering perspective, refurbishment of existing rail is equally big, almost as new investments. There's a lot of work needed from an engineering perspective on maintaining the existing structures.

Two projects to finish off. This is an interesting one, in the mining city of Kiruna, way up north. We do a lot of work in this mining city. But since mining has affected the city, or actually, moving the entire city. In order to be able to continue mining, they're virtually moving the city. And as a part of it, the mining company pays for a new city hall. And we got the project to run this with a Danish architect; very, very nice project.

Another one is in Stockholm. It's a state-of-the-art traffic and emergency management center. Big project, SEK 1.7 billion in investment and roughly CAD 20 million in investment for, or in fees for WSP. We're roughly halfway through, and this will be a design build, so we hope to get to continue to work as well.

And that's my presentation. So questions? Crystal clear?

**(Pierre Lacroix):** Hi, this is (Pierre Lacroix) from Desjardins Securities. Just if you could come back on the slide kind of about the – (that you went through) in the growth of the (inaudible), I'm just wondering what are the reasons why you (inaudible).

**Magnus Meyer:** Well, there's a couple of reasons. One is that those companies, AF and Sweco, a long time ago, decided on a very, very strong growth strategy. So this is, I would say, 10 years ago, especially, as public companies, they announced, «We're going to grow the business,» you know, and they've been very, very aggressive and being able to attract capital, of course, from the markets in order to do this.

At the same time, you know, before GENIVAR bought WSP, WSP was in – had been – had strong balance sheet. So we couldn't really compete from the Swedish perspective. We simply don't have the cash to complete on many of the transactions, which was unfortunate because that really made these companies being able to move ahead of us. And so we need to catch up. So, there's two answers. One is that they had access to capital and the transactions in the consolidation of the market. The transactions were there, but also that they really decided on and saw the opportunities of growing the business 10 years ago.

**(Abdul Kent):** OK, thank you. (Abdul Kent) of BMO Capital Markets. Is AF and Sweco also a focus in the public sector?

**Magnus Meyer:** Sweco is very, very similar to WSP. AF is much more working on industrial services, like a 1/3 of their operation is helping Volvo develop new cars. You know, it's very different sort of engineering services. But roughly 2/3 of what they're doing is very similar to what we are doing.

The Sweco (inaudible) in the sense that they also have a huge architect business. They have roughly 600 architects in their team. So that differentiates Sweco from WSP Sweden. We don't do architecture anymore. We sold our (Architect) business a few years back. But otherwise, it's fairly similar.



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**Paul Lechem:** Paul Lechem, CIBC. You mentioned I think that the top two have built a business somewhat from acquisition? It seems like – is that part of a strategy for WSP Sweden? Is number four and number five, they're on that chart, are they, targets are beyond, are they part of your strategy to grow business? Do you need to have acquisitions to grow the business?

**Magnus Meyer:** Yes, we will – no. We have had actually fairly strong. If you look at growth that we've had, that's mainly organic. So we've had strong organic growth. So in order to catch up, you know, I think we can improve organic growth, but we will also need acquisitions. And my background is very much, in my previous job, I bought – (I draw in my mind) the architect firms from 100 people to 600 people through (the 18) acquisitions over a couple of years.

But at the same time, we grow the company equally much organically. So I think that acquisitions and organic growth really complement each other and they help each other. So I get more organic growth through the acquisitions. So I really expect that if we can do more acquisitions in Sweden that will also improve the organic growth.

**Male:** (If you could care to talk), can you talk about environment for acquisitions that they are available (inaudible).

**Magnus Meyer:** No. If we say that of the 10 players in Sweden, it's fairly static. The top two listed, well, technically, they're available, than other the market. But in reality, not, because they have strong majority owners that are very supportive of the firms, and, you know, they perform very well.

So, in essence, I would say that those are not on the market. Then, below us, (inaudible) are both kind of a tricky one because the foundations of trust running them. So it's very hard to get access. And the same for several others below them; a few of them are listed, a few of them are trust. So I'm actually looking smaller acquisitions in the regions of, you know, not top 10, which is, you know, if the opportunity arises, of course, we'll look at it. But it looks, right now at least, that the biggest opportunities are with a bit smaller firms.

**Frederic Bastien:** Frederic Bastien, Raymond James. You mentioned that you grew a bit on architectural practice from 100 to 600 yet WSP has actually gotten out of that business. Can you explain what are your plans? Is it for you to basically get back into architectural practice, or?

**Magnus Meyer:** No, my view on that is that, no, we are – in order to run a business, you should be on top of the game, to be top three player. So the only way that I would see us getting back into architecture is if we can see that we become the top three player in the market, a really strong player in architecture. Otherwise, it makes more sense to stay out of it and have the flexibility to work with all the architects over the world. So from my point of view, architecture is not on the agenda in that sense. However, if the opportunity arises, where the firm like the one I used to work for like 500, 600 people, giving the opportunity to become a top league player in Sweden and Scandinavia, then we might look at it. But it's not on my top list.

**Frederic Bastien:** And you also mentioned that you were predominantly working for the public sector. Can you share with us the actual revenue split between what you derived from the public sector and private sector and what we can expect your region to contribute, maybe five years out?

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**Magnus Meyer:** Actually, it's not a big difference. It's not that we can say that the margins on public works are this and on private works on that. And the big part of the answer to that is that 95 percent of what we do is fee-for-service anyway. So as long as we maintain decent fees on the hours we charge, so we could simply get much more private work if we were able to work with more fixed-fee projects.

So we're looking into that because other parts of WSP are super great at working with fixed fees. We simply don't have that tradition in Sweden. And the market isn't – hasn't had that tradition. But there is a strong trend towards more fixed fees. We can leverage the fact that the rest of WSP is very used – while used – they have a lot of experience in working with fixed-fee projects. You know, that's what they do. And we will leverage that in trying to get more fixed-fee projects in Sweden. But looking at existing business, we can say that we're not making the same margin in public works as we do in private works.

**(Benoit Poirer):** OK, (Benoit Poirer) from Desjardins. What is the key driver that will allow WSP to secure big projects in Sweden? Or what is kind of the expertise that you need to have on top of that? And second question, your EBITDA margin is already healthy at 14 percent. So what is the kind of target that you may aim to obtain on a longer term?

**Magnus Meyer:** We have a strong emphasis on – you know, we're great engineers. We're super engineers in all across this company and in Sweden. So it's very rarely the competences that prevent us from getting big projects. It's getting more business people into – the really big project is getting more senior management, senior project management and business people that can give us the works. So I think that is a driver, not the competences that we sent, that we need to deliver into projects.

Then, with regard to your second question, you know, we're in an increasingly competitive landscape, with more and more international consultants coming into Sweden. And that means that it's pretty tough to improve margins. So again, my main goal is to make sure that we maintain margins. And obviously, we'll do everything we can to improve them. But in a market where there's a lot of pressure on margins, it's tough to move in the other direction especially if you're in a good price to start off with.

OK? Great. Thank you very much. Then I'll leave it to Mark.