TRANSCRIPT
2014 ANALYST AND INVESTOR DAY

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10:00 AM — MARK NAYSMITH, Managing Director, UK

UK Operations

Mark Naysmith: OK. Well, good morning, everybody. I'm Mark Naysmith. I'm the Managing Director for U.K. I'm a chartered civil engineer. I've been with WSP for 26 years, and I've been Managing Director in the U.K. for the last two years.

It gives me a great pleasure to be here today to report a very positive position in the U.K. In the last four quarters, we have witnessed and enjoyed solid improvements in all of our core markets in the U.K. And the results of this are – or the book is now at a five-year high in our U.K. business; so a very positive position from where the U.K. has been over the last four or five years.

So in the U.K., we currently have approximately 2,600 employees, very similar to Sweden. We also have 120 employees in India, in Delhi, that support our design function in the U.K. And Tom Bower will be speaking more about off-shoring later this morning. We have 24 offices. And seven of these offices we call our principal offices, where we have more than 100 staff.

We're very well split by way of sector diversification, particularly in the current rising market. As you can see there, we have 70 – sorry, 37 percent in the property and buildings sector, 41 percent in infrastructure and transportation. So very good split and very diverse across these main market areas. We're the largest transport planning consultant in the U.K. by way of revenue. We're the second-largest property consulting. And I'm very proud to say we have a world-class building structures business. We're also the fastest-growing rail consultancy in the U.K., so.

By way of clients, we have an excess of 2,000 clients in the U.K. business. That's 60 top clients generate represent 2/3 of our revenue. We have a good key client program in place. That key client program has 30 key clients identified. They present 30 percent of our revenue and a further 30 clients and projects with fees in excess of $800,000 represents a further 35 percent.

Client mix. Our client mix is, by way of sector, is 60 percent private sector, 40 percent public, by way of ultimate clients. But by way of direct appointments and direct relationships, we're 85 percent private and 15 percent public. So what that actually means is in the U.K, most of our public sector work comes through procurement through private sector contractors, predominantly in the highways and the rail environment. By way of fee splits, we're 70 percent fixed fee, 30 percent what we call prime charge, which is cost of materials. That split is actually varied over the last few years. It is probably closer to 50-50, prerecession.

Again, revenue growth for the last 4 years, despite the fact that economy is being flat, we've been very pleased with our revenue growth is in a flat growth economy. We're still showing growth. And, again, you can see in the 2014 TTM results there in the last four quarters, our revenue has picked up in line with the growth that we're experiencing currently in our core sectors.

Very similar with regards to EBITDA, again, good positive growth, quite a little place in 2011, but very much in a fit business position coming into the upturn. Day sales outstanding, again, a positive position; below the group's strategic objectives. So, again, we have more work to do but the trend's going very much in the right direction there.

Backlog, as I mentioned, despite difficult trading in the U.K. in the last five years, our backlog has continued to improve. But, again, currently, we're sitting at five-year high.

So, from an overall U.K. point of view, the GDP has just recently been upgraded again. To this year, we can expect 3.1 percent growth in the U.K. That's from a position in 2013 of 1.7 percent, albeit last year at 1.7 percent, 0.7 percent of that was in the last quarter. So it's been very, very quick since the middle of last year, the growth. 2015 is currently estimated to be at 2.7 percent.

The interesting thing though is from a construction point of view, the construction output in the U.K. in the last 12 months has grown by 5.4 percent. And that's the sharpest rise that we've witnessed in the U.K. in the last seven years. From a WSP point of view, we're anticipating double-digit growth this year, around 12 percent.

So by way of recovery and levels of recovery across the business, London is very busy across all our main sectors, predominantly commercial, residential, retail, rail, very, very busy. Outside of London, the markets are catching up; positive throughout our 24 offices. The beauty of being a national business though is that we are sharing resources to suit client and project needs from all of our offices in the U.K., and there is quite less support for London in our regional offices.

The residential market is where the sharpest rise has been experienced. The expansion in most in the U.K. at the moment is the steepest is being since 2003. This is great news for us in the U.K. because 30 percent of our revenue is driven from that sector both from the very early planning stages, transport planning, environmental planning, right through to – in London at the moment, high-rise structural design. The commercial building market also and civil engineer markets are also increasing sharply, and we witnessed that also in the last couple of quarters.

The roads and rail market, we are expecting to be strong and continue to grow for at least the next two years, if not beyond. Of course, with this growth, the challenges we now face is one of skill shortages, and retention of staff is absolutely fundamental and key. We pride ourselves in the U.K. to – we have talented organization. We have focused at lot in the last 12 months on staff retention; and, again, delighted to say that our staff turnover and attrition has continued to drop over the last 12 months. It's currently set at 14 percent. And I would say a healthy turnover for us in the U.K. is 10 percent to 12 percent. So I'm pleased with the way things are going.

We've also to – to help with our growth plans, we started a recruitment campaign this year. And again, they're starting to pay dividends, and I anticipate, by the end of this year, our net staff headcount will increase by 400 staff.

So in the market, we currently have 4 percent of the U.K. market share, and that's about $8 billion professional services market sector. A strategic growth, we developed a two-year growth plan, which we refreshed at the end of 2013. This slide identifies the areas that we are focusing on to grow, which is in addition to our core and existing sectors.

So, there's opportunities for us to grow within the mining and energy markets on the back of U.K. energy program, which is slow in taking off, but there's opportunities for us to position ourselves. And when that does, again mainly focusing on the front-end environmental planning side.

And airports, there's lots of opportunity with WSP to grow our capabilities in the airport sector, and Tom Smith is going to be speaking later about opportunities that are being involved outside the U.K. We're also evaluating the topic on U.K. at the moment of shale gas exploration and development. Again, good opportunities for WSP to be involved and bring our skill sets to that sector. And we've invested over the last couple of years into the rail market, rail electrification. There's large rail electrification programs underway at the moment, and we've invested in that area by recruiting strategic recruitment to that sector. And international master planning, we have many skills in the U.K. that can travel overseas to help with the major master planning developments, and particularly, again from transportation planning, environmental planning, flood-risk assessments, and our focus at the moment to some in neighboring Middle East countries and Africa.

And to the U.K.'s revenue, we're currently about 10 percent revenues international. So our plan is to double that over the next two years to have $2 million of our annual revenue. And we're also continuing to look for acquisitions and also to select strategic recruitment to help complement what we already have by way of skill sets in the U.K. But, again, the main focus here is on front end, front-end engineering, front-end environmental planning. So, that's where our main focus remains.

So, again, a promising outlook for government (maintains) their budgets in March this year. And there's a commitment (to name) headlines relating to the construction industry, committed to an 8 billion (kind of) investment into infrastructure between March 2014 and at the end of the current parliamentary term, which is made in 2015. And this is very much into build, repair, and renew.

And again, as part of a national infrastructure plan, there's been a government commitment to invest a further $160 billion between now and 2020. And you can see the split there. But the main focus being on (plug) senses. I don't know if you picked up in the news this year. The U.K. was badly affected by storms (in fact, England). There's a lot – there's probably global warming and there's a lot of flood defense work and flood alleviation works that need to be done throughout the U.K. So a lot of money are being pumped into that area, which again very much (lands) itself to the skill sets in WSP.

And, again, because there's been very little work done in our highways in the last five years, four years, $320 million has been allocated to highway maintenance. And finally there, an extension to the residential buy, Help to Buy scheme. This is to help first-time buyers get on the residential ladder in the U.K. And this scheme has helped to kick start the residential sector again in the U.K. And so, the plan is to extend because of the success to date.

Margin improvements. We're constantly looking at margin improvements in the U.K. We appointed an independent consultant at the end of last year to carry a diagnostic review of the business and because having come through recession, we just wanted a fresh pair of eyes on what more we could do to improve our EBITDA. And, again, we're very pleased to say that the conclusions from that diagnostic (inaudible) to reinforce and confirm the actions that we are already taking and that was to remain focused on our strategic objectives, which relate to projects, clients, and employees. Again, focus on interesting fee rates for the markets (will bear). Again, I'm a very strong believe that we have a big part to play in this industry as far as the consultants to help to increase the fee rates. And so, we're focusing there for the markets (inaudible).

We're looking to enhance our project management capabilities to be best (and ride) first time on our project delivery. And the final point there is we are in a fortunate position in the U.K. that we have, like 10 of our office leases up for renewal over the next 12 to 18 months. And we have a space efficiency program in place. And we will be using this opportunity to improve our margins going forward by being more efficient in the way we use our office space.

And finally, two projects. This first project is a very good example of some of the international work that we do from the U.K. It's in Oman, Muscat, and Salalah airports, and 150 million square feet of cargo and maintenance facilities. It's fully multidisciplinary led by the U.K, and the reason it's led by the U.K. is because it's U.K. architects that's leading on the architectural design. But we're drawing resources from across WSP. We have Canada, doing structural engineering, and the Middle East supporting us with some of the specialty services but being led from the U.K. That's a $7.5 million fee over the course of 2014.

The second one, this is actually a very – the picture maybe doesn't actually demonstrate it but it's actually a very iconic project for us. This is with Westminster City Council. For those of you who don't know, Westminster City is the council that looks after the City of London and the government buildings and Buckingham Palace all sit within that area.

We're very fortunate to win this eight-year commission earlier this year to provide the engineering services to our contractor partner, Conway, and this will involve public realm enhancements and traffic and transportation support, and this will last for eight years. And it's a $7.5 million fee per annum for the next year. So we actually worked on this before (so we tendered that this year) and we are delighted that we secured the ongoing commission.

And that's the U.K. So, questions, (hands up), before I even got a chance to (say).

Female: So I'm just wondering if you could speak to how fixed your plan is. You spoke about adding 400 people this year. If you're seeing in a more spending or a push for a rail over building, can you then change your plan and invest more resources there? And how much lead time do you need?

Mark Naysmith: Sorry, the last part of your question.

Female: Like just – you said you revised your plan in 2013, right?

Mark Naysmith: I will revise the plan, OK.

Female: Yes. Like how much time do you need? Or is it like monthly or every, you know ...

Mark Naysmith: Well, the reason – first of all, the reason we decided to have a two-year plan is because the market has changed relatively quickly. So it means that we are agile and flexible to change our plan accordingly. It doesn't mean that we will take two years to flex and adjust according to the economy. Our plan was set up four or five years ago and (it was with) growth planner recession. But now that we're back into growth, we are agile to change that.

Going back to the 400 employees coming in, something that we're very good at is diversifying our skill sets across the various sectors. So, for instance, structural engineering, we're set up in U.K. by disciplined stream. So, structural engineers flex between the various sectors. We may be working on rail projects one year, retail the next. So that isn't a concern for me.

So, with regards to recruitment, though, it's a full-time job. I mean 400 new recruits into U.K. this year. But we are succeeding. Of that 400, we have 100 graduates coming fresh from universities. So they're already secured of that 400. We have a further 30 or 40 apprentices joining us this year. Again, they're already in place. And I think at the end of Q1, we were 150 up already. So I'm very confident. And the thing is, it's not just one office, this is over 24 offices. So we have a large pool of resources.

Male: Hi, just given the recovery in the market, has there been a shift back towards more fee-for-service work versus the fixed? Can you talk about your preferred split and how that would tie your margin objectives, and I guess, how your margins compared to the comps?

Mark Naysmith: So the question here to do is the fee split between fixed fees, yes. I don't anticipate in the immediate future for that to change quickly because, again, our clients having gone from a time charge basis to fixed fee, clients will continue to try and (inaudible) for as long as possible.

With regards to margin improvement, this was quite a cultural shift for some parts of our business going from franchise to fixed fee. But what is actually done is it has made our project managers more commercially astute. And because of that, I don't actually see this necessarily affecting our margin.

Male: (This is the) last question. How your margins may compare to the comps in the region?

Mark Naysmith: With the competition? Again, we are a very diverse business. So if you break it down, I would say our margins are aligned, if not, ahead of our competition in certain market segments and building structures, transportation, environment. I would say we're (enough for) for quartile.

(Benoit Poirer): (Benoit Poirer) from DesJardins. Just on the transportation side, there's two big projects right now, so Translink and also Crossrail. So I'm just wondering, what is your current exposure? And what is the potential upside that may be coming from those two specific projects?

Mark Naysmith: Yes. With Translink, first of all, we're working on London Bridge Station, which is the largest construction program currently in the U.K. Our involvement there will continue to probably the middle of next year. So we have time as the markets rise to deploy these colleagues that work in that project, new work as it comes along. The great thing there, though, is there's a number of station redevelopment projects in the pipeline going forward and having been involved with the Translink project puts us in a very good position with Translink and Network Rail to be in the (tender list) for the next rail projects coming up. We do have full-time members and staff following on business development to position ourselves for these opportunities.

With regards to Crossrail, again, we've been very successful. In Crossrail, we've done a number of stations. And the Crossrail 2 program has just been given (sign-off). And, again, we are now positioning ourselves for that next phase.

The other big project that you can touch on there was High Speed Two, which you may have heard of in the U.K. We are in framework for High Speed Two for the first link. And we haven't had much work into that yet but actually my main focus is not necessarily being on the High Speed Two framework for the railway line. My focus is on the development that will fall off the back of High Speed Two.

And, again, we're very well positioned for that because the development that will fall off the back of High Speed Two will relate to mixed use, private development, residential, moving up green belts and around cities. And again, we have focus groups in the U.K. looking and positioning ourselves to make sure that we don't miss their action.

(Benoit Poirer): OK. And maybe second question, you mentioned in the past that you wanted to strengthen your frontend expertise in the U.K. So is it fair to assume that the 400-plus employees will be more to strengthen that kind of front end, Mark?

Mark Naysmith: Not necessarily. It's probably about 50-50 split. The areas that we're seeing most rapid expansion at the moment is in building structures, and that comes in the back of our world-class reputation. So that's not all front end. That is a world-class concept and scheme design service.

The other biggest growth area that (we're seeing now) is in front end – transportation planning, flood-risk assessment, environmental planning. So, these are the three main areas in the U.K. where these resources will support.

(Benoit Poirer): Thanks.

Chris Murray: Thank you. Chris Murray for AltaCorp Capital. Can you talk a little bit about your thoughts on acquisitions? You talked about organic growth (performers) engineers, but are there any areas that you think you can either beef up or just with the fragmentation of the market, do you think that you can add either services or different (product line)?

Mark Naysmith: Yes, I mean the main area, I mean I mentioned earlier, right, front end being the focus and actually to build on what we already have by way of front end. But when it comes to other areas that we can increase, it's probably in the heavy infrastructure, heavy civil engineering. For instance, we do have a tunneling capability in the U.K. These companies took from an acquisition point of view, from a niche small business point of view, if you're far between, so it becomes more difficult. So, again, a lot of focus is actually on strategic recruitment because if we can attract some key people with these key skills, we can then organically grow and roundabout them.

So, going back to acquisition question though, going back to the front end, I mentioned flood defense, we have got a reasonably sized flood defense, flood modeling capability in U.K. but we could easily double that. And, again, that could come through acquisition of a front end, flood risk, flood modeling, and coastal marine type organization. And that's the kind of things that we are focusing on.

And, of course, these services travel overseas. But, again, we touched the international master planning, a lot of international planning, master planning, what we're doing at the moment, we're doing work with Mozambique and its all (ports), redevelopment work, against the flood risk and the coastal engineering. We'd be very useful to have (inaudible).

Paul Lechem: Paul Lechem from CIBC. Just trying to understand is the message here that you're growing with the market recoveries or you're actually winning market share away from the competitive side. What's the message in terms of your growth, your …

(Crosstalk)

Mark Naysmith: I don't have statistics to respond to you on that. But what I do know is that we – in certain markets, we seem to be – we're growing quicker than some of our competition. And, again, in my mind, it very much comes down to reputation where we are the strongest in the market. And, again, building structures as an example of that with our world-class business, we're growing quickly than our competition in that arena.

Rail, six years ago, we didn't really have a rail capability in U.K. So we started from a pretty low base. But, again, we built reputation and working on the Crossrail (and Translink). So, again, we're growing quicker there because we started from a relatively low base. And transport planning, again, we're growing, again, on the back of reputation. So I was saying more than half of U.K. business is growing ahead of our competition and based on reputation.

Male: I have three questions. Can you characterize building rate, growth versus wage inflation in your market, and address current utilization rates of your billable staff? And then what is the traditional design as a percent of project value in U.K.?

Mark Naysmith: OK. Currently, our direct costs have been increasing ahead of fee rate inflation. I'm starting to see a shift there. But it will probably take the best course of this year to rectify and adjust. And when we were looking at the 2014 budget last year, we were very much seeing a position of no fee rate increases despite the market picking up, but big pressure on direct cost. We had to – we responded to that and that is one of the factors why I would say our staff attrition has reduced because (it reminds) to retain the talent within the business. So we took a strategic view on that. It was worth investment for medium to long-term.

In the specialist areas, I would say, we are starting to see fee rates increase. As I said earlier, we're actually trying to push that ourselves rather than just waiting for the market to respond. As the industry becomes busier, we align in a position because of the shortage of resources, supplies, and then we will (accept) fee rates to grow. So hopefully that addresses that at that point.

With regards to percentage of construction costs, I can't actually answer that question because it varies considerably across our different disciplines. And maybe Tom (inaudible), if you could touch on that, Tom. Tom works very much in the property sector where it's more percentage of cost. I'm not trying to dodge the question here just in property in the U.K. relates to different percentage of construction volume compared to the infrastructure market. To give you a flavor, 5 percent on the infrastructure market versus 0.8 percent of structural building cost. So there's not a one straight answer. So I apologize, I can't give you a straight answer on that.

Male: (Inaudible)

Mark Naysmith: Eighty-two percent.

OK. Well, thank you.