WSP Global Inc.

Second Quarter 2018 Results

Conference Call

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PRESENTATION

Operator

Bonjour Mesdames et messieurs, good afternoon ladies and gentlemen, bienvenue à la conférence téléphonique sur les résultats financiers du deuxième trimestre de l'année 2018 de WSP. Welcome to WSP 2nd quarter of 2018 results conference call. I would now like to turn the meeting over to Isabelle Adjahi, senior vice-president, investor relations and communications, à vous la parole, please go ahead Miss Adjahi.

Isabelle Adjahi, Senior Vice President, Investor Relations and Communications

Thank you and good afternoon everyone. First I want to thank you for taking the time to join us today. For the quarter which we will be discussing, our Q2 performance. We will first make a few remarks, and then we will follow these remarks by a Q&A session. With us today are Alexandre L'Heureux, our president and CEO, and Bruno Roy, our CFO. Please note that we will be recording the call and we will post it on our website tomorrow. Before we start, I want to mention that we will be making some forward-looking statements and that actual results could be different from those expressed or implied, and we undertake no obligation to update or revise any of these forward-looking statements. With that, I will now pass the microphone to Alexandre L'Heureux.

Alexandre L'Heureux, President & CEO

Thank you, Isabelle, and good afternoon everyone. I am very pleased with our Q2 performance, as we have delivered on three fronts, financially, operationally and strategically. Before I discuss each of these elements, I would like to underline the following points. First, following on our Q1, we reported solid second quarter financial results, with organic growth and net revenue spanning across all reportable segments, and strong (inaudible) 12 months free cash flow. Second, with the recent Louis Berger announcement, we are pleased to report that once we close this transaction, all of our 2015 - 2018 strategic plan objectives, will have been met. Third, at the halfway point of the fiscal year, we are in line with our full-year outlook, both from a reportable operating segment and consolidated stand point. I will touch upon this further after Bruno goes thru 2018 financial performance review. Let me start with a few comments on our second-quarter financial performance, on which Bruno will further elaborate on later in the call. For the second quarter, net revenues were 1.5 billion, up 17.1% compared to Q2 2017. On a constant currency basis, organic growth and net revenues were strong at 8.7%, adjusted EBITDA was 169.5 million with adjusted EBITDA margin reaching 11% compared to 10.7% last year. Finally, backlogs stood at 6 .7 billion at the end of the quarter, representing approximately 10.3 months of revenues. Backlog organic growth amounted to 7.8% when compared to Q2 of 2017. And 4.9% for the first 6 months of '18. Second, I would like to comment on our recent announcement to acquire Louis Berger, a U.S headquarters leading international professional services firm. This transaction shares a common thread with our previous acquisition. It fits in our strategy both in terms of cultural values, and business model. We pursue this acquisition in order to build an even stronger and more diversified business, that will create value, for employees, our clients, and shareholders. Once integrated, Louis Berger will enable us to strengthen our presence in the US, where our workforce will be approximately 10000 people. Beyond added depth to our transportation team, it will also strengthen our expertise in sectors and services that WSP had targeted for growth including critical mass and water and environment. We will actually double our head count in that market segment. Along the same lines, Louis Berger will also provide WSP an opportunity to further increase its US Federal Services presence. Serving clients such as the Army Corp, FEMA, and defence information security agencies. Finally, this acquisition will increase our presence in Continental Europe, specifically in countries we had previously intended for growth, notably France, and Spain. The involvement of Spanish engineering in construction firms in large international projects has increased significantly over the last few years, hence our interest to have a stronger presence in this country. Similar to the strategy we adopted in Latin America, our objective is to familiarize ourselves with Spain before potentially increasing our presence. In 2015, WSP mapped out a strategy with 5 key objectives to be met by the end of '18. To build a workforce of 45 000 employees, to report 6 billion dollars in net revenues, including 1.3 billion from acquisitions, to generate adjusted EBITDA margin at 11%, to maintain DSO below 85 days, to keep our leverage ratio between 1 1/2 to 2 times pro-forma adjusted EBITDA. Beyond numbers, when we initially presented our strategic plan, our ambition was to grow in specific regions, namely Canada, the US, the Nordex, continental Europe, as well as Australia, New Zealand and Latin America.

Today I am pleased to report that we have delivered on that front as well. In total, since 2015, we will have acquired 24 companies and added more than 15000 people to our workforce. It should be noted that the majority of these transactions were financed using our available cash and credit facilities. Once the Louis Berger acquisition closes, we anticipate we will have met all of the above 5 key objectives of our 2015-2018 strategic plan, during which time we also posted constant annual organic growth and net revenues. All this while generating EPS accretion and paying out a yearly dividend of $1.50 per share to its shareholders. Last, in the past year we have fast-tracked our strategic plan and laid stronger foundations for the next phase of our growth, which will be presented in greater detail at the beginning of next year. Our teams are currently working on the 2019-2021 strategic plan, which will incorporate the objectives, strategies and target of the combined entities for our people, our clients, operations and our expertise. As part of this exercise we have also solicited the input of our key stakeholders, our leaders across the world, the financial and investment communities, and our clients. In consideration of the feedback received, the message conveyed is quite clear, we need to stay the course while remaining agile, to respond to varying changes and opportunities. Recent history has demonstrated WSP his result in remaining a pure play consultancy firm with no construction risk. We have no intention of moving away from this operating model. You can therefore expect continuity and clarity in our future strategic goals. Bruno will now review our Q2 financial results in more detail. Bruno?

Bruno Roy, Chief Financial Officer

Thank you, Alex, good afternoon everyone, I am pleased to share the results for the second quarter of 2018. Overall, we are pleased with our Q2 Financial results, organic growth and net revenues stood at 8.7% adjusted EBITDA margins stood at 11%, in line with our expectations, end of period DSO improved by 3 days at 79 days, slightly better than anticipated, trailing for our monthly free cash flow remains strong at 337 million, or 153% off net earnings attributable to shareholders. Finally, our balance sheet remains solid, with a net debt adjusted EBITDA ratio of 1.8 times. Let me dig into the details. For the second quarter, revenue as in net revenue rose to 2 billions and 1.5 billion respectively, an increase of 18% and 17.1% compared to 2017. Adjusted EBITDA for the period stood at 169.5 million, up 22 points, 29.2 millions, or 20.8% compared to Q2 2017. Adjusted EBITDA margins reached 11%, compared to 10.7% of last year. Our effective tax rate was 24.1 %, in line with expectations. Adjusted net earnings stood at $81.2 million, or $0.78 per share, up 24% and 21.9% respectively, compared to 2017. This was mainly due to growth in net revenues and Improvement in adjusted EBITDA margins. However, as in Q1, earnings were negatively impacted by an increase in finance expenses compared to last year due to higher period debt fluctuations and higher borrowing costs. Our backlog stood at $6.7 million representing approximately 10.3 months of revenue. Stable as compared to Q1, and up 842.3 million, or 14.4% compared to the same quarter last year. Organically, our backlog grew 7.8% when compared to last year, and 4.9% for the first six months of this year. Now let's move to our regional operational performance. Organic growth in net revenue sum our Canadian operations stood at 6.6% spanning across most market segments. Adjusted EBITDA margin before global corporate costs, came in at 14.8%, another basis point improvement compared to the same period in 2017 mainly due to higher utilization rates, and improved project delivery. During the quarter we were selected to conduct the initial phase of the environmental assessment for the Kitchener-Waterloo to London segment of the Ontario High-Speed Rail Project. This two-year study represents the first substantial infrastructure taking in Canada, and a formal start to win the largest infrastructure project in Ontario. Our America's segment experienced organic growth in net revenues of 9% in Q2, stemming mainly from our US operations. The US transportation and infrastructure market segment had a very strong quarter, posting organic growth in the high single digits, and winning significant contracts in New York state and California. Adjusted EBITDA, and adjusted EBITDA margin before global corporate costs were the highest amongst our reportable segments, coming in at $74 million, and 16.7% respectively. Compared to 61 million, and 15.6% for the same period in 2017.

Improvement in both metrics were anticipated and mainly due to improved utilization and project management. In Chile, we were awarded the engineering and environmental contract for the oleic parc Anos del Viento project, this award is a direct result of collaboration between Poch and Concol which we acquired last year and (inaudible). Our mid year reporting segment, delivered reporting growth, in net revenues of 9%, led by our UK Nordic operations. Adjusted EBITDA margins before global corporate cost stood at 9.6% of net revenue for the quarter. In the UK Greenlink has appointed WSP to his $ 400 million electricity interconnectors linking Whales and Ireland, one of Europe’s most important energy infrastructure projects. Our A pack of running segment, posted organic growth and net revenues of 10.6%, and adjusted EBITDA margin before global corporate cost of 10%. This performance was mainly driven by our Australian operations which posted double digits organic growth in net revenues. Our Asian operations posted flat organic growth in net revenues slightly better than anticipated. Overall operating results from our Opus New Zealand operations acquired in Q4 2017 came in slightly better than expected. In Australia, our environmental team is undertaking the air quality impact assessment for the first 12 months of construction of the Melbourne Metro rail Project. One of the largest infrastructure projects ever undertaken in Australia. Turning to our balance sheet, we ended the quarter with a DSO of 79 days, 3 days better than the same period last year. Incorporating a full 12 months of adjusted EBITDA for all our acquisitions, our net debt to EBITDA ratio came in at 1.8 times. We also declared a dividend of $37.05 per share to shareholders, on record as of June 30, 2018, which was paid on July 16th 2018. With 49.8% dividend reinvestment plan participation, the net cash out flow was $19.5 million. This concludes my remarks, Alex over to you.

Alexandre L’Heureux, President & CEO

Thank you, Bruno, before we open the lines for questions, I would like to provide some colour in our regional outlook for the remainder of the year. For the second half of the year we expect our Canadien operation to build on their strong H1 results, and to continue to anticipate full year organic growth and net revenues in the low to mid-single digits range. In the Americas infrastructure spending in the US remains robust, and the (inaudible) acquisition-related should lead to good operating margins. We expect organic growths and net revenues to remain solid in Q3 2018. However, as previously indicated, we also anticipate posting negative organic growth on net revenues in Q4 of 18, due to the non-recurring nature of FEMA, net revenues recorded,in Q4 of 2017, which we disclosed as of last year. As a friendly reminder, we posted 23% organic growth, in the US, in Q4. As such, full year organic growth in net revenues for the Americas segment is expected to be in the low single digits. In the EMIA regions, our two pillars, the Nordex and the UK have delivered results in line with our expectations to date, and we expect them to continue to do so in the second half of the year. On a consolidated basis, we continue to forecast our EMIA regions to post organic growth and net revenues in the low single digits. Overall, the outlook for the APAC region remains positive. Australia, and the strength of the structure and transportation market segment is expected to deliver full year organic growth and net revenues, in the mid-to-high single digits. In Asia, a continuing continued slow down in the building market will likely lead to negative organic growth and net revenues in the low to mid-single digits. Based on these continued momentum and business line into regions, we are therefore rendering our full year 2018 outlook. I will now like to open the line for questions, thank you.

QUESTION AND ANSWER SESSION

Operator

Thank you if you would like to ask questions press star, and the number one on your telephone keypad. Si vous voulez demander une question, veuillez appuyer sur l'étoile, suivie du 1 sur le clavier téléphonique. Your first question comes from the line of Yuri Lynk, Canaccord Genuity.Your line is open.

Yuri Lynk, Canaccord

Hi guys nice quarter.

Alexandre L'Heureux, President & CEO

Thank you, Yuri. How are you?

Yuri Lynk, Canaccord

Very well, I was just looking beyond 2018, you seem to be well on track, to meet your margin goals of 11%, you know just broad strokes, do you see the ability to take the adjusted EBITDA margins in excess of 11% in the future considering the pieces that you have in place now including Louis Berger?

Alexandre L'Heureux, President & CEO

Historically, and we look back we have been doing three years strategic plans for a while now, at least we started that in 2010, historically we always had the ambition to increase our profit margin and I believe that should always be a goal, so I think that broadly speaking, we are right now working with a region to align and refine our strategies for the next 3 years, and clearly I will be able to report back at the beginning of next year what the real plans are, but it is fair to assume that the ambition will always be to improve our marching profile, so we will work with that in mind.

Yuri Lynk, Canaccord

Okay,very good. It looks like the G&A expense was about 13% of net revenue, it looked a little high to me, was there anything special in the G&A expense in the quarter?

Alexandre L'Heureux, President & CEO

Yes, so Bruno, I will let Bruno answer that question.

Bruno Roy, Chief Financial Officer

Hi Yuri, I think that's my answer is due to the increase in our stock price the answer is actually there.

Yuri Lynk, Canaccord

Got it. OK guys.

Bruno Roy, Chief Financial Officer

It was material.

Yuri Lynk, Canaccord

Can you quantify it?

Alexandre L'Heureux, President & CEO

Typically Yuri I wouldn't want to go into the details of quantifying the Delta performance on a quarterly basis reporting the increase and decrease of expenses, but as Bruno stated in this quarter, that is really the explanation, I mean, look at the increase in stock price since the beginning of the year, and clearly with our auditors and the management team we needed to look at the likelihood of us meeting the expectation, the threshold to pay the LTIP, and clearly there has been some changes certainly on total shareholder retainer and we had to adjust the expenses accordingly.

Yuri Lynk, Canaccord

That is helpful, I will turn it over guys, thank you.

Operator

Your next question comes from the line of Jacob Bout from CIBC, go ahead.

Jacob Bout, CIBC

Good afternoon, just a question on your organic guidance, I appreciate the second half outlook, but if you look further out to 2019 and beyond, you are coming of a very strong year, how do things settle out, for organic growth in term in your mind.

Alexandre L'Heureux, President & CEO

First of all, hello Jacob, look it's... I am not thinking about '19 right now, we are busy delivering, '18, we are going to go through our budget to reprocess and the second half of this year we are launching a process and that will be a real opportunity to engage with the regions and see what 2019 may look like. But clearly again I think we are looking what we have right now and what we know today I think the future of the company it's looking right at this point in time that is saying. But we will be providing as we always do at the end of each fiscal quarter guidance for here, and we will do the same next year.

Jacob Bout, CIBC

So clearly not much of an impact on from terrorist or this trade War are you seeing an impact in a go forward basis at all?

Alexandre L'Heureux, President & CEO

Well, are you referring to the Saudi Canadian conflict right now? Is it what you were referring to, or overall?

Jacob Bout, CIBC

Yes more the Trump effect and also (inaudible)

Alexandre L'Heureux, President & CEO

The answer is clearly no given that north of 95-98% of our work is done locally, I do not expect any disruptions from the negotiations.

Bruno Roy, Chief Financial Officer

And that is true in the US and it will be true in the Saudi as well.

Alexandre L'Heureux, President & CEO

Well I wish to answer that question, because that question may come up anyway so I take the opportunity to answer it right away if it has been asked later, right now Saudi Arabia represents less than 1% of our total net revenue and we have about 200 people there, so at this point in time it is clearly not a concern for us.

Jacob Bout, CIBC

Thank you very much.

Operator

Your next question comes from the line of Derek Spronck, from RBC capital markets, go ahead.

Derek Spronck, RBC

Yes, hi good afternoon, the acquisition, the potential planned acquisition, Louis Berger, was that something in the works for some time and, any concerns around some of their past history, legal issues, I know that was many, many years ago but pretty confident around their operational execution.

Alexandre L'Heureux, President & CEO

So Hi this is a real good question I will start with the first question, and finish with the second one, you know I always like to remind our investors that acquisition is not something that you can time, the fit has to be there, and it is not something that you do overnight, this is a company that we have targeted as being very complimentary to our existing platform, and therefore we had initiated discussions more than a year ago, so it is a company obviously we knew well, but obviously to answer your question we have been having those sorts of discussions, for more than a year now, and we felt that now was the right time to close on the transaction, both parties thought this was the right time for both companies to merge together. So that was your first question, the second question related to ethics and the program put in place, we did our due diligence as you can imagine, we did look at this extensively, we came away from due diligence thinking that they have good processes and good standard in place, you need to remember that they were under monitorship for many years, so obviously that creates a lot of good habits and they put a lot of good processes in place, so the past is the past, it was many years ago, and I am confident that with WSP we will be able to create good synergist together.

Derek Spronck, RBC

OK that is great, and you outlined some of the past synergies that you are anticipating to achieve, how about revenue synergies do you see a lot of revenue synergies opportunities with Louis Berger?

Alexandre L'Heureux, President & CEO

In the past, we have never quantified our revenue synergies because they are quite difficult to forecast, but the reality is, if you look back at the history of the acquisitions we completed, we have never quantified revenue synergies but that doesn't mean we don't believe in revenue synergies. We believe that like our past acquisition, the Louis Berger acquisition is the story of revenue synergies and we will be making sure that we connect people on day one after closing to get down to work and introduce our teams to each other, look at the scope of services we can offer to existing clients and to new clients, and hopefully create those revenue synergies that you are talking about. The other point I would also make, is that we are entering a new territory in some fashion with Louis Berger and they have a presence in the Federal Business. We also have a presence with FEMA, we did a lot of FEMA work historically, but with Louis Berger we are entering adjacent markets that are in my mind complementary to what we do. And that will be a good leg way into understanding the federal market and see if it's for WSP in the longer-term. Right now, I feel confident this should be a positive outcome for the company.

Derek Spronck, RBC

OK great, and just one last one for myself, did that kind of put a pin into acquisitions for the next few quarters, or are you still, still have a pretty healthy pipeline that you are looking into, still active within your M&A discussion?

Alexandre L'Heureux, President & CEO

My job and our job is to keep a healthy pipeline in the mix, we have been having a healthy discussion over the years and I think last quarter I was telling you the pipeline is as good as it was years ago and I continue to believe that, so as I said before we cannot time acquisitions, we opportunistic and that's why we have been doing in the past so, time will tell, right now we obviously want to do a good job in integrating Louis

Berger we want to deliver the goods for our shareholders and create shareholder values but clearly we are not going to stop having good dialogues, you look at their level ratio which is well in The Sweet Spot of where we wanted to be, post acquisition will be below 2, so I think we have a strong balance sheet, we are experiencing a good year, so we will continue to be on the watch for acquisitions and complete them when the time is right.

Derek Spronck, RBC

OK that is great, I will turn it over thank you.

Operator

Your next question comes from the line of Mona Nazir from Laurentian Bank. Your line is open.

Mona Nazir, Laurentian

Good afternoon and thank you for taking my question. My first question, I am just, overall in the industry we are seeing increased competition and we are hearing of pressure on fees in some areas and I'm not sure if you have this on hand but I was just wondering, what your average fee per project his, and I am really just trying to get sense of if it has trended up over time.

Alexandre L'Heureux, President & CEO

Mona, this is a very difficult question to answer, but today WSP has that is a fact today has a hundred thousand live projects around the world. And clearly, in different countries we have different businesses with different profiles of businesses, it would be extremely difficult for me to give you the average size of any given job on any given day, given the number of projects that we have. What I can tell you though is that when we think about our backlog we are always mindful that in order to be successful we need to have a smaller size, medium size and larger size projects in order to be successful. So WSP is not only bidding on big jobs and iconic projects, we believe that smaller size jobs can lead us to bigger size jobs and therefore we are very mindful of making sure that we do pursue a smaller size assignments to the bigger size assignment.

Mona Nazir, Laurentian

OK, that was helpful. And just secondly, at the analyst day last year you spoke about a strong presence of local firms in specific geographic regions, such as the Nordics, and your desire to penetrate and become a top tier local players. And speaking of the Nordics I saw a profile on a significant tier company where they touched on continuing 10% on organic growth and double-digit margins, and we have spoken about this previously but looking at the strong performance from all of your different geographic regions, what areas have you established are top tier local presence and what are some of the areas or regions that you remain focused on expanding?

Alexandre L'Heureux, President & CEO

That would take me a long time to answer this because we are on so many different markets, different geography, we are in foreign countries, but I can tell you globally that pretty much everywhere right our major hubs, we have a leading presence in transportation infrastructure, every project and every other major hubs as I stated we can compete and be a tough player. I think this is equally true in property building. There is not one single high riser or building project in our major operation where we cannot compete and have the aspiration to win this assignment. That when you move on to the other markets we have a very strong presence and we have north of 5000 people environment around the world, so we do have a good presence but is it a global presence in every one hub? The answer is no. Many of our countries we do have a leading presents but in some others we are subskilled and in the years to come we're going to have to work on increasing our presence, in environment, in water, in Power, in renewable energy, and few other adjacent markets. Not without saying that we will continue to grow our presence in transportation and building, these are core end markets. I would say that globally speaking, I think we are top-tier players in the first two segments, a very solid player in the third, and the other one's overtime we will aspire to grow a presence.

Mona Nazir, Laurentian

OK, thank you. And just lastly from me, given your comments around the guidance that you are keeping it unchanged for the year, your expectations for 1 to 4% annualized organic growth, given the first half of the year, 6.7%, do you think a more likely scenario for the back half of the year would be that you hit the materially lower of 1.5%? Or is it possible that you could come in slightly ahead or ahead?

Alexandre L'Heureux, President & CEO

Look, there would be nobody happier than me if we could beat this, if we could surprise ourselves I'd be the happiest man in the room, but having said all that as I stated before, in the U.S. in Q4 we generated 23% organic growth so you look at the numbers for the US, for last year it is cute and it is tough, tough data to beat essentially, at this point in time you look at the remainder of the year, and you look at understandably the US will be generating negative organic growth in Q4, and with what we know today I'm comfortable with the guidance that we provided, but we feel in Q3 that we will be exiting this we will be the first to let you know.

Mona Nazir, Laurentian

OK, thank you, that is it from me.

Operator

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

Michael Tupholme, TD Securities

A number of EMC companies have talked recently about increased resources sector, their project activities, in Canada, I am wondering if you could talk about whether or not you have seen the same thing and if that was a contributing factor at all to the relatively strong organic growth you saw in Q2 for Canada.

Alexandre L'Heureux, President & CEO

The answer is yes, right now the resource sector in western Canada not only has stabilized but we have seen a bit of a pick up in activity so this is going well for our business, but I wouldn't suggest, however, that this was the reason why we had good organic growth in Canada, eastern Canada performed extremely well last year, and continued to perform very well for us in Ontario and Quebec right now. So that is good news because now we have a more stable environment, but that is not the determining factor in the strong organic growth in Canada at this quarter.

Michael Tupholme, TD Securities

OK that is helpful, thank you. Secondly, you incurred certain IT outsourcing costs this quarter, it sounds like you expect some additional costs of that nature in the second half, can you just elaborate on the IT Outsourcing initiative, what it covers, and maybe talk about what you do expect in terms of additional cost in the second half and also the kind of savings you would expect to realize?

Alexandre L'Heureux, President & CEO

Good question as you have noticed we have incurred 6.8 million years to date related to IT, I know, to an outsourcing program, we have been working on, our estimate is that we will probably land a full year somewhere between 12 and 15 million in terms of expenses, this was included in the 40 to 50 million dollar acquisition and integration outlook that we provided, we didn't carve out the I know back then just frankly we were still working on the financials and the decision had been final when we issued our guidance, in terms of savings we can safely assume a year's worth of, we can assume the savings to be about worth about a year of our cost incurred, 12 to 15 wouldn't be a bad range of saving starting in 2019 and this covers IT infrastructure, so helpdesks, some of the band width and some of these things, IT development is still kept in the house. Does it answer the question?

Michael Tupholme, TD Securities

Yes. That is helpful, thank you. Then just lastly, in terms of the additional billable days in Sweden in the quarter, what sort of an impact would that have had on the organic growth rate if it is at all material, and secondly, I'm thinking about the reverse impact on the negative and the drag impact, in the third quarter.

Alexandre L'Heureux, President & CEO

Let me dig that out, I will come back to you later on the call.

Bruno Roy, Chief Financial Officer

We will be looking into the answer and perhaps we can take another question while he's looking. For the answer.

Operator

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

Benoit Poirier, Desjardins

Yes, good afternoon gentlemen, just to come back on the EBITDA margin improvement, you showed 11% in Q2 so obviously, an improvement versus year over year. Assuming the 11% for the full year, where do you see the greatest level of improvement in the back hubs?

Alexandre L'Heureux, President & CEO

Allo Benoit, now look, the answer is across the patch, right now all of our major hubs are doing well. And are improving. You look at the margin profile in the UK, Canada, the US, Australia, New Zealand and a few others, right now I would say that across the patch, the businesses are working hard at improving the margin profile.

Benoit Poirier, Desjardins

OK, perfect and one quick question about the global corporate cost you touch a little bit about the stock performance so do you think that the 22.7 million is more kind of the sustainable rate we might see in Q3, Q4?

Alexandre L'Heureux, President & CEO

I will let Bruno answer that.

Bruno Roy, Chief Financial Officer

It depends on the stock price so it's not a bad number.

Alexandre L'Heureux, President & CEO

Generally speaking, Benoit it is a fair assumption by the same token I think Bruno talked about the increase in interest expenses that given the interest rate environment and the fact that there has been hikes, rate hikes or increases we have seen expensive increasing over the last few quarters, friendly reminder we have US debt and Canadian debt. There have been some increases and that is also probably the reason why there is a dislocation between some of your numbers that you have been reporting and what we have been reporting.

Benoit Poirier, Desjardins

OK, perfect. And you talked about the energy and resources oil and gas obviously improving, does it change your thinking in terms of M&A, let's say, in the next four to five years to maybe grow a little bit more your exposure to energy resources or, in the meantime, you don't feel looking for M&A in that segment?

Alexandre L'Heureux, President & CEO

Benoit we did complete transactions in the energy space in the past, if you recall what we stated, our strategy is quite clear, and every geography is a vertical where we operate and we want it to be a top-tier player so if you want to have, the aspiration to be a top tier player in a resource-based, you have to have exposure, to resources, which is why we are increasing our resource exposures in 2014, in Canada, that's why we have mining exposure in Australia so my strategy would be that where it is needed we will be looking to be competing but it is not the top of our agenda. Our chore markets our transportation infrastructure, property building environment and what I would consider to be more top of mind in the energy space would be power, transmission, distribution, renewable energy, that is what I would consider to be more strategic for WSP.

Benoit Poirier, Desjardins

OK, that is great colour, lastly, could you talk a bit about the growth proportion you see these days with data room centres it seems that it is a growth opportunity for you?

Alexandre L'Heureux, President & CEO

It is, it is a great opportunity, we do work… I'm not allowed to talk about the clients that we are working on, given the NDA that we signed, but we are developing right now worldwide expertise in critical work such as data centres for those big tech companies. We are working now in a number of jurisdictions and it's growing every year and we are extremely pleased the support those firms in that area.

Benoit Poirier, Desjardins

OK, thank you very much, thank you for the time.

Bruno Roy, Chief Financial Officer

Thanks Benoit. Just complement to the answer earlier it was about 10 hours in Sweden. Difference that will be reversed in the first quarter. And if you go to the MD&A, we say that a year to date Q3 EBITDA margin will be in line with the year to date Q3 2017 so the offside in Q2 will be offset in Q3.

Operator

Next question comes from the line of Mark Neville from Scotia Bank, the line is open.

Mark Neville, Scotia

Good afternoon guys first I can understand that you appreciate the organic revenue decline in Americas in Q4, but I'm just curious, will that be a margin created deludive of the absence of that work in Q4?

Alexandre L'Heureux, President & CEO

It should be relatively stable from a margin point of view.

Mark Neville, Scotia

OK, then I guess just one bigger picture question when you filled your 3-year plan in 2015, I can sense that your employee base has grown 50 to 60%, and it got much more diversified and cash generation improved so as we look forward to the next plan, I am just curious, is your appetite for leverage go up given the improvements in the actual business itself?

Alexandre L'Heureux, President & CEO

To answer this question I think we need to look back to history for those of you that are familiar with the company since our IPO in 2006, so if we look back from 2006 to 2011 given that we were building a national platform in Canada, we were quiet, we were always being a very conservative management team, so we have always been conscious of not having too much of a leverage ratio so the use of debt during those years was never exceeding one. We were going to a ration of one, once, we were working hard to decrease and get back to a more reasonable level. When we completed the acquisition of WSP in 2012, we went above one time if my memory is not failing me we came out of the transaction with 1.5 times leverage. And as we move, and build our platform with more resiliency we completed the transaction and we came out of the transaction with 2.25. And when we did the M&M, we came out if I am not, again if my memory is not failing me, 2.3 times. So what I am saying is that, as we have built resilience in the past we have been more willing to use more of our balance sheet to complete transactions, and if you look back at the last three years, with the exception of some point in 2015 when we did our last bad deal, using our credit facility all the time to complete those acquisitions. And since our IPO in 2006 this has been the longest period where we haven't used the capital markets to raise equity. So haven't raised equity in 3 years now something that never happened before in the history company. Since the IPO. So hopefully that gives you a bit of flavor that we are willing to take on more debt. Having said all that, we are also mindful and as I said before we are a conservative management team and we always like to keep the right power, should we need to go through a rough time, but also if we want to be opportunistic on the acquisition front.

Bruno Roy, Chief Financial Officer

And just to compliment that, keep in mind that we are now at over 230 million dollars cash flow so our ability to self Finance means Acquisitions are much stronger than they were years back.

Operator

Next question comes from the line of Frederic Bastien, from Raymond James, the line is open.

Frederic Bastien, Raymond James

Hey good afternoon guys, I think Mona tried to get this out of you already, so I'll ask a bit differently, can you speak to the progress you are making growing market shares in Sweden and other Nordic countries, I think it was clearly a focus of yours last year.

Alexandre L'Heureux, President & CEO

We are and I apologize to Mona if I didn't answer the question properly we are growing our market share right now. Essentially you look at the GDP growth in those countries and you look at the rate we have been growing, de facto right now we are increasing our market share in the country so we have been successful in increasing our part of the pie in those countries.

Frederic Bastien, Raymond James

And what do you recon is making a difference or is contributing to that market share growth?

Alexandre L'Heureux, President & CEO

I think it's a mindset, I think it's leadership, I think it's our brand, our brand is playing a lot into this, we like to, not we like, we believe that we are the One Stop Shop when it comes to looking for trusted advisors, and essentially executing on their ambitions. So, so I think that is playing a lot and you need to remember that WSP has been in the regions since the early 2000s so we have been in the regions for more than 20 years so we have a very strong well-established brand in the regions, I think that is playing into.

Bruno Roy, Chief Financial Officer

Magnus is our local team they have done a really good job at tracking, developing and retaining, high quality engineers, and that is a nice circle we have managed to build.

Frederic Bastien, Raymond James

All right, thank you for that.
My other question, still within the EMIA region, lots of moving parts for that region, lots of countries contributing, can you provide a bit of an update of where you're effect on African business is, and potentially also the Middle East and business, in general?

Alexandre L'Heureux, President & CEO

So in South Africa we have approximately 600 people, since the World Cup it has been challenging, has been a challenging environment, that is the truth, having said all that the company, the operation and team should be commended for their hard work, despite a very challenging environment the South African business is making money, is it making money at the level that we would like it to be, I think the answer is no, but it is certainly not self-inflicted, it is because of the environment where we operate right now, so that is our South African business. In terms of our Middle East Business, we really like our Middle East business, we are a top-tier player within the property building sector, we have a leading presence in the UAE, we also have very strong presence in Qatar, and the company is doing well right now.

Frederic Bastien, Raymond James

Great, thanks guys, keep it up.

Operator

Your next question comes from the line of Maxim Sytchev, of National Bank Financial, go ahead.

Maxim Sytchev, National Bank

I just have a question on the water market because you sort of qualified it as one of the reasons why you looked at Berger and correct if I am wrong but I think overall the industry has somewhat disappointed over the last couple of years on that vertical specifically. Any tangible catalyst that you guys have seen on the horizon. Seems to have inflection point? Thanks.

Alexandre L'Heureux, President & CEO

Talk about the Federal space Max?

Maxim Sytchev, National Bank

No water specifically. Sorry.

Alexandre L'Heureux, President & CEO

OK, yes. First of all, I mean, within WSP given the scale that we have in the US we combine water and environment together, should this change eventually our footprint is changing it would be separated, we would separate water from environment, right now we did acquire Louis Berger more environment than we acquired water . We call it water and environment Max because of the fact that we combine this in the US but truthfully in Louis Berger we acquired more environmental skills than water. Just to be clear. And I should have mentioned that at the beginning of the call. But then I would add to this. Water is, depends on where you look, the water sector can be promising and can be a very good end market, it's just. Some companies will decide to have a service offering that will be obviously integrated providing engineering and construction and some others in our peer group will choose to offer Water Services just on the consulting side, and if you are looking at the space you will find that water can be a good, a good end market, that is our belief anyway, and I could be proven wrong, that you offer just on the engineering side.

Maxim Sytchev, National Bank

OK, no that is really helpful, that is it for me thank you very much.

Operator

We have no further questions at this time I will not turn the call back to Alexandre.

Alexandre L'Heureux, President & CEO

Okay, thank you everyone for attending to call, today we were taking the call from London for myself so I would like to wish you a very great afternoon, I look forward to updating you on our next quarterly results in

Q3 in November. In the meantime, have a good rest of the summer and we will talk soon. Thank you very much, bye, bye.