Groupe WSP Global, Inc. (Q4 2022 Results)
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Corporate Speakers:

- Alexandre L'Heureux; Groupe WSP Global, Inc.; CEO
- Alain Michaud; Groupe WSP Global, Inc., CFO
- Quentin Weber; Groupe WSP Global, Inc, IR

Participants:

- Chris Murray; ATB Capital Markets; Managing Director, Institutional Research, Diversified Industries
- Yuri Lynk; Canaccord Genuity; Managing Director, Equity Research Analyst, Capital Goods
- Benoit Poirier; Desjardins Capital Markets; VP & Industrial Products analyst at Desjardins Securities
- Jonathan Lamers; LB Securities; Director, Equity Research
- Jacob Bout; CIBC; Managing Director, Institutional Equity Research
- Frederic Bastien; Raymond James; Analyst
- Maxim Sytchev; National Bank Financial; Managing Director, Research, Industrial Products
- Ian Gillies; Stifel; Managing Director, Equity Research
- Michael Tupholme; TD Securities; Analyst
- Dimitry Khmelnitsky; Veritas Investment Research; Head of the Accounting & Special Situations Group

PRESENTATION

Operator^ (Foreign Language) Good morning ladies and gentlemen. (Foreign Language) Welcome to WSP's Fourth Quarter and Fiscal 2022 Results Conference Call. I would now like to turn the meeting over to Quentin Weber, investor relations. (Foreign Language) Please go ahead, Mr. Weber.

Quentin Weber^ Thank you. Good morning everyone. We hope you are all doing well and thank you for joining our call today. We will be discussing our Q4 and fiscal 2022 performance, followed by a Q&A session. Joining us today are Alexandre L'Heureux, our President and CEO; and Alain Michaud, our CFO. Please note that this call is also accessible on our website via webcast.

During the call, we will be making some forward-looking statements. Actual results could differ 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 differ materially from those forward-looking statements are listed in our MD&A for the year ended December 31, 2022, which can be found on SEDAR and on our website.

In addition, during this call, we may refer to certain non-IFRS measures. These measures are also defined in our MD&A for the year ended December 31, 2022. Our MD&A includes reconciliations of non-IFRS measures to the most directly comparable IFRS measures.

Management believes that these non-IFRS measures provide useful information to investors regarding the corporation's financial condition and results of operation, as they provide additional key metrics of its performance.

These non-IFRS measures are not recognized under IFRS. We do not have any standardized meaning prescribed under IFRS and may differ from similarly named measures as reported by other issuers and accordingly may not be comparable.

These measures should not be viewed as a substitute for the related financial information prepared in accordance with IFRS. I will now turn over the call to Alexandre.

Alexandre L'Heureux^ Thank you, Quentin. Good morning, everyone. Early last year, we launched our 2022, 2024 Global Strategic Action Plan guiding the next phase of our journey to becoming the undisputed leader of our industry. Today I'm very pleased to share our fourth quarter and year-end results and the progress we have made in the first year of our strategic cycle.

Before reviewing the full-year, let me say a few words on our fourth quarter results. We recorded a very solid Q4 performance. Organically, our net revenues grew by approximately 10%, adjusted EBITDA margin increased by 70 basis points, and we have continued to experiment good market conditions.

Reflecting on 2022, I'm very proud of our team. We maintained strong momentum throughout the year, continued to strengthen our platform with strategic acquisitions in key geographies, reinforce our ESG and sustainability commitments, onboarded an impressive number of professionals all of this while elevating our game and executing on our strategic ambitions.

We delivered strong 2022 results ahead of expectations, including the highest organic growth in net revenues for the last decade and an increase in adjusted EBITDA margin in-line with our strategic ambitions.

We ended 2022 in a position of strength and our healthy backlog is indicative of the high demand for our services and the trust our clients have in us. As we enter 2023, we have the right level of workforce and skill sets to deliver on our clients' projects around the globe and our balance sheet remains strong.

In summary, we cannot have hoped for a better start of 2022, 2024 strategic cycle. Let's now review our recent acquisitions. First off, let me say that I'm particularly pleased with the progress we have made in 2022 in becoming the undisputed leader of our industry. We have continued to be active and disciplined on the acquisition front and completed six transactions adding key expertise in high growth sectors such as environment and water while expanding our offering to clients in the government space amongst others.

We welcome approximately 7,400 new employees throughout these acquisitions. In January 2023, we completed the previously announced acquisition of BG, consulting, engineering, and [then enstruct] [ph] as one of Switzerland's leading engineering consulting firms, BG offers consulting, engineering, and project management services in the infrastructure, building, water, environment, and energy sectors. This transaction reinforces our foothold in Europe by adding 700 professionals based primarily in Switzerland and France.

I'm pleased that Pierre Epars, Former CEO of BG will be assuming the newly created role of CEO of WSP's Western European region effective April 1, and I'm confident this region will do well under this leadership. Our second acquisition of 2023 enstruct is a 75 employee structural engineering firm known for designing and delivering quality building projects. This transaction strengthens our structural business in Sydney.

It also provides relevant structural engineering's capabilities that strategically [tie-in] [ph], I'm sorry with our Australian properties and building strategic submissions. The integration of recent acquisitions is progressing according to plan, including the integration of E&I or the Environment & Infrastructure business of John Wood Group plc, our largest transaction in 2022.

Of interest, we are already benefiting from revenue synergies and global collaboration as we successfully combine our major client teams upon closing. All-in-all, 2022 was a very active year on the M&A front. Next, I would like to share some recent highlights.

First, we are thrilled to have been recognized for our leadership in corporate transparency and performance on climate change by global environmental non-profit CDP securing a place with the highest rating possible among two other Canadian companies. This recognition reaffirms our commitments to embedding climate related considerations into our operations.

We strive to lead the world's green transition through proven scientific approaches, innovation, and smart engineering to future improve our cities in our environment. Transparency is critical to achieving our goals. Just prior to our participation in [cup 15] [ph] in December, we unveiled our biodiversity statement, which is a new set of guiding principles aimed at enabling us to engage with our clients to protect, restore, and enhance ecosystems helping us to make a positive impact on nature.

During the same period, we also confirm our 700,000 donation to the nature conservancy of Canada to support initiatives aimed at protecting biodiversity, which is a natural extension of our commitment to mitigating climate change. Transitioning over to the reason we exist, I would like to showcase some recent projects.

Thanks to our Future Ready approach, we continue to win work focused on long-term resilience and adaptability delivering exciting projects with lasting positive impacts. And the energy space momentum to de carbonize the electricity grid in Australia is stimulating the offshore wind energy markets, providing us with long-term multi-disciplined opportunities.

One example is the Star of the South currently positioned to be Australia's first offshore wind farm where we have provided owners engineer services since 2020.

In December 2022, the Australian government cemented its commitment by declaring the first offshore wind zone in Victoria. This has inspired significant additional activity and WSP is now providing a range of services to major global clients to support their early development. These projects provide an attractive long-term pipeline of work.

We were also awarded the opportunity to reimagine the iconic Boulevard (inaudible). Our successful design for the (inaudible) integrates future mobility, resources, climate, biodiversity, society, and digital opportunities. Designed for today's hotter summer, summers locals and visitors will enjoy the shading furniture and the vegetation selected to reinforce biodiversity.

The redesigned Boulevard will increase green mobility for cyclists and pedestrians with secured crossing and create the universally accessible area, which fosters social interaction and enhances well-being.

Moving on to the U.S., we have designed one of the world's first all-electric hospital at the University of California. This hospital is being delivered with the contribution of recently acquired tk1sc. Our mandate was to reduce natural gas usage as much as possible, and our solution eliminated the use of fossil fuels entirely, breaking new ground with an all-electric approach.

We also overcame other complexities related to patient safety in this earthquake zone, as well as California's undersized electrical grid. Through our innovative design, we have helped create a world-class hospital that is leading the way in its commitment to a decarbonized future.

With approximately 150,000 active projects in a variety of sectors, it is our responsibility to deliver work that will promote a sustainable and resilient society. We are proud to play a leadership role in contributing to a low carbon world and accelerating the green transition. I will now turn the call over to Alain to review our financial results in detail in addition to covering our 2023 outlook. Alain?

Alain Michaud^ Thank you, Alex. So I'm also very pleased this morning to report on our strong results for both the fourth quarter and the full-year. So let's start with our top line. For the fourth quarter revenues and net revenues reached $3.6 billion and $2.6 billion, up 23% and 18%, respectively when compared to Q4 2021. Net revenues organic growth of 4.8% in the quarter despite four less billable days to Q4 2021 is attributable to all reportable segment led by Canada, the UK, and Australia.

Adjusted for the number of billable days, our actual organic growth stood at approximately 9.5%. For the full-year, revenues and net revenue reached 11.9 billion and 9 billion, up 16.1% and 13.8% respectively, compared to 2021. The increase in net revenues is mainly due to acquisition growth of 8.2% and organic growth of 7.3% our best performance over the last decade.

Organic growth was achieved across all reportable segment and most notable in the UK, Canada, the U.S., and Australia. Net revenues exceeded the high-end of management's outlook range for the year of 8.9 billion. Backlog as of December 31, 2022 stood at $13 billion representing 11.8 months of revenue, up 24.8% in the year. On a constant currency basis, backlog grew organically by 7.6% in the year.

Moving on to profitability. Adjusted EBITDA in the quarter reached 446 million, compared to 361 million in Q4 2021. Adjusted EBITDA margin for the quarter increased to 17.5%, compared to 16.8% in Q4 2021, a 70 basis point increase.

For the full-year, adjusted EBITDA reached 1.53 billion, up 15.7%, compared to the 1.32 billion in 2021 reaching the high-end of management outlook range for the year. We also posted a 30 basis point increase in margin, which is in-line with our [2024] [ph] strategic financial ambitions. For the quarter, adjusted net earnings stood at 209 million or $1.68 per share, up [$38 million and $0.22] [ph] respectively, compared to Q4 2021.

For the full-year, adjusted net earnings stood at 693 million or $5.75 per share, up $100 million or 16.8%, compared to 2021. The increases in these metrics for both the quarter and the year are mainly attributable to higher adjusted EBITDA.

I will now review a few cash flow metrics. So as expected, free cash flow for the fourth quarter came in strong at $443 million, the highest number we've ever posted for a quarter. Our DSO stood at 73 days as of December 31, 2022, compared to 66 days as of December 31, 2021 in-line with our outlook target range of 70 days to 75 days.

Net debt to adjusted EBITDA ratio stood at 1.5x, compared to 0.6x as of December 31, 2021, when incorporating a full 12-month contribution of adjusted EBITDA of all acquired businesses.

The increase is due to the issuance of long-term debt used to finance our 2022 acquisition. During the quarter, WSP declared a dividend of $0.375 per share for shareholders of record as of December 31, 2022. This dividend was paid on January 16, 2023 with a 31.1% DRIP participation, the net cash outlay was $47 million.

Lastly, I will comment on our 2023 financial and operational outlook. Before I start, I'd like to remind everybody that the outlook for our anticipated 2023 performance is aimed at assisting analysts and shareholders in refining their perspective on our performance. It has been prepared based on foreign exchanges rates effective March 08, 2023. Also note that we have not considered any acquisitions, disposals, or any other transaction that may occur after today.

For 2023, we anticipate net revenues to be in the $10.0 billion to $10.6 billion range and adjusted EBITDA to be between $1.76 billion and $1.84 billion. This reflects our current assessment of market condition and our continued ambition to increase our margins in line with our 2022 to 2024 strategic financial ambitions.

Other items of our 2023 outlook, including the expected quarterly distribution of our business, tax rates, and others are described in our Q4 press release. As it relates to debt, we will continue to manage our capital structure to maintain a net debt-to-adjusted EBITDA ratio between 1 and 2.

Finally, we are continuing our progress with the implementation of our new global ERP system. I'm happy to report that we are now live in Canada and our team has already started to prepare for the future deployment in the United States and the United Kingdom.

In conclusion, we're very proud of our accomplishment in 2022 delivering strong results ahead of our expectation, including the highest organic growth in net revenue over the last decade and an increase in adjusted EBITDA margin. We feel ready to tackle opportunities that lies ahead in 2023 and beyond. On that, Alex, back to you.

Alexandre L'Heureux^ Thank you, Alain. We are certainly pleased with our performance. Our success is largely attributed to a solid strategy and an engaged workforce bolstered by our strong leadership team and our Board's valuable guidance. Speaking of our Board, I'm proud to announce that Macky Tall will be joining our Board of Directors subject to his (inaudible) shareholders meeting.

Mr. Tall is a Partner and Chair of Carlyle's Global Infrastructure Group and previously held several leadership position at Caisse de dépôt et placement du Quebec. His expertise in finance, capital markets, infrastructure, and deep knowledge of WSP's key sectors will bring significant value to our Board.

In terms of new additions, the Global Leadership Team, I would like to highlight the appointment of Sandy Vassiadis, who joined WSP in February as our Chief Communications Officer. Ms. Vassiadis is a seasoned communication executive, and I'm excited that she's joined WSP.

To conclude, I am proud of our collective achievements in 2022 as we enforced a solid foundation of our diversified and resilient platform. And while we remain disciplined, we can be optimistic about our future as we focus on profitable and sustainable growth. I sincerely thank our employees, the members of our Boards of Directors, as well as our clients and shareholders for their continued support. I would now like to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) (Foreign Language) We will now take our first question. Chris Murray from ATB Capital Markets. Your line is open. Please go ahead.

Chris Murray^ Yes. Thanks, folks. Good morning. I guess just my first question is, just thinking about both the margin profile a little bit as we go into next year, arguably very, very strong so far. But I guess my question is, what's left in your mind anyway to be able to do? Is there something tied to maybe the ERP program or is there, are there other opportunities that you see in terms of pricing to be able to drive that margin much higher as we go into 2023?

Alexandre L'Heureux^ Chris, I'll turn to Alain in a second, but there are many levers that we feel are underutilized at the moment. And I think you heard me saying that before running a professional services firm across a number of different jurisdictions, the levers in each and different geographies may differ, but on the aggregate, we do feel that there are many other levers at the moment that we can use starting with digital pricing, project mix client selections better utilize our workforce, better optimize just in time delivery of our projects.

So all of these in my mind are examples of levers and there are many others that will allow us to continue to grow our margin profile. We unveiled our strategy early last year and I sent back them clearly not in this plan, but I now see a path for us to get to 20% EBITDA margin. And a year into our strategy, I certainly haven't changed my mind. If any, I think my belief -- my beliefs have been reaffirmed. So next year, we are planning for margin improvement and we will continue to work hard to move in that direction.

Chris Murray^ Okay. And sorry, was Alain going to add something to that?

Alain Michaud^ Yes, no. On the ERP, Chris, it's obviously an additional lever that we have. It's a full suite of services that's going to be provided by the system. So it's going to change significantly the way we manage our business in the back office, but also front office and the sales pipeline for example.

So we expect this to bring synergies and our teams are already driven on capturing those opportunities as we speak. So as of the implementation program is to track those opportunity and capture them. So absolutely, you're right. It's one additional lever we have now.

Chris Murray^ Okay. And is it fair to think that we might start to see now that the Canadian operation is fully implemented that that might be a good pacing or a good example to use for the rest of the organization as we move through 2023?

Alain Michaud^ Absolutely.

Chris Murray^ Okay. Thanks folks.

Alexandre L'Heureux^ Thanks, Chris.

Operator^ Thank you. We will now take our next question. Please standby. And our next question comes from the line of Yuri Lynk from Canaccord Genuity. Please go ahead. Your line is open.

Yuri Lynk^ Hi, good morning.

Alexandre L'Heureux^ Good morning, Yuri.

Yuri Lynk^ Good morning, guys. I wanted to talk a little bit about your Strategic Advisory business as it continues to become a bigger portion of the WSP story. Just broad strokes, like is that a higher return business than engineering consultant and I would think it would be a little stickier and maybe less cyclical, but can you just talk about that business and how that might play into the path to continuously improved EBITDA margins?

Alexandre L'Heureux^ I think the way I would be thinking about this Yuri and (inaudible) because the reason we diversified into strategic advisory over time is really because we wanted to first be in a position to offer the full suite of services to our clients, okay, number one, but two also to bring WSP closer to its clients.

Early on in the project phase. I think that was by far the main reason why we wanted to continue to grow our engineering capabilities, but also to significantly grow our strategic advisory piece for the reasons that I just described. I think it's not so much a question of cyclicality or the notion that in some instances, the margin profile can be higher.

It's really for us to be in a position to offer the full suite of services to our clients early on. And our beliefs are if we are position well early on in the project phase, the full design suite can then follow. So I think that was the logic behind strategic advisory.

Yuri Lynk^ Okay. I mean, as you are already one of the largest engineering firms in the world, I know there's still a lot of room to grow there, but would you envision a time where you focus more on instead of competing with the [AE comps] [ph] and the (inaudible) of the world, you're more competing increasingly with the Deloitte's and McKinsey's and that could open up a whole other addressable market for you guys? Like is that something that we could see in the next 3 years to 5 years or is that further down the road?

Alexandre L'Heureux^ Absolutely. I think for me, we're -- and I repeat it to our employees. In my mind, we're not competing against peers in our industries. We're competing against all the management consulting firms, all of the engineering firms. All the IP firms. So to me, I don't like to put WSP into a box and we are already competing with the big four firms in many instances on the advisory side.

Just take a ESG and climate change advisory work. We bump into them all the time, but we are, I like to think that we have deep expertise in that sector and are in a position to offer better services.

And I think it's translating in our win rate in that regard. So yes, indeed, we are going to continue to evolve as a firm, but at the same time, it's important to recognize that what made us successful is our design work. And I'm a big believer that design will continue to evolve and we want to remain in 2Q to grow our design capabilities significantly over the years.

I think the runway in that regard is so big. And the barrier to entry are becoming more and more difficult. The projects are so large and so complex. So certainly, we're going to continue to grow engineering capabilities over the coming years as well.

Yuri Lynk^ Okay. Thanks for the thoughts, Alex. I'll turn it over.

Alexandre L'Heureux^ Thank you.

Operator^ Thank you. We'll take our next question. Please standby. The next question comes from the line of Benoit Poirier from Desjardins Capital Markets. Please go ahead. Your line is open.

Benoit Poirier^ Hi. Good morning, Alex. Good morning, Alain. Yes. Some of your competitors are already seeing early signs of work and guiding for pretty strong years with, kind of double-digit organic growth on the back of the [big 3 and trust in the list] [ph] builds in the U.S. Are you seeing and expecting the same? And if you could maybe provide a breakdown of organic growth outlook by region, that would be great?

Alexandre L'Heureux^ Yes, we are expecting, first and foremost, I think we are expecting strong growth, organic growth for next year. With what we know today and the market that we're in at this point in time, I think the proposal activity level is very strong, it's robust.

Our backlog continued to grow and I should add as well that in the backlog figures that you have, the hard backlog figures that you have at the moment, you do not have included and there are significant wins that we expect to, obviously to add to our hard backlog in the next quarter or so in Canada, Australia, and New Zealand.

And that's fairly significant. So I think all the metrics right now are green, Benoit, and we're feeling good. And not only in North America, you know that North America represents essentially more than 60% of our business, and you know that the North American market is very robust, but equally, you look at the UK that represent maybe 10% of our market -- of our business today. It's still a very robust and resilient market at this point in time.

So you look at Australia and New Zealand, that produced double-digit organic growth this year, combined with the strong position that we have in North America, and our strong position in the UK and we feel very good about 2023 at the moment.

Benoit Poirier^ Okay, that's great. And on the M&A, you were able to complete the six acquisition in 2022. It seems that there was a discrepancy between valuation multiple, between publicly traded companies and private. So could you talk a little bit about the M&A environment and whether this could accelerate or slowdown in 2023, especially that you have a favorable leverage situation?

Alexandre L'Heureux^ Indeed, we have a very strong balance sheet position at the moment. We're pleased about it because I think I mentioned it many times in the past whether you're in a recession or you're in an up market that there are always opportunities for us to action essentially. And this time around is not any different. We're going to look to be opportunistic and find good transactions that can generate shareholder values for our investors. And obviously, you talked about the discrepancies between public and private.

Indeed, what I found in the last 12 months is that we have seen some, sort of a correction early on last year in the public sector and in the -- with publicly listed companies, but it never caught up with the private sector.

So private sector stays fairly high last year. We've seen a bit of a change in the fall and it's going to be interesting to see what happens in 2023, but obviously, I think it's fair to say that there are fewer and fewer publicly listed firms in our space. We have 3 or 4 very large, 4, 5 I should say large publicly listed companies.

So I suspect in the years to come, most of the growth through acquisitions will come most likely from private, but also maybe between large consultancies coming together. But that's a very different topic. But I think I've said it in the past. I think what we've seen in the accounting industry, I believe we're going to see in our industry at some point in time.

Benoit Poirier^ Okay. That's great. And lastly, just in terms of interest rate, could you maybe just remind us about your exposure to variable debt and how we should expect interest expense to evolve in 2023?

Alain Michaud^ So largely we're probably around 50/50 fixed variable on our debt. So I think there's a little hike in interest rate that's predicted for the beginning of 2023. In and around a mix of about 4.75% to 5.25% for the year I think is a good spot.

Benoit Poirier^ Perfect. Okay. Thank you for the time, gentlemen.

Alexandre L'Heureux^ Thank you.

Operator^ Thank you. We will now take our next question. Please standby. Our next question comes from the line of Jonathan Lamers from LB Securities. Please go ahead. Your line is open.

Jonathan Lamers^ Good morning.

Alexandre L'Heureux^ Hi Jonathan.

Jonathan Lamers^ So I noticed there was a lease charge taken in Q4, excluded from the adjusted earnings. How much was the charge? And how much do you expect lease payments to decline following that? Well, those are as we go through our real estate strategy, Jonathan, as we unveiled our (inaudible) plan, we mentioned our intention to reduce our footprint by about 20%. When you combine that with recent acquisition, we are faced with opportunities to optimize further.

And the write-off that we took this year is actually leases that we've shut down to capture synergies faster for recent acquisitions. So that's what happened. Don't expect any significant situation like that in 2023 for the current acquisition that we have. As for the net impact, I would say, it's de minimis on the overall spend, but it's certainly a reduction, those synergies, of course.

Jonathan Lamers^ Okay, thanks. So more broadly, as you work toward your 2024 strategic targets, how far along are you now in terms of your real estate optimization strategy?

Alexandre L'Heureux^ We're on-track with the reduction. 2022, we've overachieved the 20%, so roughly around 25% to 30%. We reassess this objective all the time. Jonathan, as I mentioned, the acquisition bring a load of new opportunities. And we're certainly working on it, but going very well at this point ahead of -- we're tracking positively on this metric.

Jonathan Lamers^ Okay. Thanks for your comments.

Alexandre L'Heureux^ Thank you, Jonathan.

Operator^ Thank you. We'll now take our next question. Please stand by. Our next question comes from the line of Jacob Bout from CIBC. Please go ahead.

Jacob Bout^ Good morning.

Alexandre L'Heureux^ Hello, good morning.

Jacob Bout^ So you're saying that you're seeing a robust and resilient market, but maybe just comment on if you're seeing where you might be seeing areas of weakness, you seeing any changes in your client behavior at all, either given inflationary pressure and whatnot, and maybe just specifically like I'm thinking private sector buildings perhaps, but maybe just a few comments there?

Alain Michaud^ I wish I could provide a bit of -- I could give you some area of weaknesses at the moment, Jacob, but unfortunately, I think -- and I know it's -- I think I said that in the last quarter, it's a bit of a schizophrenic environment, you watch the news, you look at the data, and you review the data out there and you like -- you wonder how on the ground is being felt in our industry.

But I must admit that at this point in time we are not seeing any area of weakness for the time being. I think I'd say that our property and building sector is doing extremely well at the moment.

Same with our environmental sector. So it's transportation. Power and energy, I think, with the energy transition that is taking place and I gave few examples of that on projects today. I have to tell you, I think that the proposal activity level remains quite robust at the moment, and that's true in North America. Again as a sake of repeating myself, which is almost two-third of our business, but also in the UK and the Nordics, and Australia and New Zealand.

So at the moment, I'd say that we're quite pleased with the way all of our regions are performing at the moment. It's not like we have a certain part of the world that is performing well and others that are not. At the moment, everybody is performing at a very good level.

Jacob Bout^ Good to hear. Maybe a second question is just a small thing, but just your subconsultant fees as a percentage of gross revenue appears a little higher this quarter and just wondering the reasoning behind that? And is that something we should be thinking about going forward?

Alexandre L'Heureux^ No. I think obviously from one quarter to the other, it can varies and sometimes maybe we'll have a greater portion of subconsultant costs where we are prime on certain projects, but there hasn't been any change in the profile of the business at this point in time.

Jacob Bout^ Thank you.

Alexandre L'Heureux^ Thank you.

Operator^ Thank you. We'll now take our next question. Please stand by. Next question comes from the line of Frederic Bastien from Raymond James. Please go ahead. Your line is open.

Frederic Bastien^ (Foreign Language) Guys, I know it's early days, but I was hoping you could provide some comments on your recent acquisition of BG Consulting, perhaps if there were any surprises that you have come across so far? And any learnings that you may have drawn that you can take and apply to your goals to continue growing through acquisitions in Continental Europe?

Alexandre L'Heureux^ Well, of course, I recognize that the world at the moment is a place given what they [can place] [ph] in Ukraine. But at the same time, Continental Europe is an incredible opportunity for firms like WSP and others in our industry. The demand for infrastructure is great and big and obviously we've been in a position to acquire a brand like BG in Switzerland, Frederic was incredible for us.

They have incredible [tunneling expertise] [ph], given where they're located and they've been doing it for a long time. And already, we -- our Swiss team is working with our UK team in the UK on certain projects and bids. So already we are seeing the collaboration taking place.

And also, BG is a great brand and is known in France and with the expertise that we have in France currently combined with the transportation expertise that BG is bringing to the table, I think we are going to be in a position to grow presence in this market. And this market don't be mistaken. I mean, the French market from an infrastructure point of view is a very, very robust market.

There's a lot happening, obviously the Olympics coming as well. So we feel that having more infrastructure capabilities at the moment. In France, I think the timing could not be better.

Frederic Bastien^ Thanks. I appreciate the color. Now, if we can maybe turn to the U.S., you obviously have a big presence. You've gained organic gains through consolidation as well. Are there any pockets within the U.S. You believe you still subscale and you'd like to get more scale, whether it's by regions and also by end markets? Thanks.

Alexandre L'Heureux^ Yes, Frederic, bit of a boring answer, but I feel we're essentially, I think it could be fair to say that we're subscale almost everywhere. So meaning that there's a lot of runway for us in the U.S., but to be a bit more precise, I think, in Central we could to grow our presence (inaudible) very subscale. Texas were very subscale. In Southwest, we could continue to grow. Southeast, Florida is the fastest growing State with Texas at the moment.

We could double, triple our position there and still we see any duplication. So I think we are -- we have planned and we'll continue to have plans for the years ahead to continue to grow the U.S. Business. And I perhaps should take the opportunity to sales (inaudible) Canada, we haven't talked about this in the long time. Our last significant acquisitions, if I (inaudible) more recently was (inaudible) in 2015.

I think that country too, I mean, we are still today, I feel we're subscale and we can continue to grow Canada. The market is so big and the demand in infrastructure keeps growing and governments keep committing to infrastructure. So I think globally and holistically when you think of the North American market, I've seen the years to come opportunities for us to continue to grow in both Canada and the U.S.

Frederic Bastien^ That's great to hear. Thanks. Thanks a lot, Alex.

Alexandre L'Heureux^ Thank you, Frederic.

Operator^ Thank you. We will now take our next question. Please standby. Your next question comes from the line of Maxim Sytchev from NBC. Please go ahead. Your line is open.

Maxim Sytchev^ Hi, good morning, gentlemen. Alex, I was wondering if you don't mind maybe talking about the wages dynamic in the industry and whether we're seeing a bit of moderating dynamic? And what should we expect on a going forward basis? Thanks.

Alexandre L'Heureux^ Yes. Wages comes with also turnover. So I don't know if you also wanted to discuss turnover, but we have been fairly important drop in our turnover in Q4. So it's almost like after the pandemic, the great resignation, there was high level of turnover in the industry.

But again, our industry, the turnover was lower than in the other big four firms, but nevertheless was by all standard quite high max. And that's expensive. This is really, really costly to manage turnover. So to have seen a drop and a reduction in turnover starting in Q3 and continue to see that in Q4 was quite encouraging for us.

We're not at the pre-pandemic level yet, but we're getting there. And that's quite encouraging for us, number one. And number two on the wages, I do feel that we've done and I've been quite proactive last year in making sure that we were managing increases without getting ahead of ourselves, managing increases to a point where we feel we are in a very good place right now with our cost structure and also have been able to work in collaboration with our clients on time and material projects, but also on alliance projects.

And also, oftentimes in fixed price projects be in a position to collaborate with our clients to find the right strike the right balance to maintain and increase our EBITDA margin. But at the same time, making sure that we take care of our employees.

Maxim Sytchev^ Okay. That's super helpful. Thank you so much. And then just one other question on, sort of commercial real estate and maybe it's too granular. I mean, reason right now more about the potential to brownfield redeveloped some [city centers] [ph] and so forth. I'm just curious to see if that could be potentially a significant opportunity for you guys. If yes, maybe any color on that that will help.

Alexandre L'Heureux^ Max, I'm glad you're asking this questions, that question because it is a tremendous opportunity for our property and building sector, which represent 20% of our top line today. Today, rehabilitate buildings. It's something that we're seeing more and more converting commercial real estate buildings into data center, into housing, into, I mean, the density of cities in North America and frankly around the world is increasing, but the nature and the look of the large megacities is also evolving and changing.
And we are here at WSP to tackle the change. And so, we are seeing a lot of rehabilitation and refurbishing of existing buildings happening at the moment. And I think you'll see more of that in the years to come.

Maxim Sytchev^ Okay. That's super helpful. Thank you so much, That's it from me.

Operator^ Thank you. We will now take our next question. Please stand by. Your next question comes from the line of Ian Gillies from Stifel. Please go ahead.

Ian Gillies^ Good morning, everyone. I wanted to go back to the digitization of your business. As you think about monetizing that, do you think about it from actually being able to charge for new technologies or is it a function of getting better utilization on your existing employees, thus to spending more time building, etcetera? Or is it some mixture of the both?

Alexandre L'Heureux^ Yes. It's -- and I'll turn to Alain in a second, but it's clearly a mixture of both. I think you need to think of this. To me it's two dimension or two-pronged answer. The first one is what are the additional digital services and advisory services that we could provide to our clients and we do -- and we are providing a number of these in the environmental sector and the transportation sector and the property and building sectors and the decarbonization movement that is taking place.

I mean, we do provide digital services to our clients. That's one aspect of it. The other one is to using technology for us to be more efficient in our design. To optimize our design, to provide a better design to our client. I think that's perhaps the opportunity also for WSP is really by using digital tools not just an ERP, but using digital tools for us to be more to optimize the work that we do and do it at a better cost, but to do it also with more precision. And providing a better servic e to our clients.

So to me and that's the opportunity. I mean, it's one, what are the adjacent digital services that we can provide to our clients number 1? And two, what are the tools that we can use to continue to do more with less? I think that's the real opportunity also for WSP. So one is more outward focus facing our clients and the other one is more inward focus. How can we leverage the existing platform with technology to do more with less?

Ian Gillies^ That's helpful and makes a lot of sense. And the other thing I wanted to f ollow on was some of the commentary around this strategic advisory business and growing that part. When you look at that business, is there anything with respect to those contracts that may be more attractive than the traditional engineering business, i.e. are they more recurring in nature? Do you see those coming back on a more frequent basis? Like, I'm just curious whether on the -- how you perceive the cash flow quality of those versus the existing business?

Alexandre L'Heureux^ I'm always concerned when we talk about strategic advisory versus engineering, like talking like engineering is not the same level or the same quality level than strategic advisory. Engineering just so that we're crystal clear here, our margins have gone up in our engineering services. So I would certainly not be suggesting that our engineering services are being commoditized to the contrary.

As I said earlier on today, the projects are becoming so large, much larger than they were a decade ago. And the complexity around projects are greater as well. So I think where we can make a huge difference as a global firm, and with the expertise that we have in-house is really to tackle those mission critical projects. Those complex projects. That's where we can really increase our margin profile and continue to do well on the engineering front.

On the advisory front, as I said, it's just allowing us to get closer to our clients. And obviously, there's a fair number of -- I think you talked about recurrent revenue streams. Obviously, there's a lot of that into it. I mean, that's very attractive. And obviously, we will continue to grow this, but I don't think that we are doing this because [of our] [ph] better or more favorable contractual arrangements. I think we're doing it because strategically makes sense for us to do it.

Ian Gillies^ No, I appreciate that context. I think that's all very, very, very fair. I'll turn the call back over here.

Alexandre L'Heureux^ Thanks, Ian.

Operator^ Thank you. We will now take our next question. Please stand by. Your next question comes from the line of Michael Tupholme from TD Securities. Please go ahead. Your line is open.

Michael Tupholme^ Thank you. Good morning.

Alexandre L'Heureux^ Good morning, Michael.

Michael Tupholme^ Alex, in response to one of the earlier questions you talked about still seeing WSP as sub scale in the U.S., and also still having room to grow in Canada, I guess more broadly when we think about potential fut ure acquisition activity given the company's current footprint, I guess beyond the U.S. and Canada, if we look elsewhere globally, can you provide an update on any key regions or key target end markets that you're most focused on in terms of potential expansion and acquisition growth from here?

Alexandre L'Heureux^ Look we're -- a minute ago, I talked about North America. Then five minutes ago, I talked about Continental Europe. And maybe now it's time to talk about Australia and New Zealand. I mean, the opportunities there too are good and are great.

It's a very, very sound and good market for us and it has been good over time. So certainly, there is an opportunity for us to continue to grow our presence in that region and in that neck of the wood obvio usly. So we are going to continue to look for opportunities in Asia Pacific and in the not so distant future.

We have approximately 4,000 people in Australia. We're probably more than double the size in Canada. And I just mentioned that in Canada, I see some opportunities for future growth. So the fact though obviously Australia we do see some opportunities continue to grow.

We need to find those. And as I said in the past, many times over the very difficult to time acquisitions. It takes two to tango, but I'm confident that the due course through our largest size acquisition or to a niche acquisition, we are going to be able to grow our presence in Asia Pacific as well.

Michael Tupholme^ Okay. So still very much broad based opportunities in many regions?

Alexandre L'Heureux^ Yes.

Michael Tupholme^ Okay. And then the second question, just a question regarding the 2023 organic growth outlook of 3% to 6%, just for as we think about the year and how it unfolds, is there anything we should be mindful of in terms the quarterly cadence of the organic growth as you move through the year? Just curious on that front.

Alexandre L'Heureux^ No, we don't have -- particular, we don't have the same situation we had in 2022 on the number of billable days. So 2023 will be standard, comparable days between quarters. So we've provided in our outlook, Michael, the distribution per quarter, but nothing specific I would tell you on 2023.

Michael Tupholme^ Okay. That's helpful. And then I guess just beyond, sort of the billable days issue, Alain, I was just also curious if there's any sort of situation here where growth is accelerating as you move through the year as perhaps infrastructure spending continues ramp up in certain regions or anything along those lines would be as part of the thinking there?

Alain Michaud^ No, nothing like that Michael.

Michael Tupholme^ Okay thanks very much.

Alexandre L'Heureux^ Thank you.

Operator^ Thank you. (Operator Instructions) We will now take our next question. Please stand by. Dimitry Khmelnitsky from Veritas. Your line is open. Please go ahead.

Dimitry Khmelnitsky^ Hello and thanks for taking my question. So the first question I'd like to ask is about organic revenue growth in 2023. You are guiding for midpoint of 4.5% that's lower than 7.3% in 2022 and 9.5% in Q4. And I wonder is the [delta] [ph], primarily driven by your conservatism as historically you have track record of over delivering? Or are there any other factors that we need to be cognizant of?

Alexandre L'Heureux^ Dimitry, it's a fair assumption.

Dimitry Khmelnitsky^ Okay. Awesome. And then in terms of capital allocation priorities, between debt repayment and material acquisitions, how do you think about this given the higher rate environment and so on?

Alain Michaud^ Well, it's all about cost of capital. So if I feel that we can find opportunities that will generate a higher return than our cost of capital, we're obviously going to pull the trigger and look into it, obviously. If conversely, we believe that those acquisitions will destroy value or we're not going to look at them.

Dimitry Khmelnitsky^ Okay. So it's really depending on the acquisition, very business specific.

Alain Michaud^ Well, each and every acquisition is obviously different and each and every acquisition is, we go through the investment thesis, and if we feel that we're not going to create shareholder value or not, we're not going to do it.

Dimitry Khmelnitsky^ Understood. Okay. Thank you. And then the last question has to do with the current taxes. So I was just wondering whether the current income tax expense is a decent proxy of normalized cash tax?

Alexandre L'Heureux^ Yes. It is as we've discussed last night Dimitry, it is.

Dimitry Khmelnitsky^ Yes. Awesome. Okay. Thank you so much.

Alain Michaud^ Thank you so much. Bye, bye. Have a great day. Thank you.

Alexandre L’Heureux^ And you too. Thank you.

Operator^ Thank you. There are no further questions. Speakers, please continue.

Alexandre L’Heureux^ Okay. Well, thank you so much for attending our Q4 earnings release and I look forward to updating you as we progress towards 2023. So again, thank you. Thank you for your continued support. Look forward to engaging with you in the next quarter. Thank you.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect. Speakers, please stand by.