WSP Global Inc. (Q4 2024)
February 27, 2025

Corporate Speakers:

- Alexandre L'Heureux; WSP Global Inc.; President and Chief Executive Officer
- Alain Michaud; WSP Global Inc.; Chief Financial Officer
- Quentin Weber; WSP Global Inc.; Global Head of Investor Relations

Participants:

- Steven Fisher; UBS; Analyst
- Yuri Lynk; Canaccord Genuity; Analyst
- Ian Gillies; Stifel; Analyst
- Maxim Sytchev; NBF; Analyst

PRESENTATION

Operator^ Good day. Thank you for standing by. Welcome to the WSP Global Inc. Fourth Quarter and Fiscal 2024 Results Conference Call. (Operator Instructions) Please note that today's conference is being recorded.

I would now like to turn the conference over to your first speaker, Quentin Weber from Investor Relations. Please go ahead.

Quentin Weber^ Good morning. Good afternoon. Thank you for joining our call. Today we will discuss our Q4 and fiscal 2024 performance, followed by a Q&A session. Alexandre L'Heureux, President and CEO, and Alain Michaud, our CFO, are joining us this morning. Please note that this call is also accessible via webcast on the website.

During the call we will make 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 the MD&A for the year ended December 31, 2024, which can be found on SEDAR+ and on the website.

In addition, during the call we may refer to specific non-IFRS measures. These measures are also defined in the MD&A for the year ended December 31, 2024. 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 operations as they provide additional critical metrics of its performance. These non-IFRS measures are not recognized under IFRS, do not have any standardized meaning prescribed under IFRS and may differ from similarly named measures reported by other issuers and accordingly may not be comparable. These measures should not be considered as a substitute for the related financial information prepared by IFRS.

With that, I will now turn the call over to Alexandre.

Alexandre L'Heureux^ Thank you, Quentin. And good day everyone. I am pleased to share our strong fourth quarter and full year performance, which exceeded the high end of our revised financial outlook that we provided in Q3 2024. We carried out positive momentum in Q4, delivering robust net revenue growth with continued elevated organic growth, enhanced profitability and strong operational cash flows.

We continue to enjoy a robust backlog and pipelines of opportunities demonstrating the strength of our global platform. Taking a closer look at the three key highlights of our solid Q4 and full year results. First, our net revenues continued to grow significantly over our 2023 performance with a 23% increase for the quarter and a 12% increase for the full year. We maintained a high level of organic growth with 7.5% for the year, led by ongoing strong demand for our services, notably in the U.S. and Canada.

Second, we significantly exceeded our expectations in Q4 and successfully met our yearly strategic target, delivering a 40 basis point increase in adjusted EBITDA margin despite restructuring activities in Asia, which is not small in nature and a total of 120 basis points during the last three years.

And third, we ended the year in a strong cash position with free cash flow more than doubling compared to last year. Our commitment to solid cash flow generation remains a top priority for us going forward. 2024 also marked the successful conclusion of our 2022-2024 strategic cycle, a period of remarkable achievements that have shaped WSP.

As a leading compounder and value creator, we surpassed the ambitious financial targets we set three years ago, growing our net revenue by more than 55%, our EBITDA by 65% and our net earnings per share by more than 60% versus 2021. During the 3-year cycle, we enhanced our client experience, strengthened our platform and completed 16 strategic acquisitions, notably POWER Engineers, which we closed in October 2024.

On that front, the integration is progressing well and is on plan. From day 1, our key focus has been to bring our teams together, prioritizing our clients and projects. Based on our current pipeline, we now have over 120 opportunities in development together. We have now successfully secured many projects utilizing our combined expertise across multiple business lines. Additionally, we have multiple existing projects, leveraging our combined capabilities to expand our current service offering for our clients. Recent examples of key wins include two new multiyear framework agreements to provide engineering, design and environmental planning and permitting for transmission, distribution and substation-related assets for two major utilities in the Northeast.

In short, we continue to see a significant level of revenue synergies opportunities. Today our global talent pool has grown to approximately 73,000 talented professionals as we deepen our capabilities and footprint in key end markets and geographies. Our 2022-2024 accomplishments have further solidified our position. More than ever we run a truly global and highly diversified business primed to keep driving sustainable growth and leading financial performance.

Before getting into our exciting developments from the start of 2025, I invite Alain to review our financial results in greater detail.

Alain Michaud^ Thanks, Alex. And good morning, everyone. I'm pleased to report on our strong 2024 results. For the fourth quarter, revenue and net revenue reached $4.7 billion and $3.4 billion, up 25% and 23%, respectively, compared to the fourth quarter of 2023. We posted robust net revenue organic growth of 10% in the quarter, driven by continued strong demand for our services.

For the full year, revenue and net revenue increased by 12% compared to 2023, growing to $16.2 billion and $12.2 billion, respectively, exceeding the high end of our updated outlook range for the year of $11.8 billion to $12.1 billion of net revenues. The increase year-over-year was due to solid organic growth of 7.5% and acquisition growth of 3.7%.

For both the year and the fourth quarter, growth was led by continued strong momentum in Canada and the U.S. including higher demand for emergency response services following hurricanes in the U.S. This represents the third consecutive quarter of double-digit organic growth in the U.S.A.

Also we're very proud to report that the newly acquired POWER Engineers posted 16% of organic growth in net revenue in Q4. Our backlog continues to be robust with a healthy level of project awards and pipeline of opportunities. As of December 31, we reached a new record level with $15.6 billion of backlog, representing 10.9 months of revenues and outlining the sustainable demand for our services.

Moving on to profitability. Adjusted EBITDA in the quarter grew to $634 million compared to $525 million in the fourth quarter of 2023, an increase of 21%. Adjusted EBITDA margin stood at 18.7% compared to 19% in the fourth quarter of 2023 due to the fluid environment and restructuring activities in Asia and a higher mix of lower-margin emergency response services in the U.S.

For the full year, EBITDA grew to $2.185 billion, up 14% compared to $1.9 billion in 2023 and exceeding the high end of our updated outlook range for the year, which stood at $2.155 billion to $2.175 billion. Adjusted EBITDA margin to 18% compared to 17.6% in 2023 was mainly attributable to increased productivity and to the progress on our margin expansion journey. Adjusted net earnings for the quarter reached $305 million or $2.34 per share, up 23% and 17%, respectively, compared to the fourth quarter of 2023.

The increase is mainly attributable to higher adjusted EBITDA, partially offset by higher interest on long-term debt. For the full year, adjusted net earnings of $1.01 billion or $8.05 per share increased by $155 million or $1.50 per share compared to 2023. The respective increase of 18% and 17% in these metrics were mainly attributable to higher adjusted EBITDA, partially offset by higher interest on long-term debt.

As for our cash position, cash inflow from operating activities increased to $1.4 billion compared to $986 million in 2023, and we also more than doubled our free cash flow for the year, reaching $885 million. Free cash flow represented 1.3x the net earnings attributable to shareholders. The improvement in free cash flow is mainly due to higher adjusted EBITDA and improved working capital position.

At the end of December, DSO stood at 72 days, ending at the lower end of the outlook range of 72 to 79 days and compared to 76 days as of December 31, 2023. Considering the level of transformation, we orchestrated by making a new ERP available to close to 40,000 employees in 2024, we are very pleased with this outcome.

Our balance sheet remains strong with a net debt position of 1.8x within management's target range and incorporating the full 12 month of adjusted EBITDA of all acquired businesses in 2024, the net debt to adjusted EBITDA ratio would stand at 1.7x. Combined with our available capital, it provides us with the flexibility to capture future opportunities.

Lastly, the financial outlook for '25 issued in our Global Strategy Action plan press release on February 12, 2025, is reiterated.

On that, back to you, Alex.

Alexandre L'Heureux^ Thank you, Alain. With that in mind, we are very pleased to close our 2022-2024 chapter. Before we take questions, I want to highlight some of the exciting developments from the last few weeks including the launches of our new brand identity and our 2025-2027 Global Strategic Action Plan and of course our Investor Day event held in Toronto and online where we had the pleasure of engaging with investors and analysts.

Starting with our new brand identity, which reflects everything we are at our very core and what we want to become known for. It is centered on our people, the most precious resource we have, and it is dynamic and innovative. It will serve as a powerful tool to differentiate us in the marketplace and build a strong, recognizable presence that resonates with our people, our clients and our partners.

Our 2025-2027 plan is our roadmap for an ambitious 3-year cycle focused on pioneer change for empowered growth. It is designed to propel WSP forward as we seek to become a catalyst of change in modernizing our industry. The world around us is changing rapidly. Key megatrends such as energy transition, urbanization and the digital revolution are reshaping our planet and increasing the demand for our expertise.

In this environment, we see tremendous opportunity for growth. While we have grown significantly, our estimated market share is still very small. Our deep understanding of the natural and built environment gives us strategic advantage to grow and to beat challengers in the professional services arena.

Today we are looking beyond undisputed leadership in our industry. We are broadening our reach and evolving our long-term vision to become a leading brand within the professional services universe. This 3-year plan is designed to unleash the full potential of WSP as we aim to push even more boundaries, drive greater innovation and meaningfully invest in digital.

We reaffirm this intention with a groundbreaking new 7-year partnership with Microsoft to accelerate the digitalization of the architecture, engineering and construction industry. By combining our deep engineering and scientific expertise with Microsoft best-in-class digital and AI technologies, we can drive value-focused innovation and achieve exceptional results for our clients, our communities and our business worldwide.

With our 2027 targets, we remain committed to delivering leading financial performance. We set ambitious goals to boost our net revenue by 40%, grow our adjusted EBITDA by 50% and increase our adjusted net earnings by 60% and raise our free cash flow by 70%. This plan is not just about numbers, it's about setting a new standard for excellence and innovation in our industry.

We believe that by focusing on these key metrics, we will be able to drive sustainable growth and create long-term value for our shareholders. With a renewed long-term vision, a bold new brand and the unwavering trust and support of our clients and investors, I'm highly confident in our ability to create an enduring legacy of greater impact.

I would now like to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We are now going to proceed with our first question. The first questions come from the line of Steven Fisher from UBS.

Steven Fisher^ Congratulations on a strong year. I guess just within the mid to high single-digit organic growth expectations that you have for Canada and the Americas for 2025, how different do you think the growth rates are going to be between transportation, environment, property and power?

Alain Michaud^ Yes, I would think generally speaking, it should be strong across the patch. So there's no significant variances between those end markets.

Steven Fisher^ Okay. Then I guess obviously a very dynamic environment at the moment from a political perspective. I guess what impact are you seeing in particular from Trump policies on your various infrastructure markets as it's developing this year?

Alexandre L'Heureux^ Well it's changing by the week, so we obviously monitor that very closely. But high level, I feel that there is a bilateral support on both sides of the aisle by the Democrats and Republicans around infrastructure. So if there is one positive

aspect of what's happening right now, I feel that there's some commitment to infrastructure. That I believe will continue and will continue to be strong in 2025. So all in all, as a company, we feel extremely strong and feeling extremely good around the markets in which we operate at the moment, both in the U.S. and in Canada.

Operator^ (Operator Instructions) The next questions come from the line of Yuri Lynk from Canaccord Genuity.

Yuri Lynk^ Did I hear correctly on your prepared remarks covering off POWER Engineers, 16% revenue growth for that entity. Can you just confirm, is that what I heard, and is that year-on-year and net revenues?

Alain Michaud^ Yes. You heard well, Yuri. That's Q4 '24 compared to Q4 '23 as reported by Power. So on top of that, there could be also opportunities that we highlighted also in Alex's remark on revenue synergies on both sides of the equation, on legacy WSP and legacy Power.

Alexandre L'Heureux^ I think Yuri said differently, obviously POWER Engineer growth is accounted as acquisition growth at this point. But for your information, we wanted to provide you with the organic growth that Power recorded in the quarter Q4, which is the first quarter with us.

Yuri Lynk^ Yes. No. No. It's helpful. I did notice the revenue contribution from acquisitions there was higher than expected. That was -- and I'm assuming that that's organic growth, and I'm just wondering how -- if that's in line with what your expectations were and how do we think about how the revenue synergies might start to layer in on top of that, because surely there were no revenue synergies in that number so close after closing, right?

Alexandre L'Heureux^ Yes. No new revenue synergies in that number. Obviously early on in the process, so difficult to quantify what those revenue synergies will look like, but a very strong headstart, first part of your question. Second part, when we complete the acquisitions, you will recall when we presented the opportunity and presented the company that this company had generated double-digit CAGR growth over the last 10 years. So not surprised by the strong performance, but very pleased with the start of our combining journey together.

Yuri Lynk^ Yes. Okay. Just a quick last one, housekeeping. If I recall Q1 of last year had a couple of -- fewer billable days. Just wondering how the billable days issue shakes out for 2025?

Alain Michaud^ No significant differences versus '24. So you could assume stable situation in every quarter.

Alexandre L'Heureux^ So in other words, like-to-like from one quarter to the other.

Alain Michaud^ Yes, like-to-like, correct.

Operator^ (Operator Instructions) The next questions come from the line of Ian Gillies from Stifel.

Ian Gillies^ I just wanted to touch on APAC. I mean most of the business is performing quite well. One of the surprises, I suppose, for me in the quarter was the margins in APAC. Can you maybe talk a little bit about some of the steps being taken to returning those to what I would call more normalized levels in '25 and '26?

Alexandre L'Heureux^ Yes. Look, it's -- at the moment, I'm feeling fairly, very good around the APAC situation. At the moment, we took the liberty to really set the business up for future success in Asia. So we continue to optimize our business, continue to make some changes. We have put -- our leader in the Middle East also expanded his role to head also the Asian operation, Dean McGrail, very pleased with that. And again we can -- it is always part of a global business to continue to streamline your operation to make the necessary changes to set it up for future success. So we're starting the next three years, I believe, on not on the back foot, but on the front foot as it relates to APAC.

Then when you move down south and you look at Australia and New Zealand, last year, New Zealand had a change of government and really the infrastructure spending and the country really took a pause and really the new government wanted to reassess priorities within the country. So we saw the market cooling down a bit. Do I think it's going to have a -- it's going to be like this for a very long time?

No. I don't think so. In Australia, we finished off many, many large projects in Australia, and we had to demobilize some of our workforce. But we are, at the moment, replenishing the backlog. We are committed to Australia, committed to New Zealand. These are great countries where the margins are extremely high, probably some of the highest in our group. So we're not changing our view on this. But to me, this is just us going through changes in dynamic in the regions, but we're still very much committed to the region and very much optimistic about the future prospect of that region.

Ian Gillies^ Understood. That's very helpful. The other one I was hoping you might be able to expand upon a little bit is backlog is a point-in-time measurement. It's not always perfect, but it was a little shorter in duration this quarter. That would, I presume, would have been well known when you put out guidance a couple of weeks ago. But could you maybe talk about what's transpiring there and what you kind of see happening in the first half of the year and for the business?

Alexandre L'Heureux^ Yes. You're reading this very well. We're feeling good about our guidance, very strong. We're going into this, as I said, on the front foot in 2025. And remember that we have a large earth and environment practice, and if you look at Q4 last year, we experienced a similar dynamic. We've consumed -- the backlog in our environment is typically shorter in duration. So we've consumed our backlog, and we're

going to rebuild it start in spring again at the end of Q1. So it's nothing unusual, and we're feeling very good about it.

Operator^ We are now going to proceed with our next question. Your questions come from the line of Maxim Sytchev from NBF.

Maxim Sytchev^ Actually, I just wanted to piggyback on the backlog question. I mean the fact that you're doing more advisory work, does that have sort of any impact on kind of the book and burn dynamic of sort of from a definitional perspective. Just wondering if you can provide any color there.

Alexandre L'Heureux^ I wouldn't want you, Max, to draw any conclusion on 90 days of performance. I think you need to have a long-term view on the business, as I said in the past. I don't believe advisory versus engineering is going to have a significant impact over time. Yes, advisory tend to have a shorter backlog and duration. which is fine, actually. We have no problem with that. It's just the nature of the work. But we could be awarded like a 5-year contract next quarter and all of a sudden, you're going to see a massive growth in our -- from one quarter to the other.

So I think it's just work in progress. We're running in the ordinary course of business. The backlog is strong. Our proposal activity in the U.S. is extremely strong. So at the moment, I'm feeling very, very well around and very good around our backlog and our performance as a result of it.

Maxim Sytchev^ Yes. Okay. No. That's great color. Then I was wondering if it's possible to get any comment around the M&A landscape and given sort of the policy fluidity we are experiencing at the moment, how we should be thinking about this in terms of, is it a net positive, negative when it comes to sort of sales expectations? Any color there?

Alexandre L'Heureux^ Well it's a push and pull, Max. On one end, with this new administration, I think the investment community was hopeful for more deregulation and therefore, fostering more of an environment for merger and acquisition. That's on the one end. The flip side of this is that when you are creating an unstable environment, people tend to take a pause.

So I feel you have two competing forces right now taking place in the marketplace. That's why I believe, in my personal opinion, that the first half will probably be a bit more quiet, and I'm not talking about WSP, I'm talking about the world here. The world of M&A and transaction activities will probably be more quiet than people had hoped back in the fall of 2024. Do I think though that this will resume? Absolutely. I do believe that if we can gain more stability in the marketplace, I think that the market is poised for a lot of activities in the coming years. We intend WSP to actively participate in that.

Maxim Sytchev^ For sure. And do you mind if I sneak in one more in terms of the POWER Engineers, I mean obviously tremendous growth there. I was wondering if you

can please expand in terms of the sustainability of this growth because, again looks pretty tremendous.

Alexandre L'Heureux^ Well look, as I said before, not surprising by the performance of POWER Engineers. We're extremely pleased, 10 years of CAGR double-digit organic growth. So yet again I think Q4 was a very strong quarter for them. I've known this company for as long as I've been with WSP for more than 15 years now. I've followed their story. This is a premier brand in the power and energy sector in the U.S.

So we're -- at the sake of repeating myself, I'm extremely pleased that we were able to combine forces with POWER Engineers, and we're really looking forward to working with them to really propel the combined organization in that sector to new heights. I think it's a very, very exciting time. Remember that we closed the transaction in October of 2024. So it's really -- if you take out Christmas and the holidays, it's very -- it's been a very short time but I'm very pleased with the head start that we've had so far with Power.

Alain Michaud^ And backlog is strong at Power, no doubt. And Max, you've -- looking at some of the reports that were issued last night, there was a few comments on margin in Q4. So maybe I want to take the opportunity to discuss that a bit further for everybody's benefit. It's -- for sure, our quarter margin was down, and we explained why we took action in Asia and FEMA work in the U.S. has a lower margin. But if you step back a little bit quarter as a quarter, I think the trend is important to look at.

If we look at the last three years, we started the cycle in 2022 with 30 bps of margin improvement. 2023, we delivered 50 bps. When you look at 2024 and you go a layer down, we delivered 40 bps, but looking by segment, Canada delivered 90 bps of margin. Americas, 60 bps of margin. EMEA, 70 bps of margin. And APAC, to Alex's point before on Australia and New Zealand, if you carve out Asia, APAC delivered 145 bps of margin improvement.

So we run this business responsibly. We take action where we need to, and that's what we did in Q4. But if you step back and you look at the last three years performance, one could argue that our margin is actually going up from '22 to '23 to '24. So we're very, very proud of the work of our leadership team in every region. I think that's a point that you should consider in looking at our results.

Operator^ (Operator Instructions)

Alexandre L'Heureux^ So I assume there are no more questions at this point.

Operator^ We have no further questions at this time. So I'll hand back to you. Thank you.

Alexandre L'Heureux^ Okay. Thank you, so much. Thank you for attending this call today. If you haven't had the opportunity to listen in to our Investor Day that took place a few weeks ago in Toronto, I invite you to go on our website and listen in to the recorded

version of our Investor Day. And again we thank you for your support and look forward to updating you in the quarters to come. Wish you a great 2025. Thank you very much.

Operator^ This concludes today's conference call. Thank you, all for participating. You may now disconnect your lines. Thank you. And have a great day.