



**AtkinsRéalis**

**Third Quarter 2023 Results**

**Conference Call Transcript**

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**Time:** 8:00 AM ET

**Speakers:** **Ian Edwards**  
President & Chief Executive Officer

**Jeff Bell**  
Executive Vice-President and Chief Financial Officer

**Denis Jasmin**  
Vice-President, Investor Relations

**Operator:**

Good morning and welcome to AtkinsRéalis Third Quarter 2023 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star, then zero.

I would now like to turn the conference over to Denis Jasmin, Vice-President, Investor Relations. Please go ahead.

**Denis Jasmin:**

Thank you, Ariel. Bonjour tout le monde. Good morning everyone, and thank you for joining us today. For those dialing in, we invite you to view the slide presentation that we have posted in the Investors section of our website, which we will refer to during this call. Today's call is also webcast.

With me today are Ian Edwards, President and Chief Executive Officer, and Jeff Bell, Executive Vice-President and Chief Financial Officer.

Before we begin, I would like to ask everyone to limit themselves to one or two questions to ensure that all analysts have an opportunity to participate. You are welcome to return to the queue for any follow-up questions.

I would like to draw your attention to Slide 2. Comments made on today's call may contain forward-looking information. This information, by its nature, is subject to risks and uncertainties and, as such, actual results may differ materially from the views expressed today. For further information on these assumptions, risks and uncertainties, please consult the Company's relevant filings on SEDAR+. These documents are also available on our website.

Also during the call we may refer to certain non-IFRS financial measures. Reconciliation to these amounts to the corresponding IFRS financial measures are reflected in our earnings release and MD&A, which can be found on SEDAR+ and our website.

Now, I'll pass the call over to Ian Edwards. Ian.

**Ian Edwards:**

Thank you, Denis. Good morning everyone, and thank you for joining us today.

We are extremely pleased with our performance during the third quarter which led to robust results including record revenue in AtkinsRéalis Services and another record backlog. Our AtkinsRéalis Services business revenue expanded organically by 19.5% year-on-year, outperforming our 2023 outlook range that we increased last quarter to 12% to 15%. Segment Adjusted EBIT grew 23% as we continue to actively manage our costs to deliver our targeted margin percentage.

We achieved another record backlog this quarter, totalling \$12.5 billion as at September 30, as demand for our services remains very strong in our core end markets and geographies.

Given our strong year-to-date performance, robust backlog, and the pipeline of prospects, we are raising once again our AtkinsRéalis Services organic revenue growth outlook for the full year to between 15% and 17%.

We generated positive cash flow flowing the resilient performance of our businesses and the closing on the sale of our Scandinavian Engineering Services business. We also continued to successfully add high-quality talent in the quarter, indicative of our engaging core purpose, values and strong culture. We increased our headcount by an additional 1,200 employees this quarter. This further highlights the current and future strength of AtkinsRéalis as we strategically enhance our capabilities while many companies across the globe shrink in the face of economic uncertainty.

Performance this quarter emphasizes the underlying strength of our Pivoting to Growth strategy, which has enabled substantial growth across our businesses. We have taken measured steps to become a premiere, fully integrated Professional Services and Project Management company.

We have chosen specific geographies and segments that are growing fast. Within them, our technological capabilities, our people, and scale lead to our ability to grow above the market. We help our customers provide secure, clean and affordable solutions to solve the global energy trilemma. We

are hiring the right people and we are operating more collaboratively. This is all happening as public entities increase their focus for the betterment of the planet and its people.

I am extremely proud of our achievements to date this year, and I'm excited to detail them out today.

On Slide 4, we highlight our backlog growth across AtkinsRéalis Services. Our 7% growth in the third quarter versus the third quarter of last year was driven by wins across all regions and end markets. We continue to see key wins across many of the markets in which we operate, including Transportation work in the U.S., and securing a large battery plant contract in Quebec. The further wins emphasize the demand for our services across the globe.

Turning to Slide 5, our Engineering Services business continues to drive robust organic growth for AtkinsRéalis, as we witnessed a 23% increase during the third quarter. Our second consecutive quarter of record revenue generation was driven by securing new wins across our geographic footprint.

Segment Adjusted EBIT increased 35%, representing a margin and segment Adjusted EBITDA over net revenue margin of 8.7% and 14.4%, respectively, during the quarter.

We continue to elevate our backlog, which now stands at approximately \$5.1 billion, representing an 11% growth versus our backlog as at September 30, 2022.

On Slide 6, we provide further insight into our Engineering Services growth in each of our core geographies of the U.K., the U.S., and Canada, as well as other targeted geographies with a strong potential. We continue to see exponential demand for our services in these markets, fuelled by the need to replace ageing infrastructure and provide clean, affordable solutions for the built environment.

In the U.K. and Europe, our capability in supporting growth through infrastructure and water facility development, as well as defence are driving wins for our business. This comes on the heels of the U.K. announcing its intent to double its investment in water infrastructure over the next five years. We also secured a key win with the U.K. Ministry of Defence this quarter, which further strengthens our position as a trusted partner with the government.

In the U.S., the government's commitment to constructing safe and carbon neutral infrastructure is leading to continued strong performance. The capital infusion from the Infrastructure Investment and Jobs Act and the Inflation Reduction Act remains in the early days and we have a significant number of bids for additional work, particularly in the Transportation, Minerals & Metals sectors, highlighting the elevated demand for our services and the opportunities that persist for AtkinsRéalis. The line of sight for further opportunities remains vast as the U.S. will continue to invest in lowering the carbon footprint on their ageing infrastructure.

In Canada, our value proposition is being recognized as we continue to accelerate our backlog with higher quality contracts. These wins are being secured across Power & Renewables, Industrial, and Transportation end markets. Our focus on investing in our people and on technology will continue to yield robust growth in Canada.

Our proven ability to provide end-to-end Engineering Services will continue to bring other key wins in our core geographies. Infrastructure projects related to Net Zero and sustainability will continue to drive government spending with growth of the renewables energy market, the delivery of cleaner modes of transport, and industrial projects that support the growing trends of decarbonization and reshoring. We are successfully attracting and retaining top talent to support our growing pipeline in the Engineering Services business across all of our operating regions.

I'd now like to move on to Slide 7 and the results for our Nuclear business.

We continue to demonstrate solid growth with an organic revenue increase of 20% this quarter compared to the third quarter of 2022. Our Nuclear backlog is \$1.1 billion, which represents a 23% growth versus our backlog as at September 30, 2022. Segment Adjusted EBIT increased 6%, while margin fell 2.4%, mainly due to the business mix of the Nuclear segment this quarter.

On Slide 8, we highlight achievements in each of the Nuclear services that we provide.

The market outlook for new build and new nuclear opportunities is gaining more positive traction quarter-on-quarter. In Ontario, the Energy Minister announced a proposal to expand the Bruce Power Station, which will come in addition to the work we are already performing on this contract. In the U.K., the government has announced an allocation of more than £340 million for additional development

work at the Sizewell C project. And last month, Canada and Romania signed a \$3 billion development deal for two new reactors, joining the existing CANDU fleet reactors at the Cernavoda plant.

Current projects and the pipeline of opportunities on life extension work remain robust. In Ontario, we continue to be actively supporting extension work on OPG Darlington and CANDU life extension work at Bruce Power. Earlier this year, the Ontario government gave its official stamp of approval to the extension of Pickering Nuclear until 2026, which could pave the way for a full refurbishment. In Romania, we received the Award Letter for the engineering technology and procurement of tooling and reactor components in support of the life extension of Unit 1 at the Cernavoda power plant.

On waste management and decommissioning, we're seeing continued progress on our projects in the U.K., the UAE, and in the U.S. we have a strong pipeline of prospects in addition to our recent waste management contract extension at Hanford into 2024.

The focus on providing clean, affordable and secure energy by public entities means significant growth for AtkinsRéalis, as showcased with our extensive backlog and accelerating revenues. We are constantly harnessing our capabilities across the globe to be a trusted partner to public entities as they seek to achieve their Net Zero goals. We believe we are well positioned as an industry leader to generate long-term value in the Nuclear sector.

Now moving to Slide 9 and our O&M and Linxon businesses.

Our O&M segment generated \$115 million in revenue during the third quarter, an 8.4% organic revenue decrease as higher revenues from our REM Project were more than offset by the completion of a large contract outside Canada.

Segment Adjusted EBIT margin was very strong in the quarter at 14.2%, well above our long-term target of 5% to 7%. EBIT growth was driven by a closeout of the previously mentioned large contract.

We continue to see opportunity for growth and expansion in our core geographies through infrastructure improvements such as waste water facilities and highway projects. We remain focused on leveraging strategic partnerships with key industry players and our Capital group to maximize bidding opportunities for the future.

Our strategic review regarding Linxon remains ongoing and we will provide an update when applicable. The backlog increased 58% to \$1.2 billion at the end of the quarter with continued strong demand for Transmission and Distribution services. The improvement in quality of backlog gives us confidence to expand margins in the near future.

Moving to Slide 10 and our LSTK Projects and Capital business.

We recognized \$13 million in the quarter, in line with our expectations. Our last project, REM, continues to progress well with the South Shore portion operating while testing and commissioning on our Ontario projects is continuing as planned. Our backlog decreased by more than 50% to \$305 million, primarily representing the REM.

As we finalize the LSTK Projects for our clients, we continue to pursue recoveries that we are owed and discussions remain ongoing with our customers.

Turning to our Capital business, third quarter revenues were flat while EBIT saw a slight year-over-year decline. We received \$10 million in dividends this quarter compared to \$14 million in the third quarter of 2022. In October, we received \$44 million in dividends. The traffic volume continues to improve compared to the prior year period.

Before turning it over to Jeff, I just want to highlight our 2022 ESG Report that we published on September 25.

Our report emphasizes our core purpose; to engineer a better future for the planet and its people. By utilizing our end-to-end capabilities, we are helping customers reach their Net Zero carbon targets. Across the globe we are a critical partner to governments focused on providing affordable and clean energy, decarbonizing the built environment, and building resiliency to climate change impacts. Our report highlights that approximately 50% of our revenues are from projects that directly solve these global challenges.

Our purpose, our commitment to sustainability, and our continued focus on building an inspired, inclusive and equitable workforce attracted talented individuals to help us succeed. Our goals are achieved through their hard work and dedication. I'm really proud of the individuals at AtkinsRéalis.

Our ability to attract strong employees is a direct translation into our revenue growth, which has proven out year-to-date across our businesses. Our purpose-built position across our chosen geographies and our end markets fuels our near-term and long-term growth trajectory, and we are really pleased to have organically grown our headcount this year by over 3,500 employees, if we don't take into consideration divestment of Scandinavian business.

With that, I'll now turn it over to Jeff to discuss the financial highlights.

**Jeff Bell:**

Thank you, Ian. Good morning everyone.

Turning to Slide 13, total revenues for the quarter increased 17% to \$2.2 billion, compared to Q3 2022. AtkinsRéalis Services revenue totalled \$2 billion, 24.4% higher than the same quarter in 2022, or 19.5% on an organic revenue growth basis.

Total segment Adjusted EBIT for the quarter was \$197 million, a 47% increase, compared to Q3 2022, and was comprised of \$187 million for AtkinsRéalis Services, \$23 million for Capital, and negative \$13 million for LSTK Projects.

AtkinsRéalis Services Adjusted EBIT margin was 9.2%, in line with our target range of 8% to 10%.

Corporate SG&A expenses from PS&PM for the quarter were \$47 million, compared to \$25 million in Q3 2022. The increase is mainly due to the Company's rebranding expenses and the impact of the significant year-to-date share price increase on the long-term employee incentive estimates. The rebranding costs are expected to total around \$30 million, made up primarily of the brand development costs themselves, signage, and media and public awareness campaigns. We expect approximately two-thirds of this spend to be in 2023 and the remainder in the first half of 2024. As a result, we now expect that the Corporate SG&A expenses from PS&PM to be between \$130 million and \$140 million for the full year 2023.

We also recorded this quarter an accounting gain on the disposal of our Scandinavian Engineering Services business of \$46 million following the closing of the transaction on August 31.



Net financial expenses for the quarter were \$50 million, higher than the previous year due to a higher level of gross debt, and higher interest rates on variable rate debt.

The IFRS net income from continuing operations this quarter was \$105 million, compared to \$45 million in Q3 2022. This was composed of a net income from PSPM of \$91 million and a net income from Capital of \$14 million.

Adjusted EPS from PS&PM for the quarter increased by 27% to \$0.38 per diluted share, compared to \$0.30 in Q3 2022.

Backlog at the end of the quarter totalled \$12.8 billion, an increase of 4% compared to September 30, 2022. AtkinsRéalis Services backlog increased by 7% to a record high, and included an 11% increase in the Engineering Services segment and a 23% increase in the Nuclear segment.

If we now turn to Slide 14, at the end of September '23, the net limited recourse and recourse debt-to-Adjusted EBITDA ratio decreased to 2.7 times as the Company's net limited recourse and recourse debt decreased to \$1.6 billion, and the Adjusted EBITDA increased to \$587 million. Note that our net debt-to-EBITDA ratio calculated as per our credit agreement also decreased to 2.7 times at the end of the quarter.

Due to our continuing efforts on cash collection, our days sales outstanding for Engineering Services continued to be strong and stood at 59 days at the end of the quarter.

We now move on to Slide 15 and free cash flow.

We generated positive net cash flows from operating activities this quarter due to strong results in our AtkinsRéalis Services businesses and lower LSTK Projects cash outflows as the projects continue to wind down.

AtkinsRéalis Services generated operating cash flows of \$184 million. After cash taxes, interest, corporate items and capital, you can see that we generated \$84 million of operating cash flow in the quarter, and including LSTK Projects, \$6 million.

If we then add back to federal and provincial charges, remove the CAPEX and payment of lease liabilities, our free cash flow stood at negative \$28 million.

This amount was more than offset by the receipt of \$181 million from proceeds of sales, which was composed of \$147 million from the sale of Scandinavian Engineering Services business, and \$34 million from the deferred consideration from the sale last year of our interest in a Carlyle investment fund.

Considering other cash flow items such as dividend payments, we generated a total of \$117 million of positive net cash in the quarter, for which we used \$106 million to mainly reduce our net limited recourse debt and recourse debt to the \$1.6 billion level I mentioned on the previous slide.

We anticipate that Q4 should also deliver positive net cash from operating activities as we expect that the AtkinsRéalis Services business should deliver higher cash inflows than the LSTK Projects cash outflows.

With that, I'll now hand the presentation back to Ian.

**Ian Edwards:**

Thank you, Jeff.

Results and positive cash flow generation this quarter further emphasized the resiliency of our business in the face of uncertain economic headwinds and that our Pivoting to Growth strategy is working. We are strongly positioned with a leading presence across our core geographies and markets of Canada, the U.S. and the U.K., having specifically targeted these high-growth geographies. Our teams on the ground are winning key contracts in our chosen end markets to set us up for long-term growth and consistent cash flow generation.

We are winning through our unique competitive differentiators and our ability to fully service the entire lifecycle of an asset. We are a proven trusted partner with our clients, which bodes well for our future opportunities to capture key contract wins across our core businesses as the world positions itself to lower its carbon footprint through sustainable infrastructure and clean energy solutions. The pipeline of

opportunities for AtkinsRéalis is bigger than ever, and as public entities continue to focus on solving the energy trilemma.

Lastly, we have a strong, dedicated and growing workforce that helps us achieve these goals. I am thankful every day for their loyalty and their diligence, and proving to the world the expansive capabilities of AtkinsRéalis. Our new name denotes an inflection point for the repositioning of the Company and a fresh identity for a dynamic organization, and we're just getting started.

With that, I'll now open for questions.

**Operator:**

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speaker phone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question comes from Jacob Bout of CIBC. Please go ahead.

**Jacob Bout:**

Good morning.

**Ian Edwards:**

Good morning.

**Jacob Bout:**

Looking across your Engineering Services business in Europe and U.S., in Canada, obviously a strong quarter. But as you move into 2024, what do you view as the weakest link, and how are you thinking about growth longer term in these three areas?

**Ian Edwards:**

Well, I think I don't see a weak link, it would be the first thing I'd say. And that's not to say we don't realize and understand where economic and macro geopolitical effects could be. But it plays to some of the things that we've been saying over the last few quarters, and particularly in the speech today, is that

we're deliberately positioning the Company where we believe markets are at their most resilient. Those resilient markets are being fuelled by real strong essential demands to maintain, replace, ensure that they continue to function in infrastructure. That's about water. It's about resiliency infrastructure. It's about transport. We're seeing obviously, in our chosen geographies, investment and continued investment by governments.

Secondly, it's the energy trilemma, which is fuelling the need to replace electrical generation from fossil fuel to clean energy. But what we've got to remember is that in order to have a clean world which is driven from electricity and not burning fossil fuels, that electricity grid has got to increase its capacity by two to three times.

The combination of both of these things is where we've positioned our services in our chosen geographies. Obviously I could go into more detail in each geography, but from a macro perspective we think we're positioned well. Now, that's not to say that it's recessionproof. I mean, nothing is recessionproof, but it's pretty resilient in the face of what we believe we're going to see over the next few years.

**Jacob Bout:**

So you're not seeing any slowing in any particular region at this point?

**Ian Edwards:**

Well, no, because we're pivoting to where, you know so-called, you could say, where the puck is moving, from a Canadian expression. We're pivoting our businesses to where we know the markets are going to be strong, fast-growing, and needing our services.

**Jacob Bout:**

Okay. That's good to hear. Maybe just moving on to Nuclear. We're seeing solid revenue building backlog there, and we're seeing kind of 20% growth in each. What's your expectations in growth over the next 12 months to 18 months? I noticed margins were down year-on-year. What is your view on normalized margins, and how does mix play into this as you think about this book of business on the new builds and refurb coming out?

**Ian Edwards:**

Yes, yes, yes. Obviously, we are seeing—attached to this energy trilemma, we're seeing a very strong renaissance in the Nuclear sector, very strong. The way we think about it is the way on the slide, there is new build, support to the CANDU technology, and waste.

Perhaps, just to give like an overview answer—and I'm sure there will be a further more detailed question later. We're seeing now nuclear energy as part of the solution for a Net Zero electrical-generated grid. Because of that, there are certain proof points that I think you've seen announcement around. For sure, Bruce has announced that they are expanding their project on their side with new nuclear. You've seen OPG in Ontario also committing to the SMR technology, which we are a part of with GE Hitachi. You may have seen the commitment of the federal government in Canada to support new build CANDU reactors in Romania for the Cernavoda plant. They are all proof points of the way that this is moving.

For life extension of CANDU, I mean, obviously, this has been a great business for us at Bruce and Darlington. You've seen that we've got an award of a \$750 million Engineering and Procurement contract, again, at the Cernavoda plant to extend the life there, and there are more reactors around the world in CANDU that will be extended.

If you put all those things together, obviously, we're going to see some pretty significant growth over the future of the business.

Now, the way this will flow is in engineering and procurement to start with and then actual deployment. So it is going to be gradual—through the very short-term growth, but into the medium term, it's going to be fairly significant.

With respect to the margin itself, I mean the margin this quarter is still within the range that we believe is the right range at 13% to 15% EBIT. That's a good range. I mean that's above our Engineering Services business, and it's good for our business, and that's because of the high barrier to entry of Nuclear.

The decline from year-over-year is some specifics that were above the range in 2022, so we're happy with the work we're onboarding. We're happy with the margin. We think it's sustainable through the growth of the business and we're pretty excited about having the sole rights to the Canadian technology in CANDU.

**Jacob Bout:**

That's helpful. Thank you.

**Ian Edwards:**

Thank you.

**Operator:**

Our next question comes from Chris Murray of ATB Capital Markets. Please go ahead.

**Chris Murray:**

Thanks, folks. Just maybe following up to the growth question because when you start thinking about organic growth numbers in that kind of range, I mean, those kind of low 20s or even high teens numbers, I guess the question is the sustainability of those just from a perspective of even staffing and doing it organically.

Can we talk a little bit about—I hear what you're saying about pivoting, but there's got to be, I guess, a moderation at some point before we start worrying about—for lack of a better word—do you sort of trip on your own success as you go forward. How are you guys thinking about kind of normal growth as we go into '24?

**Ian Edwards:**

No, that's a very, very good point, and obviously something we're very mindful. When I was talking about the resilience in the markets, I'm not trying to suggest that our growth is going to run at the same rate that it was this quarter. I mean, this quarter was pretty exceptional. What I was trying to emphasize is that where we've positioned the Company, we will continue to see growth.

Now, obviously, I don't want to get into what does the '24 outlook look like now, and we'll get to that, obviously, in the next quarter and communicate that. But the point around the resiliency of the business, and growing at this pace, is not lost on us at all. I mean, obviously, we're onboarding new staff. Obviously, there's two parts to our business: one is winning work, and the other is delivering it. We're very mindful that we have to deliver this work in the right way for our customers to be able to get repeat work.

What I would say is that we're very focused on our top customers. We've done analysis on our top customers, and a lot of this growth is actually coming from existing customers where they're pleased with our performance, and we've been able to grow our revenues through existing customers.

I think the point is a good point, it's on our mind. We'll obviously communicate what we believe is the right amount of growth for '24 at the right time, but we're definitely pleased with what we're seeing so far.

**Chris Murray:**

Okay. That's fair. Not to beat a dead horse too much, but the LSTK Projects, the loss in the quarter was, I guess, what we would firmly think of as just being your SG&A costs and your cost to complete. One of your partners also booked some pretty significant losses with the settlement agreement, but we didn't see anything from you this quarter. Just wanted to double check, at this particular point, do you feel you've got all the reserves already booked for Ottawa and Eglinton at this point, and now it's just a matter of the closeout of the projects and/or any recoveries that might come down the road in future years?

**Ian Edwards:**

Yes. I completely confirm what you've just said. We are proceeding as planned and as communicated at the end of 2022. If you remember what we said at the end of 2022 is that the projects were complete to a point of physical work that we felt that we could accurately forecast the endpoint. If you also reflect back in 2021 and 2022, we were very transparent on a quarterly basis and said we were having difficulty in forecasting that point because of the pandemic, because of productivity issues, because of supply chain issues, because of strikes. So, we declared all of that in real time through '21, '22.

What we did say at the end of '22 is that what's left on these projects in terms of cost, is far less than the cost that we've experienced before because it's associated to administrative tasks in closing out documentation, administrative tasks in getting occupation permits and getting all that documentation to hand out to the customer, but also in defect close-out reinstatement of road infrastructure around the projects, testing and commissioning, training the city's drivers and putting them into operations.

We're comfortable with what we said at the end of '22, and we put a run rate out there of circa \$12 million a quarter. We're in line with that, and the projects are going well. Now, they're probably not going to open when we expected them to open, but that's the client's prerogative. Those delays opening, again, don't attract material costs for ourselves because we're focused on closing our own work out and the expectation

that we set out at the beginning of the year. Obviously, I can't comment on any of our partners, but that's the way we see it.

**Chris Murray:**

All right. That's helpful. Thank you.

**Operator:**

Our next question comes from Yuri Lynk of Canaccord Genuity. Please go ahead.

**Yuri Lynk:**

Hi, Ian. Just wondering if you could...

**Ian Edwards:**

Hi. Good morning.

**Yuri Lynk:**

Good morning. It's the second quarter in a row that you've increased the guidance for the year, which is great to see, but where is the growth surprising you? I know you talked about water, transportation and infrastructure resiliency, but those are pretty broad strokes. Could you share with us a little bit in terms of geographies and more precise on the end markets?

**Ian Edwards:**

Yes. Yes, for sure. There's no one thing, frankly, that I can point to, to say that was in excess of our expectation, and it was one kind of market or one aspect. It's pretty much across the board. Perhaps I'll just canter quickly through some of the areas and the way that we think about it.

In the U.K., which I think we were expecting perhaps a bigger slowdown to our business than we've seen. Actually, our business has been growing really, really well, and we're really pleased with the way that the business has pivoted to where the funding is going. Remember, the majority of our business across the whole portfolio is government work at about 70% to 75%.

There has been a bit of slowdown in the Transport sector, but we've kind of focused on OpEx rather than CapEx in the Transport sector. They cancelled the high-speed rail extension. But in having these framework



agreements to keep the railways moving, and framework agreements to keep the roads operating, we've been able to maintain a pretty good level of Transport work. But there's also a big pivot in the U.K. to water, in energy and defense. We've been picking contracts up in Defense, we're getting ready for the Water market, and we're obviously in the energy sector, particularly supporting Nuclear growth, I think, in Sizewell. So, that's kind of an example.

The U.S., pretty busy on the basis of the funding that's going through now in the IIJA and the IRA. But also, it's just essential work in replacing infrastructure that's failing or ageing.

Canada, a very similar picture. Quite a lot in the renewables and the energy sectors, from industrial plants that have been supported by federal government and provincial governments here. Transport, again, in a lot of the cities and provinces is fuelling. It's kind of across the globe—I mean, across the core geographies.

Now, in somewhere like the Middle East, we've been very, very careful because the business there and property is moving so much that we've actually focused more on sustainable work and resilient markets so that we don't kind of grow that to a proportion of the business which is more than around about 10%. So, some areas, we're all so careful. But I can't point to one thing—and then obviously, Nuclear, as we've talked about.

**Yuri Lynk:**

Okay. In that vein, looking at Engineering Services, really phenomenal growth year-on-year. I thought we would see a bit more operating leverage in the business and more margin expansion on the EBIT line. Why isn't that the case? Specifically, are any of those rebranding costs and higher comp costs allocated to Engineering Services in any way?

**Jeff Bell:**

Yes. It's Jeff. Why don't I take that one. First of all, on the second question, no, we've left those rebranding costs, so the vast majority of them, in our corporate SG&A. Because we're running that, as you'd imagine, from a corporate group perspective to make sure we're getting the brand out there in a very consistent way.

I think in terms of the operating margins. We did see operating margin improvement in the quarter, as you'd expect, and we were pleased with that, and that was very much in line with the expectations and the journey that we're on. I think we've discussed previously around some of those levers. The first is as we gain scale

and at the same time as we continue to drive some of our cost efficiency improvements, including both common systems and tools that we're putting in place, including rationalizations across the real estate, that is, over time, driving improved margin and will continue to drive improved margins in our view.

We've also talked about the fact that in areas like Engineering Services, we have looked to sell, in this case of Scandinavia, businesses that were below our target margins, and we didn't feel we would be able to get them to those target margins in a reasonable period of time. A lot of our geographies and our end markets are very much operating at top tier margins and margins that we would aspire for the rest of the business. Where we don't have that, we have those businesses on improvement plans, and that will take some time to unfold. But as a result, we would expect over the short to medium term to continue to not only be able to grow the top line, but over time also be driving improved margins as well.

**Yuri Lynk:**

Okay. Thanks for the colour, guys.

**Ian Edwards:**

Thank you.

**Jeff Bell:**

Thank you.

**Operator:**

Our next question comes from Benoit Poirier of Desjardins Capital Markets. Please go ahead.

**Benoit Poirier:**

Yes. Good morning, gentlemen, and thanks for taking the time. Just to come back on the SG&A, \$47 million in the quarter, higher than expected, and guidance is increasing for the year. Could you maybe break down the impact of the rebranding in the quarter versus LTIPs, and what kind of run rate we should be using going forward?

**Jeff Bell:**

Yes, sure, I'll do that, Benoit. As you heard me say, there's about \$30 million we're expecting around the rebranding, about two-thirds of that. This year, most of that's in the second half, so that would be about \$20 million.

In the third quarter, as you said, our SG&A costs were about \$20 million higher than our normal run rate, around half or so of that was the rebranding cost I was talking about. So, half of that \$20 million we'd expect to spend this year, maybe a bit more. And the other half is related to, as I said, the long-term incentive schemes we have and, frankly, with the rapid rise in the share price, the catch-up in the expense related to that. That is why we've changed the guidance for the full year from around \$100 million to about \$130 million to \$140 million. Obviously, most of that increase is the rebranding we expect in the second half this year with the other portion being around the long-term incentive scheme.

Obviously, as we get into 2024, we expect about \$10 million of the tail end of the rebranding, so we expect to be slightly higher in the first quarter or two next year to our normal run rate.

Hopefully, that gives you a bit more colour on that.

**Benoit Poirier:**

Yes. That's great colour, Jeff. Looking at the capital deployment strategy, you've been successful with the divestiture of Scandinavia. You're also thinking about Linxon. If you look also at some milestone leverage came down, you get more confident about the LSTK backlog ramping down. We've seen a name change. Just wondering about the higher interest rate environment, how does it change your capital deployment strategy and what we could expect in terms of financing expense on a run rate basis going forward?

**Jeff Bell:**

Yes, so I think our guidance very much is similar for this year that we put out at the beginning of the year, so around that sort of \$45 million or so level per quarter. But you're absolutely right, our capital allocation strategy that we talked about at our Investor Day back in September 2021, the first priority of free cash flow or net cash flow is driving the leverage on the business towards our target of 1.5 times to 2 times by the end of 2024. Clearly, in a higher rate environment like we're in, that paying down of debt, we think is also a good use of capital, both in terms of getting to our target leverage, but obviously, what that will do in terms of driving down interest costs as well.

Now, as we said at that time, to the extent that as we move through 2024, we're able to consistently be getting to that leverage level and generating consistent positive net cash flow, that may give us the opportunity to do small tuck-in acquisitions or return money to shareholders. But I think we'll continue to go quarter by quarter as we see that with the balance sheet as the priority.

**Benoit Poirier:**

Okay. Thanks very much for the time.

**Ian Edwards:**

Thank you.

**Operator:**

Our next question comes from Sabahat Khan of RBC Capital Markets. Please go ahead.

**Sabahat Khan:**

Okay. Great. Thanks and good morning. I just want to dig in a little bit more into the U.S. I think over the last couple of quarters, one of the patterns we've seen is quite a bit of an uptick in headcount. Obviously, the organic growth has been really good as well, so just trying to understand, is this sort of hiring to catch up to the demand that's in the pipeline? Is this sort of foreshadowing good growth looking ahead? How hard or easy is it to find this labour and the rate? I'm just trying to understand, it looks like there's a bit of a buildup, should we read that as it's more work in the pipeline or sort of more just catching up?

**Ian Edwards:**

Yes. It's all about our strategy really that we have talked about in the past, our Land and Expand strategy, and also looking at markets, both geographically and from an end market perspective to really be sustainable beyond any political changes.

We're strong in some very specific states. Just to remind what we've said in the past: Florida, Texas, South Carolina, and Georgia, we operate Tier 1. We're in there with all the major U.S. players. We've also expanded into California, New York, Nevada, and Washington State. We're winning work now in those expanded areas, and we're beginning to build relationships with customers, and obviously building the teams.

Our goal and our strategy is to get us into a top 10 player in the U.S., we're currently from an ENR perspective, around 17. We've got about 4,500 people in the U.S. Obviously, over a period of time in our long-range plan, we want to get to about 10,000 people. The market is there; the need to replace infrastructure, the need to help energy security is there; even regardless of the IIJA and the IRA, because the funding model already was quite strong. To talk about some of those supercharged sort of funding models, I mean, the IIJA is actually only just really starting to get deployed. They've deployed about 20% of the overall \$1.2 trillion. So, we're only just seeing that flow through, and it's a good market without it.

Six quarters of a record backlog for us. We're pleased with progress. Obviously, we want to do more, but we want to do it in choosing sort of sustainable areas of the market.

**Sabahat Khan:**

Great. Thanks. I was hoping to get a little bit of forward-looking commentary on just the operating cash flow, or just the free cash generation. Maybe if you can walk us through some of the puts and takes as we head into '24 and '25. On your cash flow outlook, does that change your views on maybe concession dispositions or anything like that, or are those two separate decisions? Thanks.

**Jeff Bell:**

Yes, sure. I mean, first, I think my comment would be it's two different decisions. I mean, they're not unrelated, but we would kind of look at them on their own.

I think from a cash flow perspective, if I go back to the guidance and the outlook we gave at the beginning of the year, we said we'd be cash flow negative in the first half of the year, primarily driven by the cash drag from the LSTK Projects. But as that sort of ramped down in the second half of the year, we see the natural cash flow generation qualities of the go-forward business coming through, and I think we clearly saw that in Q3. We would continue to look to see that in Q4.

Obviously, as we get out into 2024, we think that, only is more so as maybe a bit of paying a final part of the LSTK supply chain, but broadly it will be the cash flow generated from the services businesses, which are quite strong. As Ian said, we'll come back at our Q4 results and give an outlook for 2024.

But our longer-term view is the business itself is one that is set up to be strongly cash flow generative, which not only we think allows us ultimately to hit our leverage targets through next year, but also start to expand the opportunities we have to deploy capital in different ways as well.

Sorry, a bit of a long answer there, but I'll quickly just talk about the concessions. We continue to actively look at the concessions. Obviously, we've talked previously about 407, but the rest of them, where we have the opportunity, we look to reduce our stake when they're in a stable operating environment, often realizing value from those that have lower cost of capital than ourselves, and that's been a value accretive thing to do. We'll obviously continue to look to do that over time where we can.

**Sabahat Khan:**

Great. Thanks very much.

**Ian Edwards:**

Thank you.

**Operator:**

Our next question comes from Michael Doumet of Scotiabank. Please go ahead.

**Michael Doumet:**

Hi. Good morning, guys. I have similar questions to the group here, but I'll just ask them a little bit differently. I want to go back to the AtkinsRéalis Services organic growth. You talked about the reasons for the upside surprise. In terms of this upside surprise, I guess the question is, how confident are you at this point that this level of revenue likely represents a new baseline versus a tougher comp for next year?

**Jeff Bell:**

It's Jeff. I think my view, and I think this very much builds on Ian's comments, is that we fundamentally see in our backlog and in the capability we have in the business and the end markets themselves that we've reached a new baseline of activity. Then obviously, as we head into 2024, we would continue to see the opportunity to grow the business. Obviously, we'll come back and talk about our view on that growth in the fourth quarter.

Yes, obviously, with growth we've had this year, that makes for a tougher comp as you're going forward. But we think that comparative will be one that is a new baseline for us, and we continue to attract the right people and the quantity of people and the quality of people we need to deliver against that.

**Ian Edwards:**

And to build on what Jeff said, and perhaps some of the things we've said, we're obviously really pleased with the way the Pivoting to Growth strategy is playing out this year. We need to obviously look at 2024 and develop our pipelines in detail and think about the revenue growth. We certainly wouldn't expect something similar to what we've got this quarter, nearly 20% to be sustainable. But we are confident we positioned this Company in good, resilient, and sustainable markets.

**Michael Doumet:**

I appreciate that. I know it's a little bit early, but helpful colour. Pivoting to free cash flow, I want to ask this question maybe slightly differently, because free cash flow as far as AtkinsRéalis goes, looks to be trending as it should be. How much working capital deficit is outstanding at this point as it relates to the LSTK Projects do you believe may be dragging ahead in terms of free cash flow going forward?

**Jeff Bell:**

Sorry, I missed—you just cut out there slightly.

**Ian Edwards:**

It's the LSTK drag on cash flow.

**Jeff Bell:**

Yes. I would say the LSTK drag on the cash flow, you could see in the cash flow slide that we have, it's about \$77 million currently. Coming down from levels in previous quarters that were in the hundreds or above. We would expect that to continue to trend down in Q4 and into Q1 next year. I think we're getting pretty close to the end of that. As Ian said, there's still a bit of work we're doing around the areas of closing out the projects, testing, commissioning, etc. So there's a bit of cash that goes with that, but that is starting to wind its way down, for sure.

**Michael Doumet:**

Thanks very much.

**Ian Edwards:**

Thank you.

**Operator:**

Our next question comes from Devin Dodge of BMO Capital. Please go ahead.

**Devin Dodge:**

Hi. Thanks. Good morning, guys. I wanted to come back to the Eglinton LRT. I believe there was some progress on claims agreements that came forward recently. I know you answered this from a P&L perspective, and it seems like you've taken adequate provisions. But from a cash flow perspective, did the claims provide much of a benefit in Q3 or will it be more meaningful in Q4 and in early 2024?

**Ian Edwards:**

Nothing very significant from our perspective. On all the jobs, we rigorously are pursuing recovery through claims. Through, certainly, the latter LSTK Projects that we're closing out now, we're very much calling the negotiation stage. That will lead either to a substantial settlements or it will lead to litigation. We are not letting this go until we get recovery of the losses that we incurred in '21-'22 because we believe we've got entitlement.

There's always a range of claims. Some of them are large, some of them are small. We look to try and settle anything we possibly can so we can get the cash in. I would say there's some small issues that are getting solved on a regular basis that brings small amount of cash flows in, but the big issues are out there still. Obviously, when we settle those, that is a good cash upside for us.

**Devin Dodge:**

Okay. Interesting. Thanks for that. I was going to ask a question about the Nuclear business. I think in design development for the latest utility scale CANDU reactor, I believe it's the Generation III+. Just can you remind us where that stands currently? Can you comment on its readiness for deployment?

**Ian Edwards:**

Yes, that's a really good question. Perhaps I'll give you some context of the CANDU technology, because I think there's some misperceptions out there. There are only six licensed large nuclear technologies in the



world. One of them is Russian and one of them is Chinese, so you're not going to see that deployed in the Western world. The other is French, Korean, the United States, and Canadian.

We have the privilege of this Canadian technology sole rights of IP, and the technology is constantly improved and upgraded to be relevant and licensed and available for deployment. There's a misperception somewhere out there that this is an old technology, which it's not. It's got the latest safety features. It's got all of the kind of latest regulatory requirements. That's why, obviously, Romania is very keen to see more CANDU, and I believe we're going to see more new CANDU deployed across many old customers and potential new customers, ultimately.

There is a consideration that—we have a range of reactor size, 600 to 750. There is consideration that we may need to develop something which is more on the megawatt side, and we're working our way through that now—the gigawatt side. Sorry, gigawatt side.

**Devin Dodge:**

Okay. Thank you. I'll turn it over.

**Ian Edwards:**

Thank you.

**Operator:**

Our next question comes from Maxim Sytchev of National Bank Financial. Please go ahead.

**Maxim Sytchev:**

Hi. Good morning.

**Ian Edwards:**

Good morning.

**Jeff Bell:**

Good morning, Max.

**Maxim Sytchev:**

Most questions, obviously, have been already asked. But one thing I wanted to come back to briefly, just to the whole margin dynamic. I'm just wondering in terms of that interplay between, obviously, a very robust top line growth with maybe still surprised not seeing as much of that accreting to the margin profile. I'm just wondering, again, how do you think about those two things? Because ultimately, it's a utilizations game, right? So, I'm just curious to see what your thoughts on that are. Thanks.

**Ian Edwards:**

Very happy to answer the question. It's very much top of mind. Clearly, from a dollar perspective, we're really happy on the 23% increase in our Services business of margin and year-over-year for Q3. That's pleasing. Now, as you say, the component of that is growth, which is 19.5%, which we're pleased with, but also margin percent in profitability. We're very, very mindful and clear about where the business needs to improve. We know that large parts of the business are operating at good margin levels, and we know that there are areas of the business where we have put the business on an improvement plan. I can tell you, Canada, for example, is one of those geographies, that is in a margin expansion improvement plan, and we are seeing quarter-over-quarter that being delivered.

But there are also areas of the business where we've them on an improvement plan, such as the Scandinavian business, where because of the local dynamics of large competitors or our own scale, that we haven't been able to achieve those margin improvements. We will divest, as we have been with Scandinavia. So, we're on a very deliberate journey also to make sure that our margins are expanding where they need to expand.

Last comment I would make is on our cost base. Clearly, controlling our costs and having a transformation office that constantly looks at our cost throughout the business, whatever it is, in overhead or offices or facilities, in many respects, having that permanent office looking at this is obviously a key component of all of that as well.

For sure, I mean, top of mind for us is growth, margin percent expansion, and cash flow. Those are the three things we're highly focused on.

**Maxim Sytchev:**

Okay. That's very helpful. Thank you so much. That's it for me.

**Ian Edwards:**

Thank you.

**Operator:**

This concludes the question-and-answer session. I would like to turn the conference back over to Denis Jasmin for any closing remarks.

**Denis Jasmin:**

Thank you very much for joining us today. If you have any further questions, please don't hesitate to contact me. Have a great Friday, everybody, and a great weekend. Thank you very much. Bye-bye.

**Operator:**

This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.