



**AtkinsRéalis**

**Fourth Quarter 2023 Results**

**Conference Call Transcript**

**Date:** March 1<sup>st</sup>, 2024

**Time:** 8:00 AM ET

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

**Jeff Bell**  
Chief Financial Officer

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

**Operator:**

Good morning, and welcome to AtkinsRéalis' Fourth 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, Chief Executive Officer, and Jeff Bell, 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 assumptions, 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. Reconciliations of 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 thanks for joining us today.

2023 was an exceptional year at AtkinsRéalis and represented a pivoting point for the repositioning of our Company. The new brand, that we announced last year, is synonymous with a dynamic company that is focused on building a strong culture and delivering excellence for our clients.

We capped the year off with robust fourth quarter results, that reinforce the substantial demand for our engineering, project management and nuclear expertise across the globe. We continued to de-risk the Company and significantly grew our revenues. AtkinsRéalis Services saw revenue growth of 20%, with an organic revenue growth of 18%. Segment Adjusted EBIT to segment revenue ratio was approximately 9%, driven by the robust top line performance across our businesses. Backlog at the end of the year was approximately \$14 billion and represents another record high for the Company.

We also continued to successfully add high-quality talent in 2023, indicative of our core purpose and values. Our total headcount increased by 4,200, excluding the impacts of the sale of the Scandinavian engineering business.

Turning to Slide 4, we're proud of our results last year, as we met or exceeded each of our most recent guidance targets. Of particular significance was our ability to generate positive cash flow during the second half of the year. This exceeded our expectations. Results from the third and fourth quarters offer an indication of the cash flow generation capabilities of our business in 2024, and beyond.

From an employee perspective, we are highly focused on continuing to build the best-in-class culture at AtkinsRéalis. This is paying off, as the measure of our employee engagement grew 300 basis points to 87% at the end of 2023. We were also recognized in several publications, including Top 50 Employers in the U.K. for Gender Equality.

We released our 2022 Sustainability Report in the fall, which highlighted numerous accomplishments against our core purpose of providing a better future for the planet and its people. These include the elevation of our TCFD framework reporting and our announcing of the Global Parity Alliance, which is focused on advancing Equality, Diversity and Inclusion.

As we take a look back on 2023, our achievements would not be possible without the hard work and dedication of our employees. I am very proud and humbled to lead such an amazing group of talented professionals.

Finally, we are introducing our 2024 full year financial outlook, which Jeff will review in more detail shortly. We anticipate that 2024 will be another good year, with continued revenue growth and strong profitability, but with stronger and more consistent positive cash flow generation.

Turning to Slide 5, I want to focus on a few highlights from our fourth quarter.

Our AtkinsRéalis Services business reached a quarterly record high, with revenues of \$2.2 billion. Organic revenue growth and Segment Adjusted EBIT increased by 25% and 29.2%, respectively.

We achieved another record backlog this quarter, totaling \$13.7 billion at the end of the year, a testament to the demand for our services and our ability to continue capturing high-quality wins in our core end markets and geographies.

We generated strong net operating cash flow of \$273 million in the fourth quarter, driven by continued growth across our AtkinsRéalis Services businesses and strong working capital management.

We ended the year with a 1.8 times net debt to EBITDA, within our target range of 1.5 to 2 times, and we delivered this result a year earlier than we forecasted when we launched our Pivoting to Growth strategy.

We're a little more than two years since the introduction of this strategy and the results this past year prove that this is working. It has enabled substantial growth across our businesses and positions us well for further long-term value creation. We have taken measured steps to becoming a premier, fully integrated professional services and project management company. I'm extremely proud of our achievements this year and excited to provide you with an update of our strategy at the Investor Day in June.

On Slide 6, we highlight our backlog growth across AtkinsRéalis Services. Our 16% growth in the fourth quarter, versus the fourth quarter of last year, was driven by key wins across our core Engineering Services and Nuclear business.

We continue to capture these key wins across many of the end markets in which we operate, including CANDU life extension nuclear work in Romania, airport runway safety work in the U.S., transportation work in the U.K., social buildings in Canada, and our recent appointment to plan the world's largest modern downtown in Riyadh, Saudi Arabia. These projects represent just a small component of the vast opportunity pipeline for AtkinsRéalis in the end markets in which we operate.

Turning to Slide 7, our Engineering Services business continues to drive robust organic revenue growth, as we witnessed a 27% increase year-over-year in the fourth quarter. Our revenue generation was driven by the continuation of our ability to secure new wins across our geographic scope. Segment Adjusted EBIT margin and Segment Adjusted EBITDA over net revenue margin were 9.6% and 16%, respectively, during the quarter.

We continue to increase our backlog, which now stands at approximately \$5.4 billion, representing a 16% increase growth, versus our backlog as at December 31, 2022.

On Slide 8, we provide further insights into the Engineering Services growth of each of our core geographies, the U.K., the U.S. and Canada, as well as our other targeted geographies. We continue to see strong demand for our services, fueled by the need to replace aging infrastructure and provide clean, affordable and secure energy solutions.

In the U.K. and Europe, we continue to capture key wins utilizing our end-to-end capabilities, supporting defence and growth through infrastructure and water facility development. Opportunities for contracts in the development of transportation, digital and technology projects, in addition to several design and project management projects, remain robust. Our foothold in the marketplace, especially our leading edge in the U.K., positions us well to capture bigger, higher revenue projects, as our capabilities are recognized across the geography.

In the U.S., we're seeing a high volume of work orders, as major metropolitan areas seek our services for design and project management. The pipeline of transportation infrastructure projects, in particular, continues to look strong. There is a concerted drive on investing in water infrastructure and renewable energy through the IIJA and the IRA government spending programs, which also benefited us. Additionally, we view the Minerals and Metals market to have strong tailwinds, and our position gives us a competitive advantage and sets us up to capture additional revenue from this industry.

In Canada, we strengthened our backlog this quarter through higher quality wins and master service agreement renewals with long-standing clients. To deliver our higher backlog, we have been focused on attracting and retaining strong talent. The culture that we are developing remains a valuable attractor to candidates, which has resulted in growing our employee base in Canada. Our current client base and pipeline of prospects remains overweight in the energy transition agenda, and our strong history of delivering in the Power and Industrial end markets continues to help us win new mandates.

I'd like to now move to Slide 9, and the results of our Nuclear business. We continue to demonstrate robust growth, with an organic revenue increase of 22% last quarter, compared to the fourth quarter of 2022. Our Nuclear backlog is \$1.9 billion, which represents a 98% growth, versus our backlog as at

December 31, 2022. This is driven by new build and refurbishment contracts signed in the year and highlights the substantial long-term growth opportunities for our Nuclear business.

Operating margin was 15% in the quarter, at the top end of our 13% to 15% target.

On Slide 10, we highlight achievements in each of the Nuclear Services that we provide.

We made exceptional strides in generating new build contracts during 2023. Our capabilities continue to be recognized across the globe by public sector entities focused on a cleaner energy future. We made a major announcement to the world in November, when we introduced our latest reactor design, the 1000-megawatt CANDU MONARK reactor. We did this at the World Nuclear Exhibition in Paris. Large-scale nuclear reactors are increasingly sought to decarbonize power grids, produce stable baseload power and increase energy security. MONARK is the evolution of the proven CANDU technology that provides affordable, reliable, carbon-free power, and has a decades-long global track record of consistent delivery and operational effectiveness. As a follow-up to our MONARK introduction, we announced last week an agreement with AECL to collaborate for the purposes of successfully deploying CANDU reactors in Canada and internationally.

As we look across our core markets, we see a continued increase in the pipeline of opportunities for large, and small, nuclear new builds, both domestically and internationally. For example, in January, the U.K. government announced it will invest an additional \$1.7 billion for early work to continue on the Sizewell C nuclear plant, another indication of their intent to invest in a more sustainable energy future.

Current projects and the pipeline of opportunities on the life extension work remain really robust. In Ontario, we continue to actively be working on the CANDU life extensions at Darlington and Bruce Power, and in Europe, we are engaged in the engineering, tooling and procurement for the CANDU retubing and refurbishment program at Cernavoda in Romania. We continue to see a strong pipeline of opportunities on CANDU reactor life extensions at home and abroad.

On waste management and decommissioning, we're making further progress on projects in the U.K. and in the U.A.E., and in the U.S., we have a strong pipeline of prospects in conjunction with National Security Administration.

The near-term and the long-term growth opportunity for AtkinsRéalis is significant in Nuclear, and the demand for our services continues to grow year-over-year. We are constantly harnessing our capabilities across the globe to be a trusted partner to public entities as they seek to achieve net-zero goals.

Now, moving to Slide 11, and our O&M and Linxon businesses.

Our O&M segment generated \$130 million in revenue during the fourth quarter, relatively in line with our fourth quarter of 2022, as higher revenues from the commencement of a portion of the REM project were offset by the completion of a contract in 2023.

Segment Adjusted EBIT margin was 9.5%, and continues to be above the long-range target of 5% to 7%. EBIT growth was driven by lower costs and increased efficiencies across several of our contracts.

Our Linxon segment saw a 29% year-over-year organic revenue growth in the fourth quarter and ended with full year revenues 1% higher than 2022. Backlog of \$1.4 billion at the end of the quarter was 63% higher than the fourth quarter of last year.

Results this quarter, particularly the backlog improvement, highlight the current and long-term growth potential of this business across many of its geographies.

We've now completed our strategic review of Linxon with our joint venture partner Hitachi Energy. We continue to be of the view that the market for the supply and installation of electrical substation equipment is attractive and growing, as countries look to decarbonize and electrify. Linxon is one of only a handful of global suppliers and is well positioned to win work, as evidenced by the success in '23 in growing both the amount and quality of its backlog.

However, Linxon's business model for fixed-price installation projects no longer fits with the strategy of the go-forward business of AtkinsRéalis and, therefore, we have agreed with our partner Hitachi Energy that we will look to exit our shareholding in Linxon by exploring the sale with a third party, one that can benefit from the value-creation opportunity that the market Linxon's position represents. We are actively engaged in pursuing this exit with our partner's support, but it's too early to comment on how long a successful exit will take. In the interim, we will continue to work to improve the operational delivery and resilience and capabilities of this business.

Moving to Slide 12, and our LSTK Projects and Capital business.

Commissioning and testing on our Ontario LSTK Projects is continuing as planned. Our backlog decreased this year by approximately 50% to \$365 million, primarily representing the REM project, which continues to progress well.

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

Turning to our Capital business, fourth quarter EBIT increased by \$10 million, or 22%, mainly due to higher dividends received from the ownership of Highway 407.

As we have shown in 2023, it was an inflection point for AtkinsRéalis. We see in 2024 another strong year of growth. We are also expecting strong operating cash flow and earnings delivery in this final year of our Pivoting to Growth strategy, and to have a more effective deployment of our global capabilities locally to our clients, we have implemented a new operational structure. Under the new structure, the formally known segments, Engineering Services and O&M, will be merged and managed by four regions, Canada, United States and Latin America, United Kingdom and Ireland, and Asia, Middle East and Australia.

In addition, we've also created a permanent COO office, which will be led by Phil Hoare, former Head of Engineering Services, and I'm very excited to have Phil in this role to successfully optimize our operating model across the Company. This will help us fully harness our capabilities and drive operational excellence on our path to margin expansion.

With that, I'll now turn it over to Jeff to discuss our financial results.

**Jeff Bell:**

Thank you, Ian, and good morning, everyone.

Turning to Slide 15, total revenues for the quarter increased 20% to \$2.3 billion, compared to Q4 2022. AtkinsRéalis Services revenue totaled \$2.2 billion, 24% higher than the same quarter in 2022, or 25% on an organic revenue growth basis.

Total Segment Adjusted EBIT for the quarter was \$232 million, significantly higher than Q4 2022, and was comprised of \$201 million for AtkinsRéalis Services, \$55 million for Capital, and negative \$24 million for LSTK Projects. AtkinsRéalis Services Adjusted EBIT margin was 9.4%, nearly 40 basis points higher than Q4 2022, and in line with our target range of 8% to 10%.

Corporate SG&A expenses from PS&PM for the quarter increased to \$35 million, compared to \$24 million, mainly due to the Company's rebranding expenses, as indicated on our last earnings call. We continue to expect that the remaining one-third of the total rebranding spend of \$30 million will be incurred in the first half of 2024. As a result, we anticipate that the Corporate SG&A expenses from PS&PM to be approximately \$110 million for full year 2024.

The IFRS net income from continuing operations this quarter was \$90 million, compared to a loss of \$54 million in Q4 2022. This was composed of a net income from PS&PM of \$46 million and a net income from Capital of \$44 million.

Adjusted EPS from PS&PM for the quarter was \$0.45 per diluted share, compared to negative \$0.31 in the fourth quarter of 2022.

On Slide 16, you can see the selected financial metrics for the full year.

Total revenues for the year increased by 14% to \$8.6 billion, compared to 2022. AtkinsRéalis Services revenue totaled \$8 billion, 20% higher than the prior year, or 18% on an organic revenue growth basis, above the top end of our most recent outlook.

Total Segment Adjusted EBIT for the year increased by 85% to \$766 million, which was comprised of \$712 million for AtkinsRéalis Services, \$113 million for Capital, and negative \$59 million for LSTK Projects.

Restructuring and transformation costs for the year decreased to \$49 million, compared to \$83 million in the prior year. We expect these costs to continue to decrease in 2024.

Net financial expenses for the year were \$186 million, mainly due to higher interest rates. We anticipate these expenses to be lower in 2024, largely as a result of lower forecasted debt levels over the coming year.

IFRS net income from continuing operations was significantly higher than in 2022, at \$287 million.

Adjusted net income from PS&PM was \$274 million, or \$1.56 per diluted share.

Our income tax rate on our adjusted PS&PM net income for 2023 was approximately 19%. We expect this rate to be higher in 2024, closer to the Canadian statutory income tax rate of 26%, driven by a number of changes, including the expectation to be subject to the Pillar 2 Global Minimum Tax Rules from January 1, 2024.

Backlog ended the year at \$14.1 billion, 13% higher than at the end of 2022, with strong book-to-bill ratios in the Engineering Services, Nuclear and Linxon segments.

If we now move on to Slide 17, and free cash flow, net cash generated from operating activities was strong in the quarter and totaled \$273 million, resulting in positive cash generation for the second half of 2023, as expected. The cash flow generation in the quarter permitted us to decrease our debt by \$311 million, compared to the end of September 30, 2023. This was mainly driven by strong services EBITDA delivery and working capital management.

AtkinsRéalis Services generated operating cash flows of \$804 million in 2023. After cash taxes, interest, corporate items and capital, you can see that we generated \$477 million of operating cash flow for the year and \$66 million after cash used by LSTK Projects.

If you then add back the federal and provincial charges, remove the capital expenditures and the payment of lease liabilities, our free cash flow stood at negative \$28 million for 2023. Additionally, we generated \$179 million from proceeds of business and investment sales in our Engineering Services and Capital segments, primarily from the sale of our Scandinavian business.

As we expect continued revenue and EBITDA growth in 2024 from the Services businesses and significantly lower cash outflows from the LSTK Projects, we anticipate that the net cash generated from operating activities for the Company should be in excess of \$400 million for the full year 2024. Note that we expect the cash generation to be more significantly weighted towards the second half of the year.

We are also anticipating a higher level of CapEx for 2024, in the range of \$140 million to \$160 million, as we believe we will be investing in the CANDU MONARK nuclear reactor development. We believe this investment will lay the foundation for future Nuclear revenue growth, as the demand for low-carbon, reliable power generation continues to be a high priority for many governments around the world.

With the expectation that the operating cash flow profile of the Company will continue to improve in 2024, we remain committed to achieving investment-grade financial metrics, but also see the ability in 2024 to begin deploying free cash flow for the benefit our strategy and our shareholders, as outlined in our Pivoting to Growth capital allocation framework.

Moving, then, on to Slide 18, and the balance sheet, with our stable level of gross debt and a significantly increased level of EBITDA in 2023, our leverage ratio decreased to 1.8 times, in our targeted range of 1.5 to 2 times, a year earlier than our original 2022 to 2024 guidance.

Due to our continuing efforts on cash collection, our days sales outstanding for Engineering Services continue to be strong and stood at 52 days at the end of the quarter.

I'd like to now turn to my final slide, Slide 19, and summarize our 2024 outlook.

Given our robust backlog and strong pipeline of opportunities, we are expecting an organic revenue growth rate between 8% to 10% for the Engineering Services Regions and between 12% and 15% for our Nuclear business, compared to 2023.



We are also expecting that the Engineering Services Regions Segment Adjusted EBITDA to net revenue margins will be between 15% and 17%, while the Nuclear Segment Adjusted EBIT margin should remain in the range of 13% to 15%.

We do expect, similar to 2023, that our cash flow and profitability will be more weighted towards the second half of the year.

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

**Ian Edwards:**

Thank you, Jeff.

I'm extremely proud of our accomplishments in 2023. We had a great year, with key wins across the businesses in all of our core geographies. Our record backlog highlights our long runway for growth and a significant demand for our services. As public entities drive change through clean, secure energy, and replace aging infrastructure, they will continue to think of AtkinsRéalis as their trusted partner.

Most importantly, we have a strong, dedicated and growing workforce that helps us achieve our goals. I'm thankful every day for their loyalty and diligence, providing to the world expansive capabilities of AtkinsRéalis, and our new organizational structure will let us bring all these global capabilities locally to our clients, and our new brand highlights our fresh identity as a dynamic and transformed organization.

We look forward to providing you with more details of the long-term outlook at our Investor Day in Toronto, in June, and we hope that you can join us for that.

So, with that, let's open it up for questions. Thank you.

**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 speakerphone, 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 Michael Doumet of Scotiabank. Please go ahead.

**Michael Doumet:**

Hey, good morning, guys. Truly in awe of these results, so nicely done. I wanted to maybe start with the LSTK, just to square a few items. Maybe just comment on the reasons why there's a little bit of a higher loss there this quarter, the drivers behind the increase in the backlog, and, lastly, whether we should think that the losses there should wrap up, largely, in 2024.

**Ian Edwards:**

Sure, and there was a slightly higher loss in Q4 than the run rate that we've been having through the year, but nothing's really changed. What we said at the end of 2022, that the Projects in Ontario were physically complete and that the remaining works on those two challenging projects were mainly in Engineering Services, an administration-type of work, is the case. What we found, as we got to the end of 2023, is that, actually, the opening of those two railways is moved back, and it's moved back for multitudes of reasons, many of which are at the choice of the customers. We don't decide when they go into operation, but we have to close everything out on the job, including all the paperwork, testing and

commissioning, and that additional loss within Q4 is a forecast of where we now believe those projects will go into service and a forecast of all the costs that we will need to complete those jobs.

We are now very focused, and will be, on recovering our loss. As we've always said, we believe that the issues that we face through COVID, and other kind of non-contractual obligations that we had to face as challenges, are recoverable losses, and we will need to continue to pursue those. If you look in the outlook, we've said that we'll incur an overhead cost running through '24 of approximately \$10 million a quarter.

So, that's how we see it, but, largely speaking, what we said a year ago has played out as we expected. We still have the REM project, which has always progressed very well, and almost all of the backlog now that you see is actually REM-based and not on the Ontario projects.

Incidentally, I actually spent a day on each of those projects a couple of weeks ago and they're fantastic projects. I mean, all the stations are complete, the trains are running. I actually rode the train end-to-end on the Trillium project, and it's going to be a magnificent asset in Ottawa, as is the Eglinton project in Toronto.

**Michael Doumet:**

Thanks, Ian, and then maybe just if I move along to the additional disclosures that were provided on Slide 24. You can clearly see that the EBIT margins, based on my math, more than doubled in the second half versus the first half in Canada. So, just wondering how much of the overall 100 basis points of margin improvement in Engineering Services that you're guiding for in '24 is Canada-driven versus maybe some of the more broad operational excellence initiatives that you're undertaking.

**Ian Edwards:**

That's a good question, and, actually helps me explain how we think about this. First of all, margin expansion is incredibly important to optimizing this business going forward, and we are very focused on doing just that. We are on an improvement journey, and our areas of improvement are actually quite specific geographically and business-related. We've got many areas of this business that are operating at very, very good margin levels. Nuclear, for example, is industry best. But, we have some areas of our business, and Canada is one, that you called out, that is on an improvement program, and that improvement program is very targeted around the specifics that we know we need to do differently. Those could be profitability, could be win rates, could be the clients, they could be improvement of a capability in a certain sector, and we're focused on doing just that.

I'd probably add another comment, is that if we have business that we see cannot be put on an improvement program and get it to where we want it to be, we will make decisions around that, and you saw that with the Scandinavian business, and you've now seen that with the Linxon business. So, we are very focused on getting to the right place here.

**Michael Doumet:**

Thanks very much, Ian.

**Ian Edwards:**

Thank you. Thanks.

**Operator:**

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

**Jacob Bout:**

Good morning.

**Ian Edwards:**

Good morning.

**Jeff Bell:**

Good morning.

**Jacob Bout:**

I had a couple of questions here just on the organic revenue growth guidance you provided. I guess, first, in the Engineering Services, you're talking about 8% to 10% for '24. Fourth quarter was almost triple that. I guess, I'm just trying to understand how much of this is being conservative. Is it just tougher comps in '24? Just maybe a bit more colour there would be helpful, and then maybe comment a bit on what you expect the shaping looks like throughout the year, does the margin profile decrease as we move through the year?

**Ian Edwards:**

Yes, no, that's a fair question. Clearly, we put the guidance out there at 8% to 10% for the Engineering Services business, and a lot more bullish on the Nuclear business at 12% to 15%. We absolutely had an exceptional year in 2023, I'm very pleased with that and very proud of it, but we've got to really consider whether that's sustainable long term. Obviously, we look very closely at our markets and we look very closely at the backlog and the win rates, and I think the way that we see our markets, that they are being fueled by energy transition, where we're seeing a big commitment towards increasing the electrical energy grid, particularly with clean energy and affordable energy. We're looking at an energy transition decarbonizing of buildings and transport, which is also fueling that, replacement of infrastructure in the U.S. funded by IJJA, and resilience work for weather events and flooding and disaster relief.

Those three things are really driving our markets, but as we see those things driving our markets, we're also seeing, and we have seen in the U.K., a bit of change of focus on government policies, in terms of moving away, perhaps, from transport to energy transition as they refocus their investment and their funds and their budgeting. So, what we're doing here is really considering all of those aspects and looking at what we can absolutely deliver through those outlooks that we've put there, and I think we're comfortable that those are very deliverable ranges, and, obviously, we would be looking to perform at the highest end of those ranges.

**Jacob Bout:**

Then, as far as the question of the shaping as we move through the year, a little stronger first half or second half.

**Jeff Bell:**

Yes, I think we would expect to see, from a revenue perspective, good growth through the first half and have that continue into the second half. I think, as Ian said, a lot farther out in the year, you end up with less visibility into exactly the way projects will shape out, so we factor that into our revenue perspective. Then, from a profitability and cash flow perspective, we do see the shape of that similar to what we've seen in the last year or two, where it's weighted towards the second half of the year, and we expect to see that in 2024, as well.

**Jacob Bout:**

Okay, and then maybe just as a follow-on here, just from a geographic mix perspective, how much variability are you expecting in '24, if we look at kind of U.K., Europe versus U.S. versus Canada?

**Ian Edwards:**

Actually, there are different drivers in each of those markets, but we're actually seeing pretty strong growth potential in each, maybe for different reasons. The U.K., for example, strong water, strong defence, strong nuclear energy transition; the U.S., strong on resilience, strong on transportation still, replacement of aging infrastructure; and in Canada, energy, for sure, the building of the ecosystem around clean energy materials, such as CV batteries, and then transport. So, it's slightly different in each geography, but we've got a very targeted approach to our strategies and our tactics to continue our growth in each. So, no real difference in each one.

**Jacob Bout:**

That's helpful. Thank you very much.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Yuri Lynk:**

Good morning, everyone.

**Ian Edwards:**

Yes, good morning.

**Yuri Lynk:**

Nice quarter. I'll ask another question on the guidance. Your 2022 to 2024 EBIT margin target for Services is 8% to 10%, and I'm just curious if your 2024 outlook implies a move outside of that range.

**Jeff Bell:**

It's Jeff, why don't I take that. I think, as you saw from our guidance, we're beginning to move that guidance more towards EBITDA to net revenue. With respect to the Engineering Services Regions, we have moved that from the original guidance, you remember, for Engineering Services, which was 14% to 16%, up to 15% to 17%. So, we definitely see an opportunity, as Ian said, to continue to drive margin improvement. Indeed, if you look at some of the breakdown that we have on that Slide 24 the previous caller referenced, you can see, indeed, that some of our regions are at or slightly above on an EBIT to gross revenue basis, at or above the top end of that range. I think we'll continue to see that in 2024, with some of the regions performing at that level; others, as Ian has said, on an improvement plan. Obviously, overall, we would expect the weighted average to continue to improve.

**Ian Edwards:**

I think what I would add—thanks, Jeff. I think what I would add to that is we know exactly, at a very granular level, where we need to improve. We've done extensive work, looking at customers, looking at geographies, looking at end markets, to understand where we need to do something different to get to the place that we intend to be at. What was necessary to drive this into the business was to create this

Chief Operating Officer's office, such that we've got this horizontal lens and set of KPIs to drive those improvements, and they're in cost base, it's productivity, it's win rates, it's all sort of metrics at a fairly detail level, that Phil will spearhead horizontally, and, obviously, the accountability vertically on the geographies still remains with our Presidents. But, we know what we need to do and we have a plan to do it, I think is the message that I want to give.

**Yuri Lynk:**

Okay. No, I was just asking the question on the consolidated EBIT margin, just to kind of simplify my life, because you're adding in the O&M segment with Engineering Services, we're mixing net and gross revenues, but it does look like Engineering Services margin guidance has been taken up. Because, correct me if I'm wrong, O&M is more like a 10% EBITDA margin business that you're blending in with Engineering Services, right, and you're coming out with an even higher margin on the other end?

**Ian Edwards:**

Yes, and that's the way we see it, as well. The O&M business has been performing well, because we've been transforming that business into more an engineering-led business, rather than a facilities management business, and now it's almost wholly engineering-led, so it really, actually, does belong in the Engineering Services business at the same sort of margin levels. So, you're absolutely right.

**Yuri Lynk:**

Okay. Second, and last, question, just your thoughts on the MONARK announcement. I think we can all agree that nuclear is an industry that moves very slowly, certainly one where playing catch-up has proven to be quite difficult, and I think that that's where you guys are right now with this design. I mean, it's new. There's competitors already in the market. So, how does the move from conception phase into actually getting this thing licensed, with all its safety certifications and whatnot, line up with the most likely buyers of this thing, which are in Ontario?

**Ian Edwards:**

The great advantage that we have with the CANDU technology is that it's been invested in over seven decades by the Canadian government. As you know, we bought the rights to the product in 2012, the sole rights to the IP, although it's still owned by Canada. The MONARK is actually a bringing together of investments that were made before we got the rights to the product. There was a gigawatt reactor, it had been through several stages of development and investment. We're bringing that back. We're adding to it the safety features that are necessary today, we're digitizing it, and we're bringing it all together.

Actually, the investment, in terms of what we see, to actually bring that to market and get it licensed is relatively small compared to starting from a blank piece of paper. So, it's almost like a no-brainer to do this. We've done extensive research on what we think is the most competitive scale of large nuclear reactor, and we believe it's a gigawatt. I think, further to that, to talk about the domestic market, we know what our customers want in a domestic market, and we need to be ready to deploy it when they need it, and that's what's driving this investment.

But, as you can see, it's not a big level of investment to get this thing developed on a year-by-year basis. Our timetable—and it will depend somewhat on gaining orders domestically—our timetable is in the order of three or four years to get this through to licensing, but we would hope that we will be gaining orders and earning revenues even before it's licensed.

**Yuri Lynk:**

Does that three to four years assumption require that the regulator to view as an evolutionary design, and what might happen if they view it as an all new design? Would it not take longer in that case?

**Ian Edwards:**

No. The regulator is very much part of the ongoing process. You don't develop a product and give it to the regulator and then they do the review. It's a parallel process. So, we work in parallel with them to get to the point of licensing, and, in fact, we're already doing that.

**Yuri Lynk:**

Okay, guys, that's it for me. Thank you.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Devin Dodge:**

Thanks. Good morning, guys.

**Ian Edwards:**

Good morning.

**Devin Dodge:**

Ian, maybe just to follow up on that last question. In your prepared remarks, you talked about that agreement with AECL. Can you just provide a bit of background on why the agreement was needed and the benefits that it should bring to AtkinsRéalis?

**Ian Edwards:**

Yes, for sure. First of all, we own the rights to the IP, and we needed to be absolutely sure that those rights, in the way that the agreement is drawn up, remains in perpetuity to AtkinsRéalis, and remains accessible and exclusive to ourselves. We wanted to just revisit the agreement just to—with any agreement, there's always improvements you can make, and we wanted to make sure we made those improvements, got full alignment with AECL on the strategy to take the CANDU technology forward, before we started investing in the project, in the MONARK, and we've got that. I mean, I see AECL as a real asset to develop the product and market the product globally and internationally, and, indeed, the Canadian government, who ultimately owns the technology. So, that was the intent there. As you saw, we got a good announcement out, we got support in that announcement from the federal government, so we're all pretty much aligned to what we need to do here.

**Devin Dodge:**

Okay, excellent. Then, last night, we saw that the DOE awarded a large cleanup contract to one of your competitors. I think Atkins is on one of the expiring contracts. We recognize that this type of work is done via consortiums and it's recognized in your P&L as JV income, but are you able to quantify how much earnings were derived from that expiring—I it's the Hanford Tank Operations contract.

**Ian Edwards:**

Yes.

**Devin Dodge:**

Was the winddown of that contract factored into the margin guidance for Nuclear in '24?

**Ian Edwards:**

So, no. We're still very comfortable with our outlook, very comfortable with our growth in Nuclear with or without that contract. Of course, we're disappointed. I mean, it's a good contract and we would have liked to have won it, but we've doubled our backlog, remember, in 2023 in our Nuclear business, which we're really pleased, and gives us that strong kind of confidence of 2024 outlook. When you lose these jobs—these are like Tier 1 jobs, whether it's straight to the DOE, but when you lose the Tier 1 part of it, the secondary market opens up in supporting that Tier 1 contract, so we'll now focus on Tier 2 work, as we call it, which is supporting, actually, DOE and the winner. So, all in all, not a material impact through the year, but disappointing, of course.

**Devin Dodge:**

Okay, good colour. Congrats on the strong finish to the year. I'll turn it over.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Chris Murray:**

Yes, thanks. Good morning.

**Ian Edwards:**

Good morning.

**Chris Murray:**

Maybe turning back to some thoughts around the free cash flow—and a couple of moving parts on this one. First of all, we talked a little bit about the potential sale of Linxon and the exit of a JV. Just to make sure, Jeff, the \$400 million that you're talking about in available cash flow, that doesn't anticipate any proceeds from the JV, does it? Then, along those lines, just in terms of the timing of cash flow, can you talk a little bit about being able to deploy capital and what the timing would like for M&A?

**Jeff Bell:**

Sure. The answer to your first part of the question is, no, there's no assumed proceeds from a potential Linxon sale, or anything else related to that, so that would be in addition to the guidance that we've given. I think our view is, having reached the level of the balance sheet and leverage metrics that we have at the end of 2023—that's obviously, as I said, in our target range that we had originally forecast to not be there till the end of 2024—we see the natural cash flow generation of the business in 2024 keeping us around or below that 2.0 leverage ratio for us, and, therefore, we think that allows us to open up the potential for small tuck-in or bolt-in acquisitions, or, indeed, returns to shareholders. So, I think we see the opportunity to access that throughout 2024, when we see the right opportunities.

**Chris Murray:**

Okay. Along those lines, I guess what I'm trying to also think about is, in terms of beginning tuck-ins, can you talk a little bit about where the pipeline of potential opportunities are right now? I know, in some cases, you've talked about it may not be the acquisition of somebody, it may actually just be setting up

a new office. You talked about, like, there's a lot of white space in the U.S., for instance, to work on. Can you just talk about where you think the opportunity set is? For instance, if you did have additional capital, say, you could recycle out of something like Linxon, does that mean, as opposed to waiting maybe till the second half, you could accelerate some of those opportunities maybe earlier into the year?

**Ian Edwards:**

Yes, thanks. I mean, very much part of the land-and-expand strategy in the U.S., and it was always a strategy that needed organic and inorganic growth, and to talk to your point on the M&A front, we are already focused on identifying possible targets for U.S. M&A. Now, they're small tuck-in acquisitions, in the first instance. We are anticipating that we will be able to convert one or two of those this year, it's likely to be the second half of the year, but the good thing about the U.S. market is it's very state-to-state centred, so there is a range of size of companies that do the work that we do, and our intent is to establish a foothold in further states, and then join all that up with our greater team, where we're operating at Tier 1, and land-and-expand. I mean, ultimately, our goal is to be a top-five player in the U.S., with a coast-to-coast business that operates in the Engineering Services space. Once we have got onto this cycle of M&A and build capability, and ensure that we can integrate successfully, we will continue to do that at an increasing amount of scale, but we really do want to take a step-by-step approach to it, but we actually want to get on with it this year with the funds that are now forecasted to be available.

**Chris Murray:**

Okay, that's helpful, and then my other question. Just looking at the breakdown—and I'm looking more at the detail in the MD&A, I think, to an earlier question—Canada does really stick out in terms of the Engineering Services margins being substantially lower than the rest of the regions. I guess a couple pieces of this. One, was there something kind of weird, like kind of one-time, or a particular project that was giving you issues in Canada, that maybe we didn't notice because of the way the reporting was happening? Then, I guess, maybe just elaborate a little more your comment about trying to fix things and the office of the COO. What exactly is it that you think needs to happen in Canada to get what you would think would be a Tier-type margin, or even a margin profile somewhere similar to the rest of the business?

**Ian Edwards:**

There's a number of things. I wouldn't be able to put my finger on one sort of specific, big sort of item that needed fixing in Canada, there's a number of things, and I'll share a couple of them.

Cost base is always important, and we've reorganized the business. You can see now that we've got a dedicated President that looks after all the business in Canada, under Stéphanie Vaillancourt. The type of work and the customers, we were doing a lot of really small jobs at low profitability, and moving from that to focus on larger opportunities that we see in the market, it takes a bit of time, because you've got to burn off the backlog that you already had, which is low-profitable work, and replace it with better quality backlog. We're very much in progress with that, and the plan is going very, very well on that.

Productivity, I mean, getting the business up to the same productivity levels as our other business, making sure that the staff and the people have got the right capabilities and support.

So, no one thing, but we know we're going to get where we need to.

**Chris Murray:**



Okay, that's helpful. Thank you very much.

**Ian Edwards:**

Thank you.

**Operator:**

Our next question comes from Michael Tupholme of TD Securities. Please go ahead.

**Michael Tupholme:**

Thank you. Just maybe to pick up on that last question about the margin improvement expectation. Ian, you talked about productivity. Can you talk about how you're positioned from a headcount perspective to work through the very significant backlog you have? Are you still in hiring mode here, or do you feel like you've got the—for the most part, got the talent you need and, really, there is an opportunity to leverage productivity gains?

**Ian Edwards:**

Thank you. Yes, thanks for the question. Talent and our people are everything. I mean, we are a people business and we cannot drive organic growth without being able to attract the top talent. We've focused on our culture and our employee value proposition going back four, five years ago, and we've developed, I think, a world-class employee experience. Things like our purpose and our values and our approach to ED&I are real differentiators for younger people, and we are able to bring in the talent that we need to drive the business.

I mean, bringing in, or achieving a headcount growth of 4,200 people in 2023, is a combination of lowering our turnover rate, which is constantly reducing, and having a value proposition for employees, and building the culture where they want to join us. So, we will continue to grow our headcount organically, which is absolutely essential to growing the Company. Luckily, the way that we do this is a combination of early careers people; 2,000 people, from graduates and universities, joined us in 2023. We can put them to work very quickly, and profitable, and they produce revenues for us, and we add to that capable and experienced people that also generate revenues for us very quickly. So, I think it's an important part of our whole story.

**Jeff Bell:**

I think the other thing I'd add to that, Ian, is that we monitor utilization and productivity, and match the people that we're bringing in very much by region and subregion and customer end markets, so that the growth—as you say, we've been very successful—that we've needed to deliver that backlog is very appropriate in each of the different regions and geographies, so that we're not building up people in areas where we have less work, but we've got them focused where we've got the most work to be able to do.

**Michael Tupholme:**

Okay, that's helpful, thank you. Second question. Just circling back on the LSTK Projects area—I think you were asked this earlier, but I'm not sure if I caught the answer—the increase in backlog that you saw sequentially, is that also tied to your explanation about the delays in some of these projects, if you can help clarify what drove that exactly; and I guess the other question, or the follow-on, would be how do you see that backlog evolving over the course of 2024, as we move through the year?

**Jeff Bell:**

Yes, this is Jeff, why don't I take that one. Yes, we did see a bit of an increase in backlog, and that really comes, as Ian says, with our clients reforecasting out the completions, particularly of the two Ontario projects here in 2024, and as a part of that, there's simply a view that there's some more work to do, and there would have been at the end of the previous quarter, not a material amount of work, and, as Ian said, doesn't extend out the timeline in any material way, but that's a big part of what drove the slight increase in backlog at the end of the year, but it is largely REM, because, as Ian says, we're down to final testing and commissioning, documentation, training drivers, and that has a relatively small component of the overall total.

I think there was a second part of that question, Michael. Did I answer the second part?

**Michael Tupholme:**

Not exactly. The second part was just related to how we think about that progressing as you move through the year.

**Jeff Bell:**

Yes, sorry. I think, in terms of—we would look to have that backlog largely done by the end of the year. The anticipation is that both the Trillium and Eglinton would be handing those over to the clients this year, and I think, as the REM itself has said, they're expecting to be largely construction complete by the end of this year, as well.

**Michael Tupholme:**

Okay. Does that then mean that as far as the \$10 million per quarter loss, that you talked about earlier, over the course of 2024, does that—as we look to 2025, should we essentially assume that that loss is no longer occurring at all in '25?

**Ian Edwards:**

I think, as I said in the last answer, a lot of that is overhead costs to pursue our recoveries in claims, and the like, as well supporting the ongoing jobs, so that will reduce. I wouldn't say it'll be zero in '25, but it'll be less, because we'll be down to just really trying to recover the loss, and I would hope still that we can negotiate this at some point and see that coming in.

**Michael Tupholme:**

Okay, thanks very much.

**Ian Edwards:**

Thank you.

**Operator:**

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

**Maxim Sytchev:**

Hi, good morning, gentlemen.

**Ian Edwards:**

Good morning.

**Jeff Bell:**

Good morning, Max.

**Maxim Sytchev:**

Most questions have been asked and I just have a couple of cleanups. Ian, if you don't mind maybe talking a little bit about your Middle East business. Now that it crested \$1 billion in gross revenue, I'm just wondering how you're thinking about some of the risk profile for that part of the business. Yes, maybe any colour there would be helpful. Thanks.

**Ian Edwards:**

Yes, for sure. The Middle East is booming, frankly. Demand for services from companies like ours, both in the Kingdom and Saudi Arabia, are expansion, but now reinvestment in the United Emirates is really, really fueling the market. So, what we have done is really focused on projects that we see have a sustainable future. Those would be the iconic, very heavily committed to projects, such as Neon, and the downtown of Riyadh and the sort of greening and redevelopment of Riyadh City. We have won some very good contracts in those types of work, but we're also now, rather than continuing to kind of focus on one area, as we're seeing good opportunities come out of the Emirates now, we're kind of looking at the Emirates, as well. We're up to over 10% of our business now is in the Middle East, but that's about where we want to be, around about the 10%. We don't want to kind of outgrow the Middle East, compared to the rest, we're keeping it at a level which is positive and supporting our customers there, but we will sort of keep that kind of at a proportionate level.

**Maxim Sytchev:**

Okay, makes a lot of sense, and just two quick cleanups, if I may. In terms of kind of like free cash flow conversion of consolidated net income to free cash flow, 80% to 90%, I mean, that's still kind of the game plan, right?

**Jeff Bell:**

Yes, that's correct.

**Maxim Sytchev:**

Okay, and can you be a bit more precise in terms of timing, or how should we think about this?

**Jeff Bell:**

Yes, as I said, Max, I think, in terms of timing, that's our guidance for the full year. As I said in my remarks, it will be weighted to the second half of the year, so we'd expect to see less in the first half and more in the second half, but, clearly, year-on-year, a real step forward in both halves, frankly.

**Maxim Sytchev:**

Yes, no, absolutely great to see, and then one last thing. In terms of the 407, and thinking about potential sort of congestion payments as pricing has gone up, can you maybe provide any colour in terms of how we should be thinking about this, if at all? Thanks.

**Jeff Bell:**

Yes, I think my comment to that, Max, I think, broadly, I'd refer you to what the 407 itself is saying. Clearly, their view is that, while there may be congestion payments, the value that comes and the need to reflect the fact that there hadn't been a price rise in four-plus years, was clearly what drove their change in pricing that was implemented at the beginning of February. I'm not sure I'd have anything more to add to that at this point.

**Maxim Sytchev:**

Okay, but, I mean, net/net, obviously, there should be a positive impact from an EBITDA perspective.

**Jeff Bell:**

Yes.

**Maxim Sytchev:**

Okay, perfect. 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 Jasmine for any closing remarks.

**Denis Jasime:**

Great. Thank you very much, everybody. If you have any further questions, please don't hesitate to contact me directly. Thank you very much, and have a beautiful day and weekend. Thank you. Bye-bye.

**Operator:**

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