



AtkinsRéalis

First Quarter 2024 Results

Conference Call Transcript

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Time: 8:00 AM ET

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

Jeff Bell
Chief Financial Officer

Denis Jasmin
Vice-President, Investor Relations

Operator:

Good morning and welcome to AtkinsRéalis First Quarter 2024 Results Conference Call.

As a reminder, all participants are in a 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. 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 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. I'm going to begin the call by providing an overview of our performance in the first quarter, our growing backlog and the success we are seeing in our four Engineering Services Regions and Nuclear businesses. I'll then pass it over to Jeff to provide more detail on our financial results and our updated guidance before we open it up for Q&A.

Let's get started on Slide 3.

We started 2024 on a strong note. The first quarter results driven by the growing demand for our services to address the energy transition and ageing infrastructure. The measures we have taken to de-risk the Company and focus on our core strengths is continuing to bear fruit. This was proven again this quarter by our top line and bottom line improvement over the first quarter of last year. AtkinsRéalis

Services revenue increased 19% with segment-Adjusted EBIT increasing 19.5% to approximately \$187 million, driven by robust demand across our businesses.

Backlog at the end of the first quarter of 2024 was approximately \$15 billion and represents another record high for the Company as it grew 26% year-over-year.

Operating cash flow was \$37 million, a significant improvement compared to the first quarter of 2023, and in line with our expectations of delivering over \$400 million for the full year.

Net limited recourse and recourse debt to Adjusted EBITDA ratio at the end of the quarter was 1.7 times, remaining in our 1.5 times to 2 times target range.

Our recent results reinforce our position in the marketplace. The demand for our services is fuelled by the need to replace an ageing infrastructure and provide clean, affordable and secure energy solutions. Our historical execution track record makes us the partner of choice for public and private entities achieving their Net Zero goals.

On Slide 4, we can see the progression of our backlog growth for AtkinsRéalis Services over the last year. Our 26% growth year-over-year was driven by key bookings across our core Engineering Services and Nuclear businesses.

The most significant contribution to the backlog in the quarter was due to taking over the CHUM O&M contract, one of the largest hospital centres in Canada. We will be maintaining all of the hospital systems in support of medical operations, as well as the lifecycle replacement management of all of the equipment until 2050. Additionally, we saw strong backlog growth in the U.K. and the U.S. Engineering Services Regions in the quarter.

We also continued to capture projects across many of the end markets and regions in which we operate. In the U.S., we continue to strengthen our relationship with the George Department of Transportation, and in the U.K. we continue to provide design and construction management services for the rail network signalling.

Turning to Slide 5, our Engineering Services business continues to generate robust organic top line growth as we witnessed and 18% increase year-over-year in the first quarter. Our revenue generation was driven by the continuation of our ability to secure new wins across our geographic scope.

Segment Adjusted EBITDA over net revenue margin improved to 15% during the quarter.

We continue to increase our backlog which now stands at just below \$12 billion, representing a 19% growth versus our backlog as at March 31, 2023.

And, as mentioned on our last earnings call, we have changed our operational structure and therefore, starting on Slide 6, we will provide an overview of each of our four regions and of their performance.

So, starting with Canada, organic revenue grew 22% year-over-year as we saw continued strength in our ability to service the Transportation, Industrial and Power & Renewables end markets. Segment Adjusted EBITDA was \$22 million, representing approximately 12% margin.

We are having success in attracting and retaining high-quality employees, bolstering our position in the marketplace with deep expertise across our talent base. Looking ahead, we continue to see a pipeline full of opportunities. Our leading position provides a strong foundation as we continue to grow customer relationships and capture additional wallet share through our end-to-end capabilities across the entire lifecycle of projects.

As we focus on enhancing the depth and breadth of our team in Canada, we see an opportunity to increase our position in provinces across the country that are focused on bolstering their transport properties and Net Zero goals.

In the U.K. and Ireland, we continue to capture key wins, particularly in the Defence, Water, Transportation and Power & Renewables end markets. Organic revenue grew to 5% versus the first quarter of 2023, while segment Adjusted EBITDA grew to \$74 million, representing a margin over net revenue of 15.5%.

We saw continued backlog growth during the first quarter to \$1.7 billion, primarily through new work orders in the Transportation end market. This was particularly the case in the Network Rail project which is a key transportation line for more than 20% of U.K. citizens in their daily commute. In addition to this project, we also had key wins in aviation, water infrastructure and climate resiliency where our longstanding relationships with the government enabled our continued growth.

We continue to add to our market share and increase our backlog as leading providers in Engineering Services across the region. Results this quarter and our historical execution highlight the resiliency of our business during times of economic uncertainty.

In the U.S. and Latin America, we saw a continued growth trajectory led by our work in Transportation, Power & Renewables, Minerals & Metals end markets. Organic revenue grew 13% year-over-year, whilst segment Adjusted EBITDA fell slightly to \$46 million. The year-over-year decrease in profitability was mainly due to storm recovery work with FEMA during the first quarter of 2023 that did not repeat itself this year.

The backlog increased approximately 9% year-over-year from our significant frameworks in Transportation and the pipeline of opportunities continues to look robust. As you will hear more during our Investor Day next month, our Land & Expand strategy is working. We have deep relationships with several departments of transportation across the U.S. and we are methodically increasing our foothold in high growth city centres.

Looking out, we see steady volume for this business as major cities continue to address their ageing infrastructure, particularly in the Transportation market. The pipeline of infrastructure construction in the U.S. continues to be very strong, and it's expected to see significant annual growth over the next several years.

And we will be steadfast in our approach to investing for growth to expand across the U.S. to ensure we are winning our share of potential new contracts.

Moving to Slide 9 and the AMEA region, we welcomed Christine Healy as our new president in the quarter with a mandate to drive Engineering Services growth in the region. She brings a wealth of operational experience and a global perspective, which will enrich our strategic approach to capitalize

on growing opportunities we see in Asia, the Middle East and Australia for our services. I'm really excited to have her join our leadership team.

In the first quarter, results in the region were really strong as organic revenue grew 58% versus the first quarter of 2023. This performance was mainly driven by an increase in volume of delivered work on major projects for which we are contracted in the Middle East. Our performance in the quarter led to a segment Adjusted EBITDA of \$35 million, an increase of 75% compared to the prior year, and represented an 18% margin over net revenue.

Total backlog in AMEA grew 23% as we captured opportunities in Buildings & Places and Transportation end markets.

Now, I'd like to move to Slide 10 and the results of our Nuclear business. We continue to demonstrate robust growth with an organic revenue increase of 21% in the quarter compared to the first quarter of 2023. Our Nuclear backlog is \$1.8 billion, which represents an 87% growth versus our backlog as at March 31, 2023, driven by higher bookings in the second half of last year related primarily to our CANDU refurbishment and services business.

Segment Adjusted EBIT as a percentage of segment revenue was 13% in the quarter.

On Slide 11, we highlight the achievements in each of the Nuclear services that we provide.

As we look across our markets, we see a continued increase in the pipeline of opportunities for large and small nuclear new builds. We're seeing strong activity in our U.K. operations through Hinkley Point and Sizewell.

In February, we successfully launched the Canadians for CANDU campaign, which promotes the deployment of CANDU nuclear technology in support of Canadian and global efforts to reach Net Zero emissions. So far, we have a strong support from Canadian stakeholders, and we're excited about the potential of this campaign.

Additionally, we are collaborating with AECL to accelerate the development of the CANDU MONARK reactor. This intellectual property championed by the Canadian government is on track to be a game-changer for the future of nuclear across the globe. Our exclusive rights to this technology sets us up for a long runway for growth. I am excited for our team to provide you with more information regarding Nuclear at our Investor Day in June.

In Ontario, we are actively working on CANDU life extensions at Darlington and Bruce Power. We continue to see growth opportunities in Ontario as the government recently announced a program to refurbish the Pickering nuclear power station. This will extend the plant's life by 30 years and help meet a projected surge in Ontario's electricity demand. Early work on this project is already underway.

In Europe, work on our CANDU retube and refurbishment program at the Cernavoda plant in Romania is progressing well and we continue to advance the potential opportunity for a new build contract of the Cernavoda 3 and 4 units. This is a pivotal project for the country as it supplies electricity to approximately 20% of Romanians, and we are thrilled to be engaged in this great work.

On Waste Management and Decommissioning, we have a strong pipeline of national security work at the disposal facilities in the U.K. and the U.S. Our longstanding position in these markets and our recognized expertise has allowed us to continue to win new work.

The near-term and long-term Nuclear growth opportunity for AtkinsRéalis is significant, and the demand for our services continues to grow quarter-over-quarter.

We are constantly harnessing our capabilities across the globe to be trusted partners to governments and utilities as they seek to achieve their Net Zero goals.

Now moving to Slide 12 and our Linxon, LSTK Projects & Capital businesses.

Our Linxon segment saw a 30% year-over-year organic revenue growth in the first quarter, continuing its momentum from the first quarter of 2023, and realized an EBIT of \$2 million. Backlog of \$1.5 billion at the end of the first quarter was 47% higher than the first quarter of last year.

Commissioning and testing on our Ontario LSTK project is continuing as planned. Our backlog decreased 42% to \$299 million at the end of the first quarter, primarily representing the REM project which continues to progress well.

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

On Capital, first quarter EBIT decreased, mainly due to a revised estimate on a financial asset held in one of our investments. We did not receive a dividend from Highway 407 in Q1, however, traffic has continued to increase year-over-year and they recently announced a dividend in the second quarter which will be \$12 million for AtkinsRéalis.

I'll now turn it over to Jeff to discuss the financial results.

Jeff Bell:

Thank you, Ian, and good morning everyone.

Turning to Slide 14, total revenues for the quarter increased 12% year-over-year, totalling \$2.3 billion. AtkinsRéalis Services revenue totalled \$2.2 billion, representing an organic revenue growth of 19% compared to the same quarter in 2023.

Total segment Adjusted EBIT for the quarter was \$175 million, 10% higher than last year, and was comprised of \$187 million for AtkinsRéalis Services and negative \$13 million for LSTK projects.

AtkinsRéalis Engineering Services Adjusted EBIT was 19% higher than last year and operating margins segment Adjusted EBITDA to net revenue increased 50 basis points compared to Q1 2023 as the business continues to drive productivity improvements and cost efficiencies.

Nuclear EBIT increased 18%, while margins were relatively flat year-on-year at 13%. We expect full year profitability to be somewhat weighted to the second half.

Corporate SG&A expenses from PS&PM totalled \$40 million in the quarter compared to \$29 million last year, mainly driven by higher long-term compensation costs, primarily as a result of the recent

significant share price rise. As a result, we anticipate that the corporate SG&A expenses from PS&PM will be approximately \$130 million for full year 2024.

Net financial expenses for the quarter were \$38 million, \$9 million lower than Q1 2023, due largely to a lower level of gross debt and favourable foreign exchange variations. We expect this level of quarterly expense to continue for the rest of the year.

Note that our income tax rate on our adjusted PS & PM net income for the first quarter was 24%. We continue to expect this rate for full year 2024 to be closer to Canadian statutory income tax rate of 26%.

The IFRS net income this quarter was 64% higher than Q1 2023 and totalled \$46 million. This was composed of a net income from PS&PM of \$53 million and a net loss from Capital of \$7 million.

Adjusted EPS from PS&PM for the quarter was \$0.42 per diluted share, a 31% increase compared to \$0.32 in the first quarter last year.

And backlog ended the quarter at \$15.6 billion, 10% higher than at the end of last year, and 23% higher than at the end of March 2023, with a strong book-to-bill ratio in Engineering Services, particularly in the U.K. and U.S.

If we now move on to Slide 15 and free cash flow and leverage, net cash generated from Operating activities totalled \$37 million for the quarter. This was mainly driven by strong EBITDA delivery and working capital management in AtkinsRéalis Services. AtkinsRéalis Services generated operating cash flows of \$271 million in the first quarter. After cash taxes, interest, corporate items and capital, we generated \$137 million of operating cash flow, and including LSTK Projects, \$37 million.

After CapEx and the payment of lease liabilities, our free cash flow stood at negative \$11 million for the quarter.

As indicated during our last earnings call, we expect continued revenue and EBITDA growth in 2024 from the Services businesses, and significantly lower cash outflows from the LSTK Projects compared to full year 2023. As a result, we anticipate that the net cash generated from operating activities for the Company should be in excess of \$400 million for the full year, but weighted to the second half as LSTK outflows reduce and Services cash flows grow.

Capital expenditure was \$25 million in the quarter, and we continue to forecast full year expenditure in a range of \$140 million to \$160 million as the investment in our CANDU MONARK nuclear reactor development ramps up over the year.

I'd like now to turn to my final slide, Slide 16, and updates to our full year guidance.

With respect to Nuclear, the demand for our services continues to grow and our backlog is strong, and therefore we are increasing our Nuclear organic revenue growth for full year 2024 from between 12% and 15% to between 15% and 20%. Also in line with my previous comments, we are adjusting our 2024 outlook on Corporate SG&A from PS&PM to approximately \$130 million. All other financial metrics for full year 2024 remain unchanged.

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

Ian Edwards:

Thank you, Jeff. We had a strong start to the year with key wins across our four Engineering Services regions and Nuclear business. Our record backlog highlights our long run rate for growth and the significant demand for our services. We continue to purposefully expand our capabilities across our regions and to capture the continued growth we anticipate from the energy transition supercycle and ageing infrastructure replacement. We are deploying our global capabilities locally to clients to win new business, and we are deploying operational excellent initiatives across the Company through the work of our Chief Operating Officer's Office.

I'm extremely proud of the work the team continues to do to create a better future for the planet and its people. We are building an authentic culture founded on collaboration and a drive towards excellence. Through this, we are able to hire market-leading talent. I'm grateful for the loyalty of our 38,000 employees and their dedication to achieving our goals.

We look forward to providing you with more details on the work we are accomplishing under our new organizational structure, our future growth plans and our updated long-term financial outlook at our Investor Day on June 13th in Toronto. We really hope you can join us.

With that, let's open it up to questions. Over to you, Denis.

Denis Jasmin:

Yes, we can open the line for the questions.

Operator:

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 to acknowledge 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.

The first question comes from Yuri Lynk with Canaccord Genuity. Please go ahead.

Yuri Lynk:

Good morning and congrats on a strong start to the year.

Ian Edwards:

Good morning. Thank you.

Yuri Lynk:

Just start with the Engineering Services Regions segment. Strong start, 17% revenue growth. You left the guidance 8% to 10% unchanged. Just wondering the—so obviously that's implying the growth kind of slows to high single digits against some tough comps, but just the cadence there, do we see another strong year-on-year comp in Q2 before that really starts to, the growth really starts to slow down in the second half? Or how do we think about that?

Ian Edwards:

That's obviously a fair question. First of all, we're really pleased with our growth in Engineering Services. I think it's a proof point that the measures we've put in place through the Pivoting To Growth strategy are really working.

Now, clearly we're in Q1. We set out and forecast what we believed was the growth trajectory through the four regions that we've created. We've obviously had a really good start to the year in Q1, and we will continue to look at the trajectory through Q2 and see how that plays out. I mean, generally, we've got a lot of tailwinds in the markets where we've positioned the business, both geographic markets and also the end markets, but we do want to just see how this plays out through the next quarter before we would make any kind of further prediction for the end of the year.

Yuri Lynk:

Okay. Just a follow-up there. Last year that segment delivered very strong growth but the EBITDA margin I think it's fair to say left us all wanting a little bit more. Now you're delivering the growth and the EBITDA margin expansion, so what's different this year? What are you doing to drive that margin higher, or is it just operating leverage finally kicking in?

Ian Edwards:

Let me answer that in a bit of a longer way about our margin expansion plan because we've been very, very deliberate in developing a plan through the Chief Operating Officer's Office with the Chief Operating Officer Phil Hoare, that we really put in place towards the end of last year with the new organizational structure and is now beginning to take effect.

You will see and we will explain this in a lot more detail at the Investor Day, and obviously we'll put out a longer range aspiration of margin expansion. Really pleasing to see the 50 basis point improvement year-over-year from 14.5 to 15, and the way that I think about this to kind of simplify it, we've got two approaches. The first is really specific business decisions and actions like the divestment of Scandinavia or like exiting specific business lines that are low margin businesses; they're not particularly—as been applied to Canada over the last six months or so and we're seeing margins now in Canada returning to a better place and obviously that journey needs to continue.

But we've also put in group initiatives and these group initiatives are being driven into the business through the COO around utilization of our resource. I mean, our resource on the professional services business, we can improve that utilization by basis points; that has a good bottom line improvement.

The GTC usage, our Global Technology Centre in India, the more usage we get out of that, the more profitable we can be and we're driving more use out of that.

Then overhead reduction, the cost of doing business, we have a very granular plan to how to drive cost both within the businesses and in the corporate overhead to improve our efficiency as much as we possibly can. And as you will see, we're at the bottom of the range that we put out for this year, so we would expect some improvement during the course of the year, and more to come at the Investor Day.

So, I would say the answer is a really methodical granular approach to margin expansion.

Yuri Lynk:

That's helpful. I'll turn it over. Thanks.

Operator:

The next question comes from Benoit Poirier with Desjardins Capital Markets. Please go ahead.

Benoit Poirier:

Good morning Ian and Jeff, and congrats for the first quarter results.

Ian Edwards:

Good morning.

Benoit Poirier:

Just to come back on the previous question, obviously impressive organic growth with both Nuclear and Engineering Services. Great explanation about the Corporate SG&A. When we look at Engineering Services, you came toward the lower end of the margin range for the year, so could you maybe provide a little bit more details? I know it's an improvement versus the 50 bps versus last year, but is it kind of normal seasonality or what can you say about the operating leverage and the opportunity to improve the Canada EBIT margin that stood at 4.3% in the quarter?

Jeff Bell:

Benoit, it's Jeff. Why don't I jump in on that?

Just in answer to a couple of elements of the question there, you're absolutely right. From a seasonality perspective, as we've seen in previous years, it does tend to be a lower set of margins at the beginning of the year, strengthens over the course of the year itself, which to Ian's point is why we're confident of being in the 15% to 17% range that we put out as guidance. Obviously 15% in the first quarter is at the lower end, but as we typically see, we'd expect that to strengthen over the quarter as we go.

But particularly in Canada, we are seeing good year-on-year progress in particular for a number of the initiatives that Ian has talked to, both from a group level and from a more granular level within the business. And again, obviously that's the region where we have the most, in a sense, blue water to go after in terms of getting those margins up to be similar to the rest of the organization. We have a clear path to do that over the short to medium term.

Ian Edwards:

Yes, and I would say, again, the new organizational structure, Stephanie Vaillancourt focused entirely on the Canadian business. You'll see that we've driven margins from 9.4% to 11.7% year-over-year and that plan is working, and we will expect to see further improvement in that plan through the course of the year. Thanks, Jeff.

Benoit Poirier:

Okay. My second question, when we look at free cash flow, a nice beat in the quarter, so better than typical seasonality. Could you walk us through the cadence of free cash flow generation and the big moving parts going through the remainder of the year? In terms of leverage, you were also down to 1.6 times, so great achievement quarter-over-quarter, so I'm just curious to know what are the next steps with respect to regain the investment grade as there's typically a lag. Thank you.

Jeff Bell:

Yes, sure. Why don't I take the last one first to begin with?

Benoit, you will have seen, as others will have, pleased not only where we were at in terms of our leverage ratios at the end of 2023, but obviously that continued in the first quarter of 2024. We were pleased to see both S&P and DBRS move us to positive outlook, so BB+ with a positive outlook. So, very much feel like we're making the progress we expected towards ultimately achieving those investment grade credit ratings. Obviously that's up to the rating agencies themselves in terms of when ultimately we get there, but we feel like we're on a good trajectory there and certainly our financial

metrics and our business risk we think is now very much in that investment grade range. I think we're making good progress there.

In terms of the cadence of cash flow, you're right. Great to see in the first quarter a real improvement year-over-year. That was very much in our expectations and forecast, and is very much part of what underpins our guidance and outlook for this year to make a material step forward in terms of our operating cash flow generation, so that guidance of over \$400 million compared to where we've been in previous years.

I would say, however, and as we said in Q4, that that cash flow generation will ultimately be, as it has been in many previous years, weighted to the second half of the year. So we expect to see improvement here year-on-year here in the first half, but the weighting of the overall cash flow for the year to be in the second half.

Benoit Poirier:

Okay. Thank you very much for the time and looking forward to seeing you on June 13.

Ian Edwards:

Thank you.

Jeff Bell:

Thanks, Benoit.

Operator:

The next question comes from Jacob Bout with CIBC. Please go ahead.

Jacob Bout:

Good morning.

Ian Edwards:

Good morning.

Jeff Bell:

Good morning.

Jacob Bout:

Another question on 2024 targets. You took up your organic revenue growth guidance for Nuclear to 15% to 20%. What are you seeing today versus in March when you released your guidance for the year? Specifically, what projects are driving this improved outlook?

Ian Edwards:

Particularly in Nuclear.

Jacob Bout:

Yes.

Ian Edwards:

Yes. Yes, yes, yes. We can talk a lot about Nuclear; there's so much to say, but let me take a general kind of overview of where we see Nuclear and then come back to the point about this year. And obviously if there's follow-up questions from you or anybody else we can dive in a bit longer.

There's so much strong demand emerging for new nuclear and nuclear power generation, and clearly owing the sole rights to the CANDU technology, the Canadian technology, is a very differentiated privileged position that we have. Incidentally, we're also seeing very strong demand for Waste Management, and we're also seeing strong demand for the Services business that supports other nuclear technologies such as the EDF support that we've given the U.K., and the support we give to GE Hitachi here for the SMR in Canada. Backlog is up 87%, so forward looking metrics here on the backlog is very significantly up. And obviously the nuclear renaissance is being driven by the need for secure, affordable, reliable and clean energy.

CANDU is actually only one of six technologies in the world that are currently licenced, large nuclear technologies, so there are very few players right now, today, that can actually offer new nuclear. The short-term demand for CANDU is actually being driven by the retubing or the rebuilding of reactors, such as the work that we've done in Bruce and Darlington. As you've seen in the announcements, in Pickering here in Canada, and you've also seen that we are retubing in Cernavoda. But that's not the end of the story. There are projects that we are discussing for CANDU reactors around the world, to retube them and that's where getting a real fix on the outlook going forward is somewhat a bit difficult, because we are negotiating for new contracts and their binary as to when they happen. We're confident they will happen, but we need to actually secure them and get them across the line. And a lot of these are complex through government funding and the like. So, very, very positive. I mean, we're absolutely confident of the guidance that we've increased because that's work that we've already secured that we know we will execute in 2024 and we could see if we secure more contracts some upside to that.

In addition to that, we are looking at the new build for Cernavoda 3 and 4, which the Canadian government has supported, and again, we're in heavy negotiations to get that across the line. If we do get that across the line this year there'll be some revenues coming into this year. But it's really quite binary on those awards, but what a great market and this is all turned around in the last couple of years.

Jacob Bout:

So, going forward, if you characterize your growth in kind of the three subsectors you call out, the new builds versus Reactor Support versus Waste Management, obviously New Builds is going to be lumpy. But if you look at it over the long term, do you expect similar growth across those three individual areas, or how would you characterize that?

Ian Edwards:

I think the Waste Management business is likely to continue at the same level of activity that we've got now. But the CANDU, both the CANDU reactor retubing life extension work is on an increase, and the potential for new build, both the existing technology that we have in CANDU which would be deployed at C3, C4, but more importantly, the MONARK that we're investing in, in the medium to long term is very significant.

Jacob Bout:

That's helpful. Thank you.

Ian Edwards:

Thank you.

Operator:

The next question comes from Chris Murray with ATB Capital Markets. Please go ahead.

Chris Murray:

Yes, thanks. Good morning.

Ian Edwards:

Good morning.

Chris Murray:

Maybe just talking about the group a little bit, the segment, very, very strong growth, gross revenue up around 58%, net revenue up about 47%. Can you talk a little bit about the sustainability of those growth rates and how we should be thinking about the business as it seems to be rebasing a little bit?

Ian Edwards:

Yes, for sure. For sure. We have clearly in the new organization structure created the Asia, Middle East and Australia business with Christine Healy joining as the leader. The reason that we've done that is because of the opportunity that we see ahead of us in the region.

Clearly today the growth is being driven in the Middle East and it's being driven in the Middle East through the city development and property development work that's been undertaken, primarily in Saudi Arabia, and you saw the kind of growth that we're getting out of that. It's close to 60% year-over-year, and that's good. What we now want to do is build from that base and diversify the business to grow in other regions that we see significant opportunity.

Australia, for example, is like most countries pivoting to energy transition work and that would be transmission, distribution work. That would be pumped hydro storage, hydro projects. And what we see for AtkinsRéalis is our base capability in those end markets are in need because the history of Australia is more about Transportation. The future of Australia is about energy transition and we have that capability. We are currently bidding work in Australia and currently Christine is developing a medium- and long-range plan that we'll present at the Investor Day to show what the potential is for that.

In addition, Asia. Our Asia business has been primarily around industrials and a bit of a really long history in Hong Kong. Now, Hong Kong, I was there a few weeks ago. We're seeing a real reinvestment into infrastructure and the new city development where we can bring our business back and grow that to meet that demand, as well as expand our Industrials business across Asia.

So, it really is the kind of next evolution of our growth plan. You know, as we've stabilized our business across what we used to call our core regions of U.S., Canada and the U.K., we've now crystallized a regional business platform through the new structure which we will present obviously at the Investor Day and AMEA is an important part of that growth plan.

Hope that helps.

Chris Murray:

That's interesting. Thank you. Yes, that's great.

My second question, maybe a couple of clean-ups on the quarter. Not sure who wants to take this. Jeff, maybe I'll start with you. On the corporate costs, the revision, how much of the corporate costs in the quarter and how much of the revision is tied to stock-based comp and is there an actual figure you could let us know about? Then kind of the second part of this question is just around the Capital business. What was the magnitude of the revaluation and what type of asset was it that was revalued?

Jeff Bell:

Yes, sure. What I'd say with respect to the first question, Chris, the increase was primarily related to the stock-based compensation. You remember that typically we're about \$25 million a quarter. We said there'd be a little bit extra for final branding and related costs, so that would take us from \$25 million—we said particularly in the first half it might be closer to \$30 million, and then in reality the additional cost around all that was primarily related to the long-term compensation element. Saw that in the first quarter; we may see a bit of that in the second quarter, but then we'll revert back to that more sort of mid-20s normalized cost as we get later in the year.

Then I think on your second question, in terms of the financial asset, it was a write-down of around \$10 million. It was a one-time non-cash write-off of part of the financial asset within a small investment that we had. So, nothing in a sense material. It happens within the portfolio from time to time, frankly, one way or the other.

Chris Murray:

Okay. I'll leave it there. Thanks folks.

Ian Edwards:

Thank you.

Operator:

The next question comes from Michael Doumet with Scotiabank. Please go ahead.

Michael Doumet:

Hi. Good morning, guys.

Ian Edwards:

Good morning.

Michael Doumet:

On the Engineering Services, obviously everybody's talked about the strong growth there. It does look like the direct costs for subcontracting doubled this quarter versus the trend last year. Just as we think about organic growth through the balance of the year and the subcontract, is there a variation in the trend that we should expect through the balance of the year, or maybe something similar to what we saw in Q1?

Jeff Bell:

It's Jeff. Why don't I take that? I'm not sure I quite recognize the doubling of the subcontract costs. Broadly, we think our sort of net revenue to gross revenue model was fairly consistent year-over-year and we would expect that to continue throughout the year. Effectively, the operating margin improvement that we're seeing is from underlying EBIT and EBITDA improvement.

Michael Doumet:

Sorry, Jeff. Maybe I mischaracterized it. Not a doubling but certainly an increase year-on-year, so just I think your answer there is certainly settled the question of...

Jeff Bell:

Yes, a little bit quarter-by-quarter, but I don't think we'd see that outside the sort of normal range that it operates in.

Michael Doumet:

Perfect. Okay. Helpful. Then maybe moving to Nuclear, I'm assuming much of the incremental growth in Nuclear in the revised guidance will come from an increase in organic hires, given the margin guide there was not raised. Is that the right interpretation? And if you do envision that, any challenges there as it relates to recruiting to satisfy the demand growth?

Ian Edwards:

Yes. That's a really good question. Talent is key to the growth of the whole company and Nuclear particularly is key to the demand that we have, both in the projects that we're winning and the services that we apply to other technologies other than our own technology CANDU, but also in the development of the MONARK. We're deploying resources to the development of the MONARK to be ready for deployment of the gigawatt MONARK as well.

So, the way we're going about this is really in three ways. We're clearly out there looking for Nuclear talent and I think because of the employee experience that we provide we are able to lower our attrition rates and increase our recruitment rate. That's clearly something that we are very active in and we are doing.

We are also retraining and deploying our general engineering capability into Nuclear. You can imagine that if you take, say, a life extension project, there is the nuclear, so people that need to nuclear, but there is also a lot of general engineering and the way we can deploy that from the 38,000 employees we've got around the world, and we're doing that also.

The last expansion of capacity is more use of our Global Technology place in India. Traditionally, the use for supporting our customers in the U.K. has been very strong from the GTC and we're now improving our support in Canada to meet the demands in Canada.

So, we have a plan and the plan is working in order to deploy the resources, but not without challenge. I absolutely recognize that.

Michael Doumet:

Perfect. Thanks very much, guys.

Ian Edwards:

Thank you.

Operator:

The next question comes from Michael Tupholme with TD Cowen. Please go ahead.

Michael Tupholme:

Thank you. Good morning.

Ian Edwards:

Good morning.

Michael Tupholme:

Wanted to ask you about the backlog, AtkinsRéalis Services backlog. Obviously a very significant quarter-over-quarter increase, so sort of two parts to the question. One, can you talk about the Operations & Maintenance contract which drove a lot of that increase? Then secondly, if we look beyond that portion of the increase as far as the rest of AtkinsRéalis Services, I think you said that some of the growth you saw primarily came from the U.S. and the U.K., but wondering if you can elaborate a little bit on the end markets that are really driving the growth there?

Ian Edwards:

Jeff, why don't you answer the first question and then I'll come on for the markets.

Jeff Bell:

Yes. You're absolutely right. We did see a big one-time increase because of that CHUM contract, so it's about \$1.4 billion, but having put that in, the underlying businesses themselves, which Ian will talk a bit more about, we saw good further backlog growth, particularly in the U.S. and the U.K. But I would say that Canada, while having a smaller increase quarter-on-quarter is up significantly in the non-Operations & Maintenance and Engineering part, design, consultancy, etc. significantly year-over-year., so we're really pleased about that. That's a big part of what was driving the additional revenue in operating profit as you heard earlier in the quarter, but Ian, I don't know if you want to...

Ian Edwards:

Yes, sure. Just to kind of get a bit more granular, now we're on this regional, maybe we've already touched on Canada and AMEA, I think. U.K. and Ireland is interesting for us because the backlog has increased 11%. We've still got growth out of the U.K. of 5% year-over-year, and it's because we are actually very strong in the transport sector. And whilst I think the CapEx in the transport sector in the U.K. has come off a bit, obviously the railways—and the railways have got to stay open and we do a lot of framework agreements on OpEx, and we've actually won even more signalling framework agreements in the recent time. So, we're able to keep our transport sector really high.

But where we're seeing new opportunity in the U.K. is Defence and Water, and energy transition work. We're actually being able to pivot quite well into getting our share, particularly of Water, and of Defence.

So we're still seeing a growing market for us and something that we're still excited about. I was there very recently on a tour and even went to Ireland where there's quite a significant investment in the rail strip through across Northern and Southern Ireland, which we've won some work on which you will have seen.

U.S. and particularly our Land & Expand strategy—we'll talk more about this at the Investor Day—is working. We've grown over 30% year-over-year and the backlog is up 9%, a lot driven by all the investment funding, IJJA, CHIPS and IRA, but it's essential because you've got ageing infrastructure. You've got the need for energy and obviously there's an election coming but we don't see this buoyant market is going to change significantly. So our Land & Expand strategy has given us some good growth there.

A bit of a long answer but a lot going on.

Michael Tupholme:

That's helpful. Thank you. Then second question is, just any update on the Linxon sale?

Ian Edwards:

Yes. It's our intention to exit this business. We are focused right now on improving the performance of the business. You'll see the backlog's up. You'll see it return to some profit. We're aligned with our partner to find the right buyer. Frankly speaking, I think it's going to take a while to find the right partner. We've got a (inaudible 53:54) performance in the business. It's a global business so we've got to find a partner, a new partner and buyer for Hitachi that's willing to take that global business on. So, we're into a process. We're working with our partner on it. There's nothing that we can announce in the short term, but we'll get there, and the intention is to absolutely exit.

Michael Tupholme:

Perfect. I will leave it there. Thank you.

Ian Edwards:

Thank you.

Operator:

The next question comes from Maxim Sytchev with National Bank Financial. Please go ahead.

Maxim Sytchev:

Hi everyone. Ian, maybe the first question for you, if I may? You've been generating kind of like double the growth of industry peers in engineering over the last, let's call it 18 months. Obviously everybody can see the numbers, but is it greater focus on the fact that you don't have to spend all your time and resource on LSTK, increasing kind of marketing dollars? What's actually driving that performance?

Ian Edwards:

I know what we do and I'll talk to what we do. We've been very deliberate. When we announced our Pivoting To Growth strategy for the previous outlook period, '22 to '24, we set about really building an organic growth machine. We really took two areas that we looked at strongly. One is we built an organization that is very connected. I mean, we haven't done a lot of M&A that we've needed to integrate over the last few years, so we've focused on building this globally connected organization where through end market capability and through geographical capability, and through also the way we sell services, whether it's Design or whether it's Consulting, or whether it's Project Management, we've connected it all horizontally. And the final piece of this was when we created the Chief Operating Officer's Office with the regional structure which kind of drives that home.

So, working on key account management, working on work winning processes, offering this end-to-end capability that we've got—I mean, I've just been on a world tour. I met lots of customers. What they like about AtkinsRéalis is the ability not just to do some design, but the ability to do that design but then recommend how they're going to construct it and how they're going to deliver it, and even recommend how that asset is operated at the end through this end-to-end syllabuses offering.

I think the second thing is that where we've positioned the Company has been really deliberate in terms of geography and end markets. When we set about this, at our last Investor Day we were deliberate in saying we're focusing on Canada, U.S. and U.K., and that we're going to drive our end

markets that we're good at in Nuclear and transport, and we've evolved that strategy now to this four region, strong Nuclear, but a focus on where end markets are going. I mean, you know a lot of energy transition work, a lot of Defence work, a lot of Water work now that we're seeing and we've pivoted our capability towards those end markets.

So, we're clearly pleased with this work winning machine that we've built, and we will continue to focus and share a lot more of it at the Investor Day.

Maxim Sytchev:

Yes, makes a lot of sense. Thanks so much. One quick question for Jeff, if I may? Do you know right now if the credit rating agencies, is there an enhancer applied to the 407 ownership or do you think right now, given that the leveraging some of the balance sheet is down on its own? Thanks.

Jeff Bell:

Yes, so I'm trying to remember exactly. Definitely in some of their models they give us an enhancer for the 407, but I think we're focused on, Max, is very much having a business that with or without the 407 is investment grade from a business and business risk perspective as well as financial metrics perspective. So, in a sense, regardless of whether we hold it, the business itself would be investment grade-worthy, so to speak. So, I think that's the path that we're on with them.

Maxim Sytchev:

Okay. That makes a lot of sense. Thanks so much, gentlemen.

Ian Edwards:

Okay.

Jeff Bell:

Thanks.

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 everyone for attending this call. If you have more questions, please don't hesitate to contact me directly. Thank you very much and have a good day everyone. Bye bye.

Operator:

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