



AtkinsRéalis

Third Quarter 2024 Results

Conference Call Transcript

Date: November 14th, 2024

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 Third 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, Drew. Bonjour tout le monde. Good morning everyone and thank you for joining us today. For those dialling 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 today during this call. Today's call is also webcast.

With me 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. Reconciliation 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.

Before I pass the call to Ian, I would like to take the opportunity to acknowledge the retirement of Jacob Bout, Managing Director, Equity Research at CIBC who is participating in his last quarterly call with us today. Thank you, Jacob, for all your help, advice and support over the years. We wish you all the best in your retirement.

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

Ian Edwards:

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

I'm going to begin today's call by providing an overview of our performance in the third quarter, our continually growing backlog, and the current success and opportunities we're seeing in the four Engineering Services regions and our Nuclear businesses. I'll then pass to Jeff to provide more detail on our financial results before we open it to Q&A.

Let's get started on Slide 3.

We are entering the final months of 2024 with continued momentum following another quarter of strong results. Success this past quarter further highlights the growing demand for our services to address the energy transition and an aging global infrastructure. We are encouraged by the steady, profitable growth of our services and our Nuclear businesses across the majority of the geographies and buckets in which we operate.

AtkinsRéalis Services revenue organically increased 14% with segment Adjusted EBIT increasing 27% to approximately \$239 million. Engineering Services Regions revenue organically increased 8% to \$1.8 billion, while Nuclear revenue organically grew 35% to \$369 million.

Backlog at the end of the third quarter of 2024 was approximately \$16.8 billion, an increase of 35% year-over-year, another record high for AtkinsRéalis.

Results year-to-date reflect our purpose-built strategy of expanding into geographies and end markets with high total returns. Our Nuclear expertise continues to be a distinct competitive advantage as we secure key wins this quarter, and have a clear line of sight to substantial near-term revenue. And we generated over \$200 million in operating cash flow this quarter.

We are helping public and private entities achieve their Net Zero goals and address the energy trilemma – providing clean, affordable and secure energy solutions. Our historical track record makes us the partner of choice in these endeavours, and we are proud to play a role in providing a better future for our planet and its people.

On Slide 4, you can see the continued progression of our backlog growth across AtkinsRéalis Services. Our 35% growth in the third quarter versus last year was driven by key wins across our core Engineering Services and Nuclear businesses.

In Nuclear, we secured a life extension contract at the Qinshan Nuclear Generating Station. As discussed in detail at our June Investor Day, we are one of the few public companies that can service the entire lifecycle of a nuclear asset, from design to decommissioning. This new agreement is only one example showcasing the global demand of our nuclear capabilities.

In the U.K. and Ireland, we continue to support major capital investments by the government in transportation, like the latest technology screening services we are implementing at Heathrow. Our end-to-end capabilities in Engineering Services enable us to win in the market, including at one of the world's busiest airports.

Turning to Slide 5, our Engineering Services business had robust organic top line growth, achieving an 8% increase year-over-year in the third quarter; our revenue generation driven by the continuation of our ability to secure new wins across our geographic scope.

Segment Adjusted EBITDA over net revenue margin was 16.9% during the quarter and represents an increase of 160 basis points compared to Q3 2023.

We continued to increase our backlog, which now stands at \$12 billion, representing a 17% growth versus our backlog as at September 30, 2023.

Beginning on Slide 6, we will provide an overview of each of our four regions and their performance in Q3.

In Canada, we saw a year-over-year organic revenue decline 8%, while segment Adjusted EBITDA was \$35 million, representing approximately 15% margin. Gross revenue declined due to the ending of a project which had a high percentage of flowthrough revenue, but as you can see, the underlying net revenue increased 12% year-over-year to \$226 million, and our business in Canada continues to strengthen.

Backlog increased 23% year-over-year. We continue to capture key roles across Transportation, Buildings & Places, Power & Renewables, and are increasing our presence in Ontario and Western Canada. In Toronto, we were awarded a key rail project, and in Quebec, we entered into an agreement for expansion of a sterile injectable facility in Montreal.

We are executing on our strategy to Canada as outlined at our June Investor Day, and we're making meaningful progress on our margin enhancement mandate as we lean into a profitable pipeline.

In the U.K. and Ireland, we continue to win notable contracts utilizing our end-to-end capabilities, particularly in Defence, Water, Aviation and Power & Renewables. Our nimble and focused approach has built a solid foundation for our presence in the region and is leading to outperformance.

Organic revenue grew 6% versus the third quarter of 2023, while segment Adjusted EBITDA grew to \$93 million. We witnessed a record-high EBITDA margin of 18.5% this past quarter, supported by gain from a closeout of a major project.

We saw continued backlog growth during the third quarter to approximately \$1.7 billion, primarily due to new work orders in the Water and Rail signalling businesses. We continue to demonstrate that we are partners of choice with Network Rail as we secured a key contract to upgrade and digitize the U.K.'s signalling for the next 10 years. We also entered into an agreement to renew and enhance the infrastructure on 6,000 miles of track in the East of England.

Additionally, we have made further progress in expanding our access to the growing Water market in the U.K., with several major framework wins related to the AMP8 program. Currently, announced plans indicate that the water sector aims to increase its investment significantly to £96 billion by March 2030, a near doubling of current levels. This will provide ample opportunity for AtkinsRéalis to capture further water projects related to this investment in the U.K..

Our longstanding position in the U.K. has us well aligned to key commitments by the public sector to create a cleaner future. We're making meaningful progress on opportunities in transnational renewable projects and plans to upgrade the U.K. grid. We are also trusted advisors across Defence as capacity and spend is expanding under the AUKUS Trilateral Security Partnership.

Turning to Slide 8, in the U.S. and Latin America we saw continued growth trajectory across many high-growth customer end markets. Organic revenue grew 11% year-over-year, while segment Adjusted EBITDA increased to \$51 million. We continue to leverage our expertise in Transportation with key wins across Georgia and Florida in the quarter.

Our thoughts go out to those impacted by the destruction from Hurricanes Helene and Milton. We are partnering with FEMA to support recovery efforts in the communities most impacted.

Q3 backlog increased 7% year-over-year as we continue to advance our Land and Expand strategy, prioritize our key clients and leverage our unique differentiators. Our list of prospects for further contract

wins is expanding across geographies within the U.S. and we believe represents solid opportunities for sustainable growth.

We will be steadfast in our approach to accelerating our foothold across the U.S., to ensure that we are winning our share of potential new contracts. We also believe that potential M&A opportunities exist to expand our presence in the regions and end markets where we have a line of sight to higher growth potential.

In AMEA, revenue grew 33% on an organic basis versus the third quarter of 2023, as we saw higher volume for the Buildings & Places projects in the Middle East. This work also led to a segment Adjusted EBITDA of \$39 million, representing a 17% margin over net revenue. The Middle East part of our business has grown materially over the last 18 months, and it is a level we are comfortable with and therefore we expect to be more moderate in future quarters.

Total backlog in AMEA grew 16% in the third quarter. In Asia, we successfully resecured the Formula 1 work we have been delivering for the last 10 years, enhancing our already strong relationship. In South Korea, we secured a design, engineering and procurement services for a new bioprocessing production centre.

We have expanded capacity and capabilities in Australia as we are seeing the pipeline of prospects accelerate in the Power & Renewables, and Defence markets. The future is bright in this region and there are exciting long-term opportunities ahead for our end-to-end capabilities.

I'd now like to move to Slide 10 and the results of our Nuclear business.

We continue to demonstrate significant growth with an organic revenue increase of 35% in the quarter compared to the third quarter of 2023. Our Nuclear backlog is \$3.2 billion, which represents more than a 200% growth versus our backlog as a September 30, 2023, driven primarily by life extension bookings in the CANDU fleet.

Segment Adjusted EBIT grew 18% to \$46 million. As a percentage of segment revenue, segment Adjusted EBIT was 12% in the quarter.

On Slide 11, we highlight the achievements across our Nuclear CANDU and Services portfolios. The demand for our expertise in Nuclear was emphasized again this quarter as we signed key wins and made continued progress on projects across each of the regions we serve. In Canada, we continue to garner support from the public and private sector as we onboarded additional key stakeholders for our Canadians for CANDU campaign.

In our CANDU business, we're making excellent progress, particularly on our CANDU life extension projects.

In our Services business, AtkinsRéalis was selected in the U.S. to develop the preconcept design for Type One Energy's Fusion Pilot Plant in Tennessee. We also see increasing opportunities to work with other technologies or providers for SMR development. In the U.K., we entered into an agreement with GE Hitachi to support the delivery of its Small Modular Reactor technology, and we are continuing to provide new build support at Hinkley Point C and Sizewell C, and decommissioning services at Sellafield.

Our success is being recognized by third parties. As you can see on this slide, we have recently received a number of awards in the U.S. and in the U.K..

Turning to Slide 12, I want to further highlight the near-term and long-term CANDU revenue opportunities within our Nuclear business.

As you can see, through our backlog growth and contract wins over the past couple of years, our customers are continuing to recognize our Nuclear expertise. This is translating into revenues that we are booking today while also building a robust backlog of strong future revenues for AtkinsRéalis.

As I mentioned earlier, we secured a 30-year life extension contract for two CANDU reactors at the Qinshan Nuclear Generating Station. In addition, we continue to make good progress on new build contract negotiations for C3 and C4 at Cernavoda in Romania. When signed, it will mark the return of CANDU reactors to the world nuclear market. And discussions continue on the next phase of our Cernavoda C1 life extension project.

Our current success in Canada and Romania highlights the opportunities for CANDU support and life extensions across the globe today.

We are also currently building the technology for our MONARK Nuclear Reactor. In tandem, we are in discussions with public entities about building new reactors to help support Net Zero goals. These potential contracts represent the massive opportunity for our business and could deliver significant growth over the next 10 years and beyond.

We are one of the few public companies with the expertise and capabilities to service the entire lifecycle of a nuclear asset, and through this we can build a backlog that will grow over time and providing recurring revenue for decades to come. The projects you see on this slide are representative of today's wins, but offer a glimpse into the future potential of this business. Our growth and key wins to date showcase the demand and potential of our Nuclear prowess across the globe.

Now, moving to Slide 13 and our Linxon, LSTK and Capital businesses.

Our Linxon segment saw a 32% year-over-year organic revenue growth in the third quarter, maintaining its strong volume momentum from the first half of the year and realized 310 basis points of EBIT margin expansion. Backlog of \$1.6 billion at the end of the third quarter was 32% higher than the third quarter of last year. Demand for our Transmission and Distribution Services remains robust.

On LSTK Projects, the commissioning and testing on our two Ontario projects are running as planned. In fact, the trial running of the Trillium Line just took place and the result was a success. We expect substantial completion of this project imminently. The total backlog increased 38% to \$190 million at the end of the third quarter, primarily reflecting the REM project, which is progressing 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, we received \$15 million in dividends from Highway 407 in Q3 as traffic patterns continue to improve year-over-year. Subsequent to quarter close, we received an additional \$47 million in dividends in the fourth quarter.

There are also no updates to provide as it pertains to our planned disposition of our interest in Linxon and Highway 407. We will update you when we have more information in the future.

With that, 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 15, total revenues for the quarter increased 11% year-over-year, totalling \$2.5 billion. Revenues from Professional Services and Project Management increased by 12%, which included a revenue increase of 15% for our Services business and a decrease of 42% in LSTK Projects.

As Ian mentioned, the Engineering Services regions revenue organically grew by 8% this quarter compared to Q3 2023, bringing the year-to-date organic growth to 12.6%. We have taken a prudent approach for forecasting revenue in the fourth quarter as closeouts of a couple of major projects recently, and a particularly strong growth in Q4 2023 could result in relatively flat organic growth in Q4. We remain confident in our 8% to 10% revenue growth outlook for the full year, and our ability to deliver on our greater than 8% annual organic growth target outlined at our June Investor Day.

Total segment Adjusted EBIT for the quarter was \$246 million, 25% higher than last year, and was comprised of \$239 million for AtkinsRéalis Services, \$25 million for Capital, and negative \$18 million for LSTK Projects.

Corporate SG&A expenses from PS&PM totalled \$27 million in the quarter compared to \$47 million last year as Q3 last year included a higher expense related to revised estimates on long-term employee incentives and the Company's rebranding costs. We continue to anticipate that the Corporate SG&A expenses from PS&PM should be approximately \$130 million for the full year 2024, but could be around \$10 million to \$15 million higher if the significant share price increase we've seen recently remains through the end of the year and thereby impacting on our long-term compensation costs.

Net financial expenses for the quarter were \$41 million, lower than Q3 2023 due to a lower level of recourse debt and lower interest rates on our variable rate debts. We would expect a similar amount of expense for Q4.

The effective income tax rate from PS&PM was approximately 29% in the quarter, higher than the Canadian statutory tax rate, mainly due to the geographic mix of earnings and other nonrecurring items. As expected, our year-to-date income tax rate on our adjusted PS&PM net income was higher than last year, and we continue to believe that the full-year 2024 should be around the Canadian statutory rate of 26%.

The IFRS net income this quarter was \$104 million compared to \$105 million in Q3 2023, but it is important to note that Q3 last year included a \$46 million gain on the disposal of the Company's Scandinavian Engineering Services business. Excluding this gain, the Company's net income increased by 76%.

Adjusted EPS from PS&PM for the quarter was \$0.63 per diluted share, a 66% increase compared to \$0.38 in the third quarter last year.

Backlog ended the quarter at a record high level of \$17 billion, 21% higher than at the end of last year and 33% higher than at the end of September, with a strong increase in the Engineering Services, Nuclear and Linxon businesses.

If we now move on to Slide 16 and free cash flow, net cash generated from operating activities was \$267 million in the third quarter. As expected, our Services businesses delivered strong cash flows with the improvement compared to the prior year coming from higher EBITDA and improved working capital positions, and included a sizeable advance on a Nuclear refurbishment contract. The small positive cash inflow from LSTK Projects this quarter was mainly due to anticipated cash advances received as the projects are progressing towards their full completion. We anticipate that the net cash generated from operating activities for the Company should be slightly in excess of \$400 million for the full year.

After CapEx and payment of lease liabilities, our free cash flow stood at \$226 million for the quarter.

Capital expenditures, including development costs for the CANDU MONARK Nuclear Reactor were \$37 million in the quarter, in line with our expectations. We continue to forecast full-year capital expenditure in the range of \$140 million to \$160 million as the MONARK development continues to ramp up in the fourth quarter.

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

Ian Edwards:

Thank you, Jeff.

Our revenues are growing. Our backlog is building. Our margins are improving, and we're generating positive operating cash flows. We continue to build on our momentum with key wins across our four Engineering Services Regions and our Nuclear business that is growing our backlog and providing a line of sight to sustainable revenues for years to come.

General market conditions for our Engineering Services and our Nuclear business remain strong as we continue to support public and private entities in achieving their evolving power needs and Net Zero goals.

Our strategic positioning in high-growth geographies and end markets is leading to our ability to capture our share in these healthy markets, and we are harnessing operational efficiencies across the Company through the work of our COO Office.

All this is underpinned by the need to service the energy trilemma and aging infrastructure, and we are even excited by the scale of our longer-term opportunities emerging from these megatrends. Our new strategy of delivering excellence and driving growth is built on optimizing the business to drive profitable growth, accelerating our footprint and growing end markets and regions, and exploring untapped opportunities across the organization. We will continue to do this by utilizing our positive free cash flow to invest organically and in organically to bolster our position in high-growth geographies and end markets.

With that, let's open it up for 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 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.

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

Jacob Bout:

Good morning and thank you for your kind words going into retirement.

My first question is on margins. When you take a look at the Engineering Services at the high end of '24 target, Nuclear I think was at the low end. Maybe just comment on how margins—what margins are baked into backlog currently and your confidence in your three-year outlook for '25 to '27 margin targets.

Ian Edwards:

Thank you and congratulations.

Yes, obviously if we look at the quarter itself, really pleased with the EBITDA net revenue margin of 16.9%, 160 basis points up on a year ago, so that's great. But our objective, as we said at the Investor Day, is to build through the Chief Operating Officer's Office a sustainable approach to improvement of margins across the Engineering Services business. That will take us on a year-to-year journey to those margins that we committed to by 2027 of 17% to 18%.

The reason I say it like that is because you will see some quarter-to-quarter variance through the year. It's not going to be a quarter-to-quarter linear process. It's going to be a year-to-year linear process. The reason for that is that there are some fundamental business improvements that we've got to build in to our Engineering Services business, and those are obviously winning the right work, and that's very much in progress. We, particularly in Canada, got a whole better quality of backlog than we would have had two years ago. We've done really well in the Middle East, but we are conscious that, that is high quality work and we're going to maintain that level in the Middle East. The U.K. and the U.S. are both doing really well on the margin journey, so it's winning the right work.

The next is the overhead, the business overhead cost and being as optimum as we can be in getting that overhead cost as efficient as possible.

The utilization of our resource. One of our key overhead costs is getting the best utilization out of our people across the planet and we do that by connecting the organization together across geographies. We've got this culture of collaboration and we have this culture of sharing across the Company that will improve our utilization rates.

Lastly, it's the technology centre; 4,500 very capable people in India that obviously there's a significant arbitrage from the wage perspective, so imbedding that into the business.

All those things will give us the 17% to 18% we've committed to. Now what you will see obviously in Q4 is the target that we will identify for 2025. We've done well this year and I think we've got a good incremental improvement this year and we'll continue to do so.

On the Nuclear side, we've committed to a 12% to 14% range. We believe that's the right range for Nuclear. Clearly, Nuclear is about servicing the market as this phenomenal renaissance comes upon us, and we're focused on growth there, but not at the expense of margin. The margin will be in that range of 12% to 14%.

A bit of a long answer, but I hope that helps.

Jacob Bout:

It does help. Maybe just a bit more on the Nuclear side. You just announced this \$2 billion contract for the operation and maintenance with the U.S. Department of Energy. How should we think about margins for those types of contracts versus some of the rebuild work that you're doing?

Ian Edwards:

Jeff, do you want to...?

Jeff Bell:

Yes. Jacob, it's Jeff. Those types of contracts we're in joint venture with and, effectively, we get an equity pickup for our share of the net profit from those types of contracts. It's helpful to the margins and we're really pleased with that contract and that contract win.

Waste decommissioning in the U.S. is an area of strength for us. It provides a very stable and long-term financial contribution to the Nuclear group. On that contract, we've been involved with that since 2016, and great to see we'll be involved for another 10 years.

Jacob Bout:

Helpful. Thank you.

Ian Edwards:

Thanks.

Operator:

The next question comes from Sabahat Khan with RBC Capital Markets. Please go ahead.

Sabahat Khan:

Great. Can you maybe just provide a bit of an update on sort of your strategy in the U.S. market? I know you provided a bit of colour on sort of the guidance, but just—I know that was a focus at the Investor Day, both in terms of sort of your organic growth as well as M&A. Just maybe some of the green shoots you've been seeing there, as well as I think the growth in that region has been pretty strong. How do you think about maybe lapping that as we head into 2025 and beyond? Some details there. Thank you.

Ian Edwards:

Yes. Yes, absolutely. As you know, we referred to this as our Land and Expand strategy and we have a very, very deliberate plan to get us into the top 10 player in the U.S. Currently, we're very strong in the Southeast and we have opened offices in the Northeast, and we've opened offices on the West Coast. We've been very much an organic Land and Expand strategy up until really about a year ago.

About a year ago, we started looking at M&A. And we started looking at how do we complement those white space areas, if you like, in the West and in the Northeast. Obviously, we're looking for quality

companies that can add value and add connectivity and add capability into our existing kind of business in the U.S.

So, nothing to announce today on the M&A front, but very, very key to securing some acquisitions to complement the organic growth drive.

Now, in addition to that, when we think about end markets in the U.S., our business is really heavy on the Department of Transport, state by state, and we would want to continue to grow that geographically. There is a good Water program in the U.S., which we certainly are, I would say, in an evolving space where we see great opportunity from the water market as water infrastructure needs to be upgraded. That's an end market play that we need to add.

But all in all, we have a clear plan. We're executing on that plan. We're pleased. We saw 11% double-digit growth in Q3, as you've seen. We are, as I said, committed to getting into the top 10.

Sabahat Khan:

Great. Then maybe just on the margin side of the story, I know you provided a little bit of colour earlier. Can you maybe just provide a bit of an update on some of the initiatives you outlined at Investor Day on what drives margin improvement through the guidance period and where you are sort of on that journey?

Ian Edwards:

Yes. As I said in the last question, we've got four very, very specific areas of margin enhancement through winning the right work, through a reduction of overhead, through improved utilization, through the incorporation of the GTC. Our Chief Operating Officer, Phil Hoare, has taken on the challenge to work with the Presidents to embed those improvements in the Engineering Services businesses regionally. We have a very clear plan with very clear targets and KPIs that we measure on a quarter-to-quarter basis on a month-to-month basis. It's going well. You will see, I guess, the rubber hit the road when we put out the target for 2025 in Q4 and you will have seen improvement—sorry, in 2025 and you will see an improvement in 2024. The journey will take us to the range that we put out for '27, which is 17% to 18% and we're confident we can land that.

Jeff, I don't know if you would add anything.

Jeff Bell:

No, I think that's right. I think it's in one sense early days, but on the other hand, the team and the business has been making good progress and we're already starting to see some of the initial works and initiatives starting to flow into our numbers here in the back half of the year.

Ian Edwards:

That optimization of the existing business is as important to us as growth. We need to do both.

Sabahat Khan:

Great. Then just one last quick one. Obviously, a lot of questions out there on what the new administration might do for just kind of the base organic business. But if you look at it from sort of the M&A angle and your engagement with potential targets in the U.S., do you think it's possible people to take a bit of a wait-and-see approach? Potential sellers. Do you think people might want to sell faster? Just some perspective on how that operating backdrop or just kind of a change in climate might impact seller willingness to engage.

Ian Edwards:

Yes. I think there's a high degree of alignment around the industry in that the effect on engineering services businesses is pretty neutral. We've obviously got our own views and we believe it's neutral. There's a couple of key drivers for that in the way that we think about it and the way that we believe that it's neutral.

First, the infrastructure across the United States is aging and they have to upgrade, maintain and replace, particularly in transport infrastructure, particularly in water infrastructure. In addition to that, energy security is going to be top of mind. Maybe not the journey to Net Zero as much, but energy security for sure, and energy security particularly to fuel the demands of the future. When you think about AI, when you think about electric vehicles, when you think about the increase in manufacturing, it's going to require more electricity generation. That's going to be grid upgrades. That's going to be more power plants, more nuclear. All of that for ourselves, we see as positive. But certainly, on the Engineering Services side, I think it's pretty neutral. I don't see the IJJA being affected. Potentially, the IRA may come back as something a bit different, but it's a really good market. Very buoyant.

Sabahat Khan:

Thank you.

Operator:

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

Chris Murray:

Thanks, folks. Good morning. Just maybe turning back to nuclear and that portfolio of opportunities you were talking about. I know you just announced a fairly large contract and certainly there was some good year-over-year growth in backlog. Can you talk a little bit about maybe more granular, the timing of some of those projects? What's your expectation for when you think you can book those, particularly on some of the longer tail stuff? I know we talked a little bit about this at the Investor Day, but I think the indication was a lot of that was going to be very back-end loaded for some of the newer stuff. Any sort of colour on timing of backlog growth would be helpful.

Ian Edwards:

Yes. That's why we put the extra bar chart slide in the deck today, to try to be helpful to put in the context what is the \$3.2 billion of backlog that we have at Q3. What does that represent and what are the opportunities ahead of that, both near-term opportunities and maybe longer-term opportunities?

Maybe referencing that slide, we're showing here what is secured in terms of the Darlington and Bruce that we've been working on for some time. We're showing what we've secured in terms of the first phase of have been working on for some time, we're showing what we've secured in terms of the first phase of Cernavoda and the first phase of Qinshan and retubing. But on top of that, there's further phases to come on Cernavoda 1 and on Qinshan. There's also negotiations on place to retube the Wolsong in South Korea. We're very close to concluding the Cernavoda 3 and 4 negotiations, which is a game-changing new build, which would be the first in 20 years, new build contract that we would have won. Those, all of those revenues and backlogs are yet to come. Pickering, there's clearly negotiations ongoing to retube Pickering, which is a considerable amount of units there.

Obviously, we can't get into specific kind of revenues and dates because a lot of these things are in negotiation, but we try to be indicative on this slide as to when those are coming in.

As far as to our targets we've got out there, \$1.8 billion to \$2 billion revenues by '27, those we're very confident of achieving.

Now on top of all of that, then we've obviously got new builds which are not even on this slide, both domestically and internationally. Many conversations, many opportunities. We need to secure something on the international market. We need to secure something on the domestic market. That is likely to see something maybe secured '25, but revenues from that will be slow to start with and then sort of ramp up towards the end of the decade, just to give you a feel for it.

I think where we are lucky and why we are differentiated in our Nuclear business is our retubing business is bringing real revenues into the business today but we have the same opportunity as other nuclear OEMs in the fact that we've got this market ahead of us for tomorrow.

Chris Murray:

Okay. That's helpful. Thank you.

The other question I wanted to ask was about Trillium. I think you kind of mentioned that you thought that the substantial completion would be imminent, in your words. I did notice in the subsequent events, I guess you're just kind of moving some financing around. Can you just kind of maybe walk us through what we should expect if you actually believe you're going to get to substantial completion, let's just say, by year-end. What does that look like in terms of impact on either operating costs or anything else in there and just how we should think that plays into cash flows into 2025.

Ian Edwards:

Yes. Jeff, if you can sort of take the cash flow side of it.

As far as the asset itself, as we said, a lot of the cost and a lot of the expenditure and the challenge we had was sort of pre-'23 because they were in the construction work. But then there's quite a lot of commissioning work, a lot of documentation work which has been going on '23/24. The finalization of all of this is the trial running period over a certain period of time, a certain level of reliability. We've passed that and that's a pretty major milestone for a railway because it's quite complex. But we've passed that, so that automatically leads to a process of completion, substantial completion, we can call it, so we would expect to receive that this year. That's kind of then the asset is handed over to the client. It's kind of done.

Jeff Bell:

Yes. I think from a capital perspective, is, we would expect to sort of post that final accounts, holdbacks, supply chain through Q4. Some of that may spill into Q1, but that would be the end of it.

Chris Murray:

Okay. That's helpful. Then really quick, Jeff, just to go back to your comment in your script. Your expectation just for stock-based comp would be an additional, call it, \$10 million to \$15 million for Q4 over the 130 year-to-date kind of guide, is that the right way to think about that if the share price stays where it is?

Jeff Bell:

Yes. Yes, that's exactly right. With the rapid rise we've seen in the share price in the last kind of six weeks or so, if it finished the year at those sort of elevated levels then we would have that sort of exposure, but you've characterized that correctly.

Chris Murray:

Okay. All right, thank you.

Operator:

The next question comes from Devin Dodge with BMO Capital Markets. Please go ahead.

Devin Dodge:

Thanks. Good morning. I wanted to start with the nuclear business. There was a recent announcement that AtkinsRéalis is working with the Canadian nuclear regulator on approving the MONARK. Just wondering if you could provide some background there and what the benefit should be for the business.

Ian Edwards:

Just say the name again. Sorry, I just didn't pick that. The nuclear regulator on...

Devin Dodge:

On the approval of the MONARK.

Ian Edwards:

Right. Yes, sure. For sure. Let me back up on the MONARK.

We decided 18 months ago through research and through client engagement that the optimum reactor size for the new renaissance and the global market going forward would be a gigawatt reactor. Now, we've got a fully licensed EC6 reactor, which is a 600-megawatt reactor. It's called a Gen III-plus and it's got all the latest safety features. It's deployable today. But what we're working on is an upgrade to that.

Now, the interesting thing about the MONARK is it's actually an upgrade. There are components of this reactor, which have been built before. What we're doing is enhancing it to get out more power and to make it marketable. We're also bringing in some modularization to make it efficient in the build. We're also digitizing it and obviously putting all of the latest safety controls and passive safety systems to it.

We're going through a process right now which we believe will take us to the end of '26 to take it through the regulator, get the design complete and get it to a point that it's deployable, and we're on schedule for that. It's going well. We've got about 250 people working on this. We've been clear about the cost of this. We think it's going to be a very, very differentiated product for the market.

Just a reminder that our specific technology uses natural uranium, so that takes away many hurdles for many countries. It also produces as a byproduct medical isotopes which actually is a very big differentiator because it's a revenue stream beyond electrical power, which is very significant as medical isotopes become in demand across the world. So it's going well. Obviously we've not sold any yet, but we're marketing hard.

The readiness of it, around '27, is very appropriate because any clients or any countries or utilities that are looking to build this have to go through their own regulatory and permitting process for any site anyway, so we think we're highly competitive across the globe.

Devin Dodge:

Okay. Thanks for that. Then maybe just sticking with nuclear new builds. If we look out five-plus years and assume that that interest that you're currently seeing for new builds have turned into real opportunities, do you see a risk that the industry could be capacity constrained, either from a supply chain, labour or financial support perspective? How would you position the business ahead of that to overcome those potential constraints?

Ian Edwards:

Yes. That's a top of mind question for us. We've onboarded over 1,000 people in the last year or so to put into our Nuclear business.

Now, we do that in many ways. We do it through bringing in at the junior end through graduates and through working with universities and schools. We do it through retraining our engineers that are in our Engineering Services business. We do it by retraining project managers from our ES business, but we also do it by being a really good employer and taking nuclear professionals from around the globe. That's going well, and we believe that we can build the capacity that's needed for, for example, what you see on Slide 12.

The supply chain, we have had this campaign that has been running called Canadians for CANDU to bring the supply chain along with our journey to make sure they're also equipped, specifically in Canada for the very strong domestic market and the export market from Canada to the projects that we're doing overseas, and I think that program is going really well. A lot of suppliers have come onboard. We have a group now that we chair and meet such that we can communicate what's necessary to build capacity. Ultimately, there may be a need to develop relationships, strong relationships globally, and we have ties with very strong global companies that can help. But our focus in the short term is definitely Canada and building the Canadian strength.

Devin Dodge:

Okay. Thanks a lot. I'll turn it over.

Ian Edwards:

Thank you.

Operator:

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

Michael Tupholme:

Thank you. Good morning. I'm just hoping to go back to the very strong increase in nuclear backlog seen sequentially and year-over-year. I appreciate the slide that you pointed out earlier highlighting all the various nuclear opportunities, and I know you did press release the Qinshan award which I believe would have benefitted backlog in the quarter, but if you could just maybe expand on what were some of the other drivers to the very strong growth besides Qinshan.

Ian Edwards:

I spoke through the slide in a previous question and talked about CANDU. Maybe it might be helpful if we think about the Nuclear business, just step back a little bit and talk about the Nuclear business as a whole because CANDU is really important and CANDU is the primary driver for the backlog growth right now, but it's not the only driver.

We have a full-service global nuclear business. We're seeing this super cycle in Nuclear across the globe. Obviously, that's driven by the need to not only convert the 85% of fossil fuel electrical generation that we see across the world; we're also going to have to up the grid by about three times and that target is moving. If you think about AI and these data centres that are necessary to support AI, that is putting a big strain on the electrical grid. These things are well over a gigawatt, the new generation, so the market is strong. It's very, very strong.

If you think about our own business, we support SMRs. You can see with support GE Hitachi. We support Rolls-Royce. We support the waste remediation across the U.S. and the U.K. and Sellafield and the project we've just won, which is also now bringing in new work. We also actually support fusion projects. In the U.K., we support fusion projects; just had a win in the U.S. These are long research projects, but they take resources and they take people to add to that.

All of those things together in our full-service business—and not to mention we're supporting other technologies such as EDF in the U.K. for Hinkley and Sizewell C, which are not insignificant projects for us. Hinkley is still running quite high, and we've got Sizewell sort of ramping up.

If you add all of that together and the CANDU life extension work, that's fuelling backlog today.

Tomorrow, it's a lot more of the same. Certainly with Pickering, with Wolsong, with second phases of Qinshan and Cernavoda on the retube side. and then of course the C3/C4, which would be the first new CANDU nuclear order in 20 years. That, on the world stage of nuclear, is really significant for AtkinsRéalis, but it's also significant for Canada and that will position us globally really, really well. We would hope to announce something imminently on that.

Michael Tupholme:

Okay. That's helpful. Thank you.

Just looking at the cash flow performance, obviously very solid in the quarter. Jeff, I think you reiterated the expectation for over \$400 million of cash flow from operations for the full year 2024. I guess as we look to the fourth quarter, typically also a very strong quarter for cash flow, can you just comment on any dynamics we should be thinking about, particularly as you near the end of the LSTK projects? Then a sort of a follow-on to that, help us think about capital allocation priorities at this point given, again, the stronger cash flows, the fact that leverage came down in the quarter. How have your priorities evolved from a capital allocation perspective?

Jeff Bell:

Yes. Happy to. As you say, we're heading into the fourth quarter in a good position. We saw the benefit of a Nuclear advance in that third quarter which also helped, but very confident in the \$400 million.

If I then pivot as your question does to capital allocation, I think what that shows, both our current leverage and our forecast through the end of the year, which all else being equal would continue to improve our leverage and our balance sheet, it puts us financially in a very strong position to execute on, for instance, our Land and Expand inorganic strategy in the U.S. and identifying and ultimately trends acting on bolt-on acquisitions is clearly part of our strategy and I think our (inaudible 58:17) is really well set up to do this.

Michael Tupholme:

Just to build on that, though, we have seen you buying back some stock. With all of these elements coming together as they are in terms of cash flow and leverage coming down, where do buybacks fall at this point in your list of priorities?

Jeff Bell:

I think, as you saw, we wanted to under, our capital allocation framework, to be effectively exercising all elements of it. We've been reducing debt. We've been returning some money to shareholders, and we would hope to also execute on M&A. I think we'll continue to, in a sense, do that, with the difference being that our intention would clearly be going forward to be able to ultimately announce something from an M&A perspective as well.

Michael Tupholme:

Perfect. I'll leave it there. Thank you.

Jeff Bell:

Thank you.

Operator:

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

Benoit Poirier:

Thank you very much, and good morning everyone. Congrats for the results and also thank you for the improved disclosure in the prepared remarks.

First question, when we look at USLA, a strong organic growth. Margins was down about 50 bps year-over-year due to lower income of emergency work, but also change in business mix. Could you maybe provide greater colour about the mix and also the contribution from emergency work in Q4 last year? Just trying to gauge what we should expect from a margin standpoint, especially on the back of the impact with Milton recently.

Jeff Bell:

Yes, it's Jeff. Why don't I take that one?

You're absolutely right, Benoit. We had been seeing less of that emergency work through FEMA that we've done in the past. That certainly played into part of the business mix. We had a couple of projects finishing out at lower margins, so that played into it as well. But we see both of those, frankly, as sort of temporary headwinds. Not surprisingly with the hurricanes we've seen recently, we expect the emergency work and, indeed, we are winning contracts now to provide the valuable skill set that we bring as well as others to helping those hard-hit areas. We would expect to see that improving through Q4 and then into next year. I think that will be helpful from a margin perspective.

The underlying business itself, absent a few projects, continuing to have strong margins and we'd expect to see that normalize over Q4 and into next year.

Benoit Poirier:

Okay. Earlier on the call, Jeff, you mentioned some colour about the organic growth in the fourth quarter, that it could be flat given the closeout of a couple of major projects and a harder year-over-year

comp. Is there any risk of this project time line dynamic bleeding into 2025 and impacting organic growth for the next couple of quarters, or is it just more a one-quarter issue?

Ian Edwards:

For us, it's a couple of specifics in Q4, a couple of headwinds. We had an incredible Q4 2023, very exceptional, and we have projects in Canada that we didn't win the second phase of, so some things are really specific.

As far as going forward, the market, our confidence in our businesses from the four regions, our positioning, we're really pleased with the wins that we're getting and the marketplace and our ability to continue to win those. We're confident in the range that we put out and the growth year-over-year, '25, '26, '27. This is a bit of a blip in the Q4 that we did anticipate, so obviously we're trying to be prudent in building that in.

Benoit Poirier:

Okay. Just on the free cash flow side, you reiterated your guidance of \$400 million-plus in terms of cash flow from operation. You also made great comments about the advance from nuclear projects in Q3 driving up free cash flow generation. Just wondering about the Q4, if you could provide more colour about some working capital movement, and given the that we see for the next few years, are there any working capital movement that we should take into account in 2025, either in a positive way or a negative way?

Jeff Bell:

Yes. Let me comment on the fourth quarter and then, Benoit, I'd probably leave most of my comments for 2025 around the shaping of cash flow to our Q4 results as we normally do.

But I think as we head into Q4, it's normally a strong quarter for us from a working capital perspective. I think our expectation is we would continue to see that this quarter as well. The business continues to obviously perform well also.

At the same time, we have successfully launched our next phase of our ERP implementation system into about 40% or 50% of the business here in the fourth quarter. That always has the potential to kind of move our working capital around a little bit as well. We don't think at this point, that would be material, but we're obviously working hard on that. As a part of all of that, we remain confident in our ability to deliver that guidance of greater than \$400 million, but there's a lot of heavy lifting to be done through the quarter at this point, and we'll come back and talk about 2025 in March.

Benoit Poirier:

Okay. Maybe just a quick one, last one for me? Your leverage, obviously, a nice improvement in the quarter down to 1.4x. Could you maybe provide some colour on the recent discussion with the credit agencies, the timeline for investment grade and whether the 407 is still required to provide the credit protection?

Jeff Bell:

Yes. We have regular conversations with the rating agencies. Ultimately, their decision in terms of maintaining or changing their rating is for them, so I don't have any more insight into that. We'll see as we go. Certainly from our perspective, our Q3 results once again reinforces the fact that we think we're very much an investment-grade company and organization, but they need to do their work to get to that point as well over time.

What was the second—407 sorry, yes. Nothing to obviously announce on the 407. We think fundamentally that the business risk, both we would look at it and we think as rating agencies would look at it, the fundamental business itself with the type of leverage ratios we've put out there is very much consistent with being investment grade, but obviously we'll kind of work that through with the rating agencies over time.

Benoit Poirier:

Thank you very much for the time, gentlemen.

Ian Edwards:

Thank you.

Operator:

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

Maxim Sytchev:

Hi. Good morning, gentlemen.

Ian Edwards:

Good morning, Max.

Maxim Sytchev:

Most questions have been asked, so I'll just stick to one, if I may? When we look at M&A multiples, especially in the U.S., there seems to be some pretty heavy sort of read-throughs, that's what I'm seeing right now. I'm just wondering how you are thinking about sort of the accretion algorithm and so forth? Maybe Ian and Jeff, if you can refresh this for us. Thanks so much.

Ian Edwards:

Yes. Let us both answer. We've got clear kind of metrics that we're working towards and I think the overriding thing I would say is that we also have a pretty clear understanding of what we want from an alignment strategy perspective looks like and what quality looks like. Obviously, we've not announced anything, but we've actually been working at this now for some time. Because it's the quality of the assets that we bring into the business that's important and we're not in a hurry to do something, which doesn't align to our strategy, our culture, and the ability to enable our land-and-expand and our margin expansion program to be delivered. Those are kind of the macro requirements. The great thing about the U.S. is that there are so many businesses that are state-by-state employee-owned businesses that are available. So whilst PE is active, they're not always the first choice for these businesses to join. So we think we can actually acquire what we need for our purposes that aligns to our strategy and our metrics and we're confident we're going to be able to deliver on that.

Jeff, I don't know if you would add anything, maybe on the metric side.

Jeff Bell:

Yes, I think the only thing I'd add to that is that the small tuck-in range, we see lots of opportunity in that range at frankly attractive multiples, Max, that we could create a lot of value add. Obviously, for larger high-quality regional type platforms, you pay a higher price. But frankly, in our Land and Expand strategy, an opportunity like that we think we could drive an enormous amount of value through with having that type of acquisition, even if you end up having to pay a higher multiple.

We think on both fronts there's great opportunity over time for us to add high-quality businesses that will be very value accreting to us.

Ian Edwards:

The other consideration here is that we are underweight in the U.S., so we've got more white space than you might see from our peer set. We can build on that white space through M&A.

Maxim Sytchev:

Okay. That's great. Thank you so much.

Ian Edwards:

Thank you.

Jeff Bell:

Thanks, Max.

Operator:

This concludes our 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 to have joined us today. If you have any further questions, please don't hesitate to reach out to me. Thank you very much and have a good rest of the day. Bye-bye.

Operator:

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