



AtkinsRéalis (Q1 2025)

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Corporate Speakers

- Ian Edwards; AtkinsRéalis; President & Chief Executive Officer
- Jeff Bell; AtkinsRéalis; Chief Financial Officer
- Denis Jasmin; AtkinsRéalis; Vice President, Investor Relations

Participants

- Chris Murray; ATB Capital Markets; Managing Director
- Yuri Lynk; Canaccord Genuity; Managing Director
- Benoit Poirier; Desjardins; Analyst
- Devin Dodge; BMO Capital Markets; Analyst
- Michael Tupholme; TD Cowen; Analyst
- Maxim Sytchev; NBF; Managing Director
- Ian Gillies; Stifel; Analyst
- Jonathan Goldman; Scotiabank; Analyst

PRESENTATION

Operator^ Thank you for standing by and welcome to AtkinsRéalis' First Quarter 2025 Results Conference Call. (Operator Instructions)

As a reminder this call is being recorded.

I would now like to introduce your host for today's conference, Denis Jasmin, Vice President, Investor Relations.

You may begin.

Denis Jasmin^ Thank you, Daniel. Bonjour tout le monde. Good morning, everyone. And thank you for joining us today.

For those dialing in, we invite you to view the slide presentation that we have posted in the investors section of our website, which we will refer to during this call. Today's call is also webcast.

With me today are Ian Edwards, Chief Executive Officer; and Jeff Bell, Chief Financial Officer.

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

I would like to draw your attention to Slide 2.

Comments made on today's call may contain forward-looking information. This information by its nature is subject to assumptions risks and uncertainties, and as such, actual results may differ materially from the views expressed today.

For further information on these assumptions, risks and uncertainties, please consult the company's relevant filings on SEDAR+, these documents are also available on our website.

Also during the call we may refer to certain non-IFRS financial measures.

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.

And 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 today's call by providing an overview of our performance for the last quarter.

Our continually growing backlog and the current success and opportunities we are seeing across our Engineering Services Regions and Nuclear businesses.

I will then pass it to Jeff to provide more detail on our financial results before we open it up for Q&A.

So let's get started on Slide 3.

We had a strong quarter with significant organic revenue growth.

AtkinsRéalis Services total revenue organically increased 10% to \$2.5 billion. Engineering Services Regions revenue organically declined 4% to \$1.7 billion, while Nuclear revenue organically grew 77% to a quarterly record high of \$538 million. Linxon revenue organically grew 36%.

We also had a strong increase in EPS and Adjusted EBITDA with AtkinsRéalis Services Segment Adjusted EBIT increasing 20% to \$224 million. All of this has resulted in \$39 million of positive operating cash flow this quarter. And our balance sheet remains strong with a 1.1x net leverage ratio at the low end of our long-term target range.

We continue to execute our three-year strategy and took further steps in the first quarter as we announced an agreement to sell our interest in the Highway 407 and acquired a majority stake in David Evans.

I am proud of the recent highlights of the culture we are building at AtkinsRéalis. We were recently named one of the Top Employers in Montreal and recognized as a Great Place to Work in the U.S.

On Slide 4, you can see the continued progression of our backlog growth across AtkinsRéalis services. The 32% increase over the prior year was driven primarily by continued growth in Nuclear which achieved a \$5 billion backlog for the first time in our history and growth in our Engineering Services Regions of Canada, U.K. and Ireland, USLA, particularly in the Transport market.

In Nuclear, we entered into a multibillion dollar agreement through our joint venture for Ontario's Pickering Nuclear Generating Station life extension and secured an additional contract to complete the reactor life extension of Unit one CANDU reactor at the Cernavoda Nuclear power plant in Romania. This follows our signing last quarter to build two new CANDU reactors at Cernavoda.

In Engineering Services, we will be delivering the East Harbor Transit Hub in Toronto.

In the U.S., our Land and Expand strategy continues to yield results as we have now been contracted to manage the San Francisco Airport improvement program. And in the U.K., we're playing an integral role in the East Coast digital program to support the delivery of the world's most complex digital railway transformation.

Significant backlog growth across the majority of our regions and capabilities highlights our role as a trusted partner in supporting the global energy transition and an aging infrastructure.

Turning to Slide 5.

As we anticipated, Revenue declined on an organic basis in our Engineering Services business, mainly due to a difficult year-over-year comparison following strong performance in Q1 2024.

The completion and delays of two projects also weighed on these results.

Segment Adjusted EBITDA over net revenues margin was just under 15% for the first quarter, roughly flat versus the prior year. Notably, we continue to increase our backlog, which now stands at \$12.7 billion, representing a 6% increase versus our backlog as of March 31, 2024, underpinning our view that demand for our services remains strong.

Beginning on Slide 6, we provide an overview of each of our four regions and their performance in Q1 2025.

In Canada, backlog increased 9% year-over-year, mainly due to Transportation and Power & Renewables contract wins. Revenue declined 14% organically in the first quarter, mainly due to the completion of a large project in the second quarter of 2024, which had a high percentage of flow-through costs. But the remaining business continues to perform well as shown by the increase in net revenue.

Segment Adjusted EBITDA was \$22 million, flat year-over-year with an 11% margin. We are committed to enhancing margins and have implemented initiatives that are expected to yield an annual year-over-year improvement.

Despite softness in gross revenue the past few quarters, we are bullish on our Engineering Services prospects in Canada as the government continues to make commitments towards infrastructure and hydropower investments.

In the meantime, we are focused on increasing our presence in Ontario and Western Canada and strengthening our position across several high-growth end markets.

In the U.K. and Ireland, revenue grew 3% organically year-over-year, driven primarily by volume growth in rail within the Transportation market as well as in Defence and the Water markets.

Segment Adjusted EBITDA grew to \$89 million in the quarter, representing a nearly 17% EBITDA margin, due to the results of our continuous improvement plan focused on efficient project delivery. Backlog grew 9% year-on-year to approximately \$1.8 billion, driven by sizable wins in Transportation and Defence.

Although details surrounding the June U.K. government spending review remains, we are optimistic about the new budget and their 10-year infrastructure strategy. The foundation and the end market diversity we have built in the region over time has positioned us well to meet our customers' needs.

In our Water market, we are building on our historically strong delivery with major water companies as we enter the new funding cycle. In aviation, we continue to see strong demand for our services driven by capital programs at Heathrow, enabling us to deliver comprehensive integrated solutions. And looking ahead, our recent rail wins highlight our commitment to innovation and excellence and secures our position in the rail sector.

Turning to Slide 8 and our U.S. Land and Expand strategy continues to make strides. We recently closed on the acquisition of a major stake in David Evans, achieved a U.S. engineering record backlog in Q1 and our pipeline of opportunities remains strong.

For the first quarter, revenue organically declined 1% year-over-year as strong growth in our U.S. Engineering Services business, particularly in Transportation, Infrastructure and the Industrial markets was offset by a decrease in our global Minerals & Metals sector.

Segment Adjusted EBITDA was \$47 million, slightly above first quarter 2024 results. Backlog increased 6% year-over-year to nearly \$1.7 billion as we continue to prioritize client engagement and leverage our unique end-to-end capabilities.

Our 6,000 U.S. employees are focused on expanding our footprint across the country. On the West Coast, we are taking our expertise in airports to California. While in the Southeast, we are continuing to secure key wins for transportation work in Florida, North Carolina and Texas.

Our business is historically resilient during times of economic uncertainty. We are not directly impacted by tariffs, and we're minimally exposed to federal agency contracts. We remain believers in the long-term growth prospects of our end markets as long-term infrastructure investments continue to be strong, particularly in Transportation.

We will also continue to utilize our strong balance sheet and growing cash flow to enhance our footprint.

Looking ahead, we're excited to leverage our David Evans colleagues' capability and to further develop the West Coast opportunity pipeline while also focusing on enhancing our already growing presence on the East Coast.

In AMEA, during the first quarter, revenue declined 9% on an organic basis, and Segment Adjusted EBITDA declined to \$26 million, representing a 14% margin over net revenue. Total backlog in AMEA was approximately \$1.3 billion, down 12% versus the first quarter of 2024.

The declines in revenue of backlog were expected as the first phase of a major Buildings & Places project in the Middle East was completed at the end of last year. We expect to continue to grow in the region over time but at a more moderate rate. Demand for our capabilities remains strong, evidenced by our recent award of the lead architect on the groundbreaking project at the Corinthia, Dubai.

In Asia, backlog has continued to grow and we're seeing increased investments in Infrastructure and Transportation, specifically with the development of the Hong Kong Northern Metropolis.

In Australia, we're focused on expanding our presence through opportunities in Transportation, Defence, power and grid infrastructure to ultimately deliver long-term growth.

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

We continue to demonstrate significant growth, achieving an organic revenue increase of 77% compared to the first quarter of 2024, driven largely by CANDU life extension wins and further growth in our Nuclear Services business in the U.K. and the U.S.

Our Nuclear backlog is now \$5.2 billion, 185% higher than our backlog as of March 31, 2024, driven primarily from life extension bookings in the CANDU fleet.

Segment Adjusted EBIT grew 61% to \$63 million in the first quarter and the Segment Adjusted EBIT margin was approximately 12%.

On Slide 11, we highlight the achievements across our Nuclear CANDU and Services portfolios.

In our CANDU business, we are making excellent progress on life extension projects and new builds.

In Romania, as I noted earlier, we were awarded the contract for Phase two of the life extension work at Cernavoda C1. And in Canada, we entered into a multibillion dollar contract for Phase I of CANDU life extension work at the Pickering Nuclear Generating Station.

Last quarter, we also highlighted the \$304 million financing from the Canadian government to develop CANDU technology including Monark in Canada and for Canada. This further solidifies the government's focus on homegrown technology, which only we possess and their commitment to build a more sustainable future for Canada.

Opportunities for our CANDU expertise abound across many of the regions in which we operate. As we continue to grow, it is vital to do so more efficiently. And as such, we've concluded vendor agreements with eight companies in Canada to strengthen our supply chain. We will continue to enhance our operational capabilities under our program to deliver excellence.

In our Services business, new build support and decommissioning services work continues to drive growth in the U.K. region.

In addition to our decommissioning work at Sellafield, we reached a major milestone with a successful robotics trial. This accomplishes three clear things. It opens a possibility for remote site access. It enhances safety and it increases security at nuclear sites. This is a really exciting development that was achieved through our investment in innovation.

Additionally, we continue to land and expand our Nuclear capabilities in the U.S. as we have formed a joint venture with Strata-G to support various missions for the Department of Energy.

Our Nuclear capabilities and expertise are a source of unique competitive advantage, 4,500 of my colleagues are solely focused on Nuclear, which we're also supplementing with the skills and talent of additional 1,000 people from across the rest of AtkinsRéalis. We continue to position extremely well to take advantage of the ongoing nuclear supercycle.

Our first quarter Nuclear performance provides a strong foundation for 2025. And as such, we are raising our full year revenue outlook to a range of \$1.9 billion to \$2 billion. And looking out, we see continued growth for this business and now believe by 2027, our annual Nuclear revenue will be in the range of \$2.2 billion to \$2.5 billion.

Turning to Slide 12.

I want to further highlight the near-term and long-term CANDU revenue opportunities within our Nuclear business. The potential contracts you see on this slide represent a massive opportunity for AtkinsRéalis and underpin our view that there is significant growth for the foreseeable future. These represent profitable contracts and highlight we have real backlog with real teams in place who are delivering real work every day.

Our \$5 billion Nuclear backlog achievement is just the beginning as our customers continue to recognize our Nuclear expertise. Total backlog does not include follow-on stages of our recent wins and only a very small amount of CANDU new builds. We cannot overstate our belief in the significant opportunity in front of AtkinsRéalis in the Nuclear sector.

Now moving to Slide 13 and our Linxon LSTK and capital businesses.

Our Linxon segment revenue grew organically 36% year-over-year. (Technical difficulty) its strong volume momentum from 2024. Linxon realized 340 basis points of EBIT margin expansion in the first quarter as operational improvements continue to positively flow through the business.

Backlog increased 52% to a record high of \$2.2 billion at the end of the quarter. Across all regions, we're seeing volume increases and continued backlog quality improvement, aiding profitable growth for this segment.

On LSTK Projects, Segment Adjusted EBIT was in line with expectations. As we indicated last quarter, the Trillium Line went into operation in January, and commissioning and testing on Eglinton in Ontario is progressing well. Backlog decreased 33% year-over-year primarily now consisting of the REM project.

On Capital, we did not receive dividends for Highway 407 during the first quarter of 2025, but the other assets performed well.

I'll now turn it over to Jeff to discuss the financial results and the 2025 outlook.

Jeff Bell^ Thank you, Ian. And good morning, everyone.

Turning to Slide 15. Revenues from Professional Services and Project Management increased 12% year-over-year, totaling \$2.5 billion, which included a revenue increase of \$322 million for our Services business, and a decrease of \$48 million in the LSTK Projects segment as we are completing the remaining projects.

Total Segment Adjusted EBIT for the quarter increased 25% to \$219 million and was composed of \$224 million for AtkinsRéalis Services, \$10 million for capital and a negative EBIT of \$15 million for LSTK Projects.

Corporate SG&A expenses from PS&PM totaled \$38 million in the quarter, slightly below Q1 2024. We would expect these quarterly expenses to reduce during the year and therefore,

continue to anticipate that the corporate SG&A from PS&PM should be between \$120 million and \$130 million for the full year 2025.

Restructuring costs were \$24 million higher than the first quarter of 2024, mainly due to operational restructuring in our U.K. and Ireland region as we are realigning some of our capabilities in our business operations with the expected future growth end markets, in line with our delivering excellence driving growth strategy. We expect these costs to be approximately \$50 million for the full year 2025, in line with 2024.

The IFRS net income this quarter increased by 50% to \$69 million compared to \$46 million in Q1 2024.

Adjusted EPS from PS&PM for the quarter increased to \$0.57 per diluted share compared to \$0.42 in the first quarter last year.

And our backlog ended the quarter at a record high of \$20.4 billion, 31% higher than at the end of March 2024, with strong book-to-bill ratios in the Engineering Services, Nuclear and Linxon segments.

We now move on to Slide 16 and free cash flow.

Net cash generated from operating activities totaled \$39 million for the quarter, in line with the first quarter last year. This was mainly driven by a stronger AtkinsRéalis Services businesses EBITDA delivery, and lower cash outflows for the LSTK Projects, offset by a higher working capital position usage.

We continue to expect operating cash flow to be in excess of \$300 million for the full year of 2025 and the cash generation to be more weighted towards the second half of the year with a similar profile to 2024.

After CapEx of \$31 million, which included \$15 million for the development of Monark in the first quarter and the payment of lease liabilities of \$22 million, our free cash flow stood at negative \$14 million for the quarter.

Our leverage ratio remained strong at the end of the quarter with a net recourse and non-recourse debt to Adjusted EBITDA of 1.1 at the lower end of our one to 2x target range.

We are also pleased with the recent update of our credit rating from DBRS to investment grade, BBB low with a positive outlook.

I'd like to now turn to my final slide, Slide 17.

As you have heard Ian say on Nuclear, this end market is very strong. The demand for our services continues to grow, and our backlog is at a record high. Therefore, we are increasing our Nuclear organic revenue outlook to between \$1.9 billion and \$2 billion for the full year 2025 from the previous range of between \$1.6 billion and \$1.7 billion.

We are also adjusting the Nuclear Adjusted EBIT to gross revenue ratio outlook for the full year 2025 to between 11% and 13% from the previous range of between 12% and 14%, reflective of the expected 2025 business mix.

All other financial outlook metrics for the full year 2025 issued in the Q4 2024 press release are maintained.

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

Ian Edwards^ Thank you, Jeff.

We had a strong start to the year. The energy transition and infrastructure development needs remain at the forefront of public entities across the globe. This is fueling growth in our markets where we have either built a strong foundation or are landing and expanding at a rapid pace.

Our focus is simple, Delivering Excellence and Driving Growth. This strategy is built on optimizing the business to drive profitable growth, accelerating our footprint in growing end markets and regions and exploring untapped opportunities across the organization.

We have a strong balance sheet supported by positive cash flow and a disciplined capital allocation framework that will enable us to deliver on our growth organically and inorganically.

Before opening up for questions, I want to thank our 40,000 employees including our newest members from David Evans for their hard work and dedication.

We're off to a great start and are excited by the opportunities in front of us that we will capture in 2025 and beyond.

With that, let's open up for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Chris Murray with ATB Capital Markets.

Chris Murray^ Just maybe starting off with the revised guidance. Can you just maybe walk us through what it is -- I mean it's certainly a good Q1, but what new Nuclear business do you think will be coming into the mix and on that mix question, what is it that's going to skew the -- that's going to skew the margin a little bit lower, just so we understand kind of the change in the guidance?

Ian Edwards^ Yes, for sure, for sure. So I mean Slide 12 really sets the picture there.

I mean -- and we've got line of sight with the awards that we have through to the end of this year. And clearly, with that line of sight now with the award of Pickering and you may have seen the

SMR at Darlington as well which came in, in Q2, we've got a full line of sight for this year. And clearly, the guidance for revenue that we had on the table, we will exceed.

And then as we look longer term, we know that these projects, many of those life extension projects, the awards that we have that's in the backlog today is only the first phase of those projects. So we know that the follow-on phases are coming, and we also know the scale of those follow-on phases.

So when you think about this Slide 12 and the color coding that we put on there or what's under contract and on the life extension was under discussion, we've got a pretty good handle on what's ahead.

Now what I would say is that we are also in discussion, no orders and no guarantees, but in discussion for new Nuclear in Canada and globally. And those are not necessarily baked in, certainly to the guidance that you see this year and little baked in for the long-range guidance.

So we have upside potential when we see new orders. But as I say, there's no guarantee there, but we're negotiating hard.

On the margin side, the guidance that we have out for the long range of 12% to 14%, we have confidence in the Nuclear business, delivering that margin range, which is obviously a superior margin range.

However the amount of flowthrough work that we have in procurement because of the new wins that we have, at Pickering and the extension of Cernavoda has meant that slightly lower margin work because you were basically procuring on behalf of the customers and it is flowthrough. So we made that adjustment for this year alone to the 11% to 13% for this year, but I expect that to return to normal levels in the future.

Chris Murray[^] Okay. That's helpful. The other question I had is on the Monark development. So a couple of pieces of this.

First, can you kind of walk us through how the development is actually going? We've heard some comments that development should be essentially complete by 2027. But the other piece of this is also, you think about the SMRs happening, you think about Monark, there's a lot -- there's going to be a lot of burden on the regulators to be able to handle multiple projects all at once. Can you talk about the -- your experience right now with regulatory approvals? And do you think that, that's going to be a bottleneck? Is there anything else that you see in terms of being able to move to new construction at the bottom of the decade that's apparent right now?

Ian Edwards[^] Yes, for sure. So the Monark is a combination of parts of the CANDU technology that have been actually regulated, approved and built in the past. What we're doing with the Monark is almost taking the best of what exists today. Putting it together with obviously the latest kind of digitization, the latest modularization, the latest safety and bringing all of that to the table as a state-of-the-art reactor design.

We passed what we call the project definition stage, which was like the first phase of the design development and we passed that. And the regulatory involvement with the development of this is iterative. So it's not like we do all this design and then hand it over to the regulator, and they do their bit. It's kind of an iterative process. And we work on that as we follow through.

But because the CANDU technology for the Canadian regulator, is so obviously familiar with the Canadian regulator. We don't see this particularly as a burden to that regulator. And it's going well.

I mean we obviously (technical difficulty) of our own. We welcomed the contribution in loan from the federal government that we announced in Q1. I think that was really good news and a sign of support which was important to us.

But this is being executed like a project, and we are controlling it, monitoring, the cost, monitoring the progress of time like we would a Nuclear project. And currently, we've got anything between 250 and 350 engineers and scientists working on this to get it across the line, as you say, for 2027.

We believe we will be at 2027 across the line regulated ahead of the needs of the customers that we look to serve. And the reason for that is because there's always parallel process on a project-specific basis of permitting, environmental assessments, all of that. So we think we've got a product which is ahead of the needs of customers. We think we've got a great product, and we think it's going to be a really essential part of the CANDU evolution to be in a global Nuclear kind of company.

Operator^ Our next question comes from Yuri Lynk with Canaccord Genuity.

Yuri Lynk^ Just following up on Nuclear. These are large projects, years of planning. So while I'm happy to see it, I am a little surprised at the magnitude of the revenue upside in the quarter. So was there anything special or nonrecurring in nature that kind of drove that? And am I right in kind of extrapolating based on the guidance for the year that Q1 will be the high watermark from a revenue perspective for 2025 for Nuclear.

Ian Edwards^ I think that's a fair question because obviously revenues are over \$500 million in Q1, and we put an outlook now for the year of \$1.9 to \$2 billion. So clearly, we're going to be slightly under \$500 million for the rest of the year.

Exceptionally, I think the procurement that I spoke to has been a large component of revenue in Q1, but we're going to see some of that procurement as well. It's not like it's like double or anything like that or an extra 30% but it has pushed it to the higher end.

And then as we work through the year, as I said, we've got a high degree of visibility on revenues through to that new outlook in 2025. And of course, we -- as I said in the previous question, we're negotiating both for additional life extensions in Korea, additional phases of life extensions in Canada and obviously new builds.

So we believe this sort of -- I mean we're not going to see revenue growth at 77% every quarter, but we're going to see strong build in the Nuclear business.

Yuri Lynk[^] Okay. So switching to Engineering Services Regions.

I'm trying to figure out what went on in Canada. Your MD&A states 14% organic contraction in net revenue. The math shows net revenue was up 9%. I'm wouldn't think FX would be a big impact, could be wrong or I don't remember any acquisitions. So what's the delta there between the 9% in absolute dollars and the organic contraction.

Ian Edwards[^] Let me give you an overview of where we're at. And then Jeff, could you talk to the specifics in the numbers.

One of the dynamics in the Canadian business is we're dealing with certainly a H1 of 2024 that was very, very significant growth, and it was significant growth by one battery factory, which had quite a high degree of flow-through revenue.

So on the year-over-year comparison, that's obviously what's given us the downside.

However if you look at the backlog growth, which is strong at 9% and we've obviously looked at the underlying growth without the one-off in there, we've actually got good underlying growth. And the business is doing pretty well.

So we're expecting the Canadian business through the year to do well. And we're seeing plenty of opportunities in both the utilities across the country as well as specific projects like Alto that we've won, the airport that we won, some transit works that we've won.

So perhaps just, Jeff, if you can talk to the specifics on the numbers.

Jeff Bell[^] Yes. I think the only thing I'd add in there, Yuri, is that in the first quarter last year, we had an acquisition in our Operations & Maintenance business of a hospital -- long-term hospital contract here in Montreal. So that does play into that organic growth calculation or contraction as well.

Operator[^] Our next question comes from Benoit Poirier with Desjardins.

Benoit Poirier[^] Just to come back on Canada, obviously you talked about the major contract ending in Q2 last year, but obviously it looks like that the base is pretty solid. But given the contract, what was likely -- would it be fair to expect a tough comparison for the upcoming quarters? And what about the margin improvement for the base if we were to exclude this particular contract?

Ian Edwards[^] Yes. So you'll see a tough comparison Q2 to some extent. And then that disappears as we move into H2. So we're going to see good growth come back as we build towards the end of the year. And all of that is that battery factory basically that was canceled out of our backlog and out of our revenues.

So on the margin side, as we said, the margin improvement plan is year-over-year, and we're going to see some fluctuations quarter-to-quarter as we have done here. Generally, the Canadian business has done well year-over-year. Margins are improving, backlog quality is improving. The initiatives we've got in place like more GTC usage, better customers, better backlog quality, concentration on overhead, they will take effect, and you will see a year-over-year improvement in the Canadian business by the time we get through later in the year.

Benoit Poirier^ Okay. That's right. And just moving on the U.S.

Ian, you mentioned some minor delays in disruption. So I'm just curious to know if there's how many projects involved? And should we expect a reversal or it's going to flow through Q2 and beyond?

Ian Edwards^ So generally, the market, as we see it, is pretty strong in the U.S. The -- one of the issues, again, we've been dealing with is actually a Minerals & Metals contract, which has given us a year-over-year comparison issue. But underlying growth in the U.S. is pretty good.

For ourselves, there's been a bit of Department of Transport, I wouldn't say, volatility, I'd say more like, hesitation, which is now flowing through okay. FEMA is a risk to us. We're not seeing too much disruption from the FEMA work right now. But obviously it's the only federal agency we work for. So we're keeping an eye on that FEMA.

Apart from that, we're seeing pretty good growth, particularly in the Transport sector and the Water sector. We're seeing the funds from the IIJA, which are about a third dispersed. We're seeing that flow through strongly still. And I think if there was any of those hesitations in state to state, we're getting through that now. So we still believe in our own position in the U.S., and we've got 6,000 people now with David Evans. So we're a long way from some of our peers, and we're pretty committed to build the business there to get into the top 10 through Land and Expand inorganic and organic growth. So we're feeling pretty good about the U.S. on all.

Benoit Poirier^ Okay. Perfect.

And just maybe, just in terms of capital allocation, you've been active on the buyback -- you're in the process of integrating Dave Evans. So could you talk about the capital allocation going forward in terms of buyback. How active do you want to be and maybe the timing and pipeline for M&A, if you are capable to undertake more M&A this year and the typical size you would be looking at?

Jeff Bell^ Yes. Sure. Happy to do that. And as you know and have referenced, we see our ability to deploy capital both into M&A and into returns to shareholders with our balance sheet in a strong position now.

And in fact, I think the first quarter was a good example of that, following our Q4 results. We've been programmatically buying back shares, which we think under our NCIB program over the course of the year, and with the successful closing of the Highway 407, which we would

continue to expect to happen later here in the second quarter, we would expect to make significant usage of that NCIB program.

At the same time, we continue to be very active in the pipeline of opportunities for M&A with a priority on the U.S., but also looking at other white space and other geographies where we see value. We would continue to see those acquisitions.

So Benoit, in line with what we've said, tuck-in acquisitions, regional platforms I think the David Evans acquisition was a really good example of that.

Operator^ (Operator Instructions) Our next question comes from Devin Dodge with BMO Capital Markets.

Devin Dodge^ I'm going to start with the organic growth in Engineering Services.

Look, the guide looks like it assumes a pretty material pickup in the second half of the year. Just wondering, do you feel that you have the contracts in place today that support that acceleration of organic growth? And just as a part of that, have you received the contracts for the next phase of those giga projects in the Middle East that I'm assuming accounts for at least a decent portion of that ramp-up.

Ian Edwards^ So we are confident and confident for a few reasons.

So we are seeing good backlog growth. I think that's the first thing I'm saying. And we are seeing good pipeline development visibility on the forward kind of workload forward wins and bids that's out in front of us.

So the markets where we're operating, are holding up really well. They're obviously supported by government plans around infrastructure, the replacement of infrastructure, the energy transition, the need for grid expansion, et cetera, et cetera.

We are struggling as we said, and we kind of highlighted this, that in Q1, we've got some year-over-year issues, actually three, one is the battery factory in Canada. The second was the Minerals & Metals contract that came to an end in '24 and the last was in the Middle East, which is a large contract we had, which is a design concept -- contract, where Phase one closed out at the end of '24, we were expecting Phase II to be awarded. And of course, again, no guarantee, but we did the concept design.

So we feel we're in a good place for the detailed design, but that's been delayed. It's not been canceled. It's been delayed. We would expect to see that award later in Q2 with revenues coming in later in the year.

So when we look at the underlying growth of the business below that, we're in a good shape, and we're seeing good growth. So as we've modeled that through the rest of the year, we have reaffirmed to ourselves that our outlook range that we've got of 7% to 9% is more than achievable. So obviously that's why we didn't make any adjustments to that as we work through.

So confident we're going to see this come back some extent in Q2, but mainly as we get into H2.

Devin Dodge^ Okay. Good color. And then second question, on the East Harbor Transit Hub project. I was wondering if you could speak to the role that Atkins has on that project and how we should think about how the risk is shared between decline in the project developers but also trying to get a sense for how the risk and financial contributions for the project are distributed amongst the partners in the JV.

Ian Edwards^ So as you know we don't do LSTK work anymore. We exited that in 2019.

What we do is we obviously work in the design and the project management space in large transit projects. And we will -- we can go beyond that if it's what we would call a subcontract, like a target cost contract, where the risk profile is a risk profile where we can't incur significant loss because the downside is capped by that target cost arrangement.

So the East Harbor was a contract that we won a couple of years ago actually and there's a development phase of that contract that we've been working through, which accumulates in the agreement of this target cost in a joint venture with a construction company and we've converted that. And obviously we've now announced that we converted that for Metrolinx. So not a construction per se contract.

Operator^ Our next question comes from Michael Tupholme with TD Cowen.

Michael Tupholme^ I know you've been asked a few questions about this, but wondering if you can speak a little bit more about the expected organic revenue growth progression in Engineering Services as you move through the year.

Obviously you had a modest organic revenue contraction in the first quarter but maintain the 7% to 9% for the full year. And I know you've touched on Canada a little bit already, but I guess I'm wondering, any comments around how you see all of the regions or the other regions performing relative to that 7% to 9%? Are some likely to be ahead of it and others potentially below it and get you in that range? Or should we be thinking about them all sort of being more or less within that range?

Ian Edwards^ So yes, let's have a -- we'll have a quick canter through the four regions perhaps. And obviously we spoke to Canada, and we're seeing pretty good opportunities across Canada as we said, and confident once we get past this year-over-year comparison, we're going to see that coming back in H2.

The U.S., regardless of all of the kind of noise around the U.S., the macroeconomic. We're confident in our own business. Clearly, excited with David Evans joining us to exploit some of those revenue synergies that we see there on the West Coast and start picking up work through and with David Evans on the West Coast.

Backlog grew 6% in Q1, which is a forward-looking indicator for the year.

So again, I mean -- and you heard me kind of talk through the U.S. and the fact that the IJIA is still flowing through the states and we're seeing a positive market.

But perhaps let's move to the U.K. and AMEA, where we've not talked about so far.

A lot's happened in the U.K. in Q1 in terms of announcements, our business is well positioned, and you would say that perhaps towards the end of last year and the start of this year, the sector, the industry was suffering from the changeover in government as they got their plans together and got their announcements together, but we still grew 3% and good backlog growth as well.

But what we've seen in Q1, and I was actually there with an announcement by the Chancellor is the 10-year infrastructure plan coming together, the GBP 100 billion spend a commitment to spend to get to 2.5% of GDP on Defence. A Nuclear expansion program that slated is the biggest Nuclear expansion program in the country for 70 years. And then the next cycle of water investment under the AMP8 water cycle investment and large programs. And this is really important to us.

East West Rail, we did the first phase of that. They've announced that they're going to move ahead with the second phase. Heathrow, third runway. We've been heavily involved with that last time before it was canceled. That's been announced to come back.

Thames estuary Crossing, which is this big tunnel and road to bypass London, we've already won that, and then it was put on hold. That's announced it's going ahead. And then development of the north of England into Northern powerhouses. So we expect a good position for our business there, as we've got a whole full service business and pretty excited by the prospects.

In AMEA, maybe start with the Middle East.

Obviously not having the release of the second phase of this large Riyadh project that's had an effect on this. And I don't see that our Middle East business it's kind of where we want it to be the Middle East business. We're not pushing to grow it further than where it is at 10% to 12% of our business. But the market will sustain business at this level.

And we're seeing actually opportunities coming out of the UAE in terms of development of new buildings and investment back into rail as the UAE expands, but also the projects that we've attached ourselves to in Saudi are those projects which really need to get done for Expo 30 and World Cup '34.

So I think our plan there is a good one, and I think we can maintain the level of revenue that we've got now.

But where we really want to see our growth in our AMEA region, that we're focused on right now, is in Asia and Australia. And we're very, very small in both.

We're seeing good business coming back in Hong Kong as they're investing into this new city, which is called the Northern Metropolis. It is industrial work coming through in Asia. And importantly, energy and Defence opportunities in Australia.

So for our AMEA region, that's where we're looking and that's where we are focus in our efforts for growth with a reasonably flat Middle East.

So I think that probably covers all the four regions. I hope that's helpful.

Michael Tupholme^ Yes, definitely. That's very helpful.

Second question is just about your expectations for Engineering Services Region's Adjusted EBITDA margin for the year. So obviously no changes to your guidance there still calling for 16% to 17% margin range. Again, you talked about Canada a little bit earlier in the call.

I'm just wondering, though, the fact that on an overall basis, ESR's EBITDA margin was down 20 basis points in the first quarter year-over-year. is it still reasonable to think about the midpoint of that overall margin range of 16% to 17%? Is the midpoint still potentially achievable at this point or does the Q1 decline mean we should be focusing more on something below the midpoint for the full year.

Jeff Bell^ No. I think pointing to the midpoint of that range is a good place to be, Michael. And what we saw in the first quarter was in line with our expectations. So we continue to be very comfortable with the range we put out there.

Ian Edwards^ And our program is it's a year-over-year kind of program. And obviously the intent and the margin expansion program that we've got is to get to superior margins over a period of time.

And as we've said before, there's a number of specific actions that are being undertaken to build that margin enhancement over time the GTC, the overhead control, development of pipeline utilization and AI and technology and bringing all these things in to lower our costs and improve our profitability is a methodical program that we're monitoring very, very closely through a range of KPIs. So we are confident in our destination.

Operator^ Our next question comes from Maxim Sytchev with NBF.

Maxim Sytchev^ Is it possible to get a sense of sellers' expectations right now or Jeff, given sort of all the uncertainty, if there's more opportunity from that perspective? Or are people still kind of sticking to their guns in terms of multiples?

Jeff Bell^ Are you talking -- it sounds like Max, you're talking from an M&A perspective. Is that fair?

Maxim Sytchev^ Correct. Yes.

Jeff Bell[^] At this point, I don't think we've seen any material movement in sellers' expectations. I think to your point that often takes a longer time period.

But as we've talked about before, for the sorts of acquisitions we're looking at and in the areas we're looking, we think there's reasonable price expectations generally for high-quality firms who want to join and be associated with a strategic player. And that's not always true for everyone, and that's fine.

But there's a big enough pipeline of opportunity we're seeing for firms that line up strategically, culturally with us with the type of capability that we're looking to continue to grow with that we think we can transact at an accretive to shareholder value type model. So not seeing any change in that.

Ian Edwards[^] And just to build on that, I mean, obviously price is important. And obviously the price has got to be in the right range. But very often, it's the value proposition that we bring as AtkinsRéalis that can convert these acquisitions across the line. Our culture and our ability to add global capability and global reach into larger projects and to help companies of that scale grow and that's where we're seeing ourselves getting differentiated.

Maxim Sytchev[^] Makes sense. And then just quickly in terms of -- in the past, we discussed the Defence capabilities of AtkinsRéalis. Given what's happening sort of in the broader geopolitical world, I mean U.K., Australia and Canada right now sort of pushing for greater Defence commitments. Do you mind just providing a little bit of an overview where your exposure results and how much of a growth vertical this could become over time?

Ian Edwards[^] So the way I describe this is that we would do everything in Defence that doesn't move.

So if you've got the specific Defence contractors that build submarines or aircraft or ships, actually, for the life cycle of those assets, 70% of it is actually in enabling maintenance, operation, storage, construction of infrastructure.

So we stay primarily in the infrastructure space. And we would either partner with the OEMs that are developing those assets or with the government to support the development of those assets.

So we've been doing this in the U.K. for a very, very long time from the original Atkins business. In submarines, aircraft, ships, in barracks and land-based kind of programs.

So what we are doing now and specifically on a couple of programs, in Australia, we're already involved in the U.K. AUKUS program, which is the Nuclear submarine program. We're selling our expertise in Australia as being involved with that program.

But in the -- in Canada right now which is obviously seeing a really new and refreshed approach towards Defence spending, we are using all the experience that we've got from the U.K. to explain how procurement has been done, how the success is and kind of lessons learned have been carried out.

So we're pretty optimistic as you said, particularly on Canada and Australia, where our Defence business is virtually zero today, but we hope to build on the back.

The U.S. is more difficult for us. And it's not a particularly strong target market for us right now just because of the U.S. content and the need to kind of be a U.S. company to do that.

Operator^ Our next question comes from Ian Gillies with Stifel.

Ian Gillies^ I was -- I wanted to inquire a little bit. I mean we've seen some initial announcements, although not formal around capital spend in Saudi Arabia as it pertains to data centers and joint investment in U.S. Could you maybe provide a bit of an overview of how you think your business in that region could stand to benefit if this becomes a real spend?

Ian Edwards^ Yes. I mean where we are right now and where we actually been quite successful, is on major transformational programs, I would call them, to reach what was originally the Vision 2030 and now vision beyond. And that's projects like NEOM, like King Salman Park in Riyadh, like the New Murabba Project in Riyadh. And these projects are tens and tens of billions of dollars of programs.

And you'll see and read press that the NEOM budget has been cut. But it's been cut into tens of billions. It's still a very, very significant program for us with a lot of opportunity in it. So that's where we are right now.

As for this renewed kind of U.S.-Saudi investment and potential, I mean clearly, if that does transpire into technology and data centers and the like, that could present further opportunities for us.

But as I said, we're pretty comfortable with the level of business we've got there now and that our key kind of strategy right now there is to maintain a level of revenues that we've got, not continue to significantly grow and perhaps get overexposed to the Middle East.

Ian Gillies^ That's very helpful. As a quick follow-up, I know we're getting close to time. But the balance sheet is obviously in very good shape. You've been using the NCIB. You've stated your M&A policy. Has there been any discussion or any thought put towards the use of a substantial issuer bid at any point given what I would call the perceived value of the stock being quite inexpensive today?

Jeff Bell^ Yes. I mean we -- when we looked at our sort of share buyback program, we've looked at all sorts of options available to us. We think what's available to us under the NCIB program is sufficient in terms of what we're looking to do. Obviously we'll continue to keep that under review. But as you've seen, we've already significantly increased the rate at which we're buying back shares versus previous years, and that's both in anticipation of the closing of the 407 transaction, and therefore, beyond that, you'd expect that to continue as well.

But I think at this point, we're comfortable with the NCIB program we have. It's a pretty substantial amount of share buyback that we're able to do under that program this year.

Operator^ Our next question comes from Jonathan Goldman with Scotiabank.

Jonathan Goldman^ Most of them have been asked already, but just a couple.

On David Evans, could you elaborate on some of the revenue synergy opportunities for that business I know it's early days, but when do you think or might expect you'll start seeing those initiatives flow through to organic numbers?

Ian Edwards^ Yes. I mean as you can imagine, through all of the due diligence process and the closing process, we've been keen to explore with David Evans, what the possible is. And there are numerous projects and perhaps rather than going to the specifics of each of those projects. Just talk about the strategy and concept.

A company such as David Evans would be reasonably limited in scale to a certain size of projects. And they have a great business with great relationships that operate for the Departments of Transport on the West Coast and, to some extent, on design contracts for builders, constructors.

But what we can bring is obviously a lot more scale and a lot more strength in order to move up to larger projects, certainly on the design side. So that's a revenue synergy that doesn't exist for us because we haven't got a presence on the West Coast and doesn't exist for David Evans because they can't get to that scale.

I think in addition to that, there's a strict capability issue where David Evans is traditionally being in specific areas of the business, in Transport to some extent in Industrial. But what we can bring is specific subject matter expertise on things like rail systems or aviation or industrial, water that they just haven't got.

So again, using the relationships, using their presence and using their mass of engineers, if you like, we can put, we call it one plus one equals three, together, to generate that.

So we've developed a list, a pipeline list of projects that we will work on together while we're only the 70% holder of this, and we'll work and bid on those together, and we'll win those together. And then obviously, over time, we move to full integration.

Ian Gillies^ Interesting. That's good color. And maybe just a housekeeping one for Jeff. Do you have an update on the timing of the closing of the remaining tranches of the 407?

Jeff Bell^ No. We don't at this point. So focused on getting the first part of the transaction closed here in the second quarter. We'll have to see beyond there. I don't have a view beyond there in terms of whether the counterparties and when they'd want to exercise their options.

Operator[^] I'm not showing any further questions. I would now like to turn it back to Denis Jasmin for any further remarks.

Denis Jasmin[^] Thank you very much, everyone. If you have more questions, please do not hesitate to contact me directly.

I wish you a good day and a good rest of the week. Thank you very much for joining us today. Thank you.

Operator[^] Thank you for participating in today's conference. This concludes today's program.

You may all disconnect. Everyone, have a great day.