AtkinsRéalis

Second Quarter 2024 Results

Conference Call Transcript

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Speakers:

Ian Edwards
President & Chief Executive Officer

Jeff Bell
Executive Vice-President and Chief Financial Officer

Denis Jasmin
Vice-President, Investor Relations

Operator:
Good morning and welcome to AtkinsRéalis Second 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, Betsy. 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 a 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.

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 in the second quarter, our continually growing backlog, and our current success and opportunities that 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 and our updated full year guidance before we open it up for Q&A.

Let's get started on Slide 3.

We concluded the first half of 2024 with another quarter of strong results across our businesses, driven by our ability to capture the growing demand for our services to address the energy transition and an aging global infrastructure. We continue to see robust revenues in our Services business across the geographies and end markets in which we operate. This was proven again this quarter by our top line and bottom line improvement over the second quarter of last year.

AtkinsRéalis Services revenue increased 17% with Segment Adjusted EBIT increasing 22% to approximately $204 million. Engineering Services regions revenue increased 12% to $1.7 billion, while Nuclear revenue grew 42% to $358 million.

Backlog at the end of the second quarter of '24 was approximately $15.6 billion, and this represents another record high for the Company as it grew 26% year-over-year.

We also continued to successfully welcome high-quality talent in the quarter, increasing our headcount by approximately 740 employees.

And I want to thank those who were able to join us in Toronto, or view the webcast of our June Investor Day. This is truly an exciting time for AtkinsRéalis. At the event, we introduced our new “Delivering Excellence & Driving Growth” strategy, underpinned by three pillars. In alignment with these pillars we highlighted the ways in which we will optimize the business, accelerate value creation and explore untapped potential. We also unveiled our long-term financial targets, emphasizing our confidence in driving growth, improving margins, and delivering excellence for our customers. A lot of people inside and outside of the Company were involved in the process and I appreciate all their support in making it an exceptional day.

The results year-to-date highlight our strengthening position in the marketplace. 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 the planet and its people.

On Slide 4, you can see our backlog growth across AtkinsRéalis Services. Our 26% growth in the second quarter versus last year was driven by key wins across our core Engineering Services and Nuclear businesses.

We continue to capture projects across many of the end markets in which we operate. In Canada, we've been chosen to support the Surrey-Langley Skytrain extension in British Columbia. In the U.S., we won a multiyear Master Service Agreement with a leading sustainable energy provider, which strengthens our foothold in the growing Northeast region, and secured a contract with the Texas Department of Transportation. Separately, we've won a project with the Highways Department of Hong Kong for design and engineering services. And finally, our capabilities in the U.K. continue to be recognized as we signed a strategic design partnership on the Lower Thames Crossing project.

We are winning more business purposely, doing so through our higher-margin services that we expect will generate sustained profitable growth into the future.

Turning to Slide 5, our Engineering Services business continues to generate robust organic top line growth as we witnessed a 12% increase year-over-year in the second quarter. Our revenue generation was driven by the continuation of our ability to secure new wins across our geographic scope.

Segment Adjusted EBITDA over net revenue margin was 15.2% during the quarter and represents an increase of 110 basis points over the same period last year. We continued to increase our backlog, which now stands at $12.2 billion, representing a 19% growth versus our backlog as at June 30, 2023.

Beginning on Slide 6, we'll provide an overview of each of our four regions and their performance in Q2.

In Canada, we saw a slight year-over-year revenue growth, while Segment Adjusted EBITDA was $24 million, representing approximately an 11% margin. Our backlog increased 26% year-over-year, mainly due to the awarded Surrey-Langley Skytrain extension project, where we deliver the systems and track work. We also won, over the recent months, several notable design contracts such as the Île d'Orléans bridge project, the Belleville ferry terminal redevelopment, and the expansion and modernization of the Maisonneuve-Rosemont Hospital.

While revenue increased slightly this quarter and margins were down, we continue to see a pipeline of full opportunities in Canada, and we are investing more into winning the type of work that will drive sustained profitable growth.

We outlined at our Investor Day that our Canada business is on an improvement journey, and we are focused on optimizing our position across the country. We have a strong foothold and a history of experience delivering services in the Quebec region, but we see a vast opportunity for our offerings in Ontario and British Columbia. As we look at our pipeline, the end markets of Architecture and Water present significant upside, and we believe our capabilities are well suited to help our customers address these aging infrastructure needs.

In the U.K. and Ireland, we continue to capture key wins, utilizing our end-to-end capabilities, particularly in our Power & Renewables, Industrial and Building & Places customer end markets. Organic revenue grew 6% versus the second quarter of 2023, while Segment Adjusted EBITDA as a percentage of segment net revenue grew 13% to $80 million.

We saw continued backlog growth during the second quarter to more than $1.7 billion, primarily from new work orders in the Transportation, Water and Rail signalling businesses. We continue to demonstrate that we are partners of choice with Heathrow Airport and Network Rail as we bolstered our contracts with each of those entities to support growth expansion plans. Additionally, as we mentioned at our Investor Day, we see significant upside in the Water end market. This past quarter, I'm proud of another key win in this growing market as we are contracted with United Utilities for our design and engineering capabilities.

Our long-standing position in the U.K. market leaves us well positioned to take advantage of key commitments by the public sector towards a cleaner future. The AMP-8 investment cycle sees significant new capital investments out to 2030 in the water industry, while other government-backed strategic investments in Defence enable the demand for our consulting and digital capabilities in this end market.

Turning to Slide 8, in the U.S. and Latin America we saw continued growth trajectory, led by our work in Transportation. Organic revenue grew 12% year-over-year, while Segment Adjusted EBITDA increased slightly to $44 million. The backlog increased 3% year-over-year as we continue to make progress with our "Land and Expand" strategy. As you heard during the Investor Day, we have deep relationships with several departments of transportation across the U.S., and we are methodically increasing our presence in the U.S. Northeast and Mid-Atlantic.

I want to highlight one of our wins with the Florida Department of Transportation last quarter. Under a five-year contract, AtkinsRéalis will provide project and construction management services including all project administration, design phase review, day-to-day management and construction inspection, materials testing and project documentation. This is a great win for our business and highlights the opportunities we see in the growing U.S. market for our services.

As major cities continue to address their aging infrastructure, we continue to provide support to them. No matter the result of the upcoming election, the opportunities are expected to remain fast through the public sector's infusion of capital. We have line of sight of opportunities that fuel our targeted growth metrics.

In AMEA, revenue grew organically by 45% versus the second quarter of 2023 as we saw volume pick up for the giga projects that we are contracted for in the Middle East such as NEOM The Line and The Mukaab, and continued delivery on many other mandates. This work also led to Segment Adjusted EBITDA of $42 million, representing a 20% EBITDA margin over net revenue.

Total backlog in AMEA grew 19% as we continue to capture opportunities in our pipeline, particularly in the Middle East and Asia in the Buildings & Places and Transportation end markets. Increased focus by the Hong Kong government and uplifting their transport system is leading to growth opportunities for AtkinsRéalis consultancy work, and we're seeing strong win rates in the region, which also are aiding our continued backlog growth.

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

We continue to demonstrate significant growth with an organic revenue increase of 41% in the quarter compared to the quarter of 2023. Our Nuclear backlog is at $1.7 billion, which represents a 57% growth versus our backlog as at June 30, 2023, driven by higher bookings, primarily related to the CANDU refurbishment work.

Segment Adjusted EBIT grew 32% to $43 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 to gain 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 do campaign. Additionally, in June, an independent report conducted by the Conference Board of Canada showed that the construction of a four-unit CANDU Monark nuclear power station would boost the Canadian GDP over the life of these four units by $90 billion and create thousands of jobs.

In Asia, we recently secured a refurbishment contract in Qinshan, which highlights the opportunities for CANDU support and life extension in the region. As a reminder, we highlighted at our Investor Day the pipeline of opportunities for AtkinsRéalis in refurbishment and life extension. This contract win, while sizable in its own right, is just a small portion of the potential opportunity we have for these projects as we have a line of sight into more than $15 billion of awards over the next decade.

In Europe, we continue to make good progress on new build contract negotiations for the C3 and C4 Cernavoda plants in Romania. We also signed a joint agreement with Orlen-Synthos Green Energy, Aecon and GE Hitachi to support the potential deployment of small modular reactors in Poland.

In the U.K., the U.K. Atomic Energy Authority appointed AtkinsRéalis to deliver and design one of the world's first isotope separation systems, which will strengthen research into sustainable fusion delivery.

Our results this second quarter of 41% revenue organic growth and the continued wins across the world highlight the demand and potential of our nuclear expertise. General market conditions for new build and new nuclear look increasingly positive every day as we are incredibly well positioned to support public and private entities in achieving their evolving power needs and Net Zero goals.

Moving to Slide 12 and our Linxon, LSTK and Capital businesses, our Linxon segment saw a 29% year-over-year organic revenue growth in the second quarter, continuing its momentum from the first quarter and realized an operating margin in line with last year and Q1. Backlog of $1.7 billion at the end of the second quarter was 73% higher than the second quarter of last year.

Commissioning and testing on our Ontario LSTK Projects is continuing as planned. Our backlog decreased by 40% to $251 million at the end of the second quarter, and this primarily representing the REM project, which continues to progress well.

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

On Capital, we received $12 million in dividends from Highway 407 in Q2 as traffic patterns continue to improve year-over-year. They also recently announced the dividend for the third quarter, which will be $15 million for AtkinsRéalis.

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 14, total revenues for the quarter increased 11% year-over-year, totalling $2.3 billion. AtkinsRéalis Services revenue increased by 17%, while the LSTK Projects decreased by 69% compared to the same quarter in 2023.

Total Segment Adjusted EBIT for the quarter was $208 million, 17% higher than last year and was comprised of $204 million for AtkinsRéalis Services, $22 million for Capital and negative $18 million for LSTK Projects.

Corporate SG&A expenses from PS&PM totalled $39 million in the quarter compared to $29 million last year, mainly driven by higher long-term compensation costs year-over-year, primarily as a result of the significant share price rise. Despite this increase, we continue to anticipate that the corporate SG&A expenses from PS&PM will be approximately $130 million for the full year 2024.

Net financial expenses for the quarter were $43 million, in line with Q2 2023. We expect this level of quarterly expense to continue for the rest of the year.

The effective income tax rate from PS&PM was 17% in the quarter, lower than the Canadian statutory tax rate, mainly due to the geographic mix of earnings and other nonrecurring items. We expect that our income tax rate on our adjusted PS&PM net income for the second half of the year to be higher than the first half and the full year outcome to continue to be around the Canadian statutory income tax rate of 26%.

The IFRS net income this quarter was 28% higher than Q2 2023 and totalled $82 million. This was composed of a net income from PS&PM of $68 million, an increase of 37%, and a net income from Capital of $14 million, in line with last year.

Adjusted EPS from PS&PM for the quarter was $0.49 per diluted share, a 20% increase compared to $0.41 in the second quarter last year.

Backlog ended the quarter at $15.9 billion, 12% higher than at the end of last year and 24% higher than at the end of June 2023, with a strong increase in Engineering Services, Nuclear and Linxon businesses.

If we now move on to Slide 15 and free cash flow, net cash generated from operating activities was negative $89 million in the second quarter, better than Q2 2023. We continue to predict that the net cash generated from operating activities for the Company will be significantly higher in the second half of the year, and we continue to anticipate that it should be in excess of $400 million for full year 2024. The increase in the second half should be mainly due to the expectation of continued revenue and EBITDA growth from the Services businesses and significantly lower cash outflows from the LSTK projects compared to the full year 2023.

AtkinsRéalis Services generated operating cash flows of $111 million in Q2. After cash taxes, interest, corporate items and capital, we used $29 million of operating cash flow for the quarter, and including LSTK projects, we used to $89 million.

After CapEx and the payment of lease liabilities, our free cash flow stood at negative $134 million for the quarter.

As expected, capital expenditure was $38 million in the quarter, higher than Q2 last year as we are investing in the CANDU Monark nuclear reactor development. We continue to forecast full year capital expenditure in the range of $140 million to $160 million as this development ramps up over the year.

I'd like now to turn to my final slide, Slide 16. As you've heard Ian say on Nuclear, demand for our services continues to grow and our visibility into the conversion of our backlog into revenue this year has improved. Therefore, we are increasing for the second time this year, our Nuclear organic revenue growth for full year 2024 from between 15% and 20% to between 30% and 35%. We are also updating our Nuclear Segment Adjusted EBIT margin to reflect the 2024 business mix and in line with the Company's long-term target introduced at the Investor Day from between 13% and 15% to between 12% and 14%.

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

Ian Edwards:
Thank you, Jeff. We continue to build on our momentum with key wins across our four Engineering Services regions and our Nuclear business. Our record backlog highlights a long runway for growth and the significant demand for our services, and we were steadfast in our approach to deploying our talent in the most efficient and cost-effective manner to win new business and meet the needs of our customers.

We are capturing growth that is happening now from the energy transition super cycle and from aging infrastructure replacement, but even more excited by the scale of our long-term opportunities emerging from these true megatrends.

We are harnessing operational efficiencies across the Company through the work of our COO office.

Our June Investor Day highlighted the accomplishments we have made under our Pivoting to Growth strategy and the opportunities that exist through our new strategy, Delivering Excellence and Driving Growth. We are optimizing the business to drive profitable growth. We are accelerating our footprint in growing end markets and regions, and we're exploring untapped opportunities across the organization. We are truly building something special here at AtkinsRéalis.

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 to acknowledge your request. If you are using a speaker phone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

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

Yuri Lynk:
Good morning everyone. Ian, impressive numbers in Nuclear. That's a market where nothing seems to move very quickly, but you've pretty well doubled your growth outlook in the last two quarters. What's kind of shifted there to allow you to do that?

Ian Edwards:
Yes. Yes. If you bear with me, it's probably a bit of a long answer, but there's quite a lot happening. So let me go through that.

As you say, our Nuclear business really is growing strength to strength. Governments around the world, clients utilities that they're all beginning to realize that the real component of Net Zero energy grid, electrical energy grid has to have a component of nuclear for their baseload power, so the interest is global. What's really driving our short term in CANDU is life extension. We think about our business now in these two components, right, the CANDU technology where we own the IP we're operating there as the as the original equipment manufacturer, and our Services business, which is really applying services to customers and other technologies across the world.

The CANDU technology, if you think about we have those life extension projects at Darlington and Bruce, which is still ongoing. But we've been into now a new life extension at C1 in Romania. We've just been awarded the Qinshan refurbishment, which will kick in immediately with engineering work. We are negotiating life extension works at Pickering, also for OPG, which we would hope to secure. And we're in negotiation for other life extensions across the world because it's a really cheap form of electricity. You just replace the reactor components and give it an extra 30 years of life, so economically, it's almost a no-brainer.

But we're also in negotiations, really heavy negotiations now for the C3 and C4 in Romania. You'll have seen some announcements globally from the U.S. and from the Canadian government in the past about the support that they're giving financially towards C3/C4, so this is going to be a game changer, actually for the CANDU technology, the first new build that we will have undertaken for many, many years and puts the CANDU technology back on the world stage, which is a great platform for our new product, the Monark.

We are in discussion across Canada and across various parts of the world for the Monark. Now we see the Monark is a longer-term play. I mean, really, before we start securing orders and getting real revenues into the backlog it's probably a few years away, but the big increase in revenues from CANDU you see now is in these life extensions.

And that's only half the story. The other half of the story is in Services, where we're seeing an increased demand for our Services work, both at the GE Hitachi SMR, where we won the contract in Poland, and we continue to support that SMR in Canada. We're working with Rolls-Royce in the U.K. on their SMR program. We've still got the cleanup remediation work that we're doing in the U.S. and the U.K. We are a heavy supporter of EDF, the French technology. We're one of their preferred engineering partners on Hinkley and Sizewell, and now even in France and their expansion there.

And we're into Fusion. We just bid for the AEA contract in the U.K. for the STEP Program Fusion. We're involved in Fusion in the south of France at ITER. So, there's a lot going on and it's an exciting time. We're able to build capacity to meet these demands. We're an employer of choice. We've got people coming in to meet these demands, so we needed to really move that guidance.

So sorry, that's a long answer, but there's a lot happening.

Yuri Lynk:
No, understood. Just my follow-up on Romania, in particular. I saw that they're moving ahead with their own SMR plant. I'm just wondering if that has any impact on the C3/C4 talks?

Ian Edwards:
No, not at all. I mean they have a very, very clear nuclear policy and it is a combination of bringing life extensions to the two existing reactors, C1, C2. C2 will be quite a bit further down the line; it's a newer reactor. They are absolutely committed to rebuild C3/C4, but they also are in discussions with the U.S. around SMR technologies that we're actually not involved with. It's not a question of either/or, it's a question of both.

Yuri Lynk:
Thanks. I'll get back in queue.

Ian Edwards:
Thank you.

Operator:
Your next question comes from Chris Murray with ATB Capital Markets. Please go ahead.

Chris Murray:
Thanks folks.

Ian Edwards:
Good morning.

Chris Murray:
Maybe a couple of more questions around Nuclear and maybe turning back to some of the discussion around Investor Day.

I think when you first laid out the goals for Nuclear, and what you thought in the strat plan, I think the commentary was that it was going to be very back half loaded, like more into '27 or later. Now that we've seen this revised guidance, I guess what I'm trying to understand is, should we be thinking that the entire revenue stack for Nuclear now is, call it, that much larger than it was? Or is this more a reshuffling of the timing of certain events? Any sort of colour in terms of maybe even the longer-term goals that you had released at Investor Day would probably be helpful.

Ian Edwards:
Okay. I think that's a fair question. I do see it in kind of short term/long term. The short term part of the business, which is bringing these revenues in right now are these life extensions. Literally, the life extension part of the business has generated a lot of these revenues that you're seeing. I think we've got this line of sight to $15 billion worth of work in life extensions because our teams have actually been over in Korea, where the CANDU is there. They've actually been in Argentina where we've got CANDU there. So I think we're going to see good revenue growth out of the CANDU life extension work in the short to medium, so before that time horizon, that you said to '27. And you're seeing that. That's why we put the guidance up to 30 to 35, because we've got that line of sight, and we know where this is going. So that's really positive.

The Services business just continues to go from strength to strength as well. That's a lot more incremental because they're smaller kind of Services contracts, but that's got great growth through, which we'll see short to medium as well.

I just want to be realistic about the Monark. Monark is going to be a long-term play for utilities and governments and customers, and it would have to go through a regulatory process in the respective region that it was deployed, even in Canada. We're probably talking something around about the time scale that you said before revenues start coming in from the Monark around '27. Don't misunderstand me. The revenue growth in the short term is really strong from this other work.

Chris Murray:
Okay. That's helpful. Okay. I'll leave it there.

Just a couple of quick questions on cash flow. Just maybe, Jeff, if you want to take this. You talked about the fact that second half cash flow should be good. You talked about kind of earnings contribution from in and around LSTK. Maybe just to clarify a little bit, historically, there's usually been also a working capital catch up in the second half. I would assume that we'd also see something similar this year, but any colour on that would be helpful as well.

Jeff Bell:
Yes. I think that's absolutely right, Chris. As we've talked about previously, definitely second half stronger than the first half and really driven, as you say, by two or three things. One is we do expect the cash flow usage from LSTK to lessen or ramp down in the second half of the year. We expect to continue to see growth in EBITDA, and therefore cash flow from the growing services businesses. And

there's no question. We do expect, as we have in previous years, expect to see a working capital improvement as we get to the end of the year as well. So the combination of all three of those is what continues to give us confidence in our guidance of greater than $400 million of operating cash flow for the full year.

Chris Murray:
Okay. You basically said for U.S. M&A, you really want to see that number turn positive before you start happening. Is there anything that you think that we should be looking for in terms of cash flows that kind of is a trigger point for starting M&A, or is that going to be kind of a different process altogether?

Jeff Bell:
No. I think from a cash flow perspective, Chris, we view with our leverage within our target range now, so below 2, that we think we have the balance sheet strength to undertake some tuck-in or bolt-on acquisitions from here on out. We've got active process is underway. Nothing to comment on or announce at this point, but we think we're in a position where we can absolutely execute on some of that.

Chris Murray:
Thanks very much. I'll turn over the line.

Jeff Bell:
Thanks.

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

Jacob Bout:
Good morning.

Ian Edwards:
Good morning.

Jeff Bell:
Good morning.

Jacob Bout:
Just going back to Nuclear, the reduction in your margin guidance for the remainder of the year, maybe just talk through that a bit. Is it a mix issue? And then maybe some thoughts around what you're thinking longer term as far as Nuclear margins?

Ian Edwards:
Yes. Yes. It is that. You will remember in the Investor Day, we put a range of 12% to 14% out for the long-range margin target and we feel that is the right margin level for the mix of business that's evolving. Historically, Nuclear business was very much on the services, cleanup side was quite dominant. Now we've got this project work through life extensions and there's some flow-through procurement to that. We think a good margin range for the long term of this business is 12% to 14%. Because we've brought on board so much growth this year, I mean to move the outlook of revenue growth twice to now to 35%. And remember, a very, very significant EBIT growth in the year-over-year from a dollar value perspective, we think the right range is 12% to 14%. Twelve to 14% is a high-margin

business, so it still reflects the high barriers to entry and the nature of the business and the fact that it's not that many competitors here in this field, but we do think that's the right range.

Jacob Bout:
Okay. Then maybe just moving over to Engineering Service margins. Nice second quarter year-on-year margin improvement in UKI and AMEA regions, but Canada was down a touch. I think you highlighted at the Investor Day that Canada was a focus for margin improvement. Maybe just talk through how you're seeing this progress for the rest of the year.

Ian Edwards:
Yes. Again, I'll refer to the Investor Day. We're totally committed to getting our margins up that 200 to 300 basis points to 17%-18%. That is a key focus of our Chief Operating Officer's Office, a key focus of our Chief Operating Officer, Phil Hoare, and we have a very, very specific plan in each region and very specific kind of measures that are across the Company.

Just reflecting on Canada alone, one of the key issues with Canada is as we push forward in our new strategy, the work mix is changing and that work mix is giving us a better quality backlog as we burn off some lower-margin work and replace it with higher margin work. That's key to bringing Canada to where we need it to be.

But there's also kind of generic measures, such as generally the pricing levels in our business and the win work rates that we're improving, reducing of the overhead cost, getting our utilization of resources up by making sure that our people are shared across the globe so that the utilization of them is high. Then the GTC, of course, where we're currently at about 11% GTC content in our work, which is good, but we want to keep pushing that up even higher and beyond that.

The one thing I would kind of say as a little caution, you will see incremental improvement year-over-year towards our goal of 17% to 18%, but I think it's going to be pretty hard to draw a straight line region by region of margin improvement because just the nature of some of these plans that we've got in place, not necessarily give us a quarter-over-quarter straight line, but you will see it over year-over-year.

I think I agree with you on Canada, but we're on it, so to speak.

Jacob Bout:
Thank you.

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

Sabahat Khan:
Great. Thanks and good morning. I just wanted to dig in a little bit into some of the specific opportunities you're seeing on the U.S. side, both on the kind of the base business and on the M&A side. On the base business, if you can maybe talk about some of the funding that's coming out of the IIJA and other bills and sort of how you're positioning for that, kind of across which end markets.

Then second part, I know M&A was highlighted as a big focus for the U.S. market. If you can just provide a bit more update on the kind of opportunities that are coming up at this point and what you're seeing there. Thanks.

Ian Edwards:
Yes. Yes. Obviously, we're pleased with the growth in the quarter at 12% in the U.S. We've got a specific plan that is in relation to where we are in the U.S., and it goes back to our “Land and Expand” strategy. Just to recap where we're really strong, in certain southern Eastern states and we've got a clear plan to move into the Northeast, Mid-Atlantic, California. We are seeing particularly transport and water opportunities playing towards us. It’s really about decaying infrastructure that needs replacement.

The whole IIJA bill was really, obviously, firstly, to stimulate economy, but also to fund over and above the state funding the replacement of this infrastructure. So we're seeing that flow through and we're seeing good opportunities come out of that. For example, the Florida kind of business and a lot of framework agreements, which don't necessarily immediately add to backlog. These framework agreements come into backlog order by order, but you end up with a five-year framework where you know you're going to get a significant amount of backlog through it, but it kind of comes in incrementally. So, we’re seeing good. Water and transport is great for us.

Now, on top of that, which is probably something a bit newer for ourselves is the power and renewable market with utilities upgrading grid and utilities looking at how they meet their Net Zero goals, so we're seeing a good opportunity from that.

Maybe I can touch on the M&A as well; there was two parts to the business. M&A for us at the moment is about our land and expand strategy in the U.S. We've said that before, and we're in kind of the exploration phase with several targets. The great thing about the U.S. market is it's very fragmented, a lot of small players, a lot of medium-sized players in the U.S., so lots of targets. It wouldn't be inconceivable that we might make an announcement even this year, but we're really focused on quality, and we want to get this right. So we will take our time and just make sure we land the right targets with the right capabilities and a good cultural fit. That's really priorities for us on M&A.

Sabahat Khan:
Great. Then just on the cost side, and obviously a big focus at the Investor Day. Investors are also sort of honed in on that side of the opportunity. Maybe a bit of an update on some of the initial areas of focus among the opportunities you outlined at the Investor Day. Just kind of where you're making progress, and when we should expect to see some of that operating leverage kind of start to flow through over the next few years? Thanks.

Jeff Bell:
It’s Jeff. Why don't I take that? There's a few dimensions of that. Obviously, the transformation and margin enhancement program we have both looks at the revenue margin utilization productivity side, and we've definitely got initiatives underway around improving utilization and productivity across a number of the markets. which has a direct impact on our costs and our margin. The second thing is, and I think I've talked about this previously, we're in the midst of rolling out a common ERP platform with the next stages of that happening over the next 12 months or so, so we see that as a real opportunity to continue to drive costs out of the business and improved efficiency over the short to medium term. I think I’d reference those two in particular.

Sabahat Khan:
Thanks very much.

Ian Edwards:

Thank you.

Operator:
The next question comes from Benoit Poirier from Desjardins. Please go ahead.

Benoit Poirier:
Yes, good morning, gentlemen.

Ian Edwards:
Good morning.

Jeff Bell:
Good morning.

Benoit Poirier:
Just in terms of organic growth, obviously, when we look at the first half, very solid at almost 15%. But when we look at the guidance, you kind of maintained the 8%, 10% outlook the full year. I was wondering if you could provide any thoughts about if there should be some softness expected in the second half, or this is more conservatism at play here?

Ian Edwards:
Thanks, Benoit. It's a fair question. I think it's about being prudent. Clearly, in the Engineering Services, we've got 15% year-to-date. Really pleased with that. That's a good number. That's growth we're really proud of. And we are confident in the long term growth potential of AtkinsRéalis, particularly where we positioned the Company in terms of geography and end market, which we've thought this through deeply strategically. We're following the megatrends in terms of the energy trilemma. The need for countries to meet Net Zero and this replacement of aging infrastructure, which is not an option. If we want water quality to stay where it is, we want roads and bridges to stay open and railways to run, it's not an option. These megatrends are essential that the infrastructure in the developed world is replaced.

We think we've got a differentiated product in the way that we approach the market. We're a very connected organization. When we pitch up to a customer, we could have people from the U.K. and the Middle East, Canada to a U.S. client because we pitch up as well. That's what I think, in addition to our end-to-end services, where we offer capabilities through the whole lifecycle that we've talked about before. I think that's what is kind of differentiating it. I just want to be clear, we're really confident in the long term sustainability of our growth.

However, there's a couple of things in the second half of this year which we just need to get bedded down, and I want to be prudent to see how these play out. One is obviously the new U.K. government, where we are very confident that they are committed to infrastructure and energy transition. In fact, very committed and we want to see how that beds in. We want to see how the elections play out in the U.S. And we're also in a process ourselves of diversifying from just the Middle East into other parts of AMEA to diversify our reliance on Middle East growth. We need to see all that play out. That's why we kept the outlook the same for the rest of this year.

Benoit Poirier:
Okay. Okay. That's great colour, Ian. When we look at the U.S. and Latin America, obviously, this was a strong print in terms of organic growth. But when we look at the EBITDA margin, it fell from 14.9 to

13.1. I saw some comments about lower income from emergency response activities and also changes in the business mix, so I would be curious to have more granularity around kind of the change in business mix ,and also what we should expect in the back half of the year, and more specifically for U.S. and Latin America?

Ian Edwards:
Yes. That's a fair comment, because to build on the comments I talked through before about margin expansion, this margin expansion program is not going to give us a quarter-by-quarter linear straight line of improvement. Specifically in the U.S., we've year-over-year relied on this disaster relief, federal government FEMA work, and frankly, it's not there this year. So we've ended up with a bit of a margin hole there this quarter. That's the kind of thing that we've got to fix in the business, so that we've got sustainable approach to winning work, sustainable approach to delivering revenues that will always deliver margins at the higher rate of 17% to 18% by 2027. And we're on it. That's the kind of thing that in our plan. Specifically, as well, there's a couple of projects, frankly, which are lower-margin projects, which we just don't want in the business going forward, and we've got to fix things like that.

So you will see some margin improvement towards the end of the year and you're going to see sustainable margin improvement over the longer-term. Period. But we recognize where that was this quarter, and that's the kind of thing we're planning out of the business.

Benoit Poirier:
Okay. That's great. When we look at margins in Canada, I've heard your comment about not being a straight line, but on the other side, when I look at your backlog, very impressive growth versus a year ago. I was curious what kind of margins are baked in, in your backlog, and whether the little decline we saw year-over-year was more driven by the ramp-up of new contracts or more kind of a mix that changed?

Ian Edwards:
Well, it's good backlog. The program in Canada, we haven't just implemented that this year. This is going back a couple of years, because it takes a while. We've got long-term customers, long-term kind of arrangements with them. It's not like flicking a switch; we've got to migrate gradually over time. But the backlog growth, 26% is great. We're really pleased with that, the forward-looking indicator to growth, but it's good margin as well. I mean this is different kind of work, different customers in the main that will bring us a better result. So I'm actually really, really pleased with the work that we're doing in Canada and the way that we're approaching the expansion.

Also, we're looking at new kind of markets that we've not been in recently. Historically, we've been in them in Ontario, Alberta and British Columbia, but more recently, we've not been as strong, and now we're coming back there and re-entering the markets with good work.

Benoit Poirier:
That's great. Then maybe last one for me. When we look at AMEA, very impressive margin in the quarter. Could you maybe provide some colour on what's driving—I think you mentioned some comments about the strong buildings in Middle East and also whether this margin performance is sustainable going forward?

Ian Edwards:
Well, it is pretty exceptional. I mean very, very strong margins. When we were entering and looking at our strategy going back a couple of years in the Middle East, where we targeted the big programs, and

we targeted the big programs in client-related kind of partnerships and design work and project management work. We were really fortunate in winning high-quality work because we brought—it's these two differentiators that I believe we have. Because we brought this end-to-end capability where clients, if they want you to design something, they also want you to know how that design moves into construction. And whilst we don't do construction, having the knowledge of how that plays out gives us this kind of differentiated offering to our customers that they like.

That put us into some big schemes like NEOM, like The Mukaab, like Salman Park in the middle of Riyadh. These have been good jobs. They are high margin that worked out well. But AMEA now is about diversification for us. We're probably at the level we want to be in the Middle East in terms of percent revenue to the whole and we want to now move into the other parts of AMEA. We see great growth potential in Australia, particularly from the energy transition there, and the defence spending that Australia is getting into which will bring our U.K. expertise in defence, will bring our engineering Net Zero hydro transmission and distribution expertise to Australia.

Then in Asia, Hong Kong is coming back. That's why we created the region AMEA and appointed a President with Christine Healy there to drive that through. So, a bit of a diversification story there. Sorry, it's been a long answer.

Benoit Poirier:
That's great colour, Ian. Thank you very much for the time.

Operator:
The next question comes from Sean Jack with Raymond James. Please go ahead.

Sean Jack:
Hey guys, just thinking about the CANDU refurbishment that was announced in China and all the other nuclear activity that's happening in that part of the world. Wondering if you could just talk a bit about some of the other opportunities that you're seeing for the nuclear segment in Asia?

Ian Edwards:
Yes. Let's start maybe with Qinshan. The CANDU, two reactors were built some time ago in Qinshan, and they're coming up for life extension at the 30-year mark. We have been working with them all the way through, supporting the operation of the CANDU, and they actually have the choice of maybe decommissioning this power plant or life extending it, and they chose to life extend it. We will not obviously carry out physical work on the ground, but what we will do is provide engineering support from Canada. We will provide procurement of procured items for the reactor to rebuild from Canada. We will provide oversight on the ground in China to help them retube and rebuild this reactor. And tooling, which is multimillion. These tools are several tens of millions of dollars of supplied items, so it's a good job.

Now, the reason China likes the CANDU technology is they can burn spent fuel from their other technologies. It could be possible, it could be possible that they may want more CANDU technology. We're in discussion with that. There's no guarantee, but it could well be possible.

Across Asia, beyond that, I and a few of my colleagues was on a trade mission with the Canadian government, federal government going back about two months. We had some really good engagement, particularly in certain countries where they're looking for nuclear. They clearly are not aligned to Russia or China, so they're looking to the West towards nuclear technology, and the great thing about the

CANDU technology for a new country that wants nuclear power is we use natural uranium. So all the complexities around bringing processed uranium into the country doesn't exist with CANDU.

I think nothing imminent, but I think with the Canadian government support and with the great technology we've got, I think there's a real opportunity around the Asia region, and we're active in marketing, really active in marketing around that.

Sean Jack:
Awesome. Okay, I'll leave it there. Thanks, guys.

Ian Edwards:
Okay. Thanks.

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.

Maxim Sytchev:
Most questions have been asked already, but I was just wondering now that you have telegraphed that you're looking to exit the 407, if you have gotten any sort of inbound interest from whether, I guess, the logical buyers or somewhat unrelated third parties? And maybe any update on Linxon as well. Thanks.

Jeff Bell:
Yes. It's Jeff. Why don't I take that? Maybe just in reverse order. Nothing to report around Linxon. As you heard from Ian earlier, we continue to look to strengthen that business, improve its margin profile, and we'll continue to do that while at the same time continuing to explore options to divest our interest. But we don't see anything currently in the short term on that.

I think on the 407, as we said at the Investor Day, we ultimately don't see ourselves as a long-term owner, and therefore, would expect to divest our stake. Not surprisingly that has resulted in some interesting conversations, but nothing, nothing to report at this time, Max.

Maxim Sytchev:
Okay. Fair enough. Then actually, maybe do you mind if I ask you just a quick question on U.K.? Curious what's driving the performance there and any potential impact from the recent change in government? Thank you.

Ian Edwards:
Yes. Good question. Actually, I was at a round table in Canada with the Chancellor of the Exchequer from the U.K. only this week with some of the businesses, so we've got some kind of direct information. We're pretty optimistic about the new government. I think optimistic in two ways. First, the commitment to infrastructure as a stimulus towards economic development and the U.K.'s intention, the new government's intention is to draw up a strategic list of infrastructure that will be executed over the long term, and this is really helpful. Because when governments chop and change, it's hard to plan resource

around that and plan and capability, so I see that as a real positive. And clearly, a commitment to infrastructure.

But even more than that, they have reduced the Net Zero electrical generation goal from 2035 to 2030, and that means the deployment of renewable energies, including nuclear, on a pretty urgent basis to do that. So that could play really well for us. We intend to obviously support other technologies in nuclear, but we intend to take the CANDU there and see if we can deploy that too.

So I think it's going to be kind of a good period of opportunity actually as we see this new government going into action, and they're keen. Five weeks in office and she came over here, in New York, looking for investment, looking for business partners. So they're getting going quickly.

Maxim Sytchev:
That’s good to hear. Thanks so much, Ian.

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

Michael Tupholme:
Thank you. Just a question about the Canada Engineering Services business in Q2, the organic growth. Saw that slow down fairly meaningfully from what we had seen in the first quarter, so I guess the question is, what drove that slowdown in organic growth versus Q1? And how should we think about Canadian organic growth in the second half of the year?

Ian Edwards:
Yes. Yes, fair question. I think the forward-looking metric that I would look to kind of think about how it plays out in the longer term is obviously the backlog growth, and 26% backlog growth, that gives me comfort that we're on the right road, and we're going to see growth coming out. And further to the sort of margin questions that were asked, it's good quality backlog as well that we've replaced it with. We didn't get a replacement contract on one of the battery factories that we're working on; that was a bit of a blow, frankly. That's probably brought the kind of growth down in Q2, but that is what it is.

We’re focused on other kind of markets, as I said, particularly in the transport sector where we have that great win on the Surrey-Langley, which is really good services around systems and around track where we've got great expertise.

We're seeing good opportunity in property, which we generally—architecture and property is not something that we've really been strong at in Canada outside of Quebec. But we've got a new approach there in Ontario. I've been in Alberta with Stephanie, our President, probably three times this year because we're seeing good industrial work in Alberta. No wins of significance yet, but a lot of investment in renewables, a lot of investment by the oil and gas sector to decarbonize their assets and potential carbon capture and hydrogen, so we're following that, too. We're optimistic about Canada, and I think we have a good plan.

Michael Tupholme:
Okay. Perfect. Then two quick modelling-related questions, so probably for Jeff here. Corporate PS&PM maintaining the full year guidance of $130 million, that implies about $51 million for the second half. How do we allocate that between Q3 and Q4? Could stock-based comp continue to affect that and actually change that $130 million number?

Jeff Bell:
Yes. I think you've done the math about right. I'd expect that over the next couple of quarters to be roughly equal, nothing one way or the other. We think also at this point that we've accounted for the necessary share price rise in LTIP. Now I guess you'd never say never. If the share price were to significantly rise again then we might see some additional costs, but we think we've got a lot of that now accounted for.

Michael Tupholme:
Helpful. Then just lastly, LSTK EBIT loss a bit higher this quarter at $18 million. Why was that, and how do we think about sort of Half 2 and the eventual ramp-down of that drag on results here as we look out a little further?

Jeff Bell:
Yes. So we did see a bit of additional cost as we're closing out or getting close to closing out some of the projects. Trillium, for instance, we expect to hand over in a reasonably short period of time, so we saw a few extra costs around that just finishing it off. That's what kind of drove the few extra million you saw in the quarter.

I think over the next couple of quarters, probably a similar level to what we've been, sort of $10 million to $15 million as we look to close some of these out. Obviously, as we move into next year, it will continue to reduce.

Michael Tupholme:
Perfect. Thank you.

Ian Edwards:
Thank you.

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

Denis Jasmin:
Thank you very much for having joining us today. Merci beaucoup. Have a good weekend everybody. Have a good day. Thank you.

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