

# **Jacobs Solutions Inc. (J) Q3 2024 Earnings Call Transcript**

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August 6, 2024 Tuesday

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**Length:** 8639 words

**Byline:** SA Transcripts

**Body**

Jacobs Solutions Inc. (J)

Q3 2024 Earnings Conference Call

August 06, 2024 10:00 AM ET

Company Participants

Ayan Banerjee - Senior Vice President of Investor Relations and Finance

Bob Pragada - Chief Executive Officer

Kevin Berryman - Special Adviser to Chief Executive Officer

Venk Nathamuni - Chief Financial Officer

Conference Call Participants

Michael Dudas - Vertical Research

Andy Kaplowitz - Citigroup

Steven Fisher - UBS

Sabahat Khan - RBC Capital Markets

Andy Wittmann - Baird

Bert Subin - Stifel

Jamie Cook - Truist Securities

Sangita Jain - KeyBanc Capital Markets

Chad Dillard - Bernstein

Jerry Revich - Goldman Sachs

Louie DiPalma - William Blair

Presentation

Operator

Thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to the Jacobs Solutions Third Quarter 2024 Earnings Conference Call and Webcast. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I will now turn the conference over to Ayan Banerjee, Senior Vice President of Investor Relations and Finance. Ayan, you may begin your conference.

Ayan Banerjee

Thank you. Good morning. Our earnings announcement was filed this morning, and we have posted a slide presentation on our website, which we will refer during the call. I would like to refer you to Slide 2 of the presentation material for information about our forward-looking statements, non-GAAP financial measures and operating metrics.

Turning to the agenda on Slide 3. Speaking on today's call will be Jacobs' CEO, Bob Pragada; Special Adviser to the CEO, Kevin Berryman; as well as our new CFO, Venk Nathamuni. Bob will begin by providing an overview of recent activities and then summarizing highlights from our third quarter results. Kevin will provide a more in-depth discussion of our financial metrics. Venk will then provide a review of our balance sheet and cash flow and provide comments around our guidance and Investor Day. Finally, Bob will provide closing remarks and then we will open up the call for your questions.

With that, I will turn it over to CEO, Bob Pragada.

Bob Pragada

Thank you, Ayan. Good day, everyone, and thank you for joining us to discuss our third quarter fiscal year 2024 business performance. I'm joined today by my Special Adviser, Kevin Berryman, who acted as Interim CFO into June, and will therefore report our financials. I'm delighted to also welcome our new CFO, Venk Nathamuni, on his first earnings call for Jacobs. Venk joined us in June and will provide details on guidance. Venk brings a wealth of knowledge and expertise from his 30-plus year career, and I am excited to work in partnership with him moving forward. Kevin will continue in his role as special adviser to me to drive a successful conclusion to the separation and merger of our Critical Mission Solutions and Cyber & Intelligence businesses with the Amentum. I'd like to extend my gratitude for Kevin for our ongoing support.

Now moving to Slide 4. We continue to make progress on our strategic shift toward a simpler, higher value, higher margin portfolio and remain confident in driving margin expansion over the coming years. Turning to Slide 5. I am pleased to report significant progress on the previously announced planned spin-off of our Critical Mission Solutions and Cyber & Intelligence businesses. An updated Form-10 was publicly filed yesterday with the U.S. Securities and Exchange Commission. This filing made under Amazon Holdco, Inc. includes important business and financial information about the intended merger with Amentum to create a leading publicly traded global government services provider. Amentum will provide additional details during their Capital Markets Day on Tuesday, August 13, 2024. The transaction is now anticipated to be completed in the second half of September 2024.

Turning to Slide 6 and Q3. I will now share our third quarter achievements, highlighted by strong backlog growth, consolidated margin expansion and P&PS record backlog and strong adjusted operating margin. This period saw a continuation of a mix shift to higher-margin science-based consulting and advisory services that offers significantly higher returns, contributing to an overall margin expansion, notably led by P&PS and our partnership with PA Consulting. We are seeing an accelerating demand for critical infrastructure, particularly in water, environmental and advanced facilities end markets, which are poised for substantial growth.

Consolidated backlog increased 6% year-over-year bolstering confidence that our business will accelerate profitable growth as we strategically shift our portfolio to higher value, higher margin solutions. Our consolidated adjusted EBITDA came in at $392 million, an increase of approximately 11% compared to the same period last year and representing 11.5% adjusted EBITDA margin. From a cash perspective, we started the second half of the year by delivering very strong operating cash flow of $483 million and free cash flow of $445 million. We continue to expect exceeding 100% reported free cash flow conversion in fiscal year 2024, underscoring the power of our business model.

Turning to Slide 7. People & Places Solutions line of business reported another -- of solid top line growth, along with strong adjusted operating margins of 15.3% and adjusted operating profit growth of 12% year-on-year. We ended Q3 with a strong book-to-bill of 1.53x and record backlog. Adjusted net revenue was up 5% year-over-year. Our pipeline remains robust, and we continue to expect P&PS -- solid P&PS organic revenue growth for Q4 fiscal year 2024.

I'm particularly pleased to report that during the quarter, we continued to deliver substantial wins in core sectors such as water, environmental and advanced facilities, a testament to our robust market positioning, deep domain expertise and long-term trusted client relationships. We achieved double-digit growth in our water and environmental markets with two thirds of our water-related business focused in on high-value science-based consulting and advisory services, driven by aging infrastructure and emerging PFAS regulations. Water continues to be a foundational element of our portfolio, exemplified by key wins across various geographies, reinforcing our global leadership in the sector.

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Europe, particularly the UK, has shown resilience, posting a robust quarter in water-related awards. In Asia, we were appointed by PUB, Singapore's National Water Agency to engineer and program manage the new Kranji Water Reclamation Plant designed to enhance Northern Singapore's water treatment capacity by 120 million imperial gallons per day. Additionally, our partnership with Onondaga County, the Syracuse metropolitan area in Central New York, which began in 2008, continues as they've chosen us to provide program management services for their efforts in controlling increased combined sewer outflow and utilizes our Digital OneWater solutions. This expansion will be critical in remediating aging water infrastructure and supporting industrial growth in the geography.

We're excited by the continued momentum in pipeline build in our advanced facilities portfolio, predominantly driven by life sciences, semiconductor manufacturing and AI chip driven data center expansion. Specifically in life sciences, we continue to see robust growth with our pipeline and revenue growing double digits year-over-year. Approximately two thirds of our life sciences related business is concentrated in high-value science-based consulting and advisory services. We were selected by FUJIFILM Diosynth Biotechnologies to support the $1.2 billion expansion of their large-scale biologics facility -- biologics manufacturing site in Holly Springs, North Carolina, providing engineering, procurement and program management services with the first phase of construction expected to complete in 2025.

We continue to see a growing pipeline in transportation and energy and power supported by ongoing government stimulus. As an example, in transportation, we were selected to provide program management services for Broward County Transportation Department's first-ever public transit expansion. This $4.4 billion 30-year initiative will transform the county's transportation infrastructure into a multimodal transit system with a new light rail connecting Fort Lauderdale Hollywood International Airport to Port Everglades. Additionally, the quarter was highlighted by several key wins in the energy and sustainability space as demonstrated by our appointment as program manager for the ARCHES Hydrogen Consortium and master service agreement with Shell Energy in Australia.

PA Consulting delivered an industry-leading adjusted operating margin of 21.8% with robust execution and cost discipline. Our partnership with PA continues to be a differentiator in our science-based consulting and advisory services. Together with PA, we were selected in the Hertfordshire County, UK to enhance the public highways network in the county with services valued at approximately $22 million annually. This collaboration focuses on sustainability and aims to deliver long-term value over an initial five-year period with potential extensions up to 14 years.

In Divergent Solutions, we are encouraged by the ongoing demand for our digitally enabled infrastructure solutions that will remain with independent Jacobs post close. A testament to our capabilities is our recent selection by the City of Omaha to develop a data analytics and AI-enabled support system for its wastewater network, utilizing Jacobs Digital OneWater Solutions, Aqua DNA. CMS delivered 35 basis points of margin expansion, the highest in 10 quarters and has a strong pipeline. Additionally, we're experiencing encouraging trends that support long-term growth as we approach the merger with Amentum. In summary, we remain confident in our ability to win higher value, higher-margin solutions and deliver superior execution to meet our clients' expectations.

Now I'll turn the call over to Kevin to review our financial results in further detail.

Kevin Berryman

Thank you, Bob. We are pleased with our Q3 results, leading to another solid quarter. Let me begin by summarizing a few of the highlights for the quarter on Slide 8. Third quarter gross revenue grew 1% year-over-year and adjusted net revenue also grew 1%. GAAP operating profit was $260 million for the quarter and included $53 million of amortization from acquired intangibles and $73 million of transaction, restructuring and other costs including $62 million associated with the separation transaction. We now expect our total restructuring costs to be approximately $300 million for the fiscal year, materially driven by higher separation transaction costs associated with our anticipated close now targeted during the second half of September 2024.

Our adjusted operating margin was again a strong 11.3%. I'll discuss the underlying dynamics during the reporting segment review. GAAP EPS from continuing operations was $1.17 per share and included a $0.31 impact related to the amortization charge of acquired intangibles and $0.49 from transaction, restructuring and other related costs, which again were materially driven by the separation transaction. Excluding these items, third quarter adjusted EPS was $1.96, marking an 11% increase compared to the previous year. Q3 adjusted EBITDA was $392 million and was up 11% year-over-year, representing an 11.5% adjusted EBITDA margin. Finally, consolidated backlog was up 6% year-over-year and the revenue book-to-bill ratio was 1.29x with our gross profit and backlog increasing 5.5% year-over-year.

Regarding the performance of our lines of business in the quarter, let's turn to Slide 9. Starting with People & Places Solutions. Q3 adjusted net revenue was up 5% year-over-year with adjusted operating profit up 12%. Our mix shift mentioned earlier, resulted in higher margins on lower revenue growth. Adjusted operating margin of 15.3% was up 95 basis points year-over-year. Our backlog grew by 10% year-over-year, while gross profit in backlog grew 9%. This quarter's critical wins underscore our strength in water, environmental and advanced facilities, reinforcing our leadership position in these key markets. These wins translated into a book-to-bill of 1.53x and a record backlog, as previously mentioned by Bob.

Moving to Critical Mission Solutions. Our Q3 revenue decreased 3% year-over-year, while backlog was up 4%. Excluding the announced contract loss mentioned in the prior quarter, our revenue would have been up slightly year-over-year. Our adjusted operating profit was up 1.2% year-over-year, while CMS adjusted operating margin rose by approximately 35 basis points year-over-year to 8.7%, the highest margin in 10 quarters as the business continues to drive operational improvements and margin-enhancing client-facing projects.

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Shifting to Divergent Solutions. Q3 saw an 11% year-over-year dip in adjusted net revenue and a 40% year-over-year decrease in adjusted operating profit, driven by a one-time year-to-date government rate adjustment and the space-based ISR program delays that were mentioned in the prior quarter. Despite the strategic shift in funding with the DoD, we continue to see positive momentum in our space-based ISR technology adoption leading to pipeline build and expected future backlog growth. Now let's turn our attention to PA Consulting. Q3 saw a modest increase in year-over-year revenue. However, PA delivered a strong adjusted operating margin of 21.8%, reflecting a 60 basis point improvement from the previous year.

Our margin results this quarter exceeded our expectations and reinforces our confidence in sustaining a strong margin profile as we continue to expect 20% plus margins in Q4. Backlog increased 4% year-over-year, and we expect improved growth as we enter fiscal year 2025. Our adjusted unallocated corporate costs were $61 million in Q3, and we continue to make progress on simplifying and optimizing our operating model to drive costs down. Finally, I am very excited to welcome Venk to the team. We've been working together closely and I -- and we have made great progress on ensuring a smooth transition.

With that, I'll turn the call over to Venk.

Venk Nathamuni

Thank you, Kevin. Let me begin by saying I'm very excited to be part of the Jacobs team and a special thanks to Kevin for his partnership and support. I'll now provide a quick overview of our balance sheet and cash flow metrics, followed by consolidated full year guidance. Turning to Slide 10. We posted a strong quarter of cash flow generation, which is indicative of the quality of our earnings and cash conversion. We generated strong quarterly free cash flow of $445 million. Year-to-date, our free cash flow conversion was well above 100%, leading to a full year expectation of greater than 100%.

Regarding capital allocation, we opportunistically repurchased $151 million of shares during the quarter, which was up $55 million compared to Q2, reflecting our commitment to delivering consistent return of capital to our shareholders. We have $528 million remaining under our current repurchase authorization. And as we've stated before, we'll continue to return capital to shareholders while remaining committed to maintaining an investment-grade credit profile.

On the balance sheet, we ended the quarter with cash of $1.2 billion and gross debt of $2.9 billion and our Q3 net debt to adjusted EBITDA of approximately 1.1x remains a clear indication of the continued strength of our balance sheet. Given the strength, we feel comfortable with a portion of our debt remaining current in the fiscal year. We have ample options, refinancing as well as using proceeds from the expected separation transaction for repaying the current amounts. As of the end of Q3, approximately 37% of our debt was tied to floating rates and our weighted average interest rate was approximately 5%. On the dividend front, we remain committed to growing our quarterly dividend. The Board has authorized a quarterly dividend of $0.29 and 11.5% year-over-year increase to be paid on August 2023.

Now turning to Slide 11. Given the solid execution thus far, we're narrowing our consolidated adjusted EPS outlook to a range of $7.85 to $8.05, representing 10% growth year-over-year at the midpoint. We expect fiscal 2024 adjusted EBITDA to be near the lower end of the $1.54 billion to $1.585 billion range. This guidance incorporates Q3 adjusted EPS of $1.96 and approximately 27% adjusted effective tax rate for the remainder of this fiscal year. Additionally, this represents 13% EPS growth in the second half of fiscal year 2024 versus the year-ago period. Our expectation is that the ongoing positive momentum in our business will lead to increased revenue growth in fiscal year 2025 compared to our current levels. Once we close the separation transaction, we anticipate an immediate shift in our company's growth profile, positioning us solidly for higher growth and higher margins.

As Bob mentioned earlier, the anticipated separation transaction close date is now in the second half of September 2024. As a result, we expect Q3 to be the last quarter in which the results of the separated businesses will be included in our continuing operations. Beginning next quarter, we expect our results for our continuing operations to reflect the new independent Jacobs. Historical results for independent Jacobs will be available following the close of the transaction. And lastly, we're excited to announce that we will be hosting an Investor Day for independent Jacobs on February 18, 2025, in Miami, Florida. We look forward to sharing our long-term strategy as well as our financial target model with the investor community during this event. Additional details will be forthcoming, and we look forward to your participation.

And with that, now I'll turn the call back to Bob.

Bob Pragada

Thank you, Venk. In closing, we are invigorated as demand for our science-based digitally-enabled solutions remains strong, with clients continuing to select Jacobs to address their most complex challenges. We are exceptionally well positioned to capitalize on the momentum in the critical infrastructure market, and we remain confident in our ability to grow market share and fulfill the needs of our clients across key sectors.

Operator, we will now open the call for questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Michael Dudas with Vertical Research. Please go ahead.

Michael Dudas

Good morning, gentlemen, and welcome. Thanks.

Bob Pragada

Good morning, Mike.

Michael Dudas

Thank you. Yes. Maybe just first to talk about your improvement in the gross margins in the P&PS backlog that you reported this quarter up 9%. Maybe a characteristic of the mix impact, is there any industries or end markets that have contributed more to that? And I guess as my follow-up, as you're looking towards fiscal 2025 and the pipeline you have and a very strong book-to-bill you had, how confident do you believe that you can show backlog and net revenue organic growth moving ahead into 2025, given where your position is today with your backlog and pipeline?

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Bob Pragada

Sure. Mike, maybe I'll address both. I'd say, yes, the gross profit and backlog is definitely being positively affected by two elements: one, our service mix; and second, the end market sector mix. And so on the service mix, I mentioned a couple of times, we are really seeing a fundamental shift in our profile with regards to higher-end science-based consulting and advisory services. And that's not only showing up in our results from a burn profile but also in the backlog. The profile of the backlog is right now at a point in time, heavily weighted towards water as well as in advanced facilities, predominantly life sciences. And those two have a higher margin profile as well, so both are having a positive effect on that. With regards to FY 2025, we were looking forward to potentially another strong Q4 backlog performance, booking and backlog performance leading to confidence in our revenue growth in FY 2025. So, definitely some nice tailwinds there.

Michael Dudas

That's great, Bob. Thanks, sir. Thank you.

Operator

Your next question comes from the line of Andy Kaplowitz with Citigroup. Please go ahead.

Andy Kaplowitz

Hi, good morning everyone.

Bob Pragada

Hi, good morning, Andy.

Venk Nathamuni

Good morning.

Andy Kaplowitz

So Bob, Venk, or Kevin, can you give us a bit more color into the guidance towards the lower end of your annual EBITDA range you just said? What changed versus last quarter? Obviously, your margin has been very good. So you're seeing delays in backlog burning, which is hurting your revenue. Anything else that you could give us in terms of color?

Bob Pragada

Yes. Go ahead, Venk.

Venk Nathamuni

Yes. Andy, yes, thanks for the question. So I'd say a few moving parts as it relates to the EBITDA performance. So obviously, from the standpoint of EPS, we came in kind of the midpoint of the range as we guided to. Now as far as the EBITDA is concerned, we did allude to the fact that there were a couple of segments that were weaker than we expected. One was obviously the CMS, the Cytec loss that was announced in the prior quarter and then some of the DVS delays that Bob alluded to in his earnings script. But I would say at a higher level, when you look at the difference between the EBITDA performance and the EPS performance, clearly, we had a little bit of a tax benefit that helped us on the EPS front. And then obviously, as you also know, we reported a pretty significant stock buyback so that reduced the share count as well. So I'd say the difference between the EBITDA and EPS is primarily due to those two items. But what I would also point to is that if you look at the P&PS backlog, we feel pretty good about where our profile of that business is heading towards, both from a revenue growth standpoint as well as the margin standpoint.

Andy Kaplowitz

Very helpful. And then Bob, Venk, or Kevin, you kept the 13.8% plus FY 2025 standalone margin guidance intact for now, but obviously, your People & Places margin has been much higher than expected so far this year. So how do you think about that target at this point? Could there be considerable upside to that target? And then when you think about RemainCo sales, I know you said you expect a pretty good year next year. But any reason why you couldn't expect that sort of 6% to 9% growth for People & Places at least that you've been talking about?

Bob Pragada

Yes. So maybe the first one with regards to confidence going into FY 2025, Andy. There was a reason why we put the plus. Clearly, some moving parts right now with regards to the separation. So timing was another element that we want to consider. Performance has been solid. So I would just -- I'd characterize it as some tailwinds that we've got going into FY 2025, and we'll be really clear about that as we move into -- in the next phase, but confidence overall. Andy, remind me again the second half of the question?

Andy Kaplowitz

Because you've got a consulting what have you, but how do you think about sort of the visibility toward the core infrastructure growth in 2025?

Bob Pragada

Yes. Sorry about that. So yes, good visibility there. During the quarter, we -- strong tailwinds in water and advanced facilities in the areas where there was a little bit of maybe some slight -- not decay, but pause, I'd say, in the UK with regards to transport and the election and then the reprioritization of some shifts in the Middle East, specifically in Saudi. Those haven't gone away. And now with the election in the UK as well as some clarity on programs moving forward in Saudi, those also service some positive tailwinds on a mix standpoint going into FY 2025.

Venk Nathamuni

And Andy, if I could, I would say just in terms of just what we see ahead clearly, from a Q4 booking standpoint, there's still some good confidence about the strength of those bookings. But in terms of specifics, we'll obviously provide you fiscal 2025 guidance in the next earnings call. And then we look forward to providing a much more long-term guidance, both in terms of the revenue growth as well as our profitability profile when we have the Investor Day in February. Thank you for your questions.

Operator

Your next question comes from the line of Steven Fisher with UBS. Please go ahead.

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Steven Fisher

Thanks. Good morning. I'm not sure if this one would be something you would say for that Investor Day, but really just trying to think about what's the right framework for profit growth year-over-year in P&PS since Bob, you mentioned that you're going to accelerate the profitable growth. I mean, is the framework here any different than sort of the mid- to upper single-digit revenue growth and then some of this margin mix gets you to low double-digit profit growth? Or is something more like mid-teens possible given that you are accelerating these large awards and some of the mix dynamics?

Bob Pragada

Yes. I think it's early, Steve. We're going to go through all of that in some details, but we're really excited about the tailwinds that we see for FY 2025, specifically in all subsectors of the infrastructure market and facilities, but we remain very positive.

Steven Fisher

Okay, fair enough. And then just to follow up on the corporate expenses. Just to kind of -- can you just give us an update on how much more clarity you have to the path of hitting the target rate that you have and maybe what the next couple of quarters that you have embedded in there in that trajectory?

Kevin Berryman

Well, Look, Steven, I think it's clear that we're going to have a different reporting structure as Venk highlighted once the transaction closes. So the numbers that you will see in the corporate line will start to change, and we're working through all the recurring segments and all that kind of information for the full year reporting. So you may not see exactly the same number going forward, but you will fundamentally on an apples-to-apples basis, that $60 million, we expect will trend down to $50 million over time. And they embedded into a consolidated result for the company and so you may not see it broken out separately. But that's going to help drive towards that 13.8% EBITDA margin that was just asked going forward. So we feel good about it. Some of that cost will have to be targeted after separation because we still have two businesses to run so -- or three, I should say, with PA. And so more to come on that, but we feel confident about the necessary cost reductions that allow us to get to the 13.8% EBITDA margin.

Operator

Your next question comes from the line of Sabahat Khan with RBC Capital Markets. Please go ahead.

Sabahat Khan

Great, thanks and good morning. You talked a little. You mentioned a bit of a -- the ongoings in the UK a little bit. Can you just maybe talk about just the flow of the projects you're seeing across some of the markets, maybe particularly kind of the U.S. and the UK, obviously, a lot of elections going on? Are there puts and takes globally? Just is that trending in line with what you would have anticipated at the beginning of the year? Just any color there would be great.

Bob Pragada

Yes. A couple of comments. Let me start kind of with the U.S. and then work my way around. I'd say in the U.S., the flow of bid activity and pipeline across infrastructure and advanced facility, that hasn't slowed. I'd say the burn rate of some of our U.S. transport work has been a little slower from a burn standpoint, but the level of opportunities have been there. In water, I'd say globally, we have seen some real positive momentum both on bookings as well as burn and that's across all geographies. U.S., Europe to include the UK, Middle East and our Asia Pac and ANZ area. So water has been in that realm as well as advanced facilities really driven by life sciences.

So I'd say that just the two areas that we saw as a part of the election in the UK pause was transport. Water kept going in the UK and then the reprioritization in Saudi with regards to some of the event-driven cities oriented work moving more towards the time-based work like the Expo or the airport or infrastructure that's going to be needed with a time element to that in 2026 leading to the Expo and the FIFA World Cup. So these are things that we're continuing to add optimism as we move into Q4 and beyond.

Sabahat Khan

Great. And then if you can maybe just follow up on the commentary around the water, I broadly heard that the demand in that space has been growing. Can you maybe just talk about your win rate in that space, any particular areas within the broader water market where you might have been winning an outsized amount of work? And if I could maybe just talk about the progress you've made with AMP8 in terms of any opportunities there that you might have secured.

Bob Pragada

Sure. So as far as again what's driving it, clearly, the aging infrastructure is a big piece. The other piece is around combined sewer overflows and what's happening with regards to climate and some of the natural disasters that we're seeing. So I'd say that's accelerating what's going on as well. In the drinking water component, we are seeing an increase in PFAS -- in addressing the PFAS regulations, specifically in the U.S., but also in Germany and in other locations, too. So that's all kind of driving that. Just to quantify it, Sabahat, our pipeline in the water sector is up nearly 2x as it pertains to this time last year. And we are winning a majority of the work that we're going after, hence, the real attention and focus on the growth.

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Operator

Your next question comes from the line of Andy Wittmann with Baird. Please go ahead.

Andy Wittmann

Oh, great. Thanks for taking my questions. I guess I just wanted to get a little clarification on the gross profit in backlog. I guess your total backlog was up 6% year-over-year and your gross profit in backlog was up 5.5%. So that suggests that the overall backlog has a little bit lower margin in it. I guess we've established that the P&PS segment margin is up. So I was wondering what the offset and what segments they are? And if you could talk about the mix in those and what occurred there so we can understand the complexion there a little bit better. I think that would be helpful.

Bob Pragada

Andy, maybe just -- I'll let Kevin kind of clarify the nuances within the backlog, and then I'll talk about kind of the profile as it pertains to the various end markets and we can talk about that profile.

Kevin Berryman

Yes. Look, so what we're seeing is we've been talking about the growth profile in People & Places top line wise and being a little bit more muted because effectively we're seeing more consulting science-based technology, technical and consulting work that's happening. In the backlog and the book-to-bill, very strong book-to-bill is some other types of projects, which include lower margin work, which will, at the same time, create accelerated good top line growth.

So it will be a little bit of a reduction in mix relative to the consulting piece versus our current levels. And at the end of the day, it's going to be quite positive because we'll still see, I think, incremental margin over time in People & Places because we've proven our ability to do that. And we're going to see some accelerated growth as well associated with some of these larger, I'm going to call it, projects that involve program management and extended dollars being spent, which will include a little bit greater percentage of pass-through revenue, which has more limited margin than the high-value consulting work that we do.

Bob Pragada

Yes. And Andy, maybe I'll just extend on that last thought that Kevin had. So then if you break that, you cited the consolidated numbers on the 6% and the 5.5% in gross profit. If you then translate that into P&PS, which relates to the last comment that Kevin made, that looks like more like 10% on the top line and 9% on gross profit. So you can kind of see the dynamic leaning towards P&PS is growing at a much higher rate.

Andy Wittmann

Got it. Okay. Yes, that actually makes sense. So, that's helpful. I wanted to also just get an update, Bob, just on some of the actions you're taking in preparation for the split. I know you're looking at how your organization works and where the real cost centers are and the benefit centers are. Can you talk about any things that you've actioned to date that we should know about in terms of how you've changed your business model in anticipation of that forthcoming split, things that you're able to do now before you're able to actually effectuate that deal?

Bob Pragada

Yes, absolutely. So we really looked at in a consolidated company, what type of corporate needs are going to be needed on more of a homogenous corporate needs are a lot more synchronized across the world. So those movements to global business centers and real streamlining of process protocols and systematic enhancements. Those have been taking place in real time. From a business standpoint, we've already started to transition into optimizing on a lot of our cross-cutting capabilities, program management, digital enablement and other strong sales, market-leading sales functions that will cut across the entirety of the company. So the geographic nuance client-facing entities with cross-cutting capabilities, that structure, it's almost like being in -- with the being the Olympic time right now, it's already in that zone where we're handing off the baton in that section, we're already off and running.

Operator

Your next question comes from the line of Bert Subin with Stifel. Please go ahead.

Bert Subin

Hi, good morning.

Bob Pragada

Hi, Bert. Good morning.

Venk Nathamuni

Good morning.

Bert Subin

Bob, maybe just to start with you, you had some comments on the advanced facility side. It sounds like life sciences has continued to be really strong, and you mentioned AI data centers, which I feel like is more of like a newer area for you guys in terms of that growing. I didn't hear the semi side. Can you just give some context on sort of what the mix there looks like? I mean, I know Intel reported and said they're taking down their CapEx. So like what the expectation is as we move through into maybe in the 2025 for advanced facilities and how it's performing today?

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Bob Pragada

Sure. So specifically on semis, Bert, we've been working on this for a while. So clearly, we do, do a lot of work for Intel, and that work is fundamentally on that CapEx program that they highlighted three or four years ago. We had substantially worked our way through that. And so the news that's come out has got a minimal effect on us. The diversification of our services that we perform for Intel, those kind of ongoing sustaining capital work that we do around tool installs and retrofits and layout dependent type work, that will continue.

So -- but the good news is that our diversification into memory customers as well as other logic customers that are doing work in the U.S. and in Europe, that's continued, and we'll have, hopefully, some good news to share next quarter on that as well as some of the geographic expansion that's going on in places like India. And so we have some really positive momentum going on, on that front. So overall we're still bullish on the sector, and we'll continue to accelerate growth.

Bert Subin

And then in the life sciences…

Bob Pragada

And then on life sciences, yes, that's really going well right now. And it's probably a lot of discussion around GLP-1. But what we're seeing is Alzheimer's and oncology drugs still making a really big play. So the two big players that are in the GLP-1 sector, that is a big part of our work, but the new awards that are coming through, whether they be in the contract manufacturing space or in these other players that are -- have got a really nice pipeline of drugs coming into oncology as well as in Alzheimer's. Those are -- that's really driving that optimism too.

Venk Nathamuni

And Bert, if I could, just having most recently come from the semiconductor sector, we do see this as a secular trend in terms of where the manufacturing footprint is and across different realms of semiconductors and logic and memory, as Bob alluded to, and there's also a geographical shift that's happening. So as we look at our portfolio, we have good confidence that we are pretty well diversified. And then just the scope of the opportunities in front of us are still pretty good. Now obviously, any given quarter, it depends on what happens to the market. But I think if you look at it from a secular standpoint, we feel pretty good about our semiconductor footprint.

Bert Subin

That's very helpful. Just a clarification there. On the -- Bob, you mentioned the FUJIFILM construction would start to -- the phase 1 will start to ramp down in the first half. Is that expected to have any meaningful impact? Or is the award sort of backfilling that?

Bob Pragada

That's on the existing work, Bert. What we announced goes past that. So we're already on site doing phase 1. What I -- so my comment was around phase 1. Phase 2 is now just starting.

Bert Subin

Got it. Okay. And just as a follow-up, I mean, there's been a lot of questions on sort of the spin-off and sort of the dynamics there, referencing unallocated corporate expense and some of the other things. And I guess, Kevin or Venk, what are some of the dynamics we should be aware of, assuming that the spin-off closes in September, and we're going into the final quarter of the calendar year? What are some things to be aware of just from a perspective on modeling that are going to change? Obviously, not looking for guidance or anything like that, but just some dynamics that maybe are not fully appreciated.

Kevin Berryman

Okay. So yes, a couple of things. One, when we do the Q4 results, the full year results, I should say, since we're closing in or before the fiscal year ends, effectively, we will report on an independent Jacobs for the Q4 results and the full year results and report it on a historical basis as such as well. And all of the business that's included in the perimeter, which will be merged into the Amentum business, that will be basically assets held for sale. So you won't see that information.

We have provided you guidance for the full year similar to how we've established it for the full year. So assuming that it closes at the end of the year, all of those numbers that we just quoted would effectively be met. But you're going to actually see a lower number in the results just because some of it is now going to be because it's being put into equity directly as assets held for sale and you're going to be seeing the independent Jacobs. So a lot of clarity we'll be providing to get you an understanding of what that looks like, Bert, when we do report Q4 results, but a lot of moving pieces, but kind of that's a very general view of how you're going to be seeing our financials reported in Q4.

Venk Nathamuni

Yes. Yes. Sorry, Kevin, just to add to what Kevin said, in addition to what you said about our business is, obviously, Amentum is going to have their Capital Markets Day in August 13. So we'll have some more color in terms of their business. And then as it relates to ours, we'll provide guidance for all of fiscal 2025 in our November earnings call and then we'll talk about not only the revenue and growth as well as the margin profile. And then later on -- during Investor Day, we'll provide much more color about our long-term growth and operating models.

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Operator

Your next question comes from the line of Jamie Cook with Truist Securities. Please go ahead.

Jamie Cook

Hi, good morning. I guess most of my questions have been answered. But Bob, just thinking of Jacobs after the Amentum spin, you're going to have a good balance sheet. Your cash flow generation has been fairly impressive. And I'm just thinking about the growth and the margin that you're seeing in PP&S and PA Consulting. So just sort of wondering what your appetite will be for M&A with Jacobs after the spin-off the attractive dynamics that are out there. And then any help you can give us in sort of how we should think about -- I'm just wondering if free cash flow conversion of the RemainCo is a better story than the market anticipates. Thank you.

Bob Pragada

Sure. Maybe I'll take the first one, Jamie, and then Venk can talk about going forward, what free cash flow conversion looks like. But I think initially, we've got a lot of options. And our primary focus in the quarters that followed the separation is execution and performance and really driving that long-term margin growth profile. We like the positioning that we're in, in each of the end markets as well as geographies that we sit in. So it's not like there is an imperative that we need to do M&A in order to catalyze growth. We've got a great growth trajectory organically. And so proving that out, not even proving it out, executing on the plan that we have right now, we've got a lot of confidence in. Past that period, we've got -- you said it yourself, we've got a great balance sheet and we've got a lot of options, and it's a great place to be. So much more to follow on that. On free cash flow, I'll let Venk talk about that.

Venk Nathamuni

Yes. And just free cash flow in just a second, but just to reiterate the point about capital allocation, just given what we see ahead of us in terms of the pipeline and the opportunities in front of us, I think from a capital allocation standpoint, we're strong believers in organic growth as the first use of capital. Clearly, from the standpoint of the free cash flow generation and the balance sheet that we have, we do have the ability, number one, we do want to continue to provide shareholders the opportunity to get dividends, but also we do -- we'll be consistent in terms of buying our shares, repurchasing our shares. And then M&A, as Bob mentioned, is also an option. But the next few quarters, almost a singular focus on execution.

Now as it comes to free cash flow conversion, Jamie, you rightly pointed out, we've been generating pretty decent free cash flow. We said we'll be at over 100% free cash flow conversion for the remainder of the year. And as you deep dive into the P&PS business, which is a big part of independent Jacobs, you can expect that free cash flow metrics to improve over time. Again, we'll quantify it as we get closer to the date, but we feel pretty good about where we are and where we're going.

Operator

Your next question comes from the line of Sangita Jain with KeyBanc Capital Markets. Please go ahead.

Sangita Jain

Thank you so much for taking my questions. I guess most of them are answered. So I'm going to limit myself to just one. Are there any discrete deliverables from your side to close the Amentum spin in the second half of September? Or is it just mostly just the paperwork that's taking time? Just wanted to get a sense of that.

Kevin Berryman

All of the regulatory approvals on foreign investment and antitrust, all of those kind of things we've already worked through and all has been approved. The only remaining item is the IRS ruling on our private letter ruling that we're looking for, which confirms a view that -- our view that the transaction is tax-free to our shareholders. That's truly what's driving the timing at this point in time. We've been having great discussions with IRS, more to come, but we would expect to get that approval hopefully and over the next month or so. And effectively, that positions for that second half of September close. We've got a lot of things to do with registration for SEC distribution of shares and so on and so forth. But really, the only thing that we were looking for is the IRS ruling, and we feel confident about it.

Sangita Jain

Got it. Thanks so much.

Bob Pragada

Thank you.

Operator

Your next question comes from the line of Chad Dillard with Bernstein. Please go ahead.

Chad Dillard

Hi, good morning guys.

Bob Pragada

Good morning, Chad.

Venk Nathamuni

Good morning.

Chad Dillard

So my question has to do with the top line growth rate of the P&PS business. Just trying to understand the trajectory of that as we exit 2024 and then going into 2025. So you're starting kind of like a mid-single-digit rate in 2Q. You've got some pretty solid bookings that you brought in this quarter. And so I guess, like will that be enough for the top line to get back into like that, like 69% target range in 2025?

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Bob Pragada

Yes. The backlog performance -- the bookings and backlog performance, Chad, has been really, really solid. In fact, the 1.53, we had to go back to see if that was a record in itself. And so we're confident that we're going to be going into 2025 with some really solid growth projections, which we'll be very clear about when we articulate. So that's kind of on the financial and the lagging indicator, the answer is yes. On the leading indicator on the pipeline as well as where we sit in the markets where the pipeline is growing the fastest, water and advanced facilities being highlighted. That also gives us a lot of confidence, too. So short -- a long way of answering your question, the answer is yes.

Chad Dillard

Got you. Okay. And then just on that PP&S segment, again, the operating margins. So I guess at least on a year-to-date basis, you're running somewhere close to like 15%. Any reason like that, why that can't continue? And then one more question for you on the 4Q bookings. I think, Bob, you mentioned that you're pretty optimistic about that pipeline for 4Q. Can you just give a little more detail? And do you think you can actually hit like greater than 1x book-to-bill in the fourth quarter?

Bob Pragada

Yes. So on the -- on our optimism around the P&PS margins and then how that will translate into go-forward margins for the whole company, I think on Slide 11, we did give some guidance on greater than 14.9%. So it probably highlights the optimism that we have on our current reporting structure with regards to that element. And then on Q4, similar to last quarter, Chad, I wouldn't make those comments unless we had already booked work in the first month of the quarter. So I can't quite announce those right now, but you'll see that when we report out on Q4.

Operator

We have time for one more question. And our final question comes from Jerry Revich with Goldman Sachs. Please go ahead.

Jerry Revich

Yes, hi. Good morning everyone.

Bob Pragada

Hi, Jerry.

Jerry Revich

I wanted to ask People -- hi -- the profit growth that you folks have delivered in People & Places over the past five years has been 8% CAGR over the past over the three years, 11% CAGR. So as you folks think about the organic growth opportunity on a more focused Jacobs, can you just expand on that because the growth has already been really attractive in people in places? And so maybe give us a few threads that you'll expand on the Analyst Day on your expectations to continue to drive that level of growth? Or if you think you can accelerate off of that level of really strong performance that the business has delivered.

Bob Pragada

Yes, Jerry, without giving any kind of quantifiable number on where that number is going, I'll say that this our pipeline, where we're positioning the end markets that we sit in today and in the tailwinds with regards to our bookings performance on that gives us a lot of optimism. And so in November and when we report out on the full year for independent Jacobs as well as going into February and along the way in between, we'll put a lot more clarity as well as quantify what that means. But overall, I think hopefully, you're hearing some real optimism in our voices and in our performance on getting to exceeding the performance that we had for the last five years.

Jerry Revich

That's a high bar. All right. And can I ask in terms of just the moving pieces that you spoke about Bob, around the UK election, have you started to see now the best result? Have you seen an acceleration in activity levels? Or what's the history lesson on UK elections and the lag to when we start to see a booking reacceleration for your business?

Bob Pragada

Yes, I'd say there's been an acceleration in the dialogue, right? And now those translating into those programs that we either paused or in anticipation of being put out to market. I think that's kind of the next phase. So over the course of the next 6 to 12 months, I think we'll see that. Interesting enough, Jerry, the water sector in the UK has not paused at all. And so that continues on. And then with PA, think about this in the UK specifically, as well as globally, PA has about a 50:50 private sector, public sector mix in their business. The public -- the private sector in PA this quarter grew 11% year-on-year. And the public sector was kind of in this election pause. We see that kind of coming out as well, which gives us optimism not only in the Jacobs business, but in the PA business too, moving into FY 2025.

Operator

And we have one more question from Louie DiPalma with William Blair. Please go ahead.

Louie DiPalma

Thanks Bob, Kevin, and Venk. What is your forecast for infrastructure stimulus in the U.S. associated with the IIJA and the CHIPS Act? And is that contributing to your strong backlog? I know you highlighted recent wins with water and also a large multimodal transportation win. But what is your general like expectations over the next few years in terms of the IIJA?

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Bob Pragada

Sure. Louie, thanks for the question. IIJA, I think these are industry numbers. So 60% appropriated, 30% spent. So yes, there are -- there is work that continues to flow. Right now, I think that the hurdle is 2026. I said it before, that's probably going to continue to go past 2026 as we discussions about a second IIJA, which we'll see where that goes within the congressional floor. But we are -- it is driving that backlog performance and our conversion rate on that as well.

I will say this is that on the CHIPS Act -- I'm sorry, one more comment on IIJA. IIJA, the grant money you can see, and that's some of the work that we're seeing that's just in transport, but in water as well. CHIPS Act, those jobs that have received CHIPS Act money, we've been involved with those. Remember, those were pretty much designed and already in the field and then received the funds. Just kind of next wave, we're on the front end of. And so I think that CHIPS Act money will continue to flow and represent a nice tailwind for us.

Operator

And that concludes our question-and-answer session. And I will turn the conference over to Bob for closing remarks.

Bob Pragada

All right. Thank you, operator. Thank you, everyone, for joining the earnings call. We look forward to providing further updates and visiting with investors and analysts in the months to come. Exciting times ahead and look forward to staying very open and transparent with the market as we move forward. Thank you.

Operator

And this concludes today's conference call. Thank you for your participation and you may now disconnect.

**Load-Date:** August 6, 2024

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