

Transcript of Live Webcast at 1000 (BST), Monday 2nd August

WS Atkins plc – Interim Management Statement & Acquisition of PBSJ

Heath Drewett: Good morning everybody and thanks Allan. I have to say I feel slightly like the hors d'oeuvre ahead of Keith's main course, so I shall keep it suitably light. Nonetheless, I am pleased to confirm this morning that the Group has begun the year trading in line with our expectations. As anticipated our water business in the UK has seen an improvement in the workload, following the conclusion of the Regulatory AMP cycle last year.

Also within the design and engineering solutions segment within the Group, our energy business is performing well and is currently resourcing its recent contract win on the international therma nuclear experimental reactor or ITER project, down in the South of France, as we've previously announced.

Elsewhere in the UK, our diversified exposure to a number of end markets continues to provide the Group with added resilience and we remain well prepared for a period of tighter UK Government spending.

Our overseas operations are performing in line with our expectations and in the Middle East in particular, we're seeing opportunities increase and signs of improving liquidity.

Looking forward, with continued good levels of work in hand and a strong balance sheet, the outlook for the Group remains unchanged since our preliminary results in June.

With that short introduction as to the current trading of the Group, I'll pass over to Keith for the other news. Thanks very much, Keith.

Keith Clarke: Now following on, which we think is a very successful first quarter; we're going to talk about the acquisition of PBSJ. This is part of what we have said before; we are executing our strategy and just to remind you what we said at our last, I think we said this in the presentation with the preliminary results 2010. We are still investing in high performance businesses. We're investing in people and skills. We're doing it in areas we think are attractive, like renewables, nuclear mass transit and a variety of other technical skills. We are still focused on organic growth and organic investment and you can see that is continuing to be successful, and we have looked at acquisitions where it makes sense and in particular where there is a geographic footprint to be established.

We had a series of criteria that we looked at; and PBSJ meets all of those criteria and it's worth reviewing those. One, for a people business, a cultural fit is absolutely essential in terms of behaviour. A strong local management, where we're not importing management into a foreign environment, was essential. A business where engineering excellence is important and a foundation of the way the company performs; and that they be in a market where it's transparent and values quality, which is clearly one we're comfortable in the US, and has a business model that we deeply understand. It also needed a critical size, which therefore gave it the ability to grow sensibly in terms of adjacent sectors and skills and delivers shareholder value, no small feat.

PBSJ met all of those criterias when we sought them out – every single one. We're extremely comfortable with them. Now transaction overview, Heath will deal with this in more detail, but US\$280 million, it has approximately 3,500 people based in Florida, very, very strong in transportation in Florida and Texas, but with a good footprint of some other offices.

If you look at them, they are one of the leading providers of engineering architectural construction services, but very much a portfolio like Atkins. Deep technical quality, deep reputation with clients for performance, and you can see transportation and environment energy construction services is the bulk of their services, but a range of technical services just like us; a very experienced and deep management team in place.

If you look at their financial performance, I'll deal with 2010 in a second, but going back, they have had traditionally sound financial performance. In 2010 it's been a subject to a series of one-offs, which we'll go through in some more detail later, and also they have been reorganised. If you go to what happened, there was a leadership change in the first half of this year. They actually took good actions, just like we would have done to reduce headcount and the cost associated with that.

They also reorganised into business units, actually the same way as Atkins is organised, very sensible and pragmatic action that they took, which we would have done something similar had they not done it already, so they're in a good position going forward and they have a sensible and orderly order book of the right type of business for the right size, going forward, and a very good sales team.

If you go through the transactional rationale one-by-one, the balance of geographic presence, this moves us now and Atkins is 72% UK. Quite clearly we are comfortable in the UK and have said we are resilient in quite a difficult market going forward and we still will be in the UK, but it moves us from 72% in the UK to 54%, with 30% in the US from immediate effect.

If you look at the skill portfolio, this is Atkins at the moment. If we add PSBJ, you get something entirely complimentary. We do have two activities in America – the cost consulting business and oil and gas, entirely complimentary and not overlapping, an excellent fit for our future growth on a regional geographic basis.

If you look at the technical skills, they have deep technical skills in highways, toll road management systems. They've got some great programme management skills and some very sound, a variety of environmental consultancy skills; a whole range of things which add or complement the skills that we have elsewhere around the world; extremely comfortable after considerable due diligence of the depth of that skill.

The platform for growth and the US market is the largest infrastructure market in the globe. It has huge prospects for growth. The top 500 engineering firms have a design market per annum of US\$80 billion – that's a design market not a construction market. We think that the Federal stimulus, albeit with some distress at State level, will continue a very strong market and that the emerging rail market is a huge opportunity for us.

What PBSJ provide – critical size, at 3,500 they have all the infrastructure of management and controls that we would expect, which we can then expand sensibly within our business model. They have a very strong office network for accessing those additional regional markets. They also have the potential to infill and deepen skill sets that we have elsewhere, like rail, where they don't do anything significant at the moment and scale up those operations, either in regions they're already in or in adjacent.

What do we bring? We bring the scale and resources of commercial management and focus that a listed company brings, and a view of the future of transferring knowledge from here. We understand sophisticated procurement regimes, which are now just emerging in the US. P3 or PFI as it's called here is a relatively new area, but for a consultant it's about design management for a design build contractor, without us taking construction risk, but a different process of design.

We have proven ability to deal with greater complexity around the world and we are able to do it in quite aggressive, commercial environments. That is an environment that is emerging in America and leading in part to the consolidation of this sector in the US, which has been going on now at an increasing rate over the recent years; we are now part of that consolidation.

Lastly, it delivers attractive financial returns – extremely important. Heath, do you want to go through this slide?

Heath Drewett: Yes, I think as the announcement said this morning, it's an all cash consideration, US\$280 million, about GB£178 million at today's rates; the debt in the business being acquired, if you take their last SEC filing at March 2010 and the business is showing net debt at about US\$12 million.

In terms of the financial effects, we're expecting that the acquisition offers a significant enhancement on underlying earnings immediately. For those of you that are familiar with the current IFRS accounting, there will be some amortisation of intangibles arising on the acquisition, but at an underlying level pre that amortisation, we're expecting the acquisition to be immediately earnings enhancing.

We're pleased to have secured a new four-year facility in the UK. Our existing facility which was due to expire in June '11 has been renegotiated with four banks, up to GB£150 million and that's now a four-year term from July of this year to 2014; and the acquisition will be funded in part by cash resources on the balance sheet and in part by drawdown on the new facility.

Finally, just a comment in terms of the balance sheet strength of the Group, one of Atkins strength over a number of years; the balance sheet post acquisition remains strong, we have a net funds position rather than a net debt position, post acquisition, so a positive net funds to EBITDA ratio of about 0.7 if you use the trailing last 12 months to March 2010 as your earnings number and if you include the pension deficit in the Atkins, existing Atkins Group, you get a net debt to EBITDA on the same trailing 12 month of about 1.3 times, so a good strong balance sheet post acquisition, supported by a renegotiated increased debt facility in the UK.

Keith Clarke: All right, the next steps, PBSJ they join us a very strong regional US business. They have a capable and established management team that has organised itself well. We plan to enlarge that business, leveraging the existing skills that we have and providing that competitive advantage.

We expect that our normal robust management system, fits extremely well with the way PBSJ is organised, but will give it increasing focus on increased margins and growth, just like we have done with Atkins over the last seven years – a proven formula.

We have not taken cost synergies into our appraisal of the business. There will be some – they're purely upside. This is done on the basis of growing technical skills and improving the performance at the margin level. That is what we are very comfortable we can achieve. There will be some cost savings as well, but that will be upside.

The approvals, PBSJ shareholder vote – I'm off to America tomorrow night – normal Hart-Scott-Rodino and Exon-Florio; we think they are essentially pro forma. We're looking forward to a completion expected in the Autumn and we have an orderly transition.

Now in summary, it does give us another geographical footprint and balances the Group. It deepens our technical skills in area that we understand fully. It provides us that management

team and systems that we can grow from and it is tremendous we believe, for the shareholder.

The underpinning of that actually is the management that we are buying, the technical skills and the cultural fit of that company, which we spent a long time looking for the right company that will drive the value for shareholders. We have been doing exactly this with Atkins for the last seven years; we are very comfortable we can continue doing it within the existing part of Atkins and the bit we are now adding to the Group in an orderly fashion.

That's it. Thank you very much. I think that's the end of the presentation and the phone-in. Thank you very much indeed, thanks for coming at short notice.