ANALYSIS NOTE – 17 May 2021

JACOBS ENGINEERING
A Leading Engineering and Construction Company aligned with Megatrends

1. Leader in Engineering & Construction

Jacobs Engineering is is an American international technical professional services firm. The company is a global provider of engineering, design, procurement, construction, and maintenance services as well as cyber engineering and security solutions. The firm serves industrial, commercial, and government clients in a wide variety of sectors, including water, transportation, healthcare, technology, and chemicals.

Jacobs Engineering provides consulting, technical, scientific, and project delivery services for the government and private sectors in the United States, Europe, Canada, India, rest of Asia, Australia, New Zealand, South America, Mexico, the Middle East, and Africa.

Jacobs Engineering employs approximately 55,000 workers.

Jacobs Engineering Group Inc. was founded in 1947 and is headquartered in Dallas, Texas.

2. Areas of Activity

The company focuses in delivering sustainable solutions such as:

- Energy Transition
- Sustainable Transport
- Net Zero Development
- Resource Management
- Climate Resilience
- Infrastructure Adaptation
- Hydrogen Economy
- Social Value

Project Examples:

- **Energy Transition. SuedLink** – Integrating renewable sources into Germany's electricity grid to support 2050 target of 80% of power provided by clean energy.

- **Sustainable Transport. King Country Metro** – New battery electric bus (BEB) facilities will support the goal of a 100% zero-emissions fleet powered by renewable energy no later than 2040.

- **Net Zero Development. Meridian Water, North London** – 7 Billion pound sustainable mixed-use development, meeting UK's highest health and building standards and targeting net zero carbon by 2030.

- **Resource Management. Western Digital** – Global Energy and Resource Management Program. Energy, water, waste, and carbon reduction for manufacturing facilities.

- **Climate Resilience. Jacobs Climate Risk Assessment Tool** incorporates TCFD recommendations to identify and assess climate risks, combining high resolution climate data and GIS capabilities.

- **Infrastructure Adaptation. Port of San Francisco** – Preserving and fortifying the 100-year-old Embarcadero Seawall for earthquake safety, flood protection, resilience and sea level rise adaptation.

- **Hydrogen Economy. Transport Scotland, Dundee City Council**, European Commission Hydrogen fuel cell electric bus and refueling infrastructure.

- **Social Value. Cutter Lateral Water Treatment Plant, New Mexico**. Bringing a clean, reliable water source to Navajo and Jicarilla Apache communities.

Jacobs Engineering combines domain expertise and delivery experience.

- The company is investing in solutions aimed at critical global challenges. The company offers solutions enables by digital capacity, informed by domain expertise in areas such as cybersecurity, applied geospatial science, automated design, internet of things or predictive analytics.

- These areas of knowledge are developed in order to meet the most common client challenges such as reduce operating costs, extend life cycle of facility and infrastructure, reduce energy usage, enhance safety and data privacy and protection.

3. Company organization

The company operates in two segments:

- **Critical Mission Solutions**
- **People & Places Solutions.**

The Critical Mission Solutions segment provides cybersecurity, data analytics, systems and software application integration and consulting, enterprise and mission IT, engineering and design, nuclear, enterprise level operations and maintenance, and other technical consulting solutions.

The People & Places Solutions segment offers data analytics, artificial intelligence and automation, software development, digitally driven consulting, planning and architecture, program management, and other technical consulting solutions. The company is also involved in the management and execution of wind-tunnel design-build projects; and design-build for water and construction management.

	Critical Mission Solutions				People&Places Solutions				Total		
	2019	% total	2020	% total	2019	% total	2020	% total	2019	2020	% Growth
	(1)	(1)/(5)	(2)	(2)/(6))	(3)	(3)/(5)	(4)	(4)/(5)	(5)	(6)	(6)/(5)
Backlog	8,460	37.5%	9,104	38.2%	14,109	62.5%	14,714	61.8%	22,569	23,818	5.5%
Revenues	4,551	35.7%	4,966	36.6%	8,187	64.3%	8,601	63.4%	12,738	13,567	6.5%
EBITDA	212	29.1%	278	31.9%	518	70.9%	595	68.1%	730	873	19.5%
EBITDA/Revenues	4.7%		5.6%		6.3%		6.9%		5.7%	6.4%	

Amounts in Million USD

The company generated $13,567 million in revenue and $491.8 million in net profit in fiscal 2020.
People & Places Solutions segment represents 63% of the total revenues of the company.
Critical Mission segment represents 37% of the total revenues of the company.
Backlog is relevant in both segments, which ensures ongoing business activity.

Let us learn more about each segment and its characteristics.

Critical Mission Solutions

Demonstrated resilient base and strong pipeline of innovative solutions.

- Multiyear enterprise contracts provide long term stability.
- High value solutions and efficient cost structure driving margin expansion
- Next 18-month new business pipeline remains strong over $30 billion

Strategy aligned to critical national security priorities.

- Expect 2021 revenue, operating profit growth and margin improvement.
- Aligned to high priority areas in hypersonic, space, digital modernization, cybersecurity and all domain intelligence.
- Positioned to grow through technology enabled solutions such as strategic data utilization, space sensors, and clean energy.

Critical Mission Solutions			
2Q 2021	**Revenue by Sector**	**2Q 2021**	**Revenue Characteristics**
Civilian	39%	U.S.	85%
Defense	23%	International	15%
Intelligence	17%	Reimbursable & Lower Risk Fixed Price Services	95%
International	15%	Recurring	93%
Commercial	6%	Talent Force	18%

People & Places Solutions

Executing against high value opportunities.

- Deep domain expertise at scale across sectors.
- Global delivery model enabling stimulus readiness in all key sectors and regions.

Strong secular trend alignment

- Core and growth sectors strongly aligned with future spending.
- Climate change, sustainability, and resiliency key drivers in all geographies.
- Infrastructure modernization and digital transformation are universal trends.
- Continued investment in electronics and life sciences globally.

Recent customer wins

- Fujifilm Diosynth Biotechnologies RTP greenfield campus (US)
- Cambridgeshire & Peterborough Combined Authority autonomous metro (UK)
- Highways England Lower Thames Crossing (UK)
- Public Utilities Board Changi NEWater Factory 3 (Singapore)
- Saint Paul Regional Water Services McCarrons Water Treatment Plant (US)

People & Places Solutions			
2Q 2021	**Revenue by Sector**	**2Q 2021**	**Revenue Characteristics**
Transportation	30%	U.S.	63%
Built Environment	22%	International	37%
Water	21%	Reimbursable & Lower Risk Fixed Price Services	91%
Advance Facilities	15%	Talent Force	35%
Environmental	12%		

PA Consulting Investment

In December 2020, Jacobs announced it would be investing in the UK based company PA Consulting in a deal valued at 1,825 million British Pounds. Completion of the deal took place in 2021. This deal will provide extra business and projects into the company.

Deep strategic expertise vital during and post pandemic

- Trusted partner for UK government's COVID response
- Engaged across sectors for digital transformation.

Innovation focused solutions critical in technology driven world.

- Strategic vision with experience executing end to end innovation.
- Focused on leveraging technology advances across health and life sciences.
- Sustainability solutions water, carbon, packaging, waste, and products.

Recent customer wins

- Supporting UK Government as Home Office Software Engineering partner for border safety and improved citizen experience through digital technology
- Developing digital gateway to working in Sweden, with Flytta, a collaboration between the Swedish Tax, Migration and Social Insurance Agencies and the Swedish Public Employment Service
- Developing a cyberattack simulation with Open University, the UK's leading distance learning provider, to better respond to external cyber threats.

PA Consulting Investment

2Q 2021	Revenue by Sector
Health&Life Science	26%
Defense & Security	21%
Consumer&Manuf.	19%
Energy&Utilities	12%
Public Services	9%
Financial Services	7%
Transport	6%

2Q 2021	Revenue Characteristics
U.S.	10%
UK	79%
International	11%
Public Sector	53%
Private Sector	47%

4. Investment Opportunity

Some investment highlights:

- Broad, diverse opportunities for Intelligent Asset Management application. The use of **intelligent asset management is forecasted to grow at a CAGR of 18-25% expanding from approximately $8billion today to as much as $27billion by 2024**, according to Zion Market Research on MarketandMarkets.
- Jacobs Engineering is **delivering new and differentiated solutions** to its clients in areas such as intelligent asset management, digital twin, connected and autonomous vehicles, plarma plant of the future, drones, data analytics, laser scanning or smart cities. Jacobs engineering combines the digital capability and the domain expertise.
- Jacobs Engineering has shown **steady growth in revenues through organic and through some strategic acquisitions. The company has an important backlog in new projects**. The company generates a sound cash flow generator, with steady margins, sound ROA (around 5% area and imrpoving), ROCE on EBIT (around 6-7% area), ROCE on Free Cash Flow (around 8% area). Stable ROE (around 8-10%) and positive financial leverage. Company has a conservative and limited use of financial debt (around 30% financial debt to total assets).
- **Jacobs Engineering is committed to ESG.** The ESG Risk Rating according to Sustainalytics is 25.3, and it stands in position 9 out of 279 companies in the industry group of Industrials/Professional Services.

Industry ESG Comparison			
Company and Peers	ESG Rating	Industry Rank	Position over 100
JACOBS ENGINEERING	**25.3**	**9/279**	**3.2%**
Skanska AB	27.6	19/279	6.8%
Eiffage	35.8	86/279	30.8%
Bouygues	36.8	101/279	36.2%
China Communications Construction	41.6	175/279	62.7%

Note: Industry Group is Industrials/Professional Services

Source: Sustainalytics.com

5. Conclusions

There are several conclusions:

- Jacobs Engineering has outperformed strategic targets and transformed the projects portfolio.
- The company is able to continue to develop an accelerated profitable growth strategy.
- Empowering business culture based on innovation
- Targeting top decile operational performance
- The company is committed to continue to deliver strong total shareholder return

We are raising our fair value estimate for Jacobs Engineering to $184 from $138 after the company reported solid fiscal second-quarter results and raised its guidance for full-year 2021. The fair value increase reflects our more optimistic revenue growth and operating margin assumptions as well as time value of money.

Jacobs grew its fiscal second-quarter net revenue 6.7% from the prior-year period. Critical mission solutions revenue was up 5.3% year over year (down 2% on a pro forma basis, considering the Wood and Buffalo Group acquisitions). People & places solutions net revenue increased 1.4% from the year-ago period. Jacobs expanded its operating margin in both segments--190 basis points in critical mission solutions and 70 basis points in people & places solutions.

SUMMARY KEY RATIOS	HISTORIC	FORECAST
JACOBS ENGINEERING	6-Years	3-Years
Revenues Growth (%)	5.6%	9.0%
Margin EBITDA/Revenues	5.3%	7.2%
Margin Net Profit/Revenues	3.2%	3.6%
ROA	4.5%	5.2%
ROE	7.4%	8.7%
Financial Leverage	1.7	2.1
Debt to Assets	22.0%	33.4%

Based on the firm's strong results in the first half of the year as well as the closing of its strategic investment in PA Consulting, management raised its outlook for full-year fiscal 2021 and now expects adjusted EBITDA in the range of $1,200 million to $1,270 million ($1,075 million to $1,155 million previously) and adjusted EPS in the range of $6.00 to $6.30 ($5.30 to $6.00 previously). The company ended the quarter with a $25.6 billion backlog, up 10% from the prior-year period.

In recent years, the company has transformed its portfolio and shifted it toward higher-margin opportunities in areas with favorable secular growth trends, including infrastructure modernization, space exploration intelligence, and sustainable solutions.

Jacobs Engineering **Critical Mission Solutions segment**, which accounts for roughly 37% of total revenue, **has the potential to forge a moat based on customer switching costs and intangible assets**. **Critical mission solutions has a portfolio of long-term contracts (typically 3-10 years)** to perform mission-critical services to government agencies, such as operating the Missile Defense Integration and Operations Center for the Missile Defense Agency, operating and managing the Nevada National Security Site for the U.S. Department of Energy, and providing IT services and infrastructure support on several projects for NASA. **Roughly 95% of the segment's revenue is recurring, and the unit boasts an impressive rebid win rate of over 94% that we think could become the foundation for an economic moat in the segment.**

People & Places Solutions segment, which accounts for roughly 63% of total revenue, as inherently less conducive to forming economic moats. **Jacobs has a strong reputation and track record**, having been involved in numerous signature projects, such as California WaterFix, restoration of the Palace of Westminster, and the LaGuardia Airport expansion. However, we think that fierce competition, the prevalence of projects with standardized specifications, and lack of customer switching costs will make it difficult for the People & Places Solutions segment to consistently outearn its cost of capital.

Jacobs has a sound balance sheet, and its debt maturities are well spread out. We see management's investment history as fair, and we have no reason to expect future investments to be either materially value-accretive or -destructive.

The company's current **Chief Executive Officer is Steven J. Demetriou**. He has been the Chairman of the Board since July 28, 2016 and has been its CEO and President since 2015. Steven Demetriou took the helm in August 2015 after having served as CEO and chairman of Aleris Corporation, a Cleveland-based aluminum producer, for 14 years. Despite coming from outside the Engineering and Construction industry, **CEO Demetriou** has wasted no time making his mark on the company, **orchestrating a major portfolio transformation through large M&A deals, including the acquisitions of CH2M and KeyW as well as the sale of Jacobs' energy, chemicals, and resources business.**

Steve Demetriou

Chair of the Board & Chief Executive Officer

New management has also implemented a significant restructuring and streamlined the business from 10 business lines to two segments: Critical Mission Solutions and People & Places Solutions. Additionally, management has taken measures, including improved execution**, rightsizing overhead,** and an 18% real estate footprint reduction, that have resulted in **over $400 million of annual run-rate cost savings.**

Historically, the company has used M&A as an engine for growth, having acquired over 80 companies since 1994, albeit with somewhat mixed results due to integration challenges.

Management has indicated that it **will continue to prioritize organic growth and strategic M&A opportunities**, allocating excess capital to share buybacks and dividends.

COMPANY	**JACOBS ENGINEERING**		
ISIN Code	US4698141078		**USD**
FISCAL YEAR END	02/04/2021		
SECTOR GICS	Industrials /Professional Services		
MARKET CAPITALIZATION	18,208.1 Millions USD		
CURRENT PRICE	**138.5**	Price Upside Analysis	
TARGET PRICE	**183.6**	**33%**	**BUY**
PE	Current Year	Next Year	In 2 Years
	37.0	36.7	31.2
RATIOS	ROE	% DVY	EV/EBITDA
	8%	0.8%	24.1
	BETA	WACC	DEBT/EQY
	1.1	9.1%	30.1%

Analyst:

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Sources:

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