WSP Global Inc.

Fourth Quarter and Fiscal 2017 Results Conference Call

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TABLE OF CONTENTS

PRESENTATION

Operator

Bonjour, mesdames et messieurs. Good afternoon, ladies and gentlemen. Bienvenue à la conférence téléphonique sur les résultats financiers du quatrième trimestre de l'année 2017 de WSP. Welcome to WSP's fourth quarter of 2017 results conference call. I would now like to turn the meeting over to Isabelle Adjahi, Vice President, Investor Relations and Corporate Communications. À vous la parole. Please go ahead, Ms. Adjahi.

Isabelle Adjahi, Vice President, Investor Relations & Corporate Communications

Thank you and good afternoon, everyone. Thanks for taking the time to join the call to discuss our Q4 and fiscal 2017 performance. We will first make a few remarks and then we will follow this by a Q&A session.

Joining me today are Alexandre L'Heureux, our President and CEO, and Bruno Roy, our CFO. Please note that we will be recording the call and we will post it on our website tomorrow.

Before we start the call, I want to mention that we will be making some forward-looking statements and that actual results could be different from those expressed or implied and we undertake no obligation to update or revise any of these forward-looking statements.

Now I will turn it over to Alexandre. Alex?

Alexandre L'Heureux, President & Chief Executive Officer

Thank you, Isabelle, and good afternoon, everyone.

We are really pleased with our 2017 performance and, as such, the main points I would like you to take away from this call are the following: Firstly, organic growth, as you know, is the lifeblood of any company and the underlying measure of its strength. I am pleased to report that we posted strong results for the year with organic growth in net revenues across all of our major hubs. In other words, organic growth in net revenue was 17% in Australia, 12% in the Nordics, 10.4% in the Americas, 4% in the UK, and 2.1% in Canada. We are very proud of this performance. Secondly, beyond revenue growth, we posted record high backlog, in line adjusted EBITDA, and solid cash flow generation. This, along with a strong balance sheet, puts us on solid ground as we enter 2018. Thirdly, we met or exceeded all of our 2017 outlook metrics. And finally, all of the above positions us well to meet our 2015-2018 strategic plan targets. In parallel, we have already started to work on our 2019-2021 strategic cycle, which we will announce in the first part of next year.

Let me now address all of these points in more detail. Organically, 2017 has seen growth in net revenues across all of our reportable operating segments. This past year we have run projects on varying sizes and complexities, giving us the opportunity to provide lasting solutions for the development and the betterment of the communities within which we operate. This growth has also been nurtured by our ability to seize various opportunities for our clients as a result of our capacity to cross-sell our expertise, translating into improved project delivery and higher margins. This proves not only that we are a trusted advisor to our clients but also a strategic partner.

Let me make a few comments on our fourth quarter and full year financial performance, which Bruno will discuss in greater detail. The strong growth this quarter was mainly driven by the US as a result of FEMA disaster assessment inspection related services, which surpassed forecast and propelled net revenues and organic growth in net revenues beyond our expectations. During this period, we mobilized experts to support many counties and cities across the United States and its territories with our monitoring and recovery programs.

Net revenues were $1.5 billion, up 11.4% year over year while organic growth in net revenues amounted to 8.1%. Adjusted for FEMA-related net revenues in excess of our expectations, we would have posted 1.6% organic growth this quarter. We are pleased with this performance since Q4 2017 had four less billable days compared to the same period in 2016, which we had anticipated would have translated in negative organic growth in net revenues for the quarter. For the year, adjusting again for FEMA-related net revenues, organic growth in net revenues would have been 4.4%, still above our target range, as Canada and Australia exceeded our expectations.

Adjusted EBITDA was $140 million with adjusted EBITDA margin of 9.5%, lower when compared to Q4 2016 due mainly to having four less working days. As you'll recall, this is the opposite effect we noted in the first quarter of 2017 where we had five extra billable days, which positively impacted our margin profile. As such, the 9.5% margin should not be analyzed on standalone basis; instead, the annualized adjusted EBITDA margin is a better indicator of our performance. At 10.4%, we are in line to reach our 2018 target of 11%.

Lastly, our backlog reached its highest level ever and stood at $6.4 billion, representing approximately 10.1 (inaudible) of revenues.

Let me now move to our operational performance in fiscal 2017. During the past year, we acquired 10 companies, adding over 5,000 employees to our workforce, expanding our geographical presence in New Zealand while strengthening our expertise in Latin America, the Nordics, the UK, and Australia. All of this year's acquisitions were financed using our balance sheet. Opus actually marked our 100th acquisition since our 2006 IPO and let me take this opportunity to welcome all of our new colleagues to the WSP family. The year cumulated with the successful rebranding of all of our operations worldwide as WSP, united around one vision, one strategy, and one brand by leveraging our guiding principles and operating model, which is a great market differentiator. We will continue to raise the bar and offer the best to our clients, employees, and shareholders in 2018 and beyond.

Looking at the performance of our regions, Canada posted organic net revenue growth of 2.1% in 2017 and 12.3% adjusted EBITDA margin before global corporate cost, ahead of our expectation. This was reflected by the Canadian leadership team's execution of the operational restructuring plan initiated in 2016.

Our backlog in Canada has also increased organically 10.9% compared to the same period. Significant project wins, notably the contract pertaining to the rehabilitation of Canada's Parliament Hill Centre Block, several contracts with Ontario's Ministry of Transportation, and WSP's portion of the transit joint venture Metrolinx contract for regional express rail program in Toronto, helped Canada's backlog to reach over $1 billion. With an expanding pipeline of opportunities, particularly in the infrastructure sector, we expect further momentum and are optimistic about the long-term prospects in the Canadian market.

The Americas operating segment posted strong 10.4% organic growth in net revenues for the year, stemming mainly from the FEMA-related revenues in the US. Adjusted for these revenues, the Americas operating segment would have reported organic growth in net revenues of 4.6%. This region delivered adjusted EBITDA and adjusted EBITDA margin before global corporate costs of $220.2 million and 13.3% respectively; once again the highest among all of our reportable operating segments. The pipeline of opportunities for the Americas remains healthy and we are pleased to have been selected to provide services related to the development of the Giant Magellan Telescope, the first of the next generation of giant ground-based telescopes. This project was won through the collaboration of our team in the US and Latin America with the recently acquired Poch team in Chile.

Across the pond, the EMEIA operating segment delivered organic and net revenue growth of 4.6%, in line with our expectations. We had a very strong year in the Nordics, delivering organic growth in net revenues of approximately 12%. While Brexit continues to create some uncertainty in the UK, the region nevertheless delivered slightly over 4% organic growth for the year. Following the end of fiscal 2017, WSP UK was appointed to lead the development of two of the four new stations as part of the high-speed two-rail networks, highlighting our worldwide expertise in the field and adding to our backlog. Continuing in EMEIA, both the Middle East and South Africa, most performance metrics were down compared to 2016, in line with our expectations. Adjusted EBITDA margin of 9.9% for the year was slightly below our expectation and was due mainly isolated and timing related matters.

Our APAC operating segment posted organic net revenues of 7.1% for the year. Looking specifically at Australia, operations performed ahead of expectations with significant organic net revenue growth, while our Asian operation continued to be impacted by a slowdown in the private property market. The recent acquisition of Opus is expected to generate cost synergies, which should positively impact the performance of the region in 2018. Integration is progressing according to plan.

Globally, 2017 was a rewarding year as we strengthened our business around the globe while pursuing our acquisition strategy. I would like to thank all of our leaders and employees for this outstanding performance and for their continued dedication.

Bruno will now review our fiscal financial results in more detail and share our 2018 outlook. Bruno?

Bruno Roy, Chief Financial Officer

Thanks, Alex, and hello, everyone. I am pleased to share our results for the fourth quarter and for fiscal 2017. Before I jump in though, let me say that we are very pleased with our results.

Our organic growth was very strong at 6.2% for fiscal 2017. We have a number of initiatives in the pipeline to carry this momentum in 2018 and beyond.

Our adjusted EBITDA margins are, at the end of 2017, where we expected them to be at 10.4%. We're tracking well towards our 11% target and, again, we have a number of initiatives in the pipeline to get us there.

Our DSOs have remained healthy at 79 days and this despite our strong organic growth rate. We are working hard in all your processes from client selection to invoice collection to further improve our working capital performance.

Our free cash flow for the full year was nearly $300 million for an earnings conversion ratio of 139%, reflecting our strong operational discipline. Our balance sheet remains strong at 1.8 times net debt to EBITDA, this even with our making 10 acquisitions without issuing any equity in 2017. All-in, as Alex mentioned earlier, we are very much entering 2018 in front foot.

Let me now dig into the details.

Our reportable operating segments delivered year-over-year constant currency growth in net revenues for both the quarter and the full year. For the fourth quarter, revenues and net revenues were $2 billion and $1.5 billion respectively, a solid growth of 8.7% and 11.4% compared to the same period in 2016. Organic growth in net revenues was 8.1% on a constant currency basis. Adjusted for FEMA-related revenues in excess of our expectations, organic growth in net revenues for the quarter would have been at 1.6%. For the full year, revenue and net revenues were $6.9 billion and $5.4 billion, growing at 8.8% and 9.4% respectively. Organic growth amounted to 6.2%. Adjusted for FEMA-related revenues in excess of our expectations, that figure would still have been 4.4% better than we had hoped.

Let's move on to adjusted EBITDA. For the fourth quarter, adjusted EBITDA was $140 million, up $4.7 million or 3.5%. Our adjusted EBITDA margin was 9.5% as compared to 10.2% last year. This was essentially due, as Alex mentioned, to having four less billable days compared Q4 2016. For the full year, adjusted EBITDA was $555.2 million, up 11.3%, with adjusted EBITDA margin at 10.4%, up from 10.2% in 2016.

Turning to adjusted net earnings, as anticipated, our results were impacted by the US Tax Cuts and Jobs Act enacted in December 2017. This act revised the US corporate income tax regime and lowered US federal corporate tax rate from 35% to 21% effective January 1, 2018. This resulted in the corporation recording a $16 million non-cash income tax expense in Q4 2017 to reduce the value of its net US deferred tax assets. Although the enactment of this act will have a positive impact on WSP's consolidated effective income tax rate and cash income tax rate in 2018 and onwards, the recording of this $16 million non-cash expense increased our effective tax rate to 51.5% for the quarter and 32.4% for fiscal 2017. As such, for fiscal 2017 our adjusted net earnings were $233.9 million or $2.28 per share, up 4.6% and 2.7% respectively compared to 2016. Excluding the non-cash income tax expense resulting from the US tax reform, adjusted net earnings would have stood at $249.9 million or $2.44 per share, up 11.7% and 10% respectively compared to 2016. For the fourth quarter, adjusted net earnings per share were $39.4 million or $0.38 per share. These again were impacted by the US tax reform, which represents a 16% tax hit, as well as four less billable days when compared Q4 of 2016.

I'll now review a few cash flow metrics. For the year, cash flow from operating activities stood at $395.4 million compared to $386.8 million in 2016. Our free cash flow for the year came in at $296.1 million or 138.8% of net earnings, beyond our cash flow conversion target of 100% of net earnings. At 1.8 times, our net debt to adjusted EBITDA ratio remained within our target range of 1.5 to 2 times, and this despite our making 10 acquisitions without raising any equity in the 2017. This provides us with sufficient leverage to continue investing in organic growth initiatives and strategic acquisitions. Lastly, our days sales outstanding were a healthy 79 days at the end of 2017, similar to last year. While we remain committed to a DSO target of less than 80 days, our 2018 outlook range of 80 to 85 days is reflected of the (inaudible). During the quarter, we also declared a dividend of $0.375 per share for shareholders on record as of December 31, 2017, which was paid on January 15, 2018. With a 49.7% DRIP participation, the net cash outlay was $18.2 million. Net-net, as Alex mentioned, we have delivered and in many cases over-delivered on all our 2017 financial outlook metrics.

I'd like now to take a few moments to discuss the outlook for our anticipated 2018 performance, which is aimed at assisting analysts and shareholders in refining their perspective on our performance. This outlook has been prepared based on foreign exchange rates effective yesterday, March 14th. Also, please do keep in mind that we have not considered any acquisitions, disposals, or any other transactions that may occur after today's date.

As we have mentioned earlier, our FEMA-related revenue significantly impacted organic growth and net revenues for 2017. These revenues, due to their nature, cannot be predicted with any measure of accuracy. As such, taking into consideration FEMA-related net revenues generated in 2017 in excess our expectations and not anticipated to reoccur in 2018, we foresee 2018 consolidated organic growth in net revenues into 1% to 4% range. We anticipate net revenues to be in the $5.7 billion to $5.9 billion range and our adjusted EBITDA to be between $610 million and $660 million. As in the past, our adjusted EBITDA will be subject to seasonality. Quarterly adjusted EBITDA will therefore range from 18% to 29% of the total annual adjusted EBITDA.

Turning to tax, we expect our effective tax rate for fiscal 2018 to be in the 23% to 25% range, significantly lower than in previous years as a result of US tax reform. DSOs are expected to remain in the 80 to 85 day range. We also expect amortization of intangible assets related to acquisitions to be between $60 million and $70 million, while capital expenditures should range between $115 million to $125 million. In 2018 we continue to target the net debt to adjusted EBITDA ratio ranging between 1.5 to 2 times, excluding potential 2018 acquisitions. We also anticipate between $40 million and $50 million in acquisition and reorganization costs, driven both by integration based on operational optimization and real estate consolidation. Global corporate costs in 2018 should range between $75 million and $80 million compared to $59 million in 2017.

This is mainly due to higher anticipated costs associated with the expansion of our existing and key employee retention programs, as well as to a series of group initiatives expected to fuel organic growth and operating margin improvement.

Alex will now comment on the operational outlook for each of the regions. Alex, over to you.

Alexandre L'Heureux, President & Chief Executive Officer

Thank you, Bruno.

Let's start our 2018 operational outlook with Canada. We expect our Canadian operation to build on their strong 2017 results and improve operating margin across most market segments. We have backlog over $1 billion at the end of 2017 and good prospects for 2018. We anticipate steady organic growth in net revenues in the low to mid single digit range.

In the Americas, infrastructure spending in the US is anticipated to remain robust and the integration of Poch and ConCol are expected to deliver synergies that should lead to improvement in operating margin. We anticipate organic growth to be in the mid to high single digit throughout the first three quarters of the year, followed by negative organic growth in net revenues in Q4 2018 due to the substantial FEMA net revenues recognized in Q4 2017, for which we cannot anticipate will reoccur in 2018. As a whole, we anticipate organic growth in net revenues for the Americas operating segment in the low single digit in 2018.

In the EMEIA region, the Nordics region is expected to deliver solid results in 2018. Organic growth in net revenues is anticipated to range in the mid to high single digits. Operating margin improvement is also anticipated as the significant increase in headcount experienced in 2017 should translate into higher utilization rates in 2018. UK's growth for 2018 will be driven by large public sector work. Despite continuing concern over Brexit, we still anticipate modest organic growth in net revenues in the low single digits with the bulk of it concentrated in the second and third quarters of 2018. Lastly, in the EMEIA region, prospects for the Middle East and South African operation remain muted for 2018. Both regions are anticipated to deliver negative organic growth in net revenues as foresee difficult economic conditions in those geographies persisting in 2018. Of note, these two regions represented less than 6% of our 2017 net revenues. On a consolidated basis, the EMEIA region is anticipated to post organic growth in net revenues in the low single digits.

In APAC, we anticipate another solid year for the ANZ region with organic growth in net revenues expected in the mid to high single digits with the infrastructure market segment at the forefront of the growth prospects for 2018. In Asia, a continuing slowdown in the building market is anticipated to lead to negative organic growth in net revenues for the year. We will be deploying cost containment efforts to limit margin deterioration as well as other action plans to remediate the situation going forward. On a consolidated basis, we anticipate the APAC region to deliver organic growth in net revenues in the low single-digits for 2018.

Before we open the line for questions I would like to give you a brief update on our M&A strategy. As often mentioned in the past, M&A is a key element of our growth strategy and we intend to be an active but disciplined player in our industry. We will continue to focus on identifying possible targets, both private and publicly listed, across various sectors and geographies, ensuring that strategy and culture are in line with ours. With a 1.8 times leverage ratio and $850 million in available short-term capital resources, we seek to react to opportunities as and when they arise. What are our priorities in terms of geographic regions and sector? The US clearly remains an important market for us. We have also mentioned our interest in Europe, particularly in Continental Europe. From a sector perspective, our attention remains on our existing end markets, including buildings, transportation, and environment. We will also contemplate expanding our expertise in the water and energy sectors.

In conclusion, we will remain focused on driving global organic growth and improving margin, leveraging our global knowhow and wining work while pursuing our long-term growth strategy focused on our technical expertise, hence being optimistic for 2018. In addition to being the first choice for our clients, our 2015-2018 strategic plan by the end of 2018 has a target of 45,000 employees, annualized $6 billion in net revenues, and an 11% adjusted EBITDA margin. We remain confident that we will attain these objectives.

Now we'd like to open the line for questions.

QUESTION AND ANSWER SESSION

Operator

If you would like to ask a question at this time, please press star followed by the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Mona Nazir from Laurentian Bank. Your line is open.

Mona Nazir, Laurentian Bank

Good afternoon and thank you for taking my questions.

Alexandre L'Heureux, President & Chief Executive Officer

Hello, Mona.

Mona Nazir, Laurentian Bank

Hi. So, firstly, just wanted to just—it's more of a housekeeping, but you mentioned multiple times on the call and throughout the MD&A that the lower billable days had an impact on the quarter. I'm not sure if you have this information but if billable days had been the same versus last year, what would have margins been?

Bruno Roy, Chief Financial Officer

Hi, Mona. It's Bruno. Good to talk to you. Four billable days indeed had a very significant impact on our quarter. If you think about it, we have four less days to offset all our fixed costs. Now the impact of that is very hard to estimate and it really depends on the assumptions you make, so that's why we didn't publish anything on that. But very significant impact on our numbers and ballpark, you know, $0.15 to $0.27 per share on EPS.

Alexandre L'Heureux, President & Chief Executive Officer

If you look, Mona, on the impact that the additional five days had in the first quarter and similarly you look at the fourth quarter and look what the impact of the four days had, it's, on a relative term, it's very similar. But we haven't published that, obviously.

Mona Nazir, Laurentian Bank

Okay. Thank you. And then secondly, just turning to organic growth, you just mentioned the organic growth for the year in excess of 4%, and that's stripping out the FEMA related work, and that's in a year where we did not see any significant boost to infrastructure spending in the US and Canada with some of the stimulus programs. If these programs do come to fruition and commence, I'm just wondering how should we think about this organic growth and what do you think is a cap? I'm just trying to get a sense of realistic expectations, as I know there's a lot of excitement about the impact of the space.

Alexandre L'Heureux, President & Chief Executive Officer

It's hard to put a number on this. It's hard to put a cap on it, Mona. It's hard to predict if and when there'll be a boost. Canada, you now that, I mean it's been slow out of the gate over the last 18 months, or certainly since the federal election, so it's really hard to put a number or put your finger on what should a cap look like. I think we're entering the year with a good backlog, certainly in Canada and in the US, and that's what we essentially put our forecast on. I mean we're pleased with the way we are entering 2018 and the way we finished the year and, frankly, for us that's all that matters. If a boost comes along the way, clearly, I mean this would bode well for the organization, but right now I cannot count on it.

Mona Nazir, Laurentian Bank

And just lastly from me, despite continuous ongoing acquisition activity, some of which has been pretty large scale, you've been able to consistently increase your margin profile over the last few years. We saw a 40 basis point improvement in 2015 to 2016, another 20 basis points this year and, just taking the midpoint of your guidance range, expecting another solid improvement into 2018. I understand when you're making acquisitions there's some low-hanging fruit but wondering if you could comment on your ability to take margins higher in the current environment. And I'm just trying to get a handle, is it the complementary resource centres that you touched on the Analyst Day? Is it the M&A synergies? Is the complexity of the work that garners a higher multiple? Is there anything that I'm missing? Thank you.

Alexandre L'Heureux, President & Chief Executive Officer

Well, you take just the North American markets in 2017, it's fair to say we haven't been very active on the M&A front. I mean we just tucked in a smaller piece, a satellite location of the Opus acquisition into Canada, so we'll see where we'll end up on this. But if you look, just 60%, 65% of the business is still very much North American centric. And we were able over time to increase the margin profile. You take Canada as a prime example. You look at our 2016 performance and you look at our 2017 performance, I mean we've made an enormous amount of effort and better client selection, better project selection, mission critical work, cost containment in our corporate costs, attracting the best talent in the industry. So I think it's not just a matter of realizing cost synergies as part of our M&A strategy, it's—and you know that's not the primary reason why we do deals. We do deals because we want to complement our existing platform with additional expertise and strengthen our platform. So the point I'm making is it's not just an M&A play, the increase in margin, it's also a good amount of work that we are putting on the platform to improve our margin profile. And as part of our 2019 to 2021 plan, I mean clearly this also will be at the heart of our strategy.

Mona Nazir, Laurentian Bank

Okay. Thank you.

Operator

Your next question comes from Frederic Bastien from Raymond James. Your line is open.

Frederic Bastien, Raymond James

Hi. Good afternoon, guys.

Alexandre L'Heureux, President & Chief Executive Officer

Hello, Fred.

Frederic Bastien, Raymond James

I was wondering on the FEMA work that you did, was there any EBITDA drag that might have impacted results from this incremental work you did?

Bruno Roy, Chief Financial Officer

Very marginal. What really makes a difference in our fourth quarter number, Fred, is really the four days. So we lost four days in one of the best quarters of the year and we won five days in the worst quarter of this year. Q1, as you know, is our worst quarter always. So of course it's going to do funny things on margins. That's why we strongly recommend you look at the full-year margin, which normalizes all these things, and that's (inaudible) very good place.

Frederic Bastien, Raymond James

Okay, great. Obviously, a lot of volume out of that FEMA assignment; how did you perform on that job? And I was wondering, you know, does that open up the door for more work with federal agencies down the road or was that just really a one-time gain that you got there?

Alexandre L'Heureux, President & Chief Executive Officer

Look, we've been working with FEMA for 22 years, Fred, but only once in the last 15 years we've reached that peak level that we've reached in 2017, and that's why I just want to caution our analysts and the investment community that they don't happen every year. Last year the US sustained three different hurricanes and we don't see that every year. So I think we've performed extremely well. It's been a long-term relationship, typically a long five years' assignment. I think we're going to be up for re-bid in the next few years. So, time will tell, but I think we've done a very good job and I think actually our employees should be commended for their work.

Frederic Bastien, Raymond James

Okay. Where I was trying to get to, Alex, more on the, ah, I don't if the several federal agencies the US has talk to each other or anything like that, but would that, you know, I assume you did commendable work there. I mean would that open up the door for more opportunities? I believe that you guys are subscale in federal work, so wondering what that does to your prospects there.

Alexandre L'Heureux, President & Chief Executive Officer

You know, I think I wouldn't count on it. It certainly cannot hurt, Fredric. I think, as I said, we've had a long-lasting relationship with this federal agency. I mentioned before that at the Investor Day and on numerous analyst calls that government services is something that at some point we need to explore or we will explore, but right now I think it's fair to say that it's a small portion of our total book of business.

Frederic Bastien, Raymond James

Okay. That's helpful. You note in your prepared comments some delays in project starts in the UK building segment. Can you provide a bit more colour on that please?

Alexandre L'Heureux, President & Chief Executive Officer

It's been just, you know, the market over the last say 18 months or let's say two year has cooled off. Frankly, the market cooled up before the vote on Brexit. It's something that we were expecting. The UK market on the private side had been hot for many, many years and I think that the market is taking a pause. But, at the same time, we're not seeing dip that the country is seeing post the recession in 2007, 2008. So I wouldn't want you to think that we are seeing the marketplace the way the market reacted post recession in 2008.

Bruno Roy, Chief Financial Officer

And we also, Fred, in the fourth quarter we also had—there is a single large project in public buildings that was meant to start in December where the start was actually in January, and that made an actual difference in the results, because it was very large project and it did launch in January. So there's a little bit of timing in there.

Frederic Bastien, Raymond James

Okay, that's what I was mostly referring to. Thanks. And my last one in terms of your outlook for margin expansion and all that stuff, do you expect each of your operating regions to improve on their 2017 results in terms of EBITDA margin?

Alexandre L'Heureux, President & Chief Executive Officer

I'm not going to go country by country, we operate in 40 countries, but I'd say our major hubs, that's the hope. In order to get to—that's the aim, I should say, rather than the hope. We have a plan to get there. To get to 11% margin, I mean most of our larger hubs will have to contribute, so, on that front I think it's fair to say that that's what we're aiming at.

Frederic Bastien, Raymond James

All right. Thank you very much.

Operator

Your next question comes from Benoit Poirier from Desjardins Capital Markets. Your line is open.

Benoit Poirier, Desjardins Capital Markets

Good afternoon, gentlemen. Just to come back on the previous question on the margins, I understand that you won't provide any specific colour to any regions, you're aiming for a bump in every region, but is there any regions where you expect maybe a higher contribution than others, Alex and Bruno?

Alexandre L'Heureux, President & Chief Executive Officer

Look, I mean we haven't disclosed that and I don't want to start disclosing. We've provide an outlook to assist you. I'm not going to start, I wouldn't want to start disclosing a forecast on any of the regions. I think I'm providing an outlook for the company. But I think it's fair to say, Benoit, that the aim obviously in every region is to improve. So I hope and expect that we would be, in our Asia Pacific, like Australia and New Zealand that we would be improving. I think in Asia it will be challenging, clearly, as I said during my address. In the UK and the Nordics we'll continue to try to do better. And Canada (inaudible), we are hopeful that we're going to improve our margin profile and in the US. So I think we're—clearly, to get to 11%, as I said before, we'll have and we'll need to have our major hubs contributing to the equation.

Benoit Poirier, Desjardins Capital Markets

Okay. That's perfect. And now when we look at your global corporate costs, you've done a good job in the past of managing corporate costs. Now for the year you expect $75 million, $80 million. You mentioned a good explanation on why. If I look in percentage of net revenues, this comes up from almost 1% to 1.3%. So is the 1.3% the way we should look at post 2018 or we should expect basically the global corporate costs to come down post this year?

Bruno Roy, Chief Financial Officer

They should come down, of course, as we go out and get scale, right? The bump in this year's (inaudible) related to our long-term incentive plan that we've brought in within the company. So we have more folks on the (inaudible) and, again, to make sure that we keep our terrific leaders of all regions on the farm, so to speak. So that's the difference, frankly. That and, frankly, the other thing is the share price appreciation. So it's been a little bit more expensive to have share-based incentive programs because our share price has done really well last year.

Benoit Poirier, Desjardins Capital Markets

Would you be able, Bruno, to quantify what would be the contribution from the LTIP and also the stock price impact?

Bruno Roy, Chief Financial Officer

We probably won't go there. It gets a bit too granular. But assume it's because we've done well last year.

Alexandre L'Heureux, President & Chief Executive Officer

I think your first question, Benoit, the way I would answer it is the way we approach corporate cost is really, every year it's a bottom-up approach. When we said it's between 1% and 1.2% of net revenue, I mean for this year it's a good metric, but next year it could be different. We always aim to reduce our corporate costs, we always aim to run a tighter ship, so I wouldn't use this as like the normal, if you want, the run rate of our corporate costs next year. We're going to revisit our corporate costs, we're going to revisit our business, and if we reduce and be more effective and more efficient, we will be.

Benoit Poirier, Desjardins Capital Markets

Okay. And just a quick question on the seasonality. Obviously, you had a five more billable days in Q1, four less in Q4, so if we look at seasonality for 2018 should we compare apples to apples or basically in Q1 2018 you're going to be facing a tough compare given you benefitted with five less billable days back in Q1?

Bruno Roy, Chief Financial Officer

I'm delighted to say that we will have exactly the same number of days in each of the quarters as we've had in 2017. So these biases will be gone in 2018.

Benoit Poirier, Desjardins Capital Markets

Oh, okay. That's clear. And last for me, could you mention any colour about your pipeline for M&A prospects, how it has changed versus last quarter and any change in the strategy? Thank you.

Alexandre L'Heureux, President & Chief Executive Officer

Thank you, Benoit. No, we completed, as you know, we closed on our Opus acquisition in October. I mean in order to reach our plan we're going to need to, as you know, I mean this is ongoing discussion and we always try to have a healthy pipeline of prospects. So I'd say that it hasn't changed year over year. I think my job is obviously to engage with my colleagues around the world and try and find firms that share our vision, share our culture, and that would complement very well our existing platform, and together we can raise the bar as an organization.

So I'd say that it was an active year in our industry last year with large transaction taking place, but there's also room for medium sized, smaller size, but I expect also larger sized transaction this year and the years to come. So the point I'm making is, you know, having ongoing discussions is healthy and you always learn something and we'll continue to do that but the target pipeline is good.

Benoit Poirier, Desjardins Capital Markets

Perfect. Thanks for the time.

Operator

Your next question comes from Yuri Lynk from Canaccord Genuity. Your line is open.

Yuri Lynk, Canaccord Genuity

Hey, Alex, Bruno. How are you doing?

Alexandre L'Heureux, President & Chief Executive Officer

Hi, Yuri.

Yuri Lynk, Canaccord Genuity

Just a clarification on your organic growth outlook. So it's 1% to 4%. That's on top of the number that includes the FEMA?

Bruno Roy, Chief Financial Officer

Yes, it is.

Yuri Lynk, Canaccord Genuity

Okay. So that's quite a good outlook for 2018. Has your outlook—how is your outlook for organic growth rate evolved over the last six to nine months?

Alexandre L'Heureux, President & Chief Executive Officer

I think it's evolved like pretty well. I mean it's been, ah, you look at the year and the way we progressed from the first quarter to the end of this year and we are pleased and we look at our backlog and the growth in our backlog year over year and we're, frankly, as I said before, I think that's the reason why I feel we're entering the 2018 with, I would say, confidence. Difficult to predict what will happen 12 months from now but we're entering the year with confidence, with a strong balance sheet. So I feel that the things are evolving well.

Yuri Lynk, Canaccord Genuity

I guess my point was you delivered about 1% to 4% guidance, which is what I think most people expected, but that's on top of a tough comp. So I guess you guys are feeling good about it?

Alexandre L'Heureux, President & Chief Executive Officer

I'm feeling that we have good momentum right now and we need to push the organization and that's what we do. And, as I said before, we have a good backlog right now. So, of course, in spite or despite the FEMA excess in revenue that we generated, I think that if we could reach that level we'd be very pleased. I think it would be a good achievement, as you stated.

Yuri Lynk, Canaccord Genuity

Sure. This quarter, the first quarter of 2018 we're lapping last year where you had some extra working days. In the Americas segment, for example, you had almost 13% organic growth last year. You're calling mid to high. So I just want to make sure that, you know, that seems like a very tough comp.

Bruno Roy, Chief Financial Officer

We'll have the same number of billable days in Q1 2018 as we had in Q1 2017, so we won't have that (inaudible).

Yuri Lynk, Canaccord Genuity

Okay. I got it. Last one from me: What levers do you have left to pull in terms of getting to your 11% margin? i.e. is it better leverage on SG&A? Is it the OpEx? Just how should we be thinking about your journey to 11%? And then once we get there, how do you feel about pushing it potentially beyond that?

Alexandre L'Heureux, President & Chief Executive Officer

It's a three-year cycle. So when we disseminated our plan in 2015 we had many initiatives in the works that we wanted to action in order to get to our 11% margin. So this is not something that we are starting this year. There are not necessarily initiatives that we started this year that will get us to the 11%. This is ongoing initiatives around better client selection, better project selection, working on mission-critical work that will leverage our expertise that will allow us to increase our fee on those jobs, and that's we've been able to do. And, as I said before, it's an ongoing effort to manage your utilization within the company, being more efficient and agile and the way we manage utilization and project management. I mean project management is the heart of what we do. I mean our project managers have to be trained and we have to attract and retain the best in the industry.

So I'd say that it's a number, and I said that before, if you recall, Yuri, I don't remember when but at a number of conference call, increasing margin in a people business, 42,000 people in 41 countries, it's a number of initiatives. It's not one single thing that will get you to 11%. In every country the initiative might be different, because in Australia the requirement will be completely different than what is required in the US to increase the margin profile. So you don't approach it holistically. Country by country, we have plans to increase the margin profile. I'm giving you an example, and that doesn't mean it's this, but in Australia maybe it's corporate cost that we need to improve. In the US maybe it's project management. In Canada it's going to be something else. So I think, you know, we have a plan by country of where we need to get to and we monitor it and we try as harder as we can to deliver on the plan.

Yuri Lynk, Canaccord Genuity

Okay. That's helpful. I'll turn it over. Thanks, guys.

Operator

Your next question comes from Derek Spronck from RBC Capital Markets. Your line is open.

Derek Spronck, RBC Capital Markets

Great. Good afternoon. Just in terms of your backlog as it matures and you had a nice pickup in your backlog this quarter as well, can you talk a little bit about the quality of the backlog in terms of the anticipated margins that you see within that backlog and just the overall qualitative aspects on it?

Alexandre L'Heureux, President & Chief Executive Officer

I'll try to answer that question perhaps differently, you know, the question that Yuri was asking. I think we're entering the year with a backlog, I think it's a good backlog. It's not just about the amount of it. You know, you're entering the year and you look at your backlog, you look at your recent wins, and you look at the projects that you were able to secure, and I'd say that we're entering the year feeling good about the backlog that we have. And hopefully with this backlog that will get us to our 11% margin, that's the goal, by the end of 2018.

Derek Spronck, RBC Capital Markets

So within that backlog, you know, you're effectively seeing the benefits of projects, better project selection and perhaps leveraging your expertise in certain segments.

Bruno Roy, Chief Financial Officer

Yeah, I mean we're seeing it. Alex gave the example of the Magellan Telescope in Chile, which is, again, a highly technical job that we'll be doing from this year onwards. It's also a job that we would never have won in the past, frankly. And that we won this time around because of our team of legacy WSP in Lat-Am, with our team at Poch in Chile, and with the help of our team in the US. So, again, technical expertise, relationships, and local presence, and this is a terrific example of our strategy (inaudible).

Derek Spronck, RBC Capital Markets

Okay. And just moving on to your guidance metrics, last year you provided guidance for EBITDA, adjusted EBITDA, and you came in at the high end of the range. I mean for all intents and purposes it seemed like you hit basically in line most metrics, maybe there was some positive aspects that came in ahead. But when you look at your 2018 guidance level, it's pretty a wide range. Would you consider that partly due to a level of conservatism? Just trying to get a, you know, thinking of within that range if things kind of go according to plan would you be coming in closer to the higher end of that range versus the midpoint or the low end of that range?

Alexandre L'Heureux, President & Chief Executive Officer

Consistently over the years we've provided this outlook, just to provide you with assistance. When we look at where we're headed as a company $610 million to $660 million EBITDA, I wouldn't consider it to be a wide range. We work in 41 countries with a number, you know, 100,000 live projects or about. So I think you need to be careful at the same time to provide too tight of a range. I think we're comfortable with this. Last year we finished at the end of it. I look back at where we finished the year this year and look back, for instance, at the mid range of where we are guiding you right now and I feel it's a pretty good increase year over year, percentage wise, from where we finished the year to where we want to end the year. So I think it's a good place to be. And if we feel over the course of the year that we can reduce the range, I mean we'll do that for sure.

Derek Spronck, RBC Capital Markets

Okay. And just one last one for myself on the acquisition front. You mentioned US been an area of interest, water, could be different, you know, could be several different sizes of acquisitions that could come to fruition. Would you be willing at this point to do something more transformational, a major type of acquisition? Would that be in the cards if it was the right acquisition?

Alexandre L'Heureux, President & Chief Executive Officer

Absolutely. That's as far can say. I mean if the stars are aligned and it meets all of our, checking all the boxes, absolutely.

Derek Spronck, RBC Capital Markets

Okay. That's great. Thanks very much.

Operator

Again, if you would like to ask a question, please press star followed by the number one on your telephone keypad. Your next question comes from Maxim Sytchev from National Bank Financial. Your line is open.

Maxim Sytchev, National Bank Financial

Hi. Good afternoon.

Alexandre L'Heureux, President & Chief Executive Officer

Hello, Max.

Maxim Sytchev, National Bank Financial

Just more of a general question on M&A. I think if you look at precedent transactions of size, it seems to me that the multiples are creeping up, and obviously historically you've been mindful in terms of what you pay for the deals. Is it fair to say that maybe on a go-forward basis you might be looking at some potential assets that would have a turnaround component to that or this is still not part of your thinking in terms of M&A?

Alexandre L'Heureux, President & Chief Executive Officer

Well, over time, we've always tried to be opportunistic, Max. So, again, we like to buy a good business, good businesses with strong expertise. The first thing that we're looking at is this firm has good people with good expertise. And sometimes some firms, despite having great expertise and great people, they may run into a tough period, and that happens, so of course if the opportunity was presenting itself, we would look. That doesn't mean we would do something. But, as in the past, we've always been open and thinking outside the box and we'll continue to do that.

Maxim Sytchev, National Bank Financial

Okay. That's helpful. In terms of—I mean one of the bigger trends, especially for the some of the larger peers that we see in the industry right now, there's a big push on digital, Alex. I'm wondering if you don't mind sharing some high level thoughts on these initiatives, maybe for yourself and how WSP sort of comps versus some of the competitors in the space right now, if it's possible.

Alexandre L'Heureux, President & Chief Executive Officer

Yes, digital, Max, means different things to different people, obviously, and (inaudible) in 2018 in parallel of executing on our last year of this strategic cycle, in parallel we're preparing our next three year strategy and, if you allow me, I'd like to come back to you when we have formalized our view on our digital strategy. But, intuitively, I believe that already WSP is doing a lot internally. If you look at the amount of outstanding work that we do in various countries where we operate, every time I visit a country, I'm always—it's mind boggling to see what our people are doing. It's pretty special.

And I believe that, I'm saying that and I reserve the right to change my mind over the course of the strategic cycle that we are undertaking, but I believe the strategy will come from within. I believe the solution on digital will come from within as opposed to potentially outside. I think we already, I mean we are doing a lot of things with our clients that are technology advanced, if I talk about automated vehicle, I think we do a lot of great things already. So, if you allow me, I'd like to get back to that question, which I understand is high on your priority list. I get this question often. But I'd like to really take the time to take it offline with our professionals internally and get back to you on this.

Maxim Sytchev, National Bank Financial

Yeah, no, that makes perfect sense. Any maybe just last question for Bruno: In terms of the CapEx spent in 2017, it was slightly less relative to what you had forecast. Was there a reason for the variance and is there just a sort of spillover effect into 2018? And maybe you can talk about the initiatives that were pushed back or forward, maybe just any colour there please.

Bruno Roy, Chief Financial Officer

It's a bit of both, Max, but a big part of the change here is improved discipline on CapEx. We have been tighter in terms of real estate and in terms of our IT in terms of managing our pipeline. That's one thing we've done and pretty proactively.

The second is there has been a bit of spill over as well on to early 2018. And if you look at our outlook for next year, we're ranging at $115 million to $125 million on CapEx. This reflects that but it also reflects the fact that we (inaudible) 5,000 more professionals last year and there's a bit of integration to be done there and we'll need a bit of CapEx. So, again, our range for 2018 will be $115 million to $125 million.

Maxim Sytchev, National Bank Financial

Okay. That's very helpful. Thank you very much.

Operator

We have no further questions. I turn the call back over to the presenters.

Alexandre L'Heureux, President & Chief Executive Officer

Okay. Well, thank you for attending our Q4 2017 and we look forward to updating you in the next quarter and quarters ahead on our performance in 2018. Thanks for your support and looking forward to speaking with you again. Thank you.

Operator

This concludes today's conference call. You may now disconnect.