

# NASDAQ:TTEK Q2 2025 Earnings Call Transcript

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## Paul | Investor Relations:

Good morning and thank you for joining the Tetra Tech earnings call. As a reminder, Tetra Tech is also simulcasting this presentation with slides in the investor's section of its website at [tetratech.com](https://www.tetratech.com). This call is being recorded at the request of Tetra Tech and this broadcast is the copyrighted property of Tetra Tech. Any rebroadcast of this information in whole or part without the prior written permission of Tetra Tech is prohibited. With us today from management are Dan Batrack, Chairman and Chief Executive Officer, Steve Burdick, Chief Financial Officer, and Leslie Shoemaker, Chief Innovation Officer. They will provide a brief overview of the results and will then open up the call for questions. I would like to direct your attention to the Safe Harbor Statement in today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in Tetra Tech's periodic reports filed with the SEC. Except as required by law, Tetra Tech undertakes no obligation to update its forward-looking statements. In addition, since management will be presenting some non-GAAP financial measures as references, the appropriate GAAP financial reconciliations are posted in the Investors section of Tetra Tech's website. At this time, I would like to inform you that all participants are in a listen-only mode. At the request of the company, we will open up the conference for questions and answers after the presentation. With that, I would now like to turn the call over to Dan Batrack. Please go ahead, Mr. Batrack.

## Dan Batrack | Chairman and Chief Executive Officer:

Thank you very much, Paul, and good morning. And welcome to our first quarter of fiscal year 2025's earnings conference call. That's been a very eventful month of January so far. Just over three weeks ago, the Eaton fire struck right here in Pasadena within about a mile of our corporate headquarters. And an equally destructive fire occurred a little over 20 miles away from our headquarters in the Palisades here in Los Angeles County. Unfortunately, some of the Tetra Tech staff did lose their homes. And many, many that work here in our Pasadena headquarters were evacuated. And in fact, still, some still remain evacuated all the way up until today. But most importantly, all of the Tetra Tech staff are safe. And we certainly do. send our condolences to those that were unfortunate because there were fatalities in both of the fires. So it was not a great start to the month just from a personal impact to Tetra Tech staff and individuals throughout Los Angeles County. Just 10 days ago, January brought us the inauguration of President Trump and the incoming of his new administration. And they are rapidly aligning the government to their policies, their programs, adjusting contracts to areas that are in line with their mandate as they're bringing it. And much of it's been implemented through executive orders and other actions. In fact, just beginning this week, just a few days ago, our USAID or foreign development contracts for the most part have all been put on hold. for up to 90 days while the administration embarks upon a review of all of these existing contracts. Now, while these may seem like a lot of change in the industry, it's not that dissimilar from what we've seen in temporary government shutdowns. We have seen programs that have been put on hold, typically comes quite quickly when a budget hasn't been arrived at through Congress, and so we have seen this in a different form, maybe it wasn't executive actions, but we have seen the net effect be quite similar here in the marketplace and here at Tetra Tech. But no doubt Tetra Tech's strength has always been in our ability to respond and to adapt to change. Whether it's mobilizing our staff to respond to fires or other disasters or hurricanes, or aligning our staff with our clients' priorities. We can move quite quickly. Our staff are in extremely high demand. And the ability to put them on other programs during these periods is actually quite high. Our services across the board continue to be in very high demand for things such as providing clean, secure water supplies, ensuring a healthy environment, or designing and putting in place resilient infrastructure such that it will be not

impacted in the future regarding disasters or any other items. Now presenting with me today, I have Steve Burdick, our Chief Financial Officer, who will be providing additional details on our financial performance and capital allocation for the company. I also have Dr. Leslie Shoemaker, who will provide remarks on some of our key growth markets. But before I get to, or before we get to our drivers and outlook for fiscal year 2025, I'd like to first share with you the results of our first quarter. We had a very strong first quarter and beginning of fiscal year 2025. For the quarter, we achieved new record results, and not just record results for what we would normally perform in the first quarter, but high points for any quarter in the entire history of the company. In fact, our net revenue, which increased to \$1.2 billion in the quarter, and again, that's for net revenue, it was up 18% from the prior year to an all-time record for any quarter in the company's history. Property income was \$138 million for the quarter, an increase of 24% from the prior year. And by the way, I'll make a note, a year ago, that was a record high. So by having income being up 24% from a record first quarter was really quite impressive here for the company. And of course, that's an all-time high for a first quarter for the company. The strong performance resulted in earnings per share increase of 25% over the previous year to \$0.35 for the quarter, which was above our own guidance range and, of course, above consensus that were provided in the marketplace. And through all of this, and with this very large revenue being recognized in the quarter, it was even more impressive that our backlog grew. And it grew to \$5.44 billion, about 15% from the first quarter of last year. I would like to discuss and present our performance by segment. Both of our segments contributed significantly to this outstanding performance in the first quarter. For the first quarter, the Government Services Group, or GSG segment, increased its revenue by 36% year over year to \$601 million. And this is the first quarter we've ever had a GSG segment over \$600 million. So it was really quite an accomplishment. Now, GSG generated a margin of 13.9% margin for the quarter. The GSG's revenue growth was largely driven by significantly higher than anticipated work in Ukraine for a USAID client. While this is extremely important work, and it's been quite successful supporting the U.S. government in this critical mission, uh the contracts that we have do carry lower margins due to the cost reimbursable nature of the contracts if you took out the Ukraine work that we did this last quarter you would have seen GSG's margin at about 15.4 which is extremely strong for the first quarter of the year where we have holidays such as here in the U.S. Thanksgiving Christmas and other times up so to be in the In fact, above 15% for this first quarter, extremely strong for the company. The Commercial International Group, or CIG segment, delivered a 13% margin. Quite pleased with that. It's up 50 basis points from last year, which is right in line with our forecasted annual increase in margins. The CIG segment had net revenue of \$596 million, which was up 4% year on year, and I will note This is the closest balance we've had between government services at \$601 million, CIG at \$596 million. We really have about half of our work in GSG and about half of our revenues in CIG. Really quite balanced for the company. I would like to provide an overview of our performance by our end customer and how we look at how we contract in the marketplace. Work for our U.S. federal clients was up 32% from the same quarter last year. Now, without contributions from our Ukraine work, our federal revenues would have been up 7% year over year, which is exactly in line with our forecast for the federal government. This growth is driven by increases in our defense infrastructure and many of our critical civilian programs that we undertake. For state and local revenues, an amazing 47% year over year. Now, this was driven primarily by extraordinary hurricane response activity that we undertook in areas of Florida, Georgia, Carolinas, and other areas in the southeast in response to hurricanes Helene and Milton. We also saw growth, though. This growth wasn't just from these hurricanes. We also saw material growth on our digital water modernization and advanced water treatment projects. Now, if we did take out the impact of the extraordinary hurricane response activities, our state and local revenues would have been up 19% year-on-year, very strong. Our U.S. commercial net revenues were up 7% year-on-year, again, very much in line with our forecast for the quarter, driven by growth in high-performance buildings, design services, as well as our support for Fortune 500 clients. And finally, our international work that we actually contract from perform outside of the United States represented over a third of our revenues in a quarter. For international work includes the United Kingdom and Irish water programs are differentiated high end infrastructure services all across Canada and defense infrastructure resiliency work in both the United Kingdom and in Australia. I would like to discuss and point out a few items on our backlog, which increased to an all-time high of \$5.44 billion, as I'd mentioned a moment ago, up 15% from last year. We won a whole group or a whole series of Army Corps of Engineers contracts for civil works design, sustainable water infrastructure projects, environmental engineering,

emergency response, and flood protection activities. all critical programs that are priorities for the incoming administration. In the Midwestern part of the United States, we won a five-year single award. That means awarded just to Tetra Tech for emergency response and preparedness work within that entire region. And I'd like to remind you that while Tetra Tech has more than \$25 billion in contract capacity with the US federal government, our backlog does not include any factored numbers associated with contract capacity or anticipated awards under IDIQ contracts. So the work that we have here is contracted, funded by the client, and authorized for us to go to work. Nothing else has been adjusted or factored or added into it. We don't have that component. Now at this point I'd like to turn the presentation over to Steve Burdick who can present the details of our financials in the quarter and particularly our capital allocation programs and priorities for the company. Steve?

## **Steve Burdick | Chief Financial Officer:**

Hey, thank you, Dan. I'd like to now provide an update of our GAAP financial results for the first quarter and our working capital, cash flow, and capital allocation. So as Dan discussed on this call, we continue to focus on the front-end cycle for water and infrastructure projects, which are carrying a higher margin across all of our end markets. And as such, even though revenue was up 16% over last year, our adjusted operating income and EPS for the first quarter increased at an even higher rate, with an adjusted EPS up by 25% over the last year. Now, this record financial and operating performances resulted in a strengthening balance sheet and cash flow positions, such that even though the decision by one of our subsidiaries to settle the 100-point litigation did result in a one-time charge that is material to the first quarter earnings, That decision will not materially impact our results or strategy going forward. And for those of you on the call or looking at our information, I refer you to our Reg G and to the appendix of this presentation for the gap to adjusted reconciliation. Now, cash flows generated from operations for the trailing 12 months were \$363 million. These cash flows have continued to exceed income by more than 100%. And when looking back over our historical financial results, we noted that our cash flow from operations has exceeded net income every fiscal year for the last two decades. Our focus on working capital and cash flows has resulted in a DSO of about 55.9 days, much better than our industry peers who are more than 80 days. Our target is to keep the DSOs well below 60 days. We consider this a high watermark for our working capital to be sustainable over the long term as we continue to make cash flows from operations a priority. Also, our DSO provides significant insight into our core business as it reflects the outstanding work that our project managers lead relative to higher quality projects and highly satisfied clients in our broad portfolio across all of our end markets and geographies. Our net debt on EBITDA was at a leverage of 1.33 times, which is much lower than our average one year ago, which stood at 1.51 times. Now, on an adjusted basis, without this one-time charge, the net leverage was at 1.05 times. As we continue to execute on high-quality operating results with strong cash flows and a healthy working capital, We will continue to have the ability to invest in strategic initiatives which will provide higher returns to our shareholders. For those following along in the presentation, I'd like to now present our capital allocation overview. But prior to diving into these details, I'd like to point out that Tetra Tech is one of the few firms who is able to provide an increasing dividend, buy back our shares, make acquisitions, all the while lowering our net debt leverage. And with that, I would say that we have a very strong balance sheet, probably the strongest balance sheet in our history, as well as a significant amount of liquidity available to invest in organic and acquisitive priorities. And we have a well-balanced mix of fixed and floating rate debt to mitigate the interest rate risk as we look to invest in key strategic priorities. We have a strong pipeline for acquisitions, which is aligned towards technical leaders, especially in the water and environmental spaces, where we have led the market for the last 20 years. Now, regarding our dividend program, I want to announce that our Board of Directors approved a 5.8-cent dividend, which is a 12 percent increase year-over-year to be paid in the second quarter. This is our 39th consecutive quarterly dividend with an annual double-digit increase in the amounts paid, and this remains a priority for the company. As we've revised our capital structure to take advantage of the credit market to support our financing needs, I want to point out our ability to reduce our average interest rate by 57 bits to 3.44% this quarter versus last year. This, which is an environment of higher interest rates for longer. And based on reaching a lower leverage at the end of last year, We did reinstitute

our stock buyback program this last quarter worth \$25 million. We do have available a significant portion of the \$400 million from the stock buyback plan approved by our board of directors as part of our capital allocation strategy to use for future stock buybacks. You know, I am quite pleased to share these strong results for the first quarter of 2025. I want to thank all of our shareholders and analysts for your support. And I will now hand the call back over to Leslie and Dan to discuss Tetra Tech's future global and improvement opportunities, as well as our fiscal 2025 guidance. Leslie.

### **Leslie Shoemaker | Chief Innovation Officer:**

Thank you, Steve. As Dan mentioned earlier, we see continued strong demand for our services, especially for essential water services. Water is at the forefront of recovery needs post disasters, and essential to cities and growing communities across the United States and internationally. Today we're working with our clients to recharge aquifers to fight seawater intrusion in coastal regions such as our innovative water treatment design in Hampton Roads, Virginia. We're treating contaminated groundwater to create reliable new water supplies worldwide from Water treatment in Dayton, Ohio, all the way to military facilities in Australia. And we're designing the new structures that will be used to protect hurricane-prone regions along the coastlines in the United States. Here in the U.S., our inland waterways, locks, and dam systems have just begun the first significant upgrade in over 50 years, led by the Army Corps of Engineers. Tetradex designers are currently supporting the update of this inland navigation system across the U.S. which is essential to interstate commerce. And we've actually been the innovators in many of those designs with first of a kind solutions. Across our water market, we're employing our triple F or software subscription solutions and our Delta technologies to leverage AI and optimize and automate Our trained engineers, scientists, and technical professionals, our experience working on the largest U.S. disasters, and our proprietary software systems are what make Tetra Tech the leading U.S. consulting and engineering firm for response to fires, hurricanes, and tornadoes. We've worked on disaster response and recovery for many years, but it is increasingly integrated into our services both in preparing for disasters as well as in responding to post-disaster needs. We look at disaster response and recovery as three distinct phases. Phase one is focused on supporting the monitoring and response immediately post-disaster. We also maintain over 500 clients, 500 contracts with clients throughout state and local governments for high risk regions coast to coast. Now we've been working for just three months on hurricanes Milton and Helene across the southeastern United States. And are now just beginning our support for the Eaton and Palisades fires in California. After about a year, the second phase begins to perform the more detailed damage assessment and consulting services that ultimately will lay the groundwork for the longer term engineering design, which can ultimately span 10 years or more. Today, we're continuing to support Maui in recovering from the Lahaina fire, which due to its island location and severity has complex restoration needs, such as the design of entirely new landfill structures to receive the fire residues. Hurricanes have even more significant long-term needs for recovery planning and engineering that are directly in the services that Tetra Tech provides. Today we're designing flood protection structures and providing resiliency services to address the severe damage caused by Hurricane Harvey in Texas and Hurricane Maria in Puerto Rico that occurred in 2017. Today we're continuing to innovate in this space by integrating our AI solutions with our deep knowledge of recovery practices. For example, we are currently using artificial intelligence to analyze post-fire satellite imagery and provide first of a kind landslide risk assessments using this technology. With the increasing frequency and severity of disasters, this is becoming a significant driver for our business. And with that, I'd like to turn the call over to Dan to present our guidance.

### **Dan Batrack | Chairman and Chief Executive Officer:**

Thank you, Leslie. And I'd like to present our guidance for the second quarter of the fiscal year and our updated guidance for all of fiscal year 2025. Our guidance is as follows. The second quarter, our net revenue guidance range is from \$1 billion to \$1.1 billion with an associated adjusted earnings per share of 30 cents to 33 cents. The updated guidance for the entire year for net revenue is for a range of \$4.365 billion to \$4.765 billion, with an associated adjusted earnings per share of \$1.37 to \$1.52. If you're following along on the

webcast or you have access to the presentation, you can take a look at the assumptions with respect to intangible amortization, tax rate, and other items for any modeling questions that you may have. In summary, we had a really good first quarter. We achieved all-time record revenues for revenue, net revenue, backlog for any quarter in the history of the company. And we're seeing really strong demand for our differentiated leading with science services across our core business areas of water, environment, and infrastructure markets that we work in all around the world. More specifically, our disaster preparedness, response, and recovery services have never been in higher demand. Demand for our water design services continue to grow both here in the United States and the United Kingdom, and our federal IT practice, or our FIT practice, is supporting the needed modernization of government services, that with a more lean federal government workforce, this is going to be very highly aligned and in high demand with the new administration's priorities. Together, these drivers and actually the change in the mix of our business, adding in more disaster response, supported our increase in the upper end of our earnings per share guidance for all of fiscal year 2025. And with that, now I'd like to have the call open for questions. So, Paul, ready to see if any questions that we may have.

**Conference Operator | Operator:**

Thank you. The question and answer session will begin now. Please be aware that there will be a 30-second pause in our webcast to allow for buffering. At this time, audio participants are invited to submit their questions. Please remember to mute the audio function on your computer before you speak. If you're using a speakerphone, please pick up the handset before pressing any numbers.

**Conference Operator | Operator:**

If you would like to ask a question, please press 1 on your touch-tone phone. Our first question is from Tim Mulrone with William Blair.

**Conference Operator | Operator:**

Please proceed with your question.

**Tim Mulrone | Analyst, William Blair:**

Yeah, good morning. Thank you for taking my questions. Just a couple quick ones on the guide just to level set everybody. Can you walk us through what's assumed at the midpoint of your guidance range for USAID work and what, you know, what gives you confidence that some of this work will likely turn back on after that 90-day review?

**Dan Batrack | Chairman and Chief Executive Officer:**

Yeah, that's a good question. So we have assumed in the first quarter, I'll work on an annual basis because the midpoint for our annual guidance is the question, that for the midpoint, we've assumed that we would do approximately \$400 million worth of USAID work for the entire year. Now in the first quarter, we did about \$200 million. So we have assumed that we would do approximately another \$200 at the midpoint between now and the end of the fiscal year. What we've assumed while we are on hold for 90 days, there's a number of different scenarios that can unfold during this review practice. One, the projects can be put back on continuation, and that can take place anywhere between now and this 90-day period. The delay can be put on- can be extended and they can put these dates out into the future or they can make a determination that the projects are actually terminated. So with respect to our original forecast that we had, we brought it down

by about a third to a half that we're going to do that much less work for aid. So we assume that what we did in the first quarter, we would basically do the rest of that similar amount over the next three quarters. Now, if for some reason I'll take a worst case scenario, because this is what we built into the low end. And I'll tell you, you might even extend toward the midpoint. Because if you did turn all of our work off, I'll go through a theoretical assessment very quickly as if everything got turned off. If it did get turned off, that would mean we would initiate demobilization, and if the contracts were terminated, you would demobilize the projects, you would send people back home. And I believe that the demobilization cost to be incurred on these cost-reimbursable contracts would yield roughly that midpoint. Now, if you said, Worst, worst case, and what's recoverable or not, maybe you get toward the low end. But I'll tell you, even if things don't get turned back on, I believe it will take us roughly to the midpoint of our guidance that we have provided for fiscal year 2025. Now, if they get turned back on, obviously that moves us, could either be through demobilization, your incurred payments and revenues, or continued working. You can receive revenues contributing And that, if it did get turned back on and then continue through the rest of the year, that would take us to the high end. If it gets turned on after this 90 day period. So I think that we've really been very conservative. And I'll tell you in this level of, or this period of somewhat uncertainty. Now, it's not that we have lots of data and it's uncertain. We are today, Thursday morning. three days and one hour into the stop work orders. So there's very little information. Things are just getting clarified. And you saw even earlier this week, grants were put on hold, and then they were put back on in a 24-hour period. So to say that this isn't a fluid process, you know, it is a very fluid process. So we've been very conservative. We wanted to actually incorporate into our annual guidance what I guess I'd call reasonably worst case could be, and that it would support both our, certainly the lower end with, it's already been fully embedded, frankly, with respect to aid, mostly even to the midpoint.

### **Tim Mulrone | Analyst, William Blair:**

Okay, that's very helpful. So it sounds like the midpoint in your guide is almost worst case scenario where you're just collecting demobilization revenue because nothing really gets turned back on. But is that really your expectation? I mean, you've been doing this for a long time, these aid projects. Some of them I know are in areas of the world that are strategically important. Is it your expectation that some of these projects likely will turn back on after the 90-day review? And if that's not a fair question, that's fine. I can skip and do another one.

### **Dan Batrack | Chairman and Chief Executive Officer:**

Well, I'll share with you our perspective, because our perspective is in line with essentially every administration's priority, and I believe including this administration's priority overall with respect to foreign policy. You've heard us say this before, foreign policy is made up of three legs, three legs to foreign policy. Number one is diplomacy. That's the president meeting with other presidents and ambassadors, and certainly that's important. Second is defense. That is interceding where there's no other way other than a military option. But the third leg is development. And we've had individuals on our board such as Admiral Trulli. We are very close with our clients in the Department of Defense. And there's many, many white papers and recognition that \$1 of development will save between \$10 and \$100 of defense. And so the return for development is somewhere between 10 to 100 times. And the projects that we work on for development are clearly part of national security and are also associated very closely with the most highly sought after foreign development and diplomacy. So, for example, I'll give you just a couple very quickly. National security is centered around places like the South China Sea. And the work that we do in the Philippines basically covers the entire eastern portion of the South China Sea. So by supporting development work in Philippines, we have access to Subic Bay, the largest naval facility in that region. We have access to Clark Airport space. These are all former U.S. defense facilities. With the work we're doing in Vietnam on the west side of the South China Sea, Work we're doing cleaning up Agent Orange from the Vietnam conflict that the U.S. was engaged in has access to Camden Bay. Work we're doing in Indonesia and Malaysia covers the entire southern portion of the South China Sea. So these areas are critical to U.S. national security. Certainly I can

give you examples in other portions of the world. So the work that we're doing are highly aligned with national security and the highest priority of not only previous administrations, this administration. So for those reasons, I believe a large portion of our work will be reviewed and determined to be critical and turned back on. Albeit, just to make sure we bracket things, I've just explained how we've updated both the mid and lower point to even account for delayed portions. But as you get turned on, that will take us back to the midpoint and above, up to the high end. That's our perspective, and it's not grown from or determined what we think here looking within Tetra Tech. This is based on the priorities of previous administrations and the current administration as they've been very vocal about.

**Tim Mulroney | Analyst, William Blair:**

Yeah, okay. The point is well taken, and I think you've framed it really well for investors, so I appreciate that. I'll leave it there. Thank you very much.

**Conference Operator | Operator:**

Thank you, Tim.

**Conference Operator | Operator:**

Thank you. Our next question is from Sangeeta Jain with KeyBank Capital Markets. Please proceed with your question.

**Sangeeta Jain | Analyst, KeyBank Capital Markets:**

Good morning. Thanks for taking my question. So, Dan, if you could help us understand the disaster response, I think there's some revenue that you factored into the top end of your guidance. So if you can help us understand how much flex there is beyond what is in your guidance for this year and next year.

**Dan Batrack | Chairman and Chief Executive Officer:**

Yeah, great question, great question. So the coming into this year we we assume that we continue work in response to the hurricanes. We had great visibility that took place at the beginning of the year, but the fires of course are new. We think that here in fiscal year 2025 a new revenues that will start here in the latter part of Q2 since we're already two days from February. We'll start this work quite quickly. And by the way, just as a quick update, we think we'll have a dozen teams in the field. By the way, the last of the active fires have just been put out this last weekend. We expect that with the president having come out here to Southern California and put priority on this, we expect to have more than a dozen teams out in the field by the end of this week. And yes, that does mean tomorrow. And we expect that we'll have 100 different teams. out in the field doing the assessment to clear these sites for debris removal in the coming weeks. So this is going to go from the fire just being put out to being in the field quite quickly. So we assume that as a case sort of 40 to 50 million dollars of incremental revenue will be included and we put that into our guidance for fiscal year 2025. That was not in it before, but this temporary hold or stop work on USAID and is what we've used as an offset. So we think that from a revenue standpoint, what is not fully recognized during this 90-day hold period will be made up for the disaster. Now, the disaster work is more profitable. We have more dedicated staff. We have higher utilization. We have overtime hours, these types of things. And so that's what caused us on our upper end not to remove our revenue up because the contribution from the fires, to be specific, will offset any type of reduction we had during this short stand-down period with the federal government on foreign assistance. But since it's higher margin, that allowed us to increase the profit for the operating income and earnings per

share for the year. That's why you saw the upper ends EPS actually go up. So that's the dollar amount we have. We think with respect to, you said, next year, we think this is about a 18-month process. That's sort of an average time. We spent about that amount of time on the campfire when the entire city of Paradise burned down. That was our response activity with our partners there. That was about an 18-month process. And in fact, the numbers would be larger in 2026 because we're already four months into 2025 before we get started. So we have just a little over half a year in 2025. And so you can expect that 40 to 50 to be half again, more, maybe even double in 2026.

**Sangeeta Jain | Analyst, KeyBank Capital Markets:**

That's super helpful. And maybe for Steve, so your leverage is hovering around the low end of your target range. It's been a couple years since you made a major acquisition. Can you Talk to us about your thinking on the M&A pipeline and the types of opportunities that you may be looking at.

**Steve Burdick | Chief Financial Officer:**

Yeah, I think we're very fortunate we have a huge acquisition pipeline. You know, we do, we are very prudent in terms of how we allocate our capital to make sure that acquisitions that we bring into Tetra Tech don't make Tetra Tech just bigger but better. And those acquisitions are really focused on technical leadership, so areas that Leslie had talked about as part of her presentation today, especially in the water and environmental spaces is really what we're looking at. And from a geographic presence, we have opportunities across the complete geography where we currently operate, which is Australia and Asia Pacific, North America, which includes U.S. and Canada, and the U.K. and Northern Europe. So it's really along those lines. And it's, you know, I would say, yes, it's been almost two years to the date since we closed RPS, which was our largest acquisition. But it's, like I said, it's not just, acquisitions to get bigger or large acquisitions, but really what's going to make Tetra Tech better. And that's what's in our pipeline.

**Conference Operator | Operator:**

Great. Appreciate it so much. Thank you.

**Conference Operator | Operator:**

Thank you. Our next question is from Sabah Khan with RBC Capital Markets. Please proceed with your question.

**Sabah Khan | Analyst, RBC Capital Markets:**

Great. Thanks for all the color on some of the puts and takes. I just want to follow up a little bit on some of the other buckets. And as you think about the rest of fiscal 2025, obviously there's some puts and takes on the civil and DOD side as well. Maybe you can just put a finer point on your expectations on how those two segments maybe evolve for the rest of the year.

**Dan Batrack | Chairman and Chief Executive Officer:**

Thank you. Yeah, good question. I know there's been in the last, 10 days has been an awful lot of focus on foreign assistance or foreign development, USAID specifically, and the State Department. But it is only one-third of the work we do for the federal government. So our U.S. Department of Defense work has been

growing well. We've seen their budgets are in place, their funding is untouched, and their priorities have given primacy within the budget. So we expect that work is going to continue. It is growing at sort of between a 5 and 10 percent rate, as we've indicated. And we've seen no signs of really changes. And in fact, we think that some of that might even get accelerated and those growth rates may go to the upper end. Some have asked what type of work you would do there. Now if you're going to add more, there's certainly been indications of grow the size of the Navy, grow the size of the Air Force. If you're going to have another ship, you have to have a port or a pier or a location to put it. And so while they're constructing it, the work that we do is absolutely critical with respect to access. Is there sediment? Can you get the boat there? What are you going to do on the design? All of the things that would have to be done, we would do, and it's right in alignment with ourselves. So ports, harbors, stands, navigation channels, social protection. And of course, modernization, both on the civilian side and on the Department of Defense. If you're going to do it with a more lean workforce, particularly if you're going to focus on the fighting force or the readiness, the back office, so to speak, the people that support it, will need to be more efficient through modernization and use of everything from, yes, AI and other data analytics. And that's what our federal IT practice does. And that represents about 10% of all the revenues in Tetra Tech. So interestingly enough, I know it doesn't get as much headlines. I'm not Probably my fault for not speaking enough for clearly enough about it, but our federal it practice is as big as or slightly larger than our entire foreign assistance program with USA. And so the modernization program for the federal government is another area that we see growing we put generally between a five to 10% but probably at the upper end of that. And so those look very strong. Areas we have under our civilian programs. So defense we see clear. We have lots of backlog and we see it strong and growing at the upper end of our range. Civilian work is pretty varied that we have. Some of the areas that we're doing with Federal Aviation Administration is very high priority. I know that there was an accident in Washington, D.C. yesterday that highlights the need for modernization and additional communications besides just air traffic controllers. I'm moving this to space-based communications and navigation systems, even in local landings situations, such as was taking place even just last night in Washington, D.C. area. So we see that increasing in priority as part of modernization, as part of safety, as part of a reduced cost for running of these systems. So we see that saving more funding and more priority. Other areas, I know I do get questions frequently about what about Environmental Protection Agency, EPA? A lot of the work we do for the Environmental Protection Agency are in response activities. So it's not, are you looking at climate change? Are you doing research? A lot of this is response work. So when you had the train derailment, I know there was a settlement just this week between the Federal Department of Justice and the rail operator. in East Palestine, we were doing the response. And I'll tell you, the response activities and responding to these types of disasters knows no political party. And so that work we see as unaffected. So I think the non-federal foreign assistance work that I've spoken of already, and we've discussed the potential risks and opportunities there, But I think most of our civilian and the Department of Defense remains untouched. In fact, I think the growth rates are even higher there.

### **Sabah Khan | Analyst, RBC Capital Markets:**

Great. And then, oh, that's a great color. And then just maybe moving over to kind of the commercial bucket, it sounds like that's been trending well, but maybe if you can just update us on a lot of executive orders flying around recently, announcements about data center build-offs, but just net-net, how are your conversations with your commercial customers trending, whether it relates to private investment and or maybe some of the broader infrastructure announcements that we're hearing.

### **Tate Sullivan | Analyst, Maxim Group:**

Thanks.

## **Dan Batrack | Chairman and Chief Executive Officer:**

You know, it's interesting. I get comments from investors or individuals within the company and other parts of the business saying that areas such as oil and gas for LNG exports from the U.S., the U.S. would become a bigger energy export, that this must be taking off like a SpaceX rocket. But we've actually seen it move forward. We've seen additional work with respect to permitting and feasibility studies. We've seen additional requests for technical evaluations for co-location of power generation adjacent to data centers or these chip fabs. I found it very interesting. contracted for evaluating of some LNG or natural gas fired cogeneration power plants between some of the oil majors and some of the turbine manufacturers. So you can actually put a four or five gigawatt power generation adjacent to one of these facilities so that it limits or eliminates the need for transmission and connections to interconnects. And so the work that this would be a big build out the cost would be dropped dramatically, and so we've been engaged in this. So I would say there's been an uptick in exploration of these, but as far as actually going from a standstill to we're breaking ground tomorrow, I've still seen that move through a progression process. I don't want to use the word slow, but I would say it's progressing. It's not from 0 to 100 miles in this past 10 days since the inauguration.

## **Sabah Khan | Analyst, RBC Capital Markets:**

Great. And then just one last one, and then I'll pass the line. You know, I guess the estimated exposure you have to various buckets is about, you know, call it 55 plus percent water and then 30, 35 percent in sort of environmental and renewables. Just maybe if you can just talk about that other environmental and renewables bucket and just curious, you know, whether it's across public customers, private customers, just some of the kind of trends or commentary you're hearing as it relates to renewables. It seems like the new administration is just a bit honed in on wind, but just talk about the mix of work you have in that other 30 to 35% bucket, please. Thanks.

## **Dan Batrack | Chairman and Chief Executive Officer:**

Yeah, I'm not familiar with that particular breakdown. I can share with you how we look at it. So we have 85%, which would be water and environment. And the environmental work we do is specifically associated with protecting watersheds, groundwater, surface water, or other water sources. So the environmental work is completely integrated and integral to protection of water. So that's why we say 85% of our revenues are water and environment. But the environment is completely linked to the driver of water programs. So that 85%, I don't really see impacted by, quote, the headline risk of environmental programs are being reduced. So that's not the case. With respect to renewables, other than hydropower, we do not include that in our 85%. So when you say clean energy or renewables, that's not part of our 85%. That's part of the other 15%. And the other 15% is roughly, I don't want to get too wonky on numbers here, but about 10% is high performance buildings, and the other 5% is renewables. Now, renewables do include on and offshore wind, which I know is not in favor, includes solar, which which is a component. But what we're doing here in the United States, that 5% of our revenue that's renewable, that is not here just in the United States. It's primarily in the U.S., Canada. Canada is, we have wind turbines there. Australia, which has a priority in offshore wind generation, is moving forward. And Europe, which is primarily U.K., which is well-advanced. of where we are. So if you take that 5% and take the renewable portion for the United States that it may not be in favor with this administration, take the big three for us for renewables, Australia, US, and UK, and it's probably about a third. So if you want to say about 1.5% of our revenue is in renewables with respect to that might not be in favor, I would say there's a component of it with respect to when, but there's also a component of that 1.5% that is other renewable energy such as carbon sequestration from natural gas, coal-fired power plants where you have complete carbon sequestration. So it's not just wind. So if you really look at it, it's a pretty small part of our overall portfolio when you break that down to the U.S. for wind.

**Conference Operator | Operator:**

Great. Thanks very much for that. Great. Thanks, Albert. Thank you. Our next question is from Tate Sullivan with Maxim Group. Please proceed with your question.

**Tate Sullivan | Analyst, Maxim Group:**

Thank you. Thank you, Dan, for your previous comments on the USAID. And to confirm, no other federal government agency has halted work for you or your competitors at this time. And I mean, are you concerned that this USAID decision or an executive order could set a precedent for other agencies?

**Dan Batrack | Chairman and Chief Executive Officer:**

Well, you know, it's interesting. I won't speak regarding our competitors. I'll let them comment on what they've been on hold, but I assume what we've received is really across anybody doing work for that agency. We have received some stop work orders for some of the, call it scientific research work. It's a small part for the Environmental Protection Agency, so EPA. We had thought that there may have been stop work orders coming because of the cessation of grant funding that took place and then was rescinded the next day. So we were speculating it might come from National Science Foundation where we do work on grants. That's been untouched, that's moving forward. But a very small amount of EPA work on the R&D research part of it while they're doing an evaluation. And so, but I would put that I don't know if I can call it the noise, but I'd call it, you know, quite small. But just to be clear, it has extended beyond just USAID to a certain extent. I will say that what came out, and it really didn't affect us, there was orders that came out during that very, a week ago, just after inauguration, that all DEI programs or anything associated with those were not only put on hold but were terminated effective immediately. And I think that may have extended to other agencies for programs where, you know, unassociated with, so HHS and things like that.

**Tate Sullivan | Analyst, Maxim Group:**

Thank you. And just to remove some sort of uncertainty for this current court, can you quantify, if you can, the amount of USAID work booked in backlog? in fiscal 1Q25 and the amount of USAID and the total backlog, if possible?

**Dan Batrack | Chairman and Chief Executive Officer:**

Yeah, we don't break out the percentage of work we have by any particular end client within our backlog, but I will say that because obviously whatever we recognize in the quarter would be in our total. So I'll just go to the total. Generally, USAID has funded us for more than a year. So this last year, USAID, because of Ukraine being a bigger part, normally it's about 10% of our revenue or a third of our federal, because Ukraine was up maybe around 13%. So total aid was maybe a year ago in 2024, Between 550 and 600. This year we thought it would be flat at about 600. So it carries more than a year's worth of backlog. So you can extrapolate from there the number in our backlog.

**Tate Sullivan | Analyst, Maxim Group:**

And last, thank you very much, is Steve or Dan, can you touch on the decision to settle or accrue for a Hunter's Point litigation? Did something change in the litigation landscape, or can you comment on that?

**Steve Burdick | Chief Financial Officer:**

Well, I think you've covered this quite a while, and this is something that's been around for, I don't know, 10, 15 years. So I think it got to a point where our subsidiary, EC, was able to come to an agreement with the government that really allows us to eliminate almost, I won't say quite eliminate fully yet, but the future litigation costs, outside lawyers, going to court for years. And so it really takes all of that off the table. And that was the purpose of us finally deciding to settle with the government.

**Conference Operator | Operator:**

Okay. Thank you. Thank you, Kate.

**Conference Operator | Operator:**

Thank you. Our next question is from Justin Hawk with Baird. Please proceed with your question.

**Justin Hawk | Analyst, Baird:**

uh great no thank you uh for all the color here that's that's been helpful on helping us understand everything um I guess I wanted to clarify one more point uh on the the USAID contribution in the quarter I think you said it was about 200 million of revenue and I was just curious how much of that was Ukraine specifically and maybe the same question for 2024 the the 550 to 600 million that you said that you did in 2024, how much of that was Ukraine specifically just to kind of help isolate that bucket versus the rest of your USAID business?

**Dan Batrack | Chairman and Chief Executive Officer:**

So in Q1, Ukraine was about 150 million for 2025, so this first quarter. And so we were just a little over \$50 million for the remaining USAID work, which put us just at the \$200 million number you used there. And with respect to what we had done a year ago, I guess in 2024 in Ukraine work, is that the second part of the question, Justin? Yes. Yeah. Yeah, we did. It's just a little under 300. I think it was like 280, 290 for fiscal year 2024. That's about what we did in Ukraine.

**Justin Hawk | Analyst, Baird:**

Okay. All right. Thank you. And I guess my last one just is a high-level question for you, Dan. But outside of, you know, kind of the immediate effects of the executive orders, I mean – some of the other, uh, I don't know, maybe, maybe tail risks or things of just funding priority changes, whether it's portions of the IRA rollback or, or maybe, uh, you know, the PFAS rule, I know there's the drinking water standard, but it did look like the, the effluence and discharge rule was halted. I mean, just high level thinking about, you know, risk to some of these more, um, structural programs, um, being changed and, and, you know, I don't know if that requires something outside of an executive order, but just, you know, how much risk is that some of that could be rolled back that, you know, maybe isn't captured here in kind of your initial expectations?

**Dan Batrack | Chairman and Chief Executive Officer:**

Yeah, that's a good, those are really good questions, Justin, because I think that, you know, there's a glass half full, there's a glass half empty, and then there's where I think Tetra Tech is, which is an objective measurement of where it is. and what the impacts of the programs are. I think it's highly speculative when it's that IJJE infrastructure projects would be put on hold. I think they're being put on review. And I've seen

already, and you saw this between the election and inauguration, that there was critique or criticism of programs that were put in place by the previous administration to be rescinded and then immediately put back in place in an identical format with the Trump name on it. So it's had a review, and now it's been sanctioned by this current administration. And we've actually had waivers put on, and I mentioned this small, but some waivers put on that illustrate exactly that. So I know that some have said, wow, it's possible your aid work won't be put on, and it's a contagion that's going to somehow contaminate the rest of this. We've been very cautious and judicious, and I would say that In my tenure in the company, which is not insignificant, we've always been conservative and practical as to what's real. And I would just point to our backlog as a real life example of everyone else, everyone, as in, what they have in their contract, what they have in contracts and don't have awards, what they have in IDIQ, so they think they're going to get what they think they're going to get promised by some other client. And what do we do? Only what's been funded and authorized. And so the estimates that we put in here, and I'll go to PFAS as an example, you would not find another firm who's been more cautious about the PFAS ramp up in revenues and contributions to the company than Tetra Tech. You will not find another company. And so when questions are, don't you think PFAS is going to be a problem and will that impact you? We've not put much in that bucket at all. So I do find it interesting that this shadow has been introduced by some that these foreboding impacts will happen. These are shadows for areas that we've not even included in our revenue forecast. So if these do move forward, you'll actually see Tetra Tech move to outperform, even if they just remain where they are or are even pulled back, you could watch Tetra Tech move forward. And, you know, one thing I heard this morning was interesting. I heard, of course, I'm very close to our operations. It's my true love in the business. I just love our clients and projects. That's what floats my boat. So I was talking to our folks and saying, so what's the impact and what's being turned on, what's being turned off, and what's the timing? Did you know it's really interesting at Tetra Tech with USAID, because this is getting all the attention at the moment, at 10% of your revenue, he says the 90% foundational work that Tetra Tech has is unshakable. And that there are other companies that have larger percentages. And in fact, it is driving them to the point of concern. And there's even rumors from some sizable companies that will move into bankruptcy. And the comment was when this storm passes, There may be a substantially removal of competitors, and those standing with contract capacity to respond may actually be yielded much, much more work than they had before because there's less people to perform the work. And furthermore, if the new administration is focused on we want certainty of price, we want an exact number, maybe the work will move from cost plus at 6% to 8% margin to fixed price that will be higher based on contributions. And so one of our very senior executives are we could come out the other side of this with more work because there's less people to perform it and more of the work on a fixed price and margin substantially higher that could be as much as double based on our delivery of value to the government client. So, you know, I know that there's a lot of storms that come by here. Maybe when the storm blows through a lot of the chaff has been removed and those that are strong and fundamental actually will be standing in a better position than ever before. And so I do know some have written quite, you know, a quite dark interpretation of what could take place. But I think there is, the reality is, it's neither half full or half empty. It is where it is, and there's lots of opportunity to come out the other side much stronger, Justin.

**Justin Hawk | Analyst, Baird:**

I appreciate all that. Thank you for the comments. I know it's still all up in the air, but that's good perspective. Thank you.

**Dan Batrack | Chairman and Chief Executive Officer:**

Thank you, Justin.

**Conference Operator | Operator:**

Our next question is from Michael Dudas with Vertical Research Partners. Please proceed with your question.

**Michael Dudas | Analyst, Vertical Research Partners:**

Good morning, gentlemen.

**Conference Operator | Operator:**

Sorry, Michael.

**Michael Dudas | Analyst, Vertical Research Partners:**

Dan, can you remind us the targets that you put forth last May's Investor Day, what they are just generally. And given all the noise, it's been extremely loud, any impact on those thoughts, whether it's a high-end, low-end, or just once we get storm passes that things can reset and you have opportunities to achieve or even exceed that over the next several years?

**Dan Batrack | Chairman and Chief Executive Officer:**

Yeah, I think that's a really good question. I'm really glad you asked that. because there's a lot of noise. It is amazing the amount of noise began to build after the election, and of course, it's reached its current percentile here in the last 10 days. But to remind the participants on this call, investors, analysts, and others, and all stakeholders, we've indicated that we expect between now and 2030, Tetra Tech would organically grow between a 6% and 10% rate. And we've said that we anticipate, as an average over that period, we'd expand our operating margin by 50 basis points. So those are the two metrics. And you can extrapolate those, and you'll get the numbers that we presented in our 2030 plan. I'd say we said a couple things that are unusual. I think that when people make, firms make those types of long-term targets, This is, again, Tetra Tech being very unlike others. They say we're going to get there, but it's all back-end loaded. And we said it's not back-end loaded. We're going to actually achieve those on a relatively linear basis. And I don't see that changing. I think that even the midpoint of our revised guidance here, even taking into account these potential challenges in the near term, it's still within that range. It's at the 6%. Now, nothing is a perfect linear with no deviation. on the line, but I don't see any thing that changes our investment thesis on those growth rates at all. In fact, the change in the mix of the work that we have, it's actually moving our margin expansion up even faster. Now, is that actually going to happen? I think the aid work's going to get turned back on, and you're going to find we'll still meet those margin expansion. goals, but I don't see anything that has changed the fundamental long-term drivers or tailwinds of coastal protection because of extreme weather events. It doesn't matter if you call it global warming or climate change or severe storm, but when you're up to your waist in water, it doesn't matter what you call it. Same is true with other disasters. Water scarcity, there is no single valve. We're looking for it, but there's no single valve to turn to redirect water from Northern California to Southern California. And even if there is, and it can be re-engineered, the fundamental drivers of water scarcity need more than a single source. If there is a drought in Northern California and the Sacramento River Delta becomes low flow, you still need something else. So work that we're doing on desalination, on water reuse, on stormwater capture, and other alternative water sources. These are drivers that are a lot longer than four years or longer than 2030. And alternative energy supply, I'll tell you, all of these are fundamental drivers that we see fully intact, which, to turn it to investors, our investment thesis is fully intact and unimpacted by this last 10 days. So no, we don't see any changes. And there's the numbers that we that we presented in our May of 2024 Investor's Day.

**Michael Dudas | Analyst, Vertical Research Partners:**

That's very helpful. My follow-up is, so given what you just put forth, given the extreme volatility in Tetra Tech share price, do you think capital allocation could lean more towards investing in Tetra Tech shares, given where your balance sheet leverage is and the opportunities you may see in front of you? Is that something investors may be able to anticipate?

**Dan Batrack | Chairman and Chief Executive Officer:**

Well, yeah, that's a great question, because the one thing that we've indicated is we're committed, number one, to our dividend. Steve talked about 12% increase this quarter, and we revisit that every year, which is coming up in this next quarterly report, you'll see. But we've also said that we would be constructive, depending on price point, with respect to being engaged in our own stock buyback. And what we indicated when we got to the low end of our leverage range, which is down about one, We hit a whole .99 and we moved in and we initiated a buyback this last quarter, as Steve presented. And you could imagine that as the stock price has seen some volatility here, you may see us become more constructive in that area. This isn't a new message from us. It's been a message we've indicated all the time. And the only thing that would mitigate that is acquisitions that are highly accretive to the company and making us, as Steve said, better. So I'd put the acquisitions ahead so we have something large and that would materially use our, you know, to adjust our leverage point. You'd watch it on either M&A, which would drive top line and drive margin, or you'll watch us take it and re-divert it toward our stock, as you just indicated. And, again, that's not a new position for us. That has been our position perennially. So thanks for that. for asking that just as a reminder of what our position is.

**Michael Dudas | Analyst, Vertical Research Partners:**

Well said, Dan. Thank you very much.

**Tate Sullivan | Analyst, Maxim Group:**

Thank you very much, Michael.

**Conference Operator | Operator:**

This will conclude the Q&A session. I will now turn the conference back over to Dan Batrack to conclude.

**Dan Batrack | Chairman and Chief Executive Officer:**

Thank you very much, Paul. And I want to thank all of you, all of our shareholders, all of the analysts that follow us, and all of the stakeholders. Equally importantly, and maybe especially at this time, more importantly, employees who Tetra Tech that are doing a phenomenal job with their clients. We do have a significant number of individuals that are engaged in foreign development for the benefit of the United States of America. And I particularly like to commend them for being focused on the mission supporting our clients. and doing just a great job. And I'll be really looking forward to speaking with all of you in 90 days as some of these items that we've tried to address with these changing environment here, again, over the last 10 days. And I think that some will find that the volatility introduced was maybe not well-founded, but we'll see when we report out in 90 days from now. So thank you all, and I look forward to talking to you then. Goodbye.