

NASDAQ:TTEK Q3 2025 Earnings Call Transcript

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Kate | Conference Operator:

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 section of its website at 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 investor 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 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, Kate, and good morning, and welcome to our third quarter of fiscal year 2025's earnings conference call. Overall, we had a very strong third quarter, hitting new record highs for operating income and earnings per share. In fact, they were, I'll get into these details and Steve will talk about them, but they were all-time highs, not just for a third quarter, but for any quarter in the history of the company. Our operating income and margin that were at these very, very high levels were driven by the utilization of our staff that responded to the devastating fires that took place earlier in the calendar year here in Southern California. This high utilization of our staff drove our increased revenue and income even beyond the high end of our guidance, and it really supported this year on year growth rates that we saw in the quarter. The wind down of our USAID work in the quarter continued to proceed generally as we projected. In fact, the revenue was slightly below what we had forecasted for the third quarter. However, very bright spot is that we did receive payments of essentially all of our outstanding USAID invoices, which contributed to the extraordinarily strong cash generation and day sales outstanding or DSO reduction that we saw in the quarter. And our CFO, Steve Burdick, will talk about that in more detail shortly. While we had an extraordinarily good third quarter, in fact, a record third quarter in many respects, We are still being very cautious and navigating the changes that are coming with this new administration and its near-term secondary impacts. In my prepared remarks here at the beginning of our presentation today, I will discuss some of the short-term impacts that we're seeing across our end markets. Presenting with me today is Steve Burdick, our Chief Financial Officer, who will provide additional details on our financial performance. Dr. Leslie Shoemaker, our Chief Innovation Officer, will provide an update on the outlook for our U.S. federal work and our digital automation markets. So with that, I'd like to start today's call with an update of our financial performance and our overall business. So in the third quarter, excluding our USAID and Department of State business, which is very quickly, in fact, USAID is no longer existing as a entity with the federal government. So I think the best way to look at our business is actually with those removed from our financial numbers. In the quarter, our net revenue increased to \$1.6 billion, which is up 11% from the same quarter a year ago. Our operating income is \$159 million for the quarter, an increase of 37% from the prior year. And

we generated an earnings per share, or EPS, of 41 cents for the quarter, which is up 46% from the prior year. To look at our performance by segment, I'll start with our government services. So excluding when their USAID and Department of State work was only in our GSG segment. So excluding USAID and the Department of State for the third quarter, the government services group or the GSG segment increased its net revenue by 29% year over year to \$429 million in the quarter. The GSG segment generated a 19.9% margin in the quarter, which is up Pretty impressive 230 basis points from the prior year. GSD's exceptional margin performance was driven by a combination of disaster response work and the reduction of the lower margin USAID and state work that we had in prior quarters. The very rapid wrap-up of the fire-related recovery work in California drove higher utilization from the mobilization of staff really very broadly across all of Tetra Tech and certainly across the U.S. portions of Tetra Tech that we put those individuals on the fire to respond very quickly. The Commercial International Group, or CIG segment, delivered a very strong 15.2 percent margin in the quarter, up 130 basis points from last year. Now the CIG's segments revenue was \$633 million in the quarter and was up slightly from the same quarter last year. With growth in CIG within our United Kingdom, the UK, and European Union operations, and reductions in our U.S. commercial and Australian activities that I'll speak about in a bit more detail on the next slide for the webcast. I'd now like to provide an overview of our performance by our end customers, excluding USAID and Department of State for our US federal clients. Our US federal work was up 46% from the same quarter last year, and that represents about 25% of our business. In the quarter, disaster response work led by the Army Corps of Engineers contributed about \$70 million of revenue again, in the quarter to our federal revenues. Our state and local revenue grew 30% year over year. Now, excluding the contribution of our episodic disaster response work, our ongoing water programs for our state and local clients was up 18% year over year. So our state and local work, excluding the episodic disaster contributions, up 18%, continuing a little bit higher than a range that we've sort of anticipated for growth in our state and local work. Our U.S. commercial net revenues were down 4% year on year, primarily driven by reductions in renewable energy work that we do, especially in offshore wind projects. Overall, our environmental restoration work, which is environmental compliance activities, was stable and continued to be equal roughly to the previous year. And that's supported by regulatory-driven requirements that are imposed at the state and local level. There's been really no impact on federal activities for that part of our commercial work. And finally, our international work, which now represents 42% of our revenues in the quarter, and it was down 1% year over year, so I'll call it essentially flat. We did see growth in our United Kingdom and Irish water programs, so UK and our EU work was up. up for single digits. But this growth was offset by continued decrease in infrastructure work in Australia. If we actually take the Australia revenues out of our international revenues, you would see the rest of Tetra Tech's collective international activities are up about 5% in the third quarter. So that gives you an idea of the impact of that reductions in Australia. I'd now like to discuss our backlog, which represents and I think this is quite important, contracted, funded, and authorized work that we've received from our clients. Excluding USAID and State Department activities, our backlog is \$4.15 billion, which is up slightly from the second quarter. And I think this is actually a great attribute and deserves recognition by our staff that we've really seen excluding aid, the backlog not only be stable, but actually grow in the third quarter. And that's typically not one of our big backlog growth quarters. In the quarter, we did add, though, nearly \$2 billion in new contract capacity with the U.S. federal government. We press release these, and they include contract wins with the Army Corps of Engineers in Huntsville, Europe, and in Honolulu. So geographically, very broad globally. Our recent \$94 million Environmental Protection Agency, or US EPA, award is singularly focused on providing essential emergency response services. These are contracts that are activated for chemical spills, derailments of the railroad cars, and extraordinary events such as the East Palestine-Ohio train derailment that happened in 2023. So it's for that type of work that requires extraordinary response. We continue to build our state contract capacity for disaster response services, and we did have a nice award with the state of Georgia for approximately \$22 million that continues to build on work we've been doing there before. In fact, earlier in the year for hurricanes, Milton and Helena. And most recently, we announced the award of a new contract for digital automation from a very large water utility just here in California. At this point, I'd like to now turn the presentation over to Steve Burdick, our Chief Financial Officer, who will provide us additional details on our financials and give us an update on our capital allocation program. So, Steve.

Steve Burdick | Chief Financial Officer:

Hey, thanks, Dan. So, I'd like to now provide an update on our fiscal year-to-date results, working capital, cash flows, and capital allocation. So, as Dan discussed earlier on this call, we continue to focus on the funding consulting and design for water and environmental projects which are carrying higher margins across all of our end markets. And as such, even as the 2025 revenue was up 9% over last year, our operating income and EBITDA for the year increased at higher rates of 21% and 15% respectively. These results on a year-to-date basis further support our long-term strategic goals to increase net revenue while improving EBITDA margins by 50 basis points annually. And I do want to point out that the EBITDA margins on net revenue came in better and increased by over 70 basis points through the first three quarters of this year as compared to last year at this time. As a result of our ability to enhance our profit margins and further manage our working capital, we were able to increase the adjusted EPS by 26% over last year. Now, on a GAAP basis, in the first half of the year, we did recognize a charge for litigation and non-cash charge relative to the goodwill impairment for our USAID reporting division. So, I would please refer you to the appendix of this presentation and our Reg G for any reconciliation. These strong financial and operating results have resulted in the strengthening of our balance sheet and our cash flow positions. So cash flows generated from operations for the trailing 12 months were \$462 million, which represents a 23% improvement over the previous trailing 12 months. And these cash flows have continued to exceed net income by more than 100%. Our focus on working capital and cash flows has resulted in our DSO reflecting an industry-leading standard of 56 days, which is an 11-day improvement from the second quarter of this year. Much of this improvement resulted from our collections of receivables due on USAID projects. And when we include the current outstanding USAID receivables, our DSO is even lower at 54 days. This lower DSO metric provides a 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 the broad portfolio across all of our end markets and all of our geographies. Our net debt amounts to about \$620 million, and the net debt on EBITDA was at a leverage of 0.96 times, which is lower than our leverage one year ago when it stood at 1.15 times. As we continue to execute on high-quality operating results with increasing margins operating cash flows in excess of net income, and lower working capital KPIs, we will continue to provide higher returns for our shareholders. And those higher shareholder financial returns are reflected in an improving return on capital employed, which stands at close to about 20%, which is among the best in our industry. Now, for those following along the presentation, I would like to now present our capital allocation overview. We have a very strong balance sheet, probably the strongest balance sheet in our history, with over \$1 billion in available liquidity as we revised our capital structure in the last year to take advantage of the credit market to support our strategic growth opportunities. Leslie will discuss those strategic growth areas later in the presentation, but I do want to point out that we have a significant amount in liquidity available to invest in organic and inquisitive growth priorities, and we have a well-balanced mix of both fixed and floating rate debt to mitigate any interest rate risk and take advantage of any opportunities there. Now, regarding our dividend program, I want to announce that our Board of Directors approved a 6.5-cent dividend, which is a 12% increase year-over-year to be paid in the fourth quarter. This is our 41st consecutive quarterly dividend with annual double-digit increases in the amounts paid. And based on the lower leverage that I just talked about, we did re-institute our stock buyback program this year. So far in 2025, we have bought back a total of \$200 million, which includes a \$25 million in stock buybacks for the third quarter. We do have \$648 million available from the stock buyback plans approved by our board of directors as part of our capital allocation strategy. So in conclusion, I'm really pleased to share these financial results so far in fiscal 2025. Thank you for your support. And I will now hand the call over to Leslie to discuss Tetra Tech's future opportunities for the rest of 2025 and beyond. Leslie?

Leslie Shoemaker | Chief Innovation Officer:

Thank you, Steve. The U.S. federal government spending is realigned each time a new administration is put in place. In the first year of a new administration, new leadership is appointed, and often the most significant legislation is passed. It does take time for these changes to percolate through government policies and contracts. Since January, we've seen significant changes in funding priorities, changes in contracting practices, restructuring of entire agencies, and the passage of the One Big Beautiful Bill Act, or OBBBA. The new bill just signed on July 4th sets out the administration's new vision and clearly defines new funding for priority programs. The bill and subsequent executive orders do include significant actions that could adversely impact our renewable energy business. But we see clear opportunities that are in Tetra Tech's wheelhouse. I would like to highlight just three areas of particular relevance to us. The bill identifies increases in defense spending of \$150 billion, likely to be further augmented by increases in the 2026 budget. The focus on the upgrade of defense facilities aligns with our differentiated services, especially in resilient design, high performance buildings, and automated inspections and asset management. A generational increase of \$25 billion is also included for the Coast Guard. We can quickly ramp up to expand our current work for the Coast Guard in software solutions that they use for emergency responders and coastal monitoring today, as well as support an increase in the evaluation, planning, and design of marine infrastructure. Finally, the bill includes initial funding of \$12.5 billion to upgrade our air traffic control systems. This is where Tetra Tech currently holds over \$1.5 billion in Federal Aviation Administration capacity and is one of the leading experts in air traffic control, including the ongoing evaluation of new and emerging technologies. I'd now like to cover just a few recent developments in our digital automation sector. We started the Digital Water Initiative at Tetra Tech in 2021. And since then, we've added five firms with specialized expertise in the field of automation. These are firms that work in connecting the instruments, technology, and systems that are needed for the digital transformations of utilities and industry. Today, we're seeing some of the fastest growth in this sector, catalyzed by the increasingly affordable access to generative AI that's used to rapidly interpret information, optimize our client systems, and actually work in real time. Growth projections for this market, also referred to as the new industrial revolution or Industry 4.0, are for global expansion to reach over \$600 billion by 2030 at a 20% CAGR. From our initial vision to focus on water utilities, which is really the majority of our work today, we've now added work for our commercial clients in oil and gas, mining, and manufacturing. Through the recent acquisition of Sage Automation, we now have significantly broader global resources. We've further diversified our clients and we've added new software and intellectual property. Today, we're cross-selling digital automation to our global customers and broadening our reach in this rapidly growing market that's fueled by the adoption of AI that directly benefits our customers' bottom line. The trends we're seeing support our growth plan to reach \$500 million in annual revenues for digital automation by 2030. And now I'd like to turn the presentation back over to Dan.

Dan Batrack | Chairman and Chief Executive Officer:

Thank you, Leslie. I would like to present our guidance for the fourth quarter and actually our updated guidance for the entirety of fiscal year 2025. So our guidance is as follows. For Q4, fourth quarter fiscal year 2025, our net revenue guidance is for a range of \$1 billion to \$1.1 billion, with an associated earnings per share of 38 cents to 43 cents. Our updated guidance for the entire year is for a net revenue range of \$4,454,000,000 to \$4,554,000,000, with an associated adjusted earnings per share of \$1.49 to \$1.54. We do have the assumptions for our fourth quarter items included in the webcast and on the slide, but I will make a note. We do anticipate a contribution of work from USAID and Department of State of approximately \$40 to \$50 million, which is actually down from what we had anticipated just a quarter ago. So this is continuing to ramp down as an overall contribution to our revenues here at Tetra Tech. In summary, this morning, after nine months of fiscal year 2025, it's about three quarters through. And six months under this new administration, which included the elimination of our largest client, USAID, our revenue is up. And we just delivered the highest income quarter in the company's history. Although there's near-term uncertainty in some of our end markets, we're well prepared to navigate these through our diversified services, through our contract capacity, and by using our balance sheet to be very opportunistic in many different strategic areas. Some of those

areas include acquisitions, and as Steve has indicated during his commentary, the buildup of cash can also be used to continue stock buybacks, which is another way of returning value to our shareholders. Now, there's no doubt that the long-term demand and necessity for high-end water, environment, and sustainable infrastructure is unchanged, and the future looks very bright for us. And now, I'd like to open the call for questions. Kate?

Kate | Conference 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 are using a speakerphone, please pick up the handset before pressing any numbers. If you'd like to ask a question, please press star 1 on your touch-tone phone. The first question comes from the line of Tim Mulrooney with William Blair. Please proceed with your question.

Tim Mulrooney | Analyst, William Blair:

Yeah, Steve, Leslie, good morning. Good morning. So two questions here on the backlog. Firstly, can you just dig into the backlog a little bit more? I mean, it looks like it was essentially flat year over year, excluding USAID and the Department of State. Are there things happening here on the federal government side where the cadence is a bit different than what you'd normally see? I'm curious if we should be thinking about the slowdown in backlog growth as being indicative of slower revenue growth or if the procurement cycle has just shifted somewhat, you know, as maybe the agencies are taking a little bit longer to send out the RFPs or task orders?

Dan Batrack | Chairman and Chief Executive Officer:

That's a good observation and a good question, Tim. There's two aspects with respect to the work that we do for the federal government. I would say that over this last quarter, one area we've not seen a change in is the cadence and timing and issuance of contracts. And as I commented in my prepared remarks, our backlog with the federal government increased by nearly \$2 billion. So the actual issuance of contracts, scope of work, Really none of that has seen any changes from what we anticipated and what we've seen earlier in the year and frankly from even prior to this administration. But what we have seen a difference in is actually the conversion of the contracts, commissions and task orders that go into our backlog. Now, I think part of this is actually an artifact of Tetra Tech itself. We do only report our Backlog if we have a contract, which we've seen those announcements, but they funded it, which they have the funding for it from from Congress with the bill. And then they've actually authorized us to go to work. And what we've initiated the activities in the field, what we have seen is, has been a lot of early retirements, people downsizing different departments within the government. And that is included. a lot of senior individuals in the contracting officer ranks. So we've seen a slowdown between contract issuance and task order delivery. Now, many of our peers and others that work for the government report their backlog differently than Tetra Tech. They actually have what they call hard backlog, which would be ours, or funded backlog, funded and authorized. And then they also include a percentage of the amount of the contract that's issued. And in fact, if we did that, you'd see our backlog actually reporting significant increases associated with the issuance of these contract vehicles. So we have always held ourselves to an unusually, in fact, uniquely high standard on these. And we've seen that slow down through the changes with this new administration. And you really do need all of the contracting officers and all of the different mechanisms in place to make that work smoothly. I think what it means, I don't think that the contract capacity is an issue. I don't think that the existing task orders we have in hand will, at least from our perspective now, have an impact on our revenue. It's just that there'll be shorter visibility with respect to how far out you see with the task orders through this new environment. So this is something that is

different. We're about a month into our fourth quarter. And one thing I'll note that as long as I've been with the company, which goes back quite a while, when the federal government, the fourth quarter has always been an issuance quarter for the government. It's the end of their fiscal year. There's a bit of use it or lose it. Anything that wasn't expended earlier, they issue and push out. And I'll tell you, we're a month in and we're not seeing that a phenomenon or that annual seasonal distribution. So it does look like this is going to be more of a book and burn issuance on task orders from the federal government. So maybe we'll have a better view on that at the end of the fourth quarter. But issuance and the growth of the backlog may actually be less but not affecting the revenue that's coming out of the contracts that we have. I know that's a long explanation. but it's a big part of the business. And I want to put in context before we get to the end of the fourth quarter, what we are seeing today and what it might look like at the end of the quarter.

Tim Mulrooney | Analyst, William Blair:

No, that's really helpful color. And thank you for all that detail. I mean, it sounds like one of \$2 billion for the federal government. This is very much still intact. It's just about the conversion and task orders, which um you know sounds more like to me a a push out rather than anything being lost here so that that that was a that was really good color I appreciate that it's my follow-up sticking with the backlog I'm sure Heidi in profile today well

Dan Batrack | Chairman and Chief Executive Officer:

Operator Kate, I think we may have had a bit of an interruption on this last question.

Tim Mulrooney | Analyst, William Blair:

Dan, can you hear me okay?

Dan Batrack | Chairman and Chief Executive Officer:

I've got you loud and clear, Tim. I hear you quite clearly now.

Tim Mulrooney | Analyst, William Blair:

Okay. Okay. I apologize about that. Just my follow-up question was just simply, How do you think about the margin profile of your backlog today relative to where it was this time last year, excluding U.S. data and Department of State? Thank you.

Dan Batrack | Chairman and Chief Executive Officer:

Great, great question. One plan we went into a fair amount of detail in actually on Investor Day, which was just a little bit over a year ago, so a year ago May. And we'd actually talked about a long-term goal of increasing our margins by 50 basis points per year. And that was exclusive of aid. We didn't anticipate that aid would have contributed any increase. And we're actually seeing that. In fact, we're seeing it a little bit even slightly above that level. The reasoning is two items that are driving that. Number one, we're actually looking to shift the business to higher value services that we're providing to our clients. So we're moving more to the front end. We're moving more to consulting, more to qualifications-based. And so we're moving that upfront portion of the business that we have and shifting the mix to a higher value delivery which actually carries higher margins in and of itself. And the second piece is our fixed price. So we are increasing the

percentage of fixed price work we have within the company, which actually carries higher margin. And so embedded in our backlog, it actually is increasing and is supportive of that 50 basis points per year or more target of margin expansion. So it needs to be put into the bids or the types of rates that we put to our clients in the backlog before it converts to earnings and margin expansion. And that's what's happening right now. So yes, it's for those two reasons, changing contract type to fixed price and services provided, which is moving to even higher value services that we're providing to our clients.

Tim Mulrooney | Analyst, William Blair:

Thank you.

Dan Batrack | Chairman and Chief Executive Officer:

Thank you very much, Tim.

Kate | Conference Operator:

Thank you. Our next question comes from the line of Sangeeta Jain with KeyBank Capital Market. Please proceed with your question.

Sangeeta Jain | Analyst, KeyBank Capital Markets:

Thank you so much for taking my question. So, Dan, if I can ask you on the previous question about the book and burn cadence of the federal work right now. Based on your experience, how does that set you up for 2026? Do you think there's going to be like pent-up orders coming, or do you think it's going to be a continuation of this book and burn type situation?

Dan Batrack | Chairman and Chief Executive Officer:

That's a great question. And I, at this moment, as of this call, I would tell you it looks like it's going to be more of a book and burn. I think that the items that have to be put in place for some of these agencies don't happen in a day or a week, not even maybe even a month. And we're only talking 60 days between now and the end of our fiscal year. So as I take a look at how we would finish this quarter and likely enter 2026, it does feel like it's going to be more of a book and burn on the federal government side than we've seen before. Now, you know, many things I get to learn through continuing learning. Maybe that'll be quite different and happen differently than we anticipate. But I would say we anticipate that it'll be more of a book and burn. And we could easily see the backlog being flat too. And 2.4 is a big quarter for us. So it's even conceivable that you'd have a decline in the backlog at the end of the fourth quarter, but not impact our outlook for revenue. It just will have... a little bit less visibility on how far out you can see.

Sangeeta Jain | Analyst, KeyBank Capital Markets:

I really appreciate that. And then just kind of housekeeping question, how should we think about disaster recovery revenue in fiscal fourth quarter?

Dan Batrack | Chairman and Chief Executive Officer:

Well, for the communities, it's a really good story. We've largely completed the support work of recoveries down in the flooded and impacted areas in Florida and Georgia and the Carolinas. So we'd see that is essentially over. And I will say that the long term target or the initial target, I should say, was to have the fire clearance of all debris and materials for rebuilding to start. Original target was to have it all finished in a year. And thanks to the Army Corps of Engineers, phenomenal leaders at the Corps. And of course, the cities and the state of California and cities there. Most of that work's all been completed here by the and by the end of July, essentially now. So I expect it to be very minimal contribution in the fourth quarter for those two events. Now it's early, but we haven't included in our guidance much contribution from what we call these response activities. Now we do have plenty of design work and planning work for emergency activities that'll continue, but we would say that's relatively consistent year over year. But for this episodic, it should be quite minimal in the fourth quarter.

Sangeeta Jain | Analyst, KeyBank Capital Markets:

Appreciate that. Thank you, Stan.

Dan Batrack | Chairman and Chief Executive Officer:

Yeah. Thank you, Sangeeta.

Kate | Conference Operator:

Our next question comes from the mind of Sabahat Khan with RBC Capital Markets. Please proceed with your question.

Sabahat Khan | Analyst, RBC Capital Markets:

Great. Thanks and good morning. You provided quite a bit of color through the slides on some of the demand drivers here, but we've been getting a lot of questions, you know, within this sort of volatile backdrop. What is the water market growth relative to infrastructure? So hoping maybe to give you an opportunity to maybe just lay out some of the drivers across sort of the U.S., UK, and Australia that you're seeing just broadly across commercial and federal within the specific end markets that you're playing in and more around sort of how do the rates of growth in water demand maybe compared to underlying just infrastructure demand, any color would be great.

Dan Batrack | Chairman and Chief Executive Officer:

Thanks. All right. I think partly one of the best indicative end markets for us for water infrastructure is really our state and local work. And that's mostly for upgrading or new water treatment plans for delivery, wastewater treatment, and in some instances, coastal protection, that a lot of it comes to our state and local clients. We've historically indicated a range of 10 to 15%, and I don't know how many quarters in a row we've now been well north of that this last quarter, if you take out the special disaster response activities that is funded by our state and local clients, we're still just under 20%. So 18% is essentially a very similar number of the prior quarter. So many have asked me, isn't the real number closer to 20? It is on given quarters, but I would say that the water infrastructure work that we do in the water, both the chemistry and investigation assessment work, is probably that 10 to 15% rate. And if we're wrong, it's generally at the higher than that. And it's not just unique here to the United States. That's clearly, we report that out as a end client. You can

see it in our slides. But what's really growing, what's driving much of our growth in Ireland and across the United Kingdom is also what we would call municipal, which is water utility work there. So the framework contracts. So I would say they're in sort of similar type numbers, sort of mid-teens. Other things are growing a little slower, so we've seen out of the UK and Ireland, as I indicated in my earlier remarks, sort of seven, eight, nine percent. But what's on the upside of that are drivers, really, the water infrastructure, water supply, water treatment. In the case of the UK and Ireland, it's a lot of water conveyance, getting water from point A to point B where they need it, and with respect to protection of surface waters like lakes and rivers for recreation and general public safety. So they call those sewer overflows. It's here in the U.S. they call them CSOs, combined sewer overflows. It's the biggest driver in the U.K., which is driving this growth rate well above 10%. That's also true in Canada. We're seeing similar items there. And there's been a lot of different areas where the budgets are actually supporting that. Now, one of the most common questions I've received here in the last six months are, are changes in priorities at the federal government going to impact your local state funding for these type of growth rates? And my comments on earlier calls has been no. I don't expect it because there's other alternative funding sources such as the rates that rate payers and the customers receive, there's bonds, and it's just healthy budgets at the state level. But I will put one caveat. I have not seen it impact our water programs yet, but we do other work for state and local clients too on the water side, which is on hydraulics and drainage and stormwater channeling, even on transportation projects. And for the first time, we saw this in the end of the third quarter, the U.S. government, the Department of Transportation matching funds canceled. And so a very large transportation project that we're participating on actually clawed back and it was already funded. And so I would say where I have no, I put essentially close to no impact on federal to our state local water, I've now seen it actually in transportation. So it's all of a sudden become a high watch list. I don't expect it to have an impact on the water programs at this time, but it's now, and I do want to say that that was a secondary impact that the federal budget changes that's got us watching on that front.

Sabahat Khan | Analyst, RBC Capital Markets:

Okay, great. And then maybe just following up on a comment you made earlier around doing more front-end advisory consulting work, I think you already have a pretty of average sort of mix of front-end work. If you can maybe just dig a little bit deeper into maybe what are some of the regions, types of customers, or, you know, types of work where you do see an opportunity to maybe push that front-end work penetration somewhat higher. Thanks.

Dan Batrack | Chairman and Chief Executive Officer:

Well, it's interesting. I would say we have energy development customers that have tax incentives at the Inflation Reduction Act. And so their investments are going into renewable energy. And the fact is that the work that we do is on the front end, consulting, advisory, technical evaluation. And so how can that work be changed to be invested in more conventional and fossil fuel? So how can you actually go to develop a power generation using alternative Maybe it's natural gas and how you could connect to the grid. And so how can they still meet their power generation goals for these energy developers? And how can it pivot from a renewable source like auction? And I'll use offshore wind as an example. Can you go from offshore wind in a marine environment and can you pivot your investments to support? William Murphy, LNG, which would also be in a marine environment offshore terminals, so the technical evaluation, including work we're doing with respect to the grid upgrades. William Murphy, So is it a place that the grid could actually and transmission projects be moved with respect to permitting think that there are more projects coming to light that we're seeing because of reduced regulatory requirements so. There may be less work per project, but there'll be a lot more projects. And so when you change your math on those, you actually end up with a bigger number, but they all need evaluation of how can that be done? What are the permitting requirements? And what's the timing? And I'll tell you, the new input is also the economics of raw materials and other construction costs on the front end is becoming more and more important. And we're involved in all of those.

Sabahat Khan | Analyst, RBC Capital Markets:

Great. Thanks very much. Thanks, Adam.

Kate | Conference Operator:

Thank you. Our next question comes from the line of Andy Whitman with Baird. Please go ahead with your question.

Andy Whitman | Analyst, Baird:

Great. Thank you for taking my questions. Dan, so I was looking at the CIG segment results and particularly the revenue. And your slide here shows it was up 2%, and that's the calculation. But it's interesting because the commercial industrial group, if you go by customer type, Also, the customers are down in the commercial industrial group, but the segment is up. So I just was hoping that you could explain how that happened.

Dan Batrack | Chairman and Chief Executive Officer:

That's a great question. How do two minus numbers equal a plus number? Because you're minus four on our U.S. commercial and you're minus on our international. by a percent and you end up plus. While our commercial international is U.S. commercial and international contract work is in our CIG, there are some entities here in the U.S. that do work for mostly I'd say state and local clients. It just so happens that in addition to working for a commercial client, there may be some work that is co-joined or done in parallel for a state and local client, and that work is actually up quite a bit. In fact, when you've seen our pure state and local, so when you go to CIG, we talk about U.S. commercial, but it's not an absolutely pure just commercial. Some of that work is actually in that CIG segment. So if you look at CIG, you would see plus two, but when you look at U.S. commercial, it's actually separated it out. So just a little bit of that state and local growth rate is actually embedded in the CIG segment, and it's enough to take those small negative number and make it small positive number.

Andy Whitman | Analyst, Baird:

Okay. That makes sense. Thank you for clarifying that. I guess just as I look at the two segments and think about the outlook from here, With renewable being one of the reasons it's down, and you can talk about Australia and see if you're seeing any green shoots of that coming back, but I guess the assumption here into the fourth quarter and then probably into 26 is that, at least for the next few quarters, that the government segment is probably the horse that's probably got the better growth potential over the CIG segment. Is that the correct way of thinking about it? I guess the renewables are going to be kind of a tough comp for a while, so that's going to make that segment a little harder is what I'm thinking. But I just wanted to bounce that off of you and take it from you and think about it the right way.

Dan Batrack | Chairman and Chief Executive Officer:

Yeah, I think that's right. I think that – I'll stick with the U.S. commercial for the moment. Our renewable energy work that we do here in the U.S. was down probably close to 30 percent year over year in the quarter, and that's a big number. But that still leaves quite a bit that's actually underway. So I think it's going to continue to see reductions over the next several quarters, and certainly a year-on-year comparison until we twilight the year-on-year comparisons. I think that that's going to be, for sure, a difficult comp on the U.S. commercial. International, well, you know, there's two ways Australia can get better. It can get more work,

which is, you know, I think we're seeing it still very soft. But we do have one benefit that's hiding in plain sight. It was down a lot last year too. So the year-on-year comps in Australia are going to look better because they were a lot lower last year. So I think that's going to moderate, but it's certainly not going to contribute and drive our top line numbers. I do think that'll come out of our state and local and the federal, which is mostly coming out of defense. So I think we've got pretty good visibility, but The horse that's going to pull the top-line growth is going to be, you're right, mostly government here in the U.S. And I would say actually our international government work is pretty strong, too. But I do think we've got several quarters of challenges there on the commercial side.

Andy Whitman | Analyst, Baird:

Yeah. Okay, that makes sense. And just for the benefit of everybody, I think the U.S. renewables business is only like 2% or 3% of revenue, just for context. I don't know. Maybe that's worth it. verifying for everyone there, too. You said 30%. It's a big number down, obviously, but a big part of the business, but not that big. Is that right, Dan?

Dan Batrack | Chairman and Chief Executive Officer:

No, that's absolutely right. I think we've said we had about company-wide, the entire enterprise globally, we're about \$250 million, about half of that. So the amount we're talking about, we actually put real dollars to it. We were talking before this reduction, about \$125 million. So it's a pretty small overall component of the business.

Andy Whitman | Analyst, Baird:

And then just last one for me, Dan, just this, this might be just kind of, but you know, the posture towards the U S has posture towards Ukraine has evolved, I'd say in the last few months and, and you're seeing, you know, weapons supply coming back and other things. And I just don't, I know USAID is shut down, but are there other systems in place? Are you hearing anything about the humanitarian support for like the grid work that you're doing there potentially coming back? Are, are, Could that come back on? What are you hearing? It seems like maybe with the posture change from the administration, there might be something there. Maybe I'm grasping at straws here, but I thought I'd have you comment.

Dan Batrack | Chairman and Chief Executive Officer:

No, it's a great comment. And we've not, I did not intentionally, I've not included that as a driver or a potential material contributor to drive numbers up. But there's no doubt that's true. And you're right, it went for, we're not going to support, we're pulling weapons back to, we're going to go to neutral, and now they're supportive of Ukraine. The one thing that's positive, as many things are positive for us, but we're working in Ukraine today. When I said that we did slightly less work than anticipated for USAID, coming into the quarter, my comments on the last investor call was, I thought we'd do about \$100 million of revenue with USAID and most of it in Ukraine. We did about 90. In fact, I'd say 91 is the number. So we were slight. When you ask how much is slightly less, we're 91 instead of 100. And I think in the fourth quarter, we originally thought we'd do about another 100. It's down to about 40 or 50, which was my comment on the guidance. But we have a contract. We have sufficient contract capacity. They could provide us by picking up the phone or sending us a task. of numbers that are 100, 200 million and a quarter. And we've seen that before. So, you know, we're not processing a task order for that right now, I'll tell you that much. But if you go back a couple of years ago on an unusual damage to the grid, we were called with about a week's notice and asked could we deploy and initiate what turned out to be close to \$100 million in a couple of week periods. So, yes, it's a, I don't want to call it a lottery pick, That makes it too random, but yes, it's a possible website. No, we don't have to compete.

We have a single awarded contract to Tetra Tech, and so it is possible it could be an unusual large contributor. Thank you. Excuse me.

Kate | Conference Operator:

Thank you. If you'd like to ask a question, please press star 1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. This will conclude the question and answer session. I will now turn the conference back over to Dan Batrack to conclude.

Dan Batrack | Chairman and Chief Executive Officer:

Well, thank you very much, Kate. And I want to thank all of our investors and stakeholders. And I'll tell you, most importantly, I want to thank all of the Tetra Tech employees. This has been a period of a lot of change. It's been a lot of new items coming to us, navigating both the direct and indirect impacts of the new administration, which is real here in the US, which has really had impacts globally and both keeping backlog up, supporting the collection of receivables, driving margins up, which is actually sort of delivering on our forecast or our assessment that we actually have higher margins embedded in the business as we go forward. And I think this last quarter and the third quarter was an excellent example of that. And we see more to come. And in fact, if you do the math on the guidance, a simple math, you'd actually see our margins are even higher imputed in the fourth quarter guidance that we just provided today. And I really look forward to providing you all the results for our fourth quarter, and probably most importantly, our guidance for fiscal year 2026, when I talk to you in 90 days and report our results for the fourth quarter and all fiscal year 2025. And with that, I hope you all have a safe and enjoyable rest of the week. Thank you very much.

Kate | Conference Operator:

Ladies and gentlemen, this concludes our conference for today. Thank you all for participating and have a nice day. All parties may disconnect now.