NASDAQ:TTEK Q1 2026 Earnings Call Transcript

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Conference Operator | Operator:

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Dan Batrak | Chairman and Chief Executive Officer:

Thank you very much, Diego, and good morning. And welcome to our fiscal year 2026 first quarter earnings conference call. I'm glad to report this morning that we had a very strong first quarter beginning to our 2026 fiscal year. During this past year, we had many different points to navigate. And this last quarter, we now had a new one, the longest U.S. government shutdown in history. But during all of these challenges, both during this last year and during the first quarter of this year, we've remained very focused on the enduring markets of water supply, water treatment, flood control, and environmental stewardship, all of which remain in very high demand. And yes, water is not going out of style. Now, as you're going to hear this morning, even with the government shutdown, we grew our revenue 8%. We expanded our margins by 140 basis points on a gap basis. Steve Burdick will talk more about this in a bit. And we improved the quality of our backlog by winning more front end work and increasing the embedded margins that we have in the new projects that we've been awarded just this last quarter. Today, Steve Burdick, our Chief Financial Officer, will provide additional details on our financial performance on a full gap basis. Roger Arcas, Tetra Tech's president and CEO designate will provide an update on our growth markets and market outlook. And with that, I'd now like to share with you an update on our financial performance and business as we both performed in the first quarter and as we see ourselves moving forward into the rest of 2026. I'll start with, again, we began 2026 with a strong first quarter, as I just indicated. We had a net revenue of $987 million in the quarter, which is up 8% from the prior year. In the quarter, we generated $131 million in operating income, which is up 12% from the prior year. And finally, our earnings per share was up even more, up 17% from the first quarter of last year, resulted in an adjusted earnings per share of $0.34 for the quarter. And that's an adjustment down from our gap number. Our actual gap earnings per share was 40 cents in a quarter, and Steve Burdick will go through a bit more of that in the Chief Financial Officer's presentation in just a few moments. I would like to present our performance by our segment. We do have two segments, a government services segment and a commercial and international group segment. The government services group segment delivered a strong quarter with margins of 18% of 40 basis points from last year. In the first quarter, our government services group net revenue was $382

million, which grew 5% from last year. And that was during a quarter where the U.S. government was shut down for about six weeks of that period, or about half of the entire quarter. Our commercial and international group segment also delivered a strong first quarter. The commercial international groups revenue was up 10% to $605 million. Driven by growth in the United Kingdom and in Ireland with strong water programs in both geographies and with new digital automation programs in Australia. Our commercial international groups margin for the first quarter was 13%, which was also up similar to GSG of 40 basis points from the prior year. Our commercial international groups benefited from strong performance in the United Kingdom, in Canada, and an improving business in our Australian activities. I'd now like to provide an overview of our performance by our end customers. This quarter, our federal work was up about 7% from the prior year, primarily for work with the U.S. Army Corps of Engineers, designing flood protection structures, upgrades to locks and dams, and design of new inland waterway navigation systems. Overall, our U.S. federal work was about 18% of our overall business in the first quarter. In the United States, our state and local markets continue to be very strong, with a 10% growth rate driven by municipal water treatment and digital water modernization. especially in the water stress regions of Texas, Florida, California, and Colorado, which Roger Argus will speak more to here in just a few moments. Our U.S. commercial work was actually down slightly, but this is pretty much as we expected. It was driven by reductions in renewable energy work this first quarter of 2026 compared to a very strong renewable energy practice that we had a year ago. This reduction in our renewable energy work was partially offset by growth and high voltage transmission and permitting and engineering work that we're doing here in the US. Our international work was 48% of our overall business or overall revenues or net revenues, and it grew at a 13% rate during the quarter. International growth included strong increases in the United Kingdom, In Ireland, as I've mentioned earlier, primarily around the water businesses, we also saw growth in our Canadian infrastructure, Canadian infrastructure programs, which we see strengthening really all across Canada. And it's been 1 of the strong lights for us and actually an improving business in our Australia activities where we actually saw the reductions of bait during the 1st quarter. And I'd like to discuss our backlog, which held steady during a strong revenue quarter that included, as I've mentioned a few times, a US federal government shutdown. Overall, we see the quality of our backlog much higher than before, as measured by the proportion of front end work that we have embedded in our backlog, which also brings higher embedded margins. As you can imagine, we did see a slowdown in our U.S. federal client orders in the first quarter due to the government shutdown that began on October 1st and continued for the first six weeks of the fiscal year. And even with the federal government reopening on November 12th, the startup for the government was still pretty slow because it started up in November right before Thanksgiving and continued through the holiday season. So we never saw it fully return to a level that we would have either expected or hoped for. While new project orders from the U.S. government were slow in the first quarter, new contract awards, task orders, and project startups were very strong from our U.S. state and local clients, commercial clients, international clients, collectively resulting in an overall stable but pretty flat backlog from what we saw from the first quarter last year. As we look forward, we expect that with more clarity on U.S. federal budgets and appropriations, The pace of US federal orders will increase beginning late in the second quarter and continuing through the second half of our fiscal year. Now we'd like to turn the presentation over to Steve Burdick, our Chief Financial Officer, to present more details on our financials for the first quarter.

Steve Burdick | Chief Financial Officer:

Steve? Thank you, Dan. I'd like to now discuss an update of our reported first quarter fiscal 2026 results, working capital, cash flows, and capital allocation. So, as Dan just provided in our management analysis, our market leading focus on front end consulting and design for water environmental projects are carrying higher margins across all of our end markets. As such, even as the first quarter revenue was down from last year due to the decrease in revenue from our USA customer and virtually no revenues from hurricane disasters this year compared to last year, Our operating income increased significantly, and EBITDA on net revenue for the quarter increased by 140 basis points to 14.2% in the first quarter of fiscal 2026. Now, excluding our USAID and Department of State activities in both periods, then our margin was up about 80 basis points. As

a result of our ability to enhance our profit margins, we were able to increase EPS over last year. as the 40 cents reported and the 35 cents as adjusted came in better due to the outperformance and the growth of our international business. You can find a reconciliation with the divestiture and earn out gains in the appendix of this presentation and in our Reg G reconciliations. Now, regarding our working capital, Cash flows generated from operations in the first quarter were $72 million, which represents an improvement of $59 million over fiscal 2025. Excluding the impacts of USAID and Department of State Business, our focus on working capital and cash flows has resulted in our DSO reflecting an industry-leading standard of 51 days, which is the lowest this key metric has been in over 10 years. This lower DSO metric provides significant insight into the 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 amounted to about $565 million, and the net debt on EBITDA was at a leverage of 0.86 times which is 20% lower as compared to our leverage one year ago. Now, as we continue to execute on high-quality operating results with increasing margins, operating cash flows and excessive net income, and lower working capital, we will continue to provide higher returns for our shareholders and improve our industry-leading return on capital employed. So for those following along in the presentation, I wanted to share a bit of our recent historical results relative to our net leverage and our current borrowing capacity. As I just reviewed, our strong balance sheet and healthy cash flows, we've continued to bring down our leverage from a high point when our net debt stood at over two times back in the second quarter of 2023 when we acquired RPS. As of the first quarter of fiscal 26, our net debt is less than the low end of our target range And this provides a significant room to use our balance sheet for investing in growth and providing for higher returns to shareholders. For example, we could lever up to take on an additional $2 billion in debt capacity for larger acquisitions. With that perspective in mind, I'd like to now present our capital allocation strategy and overview. We have a very strong and healthy balance sheet and our operating cash flow was over $500 million for the trailing 12-month period. Our balance sheet and cash flows provide us with significant available liquidity as we have revised our capital structure in the last year to take advantage of the credit market to support our strategic growth priorities. Roger will discuss our strategic growth areas later in this presentation. But I do want to point out that we have a significant amount of liquidity available to invest in organic and inquisitive growth priorities in order to take advantage of these key business opportunities. And these opportunities include technology and automation, which continue to provide us a dominant position in the market, and for acquisitions of technical leaders focused on defense, such as Halvik in the US and Providence in Australia. Now, regarding our dividend program, I'm pleased to announce that our board of directors approved the quarterly cash dividend, which is a 12% increase year over year to be paid in the second quarter. This is our 47th consecutive quarterly dividend and the increased dividend is in line with our practice of annual double digit increases in the amounts paid. Based on the lower net leverage, we've continued our stock buyback program this year. And in the first quarter of 2026, we bought back an additional $50 million. We do have $548 million available from stock buyback plans that have been approved by our board as part of our capital allocation strategy. You know, overall, I'm very pleased to share these really strong results for the start of 2026, which has enabled us to increase shareholder returns. And since the second quarter of fiscal 2023, when we completed the acquisition of RPS. We have increased our annual dividends every quarter and distributed a total of $180 million. We increased our stock buybacks and repurchased a total of $300 million. And we completed several accretive acquisitions, investing a total of $400 million. And we did this all while deleveraging our balance sheet and moving our net debt unneeded from more than two times to less than one time. I want to thank you all for your support, and I will now hand the call over to Roger to discuss Tetra Tech's future opportunities for 2026 and beyond.

Roger Argus | President and CEO Designate:

Thank you, Steve. Eighty-five percent of Tetra Tech's business is to provide water and environmental related services for our government and commercial clients. Today, I'd like to highlight some of the key market drivers for our municipal water and fence business globally. In the U.S., our clients continue to invest in water infrastructure to meet long-term demand and to protect from droughts and contamination. Just last week,

New York State announced a $3.75 billion investment in statewide water infrastructure programs. And today, Tetra Tech is providing front-end water services in support of more than $22 billion in water and wastewater capital expenditure programs. Our services begin at the earliest stages of the program with planning, alternative analysis, digital automation assessment, and progress to first of a kind designs to optimize water supply and wastewater treatment systems. One of the new emerging growth areas in municipal water is Colorado, where they are facing widespread concerns over water supplies. We are working with our clients in the region to investigate high-end alternatives to transform formerly unusable source water into long-term supplies. Digital automation provides another avenue for increasing efficiency in water delivery. In Texas, we are working with the Coastal Water Authority to optimize water systems that today deliver water to more than 2 million residents in the region. In the UK, we are seeing a continued ramp up in water investments and contracts supporting the AMP 8 cycle, as well as increased investments in Ireland and the Netherlands. In fact, Irish Water has recently doubled their projected investments to 11.8 billion euros. The finance services we provide throughout the region include modernizing water supply systems and protecting water quality. As noted on the slide, we've added new contracts with four UK water utilities to provide these services. And in the Netherlands, we were awarded a contract to support the Netherlands' Lex Waterstaat framework cooperative agreements in modernizing their critical water management infrastructure. We also provide our clients with software to advance their programs. In the U.S. and internationally, our Seesoft subscription software is used by water utilities to optimize water systems to protect water quality. And in the U.K., our WaterNet software is widely adopted to manage water systems and reduce leakage, a high priority for water utilities under AMP 8. During our last earnings call, I highlighted the increased funding levels for defense in the US, UK, and Australia. These funding increases will be used to expand and modernize defense facilities, including strengthening coastal resiliency and flood protection, as well as expanding port facilities and infrastructure modernization. We continue to expand our contract capacity for coastal resiliency for programs in the US, UK, and Australia. We were recently selected for a $48 million single award contract as part of the Texas Coastal Protection Program to help develop what will be one of the largest surge barriers in the world. Other recent awards in the U.S. include contracts with the Army Corps, Baltimore, and Portland districts, which will be used to support critical coastal infrastructure design, inland waterway upgrades, and port expansions. And just after the quarter, we announced the addition of Halvik, further expanding our high end consulting services to U.S. defense programs. Their data analytics and capabilities will expand our resources to support the optimization of infrastructure facilities and resource management systems. In the UK, we are seeing increased budgets and expanding programs to address coastal protection and maritime facilities. Most recently, the UK announced a new £4 billion program to fund the modernization of ports. In Australia, our defense practice has been awarded two new programs. Both of these awards support extensive maritime upgrades and coastal zone management in Western Australia. After the first quarter, we also announced the definitive agreement to acquire Providence, a high-end advisory firm specializing in supporting Australian defense programs. Their advisory services complement our existing advisory and program management expertise and brings us new contract capacity and new clients. In summary, we're very excited about the opportunities these major market drivers and recent acquisitions present. I would now like to provide an overview of our outlook for FY26 by customer. Each of our customer sectors have growth drivers directly aligned to Tetra Tech's strengths. International growth is forecasted to have a 5% to 10% rate. This growth is supported by the water programs in the UK and Ireland, as well as high priority defense spending in the UK and Australia. We are also seeing expanding investment in Canadian infrastructure and some improvement in Australian markets fueled by mining and infrastructure. US commercial is forecasted to grow at a 5% to 10% rate. supported by water demand for data centers and advanced manufacturing, and growth in the U.S. power-related advisory, consulting, and engineering services. U.S. state and local is forecasted to grow at 10 to 15 percent, supported by increasing investments by municipalities in water supplies expansion and upgrades and new initiatives for digital water automation. The U.S. federal was forecasted to grow at 5 to 10 percent rate, driven by higher spending and priorities focused on defense and critical water infrastructure. I would now like to turn the presentation back to Dan to present our increased guidance for the second quarter and FY2026.

Dan Batrak | Chairman and Chief Executive Officer:

Thank you very much, Roger. As Richard indicated, I'd like to present our guidance for the second quarter and our updated guidance for the entirety of fiscal year 2026. Our guidance is as follows. For the second quarter, our guidance for net revenue is for a range of $975 million to $1.025 billion, with an associated adjusted earnings per share of 30 cents to 33 cents. James Rattling Leafs, For the entire year are updated and increased guidance for net revenue is for a range of 4.15 billion to 4.3 billion with an associated adjusted earnings per share of $1 46 to $1 56 I will note you're following along on the webcast. the note on the right portion of the page, this does impute or calculate to the midpoint of the guidance range of a 9% increase in net revenue for the entirety of fiscal year 2026 and an 80 basis point expansion of EBITDA margins for the entirety of the year. Some of the assumptions included in this guidance, both for the quarter, second quarter, and for the entirety of the year, is that it does include intangible amortization of $34 million. It does include depreciation of $25 million for the year. It does include interest expense of $34 million, a tax rate of 27.5%. We do estimate at this time a 263 million average diluted shares outstanding. And as in the past, it does exclude, this guidance for the second quarter and the year does exclude contributions from future acquisitions And it does include Providence that was just mentioned by Roger. We have signed a definitive agreement and we do anticipate it will close toward the end of the second quarter and we'll update our guidance as we move forward. And I will note, and you'll see it in the reconciliation tables referenced by our chief financial officer, that this guidance does include the impact from the current disposition and less any gain on the sale. With that, I'd like to move to close our prepared remarks with stating in summary, we had a really good first quarter and an excellent beginning to our 2026 fiscal year. And Tetra Tech's high end consulting for water and environmental services continues to have strong demand and resilience through this rapidly changing geopolitical and economic landscape that we have today. Our leading with science approach to addressing water and environment priorities is well aligned with the long-term demand here in the United States and really all around the globe and internationally. And with our strong balance sheet, which I think Steve did a great job of presenting today, Tetra Tech is in an excellent financial position to invest in acquisitions to further advance our strategies and to move us and to continue moving our leadership in the industries that we're competing. And with that, Diego, I'd like to open the call up for questions.

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. If you would like to ask a question, Press star one on your touchstone phone. The first question comes from Tim Mulroney with William Blair. Please say your question.

Tim Mulroney | Analyst, William Blair:

Dan Rodger and Steve, good morning.

Dan Batrak | Chairman and Chief Executive Officer:

Good morning.

Tim Mulroney | Analyst, William Blair:

I wanted to ask about your federal business first. You know, it looks like it grew excluding the Department of State work. Pretty good, I think, considering the government shutdown and kind of right in line with what you're targeting for the year. So I was curious if you could just talk a little bit more detail about some of the areas where you are seeing strength that's helping drive that performance.

Dan Batrak | Chairman and Chief Executive Officer:

That's a good question. I would say that was an area that we were extremely focused on coming into our first quarter. Maybe as I describe the first quarter, maybe I'll just reflect just a little bit. You may have noticed in fiscal year 2025, we had an entire series of very large wins with the U.S. Army Corps of Engineers. In fact, I think we had something in the order of one to two dozen very large awards. Patrick O' That actually saw task force come out late in 2025 so the month of August and September and they really continued through our first quarter, which was October, November and even December. Patrick O' We did see the shutdown or the likelihood of it coming into the quarter with the US Federal Government, it was somewhat telegraphed or indicated that that was a possibility. So we worked very closely with our clients, particularly with the Department of Defense, the US Army Corps of Engineers, to have task orders and projects put in place that would carry us through the first quarter. And we felt that was successful for, I would say, a little over 30 days. We were really unimpacted through really most of our programs, but I'd say most notably, we did a good job with our clients anticipating authorizations that would carry us through the first quarter. So what sustained that 7% growth was one, advanced planning. We have seen a shutdown a time or two in the past. And two, working very closely with our clients to have critical programs that really would save the government a lot of expense without having to go through a demobilization and restart ups. So it was actually financially in the best interest of our clients and actually supported that 7% growth for the first quarter. But the primary driver was through the U.S. Army Corps of Engineers, which has now become the company's largest client. And of course, that shows up in U.S. Federal, and that was really the underpinning for the 7% growth in the quarter.

Tim Mulroney | Analyst, William Blair:

That's good, an extra color. Thank you, Dan. I assume many of those programs will be ongoing throughout fiscal 26. But I do actually just want to pivot to your international business, which continues to accelerate. It's obviously very strong this quarter. I know you touched on it in your prepared remarks, but I was hoping you could walk through each of your three main geographies. Just talk about where you're seeing traction. I mean, how much of that growth is being driven by strength in the UK versus maybe getting more traction in Canada or seeing more of a stronger recovery in Australia? Just any detail there. Thank you.

Dan Batrak | Chairman and Chief Executive Officer:

Well, I'm glad you asked for the three of the three primary international markets for us because that is how we look at it here at Tetra Tech. The area that has been the strongest going back for more than the last year, year and a half, has been the United Kingdom. And we traditionally have said the European Union, but really it's been primarily Ireland. So I'll call it the UK and Ireland. Those programs have been very strong for us. Growth has been well into the double digits. It's what's driven the numbers in the past. In fact, I have made comments when you've seen our international growth at five, six, seven percent. My comments have been the UK and Ireland are being underrepresented or unrecognized to the public with respect to their contributions because they've been well into the double digits and they continue to be. And of course, you've heard in my prepared remarks, I hope I didn't say it too many times. I've driven by large water programs. Roger spoke at them. I've spoke at them. And it's certainly been a common theme now for many quarters. So those two are double digit. We have great visibility, good backlog. And they're really, in many instances, first of the kind programs. But the priority on the asset management program are the AMP8 program in the UK

and similar programs in Ireland. So I would say if you, uh, that's the one to say that's the hot or that's the, uh, the biggest up driving it, uh, Canada, uh, has actually done quite well for us. There was a little bit of a, and I don't want to call it a stumble, but a little bit of a pause during the, um, roughly a year ago during the initial tariff discussions between the U S and Canada that caused, I would say a fair amount of disruption. In Canada, we saw those growth rates come down to sort of middle to just slightly below that growth. Still growing, still quite profitable, but I'm very impressed with what Canada's done with respect to responding for alternative trading, continue negotiating with the U.S., and investing a very large committed amount for infrastructure to commit to ports, harbors. I've seen recently there's a significant investment coming out of the Canadian government both for their defense and civil agencies across the Arctic. Of course, Greenland being in the topic over the past few months has taken much more discussion with respect to national security of North America, and much of it's going to be directed toward that area, which is the entire Arctic interface on the coastal area where we have a very large presence, and we've actually seen some early planning work coming out of that. And so that's been, I would say, contributing well. It's sort of in the middle to upper single digits, not quite where the UK and Ireland are, but I would say very strong in the upper end of the range that we've established. In Australia, you've heard words we're using like recovery, strengthening. I will say that it's been difficult, and not just for Tetra Tech. I've looked at other consulting and engineering firms, and it's been, you know, had their own challenges across the Australian and New Zealand activities. I would say a year ago, we were looking at sort of a minus 15% type numbers. So it was really offsetting a lot of the strength in the UK, Ireland, and even a bit of Canada. We've seen that as predicted, it actually come back. Now, I wouldn't say we're in a growth mode there yet. But going from minus 15 to zero, being flat, feels pretty good. Now, we may not be in the sunshine yet, but we're headed there. But when you go from minus 15 to zero, one, I like the trend. It's headed the right way. And two, it's now actually not a headwind. And so if you take those all together, that's where we put for the quarter. I think we're going to see a similar and improving performance out of Australia. I expect Canada is going to stay where it's at and maybe approve a bit more. And we don't have an expectation that we're going to be running, I'm not going to call it red hot, but hit really high levels out of the UK and Ireland because these much higher performance numbers will annualize and you'll still see nice growth. But it should put us in a good position for performing well within that five to 10 growth rates that we forecasted that Roger presented just a few moments ago for international. I hope that's not too much detail, Tim.

Tim Mulroney | Analyst, William Blair:

No, Dan, I could talk to you all day about this. I want more detail. I want to learn more about what's happening in Canada. That sounds like a lot of exciting opportunities. I mean, I guess in the Arctic, what kind of work would you be doing there? Is that like...

Dan Batrak | Chairman and Chief Executive Officer:

um work around ports and harbors and export terminals or what what what kind of sorry i know this is a third question i'm only supposed to ask two but i'm just very curious yeah i'll just make a comment i've said this before i i have to go back a few years of my career my first year uh working with tetratec i worked in the artist that was my first two years as an employee of tetratec I was mostly on the Alaska Arctic, but it went over to the Canadian as far as Tuk Tuk. But there are no ports and harbors for navigable waterways for refueling or anything across the Arctic anywhere. You can go shore a little bit in a skiff or something, but this will actually be planning winter roads that will go up to the north coast. By the way, the ice road truckers a television series that highlights Tetra Tech's ice road clearance work. That's the work we do on a geotech work. So if you see very closely some of those sleds, you'll see Tetra Tech or our field divisions logos there. So this will be providing access roads up to the north and then building out ports and harbors and infrastructure facilities to allow navigational support across the Canadian and Alaskan Arctic. That's the type of work we'll be doing. And it's not just for civil. Of course, it's for trading routes. But it's also become, if you listen to the news recently, concerns regarding threats in the Arctic regarding naval facilities. And so all of a sudden, even in the

last 30 days, we've seen Canadians put more priority on defense facilities across the Arctic. And other than the defense early warning systems, the early dew line sites, there's nothing up there. And that was all air fly in. So all of this build out I think is dead center for Tetra Tech and has left me pretty bullish on Canada.

Tim Mulroney | Analyst, William Blair:

Sounds like some very interesting opportunities. Thank you for all the detail.

Dan Batrak | Chairman and Chief Executive Officer:

Yeah. Okay. Thanks, Ken.

Conference Operator | Operator:

Thank you. And your next question comes from Sabahat Khan with RBC Capital Markets. Please state your question.

Dan Batrak | Chairman and Chief Executive Officer:

Great. Thanks and good morning. Maybe just taking. that commentary you just shared on the setup across the various regions. And, you know, how have you reflected the range of potential outcomes within your guidance? It sounds like, you know, at the very least, some of the markets are stabilizing, others might be accelerating. But just, you know, if you think about the range you've provided for full-year revenue and earnings, you know, what have you reflected in those assumptions across the range? Maybe just to bring all that together. Thanks.

Dan Batrak | Chairman and Chief Executive Officer:

Well, I would say midpoint, which I'm pleased to say is at the 9% that you saw on the revenue growth, would assume roughly the midpoints of the growth rates that Roger presented in each of our key core client end markets. And I think that's about what we see. Now, what would take us to the low end? Obviously, our guidance isn't a single point. It's a range. But it would be embedded in the low point. What could cause it to be at the low end of that? Well, I regret to say that it's still possible we'll have a shutdown here within the next few days. We still don't have a bill passed. Although I will say our guidance has contemplated, it certainly was in our range in Q2, as I speak to you today, that if there's a shutdown, it would take us to the lower end. I think the shutdown, if it does happen, will only be a partial shutdown. I'm pleased to say in the past few weeks, we've actually had appropriations signed off on a number of areas. So even though it's been impacted materially, EPA has been funded on out through the year. A number of others have been funded out through the year. The ones that have not been funded are defense and a few others. And we think that that if there's a shutdown, it would only be partial. And much of the partial is not even for areas that we work in. So Homeland Security and others are really not affected by our client set. The areas we do do work for defense are often considered essential services. And so even if they do shut down, we'll still remain at our posts and at work. But nevertheless, I would say, and things that would take us to low end could be a shutdown or any other major disruption from this administration, whether it's a shutdown or I'd say continued significant volatility and things like tariffs or trading or things that actually are causing slow down the decisions, even on the commercial. We see a little impact on our state and local with respect to these federal activities and little on international, but still. That represents the low end. On the high end, it would be if we could have some bipartisan support. Now, I know that may seem like a trip to Mars tomorrow, but hey, it is what we're hoping for. It is what we're expecting. And any type of bipartisan support on any of these large clients would put us, I

think, toward the toward the upper end. I think that would help accelerate our commercial work with respect to reshoring. I think it would help certainly with visibility that we expect coming in the year for a federal government state and local expect to continue. And by the way, state and local has actually been. funded from the federal government at a relatively full level. I know it's been an area of speculation and discussion that federal funding to state and local would be minimized or otherwise reduced. We've not seen that. In fact, it's really come out at a full level. And that includes state revolving funding, includes a WIFI or the Water Infrastructure Funding Avenue. Any of those pickups, I think, would take us to the high end. And while we're not counting on it, we do have, I don't want to use it to call it a wild card, but we do have a card in our hand that continues to see funding. And it was one of the items that drove us well over the top end of our own guidance, which is funding on U.S. State Department work, and that specifically means Ukraine. So it is possible that that could actually see more work on the power engineering side, which is what we do there. And that could actually take it and drive it to the upper end or even higher.

Dan Batrak | Chairman and Chief Executive Officer:

Great. Thanks very much for that color. And then a bit of discussion on this call in your slide deck about the balance sheet capacity, the focus on M&A. If you can maybe just talk about whether there's maybe a bit more of an enhanced focus on the inorganic opportunities is your sort of new role that you're transitioning to maybe a bit focused on them and just talk us through the views on M&A type and size of assets you might be interested in, your potential involvement on sort of the strategic stuff and the role that you're transitioning to.

Dan Batrak | Chairman and Chief Executive Officer:

Thanks very much. Yeah, that's a good question, Saba. So Steve has generated a bank account for me at the checkbook. And I will say This would be the last call that I'll be presenting as the chief executive officer, CEO, responsible for day-to-day operations for the company and strategy and vision and direction. I personally want to make just a brief comment on this through my journey starting here as a field technician and field engineer to my role today. I've never felt it as a chore or an obligation to work on the details of the project. Frankly, that's my first love. If I can go out on a project site or meet with a client, I still call and talk to individuals on a daily basis and will continue to do that up until February 19th, our shareholders meeting. But I will say that that level of extreme detail in the day-to-day operations of the company, I am transitioning to Roger. And Roger's been doing much of that for a while now. And what I'm hoping to do then is through my tenure in this role, which is now in its 21st year, I actually do have a lot of colleagues and friends in the industry, from teaming partners and competitors, and even individuals that grew up in similar positions as I did that are now CDOs and chairmen of other key companies. And I hold many of them in the highest regard. And I actually would like to spend more of my time on what I would consider needle-moving try not to use the word big game hunting because it's not a predatory move, but how we can actually partner with some of our biggest peers out in the market to change the market by them joining Tetra Tech and finding combinations that are good under strategy that will help transform this industry, that will make Tetra Tech and our partners better than ever, and actually set a new high bar that nobody's envisioned yet. And that's what I'm gonna focus my time on And Steve's establishment of, by the way, the $2 billion is what we can go essentially get tomorrow just within our revolver. The actual ceiling is substantially higher if you begin considering access to equity and other financing means that are available to Tetra Tech. And so I want to spend my time actually more on vision and direction in combinations with other partners out there that will help transform this industry. And that's where I'm excited about it. I haven't had as much time to spend in that area as I think I could or should have. Nobody does everything perfect all the time. And I would think that acquisitions that have made a difference for Tetra Tech, like Coffee and White Young Green, WYG and RPS, I would hope would only be the beginning of what we can see in the future. Great.

Dan Batrak | Chairman and Chief Executive Officer:

Thanks very much for that and best of luck. Hey, thanks.

Conference Operator | Operator:

Your next question comes from Sandra Jane with KeyBank Capital Markets. Please state your question.

Sandra Jane | Analyst, KeyBank Capital Markets:

Hi, good morning. Thank you for taking my questions. So Dan, I have to follow up on that M&A discussion that you just had. As Steve pointed out, you've rarely ever gone above like two turns, even with RPS. So four seems very high um i just want to understand what type of opportunity would take you would would make you feel comfortable going that high and are we thinking a single opportunity that's 2 billion or a sequence of such transactions that takes you up to four times well

Dan Batrak | Chairman and Chief Executive Officer:

I think it could be either, although I would say generally speaking, I anticipate something that would take us up to the four, a leverage of four would be for something that is larger and actually required more of a, you know, more capital available. Now, I will say that if you begin thinking about two, you know, this is interesting, most of the opportunities that we've identified our source through our Tetra Tech, teaming partners, subcontractors, JV partners. And I think that we have well within the one to two, the ability to continue with the bulk ons that we've been doing. So we've targeted, Steve specifically targeted in our James Rattling Leafs, Investor Day of May of 2024 a four to 5% revenue contribution, which we can do that through M&A and really stay at a one or even below. James Rattling Leafs, I think we've talked about because of the USAID removal from our portfolio. Again, not because of anything we've done, but we could take that number and move it up to essentially double that up to six, seven, even 8% and James Rattling Leafs, It still be within the one to two. What I'm talking about, what we're talking about is something that would be strategic and actually help change the direction and frankly evaluation for our shareholders. And I would expect it to be creative. And anytime we would get anywhere toward the upper end of 4, I think you would see a very similar to Steve's chart during the prepared remarks that we'd be leveraged quite quickly. So it's not a new location that we would reside for very long, but it is something we could do very easily with almost no time expended in that. Whereas if you're talking about a lower leverage, now you're talking about what seems to be pretty common in the industry, but not with Tetra Tech. We haven't diluted our shareholders at all. We've done many, many different acquisitions, including those ones up toward a billion dollars in annual revenue and not issued any equity or diluted our shareholders. And we brought the leverage down. So I would expect the scenario that Steve had outlined in his presentation is simply how we would use cash, which is the lowest cost of capital for our shareholders, particularly at the interest rates that exist today. So, no, it's not turning up a lot more small ones. I think the smalls will continue as you've seen, and I'm glad to report that since our last investor call, which was just a little over 60 days ago, because the last call was the end of our fiscal year, so it wasn't really that long ago, we've announced two acquisitions. And I think some have asked, wow, do you actually have anything in play? And we said, well, we'll announce them when they're there. But I'm glad to announce Halvik had 600 people. You've got Providence at just over 100 people. And so those fit right in our numbers that we've talked about between 100 and 1,000 people and expect that type of cadence to continue. But that is not what's going to drive us up to the four. It would be something more material. And I don't want to go so far as to say transformational, but I'll use the word something more material.

Sandra Jane | Analyst, KeyBank Capital Markets:

Got it. Helpful. So on the Havlik and Providence acquisitions, on your cash flow statement, I see that you also divested some assets. So I just kind of want to understand what you sold and if there was any revenue associated with that sale and what's the purchase price for those two transactions. Thank you.

Steve Burdick | Chief Financial Officer:

Yeah. So in the first quarter, as we announced back in the fourth quarter, we held for sale or we had for sale our Norway operation that came to us with the RPS acquisition. And we determined that it was non-core and really didn't fit with the rest of Tetra Tech in any meaningful way. So we sold our Norway operation in early December. And that's what you see in terms of what's sitting on the cash flow statement.

Dan Batrak | Chairman and Chief Executive Officer:

Yeah, just make one comment on that, Sangeeta. As we see it, that was closed right before Christmas. I'll also make a note that our backlog that you saw was down 1.8% year over year also included our taking out the backlog that was included in the Norway operation. So it's not all apples and apples. That reduction wasn't, if you actually added that in for a fair comparison from a year ago, because our Norway operation was included in it last year. But if you take a look at what Halvik, which came in in January, mid to late January, and you take a look at the Norwegian operations with respect to the contribute revenue, yes. And in fact, the annual numbers are pretty close. So we see that the withdraw of our Norwegian operation and the put of HALVIC roughly offset each other. So don't add too much into our consensus number for HALVIC because we do have the offset for Norway.

Sandra Jane | Analyst, KeyBank Capital Markets:

Got it. Thank you. Thank you, Dan.

Tim Mulroney | Analyst, William Blair:

You're welcome, Sangeeta. Thanks.

Conference Operator | Operator:

Your next question comes from Andy Whitman with Baird. Please set your question.

Sabahat Khan | Analyst, RBC Capital Markets:

Okay, great. Thanks, Roger. Congratulations on the promotion. And Dan, excuse me, it's been a pleasure. I know you're not going far, but since we won't have you on this call, you will be missed. So my question, I guess, is a clarification, just kind of building off the last question. My first impression here was that your guidance on an organic basis was largely unchanged. My thought was that, you know, you beat the quarter or it was over the... You beat the revenue, the guidance, you beat the EPS guidance, and it kind of felt like you passed that through to the year. But the balance of the year kind of felt unchanged was my original assessment. I don't know if that's right or wrong. So I was hoping you could address that. I thought, you know, the Halvik acquisition was explained most of the revenue delta beyond the beats in the quarter. But maybe, Steve, you want to address that one. And if I'm wrong here, please do clarify that. Any other contributors to the significance of the contributor of Ukraine would also be interesting to know, at least its

impact on the quarter and how you're thinking about that in your consideration for guidance.

Steve Burdick | Chief Financial Officer:

Yeah, you got that about right, Andy. It's our revised guidance for the year, which increased in terms of net revenue and EPS. did take into account our Q1B, and that's the adjusted EPS, not the $0.40 with the one-time gains from the sale and other stuff. So the net revenue does reflect our Q1B, and as Dan talked about, some of that came from more USAID work, but also more from our international business. And then on a go-forward basis, we did account for a little bit of that increase from public a little bit. But as Dan also discussed, we had a disposition that took our net revenue down a little bit from the sale of our Norway operation. So I think what you see in terms of our guidance for net revenue and EPS is higher than what we originally came out with. And but within that range pretty much encompasses a lot of the things that Dan was talking about earlier and in this Q&A with some of the different puts and takes that we're we still need to consider for the rest of this year.

Sabahat Khan | Analyst, RBC Capital Markets:

OK, great. Then just for my my follow up, I wanted to ask about the opportunities in really three sub markets. So one question, three parts. But these are all topical areas that I think the investment community is thinking a lot about today. So the things that I was hoping you could address, Dan, would be nuclear permitting. We saw that there was a press release that you announced that came out for helping permit nukes with along with Westinghouse and kind of a terms of agreement there. Just wondering kind of Timer frame opportunity set there been lots of taught you guys have been a very good provider for the FAA over the years. And obviously with the modernization that's going on out there, I was just wondering if Tetra Tech can you think that Tetra Tech has a credible chance at a role as a subcontractor now that the prime has been announced there. And then also, I think people are wondering about the shield contract. that went out there, and what kind of scope and role are available for that contract, please?

Dan Batrak | Chairman and Chief Executive Officer:

Well, fortunately, Andy, I'm quite familiar with all three of those contracts. Yeah, the first one, let me just clarify, that was a press release sent not out by us, but by Westinghouse. So that was not a Tetra Tech press release at all. Now, we were very flattered that they included us prominently in this, This is work for Canada. It's a memorandum of understanding and MOU between us and Westinghouse, because a couple other parties are also a part of this. And this is for really a continuation, including new build for nuclear power generation as part of clean energy in Canada. And it's in Ontario. We've had a great relationship with the actual power generation owners like the Bruce and OPG and others up there. And I think this is going to continue what we've been doing because we do do the engineering, not just the permitting, but we actually do the engineering portions for some of the cooling systems and other items with respect to water handling, pumps, valves, and other items associated with the water movement systems up there. And so this is new activities with respect to new build, and I think it will just continue what we've been doing up there with an incremental upside. So that's what that is. So I would say, yes, don't take a look for, don't look for a huge step function. No, we're not going to go from, it's not going to materially change our outlook in 2026, but it's going to continue to support our outlook in 2026, and we'll see how it grows even more in 2027. FAA, the integrator contract, we were never a prime. We do a lot of work on the communication system. We're very close in the meetings with the integrator. And of course, where we sit as a technical advisor to the FAA on this type of work. They have committed funds for radar and other hardware and systems that have now been deployed or put in place by the FAA through the integrator contract. It does take time to produce those. We would be a great choice to actually assist in the implementation and deployment of those. I know we won't be driving the trucks that haul them out to the locations, but we will actually be helping with respect to how are they going to

be integrated? How are they going to be plugged in, so to speak? How are they going to have power to them? How are you going to have security access to all these facilities? Because we're at all these locations. And in fact, we did some of the rollout of some of the space-based telecommunication systems in Alaska going back about a year ago that were put out as sort of a first trial. So that's an example where FAA came directly to us. So it seems to us we're a great choice. We're there. But I think you're not going to do that until such time as the hardware is available for deployment. And, uh, well, I'm not, we're not familiar with the exact time schedule of that. We think that's not a 2026 at least our fiscal year 26 item, but we do think it's a good opportunity for 2027. I have been asked don't you get started today in 2026 and do all of the front end work. So it can be ready to go when it shows up in 27. we've had those discussions. And if you're not going to do it the way FAA does it, if it's going to be a new day with the reintegrator contract with somebody who's new to the process, a lot of it becomes just in time planning so that you can be very efficient with respect to your spending. So it's not, let's start now nine months in advance or a year in advance. let's do it as it gets closer to delivery. So I expect that opportunity to be more material for us and potentially material in numbers too, dollars. But I think it's a 2027 fiscal year item. And finally, the SHIELD, you know, we issued a press release three weeks ago on the SHIELD contract. It's $151 billion. I'll call it down payment on what might be a golden dome. There are, let me put this in context, the U.S. government has issued these contracts to individuals and companies that could possibly support this activity in any and all areas. And the number of contracts that people hold, the number ranges in excess of 2,000. So first of all, is the Tetra Tech one of one? No. Are we one of 10? No. We're one of 2,000, and I think it's close to 21 or 2,200. Now, the work we would do, and we've done this for the Department of Defense and the government in the past, we frankly are the upfront planners and the environmental permitters, and I would call it overall the environmental stewards of any plan that might be put in place. Whether or not something's deployed or not, time will tell. But the 1st thing that would have to be done is, if you're going to have remote sensing or remote monitoring or remote locations, it starts with a planning document. And where would it be? And is it going to go across a wetland? Is it going to go across national park? Does it even have access to it? How would you get there? All of those have environmental impacts both to local communities. state and federal, and frankly, in some instances with this, even international implications, because of these stretch of covering much of North America, there's issues that you would need to have big presence in places like Canada and the North. It sounds like you're talking about Tetra Tech. So we would do a lot of work. And in fact, I was commenting to somebody here at Tetra Tech, Our chief engineer here at Tetra Tech, you can see him on our website, Dr. Bill Brownlee, Ph.D., Caltech, world-famous civil engineer, was our program manager back in the 1980s when he led that program. He's still here. I actually did some work on it on a mobile rail garrison program. It was Tetra Tech's biggest contract by far, and it's where we did the environmental assessment, monitoring potential environmental impacts, Nothing ever got deployed, but it was enormous contract. And there's a lot of aspects of this program that could be similar long before it ever gets deployed. So I think it is something that has to get out of contemplation, but if it moves forward, I think Tetra Tech could be from an environmental stewardship perspective, one of the first to participate in the program.

Roger Argus | President and CEO Designate:

Thank you very much.

Dan Batrak | Chairman and Chief Executive Officer:

And offline, I can give a lot more detail on all three, although I think I probably went too long on those three already. But thank you, Andy.

Conference Operator | Operator:

Thank you. And your next question comes from Michael Dudas with Vertical Research Partners. Please state your question.

Michael Dudas | Analyst, Vertical Research Partners:

Good morning, gentlemen. And Dan, what a historic run you've put forth. Congratulations.

Dan Batrak | Chairman and Chief Executive Officer:

Thank you very much, Michael. Thank you.

Michael Dudas | Analyst, Vertical Research Partners:

And plus, this is your last call, Dan. You can talk for as much as you'd like. I mean, who's going to tell you what to do, right?

Dan Batrak | Chairman and Chief Executive Officer:

Our CFO is going to pull the plug on me.

Michael Dudas | Analyst, Vertical Research Partners:

Oh, he's that kind of guy right now. Thank you. Yeah, just quickly, Mike, just to follow up on your discussion on M&A and capital allocation moving forward. You know, talking about all this capacity and all the opportunities, the pipeline seems, you know, pretty full and there's a lot of chances. As you think about your business mix of revenues with 45% international and the mix you have in the other three customer bases, and um and also in your exposure in the water and water related areas as you evolve the next few years are those going to change dramatically do you feel like you need less or more international exposure does it are you agnostic towards it and also on on your exposure with the growing global tam of water is there other areas you want to be more and less involved in just want to get a sense of that as we monitor your actions over the next several quarters

Dan Batrak | Chairman and Chief Executive Officer:

Yeah, that's a great question. I will first of all start with the word agnostic. I am not overly partial to US over the UK, over Canada, over Australia, over Ireland or New Zealand. We really want to follow our clients where their priorities are and where we can make a difference and we can provide them solutions that nobody else can. For some have asked me legitimately, there's been so much volatility with the U.S. federal government. Why don't you just go international and get away from the volatility and the uncertainty that seems to have been present, including your government shutdown this last quarter? And my comment is it's still the largest client in the world by far, not by a little bit, by far. So I don't expect, and we've been a simple, we are agnostic with respect to, um, uh, geographies and frankly, uh, political parties. We're here to solve the problems for our clients where we're an expert. And our job is to actually further their, um, uh, successes in areas associated with clean water, flood control, clean environment, uh, sustainable infrastructure. And I would add the word resilient so that it doesn't get knocked down the next, uh, fire, flood, tornado, ice storm, that it's unimpacted. And much of the work, and I would tell you our resume, when we go there, it's not just our price. Our resume is the Inner Harbor Navigational Channel that we designed, the largest sea barrier, flood barrier the United

States has ever constructed. And in fact, one of the largest in the world has now withstood a dozen storms, including those approaching or equal to the size of Katrina and protected New Orleans. Our resume is our work product, and that supports everyone in any of those locations. So if they have it a priority as a government, we want to work for them. The 45%, I know we were 48% this last quarter, international, that seems to feel about right. I don't necessarily see it going over 50%. But if, in fact, if more funds are put toward that type of work in places like, I will call it at this time, the very large English-speaking Commonwealth countries, so Australia, Canada, the UK, Ireland, I know it's EU, will be there to support them, and frankly, for better outcomes for them, including the United States. So extremely agnostic. We want to follow our clients who put these as a priority for them and have funding that will have better outcomes for their communities and their countries. I do think we're going to stay water. My comment on water's not going out of style. I really believe that. I really, really believe that. You've heard me going back to our Investor Day 2024 in May, and I talked about these being trends or macro trends that are measured in decades, not years. And so any volatility that we would see here, we're going to navigate as we have this last year. But I'll tell you, in the long term, I believe the supply of water, the protection of our coastlines and the environmental landscape, both for our current citizens and for the children are going to be of higher demand than ever before. And for those that would say, I see this administration, or I see this given geopolitical decision that's deemphasizing it. My comment is that just means there's more to clean up and more to provide for tomorrow. So I've had this item on coastal protection all the way back in Katrina when I was in this role was you can pay me now or you can pay me later. And I prefer that we do the work now to protect our citizens and our communities. But if you don't want to do it, I'll tell you what, it's still going to have to be done later. And I'll tell you, I don't see a substitute for that at all. So I think we're in the right spot. It builds on a legacy of 60 years now. And one thing for sure about, and I am talking too long, but the people you're going to talk to after me are better, brighter, smarter, more energetic, and more forward-looking than I. So the best years of Tetra Tech for sure are to come.

Michael Dudas | Analyst, Vertical Research Partners:

Well said, Dan. Thank you very much. Thank you, Michael.

Conference Operator | Operator:

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

Dan Batrak | Chairman and Chief Executive Officer:

Well, thank you very much, Diego, and thank you all for attending the call today, both those that asked questions and that just attended to listen in. Thank you very much for each of the questions from our analysts. You know, they're great questions, and thank you for allowing me to answer them for you today. While I won't be leading this call, you may hear me back on this call in the future, but I am not going anywhere. I'm staying here at Tetra Tech as Executive Chairman and doing my absolute best to contribute to the success of the future of the company. And I'll tell you, could not be in better hands on the day-to-day operations with the exceptional talents that we have in the company, including Roger Argos, and frankly, the 25,000 others that are just the best in the industry. And with that, I know we all here at Tetra Tech look forward to talking to you again next quarter. And thank you very much.

Conference Operator | Operator:

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