EBJ: What kind of year has 2014 been for TRC in terms of revenue growth and profitability? What were some of the highlights of the year?

Chris Vincze: Our fiscal year runs from June 30 to July 1, and for the first quarter of our 2015 fiscal year, we reported net service revenue of $92.6 million, up 14% over the same period of the previous fiscal year.

Four years ago, after our restructuring and the recession, we launched a new growth strategy that includes mergers and acquisitions and organic expansion, and we’ve been growing the company at double-digit rates for the last three years.

We made two acquisitions this past year—Covino Environmental Associates, Inc. and NOVA Safety & Environmental. Our approach to acquisition is to integrate quickly. Everything is immediately brought into our structure, and within one year, the acquired entity is a fully integrated business in terms of financial reporting, systems, and culture.

Our first quarter continues to demonstrate our success. In addition to the revenue growth, our backlog growth continues to look very favorable on a year-over-year basis. It’s very important to note that we have a strict definition of what we call backlog: it has to be funded and signed, with projects that are moving forward. It’s true backlog—not, “maybe it will happen.” It’s actual work. So it might be lower than other what companies state, but we’re very conservatively run across the business, and our approach to backlog reflects that.

From the period of our close on June 30 to today, we’ve been awarded more work than we’ve seen in the last year to year and a half. And these projects are big—tens of millions of dollars. For example, we’re on the winning team for a major bridge retrofit project in Pennsylvania, for PENNDOT, a contract that’s valued at about $30 million. That project will go forward over the next two to three years, and there is another phase that has not yet been awarded that could add another $10 million to $20 million. That exemplifies the kinds of infrastructure projects that we’re seeing move forward.

So we’re very pleased with the company’s results for the year. Our environmental business is taking off and driving growth and performance. Our energy business has consistently grown at over 10% annually over the past five years, and the infrastructure market is now coming around and very solid, primarily due to improvement in state budgets. What’s basically changed in the past year or two is the states’ financial ability to move forward with their capital projects. That’s not uniform around the country, but many states are in a better position today than they were.

I should also mention that in addition to some of the market sector strategies we’ve had in place at the national level and the sector level, we’ve pushed forward with some new strategic vertical initiatives. We launched our power utility vertical two years ago, and this past year we launched our oil and gas vertical. We’ve established leadership in those areas with key staff joining us from industry and the regulatory world—people with years of experience. We’ve established strategies to go after those markets, including M&A, and we’re seeing results.

This year we’ll be launching a transportation vertical focused on both the public and private sectors. Looking at the railroad market specifically, the need to get oil and natural gas from one place to another today is critical. The resources our country can produce is at a mismatch with our ability to get the resource to the market. There’s an unbelievable opportunity there.

EBJ: At October’s EFCG conference in New York, more than one executive expressed concern about the impact of falling oil prices on new development of oil resources, and therefore on companies serving the oil and gas industry. One executive set a threshold price of $80/barrel as a “trigger point” on investment, and now we’re below that level. What impacts on the industry are you seeing as a result of the falling price of oil, or what impacts do you think are to come?

C.V.: I’ll put it in context from my knowledge base. I’m heavily involved in energy policy, and TRC works with a lot of the major energy companies. I’m a little more optimistic than some of the other EFCG participants. For one thing, I think
that the major tipping point in terms of oil prices is in the $50 neighborhood. But the drop in oil prices is happening because of the economic trends in Asia, where China’s slump is having a significant impact. In China, when GDP drops by one point, that represents a 10% to 20% impact on oil prices. In addition, there is less industrial production in Europe and less need for production of oil to support it.

The long and short of it is, the price of oil is a concern with regard to capital development—no doubt about it. What happens in one place in the world affects other places.

We should differentiate between oil and natural gas. Oil is not everything in this country—there are two separate markets, and the natural gas market is now a major factor on its own. But at a certain point, the big oil companies, which are major natural gas players as well, are probably going to have to cut back, and how fast those prices drop will affect how rapidly they pull back on their capital spending plans.

On the other hand, you see the transformations spurred by natural gas, in power generation, in transportation, and in our ability to export natural gas—should our government ever allow it. All of those trends suggest that those companies dedicated to natural gas are not going to cut back and are highly likely to move forward with capital spending that will help firms like TRC. So I’m fairly confident that natural gas companies and pipeline companies will continue to move forward—watching what’s happening in the bigger picture, to be sure, but not pulling back as of yet.

There’s also a big macro trend to watch for here: We are heading back to the days when we had the lowest energy prices in the world and the lowest transportation costs, which spurred an industrial economy that was second to none. We’re at the point of a new Industrial Revolution, with a whole new round of manufacturing, including high-tech manufacturing, coming back to the U.S. As the cost structures around these activities improve—principally through the low prices of oil and natural gas—we will become a very competitive country once again. I see great opportunity as these trends continue to emerge.

Certainly TRC is well-positioned to take advantage of these trends because we work with the utilities, the natural gas companies, and big oil. And I think we’re somewhat insulated from the fluctuations in oil prices based on the weighting of our business towards the utilities and the natural gas companies.

EBJ: The reports about the health of the global economy in recent weeks and months have not been good, especially what we’re hearing about Europe and China—as you mentioned. What do you think the impacts will be on the environmental and infrastructure C&E industry—including companies like TRC, which are predominantly working in North America?

C.V.: It feeds back to our strategy of not going too global. We’re 110% focused on growing in North America, because we think that’s the place to be. From our perspective, we’ve stayed focused on the U.S. and North America, and I think that helps us to be stronger right now than some of the other global companies. That continues to be our focus.

I can tell you we’ve walked away from a lot of international transactions. Many of our big corporate clients bring us overseas to do air modeling and similar kinds of work that others are not noted for, but we’re very conservative about who we work for and where. We certainly do work globally, but only when our clients bring us there.

EBJ: The consolidation of the industry continues at an aggressive pace, with some very big—perhaps even game-changing—deals completed over the past year. What do you think will be the impact of these deals on companies like TRC? Are these deals the primary driver behind the ongoing increase in M&A valuations?

C.V.: Valuations have definitely gone up—in my view, artificially. When you have these mega-deals and all the publicity around them, prices are pushed up. Sellers today are often not sophisticated and are seeking high valuations, often beyond reasonable expectations. We’re trying to fight that trend and push for a reasonable rate of return in the deals we’re trying to execute.

We closed on two transactions this year, and we have a number of transactions in the pipeline. But I can tell you we lost three potential acquisitions recently based on pricing and these kinds of elevated expectations. These were not big companies, just irrational sellers—and I think somebody is eventually going to buy them.

As for the big mega-deals, these represent an opportunity for TRC. The AE-COM-URS deal is the marquis example,
Companies like these operate according to a seller-doer model, and when you do that, and you are now a 110,000-person firm, it’s not a very exciting or feasible story line for the corporation to continue to go after half a million or one million dollar local or regional projects. The business now relies on winning multi-billion dollar contracts for large infrastructure.

There will be people in these organizations, however, who have thrived in an environment of going after those now relatively smaller projects, in more local or regional settings. The new world of chasing after mega-projects as a piece of a much larger machine may not be exciting or rewarding to them. TRC offers a stable financial environment where they can thrive by pursuing the types of projects they traditionally focused on.

**EBJ:** What growth is TRC forecasting for next year? What and where are the key areas of opportunity that your company will be pursuing?

**C.V.:** We don’t provide guidance, so I’ll have to qualify my statements here. Our objective is to grow at comparable levels as years past, in a balanced way through M&A and organically. We’ll grow the power space, oil and gas, and transportation. We are very dedicated to those client segments. We continue to hire, participate in conferences and forums, and write papers—everything you can imagine in terms of the strategic development of our position in those industries that provide reasonably strong organic opportunities. We will also continue to pursue more deals in those market areas.

**EBJ:** Now that the Republicans have taken control of both branches in Congress, they have said that they will take aim at issues with environmental implications—such as quick passage of a bill approving the Keystone XL pipeline, and efforts to prevent the Obama administration’s new Clean Power rule from taking effect. What do you expect the impact of these kinds of activities will be on your business?

**C.V.:** I definitely have opinions on these questions. I’m involved in the party that had a good day in the November elections, and I’m aware of the rhetoric to the effect that, with the Republicans in control of Congress, the environment will suffer.

People who say these kinds of things—and there’s a lot of rhetoric on both sides—have to pull back and gain a sense of perspective. I can tell you, EPA was created under President Nixon, so people who think Republicans don’t care about the environment don’t know the history.

Going forward, I think you’ll see a balance between economic growth and environmental protection. Republicans do see that carbon is a problem and that we need strategies to deal with climate change. The question is, how do you manage these issues in the context of assuring economic health?

I think we will see the Keystone XL bill come forward early, and it’s highly likely it will be vetoed, at which point some major Democratic senators will have to soul-search and decide whether to override the veto. If they don’t, they will face serious political consequences.

Related to the Clean Power program, the power companies understand that they need to do something about their carbon emissions. The utilities understand that this is the way to go—controlling emissions—but there has to be a reasonableness in how you get there. I guarantee you that the Clean Power program, as proposed, will create brownouts, especially as the economy starts growing while a large number of power plants are forced to shut down. There’s danger to achievement of the goal, which is not properly thought out. The investment strategy to comply is unreasonable. It will take away capital from what needs to be done to ensure safe, reliable power for all Americans.

We should also be focused more on the transportation sector in our country, which is a major source of carbon emissions. Yet most of the new regulations focus on the utility space. So if the Republican Congress pushes forward reasonable strategies, pushing the timelines for compliance further into the future, I think we will see some progress both in terms of economic growth and in terms of addressing our environmental and climate-related challenges.