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WATERS RAWAT & KHAITAN

October 24, 2008

Jacobs Engineering Group

INITIATION REPORT

Initiating coverage with a BUY and Price Target of $66

- **Jacobs Engineering is down 68% year to date, making the valuation attractive.** With quarterly order backlog growth at 11% over the last 2 quarters and EBIT Margin at an all-time high of 5.9%, Jacobs is leveraging its relationship-based business to win contracts and expand into new geographies.

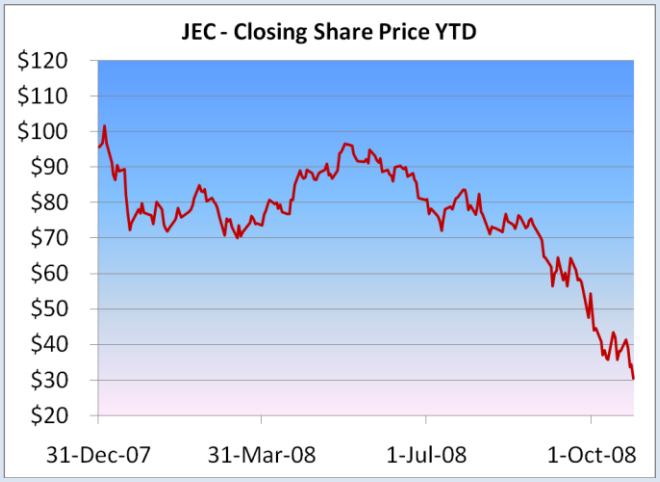
- **Backlog as of Q3 FY2008 was $18.3B and according to our estimates should grow 17% in FY2009.** Based on an analysis of GDP growth and the opportunity set for contracts, we believe that Jacobs will have a backlog of $21.6B for FY2009. This should translate into FY2010 revenue of $18.1B.

- **Operating margins have grown steadily over the last ten years at 4% annually**. 88% of Jacob's contracts are cost-plus contracts, which reduce the risk of cost overruns. Management's focus is on containing SG&A, which is the primary lever for cost control.

- **The commodity price bubble has dissipated, hurting growth in the Oil & Gas and Refinery businesses.** There is an increased risk of a reduction in CAPEX by oil exploration and refining companies given the softening of global demand. Opportunities in carbon and sulfur reduction could potentially replace some of the lost demand.

Jacobs Engineering Group
Company Ticker: JEC-NYSE

Price (10/24/08)	52 Wk Range	YTD % Chg	Market Cap (B)	5-Year Beta
$30.48	$28.90-$103.29	-68.1%	$3.73	1.77
LTM P/E	**P/Book**	**P/CF**	**P/Sales**	**Div Yield**
9.69	0.92	10.53	0.36	0.0



Metric	2007A	2008E	2009E	2010E
EBITDA (M)	$498	$552	$746	$890
EV/EBITDA		8.98x	6.65x	5.57x
Revenue (M)	$8,474	$11,231	$15,202	$18,126
EV/Revenue		.44x	.32x	.27x

Please see the disclaimer at back of this report for important information.

Backlog as a Predictor of Revenue

In order to understand the relationship between backlog and revenue, we performed a linear regression analysis of revenue against one-year and two-year prior backlog for Jacobs and six other comparable companies for the years 2002-2007*. The relationship between current revenue and the one-year prior and two-year prior backlogs is highly correlated, as depicted in Figures 1, 2, and 3; the multivariate regression results show an R^2 of 97%. This strong correlation enables us to estimate future revenues based on anticipated backlog. For FY2009-2013, revenue was estimated using the following equation.

$$R_t = 0.55*Backlog_{t-1} + 0.40*Backlog_{t-2} + 0.07 \qquad \textit{(Equation 1)}$$

Depending on the terms of the contracts, revenue is recognized either when costs are incurred or using the percentage of completion method. Historically, there have been few backlog cancellations that have materially impacted the reported backlog amounts. In the case where a client terminates a contract, Jacobs is entitled to receive payment for work performed up to the date of the termination, and in some cases may be granted termination/cancellation charges.

Figure 1

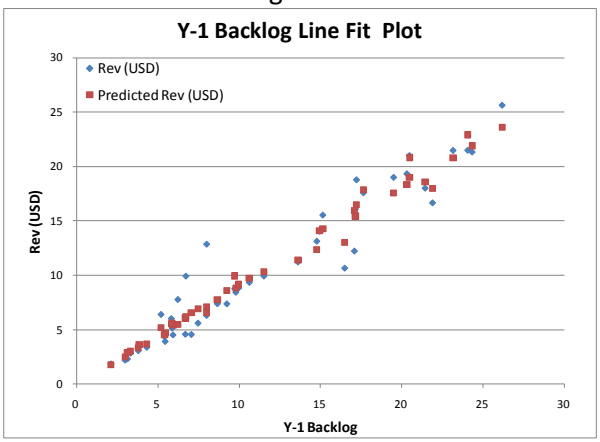
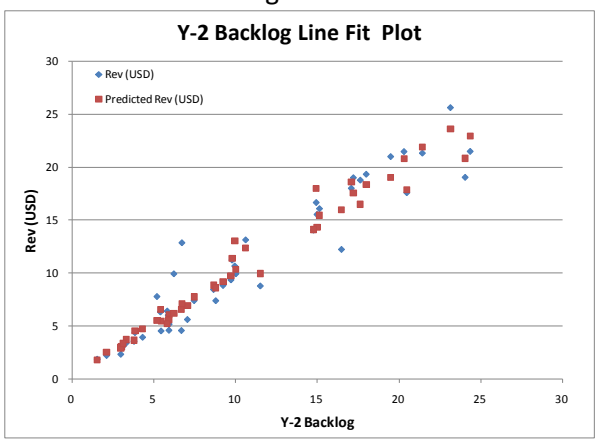


Figure 2



Source: Company filings.

**Note: The comparable companies in the data set for the regression included Jacobs Engineering Group, Flour, Acciona SA, Grupo Ferrovial, Skanska AG, Vinci (excluding concessions business revenue), and Larsen & Toubro.*

Figure 3

Regression Statistics	
Multiple R	0.97
R Square	0.94
Adj. R Square	0.94
Std. Error	1.63
Observations	46

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	2	1857.63	928.81	348.60	2.68196E-27
Residual	43	114.57	2.66		
Total	45	1972.20			

	Coeff.	*Std. Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95.0%*	*Upper 95.0%*
Intercept	0.07	0.47	0.14	0.89	-0.89	1.02	-0.89	1.02
Y-1 Backlog	0.55	0.13	4.39	0.00	0.30	0.80	0.30	0.80
Y-2 Backlog	0.40	0.13	3.01	0.00	0.13	0.66	0.13	0.66

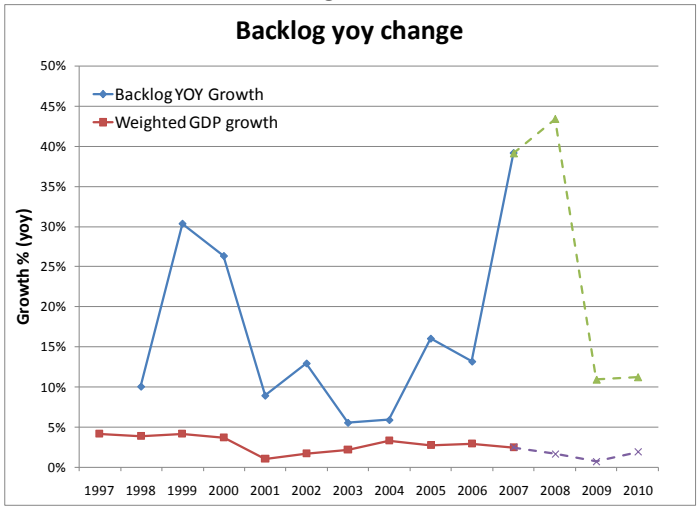
Backlog Estimate Using GDP

To project revenues for FY2010 and beyond, an estimation of future backlogs was required. Backlog was estimated based on two approaches: one based on GDP and the other using a bottom-up analysis of expected revenue opportunities. The GDP estimate would provide a lower bound for the growth rate of the backlog and the bottom-up analysis would provide the upper bound.

We used GDP growth as a conservative measure for backlog growth because it is highly influenced by government capital expenditures and private domestic investment. As of 2005, government expenditures were approximately 17% of GDP. While not all of that includes potential construction spend, there are other components within GDP such as private domestic investment which would be devoted to construction spending. As GDP grows, that is an indication that infrastructure and construction spending is also likely to grow. We assume that those spending figures will grow in roughly the same proportion as the overall growth in GDP.

We constructed our own index of GDP growth (called "Weighed GDP Growth") based on a weighted average of JEC's geographic revenue mix and compared it to JEC's historical backlog growth rates. Over the last decade, the backlog growth has exceeded the increase in Weighted GDP Growth in every year (as shown in Figure 4). The weights in the GDP growth estimate were used from JEC's geographic revenue mix in 2007; regions included were – USA, Europe, Canada, and Asia & Australia (ex-Japan).
Source: EIU.com

Figure 4



Source: Company filings and EIU.com

A conservative estimate is to assume that from 2009 onwards, backlog grows at the weighted GDP growth rate. The resulting backlogs can be used to project revenues using the one-year and two-year forward revenues (R_t from Equation 1 above).

Using the GDP approach, we calculated the backlog estimates for FY2009 to FY2012. We then used the revenue projection approach given in Equation 1 to calculate revenues (Figure 5).

Figure 5: Projected Revenues in billions of USD using GDP Method.

	2008PF*	2009E	2010E	2011E	2012E
Backlog (GDP method)	19.5	19.6	20.0	20.5	21.1
% Growth		*0.7%*	*1.9%*	*2.5%*	*2.7%*

Backlog Estimate Using Comparative Opportunity Set

By analyzing the opportunity set of projects, we were able to arrive at an estimated backlog for FY2009 of $22.8B and $26.6B for FY2010. Figure 6 below summarizes our estimates for the opportunity sets in JEC's various industry segments; following Figure 6 we provide more detailed quantitative and qualitative analyses of the opportunity sets in these industry segments. Most noteworthy among the many trends is that while there was considerable growth in the Energy & Refining (Downstream) and Oil & Gas (Upstream) sectors over the last twelve months, we anticipate a slowdown in CAPEX due to falling energy prices. This slowdown, however, will be somewhat mitigated by new environmental regulations (described below) which will require upgrades in refining capabilities, thus creating new opportunities for JEC.

Figure 6

Industry Segment	FY2008* Backlog	LTM Growth	Projected Growth	FY 2009 Backlog	FY 2010 Backlog
Energy & Refining - Downstream	$5,611,621,058	42.2%	20.5%	$6,726,003,375	$8,148,214,067
National Governments	$3,360,527,336	24.0%	19%	$3,999,027,530	$4,758,842,761
Chemicals & Polymers	$2,514,830,174	2.5%	9%	$2,741,164,890	$2,987,869,730
Oil & Gas - Upstream	$2,535,663,493	37.0%	17.3%	$2,973,065,445	$3,485,919,235
Infrastructure	$1,790,344,175	39.0%	20%	$2,148,413,010	$2,578,095,612
Pharmaceuticals & Biotech	$1,736,928,565	20.6%	15.5%	$2,006,152,492	$2,317,106,128
Buildings	$1,050,857,033	30.0%	12.5%	$1,182,214,162	$1,329,990,932
Industrial and Other	$899,228,166	-19.7%	5.5%	$948,685,715	$1,000,863,429
Total	**$19,500,000,000**	**35%**	**17%**	**$22,760,726,620**	**$26,606,901,895**

* Includes backlog estimate for Q4 FY2008

FY2009 and FY2010 backlog growth rates were forecasted using the probabilities of growth rates within each industry in Figure 7. Some of the large potential opportunities are listed in the sections below.

Figure 7

Industry	Growth Rates					Projected Growth
	30%	20%	10%	5%	0%	
Energy & Refining - Downstream	40%	30%	20%	10%	-	20.5%
National Governments	30%	30%	30%	20%	-	19.0%
Chemicals & Polymers		10%	50%	40%	-	9.0%
Oil & Gas - Upstream	30%	20%	40%	5%	5%	17.3%
Infrastructure	30%	40%	30%	-	-	20.0%
Pharmaceuticals & Biotech	20%	20%	50%	10%	-	15.5%
Buildings	10%	20%	50%	10%	10%	12.5%
Industrial and Other	-	-	40%	30%	30%	5.5%

Energy & Refining – Downstream

- Government regulations are driving refining projects due to formulation and sulfur limit directives. New and existing legislation includes Ultra Low Sulfur Diesel, ambient air quality standards and benzene removal from gasoline.
- Reduction of sulfur in ship bunker fuel requirements should drive $80B in opportunity according to management
    - The **California Air Resources Board (ARB)** has approved new regulations which will require ships sailing within 24 nautical miles of California's coast to burn only distillate fuels with a lower sulfur content than normal bunker fuel already from July 1, 2009.
    - Under MARPOL Annex VI, vessels operating in designated emission control areas (ECAs) currently have to observe a 1.50% fuel sulphur limit. The ECA sulphur limit will drop to 1.00% from March 2010 and again to 0.10% in January 2015.
    - Globally, the current bunker fuel sulphur limit of 4.50% will be reduced to 3.50% in January 2012, with a long-term global target of just 0.50% in 2020, subject to a review in 2018.

      source: www.imo.org
- Environmental opportunities are available like those created by the new regulation by the US Environmental Protection Agency (EPA) to ensure compliance with regulations in the Control of Hazardous Air Pollutants from Mobile Sources ("MSAT-2"). JEC has already been awarded one project for $6B and there are potentially 80 more of these projects available.
  Source: www.epa.org
- Biofuels, in particular Biodiesel, is offering increasing opportunity due to the potential for carbon emission regulation.
- Potential slowdown of refinery demand in the United States could be supplanted in part by Middle East and Asia due to a desire to add value at the source and respond to regional consumption growth.
- Power generation opportunities for creation of plants, turbines, emergency stations.

National Government

- Environmental projects such as nuclear waste management, underground storage tank removal, soil remediation and groundwater monitoring.

- Aerospace and defense opportunities. JEC has provided technical services to the Department of Defense for the last 50 years.
- Potential for demand pickup if US Government increases spending to counteract GDP decline and if funds are diverted from Iraq war.
- The Indo-US civilian nuclear agreement between the US and India under which India agreed to separate its civilian and military nuclear facilities, thereby placing civil facilities under International Atomic Energy Agency (IAEA) safeguards. Under the law, United States-India Nuclear Cooperation Approval and Non-proliferation Enhancement Act on October 8, 2008, allows India to purchase nuclear fuel and technology from United States. The agreement will help India meet its goal of adding 25,000 MW of nuclear power capacity through imports of nuclear reactors and fuel by 2020 (source www.wikipedia.org).

Oil & Gas – Upstream

- Heavy exposure to Oil Sands business in Canada which is under considerable pressure due to falling oil prices. JEC management estimates a breakeven point of $65/barrel and total opportunity of $115B.
- Offshore production business could see similar decline due to falling oil prices.

Chemicals and Polymers

- Relatively flat period, with slight demand growth in Asia and the Middle East.

Infrastructure

- Opportunities for toll roads in US (primarily California, NY, Florida and Texas).
- Growth opportunity in India where JEC is employing a multi-domestic strategy which allows them to perform engineering for Indian companies and foreign direct investors.
- The London Olympics is expected to generate £9.35 billion of infrastructure spending to cover building the venues for the games and regeneration of the East London area.

Buildings

- Focus on technically complex buildings, such as airport construction, IRS offices, Homeland Security facilities, scientific buildings.

Summary: Base Case Estimates for Backlog and Revenue Using Both Methods

The backlog estimates from the two approaches are given below in Figure 8. The estimates were derived by taking the average between the lower-bound produced by the GDP method and the upper bound produced by analyzing the opportunity set. This produces a conservative estimate of 10.9% growth in FY2009 and 11.3% in FY2010.

Figure 8

	2009E	2010E	2011E	2012E	2013E
GDP Growth Method					
Backlog	19.6	20.0	20.5	21.1	NA
Revenue	16.2*	18.7	18.9	19.4	19.9
Opportunity Set Method					
Backlog	22.8	26.6	27.9**	29.3**	NA
Revenue	16.2*	20.4	23.8	26.1	27.4
Average Revenue	**16.2**	**19.5**	**21.4**	**22.7**	**23.6**

**2009 Revenue is calculated directly from 2007A and 2008PF backlogs using Equation 1.*
*** Opportunity Set Method estimates for 2011 and 2012 are calculated assuming 5% y-o-y growth because opportunity set predictions are not feasible beyond 2010.*

Steady Margin Expansion

Since 2003, JEC has been steadily moving away from fixed-price contracts to cost-reimbursable contracts (Figure 9). ("Guaranteed maximum price" contracts are like cost-reimbursable contracts, but the total actual cost plus the fee cannot exceed the guaranteed price negotiated with the client.)

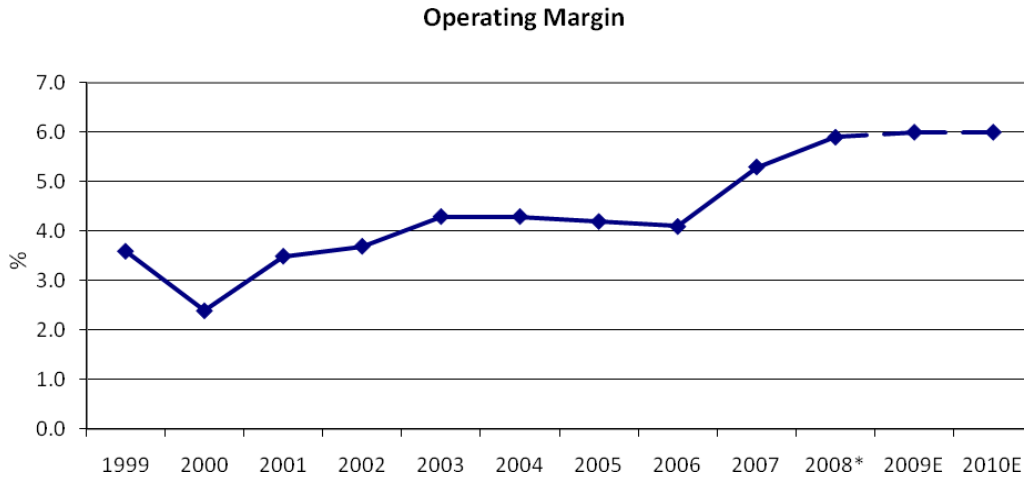
Figure 9

Contract Type	2003	2004	2005	2006	2007
Cost-reimbursable	82%	83%	85%	90%	88%
Fixed-price	17%	15%	13%	9%	10%
Guaranteed maximum price	1%	2%	2%	1%	2%

In addition to this shift in contract type, management has strict objectives to control Selling, General and Administrative (SG&A) costs. The combination of these two forces led to a bump-up in operating margins, as illustrated in Figure 10. Going forward, we project that near-term operating margins will remain steady at approximately 6% for three reasons: 1) we do not believe that operating margins will increase because while cost-reimbursable contracts reduce risk, they also limit potential profit upside; 2) cost-reimbursable contracts tend to provide steady single-digit rates of return[1]; and 3) we believe in management's ability to reduce SG&A by capturing synergies from acquisitions and from its strict adherence to its policy of reducing expenses.

[1] Sterne Agee Information (provided by Chase Jacobson)

Figure 10



* FY2008 is from LTM

Valuation

Using a DCF model and the APV method, we calculated a target share price of $65.78. (The full model is included below.) We opted to use the APV method because historically the firm has had very little debt (see Figure 11). At the time of this writing, JEC's debt-to-equity ratio was just 1.0%, and we expect the firm to maintain approximately the same ratio going forward.

Figure 11

	2003	2004	2005	2006	2007	2008
Long-Term Debt ($ millions)	17.8	78.8	89.6	77.7	40.5	38.4

The following table (Figure 12) summarizes a range of values for the share price with varying terminal growth rates and varying rates for the unlevered cost of equity, which we simply call the "discount rate."

Figure 12

Price per Share Sensitivity Analysis

		Discount Rate			
		14.4%	12.5%	10.6%	8.7%
Terminal Growth Rate	2.85%	$50.80	$60.85	$75.89	$100.84
	3.35%	$52.30	$63.18	$79.83	$108.48
	3.85%	$53.94	$65.78	$84.38	$117.71
	4.35%	$55.76	$68.72	$89.66	$129.10
	4.85%	$57.78	$72.05	$95.87	$143.46

The range of price per share is rather wide in this table ($51 to $143) due to the high variation in the discount rate. Our selection of values for the discount rate in the sensitivity table was driven by our two estimates of JEC's equity beta (1.77 and 1.07), for which derivations are described below. These equity beta values result in discount rates of 12.5% and 8.7%, respectively. For illustration purposes, 10.6% is the mid-point between the two, and 14.4% is an equal distance above 12.5%

Equity Beta Estimates

In order to calculate the equity beta, we ran a regression of the last 5 years of monthly excess returns of JEC over excess market returns. Using this data set, we obtained an equity beta of 1.77 with an R^2 of 37% (see Figures 13 and 14). Based on the firm's leverage, the corresponding asset beta is 1.75, and the resulting discount rate was 12.5%. (This discount rate was calculated assuming a risk-free rate of 2.85% and a market risk premium of 5.5%.) For comparison, we ran a regression using the same monthly return data for JEC since 1971 and received an equity beta of 1.07. The corresponding asset beta is 1.06 and the resulting discount rate is 8.7%.

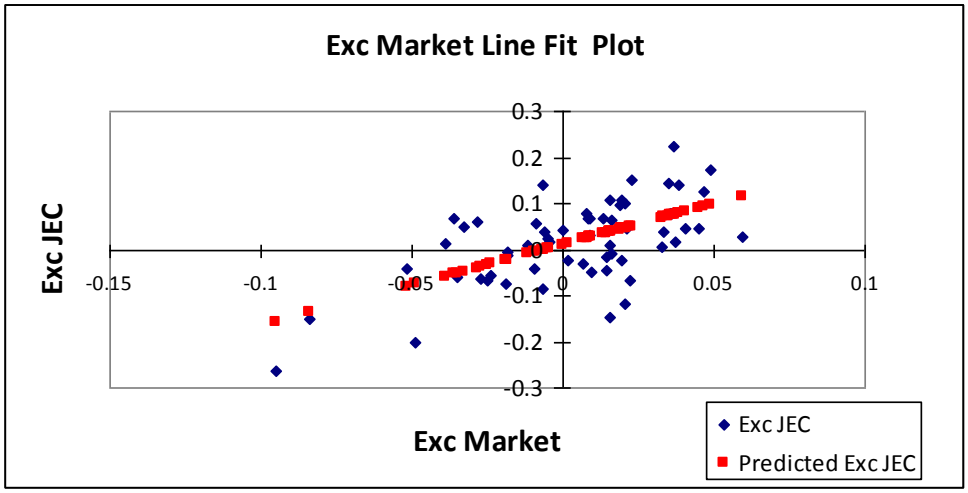
Figure 13

Regression Statistics	
Multiple R	0.61
R Square	0.37
Adjusted R Square	0.36
Standard Error	0.07
Observations	60

	df	*SS*	*MS*	*F*
Regression	1	0.18	0.18	34.23
Residual	58	0.30	0.01	
Total	59	0.48		

	Coefficients	*Standard Error*	*t Stat*	*P-value*
Intercept	0.01	0.01	1.05	0.30
Excess Market Returns	1.77	0.30	5.85	0.00

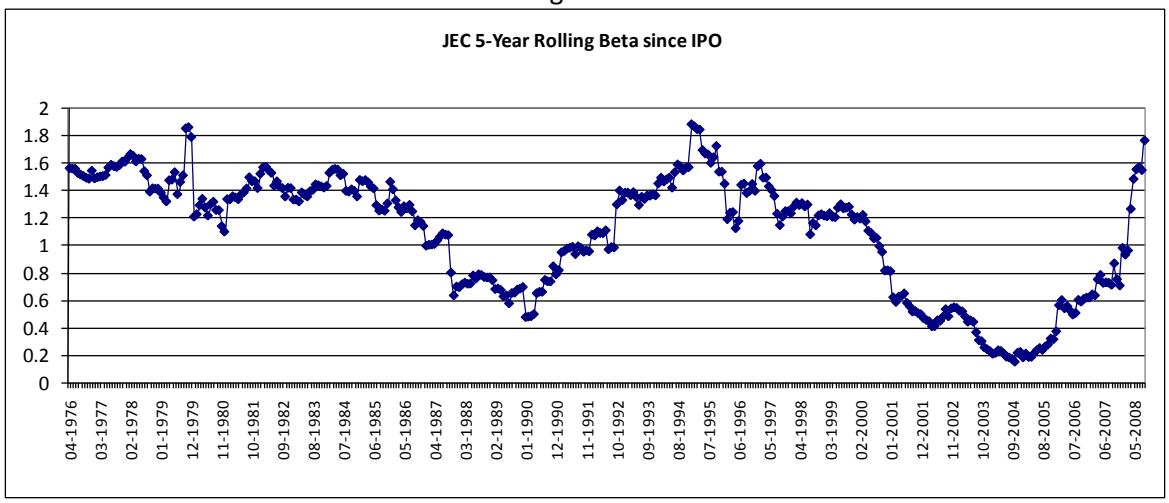
Figure 14



In order to understand how the beta has changed since IPO, we also computed the rolling 5-year beta for Jacobs in Figure 15. This shows that a suitable beta should be closer to 1 given the cyclicality of it

and high standard deviation (43%) since the IPO. This makes are recommendation even more conservative since our base case assumes a beta of 1.77.

Figure 15



Model Assumptions

The model below details the assumptions underlying our projected cash flows. In general, our rationale for the various line items is as follows:

- **Revenue** estimates are based on the various backlog-driven formulas described above.
- **EBIT Margin** is projected to hold steady at 6.0%.
- **Working Capital, CapEx, and Gross PP&E** estimates are mainly based on historical averages. While the model below goes back to 2005, in our analysis we looked at historical margins going back to 1998. Depending on the item, we either used the mean percentage of revenue or COGS (or a slightly more conservative estimate than the mean percentage) and then, for the most part, flat-lined that percentage through 2013.
- **Depreciation and Amortization** estimates are a flat-lined percentage of Gross PP&E.
- **Tax Rate** of 36% is taken from management's guidance and historical numbers given in the 10-K.
- **APV Calculation:**
    - ***Present Value of Unlevered Free Cash Flows:***
        - **Terminal Growth Rate** of 3.85% is based on 10-year T-Bill rate as of 10/22/08.
        - **Discount Rate** (the unlevered cost of equity) of 12.5% is calculated using an equity beta of 1.77, a risk-free rate of 2.85, and a market risk premium of 5.5%.
    - ***Present Value of Debt Tax Shield:***
        - **Risk-Free Rate** of 2.85% based on the 10-year T-Bill rate of 3.85, less a 1% liquidity premium.
        - **Cost of Debt** of 5.53% based on the firm's long-term interest rate; it is the weighted average yield-to-maturity of the firm's debt.
- **2008 Pro Forma Estimates**: With a fiscal year end of September 30, JEC has not yet reported 2008 results. We estimated pro forma results for our model's key drivers (Revenue, Gross

PP&E, D&A, and CapEx) and included them below; for the other items we used historical estimates as described above.

DCF: APV Method

		For the 12 months ending September 30,								
(In millions of USD)		2005A	2006A	2007A	2008PF	2009E	2010E	2011E	2012E	2013E
Revenue		5,635.0	7,421.3	8,474.0	11,231.1	16,235.0	19,539.0	21,373.1	22,711.2	23,614.6
% Growth		*22.7%*	*31.7%*	*14.2%*	*32.5%*	*44.6%*	*20.4%*	*9.4%*	*6.3%*	*4.0%*
Cost of Goods Sold		4,828.7	6,487.0	7,262.6	9,620.6	13,906.9	16,737.1	18,308.2	19,454.4	20,228.3
Gross Profit		**806.3**	**934.3**	**1,211.4**	**1,610.5**	**2,328.1**	**2,801.9**	**3,064.9**	**3,256.8**	**3,386.3**
% Gross Margin		*14.3%*	*12.6%*	*14.3%*	*14.3%*	*14.3%*	*14.3%*	*14.3%*	*14.3%*	*14.3%*
Selling General & Admin Exp.		591.4	632.7	769.4	932.2	1,347.5	1,621.7	1,774.0	1,885.0	1,960.0
% of Revenue		*10.5%*	*8.5%*	*9.1%*	*8.3%*	*8.3%*	*8.3%*	*8.3%*	*8.3%*	*8.3%*
Operating Income (EBIT)		**214.9**	**301.6**	**442.0**	**678.4**	**980.6**	**1,180.2**	**1,290.9**	**1,371.8**	**1,426.3**
% EBIT Margin		*3.8%*	*4.1%*	*5.2%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
Tax Expense (rate of 36%)	*36.0%*	77.9	108.4	161.5	244.2	353.0	424.9	464.7	493.8	513.5
Profit after Taxes		**137.0**	**193.2**	**280.5**	**434.1**	**627.6**	**755.3**	**826.2**	**877.9**	**912.8**
Addback: Depreciation & Amortization		46.4	48.3	55.7	74.7	107.2	129.0	141.1	149.9	155.9
% of Gross PPE		*12.0%*	*11.0%*	*10.8%*	*11.1%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*	*11.0%*
Subtract: Inc/(Dec) in Net Working Capital		(80.1)	38.4	31.7	242.5	281.3	185.7	103.1	75.2	50.8
Subtract CapEx		43.9	54.0	64.6	118.0	129.9	156.3	171.0	181.7	188.9
% of Sales		*0.8%*	*0.7%*	*0.8%*	*1.1%*	*0.8%*	*0.8%*	*0.8%*	*0.8%*	*0.8%*
Unlevered Free Cash Flow to the Firm		**219.6**	**149.1**	**239.9**	**148.3**	**323.6**	**542.2**	**693.2**	**770.9**	**829.0**

APV Calculation

Terminal Value Calculation

Terminal Value Growth Rate						(10 yr T-Bill, 10/22/08)	3.85%
Projected Free Cash Flow							860.9
Terminal Enterprise Value							9,969.1
Discount rate for CF		12.5%					
Discounted Unlevered Cash Flows							
Unlevered Free Cash Flow			287.7	428.5	487.0	481.5	460.3
Terminal Value							5,535.6
Total PV of Unlevered FCF			**7,680.7**				

APV Method

Debt Value (Current Outstanding)	38.4	(From 10-K)
RFR (10-year T-Bill rate of 3.85%, less 1% for liquidity premium)	2.85%	(From Bloomberg, 10/22/08)
Tax Rate	36%	(From 10-K)
Cost of Debt	5.53%	(Long-term interest rate; >98% of borrowing)
Debt Tax Shield	0.8	
PV of Debt Tax Shield	19.9	
Ent Val of JEC (PV of Equity + PV Debt TS)	**7,700.6**	
Debt Value (Current Outstanding)	38.4	
Cash (as of June 30, 2008)	536.2	
Net Debt	**(497.8)**	
Equity Value	**8,198.4**	
Total Diluted Share Count (millions)	124.6	
Price/Share	$ 65.78	

Price per Share Sensitivity Analysis

		Discount Rate			
		14.4%	**12.5%**	**10.6%**	**8.7%**
	2.85%	$50.80	$60.85	$75.89	$100.84
Terminal	**3.35%**	$52.30	$63.18	$79.83	$108.48
Growth	**3.85%**	$53.94	$65.78	$84.38	$117.71
Rate	**4.35%**	$55.76	$68.72	$89.66	$129.10
	4.85%	$57.78	$72.05	$95.87	$143.46

WORKING CAPITAL ASSUMPTIONS

	For the 12 months ending September 30,								
(In millions of USD)	**2005A**	**2006A**	**2007A**	**2008PF**	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**
Current Assets									
Accounts Receivable	1,029.9	1,304.3	1,532.6	2,021.6	2,922.3	3,517.0	3,847.2	4,088.0	4,250.6
% of Revenue	*18.3%*	*17.6%*	*18.1%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*
Prepaid Exp.	21.5	32.9	39.1	48.1	69.5	83.7	91.5	97.3	101.1
% of COGS	*0.4%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*	*0.5%*
Deferred Tax Assets, Curr.	46.1	46.7	93.0	112.3	162.4	195.4	213.7	227.1	236.1
% of Revenue	*0.8%*	*0.6%*	*1.1%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*	*1.0%*
Total Current Assets	**1,097.5**	**1,383.9**	**1,664.7**	**2,182.0**	**3,154.2**	**3,796.1**	**4,152.4**	**4,412.4**	**4,587.9**
Gross Property, Plant & Equipment	385.9	439.4	516.8	673.9	974.1	1,172.3	1,282.4	1,362.7	1,416.9
% of Revenue	*6.8%*	*5.9%*	*6.1%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
Current Liabilities									
Accounts Payable	257.0	397.0	376.5	500.3	723.2	870.3	952.0	1,011.6	1,051.9
% of COGS	*5.3%*	*6.1%*	*5.2%*	*5.2%*	*5.2%*	*5.2%*	*5.2%*	*5.2%*	*5.2%*
Accrued Exp.	407.8	495.7	626.1	769.6	1,112.6	1,339.0	1,464.7	1,556.4	1,618.3
% of COGS	*8.4%*	*7.6%*	*8.6%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*	*8.0%*
Curr. Income Taxes Payable	4.0	21.8	27.8	33.7	48.7	58.6	64.1	68.1	70.8
% of Revenue	*0.1%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
Unearned Revenue, Current	110.0	112.3	245.5	247.1	357.2	429.9	470.2	499.6	519.5
% of Revenue	*2.0%*	*1.5%*	*2.9%*	*2.2%*	*2.2%*	*2.2%*	*2.2%*	*2.2%*	*2.2%*
Total Current Liabilities	**778.8**	**1,026.8**	**1,275.9**	**1,550.7**	**2,241.6**	**2,697.8**	**2,951.0**	**3,135.8**	**3,260.5**
Net Cash Impact									
Net Working Capital	318.7	357.1	388.8	631.3	912.6	1,098.3	1,201.4	1,276.6	1,327.4
Cash (Used by)/Generated from Work. Cap.	80.1	(38.4)	(31.7)	(242.5)	(281.3)	(185.7)	(103.1)	(75.2)	(50.8)

Calculations of 2008PF Assumptions for Selected Items

	For the 3 months ending,					Pro Forma	
	6/30/07	**9/30/07**	**12/31/07**	**3/31/08**	**6/30/08**	**9/30/08**	**FY08**
Revenue	2,083.7	2,280.1	2,471.8	2,664.8	2,918.9	3,175.6	11,231.1
% Growth		*9.4%*	*8.4%*	*7.8%*	*9.5%*	*8.8%*	
Gross PPE	491.7	516.8	562.2	587.8	623.3	705.2	705.2
% of Revenue	*23.6%*	*22.7%*	*22.7%*	*22.1%*	*21.4%*	*22.2%*	*22.2%*
Depreciation & Amortization	14.6	14.4	16.7	17.4	19.4	21.2	74.7
D&A as % of Gross PPE	*3.0%*	*2.8%*	*3.0%*	*3.0%*	*3.1%*	*3.0%*	*10.6%*
CapEx	13.5	16.6	18.3	25.5	43.2	31.0	118.0
% of Revenue	*0.6%*	*0.7%*	*0.7%*	*1.0%*	*1.5%*	*1.0%*	*1.1%*

What If Our Projections Are Too Bullish?

We wanted to stress our model and then reduce backlog growth as much as would be required to justify the current valuation; if that reduction in backlog was not plausible, then we would need to conclude that the stock is undervalued. In order to stress the model, we made the following modifications:

1) Reduced EBIT margin to its 2003-2006 levels of 4.0%; that is 2.0% below our base case.
2) Reduce our estimated backlog at year-end 2008 by 17%, from $19.5 billion to $16.7 billion.

After making these modifications, we found that backlog growth would need to fall by 11% y-o-y from 2009-2012 in order to justify the current valuation. Figure 16 gives predicted revenue and revenue growth under this scenario using our formula for revenue as a function of backlog. Figure 17 replicates the resulting price per share sensitivity analysis under this stress case.

Figure 16

(in $ billions)	2007A	2008PF	2009E	2010E	2011E	2012E	2013E
Backlog	13.6	16.7	14.9	13.2	11.8	10.5	9.3
% Growth			*-11.0%*	*-11.0%*	*-11.0%*	*-11.0%*	*-11.0%*
Revenue (Rt)	**8.5**	**11.2**	**14.7**	**14.9**	**13.3**	**11.8**	**10.5**
% Growth		*32.5%*	*30.8%*	*1.6%*	*-10.9%*	*-10.9%*	*-10.9%*

Figure 17

Price per Share Sensitivity Analysis

		Discount Rate			
		14.4%	12.5%	10.6%	8.7%
Terminal Growth Rate	2.85%	$24.80	$28.83	$34.84	$44.75
	3.35%	$25.36	$29.73	$36.37	$47.73
	3.85%	$25.99	$30.74	$38.14	$51.35
	4.35%	$26.70	$31.88	$40.21	$55.81
	4.85%	$27.48	$33.18	$42.64	$61.44

As shown in Figure 3, JEC's backlog growth has never fallen below 5.0% per year. Given this fact, we believe that is implausible for backlog and revenue to decline by 11% y-o-y as shown in Figure 16. As a result, we believe that the stock is undervalued. As illustrated in Figure 15, it is worth noting that the long-run beta is probably closer to 1, resulting in a discount rate closer to 8.7%, the far right column in Figure 17. Using this discount rate, we could have stressed revenue growth even further and still got a buy recommendation; however, under the stress case, a discount rate of 12.5% is more conservative.

Leverage: Finally, JEC has a very low amount of debt. Our assumption that the debt level will remain low contributes to a conservative valuation. While we do not anticipate that management will increase its debt level significantly, we note that the firm could benefit from doing so. Also, while we do not have a reason to believe that the firm is an acquisition target, a buyer could extract additional value by adding debt to the capital structure. Thus, our price target is conservative because we assume that the firm maintains its low levels of debt, leaving open the possibility for upside potential if the firm takes on more debt or if it becomes the target of an acquisition.

Appendix: Company Overview

Business Lines:

- **Project Services**: Engineering, design, and architectural services.
- **Process, Scientific, and Systems**: Services related to scientific testing, analysis, and consulting.
- **Construction Services**: Field work, modular construction, direct-hire construction, and management services.
- **Operation and Maintenance Services**: Services performed in connection with operating large, complex facilities on behalf of clients, including plant maintenance.

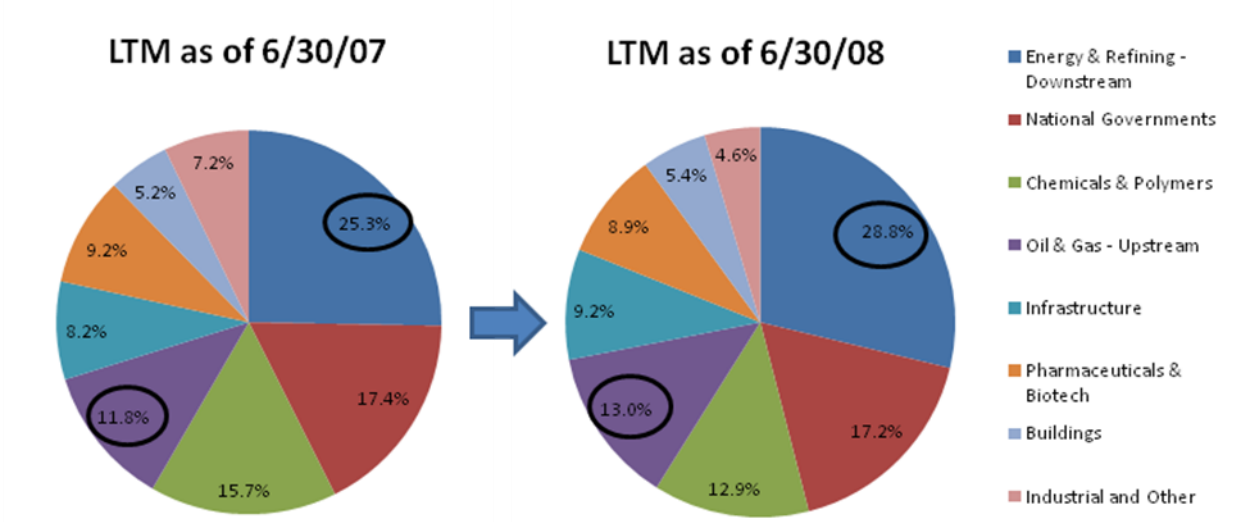
Business Strategy:

- **Safety**: Employee safety is an important element of risk management and critical to long-term success and growth. Avoidance of lawsuits is a key aspect of this strategy.
- **Relationship-Based Business Model**: JEC seeks long-term relationships with clients in order to understand their business needs. This approach allows JEC to provide a greater range of services and bundle them appropriately.
- **Follow Core Clients:** In order to increase geographical presence, JEC follows core clients into locations where they need JEC's services. Half of the firm's profitability is from 40 core clients. More than 90% of JEC's business comes from repeat customers.
- **Cost Control**: Delivering on customer's cost expectations is essential to maintaining positive relationships with them, and is therefore a competitive advantage.
- **Organizational Structure:** JEC's matrix structure encourages operating units to work together while helping to reduce costs and promote efficiency.
- **Acquisitions:** JEC favors acquisitions that allow it to expand or enhance the range of services it provides its existing clients; acquisitions are also important for gaining access to new geographic areas that offer higher growth opportunities.

Revenue by Industry:

Figure 18 shows the shift JEC's percentage of revenues by industry, based on the last twelve months as of June 30, 2007 and 2008. As expected, the table shows an increase in activity in the Oil & Gas (Upstream) and the Energy & Refining (Downstream) industries. This increased is a result of the surge in energy prices over the last year.

Figure 18: Percentage of Revenue by Industry



Latest Acquisitions:

Below is a list of JEC's acquisitions made in 2007 and 2008. Note that the three most recent acquisitions are of firms based outside of the United States (namely the U.K, India, and Saudi Arabia). This follows JEC's strategy of expanding its international capabilities for its existing clients, as well as gaining access to new, high-growth geographic areas.

Date Announced: August 26, 2008
Target: L.E.S. Engineering Ltd.
Size: Not Disclosed
Country: United Kingdom
Description of Target: L.E.S. Engineering Limited (LES), a 700-person national maintenance, construction and service works contractor headquartered in Grimsby, U.K.

Date Announced: August 7, 2008
Target: Consulting Engineering Services (CES) Private Limited (India)
Size: Not Disclosed
Country: India
Description of Target: CES is a leading infrastructure and civil engineering company in India, headquartered in Delhi. It employs more than 2,000 people engaged in consulting, engineering, and construction supervision of projects in surface transport, seaports, airports, water management systems, environmental clean-up, buildings and facilities, and the power industry.

Date Announced: March 12, 2008
Target: Zamel & Turbag Consulting Engineers (nka:Jacobs, Zamel and Turbag Consulting Engineers)
Size: $38.3 million
Country: Saudi Arabia

Description of Target: Jacobs purchased a 60 percent ownership position in the Saudi Arabian firm Zamel & Turbag Consulting Engineers (ZATE). The company has been renamed as Jacobs, Zamel and Turbag Consulting Engineers (Jacobs ZATE). The combination of ZATE with Jacobs existing operations in The Kingdom of Saudi Arabia results in a total staff of more than 500 people providing engineering and construction management services.

Date Announced: November 2, 2007
Target: Carter & Burgess, Inc.
Size: $233.8 million
Country: United States (Fort Worth, TX)
Description of Target: Carter & Burgess, a 3,200-person professional services firm headquartered in Fort Worth, Texas, is a nationally recognized architecture, engineering, design, and planning firm serving public and private clients in the fields of transportation, water infrastructure programs, building programs, land development, and planning.

Date Announced: March 22, 2007
Target: Edwards and Kelcey, Inc.
Size: $56.6 million
Country: United States (Morristown, NJ)
Description of Target: Edwards and Kelcey, a 1,000-person firm headquartered in Morristown, NJ is a nationally recognized engineering, design, planning, and construction management firm serving public and private clients in the fields of transportation, planning/environmental, communications technology, buildings/facilities, and land development. The company has 25 regional offices.

(Source: Capital IQ and Jacobs' press releases)

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