

Jacobs Solutions: One Portfolio or Two?

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A strategy case for MBA students and working professionals

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Case status: Constructed teaching case. The public record at the cutoff does not indicate that Jacobs' board was considering a CMS separation.

A question about the portfolio

On May 8, 2023, Jacobs Solutions had a strategy already in motion. Its “Boldly Moving Forward” plan called for growth across Critical Mission Solutions (CMS), People & Places Solutions (P&PS), and PA Consulting. A new Divergent Solutions (DVS) segment, reported separately beginning in fiscal first-quarter 2023, was intended to build data, digital, cloud and cyber capabilities across CMS and P&PS.

For this teaching exercise, assume an independent strategy committee has been asked to recommend whether Jacobs should commission a 90-day study of a possible CMS separation. A spin-off could be one route for the study to assess, if tax, financing, contract, workforce and operating conditions supported it. The committee is not being asked to approve a transaction or assume that a separation would be tax-free. It can instead recommend retaining CMS and focusing on execution of the existing strategy.

The question is whether a separate feasibility study would produce enough decision-useful evidence to justify its cost and management attention-or whether the company should first demonstrate the value of its integrated strategy. Any committee, mandate and deliberation described in this case are constructed for teaching; they are not reported Jacobs events.

A portfolio with different operating contexts

Jacobs combined work for U.S. government customers and other critical-infrastructure clients with environmental, infrastructure, consulting and digital services. In its fiscal 2022 Form 10-K, the company reported three operating segments: CMS, P&PS and PA Consulting. The company held a majority investment in PA Consulting. DVS became a separately reported segment in Q1 FY2023; Jacobs had described Divergent Solutions as part of its strategy earlier, so the reporting change did not necessarily represent a newly created business.

The reported FY2022 figures showed both scale and variation in the portfolio:

FY2022 reported segment	Revenue	Segment operating profit	Reporting note
Critical Mission Solutions (CMS)	\$5,233.629m	\$424.385m	Jacobs-reported segment measures

FY2022 reported segment	Revenue	Segment operating profit	Reporting note
People & Places Solutions (P&PS)	\$8,569.900m	\$823.564m	Includes substantial pass-through revenue
PA Consulting	\$1,119.296m	\$232.225m	Jacobs held a majority investment
Corporate and other bridge	-	\$(562.324)m	\$364.440m other corporate expenses plus \$197.884m restructuring, transaction and other charges
Consolidated GAAP operating profit	-	\$917.850m	Segment profit less the two bridge items above

The segment amounts were disclosed in Jacobs' FY2022 Form 10-K, Note 20, printed pages F-58-F-60. Segment operating profit was not stand-alone cash flow or a complete estimate of each business's economic contribution. Jacobs said it generally did not track assets by line of business for the chief operating decision maker. The corporate and other bridge also shows that segment results alone do not reveal the cost base that a separated company might need to reproduce.

Revenue definitions matter. For FY2022, the filing reported P&PS revenue on a gross basis that included pass-through costs. In Q1 FY2023, Jacobs separately showed pass-through amounts and net revenue for P&PS and DVS. A margin calculated with gross revenue cannot be compared directly with a margin calculated using net revenue. The case therefore does not rank the segments by revenue margin.

The execution case for staying integrated

Jacobs described Climate Response, Consulting & Advisory, and Data Solutions as growth accelerators. The stated logic was that capabilities could work across business lines and client markets. DVS was to scale cloud, cyber, data and digital capabilities horizontally across CMS and P&PS. Integration might support shared technology investment, joint bids, talent development, client relationships and the ability to move capital toward attractive opportunities.

These were management's strategic claims, not public measurements of cross-selling or synergies. Jacobs had not quantified shared revenue, joint-contract economics, common platform costs, talent transfers or the value of internal capital allocation. Nor did its segment reporting establish whether CMS and other businesses competed for investment or whether the parent improved their results.

The "Boldly Moving Forward" announcement set FY2022-24 targets of 6-9% net-revenue growth for CMS and P&PS, 12-15% for PA Consulting, and 7-10% for the group. It also set adjusted operating-profit growth targets of at least 10% for CMS and P&PS, 12-15% for PA Consulting and double-digit growth for the group. These were forward-looking management targets, not realized results. The release noted that reconciliations of certain non-GAAP targets were unavailable without unreasonable effort.

In its Q1 FY2023 release, Jacobs reported total revenue of \$3,798.668 million and net revenue of \$3,124.977 million. GAAP diluted EPS from continuing operations was \$1.07; adjusted EPS was \$1.67, a non-GAAP measure. CMS generated \$1,075.175 million revenue and \$82.220

million segment operating profit. Its profit was down year over year; the 10-Q attributed the decline in part to the wind-down of large contracts that had earned higher margins in early FY2022, partly offset by growth in nuclear remediation, and about \$3.9 million of unfavorable foreign exchange. One quarter could not determine the long-term trajectory or the merits of a separation.

P&PS reported Q1 revenue of \$2,226.985 million, including \$659.977 million pass-through revenue, for net revenue of \$1,567.008 million. DVS reported revenue of \$214.465 million, including \$13.714 million pass-through revenue, for net revenue of \$200.751 million. Their segment operating profits were \$226.619 million and \$11.967 million, respectively. PA Consulting reported revenue of \$282.043 million and segment operating profit of \$51.027 million. These are company-reported figures with different revenue compositions; they do not by themselves establish relative margins, returns or standalone economics.

The focus case for examining CMS separately

CMS served a distinct set of government and critical-infrastructure needs. In FY2022, U.S. federal government and agency customers accounted for 31% of Jacobs' total revenue, a company-wide figure rather than a CMS-only share. CMS had reported Q1 FY2023 backlog of \$7.632 billion. A distinct customer base, contracting environment, talent market and investment profile might benefit from dedicated governance, clearer accountability or a capital plan tailored to the business.

But backlog was not guaranteed revenue or cash flow. Jacobs defined backlog as awarded future work and disclosed that cancellations, scope changes, foreign exchange and timing could affect volume and conversion. Total Q1 backlog was \$28.258 billion, comprising CMS \$7.632 billion, P&PS \$17.243 billion, DVS \$3.077 billion and PA Consulting \$0.306 billion. Separately, the FY2022 10-K reported \$15.0 billion of remaining performance obligations under its accounting disclosure, with 52% expected within 12 months. The two measures have different scopes and definitions and must not be summed or treated as equivalent.

The company also had to consider the work of untangling shared operations. Public data did not supply a CMS standalone balance sheet or cash-flow statement, consistent corporate-cost allocation, segment-level capital returns, stranded-cost estimate, separation budget, tax analysis, debt allocation, client-consent map or transition-services plan. Jacobs reported cash of \$1.140 billion at FY2022 year end and described debt funding for acquisitions and a Legacy CH2M settlement. A new credit facility and headline cash balances were not enough to design a separate capital structure.

Federal contracts and other long-term work could require customer consent, novation, clearances or other approvals. Key employees might need new incentives and a clear future. A standalone company could also require its own public-company systems, control functions, insurance, technology support, financing and leadership. None of those costs can be inferred from the reported corporate-cost line. Meanwhile, separation could disrupt bids, client relationships or capabilities that Jacobs said were intended to connect horizontally.

What research can and cannot settle

Research on diversified firms offers competing mechanisms. Berger and Ofek (1995) estimated that diversified U.S. firms in 1986-91 traded at an average 13-15% shortfall relative to imputed segment values; the estimate was smaller when businesses shared a two-digit SIC industry. Their study links some shortfalls to overinvestment and cross-subsidization. It relies on industry-multiple estimates from an older sample and is not a forecast of a Jacobs separation premium.

Campa and Kedia (2002) show why that discount alone is not causal evidence. Across 8,815 firms and 58,965 firm-years from 1978-96, their three selection-adjustment approaches reduced the observed diversification discount and in some specifications yielded a premium. Firms may choose to diversify or refocus because of characteristics that also affect value.

Daley, Mehrotra and Sivakumar (1997) found that in a historical sample of 85 U.S. spin-offs from 1975-91, cross-industry cases had a 4.3% mean two-day excess return, while own-industry cases had a 1.4% mean return that was not significant at 10%. The sample was small and selected, and Jacobs' business boundaries do not map neatly to an industry-code test. These event returns are not an expected return for Jacobs.

Maksimovic and Phillips (2002) provide a counterpoint: their model and plant-level evidence suggest that many conglomerates' resource-allocation choices were consistent with industry conditions and segment productivity. The evidence is provisional here because only the publisher abstract was available to the researchers, and its manufacturing setting differs from Jacobs' project-based services. The literature does not determine whether Jacobs' scope creates value. It suggests the committee should test focus benefits against coordination, internal-capital-market and separation costs using company-specific evidence.

A decision mandate-or a decision to wait

The constructed committee can recommend either of two paths:

1. **Authorize a bounded independent study.** Over 90 days, assess whether CMS could operate as a standalone company and compare separation with continued integration. Treat a spin-off as one possible route only. The study should have explicit access requirements, decision criteria and a stop rule; it should not presume a tax treatment, valuation uplift or transaction.
2. **Retain CMS and execute the current portfolio strategy.** Require management to demonstrate progress on the stated growth plan and improve disclosure or internal measurement of shared capabilities, capital allocation and segment economics before commissioning a separation study.

A credible study would need to compare like-for-like segment cash flows; identify shared revenue, platforms, people and costs; map contract-consent and security requirements; estimate standalone and stranded costs; test debt, pension and tax structures; and develop downside cases for disruption and employee retention. A stop rule could require the committee to end the study if Jacobs could not obtain reliable disaggregated data, contract-level access or an independent cost and capital bridge. The committee should specify what evidence would make it recommend retention, further study or a transaction proposal for separate approval.

The committee must decide whether to spend time and resources learning whether CMS can thrive separately-or insist that the integrated strategy first show where its claimed connections create measurable value.

Discussion questions

1. What exactly is the committee deciding? Which actions are reversible, and what decision is deliberately deferred?
2. What evidence supports the focus argument? What evidence supports keeping CMS integrated? Which important claims remain unmeasured?
3. How should the committee interpret FY2022 segment results and the Q1 FY2023 update? What can the reported profit and backlog figures establish, and what can they not establish?
4. Design a 90-day study mandate with decision criteria, required data, owners and a stop rule. How would you distinguish standalone costs from costs that remain at Jacobs?
5. Recommend a study or retention. State the assumptions your recommendation depends on and identify evidence that would change it.

Sources and cutoff

Company evidence available by May 8, 2023, 6:00 p.m. ET includes Jacobs' FY2022 Form 10-K (Nov. 21, 2022), “Boldly Moving Forward” strategy announcement (Mar. 3, 2022), Q1 FY2023 earnings release and Form 10-Q (Feb. 7, 2023), and FY2022 earnings presentation (Nov. 21, 2022). Academic research includes Berger and Ofek (1995), Campa and Kedia (2002), Daley, Mehrotra and Sivakumar (1997), and the provisional abstract-level use of Maksimovic and Phillips (2002). Exact locators, access depth, definitions and extracted figures are in the source register, evidence extraction and literature review.

The committee, its assignment, 90-day mandate and decision alternatives are constructed for teaching. They do not imply that Jacobs' board considered a CMS separation. No post-cutoff event, result or outcome is included.