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Water Digital Innovation Expo Call with AECOM | UBS | January 17, 2024

Speaker 1:

Welcome to the UBS call. Steven Fisher, you may begin.

Steven Fisher:

Good afternoon and good morning. I'm Steve Fisher, UBS Machinery and Engineering and Construction Analyst. Welcome to our Water Digital Innovation call with AECOM. Water is an area that's perennially topical, and we think will be even more so in the next couple of years at least. We are really pleased to have with us Dr. Beverley Stinson, the Global Water Chief Executive at AECOM. We also have Will Gabrielski, the Senior Vice President of Finance and Investor Relations at AECOM.

I'm going to turn it over to Will in a second, and he'll give some opening comments on AECOM and introduce Dr. Stinson after which she'll run through some of the slides and then... Those will be part of the webinar, so you don't need those separately. They're going to have Q&A after that. If you do have a question, you can ask the question using the question feature, and that will send me an email directly, or you could just send me the email directly to steven.fisher@ubs.com. Just before we get started, as a research analyst, I am required to provide certain disclosures relating to the nature of own relationships and that of UBS and any company in which we express a view on this call today. These disclosures are available at www.ubs.com/disclosures, or you can reach out to me after the call. With that, Will, it's great to have you here. Will, over to you.

Will Gabrielski:

Yep. Thank you, Steve. Like you said, there's a safe harbor statement up front from AECOM as well, so please read that at your convenience. But we're excited to be here today for a deeper dive into our water practice. And as you noted, we have Bev Stinson, Dr. Beverley Stinson, who is the global leader of our water business line with us. But before we get into that discussion, I wanted to just give a quick overview of AECOM. We are the world's trusted infrastructure consulting firm, and there's really two key elements to that statement. First is that we are a consulting firm, which means professional services, high margin, lower risk profile, high return on capital, and strong and consistent cash flow. Second is that our focus and domain expertise is in infrastructure. So that cuts across transportation, water, environment, and facilities. And we will be at or near the top of every category in terms of the key rankings in our industry.

A few key attributes that make AECOM an industry leader with sustainable competitive advantage and ultimately an attractive investment opportunity, first is our focus. So we are intentionally a very focused organization. We have scale, 52,000 people, but 90% of our profit is generated in just three core regions, the Americas, UK and I, and Australia, New Zealand markets. We allocate our capital, which really for us is the time of our talented experts, to these core markets and our largest clients where we see the best growth opportunities and the best funding ahead.

The second point is capital allocation. We have a very disciplined returns-focused capital allocation policy. When you look at a consulting business, a professional services business, it is an inherently strong, profitable, low-risk business. And through our capital allocation discipline, we've been able to maximize the value of these attributes. We focus on organic growth investments first and foremost, and then we turn the remaining capital to our shareholders in the form of share repurchases and dividends. And that's really in stark contrast to our industry, which remains highly acquisitive.

And finally, competitive advantage. We have a pretty unique strategy. We call it day one, day two, day three, under our think and act globally strategy. And what that does is it takes our core strength in the design practice and combines it and compliments it with an advisory and program management capability that's quite unique amongst our peer group. And what this does is it really changes the value proposition with our clients and gives us that competitive advantage that enables us to bring the best of our global resources to each and every key pursuit. And if you think about the proof points behind that, it's a significant reason why our win rate has been so high on our big pursuits, and why 90% of the time on our critical pursuits, it's the technical offering that proves to be a key differentiator.

So with that backdrop, let me introduce Dr. Beverley Stinson who again is the global chief executive of our water business line. Dr. Stinson has over 30 years of experience in the water sector, holds a PhD in engineering, and she's been with AECOM since 1998, which is the year I graduated college, Bev, or high school, excuse me, which means she's not only brilliant, but she's also a great representation of how our organization is focused on career leadership development for the high performers. And Dr. Stinson will take us through a presentation today, and then we'll turn it over to Steve to conduct the Q&A. So with that, take it away.

Dr. Beverley Stinson:

Thank you, Will. And thank you, Steve,. For the opportunity to be here today. There are a few things that give me greater pleasure than talking about our water business. And so with that, I just wanted to start off by saying that I truly believe this is water's moment in the industry. Very rarely do we see the tremendous backed up need for investment in water infrastructure met by the funding. And that's what we have seen, we're seeing at the moment, and we'll see over the next couple of decades. So I really feel that it's an opportunity for AECOM, I think is uniquely situated to take full advantage and capitalize on this global opportunity. To begin with, maybe I'll just give you an overview of the AECOM water business a little bit.

AECOM is indeed a leader in this industry. We are always top of the leaderboard in all of the key water markets that we serve. And this is primarily because of our tremendously deep technical skills, but also a very unique approach in how we serve our clients. We put our clients first, and we bring exceptional service, which makes us their long-term trusted partner. We have attractive client base, very diverse, and very strong and deep relationships, which we continue to expand and deepen that relationship with all of our clients. And today as we go through, I'll talk about some of those very marquee clients such as FEMA, the New York City Department of Environmental Protection, and Navy.

We also believe that we have a very competitive advantage in the industry. This is a combination of unique things, as I said, our deep technical bench, our global scale where we think and act globally, but also that client service mindset. And this has allowed us to win at an exceptional rate beyond that of our competitors. And for me and my colleagues in the water industry, what that really means is that the work that we do can have a deep and meaningful impact on our clients and our communities. We are indeed aiming to continue to be their market leader, and we expect to outgrow the water market in the years to come as we have been doing in the last couple of years. And I think on our industry day, we expected and projected a growth between six and 9%, and we hope to be at the upper end of that scale.

Now, what is fueling this growth? Well, there are many secular growth drivers that have come together at this time, and we have actually been at the forefront of addressing many of these climate change and resiliency, energy transition to mitigate that climate change, the emerging contaminants that we see that affect public health, and we'll see many more of them, and of course, this digital transformation, our clients needing to do more with less, and that is leading to a digital transformation.

I'll speak a little more and give examples of where we're addressing these four main secular growths areas as we go through the presentation. But what I really want you to take away from this slide is the trillions and billions that are being invested in each of these areas across the globe. And this is really accelerating our growth opportunities in the industry.

Will Gabrielski:

Hey, Bev, your slides are not appearing on the screen just FYI.

Dr. Beverley Stinson:

Oh, I am sorry. Let me...

Will Gabrielski:

It's okay.

Dr. Beverley Stinson:

Sorry about that. So Will yours may not have appeared either. I apologize for that. Sorry, everyone.

Will Gabrielski:

No worries.

Dr. Beverley Stinson:

Can you confirm when you see them? Let's try to go into slide mode. Are you able to see these now?

Speaker 1:

Yes, looks good. Thank you.

Dr. Beverley Stinson:

Thank you for that. Sorry again. I'll just recap that we are a leader in all of our markets. We have a very diverse and marquee attractive client base that we'll talk about, especially FEMA, New York City, and Navy. And that our competitive advantage is really allowing us to win at an exceptional rate in the industry, which is leading to our market leadership and our projected growth that will outpace the market. I talked briefly about the secular drivers that are really fueling that growth. But above all on this slide, what I really wanted to take away is the tremendous amount of investment that is being made in the industry today and that we expect will really accelerate our growth across the global infrastructure realm.

So I was referring, going on to give an example of our competitive advantage. And as I said, what I think really has been a tremendous success in FY '23 was the fact that the water team won 100% of our largest pursuits over the past year. And this was really as a result of what we believe is our deep

technical capabilities where we bring our best athlete to the most important projects. And that is our think and act globally strategy in operation.

We also have been deepening our relationship with our clients and really transforming how we connect with our clients. And I think that has led to a much broader experience. And listening to our clients up front, we've really transformed and become their entrusted advisor early on in many of these projects, and their programmatic approach, taking them through the lifecycle of the project, and then of course being able to bring in our domain expertise along with digital tools. And that has really transformed and deepened our ability to serve our clients. And I think that that has led to some of the tremendous success we've had.

One of our most treasured clients is the FEMA client here in the United States, and we serve on all aspects of FEMA's work from their preparedness to their mitigation response and recovery activities. We currently have always served actually in a very technical role on risk map, and we've possibly provided over 50% of the risk modeling work for FEMA. But now we have extended our services into FEMA Consolidated Resources Centers, which is really helping through our programmatic delivery capabilities to respond to disasters. And our ability then to bring in modeling tools and digital and AI enabled capabilities into how we actually execute much of our work has meant that we're delivering at a higher rate, at greater efficiencies for FEMA, and we expect that this work will continue as we move forward.

Our other treasured client, of course, is Navy and our NAVFAC DLEAN services, which we have been the incumbent in the Pacific region for several cycles now, meant that we were really serving this client with exception. And this actually highlights another area of unique capability within the organization, and that's our culture internally, our ability and our flexibility to bring in other business lines as needed to serve our clients. And so this was really a collaboration between our environmental and on our water team, and mostly to serve on addressing PFAS issues in their water systems. But the wonderful thing about this is that this led us on then to win the Atlantic Region CLEAN program, two of the largest programs that Navy have. And so we feel that these two unique aspects, our client service focus, and our culture internally of collaboration, really made a difference in how we demonstrated our competitive advantage here.

That competitive advantage extends into the municipal world as well. And one of our prized municipal clients is the New York City Department of Environmental Protection. We have been their trusted partner for their most complex water and wastewater systems for decades. And this is the number one largest combined water wastewater provider in the United States. They serve New York City at 9 million people a day with a billion gallons of drinking water, and they also remove the wastewater and treat about 1.3 billion gallons per day.

They are really one of the most significant thought leaders as well in the industry. And this is the role that we play is as their trusted partner in delivering their most complex and their most challenging projects. And you can see on the map here, the multiple locations that we have ongoing project work with New York City. Their watershed extends about 125 miles north of the city where they have 19 reservoirs

Dr. Beverley Stinson:

... and multiple tunnels. And so all of this work is something that you'd be hard-pressed to find a piece of their infrastructure that AECOM is not a key part of supporting them on. Most recently, we were required to step in and help on the delivery of one of their most complex projects, the Kensico Eastview Connector. Which is a two-mile rock tunnel system to bring resiliency in their reservoir balancing system north of the city. But the other really interesting, and if you're in New York at the moment or were there last weekend, you'll recognize the project called Cloudburst. Cloudburst is a project that New York City

DEP has implemented to address the deluge of massive rainfalls in a very short period of time. Which has resulted in unprecedented flooding within the city and the boroughs. And of course they turned to AECOM to support them in addressing this issue. And again, a thought leadership project that we think will be demanded across the globe.

The other aspects of our work at New York City DEP are really harken back to those pillars I talked about at the beginning. The major global drivers, those secular drivers, resiliency to climate change, mitigation of climate change by reducing greenhouse gas emissions, and of course digital transformation. AECOM is at the forefront of supporting New York City DEP in all of these areas. We in fact have been serving as their resiliency program manager for many years now. So they were ahead of the curve in addressing this and bringing robustness to their systems in the event of another Superstorm Sandy or something similar. And that programmatic service has now extended into helping them to address their ability to reduce greenhouse gas emissions. New York City is really at the leading edge here in trying to mitigate climate change by reducing greenhouse gas emissions and achieving carbon net-zero.

They have set themselves some very aggressive goals. Ultimately by 2050, they want to reduce 80% of the greenhouse gas emissions and achieve energy neutrality at their 14 water reclamation plants. Our in-depth knowledge of all of that allowed us to start on day one as their advisor in helping them to chart that roadmap. We provided digital tools to help assess the various technologies and approaches. And then we moved into day two, programmatic delivery of those plans and developing their long-term CIP. But in parallel, as we talk about day three actually executing the work, they have interim goals. So we have already begun to move quickly to reduce their greenhouse gas emissions and to turn much of that green energy from several of their facilities, including North River and Newtown Creek, into reusable green energy serving over 5,200 houses and homes in the New York City area near Newtown Creek and recovering sustainable green energy.

So this helps them to move automatically on their pathway towards energy neutrality. In the future, New York City is also addressing its need to become a digital leader. And its digital transformation is something that is on the brink of beginning. They have allocated over \$200 million towards their digital transformation approach and we are very well positioned to support them as they address that across their system. As they say, "If you can make it here, you can make it anywhere." Well, that is true. New York City is truly a global leader and that sort of thought leadership has allowed us to take these types of blueprint solutions across the globe.

Now talking about across the globe, we are also looking to really expand our growth across many regions, but primarily the Americas and Canada, the UK and Australia. Those are our key markets that we're focused on. And of course we're seeing a tremendous uplift in the investment in infrastructure in the United Kingdom. UK's AMP8 program, which is their framework for investing in their water systems, has doubled its investment in the next phase. We are a very strong participant in their current program, but we expect to see a 75% increase in our market share in AMP8. Sorry, 75% increase in their expenditure, which we believe will actually help us to double our market share on AMP8.

Because we're serving in the same systems and doing the same work that we're doing across the globe elsewhere where we are leaders, not only resiliency, energy transition, PFAS, et cetera. An example of that beyond just the UK is our work in Scotland and Ireland, where we are also tier one providers. In fact, Uisce Éireann, Irish Water, just selected us for all four of their frameworks. We were the only team that was selected to help them deliver their programs, which is an excessive program across all four of their frameworks. And so I think that speaks to the trusted partnership that we have developed with all of these agencies globally.

I wanted to give you some examples as we talk about our digital transformation. And let's give an example here of the work that we've been doing in the digital transformation at the Detroit Water and

Sewage Department. This is an agency that has limited funds and a lot of issues to address. And they selected us to help them to not only serve as their Capital Investment program manager, but they asked us then to help them on their digital transformation. Now on day one again, advisory. We were able to meet this client where they were, understand their culture and their needs and their capabilities. And we were able to work with them to select the exact type of tools that were right for their program.

This was not us developing our own tools, this was not proprietary tool development. This was us being able to bring together all of the different systems that are available to them and write unique custom script to connect all these different systems and actually create a GIS system for them of their entire water infrastructure so that they could identify where to apply each of these digital tools. That led on to the program phase where we began to plan out their capital infrastructure investments in the years to come. And then on day three, actual execution of using those tools to prioritize where they may have replacements so that they could not only begin to serve their clients and their rate payers more effectively, but to accelerate the delivery of their program long-term and of course to stretch their dollar.

I'll go quickly through these additional case studies. This is actually one that I'm particularly passionate about because it is talking about our energy transition, which we will see billions of dollars of investment in over many decades to come. And this is our leading edge example of why we are already engaged in the hydrogen market. And as I say, there is no hydrogen economy without the water economy. And we were the very first to provide 100% renewable hydrogen system at the Port of Long Beach. And prior even to the mandate to try to transition the ports in LA and Long Beach to be green hydrogen powered. We did this project for Toyota and this is their first 100% renewable energy powered vehicle processing facility in the world. It directs natural gas from a local wastewater treatment digestion facility and transforms that into electricity, hydrogen and heat.

A case study here on the topic that we discussed about public health. The lead pipeline replacement program is a major initiative for the current administration in the United States. We anticipate an investment of over \$50 billion in the industry, if not more, and about \$15 of that is supported through IJIA Funding. AECOM was one of the early out of the gate program managers to develop these programs to assist our clients. Denver was one of our first clients. And in that program we were able to use AI enabled machine learning to very quickly identify hotspots in the city and to accelerate the application of lead pipeline replacement for Denver. Now, this meant that we were able to do so through a lens of equity and justice. And that enabled them to accelerate the replacement of lead pipelines in underserved areas. This saved them both time and money and led to a much higher level of service to their clients.

And finally, flood mapping. As we talked about under our FEMA program. This is actually not just an effort that we lead the industry in in the Americas, but it is a global leadership role that we have. And because of that, we were able, through our technical systems and our technical subject matter experts who converse and meet frequently, they identified an opportunity to leverage more AI enabled solutions, which actually reduced the delivery time on some of the flood mapping work by 90%. So we were able to reduce and improve the quality of the deliverable, which can be updated automatically and is more effective, higher quality and faster to deliver. And this is now deployed across our entire global flood mapping world. So with that, as I said, there are a few things that I enjoy talking about more than AECOM Water, except perhaps talking to clients. And so with that, I'd love to open it up for questions.

Steven Fisher:

Great. Thanks, Bev. That was fantastic. Really appreciate that. Just as a reminder, if anyone does have any questions, you can use the question feature or email me directly. And we did get one question in

already. So we'll make sure we get to that during our Q and A time. So maybe just to start off, just to further set the stage, you talked about this being a global business, can you just maybe give us a sense of your percentage of sales by region and maybe from a customer mix perspective, how that breaks down? I assume you think about things in terms of federal and then you've got your state and local and then you've got your private sector. How would you break down region and customer mix if you can?

Dr. Beverley Stinson:

Yeah. So regionally, I would say 75% of our revenue is from the Americas, which is the United States and Canada. So that of course is supplemented by significant revenue then from the UK and Ireland and from Australia. So that would add up to about 90% of our revenue globally in those key areas. Our customer mix, of course, is just as you expressed, Steve, we often refer to it as public, federal and private. I would say globally, our public service adds up to about 68%. Our federal, which is also publicly financed, is another 12% to 13%. And our private might be about 20% in total.

Steven Fisher:

Okay, that's really helpful. Now, you mentioned in the beginning that a pretty positive outlook here, and this is water's moment. There seems to be a lot of funding support that is perhaps helping that outlook. Can you talk about really what's happening on the funding side and how that's driving the outlook? And maybe if you can, put that funding that we're seeing today in a bit of a historical context as well.

Dr. Beverley Stinson:

Oh. I mean, I'll start right there. It's unprecedented with what we've ever seen before historically, especially in the Americas. But we're seeing it in the UK as well, as I mentioned. So unprecedented funding and investment. And again, driven by public demand to a large degree because of the secular trends we've been talking about, the need to address climate change and to mitigate it. And of course with the emerging contaminants that we see to protect public health. But we see that, especially in the Americas, tremendous federal funding, also in the United Kingdom, and a lot of doubling of the funding across the globe.

Dr. Beverley Stinson:

It's really leading to address a huge backlog of infrastructure work that has been ignored and delayed for decades. And so I think the timing with the infrastructure investment and this unprecedented level of funding is just really an explosive opportunity for water across the globe, but as I said, particularly in the four markets that we see the larger investment in. And Steve, I don't remember what else your question asked, if I answered what you were seeking there?

Steven Fisher:

Yeah, I mean, you touched upon both sort of how to think about it in historical context being sort of unprecedented. And I'm curious if there, within the US federal side of things, are there any particular programs that stand out to you? Is it really the Infrastructure Investment and Jobs Act that we should be focused on or are there other programs that you're aware of? And maybe we'll get into how that translates into growth perhaps in a minute.

Dr. Beverley Stinson:

Yeah, there was the Inflation Reduction Act and a significant investment in both climate change adaptation, et cetera, as well. So there are multiple different bills that have really injected a huge amount of funding into the industry.

And of course those are flowing down through different, pardon me, different avenues, some going directly to FEMA and in some cases to the state and local markets as well through the state revolving funds. In the UK, this funding is of course rate driven, so much more from the ratepayers, but all very secure, stable sources of funding. So just I think we're just seeing an unprecedented opportunity here to capitalize on this opportunity.

Steven Fisher:

Great. And maybe just to follow up here, is there any risk through policy changes or elections or administration changes that any of this sort of funding that we see right now changes at all in the next 12 to 24 months?

Dr. Beverley Stinson:

We don't anticipate that actually. We don't anticipate changes on this investment. Much of it is already out into the industry, and we have several projects that we've secured the funding and we're moving forward with already.

We see it's a pretty low risk of any drawback. If anything, there's a likelihood to accelerate in some cases. Some bills have even requested that much of the spending be executed within the next 10 years timeframe. So that would indeed even accelerate the expenditures.

But I think even as we see just municipal agencies, just the public are demanding as well that we proceed with this expenditure. The floods in cities and coastal resiliency, these types of issues are so significant, and FEMA's role in responding and planning ahead to mitigate the risk to property and life, I don't see any likelihood of drawback on these investments.

Steven Fisher:

That's great to hear. So you mentioned a lot of the money is already out there and going through the agencies, which raises the question of growth.

So in terms of the growth rate, you mentioned 6 to 9% long-term growth rate for water and even hoping to be perhaps at the upper end of that, and that is faster than the 5 to 8% multi-year outlook for AECOM overall. If that's the sort of the six to nine, or nine is the long-term growth rate that we should think about, how do we think about this over the next couple of years? Do we start off sort of faster than that as this unprecedented funding flows through and then it sort of normalizes? Or are we sort of building up to that sort of longer-term growth rate at this point? Or maybe it's sort of just a steady thing?

Dr. Beverley Stinson:

My personal expectation is that we are off to an already very accelerated start. Our past growth rate in water has been in that range already and higher. So I think we expect to move very quickly. As I said, we believe we're taking market share.

But what's really interesting, it's even more than that, we are expanding our aperture of our market. And as much as we don't just think about doing design, we have introduced that advisory early engagement with our clients where we're displacing the traditional program management or, sorry, major consulting management teams.

And so we feel that we do that very well simply because we see it as an extension of our domain knowledge coupled with our advisory capability. And then we open the aperture on our program management, which takes us through the full lifecycle of these programs, and again, displacing many others which traditionally management consultants.

And then when we add our emerging digital services, that is bringing in a whole new area of opportunity to serve our clients where again, we believe we do it better than pure digital companies because we are actually serving our clients from the area where we know and understand their problems inherently and can understand the right approaches and digital tools to give them the best value. So we feel that it simply extends the opportunity for our domain experts to serve our clients.

So I think that's why I'm very optimistic that the growth rates are indeed very achievable, not only because we can continue to grow our core business, but these strengths that we have and have developed over the last three years in expanding the aperture is opening up a larger addressable market for us as well. So it seems like it's a very opportune time for us.

Steven Fisher:

Great. So maybe just to follow on to that, in terms of the market opportunity relative to AECOM's strategy, how well does the industry look in terms of number of program management opportunities? Is it sort of naturally set up that way that there are just very big programs out there that you can kind of step in with your program management solutions? [inaudible 00:37:42] about that.

Dr. Beverley Stinson:

Yeah, no, it's really incredible. I mean, as you can imagine, we've been serving as program managers for some time, but we are seeing these unprecedentedly large programs emerging to address multiple issues.

One that we were so delighted to be engaged in was the Metropolitan Water District's Southern California Pure Program, which is their plan to address drought in Southern California. They are indeed the largest water supplier, and supply almost 20 million people in Southern California.

And their program is so technically complex as well as expansive that they turn to us as a program manager, a deeply capable technical program manager to not only develop their technical solutions, but to then lay out the pathway for delivery of those technical solutions.

And so these types of programs are emerging simply because of the tremendous urgency and need, and driven by the availability of funding to a large degree. So yes, we're seeing a lot of programs, that ability to start on day one, advisory program management and delivery, and to really deliver the digital transformation as well along the way. So it's extremely exciting time in the industry.

Steven Fisher:

That's great. You touched upon what makes AECOM's Digital Solutions a bit unique in one of your earlier answers. I'm wondering if you could talk a little bit about or elaborate on some of the digital tools that you actually are providing to some of your customers and how proprietary those types of things are?

Dr. Beverley Stinson:

I would say that we certainly have developed proprietary tools, but more and more we've been leaning into digital consulting with our clients and internally developing tools and scripts and efficiencies in how we execute our work.

And so I don't feel that we are deliberately on a path to develop and sell tools. We are very much more on a path of consulting with our clients and helping them in their transformation and their journey.

We could develop tools, but we're exceptionally knowledgeable as well as about what's out there in the industry. And I think our tremendous ability is to bring the right tools and to connect them through our custom scripts and abilities to leverage these tools so that our customers are really, we know the knowledge that they need to operate their facilities. That's our livelihood and our domain knowledge.

And so we can bring together these different tools, each of which provide data, but through our ability to connect them and to actually develop AI-enabled learning, we're actually giving them knowledge from that data, connecting the trends between the different data sets and helping them to accelerate and better understand their entire system to make more informed decisions under times of pressure and stress.

So these tools are helping them not only to plan their capital improvement programs, but also to operate their facilities for the long-term cost savings and to reduce risk on their assets. So I think internally of course we're using our digital tools to accelerate how we execute our work. Some of that ends up, of course, as I said on the flood mapping for instance and other areas like that, it's automatic for us to share that efficiency with our clients as well. When we use these tools in how we execute our work, it helps to improve our quality as well.

Steven Fisher:

Excellent. Maybe shifting to a more corporate type question where AECOM has cited a preference for buying back stock and paying dividends for now. To what extent does that translate into your business in terms of, I don't know if it puts you behind as you see other competitors in the marketplace pushing the acquisition lever, and do you feel that leaves you behind in any way?

Dr. Beverley Stinson:

I'll start, and Will, if you don't mind jumping in as well.

Will Gabrielski:

Yeah, go ahead.

Dr. Beverley Stinson:

For me, quite honestly, to some degree I see the acquisitions that many of our competitors are doing have become quite a distraction from them, from their focus on their strategies and their ability. We don't see a lot of those acquisitions that we've been seeing are for digital capabilities. And we certainly have very strong digital capabilities in our organization.

But what is slightly different from trying to bring in acquisitions is the fact that we're enabling our entire workforce to be digitally capable with support from digital specialists. So rather than maybe buying 1,000 digital experts and merging them into a design organization, we're really enabling our teams with digital knowledge and capabilities supported by digital experts.

So I do think some of those acquisitions, we haven't seen the impact, I will just say, in the winning of work or execution of work to this point in time. And with regards to the stock buyback, Will, would you mind talking to that?

Will Gabrielski:

Yeah, absolutely. And Steve, just to clarify, our capital allocation priority first and foremost is organic investments before we return capital to shareholders. And we typically see anywhere from a 30 to 50% incremental return on capital when we find those opportunities to invest internally in organic growth, and digital sits right at the heart of a lot of those investments.

And to Bev's point, we evaluate what's happening in the market and we see the acquisitions that our competitors announce where there's a strong digital or computer science or data science angle

Will Gabrielski:

... to it. And what we've seen in the marketplace is practically no impact from that and where we're seeing successes occur, it's in areas like Bev described around developing an AI enabled flood mapping tool or using digital to write script and code to layer on top of existing digital tools that might exist in the marketplace, but to create a really unique or proprietary way of getting things done more quickly and more accurately for the clients. So we don't have an ambition to try and keep up with the folks that are making nine figure investments in digital and bringing on, as Bev said, a thousand data scientists and think that that's going to capture and create value for them. We're seeing in the marketplace very different. People want us to be strong from a technical standpoint and compliment that with a digital capability that allows us to create a better value proposition when you package it all together.

Steven Fisher:

Yeah, that makes sense. Very helpful. Maybe you could talk a little bit about what some of the challenges that you are facing and your business is facing in this market. Even there are, I guess, the backdrop of a lot of great opportunities. I'm sure there's always some challenges out there. What would you say the biggest challenges are you seeing in the next couple of years?

Dr. Beverley Stinson:

I would say what most folk are seeing is resourcing challenges with regard to staff. And we predicted that some time ago and have been on a pathway to address that for quite some time. And we've done so probably in a number of ways. One, of course, is with our enterprise capability centers, which are, what we really do is access a global workforce. We're not relying on just the workforce locally. So our enterprise capability centers are centers across the globe where we have developed and built teams of experts to support areas of our work. And of course not all. We also have that ability to span the workforce in other parts of the globe that are not at a point of spending the way that we are spending in our four key markets at the moment. So we've focused on that global workforce. We have focused also on how we execute our work to make it a little bit more streamlined and digital.

So that allows efficiencies in executing the work. And we have also broadened our pool of where we're pulling our experts from. As I talked about our digital and our program capabilities mean that we're really accessing a different group of experts, not just design engineers. So because we've expanded our services beyond just design to program management and digital transformation, it means that we're pulling from a different workforce as well. And I think our retention, we focused a great deal on retaining staff and our retention is best in the business metrics, especially of our high performers. I think that the strategy and the stability of the organization has yielded this tremendous ability to keep our best and brightest and offer the most exciting career opportunities, frankly. And so I think all of those things combined means that we were on this pathway to address this challenge for the past couple of years.

Steven Fisher:

Great. Maybe now we'll just take a moment to address a couple of the questions that have come in. And the first one really I think is getting at some competitive market structure and differentiation. And the question is around how do you define what makes a provider a Tier 1 provider versus other tiers? Is it market share or size or some sort of technical capabilities that you would have?

Dr. Beverley Stinson:

My thoughts go multiple ways there. I welcome Will jumping in as well. Yeah,

Will Gabrielski:

For sure.

Dr. Beverley Stinson:

For me, a Tier 1 provider is that agency that is able to provide that consultant that is trusted advisor and able to deliver on budget, on schedule, with exceptional quality and goes above and beyond with innovation and providing that really unique client service. We take great pride in serving our clients and I think it's reflected in the prolonged periods of time that we've been serving the same client. New York City is multiple decades. These different agencies, major metros, some of them we've actually with our legacy companies, been serving for over a hundred years. And our major clients such as FEMA, they provide a ranking system. They're called CPARs. Ours are exceptional beyond comparison in the industry. So, to me, that qualifies with the technical expertise or Tier 1 capability. And Will, you probably have many other definitions?

Will Gabrielski:

I mean, I was going to point more to metrics, whether it be win rates or winning bigger projects or repeat business with our top clients and accounts, right? All of that points to us bringing something different to the table. And then most importantly, right, it's one thing to win all the time, but if you can win with an industry-leading margin and win because of your technical expertise, you're clearly creating a value for the client that others aren't bringing to the table and that's been a key element of our margin expansion and growth story over the past few years.

Steven Fisher:

Excellent. So the next one is really trying to understand a little bit more about the drivers of the growth rate that you were putting forth in terms of perhaps the 6% to 9%. And maybe trying to think of it in terms of a buildup relative to say GDP growth. But I guess first clarifying what a through the cycle steady state growth rate is. I'm assuming you're 6% to 9% since you're calling it a long-term target rate, you have enough visibility from funding over multiple years to call that a steady state. I guess would you agree with that? And then is there a way to sort of build up from an economic growth perspective up to 6% to 9%? Or maybe you just talk a little bit about how you get to the 6% to 9%?

Will Gabrielski:

Yeah, I'll touch on that and Bev can add on. At our investor day, we put up an illustrative graphic to try and explain how we get to these growth rates. And we start, like you said, with what is a long-term GDP growth rate in our core markets. And then we layer on top of that, how much market share can we take to the competitive advantage we have in sustaining these high win rates, the 50% across the enterprise,

80% plus on large pursuits that we've experienced over the past few years. And then layer on top of that, what is the opportunity created by what Bev discussed earlier in terms of expanding our addressable market, which we've done through program management and advisory. And when you layer all those elements together, it allows us to outgrow GDP for sure, outgrow the market for sure, and that's our expectation that outpacing of the market growth rate can sustain itself because those legs of the stool that are driving the out performance competitive advantage and win rate plus the expanded addressable market, we have ambitions for those gaps to extend versus what the competition is doing today. And to point everyone back to our Investor Day, we did spend a lot of time talking about the drivers for how we sustain that.

Steven Fisher:

Great. We have a few minutes left. Maybe it makes sense to just think a little bit longer term and thinking about, how would you say if we think out three to five years how digital and AI might be different than it is today?

Dr. Beverley Stinson:

That's going to be dramatically different, I think. But in our industry, I think we anticipate already that the expenditures, even just in the United States, are going to double in the next couple of years. We see well over 2 billion per year being invested in the water industry, in digital and AI. Of course, we have some unique partnerships in this area as well and I'm not sure if that's been discussed Will at all, but we have a great focus on utilizing AI not only within our business, but with our clients.

Steven Fisher:

Okay. Yeah. Excellent.

Dr. Beverley Stinson:

I mean, Steve, we've got teams, as you can imagine, right? There are teams stood up with AECOM and helping structure data, helping to put the right tools in place so that our people are centralized that are adopting what's at the leading edge and then bringing that at an accelerated pace to the market. I mean, when you go through these adoption curve cycles, the curve tends to be very J shaped and that would be our expectation of what the next few years looks like as well.

Steven Fisher:

And then you mentioned another phase of AMT8 in the UK. Just maybe broadening that up a little bit. Is there any sort of differentiation you think in terms of growth rates in your domestic markets versus international markets or any particular markets stand out and does that AMP8 next phase create any sort of standout kind of growth or is it all sort of fairly balanced?

Dr. Beverley Stinson:

So from what I've been analyzing, I think it's very similar. The doubling of their investment to over 96 billion, et cetera is effectively going to increase their actual spend on consulting and design and program management by about 75%. And so we are expecting that because we're leveraging so much thought leadership from our other projects into address the exact same issues in the United Kingdom that we will take market share and that may result in a faster growth rate in the near term there actually. But it's this ability to transfer knowledge and skills and our tools that are really going to help us to really step

forward on that next AMP8. And also, Caledonian Water, Northern Ireland Water, and Irish Water as well. It's a very large market.

Steven Fisher:

Great. Well, we're at the top of the hour, so I want to thank you very much. I'll turn it over to you, Bev, and to Will if there's any other closing messages you want to make sure people take away. But otherwise, we'll, thank you very much.

Dr. Beverley Stinson:

I just want to thank you for the opportunity. It's always a pleasure, Steve. We appreciate that opportunity and always available for questions. Will is the man to reach out to.

Will Gabrielski:

Yeah, no, thank you Steve. Yeah, it's an exciting time for water and really appreciate the opportunity to talk about it on your call.

Steven Fisher:

Excellent. Thank you very much for being here. If anyone has any other questions, feel free to let us know and have a great rest of the day.

Will Gabrielski:

Thank you.