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PRESENTATION

Operator

Good morning, and welcome to the AECOM Second Quarter 2023 Conference Call. I would like to inform all participants this call is being recorded at the request of AECOM. This broadcast is a copyrighted property of AECOM, any rebroadcast of this information in whole or part that the prior written permission of AECOM is prohibited. As a reminder, AECOM is also simulcasting this presentation with slides at the Investors section at www.aecom.com. (Operator Instructions).

I would now like to turn the call over to Will Gabrielski, Senior Vice President, Finance, Treasury and Investor Relations.

William Gabrielski - AECOM - SVP of Finance & IR

Thank you, operator. I would like to direct your attention to the safe harbor statement of page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the SEC. Except as required by law, we undertake no obligation to update our forward-looking statements.

We use certain non-GAAP financial measures in our presentation. The appropriate GAAP reconciliations are incorporated into our materials, which are posted to our website. Any references to segment margins or segment adjusted operating margins will reflect the performance for the Americas and International segments. When discussing revenue and revenue growth, we will refer to net service revenue, or NSR, which is defined as revenue excluding pass-through revenue. NSR and backlog growth rates are presented on a constant-currency basis unless otherwise noted.

Beginning this quarter, results for AECOM Capital will be reported as noncore and will be excluded from current and comparable prior period adjusted results. Today's remarks will focus on continuing operations, excluding AECOM Capital. On today's call, Troy Rudd, our Chief Executive Officer, will review our key accomplishments, our strategy and our outlook for the business; Lara Poloni, our President, will discuss the key operational successes and priorities; and Gaurav Kapoor, our Chief Financial Officer, will review our financial performance and outlook in greater detail. We will conclude with a question-and-answer session.

With that, I will turn the call over to Troy.

W. Troy Rudd - AECOM - CEO & Director

Thank you, Will, and thank you all for joining us today. The strength of our second quarter performance was underpinned by our competitive advantage, our technical leadership and our disciplined returns-focused capital allocation policy. Our leadership position was reaffirmed last month by ENR, where we were again recognized as the top-ranked transportation and facilities design firm. We also continue to hold the #1 rankings in environmental engineering and environmental science. These recognitions are well deserved, and I would like to thank all of our people for a strong first half of the year and for building a company that reflects our shared purpose of delivering a better world.

Turning to our final performance. Our second quarter results were highlighted by 8% organic NSR growth in our design business, continued margin expansion, a new quarterly high for adjusted EBITDA and strong EPS growth. Importantly, our quarterly wins, backlog and pipeline of opportunities hit record levels, with proposals and bids submitted continuing to accelerate at a very strong rate. This is reflective of the competitive advantages we have created through investing in our teams, expanding our addressable market, and by focusing our time and capital on the highest-returning organic growth opportunities.

Our performance included a record quarter of wins and a 1.5 book-to-burn ratio in the design business, with strength across both the Americas and International segments. Our win rates are well ahead of both internal benchmarks and historical performance. We are winning more than half of every dollar we bid. And on large global bids in the first half of the year, we are winning at an even greater than 70% rate. This success has transformed the composition of our backlog. Today, 30% of wins are valued at greater than \$25 million, more than double what it was just a few years ago. When combined with our higher margins, we have substantial visibility and even greater confidence in delivering on our long-term objectives.

Please turn to the next slide. Key to our success is the realization of several elements of our strategy. First, collaboration. We've instilled a culture of collaboration and technical excellence to ensure that we bring the best and brightest thinking to each and every pursuit. Having a truly diverse set of experiences and ideas to solve some of the most challenging infrastructure problems has been a key competitive differentiator. Second, expanding our addressable market. Organic investments in advisory and program management have elevated our engagement with clients and extended our opportunities.

Third, investing in our teams. We have made substantial investments in benefits programs, work-life flexibility, technical excellence and leadership development to enhance our employee value proposition. As a result, against a backdrop of rising demand and stagnant overall workforce growth, voluntary attrition rates are substantially ahead of our internal targets and key benchmarks for professional services companies.

Fourth, disciplined allocation of time and capital. Our first dollar of capital goes towards the highest-returning organic growth opportunities. This has resulted in our record high backlog and win rate and expanded earnings capacity of the business, and we are confident that additional award decisions in the second half of the year will further expand our visibility. Finally, superior value creation. After investing in organic growth, we deploy our strong cash flow to the next highest returning opportunities, which for us remains share repurchases and dividends. As a result, we have returned more than \$1.6 billion of capital to shareholders since September 2020 and have repurchased more than 16% of shares outstanding at a highly attractive return.

Please turn to the next slide. Looking ahead, the 3 secular mega trends benefiting our markets are accelerating. These include continued investment in global infrastructure, sustainability and resilience, and long-term supply chain and energy transitions. As these recent wins indicate, we are in a leading position to deliver as these trends gain momentum. Let me share a few examples.

First, in the areas of sustainability and resilience, we were recently selected to provide PFAS remedial investigation and feasibility studies for the U.S. Army National Guard. This win drew on our environmental and water expertise, multiple decades of PFAS-related client work and innovative solutions to address the long-term management of PFAS. We were also selected to deliver technical and program management services for a large wastewater treatment program in California. This win builds on several large water wins we've had in the western United States over the past several quarters and reinforces our leading position ahead of accelerating investments to address long-term water security.

Second, we continue to demonstrate our leadership in energy transitions and decarbonization. Most recently, the Office of Clean Energy and Demonstrations for the U.S. Department of Energy ordered us a contract that draws on the expertise of our environment and water teams in advancing competitive grants for new clean energy solutions under the IIJA. In addition, for the city of Rialto, we combined our sustainability and energy expertise to develop and design a comprehensive microgrid solution to enhance operational resiliency for the city's wastewater treatment plant.

We're now leading the implementation of this project, while also aiding both the city and its water utility in procuring tax incentives available under the IIJA and WIFIA. This project is also a great example of our expanded addressable market, where we are able to play a more meaningful role in our clients' success by engaging earlier and providing multiple professional services.

Finally, our world-class program management capabilities continue to create a competitive advantage as projects increase in size and complexity. Several wins in the quarter, such as the sizable California water project that I mentioned a moment ago, and a large international airport project are great representations of the power of combining our technical expertise with program management to create a higher value solutions for our clients. As a result, NSR in the program management business has grown at a strong double-digit annual pace over the last several years, and we continue to see opportunities for growth ahead.

Taken together, we are executing exceptionally well on our key priorities. I'm pleased with the discipline of our leadership to continue to deliver organic growth, invest in building our backlog, invest in our people and expand our competitive advantage, all while continuing to improve our margins. With a robust growth outlook across our core markets, we remain confident in delivering superior long-term value to our stakeholders.

With that, I will turn the call over to Lara.

Lara Poloni - AECOM - President

Thanks, Troy. Please turn to the next slide. The strength of our teams remains our greatest asset, and we are investing to extend our position as the best place to build a career in our industry. Staffing to meet rising demand remains a key challenge for our industry. However, we are encouraged that our employee satisfaction and retention are strong, voluntary attrition is substantially ahead of industry benchmarks and our internal targets, particularly among high performers. And from that, we are delivering unrivaled technical solutions to our clients.

Importantly, from these investments, we are extending our competitive advantage at a time when growth across our markets is accelerating. In the U.S., IIJA funding is beginning to flow, including through new and existing formula grants. For instance, in the second quarter, we were awarded a contract for a major bridge replacement project on a key railway line in the eastern U.S., where IIJA funding was a key contributor to the project advancing. Additionally, we are beginning to see positive indicators that funding for emerging contaminants, clean energy solutions and larger competitive grants is gaining momentum, which we expect will benefit our backlog later this year and into next year.

Adding to this growing momentum is the overall health of our state and local clients where budgets remain strong, as well as the anticipated benefits from the Inflation Reduction and CHIPS Act, which create additional demand drivers. These initiatives will touch nearly every aspect of our business, from environmental permitting and siting, water, transmission and distribution and offshore wind. While there is funding pressure in certain commercial markets, we have repositioned our diverse business to focus on higher growth markets where public and private funding is more resilient.

In Canada, NSR and backlog growth are strong, and the federal government is executing on several infrastructure investments featured in its Budget 2023. These investments are centered on transit and green energy, markets where we bring unrivaled expertise and experience. In fact, today, we are part of teams delivering three quarters of the major transit projects currently underway.

Trends are similarly strong in our International markets. In February, the EU announced its Green Deal Industrial Plan, with the goal of keeping pace with the U.S. and China in energy transitions and achieving its net zero targets. These investments play to our strengths. In addition, ongoing investment to diversify the Saudi Arabian economy, combined with our leading presence on key programs, are contributing to continued growth

in the region. And in Australia, we have won nearly every key large transportation project over the past year, and our growing pipeline continues to support our expectation for further growth in this market.

With market demand accelerating, we are focused on making investments to grow and extend the capacity of our workforce by leveraging the scale of our global capabilities as an advantage. A great example of this is how we are growing our Enterprise Capability centers. Through these centers, we are able to tap into a global network of the industry's most talented technical experts, and we are deploying leading digital solutions that create more efficient and consistent ways of delivering at scale. The return on these investments is evident in the growth being supported by these centers and in our margins.

Today, we are operating from a position of strength. We are making investments and being deliberately consistent and focused on our approach. As a result, we are delivering strong organic NSR growth, our backlog is growing at a faster rate and our pipeline is growing at an even faster rate than that, which is a great backdrop for continued momentum in the business.

With that, I will now turn the call over to Gaur.

Gaurav Kapoor - AECOM - CFO

Thanks, Lara. Please turn to the next slide. The strength of our second quarter and first half results reflected our highly profitable and high-returning organic growth model and a focus on shareholder value creation driven by our returns-based capital allocation policy. Against a varied macro backdrop, we are executing against the factors we have in our control, whether it be winning at a record pace or delivering a record margin for a second quarter, we are producing results.

This is clear in our strong NSR growth, record design wins and backlog, record adjusted EBITDA and double-digit adjusted EPS growth. In addition, our segment adjusted operating margin increased by 60 basis points ahead of our expectations for 40 basis points of improvement for the full year, and adjusted EBITDA increased by 14% on a constant-currency basis.

I want to comment on our decision to explore strategic options for the AECOM Capital business. AECOM Capital will continue to manage existing investments. As part of this process, over the next several years, we expect to realize cash inflow from these investments which will complement our capital allocation policy.

Please turn to the next slide. NSR growth in Americas was driven by 5% growth in the design business. The adjusted operating margin expanded by 100 basis points to 18.7%, which set a new second quarter high. This is even as we invest at an elevated rate in business development and in expanding our capacity to deliver our work against a strong demand backdrop. Importantly, these investments in organic growth continue to produce results with our design backlog up 12%, to an all-time high, including 10% growth in contracted backlog, which is also at a record level.

These successes translated to a 1.5 book-to-burn ratio for design and our key leading indicators of growth.

Please turn to the next slide. NSR growth in the International segment was 12%. Our book-to-burn ratio was 1.4 in the quarter, which included strength across our markets. As a result, our backlog and pipeline in each of our major geographies is at or near record high levels, which furthers our confidence in continued growth. We also continue to make excellent progress on margin improvement initiatives, with our International margins increasing 30 basis points to 8.6%. Improvement in our International margins has been a key driver of our enterprise-wide margin expansion and improved profitability, and we continue to expect to deliver a double-digit margin for this business based on the efficiency initiatives we have underway.

Please turn to the next slide. Our balance sheet is in great shape. We have no bond maturities until 2027 and the vast majority of our debt is fixed or capped at highly attractive rate. Free cash flow in the first half of the year was \$63 million, which allowed us to return more than \$120 million to shareholders through stock repurchases and dividends. The inherent attributes of our Professional Services business that contribute to consistently strong free cash flow remain intact. These advantages include a high-quality client base, highly variable cost model and record backlog and pipeline that affords us strong visibility to operate with certainty.

With the growth we are delivering and the opportunities apparent in our markets, our capital allocation priorities will remain focused on accelerating investments in organic growth and operational efficiencies, followed by share repurchases and executing on double-digit increases in our quarterly dividend program.

Please turn to the next slide. Turning to our financial outlook. We affirm our guidance for all key fiscal 2023 financial metrics, highlighted by an expectation for 8% constant-currency organic NSR growth and 10% constant-currency adjusted EBITDA and EPS growth at the mid-point of their respective ranges. Due to our operational outperformance in the first half of the year, our guidance is consistent with our outlook from beginning of the year, despite reporting AECOM Capital as non-core and excluding from guidance.

We also continue to expect 40 basis points of margin expansion to a record annual high of 14.6%. Our ability to expand margins while investing in our teams and delivering top line growth is a testament to the competitive advantage we are creating. We have also affirmed our free cash flow guidance for this year, as well as our fiscal 2024 targets.

With that, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today goes to Sean Eastman of KeyBanc Capital Markets.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

Just starting high level, we've got elevated organic investments being highlighted, elevated bid proposals, elevated revenue growth and margin expansion. I'm just wondering how we should think about the sustainability of AECOM being able to continue to deliver on all of those metrics at the same time?

W. Troy Rudd - *AECOM - CEO & Director*

Great. Sean, thanks for the question. So you actually were kind enough to point something out that I thought was important that we actually talked about in the call, which is the sustained ability to do all of those things. A lot of businesses, when you're pursuing organic growth, have that trade-off between organic growth and margins. And this quarter, again, we saw an improvement in organic growth. We saw an improvement in our margins. We continue to invest in the business and people, and that's paid off in significantly growing backlog.

And in fact, in that backlog, the one thing that we call out that you don't see in the number is that the quality of the backlog continues to improve. And when I say quality, it means that it's got better margins in it. It's got longer-term visibility in it. And those larger projects that we win, they usually come with significant change orders on top of that, which is effectively like winning work without having bid costs. And we've been doing that for the last 3 years. We've consistently been doing all of those things, balancing that trade-off and ending up with organic growth consistently over the last 3 years, improving margins over the last 3 years to get to the top of our industry, and continuing to grow our backlog and improve the quality of it. And in all of that time, investing ultimately in the future of the business.

So I will say we're very proud of that. Based on history, we think we'll keep that going. And what we think drives that is, frankly, just the disciplined approach of the management team in how we continue to make investments and how we're always focused on the highest-returning opportunities.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

All right, helpful, Troy. And then of course, we're looking at this fiscal '24 target. Obviously, it implies a very healthy earnings growth acceleration. Maybe specifically, what gives you guys the confidence to be standing by that number at this point in the year?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. Sean, I'll let Gaur take that question.

Gaurav Kapoor - *AECOM - CFO*

I'm going to borrow something that Troy just articulated, which is we're confident because of the competitive edge platform, as Troy articulated, we have built to deliver not just quarter-over-quarter, year-over-year, but into the long term. And it's something you've heard me say before, it's a dynamic model, right? It was built on 3 key underlying growth pillars. One is organic growth, which we're delivering better than what we had planned 3 years ago; our margins, which are a little ahead of what we had built into our plan again; and our capital allocation policy. We've continued very disciplined and focused, and we will continue to do so on repurchases, while at the same time, we have initiated our dividend program, which we expect and have grown by double digits every year into the long term.

So everything that we have in our control, we're overdelivering. Clearly, there are some things that are not in our control, FX and interest, but we're going to focus and continue to over-deliver on what we do control. And that's why we're very confident as we move forward, that we have built a platform with a competitive edge that will continue to over-deliver as we move forward.

W. Troy Rudd - *AECOM - CEO & Director*

And Sean, I'll just add one thing to that, too, as I mentioned this again, is the composition of our backlog. The fact that our design backlog grew at 12% and has been consistently growing over the last 3 years, gives us great visibility in the future. But more importantly, is, again, the quality of that backlog. If we look at the makeup of that backlog, 30% of our wins are now over \$25 million. And if you go back a number of years ago, wins over that size were about 12%. And so that's a significant difference in the composition of the backlog.

Again, as I said, those types of larger opportunities and our very high win rate, I made this in the prepared comments that on those large wins, what we consider enterprise critical pursuits, we're winning over 70% of those in the first half of the year. So it's really the nature of the quality of the backlog and the growth in the backlog that we build our confidence around that Gaur described.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

Maybe just on that last point, Troy. Are you trying to say that based on the composition of the wins, perhaps there's more visibility in the backlog than, say, normal?

W. Troy Rudd - *AECOM - CEO & Director*

I would say, there's been maybe not normal, but certainly more than the past. Absolutely.

Operator

The next question goes to Michael Feniger of Bank of America.

Michael J. Feniger - BofA Securities, Research Division - Director

Troy, on the infrastructure funding and some of the momentum you're seeing in areas like water, transportation, energy, do you expect the funding to be higher in '24 versus '23, and maybe even in '25 versus '24? Just curious what you're seeing there on the pipeline in terms of what you're hearing on the momentum there on the funding starting to trickle through?

W. Troy Rudd - AECOM - CEO & Director

Yes. The answer is yes. We absolutely see funding building this year, certainly year-over-year. And then as we move forward, we certainly see a peak infrastructure fund in the U.S. certainly supported by IJA and a number of other bills. We see that peak funding probably coming in '27. Again, it can't be too accurate with that, but that's sort of where we see the peak funding is probably around the '27 years. So again, I think that there's a lot of funding lining up behind that.

But again, I also make the point that it's not just in the U.S. The U.S. certainly is a great market and our largest. But we're seeing, again, funding building up around the world to be invested in infrastructure. And it just gets to the funding that's necessary for, again, governments and private companies to take advantage of what are these megatrends. And again, there's just a need for infrastructure. There certainly is a significant desire to invest in sustainability and resilience in communities, and that means in infrastructure.

And then there is these large long-term transitions going on. And the largest one that we see is around energy. And I don't think the energy -- the peak funding for energy is certainly going to be in '26 or '27 or '28. I think that you're talking about a multi-decade investment trend around an energy transition around the world. So I think we just are lining up with some really great long-term funding opportunities. There's always going to be pauses along the way, and that's sort of natural and the way the world works. But in the long term, that funding seems to be lining up to be focused on those sort of 3 -- invest in those 3 mega trends.

Michael J. Feniger - BofA Securities, Research Division - Director

And Troy, just on the other side, some investors worry that you do have exposure to private. On the private side, there's a lot of discussion around commercial real estate and offices. Can you just kind of parse through your private exposure, what do you see as more at risk? What is more resilient type of work that you do for private customers? Just so we can kind of get a sense of when we look at that pie chart, what is more cyclical if we see more slowdown or tightening credit versus some other areas of your portfolio on the private side?

W. Troy Rudd - AECOM - CEO & Director

Yes. I'm going to -- again, I'll pass it on over to Lara.

Lara Poloni - AECOM - President

Yes. Thanks, Mike. Look, we -- over the last 3 years, in particular, have been actually diversifying away from commercial office and pivoting away to markets with more stable funding. So a good example of that is utilizing the great skills that we have in our building engineering business and redeploying that into the opportunities in logistics, freight distribution, aviation and even water and energy utilities. And the fact is we have halved the exposure of commercial real estate in our portfolio just over the last 5 years, which certainly makes that point in terms of that being very deliberate and disciplined action that we took well ahead of time.

Michael J. Feniger - BofA Securities, Research Division - Director

And just if I could squeeze one more in, just the AECOM Capital position. I think -- I assume you guys have done all the heavy lifting, and then we saw this decision. Are there still levers for you to pull as you guys have transformed this company to Professional Services? Are there still countries

to exit or areas that you would kind of deemphasize over others? It's kind of interesting you have your exposure in commercial real estate. Just thinking after this AECOM Capital decision, are there other things that we could kind of expect as you streamline the business further?

W. Troy Rudd - AECOM - CEO & Director

First, I'm -- just talk a little bit about AECOM Capital. We recognized a long time ago that AECOM Capital was not core to our Professional Services business. But the reality is that we had a number of commitments that were made sort of pre 2018, and we had to make sure that we continue to deliver on the commitments that had been made on behalf of AECOM Capital. And so we've gotten to a point where we're comfortable that we've delivered or are delivering on those commitments. And so at that point in time, we made the decision that we should be evaluating the options for that team.

And so if you think about sort of the things that we've done over the last 3 years, this was something that we had anticipated. But we realized that, again, sometimes you sort of have to be patient and work through things, and we've done that with respect to AECOM Capital. So -- and the other important part about AECOM Capital is, as we do exit it, we did have something in our guidance for it. And so we have removed AECOM Capital from our guidance, and it just is a testament to the continued strength of our Professional Services business, and we haven't adjusted guidance for that.

With respect to the things that we'll do across the business, we are always looking at opportunities to continue to invest in the business, but more importantly to make sure that we run it in a disciplined and an efficient way. At this point, there's nothing that I'll call out that we're going to be doing. But as always, we're constantly looking for opportunities to make sure that our Professional Service business maintains as the highest margin business in our industry and one that continues to grow organically. So we'll continue to do that, but there's nothing to call out at this point that would be on our agenda.

Operator

The next question goes to Jamie Cook of Credit Suisse.

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research and Analyst*

I guess my first question, with half of the year sort of already behind us, can you sort of talk to -- I understand you didn't change your guide, but do you feel more comfortable with sort of the high end or the low end or the levers to sort of get you there? And then, Troy, I guess my other question, I find it interesting as you're talking about pivoting to higher-margin return businesses and margins in backlog are higher, I'm wondering if you could just drill down on that a little more, if you want to quantify where margins are in backlog relative to history or what parts of the businesses are seeing higher margin opportunities?

W. Troy Rudd - AECOM - CEO & Director

Yes. Sorry, I'll let Gaur will take the first part, and I'll take the second part, Jamie, thanks for your question.

Gaurav Kapoor - AECOM - CFO

Yes. In regards to FY '23, you're right, our business Professional Services has been strong and they have over delivered. And to the point Troy just made earlier, even though we have removed AECOM Capital from our guidance and put it into non-core, there's no change in the range that we have provided. Effectively, it's factoring in the over-performance of that business. And the other thing I would say as we look forward to second half of the year is one thing last few years have taught is to be prudently conservative, and we will continue to operate accordingly in FY '23 as well.

W. Troy Rudd - AECOM - CEO & Director

And Jamie, with respect to the margins that I described, if we go back about 3 years, we've actually seen the margins in our backlog increase in sort of the 30% to 40% range. And so there's been a substantial improvement. And I'll just say that, that trajectory continues to improve. So we continue to see margin improvement. It may not be at exactly that same rate, but we certainly see margin improvement as we go forward. And again, I think a really important part of the quality of the backlog is the nature of the projects and the duration of the projects and the complexity of those projects. Because what we've learned in the past is that those are the ones that typically have more change in them as you go through those projects and they result in larger change orders.

And as I said, that actually contributes to margins in the future, because it's effectively work that you win without having to incur the business development costs or the time and after to go through a competitive process. So again, we feel better as we start to change the quality of our backlog, which means margins improve over time.

Operator

The next question goes to Andy Kaplowitz of Citigroup.

Andrew Alec Kaplowitz - Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head

Troy and Lara, you continue to have strong growth in your International markets, low teens. Maybe you can talk about the momentum in the overall markets? And is it a function of just the larger Program Management wins really driving that growth and the sustainability of that growth as you go out over the next couple of years?

Lara Poloni - AECOM - President

Yes, Andy. I'm happy to take that as a start. I think we have continued confidence in the -- particularly the infrastructure outlook for the International business. I think Troy mentioned earlier, there is a strong policy level commitment to infrastructure, whether it's the EU Green Deal industrial plan, the Canadian \$20 billion investment outside of the Americas. And then in Australia, a decade-long infrastructure outlook. And that's a great example of that. And we've been winning every significant large infrastructure transportation pursuit over the past year, and we see that robust outlook continuing in Australia.

Then when we turn to the Middle East, again, very strong double-digit growth around the giga projects. So I think from a -- at policy level and the sort of outlook that we are projecting, we see continued confidence and opportunity for improvement and sustaining that performance in the International segment of our business.

W. Troy Rudd - AECOM - CEO & Director

And I'll just add to that with respect to your question about Program Management. Program Management absolutely is contributing to our success, to our win rates for larger programs and projects, and certainly it's giving us more bats than we typically had in the past at those large long-term programs. So that's increasing the scope of the opportunities that we're pursuing. But again, also with the high win rate we're describing, we're having great -- that great success across the board, including Program Management. So that was an important decision we made a few years ago was to make sure that we focused on Program Management as well as design and advisory in terms of the capabilities of a professional services firm.

Andrew Alec Kaplowitz - Citigroup Inc., Research Division - MD and U.S. Industrial Sector Head

And Troy, like obviously, a good follow-up would be your margins in International are still in the mid-8s. I mean they're obviously a lot better than they used to be. But maybe the backlog visibility to get to that double-digit margin, because I think you've said in the past that you expect to be there next year as part of the \$4.75. So do you have that visibility as we sit here today to do that?

Gaurav Kapoor - AECOM - CFO

Andy, this is Gaur. I'll take that question. Simple answer is absolutely. We have the visibility to do that and full confidence to do it. Again, I'm going to borrow from what Troy said opening the call, that confidence is built into this competitive edge platform we've built. And when we talk specific to International, I think it's also a key thing to remind everybody, our results, which is the way we will always report, it still includes FX headwind year-over-year. So if you factor that in, we're delivering over 9% for the first half of the year. But irregardless, again, whatever the headwinds are, our job is to deliver to our commitments. And including the headwinds, we're fully confident that we're going to deliver double digits starting next year.

Lara Poloni - AECOM - President

Yes. And Andy, just to build on what Gaur said, I mean Troy mentioned the point earlier, a 30% increase in projects worth more than \$25 million gives us a longer-term confidence in terms of the profile of the work. And I think just to comment about Program Management, again, they are longer-term multiyear programs. And I think also in the U.K., I mean we look at the very deliberate action a few years ago to get on to long-term frameworks. All of those strategic and very deliberate actions, I think, give us confidence about the longer-term outlook.

Operator

The next question goes to Steven Fisher of UBS.

Steven Fisher - UBS Investment Bank, Research Division - Executive Director and Senior Analyst

So just on organic growth, it's been running at around -- organic growth has been running around 7% to 8% for a few quarters now. You've been talking about a lot of the big project and very good win rates. So can organic growth break out from this kind of 7%, 8%, 9% from here? And what would cause it to break out? And do you need it to break out in order to kind of hit your 2024 targets? And I'm thinking about can you get to double-digit levels?

W. Troy Rudd - AECOM - CEO & Director

Yes. So Steve, I guess the answer is we don't need it to break out to do that because, again, there's constant trade-off, which is growth versus margins. And so as we look forward, we're going to constantly be trying to find that right balance. Because even with the work that you win, you have to be selective to take on work that's going to have the right margins, because you can go out into the market and you can certainly find folks to work on it, but if you're not disciplined about your cost structure to run the business, you can find yourself having breakout growth, but not having breakout margins.

And so we're trying to constantly just have that discipline to find that right balance in how we're doing that. And again, as I said, that's been a real focus of us, is trying not to trade off growth for margins but to actually deliver both at the same time, investing in the future of the business. So I think we're sort of on track with where we expect it to be. Could we see that continue to improve? It's possible, but we're going to be focused on that trade-off and making sure that we're finding the right balance to deliver on improving the profit at a rate that exceeds our growth rate.

Steven Fisher - *UBS Investment Bank, Research Division - Executive Director and Senior Analyst*

Okay. That's helpful. And then just wanted to follow up on Michael Feniger's question on private markets. You mentioned, Lara, the point about diversifying. I guess how variable are the trends within those private markets? Can you talk about the trends you're seeing in hospitals or stadiums within that Hunt business, and just other buildings and how that's varying around the world in your private markets?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. So Steve, there are always markets that are going to be a little bit slower to slowing down. And I think everyone, right, was asking us about commercial office because we certainly are seeing urban centers, commercial office slow, and slow might actually be understating it in certain respects. However, we've been repositioning our business for the last number of years to recognize that there are also trends, certainly in facilities, where those same talents are needed. And so there are a lot of places, even within our other business lines.

So within transportation and within water, the talents of those people that have been focused on facilities; or even in our construction management business, are diversified away to deliver on those other kinds of projects. So for example, construction management, you've seen us have great success in aviation, and we're also having great success in a number of other government types of building projects in cities. So there certainly is ample opportunity, and we described that by our CM backlog. Actually, the pipeline has actually been improving. But certainly, the nature of it has been changing dramatically.

And in terms of our -- again, our buildings and places business program management and design capability, those people have been focused on doing other things by participating in public sector work or working on other private sector clients. And again, those trends we are seeing, and certainly the buildings industry, is moving towards aviation, it's moving towards residential, sports and convention centers and public offices. And then there's still a lot of work, again, in transportation and water that we're doing.

Operator

The next question goes to Michael Dudas of Vertical Research.

Michael Stephan Dudas - *Vertical Research Partners, LLC - Partner*

So as you look in your organic investment, as you continue to invest while growing the top line and growing the margins, what areas, whether it's markets, regions or technologies, are you looking to invest in today that's going to benefit 3 to 5 years out?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. So I don't -- so Mike, I don't think anything has changed from what we've been investing in. I think it's just a matter of us continuing to invest. And as we make those investments, you sort of -- what you've done becomes building blocks for the future. So first of all, it's investing in our people and teams. The base of the business is having the best people in the industry and investing in those people and in their development, whether it's leadership or technical development, and that won't change.

Next is actually looking at what we need to do to deliver our work more efficiently. And we do that in different ways by investing in Enterprise Capability centers, but also investing in the tools. And we keep talking about this as digital tools, but it's really using the tools that are available and that we are investing and are creating to drive efficiency in the business. And that just means creating more capacity for the existing professionals that we have to do other things that we believe are more high value.

And then the next trend that I think builds off that platform that you have to have, the standardization of how you deliver across each of your business lines. The next wave will be in artificial intelligence. And there is no question, we've been doing that for the last year, investing in it and using it in certain ways across our business. And that certainly is going to accelerate as we go forward. Because that's something that if you've put

in the underlying building blocks in place, it gives you a platform upon which you can actually use technology to -- again, to create capacity for what your people are doing. But most importantly, when you create that capacity, it creates time for them to do things that are of more value for their customers. And so those are the things that we have been investing in and we'll continue to invest in.

Operator

The next question goes to Adam Thalhimer of Thompson, Davis.

Adam Robert Thalhimer - *Thompson, Davis & Company, Inc., Research Division - Director of Research & Partner*

Can you frame the PFAS opportunity for us? How big are those projects?

Lara Poloni - *AECOM - President*

Yes, I'm happy to take that, Adam. We know there's certainly been a lot of momentum in the -- for example, the IJJA funding available for emerging contaminants such as PFAS. So we see that as a \$10 billion sort of opportunity. We're already the industry leader, have been working in the PFAS base for the past 20 years. So we think that our solutions, our strong technical capability will position us very well. And we continue to see great momentum, and we've had some good wins, not just in the U.S., but outside of the U.S. for both public and private sector clients.

So it's definitely, particularly once the minimum containment levels were ratified, we should start to see some real momentum in the PFAS space, particularly with the IJJA funding. But it's definitely a private sector opportunity as well around the world.

W. Troy Rudd - *AECOM - CEO & Director*

And just one thing to add to that is, I think, there might be a catalyst in the near future that will kind of sort of spark PFAS activity. And that's because the EPA announced some new drinking water regulations around PFAS. And so they're going through the process, the rulemaking process of review. And so when those regulations do become final, which we expect sometime this year. We think that, that will actually create a catalyst for more PFAS activity. As Lara said, there certainly is the funding in place, but we think that would be, again, an event catalyst for activity.

Adam Robert Thalhimer - *Thompson, Davis & Company, Inc., Research Division - Director of Research & Partner*

Great. Okay. And then I wanted to ask about the debt ceiling, and you've got better Washington contacts than me. And the question I'm getting is, is infrastructure funding locked in? Or is there some kind of a risk around federal infrastructure support here?

W. Troy Rudd - *AECOM - CEO & Director*

Well, I guess, first, I'll just make the comment that we probably have the same visibility that everybody has. But I think we hope -- we have a hopeful sense of optimism that sensible leaders negotiate and we expect that, that will happen and we'll get a successful outcome. So this will sort of -- this will pass us by. But even with the uncertainty, the short answer on IJJA funding is that it's very -- it's procedurally difficult and just politically impractical to claw back that funding. So we don't -- we just -- we don't see that being at risk.

And again, the other important part of this is that a lot of the funding and the appropriations were made or designated as emergency funding, which means that, ultimately, savings and emergency funding don't count towards your debt ceiling. So I think, again, there's just the procedurally and the practically difficult -- difficulties associated with peeling back or changing IJJA funding. And then again, we still -- there is bipartisan support and recognition that it's a place that we need to be investing, certainly here in the U.S.

Operator

We have no further questions. I will now hand back to Troy for any closing comments.

W. Troy Rudd - AECOM - CEO & Director

Right. Again, thank you, everybody, for joining us today. And thanks again for our teams delivering a great quarter, and we look forward to connecting with you next the next quarter. Have a good day.

Operator

Thank you. This now concludes today's call. Thank you so much for joining. You may now disconnect.

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