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AECOM (ACM)

Analyst Meeting - Bank of America

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MANAGEMENT DISCUSSION SECTION

Michael Feniger

Analyst, BofA Securities, Inc.

Good afternoon, everyone. I'm Michael Feniger, the Senior Engineering Analyst at Bank of America. I'm thrilled to welcome Drew Jeter and William Gabrielski of AECOM to this fireside discussion. I will pass the call off to Will, who will say a few words, and then Drew will spend 10 to 15 minutes on some slides that the company has put together on program management. If you need a hardcover or hard copy of the slides, please e-mail me at michael.feniger@bofa.com. Happy to send it over to you. Drew will then hand the call back to me for some Q&A.

And before I hand it off to Will, I'd just like to make a pitch for the Bank of America machinery engineering team. We'd appreciate your support in the II Survey. I believe Ross Gilardi and I have the broadest coverage across all our peers. Some only cover machinery. We cover machinery, engineering and waste. Your support would be appreciated. And also, we are hosting a PFAS event next week, next Tuesday, June 15, AECOM will be participating, Jacobs, along with panels with EPA administration, DoD deputies, litigation experts. It's going to be June 15, virtual. Reach out to me if you want details.

And with that being said, now over to you, Will.

William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

Yeah. Thank you, Mike. Thanks for hosting us today and we're pretty excited about the PFAS event in a few weeks as well. But I thought I would kick it off with a few brief comments on AECOM very briefly. I know everyone wants to hear Drew. But a lot has changed at AECOM. And if you haven't looked at us, in a few years, I think it's always helpful just to put out where we are today versus where we were.

So, today, we're a professional services company, nearly 50,000 people. And we deliver what we refer to and the industry refers to as knowledge-based services primarily for critical infrastructure projects. Our clients span US state and local, US federal, international governments, and large private sector clients. All clients that typically pay

their bills on time, so something we like. Our largest market is the US and it accounts for approximately half of our revenue and a much greater share of our profitability. And today, much different than the past, 90% of our revenue and profit is coming from just nine countries. So we've more narrowly focused our time and our growth investments.

I said we deliver knowledge-based services. Just in terms of what that means, and you can see a pie chart in our presentations 40% of our people are engineers, 15% consultants and planners, 10% scientists. We have program and project management specialists, expertise in digital consulting. These people have degrees, advanced degrees and are solving really the world's most complex infrastructure challenges. One thing we are not today is boots on the ground construction. And so, we have a much different risk profile, cash flow profile, and work makeup than we've had in the past but also than others in the industry have today. And the overwhelming majority of our work today is fixed fee or cost-plus design work, very low-risk profile, again, across 50,000-plus projects.

With the new strategy in place and a new management team in place, we've taken out a bunch of layers and costs over the past year or two. And to maximize the value of the transformation into lower risk and much higher margin, in fact, we're leading the industry on margins today, we've been actively buying our stock. Through the most recent earnings call, we bought back approximately 10% of our shares outstanding since September, and that's really the path we see going forward with the better use of our capital.

I would urge everyone, if you get a minute later, take a look at our ESG slide in the appendix or go to our ESG website. I know ESG is something everyone talks about today, but it really has been at the core of what we are and what we do since our founding. And if you look at our ranking, it's number one in environment, number one in transportation, number two in water, a leader in green design, a leader in green building.

Mike just mentioned PFAS, right, at the top of the list in terms of helping clients for the last two decades in front of what appears to be a big tsunami of funding that's coming to that market. Our clients are coming to us to help them deliver on their ESG initiatives and it really is day one in terms of figuring out how we're going to achieve these net-zero targets for our clients and align with all the different goals that are out there, and that shareholders and stakeholders are pressing companies to deliver on.

And as those projects get bigger and more complex, that's where program management comes in. And Drew is here today to talk about that. After a brief stint with the Hill International, 13 years before that, VP Program Management at another large company in the industry, has overseen more than \$300 billion of capital infrastructure, was somebody who we went out and sought pretty aggressively over the past six or nine months and Drew can tell you about that.

But Drew brings a wealth of experience and knowledge into the role. He's what our CEO, Troy Rudd, would refer to as one of our rockstars. We've set some bold ambitions jointly with Drew in terms of what we think is possible in program management and why AECOM is very well-suited to take that market and grow it multiple times over. And as I'd like to say, all the pressures are on Drew to achieve those audacious goals.

And with that, I'll turn it over to Drew to take you through it.

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

Fantastic. Thanks, Will. All right. So, slides – are the slides shown?

[Technical Difficulties] (00:05:50-00:06:21)

William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

Yeah, Drew. Why don't you kick it off and Mike, figure out how to put those slides up while Drew is going?

Michael Feniger

Analyst, BofA Securities, Inc.

Yeah.

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

Sure. Well, it's a pleasure to be with you and to talk with you all about program management. It's something that I am extremely passionate about. It is a powerful tool. I think it's often misunderstood. And so, hopefully, we'll have a chance to kind of give you a glimpse into how we see that here in AECOM and why we think it's such a powerful offering to our clients and to society, and why it will also, in the process, benefit AECOM.

Our clients, our infrastructure owners today are under an incredible amount of pressure. You think about not just the pandemic that has put a lot of infrastructure improvements behind the power curve in delays and – that doesn't mean those requirements have gone away. It just means that they're kind of stacking up and still needing to be done. You've got then, post-COVID, discussions about what sort of stimulus will come out. You've got different sorts of kind of crises, like here at the US, challenges at our border or other kind of new world dynamics that are putting big pressure on public and private sector clients.

Other market forces that they are dealing with as they try to make responsible decisions include looking for better models for how to access the supply chain, how to get better performance and results out of the construction supply chain. There are more projects – large projects and programs that failed to meet budget and schedule, then succeed. And so, clients are – before they spend that hard-earned dollar or that public dollar, are trying to make sure that they're getting the best bang for the buck. And so, there's an increased appetite for risk sharing, for public/private partnerships, for different types of other partnerships to kind of seek to get the best out of the supply chain. All of that being done in a very visible, public world stage environment.

There continues to be rapid increasing pressures in urbanization and stressing our urban footprint and infrastructure in order to keep up with those demands. And those demands are not just in numbers of people that are continuing to consolidate in urban centers, but also in what the expectations are for our clients' customer base. And so, an expectation that more will be done digitally, an expectation that each of these organizations will be responsible and demonstrate how they are taking very seriously environment, social, governance, ESG sorts of outcomes.

And so, I think back to an article that was written in ENR last June, where they were kind of listing the top 50 program management firms, and AECOM, of course, listed number one in there. And they mentioned that while the pandemic has hit construction and other parts of the industry hard and delayed a lot of projects and contracts, that this particular group, this group being program managers are needed more than ever because owners are saying, now more than ever, what do I do now and how best do I do.

And so, it's a target-rich environment for us in the program management business. As clients have big headaches, big challenges and programs, and program management is an outstanding solution, approach, to

meeting those complex sets of needs. So, I understand that the slides are showing. I'm just not seeing. So, if we can move to the slide entitled Program Management addresses our clients' emerging needs.

So, project management – some folks think program management is just kind of project management at a larger scale. But program management is actually almost fundamentally different than project management. Everybody knows what a project is. It's a specific endeavor, normally has some kind of schedule, some sort of a budget. And when you're successful in delivering that project, you get that thing delivered for that price at that time. And this is not just construction. You could think of, let's say, a city library that's putting in new shelves or something to hold their books and they have a new project to kind of put in the new shelves. Right? And so, everybody's got projects. You probably have honey-do projects at home or around the house to kind of get done.

When it comes to a program, a program is a collection of projects. It's something much bigger than a single project. And the art then of program management is not just being able to successfully manage the individual projects within that large program, but it's in managing all those moving parts in a coordinated way so that the way that you apply those resources, your time, your money, your human resources, your information is kind of optimized to get the best not only investment across those moving parts, but to get the right outcome. Because the reason that you spend that money, the reason that a city will redo its water system or regional transit authority will upgrade or expand its rail system or build a new airport or a university upgrade the facilities across its campus, it's not because they like to do construction, it's because this is an incredibly important investment. There's some sort of a business case that's probably taken them years to get the political will, the financial means in place to deliver some important outcome for that owner that kind of fundamentally changes and improves their place in what they do for a living.

And so, you can see here on this slide that that's kind of what is intended to – what's referred to there as a holistic approach is that you're looking at kind of the whole ball of wax, you're looking at what do those projects have in common, what are very different about those projects, how do we best sequence those projects, how do you manage risk across those projects and change. And so, it's something that is part science, is part art form. And those practitioners of program management are incredibly gifted problem solvers in addition to, in our industry, being strong engineers, builders, architects, because that's the kind of programs that we're involved in.

It's important for us to be outcome-focused, to not get distracted by just burrowing down into the projects, which is how I would suggest most program management in the industry right now has done, is if you win a contract as a program manager, the focus of the owner and the focus of that consultant tends to drive down into the details of managing those projects because that's where the comfort zone is.

But world-class program management focuses on that outcome. And that's important, because programs tend to take 3, 5, 10 years to complete and it's important to be able to kind of keep an eye on the prize as times change, as people change, as dynamics change during – over the course of those long delivery schedules.

And it's also an opportunity then to manage those benefits, like ESG, to say in addition to managing the infrastructure delivery on time and on budget, we can also manage the accomplishment of benefits like environmental improvements, like social – attaining social goals or equity goals, and manage those just like we manage the infrastructure projects.

All of that takes a lot of integration of moving parts, a lot of different stakeholders to collaborate with who have different agendas, as well as managing the entire supply chain that needs to bring their best to that program to achieve the kind of outcomes that you're looking for.

So if we go to the next slide, why AECOM program management and why now? AECOM has been a leader in the program management business for a while. And as I mentioned, in last year's Engineering News-Record Top 50, AECOM was listed number one. But we're not satisfied with that ranking. We want to make sure that we are the firm of choice for our largest clients who have these large infrastructure challenges that need solutions.

And we believe that we have significant competitive advantage in our global reach, our scale, our incredible depth and technical expertise. And that's not just in design, which we're most famous for, but even in construction management, we – there's AECOM Capital, and all of the different arms of AECOM can be brought to bear to help a client achieve their outcomes in an optimal form.

And so by elevating the importance of program management, if you've heard our CEO, Troy Rudd, talk about AECOM's priorities lately, then you've heard him talk about program management and that it is one of the focus areas for our entire firm for how we can advise and help our clients deliver those outcomes; how in the process we will, we believe, take additional market share and expand our market; and the investments that we're making internally, not just in – focusing on the pipeline but as well as in talent and resources is already underway.

Next slide. So program management is then a fundamental part of our growth strategy. In this slide, hopefully, that you're seeing there where you see day one, day two, day three, is a slide I borrowed from our CEO who talked about, in our Investor Days gathering back in February, us shifting from being just a day three firm to being a day one and a day two firm. Day three, him describing as are the predominance of our focus up till now on executing in excellent fashion, our design and construction projects.

But much earlier than that, someone is advising our clients on how to even approach packaging their capital programs for delivery. And that is something that is – it's something that we're going to be much more deliberate in harnessing our deep knowledge, domain knowledge, and expertise and experience that we've had delivering programs all over the world in all different market sectors to advise our clients early on. And then day two in helping them to set up that program to deliver those projects in day three in an excellent fashion.

Next slide, please. The approach to doing this. Our strategy for kind of making this shift in this focus in program management is pretty simple honestly. It's in as I mentioned engaging early with our clients. We've got an excellent portfolio and reputation with our clients all over the world. And so we're going to engage more deliberately and earlier with them to advise them on how best to be successful. We're already, as I mentioned, investing in expanding our expertise. We've made a number of key hires just as I joined about four months ago and have met many more in the pipeline to come onboard.

And then it's to kind of take what we've learned as an organization over the last few decades of delivering programs successfully, and to bring that together into a systematic repeatable fashion, kind of cutting across what have kind of been regional stovepipes to develop and field consistently an AECOM way of delivering program management that leans on best practice in the industry, does lean heavily on digital tools in order to undergird the delivery of those infrastructure solutions.

Last slide I've got is just to highlight for you a couple of key program management wins we've had in the US here. Just in the last few months, a couple of key clients in some different sectors, New Jersey Turnpike widening program that we've just started a couple of months ago. It's a very exciting program for the Turnpike Authority and an even larger program for Dallas Integrated School District's, bond program across all of their more than 200 campuses make improvements on behalf of 150,000 students in the Greater Dallas area.

So I didn't want to kill you with PowerPoint. So, we will stop the slides at this point. And I will turn it back over to Michael to facilitate the Q&A session.

QUESTION AND ANSWER SECTION

Michael Feniger

Analyst, BofA Securities, Inc.

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Perfect. Thanks, Drew. Appreciate those slides and leaving more time for us to kind of dig a little deeper. So, let's start with the basic question. You had a slide on this about why now. We're obviously, hearing more about program management \$400 million NSR business. You guys think you can grow 3 to 4 times. Why was this not a focus in the past? Did AECOM not have the right personnel or strategy or is this market driven? Is the projects getting bigger, more complex? Or the opportunity now is much bigger in program management?

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Very good question. Obviously, AECOM is a very large and very capable firm both horizontally and vertically integrated. And so, I think not having been here prior to the end of January of last year, what I've found is that we've been doing a good job in program management. But it hasn't been the priority that it is today for our CEO.

And AECOM in its history and getting to the scale that it is now has done so predominantly in kind of regional, not just legal entities, but kind of some refer to it's actually a stovepipes. And seeing lots of great success project by project, program by program, region by region, but not the kind of emphasis that we currently have under our current CEO of globally connecting this firm to really be able to bring AECOM's best to every single strategic client on every big job regardless of where that is.

And so, one of the things that really attracted me to join AECOM was hearing him both articulate his vision for AECOM kind of pivoting from the success that it's had, to kind of the mantra that we all talk about daily here at AECOM now, which is to think and act globally. And then reorganizing the firm into, in addition to the seven regions, five global business lines that cut across all of those regions.

And those are in water, transportation, buildings and places, environment, and the fifth is program management. And so, in those market sectors, to include program management, we're harnessing then the best across the entire firm into a much more deliberately interconnected fashion to be able to deliver in a much more powerful way. And so, it's not something that has been that high of a priority in previous regimes.

And I think Troy's model of how to approach doing that is very compelling. It definitely got my attention. And it's, I believe, the first time that a firm of our size and our marketplace has elevated program management to a global business line with a P&L that will have that kind of performance measurement and focus going forward.

Michael Feniger

Analyst, BofA Securities, Inc.

Q

And, Drew, just the second part of my question, do you feel like – is the pie bigger now for program management? Is the industry changing in a way that projects are getting more complex? You touched on ESG. Is program management today and the opportunity, is it different than what it was maybe last cycle?

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Sure. Yes. I think it's different. I think you could take any decade and look at statistics on what kind of the backlog of infrastructure requirements are, and it's always kind of been in the trillions. And so, it's not that there's been a lack of a marketplace. But I do think that as I've shared in kind of one of his earlier slides with the kind of forces that are coming to bear on clients that have significant investments to make, and these are, in the billions most of them, that there is a greater inclination for clients to not just try to dole out those requirements out project by project, which is kind of in a comfort zone for some clients, especially in the public sector in the past. They realized that they've either got to deliver fast. One of these kind of stimulus bills hits and there's lots of pressure on delivering big and delivering fast, that will be hard to do project by project and kind of demands a programmatic approach.

What I talked about as far as urbanization or some of these other models of kind of bringing in the supply chain to deliver in a way that is better than it's been in the past, these are all things that tend to really prop up, at least a greater interest in programmatic solutions.

Michael Feniger

Analyst, BofA Securities, Inc.

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That makes sense. And look, it seems like some of these projects, can be over multiple year periods. So, Drew, how is the pipeline looking today? There was a big fear from investors a year ago with COVID wreaking havoc on budgets, potentially postponing projects. Now, there's optimism with higher tax collection, stimulus measures, potentially even more on the way. What are you hearing on the ground from customers right now? Are they in a wait-and-see mode trying to see what Biden and the Congress enact or is there still a healthy bidding process out there? Any color would be helpful.

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Sure. I think it's a mixture of the two. And so, you see clients that – especially in the private sector who have not slowed down at all and matter of fact who have bigger requirements, especially those in large retail and large logistics, and things that have actually been kind of fueled by kind of the shifts that society has made in the pandemic era, that have not slowed down at all.

In the public sector, no question, there was a delay last year and bids that were pushed to the right. But a real range of the clients even in the public sector who kind of realized that this was an opportunity for getting work done, while it was probably cheaper than it'll be when there's going to be a shortage of contractors to build all the things that need to be built when there's much more stimulus money in the marketplace, or to take advantage of decreased passenger flow at things like airports and on rail systems, that it's a great time to get work done when ridership is down.

And we've actually seen some that have been bold enough to move forward in that space. And then kind of all of them, even those who have been more reluctant and kind of been in a little bit more of a let's see if more money breaks have been trying to kind of advertise that those infrastructure requirements are right around the corner, and so not wanting the marketplace to kind of think that they've kind of turned the spigot off and kind of start to shut down or demobilize or lose workforce.

And so you saw kind of symbolic moves, like in the UK last year, High Speed Two Limited awarded, I think it was, gosh, \$10 billion, \$15 billion worth of heavy construction jobs in a single week just to make sure that the UK

construction industry was kind of bolstered by the fact that the government was still moving forward with big plans for its biggest jobs.

And so a real range, they're not all kind of in one spot but they're – I think pipeline-wise, is a lot to be excited about today and there's great anticipation about what's waiting right around the corner.

William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

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Yeah. And I'll just add to that Mike, Drew, just what we – what you saw in our Q2 results, the design backlog growing mid-single digits, the growth that we talked about in our pipeline in the Americas being up double digits, and really what Drew was commenting on, we were talking about as what we're seeing in terms of bids waiting to go and as bids now starting to go in within our pipeline. And we've seen double-digit growth there both in the US and internationally.

And then, of course, our capture rate, as we define it, which is really the share of dollars we're winning as a percentage of the dollars we're bidding, has also increased quite nicely over the past year. So we feel pretty good about kind of where we are in that inflection, hopefully coming over the next few quarters as that public sector money hits the market and the private sector gains a little bit more confidence in the recovery.

Michael Feniger

Analyst, BofA Securities, Inc.

Q

Fair enough. And thanks, Will, for giving us the – those numbers around the design backlog growing mid-single digits. And I guess that leads to my next question. When AECOM bids on a project, there's program management and then there's your design business. Are these separate bidding processes? Can AECOM's leading position in project design translate into more program management work or vice versa?

And how should we think about, Drew, if you have a valuable project, what is the scope for design? I've always thought it was like 5% of the value of project. How much would be program management? How should investors kind of think about that?

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Okay. Good question. So, if you look at a typical project life cycle, you go through a series of steps from planning through pre-design, design, then procurement of construction, and then eventually commissioning and into operations. And program management is intended to be something that provides its greatest strength across the entire life cycle.

Normally, bidding, as far as bidding goes, clients more often than not will bid design work separately from a program management contract. But your question about whether or not our industry-leading position in design can benefit us in program management and vice versa, it's – the answer is absolutely, the kinds of – the kind of trust that we build with our clients in being their trusted adviser and executing designs in an excellent fashion, and even prior to that, AECOM does a great amount of work in master planning and project planning. And so helping clients with those early stages of developing projects definitely spills over into the trust factor when it comes to who you're going to bring on board to sit with you kind of in your seat as the owner to protect your interests through that life cycle and oversee planning, design, construction and commissioning.

There are some clients who were very comfortable with their program management firm actually performing design as a part of program management services, as well as construction management during the construction phase. There are other clients that prefer to keep things a little bit more separate than that, and so you sometimes then have to make a choice whether or not you're going to kind of be a client's designer or whether or not you're going to be their program manager.

Because some clients would not prefer to have – would prefer to have separate entities do those two different services, but there are plenty that there's lots of opportunity to do both.

Michael Feniger

Analyst, BofA Securities, Inc.

[ph] Yeah (00:33:50).

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Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

And as far as percentages goes, program management fees typically will run between 5% and 15% of total construction value. And so, it can be about the size of the design fee, but often is a lot more because of the fact that you're involved across a much longer period of time than just designing a specific project in that capital group.

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Michael Feniger

Analyst, BofA Securities, Inc.

Okay. So, there's a chance, Drew, at certain projects that based on just the design fee and program management fee, AECOM could do potentially 20% of the value of the project without having to take on that construction risk?

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Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

Absolutely.

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William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

Yeah. It's increasing our addressable market, for sure, Mike.

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Michael Feniger

Analyst, BofA Securities, Inc.

Okay. Great. And I guess we got to get to a topic, Drew, is that there is a viewpoint in the market that program management is lower margin. It's lower margin, considered low value-add service. You've been in the industry for a long time, working for different players, running different teams. Is this a misconception? Maybe just to parse it out more, help us understand what is kind of the margin profile for a program management stand-alone business? What are the free cash flow characteristics of this business?

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William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

Yeah. I'll kick that off and let Drew tell you about the distinction and quality of that type of work. But in terms of margin profile, we've said at or better than what we're currently doing in our professional services business. In terms of cash flow profile, again, clients that are running large programs over multiple years or quarters or, I guess, in some instances, longer than that pay their bills on time. So, we feel that this is very much in the sweet

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spot of what we talk about as higher margin, high-returning, low-risk profile, very highly cash generative work that we do.

In terms of – again, I'll let Drew talk about the quality of the work and the capabilities that go into even being able to do the type of work that we do. But there really aren't any great public ways to evaluate the margin profile. So, if you're evaluating this based on comps that are out there, you'd have to keep in mind that stand-alone public companies that are only doing one thing or in program management primarily don't have the scale we have and the ability to handle the public company cost structure in a manner and have it spread across the larger organization like we do. So, we think there's real advantages of being in this business with scale in terms of the value it's going to create for the shareholder. But Drew is much better positioned to give you the perspectives on just how sophisticated the work is to manage a program.

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Yeah. Happy to talk to that. So, my experience is, absolutely, that program management work in general is much higher margin work than in design work, than construction work. It is – as I mentioned earlier on, the practitioners of program management are pretty high-order problem solvers in order to deal with the complexities of delivering a large, complex capital program.

Kind of going back to kind of some of the material I presented earlier, if you think about these capital programs and the fact that this is a collection of multiple projects and the sum total of those projects is normally in the billions of dollars, critically important to our clients and at a different level than individual projects that are within that program. When you're doing a design project or doing consulting on a project, you could typically be working for a project manager or maybe the director, the Department of Engineering Head in a particular organization.

My experience as a leader in the program management space is normally, when I'm going to meet with a client or talk with them about a capital program and how to package that, how to deliver that, or I'm their program manager, I'm normally meeting with the CEO of the organization, the executive director of the organization, the mayor, the county commissioners, maybe members of the board of directors because this investment that they're making, as I mentioned, is a very large scale. It's normally the biggest thing they've got going on. And there's normally some very significant business case and some very significant promise that's been tied to why this level of investment is required.

And so, if you think back to that slide that Troy developed that showed us going from day one to – from a day three to a day one firm, you think about the kinds of folks that might come to mind that operate predominantly on that day one space. And you think about kind of management consulting firms, the big four and those sorts of folks. You probably wouldn't think about them as being kind of providing low-margin services. The kind of advice that they're giving is extremely important, very close to the customer, and very much at the front end of a series of thousands of decisions that will be made as a result of the decisions made up front.

And so, it really is kind of moving up the food chain and as a result, the margin associated with program management work is normally higher than other types of work that can be more commoditized, and in this day and age, can be turned over more to AI and machine learning in order to produce certain aspects of designs or cost estimates or kind of tactical details within projects.

Michael Feniger

Analyst, BofA Securities, Inc.

Q

That's great, Drew. I mean, maybe just to piggyback off that, you mentioned you're competing in this area, you're moving up closer to the customer, management consulting firms, big four. I guess, how does AECOM kind of compete and take share? I mean, are you going – is the advantage for AECOM versus single line business managers, is technology and the scope of these projects changing the way program management is, that gives you guys an edge up being a design firm? Is it still very fragmented space or is it owned – is the competition really still with these big consulting firms that we all know? What does the competitive dynamic kind of look like and space look like here?

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Well, without getting into a lot of details of how we think we'll do this, I will tell you that I think that our – some of our advantages are that we have people who have been there, done that, and delivered these large-scale programs, that can talk to an owner and advise them upfront on day one. Not just saying here is something that I kind of learned in my MBA course, but here's something that I've delivered. And I delivered it here and here's how I did it here, here's how it was done there. And so, bring some very credible experienced advice to infrastructure owners early on. I've been very pleased since I've joined AECOM these last several months to learn the amount of advisory that we actually have embedded in the company that, again, there's an opportunity to bring that together and harness that into a globally connected offering.

And you mentioned digital. AECOM has made a commitment to how to approach digital solutions across this firm in a way that I've not seen before in the industry. It's been very impressive. We just hired our new digital leader within the program management team. An individual I worked with previously in that dynamic. And she bragged to me about what she's found since joining AECOM and what that will mean to her in being able to help us bring digital solutions in the program management space because of our deliberate, consistent approach across the firm in digital. And I understand there's a previous fireside chat where our digital organization was kind of featured.

Michael Feniger

Analyst, BofA Securities, Inc.

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Understood. And, Drew, I got to ask you about – and Will about inflation. Clearly, today, there're some concerns around it. It's coming up more and more. We're hearing from our end there is a war of talent in the engineering area. There's been a lot more M&A. A lot of private equity running around in the space. Are you seeing inflation in your business, Drew? And how do you protect the program management margins from inflation? How do we think of that in terms of contracts or bidding structure?

William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

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Yeah. I'll start if you don't mind, Drew, and pass it over to you. First, specific on program management, but, yeah, I've learned about inflation in college, so this will be a new experience for many of us who haven't seen it in a few decades. But no, in terms of hiring, first of all, and since Troy talks about and wanting to make us really the place you want to build your career in the industry, and I'm sure Drew can attest to this, there's never not a war for top talent in just about any professional services business, right?

The rainmakers, the folks you know are going to bring business, bring relationships, right, those people are always sought-after. So, for us, having the global scale to be able to go out and attract those people, you just heard Drew talked about why he came here, and if Drew is successful and obviously we think he will be, the impressive people will follow him, those top people because they know that teams matter and culture matters.

We also are pretty attractive in terms of the types of work. And this is true for a handful of the larger firms, right, being able to have – go after the best, most complex, most interesting projects wherever they may be at the cutting edge, to be able to give people the right tools, to do things better than the industry can't do, to be able to access a global workforce and to be able to access global insights and ways to deliver work is a big advantage as well.

And then, of course, with what Drew was talking about here, building these longer engagements with clients, so it's not just to sign at one frictional costs for three weeks, assignment two, frictional costs, or being able to keep people engaged on purpose-driven type work, which is really where we're focused. And being able to create that visibility for people in their careers is very important as well.

And then, lastly, in terms of contracting, keep in mind, again, we are primarily cost-plus design work here in the Americas globally, fixed price design work along with cost-plus design work, by typically building escalators into our contracts on the labor side. So, historically, when there has been bouts of inflation or period of rising costs, we are able to manage that for the most part without having any degradation to the margins. But Drew, I'll let you talk about how you're going to bring all the best people over.

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Yeah. So, I think our way of making sure to inflation-proof our program management offering really will be through our digital solutions is we are seeing a number of ways to streamline processes, and again, we're talking about investing resources in a program across multiple projects in over a specific – pretty significant period of time. And so, there are a lot of opportunities, if you can tighten up some of those processes, if you can make them much more consistent and repeatable, digitally performed where you can save time and money in our offering. So, we think we'll be bringing that to market at the same time that potentially externally, there are some inflationary pressures in other aspects of the business.

As far as talent goes, I've mentioned a couple times kind of program management practitioners. And the folks who do this for a living, the folks who love delivering the biggest jobs in the world and are good at it, they are drawn to the most exciting jobs and the places that will allow them to really use that skill set. And so, I will tell you that when I joined on the 25th of January, I was a team of one. I didn't have anybody working for me or reporting to me. And at this month now, we'll be in a couple weeks here at 15 folks. They're all rockstars. 60% of them I've hired from externally. Many of them, folks who I've known and worked with before. And I will tell you that I receive calls and texts and e-mails, multiple every week, from top talent, very interested in talking to us about what we're doing here now.

It's been noticed in the marketplace in the program management market that we're talking about it differently, that we're doing some things differently, that we're bringing on board folks who are well-known, and that really kind of generates a lot of excitement as well as horsepower that will be our greatest way of making sure that we hold on to and continue to attract top talent.

Michael Feniger

Analyst, BofA Securities, Inc.

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That makes sense. Are you seeing – we talk about the pipeline that it's exciting. Are you though seeing, Drew, contract turns, bidding prices that maybe leave you a little weary saying we've got to walk away from some of this, that maybe it's getting too competitive and wait for more of the funding to come down and see that inflection before the pipeline builds back up? Is going to convert these projects, is there kind of a fight as some of these

other maybe smaller players have depleted backlogs and they're trying to rebuild those? I'm curious if you're seeing any of those dynamics kind of playing out at the early stages of hopefully a long cycle.

William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

I mean I can give you a broad perspective...

A

Michael Feniger

Analyst, BofA Securities, Inc.

Sure.

Q

William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

...which is there's always competition. And the last year and a few months have been tough on a lot of folks in the industry. And over that period, we continue to expand our margins and projected – like we saw in the first half of this year, we could see that continued margin expansion this year. So, competition is not new for the industry at all, and we've been successful in continuing to win work and expand our margins along the way.

A

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

Yeah, it is a very competitive market. However, the group of firms that does world-class program management is a fairly limited set of players. It's not 100 firms. And so, we really think that we can leverage the outstanding brand and reputation in the relationships that AECOM already has in the marketplace with clients for the quality of the work that we do. And then, by engaging earlier in talking with them much earlier about how they approach their infrastructure challenges is to help them to set those up. We have no problems competing for the work where we need to. There are other places where we think that early advisory will lead into work that we may not have to compete for.

A

But we're very excited about – and optimistic that although there is plenty of grind in the marketplace when it comes to some sorts of work, that the kind of work that we're seeking in our program management vision, that higher order work, those kind of big sexy jobs are ones that we will have the opportunity to help shape and also that we'll compete very well.

Michael Feniger

Analyst, BofA Securities, Inc.

Makes sense, Drew. And can you – you mentioned helping customers as they approach these infrastructure challenges engaging early on. Can you talk about you guys recently announced as public that you were selected for program management for the Dallas school district's bond program? Can you just walk through this project a little bit? What are the exact services you're providing there? How long did it take you to convert this project? And what's the funding mechanism for this project, is it municipal bonds? Is it state taxes that are funding it? Is it from the federal government, some of the stimulus measures that have come in? Any kind of help you can give us there could provide us a better context of this.

Q

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Yes. Well, this client is a client that we've worked – kind of talked about our relationships. This is a client that we've had the privilege of working for over the last, really, couple of decades. And so, we've had significant contracts supporting the Dallas Independent School District. And as I mentioned, we don't mind re-competing when we have to. They're the second largest public school district in Texas. And this is a client who we're very proud, has made it a very clear part of their mission to serve well the underserved portions of the population. And so, really aligns with our ESG values and strategies.

And so, this program management contract really is very broad and can assist them with everything across the project lifecycle, from planning through design management, construction management, and in both new construction as well as renovations to existing campuses. If you kind of think about what our schools have been through in this last year trying to manage education systems in this pandemic and what some of the impacts then are to how they may want schools or classrooms to be laid out differently, lunchrooms to be fashioned differently.

So, there's kind of an additional layer of challenges that a client like DISD has got that having us on board as their program manager gives them a lot of flexibility to kind of refocus what maybe they thought they were going to be doing with this particular phase of a contract a couple years ago as they were getting ready to come to market with it, to us being able to pivot with them and bring our expertise on board to kind of help adapt what the designs look like, and as well as then how the construction is doing.

Michael Feniger

Analyst, BofA Securities, Inc.

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And Drew, maybe just to wrap this up, is the opportunity bigger in the US or international? Because you talked about kind of having more of a global push on this. Are you observing any differences really in the bidding pipeline or the outlook when we think about the US or you mentioned the UK or the international market?

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

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Yeah. So, the markets are – they each have their own personality in the program management space, kind of region by region. And that's one of the great things about my team now being this kind of global team, kind of reaching across all seven regions, is we're able to kind of be sensitive to and work with our regional teams with the unique aspects of the marketplace in that region, as well as kind of bring expertise from any place in the globe to kind of help answer the mail that – the US market is very competitive, but is very large. A lot of opportunities that go all the way down to this kind of smaller municipal sorts of opportunities of maybe hundreds of millions versus billions, up to jobs much larger.

In the Middle East, right now, we're extremely busy and are being asked to take on jobs by key clients, especially in the Kingdom of Saudi Arabia, where the aspirations are huge. There are \$20 billion giga-cities and larger where they're asking us to kind of – to put our hat in the ring to be the program manager of things that will definitely be on magazine covers as those jobs are delivered. The UK is a very mature market. And we have some great opportunities there. Australia and New Zealand has got a lot of infrastructure requirements in that region as well as Asia.

And so, yeah, we're seeing opportunities pretty much everywhere, but each market is a little bit different in kind of what that kind of client base is looking for, what the culture is. And now that we're kind of building this global organization that's interconnected, we're able to kind of adapt our offering to each market.

Michael Feniger

Analyst, BofA Securities, Inc.

Perfect. Well, we're at the hour. I want to thank Will and Drew for their time and for their presentation. If anyone wants the slides, please reach out to me or Will, happy to send that over to you. If anyone has any more questions on AECOM or the program management business, please feel free to reach out to me or Will. And I'll put you guys in touch.

Thanks again for everybody and have a good week. Thanks, guys. Yeah.

Drew Jeter

Executive Vice President & Chief Executive-Global Program Management, AECOM

Thanks, Michael. Be safe.

William J. Gabrielski

Senior Vice President, Finance, Treasurer & Investor Relations, AECOM

Thank you, everybody.

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