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PRESENTATION

Operator

Good morning, and welcome to the AECOM Second Quarter 2019 Earnings Conference Call. I would like to inform all participants that this call is being recorded at the request of AECOM. This broadcast is the copyrighted property of AECOM. Any rebroadcast of this information in whole or part without 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 like to turn the call over to Will Gabrielski, Vice President, Investor Relation.

Will Gabrielski ***AECOM - VP of IR***

Thank you, operator. I would like to direct your attention to the safe harbor statement on 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 take no obligation to update our forward-looking statements. We are using non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation, which is posted on our website. Please note that all percentages refer to year-over-year progress except as noted.

Our discussion of earnings result and guidance refers to adjusted financial metrics as defined and reconciled in today's earnings press release filed with the SEC and the presentation accompanying this call. Today's discussion of organic growth is on a year-over-year and constant currency basis and is adjusted to exclude impacts of noncore businesses.

Beginning today's presentation is Mike Burke, AECOM's Chairman and Chief Executive Officer. Mike?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Thank you, Will. Welcome, everyone. Joining me today are Troy Rudd, our Chief Financial Officer; and Randy Wotring, our Chief Operating Officer. I will begin with a discussion of AECOM's results and discuss the trends across our business. I will also provide an update on our strategic actions to enhance shareholder value. Then Troy will review our financial performance and outlook in greater detail before turning the call over for a question-and-answer session.

Please turn to Slide 3. We entered 2019 with substantial momentum in our business and across our markets. From this position of strength, we initiated a series of strategic actions to maximize the profitability of our record backlog and to deliver both on our guidance of 12% adjusted EBITDA growth this year and on our long-term financial objectives. I'm pleased to report that we are executing these initiatives with precision as evidenced by our 16% adjusted EBITDA growth in the first half of the year, 17% EBITDA growth in the second quarter, $18 billion of year-to-date wins and $8 billion of wins in the second quarter. We ended the second quarter with another new record for backlog at $61 billion.

Across our business, a number of important trends are becoming apparent. First, project execution across our portfolio is strong. Second, the substantial $225 million restructuring we have executed has created a more profitable company, which the margin improvement we delivered in the DCS segment this quarter demonstrated. Third and most importantly, we have achieved all these successes while maintaining a market-leading position and continuing to win work at a record pace.

Turning to our second quarter results. We delivered adjusted EBITDA of $235 million, which was ahead of our expectations. Organic revenue grew by 7% and included strong contributions across the business led by our higher margin Management Services and Americas design business, where revenue increased by 14% and 10%, respectively.

Backlog increased by 22%, and wins have now exceeded $6 billion for 6 consecutive quarters. Wins included the 18-month extension for our work at the Savannah River site for the Department of Energy, a 1.2 book-to-burn ratio in the Americas design business and continued strength in the building construction business.

Free cash flow was $85 million in the quarter. As Troy will discuss in greater detail, our working capital position to support the storm recovery work in the U.S. Virgin Islands is now over $200 million, which has negatively impacted our cash flow in the first half of the year. Adjusted for this impact, our cash flow would have matched our expectations. Importantly, we are confident this is only a timing issue, and we expect collections will accelerate in the second half of the year.

Please turn to Slide 4. I want to take a moment to provide an update on the strategic actions we have taken and continue to take to improve profitability and drive shareholder value. We have taken substantially all of the actions necessary to achieve our expected $225 million of annual G&A savings. As a result, we are on track to achieve DCS adjusted operating margins of at least 7% this year and a more than 7.5% margin in fiscal 2020. This momentum, which is evident in the increase in DCS margins, increases the profitability inherent in our record backlog that makes all future wins more profitable.

In addition, we are no longer pursuing at-risk construction opportunities internationally, and we are accelerating the review of our entire at-risk construction portfolio. We hope to be in a position to provide updates on our progress in the second half of the year.

Please turn to Slide 5. The steps we have taken and continue to take position us to create substantial long-term value for our investors. Upon completion, we will have a higher margin and lower risk professional services focused business that is operating at markets where our competitive advantages are greatest. We will maintain the market-leading franchises that each deliver strong cash flow, have a high ROIC and provide significant long-term visibility and backlog.

To fully capitalize on this value-creation opportunity, we executed additional share repurchase in the second quarter under the existing $1 billion board authorization. In total, we have repurchased $210 million of shares under this plan thus far, and we expect to be in the market in the second half of the year buying stock. We would expect to expand this authorization once the current program is completed.

Please turn to Slide 6 for a discussion of our business trends. Beginning in the DCS segment in the Americas. Organic revenue increased by 10% in the second quarter and has grown by double digits for 4 consecutive quarters. We are benefiting from strength in transportation as well as continued storm recovery activity.

In the transportation market, our largest market in the Americas, clients continue to develop new funding mechanisms to meet demand. Recently, New York became the first city in the U.S. to announce plans to implement congestion pricing, which is expected to fund a substantial portion of the identified $50 billion of New York's MTAs planned spending over the next 5 years. The New York MTA is one of our largest domestic transportation clients, and we are positioned to benefit.

Several other U.S. cities are exploring congestion pricing. Over time, with the continued population growth expected in major metros putting a strain on existing infrastructure assets, we expect more U.S. cities to turn to alternative funding sources.

Trends in Canada are similarly strong, and revenue increased by double digits. Long-term growth expectations in this market were buoyed by the announcement of a 10-year, more than $20 billion infrastructure funding plan in Ontario. We are currently working on several of the largest transportation projects in Canada today, and we expect this growth to continue.

Importantly, because of the strategic actions we have taken to leverage investments in IT, HR systems, project management tools and best cost shared services and global design centers, we are better positioned than ever to fully profit from this growth.

Turning to our international markets. Beginning in the Asia Pacific region. Performance across the region continued to be led by strong public sector infrastructure investment in Australia and New Zealand. Early in the third quarter, we were selected to deliver services for the Cross River Rail project in Australia and the Auckland City Rail Link project in New Zealand. The latter of which is the largest ever transportation infrastructure project to be undertaken in that country. These wins demonstrate client recognition of the strengths of our platform and enhance our confidence in continued growth.

In Hong Kong, long-term demand drivers are strong, including the government's recent announcement of the $70 billion mega Tomorrow Lantau Project, a substantial land reclamation and development project that is expected to begin over the next several years. Our leadership position in this market positions us to capitalize on these substantial opportunities.

In the EMEA region, Brexit-related uncertainty continues to negatively impact trends in the U.K. However, the actions we executed in 2018 to best align our business to near-term market conditions have allowed us to offset some of the market challenges, and the business is performing to expectations.

In the Middle East, trends are improving. This is especially true in Saudi Arabia, where we have invested time and capital to position for a robust set of opportunities, including the $500 billion NEOM development. We have visibility to several sizable awards that would increase our visibility into continued improvement across the region.

Turning to the Management Services segment. Organic revenue growth was 14% and is now increased by double digits for 3 consecutive quarters. We are benefiting from 127% backlog growth since the start of fiscal 2017, which has been driven by our successful business development investments and leading capabilities, especially in the classified market.

Our backlog is at record levels, including more than $3 billion of wins in the first half of the year. Looking ahead, continued budget increases and our high win rate position us for further growth. The White House's initial budget request call for record levels of defense spending in fiscal 2020. Our pipeline of pursuits remains at more than $30 billion, including a vast set of DoD opportunities and increasing set of high-margin DOE opportunities. We are also tracking several more DOE opportunities that we expect to be awarded over the next 3 years that will add to our $30 billion pipeline. As a result, we believe earnings are an inflection point with several years of visibility and backlog.

Pivoting to Construction Services. Execution in Building Construction was strong, and our backlog reached a new record this quarter. Today, the building construction business has nearly 4 years of revenue and backlog. This level of visibility has been maintained even as we delivered 4 years of double-digit organic growth and achieve new records for total revenue.

Looking ahead, low interest rates and strong economic conditions support continued investment across the markets we serve, including commercial buildings, stadia, entertainment and aviation. We are pursuing more than $10 billion of opportunities valued individually at $1 billion or greater, which provides us with line of sight to double-digit profit growth for at least fiscal 2022.

The Civil business is performing to expectations. In power, the Alliant Riverside gas power plant is nearly complete and remains on schedule and on budget with target completion later this year.

We continue to pursue actions to derisk our CS portfolio. We have agreements to exit our oil and gas production services business, which is expected to close in the third quarter, and we are working to exit our at-risk construction businesses with hard-bid fixed-price contracting.

Finishing with AECOM Capital. We closed on a property sale of the quarter, which provided a $10 million gain on our investment and an approximately 40% IRR, and we continue to make good progress on our third-party real estate investment joint venture with Canyon

Partners. Our strong year-to-date performance underscores the momentum underway in the business and our progress in maximizing the potential inherent within our enterprise.

I will now turn the call over to Troy, who will discuss the quarter in more detail.

W. Troy Rudd ***AECOM - Executive VP & CFO***

Thanks, Mike. Please turn to Slide 8. Our strong second quarter results were highlighted by $8.1 billion of wins, a record $61 billion in backlog, 7% organic revenue growth and 17% adjusted EBITDA growth. This performance underscores the successes we're having in the marketplace and the benefits of our home focus and cost efficiencies across the enterprise.

Importantly, our year-to-date adjusted EBITDA results have exceeded our expectations, and we expect to deliver a strong second half.

Adjusted EPS of $0.69 was up slightly from the year-ago period. We benefited from a lower tax rate in the year-ago period. Adjusted for this benefit EPS increased by 31% and included growth across all 3 businesses. Our owners are benefiting from a lower share count from our ongoing repurchase activity.

Please turn to Slide 9. Revenue in the DCS segment increased organically by 8%, led by 10% growth in the Americas as well as growth in the international markets. As we noted last quarter, we expect revenue growth to slow in the second half of the year as the contribution from storm activities moderates against tough comparisons in the prior year. However, excluding our work in U.S. Virgin Islands, our revenue is expected to increase in the second half of the year.

The adjusted operating margin was 6.7% for the quarter. The improvement from the first quarter reflects benefits of lower G&A growth and solid project execution. We expect margin to increase in the third and fourth quarters as the benefits of our cost-reduction efforts flow to the bottom line, and we are reiterating our expectation for at least 7% adjusted operating margins for the full year.

Please turn to Slide 10. Revenue in the MS segment increased by 14%, reflecting the full benefit of our large recent wins and record backlog. The adjusted operating margin was 6%, which was consistent with our expectations and reflected solid execution across the business. We continue to expect the adjusted operating margin of approximately 6% this year. However, we remain committed to our long-term target of 7% supported by the favorable mix shift in our pipeline through higher-margin DOE work. Importantly, we require very little capital to grow in this business. As a result, we generate a high return on invested capital, and we retained a portfolio of projects that carry a very attractive risk profile.

Let's turn to Slide 11. Organic revenue in the CS segment increased by 4%, led by our Civil and Oil & Gas businesses. We faced a tough comparison for the Building Construction business. But based on recent wins and backlog growth, we remain confident in the long-term trajectory of the business, including our expectation for double-digit profit growth through at least fiscal 2022.

I should note this quarter, we removed approximately $1.3 billion from our backlog related to a multibillion-dollar project where our clients' scope of work has been reduced. This work will be bid separately. However, due to an increase in our share of this project, the impact to profit is not expected to be material. The adjusted operating margin was 1.9% in the quarter, and we remain confident in our 2% expectation for the year.

Please turn to Slide 12. Operating cash flow was $107 million, and free cash flow was $85 million. Underlying cash flow met our expectations. However, the pace of collections related to our storm recovery work in the U.S. Virgin Islands continue to fall short. At the end of March, we had completed our work and had net working capital invested of more than $200 million with our U.S. government-funded client. We are confident that we will ultimately collect this cash. The timing of this collection will impact where we end the year within our cash flow guidance range.

We've also spent approximately $40 million on our restructuring initiatives in the first half of the year, and we expect the benefit from these savings in the second half of the year. As Mike noted, these are expected only to be timing issues, and the cash generated of nature of our underlying business remains intact.

Importantly, we have produced industry-leading cash flow for a number of years, including $2.7 billion of free cash flow between fiscal 2015 and 2018 or approximately $675 million per year. And we expect to deliver cash flow within our $600 million to $800 million guidance range this year.

Turning to capital allocation. We have repurchased $210 million of stock or 6.7 million shares since last August under our $1 billion authorization. With our stock trading at a price below what we believe is the long-term value, we will synchronize our repurchases with cash flow and our net 2.5x leverage target as we move through the year.

Please turn to Slide 13. With strong first half results that exceeded our expectations, we are confident in our path to achieve 12% adjusted EBITDA growth at the midpoint of our guidance range. I'll now turn the call over to Mike for a few closing comments.

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Thanks, Troy. We have made tremendous progress on our plan to improve margins; hone our focus on our higher-margin and lower risk professional service businesses; deliver on our growth objectives, including 16% year-to-date adjusted EBITDA growth and 22% backlog growth; and in executing stock repurchases under our $1 billion authorization. Importantly, we are continuing on our transformation to evaluate a number of options to drive long-term shareholder value. We have accelerated the review of our at-risk construction businesses and anticipate delivering a substantive update to the market during the second half of the year. We have successfully executed the largest restructuring in our company's history, while continuing to grow our revenue and backlog to new records. As a result of the confidence this has inspired, we are evaluating additional opportunities to reduce costs and to maximize the value of future wins.

The expected strong return on these actions, including $2.8 billion of free cash flow from fiscal 2019 to fiscal 2022, or 53% of our current market capitalization, underlies our commitment to continuing to repurchase our stock as the best and highest use of our cash flow.

With that, I will turn the call over for Q&A. Operator, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Andy Kaplowitz of Citi.

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

Mike, we know your restructuring benefits are back-end loaded in DCS, but can you talk about your conviction level that DCS margin should be in the sort of mid-7 range, that you need to meet that goal of 7%-plus for the year. Especially considering that U.K. uncertainty might linger here, which probably isn't helping your utilization.

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Sure, Andy. I'll tell you my conviction before I turn it over to Troy to talk about more detail. We laid out a course for the year, which showed our -- the revenue and profitability ramping for the year as it always does. We talked about the run rate that we're expecting for this year on the cost savings that would accelerate through the year because some of the actions we have taken in Q1 and Q2. So all that certainly gives me conviction that we're going to achieve the margin targets and the EBITDA targets that we've set out at the beginning of the year. But I'll let Troy to speak about that in a little more detail.

W. Troy Rudd ***AECOM - Executive VP & CFO***

Yes. So Andy, when we look at the course of the year, you can actually see the impact of the restructuring and the impact of the growth in the business supported by our growth in backlog in the first half of the year, so we've seen margins improving. We completed all of that restructuring work effectively in the second quarter, and we'll see the benefit of that in the second half of the year. So we have backlog in our Americas design business. And overall, our DCS business that's grown by 4%, which supports organic growth in the second half of the year. The restructuring is done and behind us. And in particular, with respect to the U.K., part of the work that we had done last year and this year was to make sure that we had restructured that business so that it fit the opportunity profile of the current Brexit U.K. marketplace. So as Mike said, we absolutely have conviction around the margin targets for the full year.

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

That helpful, guys. I can't help but ask you about the commentary about accelerating the review of your entire at-risk construction portfolio. So let me ask it to you like this, how should we think about AECOM and the big picture of things? You've got -- one of your peers that changed is changing its GIC code, another one that is soon to follow, valuations have begun to respond to that sort of perceived lower risk, higher growth profile government services and design consulting businesses. Is that the road map for AECOM as well at this point?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Absolutely, Andy. We've been talking for quite some time about the key points of our strategic direction. First of all, one was executing on our margin improvement plan, which we've done. Second was derisking and honing our focus on higher-margin, lower-risk professional services markets. And we have said all along that we are taking a very hard look and our at-risk construction. We have totally withdrawn from at-risk construction in the international markets. We have, just last week, signed a deal to sell off the last bit of our oil and gas at-risk construction assets. We are in the market talking to potential buyers about other at-risk construction businesses that we have. So what the road map will look like -- or what the landscape will look like after we execute on the road map will be a low-risk, higher-margin professional services organization.

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

Great. And then just, Troy, real quickly on cash flow. Can you quantify, like, what is the amount approximately that we're talking about that's the swing factor in the sort of Virgin Islands cash? I mean, is it $100 million? What's -- I mean, obviously, you've got a big ramp up in the second half that you have to make, but you always have a big second half ramp up every year.

W. Troy Rudd ***AECOM - Executive VP & CFO***

Yes. First of all, yes, you're exactly right, Andy. We always have that ramp. It's sort of the way the business runs during -- from quarter-to-quarter during the fiscal year. But when we look at the U.S. Virgin Islands work, we had invested about 105 million -- $185 million in net working capital at the end of the first quarter. We did collect some of that during the quarter, but some of that also slipped. We also continued to invest and do some more work for that client. So at the end of this quarter, our net working capital was just slightly over $210 million. And when I look at the full year, based on where we are today, we believe there's a path for us to exceed the low end of our free cash flow guidance range. And it'll be even better if we collect on all of our U.S. Virgin Islands work or all of that net AR. And with respect to the U.S. Virgin Islands, I will say to that, that work is done. We concluded all of our work that we were doing in the U.S. Virgin Islands under our contracts during the second quarter.

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Andy, if I could just come over the top of that with just one point of clarification. We have a long history of doing work in disaster recovery. We worked on Hurricane Katrina for 10 years. We worked on this -- the storm in New York, Sandy and many, many others. And one of the things that you find out about this business, we do have the expertise to rapidly ramp up on a large scale, which is why these government agencies come to us. But at the same time, some of these U.S. government agencies don't have the systems in place to quickly process payments. So it's not unusual. In fact, it's quite typical in these environments where their payments are delayed, and we understand that going into it. This one is taking a little longer than we expected, but it's not atypical.

Operator

Our next question comes from the line of Jamie Cook with Credit Suisse.

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

Okay. So I guess a couple of questions. Mike, I guess a more strategic question. One, understanding where you're taking the portfolio and I agree with the decisions that you're making. But as -- assuming that we are successful at divesting some of the higher risk construction business, one, can you talk about the appetite in the market for those types of businesses as you see a lot of the couple of peers getting out of that business for reasons we all know? I'm just trying to understand the potential proceeds here and what the level of interest is. And then my second question is, lets say we're sitting here a year from now and we assume the divestitures are done, and you're left with a different portfolio. As you think about growth -- balancing growth in profitability, in margins to get to the valuations that some of your peers are at, do you think you have to -- or is there an urgency to go after sort of higher margin businesses that potentially -- while the DCS and MS margins are okay, potentially they can be even better going forward and more in line with where some of your peers are?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Sure. Okay. A lot of parts to that question. I don't want to comment too much about it while we're in the market. But let me just say certain pieces of the business that we're interested in selling are in some of the most robust markets around. You look at the California infrastructure market, the hottest market on the planet right now. If California were a country, it may have some of the largest infrastructure spend, listen, top 5 infrastructure spend in the world. So some of those assets are concentrated in great markets. But I don't want to go too much into that while we're in the marketing phase. But in terms of focusing on higher-margin work, that is exactly what we've been doing, Jamie. When we talked about our 7% overall organic growth during the quarter, what's important to know is where that growth breaks out. We had double-digit growth in our Americas design business, which is our highest margin business. We had double-digit growth in our Management Services business, which is our second-highest margin business. And so that tells you that we are focusing our business development dollars. We're focusing our strategic energies on those businesses that have the highest margins. And I think what you saw in this quarter once again was double-digit growth in those markets that we're focusing on. In fact, our design business in the Americas, again, the highest margin businesses had now 4 consecutive quarters of double-digit organic growth. At the same time, those margins are increasing, as you heard Troy talk about earlier, and we expect them to continue to increase through 2020 based on the actions that we have already taken. And as Troy mentioned earlier, we are going through the process of taking another hard look at extracting more cost out of the system to further improve those margins. So we feel really good about the strategic focus that we've had in getting away from some of the higher risk markets that maybe didn't give us the margins that we had hoped for, taking ourselves out of a couple of dozen countries where we had low margin or might have been distracting our focus. So we're getting keenly focused on those markets that present the highest margin opportunities, and the highest growth opportunities. And we're seeing it so far this year.

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

Okay. And just one clarification for Troy. Troy, I think you're trying to say this, but even if we don't get paid on the storm work from the Virgin Islands, you still think you can make that low end of the free cash flow guide? I just want to be crystal clear.

W. Troy Rudd ***AECOM - Executive VP & CFO***

Yes. So the answer is yes, I believe we can make the low end of our free cash flow guidance and collecting all of that would create upside. If we -- again, across the business if we collected -- if we didn't collect $1 from that customer, we would be hard-pressed to make the low end of our guidance. But certainly that's certainly not within our expectation at this point.

Operator

Our next question comes from Andrew Wittmann of Baird.

Andrew John Wittmann ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

I just wanted to continue to go down the path of talking about value creation. And clearly, you guys believe that your stock is undervalued. I wanted to get a little bit broader sense of the options that are on the table. I mean your businesses, your 2 primary businesses where you generate your profits are doing very well. The federal government business is off the bottom nicely. And certainly, there's been clear demand out there from other strategic buyers for federal businesses that look a lot like yours. I was wondering, Mike, if you would consider the potential to split the company and really get even more focused. You've become more focused over the last year as you've actioned these plans, but I think there's still probably an opportunity to become even more focused. So your thoughts on the potential splitting of the construction and design business from a federal business which could be valuable on the strategic consideration for someone else.

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

So listen, we continuously evaluate every one of those strategic options, and that certainly is one of them, and our clear objective is to maximize shareholder value. And that business, the federal business, has grown incredibly well over the past couple of years. Our backlog is up 127% since the beginning of FY '17. Margins are improving. Our win rates are north of 50% there. So it is a hot part of our business. But we are always considering everyone of those strategic options to maximize shareholder value. And I wouldn't want to suggest that anything is off the table. We've looked at everyone of those on a regular basis and continue to do so.

Andrew John Wittmann ***Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst***

Okay. And then just a couple of other more mundane questions here. But you mentioned here that part of your oil and gas production services business closed in the quarter or subsequent to the quarter. Troy, could you give us that and maybe also comment on the number of shares in the quarter and the average price?

W. Troy Rudd ***AECOM - Executive VP & CFO***

Sure. So with respect to production services, we have deals in place that were closed during the quarter. So we got the deals in place, they were closed later in the quarter. So I don't have anything to say beyond that but it's our expectation they will close, and we will have exited the production services business. And with respect to the shares, we spent $30 million during the quarter on buyback. And I don't of the average price. But I'm going to give it to you separately.

Operator

Our next question comes from the line of Steven Fisher of UBS.

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

So Mike, you guys had a string of really good bookings quarters, particularly with visibility early on in the quarters. I guess what's the visibility you have to backlog growth from here? Or do you think we're now in more of a sustainment mode and harvesting that into actual revenue and then cash flow?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Why don't we let Randy speak to that.

Randall A. Wotring ***AECOM - COO***

Yes. I think we're -- we're still in a market-rich environment. Looking at MS, which is growing double digits and backlog's over $20 billion. We still have a $30 billion pipeline in front of us today, and $10 billion of that is currently under evaluation. And looking forward, there's $30 billion of DOE opportunities alone. And as Mike mentioned, our win rate has continued to improve, and our hit rates' over 50% in the first half of this year. And we have great confidence that, that market's going to stay robust for the foreseeable future. The DoD budgets and the DOE budgets are both strong. Those are the primary federal service markets that we serve. And they're the largest federal budget. So we feel good that we're well positioned. We have a business development process in place that's working, a group of people that know how to run that process, and we're very bullish. We are also seeing opportunities across our DCS business. We're seeing significant opportunities in Middle East. Although as Troy mentioned, the U.K. remains soft, the U.K. market remains soft. We're seeing great opportunities in the Middle East. And in Asia Pacific, we're seeing opportunities in Australia, New Zealand and even in Hong Kong. So the markets there, we still think -- the comps get tougher because of our growth rates that we've seen, especially in MS, but growth opportunities exist.

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Yes. And also Randy didn't mention the Building Construction business which this is the construction management, the low-risk side of the Construction business. We have 10 projects over $1 billion each that will be decided on in the next 12 months. So while that backlog has grown to about $24 billion in that CS segment, there is no shortage of opportunities in front of us. So we are -- of course, we're doing everything possible to continue to convert our backlog to revenue, as evidenced by the 7% organic growth in the quarter. We are not slowing down on investing in business development.

Randall A. Wotring ***AECOM - COO***

Yes and just one more add. I mean the best indicator I have of growth has been -- is performance on existing contracts. And as Mike said, we've been coming off good quarters of strong execution. And it's a really good indicator of how we expect to do in the future regarding growth.

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Yes. And Steven, if I look at the MS business, we have been running over a 50% hit rate in that space for quite some time. And so that tends to tell you, in that business, if you are winning more than 50% of your proposals, that is an anomaly. And so it might tell you that -- and we've been doing it for a couple of years now. It might tell you that you're not getting enough. And so I think it's anything but harvesting. I think we should be continuing to turn up the volume especially in that MS segment to continue to add to that backlog, which already today is at $20 billion.

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

Okay. That's all very helpful. And then just a follow-up. I mean you hung onto double-digit growth in Americas design business with the help of a storm work. Just curious kind of what expectation we should have for modeling purposes for Americas design growth in the next couple of quarters. I think last quarter, you said that when you exclude the storm work, it shouldn't be as low as 3%. I think Troy made reference to a 4% number this quarter. How should we think about where that Americas design growth is going to kind of slow to?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Yes. Why don't I let Troy take that question, but that's a good question.

W. Troy Rudd ***AECOM - Executive VP & CFO***

Yes. So you're right. Our Americas business in the third and fourth quarter of last year, we did have growth, and that growth was partially driven by some of the storm work we're doing. So we are facing tough comparables as we head into the second half of this year. Overall, though, I do see that business growing at the gross revenue line, single digits. But when we look at the work that we perform, which really drives the margin in that business, we expect that, that business to be -- that growth to be in line with our contracted backlog. So if you look forward, our contracted backlog was at 4% in the second half of the year. I would expect that's a good prognosticator of the next coming 12 months, so I would expect something around that growth rate in the DCS business, and Americas being the largest business should be able to outperform that number.

Operator

Our next question comes from Tahira Afzal of KeyBanc.

Tahira Afzal ***KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst***

I guess first question, Troy had mentioned the first half was stronger than your internal expectation. Any reason? Are you not nudging the midpoint of your guidance up?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

So listen, we feel really good. We've delivered 2 consecutive quarters of EBITDA above our guidance. We're highly confident in achieving the 12% growth at the midpoint of the target range and then growing again in 2020. We were again reiterating $1 billion-plus of EBITDA for 2020, which is almost a 7% growth again next year on top of the 12% growth this year at the midpoint. And so even as we comp against tough storm comps that Troy mentioned, we still feel pretty good about this year. But we're building a track record of achieving our targets for a couple of quarters here, and we want to continue to perform against the expectations and hopefully exceed expectations throughout the full year. But we have a wide range. There's opportunities there to move up beyond that midpoint. That's our hope. But we don't see any wisdom of getting too far out over our skis at this point.

Tahira Afzal ***KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst***

Fair enough, Mike. And I guess second question, there's some interesting things happening within your peer group. Andy, I think earlier on talked about some of them. But you do have -- Parsons, I believe, went live today, you're seeing SNC-Lavalin breaking up, which might be the right thing. Mike, any thoughts on the competitive landscape as you look forward?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

So the competitive landscape, we still feel pretty good. I think we believe we're taking market share when we look at the markets that we're participating in. As I mentioned, in the MS business, we're winning more than half of the proposals we put forth, which is we think market-leading win rates. So we think we're more than competitive in that space. In the DCS space, growing double digits for 4 quarters in a row here in the Americas, we think that's growing faster than the market, so we think we're taking market share there. The construction -- the Building Construction business, we have been through 4 years of double-digit organic growth. We think that is market-leading. So we think we're squaring up quite well against our competitors in the bidding proposal process.

Operator

Our next question comes from Michael Dudas of Vertical Research.

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

Mike, first question is can you elaborate a little bit about how you see your relations grow with your customers in the private sector, maybe primarily North America or maybe globally. Are there still continued cap investment and spend trends? And people looking longer term despite some of the gyrations we've been witnessing on a macro basis?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

So our private clients, that's 1/3 of our business or so. And you really -- you've got to get a little more granular to understand that. A big part of our private client business is Building Construction. That business has been growing significantly. We have about 4 years of backlog in that space. So we continue to add to that. There's still a building boom in the big urban markets like Los Angeles and New York for sure. And so we're not seeing any retrenchment from that market, and that market's been -- there's a 10-year up cycle. So it will have to slow at some point, but what we feel good about is having 4 years of backlog in front of us already. The -- we're not participating in the commodity side of business. Obviously, oil and gas and mining are not a big part of our business. The other big part of our private sector business is our environmental engineering business, which is, I don't know, almost $1 billion of business for us and environmental regulations around the world are only increasing, which is increasing the demand for that work. So other than the Brexit-related CapEx slow down in the U.K, things all seem pretty positive.

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

And my follow-up is, and we won't hold to certainty on this, but can you maybe give a little read on what you see that may or may not come out of Washington, D.C?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Wow. Well, since I've been wrong on my prognostication on infrastructure build for 2 years now...

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

I was gentle on that, Mike. I just wanted to help without (inaudible), right?

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

So 2 years ago, I thought this was clearly going to be the first agenda item out of the administration, and it didn't turn out to be so. I did like to see the progress last week with Schumer, Pelosi and the President. And if anything happens there, it will be a big positive for us. But I think it's also important to point out that almost 80% of infrastructure spending comes from the state and local governments, not from the federal government. And we continue to see a lot of progress at the state and local level. In the November elections, we saw 31 states that had some type of ballot measure related to infrastructure. And those passed with a 79% approval rating. And so you're seeing the states moving forward with ballot measures. We're seeing 27 of those states have increased their gas tax over the last 3 years. So we're seeing a lot of activity at the state and local level that's generating the demand for our business. and anything that comes out of Washington would be a positive on top of that. We're not counting it into our plans. It's not built into our growth plans. We are actively advocating for it in Washington and helping the administration and the legislators develop plans that can actually be implemented. So I am optimistic, but I wouldn't bet the ranch on it.

Operator

(Operator Instructions) Our next question comes from the line of Chad Dillard of Deutsche Bank.

Chad Dillard ***Deutsche Bank AG, Research Division - Research Associate***

So Troy, you mentioned the long-term margins, probably the 7% for the MS segment. We're starting right now with a 6% for 2019. Can you bridge that 100 basis points improvement? Will it be more of just more JV work? Will it be more DOE work? Will it be more execution? Maybe you can on the incoming quarter, what's most important to get there? And then also, like is it achievable with the backlog that you have right now or will it require incremental work?

W. Troy Rudd ***AECOM - Executive VP & CFO***

The primary driver of that is mix. We're going to have -- if you look year-over-year, quarter-over-quarter, the JV we had certain -- there's a certain element of JV or equity earnings that we have. But we don't see that dramatically changing. What we do see is the mix of business as we move towards winning a greater portfolio of the DOE opportunities that are available. You go back last year or the last 1.5 years, a lot of what we won was doing work for the Department of Defense. And by the nature of that work, it comes with lower margins that's a part of the competitive bidding process. And as we move to the deal, as we move to a more -- a greater proportion of DOE bids, we'll see the margins improve. And there may be some upside in that as some of that DOE work is bid through JVs. So it could happen that we actually win some work through JVs. It creates more equity income or we could win it where it's consolidated revenue. That's difficult to predict.

I was just going to say I'll give Randy an opportunity to add to that.

Randall A. Wotring ***AECOM - COO***

Yes. I'll just also mention that the work that we've recently won was bid, in some cases 3, 4 years ago when the government's primary evaluation criteria was low price. So the work that we're bidding now even within the Department of Defense is higher margin. The bid margins are higher than they were the last 3 or 4 years. So we expect to get some benefit from that moving forward also.

Chad Dillard ***Deutsche Bank AG, Research Division - Research Associate***

That's helpful. And then this is maybe more of a big picture question but in the last few years, we've seen these municipalities announce hundreds of billions of dollars of funding for infrastructure in the U.S. And just from, like, a cycle perspective, how far along is the industry in doing the design work for that backlog of infrastructure funding?

Randall A. Wotring ***AECOM - COO***

Well, I think we're still in the middle of it. Look, it depends on the municipality. We're seeing ramp ups obviously in California. In some cases, we're well along, but there's a long tail here. So there's many, many projects you have to come. And so I think we have a long tail on design yet to go in the macro -- in the major municipalities across the U.S.

Operator

And you have no further questions at this time. I will now turn the call back over to Mike Burke for closing comments.

Michael S. Burke ***AECOM - Chairman of the Board & CEO***

Okay. Thank you, operator. So I'd like to just underscore a few important points that we've touched upon during the discussion today. And first of all, our business has never been better positioned to drive the results that we expect. We built up a $61 billion backlog. We've continued to add to it with $18 billion of wins year to date. We're converting it to revenue with strong organic revenue growth, and we're converting it to the bottom line with a 16% growth in EBITDA in the first half of the year. And we continue to take new steps. We're not done yet. We continue to take new steps to extract the most potential from this organization by transforming it into a focus on the highest margin and lower risk professional services business. We have completed the $225 million restructuring exercise, which has resulted in a more profitable company. It strengthened our culture on project execution, and we continue to win work at a record-setting pace.

And so we're feeling pretty good about the direction and the trajectory of the company, which is why we bought back $210 million of stock since last August under our $1 billion authorization. And we -- we're continuing to see opportunities to buy our stock back as we accelerate our earnings growth. We would expect to initiate additional repurchases once we get through the initial authorization of $1 billion. So all of this is leading us in the right direction, and we're exceptionally confident in our ability to create value for our owners. So with that, I'll look forward to our next discussion, and thank you for participating today.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.