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AECOM (ACM)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the AECOM 2021 Investor Day Conference Call. I would like to inform all participants 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. Later, we will conduct a question-and-answer session. [Operator Instructions]

I would like to turn the call over to Will Gabrielski, Senior Vice President, Finance, Investor Relations. Please go ahead.

William J. Gabrielski
Senior Vice President, Finance, Investor Relations, AECOM

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 undertake no obligation to update our forward-looking statements. We're using certain non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation where available, which is also posted on our website. As a reminder, we sold the Management Services business last January and sold our Power and Civil Construction businesses in October of 2020 and January of 2021, respectively. These businesses are classified as discontinued operations in our financial statements.

Today's comments will focus on the continuing operations of the Professional Services business unless otherwise noted. Today's references to margins and adjusted operating margins reflect segment-level performance for the Americas and International segments. We will also refer to net service revenue, or NSR, which is defined as revenue excluding subcontractor and other direct costs. Our discussion of margins will be on an NSR basis unless otherwise noted.

On today's Virtual Investor Day, Troy Rudd, our Chief Executive Officer will detail our strategy, key operational priorities and discuss our long-term financial targets. Gaurav Kapoor, our Chief Financial Officer, will discuss our financial performance, priorities for expanding our industry-leading margins and profitability and our financial targets in greater detail. We will conclude with a question-and-answer session.

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

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Thank you, Will. And thank you all for joining us today. Today's virtual format is a bit different, but our intent is the same. We want you to walk away with a solid understanding of the strength of our teams, our strategy, our capital allocation priorities and what it means for our stakeholders. Of course, we are eager to engage with you in person as soon as it is safe to do so. We will look to schedule another event hopefully later in the year, so we can dive even deeper into our vision and give you an opportunity to meet our leadership team. I also want to acknowledge our teams across the globe for their contributions to our success and for their ongoing commitment to the safety of their teams and families. Thank you all for choosing to be part of AECOM and our journey.

Please turn to slide 5. I'd like to begin by reviewing the key messages for today and highlight why we are well positioned to outgrow the industry, and to deliver superior margins and returns for our shareholders. First, we are an industry-leading professional services firm with a track record of delivering on our commitments. Through consistent execution, we are focused on continuing to meet or exceed our financial targets. This is very important to us as a company and as a management team. Second, we are the best-positioned firm in our industry to deliver on our clients' growing focus on decarbonization, sustainability and ESG. We are clear leaders in the right markets; environment, water, climate adaptation, resiliency, green design and program management, all of which are already inflecting positively. We think this is the first inning of a very long cycle and no other company is better positioned. Third, accelerate in our top line organic growth is a priority. We have an enviable position. We lead in nearly every market and sector in which we operate. This is a great starting point and foundation and we don't need M&A to succeed. Today, we have structured the organization to capitalize on our advantages whether it's our scale or investments in innovation to transform how we operate. As a result, we are committing to outgrow our peers and the industry. Fourth, we expect to deliver a 15% segment adjusted operating margin by fiscal 2024, which is a few years ahead of what we expected when we set this long-term goal in December of 2019. We'll talk through the details of our plan to achieve this target today. And finally, today, we are committing to more than double our adjusted earnings per share and free cash flow from fiscal 2020 to fiscal 2024. This is built around our growth initiatives, continued margin expansion and ongoing commitment to return substantially all free cash flow to shareholders through repurchases.

Turning to slide 6, I want to begin by highlighting our competitive advantages in the marketplace. First and foremost, it begins with our people. We have the best technical experts, architects, engineers, planners, program managers, advisors, environmental scientists and innovative thinkers in the industry. Second, with nearly 50,000 people, our scale is a competitive advantage in how we go to market and how we deliver. We can make investments and deploy innovation in ways that make us stand out in the market. This creates a flywheel effect of margin expansion, increased profitability, strong cash flow and additional capital to reinvest in our organic growth and return to our shareholders. Third, we have restructured the business and today we're in the strongest position we've ever been in. Our vision is highly focused on higher-returning, lower-risk professional services markets. We've aligned our strategy in our actions and organizational structure including through our Think and Act Globally strategy. We've eliminated unproductive cost and bureaucracy and we've identified areas where we can invest organically to outgrow the market. Finally, we are the market leaders. We are already number one in environment, number one in transportation design, number one in facilities design and we hold many top water and green design rankings. We have the leading position of markets where clients are investing – transit, clean environment next-gen energy, water, per- and polyfluoroalkyl substances otherwise known as PFAS and others. These markets are poised to grow in response to the complex microeconomic (sic) [macroeconomic] themes such as infrastructure capacity, social equity, energy transition and environmental resiliency to name a few. Common to all of these markets are our clients' aspirations to decarbonize their portfolios and advance their sustainability objectives. I'll emphasize again, our clients have new priorities focused on ESG and we stand out as the company that can best advise and execute for them.

Turning to slide 7. We have transformed the company and are better positioned today to capitalize on the opportunities in front of us. First, at our core, we've always been a higher-margin and lower-risk professional services business. However, along the way the strategy evolved and we found ourselves in markets and businesses that weren't consistent with this profile. Over the past few years, in an effort to get back on this core, we undertook a number of actions to eliminate distractions, reduce risk and sharpen our focus. We exited businesses that didn't create acceptable financial returns and exposed us to asymmetrical risk/reward profiles. This includes the sale of our Civil and Power Construction businesses and ongoing exit from other underperforming markets. These were distractions on our time and diluted the return on our capital. We have refocused our strategy on our core Professional Services and knowledge-based capabilities, since this is where we generate the most profit, highest returns and we see the best opportunities for growth.

One of the clear benefits has been more consistent execution. We're now consistently meeting or exceeding financial targets as demonstrated by our results. We grew our adjusted EBITDA by double digits in each of the last two years. And we've guided for strong growth again in 2021. You can also see this in our margins. We have gone from one of the lowest to one of the best in the industry. We made it a point to make the business more efficient and drive continuous improvement. As a result, we are consistently exceeding our margin objectives while continuing to invest in business development and key talent.

We're also delivering value through capital allocation. We have bought back $630 million of stock since September or nearly 9% of our shares outstanding. And we've done this at an attractive price. We want to be known for consistently delivering on our commitments, and our recent results should inspire confidence in what we are capable of.

Turning to slide 8, we are our clients' key partner in the delivery of their ESG, decarbonization, net zero and sustainability priorities. These are the megatrends that each and every one of our clients are grappling with. To make the point tangible, consider that more than 1,500 companies in 800 cities have net zero mandates. These are our clients. The opportunity is enormous. So you can see from the slide a number of emerging trends and drivers for our clients' ambitions and as a result for our business.

How will cities respond to changes after the pandemic? What are cities going to do to electrify transit systems and adapt their infrastructure to the world with electric and autonomous vehicles? How will cities build resiliency to protect against the impacts of climate change? How will our clients address a greater focus on the environment, including cleaning up forever chemical such as PFAS? How will our clients meet renewable energy mandates?

We need more and cleaner water. Social equity, economic justice and resiliency are key themes that cut across master planning of all cities. These are not simple problems. These are large megatrends that both our public and private clients have as their top priorities. And as a result, our clients need a partner that can be the experts in shaping their strategies across the life cycle of their assets. And again, these markets and opportunities play to our strength as a leader in environment, water, green design and sustainability solutions.

Please turn to slide 9. So we've talked about the megatrends, the key growth drivers. Now I want to talk about what is happening inside AECOM and how we are prioritizing resources to capitalize on this opportunity. For us, the focus is on outgrowing the industry and doing so organically without large acquisitions. In November we announced our Think and Act Globally strategy that set our foundation for growth. It focuses the organization on capitalizing on the advantages I spoke about earlier. What does this mean in practice? The executive leadership team is refreshed with growth focused leaders in charge of our largest opportunities. Drew Jeter who we recently brought on to lead our Program management business is recognized as an industry leader. Having won some of the largest program Management contracts in the industry, his focus is simple, grow the business by leveraging the full capabilities of AECOM.

In addition, Jenn Aument joins AECOM to lead our globally ranked number one transportation practice. Jenn brings global experience delivering mega infrastructure projects from concept through execution. She's a proven winner in the sector having advised clients on their biggest projects and programs.

These new leaders complement our existing strong leadership team, many of whom are new to their roles in this past year. The people on this team own P&Ls and regions and business lines, we have eliminated silos and regional mindsets and are focused on global priorities. We've empowered our business to grow and to collaborate. This means our people know they can bring the best people and ideas anywhere in the world. This is a big advantage against our competitors who continue to use local capabilities only.

For example, if an engineer in Australia develops a new technology, that person and their idea need to be available to the teams supporting the Port of Long Beach or Transport for London. That's a type of collaboration we're encouraging. We also focused on deepening our engagement with clients to best achieve our growth ambitions. To do this, first, we are expanding our advisory role. When our clients sit down to plan for their biggest challenges, we are sitting there with them, bringing our multidisciplinary expertise to the table. We bring incredible global insights because at any given time we have 50,000 plus projects across the world. There's not much we haven't seen and this breadth of capabilities and experience are what make us standout.

Second, we are growing the program management business, enabling us to build on our advisory role to see programs through execution. As these programs become multi-decade and multi-billion dollars in size, our experience and deep understanding of our clients and their priorities are critical advantages. Through the pandemic, many of our public sector clients have lost in-house delivery and technical capabilities. And this has created demand for our professionals to help them rapidly advance their projects.

Third, through deep engagement, we're able to deliver our core engineering design and other professional services that bring multidisciplinary expertise to clients. Finally, we are transforming the way our design services are delivered, effectively replacing hours with technology to deliver faster, better and with more predictable outcomes. We're going to fully capitalize on the benefits of scale and data to enhance our digital capabilities and change how we do our work. We view this as a growth driver, a margin driver, and a client satisfaction tool. It really is a virtuous cycle for us.

These focus areas underpin our conviction that we will outgrow the market and our peers. I want to reiterate we will focus our growth on organic growth, not M&A. These investments in growth are built into our outlook for margins and don't require big CapEx. We don't need to do $1 billion deal. We're already built to win. We see this as a big competitive advantage with less time spent on distractions, integrations and restructuring. Some companies spend a lot on acquisitions and add leverage. We are focused on the opposite. We are shrinking our share count and not issuing our undervalued equity to fuel growth. We certainly have no intention of levering up.

Instead, we are focusing on what we can do to enable our people to deliver. Today, we already have scale and market positioning we need to lead our industry. Our clients expect tailored solutions, flexibility and responsiveness and large M&A does not enable this.

Turning to slide 10. So what does this growth strategy look like for AECOM, and how we deliver for clients? Our relationship with the client begins in the planning phases of our clients' larger programs. We serve as their strategy adviser during this time. Our clients come to us to help them with their problems or challenges or when they have large budgets to spend on infrastructure. This could mean that they need us to convert gas stations to hydrogen or need a wastewater treatment plant to increase throughput, but have no more land to expand. In these instances, we're sitting at the table with these clients with our expertise as leaders in these fields. We are advising on how to plan, how to mitigate risks, how to navigate regulations and stakeholder engagement requirements, among a host of complex issues. This is what makes us a great partner. Being an adviser to our clients gives us a different perspective on their priorities in a very different and very strong relationship. We build on this deep advisory relationship with our clients to help them deliver and this is where our investments and our leading program management capabilities become important drivers of our ability to extend client relationships and to grow.

As programs increase in size and complexity, program management is a market that plays to our strength, especially as we leverage on our early advisory positions with clients. Today, we are already a top ranked program manager with approximately $400 million of net service revenue. We're elevating this practice internally and we're pursuing several nine-figure opportunities that highlight a growing pipeline and strong client demand. Under Drew's leadership with our focused investment and expected market growth, we expect to grow the program management business multiple times over in the coming years. A good example of this work is a role as program manager for NEOM in Saudi Arabia which is designed to be a net zero city and powered completely by renewable energy. We were awarded the first phase of the $500 billion mega project where we will provide program management, contract administration, technical and environmental support and site supervision services. This is anything but a traditional PM role. We started at the advisory end, we help the clients scope the project and we evaluated technologies that would allow NEOM to be a cutting-edge for decades to come and serve as a model for future cities.

Importantly, through this work, we were able to expand our role with design services for the transportation and utilities backbone for an entirely new city. We are complementing our industry leading engineering and design capabilities with new expertise and a stronger global structure to enable growth. An example of this is our digital consultancy practices, which is another area where clients need help on complex and technical challenges. Today we have a few 100 professionals around the world that are dedicated to this practice. This is a rapidly growing market. Our clients are large Fortune 500 companies and large public sector agencies that have complex organizations and are adapting to changing digital trends. This is a natural extension of our existing design, advisory, and program management capabilities. We have scale and we have technical leadership and we are investing to expand these capabilities. Taken together we see where outsized growth opportunities exists, and by focusing on these areas we are confident we can outgrow the market.

Turning to slide 11, we've touched on our focus around delivering innovation at scale, but I want to dive in a bit more. One particular area I want to focus on is on the future of design. You've heard for a long time about the stagnant pace of innovation in our industry. While many industries have transformed with digital tools and technology, the engineering industry has lagged. This is our priority for us to lead this change. We've all the necessary attributes of a company that can leverage technology, including scale, large volumes of data and many repeatable or standardized elements in everything that we do. This means that when we design a bridge, we shouldn't be starting from scratch every time, and today, we aren't. While we are only scratching the surface of what is possible, we're utilizing technology to automate and pre-populate certain elements of our designs into standardized elements that can be tailored to the client's specific specifications.

Let me make this a bit more tangible. Take the example of designing a bridge, and we do a lot of them. We have a lot of data. And today with our innovation around script and code, we are now seeing the opportunity to remove up to 10% of the design errors of a standard bridge project. This is a quantum leap for us and is well ahead of the industry. This is a big deal for us, particularly as we deploy these tools further across our platform, our technology gets better, quality improves, and we can provide more value for our clients. We're doing this in the field today, and we will deploy this at scale over time.

Another example of innovation and scale is our workplace of the future initiative. We started this initiative recognizing that we could substantially reduce our real estate footprint and transform how we work by enabling our digital tools to connect our people and clients around the world. We've seen through COVID just how productive people are while working remotely and our clients and employees are increasingly working this way. Of course this initiative is reducing real estate costs. That part is easy and that is what most companies are focused on. At AECOM, we're going well beyond this.

The harder part and the part that we're really excited about is the opportunity to use our technology to transform how we deliver. We've already made the investments in systems and IT to enable this. We can work effectively around the clock for our clients. I call this the follow-the-sun to deliver. Again this is a big competitive advantage we're focused on capturing, and another example of scale being enabler of differentiation.

Turning to slide 12. We know demand is strong and we have positioned the company for growth, but we are especially encouraged by the funding that is now coming into our markets. The US is our largest market and the Biden administration has proposed several trillion dollars of funding for our largest clients and broad-based infrastructure, environment and water investments. This is great news for AECOM and is well aligned with our clients' priorities around ESG and sustainability.

With our market leading positions, we're incredibly well aligned with these administrative priorities. We see this lining up to be a growth driver in fiscal 2022 and beyond. It is important to distinguish the priorities of this administration that will be of a more traditional infrastructure focus. This administration's ambitions go far beyond what has been included in prior infrastructure proposals. There's a broad focus on the environment, water, transportation, mass transit, social equity, safety, new energy, rural broadband, offshore wind, all areas that fit precisely into our areas of expertise. We haven't built any benefits from these proposals into our guidance. But as it comes to fruition, we're well positioned.

An example I want to touch on because it is always topical is PFAS. President Biden and the EPA are prioritizing PFAS remediation, including an expectation to classify PFAS as a hazardous substance, which we expect will result in strong long-term demand. We've been leading our clients' efforts on this for several decades and we have exclusive relationships with some of the largest private companies in the space. We also have worked extensively with the USDOT.

In addition to leading with our program management, environment and water expertise, we have developed a proprietary PFAS destruction technology that is currently in pilot programs. We have gone well beyond our peers by leading in destruction. If successful, by the end of this year, this technology will become commercially available and create the industry standard for PFAS destruction. This is a game changer we're excited about. This is exactly the sort of market where our multi-decade client relationships position us well to grow as the demand drivers manifest.

Finally, it's also important to note that we see key indicators trending positively for our state and local clients, which is our largest client base in the US. Vehicle miles travelled have recovered meaningfully from the lows experienced last years and state tax collections have largely outperformed expectations. In addition, the proposed funding for state and local clients in the current Biden proposal would provide significant budget support. In fact, it is most likely that this stimulus funding would result in a healthy surplus budget for many of our clients. Again, this is great news for AECOM.

Turning to slide 13. So, what does this all mean for value creation? A key component of this is our margins. Today, we're announcing our commitment to achieve a 15% segment adjusted operating margin by 2024, which would mark a nearly 700 basis point improvement from 2018. Our culture of continuous improvement is a key driver. This means we will continue doing a few things on a consistent basis. First, we're constantly evaluating our portfolio to ensure we invest in the right areas. We have an ROIC in our long-term incentive compensation and return on investment and time our key elements of our capital allocation process. This led us to exit numerous businesses and aligned around our core markets with the best margins and growth expectations. Second, we are operating more efficiently. A big element of which is our Workplace of the Future program, enabling more flexible working environments will reduce our real estate cost. But I want to be clear, this is not cost cutting since more importantly, it is allowing us to transform how we deliver, as I mentioned previously.

Third, we're improving overall productivity by better utilizing centralized design and shared service centers. This is a great example of where we can use scale and innovation to enable more efficient delivery. Finally, we are constantly looking at our structure. Client account programs and incentives and asking what we can do to make the business function at its highest possible level. I will use key accounts as an example. While our Top 40 accounts represent 20% of our business, approximately half of these clients are only buying one service from AECOM. This provides a clear market where we can grow with minimal incremental cost, particularly compared to the cost of pursuing a new market or new client. That means more predictable outcomes and higher margins.

I want to put our confidence in achieving our 15% margin target in context against our recent margin successes. At our Investor Day in December of 2019, we set ambitious targets as part of a three year plan. We exceeded these targets in fiscal 2019 and fiscal 2020. And we're off to a strong start against our guidance in fiscal 2021. We did all this despite COVID, despite changing our structure and our management and against a backdrop of uneven macro trends. We did this by continuing our focus on changing how we work and innovating how we deliver for our clients, all while maintaining strong levels of BD investment to support growth.

In total these efforts underpin our confidence today in achieving our 15% margin in 2024, which is well in excess of our peers and what anyone has ever done in our industry and yet we have a clear path to achieve this.

Turning to slide 14 and concluding my remarks, when we take all of these initiatives together, we have a platform for exceptional shareholder value creation. Through our plan, we are confident, we will more than double our adjusted EPS by fiscal 2024 as compared to where we were in fiscal 2020. It is driven by a combination of ongoing margin improvement, organic growth from initiatives we spoke about today and our continued focus on capital allocation.

Reflecting the strong cash profile of the business we expect to also more than double our free cash flow. We expect to achieve our 15% margin target by fiscal 2024 and also expect to achieve our ROIC target by this time as well.

Gaur will discuss further elements of this plan, but I want to underscore that while the ultimate path to achieve our plan will likely look different than it's drawn up today our confidence in getting there with multiple levers is high. I also want to share where we see margins heading in the longer term. We're setting a new long-term aspiration to deliver a margin of 17%. This aspiration builds on our focus of continuous improvement, providing more value to clients and transforming how we work and deliver for our clients. Importantly, this aspiration reminds ourselves that we're not done. There's a lot more potential within AECOM and it's up to us to capture it through our investments and our decision making. I'm energized by the opportunities in front of us. And with the passion and dedication of our teams, I'm confident we will create great value for our shareholders.

With that, I'll turn the call over to Gaur.

Gaurav Kapoor
Chief Financial Officer, AECOM

Thanks, Troy. Please turn to slide 16. I want to begin by taking a moment to speak to our inherent attributes and fundamental advantages that make AECOM a high quality business. First, our clients are high quality blue-chip private sector clients as well as Tier 1 governments around the world. Having a high quality client base reduces risk and volatility in our results. Second is our highly variable cost structure. We have a very low capital intensity and fixed operating cost. We can flex our cost structure up and down with the market as needed. This was apparent last year when we had to do exactly that due to COVID. Third is our backlog. We have a substantial high quality backlog with up to two-plus years of revenue in our design business and four-plus years in our CM business. I will discuss this in more detail shortly.

Fourth is our low cost to achieve incremental growth. We operate a low capital intensity business with high incremental returns on capital. We don't need to reinvent the wheel to grow. It comes from organic investment. And finally we generate consistently strong cash flow having met or exceeded our guidance for the past six years. This is because of the attributes we just talked about, low risk, good clients, strong backlog and variable cost structure. It is just as important to have these attributes as it is to make sure you don't do anything to erode your advantage. We are focused on profitable growth, our largest market, adding services to existing clients and allocating capital to our shareholders. We are not doing anything to undermine our value creation opportunity.

Turning to slide 17, we reported earnings last week, so I won't belabor the details. We're off to a strong start to the year. I am particularly proud of our margin improvement and we exceeded our targets on every key financial metric. I do want to spend a moment on our backlog since it is important to understand a few moving pieces that underscore why we are confident in growth. Our backlog in the global design business, which accounts for approximately 91% of our profitability in the last 12 months, has increased steadily in each of the past three quarters even in a challenging market. This is due to our investment in BD and focused on growth.

Within our design pipeline in the Americas, our pursuits in the capture stage or what we refer to as pipeline of future bids have increased by approximately 40%. And with the funding environment improving, we are positioned for continued backlog growth. Backlog also increased year-over-year in construction management, which accounts for approximately 56% of the backlog, but only 9% of our profitability due to the high pass-throughs in this business. However, we are seeing a slowdown in decision making, which resulted in sequential decline in backlog in the first quarter. It is important to note though that wins trended positively in January and our backlog is equal to four-plus years of revenue. Taken as a whole, we are growing backlog in our businesses that represent more than 90% of our profitability, which gives us confidence that we are well-positioned and particularly as the funding environment improves we expect to drive the growth we spoke about today.

Turning to slide 18, I want to turn to value creation, a critical element of which is prioritizing investments in the right markets. First and foremost is how we allocate capital internally to make the right decisions to create value and importantly avoid the wrong decisions that destroy value. This is a big focus internally. How do we make the right decisions to position the organization to succeed? We start with identifying where we generate our highest probability. We believe the best place to make more money without changing our risk profile is in our core markets today. We have ROIC as an incentive metric. It holds us accountable for profitable growth and cash collections. And so, we exited countries to eliminate distraction. We have a rigorous review process for all capital allocation decisions, be it business development dollars, sweat equity, new technologies or new services. We have set margin, return, cash flow hurdles that we have to reach before moving forward. This rigor underpins the value we have created over the past few years, which you can see in our higher ROIC and in the value we will create going forward in pursuit of our 15-plus-percent margin and ROIC goals.

Turning to slide 19, another focus in our value creation effort is identifying how we turn one of our advantages, scale, into a driver of value creation. Shared services is a great example of the way the organization leverages its scale to become a lot more efficient and create value. Over the past two years, we prioritized investment to expand our shared service centers, why? We are a global enterprise, but many of our traditional support and back office type work can be standardized and executed out of the best cost centers. It's not only the cost, but also quality from repeatable tasks being delivered from a centralized location. This year is a big focus for us in on what we call finance transformation. Billers are examples, we are constantly sending out invoices to clients. This is a repeatable function that can be centralized effectively and standardized to create more efficiency and throughput. Payroll is another good example, the quality of the talent available to us in our Manila center are top notch. There is an established market of employees who are good at it and have been supporting Fortune 500 entities for a long time. Since we have ramped up our global services center a few years ago, the payback on our investments has been less than a year. We expect our Finance Transformation initiative to be better than that. We expect this to be a $20 million annualized savings for us, which is built into our outlook for further margin improvement and strong profitability.

Turning to slide 20, finally on value creation, let's talk about cash flow and capital allocation. We generate strong cash flow. We expect to convert our adjusted EBITDA to attributable, unlevered free cash flow at 75% rate on a normalized basis. It bears repeating, we are a high quality, low risk professional services business. We have a strong client base. We are in low risk markets. We have incentive structures tied to cash and ROIC. We have a highly variable cost structure and low capital intensity. These are inherent advantages of our business that allows us to consistently convert cash at the rate we do. Today and for the foreseeable future, we intend to only use our free cash flow to buy back our stock.

Of course, we will continue to invest in growth, which mainly comes through operating cash. You can see what we have done over time with our share count. We know our stock tends to reflect a truer estimate of our underlying value when we are disciplined with capital allocation.

Turning to slide 21, we are setting ambitious but achievable goals for growth from fiscal 2020 to fiscal 2024. We expect to more than double adjusted EPS to more than $4.30 and more than double free cash flow to more than $680 million. You can see that based on the assumptions in our model, including a fully diluted average share count of 120 million in fiscal 2024, this would imply free cash flow per share of at least $5.50, which is a substantial improvement from the $2.11 in fiscal 2020. There are multiple levers to achieve our goals.

Our baseline case is that one-third of our EPS growth will come from revenue growth. We expect mid-single-digit organic NSR growth, following the investments in program management, digital, new energy, bringing the best practices to our client, that Troy spoke to earlier, and capitalizing on ESG trends across our markets. Another third, we expect to come from achieving 15% margins in 2024 from the various initiatives Troy outlined earlier. We continue to drive our culture of continuous improvement, which includes driving International margins to double digits. And the final third is from repurchases, resulting from the substantial cash generation that I spoke to previously. We expect to deliver $2.5 billion of free cash flow in 2021 through 2024. That represents approximately 30% of our market cap today.

We acknowledge that it is tough to pinpoint any one of these with extreme precision, but the point is that these three levers provide us with multiple paths to achieve our goals. We don't need to hit all of them to achieve this plan, but we are pursuing all of them as well as opportunities to outperform. I want to show you how we think about capital allocation and why we are so bullish on allocating such a large amount of capital to continuing to buy stock. We think our stock is attractively valued as evidenced by the $630 million we have already spent to buy back stocks in September.

We made this determination based on a number of factors. On a free cash flow basis, we are at a severe discount to our peers. We believe that this is unwarranted and we will earn a high return on capital allocated to repurchases over time. We look back at periods like 2008 to 2012 when public sector investment was growing, a period not too dissimilar to today. We traded at a much higher valuation. This was closer to our estimate of fair value, but again a disconnect that we can capitalize through our share repurchases. We have scale, technical excellence, the best teams in the industry, a strong strategy and are making investments to drive organic growth. We see others out there paying a high multiple for inferior businesses that don't add anything competitively distinguishable. Meanwhile, we can buy our stock at a much lower valuation. To us that is a no brainer use of capital for as long as this discount persists.

Taken together, these are all the reasons why we are confident in our ability to achieve our plans and create exceptional value for our investors.

With that operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Sean Eastman with KeyBanc Capital. Your line is open.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks for taking my questions. Great presentation, team.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

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Thanks, Sean.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

I just wanted to start on as we talk about changing the way design services are delivered, kind of more automation in the design process, more efficiencies, how is that shared with the client? I mean does some of that value add have to be given to the client, any discussion on sort of the commercialization and the monetization of those investments would be really helpful.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Sure, Sean. It's Troy, I'll take that. But just before I answer your question I just want to let you know that we've got Lara Poloni our President on the line with us as well and so Gaur and Lara and I will answer the questions this afternoon or this morning. So with respect to the change in design, you're right in asking that question, there's no doubt as we create efficiency in the design it does mean that ultimately there would be some less hours involved in that design. And I would expect us to be sharing part of that with our customers over time and we haven't exactly worked out what that's going to look like, I think as you start with the change in how the design is delivered we clearly would look at that as an opportunity to provide some value to our clients through a lower cost, but ultimately I don't believe that's truly what the value is for our client, because by improving how we design, we improve the quality of the design, the certainty of the design, the speed at which we deliver the design and more importantly it improves how effectively and how quickly we can deliver change orders.

So while it is valuable in all those respects, we certainly do expect to share ultimately some of the cost reduction to our client and that ultimately builds into our growth strategy that gives us a platform again to help us grow in our key area of focus, which is our engineering and design business. And we'll add one further point, which, I think is important in terms of the initiatives and the targets that we've announced is that in all of this we clearly have built some leakage for all of these into our estimates.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. That's really helpful. And second one for me is just on this program management growth, I mean I'd just like to understand better how such a huge revenue opportunity has remained untapped until today. And really what's changed and whether you think this is something that the competition is going to be trying to tap into as well?

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Well, I guess first of all, I don't want to give you the impression it's something that's untapped, because there's...

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.
Q

Yes.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

...no question this is an important part of our organization. We have a great platform to build. If you look at how we're ranked in terms of program management, we're ranked in the top few already globally. But we do believe given the trends in our business and how we are uniquely positioned to advise clients on trends that there is an opportunity for us to also help in the execution of those plans. And so, I think I would attribute this to our recognition of the opportunity and our change in focus building off the strengths of what our people already do and the strength of our organization. So again, it's I don't think there's a change necessarily other than our focus and our belief and certainly some market opportunity. And like with everything, I would expect that where there is success that all others always follow. But I think if you develop a market leading position, you can still keep that advantage.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.
Q

Okay. Got it. Great. I'll pass it over. Thanks so much.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Great. Thanks, Sean.

Operator: Your next question comes from Andy Kaplowitz with Citigroup. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Hey, good morning, guys.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Hey, good afternoon, Andy.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Troy it seems like you're committing to 20% annual EPS growth here. You laid out the growth well in terms of third in growth, third in margin, third in repurchases, but, due to the accounting and a level of core growth that you haven't achieved before, so maybe give us a little more assumptions into your forecast there. How are you thinking about core market growth in your forecast? Obviously some of the trends in energy transition stimulus are favorable to you. And then how much outperformance are you factoring in?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

So I tell you what Andy, I'm going to give you a couple of comments on that, and then I'll pass it over the Gaur to answer some more that specifically. But just in terms of achieving our results, again, as I said in our prepared comments, I see us having multiple ways to achieve that. And we sort of broken it down into, as we said, a third, a third, a third, ultimately we're going to look back and it's going to be very different. But nevertheless in terms of growth, the market is creating an opportunity for us to take advantage of the phenomenal skills that we have across the world, our people skills across the world. So the market conditions have certainly been improving.

If you look back a few years, we had seen funding momentum in a lot of our markets pre-pandemic and we had started to see some growth coming into the market, obviously the pandemic disrupted all of that. But again as we look forward, we see the market trends improving and with some – again, with some further government support improving in a way that create a great backdrop for growth in 2022 and beyond. And just in terms of what the rest of your question which is the model, I'll turn it over to Gaur.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Hey, Andy. So in terms of the modeling for growth purposes, we have approximately 3% built in and it could lever a little bit up based on what market opportunities present to us. So nothing herculean built in. And to Troy's point, I think it's important to note, there's multiple levers to doubling our EPS. It is not solely dependent on achieving a static number of growth, but we have margin expansion. We have cash that's going to be generated, utilized for our capital allocation purposes. And specifically you look at some of the more recent trends in Q1, where our design business grew at 1.1% for backlog, book to burn. Troy also mentioned in his comments before, how we're seeing significant pipeline activity in our capture rate, which has expanded by 40% and our Americas business almost to pre-pandemic levels, all of this is adding to the confidence we've put forth in the model.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Very helpful guys. And then maybe just a similar question on margin if I could, you still have some regions of the world primarily internationally that have some decent underutilization. So when you look at that 180 basis points that you're expecting going forward, how much do you expect is just sort of the global economy improving and helping utilization internationally versus those four buckets that you laid out and maybe which bucket do you think can give you the biggest margin boost over the next few years?

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Andy, this is Gaur, I'll respond to that question. So specific to your question on International, it is absolutely modeled into our 2024 vision of doubling EPS, that we will achieve double-digit margin growth in International as well right. I mean if you just take a step back, we doubled our margins in 2020 for International. We grew by another 130 bps in Q1 to where we sit today. And our aspiration is to be best-in-class just as we are in Americas. We are focused on the initiatives that have already been identified from better utilization of design services, business services, Workplace of the Future, continue to evaluate our geographic footprint, but the key thing to also advise here is we're not factoring any growth to getting to that 10% margin initiative. That is based on all the current cost initiatives that Troy said in his prepared remarks and what I just articulated right now.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Helpful, guys. Thanks for the presentation.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah, absolutely. Thank you, Andy.

Operator: Your next question comes from Andrew Wittmann with Baird. Your line is open.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks, guys. I just wanted a couple of clarifications, I guess. You guys said on previous calls that any benefit from the proposed Biden stimulus plan is not baked into the 2021 outlook. And I was wondering over the longer term, I guess, you kind of answered here little bit, but in the out years where there could be more benefit is the Biden plan part of that 3% that you just talked about, Gaur. And I guess the other question that I have this kind of related to some of the targets that you outlined here, specifically on the aspirational 17% target, given that that's probably out beyond the 2024 – is out beyond the 2024 view here, does that potentially consider an inorganic contribution?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

All right. I'll take those ones. First of all just as you're right, with respect to fiscal 2021, we did say that there is no benefit from any infrastructure support provided by the Biden administration. But when we look forward, we certainly do expect some support, but I will say it's not built into our plan. Our plan is really built off the fact that we believe the markets around the world are lining up to support the opportunities to take advantage of the strength of our team and what we do. The agendas of our clients, the decarbonization agendas are a significant part of that. And we see that trend building and accelerating through the pandemic. And we think that's creating an opportunity for us.

If it turns out that there is – there is another infrastructure package or there is a COVID support package coming from the Biden administration. That certainly is additive. But when we look at the future, we're not – we're not saying there's one single item we're painting our growth hopes on, not at all. In fact it's – it's – it's broader market trends across the world that we view as long-term and sustainable. And certainly, some of these things being passed and finding commonplace certainly support and help that ambition.

In terms of the...

[indiscernible] (00:52:00)

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah. I was going to say the 17% is an aspiration. And if you recall back in 2019, our Investor Day then we set a 15% aspiration. We now have moved with a 15% as our target, and we certainly don't believe that we're done. So, 17%, we think we get there by just continuing to transform how we work and how we deliver, and having a culture that's focused on continuously improving. We believe that's how we'll get there. There isn't one single thing or a single initiative that I would point to. It's really more how – how we've learned to work and it's ingrained in our culture. Again I go back and say that our America's business is already proven that we can certainly achieve a 17% ambition. We have operating margins in excess of 17%. We still think, again there's room for improvement. But the 17% if you think about it is our north star. And we are – we're setting this out, so it reminds us to keep challenging ourselves and keep challenging the industry paradigms, and we think like the old 15% will set an aspiration and we'll look to, we'll look to turn that into an achievable target.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.
Q

That's really good context. Thanks for that, Troy.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Sure thing.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.
Q

I don't usually dig into specific end market opportunities, but I think the PFAS one is one that is obviously drawing a lot of attention and has significant opportunity. The solution that AECOM is working at developing proprietary technology sounds pretty unique in that context. So, I was hoping that you could just spend a little bit more time here in the Q&A session to talk about how unique this is in the marketplace. I think you calls it a game changer or something like that.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Yeah.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.
Q

But if you could just talk about the development of this, the timing of it, how differentiated it really is, and just for some broader context, I think that would help as well. Thank you.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Yeah. Andy, you know what, I'm going to turn that question over to Lara. She can give you the background on our PFAS solution.

Lara Poloni
President, AECOM
A

Thanks, Troy. And thanks, Andy. So, as Troy mentioned in his earlier remarks, PFAS is one of those core opportunities particularly coming through the Biden administration. It's going to be a key US EPA policy initiative. The new regulations are moving at fast pace. So, yes, that's definitely going to create some opportunities for us.

And I think as we've said on earlier calls, we come from a real position of longstanding strength. We've got the number one environmental business globally, and we have a couple of decades of experience in consulting services, let's call them, in PFAS. But the real game changer as we're saying is this onsite destructive remediation solution. We think we've got a real prime mover position with that. We've got a readymade group of clients, defense departments, aviation clients, they're really the core customers that have, they've got immediate issues in terms of high concentration remediation requirements as a result of the historic use on their sites that such as the firefighting foams.

So, we are at a good stage, and many of the clients that are coming to us, and they're interested in piloting these PFAS remediation solutions ahead of many of these regulatory drivers. And this, our deployed capability and solution is basically an electrochemical oxidation technology, and we really believe that it's one of the most promising potential PFAS destructive solutions. And we've got the pilots already in place as Troy mentioned. We're hoping to sort of commercialize that by end of the year. So we're really excited about that. And I think that will really strengthen our position in this segment of the market. And it's very timely with all of these regulatory advances and changes and momentum that exist around the world at the moment.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc. Q

Thank you.

W. Troy Rudd
Chief Executive Officer & Director, AECOM A

Lara, thank you. And I just – just one point on top of that which is that it is technology that we would – we certainly would own the rights for. So, we have – it's something that we've patented. So if it is commercially viable, as we determine to these pilots, then we'll own the technology.

Lara Poloni
President, AECOM A

Yes, absolutely.

Operator: And your next question comes from Michael Feniger with Bank of America. Your line is open.

Michael Feniger
Analyst, BofA Securities, Inc. Q

Yes. Thanks for taking my questions. I was just hoping to get some specifics on two trends you mentioned. I think you said public customers have lost in-house capabilities due to COVID. I was hoping you could expand on that for us. And what that could mean for AECOM. And then earlier in the presentation you talked about this inflection in water and environment. Just to be clear, are you starting to see the pipeline build currently even without the Biden stimulus package passing yet? Thanks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM A

Sure. Thanks for your questions. First of all, I'm not going to comment on any particular public agency. But just in terms of a general trend, there is certainly an increase in ambitions and programs. And then given the strain put on local governments to support recovery from COVID has meant that there isn't budget opportunity to increase the capacity of the folks that would be responsible for those projects. So there certainly is broadly an opportunity to provide program management services to help our customers achieve those ambitions.

With respect to water and environment, absolutely, we believe that water and environment are positioned to be some of our fastest growing businesses as we move forward. And so where we are today typically is we're having discussions, advisory type discussions where people are planning to achieve their decarbonization ambitions. So, it certainly is smaller in terms of scope and engagement. But obviously, those are the seeds of a lot of work that has to be done in the future. And so, we'll see that grow over time. So we're not seeing a spike in certainly the prospects or the opportunities today. We're starting to see again the seeds of the trends that we believe will lead to that.

Michael Feniger
Analyst, BofA Securities, Inc.
Q

Makes sense. And Troy, you mentioned real estate on the call. What – I'm curious if you have a number of percentage of your leases that are kind of coming up in the next few years. And is there any view of what the real estate and still exiting some underperforming regions, service industry at a lower cost. Can you become more competitive, trying to win more projects, gain scale, expand advisory. I guess I'm trying to understand how you're looking at tradeoff between growth getting these – and its growing their – expanding their industry leading margins and really just trying to drive the overall EBITDA dollars higher. How you think of those tradeoffs?

Gaurav Kapoor
Chief Financial Officer, AECOM
A

Michael, this is Gaur. I'll take those questions. Thanks for them. So, first to your question on real estate. Over the next four years, approximately, we expect – sorry, I'm having a lot of feedback.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Operator, could I – could we ask you to mute the lines on the call please. We're getting some feedback.

Operator: They are muted actually. It might be coming from microphone if you have the speakers off.

Michael Feniger
Analyst, BofA Securities, Inc.
Q

I'll mute it.

Operator: Yeah.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Yeah. That'd be great, sorry. Thanks, Michael.

Gaurav Kapoor
Chief Financial Officer, AECOM
A

Sorry, Michael, so repeating again on your question for real estate. Over the next four years approximately 65% to 70% of our leases will come up for renewals, or will have exit options. And that's built into not only our 2024 targets, but as Troy mentioned, when we look to our north star, key thing to remember is, we're going to continue to have leases come up for expirations that we will leverage and delivering better margins as we look forward. Part of our continuous improvement strategy.

Your second question relates to growth versus profit, right. For us growth is being more efficient in investing our BB dollars through the rigorous hurdles we've discussed and selling work. It's taking advantage of the PM market opportunities, Troy has articulated before, advisory services and looking at the ESG trends globally that we will – we are best positioned to capitalize. And when you look down at the profit that is doing not – I don't think that's as related from a growth standpoint because to us profit is doing what we have been doing, but continue to deliver it more efficiently and effectively. That example is as we've created a much leaner operational structure by taking out redundant layers and how we operate. Right. It's not price dependent to us.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah. Again I just in terms of that question, I'd just add a little bit more over the topic because I think there's a classic concern that you can't do both. And it's almost like – likens me to an old commercial, you see during the Super Bowl around beer, right, less filling, tastes great, how could you get both? If I think about growth and our margins, I think we can do both. And I think it gets to the fact that Gaur pointed out what we're doing. We are driving margin improvement and we're taking some of that and investing it back in the business and investing that in business development and investing that in innovation and investing that in building the trends and taking advantage of the trends. So, well, sure during you might see periods of time where maybe there's a little bit of a tradeoff. But over the long run and over the course of our plan, we believe that we will – we have the ability because of how we're investing through our margins to grow and to improve margins.

Operator: And your next question comes from Jamie Cook with Credit Suisse. Your line is open.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning. I guess a couple questions. The first one, I'm just trying to understand how much variability there is across the portfolio when you think about the margins in the returns understanding international is below where you should be. But I'm wondering, if there's a lot of variability as well within the Americas business.

My second question, I guess, relates to M&A understanding. You're not contemplating large deals. And to achieve these targets, you don't need M&A. But you also threw out, you don't need to do a billion-dollar deal. So, I'm wondering if you're contemplating smaller acquisitions or any acquisitions if – if you could just help us from that perspective. And what your return metrics are for M&A if you were contemplating any M&A, even if smaller?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Sure. Okay. So, with respect to your first question, across our business, we certainly do have variations in the margins in the business. But when you – you ask about the Americas, well, there are not noticeable differences in the margins, I'm talking about the net margins in the business. Certainly, there are, if you look at gross versus net, some businesses by their nature have a little bit lower gross margins, but they effectively require more or less organizational support.

So, across our Americas businesses, margins are fairly consistent. When we look at the practices, we're focusing on building our advisory business and certainly our program management businesses. We do see an opportunity for some improved margins in our advisory business. It is a higher end consulting business. And in terms of program management, it's been our experience, we operate a large program management business that the margins are consistent with the rest of our engineering design business.

And with respect to M&A, we don't have any intention to do M&A, large or small. Now, again, over the course of four years, certainly it's possible that we could identify some capability that we do not have that we want to bring in-house. But I'll simply say, there are different ways to acquire that capability than certainly going out and doing M&A. And what we're finding in fact is that, since we've started this discussion of evolution and the business has been evolving that we've been approached by people who are interested in joining us. And so we're looking at investing in people and investing in innovation. And we think about that we're doing that organically not through M&A. And with respect to a return hurdle, we measure everything against the returns for acquiring our stock and today we see that as being the largest and best opportunity.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. Sorry and one quick follow-up the – the...

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Sure.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC
Q

...slide that you had on the design – sorry the global design backlog that represents 91% of your profitability and has been growing at a faster pace, I think, like 9% in the last quarter. Can you just remind me what the – how – what that – size of that global design backlog is relative to the total? Thanks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Sure, Jamie. The size, it's 4x to 5x, I would say, of our CM business.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. Thank you.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Thanks Jamie.

Operator: Your next question comes from Steven Fisher with UBS. Your line is open.

Steven Fisher
Analyst, UBS Securities LLC
Q

Great. Thanks. Good morning, guys. Troy, you talked a lot about expanding your advisory role. Can you just talk a little bit more about what will you do in that advisory role that you're not doing today already and how do you actually expand that and how much is within your control to expand it?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Well, today we certainly are doing that type of work but we believe when we look at the interactions that we have with our large customers that we have an opportunity to come sooner in the process. We refer to it actually as kind of almost project creation and it focuses on the large ambitions that that our clients are setting for themselves. There is an opportunity by setting those large ambitions to have someone come and help them. And that company that is best positioned to do that is ours. It's the underlying nature of what we do. We can bring the skills that most others that come to the table to provide that advice don't. A lot of the other large consulting firms, and again by their – by their nature, are coming with people that have financial backgrounds or MBAs. We come at this with people that have that background and a consulting experience. At the same time, we also have almost 50,000 professionals behind them that can bring all the technical expertise to help evolve and shape those – those decisions and help shape that strategy. So, look, there's a huge opportunity and it's set up by ambitions by our clients. I think we have a group of people that are best positioned to do that, and it comes down to our focus. And our focus is making sure that we're bringing those people to the table with those clients to help them form their strategy. And that is something that we had not had as a focus in the past.

Steven Fisher
Analyst, UBS Securities LLC

Q

Got it. And then this sort of dovetails into that, wondering how you're thinking about mix of larger projects and programs versus smaller projects and with a focus on expanding advisory and program management, to what extent does that necessarily require a greater mix of bigger projects, and you highlighted NEOM. It seems like you should be trending towards the bigger projects. Is that fair to say?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

I think our program management business by its nature does trend towards larger projects. But I want to be clear, we're not losing sight of our clients, right. Along with – with large clients – large clients and large – and large projects, there's also a lot of things we do for them along the way that are smaller in nature. So the most important thing is we're not going to lose sight of our clients and what's important to them. And then by the nature of what we're focused on, I think, there's no doubt that the projects in terms of size within program management will grow for us.

Steven Fisher
Analyst, UBS Securities LLC

Q

Just one quick clarification. Is there a reason that you guys didn't guide to adjusted EBITDA for 2024? I know you obviously want to capture the buyback in the EPS but given that you're currently guiding to EBITDA and EPS, just curious if there was any thought behind that?

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Yeah. This is Gaur. I'll respond to it. As we said our model is dynamic. It has multiple levers to – to get to that path, and if there are any specific questions we can definitely connect offline.

Steven Fisher
Analyst, UBS Securities LLC

Q

Okay. Fair enough. Thanks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Thank you.

Operator: Your last question comes from Michael Dudas with the Vertical Research. Your line is open.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Thank you. Good morning, gentlemen and Lara.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Mike, how are you?

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Hi, Mike.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Great, great. Thank you. I was interested in the factoid you provided on ESG that there are over 1,500 companies and 800 cities looking to net zero over the next 20, 30, 40, 50 years. How many are you working for right now? Could you characterize and give a flavor of is there a separate aspect to what AECOM is doing now? I'm sure it's not great because it's just [indiscernible] (01:10:28) picking up generally over the last maybe a year or two dramatically, but how that's going to play through your next 5 or even 10 year outlook of what – what type of service and what kind of revenue or profit potential would – could you characterize to drive your business through ESG-centric work?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah. So Mike, we gave those trends just to indicate the size of the opportunity. Again, they were a factoid just to indicate the size. But because the size is across almost every client, whether it's a city, whether it's a local government, whether it's a state government, whether it's a national government and across all of our private sector clients, everyone is setting this out as their ambition. I wouldn't look at this as sort of individually how do you think you're going to attack all of these clients. It gets back to the point that the opportunity for us is – is large and it is long term.

And then when we think about what we're doing, again, we usually have touch points with almost all, kind of large private clients whether they're public or whether they're private and then we certainly have touch points with all of the major cities and all of the major national and state and local government. So there certainly we have touch points and ability to connect with all of them. I don't have a stat at my fingertip that can tell you that we're doing work for X percentage of that number. But what I can tell you is, is we have touch points and how we think about is, is we think about this manifesting itself over time in our new financial targets. We believe that there's a significant opportunity to grow. Within the work that we're doing, there's significant opportunity to continue to improve our margins. And as we generate cash, we'll use that to redeploy to our highest returning opportunity which is to acquire our own shares. So that's how we're sort of thinking about it in aggregate. It is a large opportunity. We're not depending on any single or one thing to get there, whether it's growth, margins, the client, the subsegment of clients, we've got multiple paths to get there and that gives us great confidence in that outcome.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

I appreciate that comment. Turning to your CM business, as a plan for the next five years and beyond, how does it fit in relative to some of the initiatives that you've put forth in your growth, your expansion of margins et cetera? Is that a business that still fits in with the overall tenor in professional service vector that AECOM is certainly putting its full attention towards going forward given maybe the near- to medium-term cyclicality and some deferrals and some of the urbanization trends that may be changing because of the pandemics and some of the issues that you've seen over the past 12 months?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah. So, Mike, first I'd just say it absolutely fits in with our plans. Our Construction Management business is a very high skilled group of professionals that that do a fantastic job actually managing the creation of assets. They fit into what we're doing and they fit well with the rest of the team. If you look at the skills of that team we are the number two green builder in North America. So we certainly have great skills and quals to do that that work. Again, they certainly fit in with our plan, they're integrated into the business and they bring skills to the team, they help us achieve our ESG ambitions.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Terrific. Makes sense. Thanks, Troy.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah. Thank you, Mike.

Operator: Okay. And now I turn the call back over to Troy Rudd for closing remarks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

Thank you, operator. Again, thank you all for joining us today. We're very excited about where we're headed. And we hope to engage with many of you along the way. So have a good day. Take care.

Operator: This concludes today's conference call. You may now disconnect.