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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the AECOM First Quarter 2020 Conference Call. I would like to inform all participants this call is being recorded at the request of AECOM. This broadcast is a copyrighted property of AECOM. Any rebroadcast of this information in whole or part 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, Vice President of Investor Relations.

William J. Gabrielski  
Vice President, 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 are using non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation, where available, which is posted on our website. All percentages in today's discussion refer to year-over-year progress, except as noted.
The sale of the Management Services business closed last week. The Management Services business and our at-risk, self-perform construction businesses have been classified as discontinued operations. You will see that we have re-segmented our business to provide greater visibility and insight into our performance. Our reporting segments now consist of the Americas segment, which primarily consists of the United States and Canada; the International segment, which consists of EMEA and APAC regions; and AECOM Capital.

Our comments today will focus on continuing operations unless otherwise noted. The discussion of operating margins is on an adjusted basis and reflects segment performance for the Americas and International segments, otherwise referred to as the Professional Services business. 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 made on an NSR basis, unless otherwise noted. Organic NSR growth is presented on a year-over-year and constant currency basis and reflects continuing operations.

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

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

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 an overview of our financial and strategic accomplishments and review of market trends. Troy will then review our first quarter performance, outlook and trends across the business in greater detail before turning the call over for question-and-answer session.

Please turn to slide 3. We delivered strong first quarter results, demonstrating the benefits of the strategic and financial initiatives that we have executed over the past two years to transform AECOM into a higher-returning, lower-risk Professional Services business. Building on last year's momentum, adjusted EBITDA increased by 27% in the first quarter and we reiterated guidance for 12% EBITDA growth at the midpoint of our 2020 guidance range.

Key to this growth was another quarter of substantial margin improvement. The adjusted operating margin in the Professional Services business increased by 230 basis points to 11.7%, building on the 200-basis-point increase we delivered in 2019 and consistent with our expectation for the full year. This outcome reflects strong execution against our plan to drive profitability and create substantial shareholder value. We have executed several initiatives aimed at reducing overhead, simplifying our business, leveraging our scale through greater utilization of best cost global design and shared services centers and de-risking our portfolio.

In addition, we strengthened our business and the financial profile with the sale of Management Services at a premium valuation, which closed last week. I want to thank everyone who made this result possible. Today, we are a stronger company and we are confident that we will deliver on our stated goal of delivering industry-leading profitability.

We're continuing to win work at a high rate. We had $3.3 billion of wins in the quarter. And backlog increased by 2% to $37 billion, which remains at near-record levels. In addition, after the quarter ended, this momentum continued with several large pursuits moving into the award phase. As a result, we expect backlog to reach a new record in the second quarter.

Importantly, we are delivering strong results even as trends across our business remain varied. In the Americas, nearly every end market we serve grew in the quarter. Continued strong support for public infrastructure investments and strong client budgets support our expectation for growth this year.
International performance was more mixed. In Australia, we are benefiting from continued investment in large transportation projects in our backlog, which contributed to growth in the quarter. However, profitability in the UK, our largest international market, remains well below prior peak levels. We are optimistic that recent progress on Brexit and our commercial successes on a large number of key frameworks position us well for the expected post-Brexit infrastructure investment surge. And in Hong Kong, we were negatively impacted in the quarter by ongoing political instability, although we expect better performance as the year progresses.

As we look ahead, I am confident that the brightest days for our company are yet to come. We have a strong leadership team in place and the most talented workforce in the industry, whose extraordinary efforts have been integral to our success. As you know, the board, led by the CEO search committee, is actively engaged in identifying my successor to carry the company forward and build on our many successes and accomplishments.

With that, I will turn the call over to Troy to discuss our financial and strategic accomplishments in the first quarter and the outlook for the rest of the year. Troy?

W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

Thanks, Mike. Please turn to slide 5. Our first quarter results demonstrate the progress we've made on transforming into a focused and highly profitable Professional Services business. As Mike noted, adjusted EBITDA of $173 million increased by 27% from the prior year. In addition, the adjusted operating margin of 11.7% was consistent with our full year margin target despite the first quarter typically being our seasonally weakest quarter. These accomplishments are a direct result of the strategic actions we have taken and continue to take to drive strong financial performance.

These actions include the already executed $225 million G&A reduction that further aligned our cost structure with our transformation into a more focused Professional Services organization. We also continue to simplify the business and prioritize investments where return opportunities are the greatest, including our planned exit from more than 30 countries, which is more than 50% complete. And we continue to review our portfolio to ensure we are delivering profitable growth and returns consistent with our ROIC goals.

In addition, we are progressing with a substantial real estate consolidation. In total, we expect to reduce our real estate footprint by more than 5 million square feet compared to fiscal 2015, including a more than 1 million square foot reduction as part of the current plan.

Finally, we are leveraging our scale and global delivery capability by driving greater utilization of our best-cost shared services and design centers to ensure we are efficiently delivering our work, including a nearly 20% increase in hours delivered through the best-cost design centers in the first quarter.

Please turn to slide 6. Revenue in our Americas business declined by 4%. Importantly, NSR increased by 2% on an organic basis with strength in our core transportation, water and environment markets and double-digit growth in construction management, consistent with our expectations for growth this year. The Americas business had a 16.6% adjusted operating margin, which marked a 220-basis-point improvement over the prior year and was ahead of our expectation for the quarter.

Contracted backlog, one of the best indicators of future growth, increased by 27% to a new record in the quarter, driven by several key trends that inspire continued confidence in growth. First, state tax revenues increased by mid-single digits in 2019 and five states implemented gas tax increases in the last year which are key funding
sources for public infrastructure investment. Second, building on the theme of strong funding, many states and large metros are proposing plans for substantial infrastructure investment.

In our largest US market, New York, Governor Cuomo recently unveiled a $275 billion infrastructure plan, which would be the largest state-wide plan in US history and would support the MTA’s more than $50 billion capital spending plan. We have actively onboarded several key leaders in this market to further strengthen our competitive position.

Third, the recently proposed changes to the National Environmental Policy Act demonstrate a political focus on accelerating infrastructure investment. For example, the Federal Highway Administration has an approximately $10 billion backlog of projects that have been undergoing environmental assessment for more than a year that would move forward much more quickly under the proposed NEPA change. Fourth, demand for more innovative solutions continues to rise as resiliency and sustainability remain front of mind with our clients. With our investments in proprietary technologies, many of which we demonstrated at the Innovation Expo at our Investor Day in December, we are ideally suited to capitalize on this demand and lead our industry.

Finally, the pipeline in the construction management business remains strong. And we are pursuing sizable opportunities across our core building, stadia and aviation markets. This includes large expected wins in the second quarter that underpin our expectation for growth in 2021 and beyond.

Please turn to slide 7. Turning to our International business. While revenue declined slightly, organic NSR was effectively unchanged over the prior year. Our adjusted operating margin for the first quarter was 4.7%, a 210-point-basis increase over the prior year with strong performance in Australia and results in UK. Trends across our international markets are mixed. Our business in the UK, our large international market, is improving. Following December’s election, the prime minister signed the withdraw agreement from the EU last month, which provides greater certainty in the marketplace as economic conditions steadily improve. In addition, the new government has indicated support for an additional $100 billion of infrastructure investment in its first budget, which would add to our pipeline of opportunities.

We’ve been successful in winning more than 250 frameworks, including key positions for Highways England and Network Rail, where we are already winning assignments. In Australia, we extend our sympathies to those impacted by the devastating fires in the region. We’re proud of our local teams who have been engaged in their communities to support the recovery efforts.

Revenue in Australia increased during the quarter as large infrastructure projects continue to progress. In Hong Kong, macroeconomic and political uncertainty impacted our first quarter performance, where we had forecasted a 20% revenue decline for the year. However, our performance was better than we originally contemplated. And we expect to see further improvement as the year progresses. The long-term outlook for infrastructure spending in Hong Kong is robust. And we retain a leading position in this market.

In the Middle East, we are closely monitoring the evolving political tensions. To-date, we have not experienced a material impact to any of our projects and activity in Saudi Arabia, our largest Middle East market, continued to progress as expected. Importantly, across the region, the decisive and deliberate actions we have taken to align our portfolio and cost structure with these very trends resulted in a strong year-over-year improvement in profitability. And we expect further margin improvement as the year progresses.
Please turn to slide 8. I’d like to spend a moment providing an update on the strategic actions we continue to take.

We closed the sale of the Management Services business last week. Following our separation announcement in June, we moved quickly to capitalize on strong market demand for high-quality asset and realized a premium valuation through sale. The net proceeds from this transaction will allow us to repay a substantial portion of our outstanding debt and to repurchase stock.

We are advancing towards our goal of exiting nearly all at-risk, self-perform construction businesses by the end of this year, including progress on certain transactions that are advancing towards completion in the coming quarters. I also want to provide an update on our combined-cycle power plant construction project. Although we recently encountered a few challenges that resulted in the higher estimated cost to complete, we expect to successfully deliver the state-of-the-art plant to the client in our fiscal second quarter. All these initiatives enable us to operate as a more focused and more profitable company.

Please turn to slide 9. Operating cash flow was a use of $207 million and free cash flow was a use of $238 million. Cash performance across the business was mostly consistent with expectations. However, our cash flow was most significantly impacted by timing delays in Management Services, nearly all of which we recovered prior to the close of the sale last week. Adjusted for this impact, our first quarter cash flow was consistent with our expectation for seasonal cash flow performance. We continue to pursue a large outstanding balance related to our disaster recovery work in the US Virgin Islands. And we are optimistic that recent positive developments support our expectation to collect a large portion of this cash in fiscal 2020. As a result, we are reaffirming our guidance for $100 million to $300 million of free cash flow this year.

Turning to capital allocation. Net proceeds from the MS transaction totaled $2.2 billion, which does not include approximately $150 million of contingent purchase price. As a result of this transaction, our pro forma net leverage is approximately half a turn. We’ll use the proceeds to transform our balance sheet, including the immediate repayment of approximately $1.2 billion of pre-payable debt. Successful execution of our strategic actions has closed some of the valuation gap between us and our Professional Services peers. However, our valuation remains at a discount to our estimate of the intrinsic value. And we are committed to returning capital to our shareholders with the remaining $760 million of capacity under our $1 billion board repurchase authorization. We will provide more details on how we will execute these plans when finalized.

Please turn to slide 10. We started the year with a strong first quarter on nearly every key metric and leading indicator. Our Professional Services margins are near all-time highs. Our backlog remains near an all-time high. And nearly every end market is strong or improving. As a result, we have reaffirmed our financial guidance for fiscal 2020, including our expectations for adjusted EBITDA of between $720 million and $760 million, which would mark a 12% increase from last year at the midpoint of our guidance.

With that, operator, we’re now ready for questions.
QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Andrew Kaplowitz of Citi. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Hey. Good morning, guys.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

Good morning, Andy.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Mike and Troy, it's interesting to see your new segments because while your Americas NSR of 16.6% is very good, your margin is very good, your International NSR of 4.7%, as you've said, has lots of room for improvement. So, could you give us some more color into how and why your International margin is so low versus the Americas? And could you talk about where you think international margins should be and then how quickly it could get there, given the consolidation of your geographic footprint and the additional restructuring you're doing?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Andy, let me start off with that and I'll turn it over to Randy. I think you correctly pointed out the opportunity for improvement that we see outside the US. And a big part of that is due to the wide distribution we've had across 150 different countries. We've announced the exit of 30 of those that we're underway on. We're not stopping there. We're continuing down that path. We're just simply in too many places. And when you start distributing your efforts in that many places, it has an impact on margins. And so, as we begin — as we continue to refocus our energies in a concentrated way in the major markets, we see a significant opportunity for increased margins. But I'll let Randy take you into a little more detail on that.

Randall A. Wotring
Chief Operating Officer, AECOM

Hey, Andy. So, we are committed to driving profitability across the organization. And we've been successful in the Americas. And many of the actions we are taking will benefit the International business where — and as you can see, we've had a 210-basis-point improvement from last year. But there's a big gap, and we're focused on that. Today, we have real alignment of our strategy, our business model and execution. We're laser focused on higher margin, higher growth markets, as Mike said, simplifying the business and getting the leverage of our organization from a size and scale standpoint. There's no sacred cows.
You heard Troy talk at the Investor Day about the expanded review of geographies and business lines and the continued push to deliver our work more efficiently. We are having successes. The frameworks we’ve won in the UK are producing results and positions us well for post-Brexit investments in the UK. We’ve also won large projects in Saudi, where our scale and city planning capabilities are an advantage. And as noted in the prepared remarks, profitability in the UK is still suffering from Brexit, but simply normalizing would add 100 basis points to our International margins. So, look, we have the plan, the roadmap and the international leadership team to drive a better result over time. And we’re confident we’ll do that.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Thanks for that, guys. And then, obviously, there are some other topics of conversation on AECOM that don’t have much to do with the quarter. So, let me just ask. Can you give an update on the new CEO search to the extent you guys can? And then, given you haven’t picked a new CEO yet, you’re sitting now on a significant amount of cash which would seem to make you more attractive to a potential suitor. Can you talk about your appetite for a potential M&A transaction with a potential suitor?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Yeah. So, I'll take those in reverse order, Andy. I think, as we said, we’re not going to comment on speculation in the market about mergers or acquisitions. So I'll pass on that one. But with regard to appointing my successor, the board has put together a search committee. That search committee has been working actively to identify both internal and external candidates. That process is underway. And as soon as we have something to announce there, we will. But I think we’re all very confident that the company is positioned well for a new leader to take us to even further heights. So things are all on track in the right way on that front.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

All right. I tried on that one. Troy, just real quickly on the new model. I mean, your DCS business, you suggested tough comparisons in the first half 2020 would hold growth down. But for the year, you recorded low-single digit growth for the year. I would assume that same general pattern would hold for the new Americas segment, including the construction management-related revenue, whereas your International segment could act a little differently. Any more color there would be helpful.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

Yeah. Sure, Andy. So you’re exactly right in the point you made is we do expect the growth to ramp over the beginning of the year. As we said back in Investor Day, we saw modest growth in the first quarter of the year. So we’re kind of on track with where we expect it to be. And, again, growth in the second half of the year is going to be driven by the improvement in our contracted backlog across our design business. In particular in the Americas, our contracted backlog in that business is actually up 27% year-on-year.

And then, also, as we highlighted during the discussion, there are just a lot of opportunities in the marketplace. And so, we don’t typically talk about this. But our pipeline is also up almost 10% from where we’ve seen it last year. So we certainly feel good about the prospect for growth as we continue through the year.
One other point is to think about — when we talk about growth, there is a difference between what I'm going to call as good growth. And there's also a comment in there about where we should be shrinking because we're focused on growing in markets where we have the highest return on invested capital opportunities are in those businesses. And then, we're trying to shrink or decline in markets where we see the lower opportunities. So within our 1%, there's actually good news buried in that, which is we're growing in the higher returning markets and shrinking in the lower returning markets. So sometimes you've got to just sort of take that modest growth with a grain of salt. We're focused on creating better growth in the business, and you can see that coming through in margins.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

All right. Thanks, guys.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Thank you, Andy.

Operator: Thank you. Our next question comes from Michael Feniger of Bank of America. Your question, please?

Michael Feniger
Analyst, Bank of America Merrill Lynch

Thank you, guys, and thanks for taking my question. Just to kick off, to be clear on the $100 million to $300 million of free cash flow, does that include the FEMA collection and refinery receivable in your guidance? And can you help us just with the cadence of the free cash flow through the year? Obviously, Q1 was soft and you explained the rationale for that. But I'm just curious if there should be anything we should keep an eye on as we move to Q2 and beyond on that $100 million to $300 million number?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

Yeah. So, first of all, we don't see any change in the seasonality in the business. If you recall, in the past, typically, we see 10% to 20% of free cash flow in the first half of the year, the remainder coming in the second half of the year. That doesn't change, and there are a number of factors underlying that that remain consistent. But in terms of the guide itself, the $100 million to $300 million, we do see a significant amount of collections coming through USVI, certainly not all of it. And to remind you, we had $200-plus million invested in net working capital in that project. We have not collected any. But we do see ourselves collecting that in Q2 and through the rest of the year. And in terms of that refinery project you spoke of, we don't have any recovery in our guidance today. So that would be upside to that number.

Michael Feniger
Analyst, Bank of America Merrill Lynch

Thank you. And just we were talking about the successor process. Is the successor contingent on executing your capital allocation strategy and your buyback strategy with timing to that? And just to be clear, you guys had a very detailed Analyst Day. You provided 2021 targets. Is it our understanding that anyone who does come onboard as a successor is signing off on what the board has agreed to as a capital allocation strategy?
Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Yeah. Let me touch on that one. The board has made a decision on capital allocation very clearly, and Troy stated it very well. And so, the successor would clearly be required to follow the board's decision on that point. And so, I don't see any change at all on that point. The board is firmly committed and as well as the current management team are very firmly committed to executing against that plan.

Michael Feniger  
Analyst, Bank of America Merrill Lynch

Okay. Thank you. Then just lastly, like your quarter ended December 31, you made a couple of comments about the backlog and award activity in January. Just anything you want to touch on with the virus, an impact, and any of your exposure out there and what you're seeing? Thank you.

W. Troy Rudd  
Chief Financial Officer & Executive Vice President, AECOM

Well – I'm sorry. Go ahead, Mike.

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Yeah. So you're talking about the...

Michael Feniger  
Analyst, Bank of America Merrill Lynch

Coronavirus.

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

...the virus, yeah. So we have not seen any direct impact on AECOM yet, either in our Asia-Pacific region or elsewhere. But, certainly, we have our safety and resilience teams very focused on that. We have a isolated number of employees in Greater China that are affected by certain quarantines, but not directly by the virus itself. We have proactively directed our employees across the Greater China region to work from home until at least February 6. And we'll continue to evaluate those – that guidance as we start to see things hopefully normalize after people returning from their travels around the Chinese New Year holidays.

But as we look ahead, we currently don't expect this to have any material impact on our business. Just to put it in perspective, the Greater China area is a single-digit percentage of our net service revenue. But we don't see an impact currently. But if we do see any change to that, we'll be certainly – certain to let you know.

Michael Feniger  
Analyst, Bank of America Merrill Lynch

Perfect. Thanks, guys.

Operator: Thank you. Our next question comes from Jamie Cook of Credit Suisse. Your line is open.
Jamie Cook  
*Analyst, Credit Suisse Securities (USA) LLC*

Hi. Good morning. I guess, a couple of questions. One, the – obviously, the EBITDA growth in the quarter was strong at 27%. I know, for the full year, I think you’re expecting 12%. But given your bullish commentary and the backlog opportunity, just trying to understand why we did not increase the guide or why would growth be moderating from first quarter levels if there was anything one-time in there.

My second question, following on Andy’s, you didn’t give a formal target for the Americas versus International longer term. But is there any way you can help us with how you’re thinking about the margin for each segment at least for 2020?

And then, my third question, just on capital allocation, obviously, you guys have the proceeds from MS. You're going to pay down the debt. How quickly can we move on a share repurchase? Should we assume that we ramp on that fairly quickly? Thank you.

W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

Yeah. So, this is Troy. Jamie, that was a lot. I think I got it all down here. So, I'm going to take the first two of your questions, first of all, just on EBITDA performance. So, we certainly did have a good quarter in terms of performance, growing EBITDA 27% year-over-year. And when we look forward, given the markets that we're in, the backlog that we have and our expectations, we feel very confident about achieving that result for the year. So, it's a little early for us in the end of the first quarter to effectively call up our guidance. The best way I can describe it is, based on that performance, we feel very confident about our ability to deliver on that number for the year. Again, in terms of your targets for margin, so if we look at our US business and compare it to our peer group, I think we can say – comfortably say that we believe that is at the head of our class in terms of margins in our Americas business.

Internationally, clearly, that is an upside for us and we believe that we will be able to, again, to come up to where we see some of our peers in terms of international margins which are – we see the upside of being low-single digits in terms of margins. We see that slowly improving over the course of the year. And, of course, we see that being buoyed by an improvement in our EMEA market and also stability as we see coming into Hong Kong and we hope to see that over the course of the remainder of the year.

So, again, we see upside certainly in our International margins, which support us achieving that longer-term target. And then, I'll let Mike take the last question.

Michael S. Burke  
*Chairman & Chief Executive Officer, AECOM*

Yes. So, Jamie, as you know, we closed the sale of our Management Services business just on Friday of last week. We would expect to use about $1.2 billion of those proceeds to pay down our debt. We would expect to use the remainder of that to repurchase our stock, both the remainder of that as well as cash flow throughout the year. But we would expect those stock repurchases to happen in the second half of our fiscal year which is just on the horizon here.

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

Thank you.
Michael S. Burke
Chairman & Chief Executive Officer, AECOM

You’re welcome.

Operator: Thank you. Our next question comes from Michael Dudas of Vertical Research. Your question, please?

Michael S. Dudas
Analyst, Vertical Research Partners LLC

All right. Good morning, everyone. And, Mike, best wishes on your next endeavor.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Thank you.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

So, looking at the Americas and your backlog growth and your confidence on Q2 with some projects, it seems — your backlog cover has grown. You have almost three years of cover on your backlog growth to revenues. Are the projects just getting longer in scale? Or is the cadence — or the cadence of the booking is going to quicken up here as these budgets and these fundings move through at least from planning stage to execution? And is the mix of Americas going forward still going to lean on a percentage basis towards your traditional design, transportation, water and environmental business? And is there any upside or some activity in the construction management side that could skew the numbers going into 2020 and 2021?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

So, Mike, thanks for the question. I guess, first of all, when we look at the backlog, one thing to remember about backlog even in a design business is quarter-to-quarter there is some lumpiness to that. So, when you look over the course of the last year, you'll see that our total backlog has continued to progress or grown, but there has been little lumpiness from quarter-to-quarter. What we have seen, again, is contracted backlog growth in the business and particularly in the Americas, which gives us near-term visibility. We have some other awards we're expecting in the second quarter. They're imminent. We expect that will give us longer-term visibility.

In terms of the overall makeup of backlog, there isn't a dramatic difference in the length or duration of our backlog in our design business. It's remained relatively constant over the course of the last few quarters. So, no change there. And then, in terms of the mix of business, again, we don't see a change in the mix of business. Our design business represents approximately 85% to 90% of the overall NSR revenues of the entire Professional Services business.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Yeah — and, Mike, I think, as Troy correctly points out, you see lumpiness quarter-to-quarter in wins. But if I go back looking at since the beginning of 2019, our book-to-burn was 1.3 over those five quarters. And so, we're continuing to book more than we burn. But equally important is, as you know, we give you transparency to contracted backlog and then awarded backlog which is the precursor to that, but there's also another precursor to
awarded backlog which is our – what we call our qualified pipeline. And when I look at our qualified design pipeline, that's up 8.5%. So, it's not just the growth in the contracted backlog. America's contracted backlog was up 27% year-over-year. So, you're seeing contracted backlog up higher in our highest-margin business. You're seeing a 1.3 book-to-burn over the last five quarters. And then, that qualified design pipeline is also quite robust and so – and it is primarily transportation Americas is the biggest component of that as I think Troy pointed out. So, hopefully, that gives you some color on that, Mike.

Michael S. Dudas  
Analyst, Vertical Research Partners LLC

Terrific. And just to follow up on that, relative to low – your high value engineering or your global design centers, you mentioned in the prepared remarks some pretty good growth there. Is that going to continue? And is that something can accelerate and do you have the capacity to improve that mix in through your – into your revenue flow and your margins as you have book and execute work in your Americas business over the next several quarters?

Randall A. Wotring  
Chief Operating Officer, AECOM

Hey, Mike. This is Randy. The answer to those questions is, yes, we saw great growth in the first quarter. And over the remainder of 2020, we’re planning on seeing north of 25% growth over FY 2019. So, we have capacity and capability. Not only that, but our global design centers allows us to accelerate application of new technologies and innovation. So, we're seeing a demand grow for – use of our design centers and it's working out well for us.

Michael S. Dudas  
Analyst, Vertical Research Partners LLC

Thanks, gentlemen.

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Thanks, Mike.

Operator: Thank you. Our next question comes from Sean Eastman of KeyBanc. Please go ahead.

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

Hi, team. Thanks for taking my questions. I just wanted to go back on cash flow. So, we touched on the USVI receivable and refinery claim. But just hoping to get an update on some of the other sort of discrete items here. Like, I know there was an opportunity to launch a receivable factoring program to help replace the program at MS. And then, I know not a free cash flow item but it would be great to get an update on the probability we see the contingent consideration brought in the door here in fiscal 2020.

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Sure. So, Sean, I guess I'll try and address those in the order you laid them out. I guess, first of all, in terms of discrete items, absent the US Virgin Islands, our portfolio is a long list of small discrete items. I shouldn't say small, but discrete items. So when we balance that overall portfolio of collections, there's nothing else that really
stands out that could drive a change in that outcome. The US Virgin Islands is the thing that's large enough and we call it out because of that.

Secondly, in terms of the Management Services program, the answer is, yes, we have started to build a new program, put that in place to replace the sale of receivables program with the departure of Management Services. And that is built into our cash flow guidance. So, again, we expect that to contribute over the course of the year. And then, in terms of contingent consideration, I am not going to speak specifically to the underlying item, but we do feel we've made some progress prior to the sale of Management Services, and we do have an expectation that collection could be in the next 12 months.

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

Okay, great. Very helpful. And the next one for me is just on the at-risk, self-perform construction sale process. Your comments today seemed like things have moved along a little bit at least since the December Analyst Day. So it'd be great to just get a little bit more color on where you guys are at there. And I hate to paint you into a box. But maybe just an updated target timeline on getting that transaction done. And I'm also just curious on whether it's expected that this will be a single transaction or whether we're looking at potentially two or three separate transactions?

**Michael S. Burke**
*Chairman & Chief Executive Officer, AECOM*

Yeah. So let me try – and there's a lot of questions there. Let me try and give you a quick overview. First of all, we are firmly committed to extracting ourselves from all of our at-risk, self-perform construction businesses as we continue to transform ourselves into the higher-margin, lower-risk Professional Services organization. We already closed on the oil and gas production services and our International Development divestitures. We're more than 50% done with our country exits. And we're also moving along on a few possible sales of the other businesses.

But I think, as we've said in the past, it is not a great time to be trying to sell construction-related assets. And we are not going to give that business away. Those businesses are profitable. They have working capital investments that we expect to harvest in the very near term here. But we're continuing to be in the marketplace and attempting to sell those assets. But we're not going to give them away.

I should also note that the Alliant plant is nearly complete and we de-risked the remainder of our power business. So when we look at the entire construction services portion of our business, only about 30% of that is – or about – I'm sorry, about half of that business is at-risk with the civil business being the biggest profit driver there. So our end state is fairly clear. We continue to have a desire to dispose of those assets as soon as possible. But like I said, we're not going to give them away and rush them to a market that's not receptive to construction assets today as much as we would like.

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

Okay. All right. Thanks very much for the time.

**Michael S. Burke**
*Chairman & Chief Executive Officer, AECOM*

Sure.
W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

Thanks, Sean.

**Operator:** Thank you. Our next question comes from Chad Dillard of Deutsche Bank. Your question, please?

Chad Dillard  
*Analyst, Deutsche Bank Securities, Inc.*

Hi. Good morning, everyone.

Michael S. Burke  
*Chairman & Chief Executive Officer, AECOM*

Good morning, Chad.

Chad Dillard  
*Analyst, Deutsche Bank Securities, Inc.*

So you guys mentioned $100 billion in infrastructure opportunities in the UK, post Brexit. Just wanted to get a sense for how you’re thinking about the timing for when AECOM can see the benefits and just talk a bit more about how you’re relatively positioned over there and what sort of incremental margin tailwind that could be?

W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

So, Chad, I guess, maybe the best way to explain it is just what we’ve been doing over the last six months, which is we’ve been incredibly successful winning almost all of the frameworks that we bid on. And so, those are rail and highway projects. So I can’t speak to how the infrastructure plan in the UK will roll out. It will take a number of years.

But based on how we position ourselves and the work that we’re winning under those frameworks, it puts us in a great position to participate in that in the long-term. So we’re seeing, again, short-term impacts from the wins in that area. We see that improving over the course of the year. But, more importantly, we see ourselves positioned. So as that infrastructure money is going to be spent, we’re well-positioned to participate.

Michael S. Burke  
*Chairman & Chief Executive Officer, AECOM*

Yeah, I think, Chad, it’s also consistent with our transformation that we’ve been talking about. As we extracted ourselves from a significant number of countries in Continental Europe, it allows us to ensure that we’ve got our best resources focused on those best opportunities for the future in a post-Brexit environment. So it’s not only do we have improving market conditions in the UK, but redeploying our best resources to focus on that opportunity versus what some might say frittering them away in multiple different countries in Continental Europe.

Chad Dillard  
*Analyst, Deutsche Bank Securities, Inc.*

Got it. And then, just going back to the question about at-risk construction and then sale of that asset. Just want to clarify, are you guys still bidding work within that segment? And also, just how to think about that glide path of revenue and margins, let’s say, over the next like two years?
Randall A. Wotring  
*Chief Operating Officer, AECOM*

Yeah. So in terms of the at-risk business, the answer is, within our power business, we're not bidding any work that is fixed-price at-risk construction work. So we discontinued doing that a number of quarters ago – more than a year ago. So we're delivering those. And then, the other in terms of our civil construction business, we are continuing to bid work. But, again, we're doing it in a way that preserves value, but lowers the risk of that profile.

So, again, we're moving away from the types of typical construction projects that you'd see being bid and moving more towards doing some O&M work and working with customers that we're intimately familiar with. So, we're – we've not stopped bidding. We're just very carefully managing the risk profile of the work that we're taking on in civil as we look to take it to market.

Chad Dillard  
*Analyst, Deutsche Bank Securities, Inc.*

Thanks. I'll pass it on.

**Operator:** Thank you. Our next question comes from Andy Wittmann of Baird. Your question, please?

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

Okay. Great. Thanks. So, this question was asked earlier on kind of the guidance. Obviously, very good margin performance in the first quarter and you guys – too early to raise for the year and I get that. But I was just wondering was there anything onetime-ish that made what normally would be a seasonally weak quarter for margins particularly strong, Troy?

W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

No, no one-time item. What has improved our margins frankly is the actions that we took beginning in the first quarter of last year and have continued to take to improve those margins. So, it's a portfolio effect and it's execution against our plans is what's driven those margins. So, nothing that we would call out as a one-time item.

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

Okay. Great. Thanks. And then, I guess just for modeling purposes, everybody is going to have a lot of work here today. But I thought it would be helpful for probably everyone's purposes to just get your thoughts on a couple of the key lines which are a little bit hard to deduce from information that we currently have. And so, the two that stick out to me at least are the corporate segment cost, the unallocated segment cost in which you're thinking about for the year now with a lower base and some of that having been offloaded with MS and some have moved into discontinued ops and the at-risk construction. That line, I think, in particular would be helpful to have some thoughts on, as well as the non-controlling interest line is actually a fairly big number this quarter. I sense that – I think around $12 million, I think, was the number on the income statement. I sense that's probably unusually high and that the actual kind of underlying non-controlling interest line might be less than that.

And then, just to make sure that nothing's changed in your view on the tax rate or if you had any comments on the interest expense. I know a little bit detail there, but I just think helpful given that there's a lot of moving pieces this quarter.
W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

Okay. Sure. I can certainly answer all four of those items. First of all, in corporate segment cost, you should think about it as being consistent with what it’s been in the past, about $140 million for modeling.

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

Okay.

W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

NCI, in the Professional Services business, about $20 million to $25 million. It was a little higher in the quarter because Management Services was with us for the entire quarter and that’s typically where we’ve seen most of our NCI. Tax rate, it’s a little bit higher for the quarter. But I would expect it to be consistent with the guidance that we’ve given over the long term in terms of tax rate. And interest expense, at this point in time, it’s a little premature to talk about modeling interest expense. Again, we just collected almost $2.2 billion in proceeds from the MS transaction. So, clearly, paying down $1.2 billion of pre-payable debt and having some cash available to us will change that equation. But I can’t give you a guidance at this point in time. But I think you can model that out.

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

Yes. Okay. That’s fair enough. I’m going to leave it there. Thanks, guys.

Michael S. Burke  
*Chairman & Chief Executive Officer, AECOM*

Thank you.

W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

Thanks.

**Operator:** Thank you. Our next question comes from Adam Thalhimer of Thompson Davis. Your line is open.

Adam Robert Thalhimer  
*Analyst, Thompson Davis & Co., Inc.*

Hey. Good morning, guys.

Michael S. Burke  
*Chairman & Chief Executive Officer, AECOM*

Good morning, Adam.

Adam Robert Thalhimer  
*Analyst, Thompson Davis & Co., Inc.*
I wanted to ask first on the private construction in the US, what are you seeing on the Tishman and Hunt side and some of the biggest US cities non-res?

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Yes. So New York and Los Angeles, we have about 70 – I'll, say, 75%-ish of our business in those two markets. And what's important that we're seeing there is the diversification away from just commercial real estate. So, some of the biggest projects in New York are projects at JFK. The biggest – some of the bigger opportunities we're still pursuing are, in addition to the work we've already won at JFK, are aviation-related; Los Angeles being sport – the sports-related activities. So we're still seeing those markets growing very significantly. Our book-to-burn in those markets is well above 1%.

We still have – I think Troy mentioned in the prepared comments that we have a few billion dollars of work that we expect to be awarded in Q2 here in those markets. And the – you mentioned the key word non-res because the res markets in both of those geographies have been slow for a while, but it's the commercial real estate, as well as aviation sports that are driving. And so, we like the diversification away from just corporate real estate which is part of our strategy over a couple of years ago to make sure we're redeploying our resources so that we have a better diversification both geographically as well as end markets.

But as of right now, there still seems to be a significant demand for real estate in both of those markets.

Adam Robert Thalhimer  
Analyst, Thompson Davis & Co., Inc.

Okay. Good color there. And then, I wanted to ask about the $100 million to $300 million of free cash flow, the guidance. So, that – just to be clear, that excludes the potential $150 million contingent purchase price, excludes the sale proceeds from self-perform construction? And then, there was talk at one point of replacing the MS receivables factory with something in DCS. So, that's not in the cash flow guidance either.

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

So, the simple answer to your question is the first two items are not included in cash flow guidance. So that is – I think that's fairly clear. In terms of the overall guidance, including the replacement of our MS factoring program, our guidance does assume that we will take some actions and replace the current sale of receivables program that exist in MS with something in the DCS business over the next three quarters. So, there is some element of that that is included in our guidance.

Adam Robert Thalhimer  
Analyst, Thompson Davis & Co., Inc.

Understood. Okay. Thank you.

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Sure.

Operator: Thank you. At this time, I'd like to turn the call back over to CEO, Mike Burke, for closing remarks. Sir?
Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Thank you, operator, and thank you, everyone, for participating today. I'd like to make a few comments. Just as we reflect on the quarter, I think it's helpful just to think about where we've been. It's almost two years ago that we set out on a course for the transformation of this organization. We set out on the path. We said we were going to reduce the risk inherent in the organization. We were going to improve margins. We were going to grow our EBITDA. We were going to achieve better focus as we pull out of some of the countries that we're participating in around the world. And we said we're going to unlock value by looking at our portfolio.

And here we stand today. We have implemented much tighter risk management protocols across the organization. We have a lower risk business today. We are continuing to – on our commitment to exit the at-risk construction markets. We have executed on a 200 basis point improvement in our margins. We're expecting another 100 basis point improvement in FY 2020. You saw the results in Q1 here with a double-digit growth in our EBITDA of 27%. We have – we're more than 50% complete with the exit from 30 countries and continuing to take a hard look at the additional countries in our portfolio. We closed Friday on our MS transaction that unlocked significant value for the organization and it's reflected in our share price. Our share price was up 64% in 2019 and another 12% or so, so far calendar year-to-date.

And so, I think we're on the right path here with this transformation of the organization. And I think this is just the beginning of the continued transformation and the continued trajectory of the organization. And so, thank you all for your support as we've been down this path over the past couple of years and we're excited about the future that sits in front of us. So, thank you, and have a great day.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.