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# EDITED TRANSCRIPT

ACM.N - Q1 2026 AECOM Earnings Call

EVENT DATE/TIME: FEBRUARY 10, 2026 / 1:00PM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Will Gabrielski** AECOM - Senior Vice President, Finance and Investor Relations

**W. Troy Rudd** AECOM - Chairman of the Board, Chief Executive Officer

**Lara Poloni** AECOM - President

**Gaurav Kapoor** AECOM - Chief Financial and Operations Officer

## CONFERENCE CALL PARTICIPANTS

**Sabahat Khan** RBC Capital Markets Inc - Analyst

**Andrew Kaplowitz** Citibank Cameroon SA (Douala Branch) - Analyst

**Adam Bubes** Goldman Sachs Group Inc - Analyst

**Jamie Cook** Truist Securities - Analyst

**Sangita Jain** KeyBanc Capital Markets Inc - Equity Analyst

**Michael Dudas** Vertical Research Partners LLC - Analyst

**Judah Aronovitz** UBS AG - Analyst

**Nandita Nayar** Bofa Merrill Lynch Asset Holdings Inc - Analyst

## PRESENTATION

### Operator

Thank you for standing by. My name is Jay, and I will be your conference operator today. At this time, I would like to welcome everyone to the AECOM First Quarter 2026 Earnings Conference Call. (Operator Instructions) I'd now like to turn the conference over to Will Gabrielski, Senior Vice President, Finance, Investor Relations. You may begin.

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### Will Gabrielski - AECOM - Senior Vice President, Finance and Investor Relations

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

Today's remarks will focus on continuing operations. This morning, we announced the completion of the review of strategic alternatives for the Construction Management business.

We have concluded that we will continue to own and operate the business. Both our reported results and financial guidance are inclusive of Construction Management. Also, as a reminder, our year-over-year growth rates were impacted by fewer workdays compared to the prior year first quarter. Accordingly, our discussion will include adjustments to improve comparability of results.

On today's call, Troy Rudd, our Chief Executive Officer, will review our key accomplishments, our strategy and our outlook for the business. Lara Poloni, our President, will discuss key operational successes and priorities; and Gaurav Kapoor, our Chief Financial and Operations Officer, will review our financial performance and outlook in greater detail. We will conclude with a question-and-answer session.

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

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**W. Troy Rudd** - *AECOM - Chairman of the Board, Chief Executive Officer*

Thank you, Will, and thank you all for joining us today. As our first quarter results demonstrate, we are off to an exceptional start to the year. We exceeded expectations across every key financial metric, including record first quarter NSR, adjusted EBITDA, margins and backlog.

Backlog increased 9% to a new all-time high, fueled by 1.5 book-to-burn ratio, even while managing through an unprecedented 43-day US federal government shutdown.

I should note that we expect award activity in the US to pick up with the recent passage of all critical federal funding bills. As a result, our visibility is high, and we are increasing our full year financial guidance, which I will discuss shortly. Across the business, our focus remains on extending our competitive advantages. We have a strong moat that is built on our scale, technical leadership, trusted client relationships and domain expertise.

Our targeted investments in program management, advisory services, AI and technology position us to unlock greater value for our clients and deliver on our multiyear financial targets.

Underscoring our confidence in the long-term value creation opportunity, today, we also announced an increased share repurchase authorization to \$1 billion. We repurchased more than \$300 million in the first quarter and expect to continue to deploy our strong free cash flow to deliver greater value to our shareholders over time.

Turning to financial performance. Net service revenue increased by 5% when adjusted for fewer billable days in the period. The segment adjusted operating margin increased by 100 basis points to 16.4%. This is a new first quarter record and reflects the ongoing benefits of our strategy and high-returning investments. These investments include key hires to drive growth in our Advisory business, to build on our technology teams and capabilities and in business development to capitalize on strong demand.

Reflecting this outperformance, both adjusted EBITDA of \$287 million and adjusted EPS of \$1.29 exceed our expectations.

As I mentioned earlier, we ended the quarter with a record backlog and our book-to-burn ratio has been above one for 21 consecutive quarters. This consistent performance is a function of the value we bring to our clients. Our win rate remains strong in this quarter, especially on large pursuits.

I would like to highlight two key wins that provide greater insight into how we are advantaged in the marketplace. First, we were selected as the Delivery Partner for the 2032 Olympic and Paralympic Games in Brisbane, Australia. Our selection is a testament to the trust and credibility we've built with clients in delivering complex infrastructure projects on a worldwide stage.

It also underscores the benefits of combining our leading technical expertise with programmatic delivery capabilities.

Further, this win builds on our proud history as a critical infrastructure partner to the Olympic Games across the globe, including our ongoing role as the infrastructure delivery partner for the LA'28 games. Another great example is our selection to provide the engineering services for Scottish Water's multiyear capital investment program, which represents one of the largest capital programs in the world. This win demonstrates several key advantages. For one, we're the world's number 1 ranked water firm.

In addition, our rapidly expanding technology road map was key to our selection as we were able to demonstrate a tangible value opportunity from AI and technology over time. Our emphasis on bringing best-in-class technology-led solutions and the overwhelmingly positive client response is a growing trend in our business, and we believe this win serves as a blueprint for the value we expect to deliver from our investments.

Turning to a discussion of our end markets. In the US, market conditions are strong. The recent passage of all key federal funding bills for fiscal '26 provides greater certainty for our clients and for us. Additionally, over half of the IJA funding remains to be spent and progress is accelerating for the multiyear surface transportation authorization. Our expectation is for another sizable investment that will build on this momentum and support a growing US economy.

Investment in the private sector is also gaining momentum. This is evident in the booming data center market where we benefit both directly and indirectly from the infrastructure opportunities. This includes water, facilities, energy and environmental services, all sectors where we lead our industry. Additionally, incentives in the One Big Beautiful Bill and ongoing reshoring initiatives are creating new opportunities with several years of visibility ahead.

Turning to International. Near-term trends remain varied, but strong long-term demand for infrastructure investment is undeniable. In the U.K., we had the significant Scottish Water win and the AMP8 water cycle is underway. In the Middle East, we are successfully navigating the reprioritization of funding with substantial wins in the first quarter that underpin our outlook for this year and beyond.

This includes our new leading design role on the Dubai Metro and ongoing growth opportunities in the UAE and across Saudi Arabia. In Australia, our backlog reached a new multiyear high and included strong wins in the quarter, notably in the transportation sector. Offsetting this in the near term are pockets of weakness resulting from geopolitical and funding uncertainties.

Importantly, our efforts to reposition across international markets are paying off as our 25% backlog growth and record pipeline demonstrate. As a result, we expect revenue trends to improve as the year progresses and into fiscal '27. Globally, national defense budgets are meaningfully increasing. This is a key driver for our business as defense represents approximately 10% of our NSR. The US Department of War is our largest client and spending is set to increase for the next several years.

Further, our other key clients are also ramping investment, including the US Coast Guard and the broader DHS. President Trump also reaffirmed the US commitment to the AUKUS trilateral defense pact with Australia and the U.K. and we are pursuing a substantial pipeline.

Before turning the call to Lara, I want to provide an update on two strategic initiatives. Beginning with technology and AI. We've completed the integration of our September acquisition. We have already doubled the size of our team and engineers are deeply engaged and collaborating to extend our capabilities. The technology is now live on our projects and the initial performance results achieved have matched our expectations.

Our confidence in these investments and the potential positive benefit to the business is getting stronger.

Every day, we're uncovering fresh use cases and new opportunities. We're deploying our resources to tackle new problems. And in doing so, we are creating significantly more value for our clients. All of this rests on the foundation we've built, namely our technical leadership, the deep trust we've earned with our clients over many years and the domain expertise we have at scale.

As it relates to the Construction Management business, we've completed our comprehensive review of strategic alternatives. We concluded we will continue to own and operate the business and believe it is exceptionally well positioned for the future. Backlog is strong and the pipeline continues to reflect a robust set of opportunities.

As we look ahead, our confidence is underpinned by our successes and growing backlog. We increased our adjusted EBITDA and EPS expectations for fiscal '26, which includes operational outperformance in the first quarter and the benefits from capital allocation. We also

reaffirmed our long-term value creation algorithm, which includes expectations for annual revenue growth of 5% to 8%, achieving a 20% margin exit rate by fiscal '28 and delivering mid-teens compounded earnings and free cash flow growth per share.

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

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**Lara Poloni** - AECOM - President

Thanks, Troy. Echoing your sentiments, our teams are proud of our many accomplishments to date, as well as how we are redefining the future of infrastructure delivery. Demand for infrastructure has never been greater. Rapid urbanization has pushed 45% of the world's population into cities today with projections showing dramatic further growth, even in advanced economies, aging and inadequate systems are under severe strain.

The US alone faces a \$3.7 trillion investment gap over the next decade. Meanwhile, energy systems face mounting pressure from data center expansion and widespread electrification. These dynamics are intensifying, and we're deliberately positioning the clients to capitalize on this demand. This includes our ongoing investment to expand our higher-margin advisory practice, attacking what we believe to be a \$50 billion addressable annual spend.

Our advantage is that we combine our deep infrastructure domain expertise and technical leadership with superior strategic advice to deliver greater value for our clients. This is a distinct offering and fills a large gap in the market. We have made substantial progress on our goal to double this business. The team is growing and hiring activity is expected to continue to accelerate through the year. Importantly, our pipeline is also expanding rapidly, and several recent wins demonstrate our value to clients and how our addressable market is expanding.

Let me highlight two examples. First, in the U.K., we were selected to advise the water industry to advance business plans for the AMP9 water cycle. This is an important win and a great demonstration of how we are positioning to help shape our clients' investments.

Second, through Advisory, we are positioned to support the trillions of dollars of private capital seeking to invest in infrastructure. For these clients, we can accelerate and derisk their investments and achieve better outcomes.

This is a valuable benefit that also extends to our public clients who are increasingly partnering with private investors. As is evident, we are expanding the value we can deliver for clients, which is driving strong performance across the business.

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

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**Gaurav Kapoor** - AECOM - Chief Financial and Operations Officer

Thanks, Lara. As first quarter operational outperformance and financial guidance demonstrate, we continue to extend our track record of exceeding our expectations and creating a more valuable company. A few highlights from our performance bear repeating.

First, we overdelivered on the financial expectations we provided for the first quarter, and we are raising our guidance for the full year as a result. Second, we saw strong increases in both our NSR and margins. This serves as clear evidence that we are scaling our advantages and expanding our operating leverage. Third, our backlog and pipeline are both at an all-time high.

This reflects our competitive advantages, the strength of our end markets and continued expansion of our addressable market.

And finally, we continue to execute our returns-based capital allocation priorities. After investments in high returning organic growth and efficiency initiatives which are expensed through our margins, we returned nearly \$350 million to shareholders in the first quarter and over \$3.3 billion over the last several years. We're also pleased to announce an increase in our share repurchase authorization to \$1 billion.

Going forward, we'll continue to deploy capital thoughtfully while maintaining a nimble balance sheet so we can maximize the benefits of our strong operational performance for our shareholders.

Turning to our segment performance. In the Americas, NSR increased by 9%. Growth was broad based, but stronger in the Eastern states and Canada, where budgets and visibility are best. The adjusted operating margin was 19.9%, up 120 basis points from the prior year. This includes the operating leverage created by strong growth, mix shift to higher-margin services and the benefits from deploying technology to deliver efficiencies.

Turning to International. NSR was essentially flat after adjusting for fewer billable days. This was materially consistent with our expectations, as we've discussed now for several quarters, the slower level of activity in areas, including U.K., Australia Transportation and in Hong Kong.

While International segment growth will likely remain subdued in the second quarter, consistent with the expectations we had at the start of the year, the successful repositioning of the business to growth areas resulted in a 25% backlog increase in the quarter, and we expect growth to pick up in the second half of the year as a result.

Turning to details of our guidance. We are increasing the midpoints of our adjusted EBITDA and adjusted EPS guidance ranges for the full year and now expect adjusted EPS of \$5.95 at the midpoint of our range as compared to \$5.75 previously. This increase reflects the operational outperformance we delivered in the first quarter. The benefits of our capital deployment strategy, a lower expected tax rate and the strong visibility from our record backlog.

I want to share a few details on phasing to help with modeling. We expect second quarter NSR and adjusted EBITDA to approximate 24% of our full year guidance. We also expect the second quarter tax rate to be approximately 12% to 13%.

With that, operator, we are ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (Operator Instructions)

Sabahat Khan, RBC Capital Markets.

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### Sabahat Khan - RBC Capital Markets Inc - Analyst

Great, thanks and good morning. Just before I get into kind of the fundamental stuff, maybe you can just share some thoughts. I want to get some color on the decision made to sort of keep the CM business.

Obviously, you guys kind of put up strategically one on that. And then just a follow-up question. If you can just talk about sort of compared to last year, the evolution of -- sort of the demand environment in the US given some of the stability, I would say, at this point relative to last year and the priorities of the US government. So maybe just kind of the broad outlook and sort of any synergies, et cetera, there from keeping the CM business. Thanks.

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### W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Thank you. And I'll take the first question with respect to Construction Management, and then I'll turn the second part of this question over to Gaur.

So first, just we said that we would evaluate options last quarter, including the sale, but that also always included ways that we would drive more value in the business and see in the business and the combined AECOM business in general. As we went through that process, a couple of important factors were key to our decision. One is recognizing the Construction Management business is a high-quality business.

In fact, I'd consider a strong industry leader and it does have a great backlog on opportunities in front of it. It also has a great cash flow profile that creates the ability for us to invest.

But most importantly, we see substantial opportunities resulting from a closer connection between the Construction Management team and the rest of AECOM. That alignment and collaboration, we think, will give substantial opportunity beyond where we see those businesses operate in today. And a couple of examples that are the work that we're doing together on the LA'28 games, and now we'll begin that work on the Brisbane 2032 games.

So we see great opportunities for the business to work together, and we were pleased to get to that process quickly and get to this decision.

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**Gaurav Kapoor** - AECOM - Chief Financial and Operations Officer

Sabahat, this is Gaurav. Thanks for the question. I'm glad you raised it. We're seeing continued strength in our Americas market, particularly across our design business. All of our end markets from transportation, water, facilities continue to deliver very strong growth, including what we reported in the first quarter, which was 9% for our design business.

And if you look over the last 2.5 years, our organic growth has been very strong, leading to enterprise at high single digits. And when we continue to dive deeper into the markets, our pipeline continues to be very robust.

It's up 20% year-over-year at end of the first quarter. And in fact, the early stage pipeline for us is up 34% over that same time frame, while IJA funds, as you guys are all aware, less than 50% is still unspent. And what sometimes get lost in some of the numbers that we report is, in our business, we do have and have positioned ourselves in this very healthy environment, funding environment on MSAs and IDIQs within our transportation, our water and our environment business lines.

And these IDIQs, MSAs, they're not generally part of our awarded or contracted backlog because it's call off task order work and provide a lot of support, book-to-burn support just during the quarter. At any given point in time, we have between 35,000 to 50,000 contracts ongoing across the globe. So given that backdrop, we have a lot of confidence as we look forward into the near term, not just FY '26, but going beyond that the growth drivers continue to be well in place for our Americas business.

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**Sabahat Khan** - RBC Capital Markets Inc - Analyst

Okay. Thanks very much.

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**Operator**

Andy Kaplowitz, Citigroup.

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**Andrew Kaplowitz** - Citibank Cameroon SA (Douala Branch) - Analyst

Hey, good morning everyone. Troy, just regarding how to think about AI's impact on AECOM, I'm just trying to understand a little more what you're saying today. So to be clear, in your opinion, does a new value model shaped by AI not lead to shrinking revenue for AECOM? And then when you look at that EBITDA to employee calculations, it's up as you said, I think, 50% over the last five years. Does that rate of improvement now shift up substantially. So for instance, you could gain 15% or more productivity a year from AI?

Any thoughts on all that?

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**W. Troy Rudd** - AECOM - Chairman of the Board, Chief Executive Officer

Yes, Andy, that was a pretty broad question. And let me sort of start at the top, which is I think you sort of have to step back and look at the construct, which is our clients are always expecting more value from us. And when we can provide more value they've always been willing to pay us for that -- for more value.

And so if you sort of look at the underpinnings of what we talked about in our investment of AI, it's really no -- it's no different than any of the other investments we've made in the business and -- or in technology or in delivery. And so it's just simply an extension of that.

So again, what we're experiencing is, is when we have these conversations with clients, when we can demonstrate that we can provide more value to them, they're happy to ultimately reward us for providing that value and that can be in fees, but that can also be an additional work because we can help extend their funding.

And when you dig a little bit deeper on that, to think about it this way is the attributes that you are required to win in this business remain unchanged. And I want to describe that, that it starts with clients that you've built a long-standing trusted relationship with.

And then secondly is you have to have great technical leadership, which we believe we have the industry's best technical leadership in what we do. And then you need domain expertise, and that's broad and deep domain expertise.

And so that remains unchanged. And then when you layer on top of that the fact that technology has always been supporting our industry's development and evolution. AI is just another step in that technology evolution that we've invested in. And so we think that, that adds to those underlying attributes and creates much better and longer-term opportunity for us. And then I will say that we are seeing across the business, some really great acceptance by our clients.

And I think it was referred to by Gaur in his comments about Scottish Water. And in that, we had a client that we didn't have a long-standing deep relationship with, but we built a relationship through a process, including a bid process for the work that we're going to perform for them. But we also demonstrated that we had those underlying attributes, but more importantly, we demonstrated that we brought something new, which was the ability to use AI to transform the way they think about it and the way they design over the coming years and decades. And so again, I think we're very positive on what we've done in terms of the investment, but I think -- think about it this way, is if you create more value ultimately for your clients, you're rewarded for that.

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**Andrew Kaplowitz** - Citibank Cameroon SA (Douala Branch) - Analyst

I appreciate all the color there, Troy. Maybe just shifting gears, can you give more color how your private-facing business is doing in the US. I'm sure as you know, one of your large peers seem to get relatively sizable amount of, let's call it, advanced facilities work in areas such as data centers. And you mentioned your strong positioning in data centers and maybe it's offshoots. But can you remind us of AECOM's positioning, do you expect to see an inflection in this private work here over the next few quarters?

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**W. Troy Rudd** - AECOM - Chairman of the Board, Chief Executive Officer

Andy, I'm going to -- I'm going to let Lara answer that question.

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**Lara Poloni** - AECOM - President

Yes. Thanks, Andy. We have one of the larger global data center practices in our industry. And in fact, we grew the business 50% in FY '25, and we -- we see a lot of very positive trends for this high growth to continue.

As Troy said in his earlier remarks, we have -- we're a direct beneficiary of the growth in this segment through the work that we do, serving the entire digital ecosystem and the electrical engineering and the infrastructure, but also, we're seeing growing opportunities in terms of the indirect work, the associated work. So that includes some of our advisory services, the work that we do around due diligence, and we're performing this work for all of the major hyperscalers around the world, but it also includes some of the associated water and power studies, which are obviously critical to getting these projects moving. So we remain pretty positive about our continued growth in the sector.

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**Andrew Kaplowitz** - Citibank Cameroon SA (Douala Branch) - Analyst

Alright guys, thank you.

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**Operator**

Adam Bubes, Goldman Sachs.

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**Adam Bubes** - Goldman Sachs Group Inc - Analyst

Hi, good morning. Can you update us on integration of the acquired AI technology across your workflows? Which workflows and end markets are you targeting to scale via AI in 2026? Just trying to get a sense of what milestones we should be tracking as the investments progress.

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**W. Troy Rudd** - AECOM - Chairman of the Board, Chief Executive Officer

Yes, so Adam, I'll let Gaur talk you through the integration.

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**Gaurav Kapoor** - AECOM - Chief Financial and Operations Officer

Adam, thank you for that question. Specific to the integration question that you asked, we're three months into our road map and it has actually gone exceptionally well compared to our initial expectations. Integration is complete investments that we will make as we laid out beginning of the year will ramp up as we go through the year.

And as a result, there's a lot of great deal of momentum and excitement across the organization that we have because, as Troy alluded to earlier, clients are reaching out to us to better understand how we will deliver value for them through this process as it has happened in our industry for multiple decades, anytime there has been a technological inflection. It has created a higher TAM for everybody. Profitability has always gone up when things like that have happened in our industry, let it be when we went from going from paper to CAD designs to BIM modeling and like that happened about a decade ago.

And so when you break that down into what business lines are we focused on, what milestones are we focused on? I think your question is correct in terms of looking at the workflows. So specifically, our focus is on the facilities market. Because, again, as we had laid out back in November, our initial road map is focused on disciplines and asset types that our clients have already good existing commercial structures that would be advantageous to everybody.

But at the same time, as we go through and create these solutions, these workflow operating leverage efficiencies, it is impacting all of our business lines to some extent. And from a metric standpoint, I think a key metric that we have now started sharing is employee NSR and employee EBITDA profitability by headcount. These are similar to what Troy alluded to earlier in the initial response.

When we step back and look at what we have accomplished over the last five years, it has been making investment in differentiating ourselves in that competitive edge platform. That is investments in our clients, investments in our professionals, and it continues to drive better profitability, better NSR growth, and this will be no different than it.

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**Adam Bubes** - *Goldman Sachs Group Inc - Analyst*

Great. And then really strong bookings performance in International. Can you just expand which regions drove the acceleration in bookings? And how much you attribute that performance to project timing versus this being a clear positive inflection in the demand backdrop?

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**W. Troy Rudd** - *AECOM - Chairman of the Board, Chief Executive Officer*

Let me sort of -- let me kind of give a little bit of background on the international markets, and then I'll have Lara answer this specific question. And I just sort of want to take you back to the way we describe what was happening in the international markets, more than 18 months -- about 18 months ago, and that there was a substantial amount of elections going on around the world, and particularly in the international markets.

And when that happens, there's always changes of agenda. There are certainly changes in governments, but even when a government remains in places a change in agenda. And so we recognize that with all that change, we needed to figure out how we were going to reposition the business, so that we took advantage of those changes in agenda.

And we've seen that over the last 18 months. Now we're seeing the agenda is being fixed. The funding come to market for what are the priorities, the infrastructure priorities for those foreign governments. And as a result of that, our repositioning, we're winning and building very significant backlog so that we can fuel the future of the business in '26 and well beyond that.

And so Lara, I'll turn it over to you.

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**Lara Poloni** - *AECOM - President*

Yes. I think as Troy just explained, one of the examples for the quarter was the Sydney Metro win in ANZ, which goes to Troy's point about we're now -- last year was characterized by the end of the sort of 10-year infrastructure cycle. Wins like that highlight that we are now seeing the uptick in the next wave of infrastructure investment.

So -- and that is particularly focused in Sydney and also in Brisbane. So the wins in the quarter really demonstrated that upturn. And the rest of the wins, to answer your question, were pretty balanced, the wins such as Scottish Water in Europe, the Middle East wins, such as the Dubai Metro -- so there was good balance in terms of those ongoing infrastructure investments.

And importantly, that were beyond transport, they were balanced across other segments of our business as well.

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**Adam Bubes** - *Goldman Sachs Group Inc - Analyst*

Great. Thanks so much.

**Operator**

Jamie Cook, Truist Securities.

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**Jamie Cook - Truist Securities - Analyst**

Hey, good morning. Troy, not to continue on the AI topic. But just as you've been communicating with customers and given the Analyst Day that you had or customers coming back to you and looking for opportunities to sort of renegotiate projects? Or is that more so on stuff that's up and coming.

And I'm wondering if that could be an incremental positive to numbers over the longer term as both you and customers understand better how to extract value on both sides? And then my second question, Gaurav, just on the cash flow in the quarter.

The cash flow in the quarter was a little weaker than I thought. And then I'm just trying to understand was there anything to that and just your confidence level in the cash flow for the year? Thank you.

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**W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer**

So Jamie, we certainly expected some questions on AI. When we're having these discussions with our clients, they really are focused around -- sort of what we bring in terms of the customer, the increase in customer value through deploying it on projects. And I wouldn't characterize this as a renegotiation. I would actually characterize this as our clients trying to seek out ways that they can employ us to actually deploy something that is more valuable.

So it's not necessarily negotiation. It's more of a discussion about how can we find ways to do more work with you and your teams because you're bringing something that is clearly a value to us. What we also are seeing is that in some of those discussions, our clients are recognizing that we might not have a contracting -- way of contracting that make sense.

And so they're bringing up in the dialogue, how they would like to move to a method of contracting that recognizes that value. So moving away from something like cost plus to something that looks more like a fixed fee because it is in their interest and of course, it is in our interest to do that.

And that really just focuses around the value discussion. So I said this a little bit earlier in the call is if you bring something of value to clients, they want you -- they want to pay you for it, and they certainly want to do more of it. And that's what we're finding in our discussions with customers.

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**Gaurav Kapoor - AECOM - Chief Financial and Operations Officer**

Hey, Jamie, this is Gaurav. So specific to your question on cash, cash was quite consistent with our expectations. If you look at historically, especially over the last five years, that's when we've really phased our cash properly. You go prior to that, we used to have negative cash flow in the first half of the year. So if you look at the last five years, first quarter is approximated about 10% of our outlook.

And that's what this quarter was very consistent. And I'm sorry, first quarter has been 10% and first half is approximately 30% when we look over that time frame, and that's very consistent with our expectations. So there is a ramp consistent with our historical experience and our actual delivery in the second half of the year because our first half does have some meaningful large disbursements related to compensation matters, 401(k), bonuses, a lot of large vendor software payments that we go through in the first half of the year as well, but that's normal for us.

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**Jamie Cook** - *Truist Securities - Analyst*

Thank you.

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**W. Troy Rudd** - *AECOM - Chairman of the Board, Chief Executive Officer*

Thank you, Jamie.

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**Operator**

Sangita Jain, KeyBanc Capital Markets.

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**Sangita Jain** - *KeyBanc Capital Markets Inc - Equity Analyst*

Good morning and thank you for taking my questions. So maybe sure, now that you've decided to keep the Construction Management business, do you have any plans of running it maybe differently? I know it's just 8% of the NSR today, but do you think it can grow more as you synergize this with your design business more?

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**W. Troy Rudd** - *AECOM - Chairman of the Board, Chief Executive Officer*

So the answer is yes, we're going to look to actually, run it differently. And when I say run it differently. We're going to look to get an even closer alignment and find the opportunities we think are in front of us to collaborate across the rest of our business. If you think about our Program Management offering and the Construction Management offering, those two being more close to the line creates a very significant opportunity.

And ultimately, they provide value to customers that is much greater than just a traditional program management offering. So we view that as actually a competitive advantage, which we think is more valuable for customers.

And so -- there are some other things, but I'll point that out is what we're thinking about is how we bring it together and we actually operate differently and drive more value for customers.

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**Sangita Jain** - *KeyBanc Capital Markets Inc - Equity Analyst*

Great. And then maybe following up on the design backlog for fiscal 1Q. You guys highlighted the federal shutdown, but can you talk a little bit more about what you're seeing in the state and local level because that is kind of a much bigger portion of your NSR?

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**Gaurav Kapoor** - *AECOM - Chief Financial and Operations Officer*

Hi Sangita, this is Gaur. I'll take that question. Yeah, the shutdown has, shutdown and impacted it as we said, our 4th quarter, because that's when we would normally see high level of awards. And then any time there is shutdown events, usually the following quarter you kind of see that come back up. It's always a timing issue. And what we saw this time around was because there was noise about it shutdown again in February, that kindly pickup that we were expecting really didn't come through. So there was some impact related to it. And we now expect now that there's been a resolution, second, 3rd quarter, we should see that that pickup we're expecting in the federal award activity to come through. Now, what we are seeing on the federal side, and then I'll answer your question on the state and municipal side as well is we expect in the spring, based on all the information we have and discussions, we're having with the with the parties, is there's probably going to be a new bill, federal bill in this spring, that is in discussion for national highways, and that's going to continue to provide positive momentum for our transportation business and ancillary business lines that provide services like environment.

When we look at our state and our municipal budgets, they're quite healthy, especially when you look at the larger markets in California, Florida, and Texas. The tax projection, state tax projections for FY'25 collections are better than what they had expected six months ago, 12 months ago, for a variety of reasons, and we're seeing that level of funding, that confidence continued through the various state departments and municipal organizations and departments as well.

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**Sangita Jain** - *KeyBanc Capital Markets Inc - Equity Analyst*

Great, thank you so much.

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**Operator**

Michael Dudas, Vertical Research

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**Michael Dudas** - *Vertical Research Partners LLC - Analyst*

Hey, good morning, gentlemen, Lara. Troy, as you've indicated, we've talked about the strong book-to-bill and the pipelines and such. Maybe in this quarter or the last few quarters, maybe -- how has the mix been relative your historical business of design with some project management and burgeoning advisory to a more balanced? Are we seeing tangible evidence of that?

And then back to your comments on contract pricing, is there any significant in your incoming orders of fixed fee versus cost plus versus timing of materials? Any meaningful change there? Is there any meaningful change we can expect maybe in the next few quarters as the book-to-bill stay, we're hopefully relatively strong. Thanks.

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**W. Troy Rudd** - *AECOM - Chairman of the Board, Chief Executive Officer*

So I'm going to answer the second question first, which is, at the moment, we haven't seen any material changes in terms of the pricing or the discussion with our customers. Again, I think it's -- when you're talking about long, large programs, it's a little premature to be thinking about how that might change.

But again, as I said, what we have been noticing is that what we're bringing to customers is being very well received and being received as being more value in that equation. And so ultimately, what it does is it's going to help our positioning, help our win rates. And then over time, as we improve our delivery through the use of technology, we will ultimately improve our margins regardless of a change in the profile of our actual contract makeup. And your first question?

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**Michael Dudas** - *Vertical Research Partners LLC - Analyst*

Design, project management, advisory, the mix of those services and some of the newer bookings and going forward.

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**W. Troy Rudd** - *AECOM - Chairman of the Board, Chief Executive Officer*

Yes. So we are very intentionally trying to drive a transition so that we have a broader base of business between Advisory, Program Management, Design, all rooted in the underlying knowledge and expertise we have in our people around our design work. And so that transition is taking place.

We are actually seeing our Program Management business continue to grow at a slightly faster rate than our Design business. And our Advisory business, well in its second year infancy is also growing at a higher rate. So we are slowly seeing that shift in mix over time with a long-term objective of getting to where Advisory and Program Management represent about 50% of our business.

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**Michael Dudas** - *Vertical Research Partners LLC - Analyst*

Excellent. Thank you, Troy.

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**W. Troy Rudd** - *AECOM - Chairman of the Board, Chief Executive Officer*

Thanks Mike.

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**Operator**

Judah Aronovitz, UBS.

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**Judah Aronovitz** - *UBS AG - Analyst*

Hey, good morning. Thanks for taking my questions. I wanted to ask about international. Given some of the improving trends you talked about in Australia and the Middle East, should we expect a continued trend of book-to-bill greater than one? And then in terms of the margins embedded in those bookings, I'm just curious if we should expect the margin step-up in International from some of these bookings? Or should we expect kind of a similar margin profile?

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**Gaurav Kapoor** - *AECOM - Chief Financial and Operations Officer*

Judah, this is Gaurav. I'll take that question. So in regards to International, it's a very good question. If you look at over the last six months, we've delivered a very strong book-to-burn. And one would think, with that strong book-to-burn, valid question is, how does the pipeline look?

Well, the great news is our pipeline is still up. And not only is it up it's up double-digit percentage, again, on the early stage.

So overall, the pipeline is up. Early-stage pipeline is up. It all bodes well for what Lara had explained earlier that we are seeing early signs of a good inflection point coming in our Australia and our Middle East business. Now at the same time, just to make sure we're consistent in the information we're sharing with you guys, we are expecting headwind from working days in Q4.

So we expect the second half will be inflection point for International, and you just have to look out for that adjustment on the Q4 workdays. When we look at from a margin profile, we've always said we manage the business from an enterprise standpoint. And what we have signed up for in the current year is gross margin expansion of somewhere around 90 bps to 100 bps at the enterprise level.

Once you net the investments we're making on technology in the current year, expect 30 bps of margin expansion.

And our expectation is both Americas and International will continue to deliver good strong margin expansion net of those technology investments that we have laid out beginning of the year because that's just the culture of continuous improvement that has percolated throughout the organization. We always try to deliver better than what we have signed up for.

**Judah Aronovitz** - UBS AG - Analyst

Okay, thanks. And then where do you think we are in the bigger picture of Americas? Is there any acceleration potential here? Or should we just expect a steady growth?

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**W. Troy Rudd** - AECOM - Chairman of the Board, Chief Executive Officer

Sorry, Judah, is that a question specific to margins or just organic top line organic growth?

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**Judah Aronovitz** - UBS AG - Analyst

Oh no. Top line organic growth.

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**W. Troy Rudd** - AECOM - Chairman of the Board, Chief Executive Officer

Yes. We're seeing -- as I mentioned before, we're seeing very good trends in our Americas business especially when you look at our backlog, it's up 3% year-over-year. Our pipeline is up 20% overall. Early-stage pipeline is up 34% IJA funding including the matching that state governments are doing on the transportation projects to take advantage of the funds that are available at the federal level from IJA, all these portend really strong to drive growth. And as we've laid out, it gives us a lot of confidence that we're going to be delivering growth consistent with what we signed up for, which is on constant currency, organically delivering 6% to 8% in the current year.

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**Operator**

Nandita Nayar, Bank of America.

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**Nandita Nayar** - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Hey everyone, this is Nandita Nayar from [Bank of America]. Thanks for taking my question. So I was just hoping if you could -- so I was just hoping if you guys could just provide a bit more color around the 1.5 times book-to-bill in the quarter, particularly the 2.3 times in International. You mentioned some impressive wins there earlier in the call. But just high level, if you could break it down, how much would you say that was like the overall market? And how much would you say was secured by kind of leveraging your AI capabilities?

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**Gaurav Kapoor** - AECOM - Chief Financial and Operations Officer

Yes, Nandita, this is Gaurav. I'll take that question for you. So yes, we delivered very strong backlog growth on back of what we delivered in Q4, which was also exceptionally strong in our International business.

And as Lara pointed out, Outside of our Asia business, every other region, UK&I, Australia, New Zealand and Middle East, all drove to that very healthy exceptional backlog growth and book-to burn that you see. And the drivers of it are many, many drivers to it.

Our clients, as Troy mentioned out, they were dealing with a lot of geopolitical questions. Over 60-plus election cycles that our clients were going through. So they were looking for some level of stability, which occurred.

And you always have to take a step back, and this is going to also delve into your second part of your question as to how much is technology AI driving the outcomes of this. We operate in an industry where the demand for our services far outstrips the funding that exists, right? There's -- if you look at the stats that I've shared previously, approximately 30% to 40% of the world's population lives in metropolitan cities over the next three decades.

Estimates are, it's going to double in size where the infrastructure that we currently have in these cities needs significant upgrade replacement and new construction. So once you start laying it out, it kind of builds support to what we see on the ground and what our clients are telling us.

Then when you piggyback our technical expertise, our resume of delivering world-class solutions to our clients with the domain expertise, our clients are always asking us, and they're reaching out to our teams as we've laid out our technology road map, okay? How will you drive a better return on their CapEx on their investments? How will we deliver assets on a concrete firm deadline for them? How will we reduce delivery risk for them?

So when you combine all these things into a solution for the client, clients are willing to discuss how to drive symmetry in commercial terms, so all parties drive value from it. And again, I'll revert back to a great example, which is part of this exceptional book-to-burn we've delivered in our International business. It's for the Scottish Water win. This is a client that we had practically no exposure for.

In fact, as we were positioning ourselves for the RFP response, there was already an incumbent. And by the way, this is the largest contract this client has led out in their history. It's a decade-long program that only two contractors were selected for to deliver. And every single competitor of ours was pursuing this contract. Everybody brought their best game to the table. And during that process, the client asked us, they're willing to sign an NDA to understand what we have developed and what we will be developing over the next quarter, the next few years.

And clearly, we were one of the two, including the incumbent that were successful in securing this 9-figure contract over a 10-year period. And this will -- this is a very early proof point, but a clear proof point that clients are looking for that complete solution for the value, for the age-old problems that they've always had. So it gives us a lot of confidence as we continue to make these investments and arm our teams with better solutions in the marketplace to create value for their clients.

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**Nandita Nayar** - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Got it. That's super helpful. And also, we've been hearing a slight change in the tone like regarding the reauthorization bill with some conversations around CR potentially entering the discussion. Just curious like what's the latest you guys have been hearing on the ground? And what would you say could be like the best case, worst-case scenario here? Thanks, guys. I'll pass it over.

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**W. Troy Rudd** - AECOM - Chairman of the Board, Chief Executive Officer

Okay. Thank you. I think the answer is that we now have, at least in terms of the federal government, we now have, for the most part, all of the funding put in place through the end of the year. And what we do here is that there are some key long-term authorizations that need to be put in place as you move into '26.

And those discussions are positive, and they're moving forward. Beyond that, of course, it's virtually impossible to predict the US federal government legislative agenda. But in terms of the tone, I agree with what you described, it's certainly a positive tone in Washington.

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**Operator**

With no further questions, that concludes our Q&A session. We'll now pass the call over to Troy for closing remarks.

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**W. Troy Rudd** - AECOM - Chairman of the Board, Chief Executive Officer

Yes. Thank you, operator. And let me just conclude with two things. First of all, thank you, everyone, for joining us today and appreciate the questions and the dialogue. And second and very importantly, I want to thank all of our professionals and our AECOM folks around the

world that have done such an outstanding job this quarter and continue to do an outstanding job delivering value for their clients. It proves it shows up in our results. Thank you very much.

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**Operator**

Thank you very much. This concludes today's conference call. You may now disconnect.

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