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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the AECOM Third 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. [Operator Instructions]

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

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, including expected and potential impacts of the COVID-19 pandemic. 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.
As a reminder, we sold the Management Services business earlier this year and intend to exit our remaining at-risk, self-perform construction businesses. As a result, these businesses are classified as discontinued operations in our financial statements. Today's comments will focus on continuing operations, unless otherwise noted. Today's references to adjusted operating margins reflect segment-level performance for the Americas and International segments. We will refer to net service revenue, or NSR, which is defined as revenue excluding subcontractor and other direct costs. Our discussion of margins will be on an NSR basis, unless otherwise noted.

Beginning today’s call is Mike Burke. Mike?

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Thank you, Will, and thanks to all of you for joining us today. I'm joined by Troy Rudd, our Chief Financial Officer and, as we announced in June, our incoming CEO; Lara Poloni, Chief Executive of our EMEA business and incoming President; and Randy Wotring, our Chief Operating Officer.

I'll begin today's discussion with a high-level summary of our results. Troy and Lara will then review our performance and outlook in greater detail before turning the call over for a question-and-answer session.

I'm proud of our people and very pleased with our Q3 FY 2020 results. For the seventh consecutive quarter, we delivered double-digit growth in EBITDA while hitting our free cash flow targets, continuing to win great new work, growing backlog and advancing our transformation into our industry's premier professional services firm.

For the third quarter, we delivered adjusted EBITDA of $187 million, which is an increase of 18% over the prior year and above our expectations for the quarter. The benefits of our ongoing initiatives to expand margins contributed to this outcome. The segment adjusted operating margin was 13.2%, an increase of 250 basis points over the prior year, setting a new quarterly record for the Professional Services business. With $3.1 billion of new project wins during the quarter, our backlog increased by 16% over the prior year and remains near a record. We have more than three years of revenue in backlog and record contracted backlog. This visibility provides us with many strengths to outperform, including the ability to maintain a strong workforce and provide more certainty for our teams which include the best and brightest minds in our industry.

Troy, Lara, Randy and I all share pride in the incredible efforts our employees are making each day to address our clients' needs. Their efforts continue to make the difference in AECOM rising above an operating environment that changes almost daily because of the COVID-19 pandemic. Given the tremendous progress we are making with substantially improved financial performance and the smooth leadership transition, I plan to accelerate my departure from AECOM and transition my responsibilities to Troy Rudd on August 15. While we're only six weeks into our transition, Troy and Lara have already proven they are ready to lead this company immediately. I see no reason to further delay this transition.

We are all excited about what the future holds for AECOM under their leadership, and we are ready to accelerate the transition to more quickly take advantage of the opportunities in front of us. I remain highly confident in the continued upward trajectory of the business under Troy's leadership. The transformation of our business is not yet complete. But over the past two years, we have simplified our organization through the sale of our Management Services business, lowered our risk tolerance, improved our margins by almost 500 basis points since FY 2018 and built the foundation for an incredibly resilient and agile business that allowed us to outperform our sector during the pandemic.
After six years, this will be the final time I'll speak with all of you as CEO of AECOM. I want to thank our shareholders, employees and all our stakeholders, everyone who counts on the value AECOM creates. I came to AECOM 15 years ago, drawn by its purpose to build a better world. In that time, we’ve grown from a private company with $1.5 billion in revenue to a public company and market leader with $21 billion of revenue last year. Our innovation and expertise have given rise to iconic projects around the world from modern airports, ports and transportation systems to the rebuilding of the World Trade Center. While the look and focus of our great company continues to evolve, the purpose that aligns our professionals around the world is stronger than ever. This has been particularly evident in our response to the coronavirus and the results we are achieving.

AECOM is built for moments like these. And our Q3 results and FY 2020 outlook highlight the momentum that through Troy's and Lara's continuing guidance will carry forward well into the future. I have the utmost confidence that they will continue the incredible trajectory of our business that we have experienced over the past two years.

With that and to go into further detail on our performance, I want to hand it over to our next CEO, Troy Rudd.
Finally, we have a leadership team executing against a shared objective of building a leading professional services firm and creating value for our stakeholders. Our leadership team is executing several priorities towards achieving this vision.

First, our commitment to our professionals is critical to our success. We are investing in our people and innovation and fostering a culture that promotes equity, diversity and inclusion, contributing to the communities in which we operate and creating a culture of one AECOM. As a global company, we have firsthand insight into the benefits of a truly diverse employee base and, with it, the benefits from incorporating different perspectives and experiences into our culture to create unique experiences for our people and our clients. To this point, we are advancing reverse mentoring programs and enhanced internship opportunities, along with enhanced community engagement programs and volunteering efforts. With more diverse teams brought to bear on our projects, the best and brightest ideas will succeed within our company.

Second, we are investing to lead our industry's digital transformation. The pace of digital transformation has intensified because of COVID and has magnified the benefits of our long-standing investments in IT and innovation.

Third, we will work tirelessly to eliminate inefficiencies and to create capital to invest. Plenty of opportunities still exist within AECOM. For instance, our workplace of the future initiative has identified an even greater opportunity to optimize our real estate portfolio in tandem with increased employee preference for greater workplace flexibility. This is an opportunity both within AECOM's walls as well as an opportunity for us to help our clients adapt to similarly changing employee preferences. We're also expanding our global shared services and design centers with greater proliferation of our Digital Solutions, furthering our ability to execute certain tasks from better cost geographies. All of these actions are critical to creating capital to invest in our teams.

Finally, through our investments in teams and innovation, we are building a highly cash generative and enduring business model. To maximize value for our shareholders, we are committed to our capital allocation priorities, including returning substantially all available free cash flow.

Please turn to the next slide. Turning to our third quarter performance. I'm really proud of how the organization has come together and with our performance over the past several months. As Mike discussed, we exceeded our expectation for EBITDA, margins improved substantially over the prior year with strength in both segments and free cash flow was strong. Our backlog has increased 16% over the prior year, creating even greater visibility into the future. In June, we saw the pace of awards slow in certain markets as the impact of COVID spread. However, we were able to offset these pockets of weakness by leading our industry in COVID-related response work and by continuing to innovate and deliver for our clients.

Please turn to the next slide for a discussion of our segment performance. In the Americas, organic NSR grew by 2%. This performance was led by double-digit growth in our Construction Management business and by market share gains in our largest design markets, transportation and water. However, other markets declined during the quarter including in Environment, which is more heavily weighted to the private sector and the oil and gas clients.

The Americas segment had a 17.9% adjusted operating margin, which marked a 340 basis point improvement over the prior year and leads our industry. This is a new high for the business. Backlog in the Americas segment increased by 18% over the prior year and includes a record contracted backlog. However, trends in some markets are beginning to be impacted by funding uncertainty and slower client decision making. Our state and local clients
are impacted by lower tax collections. These clients came into the year with record revenues and rainy day funds. The impact of COVID has altered the landscape.

It is important to note, though, that while state budgets are under pressure, 95% of state transportation department funding is supported by specific user fees. This funding is much more insulated and less discretionary than other markets where state general funds comprise the majority of funding. One thing is certain. States will need an infusion of capital to maintain or increase current spending levels. Importantly, both parties have expressed support for an advanced proposal to replace the FAST Act and to support state and local governments. As clarity around funding solidifies, we expect our state and local clients to act with greater certainty. We remain focused on what we can control, specifically in running the business as profitably as possible in any environment.

I’ll now turn the call over to Lara for a discussion of our international performance.

Lara Poloni  
Chief Executive Officer-EMIA, AECOM

Thank you, Troy. Please turn to the next slide. For the quarter, organic NSR declined by 3%. Declines in the UK and Middle East along with stable trends in Hong Kong were partially offset by continued growth in Australia. The turnaround of our international margins continues to progress. Our adjusted operating margin in the third quarter was 5.7%, a 50 basis point increase over the prior year. Year-to-date, the adjusted operating margin has increased by 170 basis points, which is a particularly strong achievement considering the 2% decline in organic NSR over the same period.

When I assumed the responsibility for the EMEA region, the opportunity to improve margins was apparent. As a result, we conducted a comprehensive analysis of our overhead cost structure and the return profile of the business in each of our markets. This analysis resulted in actions to consolidate our real estate portfolio in the region, reduction to our G&A to eliminate unnecessary costs and increase efficiencies and our ongoing exits of more than 30 countries. To that end, our performance this year inspired confidence in our trajectory. We have driven $16 million of year-to-date G&A savings in the International segment and we have focused the business on our best growth opportunities.

Our actions position us well to benefit as markets recover. And our recent large wins across the region have resulted in market share gains. Backlog was highlighted by 6% growth in the EMEA region. We have made investments over the past several years to ensure we are well positioned on enduring work in the Middle East and we have reestablished our leadership position in the UK, where we have successfully won positions on more than 250 frameworks, positioning us well with the future growth, including much recently securing a leading position on the £500 million four-year services framework for Transport for London.

In the Middle East, conditions in petrodollar-funded countries are impacted by low oil and gas prices, which is providing some resistance to growth. However, we continue to build a strong backlog of business and megaproject developments in Saudi Arabia, including a more than $100 million win in the quarter, which demonstrates our commercial successes and diversified our work on projects that remain a priority for our clients.

As we look across conditions in our international markets, there are pockets of strength contrasted against certain COVID-related headwinds in various countries. In the EU, government stimulus efforts including the nearly $1 trillion plan that passed last month could provide for a strong pipeline of opportunities over the coming years.
In the Asia-Pacific region, stimulus actions in Hong Kong and Australia have helped to stabilize market conditions and backlog remains stable as a result. However, COVID-related headwinds in Southeast Asia have delayed the pace of award activity and may offset some of the growth opportunities we see in other markets.

Importantly, our utilization in the region remains high. Our year-to-date NSR has held steady with the prior year. And our actions to reduce costs and drive efficiencies have resulted in year-to-date profitability that is ahead of our original plans for the year.

Before turning the call back to Troy, I want to comment on my recent appointment as President, partnering with Troy and the great leadership team as we continue on our journey to create the best professional services business. As Troy said in his remarks, a great a professional services business is defined by the strength of its people and as leaders, it is incumbent on this team to enable and empower their success. We must inspire the best minds in the industry to solve the world's most complex and unique challenges. We must measure what matters such as client satisfaction and voluntary employee attrition and reward and celebrate winning.

Equally as important though is holding ourselves and the organization accountable for delivering on our objectives. It is our job to evaluate opportunities and direct capital to the right projects and initiatives that will have the most meaningful impact. We must also know when to make calculated investments and trust our teams to challenge the limits of what is possible.

After 25 years with AECOM, I am excited as ever about our future because I know that every challenge we face and overcome builds an even stronger organization with dedicated people who are passionate about the possibilities to create a great AECOM. I look forward to getting to know all of you in the future.

And with that, I'll turn the call back to Troy.

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

Thanks, Lara. Please turn to the next slide. Turning to cash flow, liquidity and capital allocation, our financial position is strong with a low-risk business model, strong balance sheet and highly cash generative business. Operating cash flow in the quarter was $186 million and free cash flow was $272 million. This performance was consistent with our expectations and was highlighted by strong collections across the enterprise. We also successfully collected $122 million as a result of the previously announced favorable net working capital true-up related to the sale of the Management Services business.

As a reminder, the MS cash flow during the first four months of the fiscal year was well below the contribution we expected in our initial guidance. This was a timing-only difference. Accordingly, we collected the working capital in the third quarter with no material impact to our results for the full year. Debt declined compared to the second quarter. And our gross leverage ratio declined from 3.1 times to 2.8 times, further improving our financial flexibility.

I’m also pleased to report that we are continuing to take actions that strengthen our balance sheet and liquidity. On July 31, we issued a notice of redemption to our holders of our 5% 2022 notes. The redemption will be funded by the proceeds under our existing lower cost, delayed draw term loan facility that we put in place last quarter. Importantly, as a result of this transaction, the annual cash interest expense will be approximately $6 million lower. Going forward, we will target gross leverage of below 3 times, which we believe will provide us with the best capital structure to operate the business and to execute on our capital allocation priorities. After investing in
our people and innovation, our priority remains deploying substantially all available free cash flow to share repurchases.

Please turn to the next slide. I want to provide a brief update on our discontinued operations. We are closely managing the operations of these businesses to ensure risk is controlled and the business value is retained. To this point, I am pleased to report that the underlying profitability improved in both the Civil and Oil & Gas businesses, which generated positive EBITDA.

Excluding additional costs to complete the Alliant combined cycle gas plant, Power also generated positive EBITDA. Importantly, we achieve substantial completion on the Alliant plant in July. Our process to exit our at-risk, self-perform construction businesses has intensified with several processes running in parallel. There is strong interest, and exiting these businesses remains a top priority.

Finally, I am pleased to note that, through our restructuring actions this year, we have fully eliminated stranded costs associated with the sale of the Management Services business earlier this year and other businesses we have exited.

Please turn to the next slide. As you've heard today, the business is resilient and we are energized by the opportunities in front of us. Productivity has remained strong even as up to 90% of our employees continue to work remotely. Utilization levels are ahead of our pre-COVID levels and are consistent with the levels that were contemplated in our full year plan.

With that, we are increasing our fiscal 2020 adjusted EBITDA guidance to $720 million to $740 million, representing 11% growth at the midpoint. Our guidance includes an expected $20 million negative impact from changes in foreign currency rates as compared to our initial guidance for the year. We continue to expect AECOM Capital to contribute $10 million of earnings this year. We are also reiterating our free cash flow guidance of $100 million to $300 million and are confident that we will fall within this range based on strong quarter-to-date collections and normal seasonal trends that tend to benefit our fourth quarter cash flow.

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

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

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

Hi, team. Lara, Troy, congratulations on the promotions and, Mike, all the best on your next endeavors, leaving on a high note here this quarter. I just wanted to start on the state and local budget element. And you called it out in your prepared remarks, Troy. Can you just level set with us on just how we should be thinking about the magnitude of the potential swing there to the extent global stimulus measures are delayed whether in the US or internationally? I mean, where is the exposure? Where is the concern? And how big of a swing could that be on AECOM's fiscal 2021 revenue trajectory in your view?

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

Yeah. Sean, first of all, thank you for the well-wishes. With respect to our state and local budgets, that does represent about a quarter of the work that we do or a quarter of the revenue that we have in overall Professional Services portfolio. There certainly is an element of that has been impacted by the shortfalls, as a result of COVID. But on the other hand, we are seeing, again, user fees starting to increase as people return to work and return to traveling.

We also have a significant amount of optimism around what the federal government will do to support transportation expenditures. And in particular, state and local governments. In particular, the FAST Act, You know, it will expire in September. But I do think it's been decades before that transportation funding has gone without being replaced. So we certainly have confidence that something will be done to support those transportation budgets and transportation expenditures in 2021.

And in terms of state and local budgets, again, we have some optimism around what will get done, either – from either political party. But I think more importantly, from our perspective, you know, there are things that we can control and I think the things that are within our control that we've proven over the last number of quarters. We can manage our way through turbulent times, times when perhaps there is funding shortfalls within certain budgets. So while we certainly don't have a line of sight to what the outcome will look like, and we certainly do have confidence in our ability to manage through it.

And then the other important part is, we have a great platform and great professionals that allow us to win work and from – based on what we're seeing in the third quarter, we believe we've taken market share in the area of transportation of water. So, we've got great professionals in the marketplace. We are winning work and replacing the work that we've been delivering. And even though there is uncertainty in state and local budgets, we have confidence in our ability to manage our way through based on our most recent experiences.

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

Okay. Great. That's helpful. And maybe just from a strategic direction perspective for you, Troy, as you take the big seat, a lot of sort of announcements on digital innovation, new tools, is that the primary focus for you here in
the immediate term and maybe if you could just detail for us some of the early wins on digital that you can build on here that would be helpful?

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

Yes, certainly. Again, I think if you sort of step back and look at the impact of the pandemic while it's been a lot of work and difficult to manage through the environment that we're in, it's accelerated a lot of the things that we've done to work together and to work with our clients and a number of those things are based around what we're referring to as digital.

So, we have been investing in allowing ourselves to have the tools to work together and with our clients in a digital environment. And at the same time, we've been investing in some of the tools that allow us to work with our clients and to continue our clients to do the work. So, a great example of that is we've developed software so we have virtual consultation with our clients. And we've put that in place, and we've been using that for a number of our clients. The most recent experience that I can talk about is the work we've done with Roche in Ireland. It's been entirely successful.

We also have been working on a Digital Environmental Impact Assessment Tool. And at the moment, we're piloting in that. It's the first ever IES process that we're working with on the Corps of Engineers.

It is certainly light years ahead of anything else that's in the marketplace. And, you know, it's available internally, so we're starting to use that with clients to accelerate the permitting process. And we will be bringing that to public and we expect that to be used as a tool by government agencies in the future.

So, those are some of the things that we're working on. But, you know, maybe just in terms of our overall kind of thesis as we continue, I'll let Lara contribute some of that as well. So, Lara, if you have something you want to add.

Lara Poloni  
Chief Executive Officer-EMIA, AECOM

Yes. Thank you, Troy, and thank you for the good wishes also, Sean. So, I think we're very strongly positioned with the development of our digital tools. And just to further expand on Troy's point particularly in our transportation market where we have a lot of optimism about an infrastructure-led recovery that our teams around the world have done some great work and a recent example of that was the launch of the TRIPS tool, which is Transportation Resilient Integrated Passenger Solution. Obviously, a lot of uncertainty as commuters return to public transit in particular. So, this is a new technology platform that gives real-time information to commuters and other alerts. So, it's very timely that we're bringing that to market and we've brought that to bear on one of our projects in the Greater New York region.

And as Troy said, you know, very strongly positioned in the Environment business. So we're clear market leader. And also we have just ongoing development of our digital libraries in our Buildings and Places segment, which is the other big part of our business around the world. So, I think all of these tools will provide continued sort of separation and differentiation for us and it's an area that we're going to continue to develop in our main business as well as scaling up even in our global design centers is a key priority for building up that know-how throughout our business. So, I think it's a very important element of our strategy.
Sean D. Eastman  
**Analyst, KeyBanc Capital Markets, Inc.**

I appreciate the color. I'll turn it over. Thank you very much.

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

Thanks, Sean.

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**Operator:** Your next question comes from Michael Dudas with Vertical Research. Your line is open.

Michael S. Dudas  
**Analyst, Vertical Research Partners LLC**

Good morning, afternoon or evening for everyone and again well done, Troy and Lara and good luck, Mike, in your next endeavors.

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

Thanks, Mike.

Lara Poloni  
**Chief Executive Officer-EMIA, AECOM**

Thank you.

Michael S. Dudas  
**Analyst, Vertical Research Partners LLC**

Given your perspective as involved with major cities, state local, port authority, transit large San Francisco L.A., a lot of stuff going on, obviously COVID-related, how have you seen business and activity today? It seems like you've managed it very well, but certainly, the funding pressures which may or may not come from Washington and some of the caution that might be put forth amongst the governments running these cities. Do you sense that there is a normalization that will occur here through this or there will be some changes where it might have – you maybe you need to adjust a little bit and adapt to certain different areas to attack your services on the government side here in the states?

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

Yeah. So, Mike, I think it's – again, I think it's difficult for us to provide those kind of prognostications. I think what we can say is that our people are constantly working with our clients in the metropolitan areas globally. And we're working with them to adapt to the environment, which is ever changing. And as you look around the world, we don't want to point out that there certainly are some areas around the world where maybe there are some funding shortfalls and there's some uncertainty in that respect, but there are a lot of places where we're seeing government support, support the infrastructure investment with stimulus.

So, you know, we are seeing that in places like Canada and Australia and Hong Kong. You know, we're seeing a discussion of an investment and stimulus being made in the UK, which would support that market.
And then, again, in the long run, I think we have optimism around not just short-term stimulus, but some long-term stimulus here in the United States to ultimately help support the required investment in infrastructure, but also to help, you know, just getting people back to work in the medium term. So, again, I, you know, I couldn't comment on the changes in cities other than to say that we're working with our clients and reacting to that and our professionals and leaders, they're all doing that.

And that, when you kind of look at the overall portfolio, we do have a lot of optimism about continued long-term investment in infrastructure. And in our private sector markets, while we've certainly seen in the environment some of the awards and bookings being delayed. We see that just being delayed. So effectively pushing that work out to the right. And in our Construction Management business, again, our backlog gives us good long-term visibility into the future. And we still are seeing a pipeline of opportunities in that business. So, overall, I have a sense of optimism the short term it's difficult for us to make any concrete predictions.

**Michael S. Dudas**

*Analyst, Vertical Research Partners LLC*

Troy, those are very fair remarks and I appreciate those. My follow up would be maybe – terrific progress on the margin front, especially in the Americas and your international and US design business. If you could remind us some of the ways that – some of the methods you've had to increase that business, and have you – I'm assuming you've increased your Global Design Center use that's been helpful to contribute to some of that margin improvement. And again, your – the long-term goals that appeared from your remarks in the press release, those are achievable. Maybe a little more comfort level on that front.

**W. Troy Rudd**

*Chief Financial Officer & Executive Vice President, AECOM*

Sure. Yeah. Absolutely. The headline there is we are absolutely confident in our continued ability to improve margins beyond where they are. As we – again, certainly as we move forward to short term and the longer term, you know, I make a comment just about the North American markets and I'll turn it over to Lara to make some comments about the international markets.

But here in North America, again, it's been a combination of things, continued improved use of Design Centers, focus on streamlining the operating structure, and using global – sorry, our Global Business Service Center. Even though we've had a lot of that work moved to an – continue to be moved to Manila, we've been able to operate even in a remote environment and to continue to move those opportunities overseas.

And then, the last point is obviously our real estate footprint. And, you know, as we've changed the organization, we set out at the beginning of year to undertake an important real estate restructuring, which we've been proceeding with and we will complete that by the end of the year.

So, Lara, I'll turn it over to you.

**Lara Poloni**

*Chief Executive Officer-EMIA, AECOM*

Yeah. And thanks for the question, Mike. So, we are absolutely focused on international margin improvement and I think we're making good progress there. So, as we said earlier, year-to-date margins have increased by 170 basis points. We reduced SG&A by $16 million year-to-date, which is ahead of our plan for SG&A. And I think it's important to note when we've achieved that in spite – or despite the substantial revenue headwinds that we've
Thanks.

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

Hey, good morning, guys. Mike thanks:
Analyst, Citigroup Global Markets, Inc.
Andrew Kaplowitz

Operator:

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

Those are very helpful answers Troy and Lara. Thank you very much.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

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

Thanks, Mike.

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

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Hey, good morning, guys. Mike thanks for all your help and good luck. And Troy and Lara congratulations.

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

Thanks.

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Lara Poloni  
Chief Executive Officer-EMIA, AECOM  
Thank you.

Andrew Kaplowitz  
Analyst, Citigroup Global Markets, Inc.  
Troy, you mentioned – just following up on the couple of those questions. You – Troy, you mentioned that your pace of orders slowed in June in the Americas, maybe you could quantify for us the pace of that slowdown? And then, you know, you do come into the slower order pace with contracted backlog up 13% year-over-year. So can you give us some initial thoughts into your revenue growth visibility over the next few quarters? I'm not asking necessarily for a guide for next year, but how much visibility does current contracted backlog growth give you? And then how difficult would it be to grow your revenue in that slide 21, if there isn't a help from state and local stimulus?

W. Troy Rudd  
Chief Financial Officer & Executive Vice President, AECOM  
Yeah. So the best way I can answer that is just starting with our backlog. You know, our visibility certainly – an immediate, as you said, the medium-term visibility comes from our backlog. So, you know, our backlog is up, I believe 16% year-over-year from where we were last year. So, you know, that bodes well for the future and gives us that visibility. When I look at Construction Management. Construction Management gives very clear visibility to what the future will look like.

In our design business, our book-to-burn has been over 1 times for the year. So, again, that provides visibility into the near term. When you start looking at the impact of sort of how state governments will be funded and how money will be spent in the short term, it certainly will have an impact on us. But again the most important point I can make here is that, you know, we've shown ourselves to kind of being resilient, to manage our ways through those short-term fluctuations.

But again, as we move forward to long term, we have very good visibility into what the future looks like for the next few quarters. But that obviously, you know, around the edges whether it's growth or whether it's flat, so it has been this past quarter or perhaps may be down a few points, that will become clearer as we work our way through the fourth quarter and we start to see some more certainty around funding in particular markets.

Andrew Kaplowitz  
Analyst, Citigroup Global Markets, Inc.  
Thanks for that, Troy. And I wanted to ask a follow-up on the margin question. You guys gave very good color on the respective segments, but you do have the long-term guide out there of 15% EBITDA margin. When we think about the Americas, margin has been trending up, you know, into the high teens this quarter, so maybe the sustainability of that if we do see a little bit more muted growth here. And then, Lara, in international, again you give good color around double digit margins over time. But let's say the markets stay weaken in 2021, can you still grow that international margin even if you have some headwinds on the business?

W. Troy Rudd  
Chief Financial Officer & Executive Vice President, AECOM  
So, Andy, maybe the best way I can answer that is we absolutely have confidence that we can continue to grow margins into 2021. Just remember, just from the actions that we've taken over this past year, there's a run rate benefit that carries into the subsequent year. And then when you look at margins, a good example is in EMEA.
We actually have seen a contraction in the third quarter, in our International business, but we have seen margins continue to improve. So, again, as we look forward with double-digit margins that we would expect to be able to accomplish, you know, over the next few years in International business and with the combination of the success we've had in our Americas business, we believe our long-term targets are entirely achievable.

Andrew Kaplowitz  
*Analyst, Citigroup Global Markets, Inc.*

Great. And then just one quick follow up, Troy. You talked about basically increasing the focus on exiting your at-risk self-perform construction business that's intensified, what does that mean, in terms of a process?

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

Well, maybe just to – just a few moments just kind of about history here, but you know, when we were in the second quarter, we were involved in a process that were fairly advanced, expecting transactions to close in some of those businesses early in the third quarter. Obviously, with the impact of the pandemic, all of those processes stopped. Those – and those deals were no longer available. So, as we've started to see some more certainty in terms of how the world is going to progress over the next few quarters, as we've seen financing kind of become more certain in the marketplace, we've seen the opportunity to now take up those dialogues with groups of buyers and take all of those businesses to market together.

And so, that's really what we're getting at is – you know, we've kind of gotten to a point where there is enough interest and perhaps enough certainty in the market where some deals can get done. And we are out in the marketplace with those businesses and in discussions with multiple parties.

Andrew Kaplowitz  
*Analyst, Citigroup Global Markets, Inc.*

I appreciate that Troy.

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

Okay. Thanks, Andy.

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

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

Hi. Congrats, Troy and Lara, and best wishes to you, Mike. I have a couple of questions. I guess my first one, Troy, in the press release you said you're committed to EBITDA growth in 2021. I'm assuming we're not committing to the numbers we put out at the Analyst Day. I mean the street, the consensus isn't there. I don't think it's in your stock, but if you could just confirm that.

My second question, unless I missed it, I don't think you guys address sort of what's going on with the CFO role whether we're looking externally, internally and sort of like a timeframe there.

And then my last question, Troy, again just because you are taking over. I'm assuming your strategy will be the same that M&A is sort of off the table and how you're thinking about share repurchase? Thanks.
That was a lot, Jamie. So, let me take that in order...

There always is a lot, Troy.

...and keep it under half an hour.

Okay.

So, first of all, absolutely, we are committed to growing earnings in 2021. But as you can appreciate with the uncertainty in the world, we're not at this point restating nor giving guidance, and we will do that when we get to November. But again there is some softness in some of our markets. There's strength in some markets. And we expect some more certainty and clarity to be around some of our transportation and infrastructure markets as we get through this quarter.

And again, as I said what gives us confidence is our continued ability to improve margins and achieve that improvement in profitability even where there might be softness or slowing in terms of revenue opportunities.

In terms of the CFO timing, again as Mike said with the accelerated transition, we would expect to have something to announce before August 15 in terms of the CFO.

And are we looking into externally as well or should we view it as an internal candidate?

I won't make any comments on that.

Okay.
And in terms of strategy, again, as you described, there are no real significant changes in the strategy for the business. We are continuing the process to transform the company into a higher margin, lower risk professional services business that is a highly cash generative business. We again expect to continue to grow that business and take some of the margin improvement, and continue to invest in margin improvement and inorganic growth opportunities and frankly create a virtuous cycle as we move forward.

Our commitment still remains to return our free cash flow to our shareholders over time. That remains unchanged. And ultimately, what might be different is that as a result of the pandemic, we have invested a lot of time and energy thinking about how the workplace of the future is going to change, how we work and might change, and how it will change our industry.

And so, that's going to be not just simply removing some real estate. That's going to be changing the way that we think about and how we deliver work for our customers and our clients. And we think that it will ultimately accelerate a lot of the digital transformation that is going on in our business and will change the way that we ultimately deliver work, you know, causing greater opportunities for us to continue to improve margins and drive up returning capital in the business.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Thank you.

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

Okay. Thanks, Jamie.

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

Michael Feniger
Analyst, BofA Securities, Inc.

Yeah. Sorry, I was on mute. Sorry about that, guys. Just to kind of follow up on Jamie's question, I'm just curious, Troy, like what are the guide posts that you're looking for in terms of the strategy on capital return? So, I remember last quarter, you mentioned capital markets. Hopefully, capital markets have stabilized. Just in terms of executing that strategy, is it the FAST Act that expires in the September? Is it November elections? You have a CFO in place in a few weeks. It sounds like would you want gross leverage to come down to a certain point. I guess just point us to the signs that that you might be looking for in terms of executing that capital return strategy.

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

Sure. So, maybe a few points, so just starting with leverage. Our leverage – gross leverage for the quarter was 2.8 times or under 3. I expect us to keep our gross leverage under 3 times. It's the right leverage for us to continue to operate the business and enables us to return capital to shareholders. Again, as I said, as we saw more certainty over the course of the second half of this year in terms of our performance against our targets and our ability to drive cash flow that it would create more certainty towards an outcome of returning capital. And again, we're committed to over time deploying that capital to buying back stock. But I will say at this time, I certainly don't have any intention of front running any of our repurchase activity because it just simply increases the price at which we repurchase stock.
Michael Feniger  
*Analyst, BofA Securities, Inc.*

Fair enough. If I could just level set on bigger picture here, Troy, there's -- as you're aware, there's a massive evaluation discount to you and the premium design. Here – last quarter, you guys provided guidance when those premium players pulled out and you guys just raised your guidance today. As you're aware, there was a voice that felt an external candidate as necessary. So, you know, Troy, as you take over in the coming weeks, I know it's kind of executing a plan, but do you see anything structural with those peers as you guys transform your portfolio that makes you feel that discount is warranted or it can't be closed? Just commentary around that would be really helpful as you take over in two weeks and maybe evolve the plan that's been set going forward?

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

I don't see any reason why there's a discount to our peers. I'll be just very blunt about it. It's simple. You know, we've been able in this business to prove that we have fantastic professionals and employees in the marketplace serving our clients. We're number one in transportation facilities and environment globally, and we've proven our ability to operate and to drive margin improvement. You know, there are things that we can focus on, that we've proven we can focus on that will drive the profitability of the business.

You know, again, as I sort of think about what we've been working our way through is, we've had a workforce that has been focused on keeping our people safe, their family safe, and our client safe and delivering for our clients. We've been focused on maintaining a workforce, so that when the pandemic is over, we emerge stronger than ever, given the phenomenal franchises that we have.

And we've been maintaining a business health and achieving our targets. So, I frankly, don't see why there would be a discount. And ultimately, if there remains a discount, we'll be in the market again buying our stock cheaply.

Michael Feniger  
*Analyst, BofA Securities, Inc.*

Fair enough, Troy. And just lastly, I know there's a lot of scenarios we've gone on with 25% of your business that is state and local, just if we do, just to level set and have a base case, if we wake up and the FAST Act as just like you get a CR, a one year kind of punt to post-elections, I'm curious how you feel like you can manage through that. Is that steady as you go? Is that a negative outcome? Just anything you can kind of drill a bit on if that scenario plays out. Just a one-year extension with a little bit of help to munis and states. Is that still a positive scenario? Is that base case for you that you can muddle through? And that would be great. Thanks.

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

Sure. Look, I think maybe just to try and highlight what the headline is, we obviously think about a number of different scenarios and we do a lot of different scenario planning as we have done throughout the entire pandemic. And even under all of those scenarios, we have confidence in our ability to grow earnings in 2021. I couldn't pick on one single item and say this is a plus and this is a minus. We manage the entire business and there is funding available in some of the places in our business that is improved and in some places where there's some uncertainty. But through all of this, we're confident of what we can control. We're confident in the franchise and the people that are here. And we're confident in growing earnings next year.

Operator: Okay. Your next question comes from Steven Fisher with UBS. Your line is open.
Steven Fisher  
*Analyst, UBS Securities LLC*

Thanks. And Mike, best wishes. Congratulations to Troy and Lara.

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

Thanks.

Lara Poloni  
*Chief Executive Officer - EMIA, AECOM*

Thank you.

Steven Fisher  
*Analyst, UBS Securities LLC*

How are you thinking about the trajectory of the Building Construction business over the next couple of years? Are you anticipating or preparing for this to have some softness? And what are some of the things you can do to mitigate a cyclical downturn? And then, does it kind of hold the same strategic importance framework [indiscernible] (00:53:20) framework that's held in the last few years?

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

Yeah. Even as we look forward from where we are today, we see that business growing next year, and we think that it grows at a double-digit rate. And again, that's built on the strength of the backlog that we've built up over the course of the last two years. It does give great visibility into the future.

As we look out beyond that, certainly there's going to be a change in the nature of the opportunities that we pursue. But what we've experienced over the last few years is we've moved into different elements of the business and focused on where our clients are investing in infrastructure. So, we'll continue to do that.

And so, it's difficult at this point to say here's a long-term view other than we know that it's a great franchise. We know that we have an ability to continue to serve those clients as they are investing in certain sectors of the market and we have a lot of visibility to the backlog in that business.

Steven Fisher  
*Analyst, UBS Securities LLC*

Okay. And certainly, the size of the backlog is one of the strengths of the company at the moment. We are hearing from some of the – kind of some of the peers about a slowing burn rate at the existing backlog. So, I guess, wondering to what extent are you seeing that in any elements of your business, be it airports or any of the building business and kind of how you would be – how you would manage that from here.

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

Yeah. The answer is across elements of the business we are seeing deferrals of work. The place that I made mention earlier was just in our environment business where we're seeing the largest and most obvious deferral of work. But it is happening. I believe it is a short-term phenomenon certainly in the areas of transportation and
water. But what we are experiencing is again, as I said, in those marketplaces, so far in the third quarter, we believe we've been taking some market share.

So our capture rate has been improving even as opportunities or award opportunities have been deferred and move to the right. So again, it's – we have a lot of confidence based on the underlying capabilities in the business. And then through that through active management, we believe that we can continue to work to improve that trajectory in the business – of the business.

Steven Fisher
Analyst, UBS Securities LLC
Okay. Sounds good. Thanks.

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

Operator: [Operator Instructions] Your next question comes from Adam Thalhimer with Thompson Davis. Your line is open.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.
Hello. Thanks. Hey, guys. Congratulations the good Q3.

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

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.
In the largest cities like a place like New York, what do you guys see on the front-end. I mean on the one hand, you have kind of a lot of talk about de-urbanization from a place like New York but on the other rates are super low. So, how does these two factors kind of play out?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM
That becomes a difficult question to answer. It depends a lot of – there's – again, there are a lot of – within a city like New York, obviously, we do a lot of different types of work in a lot of different markets. If you are referring to our Construction Management markets, again, we really see the benefit in those markets just coming from change.

What you described are certainly uncertain conditions but it's not going to be discontinued investment. There's going to be investment that we put forward over time, and our business is well positioned to take advantage of that. But in terms of, again, Construction Management, we are seeing opportunities in some of the major cities here in North America. But we certainly are seeing, you know, our clients thinking or rethinking some of the decisions that they might be making for the future.
Adam Robert Thalhimer  
*Analyst, Thompson Davis & Co., Inc.*

So, you would say if you've seen any weakness has been more on the design side, more so in the Construction Management?

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

Again, I see the – again, as I said in our private markets, we see it on the design side of private markets. We see the – we’re seeing the weakness.

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

Okay. And then just kind of a modeling question. Corporate SG&A, what was a good run rate to use for that?

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

$40 million to $45 million per quarter.

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

Okay. And then last one just on the – on federal spending in fiscal 2021. I know the Fed, it's still a good client for you, not as big as it was when you had MS. But what are you seeing in the budgets for federal spending next year?

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

We're not anticipating any significant declines in the clients that we typically do our work for.

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

Still good. Okay.

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

Again, if you think about that, that's – you know, a large client with like the Corps of Engineers.

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

So, I need to see them stable next year.

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

Yes.
Okay. Great. Thanks for the color.

Operator: There are no further questions at this time. I’ll hand the call back over to Chief Financial Officer, Troy Rudd, for closing remarks.

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

Good. Well, look, thank you, everyone, for joining today. I’ll just make a quick concluding statement. I want to say that, you know, in this unprecedented time I’m incredibly proud of the teams and how our people here have pulled together and worked through this environment. It certainly instills confidence in the leaders in the organization and through our professionals in our ability to achieve the goals that we’ve talked about today. We finished with a strong balance sheet, strong cash flows, record backlog, and it does give us confidence as we move forward and expect growth in fiscal 2021.

So, again, I thank everyone for joining the call today.

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