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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AECOM Fourth Quarter 2019 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker today, Will Gabrielski, Vice President, Investor Relations. Thank you. Please go ahead, sir.

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

Thank you, operator. I would like to direct your attention to the safe harbor statement on Page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the SEC. Except as required by law, we undertake no obligation to update our forward-looking statements.

We are using non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation where available, which is posted on our website. All percentages in today's discussion refer to year-over-year progress, except as noted. Organic growth is presented on a year-over-year and constant currency basis and is adjusted to exclude impacts of noncore businesses and planned and actual dispositions.

I should note, we will now refer to our Building Construction business as the Construction Management business, consistent with the Professional Services nature of the work. We will refer to our Professional Services business in our presentation, which is comprised of the Design & Consulting Services segment, the Construction Management business and AECOM Capital. Adjusted EBITDA for these businesses exclude stranded costs associated with planned separations and divestitures, which are expected to be eliminated.

Historical Professional Services financial metrics reflect our current estimates based on information available as of the date of this presentation. The final figures may differ materially from these preliminary amounts due to the completion of our financial closing procedures, final adjustments and other developments that may arise between the date of this presentation and the time the recast quarterly results are finalized. We believe adjusted EBITDA for the Professional Services business provides additional insights into business performance by excluding the results of planned business divestitures. However, such estimates are forward-looking statements and are inherently uncertain. As such, you should not place undue reliance on such statements as actual results may differ materially.

Reconciliation of adjusted EBITDA for the Professional Services business for fiscal 2020 to the most directly comparable GAAP measure is not available without unreasonable effort because the company cannot predict with sufficient certainty all the components required to provide such a reconciliation at this time.

Today's call includes discussion related to the previously announced sale of the Management Services business, which has not yet been completed and includes potential risks and uncertainties, including that the transaction does not close or that closing may be delayed.

Finally, I should note that fiscal 2020 is a 53-week period. Beginning today's presentation is Mike Burke, AECOM's Chairman and Chief Executive Officer. Mike?

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

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

Please turn to Slide 3. Fiscal 2019 was a successful year for AECOM on several fronts. First, we exceeded our expectations on nearly every key financial metric. Adjusted EBITDA grew by 13% and we delivered a fifth consecutive year of free cash flow in excess of $600 million, including record cash flow in the fourth quarter. Importantly, our Professional Services business delivered an even stronger 25% adjusted EBITDA growth rate.

Second, through the sale of the Management Services business at a premium valuation, we unlocked substantial shareholder value. The expected cash proceeds will transform our balance sheet, enable us to accelerate stock repurchases at a highly attractive price under our existing authorization.

Third, the restructuring actions we have taken and continue to take are resulting in record profitability, including an all-time high DCS margin in the fourth quarter and for the full year. With the additional actions we are taking to enhance profitability, we reiterated our expectation to achieve an 8% DCS margin in fiscal 2020. On a net service revenue basis that excludes pass-throughs, this translates to an approximately 11.5% margin, which is consistent with our peers.

Finally, we are winning work at a strong pace and backlog remains near an all-time high at $60 billion. As our fiscal 2020 guidance confirms, we expect another year of strong adjusted EBITDA growth, including our expectation for 12% adjusted EBITDA growth in our Professional Services business, supported by a 19% backlog growth in fiscal 2019.

All of these accomplishments and our positive outlook for fiscal 2020 are the results of our deliberate and focused efforts we began executing 2 years ago to enhance shareholder value.

Please turn to Slide 4. We have been steadfast in our commitment to enhance profitability and to fully capitalize on our near-record backlog. We executed a $225 million restructuring plan during 2019, and we announced additional restructuring actions in August. As a result, we continue to expect to achieve a greater than 210 basis point increase in DCS margin by 2020 compared to fiscal 2018, supported by the already achieved 120 basis point increase in fiscal 2019.

We are evaluating additional opportunities for further margin upside. These include further investments in best-cost shared service centers and global design centers to lead our industry in delivering work consistently and efficiently. Additionally, we are focused on improving return on capital and return on management time. This includes continued progress on our plan to exit more than 30 countries where we are nearly 50% complete.

We are continuing to evaluate our entire portfolio to ensure we are investing in markets that are aligned with our strategic and financial priorities. We are also making progress on our commitment to derisk our business. The Alliant combined cycle gas power plant is expected to achieve substantial completion on time later this year. In addition, we have divested several lower-returning businesses over the past 2 years, including our International Development business and numerous oil and gas businesses that were not aligned with our strategic and financial priorities.

As we continue to pursue the exit from our remaining self-perform construction businesses, we are managing our risk reward profile on this work to maximize the ongoing value and attractiveness of these businesses to third parties. We are committed to an end state goal of nearly 0 at-risk self-perform construction exposure.

Finally, last month, we announced the sale of the MS business for $2.405 billion at a premium valuation, which is expected to close in the second quarter. The sale unlocks value much sooner than the proposed spin-off and creates certainty for all stakeholders. This transaction will generate substantial cash proceeds, which we will deploy to reduce debt and repurchase our stock at what we view as a substantial discount to Professional Service peers in our estimate of intrinsic value.

Please turn to Slide 5 for a discussion of our business trends. Beginning in our Professional Services business in the DCS segment, performance was strong in 2019. This was highlighted by record profitability in our largest market, the Americas, where we are benefiting from efficiency gains and favorable market conditions in both the U.S. and Canada. State and local clients continue to operate with healthy budgets and record rainy day funds. In addition, over the past year, 5 states phased in gas tax increases, underscoring our clients' focus on funding critical infrastructure. Importantly, bipartisan support for infrastructure investment remains strong. We are also delivering growth in our work for federal clients, where we support a number of agencies and have a growing pipeline.

Conditions in Canada are similarly strong. We are executing on several large transportation projects in the region and delivered double-digit revenue growth for the year, led by our leading transportation franchise.

Turning to our international markets. We delivered solid results in the EMEA region, led by large wins in Saudi Arabia and growth in the U.K. Across the region, profitability is benefiting from the actions we have taken to more efficiently deliver work and to extract ourselves from lower-returning markets. With Brexit now delayed until at least January, we are closely monitoring the macroeconomic environment to ensure our business is resilient across a range of potential outcomes. Importantly, the U.K. government remains committed to supporting economic growth and is prioritizing infrastructure investments to address potential economic weakness. We maintain a leading position that allows us to capitalize on these opportunities.

In the Asia Pacific region, the macroeconomic backdrop is mixed but execution remains strong. Geopolitical uncertainty and a slowing rate of economic growth in Hong Kong is balanced against public sector investment in Australia, resulting in stable growth across the region. Profitability is benefiting from a sharp focus on execution and operating efficiencies.

Pivoting to the Construction Management business. Execution was strong, which led to a substantial increase in profitability. Our backlog increased by 45% and we're pursuing a robust pipeline of larger opportunities. The year was highlighted by our selection to deliver the new Terminal 1 project at JFK Airport in New York City, demonstrating both our strength in the aviation market and our leadership position in New York. As a result, our backlog represents nearly 4 years of annual revenue, and we expect revenue and profit growth in 2020 and beyond.

In Management Services, we delivered 12% revenue growth, which reflects the successful growth investments we've made and strong market trends. The strength of this platform was evident in the premium valuation we realized as part of last month's announced sale.

Across AECOM, execution in 2019 was stellar across a number of key financial and strategic initiatives. We are continuing to make progress on our transformation into a higher-returning and lower-risk Professional Services business, where we are energized by our performance in 2019, including 25% adjusted EBITDA growth and 19% backlog growth. This momentum underpins our expectations for another year of double-digit growth this year. We remain focused on capitalizing on the opportunity to further enhance value in 2020 as we continue to deliver against our commitments. I will now turn the call over to Troy, who will discuss the quarter in more detail.

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

Thanks, Mike. Please turn to Slide 7. We delivered a number of financial and strategic accomplishments in fiscal 2019, including exceeding our expectations on nearly all of our financial targets. Before reviewing our performance in greater detail, I want to discuss a few financial impacts associated with the strategic actions we have taken and continue to take to maximize value.

First, we recognized a $588 million noncash impairment to goodwill associated with the at-risk self-performed construction businesses in the fourth quarter. We intend to exit these businesses as part of our strategy to derisk the business profile. Second, as Mike detailed, we continue to take actions during the year and anticipate further actions in fiscal 2020 to enhance profitability. This includes the commencement of restructuring actions in the fourth quarter associated with the margin improvement plan we announced in the third quarter as well as actions required to eliminate stranded costs.

Finally, we expect to report the first quarter a onetime reduction to equity related to real estate of approximately $125 million from the adoption of the new lease accounting standard. There is no P&L impact from this adjustment and this is a noncash item. I will discuss the cash components of these restructuring actions shortly.

Please turn to Slide 8. In the DCS segment, underlying performance was strong. The adjusted operating margin was 8% in the fourth quarter, which marked a new record and a 190 basis point increase in the prior year. The substantial improvement reflects the benefits from already completed restructuring actions and solid execution. The full year adjusted operating margin was 7.1%, also a new high for DCS and exceeded our expectations. For the full year, revenue increased in the low single digits. We faced a challenging comparison in the fourth quarter due to elevated storm recovery work last year. Revenue increased excluding this impact. Contracted backlog increased by 6% to an all-time high, led by 8% growth in the Americas, which supports our expectation for continued growth in 2020.

I should note that the growth rates in the first half of 2020 will continue to be impacted by the high volumes of storm recovery work executed in the first half of fiscal 2019. However, growth is expected to accelerate as the year progresses, and we expect to deliver a low single-digit revenue increase for the year.

Please turn to Slide 9. Organic revenue in the CS segment declined by 3% in the full year. This performance include a decline in the Power business, which was expected due to our decision to no longer pursue fixed-price combined cycle gas power plants. The Alliant combined cycle power plant, the only large fixed-price new generation project in our backlog, is on track to be completed later this year. The adjusted operating margin was 2% for the full year, which was consistent with our expectations.

In CS, Construction Management profitability improved significantly in 2019, and we expect double-digit growth in 2020, supported by a 45% increase in backlog. As a reminder, our Construction Management business, which comprises approximately 70% of the revenue in this segment, contains a high level of pass-through revenue. On an NSR basis, which excludes these pass-throughs, the adjusted operating margin was 15.2% for the year.

Please turn to Slide 10. Revenue in the MS segment increased by 12% in the year and set a new record. Activities on several of our larger projects have now fully ramped up. The adjusted operating margin was 6.5% in the fourth quarter, resulted in a full year margin of 6.1%, which exceeded our 6% expectation.

Please turn to Slide 11. Fourth quarter operating cash flow and free cash flow were $794 million and $779 million, respectively. Both metrics set new records and resulted in full year free cash flow of $694 million. This is a great outcome and reflects the efforts across the organization to drive cash flow despite continued headwinds from delayed collections for our completed work in the U.S. Virgin Islands. Generating cash is ingrained in our culture, as is demonstrated by the $3.4 billion of free cash flow we have generated since fiscal 2015.

Turning to our capital allocation priorities. We will continue to allocate our capital, consistent with our commitment to maximize shareholder value. Our substantial cash generation in the fourth quarter enabled $413 million of debt reduction, and our net leverage ratio exiting the fourth quarter was 2.2x. This is within our target range of 2 to 2.5x. In addition, we repurchased $75 million of stock during the year at an average share price of $31 and have $760 million remaining under our $1 billion authorization.

The sale of the MS business is expected to close in the second quarter. We expect to allocate cash proceeds to debt reduction, consistent with our leverage goals and to execute share repurchases. With our expectations for continued growth and our transformed leverage profile, we continue to expect to allocate available free cash flow to repurchases thereafter as we continue to believe our stock trades at a substantial discount to a fair estimate of intrinsic value.

Please turn to Slide 12. We are reiterating our fiscal 2020 guidance. We expect enterprise adjusted EBITDA of $1.060 billion at the midpoint, which includes 12% growth for our Professional Services business. Excluding any impacts from the sale of the MS business, our plan to exit from at-risk self-perform construction and on a consolidated basis, we would have expected to generate free cash flow within our $600 million to $800 million range. This would have reflected both our expectation for continued earnings growth, lower interest expense and the expected increase in cash taxes.

However, a few variables may impact our cash flow this year: first, we expect to receive approximately $2.2 billion of net proceeds from the MS sale in the second quarter, and we will continue to pursue the items associated with the $150 million of contingent purchase price, which would substantially add to available cash for capital deployment; second, we expect a cash use of between $160 million and $180 million for restructuring activities. There are 2 main drivers of this cash use. The first is the additional restructuring actions we announced in the third quarter to further increase margins. This plan is focused on driving real estate efficiencies and increased usage of the best cost design and shared service centers. The second is the elimination of stranded costs associated with the Management Services business and the planned divestitures of at-risk self-performed businesses.

Third, we expect the MS sale to close in the second quarter, likely at a point in the year when year-to-date cash flow is typically negative. As such, full year cash flow will be impacted because we don't benefit from MS cash flow as the year progresses. Finally, there will be a headwind to cash flow from the elimination of receivables that we had sold within the MS portfolio. This will negatively impact cash flow in the short term. However, we intend to replace this program over time with other receivables from the Professional Services business. We're not ready yet to provide formal cash flow guidance. We will provide the details on fiscal 2020 cash flow at our Investor Day on December 10 in New York City.

Looking ahead, we are confident in the direction of the business. Our Professional Services business is expected to deliver double-digit EBITDA growth in fiscal 2020 and is expected to convert adjusted EBITDA to unlevered free cash flow at a greater than 75% rate on a normalized basis. This strong cash flow profile creates continued opportunities to deploy capital to repurchase stock and to enhance shareholder value.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Andy Kaplowitz with Citi.

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

Mike, can you talk about the 8% operating margin in DCS in Q4 as well as your ongoing focus on cost out? You mentioned last quarter that you've ramped up the consulting effort within the business. And so as you're proceeding along both in your planning of what future DCS looks like as part of RemainCo, as well given what you're actually executing, are you getting more confidence that if that 8%-plus margin FY '20, which is a signpost on a longer road of margin expansion? And at the Analyst Day, will you give us a new target to think about in terms of the margin goal for that segment?

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

Yes. Thank you, Andy. The majority of the actions that we've taken to get to that 8% margin target happened in FY '19 or would be taken in the first half of the year of '20. We have made a lot of progress on those actions over the past year. We still have some that we're executing on right now but we have a high level of confidence in that. We still have additional opportunities for continued margin expansion, both through the continued increase of our global business services centers and our global design centers.

We have -- we still have some actions that we have planned and are taking on the continued reduction of our real estate portfolio as we continue to refine the right places that we want to have a platform within and where we want to deliver that work is -- gives us a pretty good outlook there. That 8% margin on an NSR basis translates to about 11.4% -- I'm sorry, 11.8% on an NSR basis, and so it gives you a sense where we were and how far -- how much progress we've made over the past 2 years and the opportunities in FY '20. But we'll continue to give more insight into the future margin improvement opportunities when we get together in December.

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

And Troy, free cash flow of $780 million in the quarter. I know you kind of preannounced what you were going to do. But full year of $700 million versus you were guiding to the low end of $600 million to $800 million, and considering you didn't collect significant payments from the Virgin Islands or the refinery that you mentioned in the past, it's obviously quite good. So what was so much better than your expectations? Was there any pull forward of cash from 2020? And if you get Virgin Islands cash, I mean, assuming that the company was still together, can you do $800 million-plus as you sit here today?

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

Yes. So Andy, there's no single item that I could point to that said we outperformed kind of what we guided to last quarter in terms of free cash flow. It was really an effort across the entire company of folks focusing on cash flow and driving an outsized result. And when we look at the last 5 years, as I said, we generated $3.4 billion of cash flow. And within that time frame, things move around from quarter-to-quarter.

So when I look at this entire year, we did certainly come within our guidance range. The organization pulled together and did better than we had expected in the fourth quarter. And the reason that we gave the guidance for the entire company for next year of $600 million to $800 million was just to make sure that we give an indication that there wasn't something significant that we were pulling forward from a subsequent year. We still have this same belief. The business continues to turn earnings into cash flow on a consistent basis, again recognizing that there are fluctuations between quarters.

I will say that having the year end on September 27 instead of September 30 did provide a small benefit for us in terms of timing, and I estimate that to be about $50 million of benefit in terms of the of the '19 performance.

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

And then just a quick clarification on the $150 million, $180 million of cash restructuring cost. I think you said it was $90 million for the original program. And I know Troy, you talked about new spend, taking care of stranded costs but also focused on core DCS. If I think about that ratio in the past, of that $90 million to $225 million, is it a similar ratio for the subset of cash costs that we've focused on, incremental margin in DCS?

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

No, it's a slightly different profile because part of what the restructuring that we're undertaking now is related to real estate, and so the payback is a little bit longer term. It certainly is a significant cash payback, but it has a little bit different profile. And then the other significant element of that is stranded costs, which will have a benefit to the company but that's not a benefit that we would see in margins. That's the benefit again of removing those costs as a Management Service business would exit sometime, we think, in Q2.

Operator

Our next question comes from Michael Feniger with Bank of America.

Michael J. Feniger ***BofA Merrill Lynch, Research Division - VP***

I know your quarter obviously ended at the end of September. I'm just hoping maybe, Mike, you can talk about in October, and already with a week or so in November, is there anything you're seeing, Mike, in terms of -- have anything on the awards? Any slowdown that you highlight on? Or is that -- is there anything that's giving you confidence that, especially in DCS, you expect the organic growth to reaccelerate once you lap some of those tougher comps in the back half?

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

Sure. Well, certainly, we're not seeing any indications of a slowdown. In fact, in FY '19, we had $27.5 billion of wins. And if you look at, what we'll call the Professional Services segment, the DCS and CM business, we had a book-to-burn of 1.2 in FY '19. So it kind of gives you a sense for the momentum you have coming into FY '20. We still believe that a mid-single-digit organic growth is the right target for us in both the short and the longer term in that business. But we haven't seen any market indicators on a broad scale, but that gives you a sense.

Michael J. Feniger ***BofA Merrill Lynch, Research Division - VP***

That's fair. And then just thinking about the backlog that you're seeing in CS and DCS. Just curious, is there any view internally that with the backlog and the visibility now that you have, that where the backlog -- is it now -- did you push more price? Do you get a little bit more selective as you approach some of this pipeline that you say is still robust? I'm just curious how you manage that.

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

Yes. So again, the Professional Services segment has got a 19% increase in backlog for the year. We are definitely continuing to grow, but we are being selective about what kind of risk profile we want. We continue to stay laser-focused on higher growth and higher margin markets. There's no question, we have a different focus on the type of projects we're willing to take on. But I don't want to suggest that somehow that is going to have an enormous impact on -- an enormous negative impact on organic growth. We still feel confident in the mid-single-digit growth rates.

Michael J. Feniger ***BofA Merrill Lynch, Research Division - VP***

And just lastly, just still some loose ends. I know you guys have the oil and gas side, you talked about civil construction. Can you just provide us an update on the time line there? The fact that the cash flow came in so strong in the fourth quarter, does it change your timeline at all, especially with what we're seeing in the public market side on some assets for civil construction? I'm just curious how you're thinking about that, Mike and Troy, as you know, we approach 2020.

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

Yes. So it is still our strong intention to divest ourselves of at-risk self-performed work. During the year, we did sell our International Development business. We sold portions of oil and gas. We're wrapping up our Alliant combined cycle gas power plant this quarter. But as I've said in the past, the market conditions are difficult to be selling civil construction assets right now. So we continue to market that asset. But in the meantime, we're really focused on carefully managing the risk in that portfolio. And we're also focused on ensuring we maintain the value that exists in that business today for a potential sale. It's performing well, it's generating cash flow and we want to make sure that we maintain that. So we're certainly not going to give those assets away, but we still have the same intention to divest of those business.

Operator

Our next question comes from Sean Eastman with KeyBanc Capital Markets.

Sean D. Eastman ***KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst***

First one for me is just on the cash flow. Clearly, a ton of moving parts into fiscal '20, and it sounds like we'll get more color in December. But just coming back to those items Andy brought up, the USVI receivable and the refinery claim, just those 2 big discrete items. I just wondered, are those likely to be additive in fiscal '20? And could they maybe help drive a less back-end loaded free cash flow cadence as we look into fiscal '20?

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

Yes. So Sean, as we look forward, we certainly have some element of collections of the U.S. Virgin Islands project built into our cash flow forecast. But we do have some upside beyond what we're guiding for what is baked in. And similar for the refinery project. At this point in time, we don't have a projection of when that will be resolved, so that would also provide upside to our guide for this coming year. And the additional point, again, this gets to our capital allocation. As those items are resolved and they provide upside to our cash flow, we would view that capital as being deployed against our stated intentions in terms of buying back stock.

Sean D. Eastman ***KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst***

Got it. And then just diving in on the capital allocation plan as we move out over the next few quarters. Clearly ended 4Q well within the AECOM net leverage target, but I think you guys are still above that 3x threshold on a gross basis. I'm just trying to get a sense for when we kind of move from deleveraging to buybacks, how much more debt do you guys want to pay down before buybacks start to take priority?

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

Yes. So I think we certainly were pleased in the quarter to achieve our net leverage target in the -- down to 2.2, with the record quarter that we had in the fourth quarter. But we're just not yet ready to preempt our plans with public comments on specifics about a buyback and giving the market exact timing in quantity and price. But we will have a substantial opportunity to deploy the expected net proceeds from the Management Services deal. As Troy noted in his remarks earlier, we've got some timing considerations on sources and uses of cash this year. So certainly, on day 1 after the transaction, we'll be expected to be paying down our debt and developing a plan to repurchase a substantial number of shares, consistent with the capital allocation priorities that we've previously talked about, which is keeping our net debt ratio in that 2 to 2.5. But we'll -- we don't want to preempt the market on the exact timing.

Sean D. Eastman ***KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst***

Okay. And then last quick one for me. Just on the simplification program, exiting more than 30 countries. What kind of percent completion are we at on that process right now? And do you think we might have to see more impairment charges as you sort of rationalize some of those more exotic locations?

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

So we're about 50% of the way complete with exiting those 30 countries. We are doing them very carefully. We have got work -- we've got client commitments in some of those places that we're winding down. I don't anticipate impairment charges on those countries that we're working on. But we'll continue to look for opportunities to simplify this organization over time. We want to ensure we are spending our management's time and energy focused on the highest-margin, lowest-risk, highest-growth markets and not getting distracted by some of these small countries that we're currently operating in. So there'll be continued opportunities for us to get more and more focused on the biggest and best opportunities so that we can extract the highest margin from the work that we're delivering.

Operator

Our next question comes from Michael Dudas with Vertical Research.

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

Mike, as you -- and I'm sure we'll talk more about it in December at the Investor Day, but as you look at the pro forma restructured Professional Services business, DCS and CS, any thought on where you'd add more talent, more investment relative to returns on each of those businesses? Or are we just looking at it as 1 holistic business where there's opportunities that just come about? How best to think about, when we're looking over the longer term, how the CS or the CM business can contribute to AECOM longer term?

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

Yes. So those businesses are in markets where we have a very strong competitive position. We continue to constantly look for opportunities that line up with higher-growth markets and in our skills and services. And so one of those that you saw this year, we saw an opportunity in the aviation space, where we saw an aviation market in North America that looked to be about to move into a very expansionary time. And so we dedicated a lot of our business development dollars in that market and achieved, I think the last number I saw, $8 billion or so of wins in that space. And so we'll continue to look at markets to provide outsized growth opportunities so that we can get focused.

And there are a number of those and they change from time to time. You've heard us talk about the PFAS opportunity that is a really strong opportunity. There's expected to be billions of dollars spent to decontaminate soils from that toxic mess. And so we still, in our core markets, transportation continues to be a good market. We're seeing, as I mentioned earlier, gas tax increases and special funds for transportation across the big markets in which we operate and as well as water markets have some pretty good opportunity, and it lines up well with our skill set. So there's plenty of opportunity there. We just want to make sure that we are focused on the biggest growth areas with the highest margin and the least amount of risk.

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

And following-up, Mike, thinking about the at-risk business and your intention to monetize or derisk the business. Are you working off like lost projects or suboptimal projects? Are you going to not take on as many bookings relative to what you're burning off? Or is that still kind of be in a flux because you're trying to keep the business realistic at a good level to monetize? And is there a timing issue? I'm sure the timing's probably a lot longer than you would have thought 6 months ago, but is it 6 months, 9 months? Or is it just whenever things -- when the market comes back, you can monetize?

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

Yes, I don't want to put a real specific timeline on it, Michael. But as I said earlier, those businesses are performing well today and we're not going to give them away. But every project we look at, we're managing the risk reward balance. And it's -- I wouldn't say we're working off big problem projects or anything. Nothing is ever perfect on every project. But I wouldn't say we're working off of a number of large problem projects. But we'll continue to focus on ensuring that we're in the market to maintain the value inherent in those assets to offer them to a buyer when the right buyer comes along at the right price.

Operator

Our next question comes from Jamie Cook with Crédit Suisse.

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

Nice quarter. I guess just 2 follow-up questions, Mike. When we think about the margin opportunity in DCS or Professional Services broadly, and you think about your ability to achieve the longer-term margin target, is it just a function of the cost cutting that you've already done? Or is the contracted backlog that you've been booking, more reason? Or the margin opportunities within backlog also higher that we could see some potential upside?

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

Yes. I think, Jamie, there's a couple of pieces there. One is just ensuring that we are more focused on the markets that give the most opportunity for margin. So some markets just simply offer better as-sold margins than others. And so making sure that we're deploying our resources in those markets that deliver the higher-margin projects when you sell them.

The second piece of it is continuing to look for opportunities to scale up the business without increasing the cost and to continue to reduce our cost, as Troy mentioned earlier. But it is that, what I mentioned, the opportunity to utilize the global design centers, our global business service centers at a much more rapid pace, that will present opportunities for continued margin expansion. So it's a little bit of all of that, Jamie. I can't say it's one or the other, but it's a combination of all of those.

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

Okay. And then can you just comment? Obviously, the bookings within DCS have been very strong. I mean, throughout the years, you're going through this exercise, do you think sort of the backlog in growth rate can continue at the pace that you have been, just given the opportunities that are out there? Or is it -- I guess, just because of everything that's going on internally, you're going to be, perhaps the order backlog growth rate slows for a bit before it starts to get back to a more normalized trend.

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

Yes. I don't want to try and forecast future wins but we have had a really good track record of growing that backlog over the past couple of years. And I don't want to suggest that our Construction Management business is going to have another year of almost 50% growth in backlog. That might be a bit too much to expect. So I think that was an abnormal year. But I did mention the 1.2 book-to-burn in our Professional Services business, which feels pretty good. So we're still seeing market opportunities in front of us and I don't see that changing, certainly in the near term.

Operator

Our next question comes from Andrew Wittmann with Baird.

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

I wanted to ask a couple more questions on cash flow here. From the skeleton balance sheet you gave us, we've got cash, accounts receivable in the working capital changes here. It looks like on the liability side of the ledger, you've increased the liability, Troy. Can you talk about what the payables balance was at the end of the year and how that changed sequentially?

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

Yes, Andy. So year-over-year, just -- first of all, in terms of talking about total working capital, our total working capital over the course of the year was effectively a use of cash. So in aggregate, it was a use of cash. In terms of the course of the year, we saw our receivables balances increase. And we saw our payables and accrued liabilities increase by almost a commensurate amount. And as I said a little bit earlier, the 1 thing that impacted at the end of the year was the fact that we had the timing of our year-end. The fact is, is that we had payments going out the door in September 30, and with a September 27 year end, we did benefit from the timing of that and that was about $50 million.

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

Got it. What was the payables balance at the end of the year?

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

I don't have the payables balance, so I'll have to share that with you.

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

Okay. I guess on the -- you mentioned that the -- some of the receivables that you sell -- that you previously sold are going to unwind in 2020? Presumably, that has to do with the credit facility had, I think, a governor, the maximum amount that you could do on that. I think last quarter, you finished about $369 million on that. I was just wondering, should we assume that the size of the reduction in the amount that you're allowed to sell of receivables is commensurate with the reduction in the EBITDA that the company is going to be generating next year after the MS sale? Is that kind of a good way of thinking about what that unwind could be in terms of dollars?

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

Andy, no, I'll tell you, think about it a little bit differently, which is, we have programs that -- within the business, that we have been selling receivables for the last 4 years. And those programs have been running plus or minus $50 million the last 2 years at about the same level. As we exit the Management Services business, we have been selling receivables within that business. With the sale of that business, we'll no longer have that opportunity. And those -- the sales will effectively unwind. But what we'll be doing is replacing that with programs in the remainder of the business.

So when you think about the kind of the program that we have, it's not dependent upon EBITA. It's just dependent upon us actually putting an additional program in place to replace the one that was currently in our Management Services business. So there certainly will be an impact in the year. I view it as a timing impact as we move out of 1 program and into another and another place in the business. And Andy, to answer your other question, the right side of the balance sheet, the AP and accruals, over the course of the year, increased by about $400 million.

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

Okay, that's helpful. And then my last question, I guess, is for Mike. And there's been a lot of talk about buyback, you've been talking about that for a long time. But I was just wondering if a dividend is in the conversation at the Board level as another option? And how serious you would consider that as a deployment of capital?

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

It's always in the consideration and it's just a matter of timing. Right now, we feel pretty good about the opportunities to buy our stock back, and so that would be a matter of first importance for us. And then at some point, we may certainly consider a dividend, but it is something that we, at the Board level, talk about quite a bit when we go through our capital allocation plans on a year-by-year basis. But it's definitely something that could be a possibility in the future.

Operator

Our next question comes from Steven Fisher with UBS.

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

Wonder if you guys -- I guess, Troy could walk through some of the puts and takes to margins in Construction Services in 2020? Should we be thinking higher than where we're holding in, in the fourth quarter? And how do some of these P3 projects like JFK affect the margins for that segment?

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

So if we're talking about the Construction Services segment in its entirety, we wouldn't see the margins changing in that business in '20. However, again, we're taking that business and we're thinking about it in 2 components. One is Construction Management and the other is in the at-risk businesses. If you think about the Construction Management business, and I think that's where the work at the JFK Terminal is, the margins that we're thinking about in that business, again, we described it on an NSR basis, are in the mid-teens. So as we move forward with our Professional Services business, we'll be reporting net service revenues and net service revenue margins. And the margins across that business will be in the kind of the 11.5% range we expect in the coming year in aggregate.

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

Okay, that's helpful. And then I guess, maybe Mike, if you could talk a little bit about the status of the private sector market in particular. I heard you talk a lot about state funding and robust infrastructure opportunities. Wondering if you could just talk about what some of the trends you're seeing in the private sector markets, particularly in the U.S.?

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

Yes. So our largest private sector component is in the Construction Management business. And you heard me mention earlier that our backlog in that space was up almost 50% this year, and so we continue to see a very robust opportunity for that type of work. So it feels -- it still feels pretty good. We've been saying for quite some time that we don't see that kind of growth in backlog increasing forever, but it just keeps coming. And so right now, we're not seeing signs of a slowdown on that side of the business.

On the other big component of our private sector business is the environmental engineering business, and that work is not necessarily driven by CapEx or new developments. Most of the work that we do is heavily driven by regulatory demand, the increase in regulatory requirements for environmental cleanup. I mentioned the PFAS opportunity earlier. Those continue to present opportunities for us to continue to grow in that space. And then, of course, the other pieces of the private sector business, we are divesting from components of that when we divest of our at-risk construction business.

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

Okay. Then just lastly, Mike, you have talked about in answer to some questions about moving to higher-margin type businesses or putting your focus on higher-margin things within DCS. I guess to what extent to achieve that are you going to be focusing more on increasingly technical type services? Because it seems like that's a popular approach at enhancing valuations. I'm wondering if there are specifically technical areas. I mean, you mentioned things like PFAS. Is that an area where you really do explicitly want to increase your exposure?

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

Yes. So this is Randy. Again, just to play the context, Mike indicated that we're not going to be doing everything for everybody anywhere. So just the fact that we will be focused on markets that are higher margin will give us a leg up in increasing margins on a go-forward basis. That said, we are making significant investments in digital transformation activities. And we expect that those will lead to increased margins as well as our focus on shared service centers that were previously mentioned, global business shared services and our global design centers, which also allow us to implement digital transformation on an accelerated basis.

Operator

Our next question comes from Chad Dillard with Deutsche Bank.

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

So I just want to go back to the guidance for DCS of single-digit revenue growth. And just wanted to understand just what's embedded in there. I was hoping you can maybe cut it a couple of different ways, domestic versus international, public versus private? What are you seeing there? How big is the pipeline opportunity? Any color there would be very helpful.

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

Sure. So the DCS business, will see slightly more growth in the Americas, than you'll see outside U.S. We'll see low single digits in EMEA. We're still waiting for the Brexit resolution that has frozen up some projects in CapEx in that market. So we're not seeing a big growth opportunity there, it'll be low single digits. APAC is a mixed bag. Some markets are doing really well and some are not. We're seeing markets like Hong Kong, that we're -- you're not going to see organic growth, you're going to see organic decline as the protests there continue to worsen. So when you put all those together, you get to a low to mid-single-digit opportunity for growth in FY '20.

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

That's helpful. And then on the operating cash flow, just given that there are a number of moving parts through the year. Like how should we think about the cadence of cash flow first half versus second half? How should we think about that build? And yes, that's it.

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

Okay. So Chad, I'm going to start, I mean, start at a little higher level and work down to some of the detail. But when you think about our year, in terms of the underlying performance, we gave the guide to the enterprise as $600 million to $800 million. Again, we see that the earnings growth contributing to that. We also will have a cash tax headwind that we haven't had in the past year. So getting to that, getting within that range, earnings performance, underlying earnings performance has improved with a similar cash conversion profile and a tax headwind.

When I look at the elements of the year, obviously, there's a timing of events that would impact that, to make this a little more challenging. First of all is the timing of the Management Services sale. The timing of that will have an impact on full year free cash flow. Then we look at the at-risk businesses, which we expect to generate cash flow during the year. But the nature of those businesses means that it's a little bit lumpier than our Professional Services business. The timing of some things that might happen in that business also impact the free cash flow guide for the year.

And then the other elements to that, as we pointed out, are the restructuring. We see some cash in the first half of the year being spent on restructuring. And then as those business -- as the divestitures take place, the stranded costs and the cost of restructuring for stranded costs will be impacted. The timing will be impacted by that. And then the last thing is the sale of our receivables in our Management Services program. As Management Services leaves, we'll have to replace that program from other places in the business, and that will also impact the timing. So unfortunately, that's not a great answer for you, Chad, but our underlying cash from the business remains -- our ability to generate remains similar, but there are a lot of moving parts in the year that make it difficult for us to guide very specifically.

Operator

And I'm currently showing no further questions at this time. I'd like to turn the call back over to Mike Burke for closing remarks.

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

Thank you, operator. So before we conclude the call today, I just want to reiterate a few takeaways from today's call. 2 years ago, we embarked on a very deliberate process to transform our business and position us for long-term success and, of course, to maximize shareholder value. And as part of this journey, we said our top priority was delivering on our commitments and achieving our plan. In fiscal '19, we clearly did that with a 13% growth in our EBITDA, a 25% growth in EBITDA in our Professional Services business.

We also said that we were going to substantially enhance our margins in the fourth quarter. We delivered 190 basis points of margin expansion in the DCS segment, and we are quite well poised to continue on that trajectory in fiscal 2020. We also said we were going to evaluate our portfolio to unlock value. And last month, we announced the sale of our Management Services business at a premium valuation that's going to allow us to accelerate our capital allocation plans.

We also said that we were going to derisk our business and transform us into a higher-returning and lower-risk Professional Services business. And as I mentioned earlier, we have exited several of our noncore oil and gas businesses. We sold our International Development business. We're about 50% complete with the exit from 30 countries that I mentioned earlier.

And finally, we said we were going to prudently allocate our capital, and we had our fifth consecutive year of free cash flow in excess of $600 million. We bought back $75 million of stock last quarter at a very strong discount and we substantially reduced our debt. So as a result, we are exceptionally confident in our ability to position the company for tremendous growth opportunities in front of us.

And I look forward to discussing these trends and the vision for our company in greater detail at our Investor Day in December. We'll be joined by this team as well as Steve Morriss and Lara Poloni, the 2 executives that lead our Americas and EMEA businesses, respectively. And we'll be -- they'll be sharing overviews of their business and some of the market trends that they're seeing on the ground.

And then finally, we'll showcase several innovations such as our augmented and virtual reality products that demonstrate how we're differentiating ourselves in the market. So we're looking forward to it and I hope to see all of you in New York next month. Thank you.

Operator

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