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# EDITED TRANSCRIPT

ACM.N - AECOM at Citi Global Industrial Tech and Mobility Conference

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**W. Troy Rudd** AECOM - Chief Executive Officer, Director

## CONFERENCE CALL PARTICIPANTS

**Andrew Kaplowitz** Citigroup Inc. - Analyst

## PRESENTATION

**Andrew Kaplowitz** - Citigroup Inc. - Analyst

Welcome to Day two of Citi's 2025 Global Industrial Tech and Mobility Conference. And I'm Andy Kaplowitz, I cover engineering, construction, multi-industry for Citigroup. So we are very excited to have AECOM with us, CEO is Troy Rudd. Troy, you've been coming to this conference for a while. Thank you for that.

I'm going to turn it over to you in case you have a couple of prepared remarks and then we'll get into Q&A.

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## QUESTIONS AND ANSWERS

**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

Okay. Thank you very much. And again, thank you for inviting us down to the conference. It's nice to be in Miami, even at seven in the morning because I checked the weather at home, and in Dallas, it is actually with windchill, about 0 degrees. So it's awesome to be here. And thanks, everyone, for getting up early in the morning to come and hear more about us.

So, I just -- I don't have a lot of prepared remarks, but I thought I'd just -- I would start by just maybe answering the obvious question, which is -- there's a lot of -- we feel there's a lot of uncertainty in the market, and there's a lot of uncertainty in our largest market in the US

But I'll make a couple of points about that. First of all, even though there is a lot of uncertainty and typically -- and this is around the change in federal government.

We are really not feeling a significant difference in our markets that we work in. So, we're not feeling a significant difference in our transportation market, certainly not in our water market and our environment market.

And even in our buildings market, there is just a continued investment, whether it's through state and local governments or through our private clients. And we're just not seeing a significant slowdown or change in our business.

Where we are seeing a bit of a change is the obvious place is in the federal government and in certain budgets. And I guess the best way to describe it is, I would describe this as we're not the fat that's being addressed.

When I look at the federal government spend in our business, we have about 8% of our work comes through the federal government. And of the agencies where we know spending has been significantly affected, which is in the EPA, it's in the USAID, it's in the funding under the -- certain funding under the IRA legislation, that represents a really small percentage, less than 50 basis points of our business. And so we're not being impacted by that.

And where we are exposed or we do, do a lot of work with the federal government, that's with the Department of Defense agencies and our budgets and their programs are not being affected because of the nature of those programs. And one of those, as an example, is in Asia, the AUKUS program.

Significant investment is being made by the various agencies in the Department of Defense, and that's not changing. And so we're participating in those programs.

The other place where we do a lot of work is for FEMA. And despite the fact that there might be a discussion on whether in fact FEMA may exist or not, when you look at what happens as a result of a climate impact or climate disaster, the funding for the recovery comes through the federal government. There is very limited funding that is available through state and local governments and certainly through state governments.

When you're talking about climate impacts that are so significant, the money has to come through the federal government, and it will come through the federal government.

And so whether it comes through FEMA or whether it comes directly to the agencies, that are state and local that are going to actually be responsible for the rebuilding, the money is going to be available. I mean it's possible to say that if the money -- it isn't being managed by FEMA, you're taking a layer of management out of the way. And in fact, you're actually getting the funding to the recovery projects at a faster rate, and you're probably getting more money that's available.

So regardless of what actually happens kind of with the agencies that will be required to help communities through disasters, the funding will always be there. And then just a point about our business is we've built a business that I think is -- on its own is actually performing at an extraordinary rate and is incredibly resilient.

And a couple of measures of that performance is, we've been growing organically for quite a period of time. And we have an organic growth algorithm for us that kind of works for the long term, and we're very comfortable with that. But the other part of that algorithm is that we're winning work at a really high rate.

And we're winning the kinds of projects that we want at a really high rate to make a meaningful difference in the future of the business.

So we take advantage of some competitive advantages we've created, but we're building some new businesses that I think will be very strong in the future. And I'm sure you're going to give me a question so I won't expand upon that. And then the other really important part of this is we're growing our businesses, but we have the highest margins in our industry.

And we have the highest margins in our industry by a significant amount. Again, an anecdote I learned this morning, one of our competitors had an Investor Day this week, and they said that they are going to be targeting the margins that we have in our business this year to achieve those by 2029. So I'm like, wow, that's awesome. They're going to work for five years to get to where we are today. So we'll be way beyond that.

So again, I sort of look at the strength of the resilience of our business, and it is very strong. And while it might feel like there's a lot of uncertainty in the markets that we plan in the US what we're seeing is we're seeing continued strength in our markets, and we're seeing continued strength in the performance of our business.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

Well, Troy, you answered all my questions. So let me ask you one follow-up to what you just said. So I often get asked how long could the higher level of funding last basically for you. And so like we use the American baseball analogy, like what inning are you in, you think, of elevated spend. With the understanding of the administration change all that kind of stuff, you still have strong state and local budgets, IJJA, what inning do you think we're in of this cycle, if you want to call it that?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

Well, they're short -- there's obviously, there's -- I'll call them short-term immediate-term cycles, right? And we do see that in the world. I'll give you an example. So in the US we certainly -- I don't know, if we sort of look at the funding that has been authorized and put into the marketplace from

the IJJA, it represents a very small portion of what has actually been appropriated. So maybe you could say that, that represents the third inning. And so I call -- think of that as a medium-term cycle.

We see that, for example, on other places, we see that in Australia, right? There's been a large infrastructure spend for a decade in Australia. And governments take a pause. And then they say, well, what is going to be next on our agenda? Australia is in that moment of pause, and they're moving from transportation infrastructure into water and energy infrastructure and into defense infrastructure, right? So there are these medium-term cycles, and we participate in those. But we have a business that's very broad in what we do. So we participate in all of those cycles. I look at this also in terms of a long-term cycle.

And I'd say if you look at the long-term cycle for infrastructure spend, we're in the first inning. And that we're probably perpetually in the first inning. And the reason is, if you sort of look at infrastructure, the world doesn't have infrastructure that's properly invested in.

And it's always going to need to be continually invested in. But then if you look at the major trends, so there's the trend of the economic -- to drive economic trends, there's the underlying need, which is infrastructure, so the insatiable need for energy, right, which creates an insatiable need for environment work, for water work, for all the work that you support the energy cycle with, right, which is generation, storage and transmission.

And right now, there is a really significant trend that's taking place in investing in transmission around the world. The other thing is we talk about resiliency and sustainability, right? So there's a climate event.

A community has to recover. There is a lot of money that has to go into recovery. But there's also this really long-term trend about building those communities back in a different way so that when the next storm or the next fire or the next earthquake happens that they can be a little more resilient and recover a little faster. And there are massive investments that are going on. And I'll just give you the obvious example of that is in California.

Right now, it's a recovery phase in California for the fires in Southern California, and it's going to go on. The recovery phase is probably going to go on for the next three to five years. But during that point in time, there's already a discussion about as we get through recovery, as the infrastructure comes back, it will be built back in a very different way.

And so there's long-term investment that's going to be made in the infrastructure to support Southern California that's going to be investments that are going to be made sort of between year three and year 10. And those trends are not going to change in the long run. So you've got economic activity is ultimately supported and built by infrastructure. There's infrastructure that is underinvested in and has to be replaced, and that's happening.

We have an energy transition that's taking place, and then we have to sort of support all these communities and their continued (inaudible). We look forward -- this is what our business focuses on. And so, I look at the long term and say we've built a business that's focused on long-term trends.

There may be some medium-term trends that can kind of get a little bumpiness, but the long term, we're built for our businesses, and it's first inning.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

That's helpful, Troy. And I want to back up for a second because it's been about five years, almost that you and Lara took over. Maybe just talk about one or two things that really have gone, right, because AECOM has changed pretty dramatically since I first started covering the company. And then what are one or two things that you still need to do that you haven't accomplished yet, but you want to?

**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

29 minutes. Okay. And like keep it to two or three. So I think one thing that we've done that's had an extraordinary impact is we've built a different culture. So we've created a culture in the organization that didn't exist and it's a consistent culture across the company.

And I think that culture is incredibly important, and we're seeing the real benefit of that culture.

So it's kind of a hard thing to describe or talk about. But it's incredibly important because we had a strategy, and we've been following that strategy and it continues to evolve. But the way that you execute on that strategy is you get everyone in the organization to sort of move along at the same pace to do the same things.

And you do that because of the culture that you've created. And we've created, for example, we created a culture of collaboration. It sounds kind of hokey. But we have a leadership team and now leadership teams across the entire company that they think about how do we work together to get the best result. And so that means that we can -- when we're trying to solve a client's problem, we don't just draw from what exists locally, we draw from all over the world.

The other things that we do is that culture has enabled us to all agree on how we're going to invest and how we're going to reap the benefits from those investments. And again, this may sound odd, but we haven't been a good industry that knows how to invest and how to obtain the benefit from those investments. And we've done that. And I'll give you just -- again, I'll give a couple of examples.

So we said that we look around the world years ago, we said there is a need for someone to be on the client side of the table that has really deep technical skills that can help them actually execute their vision and turn something into some piece of infrastructure or more importantly, that it's infrastructure that will help them deliver their community or their company objectives.

And so we invested to build a program management business. We had a small one, and four years later, we're the number one program management business. We've grown it from something that's small to something that is the largest, and it's billions of dollars of revenue for us. And we sort of said that, that represents when we started, about 3% or 4% of our overall business. Today, it represents 16% or 17% of our business.

And so building a culture that allows us to invest and then actually take the investments and turn them into growth and obviously into more profitable growth is a really important part of what we've created. And it's the enabler of what we're continuing -- what we're able to do. And I'll -- there's some things that we're focused on to invest in now to continue to build the future, but I'll hold off, keep it to four minutes.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

No, that's not bad. Okay. So maybe I'll ask a related question then. So you've got this 5% to 8% longer-term growth algorithm, right? And you say 2% to 3% from expanding AECOM's markets, 1% and 2% for market share gains.

Like how sustainable or how difficult is it to hit those targets? Like you talked about program management, right? It's growing 20% or something like that right now. Can you keep that up? That's a big number to be able to hit your targets.

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

So, at some point in time, the answer is that that will slow down, but it will grow at a faster rate. There's no question about that. So, I'm going to take the business apart and think about it in sort of three different chunks.

So, in the world of design and sort of the world -- kind of the world of the science-based work that we did in our environment business, that business is going to continue to grow, but it's not going to look like it grows at the same pace.

And the reason is we are able to do the same amount of work with a lot less hours. And in the world of design and engineering, it was an hours-based business. And we're replacing those hours -- let's just say, for the example, I can use it right now, just the example of technology. I can expand upon that.

So that business actually is growing, but it might not look it's growing at the same rate. But what you do see is you actually see the margins growing in that business. And so you sort of have to think about the world of design as a business that's going to grow, but because the efficiency gains can be so -- they can -- again, they can be so significant, but a business might look like it actually is, I don't know, holding steady or maybe not growing as fast, but it actually is growing, and you've seen that through the margins.

Then you say, well, let's look at the businesses that are not going to be as impacted by technology. And those are the worlds of program management. It's more of a people-based business. Technology does improve the efficiency, but it will not have nearly the same impact. And so you grow that business, but you need the underlying technical skills to be able to deliver that work. So that grows at a faster rate.

The world of advisory is the same thing. If you're giving advice to someone on the front end, the front-end thinking, that's more of a people-based business where you need technical skills to continue to grow. So those by nature, you want to invest in because you're going to be able to grow those. And the growth is a little more obvious as to how you see it.

But the growth in our design business is different. And over time, we actually see our business changing because we're going to drive efficiency and design, use far less hours to do that work and make it more profitable and more productive, take the people with those skills and redeploy them into program management and into advisory. And so that's the journey that we're on. So those other businesses will grow at a faster rate. Design may not look like it's growing as fast a rate, but it is because the margin improvement is part of the equation.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

I think, Troy, you should give one example of a program management job because I get asked that question all the time, what really is program management. And then when you're thinking about what you're doing, right, program management and advisory, do they have the same or better margins than the design business with the understanding that design margins are coming up? Like is it mix accretive or not? What's going on?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

So, the answer is that program management and design, their margins are very similar. Those margins are similar. Advisory, the margins are higher.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

It's like Dassault.

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

It is. So you think about it as the margins are -- again, so you kind of have -- there's various consulting that goes on. You sort of say, well, you've got the consultant. I'm just going to use the sort of the three firms, right, Bain, McKinsey and BCG.

They've got margins that are here, the margins that are in our engineering and design business are here. Our advisory business are kind of in between, but have the opportunity to expand. So as you expand your advisory business, which we are planning to do, and we're investing in that, it will also be helpful to our margins.

And so again, I can sort of we talk a little bit more, I can sort of take the margins apart and explain why they're going to continue to grow over time. As we grow the business, our margins are already at the top of our industry because we've made investments in the past.

We've done the things that have improved margins, and we have this path to continue to do it. Some of it is based on mix, the way we're investing in the business, but also it's the way that we're investing in our individual businesses that will drive those margins.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

Advisory is still small, right?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

Advisory right now for us is about \$200 million. I expect -- we said we would double that in three years. I expect we'll do it based on the pace that we're going at, we'll do it at a faster rate than that. And we expect that to be in a relatively near future, \$1 billion business. And so we would have 3 billion-dollar businesses and advisory is the one that we'll be focused on investing in now.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

And then just a quick example of a good program management job,

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

Sure. How about the Olympic Games? So I sort of think about the Olympic Games as every four years, like a new team comes to town and has to build for four years to deliver the Olympic Games. It's kind of the Olympic Committee has a small group of people that move with the Olympics every year. And then the local committee has to build a team of people, but they don't have the ability to build that group of people that's actually going to deliver the games.

So venues, the athletes are going to be able to show up. They're going to be able to perform. You're going to have venues that are built, and you're going to put all of the infrastructure necessary to support the games. The games will end, and when I say the games because there is the Olympic Games and Paralympic Games, they are one sort of continuous event.

They'll end and then it will take about three or four months and the kind of the games are dismantled and what exists is sort of transferred over to the community. It's a great example. You start with the Olympic Games, it's about a 10-year cycle. So there's the master planning and winning and the design work that goes on.

And so for the LA28 games, we've been doing that for a long period of time, now in the process of transitioning to what is the program management and construction management. A large group of people will work with the LA28 committee to actually deliver the games. And that's a great -- and again, it's a very visible example of what program management sort of what you have.

So you've got kind of the planning, the design, the program management and construction management is part of it because you have to deliver venues. But program management isn't about -- it's about delivering outcomes because you measure the game's success in outcomes.

And so if you kind of went to the LA28 committee, you'd say, what are the outcomes you need to deliver on? And these are those outcomes. Program management sits alongside the owners and delivers outcomes.

And so that translates into almost every major program in the world. And so we've won a large -- a lot of these large programs where you need the technical skills because a lot of these are infrastructure based about how you actually deliver the technical infrastructure.

And so, it's a perfect marriage of kind of what you need to do in planning and design and then delivery of those to put that into program management and sit with the owner and deliver outcomes. I hope that was an (technical difficulty) explanation.

**Andrew Kaplowitz** - Citigroup Inc. - Analyst

No, that was great. So let me go back to your first comments about the change in administration. So the question I get asked is, is there a near-term risk of booking slowdown, whether it's federal, state and local customers? Like you talked about uncertainty in the beginning, but you're not seeing it. Do you worry about book-to-bill going under one for a couple of quarters because you've been pretty good with that metric?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

So overall, I don't worry about that, and I don't worry for a couple of reasons. One is -- and as sort of as I said in the opening, our work with the federal government represents about 8% of our overall business. But of that, the spend that has been clearly slowed down. We're not -- we just -- we're not materially exposed to. And then the other agencies work with, we're just not seeing a change in their agendas.

So there would be at some point in time this year there will be a budget, and that budget will then lay out the continued spending.

But the underlying programs for the Department of Defense, the underlying work that FEMA or funding that would go to FEMA needs to be committed to, those missions aren't going to change. So we don't see the change in it. And the rest of the business, think about 1/3 of our business is state and local. And we don't see the funding from state and local governments changing. We're not experiencing that.

Our private customers, which represent about 1/3 of the business, we're not seeing a change in that as well. And that's -- our private customers is a relatively healthy mix of kind of their OpEx budgets and CapEx budgets, which is a little different than the rest of our government work.

And then around the world, about -- again, sort of about the other 1/3 of our business has really worked from outside the United States, so from around the world, and it's from government agencies.

And it's, how to say, it's bumpy. And we've said that in the first half of this year, we expect that part of our business to grow at a lower rate. And it did grow at a lower rate, and we sort of see that through the first half of the year.

But based on kind of the awards that we've seen, the wins that we've had in the last quarter and the pipeline that we see, we see that trajectory changing. And part of that change is it's a change in the work, the mix of work.

So the infrastructure that's been invested around the world is different. Like the Middle East is an example. The Middle East, in particular in Saudi Arabia, is investing in infrastructure. But over the last two years, we've seen a change in the focus of that investment. And so it's moved from some of these, I don't call them rural, but they really were out of the city, large mega projects.

There's still spend being made on those infrastructure programs, but it's now moved to the communities with a different set of agendas.

So we see a lot of investment being made in and around Riyadh. And we see a lot of investment being made to support things like the World Cup that's going to be in Saudi Arabia in 2034. And so there's a large investment that's being made in the infrastructure to support FIFA in 2034. So there's a change in mix. And for us, we have the skills to sort of move with that change in mix and move with our clients.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

Got it. So, I want to open it up to the audience in a second, but it sounds like summarizing when I think about the near term, you still think book-to-bill over one is likely over the next few quarters. US a little bit better than international, international getting better over time and 5% to 8% NSR growth still looks good, right, summing up that. Any questions from the audience? Otherwise, I'll keep going?

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**Unknown Analyst**

I guess one theme that's come from like the new administration is deregulation overall. And what the puts and takes would be for your business from deregulation and maybe we could segment that from water, advisory to like kind of all the different subsegments you play in?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

Well, just so on a net basis, deregulation would be awesome for our business. And the reason I said it would be awesome because deregulation, number one, means change in regulation. And when there's change in regulation, that means you need people like us to kind of help you work through the change in regulation. Even if it's less, it's still new, and so you need the help to work through that.

But it's a good kind of new because ultimately, it means that there would be an improve in the return on the investment in infrastructure because you'd be able to get it in place sooner. And so that would be a net positive for the business because you're going to have more money that's going to come to infrastructure at a sooner point in time increases the returns.

And we're trying to have a voice in that conversation. So in D.C., we started back in November kind of taking the knowledge that we have about the process and advancing it into the agenda to say, look, if you're going to consider doing this, let us give you some guidance and say, here's a way to think about how you would take what is typically -- I'm going to -- for lack of (inaudible) permitting process and approval process that would take on average six years.

Here's a way that you can comfortably compress that, so it looks like three or four. It's not removing any of the necessary steps that should exist to make sure that what you're building is going to be long-lasting and to be appropriate for that use.

But there are some really good ways. It's a mixture of not just saying, let's do less. It's saying, let's do it a little differently, let's change the process you go through, and frankly, let's take advantage of some of the technology that's available to do that.

There's no reason this needs to be a paper, a manual paper process. It's typically how it's done today. So I think it would be net positive for all of us.

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**Unknown Analyst**

I guess one follow-up would be if there's more volume of projects to work on, is there less complexity per project, and what that would mean for like the size per project?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

I don't -- I mean that's a difficult question to ask. I imagine if there's more regulation, there's just more projects. I can't see they're leaning towards smaller projects. Because usually, the projects that get held up by regulation are the bigger projects. The smaller projects, kind of there's less community concern, less community involvement, kind of less process you have to go through.

A lot of it's more local and it's less visible and you have less outside agencies -- sorry, outside participants coming in, for example, to file litigation. And so I think that this would have a much bigger benefit on the larger programs and the larger projects, and that's where we play, right? Where the playing field is really narrow and where we win at a really high rate.

Again, on our largest projects that we pursue, our win rate so far this year is almost 80%. And that's because we have a natural competitive advantage, and we've built to create an even better competitive advantage.

That's where our focus is. So, I think we would disproportionately benefit from that because I think that, that regulation would be -- have a greater impact on all projects, but more importantly on bigger, more physical projects.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

Any other questions? So Troy, I want to ask you, like why is water so good like compared to other markets? It seems like you really focused.

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

It's question you give to the water boy. Water, we drink it.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

But why has it led to better growth for you guys, I think, than other sectors? And then you've talked about this Water Environment Advisory business, a \$200 million of NSR, getting to \$1 billion over time, doubling it in a few years. So like how do you do that? And why is it so good?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

Okay. Well, I mean, maybe I think the two largest problems that the world -- that exist in the world are focused on around water and energy. So I won't focus on energy, but energy is what ultimately fuels growth in economies. Water ultimately is what supports people and supports economies. And the world is -- it's a weird place.

You either don't have enough or you have too much. And then when you do have it, you can't get it to the right place you need it to efficiently.

And the water infrastructure in most of the developed world has been underinvested in for decades. So there is a need for a massive need for investment to sort of make sure that we can address situations where there's too much water, or we can make sure that we get water to where it needs to go.

And ultimately, water is like energy is what fuels economic growth. So you talk about -- again, sort of talking about creating computing power, the ingredients that you need is you need energy and water. So again, so I just -- there's just a massive recognition that there needs to be a large investment in water infrastructure.

And whether that's freshwater, conveyance or wastewater, it needs to happen. When you sort of look at -- you talk about how does that translate into a water advisory business. So 60% of the world's water doesn't generate revenue, right? It's nonrevenue-generating water, and that doesn't make any sense. And a big part of that, is in fact, is just lost water.

And so if you sort of say, well, look, if we can figure out how to address that one problem that 60% of the world's water is just lost, not generating revenue. Well, if we can capture some of that and generate -- effectively recognize and generate revenue from it or actually just make it available to be used because of revenue-generating water.

That's a massive value proposition. And so within our advisory business, we actually have a business that is built around that. There are conversations that are happening with our customers, it's how to address that problem.

The water that's I think the water that's lost in the United States through our conveyance system represents the amount of fresh water that's consumed in the UK, Germany, France and Italy to put it in perspective. So there are these massive consulting or advisory opportunities around water, and that is -- that's one of them.

**Andrew Kaplowitz** - Citigroup Inc. - Analyst

So I'm going to start running out of time quickly. So like let me ask you about margins, Troy, like your long-term guidance is 20 to 30 basis points, but you really done more than 75 basis points a year in margin improvement. I think this year, you're guiding to 30 basis points of adjusted EBITDA margin expansion.

So look, I understand you want to leave some contingency in, but you just talked about how design is getting better margin and all that kind of stuff. So why can't you do more than 30 basis points?

**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

Well, it's a balance is you -- sort of you have to invest. You don't just get -- you improve your margins by -- it's not magic. You don't want to say, Hey, I'm just going to be better at doing contracts. But that doesn't -- that's not sustainably improving your margins. If you were that bad at contracts, that's a different problem that you have.

So you have to invest to continue to improve your margins. And so within -- unfortunately the way our business works is, we don't make capital investments to improve our margins. We make investments that run through our operating line to improve margins.

So in our margin improvement, think about it this way, we've made investments in the past that continue to improve margins. And then as we go into the next year, we take some of that and we say we need to invest that to continue to grow in the future.

And so yes, we could have better margins, but we have decided that this is a great opportunity for us to continue to invest to improve our margins in the future.

I'll give you a couple of examples of that. First is, we're growing an advisory business, which has higher margins. You have to invest to grow your business. And what does the investment look like? Well, investment means that you're hiring people.

And so you start by hiring really senior, impactful, influential people that are expensive. And you don't get a return on them immediately. So you invest, and we're going through that process. We are hiring a lot of really senior people, and we're having great success at it, part of it because of the culture we've created, people want to join to participate. They want to come and join us to do that.

So that's an investment. And then as we look next year, we'll say, well, our margins will improve because we've invested in the business, and we've grown the advisory business. Another investment that we're making is, in our industry, we started talking to this about four or five years ago, we said we need to invest in digital, right, which means we need to invest in improving the efficiency of our business through technology, particular in design. Well, about 18 months ago, we realized that digital really isn't digital. What we're talking about, because five years ago, artificial intelligence didn't really exist in a way that it does now.

We don't talk about digital anymore. We're talking about investing in artificial intelligence. And so we started this 18 months ago. And we did an experiment 18 months ago, and it's now successful.

So all of our bid proposals to work across the company is now done using AI, and we can get about 60% to 70% of the bid and proposal work done in almost instantaneously point in time. And then we spend the rest of our time because there's a lot of technical work that has to go into proposals, we started doing that. So we started 18 months ago. We were successful using that. Now it's used across the company.

We said, well, we should have a road map about how we're going to continue to use AI to transform the delivery in the business. And so we've defined this a couple of different ways. One is, how do we support the underlying business, like run the business and actually support projects. And we have a road map with use cases on it that we are in the process of now executing on. And we're going to put those three use cases into place.

We're investing in them. And guess what, margins will improve next year. That road map has a whole bunch of use cases on it that we are going to continue to adopt and develop. We invest in it, and it will improve margins next year.

And then the next big piece is that we're investing in is how do we actually deliver our underlying design work in an entirely different way? And we actually have those use cases and those prototypes going on. I'm not going to talk about them, but that's going to be an investment that we'll make this year and next year, and that will have a really big impact on our margins in the future. So that's why our margins will improve.

But they won't improve kind of at a higher rate, we think about them in terms of balance. Improve margins, invest, continue to make them better for the future and always continue to invest to improve the strength of the business.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

Just a simple question there, Troy. So like you mentioned your competitor talking about 16% margins. You've got the 17% margin target out there for a while. Everything I hear you say today suggests either that's more attainable or it's too low. Like how do you respond to that?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

I'm very comfortable with the 17% plus margin target. I mean, that's the best way to describe it. That's our guidance. We're comfortable with it. So we'll kind of -- we'll be -- we're into the 16s. And so I guess at some point in time, we'll have to adjust it.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

So -- and then strategy around cash and cash deployment has been very consistent for a while now, right, you generate good cash. Obviously, you have peers that are a bit more acquisitive. Do you pivot at all? And if so, why would you do that?

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**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

First of all, we're going to be -- we use this term, we're going to be returns focused. And so we look at where we think the best return is on deploying capital in the business. First and obvious is organic growth. We deploy as much as we possibly can to the organic growth through driving efficiency in the business. Our limitation on how we can deploy capital in the business is actually the time of leaders.

We run out of time of leadership to actually drive more capital into the business. I think at the moment, at this moment in time, deploying the way we have, returning to shareholders is the highest return opportunity. We said this is that -- for probably two years now is we will look at acquisitions.

Where we think there's an opportunity to invest money to accelerate organic growth. If there's a capability that we don't have in a part of the business that we think are we're going to grow that will be a high-returning part of the business, we are looking at, and we will continue to look at those opportunities, but we will always be disciplined about it.

And unfortunately, over the last few years is there's been a significant amount of capital coming into our industry, into acquisitions that are driving up the purchase prices that it's to the point that they don't make any sense.

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**Andrew Kaplowitz** - Citigroup Inc. - Analyst

So, just last question. I asked this of you before and every company here. What are the top 2 or 3 innovations and structural changes affecting your company over the next five years? Are there any emerging industry trends that are perhaps being overlooked in the current discourse?

**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

I don't feel we have. I think we're focused on the right long-term markets. I think we built a really strong culture that differentiates us and allows us to execute in the future. And I think we're investing in the right places that are actually the right places to be, the right places to be driving the value in the business.

So, we're going to continue to invest in building the right businesses, investing in our people, and we're going to be investing in technology or AI.

**Andrew Kaplowitz** - Citigroup Inc. - Analyst

Excellent. Well, thank you very much, Troy, for joining us. Appreciate it.

**W. Troy Rudd** - AECOM - Chief Executive Officer, Director

I appreciate it. Thank you.

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