Citi's 2022 Global Industrial Tech and Mobility Conference Transcript

PARTICIPANTS

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Andy Kaplowitz:

Hello again. Andy Kaplowitz. So, we are very excited to have AECOM with us today and particularly excited to have AECOM CEO, Troy Rudd. I've known Troy for over 10 years now. He's had a series of operational and financial leadership roles at AECOM, starting in 2009, he was the CFO, before he was the CEO. And prior to joining AECOM, he was a partner for 10 years at KPMG. So with that, Troy, I know you have a couple of remarks you want to make, so I'll turn it over to you and then we'll get into Q&A.

Troy Rudd:

Great. Thank you. So, I thought maybe I just take a few minutes, because it's been a few years since I've actually been in person with anybody.

Andy Kaplowitz:

And I love it, that I'm the first.

Troy Rudd:

Since I've been in person as the CEO of the company. And I just thought, I'd take a few minutes to remind everybody a little bit about AECOM. So first of all, AECOM is about 50,000 engineers, designers, planners, architects, construction managers, program managers, really it's people with great scientific backgrounds. And we're a purpose-driven entity. And sort of really binds the group together. People come to AECOM because they really do want to change the world. And we have our tagline, which is, Building a Better World. And it's important because that's the purpose that drives people to our organization and keeps them there. And that's changed. In the past, always just building physical infrastructure. And today there's, people are even more passionate about it because they have the opportunity to drive some very different outcomes, whether they're environmental outcomes or whether they're social outcomes.

Troy Rudd:

And so, that's become even more important for us being a purpose-driven entity. Over the last few years, we've become more focused, as a professional services organization. And I'll just say there's three things that I highlighted about the organization at the moment, which number one is, we've built an organization that's winning work at a really high rate, at a higher rate than we've ever had in the history of the company. And it's different because it's not just winning work, it's winning the work that we think really matters or makes a difference to our organization. The second thing is, we've been building some new businesses. We were typically a design business and we look to expand that, so that we're become part of the project team earlier in the process, longer in the process and do more than just design this.

Troy Rudd:

We've built an advisory business and we've had a program management business, but we've been investing heavily for the last two years and building out that program management business, with the goal of having it grow, so it doubles in size in three years. And we're on track to do that. So, what that means is, we've got this great opportunity in front of us, where there's a lot of money being put into infrastructure around the world and putting aside the bipartisan infrastructure bill, but a lot of money going into infrastructure. We're winning that at a high rate, but more importantly, we built a business that doesn't just have us exposed to doing the design work. We're exposed to something that's now multiple of that project work. So, it creates a much greater opportunity for us to move forward. And then the last point about this is, we've invested heavily in building digital technologies and platforms to change the way we deliver our business and actually deliver different services.

Troy Rudd:

And so, the reason we've had to build this so that we can deliver our work differently is because our industry has typically been an hours industry. It's the hours of designers and engineers that go into projects. But we're constrained. As an industry, we're labor constrained. It's not something that you can build a new engineer over night. It takes a long time to do that, to be capable to work on the projects. So, we've used digital tools to take our people's time and create more capacity. The idea being that, you can deliver the same amount of work in the... Sorry, you can deliver, use the same number of hours, but you can deliver significantly more work because we're using digital tools to do that. So, all of that's manifested in itself over the last six or seven quarters, where we've moved to a business where we're growing organically.

Troy Rudd:

We set targets for ourselves and we've been delivering on them and we've adjusted them upwards a little bit, incrementally, and continued to beat those. So, we have a business that's executing. And then the last one I'll make is, we're a little different, in terms of, how we allocate capital in our industry. Our industry, and we in the past have been a set of businesses that typically are acquisitive and do large acquisitions. And we've chosen that this isn't the right thing for us. We take our capital, we invest it in organic growth, which means we're investing in our people, in our clients and building our portfolio, in our digital technologies and innovation platforms. And then beyond that, we're returning capital to shareholders. And we've been doing that for a while. Since September, of 2020, we've acquired 14% of the stock of the company, it's been outstanding. And then we just recently announced that we'll start paying a dividend and we'll grow that dividend to double digit rate. And that was important because it signaled a change in our business to a business that's lower risk, it's growing profitably. And we convert profits to cash at a very consistent rate. And we thought it was time to provide the example of our confidence in that business and permanently return capital to our shareholders, beyond just buying back stock.

Andy Kaplowitz:

Great stuff, Troy. So, just a reminder to the audience. I see a couple questions, where you just scan the QR code and you can ask us questions. So, just in response to sort of your preamble, Troy, let me ask you, a Lot of great things that you've done here over the last few years, but if you had to sort of highlight, you've been the CEO for a year and a half, what one or two things sort of stand out, in terms of, what you've changed versus the previous regime?

Troy Rudd:

Sure.

Andy Kaplowitz:

Which you were kind of a part of.

Troy Rudd:

Yeah, I mean, I had a small hand in it. I guess, first of all, there was a lot of work to transform the business. We really were a diversified business and we had a very significant construction portfolio. And so, transforming the business was a really important step to get to the point where we are now, in which we are a focused consulting business. So we can be focused on that. Second thing was, we have amazing professionals in our business. And if I just sort of speak about our business, the assets of the business were underutilized. We weren't performing at a level that we should have been, for a business that has people as capable as we have in our business. And then the big thing made a fairly dramatic change in terms of the leadership team. But that was important because that allowed me to change culture. And the most important thing, I think, that we've benefited from, is changing our culture.

Troy Rudd:

So we really are focused on being collaborative, focusing on innovation and creating a different level of execution and accountability than we had in the past. And so, those were important things. We had great business, great people in the business, but we got it to focus and being collaborative, may sound a little cliche, but it's incredibly important because in our business and the way our peers compete against us is, you go into a local market and the local team will compete on a project. And for the things that really matter and are big, we change that. We go to our global network and bring the best that we have to offer in the company to compete against our peers, who are competing locally. And it's made a huge difference in winning. And that sounds simple, but it's a transformative change because you have to change leadership, beliefs, culture, and operating structure, to do that. And they may sound like they're simple things, but they're tough things to do when you're talking about 50,000 people.

Andy Kaplowitz:

So, maybe you could talk about, you kind of alluded to this, but maybe you could talk about one of the criticisms of AECOM over time is that you don't really grow. And if I look at your revenue, it's kind of flattish over the last few years since you've taken over. And so maybe talk about why that's not the right way to look at the company.

Troy Rudd:

Well, I would say that there's difference to the quality of revenue that the companies have. And so, we had to go through a period where we had to grow revenue that was better quality revenue, and we had to exit some businesses, and we had to effectively eliminate some of the revenue that wasn't great quality. It didn't fit with the profile of the business. So when you look at our business, the first and over the last eight quarters, for four quarters of that, or three quarters of that, we didn't grow. It looked like we didn't grow. But what you didn't see was inside, is that we were growing the better revenue. And we were very intentionally shrinking the revenue that didn't contribute. And that's why we've seen our margins go to now, where they're the best in the industry. In the last five quarters, now we've exposed organic growth.

Troy Rudd:

And so, we've started to grow organically and see that pick up. And even while we're still doing that work of improving the quality of the revenue. And so, that's a little bit. So, even when you look at our growth, last quarter was 5% or the previous quarter was six and a half. We did a little better than that on growing the good revenue, but it's mass, because at the same time we're moving some of the stuff that we don't need in the portfolio.

Andy Kaplowitz:

Got it. And Troy, focusing on sort of that revenue and margin. If you look at sort of the labor market [inaudible] and get the question about, can AECOM get enough engineers? I know you're hiring. Is there skilled labor out there? So, how do you sort of address this to people, as the infrastructure cycle ramps up, can you find the skilled engineers? Is wage inflation good or bad for you?

Troy Rudd:

So, I'll deal with the last question first. Wage inflation is, at the moment, not bad for us because the nature of our business is we're able to pass it along to our customers. Again, our contract vehicles build in escalations to pass that along. And then the market, as it continues to adjust for wage inflation, we pass those costs along to our customers. It can be bad if those costs become so great, that it changes people's investment decisions. So our customer's investment decisions. We're not seeing that. There's, in fact, so much funding that's coming into infrastructure. And so much money that is available to come in infrastructure, that we're not seeing, even the increase in commodities prices or wage inflation, at the moment, it's not influencing those investment decisions.

Troy Rudd:

And I don't think it will because a lot of the work that we do is funded by government and government agencies. And they don't seem to be as sensitive to cost to make those investment decisions. With respect to labor. It's a challenging

Troy Rudd:

Challenging labor market. It really is. But if I look at the pool of the engineers and scientists and designers, and I think first of all, because of the fact that we are AECOM, we have the ability to disproportionately hire better than some of the other peers that we're competing for that talent. Then the second thing is, we've made a huge investment in our people to create a great place to work. So we keep the really important turnover down, right? Our outstanding performers, and we've invested in leadership development, technical development. We've built our benefits programs. We've moved to a flexible work environment, which has become incredibly important. It's allowed us to keep people in the workforce that might have left. It's also allowed us to create an advantage because people would like to remain in that competitive... In that flexible workforce. So it's not remote, but flexible.

Troy Rudd:

And we're seeing people come into the office about two, two and a half days a week. So we're doing those things to track talent. But then the most important thing we're doing is building capacity. And I talked about this as our investment in digital tools, means that people will actually spend less hours doing the same amount of work. So we increase the capacity. So we don't have to add people. We can grow the capacity of our existing labor force and then we're building, we've already built, but we're building up more of our enterprise capability centers.

Troy Rudd:

So think about this, we have people that will do certain types of work and do it really, really well. So instead of, for example, someone in Dallas doing that bridge design, it goes into a capability center. So it might take that person a hundred hours. Those people that do it a lot, become really good at, and they can do it in 80. So we're attacking in different ways. One is we're making sure we keep the really good people. We're investing in our workforce to attract more people. And we're looking to expand the capacity of what our people do.

Andy Kaplowitz:

And Troy, you alluded to this a little bit, but one of your infrastructure and design peers talked about sort of the CR maybe impacting, staying local decisions, even though it's the federal government, right? So are you seeing any of that uncertainty impact your customers? And if so, I guess it's just a modest nuisance all year. How do we think about it in terms of your growth?

Troy Rudd:

Well, so the bulk of our clients in the United States are state and local agencies. They have surpluses and they have their defined ambitions and they have funding for it. So we're seeing money come into those projects. Great example is in New York City, is there's almost a few hundred billion dollars with five agencies that are going to be invested in a lot of transit projects. And the New York, New Jersey area. That's independent of the federal funding. So, that is happening. Then you layer on top of that there is some federal funding that has to support some of these projects. And because the federal government doesn't have a budget stop operating under the continuing resolution, no new money can come in to support some of those projects. So we've seen some awards where there's been a delay. And so those delays, they're sort of being pushed out to the right until the funding can come from the federal government for their piece of those projects.

Troy Rudd:

So we are seeing some of that. And then with respect to the bipartisan infrastructure bill, because we're under a continuing resolution, there's no real money that's been appropriated to support that. And so the hope is that if we get maybe later this month, there will be a budget. Some funding will be put in place that will then allow us those projects that have been pushed to the right to get back on track. Some funding for the infrastructure bill. And then hopefully we get on a cycle where next September, we get a federal budget that really puts the appropriations or the funding behind the infrastructure bill.

Andy Kaplowitz:

Troy, maybe we can talk about what's allowed you to keep up growth then. While there's still a little bit of this funding uncertainty out there. And one of the things I've noticed is that, you talk about win rates being something like 50% recently, and I remember AECOM always talking about like maybe 30, 40%. So are those numbers true and what has changed to allow you to win more? Is that why your growth is staying reasonably high?

Troy Rudd:

So our win rate has grown over the last two years from high thirties or low 40%. So what that means is of every dollar we bid on, we're winning 40% of that work. We've seen that over the last years, just steadily increase. And I thought last quarter, when we were around 46%, I thought that was a great number, but we actually saw the momentum continue to build. In those last quarter, we won 50% of everything that we bid on, which is an extraordinary number. I see us winning at a high rate. I don't know if it's 50% or 45%, but I see us winning at a much higher rate as we move forward. And it gets to those changes. The underlying changes I talked about before was, we are really focused on what we think matters. And then we take the energy of the organization.

Troy Rudd:

So it's the people and the resources, and we devote it to those opportunities and we're winning those at a much higher rate. So the stuff that sort of happens locally. That's still continuing because we have a lot of work that we do with clients that we've done with those clients for a long period of time. But it's the bigger projects that are more meaningful, longer term where we've attacked them globally instead of locally has made a difference in our win rate. And then you layer on that some of the things we do in terms of innovation, we're just creating some competitive differentiate in winning work.

Andy Kaplowitz:

So you've related to that. I should ask you, your multiple has re-rated some, but it hasn't re-rated to some of the high, multiple peers that we know about. So, you just talked about differentiation. I asked you about win rates. What do you think it takes to get to where you're a premier multiple in the infrastructure and design space?

Troy Rudd:

You know, I don't think about it that way. I can't control that. All I can control is building a business that's going to continue to deliver for the long term. Continue to execute the targets that we set. And at the same time, allocate our capital in a way that maybe accelerates what you're describing, which is getting to a higher multiple, it's been improving over time. And I think that we're on a path to do that. I simply look at it this way. There are different paths to get there. We've chosen the organic growth path and returning capital to shareholders. Our plan is to double our cash EPS every three and a half years. I assume that if we double cash EPS every three and a half years and return that capital consistently to shareholders, that will get a higher multiple.

Andy Kaplowitz:

And I think related to that, Troy, if I look at the numbers, you said you've got $4.75 as your EPS for '24. Represents about a 20% EPS [inaudible] or close to it. In my world, that's kind of industrial compound or territory, but, what do you need to... How much of the improvement is under your control at this point?

Troy Rudd:

I don't feel like there's anything that's outside of our control. There are always events that are outside of our control. Like again, what's happening today in Russia. Yes, that could be a... Certainly for a lot of people that could be a distraction. And that means a distraction for some of our customers. So for example, we have some really large customer, the US Corps of Engineers, right? NAVFAC and the Navy. That could be a distraction. I don't think that changes the long term trajectory. So I don't feel like there's anything out of our control in the longer term as we march forward to do this.

Troy Rudd:

There's a lot of funding that's coming into the market. We've expanded our exposure to the amount of project spend. So we were doing design. Now we're doing advisory design and program management. Now we're exposed to a multiple of what we were in the past. And we're competing to win. And I think we've been able to bring people on. So we have the... Our demand side, supply side. Demand is win, supply is have the right people and the tools to do it. And I think we're keeping up.

Andy Kaplowitz:

Let me ask you one related question to what you just said because everybody is asking me about the macro lately, right? So you don't have a lot of exposure to continental Europe versus the rest of the company. Maybe talk about sort of any risk that you see internationally, because that's where you've had really strong growth actually over the last couple quarters.

Troy Rudd:

Well, we've been focused on building around the markets that we think have the great long term funding potential and at the same time, markets that we can very successfully compete in. The reason that we don't focus on content into Europe or we don't focus on Japan for example, is because it would take too much capital and too much time for us to have to enter those markets. You'd be talking about a pretty significant investment to do that. So we don't need to, but what we see is the markets that we're in, there's more than enough opportunity for us to grow for the long term. There's again, there's so much ambition today to change infrastructure. Again, been around this business for 12 years now and going back even before that, we don't see the kind of ambition that exists today at any point in the last 15 years.

Andy Kaplowitz:

And you know, maybe a related question then. You, at the analyst day, last year, I think it was talked about 180 base points of essentially non volume related cost out. And some of that is maybe rationalizing footprint a little bit. Some of that is other initiatives like the future of work in general. So maybe updated us on again where you are here almost a year later.

Troy Rudd:

So at our last investor day, we said... I'm actually going to go back a little bit further than that. We said, first of all, where we were in the business so we were going to advance our margins and we would get to industry leading margins. And we said, "We have an ambitious target. We think the target could be 15%." This last year, we've recognized that 15% is a place that we can get to. That's not our target or ambition anymore. We'd set an aspirational target at 17%. We've now moved to the point where we think 17% is our target. And so we haven't said what our aspirational target should be, but obviously it's more than 17%.

Troy Rudd:

So we've seen that the changes we've made in our business, so how we actually operate the business, our real estate footprint and how we deliver our work and how we manage the business. That's got us to a place where we're comfortably getting to 15%. The change is in how we're delivering work. That's getting us beyond that. That's going to get us to 17%. And as we continue to grow our program management advisory business, as we continue to deploy more digital tools and create more types of digital streams

Troy Rudd:

Streams of revenue. We look to go beyond that. So it's no longer, again, when we started this journey, it was about making sure the business was really efficiently run and everyone have called that self-help. We've gone way beyond that now. We're well beyond the period of self-help and we're actually now changing the way that we deliver the work and the work that we get. We'll always continue to do the important things, to make sure that we run the business efficiently. We're always looking for those little incremental differences and we're doing that for two reasons. One is to continue to improve margins, but it also gives us money to invest in the business because the one thing we've been doing throughout this time is as we've been advancing our margins, we've been investing in the business and the thing about our business is when you invest in your business, you do it through your margins.

Troy Rudd:

So we were trying to get to that place where we have consistent organic growth, a path to make the business better and improve margins while investing through our margins to do it.

Andy Kaplowitz:

And Troy, a couple years ago, you talked about sort of rationalizing the footprint to just focus on certain areas. Have you finished that now or are there still places to get out of?

Troy Rudd:

No. There's still some places to get out of. It's probably timely, but one of those places is Russia. A long time ago we had made an acquisition and we have a Russian business. We decided two years ago that wasn't something that was long term part of our profile and so we've been over time shrinking that business to the point where our intention is to either be at a place where we will eventually withdraw from that business or we'll have somebody acquire it. So we've continued to do that and so there are places in the world where we're continuing to shrink the portfolio.

Troy Rudd:

That's why I said even today with our last quote is growth of 5%, we could have done better if you just exposed the good growth, because we were still having some growth. We're still having, again, we're shrinking some of those businesses that we don't want in the portfolio.

Andy Kaplowitz:

To be clear, Russia is not a big part of your portfolio now?

Troy Rudd:

I think the revenue there is 30 basis points of our revenue.

Andy Kaplowitz:

Okay.

Troy Rudd:

It's very, very small.

Andy Kaplowitz:

So just, you mentioned the Infrastructure Bill, let me just ask you for a quick update, Troy, are you seeing more design projects hit the pipeline of opportunity now and do you have more conviction that before the year's out, you'll see something or is it really all 23 where we should see work really start?

Troy Rudd:

I would expect that it's probably 23 before we see an impact of the Infrastructure Bill but again, when we set our targets for this year, there wasn't an Infrastructure Bill, so it doesn't affect our targets that we set for this year, nor does it affect the 475 we set as a longer term target that was pre infrastructure. So I view that as being upside for us in the future, but I don't see a real significant impact on our business. Sure, there'll be some work that we'll start doing in the second half of the year. There's even some work that we started to do now, but very small, but we've seen an improvement on our pipeline. Again, our pipeline of work is increased by double digits, but that doesn't reflect the work that's going to come in the Infrastructure Bill.

Troy Rudd:

Maybe a helpful point is, I've been spending some time with some of our larger clients and while the money hasn't come into the pipeline to bid yet, the conversations that we've been having is talking about the support that they're going to need be able to deliver on their commitments and they don't have what they need to deliver on their commitments and they're looking not this year, they're looking over the long term. They're looking out multiple years and so we're having these dialogues around, what's it going to take so that we can build what they need to be able to deliver on their commitments that are longer term and that's a little bit unique than we've had in the past. A lot of times, it's sort of the things you can see, visibility to what's being led at over time. These are different conversations. We're not visible yet to what's going to be let out, but they're talking to us about preparing for massive amounts of work that are going to be led out and that's a really positive sign for our industry and frankly for the infrastructure economy.

Andy Kaplowitz:

Yeah, no. That's helpful. So we do have an audience question here, but I wanted to ask you one follow up to something you said around sort of program management and advisory. Again, one of your primary peers here in the US is trying to sort of acquire its way into sort of those areas you're not, so very different strategy. Maybe talk about why you don't think you need to sort of build out inorganically there, why this strategy is right for you guys and you mentioned sort of doubling in three years, it's off a small base I assume, but does it really move the needle then as you go out into 23 and 24?

Troy Rudd:

So program management does move the needle for us, if we double size of that business, because that business as of last year was over $400 million, so it's not a small business. The interesting thing about acquisitions and we'd sort of talk about them that, well, look, there's a lot of risk when you do large M&A, and the large risk is really, it's cultural risk, are you going to find people that will fit into your organization and can you integrate them. That's number one, number two is the multiples are really high and so that means that you really have to do well. So if I looked at something you paid 10 times for, just without any risk to kind of make it pencil out, to beat out hurdle rate, that means that business has to grow organically into perpetuity for between 10 and 15%.

Troy Rudd:

That's hard because you think about the business that you bought, it's not like you're buying a business where the people aren't doing anything, right, hey, we'll bring them in and they can do all this great work and grow really quickly. They're already operating near their capacity and they're trying to grow by hiring people. So we just looked at the profile of M&A and said it just doesn't make sense for us. We can hire groups of people into the business and in program management, you hire the senior people in and then what you do is you support them with the talent that we already have in the business, because the underlying skills you need on that team are the skills that we have in the business.

Troy Rudd:

So we just continue to hire for our workforce, create capacity in our design workforce so that people can move into program management and then hire the senior people, sort of the tip of the spear people to win those large programs and we just felt that's a better way for us to grow.

Andy Kaplowitz:

So this is a related question from the audience Troy, so in terms of cash deployment, obviously you just instituted dividend, which was good to see, but you also bought back 1.2 billion in stock or 14% of outstanding shares since September 2020, your leverage is still reasonably low. So do you just keep going and buying back shares?

Troy Rudd:

Yes. It's our intention to keep buying back shares, gets back to your other point about our multiple. We obviously have our own internal thoughts and we think we should be deploying capital to buy back our shares.

Andy Kaplowitz:

Easy enough. So let me ask you about the sort of topic of ESG and sustainability. I know you've spoken many times about private institutions changing their thinking, but you've also sort of established these new programs sustainable technologies, go backs, and you even can talk about sort of what you're doing internally and then separately talk about DEFLUORO, your PFAS destruction technology. Is it ready for commercial deployment?

Troy Rudd:

OK. I'm going to... I'll flip the order of that. So with respect to our PFAS technology, we had built a pilot and deployed it and tested it. We built a pilot plant and tested it two years ago and we've done that in Australia and so now we actually have that technology deployed on some client projects. We took the technology and brought it here to the US, and we built the pilot plant. We've done all of the testing and now that pilot facility is actually being deployed on a client project and so we'll have good data on the outcomes probably by early summer. So in my view, it is being commercially deployed. What's a little bit different about it is it's actually an electrochemical process that actually breaks the carbon and the fluoride bond. So it actually eliminates it entirely.

Troy Rudd:

So it cleans it up instead of incineration, which basically just distributes it in a different way and so it's a way to actually destroy the PFAS and so we think that, that's a unique solution. It becomes more unique because we can deploy it. You don't have to gather it together and bring it to a facility. We can actually deploy this [mobilely] and then the other element of it is, is we can deploy it in a very green way is that the electricity or the power that you use in this process, we can use solar. So we can stick solar panels on the top of these facilities and these plants and deploy them locally and destroy it. So I think it has a very wide application and I'm very positive on that outcome. What we have to do is we're not giving the business of building these facilities, this mobile facilities.

Troy Rudd:

It's not our expertise and so at the moment we're going through that process of deciding whether we will do it in a joint venture with a partner or whether we would license that technology and then provide the technical support to actually do the work.

Andy Kaplowitz:

Interesting and then just [crosstalk].

Troy Rudd:

Just on ESG, so we recognize that this was an ambition that our clients had been setting and started years ago and what we needed to do was we needed to gather the technical ability because we have this amazing technical ability and bring it to those clients to help them solve their upfront problems and so today what's happening is, we have a lot of smaller type of engagements. They're not... Some are designed, but not really. They're more advisory engagements where we're actually helping our clients think through how they're going to get to the destination, because they set these really bold ambitions, but they have to figure out how am I going to do it and so we're working now sort of, this is the very front end of this process is consulting to figure out how they'll achieve these ambitions.

Troy Rudd:

We've also done a few other things. One is we said, look, within our designs, all of our designs should be reducing emissions by at least 50% and so that is either in the design, through the construction or the materials used or through the operating of whatever the piece of infrastructure is and so we've set that as an ambition and we have

Troy Rudd:

Teams of people that look at the projects and they design them to achieve that outcome. And then we have our own footprint, we have our own ambitions as well. And so, we've said that we'll be carbon neutral by 2030, but in terms of our scope one and scope two at the end of this last calendar year we got to carbon neutral.

Andy Kaplowitz:

Got it. And so, maybe I could ask you the same question about energy transition. Is it kind of the same strategy or any differences you think of when you talk about that?

Troy Rudd:

When you're talking about energy transition, this is part of the overall the push of ESG?

Andy Kaplowitz:

Yes.

Troy Rudd:

So I'll make two points. One is there seems to be a little missing piece to investment decisions in ESG. People are making investment decisions, because it's the right thing to do or they're just testing the market as they go along. So for example, it might be 20% more to build a piece of infrastructure and to have it operated costs 20% more, but you don't know what your return's going to be and until you take it to the market, find out what customers are willing to pay. So there's that process of discovery. So that's one piece that's missing, but the other is actually valuing what decarbonization looks like or even sequestration. How do you value that? And so we've started to make a push as an industry, and leading the industry is how do you actually measure all of that? How do you measure carbon sequestration? And it's even beyond that. There are people that are renaturalizing habitats, that's an important part, but how do you measure the outcome?

Troy Rudd:

And so you have to measure it, define the standards, but then put the right tools in place so you can measure it, not looking back but looking forward. And if you can do that, well then you can start to place values on carbon credits and create real markets for it. And I think that that first step is going to happen now. Markets, because when you go to look at the price of carbon credits, they're all over the map and you'll start to get certainty around the value of decarbonization, then be people can start to use that in their investment models. Say, "Well look. This is what the actual value is. I can put that into my investment thesis and I can figure out does it make sense to build one way or to build another way?" And I think then that will create more momentum around real investment in ESG.

Andy Kaplowitz:

So Troy, advanced facilities. Your peer talks about them maybe more than you do, but I assume you have pretty good capability there. So talk about sort of could this also be a cycle for AECOM?

Troy Rudd:

Well, I'm not sure you mean by advanced facilities.

Andy Kaplowitz:

So building semiconductors, design [crosstalk].

Troy Rudd:

Oh, yeah. So just in terms of semiconductors, that's not a market that we get. We haven't grown up and built the design capabilities to actually operate in the world of semiconductors. So that's a large market, that's going through an investment cycle that we're not participating in. Where we do have the abilities is in our construction management business and we do do the supporting infrastructure. So I'll give you an example. You look in Phoenix where Taiwan Semiconductor is building a huge facility. Now they do their own kind of in inside the facility engineering. They don't hire anyone to do that. They do hire someone to build the box, and they do hire someone to build all the supporting infrastructure. So how we play in that is we will do things in our construction management business, because these are long span steel facilities. We'll participate in building the box, and then we'll participate in bringing all the supporting infrastructure to that facility. But once you get inside, that's not a place that we play.

Andy Kaplowitz:

Got it. So let me ask you about broader construction management. Because you sounded pretty positive about it last quarter. You mentioned $20 billion backlog and expanding opportunities. Maybe you can talk about what expanding opportunities are? Because when I think about the business, I think about New York office buildings and that's probably not exactly right.

Troy Rudd:

But it's still an important piece of the business and there's still a lot of coming investments in office towers in Midtown Manhattan. So that's still happening and will continue to happen. But that business we've expanded, we're now doing a lot of aviation work and as you see the investments will be made in aviation across the country. We'll participate meaningfully in that. We look at just in New York, JFK Terminal One and Terminal Six. We have two very large projects in aviation just to rebuild those two terminals.

Troy Rudd:

And so there are other opportunities and, again, our business is just centered in the U.S. We haven't ventured outside the U.S. with that business. And there are ample opportunities that we will support in infrastructure and that's going to be around aviation, it's going to be around the design of transit stations will do that, and then there's just the ongoing work of I'll call it high-rise residential. There's a lot of work that's going on, for example, in Nashville. We just completed the Four Seasons Tower in Nashville, and that developer is about to build five other towers of similar size and expenditure. And so, we would be in place to do that work. So New York is still a place where there is an opportunity, but those other markets that are growing we see those as great opportunities participate in and then we've expanded out into other places like aviation.

Andy Kaplowitz:

It's only a couple minutes left. Let me ask you about something that's near and dear to your heart, which I'm sure as cashflow. So, we ask our... I think on the call... we know you have an initiative to sort of smooth out your cashflow flow, but cashflow started very strong in Q1. So should that give us more confidence in sort of the guide maybe higher end or are there things you're doing differently about cashflow that maybe allows you generate more cash versus earnings?

Troy Rudd:

Again, I'll say over the long run we expect our earnings to convert to cash at the same rate, which is converting EBITDA to free cash flow at about 70 to 75%. And over the long term, I don't see that changing. So our cash per share is going to change because earnings are changing and shortcuts changing the way we deploy capital. But cash flow itself, there is a seasonality to it in our business and there's not a lot we can do about it. That we can continue to improve it, but we won't dramatically change that.

Troy Rudd:

So we did have a very good first quarter. There's no question, but I wouldn't think about that as us having quarters that look consistently throughout the year, like our first quarter. There's no doubt, the first half of the year is always going to be lower than the second half for the year. But we've worked very hard in putting the tools in place to improve that. We want to smooth the cash flow through the year and as much as we can try and improve our working capital performance, because it gives us capital during the year to keep buying back stock. So we'll keep focused on that, but that's just hard grinding work. There's no better way to describe it.

Andy Kaplowitz:

Well, on that note, Troy, thank you very much for joining us. We really appreciate it. Thanks.

Troy Rudd:

Great. Thank you very much.

Andy Kaplowitz:

Thank you.