LSEG STREETEVENTS

EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Hello, everyone. Thank you for joining us, and welcome to AECOM's third quarter 2026 earnings conference call. (Operator Instructions)

I will now hand the conference over to Will Gabrielski, Senior Vice President of Finance and Investor Relations. You may begin.

Will Gabrielski - *AECOM - Senior Vice President, Investor Relations Contact*

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

We use certain non-GAAP financial measures in our presentation. The appropriate GAAP reconciliations are incorporated into our materials, which are posted to our website. Growth rates are presented on a year-over-year basis unless otherwise noted. Any references to segment margins or segment adjusted operating margins will reflect the performance for the Americas and International segments.

When discussing revenue and revenue growth, we will refer to net service revenue or NSR, which is defined as revenue excluding pass-through revenue. NSR growth rates are presented on a constant currency basis unless otherwise noted.

Today's remarks will focus on continuing operations. On today's call, Troy Rudd, our Chief Executive Officer, will review key developments and accomplishments this quarter as well as our outlook for the business; Lara Poloni, our President, will discuss key trends across our markets; and Gaurav Kapoor, our Chief Financial and Operations Officer, will review our financial performance and outlook in greater detail. We will conclude with a question-and-answer session.

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

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

Thank you, Will, and thank you all for joining us today. We had many accomplishments in the quarter, and I'm proud of our teams and the positive impact we are having on our clients' critical infrastructure investments. But before getting into the details of our results, I'd like to address the $337 million pretax charge included in the quarter.

The charge is primarily the result of a delay in delivering a large construction management project due to several factors, the largest of which is overall productivity of subcontractors on the last phase of this project. We had expected this project to be substantially completed in the first quarter of fiscal 2027 and now expect this near the end of the second quarter of fiscal 2027.

In addition to the financial impacts in this period, we are pursuing sizable claims for this project, and our confidence in recovery has been validated by our success in the dispute resolution process to date. We expect resolution of the remaining claims will take some time, and this will continue to burden our cash flow through the first half of 2027. We are disappointed with this outcome, but I want to add some context.

This project was bid in 2019. Since that time, we have changed leadership and tightened our risk controls. We decided many years ago to no longer pursue design-build work for P3 clients in the construction management business due to the inherent challenges this structure can present. As a result, this project would not clear our risk hurdles today.

I also want to provide an update on the second design build P3 project in Construction Management which was bid around the same time. We are progressing towards the planned substantial completion date of phase one in the first quarter of fiscal 2027, and this remains consistent with our previous forecast. The second CM project also has a significant claim position to recoveries due to delays not caused by us.

Finally, notwithstanding these two projects, the Construction Management business has produced strong cash flow and high returns on capital consistently over time. And based on the composition of our backlog and pipeline today, I expect this trend will continue.

Now turning to the details of our results. Our teams are winning work at a record rate. Our backlog increased 13% to a new all-time high on record quarterly wins and a 1.6 book-to-burn across the business, including 1.8 times in the Americas. Year-to-date, our book-to-burn is 1.4 times, providing extraordinary long-term visibility.

Adjusted for one less working day in the quarter, NSR in the design business increased by 5%. This was led by 6% growth in the Americas Design business as well as a return to growth in the international business which increased 4%, led by the UK and Australia. Even so, overall NSR growth in the quarter was below our expectations. The primary drivers are slower-than-anticipated new project starts in the Construction Management business and the continued impact from the conflict in the Middle East, which we see continuing through the fourth quarter.

While both businesses have fallen short of our expectations in the second half of fiscal 2026, they have strong backlogs and are well positioned for return to growth in 2027. Excluding the financial impacts of the Construction Management project charge, adjusted EBITDA and EPS improved year over year by 5% and 11%, benefiting from the return to NSR growth, which resulted in margin expansion in the International segment.

We also delivered positive free cash flow of $55 million despite the headwind from the construction management projects mentioned earlier, demonstrating the strength of our historically consistent free cash flow conversion.

Turning to financial guidance. Our updated financial guidance captures three main changes from last quarter: The impacts of the Construction Management project charge, lower-than-expected NSR growth, and continued margin outperformance. As a result, we now expect full year NSR of approximately $7.3 billion and adjusted EBITDA and EPS of $950 million and $4.05, respectively, at the midpoint of the ranges.

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Adjusted for the charge and to help with comparability, we now expect full year NSR of $7.65 billion to $7.7 billion and adjusted EBITDA and EPS consistent with our prior guidance at $1.29 billion and $6 at the midpoints. This includes a raised expectation for adjusted EBITDA margin to 17.4% versus the 17% previously. We also expect to deliver free cash flow of $300 million for the full 2026 fiscal year.

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

Lara Poloni - *AECOM - President*

Thanks, Troy. The strength of our technical expertise and the success we are having in the market are a testament to our teams and the investments we are making to extend our advantages. There are many market wins this quarter, but there are two in particular I want to highlight.

Included within our record backlog, we won two of our largest recompetes ever. Both are in the environment business, one public and one private. And despite the industry's vast amount of consolidation, our leadership position persists. And more importantly, our scope across these projects has expanded significantly.

As I look across our markets, there are several additional positive developments that give us optimism. Starting with the US, our state and local clients continue to prioritize infrastructure and water investment. In recent months, several of our largest state clients have announced major multiyear infrastructure plans focused on highways, bridges, transit, and rail, all areas where we have the number one ranked practice. Additionally, growth opportunities are robust in our US Water business, where our pipeline expanded by 30%.

On the US federal front, rapidly growing investment in national defense remains a key theme, and our pipeline with the Department of War, our largest single client, increased by approximately 30% in the quarter. Congress continues to advance fiscal 2027 defense budget legislation, and we expect healthy growth in the key areas we support. This includes significantly increased facilities work, where we are a leading provider to the Army and Navy.

Additionally, Congress is progressing the next five-year surface transportation authorization. The House's initial $580 billion proposal includes key funding for all key areas to which we are exposed and gives us further conviction in the continued bipartisan commitment to infrastructure investment.

It is worth noting that unlike past reauthorization cycles, today's funding environment is incredibly healthy. Less than half of the IIJA funding in our core markets has been spent, which adds to our visibility and confidence. US private sector investment is also accelerating. This is particularly true in data centers, which remains one of our fastest-growing businesses and where we have been expanding our hyperscaler relationships.

In Canada, activity has been very strong and broad-based across all market sectors, driving continued double-digit NSR growth. Notably, after the quarter, we won a 10-year program management role for a highway and bus transit project that represents one of our largest wins in Canada to date. Additionally, and underscoring the trend of increased global defense spending, Canadian defense spending reached its highest level in recent years, and the government has committed to more than doubling that share to 5% of GDP by 2035. In step with this, our pipeline is up significantly tied to the government's efforts to upgrade military bases across its Arctic and Northern regions.

Turning to the International segment. In the UK, NSR growth accelerated to high single digits with ongoing strength in water, environment, and energy. Work on the Great Grid upgrade project is progressing well and was a key contributor to growth this quarter. As a reminder, this is one of the most significant electricity infrastructure programs in UK history. AMP 8 is also accelerating with additional workloads and more opportunities from large frameworks coming through. Even so, while transportation continues to lag, growth is benefiting from our diverse positioning.

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In Australia, growth accelerated in the quarter, up double digits, and our backlog reached a new multiyear high up more than 40% year over year. Along with continued defense infrastructure wins during the quarter, transportation activity is accelerating, which bodes well for 2027 and beyond.

In the Middle East, the ongoing military conflict continues to create near-term uncertainty, specifically in the end markets exposed to tourism and hospitality. Nonetheless, wins remained strong, driven by the infrastructure demand, allowing us to deliver double-digit growth in backlog during the quarter. Further, after the quarter, we were awarded a large rail project in Saudi Arabia, which better positions us in expanding rail market there. And there is likely to be a significant amount of work needed to repair, fortify and expand US military infrastructure in the region, which presents another long-term growth opportunity for us.

Asia remained soft, but backlog grew double digits year over year, driven by a large Northern Metropolis Highway win, which is the first major transportation project tied to this initiative and a top priority development for the Hong Kong government. This positions us well, including on further opportunities as this mega project continues to advance.

To conclude, I am extremely proud of the dedication of our professionals and their unmatched technical expertise that drive our business performance.

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

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

Thanks, Lara. I want to start by highlighting several strengths that underpin our convictions in our strategy, the investments we are making to scale our strengths, and the long-term value of the business. First, winning. Our 1.6x book to burn and 13% backlog growth are tremendous accomplishments for a business that expanded.

We've spoken for several quarters about the value we are delivering to clients through our differentiated offering. Advisory, program management, and early AI wins are transforming client interactions and with it, our ability to bring unrivaled solutions. Not only are we winning more with existing clients, opportunities are now emerging in new markets where our scale and technology are opening new avenues for growth.

Second, margins. The return to growth in international, delivering on our continuing improvement promise and early benefits from AI across our cost base are apparent. While performance was masked this quarter by the Construction Management project, underlying profitability demonstrates the opportunity ahead as we advance towards our 20% margin exit target for FY28.

Finally, our balance sheet and cash flow. We built a resilient balance sheet with no maturities for several years and uncertainty on majority of our debt. We ended the third quarter with $2 billion of undrawn borrowing capacity. And we've delivered positive free cash flow in the fiscal year-to-date period despite cash burn on the two Construction Management projects referenced earlier. We expect continued cash burn on these projects through the first half of fiscal 2027.

Turning to our segments. In the Americas, NSR declined 29%, primarily reflecting the Construction Management charge. The design business increased 6% when adjusted for one less working day in the period. Beyond the project-related revenue impact on Construction Management, NSR lagged our expectations as new Construction Management wins ramp up slower than we expected. Nonetheless, backlog in the design and Construction Management businesses continue to be strong and growing high single digits, while the design pipeline has also grown over 20% for three straight quarters.

The Americas adjusted operating margin was negative 16.1%. Excluding the Construction Management impact, the margin was 18%, which reflects a few key items. The first factor was slower than anticipated start-up of several Construction Management wins, which affected utilization of resources. Second, we had record business development activities in the period that impacted Americas margin by approximately

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140 basis points. Large pursuits in particular, consume a lot of time and resources but provide a high ROI as evidenced by the segment 1.8x book to burn we delivered in the quarter.

It should be noted that in quarterly periods in prior years, we have experienced similar impact to segment margins due to elevated business development spend. And consistent with those years, we will continue to deliver on the quarterly and annual enterprise margin targets. Accordingly, we expect Americas margins to normalize in the next quarter.

Turning to international. NSR increased 4%. Australia and the UK, in particular, are driving better growth. Our backlog continues to be strong, up 28% versus prior year. The International adjusted operating margin was 14.3%, reflecting much better growth in Australia, which is a higher-margin market, better margins in the UK from higher utilization and the initial benefits we're realizing from our proprietary AI strategy while continuing to invest consistent with our earlier guidance.

Turning to financial impacts of Construction Management projects. NSR and EBITDA were impacted by $337 million. EPS was impacted by $1.99. Cash flow included $185 million use. Because of this expected use and higher average debt balances, we expect our interest expense to be higher in 2027. We are currently estimating $30 million to $35 million of year-on-year impact.

With respect to capital allocation, our returns-based discipline remains intact. There are no impacts to any ongoing or planned organic growth investments.

With that, let's turn to Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sabahat Khan, RBC Capital Markets.

Sabahat Khan - *Rbc Capital Markets - Analyst*

Great. I appreciate the color sort of you shared on the charges. I think sort of between Troy and Gaur, I think you guys outlined the projects are on the way to getting completed. Maybe if you can just detail out. It looks like about $100 million drawdown in the previous free cash guide for this year, and you mentioned more cash to sort of finish these.

Maybe if you can just detail out sort of the timeline from here to complete these projects and any metrics that you can maybe share around the cost to sort of complete these sort of through late this year and into next year?

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

Sure. Thank you, Saba. So just in terms of the timeline on the two projects you're referring to, just to be clear, with our Construction Management business, there are two P3 design builds. They are the only ones that exist in that business.

And the first project, which we did take the charge on during the quarter, we now expect to be complete in the second quarter of fiscal '27. And the second project, which we also went through the same forecasting process, and there is no change to its delivery date, that will be in the first quarter of fiscal '27.

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In terms of cash, the impact in the fourth quarter resulted in our overall free cash flow moving from $400 million for the full year down to $300 million for the full year. And as we go into '27, we actually see this having a significant cash impact for the first two quarters of fiscal '27 and the overall impact will be about $0.5 billion.

Sabahat Khan - *Rbc Capital Markets - Analyst*

Great. And then maybe just on the sort of the base business guide, maybe you can just detail out, I think you mentioned some delays sort of in getting some projects going. Maybe you can detail out the base business sort of guidance revision and what's impacted there? And just sort of between this and the first item, just any early thoughts you can share on how maybe how fiscal '27 is shaping up maybe on the base business with and without these projects?

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

Yes. Sure. Let me sort of cover this at a high level. And then for some of the details, I'll pass it over to Gaur. First of all, with respect to sort of the base business, which is our design business and, of course, our Construction Management business, we've actually had a very good year in terms of winning work and building visibility into the future.

So we said in our results that our book-to-burn for the quarter was 1.6 times, and that was across the entire business. And year-to-date, that's 1.4 times. And so that does give us good visibility. And within that backlog, we have focused on very large awards and programs. And so they actually extend and provide us good visibility for multiyears.

As we look forward, maybe the best way to describe it is we have confidence because of that visibility in our long-term growth algorithm, which we said is organic growth for the business between 5% and 8%. And so maybe that's the best way to sort of think about the entire business moving forward.

And I'll pass it over to Gaur to give you some of the detail.

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

In terms of the base business, echo Troy's point. The base business continues to be very healthy, excluding the project charges we reported. And that is evidenced by -- if you exclude the project charge, there's no change in our earnings metrics. EPS and EBITDA for the year, we continue to expect to deliver what we had raised our guidance to previous quarter. When we look at from an NSR standpoint, looking forward, there is an impact on NSR that is coming from our CM business and our International business compared to plan.

And specifically, what we mean by that is we had expected our CM business to contract because there were large projects, as we've talked about in previous quarters, in prior year that were coming down. Our backlog has -- was building up, but there is a cadence when large projects drop off and new projects come online, there's a little time lag coming through.

For one of those projects, specifically a convention center in Texas, that has been delayed for a few months. That impacted us in the current quarter for the CM business and will impact us in next quarter as well. But as importantly, as you can imagine, a lot of our resources in that business are right now focused on delivering these two projects. So that's taking them away from the normal backlog that exists, which is quite healthy, including 1.9 book-to-burn in the current quarter.

Moving to the design business, Americas design continues to be strong. Year-to-date, almost 7% organic growth adjusted for workdays. We expect that to continue into Q4 at that healthy run rate. And when you step back and look at the backlog that we have and the visibility, it continues to provide that tailwind, including a very strong and healthy pipeline in our Americas business that we'll continue to capture and monetize.

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On the International side, in the Middle East, where it has gotten better compared to the second quarter. One of the things that has become very clear to us is hospitality, tourism, any developer-related end markets. Those are very tough right now for obvious reasons. But at the same time, the wins we've had over the last nine months in Middle East are very focused on transportation, infrastructure and rail. So that portends really well for us in FY27 going forward.

Some of the other guidance impacts that we've already shared in our release comments include interest expense will be impacted due to the cash burn on the terminal projects, as Troy highlighted. And share count will also be impacted because our focus is going to be on delivering these projects as we move forward. And we're still in the early phases of the overall planning for FY27, and I think that's about the right color we have as of this point in time.

Sabahat Khan - *Rbc Capital Markets - Analyst*

Great. And if I could just squeeze in a quick one. I guess, just sort of on the earlier question around the projects and the cadence to wrap these up. Assuming you've done some level of sensitivity analysis on getting these done. Just maybe if you can share the level of confidence in getting these projects that have caused the charges wrapped up in the next fiscal year and sort of your sensitivity analysis around sort of the timelines.

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

Yes. Sure, Saba. So let me start with the first project and where we took the charge. Again, that project is in the phase where I'm going to call it the physical completion of the building is on track to original deadline. Really what's impacting this is it's basically systems testing, integration and commissioning work is what's drawing that out.

And so, as we look at completing that project, at this point in time, we have reforecasted. And based on the last six weeks of work, we do have that project being a little bit ahead of the schedule that we had anticipated. So think about that as 20% of the completion. And we forecasted it out based on the existing production rates that we had been experiencing in the few months prior to that. So that does give us confidence.

And of course, in that schedule, we've also built some slack into that. So in terms of you describe our scenario planning, we're comfortable that we've included the reasonable scenarios in that timeline to complete in the second quarter.

On the other project, again, we have reforecast that, and it has held. The difference in that project is it is further along, effectively two months from completion. And so we're through the -- almost the physical completion of the work and the systems testing has been going underway.

And so we forecasted out based on our historical subcontractor productivity rates. So again, on both of those at this point in time, we have a degree of confidence in delivering within those timeframes.

Operator

Andy Kaplowitz, Citi.

Andrew Kaplowitz - *Citi Infrastructure Investments LLC - Analyst*

Troy, Gaur, margin was down, as you know, year over year in the Americas in Q3 ex the CM charge, which you said was a result of the higher BD costs and timing of CM, yet you raised your overall margin forecast for '26. Obviously, it looks like you raised your forecast because of the strong international margin. But how should we think about Americas margin moving forward?

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I think you mentioned Americas margin will normalize in Q4, Gaur. Does that mean up year over year? And do we still expect to see a bigger increase in margin in FY27?

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

Andy, this is Gaur. I'll take that question. So you're right. The margin costs in the current quarter were impacted by business development efforts. Every few years, we seem to have this quarter where large pursuits seem to converge.

If you would recall, we kind of experienced that -- the similar type of trend in FY22 as well and in FY24 as well. And similar to those trends, our full expectation is, we'll have the normal cadence of margin consistent with what we have delivered, including the great tailwind we're seeing on all the efforts. So absolutely, Americas margin, you should expect it to normalize and be a little bit better than -- consistent or a little bit better than last year.

And the International margins have been a very good story in the current quarter, and I expect those to continue in Q4 as well. And that International margins is a large step-up due to a few key factors. One is the International business has now pivoted to growth. That's consistent with the backlog that we had been winning in that business over the last four quarters. And our biggest growth market was Australia. Australia also is our biggest margin business.

Our second biggest margin business in the International segment is UK. So combined with those efforts, and you put forth the technology efficiency tools that we've been rolling out across the globe that are a great multiplier while at the same time, investing consistent with our plan, it's driven really healthy margins, and that also gives us a lot of confidence that the margins will continue to grow consistent with the expectations we had laid out where we will be exiting FY28 at 20%-plus.

Andrew Kaplowitz - *Citi Infrastructure Investments LLC - Analyst*

That's helpful, Gaur. And then, Troy, maybe you could give us more color into how or what changes you've made or will make to Construction Management to make sure that what you're facing now doesn't happen again. And then you talked about the double-digit backlog growth in CM and the record pipeline, but -- you also mentioned the delays you're seeing. So do you think CM can grow in line with your algorithm, that 5% to 8% next year in '27? Or could it be a drag?

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

Yes. Let me take those in reverse order. First of all, with respect to CM, when I referred to the 5% to 8% growth algorithm, I'm referring to the entire business, which includes Construction Management. If we were to look at that separately, I would say that the growth in Construction Management will come in the second half of next year, not in the first half of next year.

And again, that gets to as you build. As you build backlog in that business, it does take a while for that business or that backlog to ramp up and usually takes 12 to 18 months. So the things that we're seeing that impact the business this year in terms of awards and wins, we will start to see that next year.

And then the other thing will happen is as we complete these projects in the second quarter, we will have people that will be also available to be redeployed onto these other projects as they ramp up.

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

And Andy, the other part of your question related to the CM changes, the first project where we've taken a charge, this was bid in December of 2018. The second project Troy highlighted earlier, which is on schedule, as we had previously communicated, that was bid in March 2020. And since that time, over the last 5.5 to 6 years, call it, we have not only revised our risk matrices, changed leadership in that business.

Simply put, these type of projects will never even qualify to be approved in our current structure, commercial structure, what we are willing to do for our clients. We just -- outside of these projects, we don't have any design build P3 in our portfolio in our CM business. It just doesn't exist. So this is something we just have to deliver in the current projected timeline.

Operator

Andrew Wittmann, Baird.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

I wanted to just get, I guess, an accounting on kind of where the claims stand here. So I think in the 10-Q last quarter, we don't have it for this quarter yet, but it was $650 million. So where does it stand at the end of the quarter? And then Gaur, is it kind of the way of thinking about it by the time you're done here with -- I guess, you talked about the fourth quarter cash burn and $500 million cash. Do we just tack like -- should we be thinking of the total claim is like whatever it is here at the quarter plus $500 million and change to get the total size of the claim.

Is that the right way to think about it? And if you could just talk about how you're going to approach that and try to recover as much of that as you can? I know you heard -- you said it's going to take a while. It's obviously a complicated project. But any detail, I think that would be helpful.

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

No, absolutely, Andy. In terms of claims, if you baseline to prior quarter, you shouldn't expect a material change in the current quarter. It will be within that $600 million range. And also by the time these projects are both completed and the timeline Troy articulated earlier, there's not going to be a material change. It will be somewhere in that $600 million to $650 million just based on percentage of completion because these projects complete at very high percentages.

In terms of the second part of your question as to how we will go about it. As you can imagine, we're going to keep that quite confidential because we want to be very tactical. There have been significant scope changes that we've had to fund the working capital for. That working capital is far in excess of the claims on our books.

So we believe we've been very prudent in reviewing all different aspects of the claims from operational, financial, legal rights and responsibilities, obligations to put a number that we feel pretty confident in recovering. And it is what we have for these two projects is a fraction of the total amounts that we're claiming against third parties.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

Okay. The next thing I wanted to ask about was your planned kind of restructuring here for fiscal '26. I think earlier in the year, and I guess your guidance reiterated today that you're expecting $150 million to $200 million of restructuring costs. You've only had $54 million booked year for -- through the first three quarters. And so I was just wondering if that guidance range still holds or what -- how the rest of the year unfolds on that?

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And is this one of the reasons why the fourth quarter margin is getting some focus here today by being up a lot sequentially and maybe year over year?

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

Sure. Andy, in terms of our overall guidance, there is no change, as you've noted. And there's no change in our strategy as well. If you recall, what's really underlying driving it is how we approach our clients, how we operate internally to create value for our clients. And the demand adoption for that change has been very high.

And we're very thoughtful about how we go about change management impacts internally and making sure our clients are seeing the value proposition. Some of this, we're seeing in our backlog growth, not only in the current quarter, but like we said, you go year-to-date, you go trailing 12 months, our backlog growth has been very strong, which provides us a lot of good, strong visibility in the long term for our growth algorithm to be supported. So we're going to continue to be very, very thoughtful in how we roll out and deliver that value for our clients, how we revise their processes. And so nothing has changed from that standpoint.

In terms of the margin impact, the margin impact is going to be very consistent with some of the previous restructuring programs we've taken. We review it and underwrite everything, implement everything depending on the ROI. It has to clear our ROI hurdles, and it has to be sustainable. So the margin impacts that you will see coming through for the restructuring are not really reflected in Q4 because that's when most of the restructuring will take place. It really will be going forward as we have pivoted as an organization to how we approach differentiated offerings in the marketplace to our clients.

Operator

Steven Fisher, UBS.

Steven Fisher - *UBS AG - Equity Analyst*

I wonder if you could give us a sense of the timing of when those extra business development costs could translate into bookings and revenues? And what's the competitive environment looking like for these large pursuits at the moment?

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

Yes. I'll let Lara take that question.

Lara Poloni - *AECOM - President*

The competitive environment remains consistent, but we've got a lot of confidence, particularly based on the tremendous amount of work that we've been winning and the growing pipeline of opportunities ahead of us. And those win rates, particularly for our most substantial projects in excess of $50 million, we're maintaining a healthy win rate there with those.

And this quarter, in particular, what was most pleasing were the record wins over $4 billion included a couple of marquee wins in the environment business that we mentioned in our earlier remarks. So in particular, the federal program, which was a recompete, which gives us a lot of visibility and confidence over multiple years. And also a significant private client environment win as well.

Just to give a bit more color on that, Steve, they were bid and won against the usual competitor set. And the other thing that stood out was, we weren't in a joint venture for any of those. We won those in our own right, and the competitive landscape included several multi-header sort of combinations from some of our peers.

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But I'll hand over to Gaur to sort of provide some additional color on that.

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

Yes, Steve, thank you for that question and noticing the great book-to-burn. Similar to your question, I guess the answer is ROI is immediate, as you saw in the quarter. We invested the margins the incremental BD time. And we will do -- we continue to do it every chance we get because the BD on it is immediate, 1.8% for our Americas design business, 1.9% for our CM business and 1.4% in the quarter for our International business.

In terms of contracting and revenue flow-through, the good news is these are with high-quality clients of ours that we have a long-standing history. And the revenue stream has been very consistent, solid irregardless of what the political gyrations may be. So it gives us a lot of confidence in that long-term algorithm, even more visibility with these long-standing wins that we have.

And on top of that, another data point we've shared with the analyst and investor community on our ROI or cadence is looking at our ECP, which our win rates continue to be at 80% plus including the results from a book-to-burn and backlog growth we posted in the current quarter.

Steven Fisher - *UBS AG - Equity Analyst*

That's helpful. And then would love to get a sense of the outlook for the International growth from here or maybe how to model it. I mean, should we be assuming some acceleration from here? Or is the mid-single digits kind of a steady pace?

And if you could, as long as we're talking about modeling things, just fourth quarter on the Americas design, I thought I heard you say, Gaur, that you thought we could continue something like a 7% adjusted for days. Is that what you have embedded in the model for the fourth quarter there?

Lara Poloni - *AECOM - President*

Steve, I'll start, and then I'll hand to Gaur just in terms of the overall color in terms of the outlook. Starting with International, the design business, as we noted earlier, it's got a healthy book-to-burn of 1.8 times. And the outlook is broad in terms of the healthy pipeline and the win rate across all of the key dimensions of the business. We mentioned environment. There's a very strong federal outlook tied to the defense sector.

Our data center work and outlook continues to be very strong and fast growing. And then when we look to the other parts of the business, as Troy noted, the International outlook is strong. We've seen that rebound. The ANZ business returning to double-digit revenue growth. The backlog is up more than 40% year on year.

UK and Europe, obviously, we have long-term visibility and work continuing on projects like Great Grid upgrade. We're seeing now some real momentum in our wins and outlook associated with the AMP 8 program. We've got some good wins and visibility in the Advisory business, which is growing in line with expectations.

And even in the Middle East, as we said, there's a strong infrastructure outlook, and we are winning at that more than 80% capture rate on the most significant elements of that pipeline. But Gaur will touch on some of the more detail.

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

Yes. I'll take the Q4 first. You're right, Steve. You heard me on design for Americas, we do expect 7% adjusted for workdays, 7%-plus in Q4. And specific to looking at FY27, it's -- as Troy has already discussed, we think our long-term growth algorithm will continue to hold for the overall business.

As to the different pieces of it, International versus other segments, right now, we're in the throes of -- early on of the throes of our planning process, so we'll provide more details next time around.

Operator

Sangita Jain, KeyBanc.

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

So if I can go back to the NSR growth algorithm. I appreciate the discussion on fiscal '27. But I kind of just want to understand the long-term growth algo, as I think during the Analyst Day, the target excluded Construction Management from this equation. So I just want to know on an apples-to-apples basis, if we do keep CM in the model the whole time, how should we think about that revenue algorithm?

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

Yes. Sangita, I would think about it as applying to the entire business. I think when we -- again, not revisiting what we said in our Investor Day last year, where we sit today, the entire business including Construction Management, we capture that in our growth algorithm and our long-term guidance of 5% to 8%.

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

Got it. And then on free cash flow and uses of free cash flow once the cash outflow on the legacy PM projects conclude. With leverage having picked up a little bit, I just want to understand how you're thinking about the use of free cash flow between, let's say, deleveraging and buybacks.

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

I would think about it this way is, first of all, as we said, we're always going to be focused on what's the highest returning opportunity. And for us, that is organic growth. So we will continue to invest at the same pace in organic growth. We obviously are going to continue to return capital to shareholders certainly through the dividend. And as we move forward and we get past the second quarter of next year, I think that you'll see our leverage ratio on a net and gross basis return to a very low number.

And we would then, I think, be back to returning capital to shareholders, certainly at our stock price where it is today.

Operator

Jamie Cook, Truist Securities.

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Jamie Cook - *Truist Securities - Analyst*

I guess two questions. One, I appreciate the color that you guys have given on 2027, so early on. But just like on the organic growth of 5% to 8%. I know you said CM will grow in that -- like at that rate in the second half of 2027. But I'm just wondering, as we think about 2027, do these problem projects, the ramp of the CM business, like does that weigh on the first half 2027 organic growth?

So maybe we return to normalized organic growth of 5G in the second half of the year versus the first half? And then, I guess, Troy, a separate question for you. Understanding the problems are related to two projects, but CM was for strategic review just six months ago. Just have you scrubbed the other CM projects that you have within your backlog? And like why is this a good business to be in?

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

Sure. So first of all, if you think about '27, it's a little premature for us to sort of give guidance for the year. But I think your comment is fair, is that if we see CM contributing to growth in the second half of the year, that you would see a ramp-up in growth during the course of the year. I will say that, again, remembering that construction -- that business in terms of representation of NSR represents about 6% or 7% of the NSR of the business in a given year. So again, I think that it's premature for us to give guidance, but I would suggest that's the way to sort of think about it for models.

In terms of the Construction Management business, the answer is yes. We obviously have scrubbed the backlog and the pipeline to make sure that we make the statement that these are the two projects that have this profile, the design build for P3. The rest of that backlog in that business is of a very different risk profile. Think about it as predominantly a for-fee, or as we see guaranteed max price backlog.

And as we move forward, again, we made changes many years ago to the projects we take on in that business. And so I think that is already culturally ingrained in the business in terms of what we accept. So we feel rather good about that business going forward.

And if you take out those two projects and you look at the margins and the return that we see in that Construction Management work in the past, it is very high returning ROI, and it has margins that are consistent with the margins of our entire Americas business. So we do view that Construction Management business as having healthy backlog and a healthy pipeline and a very high returning investment -- return on investment profile, absent these two projects as we put them behind us.

Operator

Adam Bubes, Goldman Sachs.

Adam Bubes - *Goldman Sachs Group Inc - Analyst*

Just as we think about the $500 million of costs in 2027 related to the two projects that you outlined, how much of those costs do you have visibility on being reimbursed for? I guess, specifically, what I'm asking is, are you pursuing revenue on the cost or the actual cost as well?

And just maybe help us a little bit with the accounting on those projects from here. I think those costs flow through with zero margin. So should we expect a margin headwind next year from Construction Management? What's sort of the net revenue associated with those projects?

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

Adam, this is Gaur. I'll take that question. In terms of the margin impact, you're right, especially the one that we've taken the project hit on, it comes with no margin at all. The second project, it has very little margin related to it. Not by any measure, I would even forget material, I wouldn't even call it significant.

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And when you look at our go-forward NSR related to these two projects, the cash is not consistent with the NSR to be booked. There's very little NSR remaining on these projects. Just to put it into context, in our Construction Management business, when you look at the total project value, our share of NSR is generally less than 5%. And we're on both of the projects, more than 80% to 85% complete as we sit right now. So there's very little NSR that's related to them.

What's really impacting it is the focus we have on completing these projects and putting it behind us, is taking up a lot of our resources and tying them up that normally would be used on other projects and backlog that exist.

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

Adam, maybe I just sort of think about this as for the accounting as a result of recording the impairment in the quarter, that is the impact that we expect on the financial statements through the delivery of those projects. And think about that differently at cash flow because as a result of impairing that project, we still have to fund the delivery of those projects through the next three quarters. And so -- and the $500 million relates to the first two quarters of fiscal '27. So the financial statements have the -- reflect the impact of those projects to their completion. And then the cash flow is just what we're going to need to spend to fund those through completion.

Adam Bubes - *Goldman Sachs Group Inc - Analyst*

Great. Okay. I appreciate all the color there. And then you've talked about some of the risk evaluation changes and leadership changes in Construction Management, the absence of design-build projects, P3 projects beyond these two. But can you just help us understand like exactly how your bidding procedures and risk controls work at a little -- another layer of detail on Construction Management. I'm just trying to understand what level of risk you still underwrite in the portfolio today.

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

Sure. Gaur will take that.

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

Yes. Predominantly, in that portfolio, we take on what's called GMP, guaranteed max price commercial terms. And the big difference on this is when we go enter into a contract, for the first 12 to 18 months, we work on a T&M agency basis with the client, with the developer to ensure their designs are essentially complete, 70% to 95% complete. All the sub costs have been forecasted out, scheduled out, subbed out in conjunction support with the client. And once all that risk has flowed out of the design, the build-out, construction documents are complete, at that point, we enter into the GMP commercial terms.

And the biggest difference is not only we have the client and us, we have flowed the risk down to the subcontractors and other parties that perform the construction work. Our risk is generally limited to our fee on those jobs.

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

So just -- I'll just add two points to that. One is if you sort of think about the work that we take on in that business, it is a similar risk profile as to the rest of our design business the way it sits today.

And in terms of the decision-making, we changed that years ago so that effectively, material projects in that business. They come through a process of review, a very detailed review to make decisions on whether to bid them or not. And as part of that process, we have a prohibition on taking on any design build for P3, and that was put in place many years ago.

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Operator

(Operator Instructions) Michael Dudas, Vertical Research.

Michael Dudas - *Vertical Research Partners LLC - Analyst*

Troy, maybe you can characterize so the new business growth over the first three quarters of, I guess, 29%, 30%. Can you characterize on existing versus new clients, scope expansion versus new projects? What areas benefited when you saw the most activity on?

And Gaur mentioned in his prepared remarks about new avenues, new markets. Are there some areas that some of the investment organically is going to be placed to drive added growth in either existing or a different area of your practice?

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

Yes, sure. So first of all, in terms of the work that we've won across the business in the first three quarters of the year and of course, in this third quarter, it has been distributed across the entire business. We have been successful in all of our major markets. But I will highlight that in the Americas, we were particularly successful.

The other thing that I think we've been acknowledging is that we have been pursuing and for years, been pursuing very large programs and projects because, frankly, that's a place we think we're very well suited to differentiate ourselves because of the depth and breadth of the experience that we have and the global teams that we bring to those projects.

And so our win rates are very high on those programs. Again, Gaur referred to that, that our win rate has been on those programs for a while over 80%, and that also brings very good visibility to long-term growth to the business.

In terms of Gaur's comments on kind of new markets and new activity, what we are finding is a number of the investments that we have been making and change the way we deliver outcomes for our customers. It is actually opening up new markets for us, which we had not previously had a strong or dominant position. And so those investments are giving us the opportunity to have very different conversations with new customers and groups of customers that we haven't had in the past, which is also very encouraging as we look forward.

Michael Dudas - *Vertical Research Partners LLC - Analyst*

What type of new customers or what types of areas?

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

We're looking at, really, I'll call it, in the buildings and buildings and places market within our business and within program management. And so it's enabling us to move into more commercial markets, more hospital health care markets and into data centers in a more robust way.

Operator

There are no further questions at this time. I will now turn the call back to Troy Rudd for closing remarks.

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

Again, thank you, everybody, for joining us today. And again, I want to thank our employees and our folks here at AECOM for their diligence in delivering projects and infrastructure for the customers. Thank you.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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