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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the AECOM's First Quarter 2024 Conference Call. I would like to inform all participants, this call is being recorded at the request of AECOM. This broadcast is a copyrighted property of AECOM, and any rebroadcast of this information in whole or part without the prior written permission of AECOM is prohibited. As a reminder, AECOM is also simulcasting this presentation with slides at the Investors section at www.aecom.com. (Operator Instructions)

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

William Gabrielski - *AECOM - SVP of Finance & IR*

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

We 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 and backlog growth rates are presented on a constant-currency basis unless otherwise noted.

Today's remarks will be focused on continuing operations. Our discussion excludes the results of the AECOM Capital business, which we announced our intended exit from last year. During the quarter based on current market conditions, we incurred a $29 million after-tax adjustment to the carrying value of our investments, we continue to expect positive cash recovery as we exit our investments.

On today's call, Troy Rudd, our Chief Executive Officer, will review our key accomplishments, our strategy and our outlook for the business; Lara Poloni, our President, will discuss key operational successes and priorities; 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.

W. Troy Rudd - *AECOM - CEO & Director*

Thank you, Will, and thank you all for joining us. Our first quarter performance exceeded our expectations, and I'm very proud of how the organization is delivering on our key priorities. We've established ourselves as the trusted infrastructure consulting firm at a time when funding is accelerating at an unprecedented pace across our markets.

As a Professional Services organization, our people and their passion to deliver a better world create the competitive advantage we bring to our clients. It is through their unrivaled technical expertise and our collaborative culture that we consistently win at a high rate and distinguish ourselves from the competition.

To that point, I'm also pleased to report that we were recently recognized as one of Fortune's World's Most Admired Companies for the 10th consecutive year. In addition, our employee satisfaction scores remain at an all-time high. And employee retention remains well ahead of both internal and industry benchmarks, which is significantly better than our pre-COVID levels.

Our headcount also continues to increase organically across our largest markets, demonstrating the health and strength of our workforce and business. These outcomes demonstrate the value we realize when we consistently invest in our teams through technical and leadership development and the positive benefits to recruiting and retention from winning marquee projects globally.

Turning to our financial performance for the quarter. Organic NSR in the design business increased by 9% in the Americas and 8% overall. Growth was also especially strong in our global water and transportation markets. The segment adjusted operating margin increased by 100 basis points to 15%, which is a new first quarter high. This performance reflects the high returns we deliver on our organic growth and our commitment to efficient delivery.

As a result, adjusted EBITDA and adjusted EPS increased by 14% and 25%, respectively, which puts us firmly on track to deliver on our full year guidance. During the quarter, we continued to execute on a returns-focused capital allocation policy. Free cash flow was $87 million, and we returned nearly $100 million through repurchases and dividends.

In addition, in November, our Board approved an increase to the share repurchase authorization to $1 billion, and our January dividend payment reflected a 22% increase in our quarterly dividend program. Supporting future organic growth, our design backlog hit a new record high, and our pipeline continued to expand, reflecting the strength of our end markets and the continued expansion of our addressable market through our Day 1, Day 2, Day 3 strategy.

To that point, our program management pipeline remains at an all-time high, which is consistent with our long-term aspiration for Program Management and advisory to represent 50% of our revenue.

We are encouraged by our clients' investment plans, the growth of which is apparent in our record pipeline of pursuits. Even more encouragingly, growth is accelerating in the earlier stages of our pipeline, which aligns well with our expectation for an extended period of elevated growth and opportunity.

Please turn to the next slide. Our strong start to the year and consistently strong execution is a result of our Think and Act Globally strategy, which we discussed in detail at our Investor Day in December. Lara will further discuss how our strategy is delivering results across our business. But before that, I'd like to highlight a few notable trends.

First, the funding outlook in our core markets has never been stronger. In the Americas, IIJA funding is accelerating as evidenced by another milestone program management win for Amtrak's Susquehanna Bridge Replacement Project, which will improve operations on one of the busiest rail corridors in the U.S.

Additionally, state and local budgets remain strong, and our private sector clients are investing to re-shore capacity and adapt to water and energy transition impacts.

In Canada, large transit projects are advancing against a backdrop of continued national and provincial investment and water and mining markets also remain robust.

Other international markets are similarly strong. In the U.K., growth in the water market is set to accelerate from the substantially expected AMP8 funding. And in Australia, we won two substantial water projects in the quarter that reflect a continued focus amongst our clients on water capacity expansion and achieving their net-zero ambitions.

Second, investments in sustainability, resilience and energy transition are expanding rapidly, which is creating new opportunities for which we are ideally suited. Today, more than $1 trillion is spent annually on the energy transition alone, and this is expected to double by the year 2030. As a result, projects are increasing in size and complexity, and clients are seeking more holistic, programmatic solutions to create execution certainty.

For instance, we are helping the New York City Department of Environmental Protection achieve their 80% greenhouse gas reduction goal. Water infrastructure accounts for nearly 15% of the city's emissions and reducing water's emissions is a key element to their plan. Nearly every market and client we serve is working to address a similar challenge, which is evident on our record pipeline.

Third, we continue to gain market share organically by winning at a high rate, while bidding record levels of work. Our share of $25 million or greater wins represents more than one third of our wins in the past 12 months. And our overall win rate remained at the historically high 50% mark.

Finally, we are successfully investing to build highly complementary revenue streams that pair well with our strong domain expertise and high credibility with clients.

A great example is digital consulting. We are helping clients with their digital journeys in markets such as water and transportation. Our recent selection on the U.K.'s Intelligent Automation framework for the National Health Service showcases our advantage.

AECOM was the only infrastructure firm selected amongst the field of traditional IT and management consulting firms, demonstrating the enhanced value proposition we bring to our infrastructure clients and their IT journeys. This is a multi-billion dollar market and a substantial growth opportunity.

Importantly, as we look ahead, momentum in the business is strong and the overall funding environment is robust. As such, we are affirming our fiscal 2024 guidance, which includes an expectation for 20% adjusted EPS growth resulting from high margin and high-returning organic growth.

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

Lara Poloni - *AECOM - President*

Thanks, Troy. Please turn to the next slide. Our teams are energized by our strong start to the year, including our continued high win rate, backlog, pipeline, and the momentum in our markets. Key to our success is our client-focused innovative and collaborative culture. We are engaging early and often with clients to fully understand their needs and strategic priorities. And by collaborating globally, we are able to holistically address their needs by bringing the best of our technical, advisory, digital, and program management experts to each client.

Let's look at two success stories that exemplify what we mean by winning what matters organically. First, we have gained significant market share with FEMA, having won several of their most significant contracts over the past few years. This was highlighted by our selection last month to support its largest Public Assistance grant program in its most active zone - the Atlantic, that covers disaster recovery efforts across the Northeast to the Caribbean. This win, combined with our existing Consolidated Resource Center and Flood Mapping contracts positions us for the first time as the leader across FEMA's critical missions of preparedness, mitigation, response and recovery at a time when the stakes have never been higher. Importantly, these successes exemplify the strength of our teams and the benefits of collaboration across our regions and business lines.

Second, our global leadership in transit has been on full display in Canada, where we have won large roles on several key projects over the past year. As a result, we've delivered double-digit organic NSR growth, a 1.4 book-to-burn ratio and have a record backlog for our Canadian business. Our high win rate is enabled by several factors that underpin our competitive advantage.

First, we have leading transit and rail system capabilities, Second, we have a strong local presence and great relationships and track records with our clients. Third, our program management expertise is distinguishing us against both traditional design firms and program management firms. Fourth, we've built strong partnerships that best position us for commercial success.

Finally, our scale enables us to draw on our global expertise and to augment local capabilities to create more efficient delivery for our clients. Our growth with FEMA and in the Canadian transit market is emblematic of the strengths of our platform and the power of our strategy. We position early, advise and bring the full AECOM suite of capabilities from across the globe to our clients. As a result, we have created an unrivaled value proposition for our clients. These successes aren't unique for us. We are delivering consistently strong growth and capitalizing on accelerating trends across our markets.

For instance, opportunities for lead pipe replacement are expanding, supported by IIJA funding, state and local investment and the prospects of expanded federal support from the EPA's proposed Lead and Copper Rule. We were an early mover in this market, including our ongoing support for Denver Water's Accelerated Lead Service Line Replacement program as just one example.

On this program, we brought both our program management and digital capabilities to bear, including developing and deploying an AI-enabled tool that enabled our teams to double the amount of lead pipe identified in Denver's hotspots. Ultimately, this reduced costs and accelerated service line replacements. We expect this market to accelerate from here.

Another example is grid modernization, where investments are increasing and our pipeline has expanded to nearly $1 billion. This growth is driven by the additional capacity required to facilitate ongoing electrification and renewable energy generation capacity growth. Clients are seeking programmatic support and digital innovation to deliver projects on schedule and within budget, which plays right to our strengths as demonstrated by our several notable wins in this market over the past year.

Finally, our leadership position in the tunneling market remains a competitive differentiator on large and complex transportation and water programs. Our win on the 2-mile-deep Kensico water conveyance tunnel in New York City demonstrates our ability to deliver on the most complex and critical projects in the world.

Additionally, our largest transportation wins in the quarter were defined by both our tunneling and program management expertise. Taken together, across each of our markets, the strength of our strategy and our technical expertise is differentiating us and positioning us well for continued strong growth in the years ahead.

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

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

Thanks, Lara. Please turn to the next slide. Our first quarter results exceeded our expectations, highlighted by continued strong organic NSR growth, a record first quarter margin, double-digit earnings growth and strong free cash flow. We are really pleased to start the year with such strong momentum.

Our backlog in nearly every market is at an all-time high, and our pipeline is at a record level. We are realizing both the benefits of our organic growth at higher incremental margins and the investments we've made to deliver our work more efficiently, including a shift in our headcount with digital and program management representing the fastest-growing areas of headcount increases across the company.

As a result, innovation is accelerating, and we are bringing new solutions to our clients that further enhance our advantage. For instance, our Fund Navigator tool has been utilized by clients to position for and successfully win funding from IIJA programs, and we're expanding these successes to help our clients deliver on these projects through our Day 1, Day 2, and Day 3 capabilities. All of this strengthens our confidence into the future.

Please turn to the next slide. Turning to our results in more detail. Organic NSR in the Americas design business increased by 9%, led by growth in water, transportation and program management. Our adjusted operating margin in the Americas expanded to 18.3%, which was a new first quarter high. Our backlog in the design business is at a record level and included 23% growth in contracted backlog, reflecting our high win rate and focus on winning what matters to expand our long-term earnings power.

I should note that our Construction Management backlog declined due to our decision to remove two projects from awarded backlog where the final terms and conditions were inconsistent with our risk framework, which did not materially impact our profit and backlog given the high pass-through revenue in this business.

Please turn to the next slide. Organic NSR growth in the International segment was 8%, driven by growth in our highest-returning markets. This is reflected in 230 basis points of margin expansion in the quarter to 10.6%. Further, improvement in our International margins will continue to be a key driver of our enterprise-wide margin expansion goals. Backlog also increased across all our regions in the quarter and positions us for continued strong growth in the year.

Please turn to the next slide. We had a strong start to the year on cash flow with free cash flow of $87 million. This enabled a return of nearly $100 million to shareholders in the quarter. As Troy noted, the Board of Directors increased our repurchase authorization to $1 billion in November, and our quarterly dividend payment increased by 22% beginning with our January payment. We remain committed to our disciplined returns-focused capital allocation policy.

We continue to expect at least 100% conversion of adjusted net income to free cash flow for the full year, which will support ongoing dividend and share repurchases. Importantly, our balance sheet remains strong. Both S&P and Moody's upgraded our credit ratings over the past few months, and we are operating with low leverage and cost of debt certainty.

Please turn to the next slide. With our accomplishments in the quarter and the strong start to the year, we reaffirmed our guidance across all financial metrics for fiscal 2024. This includes our expectations for 13% and 20% adjusted EBITDA and adjusted EPS growth enabled by our expectations for 8% to 10% organic NSR growth and 90 basis points of margin expansion to a new record.

I will continue to note that our adjusted EPS guidance only incorporates the benefit of repurchases completed to date, even though it is our intent to continue repurchasing stock over the course of the year.

For modeling purposes, we also expect our second and third quarter tax rates to be in the high 20s, consistent with the phasing we experienced last year.

With that, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Michael Feniger from Bank of America.

Michael J. Feniger - *BofA Securities, Research Division - Director*

There will be a focus on the overall backlog being down. I'm just curious about the gross profit in the backlog. So the overall backlog is down. You discussed kind of the moving pieces of the Construction Management, design up. Maybe you can help us with that overall figure down, what does it actually look like when we think of the gross profit in the backlog trending?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. Thanks for the question. And I'm going to let Gaur walk you through that.

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

Yes. Thanks, Troy. So in regards to the overall backlog trajectory, if you would recall, one of the things we have done over the last couple of years, including our most recent Investor Day, was continue to highlight where the profitability lies in our businesses.

Particularly, DCS represents 94% of our NSR and the same percentage in profitability, the residual being in the CM business. And what you see overall in the backlog, even though it's a 3% decline when you combine both of them, but when you separate the design backlog increased 9% in the quarter for us. The total backlog decreased 3%, but the total backlog profitability increased 9%, again, highlighting why we've continued to emphasize the core of our business being design and the profitability in it.

Now specific to the backlog CM, I just want to comment very quickly. We actually had over $1 billion of wins in the current quarter in our CM business. And consistent with our IR day, where we highlighted how one of our foundational operating principles is risk management. This was the perfect example in the current quarter in our CM business for backlog because what you saw were two developer projects on the commercial side, high floor construction, where the developers wanted to pass incremental risk to us after the project had been awarded, but before it had been contracted.

And we just said, no, because as we've said, we're always going to make investments that are towards the highest and best use for our shareholders and to create profitability. And we don't have to chase work because of the diversification strategy we've employed in CM, where 1/3 of our backlog is in sports, 1/3 in aviation hospitality and 1/3 in other, including commercial real estate, but mind you, commercial real estate in the CM business represents less than 2.5% of our total NSR.

So there's no reason for us to deviate from our returns-focused strategy. And there's no reason for us to take on onerous risk because all of our end markets, especially in our design business, shown through our backlog growth, profitability growth are extremely robust and a high level of bidding activity that's going on globally for us.

Michael J. Feniger - *BofA Securities, Research Division - Director*

Makes sense. And just my follow-up. You guys kind of flagged earlier stages of the pipeline are increasing and maybe that, that's a lead indicator. And I just wanted to ask because there are some concerns that maybe the stimulus dollars and the project pipeline maybe peaks out in '24, you kind of lose momentum.

What are these early discussions that you're seeing in the pipeline? What does that kind of tell you about the visibility and sustainability? Maybe we can start to even think about '25 and beyond, even as we're facing a year of election uncertainty. So, just help us contextualize what those early discussions kind of tell you about the lead in terms of how we kind of think about the business and the project pipeline, even as we look beyond '24?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. So, we have actually seen our early -- again, as I made in prepared comments, we've seen our early stage pipeline continue to improve. And that's not isolated to the U.S., but your comments were focused on the U.S.

We are seeing, again, the early-stage pipeline continue to grow year-over-year. And over the past few years, we've continued to see an improvement in that trajectory. So, for us, what that means is those projects will come to market sometime in the next 6 months or possibly 18 months for award, and then we'll start work on them. So, I've seen the pipeline continue to grow, means that we have great longer-term visibility to growth in the business, and particularly, in our U.S. infrastructure market.

When we look around the world, we see something very similar. We see growth in our pipeline and a continued growth in those longer-term investments in infrastructure. As with -- again, as with everything, there's always a few opportunities -- there's always a few markets here, where in fact, there's some difficulty -- it is -- I think everyone is aware. And as Gaur pointed out, certainly in commercial office, and I'll call it in tall buildings in North America. We see a slowdown.

We also see in the U.K. very strong opportunities. But within our transportation business, we actually see a slowing of investment in large transportation projects. And we don't think that will pick up until after there is an election and perhaps for a few quarters after that. But the ambitions in the U.K. are still the same. There's still a need for large long-term investments in infrastructure but we think that there's a pause for the moment, while there perhaps might be a change of government. But again, I would just come back to the fact that around the world, we are seeing very positive momentum, and we think it will build for the long term for us in terms of our pipeline.

Operator

Your next question comes from the line of Sabahat Khan from RBC Capital Markets.

Sabahat Khan - *RBC Capital Markets, Research Division - Analyst*

Maybe just shifting a bit over to the margin side. Can you maybe talk through the puts and takes on it -- probably a little bit of color earlier, but -- just kind of Americas segment was maybe a little bit soft relative to our expectations, but International came in much better. Maybe just the puts and the takes on the two segments and your expectations for the rest of the year across the two geographical segments.

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

Saba, this is Gaur. I'll take that. On the margin side, it was definitely ahead of our expectations of what we had laid out. And it's, again, continued focus on making sure we deliver on our commitments.

I'll expand what I mean by that. So, the key things when we operate, we make sure, as we've said over and over again, we're focused, not trying to be everything to everybody, everywhere. And that's -- when especially when you look at our International business, it's the countries we have exited because we want to focus on the key geographies where we are the premier Professional Services provider of choice by our clients to leverage our technical expertise and that have the best growth opportunities, as Troy just laid out in the previous response.

Now we also make very sound decisions that are returns-focused, return on investment focused. An example of that is the restructuring that we took in Q4 and are also executing those efficiency initiatives in the current year. Those margins are what you're seeing in International, you're seeing also that coming through in Americas and also allowing us to continue to invest in the business in the Americas where the pipeline, the bidding level is at historic levels. And this is us holding ourselves accountable. It's not restructuring that we just do, but it doesn't just go into either.

You see it in our results with a 90 bps increase year-over-year, we just saw in Q1 and what you should be expecting as we continue through the remaining 3 quarters into FY '24, if consistent phasing in performance, what you've seen us from before, we expect and are confident now with Q1 behind us to deliver on our margin target.

And again, just on DCS -- on our Americas business, I'm going to make the same comment, again, as I just said a few seconds earlier, which is, the margins are expanding through our initiatives of providing the right level of technical expertise, which allows us to bring the right commercial pricing structure in play, but more importantly, allows us to focus on BD to invest -- our business development, to continue to invest in the future because the pipeline is quite strong and robust for us.

Sabahat Khan - *RBC Capital Markets, Research Division - Analyst*

All right. Great. And then just, I guess, on the ACAP business, I -- maybe if you could just remind us of what kind of the plan there is. I know there's a transition out of it. But maybe just remind us what the plan is over the next little while to sort of transition that or exit that business completely?

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

Sure. Absolutely. Now if you recall, in -- for ACAP, we moved that into held for sale a few quarters ago. And what that basically requires is it's got to be carried at fair market value of cost per the accounting rule. So, what you saw through was just an accounting entry coming through in the current quarter because the credit markets continue to tighten.

But our expectation is that we had communicated a few quarters ago on the expected cash flow from this business, now being part of noncore, that has not changed. Also, I think it's important to note, there's minimal value left of our direct investments in ACAP on our balance sheet. I believe it's less than $15 million. Nothing has changed in terms of what our strategy was, what we communicated a few quarters ago, and we continue on the timing consistent with our expectations to execute on that strategy.

Sabahat Khan - *RBC Capital Markets, Research Division - Analyst*

Okay. Great. And then just one last quick one. How are you thinking about, given where the share price is today? How are you thinking about buybacks, as we look ahead for the rest of the year? Is there a certain amount that you definitely want to do? Or is it going to be more opportunistic over the next few quarters?

W. Troy Rudd - *AECOM - CEO & Director*

So Saba, first, I'd just point out that with respect to how we allocate capital, nothing has really changed. And so again, what we've described in the past, we'll stick to this, is that we're going to be returns focused in terms of allocating our capital. We will continue to invest in organic growth. It's a little bit different investing in organic growth, as Gaur pointed out, that does go through our margins. So, our margins actually contain a pretty significant investment in the future.

Secondly, we believe that we should be returning capital to shareholders. And we've increased the dividend. And as I said in the prepared comments, we've got a Board authorization for $1 billion of repurchases and we will continue to repurchase our stock. What we said with respect to timing is that we will effectively use our cash flow through the year to buy back our stock. So that might be a way to think about just the timing of it. We don't look at being opportunistic. We look at just doing it consistently over the course of the year.

Operator

Your next question comes from the line of Andy Kaplowitz from Citigroup.

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

Troy or Gaurav, you beat the street excluding the lower tax rate by something like $0.05 and your design backlog is up nicely as you said but you didn't increase the guide at either end of the range. I know it's early in the year, but is there anything that you're seeing that gives you some pause? And then how do you think about EPS cadence in Q2 and for the rest of the year? Should it just be sort of normal seasonality?

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

Yes, Andy, thank you for the question. We did have a very strong first quarter, and it's a valid question, right? Because we have met and beat expectations for the last 4 years. But as you would recall, this management team, our mantra is to be prudently conservative, especially in Q1. So, we're going to continue to operate with that mantra. Q1 definitely gives us a lot of confidence in continuing the trend we have accomplished over the last 4 years.

And I think from a phasing standpoint, as we've said before, the phasing is going to be consistent on earnings with our historical phasing we have delivered upon. But there's nothing in the horizon that would give us pause as we continue to operate in FY'24, given the backdrop of how strong our businesses are, including, again, I can't emphasize enough, how, well I'll have to be redundant, is how the robust pipeline and record level of bidding we're experiencing in the business.

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

And then, Troy, maybe you can give us a little more color to your end markets within the Americas. You mentioned strength in water and transportation, but didn't really highlight facilities, for instance, yet. I think AECOM has good data center design exposure. So, could you elaborate on what you're seeing across all the end markets in the Americas?

W. Troy Rudd - *AECOM - CEO & Director*

Yes, sure. The simple answer is we're seeing strength across all of our end markets, including our facilities business. And again, within our facilities business, we have shifted our focus over the past 3 years from what we had done in the past to again, it's more public infrastructure, and that includes transportation projects.

So, we saw strength across the entire business. But I think there's another importable -- another important trend to call out, which is we've actually changed the focus so that we are now, instead of being a design firm that's exposed to, say, 10% to 15% of a project spend. Through the expansion of our advising program management offering, we're now exposed to, say, 30% of the project spend.

But more importantly, we're exposed to -- we think, more than 50% of the profitability of the projects. And so that's given us an opportunity. So even where there might be some slowness in the market because we are exposed to much greater client spend, we have the opportunity to support businesses that might even -- they might even be seeing some slowing in the market.

Again, strength across the business because of healthy markets, but also because of our increased exposure to client projects and spending. And with respect to program management, over the course of the last year, on projects that we bid that are greater than $50 million in size, we've bid 11 and we've won all 11. So again, I think that just speaks to the strength of our program management offering, but it also gives you an example of the opportunity that we see, again, across all of our markets and all of our projects and our end customers.

Operator

Your next question comes from the line of Sangita Jain from KeyBanc Capital Markets.

Sangita Jain - *KeyBanc Capital Markets Inc., Research Division - Associate*

Troy, you talked about the U.K. elections and a little bit of a pause in spending there. Can you give us color on the U.S. and the EU elections, which are also coming up? And whether you think you're seeing a pull forward of business there? Are people in a wait and see mode maybe?

W. Troy Rudd - *AECOM - CEO & Director*

Certainly. So, with respect to the U.S., we're not seeing a change in, as you described in spending patterns or spending habits. There is, first of all, over the last few years, there have been a lot of funding put in place that is long-term and multi-year funding. And that's all supported, again, I think in a part bipartisan way in the United States. So, we haven't seen a change in funding or change in the appetite for our U.S. government clients to invest in infrastructure.

With respect to the EU, again, I'd just start by saying our exposure to the EU market is quite small. If you recall, 90% of our business actually comes from 4 countries. It's the U.S., Canada, the U.K. and Australia. So while, Europe may be choppy in terms of infrastructure funding, we just don't see it having a large impact on us. But we still see, again, there are some places across the EU, where there is certainly money being put in infrastructure, in particular, into water programs.

Sangita Jain - *KeyBanc Capital Markets Inc., Research Division - Associate*

Great. And if I can ask you another one on your project management portfolio. Obviously, you've been seeing some phenomenal wins there. Can you talk a little bit about the typical pushback that you may be seeing as you take share from incumbents in these projects maybe?

W. Troy Rudd - *AECOM - CEO & Director*

Well, it's an interesting question. We really haven't seen much pushback as evidenced by our win rate. I have to say I think that there's a large opportunity that was a long -- it was driven a few years ago from our customers. And our customers recognize that with all of the funding that was available and frankly, the complexity and size of these programs that the only way they could advance them was actually having help from someone like us who has the technical ability to understand these complex projects and then has the management ability to deliver them.

So, our opportunity was born out of a need from our customers. And then we've just taken advantage of the opportunity to take our skills across the platform and to grow it by supplementing it with people from across the industry with those skills. So, we've built up a really strong impressive core team. And I think it's a combination of our skills and our core team and then frankly, some of the things we're doing with respect to our digital innovations to make the customer process much more transparent and to improve the communication or think about it as an improved client experience. So, all those things have come together, and we are just not seeing the pushback in the market as evidenced by our win rate.

Operator

Your next question comes from the line of Steven Fisher from UBS.

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

I just wanted to come back to the regional growth for a second. I'm just curious how you see the relative growth rates overall in the Americas versus International over the next several quarters, curious which should be growing faster and what would drive that?

W. Troy Rudd - *AECOM - CEO & Director*

Well, we are actually seeing a little bit more momentum in our Americas market in Canada and the U.S. than we have seen outside the U.S. But again, not to point out that we're seeing significant slowing. We're actually just seeing more projects come to market because the funding is available, again, across the Americas, Canada and the U.S. And you can -- again, you can see that in our contracted backlog.

The other thing I'll point out is, is that you saw that our NSR, in our DCS business in the Americas grew faster than International during the quarter. That also is helpful because our margins are significantly higher in our Americas business in the U.S. And so, as we see the opportunities accelerate in North America, we also think that, again, bodes well for the future of the profitability of the business.

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

Great. And then just a cadence question. So, with 7% NSR growth in Q1 kind of 8% to 10% full year expectation, can you just give us a sense of how the rest of the year's cadence will play out? Do you think as soon as Q2 will start to be sort of towards the upper end of that range? Or do you think, we're sort of like somewhere in that range, just the rest of the year?

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

Steve, this is Gaur. In terms of the annual forecast, that hasn't changed. It's 8% to 10%, and we fully expect to be within that range. In terms of cadence and phasing in Q2, we expect because there's fewer number of workdays. So, there's just going to be a shift between Q2 and later quarters than what you and us, we have historically experienced and we can work with that with you off-line, if that's okay.

Operator

Your next question comes from the line of Michael Dudas from Vertical Research.

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

Troy, thinking about public sector versus private just maybe generally and maybe you can break it down from Americas International, but is the growth rates there surprising you one way or the other? And as you look at your 5% to 8% long-term net revenue growth, organic expectations, it seems you'll be focusing more on public? And is that mix going to change a bit? And I guess, on top of that, on the CM business, are you being much more selective? Are you pulling back? Are you -- like where is the cadence or the pace of what you're doing in that market given the mix and importance of growth elsewhere out of AECOM's platform?

W. Troy Rudd - *AECOM - CEO & Director*

Mike, thank you. I'm going to share this with Lara. I'll let her take the first part of your question, then I'll take the second part of your question on CM.

Lara Poloni - *AECOM - President*

Yes. Thanks, Michael. So, we -- in terms of that balance in our portfolio, it remains pretty constant. It's about 60% public and 40% private. We see substantial opportunities in both sectors going forward in line with those ongoing secular trends.

So, a long-term infrastructure, very robust, a lot of wins in this first quarter from many of our public transportation clients. Some nice wins in terms of the resiliency and sustainability play, signaled by our great win with FEMA, which rounds out the project lifecycle work that we're undertaking for them, water and environmental services.

And then in terms of that outlook, obviously, strong opportunities ahead of us in terms of our market leadership with PFAS. But that's a good example of where those opportunities are actually nicely balanced between public sector clients in, for example, in the defense space, but private sector opportunities also in aviation and the growing opportunities that are going to come up for private industrial clients. So, we know there are a lot of longer-term liabilities. So that gives you a couple of examples about around how we have a pretty -- we're going to have a pretty balanced portfolio going forward between public and private.

W. Troy Rudd - *AECOM - CEO & Director*

And with respect to CM, I'll -- again, Gaur covered a little bit of this. So I'll just -- I'll try and leave you with 3, what I think are 3 important points. First is, is that Construction Management, those de-bookings were frankly immaterial to the profit that we had in backlog. And it gives you a sense of the strength of the DCS business and the strength of margins that reside in that business.

Second is, those de-bookings were, frankly, at our discretion. They were places where we had been awarded the work and the client wanted us to take on a different set of terms and conditions that we weren't comfortable with. So, it just gets to the point that we're not going to, again, chase work perhaps in a market that would be difficult, and that's in sort of the commercial tall buildings environment.

And the third thing is we saw this through the conversations and with our clients and through our pipeline a number of years ago that there was going to be a sort of a slowing in tall buildings. And so, we made the decision to actually pivot the CM business and start to focus on other kinds of projects and build experiences for the future. And as Gaur pointed out, 1/3 of our business comes from aviation. If you go back 5 years ago, we didn't have that same expertise. And so, we are building experience and, frankly, world-class quals. So that team will be able to pivot to that market in the future where we see long-term opportunity.

And so that's been the focus with CM as -- we think that, that business in the future, we'll -- we're making some good decisions as that business evolves, but we see there being strength in the future and the business will just look different, if you look forward 5 years.

Operator

Your next question comes from the line of Adam Thalhimer from Thompson, Davis.

Adam Robert Thalhimer - *Thompson, Davis & Company, Inc., Research Division - Director of Research & Partner*

Congrats on the strong start to fiscal '24, nice Q1 beat. I also wanted to ask about the early stages of your project funnel. So, when you look at Stage 1 and 2 of your pipeline, are there any particular end markets that are contributing to strength there?

W. Troy Rudd - *AECOM - CEO & Director*

Well, it sort of -- as we -- as I described a little bit earlier, we are seeing strength across all of our end markets. And so we think about that as environment, energy, transportation, water, even our facilities , our buildings and places for us.

And then across that, it's a combination of design work and program management advisory work. So again, I just -- we see that, that strength across the entire pipeline in the early stages. But again, as I said, there are some places where -- they were -- it's not a perfect world. There are places where there is some slowness in the market, which you pointed out in the U.K. in transportation and certainly in tall buildings here in North America where we're exposed. But overall...

Adam Robert Thalhimer - *Thompson, Davis & Company, Inc., Research Division - Director of Research & Partner*

Okay. That's my -- that's my second question.

W. Troy Rudd - *AECOM - CEO & Director*

Yes.

Adam Robert Thalhimer - *Thompson, Davis & Company, Inc., Research Division - Director of Research & Partner*

Sorry. So, the weakness that you're seeing in U.S. tall buildings, do you think that will broaden into other sectors? Or you think the vast majority of your end markets will stay strong, while tall buildings goes through a downturn?

W. Troy Rudd - *AECOM - CEO & Director*

Well, again, I think that if you look at the long-term trends or needs and again, this sort of goes back to the long-term trends around the need for improved infrastructure. The funding is available for it.

Secondly, is there's large investments. This is sort of as infrastructure is being transitioned, and there's funding for it as well. Think about the long-term investment in building semiconductor chip capacity here in North America. So those trends are changing.

And then the other big trend, which we're seeing a lot more activity is in energy transition. There is a long-term investment in energy transition that is taking place. And so, we just -- we don't see that changing. And again, when I -- when we look at, I'll call it, again, our commercial office markets or mixed-use markets, that's really in the private developer market. And I think that's very interest rate sensitive, and that's what's driving that outcome.

But the funding -- the need and the funding across our other markets still remains lined up well. And again, I'll just make the point about that, again, our kind of commercial office market or a commercial retail market, that represents less than a few points of NSR for our entire business. And as I said, we're -- we've been actively transitioning away from that work to other more well-funded opportunities.

Operator

And we have no further questions in our queue at this time. I will now turn the conference over to Troy Rudd, Chief Executive Officer, for closing remarks.

W. Troy Rudd - *AECOM - CEO & Director*

Thank you, operator. Again, I want to thank all of our teams for their contributions to a very strong first quarter, and we've extended our track record of delivering our commitments. So, thank you to our team. And I thank you all for joining us today, and look forward to talking to you at the next quarter. Have a good day.

Operator

This concludes today's conference call. Thank you for your participation, and you may now disconnect.