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CORPORATE PARTICIPANTS

William J. Gabrielski
Vice President, Investor Relations, AECOM

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

Randall A. Wotring
Chief Operating Officer, AECOM

OTHER PARTICIPANTS

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Michael Feniger
Analyst, Bank of America Merrill Lynch

Steven Fisher
Analyst, UBS Securities LLC

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the AECOM Second Quarter 2020 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. 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. Later, we will conduct a question-and-answer session. [Operator Instructions]

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

William J. Gabrielski
Vice President, Investor Relations, AECOM

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 including expected and potential impact of the COVID-19 pandemic. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the SEC. Except as required by law, we undertake no obligation to update our forward-looking statements.

We are using non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation where available, which is posted on our website.

The sale of the Management Services business closed on January 31. The Management Services business along with our at-risk, self-perform construction businesses that we intend to exit are classified as discontinued operations in our financial statements. Today's comments will focus on continuing operations unless otherwise noted. The discussion of adjusted operating margins reflects segment level performance for the Americas and International segments. We will also refer to net service revenue, or NSR, which is defined as revenue excluding subcontractor and other direct costs. Our discussion of margins will be on an NSR basis, unless otherwise noted.

Beginning today's presentation is Mike Burke, AECOM's Chairman and Chief Executive Officer. Mike?

Michael S. Burke

Chairman & Chief Executive Officer, AECOM

Thank you, Will. Welcome, everyone. Joining me today are Troy Rudd, our Chief Financial Officer; and Randy Wotring, our Chief Operating Officer. I'll begin today's discussion with a review of our financial and strategic accomplishments. I will then review impacts from and our response to COVID-19, Troy will then review our performance and outlook in greater detail before turning the call over for a question-and-answer session.

Please turn to slide 3. I am very pleased with our performance in both the second quarter and the first half of the year which reflects the benefits of the many actions we have taken over the past two and a half years towards achieving our long-term financial and strategic objectives.

For the second quarter, adjusted EBITDA increased by 16% over the prior year to $182 million. For the first half of the year adjusted EBITDA increased by 21%. Underpinning this strong performance was continued margin expansion of 200 basis points in the quarter.

I am also pleased to report that we are continuing to win work at a high rate. Wins for the quarter totaled nearly $9 billion, a record for the Professional Services business. Strength was broad based and included a greater than 1 book-to-burn ratio in both segments led by several large multi-year wins in the Americas. As a result, backlog increased by 14% to new all-time high of $42 billion, providing substantial visibility against an increasingly dynamic macroeconomic backdrop.

In late January, we closed the sale of the Management Services business for $2.4 billion, capitalizing on record high valuations for government services companies. We immediately repaid all of our $1.3 billion of secured debt and we finished the second quarter with an all-time high cash balance of $1.3 billion and net leverage of 1.2 times. This leverage profile positions us extremely well at a time when liquidity is highly valued.

I also want to highlight another accomplishment this quarter and that is our recently announced industry leading emissions reduction targets which are designed to meet the goals of the Paris Agreement. This includes a goal of achieving a 20% reduction in emissions by 2025 as well as a 10% reduction in emissions across our supply chain. These reductions when achieved would be equivalent to eliminating the environmental impact of burning nearly 40 million pounds of coal every year. Our commitment to achieving these targets marks a major milestone on our continued journey to deliver a better world.

Please turn to slide 4. As a global company, COVID-19 has been a part of our daily routine since the beginning of the year. In Asia, nearly half of our offices were closed and 90% of our workforce was working remotely at peak. While we lost 10 working days in mainland China in February, we quickly called upon our resilience, IT and HR teams to ensure that our employees were safe and accounted for and we took immediate actions to ensure business continuity. I am proud of our response, in fact in Asia despite the challenges presented, we achieved our profitability target and exceeded our cash flow target for the quarter.

Markets across Asia are beginning to normalize and restrictions on movement are being reduced. We are seeing similar impacts from COVID-19 across other markets. In our Americas and EMEA regions, 90% of our people are working remotely. Most major global metros have instituted shelter-in-place orders and halted nonessential activities including non-essential construction.

Additionally, state and local clients are bracing for steep tax revenue declines. However, coming into this crisis, rainy day funds were at a record high and the CARES Act and Federal Reserve actions are expected to deliver $700 billion direct support. Importantly, though, much of our work is of a critical nature for clients and has been deemed essential.

We are working closely with federal, state and local clients to respond to the immediate needs created by COVID-19 including temporary hospitals. In April, we won more than $200 million of work to deliver thousands of hospital beds in short order and we are engaged with clients globally to provide additional services including developing return-to-work strategies for our clients. In fact, we are ranked number one in our industry in terms of work won for the US federal government for COVID-19.

As a result, our momentum has continued into the third quarter. In April, utilization, NSR and profitability were ahead of our expectations and we are ahead of our plan for the first seven months of the year. Looking ahead, our confidence in achieving our financial targets is underscored by this strong year-to-date performance as well as certain attributes inherent in our professional services business that position us well during periods of uncertainty.

First, we deliver primarily knowledge-based critical and essential services. In most cases, these services can be delivered uninterrupted while working remotely supported by our long-running investments in technology and innovation. These investments have enabled a relatively seamless transition to remote working and our ever-expanding digital solutions are deepening our client engagement as well. In fact, last month, we announced an innovative virtual consultation tool which has garnered very positive client reactions since launch. Many of these changes may accelerate innovation and digital transformation trends in our industry which we are well-positioned for.

Second, our professional services business has a highly variable cost structure. This allows us to quickly respond to changes in the market. Beginning in February, we built robust mitigation plans to assess different potential virus durations and impacts, put in place a freeze on new hiring, discretionary spending and instituted a global travel freeze. With these actions, we achieved our top priority, keeping our key assets, the many talented people across our organization safe, employed and highly engaged with clients.

Third, most of our work has continued unabated. In most regions transportation, water and environmental services, our largest market sectors, are considered critical or essential and work continues. In our Construction Management business, more than 85% of our projects are continuing to move forward including more than 70% in New York despite temporary nonessential construction shutdowns. Now, the vast majority of our projects where work has been suspended, we continue to have our general conditions paid for by our clients which covers our costs. Because of this and our agility in repositioning our workforce, we have retained nearly 99% of our employees which positions us even better to respond directly as economic trends recover and client demand accelerates.

Fourth, we have built a record $42 billion backlog which provides all time high levels of visibility with more than three years of trailing 12 month revenue in backlog. This allows us to operate with a high degree of certainty against a rapidly evolving landscape. Finally, AECOM has a proven track record of delivering through periods of slower and negative economic activity as evidenced by our strong organic growth during the global financial crisis. This is largely due to having nearly 60% of our NSR from public sector clients where spending is often inversely correlated to GDP due to government stimulus investment in infrastructure that increases during periods of weaker economic activity.

With the CARES Act and other measures taken, we have already seen historic levels of approved public funding. The CARES Act provides more than $2 trillion of stabilization spending, and the Federal Reserve has created a $500 billion direct-lending program for our state and local clients. In addition, substantial programs in our largest international markets have been put forward, including nearly $900 billion of funding across the UK, Canada, Australia, and Hong Kong.

Encouragingly, these programs continue to prioritize investment in critical, large-scale transportation and infrastructure projects. These type of projects are precisely where AECOM excels as evidenced by our number one ranking in the transportation and general building design markets which was reaffirmed last week by ENR. As I look across the company, our strategic and financial position has never been stronger. We have transformed our balance sheet with substantially reduced leverage and ample liquidity.

We have consistently exceeded our financial targets over the past six quarters while delivering 300 basis points of margin improvement since fiscal 2018. And our agility as an organization has proven to be a key competitive advantage as we quickly mobilize the contingency plans for our people to support our clients in the face of unprecedented change. Before concluding my remarks, I'd like to thank our employees for their tireless commitment to our success and to delivering for our clients during these challenging times.

The last few months have impacted all of us in profound ways, and the resilience of our people inspires a great deal of pride. With the most talented workforce in our industry, I remain confident that the best days for AECOM are yet ahead.

With that, I will now turn the call over to Troy to discuss our performance and business trends in more detail. Troy?

W. Troy Rudd

Chief Financial Officer & Executive Vice President, AECOM

Thanks, Mike. Please turn to slide 6. Echoing Mike's sentiments, we are really proud of the organization's response to the challenges presented by COVID-19. Importantly, we have built significant momentum across the business including a sixth consecutive quarter of double-digit adjusted EBITDA growth and substantial margin improvement. Notably, margins in the Americas segment lead our industry and we have delivered substantially improved margins in the International segment. This strong performance was achieved despite substantial COVID-related downtime in Asia during February which speaks to the commitment of our people and the resilience of our organization.

Including our performance in April that exceeded our expectations for NSR, earnings and cash flow, we have delivered seven months of outperformance compared to our plan this year which underscores our confidence in achieving our full year guidance. These accomplishments are the result of strategic actions we have taken over the past two and a half years. This includes exiting underperforming businesses and markets, optimizing overhead, consolidating our real estate portfolio and expanding the use of best-cost design and shared service centers. Importantly, we still see plenty of opportunity to further expand margins and deliver on our long-term financial objectives.

For instance, we now recognize how productive our employees can remain while working remotely. With 10 million square feet of real estate, we are developing a workplace of the future strategy which is targeted at enhancing productivity while further optimizing our operating costs. We're also continuing to progress on our plan to exit our remaining self-perform at-risk construction businesses.

We are actively negotiating with a potential buyer for our share of the San Onofre Nuclear Decommissioning project which would result in a substantial milestone in our derisking strategy.

Although we encountered challenges as we close out the Alliant combined cycle power plant, it has increased the cost to complete. The plant is now generating power and is moving through the MISO certification which is expected to be completed over the next several days.

Finally, I should note that our results in our discontinued operations in the quarter included an approximately $89 million non-cash impairment of goodwill and tangible assets on certain oil and gas related businesses as a result of the dramatic fall in oil prices. Importantly, as our performance in professional services business underscores, we are benefiting from our lower risk profile which validates our strategy.

Please to slide 7. In the Americas, organic NSR was effectively unchanged with the prior year. I should note that excluding the impact of elevated levels of storm recovery work from the prior year, organic NSR in our design business increased by 2%. This is the last quarter of material headwinds to growth related to our storm recovery work. This performance reflects continued underlying strength in our core transportation and water markets and in our Construction Management business.

The Americas segment had a 15.6% adjusted operating margin which marked a 160-basis-point improvement over the prior year and was ahead of our expectations for the quarter. Our backlog in the Americas increased by 16% and set a new record. Prior to the impacts of COVID-19, state and local tax receipts were trending positively through April, which provided for a solid base of project funding. While the forecast of tax receipts is clearly lower today, contributions from the CARES Act and the Federal Reserve are set to provide $700 billion of funding capacity to our clients and talks of additional infrastructure stimulus are continuing which we are well-suited to benefit from.

Please turn to slide 8. Turning to our International segment. Organic NSR declined by 2%. Our adjusted operating margin for the second quarter was 5.9%, a 240 basis point increase over the prior year. Increasing our international margin is a top priority and a critical component of achieving our long-term financial objectives. Both the EMEA and Asia-Pacific regions contributed to this improvement, with the benefits primarily from optimized overhead costs and the expanded use of best-cost design and shared service centers resulting in increased profitability.

Importantly, as Mike noted, we are also successfully mitigating the headwind from 10 lost workdays in Mainland China and we are seeing market conditions begin to normalize. We are positioning to capitalize on substantial stimulus and emergency COVID-19 response efforts in our international markets. This includes a more than $700 billion infrastructure investment program in the UK, along with approximately a $100 billion of stimulus funding in Australia and Hong Kong. As a result, with very favorable funding conditions in our largest international markets, we are poised to capitalize on a growing opportunity set that is well suited for our leading capabilities.

Please turn to slide 9. Underlying cash generation in the quarter was mostly consistent with our expectations and we remain confident in achieving our outlook for the full year. Let me walk through the details of our cash flow.

Free cash flow was a use of $313 million. There were a few factors that I want to specifically address. First, following the completion of the MS sale in January, we terminated the receivables sales program associated with that business which resulted in a $180 million impact to cash flow. This was contemplated in our original guidance for the year.

Second, we incurred cash restructuring costs of approximately $40 million in the quarter as part of our strategic actions that resulted in substantial margin improvement for six consecutive quarters. This was also contemplated in our original guidance.

Finally, the MS business delivered cash flow below our expectations for January resulting in an approximately $130 million impact. However, we expect to recover this timing-related impact in the third quarter through a favorable net working capital purchase price adjustment. The mandated accounting treatment for this collection is that it be recognized in the investing section of our cash flow statement. This is a timing-only impact and our full-year cash flow guidance includes this collection. As such, we have reiterated our guidance for full year free cash flow of $100 million to $300 million.

Our confidence is supported by the highly cash generative nature of our business which remains unchanged as well as the normal second half weighted phasing of our free cash flow. In addition, we expect to benefit from tax incentives and certain elements of government stimulus programs across the globe including advanced billing for essential contractors, retention credits and payroll tax deferrals.

Please turn to slide 10. We completed the $2.4 billion sale of Management Services business in January. As a result, we have transformed our balance sheet and capital structure. We have repaid all of our secured debt and we exited the second quarter with a $1.3 billion cash balance and net leverage of 1.2 times. This strong liquidity position combined with our undrawn $1.35 billion revolving credit facility allows us to operate with certainty. In addition, we have recently closed on a $400 million delayed draw term loan. This creates greater flexibility to manage our capital structure going forward.

As we look ahead, our capital allocation priorities are as follows. First and foremost, we are in a fortunate position with excess liquidity at a time when liquidity is scarce. We will continue to prioritize maintaining excess liquidity and reiterate our long-term net leverage target range of 2 to 2.5 times. Second, when conditions normalize, we will look to return substantially all available excess capital to our stockholders.

Please turn to slide 11. Turning to our financial guidance, our updated guidance balances the near-term uncertainties posed by COVID-19 against the strong backlog growth and underlying momentum in the business. We began aggressively stress-testing and developing mitigation plans in early February. This was a global initiative that involved hundreds of key operational and finance leaders across the organization. Our teams' efforts combined with acting quickly to react to the impact of COVID-19 underscores our confidence in our updated range. We now expect to deliver adjusted EBITDA of between $700 million and $740 million, which reflects 10% growth at the midpoint.

In addition, our guidance includes an expected $15 million headwind from currency fluctuations. Based on our global experience with COVID-19, we expect that shelter-in-place orders and construction shutdowns in the Americas and EMEA regions will begin to ease in the third quarter. As a result, our guidance assumes that economic activity bottoms in the third quarter and that there are no material project delays or deferrals in the fourth quarter.

With that, operator, we're now ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Sean Eastman with KeyBanc Capital Markets. Your line is open.

- [0FB0MR-E Sean Eastman]>: Hi, team. Thanks for taking my questions. Compliments on the quarter, strong first half and really resilient outlook for the year.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Thanks, Sean.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

First question for me is, you guys came into this crisis with a focus on cost and returns. I'm just curious whether there's been a reassessment on the potential for those programs, whether some of those actions can be accelerated or expanded. And just to what extent a weaker macro backdrop extends the timeline to achieve the financial targets you outlined?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

So, Sean, let me start off with that. And I'll let Troy kick off any further color on the guidance. But we came into this; we've been working on margin improvement for two years now. And you've seen the dramatic 200 basis point increase over the past couple of years on our margins. We didn't stop when we got to that first tranche and we're not going to stop as we get through this and that's next tranche of margin improvement opportunities.

We don't see any slowdown in achieving the margin targets that we set out previously. We're continuing that work. Most of the work is already behind us. And in fact, we're looking at opportunities where there could be consequences of the pandemic that could increase our margins. And specifically what I'm referring to, as we've gone through the work from home, remote working process where 90% of our people are working remotely, we have seen an employee engagement that is higher than it was working in the office, people are enjoying the additional flexibility of working from home which could in the future allow us to have a lower real estate footprint. And as you probably know, we spend almost $400 million a year on rent, so taking even a 20% reduction in that as we move to a slightly larger remote workforce could be additional opportunities for margin improvement going forward.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. Excellent. Go ahead.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Sean, it's Troy. I was just going to reinforce what Mike said which is what we've experienced is the pandemic is creating opportunities for actually to accelerate some of the trends that were naturally taking place in the marketplace. And one of those is again, remote working and rethinking real estate portfolio. So, we do see that as a fairly significant opportunity to layer on top of the things that we have already executed on and have planned for the remainder of this year that will benefit this year and into 2021.

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Thanks. And second one for me is just trying to get as comfortable as we can on the swing back in free cash flow to hit the intact outlook for the full year. To the extent you can bridge us back between just underlying AECOM free cash flow, any discrete items helping you get back there and then of course, some of the benefits from some of those stimulus programs that are going to help in the back half as well?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Sure. So, first of all in the first half of the year, we had within our guidance, we had predicted a number of the items that have impacted cash flow, particularly those are the items related to the sale of the Management Services business. As we move into the second half of the year we've got, again, a clear line of sight to that range of cash flow. We're highly confident and it's driven by first of all just the earnings performance in the second half of the year. We have a history of converting EBITDA to cash flow on a fairly consistent basis. We also, in the second half of the year, have as we said a purchase price payment, a working capital adjustment related to the MS transaction that is about $130 million that will effectively catch us up for the first half of the year.

And then beyond that there are the normal things that we typically see in a business. There is just a natural kind of unwind of working capital in the second half of the year based on increased activity and it's been consistent with the past. And then in terms of what we're seeing as a result of the pandemic and government stimulus, we haven't planned any of the stimulus into our guidance but was certainly within the range, the number of programs that we see around the world in terms of payroll tax deferrals, acceleration of government payments. We have a number of our government clients particularly in Australia and UK there that have accelerated payments to us and have a plan to continuing to do that through the year. And then there's a number of other programs within Australia and Canada and the UK that will provide deferral of expenses or payment of certain things like taxes that provide a tailwind. So all told, we see there being potentially up to $100 million tailwind just from government -- government programs that would support our view of being within that guidance range.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Sean, was your question relative to stimulus limited to cash flow or was it a broader question?

Sean D. Eastman
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. Just trying to get comfortable on the second half ramp and you guys had mentioned there would be some tailwinds there. So, I'm good at that one. That was really helpful, Troy. Thanks.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Okay.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Thanks, Sean.

Operator: Your next question comes from the line of Michael Dudas with Vertical Research. Your line is open.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Good morning, afternoon, everybody. So, Michael you just teed it up. Let me hear your thoughts on general stimulus, what comes out, I mean it's amazing how much money has been spent by Congress already for this crisis. How do you see that flowing through and how it impacts some of your public sector client base? And then maybe you can drill down a little bit more in your historic work you've done in New York City, certainly the revenues from the MTA and Port Authority is certainly going to take a big hit here. [ph] How does that play to (00:28:19) and how's that impact on what you do and how those agencies use AECOM to work through that?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Yeah. Great. Thanks, Mike. So, the first round of The CARES Act provided quite a bit of access to capital to the state governments mostly through lending type activities. But we're closely following a couple of new developments. One is the second round of the CARE Act (sic) [CARES Act] (00:28:49) but economic relief that we're expecting is probably more like the May/June timeframe where the governors are asking for an additional $500 billion in aid.

The state departments of transportation are asking for about $50 billion of direct funding for transportation in the states. So, we think there will be an additional economic relief through CARES Act II and also there is quite a bit of momentum in Washington for infrastructure stimulus. That's probably more like a June or July timeframe. But the House Democrats are moving forward on a five-year $760 billion stimulus program.

And so, when we look at all of those together, it starts to look a little bit like what we saw after the global financial crisis in 2007, 2008, 2009. And when we look back to 2007, 2008, 2009, we saw that stimulus activity coming into the market and we certainly experienced double-digit organic growth in 2007, 2008 and 2009 as stimulus activity came into the market. And so we are expecting the deficit spending will be the way of the world for the next 12, 24 months. And there is a significant momentum to direct that towards infrastructure activity that we will benefit from.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

And how about New York area?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Well, New York is – yeah. New York is one of the things that you look at the big markets and half of our state and local spending in the US comes from five states, California, New York, Texas, the real big ones. And the good news about those states is those states coming into this had significant stabilization and rainy-day funds. So they were in the best position coming into the pandemic. So they have a bit of a head start. So we're focused on the right markets that had strength coming into it. And we expect that due to their political clout, they will be the primary beneficiaries of any federal stimulus activity that gets directed towards New York.

And one of the things that we hear that the New York government agencies talking quite a bit about is this may be an opportunity to accelerate infrastructure spending. The reason being is, it's a lot less expensive to undertake infrastructure projects during – certainly during a time when there's less traffic whether it be airport traffic, whether it be mass transit traffic, you can get things done much more efficiently. So, there may be an impetus to accelerate some of the infrastructure work in the New York area.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

I appreciate. And then my follow-up for you Mike or Troy is that, can you maybe share a little bit how your customer base is adapting towards the new world that we're in especially with working remotely and being able to engage from plans that you're sending or in your conference calls or getting documents to your clients in an efficient manner so they can continue to work on their front, is that going to prove any competitive advantage for you guys as you move forward as the customer base? So I'm thinking more on the public side and maybe on the private as well, accelerate and adapt to the changes that we're seeing.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Yeah. So let me let me kick that off and then I'll ask Randy to talk about the IT investments we've made because it's been such a big facilitator of this. We have been preparing for this for quite some time on the IT side, and it became clear that we were able to almost overnight shift 90% of our workforce to a remote working environment and that turned out to be an incredible differentiator in the market. It wasn't – clients weren't willing to wait and see if we could work remotely. They wanted to see that capability immediately and I think it allowed us to differentiate ourselves quite a bit. And I think it may be the way of working in the future.

We have one project right now we're doing down in Florida. We have 150 different employees around the world working remotely on a project in Florida to get an unemployment center up and running as quickly as possible. It's all being done remotely. It's all being done in a collaborative way. But that didn't happen overnight, it came through significant investments. Maybe Randy could give us a little overview on what we've done on the site IT side.

Randall A. Wotring
Chief Operating Officer, AECOM

A

Thanks, Mike. So AECOM has really been strategically investing in IT infrastructure and digital tools for a lot of years but specifically over the last three years. And even with this significant ramp that we've seen with more than 90% of our employees almost overnight working remotely, our IT systems not only performed well but, as Mike said, provided us with a differentiator in the marketplace. So all of our employees have videoconferencing capability and extraordinary collaboration tools that allow them to carry on that work. We had put digital tools in the cloud which certainly enhanced our work from home capabilities and the ease of use for our employees. Digital tools like Autodesk and Bentley for design purposes. Digital libraries, design anomaly detectors and other tools reside in the cloud which made it much easier for our employees to work.

In addition, AECOM brought to the market two proprietary software packages built in EMEA but imported and tailored to US requirements. The first is the virtual consultation software that Mike talked about that let us respond to the US federal ask to streamline permitting processes. And to-date, we've already been working with clients utilizing these technologies and are now selling them to numerous federal, state and local as well as international government and private sector clients.

And then secondly, we have a digital environmental impact assessment software. That allowed us to complete the first US ever digital EIS for the US Army Corps of Engineers, and that's light-years ahead of anything in the market. It allows NEPA to be performed better, faster, cheaper with greater margin. It likely will reduce cost 30% and times more than 50%. So, again, I mean in this case, our IT tools not only let us continue to perform and work effectively from home but we believe give us a differentiator in the near term and in the future.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

That's great insight. Thanks, gentlemen, and stay healthy.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM
A

Thanks, Mike.

Operator: Your next question comes from the line of Andy Kaplowitz with Citi. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Good morning, guys. Hope you're well. Nice quarter.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM
A

Thank you.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM
A

Thanks. Same to you.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Mike, can you give us more color on your Construction Management business? I know you've mentioned that 85% of your work is continued. Obviously, 70% to 75% of business is in New York and LA, as well as you have a big focus on sports. So, how concerned are you that projects in that business could move to the right? Maybe you can talk about your confidence because I know you had a big backlog coming into the pandemic, have you factored potential CM weakness into your guidance?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM
A

So, good question, Andy. The Construction Management business, first of all, it's more diversified today than it's ever been. If you go back six years ago, our commercial and residential real estate was about 80% of our business. Now that's only 45%. Aviation was formerly 1% of our business in CM. Now it's about 13% of our year-to-date NSR and about a third of our backlog. And so, we put forth a considerable effort over the past few years to start to diversify that business. And the aviation business at 13% of our NSR and a third of the backlog. Those decisions are – those are 10, 20 years strategic decisions for airport expansions that they don't change based on changing demand in passenger miles for the quarter or for the year or even next year, they're looking out 10, 20 years what they're going to need at JFK for instance. So, that's really important.

Secondly, that the projects that as you heard us say, 80%-plus of our projects are still operating today and almost all the projects that are not operating are paying us our general conditions which covers our cost on those projects because the clients want to keep our teams at the ready to jump back in when construction is revived. LA construction is still continuing. New York, there has been some non-essential construction that is put on halt. The Governor, they said they expect to start back on May 15, although they've asked us to put forth a plan to start even earlier which we're working on. So, we're highly confident that we'll be back up to full steam very quickly.

So, we're not seeing projects stop except for a few that I mentioned which we're not seeing timelines move out. As you know in that space, it's rare that once you get started with a construction project, it's very, very rare that it stops. The reason being is you get financing in place that requires you to finish it. And so, even back in the 2008 financial crisis I could think of less than a handful of projects around the world that literally shut down for good, the rest of them moved forward. So, given that we've got four years of backlog in that space, I feel pretty good. We're about at the same place we were going back again to the global financial crisis, we had built up a good book of business coming into 2007/2008 but then carried us through the next few years. So that is a piece of the business, we feel very confident in because of the backlog and because of the diversity.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Mike, that's helpful. And then while understanding that you lowered your EBITDA guidance just a bit given the pandemic uncertainty. Could you tell us since the pandemic started, how much positive offset you've seen so far from work from FEMA versus the actual COVID related delays, and what would you expect to see moving forward or is there incremental work to do there?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Okay. So Troy or Randy, do you want to take that one?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Yeah. Sure. I'll jump in and take that. I guess, first of all Andy just in terms of our guidance. When we look forward typically we have six months under our belt and we're forecasting the next six months of the year. We've come to the end of our April results and so where we sit today is we actually have seven months of results. And two months of those results, call, March and April have us operating in the pandemic, the pandemic environment that we're in.

And our April results have exceeded our expectations in terms of NSR, earnings and cash. So just in terms of our confidence moving forward, we have a higher degree of confidence in our guidance than we did certainly a few weeks ago. And again, to your point about what we're seeing in the marketplace is we certainly have been active in helping local governments trying to help people through the impact of the pandemic and supporting healthcare initiatives, and supporting just governments and figuring out how they work their way through this, so project management types of projects.

So, we've been active in doing that. We've certainly won a lot of work during the last few months and that has supported our April results. But I think even beyond that, as we look forward the business itself has a number of attributes that we made reference to and Mike made reference to a little bit earlier that allow us to be adaptable to the environment. So even as there might be some project deferrals or as we can ramp up to take on certain types of projects to try and support the change that is certainly coming over the next months, it gives us the confidence that even in a dynamic environment, the agility or the adaptability of our business allows us and gives us confidence to be able to work through and achieve our guidance.

Do we have a high degree of confidence in guidance where we sit today because of the seven months of the results and the proven agility of the business? And what we still can see as market opportunities, change is ultimately good for what we do. We support change in infrastructure and that is coming and will be accelerated by the impact of the pandemic.

[indiscernible] (00:42:19)

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Yeah, one additional item. One additional item there just you asked about what are the positives that we're seeing coming out of COVID related work or what are the plus ups. We have won hundreds of millions of dollars of work already. And at least according to the Bloomberg government report we've captured about 25% of all the COVID related federal dollars within our industry. And we're the number one in our industry in winning COVID related work. And that work is widely varied, disaster response work, it's field hospitals, treatment centers, medical stockpile facilities, global supply chain type activity. So it's widely varied. And we think there'll be continuing opportunity on that front.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Mike, so that all sounds pretty good, like, what would it take for you to restart your share repurchase program? You just need to see the pandemic fade a bit, anything else that you could give us color there?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Troy, you want you to give some guidance on that?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Yeah, certainly. Yeah. And Andy, you actually kind of summarized it in a sentence which is our focus today in the current marketplace or market backdrop is focusing on our liquidity. Right now, we're in a very comfortable liquidity position. And we're going to be focused on maintaining a comfortable liquidity position until we can create confidence that market conditions are going to stabilize. And there's a clear line of sight to what the future is going to hold.

So, for the time being, that's going to be our focus. But it is just a matter of timing and we will then return to our stated commitment which is maintaining our leverage target at 2 to 2.5 times and returning substantially all of our capital to shareholders, which means that we'll start buying stock under our existing repurchase authorization. Again, certainly, the big question is when will that happen? And we're just going to be working through this and make sure that we gain more confidence about what's going on in the marketplace before we start trading off liquidity for repurchases.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Sounds good, guys. Be well.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Thank you, Andy.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Thanks.

Operator: Your next question comes from the line of Jamie Cook with Credit Suisse. Your line is open.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning and nice quarter. I guess two questions. One, the margins on the international business improved, not at the target range but improved nicely sequentially, I guess, year-over-year. Is that sustainable as you look to the back half of the year just given we don't have history there in terms of how the business performs on a quarterly basis. I guess then, and my second question, Mike, any color you can give in terms of what's going on with the CEO search, is that still active or is the board thinking it makes sense to keep you there indefinitely in particular in an environment like this given your history with the company? Just any update that you could provide on that front. Thanks.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Troy will take the first part of that.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Yeah. I'll take the first part of the question. And Jamie, the restructuring actions that we've taken beginning last year and we continue to take this year, that's what's driving the margin improvement. So it's a combination of the things we've been talking about consistently for the last few quarters which is improving our real estate profile, taking advantage of our design centers and our shared service centers. And we just continued to proceed on the path and we expect margins to improve over the course of the year and even beyond this year into the future. There is certainly a run rate impact, there's a benefit in the year but an additional run rate impact in subsequent years.

And then the other thing I'd point out is that historically our business does have a ramp-up in the second half of the year based on activity and volume, so that's the piece that we have to pay a little more attention to as we work through Q3 and Q4. Again, as we've said, we see economic activity bottoming out in Q3. So we might not see the impact we typically see. But certainly over the course of the year, we expect margins in the International business to improve and to benefit from the activities we already have undertaken.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

So Jamie, to the second part of your question, as you know, I had announced my departure at our Annual Shareholder Meeting on March 10 and then along came the pandemic and the board asked and I agreed to stay on and lead us through the crisis and making a rapid change during the crisis was not a good idea, but we certainly have continued with the CEO search process. We are still evaluating potential candidates and it's just been a bit slow down and a little reluctant to make a precipitous change during the challenging times. But I can't give you a specific timeline on that but the process is continuing, and we'll update you as soon as we have information to provide.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Appreciate it. Glad you guys are healthy and well.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Great. Thanks, Jamie.

Operator: Your next question comes from the line of Michael Feniger with Bank of America. Your line is open. Michael Feniger with Bank of America. Go ahead your line is now open.

Michael Feniger
Analyst, Bank of America Merrill Lynch

Q

Perfect. Thank you. Thank you for taking my questions. Just Troy on the free cash flow bridge, I think I missed a few things. Have you observed a pick-up in April on working cap phasing and in collections to give you that confidence as well or is this really kind of like we saw last year a very fourth quarter type of phenomenon?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Yeah. Actually, we saw a pickup in April. I think I may have mentioned this a little bit earlier. Our April results were ahead of our expectations in NSR earnings and cash. So, we saw a substantial improvement over what we had forecast for April and that is, again, just due to the activities of people being focused on collections with their clients. Clearly in this environment where people are concerned about delay in payment, we have a highly engaged group of people here that are focused on making sure that they're on top of that. But also, we're seeing a number of our government clients actually accelerate some of their payments just to support their economy and support the people working in those economies. And so we've seen accelerations in Hong Kong, Australia and even Canada. So again, supporting that bridge in fact is having us actually collect beyond what we expected in April. So supporting an improvement in working capital in the second half of the year.

And then additionally, we do see just in our business, there is a natural improvement in working capital during the course of the year. One of the significant items that has an impact on that obviously is compensation. We do make accruals during the course of the year for some of our compensation that gets paid out following – first quarter of the following year.

Michael Feniger
Analyst, Bank of America Merrill Lynch

Q

Okay. And if we – thank you for that. And if we take just the low end of your range this year, the $100 million of free cash flow and the $700 million of EBITDA, let's say you don't grow EBITDA next year and you hold the line at $700 million. Can you just help me understand what the free cash flow you think you can generate from that $700 million next year? Is there any stranded costs that we should be considering cash to fund, some discontinued ops that we should be aware of, I guess just to help us get a sense of where your balance sheet and leverage is now and maybe where it could look like in 2021?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Okay. Well, that's a – that was a lot to cover. I'm going to try and simplify it and...

Michael Feniger
Analyst, Bank of America Merrill Lynch

Q

Sure.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

...by simply saying that we gave free cash – we gave cash flow guidance at our Investor Day and it was focused on the conversion of our earnings, EBITDA, the unlevered free cash flow and within our Professional Services business even as we move forward in subsequent years, we don't see that changing. The underlying nature of our business, the conversion of earnings to cash is consistent. And so, we see 75% of the earnings in 2021 converting to unlevered free cash flow for use in the business.

So, that characteristic is remains unchanged. And just to the point you made a little bit earlier, I don't know where you came up with the $700 million number. But I certainly don't want to leave anyone with the impression that's we believe that the subsequent year will look like. Not at all. We still again look forward and we think that based on the underlying nature of our business and the marketplaces that we're in that we have the ability to deliver profitable growth into 2021.

Michael Feniger
Analyst, Bank of America Merrill Lynch

Q

Okay. Yeah. Sorry. I got confused. I think the $700 million was – I was talking about the EBITDA figure with what you could convert to free cash flow. And I guess just lastly, and Mike I think you touched on it, obviously, as a capital-light business, high variable cost structure. I know you have -- you're in a position where you have a big backlog and only a handful of projects in 2008 were canceled.

Just help me understand the sensitivity of your business with the high variable cost structure. If for some reason we did see some of the backlog get canceled and revenue for this Professional Services business was down 10%, how does that flow through to what percent change to your operating profit since you do have a capital-light and high variable cost structure?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Yeah. So, we've done a lot of modeling on those types of questions. And the good news is we are not expecting a 10% drop in revenue in any way. But we have modeled it of course as -- we're doing a lot of modeling these days. But maybe Troy, you want to just touch on some of the variable cost leverage that we pull in those scenarios?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

Yeah. Yeah. And again one of the things that we spend a lot of time on in February and we still continue to do this almost on a weekly basis is making sure that we keep updating and stress testing what we think is the range of outcomes for the business. And then with that work, we've also developed a significant number of trigger points or levers, adjustments that we make to react to what we might find either it might be on a client basis or a project basis or even an office basis.

So we worked through that and what we've determined is that even with a wide range of different outcomes in terms of revenue during the second half of the year that we have the ability to manage to stay within our guidance range. So that's what gives us comfort ultimately in the guidance range even with a wide range of outcomes. And the things that we focus on again are the things that we've talked about which is controlling the cost in the business. As we said we currently have a hiring freeze in place. We aren't undertaking any travel so there are some things that just naturally have fallen away in the business. But then just given the nature of the workforce, we have the ability to again adjust if there are dramatic changes in terms of workloads and re-balance work. So those are the – that's the principal lever that we have. And then beyond that...

Michael S. Burke
Chairman & Chief Executive Officer, AECOM
A

And I think – go ahead.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM
A

I was going to say so and beyond that, there are a number of programs that the governments around the world have put in place to support the population and our workforce, it also provides benefit or think about it as a lever that has an impact on ultimately our results.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM
A

Yeah. Just so – we talked about the modeling we're doing. Should there be a decline in revenue? But I don't want to leave anybody with the wrong impression here. You saw our backlog up double digit to $42 billion in the quarter. We rarely see anything drop out of backlog, in fact. We've got 50,000 projects going on at any one point in time around the world. So far, we've seen 18 cancellations, 18 out of 50,000. We've had less than 1% of our projects that had some sort of deferral during the COVID crisis. And right now, when I look at the pipeline of opportunities, the number of projects in our pipeline is up double digits. The gross margin in those projects is significantly up. So we're not expecting to see a decline.

Operator: Your next question comes from the line of Steven Fisher with UBS. Your line is open.

Steven Fisher
Analyst, UBS Securities LLC
Q

Thanks. Good morning, guys. Just to pick up on that last bit of discussion and about 2021. I fully recognize that most companies have pulled their 2020 guidance, let alone have anything out there for 2021. But I really wanted to just ask you about what the status is of your specific 2021 expectations that you had out there. I noticed they were not in the slide deck of this quarter. You do have the luxury of having a very robust backlog. You just talked about the very small percentage of deferrals and cancellations. So just curios what is the status of your 2021 targets and how confident are you in the backlog that you have in getting there?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

I guess, first of all, Steve our cadence for providing guidance certainly on the next year is when we get towards the beginning of that year. So, we won't typically do that until the fourth quarter. We did at the Investor Day gave a guide and we remain confident in our ability to continue to deliver on profitability and growth.

And as you pointed out, it's dependent upon some of the key attributes of our business, we do have that record backlog. And our 2021 plan was built on low-single digit revenue growth to achieve a 15% EBITDA growth in 2021 and that was built upon the actions that we are taking to improve the efficiency of the business and they were built around real estate improvements, design centers, built around use of our shared service center. And then beyond that we now have a lot of confidence that because of the impact of the virus and our ability of our workforce to work remotely, it also presents additional opportunity with respect to how we would change the dynamics of how people work, and the impact that would have on our real estate portfolio.

Again, as Mike pointed out a little earlier, we spend about $400 million a year on real estate and there certainly is an opportunity we believe is accelerated by what the workplace of the future will look like to actually improve margins and to continue to build a path of improved productivity. So it's a long way of saying we certainly have confidence in the future because of the low-single digit revenue growth – revenue growth we had anticipated and our future is built upon improvement in productivity and efficiency in the business.

Steven Fisher
Analyst, UBS Securities LLC

Q

Thanks, Troy. So that, just to characterize there, would you say that number is still somewhere between valid and we just need to see how the pandemic plays out or that number is just still valid at this point?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

I would say that we have confidence in the things that are within our control. And as we see the market stabilize, we'll become – again, we'll become more confident about our ability to deliver against those future numbers.

Steven Fisher
Analyst, UBS Securities LLC

Q

Got it. And then just a quick follow-up on the state and local budget situation. I know you've talked a handful of times on the call about the $500 billion and $700 billion. Just curious about how you think the scenarios will play out for your fiscal year because you do have a September year-end, most of the states have a June year-end and do you think that federal help will all come in in time to have the states avoid having any deferral of projects in a meaningful way, basically over the summer in your fiscal fourth quarter?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

So, we don't think there's a negative impact there. The reason being the projects that you're working on are typically funded. There's typically money set aside. As I mentioned we have about 23% of our NSR comes from state and local governments. Half of that comes from five states that had come into this with very strong stabilization of rainy day funds. So, the stimulus money that might be brought to bear on the states later in the year will just support the outlook for 2021 and forward. But we're not concerned about the next couple of quarters here.

Steven Fisher
Analyst, UBS Securities LLC
Q

Okay. Very good. Stay well. Thanks.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM
A

Thank you.

Operator: Your next question comes from the line of Andrew Wittmann with Baird. Your line is open.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.
Q

Great. Thanks. I guess my question is focused on the liquidity, you mentioned that given uncertain times you want to hold onto liquidity and I think everyone understands that. But I guess my question is how much liquidity is too much liquidity and your guidance is implying like $700 million of free cash flow here in the rest of the fiscal year. I don't mean that you only have maybe a couple of hundred million dollars of net debt plus you have a US Virgin Islands big receivable that's getting paid albeit slowly that's on there. There's some claims that certainly could be a source of cash in the next couple of years that are on your balance sheet as well.

I mean, it seems like there could be an option to do more share repurchase as this cash starts coming in even this fiscal year, trying to understand what besides being overly conservative liquidity could be factoring into that? I was wondering if you could address that.

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM
A

Sure. Andy, it's Troy. Look, I think I don't believe at this point in time you can be overly conservative in terms of liquidity. But again, as we work our way through the year our liquidity position will continue to improve. And again, it's I would describe it as being comfortable today but it will improve. And again, as we reach a point where we start to see there'd be some more stability in the marketplace, it becomes just, as I said, a matter of timing where we will return and start buying back stock.

There's not a point in time we could say that's exactly when it's going to happen nor would it be appropriate for us to do that. But certainly we can see based on the underlying attributes of the business and our confidence in the future that there is a point in time where we're going to move away and rebalance away from liquidity and towards repurchase.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.
Q

Okay. Maybe it's an addendum on that. You guys have talked about the dispositions that are in discontinued operations today they're oil and gas, certainly the civil, power. I was just wondering given the state of the markets right now and M&A activity broadly, how realistic is it? I heard the comment on the SONGS job but how realistic is it still here today that these can be completed this fiscal year like you previously anticipated or do you see some risk that some of this moves into next fiscal year?

Randall A. Wotring
Chief Operating Officer, AECOM
A

Andy, this is Randy. We are actively working to exit these businesses and we are have made good progress over the last couple of years in getting rid of – we got rid of our international development business, we sold our Production Services in oil and gas business with the completion of Alliant we will – and removing two combined cycle jobs from our backlog we'll have exited the combined cycle business. We are closely managing the at-risk business – remaining at-risk civil business and preparing to go back out to market.

So, we believe that there will be opportunities as the market and infrastructure spend starts happening. Our largest contract now, about one-third of our remaining at-risk backlog is the SONGS contract and we are, as we indicated in discussions there, to exit that contract. So, we are – we're making progress and it'll likely be happen in lumps . But we expect to make that happen over the – as soon as the market opens up.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

Got it. Great. Thanks. And then my last question is just kind of a technical thing but you kind of alluded to this, Troy. Nobody is traveling and that does have the benefit to your P&L. Can you just talk historically like maybe what percentage of either gross or net revenue your travel costs has represented over the period of time just so we can have some context as to how much that's benefiting you?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

A

The bulk of our travel costs are actually funded by our clients. So the impact – I would classify it is in the bundle of travel costs and other types of out-of-pocket amounts that we spend in the business. That's going to be – at this point it's less than a percentage point of our entire NSR.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Very helpful. Thank you.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Yeah. It's also helpful, remember that people that are traveling are also billable to clients. And so what you end up having is you gain some productivity time. So instead of being stuck in an airport, they're at their home office doing work that's billable to clients. So it's not just the cost of the airplanes, checking in hotels. It's actually you replace some travel downtime with productive billable time while they're not traveling.

Andrew John Wittmann
Analyst, Robert W. Baird & Co., Inc.

Q

Even better. Great. Thank you.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Yeah.

Operator: Your next question comes from the line of Adam Thalhimer with Thompson Davis. Your line is open.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Great. Thanks for squeezing me in. I wanted to ask, Mike, since Asia was first in, first out, what kind of demand destruction did you see there and kind of what does that tell us to expect elsewhere in the world as we restart?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

So, one of the – one way to look at it is there's about 10 working days lost in Asia. And so, 10 working days is meaningful if you think of 240 working days or so in a year. It's 5%-ish. So, that gives you a sense of what we saw. But more importantly as we learned from that experience very quickly and we were learning at scales as we're talking about 10,000 employees across China. So, we had an opportunity to learn from that and use that experience elsewhere as we move to a remote work environment.

But I'll tell you, Hong Kong – Hong Kong is our biggest market in Asia where we've got almost 5,000 employees in Hong Kong alone. In that market, we went into this year expecting a double-digit decline in revenue going into the year because of some of the challenges and protests in Hong Kong. In fact, coming out of this, we are beating our plan in Hong Kong right now despite COVID. And we're expecting stimulus dollars in Hong Kong will give us even more momentum there.

So, we're actually doing better than our plan despite the COVID shutdown. And maybe it's our plan was lower than it should have been coming into the year as we were being cautious about some of the protests that we were seeing in Hong Kong. But we've learned at scale there and we've deployed those learnings around the world which are helping us maintain productivity in other markets that have gone to remote workforce.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Okay. And then with US stimulus, I mean, I really hope you're right. Man, the Republicans seem to be putting up a big fight on any kind of phase for infrastructure stimulus. How do you think about that versus the hope for something over the next few months?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Well, there's certainly a lot of momentum and I don't know how to handicap it, Adam. We're following it very closely and so far the amount of money that's been – that people were willing to spend in Washington on both sides of the aisle through the first round of the CARES Act, it seems like they're going to throw just about any amount of money to get this economy restarted as soon as possible and infrastructure spending is something that's top of mind, for Democrats and Republicans although there – you mentioned some of the Republican resistance, but I don't know how to handicap. I hate to put odds on it but I just feel it's more likely than not we're going to see stimulus activity deployed towards infrastructure.

Adam Robert Thalhimer
Analyst, Thompson Davis & Co., Inc.

Q

Okay. Thanks, Mike.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

A

Sure.

Operator: There are no further questions at this time. Mr. Burke, I turn the call back over to you.

Michael S. Burke

Chairman & Chief Executive Officer, AECOM

Great. Well, thank you, everybody for joining today. This is certainly unprecedented times but I have to say that I'm incredibly proud of how our organization has responded and it gives me a great sense of pride to be able to work with some of the incredible employees across AECOM.

But there's a few additional points I want to emphasize from today's discussion before we close out here. Clearly, our financial performance over the past six quarters has been clear that we're delivering on our strategy and we're exceeding all the targets that we've set. We are delivering on our commitments to simplify and derisk our business and expand our margins. We've certainly transformed our balance sheet after the sale of the Management Services business. We did that just at the right time coming into this pandemic which gives us a lot of flexibility on capital allocation, with a lot of liquidity and liquidity is highly valued right now as Troy mentioned earlier. And the transformation that we've been undertaking to convert to a professional services business has a lot of advantages that position us quite well to consistently deliver on the financial performance we're talking about. And we're certainly delighted to see the agility that our employees have displayed over the past few months by converting to a remote work environment, by providing new services to new clients in new ways that the pandemic has required.

So we're feeling pretty good as we look ahead, there is uncertainty in the world but we have a lot of confidence in our outlook for the year. We've got a lot of confidence in next year based on the backlog we have, the continued very high win rates and expanse with our backlog. And so we feel a great sense of confidence for FY 2020 and FY 2021.

So I look forward to speaking to everyone again soon. Thank you for all your support and stay safe and sane in these difficult times. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.