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OVERVIEW:

Co. reported FY21 adjusted EPS of $2.82. Expects FY22 adjusted EPS to be $3.20-3.40.

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PRESENTATION

Operator

Good morning, and welcome to the AECOM Fourth Quarter 2021 Conference Call. I would like to inform all participants that this call is being recorded at the request of AECOM. This broadcast is the 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. (Operator Instructions)

I would now like to turn the call over to Will Gabrielski, Senior Vice President, Finance 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 the 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 financial reconciliations are incorporated into our presentation where available, which is posted on our website. References to margins and adjusted operating margins reflect the performance for the Americas and International segment. We will refer to net service revenue, or NSR, which is defined as revenue excluding pass-through revenue. Our discussion of year-over-year NSR growth for the fourth quarter and full year is adjusted to exclude the benefit of the extra week to the prior year fourth quarter.

As a reminder, we sold the Management Services business in January 2020, and we closed on the sale of the Power and Civil Construction businesses in October 2020 and January 2021, respectively. The financial results of these businesses are classified as discontinued operations in our financial statements. Today's comments will focus on our continuing operations of the Professional Services business, unless otherwise noted.

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On today's call, Troy Rudd, our Chief Executive Officer, will begin with a review of our strategy and key accomplishments; Lara Poloni, our President, will discuss key operational priorities; and Gaur Kapoor, our Chief Financial Officer, will review our financial performance and outlook in greater detail. We will conclude with a question-and-answer session.

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

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

Thank you, Will, and thank you all for joining us today. I want to begin by acknowledging our teams across the globe whose contributions made fiscal 2021 a tremendous success. Our people remain our greatest assets, and it's because of their commitment to our success that we are so well positioned for the future. I'm proud of our team's accomplishments, and I'm energized by the opportunity we see in 2022 and beyond.

Turning to our results. We exceeded our expectations on every key metric, highlighted by accelerating organic NSR growth, record operating margins, double-digit earnings growth and strong cash flow. It really was a very successful year. Our NSR for the fourth quarter increased by 6.5%, which marked a third consecutive quarter of accelerating organic growth and included strong contributions from both the Americas and International businesses. We delivered a 14.8% segment adjusted operating margin in the fourth quarter and 13.8% for the full year. Both results exceed our expectations and extend our lead over the industry.

To put this performance in context, our margin in the fourth quarter is more than 600 basis points higher than in fiscal 2018. This performance directly reflects the high value we provide to clients and the actions we have taken to create the best industry delivery platform.

Looking back to February at our Investor Day, we set margin targets at the time that were very ambitious. Today, we are ahead of schedule on our plans, and we have even greater conviction in our 17% longer-term goal, which we now view as achievable rather than aspirational. Importantly, our strong margins afford us the opportunity to accelerate investments in our teams to drive organic growth and into our digital AECOM capabilities, which I will discuss in greater detail in a moment.

Turning to earnings. We delivered at the high end of our guidance ranges for both adjusted EBITDA and EPS. Full year adjusted EBITDA was $830 million and adjusted EPS was $2.82, which marked an 11% and a 31% increase, respectively. Free cash flow was $583 million and was driven by our strong earnings and continued high cash flow conversion. Our cash flow result is a testament to the focus on efficiently converting our earnings to cash as well as the high-quality, low-risk mix of our business.

We have repurchased more than $1 billion of stock since last September or 13% of the company, and we have $940 million remaining under our current authorization. We remain committed to repurchasing stock with available cash and cash flow, which we believe is the best at highest returning use of our capital after our investments in growth.

Turning to our wins and backlog. Our win rate remains high and we continue to gain market share. We delivered $3.7 billion of wins in the fourth quarter, including a 1.2 book-to-burn ratio in the design business. Our contracted backlog, which is a key indicator of revenue growth, increased by 18% and included 4% growth in the design business. Our pipeline of opportunities is up to double digits in the Americas design business. And based on our clients' strengthening funding backdrop, including benefits from the $1.2 trillion infrastructure bill in the U.S., we expect our backlog to continue to grow.

Overall, our performance demonstrates that we are outgrowing the industry organically and capturing market share. There are 2 areas in particular that highlight our success and showcase the value we deliver to clients.

First, we set as a key objective to substantially grow our program management business and we are delivering. This is especially apparent in the Middle East, where we had several recent successes on high-priority and larger programs where our combination of technical leadership, global thinking and program management expertise were instrumental in our success. This includes winning significantly expanded program management and design roles and transformational projects in Saudi Arabia such as for AlUla City and a large transportation project in Qatar, where more than 100 employees have joined AECOM from the incumbent to support this work.

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Second, we are demonstrating our leadership on ESG. Our investment at the Natural Capital Laboratory in the U.K. is a great example. We established this project in 2019 to study the environmental change and biodiversity impact with precision by leveraging drones, artificial intelligence, GIS data and thermal imaging. The ability to more exactly measure the impacts of decarbonization is a critical element for the global agenda to drive decarbonization and carbon sequestration. Our investment in our work at the NCL underscores how AECOM and our professionals are leading in the development of standards and methods to measure decarbonization, which will be especially important for creating reliable markets for sustainability investments.

Please turn to the next slide. I mentioned earlier that our strong performance in fiscal 2021 has created the opportunity to accelerate investments and expand our advantages. We break these investments into 3 categories: people, clients and digital. Beginning with our people. We're in a knowledge-based business and our diverse professionals serve as our greatest advantage. Therefore, it is critical that we have the right culture and programs in place to attract and retain the best talent in the industry.

To do this, we've implemented a flexible work model designed to facilitate optimal work-life balance. In addition, we've enhanced the benefit programs and increased our investment in technical and professional development. Most importantly, our people are winning and delivering the most challenging and iconic projects. All of this culminates in a culture of high engagement, high satisfaction and low attrition.

Turning to how we deliver for clients. We are leading with our higher-margin program management and advisory capabilities and investing across our key account programs to ensure our clients are benefiting from our best expertise globally. We're also developing technology to automate and pre-populate certain elements of our designs, which capitalizes on our vast expertise, accelerates the design process and extends the capacity of our workforce.

Finally, today, we unveiled Digital AECOM, which brings together all of our innovative digital capabilities. After more than a year of focused investment and the launch of many digital solutions, we are now formally rolling out our digital products. A great example of this is Plan Engage, our digital platform that reinvents the public engagement process for an infrastructure project by creating greater certainty on cost, time and stakeholder management.

Successful community engagement is a critical step in a project, but this process is rarely digitized. Plan Engage simplifies this process by integrating all the key elements of a project into a digital tool, which allows our clients to capture information to make more informed decisions and advance projects more quickly. The solution is years ahead of the competition by our estimation, and we see Plan Engage becoming the industry standard. With the passage of the Infrastructure Act in the U.S., this tool will be even more valuable.

Across these focus areas, one theme is constant. Our investment will expand our advantage as demand grows and labor constraints challenge some in our industry.

Please turn to the next slide. Looking to fiscal 2022 and beyond, the spotlight on infrastructure has never been brighter. In the U.S., the $1.2 trillion Infrastructure and Jobs Act marks a generational investment in America's infrastructure. This bill provides much needed long-term funding certainty across our strongest end markets such as transit modernization, electrification, environmental remediation and climate resilience.

Importantly, we are positioned to benefit from nearly every line item in this bill. We anticipate this funding will increase our addressable market and our most profitable business by double digits over the coming years, and we expect the most meaningful benefits in fiscal 2023 and beyond.

In addition to the strengthened federal funding environment, all of our state and local clients are on equally strong footing. Today, state DOT budgets are significantly above prior projections and the fiscal outlooks are stronger. Our public sector pipeline in the U.S. is up double digits. And with the strong funding backdrop now in place, we anticipate the pace of decisions will accelerate as well.

Our international markets are equally strong. Conditions in our largest markets have improved and we're delivering strong growth across all major international markets in the fourth quarter. In addition, we had strong backlog growth in each of our larger geographies. I'm especially pleased to see that our strategy with a focus on program management contributing to the success in places like the Middle East and in key transportation

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wins in the U.K., where regaining market share has been a key priority. As the #1 ranked transportation, facilities and environmental engineering firm as well as the #2 ranked water design firm, we are uniquely positioned to benefit.

Turning to our financial guidance. We've initiated adjusted EBITDA and adjusted EPS guidance of between $880 million and $920 million and between $3.20 and $3.40. This reflects 8% and 17% growth at their respective midpoint. Underpinning this growth is an expectation for another year of accelerating organic NSR growth and a at least 30 basis point increase in our margins to another record high of 14.1%. Our guidance incorporates all the planned growth investments we are making in our people, business development, client delivery and digital capabilities.

I also want to comment on the 2024 financial projections we shared at our Investor Day in February. Based on our strong performance to date and the returns we expect on our investments, we are raising our long-term adjusted EPS guidance to at least $4.75 in fiscal 2024. This represent a more than doubling of our fiscal 2020 earnings and a nearly 20% CAGR from 2021 to 2024.

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

Lara Poloni - *AECOM - President*

Thanks, Troy. I am pleased with how well our teams have responded to our new strategy and their many accomplishments in fiscal 2021. In particular, I'd like to highlight our success on some of our larger key pursuits, our global approach, technical leadership, program management capabilities, advisory expertise and multiyear investments are bearing fruit. A great example of this is in the Middle East where we prioritize as a long-term growth opportunity.

We have gained market share with wins from megacities, including NEOM and AlUla in Saudi Arabia. Key to these successes of the integration of global capabilities, including expertise from every region and market sector, our culture of collaboration has truly distinguished us from competitors, particularly as our clients work to address multi-decade investment programs that require more holistic thinking.

Another great example is in the U.S. where we were recently selected for a large program for a client who selected us based on our leadership capabilities in many verticals, including in PFAS even as PFAS expertise wasn't the main criteria in the pursuit. We are continuing to prioritize our time and capital on the best opportunities, which has been instrumental in our high win rate over the past year and our confidence in continued market share gains.

Looking ahead, our clients continued to prioritize investments in ESG, and we are well positioned to capitalize on this trend. At the COP26 summit earlier this month, this commitment was front and center as the most prominent public and private sector voices spoke with unity on the challenge and the opportunity.

In demonstrating how we are leading in ESG alongside our clients, we published our Global ESG Report last week, which includes disclosures aligned with the SASB and TCFD frameworks. This report is an important step in our ESG journey and underscores our commitment to regularly communicating our progress on our sustainable legacy strategies.

Finally, Troy spoke about our focus on ensuring we attract and retain the industry's best and brightest. And I'm pleased to report we are operating from a strong position. To that point, we conducted a global employee survey in September that revealed very strong levels of engagement, including the vast majority recommending AECOM as a great place to work. High employee engagement is also leading to the highest client satisfaction scores in our company's history in fiscal 2021. With our momentum, we are in an enviable position from which to deliver another strong year in fiscal 2022.

With that, I will now turn the call over to Gaur to discuss our financial performance and outlook in greater detail.

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Gaurav Kapoor - *AECOM - CFO*

Thanks, Lara. Please turn to the next slide. Our fourth quarter and full year results serve as clear evidence of the strength of our business and the benefit of our focused strategy. We delivered accelerating NSR growth, the highest margins in our company's history, another year of double-digit adjusted EBITDA growth, more than 30% adjusted EPS growth and a seventh consecutive year of free cash flow at or above our guidance range.

Our strong financial performance is creating increased opportunities to invest in organic growth while also bolstering our confidence in delivering on our long-term organic growth and financial goals. Importantly, all of this was achieved while making critical investments in people, teams and digital capabilities that will sustain our advantages in fiscal 2022 and beyond.

Please turn to the next slide. In the Americas, NSR increased by 7% in the fourth quarter, including growth in both design and construction management businesses. Contracted backlog increased by 21% to set a new record. This included growth in the design business and a large construction management project that moved into contracted backlog and firmed up our outlook for the year.

I should note that our awarded backlog was reduced by $1.3 billion as a result of this client only advancing the first phase of this project at this time. However, the economic impact of the shift is not material to our earnings outlook and our confidence in the growth outlook for the construction management business is higher than it ever has been in many years. The fourth quarter adjusted operating margin was 19.8%, a 290 basis point increase from the prior year to a new all-time high and reflects strong execution.

Please turn to the next slide. Turning to the International segment. NSR increased by 6% in the fourth quarter, including growth across all of our largest regions, and backlog increased by 10%. This is a result of our organic growth investments, market share gains, steadily improving market conditions. Our adjusted operating margin in the third quarter (sic) [fourth quarter] was 7.4%, an 80 basis point improvement from the prior year. We continue to make progress on our margin improvement initiatives and remain confident in our goal of achieving double-digit International margins.

Please turn to the next slide. Turning to cash flow, liquidity and capital allocation. Fourth quarter free cash flow of $290 million contributed to full year free cash flow of $583 million. Our performance reflects the benefit of our improved cash phasing throughout the year, which allowed us to accelerate our stock repurchases. We have now repurchased nearly 20.5 million shares since September 2020, or approximately 13% of our starting share count at an average price of approximately $51. As we look ahead, we will continue to make critical investments to build on our industry-leading organic growth.

As a result, we expect our capital expenditures in fiscal 2022 to include investment primarily relating to the advancement of our digital strategy as well as ongoing investments to reconfigure our real estate footprint and support our flexible work programs. These investments will impact the conversion of our earnings to free cash flow in fiscal 2022. However, the underlying cash generation within the business is firmly intact.

To that point, we expect free cash flow of between $450 million and $650 million in fiscal 2022. Importantly, our investments in growth and innovation will continue to separate us from our peers, and we are progressing towards our 17% longer-term margin target.

Please turn to the next slide. For fiscal 2022, we are guiding to adjusted EBITDA of between $880 million and $920 million or 8% growth at the midpoint and adjusted EPS of $3.20 and $3.40 or a 17% growth at the midpoint. This guidance contemplate for improved market conditions we're experiencing today, our substantial backlog and pipeline and the benefits of our investment in our people, client and digital capabilities. To be clear, this guidance does not reflect any expected benefit from the recently passed legislation in the U.S., which, as Troy mentioned, is expected to benefit us more materially in fiscal 2023 and beyond.

We expect our NSR growth to accelerate to approximately 6% in fiscal 2022. This is all organic growth. In addition, we project a further 30 basis points of margin expansion to 14.1% as we continue to expand our lead on the industry while investing in people, clients and innovation. I also want to emphasize that our adjusted EPS guidance only incorporates the benefit of our share repurchases completed to date, though we expect to continue to buy back stock in fiscal 2022 as part of our capital allocation program.

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Also incorporated into our guidance is a 26% effective tax rate. We expect to maintain this rate going forward, reflecting changes in our operating mix and structure. Finally, I should note that we expect our EBITDA track with our phasing in fiscal 2021. Our tax rate may be lower in the first quarter, and as a result, our EPS phasing may be more first half weighted than our seasonal pattern.

With our outperformance in fiscal 2021, our expectation for strong growth again in fiscal 2022 and the successful launch of our digital platform, we are also increasing our long-term financial targets for fiscal 2024. This includes our expectation to now achieve adjusted EPS of at least $4.75 in fiscal 2024, which is 10% above our prior projection and is nearly 20% compounded annual growth rate from 2021 to 2024.

With that, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from Sean Eastman from KeyBanc.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

Great update here. I just wanted to start on the organic NSR guidance for next year. Could you give us a flavor of how that 6% looks maybe by design versus construction management, international versus domestic? And if we're at 6% for fiscal '22, what's the updated CAGR built into the revised fiscal '24 target?

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

Sean, it's Troy. Thank you for the question. So first of all, when we look forward, we actually see that organic growth being relatively even across all of our businesses. When we think about our construction management and our U.S. design business, part of what we've been working to accomplish is to have them work together. So when we deliver a project in construction management, there's a material or significant design element to it.

But again, we look at the market backdrop and it is increasingly positive, and the business momentum is increasingly positive. So we see it across the Americas. We also see something similar internationally. Again, we see the opportunities across the entire portfolio of our business improving over the course of this next year. Again, it's been -- it's driven by the momentum that we're seeing in the business, but also by improved increasingly positive markets.

If we look longer term, the investment that is being made in infrastructure here in the U.S. in the IJAA (sic) [IIJA]. And then the investment we're seeing we made in infrastructure globally is very significant and long lasting. And we actually see that being accelerated by all the various public and private ESG ambitions. If we think about it as a catalyst for really a large long-term investment being made in infrastructure, and we almost think about this as a global infrastructure and investment renaissance, it's a really unusual time.

And again, so we're giving that guide for '22 based on the momentum in the business. And then in terms of the longer term, what's built in the model, I'll let Gaur answer that question.

Gaurav Kapoor - *AECOM - CFO*

Sean, this is Gaur. We do have a 6% CAGR built in for our long-term guidance as well. Now keep in mind, off the strong 2021 and actually a very strong start off 2022 in regards to wins as well, what it does not include is any material impact in fiscal year '22 for the Jobs Act. And we're very

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confident in our projections for -- for a long-term target of '24, Jobs Act provides a lot of certainty to that comp confidence now, but we really haven't fully baked it in either. As we get more clarity, it's possible there will be more incremental upside to that growth target.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

Okay. Super helpful. And I guess the growth tailwinds in the U.S. are pretty obvious around the Jobs Act. But in the prepared remarks, you guys highlighted some big PM wins in the Middle East. It sounds like you unseated an incumbent there, talked about some strength in the U.K.

Maybe you could just expand on the market share element in the International business. I just want to make sure we're getting the right takeaway there.

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

Sure. So again, I don't think that our viewpoint on gaining market share is isolated to International. We really see this across the business. But specifically with International, we are seeing opportunities across the business in program management and in, again, as I said, the larger programs. We've got Canada that's making very significant investments in infrastructure. Australia is making those investments. The U.K. is making those investments. We see that in the Middle East.

But then layer on top of that a lot of our private client customers that are also making investments in their own infrastructure. And again, they're driven around driving their environmental and their social ambitions that they set out. So again, we see this broadly across our entire portfolio. And again, the accelerant to that for us has been how we're delivering work for the clients, how we're focused on bringing the best that we have around the globe to those particular clients and opportunities, the focus that we have on providing that front-end advice and those program management services.

When you think about it this way, if there's so much CapEx being invested in projects over the next, let's say, between 5 and 8 years because of the accelerated investments in infrastructure, our clients need help to manage that CapEx. So it's not just doing the design work and doing the construction work but actually being there to help them manage these large CapEx programs, which are far larger than they've had in the past years.

And for us, investing and building a program management business is our way to participate in that. So we view this as we're participating in those projects sooner in a more meaningful way and, frankly, longer by having our program management business.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

Okay, excellent. I'll sneak one last one in. So 30 basis points of margin expansion for fiscal '22, you're also saying investments in BD, HR, digital are accelerating. What would you say the underlying expansion is there if we kind of neutralize those investments? And what kind of tail should we expect on the level of investment in the business that you're highlighting here for fiscal '22?

Gaurav Kapoor - *AECOM - CFO*

Sean, this is Gaur again. I'll take that question. So just keep in mind, we're coming off in fiscal year '21 where expectations were at 13.2%, and we over-delivered on those. Simply put, even when you look at '22 and beyond, we're ahead of schedule in certain regards, way ahead of schedule. And 9 months ago, when we provided our long-term guidance of 15% being achievable, that being a ceiling, today, where we sit of what we've accomplished, 15% is the floor for us. 17%, which was ambitious, we now have building blocks that are taking place as part of the investments we're making into the business that we made in '21 and will continue into '22.

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And what's really providing this tailwind, to the second half of your question, it's simplification of our strategy, where we're focused on our key geographies where we dominate in the business lines that we operate in those geographies. And it's taking what Troy just alluded to, our Think and Act Global strategy, 50,000 of the brightest professionals in this industry, taking their ideas to our clients and delivering value to them, which you're seeing in our capture rates, highest ever we've experienced in our history. And this is all before the infrastructure renaissance Troy spoke to.

Operator

Our next question comes from Andy Kaplowitz from Citigroup.

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

So Troy, maybe you can give us a little more color into what you're seeing in core Americas design. You mentioned your pipeline of opportunities is still up double digits, Americas contracted backlog up 20%, 21%, although a lot of that is construction management.

So did you see any acceleration, for instance, from some of your state and local customers who, I think, last quarter seem to still be relatively careful about moving forward with contracts? And if not, when do you think they could start to move forward, especially considering the U.S. infrastructure bill signed today?

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

Yes, Andy, so we did see an improvement in the overall Americas business in terms of the client decision-making. But more importantly, we saw a willingness and some very clear agendas to put some long-term programs in place. And a lot of this was being done even without the support of the infrastructure, the federal infrastructure bill.

But now again, we're working towards the assumption that it will be signed today at 3:00 p.m. And when that happens, it certainly provides support for even broader infrastructure investment at the state and local government level.

But I just -- again, I'll just use an example of New York and New Jersey. There are plans for the large transit and transportation agencies in New York, New Jersey area to invest, over the next 5 years, almost $200 billion in capital programs, and that was before the passage of the IIJA. Obviously, this provides more support to that but it provides more support broadly to those agencies.

So we saw an acceleration in the pipeline. So first of all, what we were seeing in terms of the wins but also in terms of the pipeline of opportunities. And then we see this being accelerated or expanded beyond what we've already seen and then into 2023.

Lara Poloni - *AECOM - President*

Andy, I was just going to expand on Troy's points. I mean, in terms of the IIJA, we see all of our capabilities being brought to every single line item of investment in that. And that portfolio that's coming up is a good balance of long-term planning work for a lot of these infrastructure agencies as well as a very robust pipeline of design build.

And the other thing, I think, that we're seeing a lot of near-term opportunities in is a very robust program of federal work, where we're very strongly positioned as well. So I think we're in a great position to attack all of that.

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

That's all helpful color. And would you say it's a bit of conservatism then that you're forecasting NSR to be up 6% in '22? I think it's up underlying 6.5% in Q4. I don't think your comps get much more difficult. Anything else going on to think about, because it seems like you could even have acceleration off Q4 levels.

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

Yes. So again, I think as we tried to point this out in our prepared comments that we increased our longer-term view based on the performance of the business to date, and also, what we saw as the momentum being created in the business. They're what we -- again, the success that our people have been having with their clients through the investments that we've made. And so we really haven't sorted out exactly what the IIJA will mean for our business.

We're in the process of doing that now. We started that a while ago. But we're working through exactly what that will mean. So simply put, I can say is we think it provides upside to our results. But maybe you've gotten a sense of this recently, but we try and at least be somewhat conservative in our views of the business. We don't -- we just don't want to be out kind of making some statements where we don't think we can absolutely back them up.

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

And just a quick one for Gaur. Like just in terms of the free cash flow guide, obviously down versus '21 at the midpoint. Is that just extra CapEx and the investments you're making? Anything else to think about in terms of conversion '22 versus '21?

Gaurav Kapoor - *AECOM - CFO*

Yes, Andy, it's exactly what you stated. We're making conscious investments in the business, again, to support the growth we see coming and also expansion of our margins no longer, like I said, 15%, but really putting the building blocks in place for 17%.

So it's investment in our digital, in our IT investments. And when you look at the conversion, the underlying cash flow of the business remains strong. We've always said it will be in the mid-70s and that's what you see for fiscal year '22: free cash flow conversion lower because of CapEx.

Operator

Our next question comes from Andy Wittmann from Baird.

Andrew John Wittmann - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I want to just keep going on the free cash flow question there, Gaur, a little bit. So I mean, it's -- I guess, CapEx is up like $40 million year-over-year. I mean, should we think of that full delta as unusual? It sounds like there's a little bit of added CapEx this year. And if you could also just refresh us, I mean, there's some other headwinds, I guess, that are identifiable in your free cash flow guidance for this year.

Could you remind us that the CARES Act headwind for you, I think you have to pay back half of that here in the fiscal first quarter. And it looks like you've got $20 million to $30 million of restructuring costs. Are those cash or noncash? I just want to get a better sense of what the underlying free cash flow are.

And maybe if you wanted to comment, was there anything -- are there any unusual collections to the positive in your guidance for this year that we should be aware of as well? Sorry, there's a lot of pieces in there, but I think that will capture if you address those.

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Gaurav Kapoor - *AECOM - CFO*

No problem, Andy. Hopefully, I respond to all of them. Please let me know if I don't. So in regards to the CapEx, the $40 million, it is proper to think about it as a temporary investment we're making into the business for all the reasons Troy and I have stated earlier.

There's nothing unusual related to the CARES Act or restructuring. We've had restructuring cash flow in the current year, what we're expecting, the $20 million to $30 million of restructuring, which, by the way, relates to duplicative costs we will incur in -- predominantly in our real estate and IT infrastructure as we progress to a flexible workplace of the future. Those are going to be predominantly cash in the year, but we incurred that in 2021 as well.

And there are so many puts and takes, Andy. It's hard to just point at one unusual item either in '21 or '22. We have tens of thousands of projects going on at a given point in time. So it's hard to be that precise.

Andrew John Wittmann - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Fair enough. And then Troy, I thought we'd just check in with you on I guess, the staffing of the organization, the utilization of the organization and the capacity of your people that you currently have in the company to handle this more work.

Could you just talk about how much more flexibility your people that you currently have, have to do that work and what the recruiting environment looks like and what that means for your overall kind of compensation, labor inflation characteristics? I think you kind of understand where we're heading here.

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

Yes. That was a very big broad question, so I'll do the same thing. I'll be like Gaur. Hopefully, I'll hit them all and if I don't, remind me.

So just at a high level, absolutely. We're unlike -- we're not unlike anyone else. There certainly is constraints in terms of our ability to bring people on in the industry. And as we see the business growing, there's no question that, that becomes even more important, retaining and attracting very talented people to the organization.

In terms of this year, again, so far this year, we've added about 1,000 people to the organization. But as we move forward, we are focused on creating a great place for people to have a career. So the things that we're doing, flexible workplace is an important element of that, right? It's actually creating an environment where people are comfortable that they want to be and it's a great place for them to be.

We're looking at investing in their technical and their professional development. We also evaluated things like benefits and compensation and making sure that we're certainly at the market for that, which all that does, again, as you said, can create some labor inflation. But the nature of our business is that a lot of those costs in our contracts are passed along to our customers. If you have time and materials or cost-plus contracts, there's always escalations built into that.

And then as we move forward and bid projects, those costs get built into our rates and they get passed on to our customers. But more importantly, there's something that we're doing which we think is the more important element of this, which is through our investments in how people are delivering their work, we refer to this as an element of our digital investments or digital transformation, you certainly can't ask people to work harder than they are.

So what we're doing is we're looking to extend people's capacity by making these investments in digital and extending what they can -- what they're able to accomplish with their work day. And frankly, at the same time, it creates a better work environment, it creates an environment that is more fun and more challenging in terms of your career. So we believe that's a really important element of addressing that market concern and a concern that we have.

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And then the last thing is we're continuing to build centers of excellence so that we can take this extraordinary capability that we have globally and ask people to participate from around the globe on projects by being members who are participating in these centers of excellence or great capability.

So that's sort of how we look at it as an issue. We think that it's something that's not going to impact our margins because our industry passes it along to customers. And we think we've done some things that position us very well so that we can manage through what would be a great problem to have. It's not something that our industry has been -- had to deal with for a decade.

Operator

Our next question comes from Steven Fisher from UBS.

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

Just wanted to come back again to the digital investments that you're making. If you could give us some sense of, are they all through CapEx or is there some that's going through the margin line item? And just some examples of -- I mean it sounds like it's IT, but maybe just some examples of what kind of investments you're making. And then just how confident we are that there will be a less visible drag after fiscal '22?

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

Sure. So Steve, I'm going to let Gaur answer the margin question. But first, just let me answer the second half of that question, which is we don't see this being a drag in the business or margins. We actually see this as an important path for us, again moving beyond the 15% target into the 17% range.

How -- the value that we deliver to customers and how we deliver it is what's improving our margins. We're not cutting costs. And so there certainly is some money that we're investing in the business to get there and we'll continue to invest that. But we believe that's just -- that will be an ongoing journey. It's not a onetime investment. That's part of how we're going to continue to invest to change the way we deliver work.

The other important point here is that we're not announcing something new. We've actually been working on this and investing in this for about 18 months. What we're doing is we're starting to unveil the things that we're already having success with. And so I made reference to something that we call Plan Engage in my comments. And Plan Engage is a digital tool that we've been working with in customers throughout the globe for this past year, and they've been using as the tool to improve their community engagement and to speed up their environmental permitting process, especially during COVID.

And so -- and this is something we think is going to become even more valuable, and we believe that this Plan Engage investment and this product will actually become the industry platform for how our customers across the world, large agencies, will use it to engage with their communities to get their projects approved.

It really is a unique product. And as I said, we're not unveiling it. We've already been -- we've already had success with it and with large transportation and transit agencies around the world. So those are -- that's an example of the things that we're talking about.

Gaurav Kapoor - *AECOM - CFO*

Yes. And Steven, specific to OpEx versus CapEx, it goes through both. Initially, when we're developing it, it'll go through CapEx and once it's being monetized in the marketplace or if it's internally focused to what Troy alluded to, to expand the efficiency of our workforce, at that time, it'll go through OpEx.

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

Okay, that's very helpful. And then just related to the stimulus, given that, like you said, it's potentially being signed this afternoon, does this trigger any particular type of action inside the company? Is this sort of like a -- or is it going to be more of a wait-and-see? Like do you have any now internal stimulus task force to see how you're going to approach this and what could be prepared for? So just curious what today's activities actually triggers inside the company, if anything.

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

Well, I guess it doesn't necessarily trigger any new activity in the company because we've obviously had line of sights for a long period of time. And that activity has been talking to our clients to figure out how it's going to impact them and helping them understand how they can take advantage of it. So that dialogue and that planning has been going on for a while. Obviously, as we've been getting closer to something getting signed, that activity has been accelerating.

And so once it is signed, it's just a continuing ongoing discussion with our clients about helping them think through their plans and think through how they're going to take advantage of this. But more importantly, as they take advantage of it, how are they going to do it?

Again, you've got clients or agencies whose CapEx could be increasing by 10 times or more than that. And so that's why we say, having a program management team to help them through that is so important, and that's the investment we've been making. And so we're not doing anything all of a sudden as of this afternoon. We've been thinking about this more with our clients over a long period of time.

Lara Poloni - *AECOM - President*

And Steven, it's Lara here. I mean, back to Troy's earlier comments, it's no different to the sort of One AECOM approach that we're applying to all of the infrastructure programs around the world. And we see a similar very significant pipeline of opportunity. There's a very strong infrastructure outlook.

And our program management capabilities that we're growing, our front-end advisory, they are the critical areas of support that all of these key infrastructure agencies are looking for and where we're very strongly positioned to address that at global scale going forward.

Operator

Our next question comes from Michael Feniger from Bank of America.

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

We're seeing a lot of M&A right now in the engineering space, including private equity. Just how are you balancing the view to reinvest in the business at this stage versus acquisition with where maybe multiples are today?

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

It's a good question, Mike. There are obviously -- again, there are 2 points of viewing this. (inaudible)

-- Invest in organic growth, and at the same time, returning capital to shareholders is our stated point of view. And I mean, there are all kinds of ways to look at it but we're looking at the long-term CAGR of cash earnings. And if you look at a long-term CAGR of cash earnings, we believe, as

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we said, we think that we're in the 20% range. If you do some analysis around the alternative, which is through M&A, you'll find that when you look at how capital is deployed, that the long-term CAGR is perhaps lower than that.

Now this also comes with the ability to actually integrate businesses and more importantly, integrate cultures, which can be a difficult thing to do and it takes years to find out whether you're successful. So we just have our point of view that we believe now that we have the opportunity to invest in our business and have turned it into the highest-performing business in the industry with the highest margins. And we believe continuing to do that produces the best result for our investors, which is the highest long-term cash earnings CAGR or cash earnings per share CAGR.

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

I guess just to follow up with that, you're, I think, 1x levered. But if we assume the midpoint of your EBITDA growth and another good year of free cash flow, I mean, your leverage has moved down considerably just at status quo. So what is the right net leverage range for us to think about this business with the stability and the runway we see over the next year?

Is there any view of like instituting a dividend, given the stability of this business? Just curious of how to think about that leverage range as well as we're moving into this growth period.

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

Yes. So I guess, first of all, just -- I'll simply say this, that that's an ongoing dialogue we have with the Board, right? How we allocate capital is an important question that we have continued to evaluate and answer, and today, we're very clear on what that answer is. But you're right. As our business grows, our net leverage will decline, meaning that we certainly have more capacity.

We think that the net leverage of one is the right place to be for our business. If you look at the -- again, some different elements of this, when we look at the nature of the business, the long-term backlog that we have, the certainty we have around the business, the cost of capital that comes along with our current leverage -- our leverage position, but we just think we're in a very good spot to be, which is 1x net leverage.

And you're right. As we move forward, we will create an even larger opportunity to invest. And what you've described, that other question about dividends, that's just an ongoing dialogue we have with our Board about what is the right way to think about allocating capital. But today, we're very clear on what that answer is.

Operator

Our next question comes from Jamie Cook from Credit Suisse.

Jamie Lyn Cook - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research and Analyst*

Nice quarter. I guess some questions. You guys have made good progress on reducing the cyclicality or the seasonality associated with the free cash flow. So I'm just wondering if there's any more opportunities there or in 2022.

And then I guess, just my second question. I know you're still committed to sort of the double-digit margins in the International business, but just sort of the timeline to get there. Are we ahead of schedule where you think you should be?

Gaurav Kapoor - *AECOM - CFO*

Jamie, this is Gaur. I'll take both of those questions. In regards to cash, we had a very strong conversion of 80-plus percent in 2021. And the quality of the cash flow was very strong, phasing was good. But our focus across all key operational metrics is of continuous improvement. So there's

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always going to be opportunities to negotiate better terms, better working capital management. And that's what we're going to be focused on, to make sure that our phasing is optimal and we're extracting the maximum amount of conversion as possible.

In regards to the margins for International, as I said in my opening comments, we had 80 basis points growth in 2021, and we expect that growth in margin to continue International as we march towards double-digit margins in the International business. It's all being supported by strong market dynamics, fantastic capture rates opportunities that we're able to go get in the market and executing upon them profitably. So we see no hindrance to our ambitions in International margins.

Operator

And our final question today comes from Michael Dudas from Vertical Research Partners.

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

Two thoughts. First, maybe you can elaborate a little bit more on the opportunities. Everybody's been focused on transportation infrastructure, but on your water business, I would think that there's been some funding at some opportunity certainly here and abroad that could be very supportive. Maybe you could share some thoughts on that.

And then the follow-up with that, you mentioned in your prepared remarks, COP26 and the excitement thereabouts. How is the private and public sector balancing? I'm sure there's a lot of work prior to this conference, but is that some -- an accelerant that you'll see that we see some visibility in some of the global design business and the opportunities for energy transition advice and efforts, certainly, obviously, the wind farm project infrastructure is quite a nice award last quarter, that going forward in your plan in next, let's say, next 12, 24 months?

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

Okay. Yes, Mike. Mike, it's Troy. I'll take the first one and then I'll share the second one with Lara. So first of all, you're right, there is a substantial opportunity in the water business that is baked into the Infrastructure Investment and Jobs Act.

Again, there's some large line items, including $15 billion that they're dedicated to improving drinking water infrastructure projects. There is a significant amount, and I think it's over $50 billion that is focused on PFAS and eliminating emerging contaminants. And then there's also money that will go and help improving water quality at the state level.

So again, this infrastructure bill is just so significant that we focus on the transportation element. But you're right, there's a lot of money that's going into aviation, a significant amount of money going into water, and certainly, in terms of environmental remediation and containments, which we'll participate in.

And then there are other line items included in there. There's $21 billion being dedicated to just environmental remediation work for superfund sites. So there just are all of these line items that are scattered through that are in that budget. And as we've said, we believe that we participate in a meaningful way in almost every single line item in that bill.

And I'll let Lara answer your COP question.

Lara Poloni - *AECOM - President*

Yes, sure. And thanks for the question. It's very timely. As you know, we, in April, launched our Sustainable Legacies Strategy. Just last week, as Troy said, we also released our sustainability report. So COP is very timely for us and such a great platform for us to showcase our tremendous ESG capabilities, which we've had for a number of years, but I feel like we're really bringing all that together very strongly.

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And it was great to see and have such a strong presence and showing at COP and to see so many nations coming together to talk about the serious challenges of climate change and to talk about the sort of financial commitments that are going to be required to achieve that.

For us, it was just a fantastic opportunity to showcase all of that and to talk to many of our partners and clients about how we take that forward. So we're -- it's a core element of our ESG strategy going forward. And I think we're in the strongest position in the industry to make that one of our key growth strategies going forward.

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

Yes. And just to add 2 quick points to what Lara said, which is what's been happening in the last 6 months has been a little unusual that we've seen private financial institutions, banks, insurance companies and other providers of private capital change their thinking about where they're going to allocate it, so towards ESG-related projects, projects that provide return environmentally and socially and away from other projects which, again, we think is important because that's going into different types of infrastructures we're positioned to support.

And the other thing that has come out of COP that for us is, we think is fantastic is we're participating determining how, in fact, decarbonization and sequestration is going to be measured because today, the standards for measurement and how you go about measuring that are still as yet undetermined. Until that happens and there's certainty around it, it makes it very difficult to actually have markets, right, where you're actually selling carbon credits.

And so we've been doing an investment in that. So we mentioned our Natural Capital project during the call. But we're also working again through a group that is setting the terms of -- standardizing the terms of actually measuring so that we can support decarbonization markets. So I really think that, that provides us a great leadership opportunity.

Operator

We currently have no further questions. I will now hand back to CEO, Troy Rudd, for any closing remarks.

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

Again, thank you for your time today and participating in the call. I just want to remind everybody, I want to give a big thank you to our people for doing such a fantastic job in delivering this past year and creating momentum in the business.

We have -- I hope you walked away with understanding that there are tremendous opportunities in front of us that are long term that we haven't seen in a long period of time. And we look forward to talking to you and catching up at our next earnings call. Thank you.

Operator

Thank you, everyone, for joining today. This now concludes our conference call. Please disconnect your lines.

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