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ACM.N - Q3 2021 AECOM Earnings Call

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OVERVIEW:

Co. reported 3Q21 results. Expects FY21 adjusted EPS to be $2.75-2.85.

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PRESENTATION

Operator

Good morning, and welcome to the AECOM Third Quarter 2021 Conference Call. I would like to inform all participants 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 like to turn the call over to Will Gabrielski, Senior Vice President, Finance and Investor Relations.

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

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

We use certain non-GAAP financial measures in our presentation. The appropriate GAAP 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 segments. We will refer to net service revenue, or NSR, which is defined as revenue excluding pass-through revenue.

As a reminder, we sold the Management Services business in January 2020, we sold 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 the continuing operations of the Professional Services business, unless otherwise noted.

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 Gaurav 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'd like to begin by acknowledging the continued great contributions of our teams globally. In many parts of the world, day-to-day activities are beginning to resemble normalcy. However, the pandemic and its variants continue to impact our teams and their families.

Against this backdrop, I am proud of how we are collaborating to deliver for our clients and communities. As the COVID-19 variants spread, we all need to remain agile until we reach a point where the threat from the virus is eliminated. We have the best teams in the industry, and our focus remains on keeping our people safe and enabling them to be successful in their careers.

Turning to a discussion of our performance. Four themes are apparent across our business: first, our third quarter results extend our track record of delivering on our financial and strategic commitments. And with our strong year-to-date performance, we are increasing our guidance for fiscal 2021, and we are increasingly confident in delivering our long-term financial targets, including doubling adjusted earnings per share from fiscal 2020 to 2024.

Second, the success of our Think and Act Globally strategy and investments in our people and innovation are contributing to accelerating growth. In fact, our design business that accounts for approximately 90% of our profit, organic NSR and backlog growth are at the top of the industry, and our strengthening pipeline portends well for continued leadership.

Third, we expect to deliver strong results into the future, built around secular growth themes centered on infrastructure and ESG-driven opportunities. With our increased focus on advisory and program management, we are engaging with clients much earlier in their planning for large investments, and we are advising them through the execution, which expands our addressable market.

And finally, we remain committed to creating shareholder value by investing in growth and innovation and enhancing per-share value by allocating substantially all available cash flow to share repurchases. We believe these are the highest-returning uses of capital as compared to large-scale M&A, where today's deal multiples are elevated and the execution and integration risks are higher.

Turning to our results. We exceeded expectations on every key measure. NSR increased for a second consecutive quarter, including accelerating growth in our design business. In addition, backlog in the design business increased by 8% and included 7% growth in contracted backlog, which is a leading indicator of revenue growth. Our adjusted operating margin reached a new high this quarter at 14.1%, an increase of 90 basis points from the prior year.

With this outperformance, we now expect to exceed our margin guidance for the full year. This performance includes growth in higher-margin projects and efficiencies in how we deliver and is creating the capital to invest in our teams and innovation. As a result of this revenue and margin performance, adjusted EBITDA increased by 15% and adjusted EPS increased by 33%.

We're also continuing to convert our earnings to strong cash flow. We delivered the highest third quarter and year-to-date free cash flow in 4 years. And consistent with our capital allocation policy, we repurchased approximately 12% of our shares outstanding as compared to last September when we began our repurchase program.

Turning to our backlog and pipeline. Funding across our markets is improving and our investments in growth are bearing fruit. We delivered $3.7 billion of wins, and we had a greater than 1 book-to-burn ratio for the enterprise for the first time since the pandemic began. With this strong performance, backlog in the Construction Management business increased sequentially, albeit modestly for the first time in several quarters.

In addition, our pipeline of opportunities in our Americas design business has increased by double digits since the beginning of the year, and the international pipeline increased by single digits. These are great signs for the health of our markets and the success of our strategy. The strength is before any material contributions from previously enacted stimulus funding, and we do not include any benefit in our guidance from the proposed infrastructure bill in the U.S.

Please turn to the next slide. Our accomplishments reflect the benefits of our Think and Act Globally strategy and our focus on growth. Over the past several quarters, we have prioritized investments in growth markets, simplified our operating structure and eliminated inefficiencies. Today, we are a more agile organization and we are benefiting from stronger collaboration across the business.

We've also invested in our key account program to ensure we deploy the best practices to all of our clients. This will be critical to outgrowing the industry. All these efforts have resulted in strong NSR, backlog and pipeline growth.

Another key component of our strategy is leveraging our industry-leading margins to invest in our people and innovation. Demand is accelerating in the majority of our largest markets, and AECOM and others in our industry will be increasingly challenged to attract and retain the strongest talent. In fact, our growth this past quarter was constrained in some areas by the pace of hiring relative to increased demand. And what is noteworthy is that this constraint is apparent even as our pace of hiring has doubled as compared to last year.

As a leader in our industry, we have certain advantages against this backdrop. First, our workforce is global and we can draw on this global expertise to deliver anywhere in the world due to the investments we've made in technology to enhance collaboration. Second, we're also investing in professional development programs so our people can grow within AECOM. Third, we are using technology to extend the capacity of our teams and to deliver in new and innovative ways.

And finally, we've implemented flexible work policies to provide our people even greater freedom to deliver for their clients in ways that work best for them and their teams. All these efforts are centered on creating a culture where the industry's top talent can begin and build meaningful careers.

As we look ahead, several trends support our confidence and growth. First, we are winning and delivering critical projects that highlight our strong position in key growth markets. Most recently, these include the first-ever digital NEPA-compliant environmental impact statement for a transportation client in the U.S., showcasing our investments in innovation and digital solutions; additional wins with major metros to advance more modern and equitable transit systems; key wins to advise clients on their long-term sustainability and resilience strategies; key wins in next-generation energy, a smaller but rapidly growing practice within AECOM that includes a presence in the northeast offshore wind market; wins in the health care sector that further broaden our client base; and large program management wins for multibillion-dollar programs across the globe.

Second, through our Sustainable Legacies strategy and commitment to ESG, we are distinguishing ourselves in the market as our clients advance complex multi-decade initiatives. In fact, year-to-date, there have been a record number of corporate commitments to emission reduction targets, outpacing last year's total already, and sustainable bond issuances are at an all-time high. AECOM is a leader in advising clients and delivering technical solutions to support ESG goals.

Today, we estimate approximately 70% of our revenue is directly related to ESG initiatives, while nearly all of our revenue has at least some ESG element as a driver. We are leaders in green and advanced facilities design, energy efficiency, next-generation energy, sustainability, resiliency, environmental remediation, clean water systems and transit electrification. Our services in these markets are in high demand, and our leadership in these fast-growing markets underpins our confidence in organically outgrowing the market well into the future.

Finally, our public sector clients across the world are benefiting from strong budgets and investments in infrastructure markets where we lead. In the U.S., strength in state and local tax receipts, strong federal funding and ongoing stimulus measures are contributing to an improving environment for growth. Similarly, our international markets are prioritizing infrastructure investments, especially in our largest end market, transportation.

In Australia, the New South Wales government is advancing a $130 billion package for 4 years of transportation spending. While in Canada, there is more than $20 billion of public transit and green infrastructure spending. And in Europe, the $1 trillion recovery fund requires 30% of spending to be dedicated to green and sustainable infrastructure. These initiatives are before you factor in a potential U.S. federal infrastructure bill in our largest market. As currently proposed, nearly every line item in the current draft would be addressable by AECOM.

In conclusion, I want to remind, we are the #1 transportation design firm, the #1 facilities design firm, the #1 environmental science and environmental engineering firm, have grown to #2 in water and lead in several other end markets, all positioned for secular growth. No firm is better positioned to capitalize on these opportunities.

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

Lara Poloni - *AECOM - President*

Thanks, Troy. Please turn to the next slide. We are building momentum within the business as a result of our strengthened culture and strategic alignment. One area where this is apparent is in growing demand for ESG-related services. In April, we launched our sustainable legacy strategy to ensure we embed sustainability and ESG into all elements of our business. This included our commitment to achieving science-based net carbon zero by 2030, expanding diversity and inclusion across our company and advancing the impact we can have on the world by embedding carbon reduction principles into our work to clients.

Since launching Sustainable Legacies, it has been exciting to see how passionate our people are to create a positive impact in their communities and what it means for us in the market. For example, we were awarded a sizable transportation project in the quarter to modernize the transit lines for a client in the U.S. The ultimate determining factor in our selection was our Sustainable Legacies strategy and the community building and ESG elements of our proposal. This success underscores how we are building stronger competitive advantages.

We continue to advance our Think and Act Globally strategy to ensure we focus on the highest-growth and margin opportunities, while investing in our people and innovation. With demand for our services increasing, we are focused on bringing new talent to AECOM and investing in our teams to create the culture Troy spoke about earlier. Going forward, we are focused on ensuring we have the strongest workforce, which will be critical toward capturing the full benefits on increased demand.

We also continue to make investments in our digital platforms and services to extend capabilities and enhance our team's productivity. We can deploy innovation at scale to enable our people to use their hours most productively for their clients. We already have several hundred digital consultants within AECOM that are helping clients progress their own digital transformations. This is all part of the more than 1,000 digital practitioners we have across AECOM working to ensure we remain an innovator in our industry.

A great example of this is our Plan.Engage platform that has enabled the first-ever NEPA-compliant and fully digital environmental impact statement in the U.S. Our solution streamlines the engagement process and provides higher-value services for our clients. Our investments in these digital solutions and innovation will continue to be key differentiators as demand accelerates.

Importantly, we know we are headed in the right direction as our people and our clients are responding favorably. I am pleased to report that our client satisfaction scores reached the highest level in our company's history this quarter. And I have no doubt that this will translate into a continued high win rate and growth going forward.

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

Gaurav Kapoor - *AECOM - CFO*

Thanks, Lara. Please turn to the next slide. Our third quarter results reflect another quarter of strong performance. Revenue increased and included accelerating growth in our design business. Our pipeline and backlog grew. Margins reached a new high and continued to lead the industry and earnings increased by double digits. Our year-to-date performance is at the upper end of the industry. And looking ahead, our strategy inspires confidence that we will build on this lead.

I want to touch on our margin performance. Compared to our fiscal 2018 margin, our third quarter segment adjusted operating margin of 14.1% marks a 540 basis point improvement. With increased delivery of higher-margin work and our operational improvements, we expect to exceed our prior 13.2% margin guidance this year, and we are confident in delivering our 15% by 2024 goal, and longer term, 17% aspirational target.

I am equally pleased to report that we have delivered more consistent cash flow phasing. This was a real focus of ours this year and the organization has responded. As a result, we already have been able to deploy substantial capital towards share repurchases and continue to take actions that improve our cost of debt and extended the duration of our debt maturities well into the future.

Please turn to the next slide. In the Americas, design revenue increased for a second consecutive quarter. Total NSR declined slightly due to the expected decline in Construction Management business where we saw the deferral of a number of projects over the past 18 months. However, this trend is improving, as evidenced by our sequential backlog growth and growing pipeline of pursuits.

Importantly, backlog in the Americas design business increased by 8%. Our investments in the business development are translating to a higher win rate on our work, and our pipeline also increased by double digits since the start of the year. The adjusted operating margin was 18.9%, a 100 basis point increase from the prior year to a new high. Profitability in both the Americas design and Construction Management businesses was strong.

Please turn to the next slide. Turning to the International segment. Our NSR increased by 7%. Our adjusted operating margin in the third quarter was 7.3%, a 160 basis point improvement from the prior year and more than 500 basis point improvement since the beginning of fiscal 2019. This progression provides us confidence in our ability to achieve double-digit international margin target.

Please turn to the next slide. Turning to cash flow, liquidity and capital allocation. Our third quarter free cash flow of $295 million marked the highest level in 4 years, putting us on a strong path to achieving our full year guidance of between $425 million and $625 million.

With our strong cash flow, we have executed stock repurchases at attractive prices. Since September 2020, we have repurchased $930 million of stock, which represents nearly 19 million shares or 12% of our starting share balance.

In addition, we have strengthened our balance sheet through a number of actions taken to lower the cost of our debt and extend our maturity. During the quarter, we completed the tender and redemption of all 2024 senior notes. We now have no maturities until at least 2026 and are operating with a high degree of financial certainty while driving a benefit to the bottom line. Finally, while we have incurred costs related to the tender and redemption of the 2024 notes, the NPV of the transaction was very positive and accretive to earnings per share.

Please turn to the next slide. With our year-to-date outperformance, we are raising our adjusted EBITDA guidance to between $810 million and $830 million or a 10% growth at the midpoint. We are also increasing our adjusted EPS guidance for the full year to between $2.75 and $2.85 or 30% growth at the midpoint. This is the third increase to our EPS guidance this year despite the challenges posed by the pandemic and associated macroeconomic trends. Our teams are delivering. This guidance does not contemplate any additional repurchases, although it is our plan to continue to buy back stock.

Finally, I should note that our fourth quarter comparisons will be impacted by the extra week we adjusted out of our growth rate in the prior year's fourth quarter. This impact should be considered when modeling and analyzing year-over-year growth trends for the coming quarter. An extra week is approximately 7.5% of our quarterly NSR.

With that, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

Your first question is from the line of Sean Eastman with KeyBanc Capital.

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

Nice quarter and nice update here. I just wanted to start on the top line, I mean, double-digit growth in the Americas pipeline. Maybe if you could just comment on how that pipeline is converting to awards. I mean, book-to-bill of 1.1x is great. But do you guys see kind of a step change coming in terms of the conversion of that pipeline to awards? What needs to happen? What kind of time line are you thinking about around that dynamic?

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

Yes, Sean, it's Troy. Thanks for the question. I'm going to give you a little bit of detail on this to sort of build into that answer. But we've actually seen the trends improving within our markets and within our backlog over the course of the last few quarters. And then behind that, as we said, the focus this last year has actually been gaining market share.

So while we're seeing our backlog improve 8%, in particular in our design business, and we've seen our pipeline increase, actually, in the Americas at double digits and internationally in mid-single digits, it is lining up for us to have improved growth opportunities in the future.

And then you combine that with what we've seen in terms of our ability in gaining market share and our higher win rate in terms of the win rates on the proposals that we're bidding, I think it indicates that we're going to see an acceleration for growth into '22 and certainly beyond that. But as I look back over the last 2 quarters, again, as I said, I think we've -- I feel like we've hit a bit of an inflection. We did grow a little bit in our design business, which is 90% of our business in the prior quarter, 3% this quarter.

And when I look across our peer set, the organic growth around our peer set was actually a decline of mid-single digits. So I feel like we're gaining ground and we've actually hit that inflection point. And then lining up even behind that for us and for our entire industry, here in the U.S., I think we all have confidence that the infrastructure bill is likely to finally be passed, which will obviously create federal funding that we're exposed to very significantly. But also it will inspire some confidence with our state and local clients who, with that certainty of federal funding, will be able to commit to projects.

And so that all leads to the fact that I think we've started to hit that inflection point. And as we move forward, I would see, as I said in the prepared comments, growth accelerating. And again, just a reminder is, when we prepared our comments, we didn't see the infrastructure bill getting through Congress. I think we're a little more optimistic about that now, so that certainly was not built into our forward-looking guidance or our thinking about the future. So that's sort of a little bit of tailwind that we hope will be expected in '22 and beyond.

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

Okay, that's helpful. And then I just have to comment on the margins being quite outsized, particularly in the Americas this quarter. Could you maybe update us on how we should be thinking about the trajectory from where we are exiting kind of in the mid-13% range exiting fiscal '21 towards the 15% by fiscal '24?

I mean, is this kind of an outsized performance this year? Or should we think about kind of an even sort of 50 basis points annually toward the 15%? Any thoughts there on maybe how we're comping into next year from a margin perspective.

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

Yes. So let me turn that over to Gaur. He'll give you that answer.

Gaurav Kapoor - *AECOM - CFO*

Sean, in terms of our margin in the current quarter, there was nothing onetime or peculiar to call out. In fact, it's our focus -- result of our focus on core markets, focusing our BD in those business lines where we expect meet our growth, margin and cash hurdles, and it allows us then to deliver on these higher-margin projects.

And you combine that with the efficiency cost initiatives we've had, it gives us a lot of confidence, to your point, as we look forward to achieving our 15% 2024 target. We expect that the margins are going to continue from a trajectory standpoint over the next couple of years as we come up to the 15% and then march -- continue to march forward on our longer-term aspirational target of 17%.

Operator

Your next question from the line of Andy Wittmann with Baird.

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

Troy, you had a comment in your prepared remarks about some hiring challenges that may have actually contributed to -- it sounds like you could have recognized even more revenue. So just wondering if you could give us some direction on order of magnitude about how much that impacted you. Were those entirely missed opportunities because you didn't have those people? Or are they just going to have to be delayed and worked on in a different quarter rather than this quarter?

And then if you could just talk about the kinds of end markets or geographies where those labor challenges are occurring. It's interesting because it seems like at least it seems, broadly speaking, that most of the labor challenges in the marketplace are lower-end jobs and obviously, you've got professionals here. So I think your commentary on this would be helpful.

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

Yes. Sure. Thanks, Andy, for the question. So yes, we are -- I won't say that it's across the world where we're seeing those challenges in hiring, but in certain places in our business and in certain markets, we are seeing it being more difficult to hire people into the business.

And again, across some of our businesses, we certainly have, I'll say, people that perform different types of work. And when you look at our environment business in particular, we certainly see that in some of the work that we do in terms of remediation, that we've had some challenges in hiring into that business.

But again, I bring that up not because it's material to our results for the quarter. But as we move into a higher-growth environment, I think it becomes more important. And how we're thinking about it, but obviously, as we continue to need -- we need to bring people into the business and to keep the people that are here, that is a priority for us. And we're focused on creating a great place to work, investing in the development, technical and professional development of our people and creating an environment where we create flexibility for them. So that is a priority for us.

But the other things that we're doing and focused on is making sure that we can balance work around the world because in the past, in the business and in the industry, there's been ups and downs. You have a hot market, people hire into it and then things slow down and you have a few too many people in the business. We're looking to make sure that we take advantage of what we've learned over the last 18 months, so that we can more evenly share work across the entire business, which I think helps address that particular concern moving forward.

And then the other thing that we're focused on is innovation, and we've referred to it as our digital strategy, which is we're looking to extend the ability of our people to take on more, but without having to spend more time to do it. So by focusing on investments in innovating how our work is delivered, we're able to extend the capacity without having to ask people to take on more work. And we think those are the combination of things that put us in a good position even as we might be in a constrained labor environment moving forward.

Operator

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

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

Troy, I just wanted to focus on the comment you actually made in your press release that you're focused on being well positioned to deliver even greater growth in '22 than you're going to deliver in '21. Does that statement mean that you have relatively high confidence in delivering double-digit EBITDA and EPS growth in '22, given the current conditions you see and the pipeline you have?

Or do you need, for instance, those U.S. state and local customers to still ramp up their spending? I mean it's good to see the Senate pass the bill today a few minutes ago, so I guess that will help if we can get through the House.

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

Yes. Yes, so I did. I intentionally said I see our growth accelerating. And again, when I think about growth, I think about the overall profitability of the business, and that is obviously, as we've said in the past, a combination of growing the capacity of the work that we're performing for our customers and, at the same time, improving our margins. And we certainly see that accelerating as we move into '22 and beyond where we are today.

So obviously, it's premature for us to offer any guidance. But I certainly wanted to offer that comment about our confidence to continue to grow the bottom line while the business -- and the business itself is growing.

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

That's helpful, Troy. And then is there a theoretical margin ceiling on your Americas business? Can you record 20% margins in the Americas? And then back during your Analyst Day, you said you expected 180 basis points of tailwind from continuous improvement initiatives. As you've been implementing those initiatives such as Workplace of the Future, would you say so far, you've been able to find more savings than you expected, and that you're ahead of schedule versus that 180 basis points?

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

Well, I guess it's -- I would characterize it as 2 components: one is it certainly is the efficiencies that we've been driving in the business. And I would call -- I would say that we're on schedule with that. But the other impact is the actual work that we're bidding and how we're delivering it. We're actually, within our projects, seeing improvements in the overall profitability of the projects we're taking on and how we're actually delivering them. So I'm going to attribute that our margin improvement to a combination of the 2.

I don't want to pinpoint something for the Americas. Again, it's always a balanced equation, meaning we try and balance work in the business around the globe. So I would see us being on track and having a high degree of confidence of getting to the 15% target that we set for ourselves. And as Gaur said, we're trying to look beyond that. But I think it's a combination of things. It's not necessarily just driving efficiency in the business. It's that, coupled with the work that we're taking on and how we're looking to change how that work is delivered.

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

But Troy, just to be clear, I mean, you're getting up into kind of heady territory in your Americas margin. There's no -- you could still do better theoretically in terms of mix and/or utilization or execution, correct?

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

Yes, yes, absolutely. And it gets back to the point that our focus was, obviously, the core of what we do is engineering and design. But we're also looking to build our advisory business and our program management business. And so building up those businesses offer the opportunity to do more work earlier in the process for your clients, and ultimately, program management. You've taken on longer-term larger pieces of work, which allow you to be more efficient in terms of your delivery, which also contribute to margin.

So I think it's the strategy that we've adopted to move into certain markets and certain types of work from where we were. It's the focus on changing how we're delivering that work, as I mentioned, through innovation and digital technology, and then obviously, our operational efficiencies. We have to always be focused on trying to figure out how we deliver our work more efficiently every day.

Operator

Next question from the line of Michael Feniger with Bank of America.

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

You guys just grew EBITDA, I think, it was 15% year-over-year. The guidance implies that the growth slows or decelerates in the fourth quarter. I think you mentioned this extra week impact. Is there anything else you're seeing today that should really suggest that level of slowdown on a year-over-year basis? Is it more conservatism? Is there anything for us to read into that fourth quarter that would indicate maybe a slower start in 2022 that would then take up through the year?

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

Yes. So Michael, I guess, first, in terms of the year that we're in, we're certainly not intending to communicate that there is a change in the trajectory of our expectations. However, we said this in the past few quarters is that we think it's important that we're prudently conservative in terms of our guide. And so I would say that we're maintaining that same view. We're just going to be prudently conservative, which means that we do expect our fourth quarter to -- the bottom line to grow year-over-year. And we're certainly not intending on signaling anything with respect to '22.

When we look forward, I think I made the comment that we see it actually accelerate in '22. So without giving guidance, I wanted to give an impression of the optimism that we have as we head into '22.

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

Perfect, Troy. And there's apparently a lot of private equity money and just M&A in the engineering space right now. You mentioned it in your remarks and how you're being prudent to not overpay and that's not part of your strategy. But does it make you reevaluate your portfolio? Like do you still view Construction Management as core to the portfolio? And with some of this aggressive M&A, are you seeing more aggressive bidding out there on projects?

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

I haven't seen the environment change in terms of bidding on projects. Just to be clear, it's always a competitive environment. And I think that, that is unchanged. It remains unchanged. The comment that I made about M&A wasn't intended to be focused on anything than our ability to deploy capital. We still believe, based on the growth opportunity that we see in the business and where we're headed, that we're much better to deploy our capital, to acquire our own shares and not to be in the market thinking about large M&A.

And for the reasons that you described is that the multiples for large M&A are, in fact, being driven up because there's competition for those deals. But also the risk of execution in terms of a deal and its integration is much different in terms of buying back our stock. So I just wanted to be clear that we see, for us, the best opportunity for deploying our capital is buying back our stock today.

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

Fair enough, Troy. And if I could just squeeze one in. The market's obviously worried about inflation, Troy. And I figured you flagged that your win share is going up. But does that also mean -- how much more selective can you be, especially with the infrastructure bill coming through? Should we expect the mix of your backlog to move into higher-margin areas, I think, like your water business, for example?

Do you have to price your projects differently as bidding starts coming up? Do you worry about potential inflationary pressures and some of the labor constraints you were discussing earlier?

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

Well, I think the nature of the industry and the nature of the business is that we sort of have always bid work to include an estimate of inflation. So a lot of projects, you actually have the ability to price labor inflation into those projects based on the contract terms that exist. And we certainly do pay attention to that as we move forward. Those are ultimately client decisions in terms of the ultimate cost of a project.

And so when we go to bid work, we're going to look at what's an appropriate turn for those projects for what we're contributing. And if that includes an increase in labor rates, we'll end up bidding it that way. So I don't view us as, in the medium term or even in the short term, having an impact from labor inflation.

Operator

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

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

So the Construction Management backlog inflected. Just curious how broad-based were the drivers of that inflection. And what does that tell you about the timing of when the Construction Management revenues could actually turn positive year-over-year or at least neutralize to a large degree?

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

Well, so Steve, on that point, we certainly have seen the opportunities in our Construction Management improve. Again, I'm going to say modestly and our backlog grew modestly. The other phenomenon is that there are a number of projects that were delayed or deferred, and so we actually see those projects gaining momentum to start or restart. And so all of that is built in to more optimism around growth in the Construction Management business.

It's a little premature to pinpoint exactly when we see that, but I certainly think as we look forward into '22 and beyond, we have an expectation that, that business would start to grow. So -- and in terms of your question about it, how broad is that? It is fairly broad-based. And in fact, we're seeing the backlog and the pipeline grow in markets that might be a little unexpected but the markets that were strong. So certainly, even within New York and Manhattan, we're seeing that grow. But it is fairly broad-based, but again, it's in line with where we actually have the footprint of that business.

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

Got it. And then on cash flow, you've had the improved phasing of cash flow this year. And can you maybe just remind us of how much of that was within your control? And is that something you can further advance next year? Are we now at the kind of phasing that we should expect on an ongoing basis?

Gaurav Kapoor - *AECOM - CFO*

Steven, this is Gaur. I'll respond to that question. It was completely in our control and expected because that was a focus of ours, as I said in our prepared comments from the onset. And our teams have responded to it. Just like on our margin improvement initiative where our mindset is continuous improvement, I think all of these key initiatives of ours, we have the same mindset, continuous improvement.

So in '22, we would look for any and all opportunity to continue to better that phasing. But just remember, our first half of the year is always going to be burdened with certain onetime disbursements, just from a timing standpoint.

Operator

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

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

Troy or Lara, when you look at your state [and] (added by the company after the call) local business, there was a discussion about the first stimulus, the $1.9 billion and the state and local money flowing through. Can you maybe update us on what you're seeing there? Is that starting to get better for you? Does that give you, I'm assuming, more confidence in like the next 6 to 9 months?

And then when you think about eventual federal packages, however it comes through, is there going to be -- what would you expect the time lag or as we start to think about this, obviously, we talk about that when you give out your guidance at fiscal year-end, but the lag time? And maybe 1 or 2 of the areas you think that could be maybe helpful to the backlog growth prospects in that state and local -- in that -- in your federal or state local business.

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

Okay. Mike, thanks. That was a -- I'm going to try and get all 4 parts of that question.

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

Four? I thought it was only 3. I'm sorry, my bad.

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

Okay. So first, with respect to state and local, again, remembering that's about 25% of our overall business, NSR of our business, we actually saw, in the quarter, our state and local revenue be around flat, maybe down a little bit, which sort of indicates that there are some of those decisions that, in fact, are in our pipeline, but the decisions are being deferred. So we're seeing the pipeline increase, but we're not seeing those decisions being made.

But again, as I said, I think that as we move forward, there's more certainty about the business environment we're in with respect to the pandemic. There's more certainty around state and local revenues. We've seen the revenues improving substantially. And then ultimately, as there's more certainty around the federal funding that is contributing to those state and local decisions, that all leads to an improvement in terms of the amount of awards that we'll see in the future.

With respect to timing, I suspect that, that starts now and will start to build over the course of '22. So I don't think it's going to be a linear ramp-up in '22 and beyond. But I certainly think you're going to see it ramp as those decisions start to be made, and then those decisions actually turn into projects.

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

And you talked about ESG efforts internally, but also for your clients and 70% touching on -- in your -- somewhat ESG focus. Maybe you can share what types or what are things you're seeing from the private sector? And is it -- certainly, is it allowing for more advisory or project management work that comes in there? Is it just really the early stage that could lead to much more chunkier, more thoughtful backlog opportunities as this emerges over the next couple of years?

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

Sure. Mike, I'm going to let Lara answer that question.

Lara Poloni - *AECOM - President*

Yes. Thanks very much, Michael, for the question. And look, the ESG advisory services are probably the fastest-growing element of our advisory story. And just, if we look at this last quarter, there have been dozens and dozens of significant wins at all levels of different public and private groups of clients.

And if we look at the Americas, for example, it was growth in awards from some of our more significant state-based DOT clients that you referenced earlier. It was transit clients and then it was also private sector clients. So a lot of -- and it ranges from climate adaptation strategy, vulnerability assessments of all of their assets due to extreme weather events, resiliency studies. And obviously, electrification, there's a lot happening in that space. And most of our big transportation clients have a very ambitious decarbonization agenda.

And then there's all the building retrofitting work, both in the U.S. and in key markets like the U.K. So it's definitely a growing element of our advisory service offering, which, as you noted, is a big growth initiative for us, as is the program management business as well.

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

Mike, I was just going to add, the third part of your question was just the exposure to the infrastructure bill. And I think it goes without saying, but I'm going to say it anyway, is that I said in the prepared comments that we are exposed to almost every dollar in that proposed infrastructure bill. But the places that we see just these large opportunities are clearly in surface transportation and transit. This is probably the largest rail investment that we'll certainly see in our careers.

Aviation, a significant investment, water, including managing through PFAS and the cleanup of certain other emerging contaminants. So when we look at that, we're just incredibly well exposed to that. And there are some new things that are in there as well, the money that's going to be spent on the broadband build-out across the country. We're certainly not going to be building it out, but in terms of all of the work that leads up to the permitting and then helping manage through those projects, we see that as a large opportunity as well.

Operator

(Operator Instructions) Your next question from the line of Adam Thalhimer with Thomas Davis (sic) [Thompson, Davis].

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

I want to take another shot at the Construction Management backlog growth. Is it different kinds of projects driving that? I have to think that new high-rise office would still be under pressure -- some pressure.

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

Well, it's a good -- it is, that's a good question, right, because you think it would be a little counterintuitive. But actually, in the markets where we have a pretty significant footprint, we're actually seeing people taking a long-term view in terms of those infrastructure -- in terms of those high-rise investments. So it certainly isn't -- it's certainly not as in the condo market but it certainly is in the office and mixed-use development.

And again, so we're seeing it in the places that you might question. But I think, again, I think that folks are taking a longer-term view that those are investments that will have returns over a 30- to 40-year period. And then we're also looking at certain markets where there is a significant amount of growth in certain cities.

And then beyond that, in that business, there is -- I'm going to say there are infrastructure-type investments being made that our Construction Management business participates in. And that's in aviation, health care and certainly in wind power.

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

Okay. And then on the -- I wanted to ask an inflation question again from the standpoint of -- at the very -- because you guys are at the very front end, right, of -- so I'm curious how clients are reacting to higher materials prices, shortages of craft labor. I think -- how are they -- are they pulling back on their design aspects? Are they still pushing forward with the design, but then maybe not pulling the trigger as fast on push and go on construction?

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

Well, if I look at our pipeline, our pipeline is up in design and in Construction Management. So I think it'd be unfair to pinpoint an individual decision. But when we look broadly across the portfolio, even with the increase in prices of materials and labor, we still see the list of opportunities improving.

Operator

And there are no questions at this time. I'll turn the call back over to CEO, Troy Rudd, for closing remarks.

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

Thank you, operator. Look, I'd just close by saying I'd like to thank our teams again for their contributions to another strong quarter. We're proud, we're delivering on our financial and strategic commitments. And more importantly, we're delivering on our vision for delivering a better world. We feel like we're outgrowing the industry organically, continue to expand our margins, and we see that manifest itself in our continued delivery of strong earnings and cash flow.

Again, I thank everyone for your time today and we'll talk to you soon. Thank you.

Operator

This concludes today's conference call. You may now disconnect at this time.
