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ACM.N - Q1 2022 AECOM Earnings Call

EVENT DATE/TIME: FEBRUARY 08, 2022 / 1:00PM GMT

OVERVIEW:

Co. reported 1Q22 results. Expects FY22 adjusted EPS to be $3.30-3.50.

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PRESENTATION

Operator

Good morning, and welcome to the AECOM First Quarter 2022 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. Later, we will conduct a question-and-answer session. (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 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 to 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 closed on the sale of the Power and Civil Construction businesses in October of 2020 and January 2021, respectively, and the sale of the Oil & Gas maintenance and turnaround Services business in January 2022. The financial results of these businesses are classified as discontinued operations in our financial statements. Our results from discontinued operations include the Oil & Gas sale and adjustments to closing working capital estimates for previously completed transactions. 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 key accomplishments, strategy and long-term growth expectations. 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. We are incredibly pleased with our first quarter performance, and momentum is building across our business and our markets. I would like to begin today's call by thanking our professionals around the world who are working collaboratively to deliver outstanding results for our clients. Our success is a result of the passion and dedication that our teams bring to their work and clients every day. This excellence was highlighted last week when Fortune reaffirmed our #1 industry ranking on its World's Most Admired Companies list.

The elements for uninterrupted multiyear infrastructure and ESG investment growth are well established. These include the $1.2 trillion Bipartisan Infrastructure Law in the U.S. and the global commitments by our clients to deliver on increasingly well-defined ESG objectives.

A global infrastructure investment renaissance is beginning. And our strategy, focused on our teams, clients, communities and innovation has us better positioned than ever to win. Through our expanded services, including advisory and program management, a greater share of a growing market is now addressable by AECOM, and we are working to shape the priorities of our clients and deliver value for our stakeholders.

Turning to our first quarter's results. We exceeded our expectations on every key financial metric. NSR increased by 5% with strong growth in both our Americas and International segments. Importantly, we are winning work at the highest rate in the history of our company. Wins totaled $3.6 billion with a 1.4 book-to-burn ratio in our Americas design business, and a 1.2 book-to-burn ratio across our global design business. Our strong book-to-burn is worth emphasizing given our 4 quarters of consistent organic NSR growth. We also had key wins in our Construction Management business, and our pipeline has never been stronger.

The segment adjusted operating margin increased by 60 basis points to 13.7%, reflecting continued investments in organic growth and innovation, the benefits of our highly efficient global delivery capabilities and the high value our teams are delivering for our clients. Our margins lead our peers, but plenty of opportunity for improvement remains. Our focus on deploying innovation and digital tools to transform how we deliver for clients against a backdrop of increasing demand for advisory and program management services supports our guidance for this year and our 17% longer-term margin target.

Adjusted EBITDA increased by 10% and adjusted EPS increased by 44%. Our EPS is benefiting from the execution of our focused strategy, strong operational performance and accelerating organic growth as well as from share repurchases. Including $213 million of stock repurchases in the first quarter, we have now repurchased $1.2 billion of stock since September 2020, when we launched our repurchase program, or 14% of our outstanding shares.

This capital allocation benefit to shareholders is driven by our strong conversion of earnings to cash flow. In fact, cash flow in the quarter was one of the highest in our company's history for a first quarter. The attributes of our business, including a high returning and low-risk profile and a capital-light business model with a highly variable cost structure, underpin our expectations to consistently deliver strong cash flow and to deliver on our capital allocation priorities.

Reflecting this confidence, we initiated a quarterly dividend program in December and our first dividend payment occurred in January. It is our intention to increase our per share dividend by a double-digit percentage annually. This marks a milestone for our company's history and demonstrates our steadfast commitment to use capital allocation tools to maximize total shareholder return.

Please turn to the next slide for a discussion of the trends across our markets. Beginning in the U.S., our largest market, conditions are strong. Our federal, state and local clients are gearing up for several years of sustained increases in infrastructure investment, which includes the expected benefits of the $1.2 trillion Bipartisan Infrastructure Law. This represents a generational investment in U.S. infrastructure and arrives at an opportune time.

Typically, federal support for infrastructure has been inversely correlated to state and local fiscal health. However, our state and local clients, which account for nearly 25% of our NSR, are reporting record revenues and budget surpluses, which is resulting in a very favorable backdrop.

In addition, our public and private sector clients are increasingly prioritizing investments to advance ESG. Today, nearly every project proposal has an element of ESG in its scope, and our clients are demanding more holistic thinking and a broader advisory relationship to help them achieve their multi-decade ambitions.

Our momentum and the expansion of our addressable market are apparent in our pipeline growth, which is up by double digits. This is noteworthy when you consider how strong wins and backlog growth were this quarter. The pipeline growth we are seeing is especially encouraging, considering the benefits of the Bipartisan Infrastructure Law aren't likely to be material until our fiscal 2023.

International markets are experiencing a very similar positive trajectory. ESG is front and center in our clients' agendas and we are seeing strong demand for our advisory services and technical expertise. Our pipeline increased by high single-digit percentage and our backlog increased in each of our largest international markets, highlighted by key transportation and infrastructure frameworks in the U.K., expanded program management roles in the Middle East and high win rates for key clients in the Asia Pacific region. Looking ahead, the strong foundation we have built and favorable end market trends have positioned us well for sustained multiyear growth.

We spent the last 2 years narrowing our focus on our higher-margin, lower-risk professional services business and implementing our Think and Act Globally strategy. The strategy is built on our leading technical capabilities, global expertise, and on bringing new ways of solving our clients' biggest and most complex challenges with innovative digital solutions.

We continue to advance our Digital AECOM strategy, and with our success, we are accelerating our investments in this area. Over the course of the year as the solutions establish a market position, we will announce their launch similar to PlanEngage, which we announced last quarter.

PlanEngage, our digital platform that reinvests the public engagement process for an infrastructure project, is quickly being introduced as the platform for community engagement across our global client base. As funding from the Bipartisan Infrastructure Act in the U.S. is connected with these projects later in 2023, our PlanEngage tool will become even more valuable.

Across our business, one theme is constant: Our investments will expand our advantage as demand grows and labor constraints challenge the industry.

We are consistently winning our largest and highest priority pursuits, with our win rate at all-time high levels. For example, our leadership team identified 10 global pursuits that we deem to be a top priority for strategic positioning and for delivering on our accelerating growth expectations. I'm very pleased to report that we've already won 8 of these 10 projects, and 2 are still pending decisions.

In addition, we've had several other key wins over the past few quarters, including a 9-figure takeaway from a key competitor in an international market, a 9-figure takeaway from a key incumbent on a high-value U.S. federal environment program, and we have been selected for numerous other key pursuits that underpin our confidence. I can't say enough about how our culture of winning and excellence has expanded and what it means for our future.

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

Lara Poloni - *AECOM - President*

Thanks, Troy. Please turn to the next slide. I couldn't be more pleased with what we have accomplished to date and how well positioned we are for the future. Against the backdrop of strong client demand and with our foundation for success now in place, we are taking action to fully capitalize on the opportunities ahead.

First, we are fostering a culture that celebrates winning. This includes prioritizing our time and investments on the best growth opportunities and highest value pursuits. As leaders in areas including electrification, transit systems, environmental assessment, remediation, water infrastructure, resilience, climate change and new energy, we are poised to benefit from our exposure to rapidly growing markets. This is giving us the opportunity to also be selective and disciplined about the types of opportunities on which we invest time and capital with a focus on profitable growth and strong returns on capital.

Second, we are continuing to invest in program management and advisory capabilities. Through these capabilities, we are expanding our addressable market opportunity by adding services that lead to earlier engagement with clients. We have onboarded key talent to support several large wins over the past year, including the NEOM and AlUla programs in Saudi Arabia. Looking ahead, as the scope and complexity of infrastructure and ESG initiatives expand, high-value program management and advisory will take an even more central role in helping our clients and will distinguish AECOM in the market.

Third, we are investing in Digital AECOM to develop and deliver products that extend the capabilities of our teams and transform how we engage with clients. Our PlanEngage tool and commercialization of DE-FLUORO™, our proprietary solution for the destruction of PFAS compounds, are great examples. In addition, we are advancing the development of key digital solutions in the transportation and facilities market that will offer leading parametric and iterative design tools.

Finally and most importantly, we are investing in and building teams to deliver in a growing market, which will be increasingly important going forward. We are focused on ensuring AECOM is the best place in our industry to build a career.

At this point, I am pleased to report that the results of our recent employee survey reflects our continued high levels of employee engagement. Most notably, this included further increases in the percentage of employees that would recommend AECOM as a great place to work. There is no higher acknowledgment of our commitment to building a great culture than this measure, and this gives us confidence we will remain at an advantage as the overall labor market tightens.

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. We exceeded our expectations on every key financial metric in the first quarter. We delivered another quarter of positive organic NSR growth, a record first quarter margin, double-digit adjusted EBITDA and EPS growth and one of the highest first quarter free cash flows in our company's history. Tax was a $0.04 benefit to EPS compared to our plan due to the timing and quantum of discrete items. We also delivered on our capital allocation commitments, including ongoing investments in our teams and Digital AECOM, more than $200 million of share repurchases and the initiation of a quarterly dividend program.

The dividend is a complement to our share repurchases. We have a strong balance sheet and highly predictable cash flow, which allows for investments in the business as well as consistently returning all available free cash flow to our shareholders. Importantly, we are winning work at a high rate. Our pipeline across the business is up double digits, and we have not yet begun to see material benefit from the Bipartisan Infrastructure Law.

Please turn to the next slide. In the Americas, NSR increased by 3%, highlighted by growth in both the design and Construction Management businesses. Our book-to-burn in the Americas design business was 1.4, and total backlog in the design business increased by 5%, which continues to include a near-record level of contracted backlog, which provides for strong revenue visibility. In addition, we are benefiting from strengthened conditions in our Construction Management business and believe backlog will increase over the course of the next year.

First quarter adjusted operating margin was 17.7%, a 30 basis point increase from the prior year. This result reflects both ongoing investments we are making to support growth and ongoing benefits from the actions taken to operate a more streamlined organization that delivers more efficiently.

Please turn to the next slide. Turning to the International segment. NSR increased by 7%, with growth across all of our largest regions. Our wins were strong and backlog increased by 6%. We continue to gain share in the U.K. public sector, are building our gains in the Middle East and have been successful on a number of key pursuits in Hong Kong and Australia. Our adjusted operating margin in the first quarter was 8.2%, a 110 basis point improvement from the prior year. We are realizing the benefits of the actions we have taken to eliminate inefficiencies, regain market share and better scale our cost structure, including increasing utilization of our global shared service centers.

Please turn to the next slide. Turning to cash flow, liquidity and capital allocation. First quarter operating cash flow was $195 million and free cash flow was $163 million. This was better than we expected and is consistent with our focus on delivering more consistent phasing throughout the year. This improves our return on capital and allowed us to execute substantial repurchases earlier in the year as a result.

As Troy noted, our capital allocation policy is focused on returning substantially all free cash flow to investors in order to maximize total shareholder return and returns on capital. This included the milestone announcement we made during the first quarter of the initiation of a quarterly dividend program and our intent to grow our per share dividend at a double-digit annual percentage. Our first quarterly dividend payment was made on January 21.

The dividend is a testament to the steps we have taken over the past 2 years to reduce our financial and operational leverage, which has contributed to consistently strong earnings and cash flow. As we look ahead, we continue to expect to convert our earnings to cash flow at a high rate, and we continue to expect free cash flow of between $450 million and $650 million in fiscal 2022. As a reminder, our cash flow is typically weighted more strongly to the second half of the fiscal year, though we expect our first half cash flow to improve from the prior year.

Please turn to the next slide. We are increasing our fiscal 2022 adjusted EPS guidance to between $3.30 and $3.50, which would reflect 21% growth at the midpoint. This increase reflects operational outperformance we delivered in the first quarter, the benefits of our share repurchases completed in the first quarter and a lower-than-planned tax rate. As a reminder, our adjusted EPS guidance only incorporates the benefit of already executed share repurchases, but we expect to continue to buy back stock as part of our capital allocation program.

We also continue to expect to deliver adjusted EBITDA of between $880 million and $920 million, which would reflect 8% growth at the midpoint of the range. Based on our strong start to the year, we are also reaffirming our expectation for organic NSR growth of 6%, a segment adjusted operating margin of 14.1%; and our long-term 2024 financial targets, including adjusted EPS of greater than $4.75 and approximately $700 million in free cash flow.

We expect our full year tax rate to be 25%, which incorporates the impact of our first quarter tax rate and the expectations for approximately 28% for the rest of the year. Longer term, we expect our tax rate to be in the mid-20s.

With that, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

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

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

Yes. I just wanted to start off with the question on inflation. You guys were able to get your margins up in the first quarter, good start to the year. I guess just where are you seeing inflationary pressure in the business? And maybe just how is this industry built to handle inflation? Is it the contract structure that helps? And I guess how is AECOM better able to handle an inflationary backdrop relative to peers?

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

Michael, it's Troy. Thanks for your questions. With respect to inflation, I think if you go back and you look at the history of our industry, we certainly had some periods -- we're not -- we don't have inflation like we do today, but we have had periods of inflation. And typically, that cost has been passed along to our customers. And so I think when you look at an industry like ours, and in particular, our business, a consulting business predominantly, that those costs continue to get passed along to our customers.

And what you pointed out in your question was, is, it is already part of our existing contract structures. We have wage escalations in, usually, our longer-term contracts. And then as we continue to bid, we put together our bid costs, and that will include the increased costs of either paying our professionals or the other costs that you have to incur in the -- but I'll take you back to one really important point, is there are a lot of long-term costs in our business that are typically fixed. So our labor is certainly a flexible cost and we certainly see an increased cost of paying our professionals. But there are a number of costs like real estate and other items that are fixed costs in our business. And so we don't experience, at least, inflation today.

And the proof point in terms of our ability to pass along those costs to our customers is the fact that you pointed, our margins continue to increase. And in fact, increase at a time where we're investing and growing the business and growing our backlog and investing in our people and investing in our digital profile while we continue to improve margins. So again, inflation for the most part is not an impact on our business.

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

Great, Troy. And it's interesting to see you guys repurchase shares in the same quarter of a dividend initiation. Good to see that. Now you are seeing some of your peers are being much more aggressive in M&A. Some are even looking at software assets. I'm just curious, how does AECOM kind of view the M&A landscape? And if there's any change in terms of how you guys are going about your capital allocation structure.

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

Yes. So first of all, there's no change in how we're going about our capital allocation structure. I think we are perhaps a little bit different than a lot of people in our industry in that we believe that we're able to do -- invest in the business through our margins. And we also believe that we have an obligation to return capital to our shareholders over the long term.

And in terms of paying a dividend, again, we think that sends a strong signal that we have, in fact, transformed the business to a lower-risk, higher-returning business with a track record of converting earnings to cash. And with our EPS growth, it gives us even more confidence to increase the permanent return of capital to our shareholders.

So again, I -- no change in how we're thinking about capital allocation. And we think we have ample capital to deploy to increase the value of the business and to grow the business.

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

Great. I'm just going to sneak one more in there on the CR. Are you seeing any disruption on your business with the CR? Does that impact your view of infrastructure hitting 2023? You still had good organic growth even with the CR right now. But how should we -- how do you see the CR kind of playing out in the next few days? And is there any impact it would have to 2023?

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

Well, that's a good question. First of all, I'm not in the business of predicting what the Federal Government is going to do, so I'll decline to answer that question. But there is a decision to be made in the next few weeks about whether the Federal Government will continue to operate with a continued resolution or in fact they'll put in a budget in place, which if a budget is in place, then it creates the appropriations for funding under the infrastructure bill. But again, we view that, that is going to happen. There is a lot of bipartisan support for infrastructure. And so again, we see the funding eventually coming in place, and we believe that there's probably an impact on our business in 2023.

But putting that all aside, putting that aside, again, we've seen our business grow. More importantly, in the Americas, we saw our book-to-burn grow at 1.4x. And I think that's just an indication of the funding that exists broadly across our customer base in the U.S. So again, I think about that the continuing resolution and the infrastructure bill being upside for our business in the long term.

Operator

Our next question today comes from the line of Andy Kaplowitz from Citi.

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

Troy or Lara, so 8.2% adjusted margin in international, I think, was the highest quarterly result we've seen from that segment. We know the result is just part of the progression to get to 10%, but international margin, I think, was stuck in the low to mid-7% range for all of '21. So did mix improve in the first quarter? Is this really just the shared service centers kicking in now? And does it mean that as sales continue to increase here, we should see AECOM progress through the 8s for the rest of '22?

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

Yes. Andy, thanks for the question. And I'm going to pass it off to Gaur to answer it.

Gaurav Kapoor - *AECOM - CFO*

Andy, thanks for the question. Our international margins, to your point, increased significantly year-over-year and very consistent with our expectations. As you probably recall, we've invested quite heavily to uplift those margins in the marketplace and operational efficiencies, which we're starting to see come through at a higher clip now.

We're going to continue to march towards double digits. It's not just 10%. Our longer-term aspirations overall for the enterprise, to remind everybody, is 17%, and international is going to be a large part of it.

Now specific to 2022 and progression of the margins for international, we will see consistent margin for the international business like we did last year. We're not incurring significant restructuring charges, our results are very clean. And therefore, the phasing is very consistent throughout the year.

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

And then maybe I could ask you about phasing of revenue. So you did 5% NSR in Q1, you're down to 6% for the year. We know you've said the infrastructure bill really kicks in more in '23. But do you continue to see like a slow and steady ramp-up from here? Normal seasonal cadence? Should we be concerned at all about disruption from Omicron or supply chain? Or is it sort of steady as she goes and then maybe we see some money from the infrastructure bill late in '22?

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

So Andy, Troy again. Look, I think we're going to just see a steady improvement in growth throughout the year. There's certainly some seasonality to it. But also, again, we do see in certain markets, the funding from our clients and the project ramp-up incurring over time. So again, I don't see anything but sort of continued slow, steady growth.

You were right to point out that COVID did impact everyone's business, and we were certainly not immune from that. We certainly felt the impact of that in December and through January. But putting that aside, we still grew the business in the first quarter at 5%, and our backlog grew fairly substantially, replacing those orders and adding to it significantly. So I -- again, I see nothing that holds back from just a continued, steady improvement in growth over the remainder of the year.

Operator

Our next question comes from Sean Eastman from KeyBanc Capital Markets.

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

I'm just trying to think about the risks to this anticipated top line growth acceleration. And of course, the war for talent tends to be front of mind there. So can you update us on the pace of hiring? And perhaps what AECOM has been working on in terms of productivity enhancements and leveraging that employee base.

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

Sure. So first of all, I think there's 2 things that go into revenue growth. First of all is winning. And you've got to win what matters. And I think we were clear in our prepared comments that we really feel comfortable based on what our people in the market -- what our professionals are doing in the marketplace. And certainly, we're winning the things that matter to us. So that's -- again, think about it, tick that box off.

Secondly, you point out talent. You have to have a great group of professionals to deliver on that work. And it certainly is a market that is challenging, but we did see an increase in our professional headcount during the quarter. So we continue to add people to grow the business.

But also we are making other investments. Again, those investments are in our people, and in building a business that more people want to work. We talk about it as building a place where people want to have a career. We are absolutely focused on that, and investing in our people, investing in their technical and leadership development and offering opportunities for them for the long term. We're also investing in digital tools, which is, part of that investment is extending the capability or the capacity of our people. So they're able to actually accomplish more in the same day than they would have been in the past, and that's a focus.

And then the third thing is we've been investing in building capability centers so that we have the opportunity to take work and to put it in amongst these groups, so ultimately, we can improve the efficiency or productivity on that work.

So really to address that second challenge, which is, are there enough talented people in the marketplace to deliver all this work? We're addressing in those 3 ways.

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

All right. That's interesting. And going back to the inflation discussion, it's clear that sort of the price/cost element is not really a concern. It's probably more how inflation ultimately impacts demand. And I'm just curious how you would characterize the sensitivity of the core growth drivers behind that 6% organic target over the next couple of years around the broader macro. And to the extent inflation does degrade the business cycle, how much risk there would be to that 6% that you've outlined.

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

Sure. Well, I guess maybe the easiest way to answer that is that we are seeing an improvement in our pipeline. So the opportunities that we're pursuing in the Americas business and the International business, as you said, are both increasing.

And if I sort of look at the underlying conditions, we certainly see, within our customer base, there is a significant amount of ambition to undertake infrastructure projects, and a lot of that is ESG-driven. But also, there's a tremendous amount of funding that has been made available. And typically, when that funding is becoming available, it isn't that sensitive to the increase of -- in costs that we're currently seeing now.

So again, we're just not seeing, as a result of inflation, a change in the ambition and a change in funding within our customer base.

Operator

Our next question today comes from Steven Fisher from UBS.

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

You mentioned that your win rate is very high. Can you maybe quantify what that was? And how sustainable you think the underlying conditions are that support that level of win rate success.

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

So Steve, your question is a little difficult to understand, but I believe you were asking about our win rate and whether our win rate is sustainable.

So our...

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

(inaudible)

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

So Sorry, Steve. I -- you were breaking up, but I'll try and answer that one question, which is our win rate has been improving steadily over the last 4 or 5 quarters. In this last quarter, again, for us, it hit an all-time high. And we're capturing almost 50% of the work that we're bidding on, which is, for us, it's an extraordinary result.

And I look at the underlying conditions, so there's great competitors in the marketplace. There's no question. There are really good companies that we compete against, that's not changing.

And in terms of what we're doing to win, those things that we're doing to win aren't changing. And those things that we're doing are we're bringing the best to our organization, globally to those clients that matter. We are investing in digital tools to win the work and differentiate ourselves. And we've been growing and invested in building an advisory and program management business. So it actually gives us an opportunity to bid on more than we typically have in the past.

And I don't think -- again, I don't see us changing what we're doing because it's working, and I don't see the competition changing. So it's a long-winded way of saying I don't see a change in the underlying conditions. I expect us to have a high win rate for the long term.

Operator

Our next question today comes Michael Dudas from Vertical Research.

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

Just a follow-up on your answer to Steven's question about your project management, advisory business. So I was intrigued on the chart in the presentation of the opportunities that you see for that business. How different is that just to grow, whether you're growing other -- the traditional core design, engineering services business relative to what you have?

And do you have the talent promoted within to do that? Or is it the -- bringing in experts from other companies to get to that point?

And is there a difference in the type of cost? Or -- I'm assuming there's a difference in the margin profile over the lifetime of the project around the project management, if you have all the design and engineering below it or separate from that? Maybe if you could just maybe elaborate on that, and looking at that market size, [how it like that could] be important to your margin improvement in the U.S., and I assume abroad as well.

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

Sure. That's -- again, Mike, thanks for the question. So we see our opportunities over the long term expanding as our clients, again, gain more funding. So again, we see the market, the size of the market increasing. But as we've added advisory and program management and a building of businesses, what they do is they allow us to have a much greater share of that growing market.

So we're now exposed to more of that addressable spend. In the past, we were focused on a design business. And now adding program management advisory, we believe that we're exposed to a multiple of what we were exposed to in the past. So that could be 2 or 3x what we were exposed to in terms of those project budgets.

The other thing it does, by adding advisory and program management, it means that we actually will participate in those projects sooner or earlier in the process. And it means that we have the opportunity to be -- to participate in those projects for, obviously, a longer period of time.

So again, that's why we thought it was important to build those businesses because it obviously is complementary to what our design team -- our design business does. And the skills of our designers and our design business work perfectly, they match perfectly, with an advisory and program management business.

So your second question was, are we hiring or are we building from within? And the answer is we're doing both. We're actually adding folks into that business from outside, and we're also then having our people who have those great skills already from the design business participating in that work.

And with respect to margins, I'll turn it over to Gaur to answer.

Gaurav Kapoor - *AECOM - CFO*

Yes, Michael. For margins, specific to our PM business, it's very consistent with our core design business. The reason for that is when you look at the overhead that business needs, it's minimal. The utilization is much higher, they're longer-term projects, the utilization is much higher compared to the core design business. And other overhead costs are minimal as most of those employees are within the facilities of our clients.

Now clearly, our advisory services does -- is a higher-value services we provide, better margins. And those are all embedded within our respective business lines and geographies. So it's part of the design business.

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

Thank you. And is there certain end markets or clients, or regionally, that your program management platform can generate better, faster, more profitable growth than others?

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

Again, Mike, I'm going to turn that question over to Lara to give you kind of a flavor of how the program management business rolled out across the globe for us.

Lara Poloni - *AECOM - President*

Yes. Thanks, Troy, and Mike. We definitely see substantial opportunities in the infrastructure space for government clients in particular. There's obviously a lot of pent-up demand for major infrastructure schemes around the world, beyond the Americas as well. So those clients are looking for those front-end advisory services to help them with rapid business case, project prioritization and then the longer-term involvement that we can provide through full project life cycle program management. We'll assist with ensuring that those projects are delivered with cost and time certainty, that we can get earlier engagement with some of the contractors to provide construct-ability reviews. So as Troy said, we are providing front-end advisory services and really extending our involvement so that, that support is much earlier, but it extends much longer through the program management role in particular.

But it's predominantly those big infrastructure schemes where we see tremendous demand in particular. But even in the private sector, there are clients, for example, that need our assistance and are approaching us every day with even just some of the front-end services like ESG advisory. How do they gear up for that? How do they manage their energy transition? All of those things. So I would say very fertile ground for us to grow that service offering.

Operator

Our next question today 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 just 2 questions. One -- the free cash flow conversion struck me in the quarter. Obviously, it was a record free cash flow quarter for you guys. So can you talk about what changed there? Is there any pull forward or is this just a structural improvement? And why isn't there upside to the free cash flow guide, given where we are in the first quarter?

And then I guess my second, quarter 2. The margins are performing better when a lot of other companies are talking about headwinds associated with COVID, supply chain, people calling in sick because of Omicron. So I guess while your margins are very good, I'm wondering if they're being weighed down by that to some degree. So perhaps, your underlying performance is better or we're closer to where we need to be on your longer-term targets.

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

Great. Jamie, thank you. So just a high-level comment and then I'm going to turn it over to Gaur to answer your specific questions.

But I think over the last 2 years, the one thing that we have learned is we learned that we have to be agile. Being it in the -- as we move from week to week,, month to month, quarter to quarter, we're faced with all kinds of challenges in the business. And I think our professionals and our leaders here have proven that they just have their way to -- they've proven that they can navigate through those changing and sometimes difficult environments. And I think that's reflective in our results.

But with respect to your specific questions on free cash flow and margin, I'll let Gaur answer that for you.

Gaurav Kapoor - *AECOM - CFO*

Jamie, so specific to cash flow, you've heard me say this before, where we're fostering an environment which focuses on continuous improvement, and that includes cash. Focus on cash has allowed us, as we've said before, better phasing throughout the year. That's always a priority for us, and you saw that in the first quarter.

Our focus for the remainder of the year is to make sure that the first half cash flow phasing is better than last year, while also acknowledging that seasonality comes into play. And that's why our cash flow is always going to be weighted more towards the second half.

But this is -- we're always going to strive to get the best result on cash because you can see what it delivers in terms of capital allocation. It allows us to repurchase stock, it allows us the stability to issue -- initiate and issue dividends. And we'll continue to do that.

On the margin part, it's also part of our continuous improvement culture, but at the same time, acknowledging, to Troy's earlier comments, of how our operations -- our professionals operate over the last couple of years. They're not being reactive, right? They're really being thoughtful in how they plan and execute projects, their businesses, regions and business lines. And that includes us investing strategically in our advisory and PM businesses, which are higher up the value chain.

To the earlier question we got from Michael Dudas, it also includes investing in digital and innovative solutions which expand our internal capacity for efficiency of our employees and also in the marketplace that Troy and Lara have spoken to the various digital tools we have available, focusing on our international margins, our workplace of the future, which we have talked about, that includes continued focus on real estate and also utilizing our global design services and business services capability that we have talked quite a bit in the past as well.

So all those things have helped us strategically alleviate potential inflation pressures that are coming through because we will continue to invest in our workforce. And you're seeing the results of that in our margins, where we continue to expand year-over-year.

And the last thing I'll add to all of that is our results are clean. When you look at our GAAP results to adjusted results, we're not going through massive restructuring. This is all very well-thought strategic initiatives put in place to deliver the results you're seeing.

Operator

Our next question today comes from Adam Thalhimer from Thompson, Davis.

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

Congrats on the good start to the year. I wanted to ask just in general, how are your customers responding to higher materials prices?

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

Again, I think that the best example of how they're responding is they're continuing to let out more work than they have in the past. Again, just at a macro level, we look at the funding environment is strong and improving and will improve over the long term. And our customers, again, have ambitions to take on more infrastructure projects and more work, and we're seeing our pipeline grow. So I said a macro level, we're just -- we're not seeing a dramatic impact from inflation on our customer base at the moment.

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

Great. And then I wanted to ask quickly about your Construction Management business. What are you seeing in your core metros there?

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

So we're actually seeing opportunities to grow. The pipeline in our Construction Management business, which is typically driven around core metros, has actually been growing. And again, sort of the work that we win in that business is lumpy from quarter-to-quarter. But in terms of what we're pursuing, the opportunities have expanded.

I mean, one of the things that we're doing is we're being quite thoughtful and selective in how we're moving forward. One of the things that happens in a marketplace like we're seeing now where the opportunities are expanding, sometimes, you have the appetite to maybe take on things very aggressively. And we're just really managing what we're pursuing and how we're going to grow that business.

But for the time being, we've got $20 billion of backlog and a lot of that has been won over the course of the last 2 years. And they are great projects, some of them very significant size in the metro cores.

Operator

Those are all the questions we have for today. So I'll now hand back to our CEO, Troy Rudd, for any concluding comments.

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

Great. Thank you, operator. Again, I want to thank our teams and our professionals for their great contributions that have got us off to a really strong start of the year. We feel like we put ourselves in a -- in the best position possible to move forward in the year. And we're again, increasing our confidence around the results we'll deliver for the year, and frankly, the results we'll deliver in terms of achieving our long-term objectives.

Again, thank you, everyone, for participating this morning. We look forward to talking to you on the next earnings call. Have a good day.

Operator

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