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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the AECOM Second Quarter 2021 Conference Call. I would like to inform all participants, this call is being recorded at the request of AECOM. This broadcast is 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 J. Gabrielski
Senior Vice President, Finance, Investor Relations, AECOM

Thank you, operator. I would like to direct your attention to the Safe Harbor statement on page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. 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 subcontractor and other direct costs.

As a reminder, we sold the Management Services business in January 2020 and 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 Gaur Kapoor, our Chief Financial Officer, will review our financial performance and outlook in greater detail. We will conclude with a question-and-answer session.

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

W. Troy Rudd

Chief Executive Officer and Director, AECOM

Thank you, Will, and thank you all for joining us today. I'd like to begin by acknowledging our team's contributions to our success. Despite the ongoing challenges posed by COVID, we continued to focus on the health and safety of our professionals and their families, which has allowed us to deliver for our clients, communities and all stakeholders.

Today, some of the markets in which we operate are emerging from the worst of the pandemic. However, other markets are not. Through it all, we have demonstrated agility and we are working more collaboratively than ever before. We are unified by our Think and Act Globally strategy. And as more markets recover, we are even better positioned than ever.

Turning to our financial performance and outlook for the business. We entered fiscal 2021 with guarded optimism. Trends in many of our larger markets had begun to stabilize and our focus on our higher returning and lower-risk Professional Services businesses brought in new energy and determination to the organization. Against that backdrop, I am very pleased with where we stand today.

Revenue trends are improving, including 1% NSR growth in the second quarter. This is consistent with our expectations for improved growth as we advanced through the year. Margins also continued to expand and lead our industry. We delivered a 140 basis point increase in our segment adjusted operating margin to 13.1%, a new high for the second quarter and consistent with our expectations for an at least 90 basis point increase for the full year.

The actions we have taken over the past few years to streamline our global organization and to reduce our overhead costs are contributing consistently to strong profitability. As a result, adjusted EBITDA increased by 11% and adjusted EPS increased by 22%, both of which were slightly ahead of our expectations.

Looking ahead, our backlog and pipeline are strengthening. And this provides us with good visibility. Backlog in our design business increased by 8%, with growth in both our Americas and International markets. This was offset by a decline in Construction Management business, which was consistent with our expectations. However, we are now seeing a recovery in the Construction Management pipeline, particularly as our clients plan with greater certainty against a better economic backdrop.

We're pursuing several meaningful award opportunities with decisions expected in the second half of the year. Across the business, our contracted backlog, which is a leading indicator of revenue growth, increased by 13% in total, including 4% growth in our design business.

Our focus on our people, clients and communities has galvanized the organization, creating more and better collaboration, and is resulting in a stronger and more valuable company to all stakeholders.

Please turn to the next slide. As we turn to the second half of the year and beyond, several factors are contributing to our continued confidence in the business and increased optimism in our markets. First, our state and local clients, which represent our largest public sector client base, are on stronger financial ground. The $350 billion cash infusion from the March COVID relief bill, combined with the benefits of the December relief bill, improving economic activity and strong tax collections have made nearly all 50 states whole for the revenue lost during the year.

In addition, the relief bills also allocated nearly $70 billion to our transportation clients, which reflects approximately 75% of the annual federal transit and transportation funding, which has led to an increase in our pipeline and an improved pace of decision making. Today, our largest state and local clients are funded at levels higher than pre-COVID. And these clients are deploying these funds to job creation and infrastructure investment.

Second, the debate on transformational infrastructure legislation in the US continues to advance, including both traditional road and bridge investment, as well as a set of ESG priorities. The set of broader priorities are also apparent in President Biden's proposed $2.3 trillion infrastructure bill and the budget proposal for 2022, and in many instances are mirrored in Republican infrastructure proposals.

Encouragingly, these include several areas where we lead, such as electrifying transit systems, PFAS remediation, new energy, resilience and clean water. With federal infrastructure spending as a share of GDP at multi-decade lows, there is a growing backlog of critical projects that could be advanced should this federal funding materialize, and we are already partnering with clients to be ready for the anticipated increase in funding.

Third, our private sector clients are also prioritizing investments in ESG, benefiting our industry-leading positions in green building and green design, environmental compliance and remediation, energy efficiency and infrastructure resilience. Many of these clients are engaging us specifically in response to ongoing stakeholder feedback to deliver on ESG initiatives. AECOM's position here is very strong. The challenges and opportunities facing our clients are global and require the depth and breadth of our consulting, program management and advisory capabilities.

Fourth, growth outlook in our larger markets outside the United States are improving. In the UK, our largest international market, economic growth forecast now project a recovery to pre-pandemic levels in 2022. We delivered a 1.2 book-to-burn ratio in the UK in the second quarter, reflecting these better market trends.

In addition, we are benefiting from the actions we have taken over the past several years to reestablish our leadership position on key public frameworks where we are now seeing positive contributions. In Canada, we delivered strong growth in the second quarter and were successful on a large pursuit in April that supports our confidence going forward, particularly as the federal government's latest budget continues to prioritize infrastructure investment.

In the Asia Pacific region, Australia and Hong Kong continue to recover and our book-to-burn ratio was nearly 2 in the second quarter. Our focus in our India business is on the health and safety of our workforce and their families and continuing to deliver on our clients' commitments.

Finally, and most important to our success, the strategic alignment of our professionals around new priorities has created a great deal of energy and momentum. As we discussed at our Investor Day in February, central to our strategic efforts are the actions to broaden how we engage with our clients. This includes expanding our role as key technical and strategic advisor, expanding our project program management business and continuing to bring the industry's best technical experts and digital solutions.

As part of this effort, Drew Jeter joined AECOM January to lead our program management business. We were recently awarded a program management contract to oversee a $1.1 billion highway widening program, another large program management contract from the Dallas Independent School District for the $3.5 billion bond program, and we are pursuing several larger opportunities.

In addition, Jennifer Aument joined our organization in April to lead our global transportation business at a time when funding is set to benefit our key transit clients who are looking to advance complex multiyear programs. Jen's leadership in driving the creation and delivery of large programs will be a key asset and builds on our industry-leading market position.

Drew and Jen are complemented by our already strong leadership team. Reflecting the momentum in our organization, in our markets, bid submissions and active proposals in our Americas design business are up by double digits since the start of the year. And in April, we saw decision-making begin to accelerate and a number of larger pursuits converted to wins.

Importantly, today, our 47,000 people are operating from a market-leading position. As indicated by ENR, we are the number one ranked transportation design firm, the number one ranked facilities design firm, the number one ranked program management firm, the number one ranked global environmental consulting firm, and just improved the ranking of our water business to number two despite not making any acquisitions.

Even during these challenging times, we are confident we are taking market share. When combined with these steps we have taken to empower the organization to grow, we're better-positioned than ever to deliver on our long term financial objectives and outgrow the industry. These include a commitment to more than double adjusted EPS and free cash flow by 2024 as compared to 2020, and to deliver industry-leading margins and return on invested capital.

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

Lara Poloni

President, AECOM

Thanks, Troy. Please turn to the next slide. I echo Troy's sentiments on the momentum in the business and the strength and culture and strategic alignment across the organization. Over the past year, we have undergone a transformation in how we are organized, how we operate, how we go to market and how we serve our clients and communities.

Today, our strategy, culture and capabilities are squarely focused on our people, clients and communities. And we, as leaders, are inspired by our teams and energized by the opportunities we see in front of us.

I am particularly excited to see our results begin to reflect our renewed focus on best advising our clients. A great example of this is the tremendous success we've seen in the UK where we have substantially improved our commercial position and taken market share through our positions on several large framework. As a result, our backlog in the country has increased by double digits over the past year. And we are seeing a return to strong revenue growth, which is contributing to our overall improved performance in our International segment. These successes underscore our confidence in our strategy and our ability to outgrow the industry over the coming years.

Another key element of our strategy is our commitment to leading the industry in ESG. Building on the many actions we have already taken, in April, we announced our Sustainable Legacies strategy. This strategy integrates four key pillars that will embed sustainable development and resilience across our work, improve social outcomes for communities, achieve net zero carbon emissions and enhance governance. This includes our commitment to achieving net zero carbon emissions by 2030, which builds on our prior science-based targets and shows we address the entirety of our impact our company has on the environment from our own actions as well as that of our suppliers.

Expanding on this point even further and recognizing that the work we do for our clients has an even greater long-term impact on our environment, we also unveiled our ScopeX process initiative. This includes our commitment to providing our clients with solutions that embed ESG considerations into our designs. ScopeX focuses our teams on minimizing energy use, optimizing sources of renewable power and where feasible, we will work with hand-in-hand Natural Habitat to eliminate carbon emissions. We will also embed net zero resilience and social value targets into our client account management program and the work we bid for.

Our Sustainable Legacy strategy also includes efforts to further promote the diversity of our workforce, including near-term targets to increase the percentage of women across the company to at least 35% and increase the percentage of women in leadership positions to at least 20%.

We are also investing to advance the social value our company can provide through our operations and our projects, including through direct investment in communities and in minority-owned businesses. A great example of sustainable legacies is our Workplace of the Future initiative that is focused on designing a flexible workforce model for our professionals. Through these efforts, we will reduce the emissions associated with our team's commutes, while also reducing our real estate footprint and creating more efficient office spaces.

Building on this, last month, we also began to implement our Freedom to Grow initiative, which allows our teams to design the flexible work arrangements that they need to be successful. We have made the investments in digital capabilities to leverage remote working to best position our people for success and fulfillment in their careers. And believe the strength of our platform and capabilities will attract the best resources in our industry going forward to support our focus on delivering industry-leading growth. Needless to say, our people are energized by how we are positively impacting the world.

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

Gaurav Kapoor

Chief Financial Officer, AECOM

Thanks, Lara. Please turn to the next slide. Our second quarter results were again strong on every key metric. Our performance on EBITDA, margins, EPS and cash flow were ahead of our expectations in the second quarter and for the first half of the year. There is clear alignment across the organization on our priorities, new level of accountability to deliver on our targets and an energy within our teams that is building daily.

To support the business and create certainty for our clients, employees and shareholders, we took additional steps in the second quarter to further strengthen our balance sheet with the refinancing of our 2024 bonds into lower cost debt. And we continue to deploy substantially all free cash flow to share repurchases, consistent with our capital allocation priorities.

Please turn to the next slide. In the Americas, NSR declined slightly over the prior year, primarily due to pre-COVID comps. Notably, our NSR increased by 7% sequentially, reflecting improving market conditions as we progressed through the year.

Trends in our Americas design business continued to improve, highlighted by 5% backlog growth in the quarter. Further, not only did our pipeline of opportunities increase by double-digits, but our capture rates on bids also increased as our Think and Act Globally strategy starting to take hold. This provides us confidence that we are gaining market share into an improving market.

In our Construction Management business, we burned backlog in the quarter as expected. As Troy noted, we are seeing pipeline trends improve in the CM business and our backlog continues to provide significant long-term visibility.

As a reminder, approximately 90% of our profit from backlog is driven by the design business due to the high level of pass-through costs included in the CM business.

Americas segment had a 17.2% adjusted operating margin for the first quarter, a 160 basis point improvement from the prior year. For the first half of the fiscal year, our Americas margin was 17.3%, underscoring the progress we have made in ingraining a culture of continuous improvement into a business that leads the industry on margins.

Please turn to the next slide, turning to the International segment, our NSR increased by 3%, reflecting strong growth in our UK, Australia and Hong Kong businesses where we have grown our backlog in each by double-digit from the prior year. Our efforts to position this business to capture market share are translating to results.

Notably, we continued to make progress on our margin improvement initiatives. Our adjusted operating margin in the second quarter was 7.3%, a 130 basis point improvement from the prior year and a 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 margins.

Please turn to the next slide, turning to cash flow, liquidity and capital allocation. A great example of how the organization has evolved and is collaborating better to deliver is a substantial improvement in the first half cash flow. In fact, our first half cash flow was the best we've delivered in three years, reflecting our very deliberate actions to improve our phasing. While our full year cash flow has consistently been within our guidance range in each of the last six years, our phasing had become too second half weighted.

Improving this phasing favorably impacts our return on invested capital. We put in place specific quarterly incentive targets to drive a better outcome and our teams in the business have responded. As a result, we are reaffirming our $425 million to $625 million free cash flow guidance for the full year. At the midpoint, this reflects unlevered free cash flow conversion of EBITDA at 75%.

I am also pleased with a series of transactions we have executed that, together, extend the maturity of our debt and reduce our interest expense. In April, we successfully tendered for approximately 75% of our 2024 bonds, replacing this debt with a lower cost term loan B. The transaction builds on the benefits from the redemption of our higher cost 2022 bonds last year, and amend and extend transaction of our sustainability-linked credit facility that we executed in the second quarter. When taken together, these actions enhance our balance sheet, contribute to our plan to double adjusted EPS by fiscal 2024 and support capital allocation flexibility.

Our strong cash flow and balance sheet have enabled us to continue to repurchase our stock. We have executed $125 million of share repurchases since our earnings call in February and have now reduced our fully diluted share count by 10% since September.

Importantly, we currently have $700 million remaining on our board authorization, and with strong cash expectations for the second half of the year, we will continue to deploy capital to share repurchases going forward.

Please turn to the next slide. We are raising our adjusted EPS guidance for the full year to between $2.65 and $2.85 or 28% growth at the midpoint. This increase reflects our outperformance in the first half of the year, including the benefit of our accelerated pace of share repurchases and the benefit of our debt refinancing. This guidance does not contemplate any additional repurchases, although it is our plan to continue to buy back stock.

With that, operator, we are ready for questions.

QUESTION AND ANSWER SECTION

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

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

Q

Hi, guys. Thanks for taking my questions.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Of course.

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

Q

Just in light of the bid activity and award flow improving exiting the quarter, it would just be great to get a little bit more color on how you guys are measuring success around the progress on the organic growth strategy and market share gains? What are you guys tracking there? A little more color on what's giving you confidence that you are indeed gaining share alongside this uplift in activity levels would be helpful?

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Sure. Sean, this is Troy. I'm going to go back to just the beginning of the year, because we said that during the course this year, we saw our growth being challenged than certainly in the first half of the year. But as we move through the year, we've seen an improvement, a small improvement in the markets that we're participating in and that's being reflected in the pipeline of bids. So that's going a little bit better than we had expected.

At the beginning of the year, we said we need to focus on what we can control because we certainly can't control what comes to the market and what our clients have available in terms of funding. So we focused on our clients and bringing the best that we could do globally for those clients and felt that that would be improving our market share or our capture rates.

And so one of the things that we measure in all of the work that we do in all of our bids is we measure what we call our capture rate, which is effectively how much we win compared to how much we bid on. And during the course of this year, we've actually seen our capture rates increase 4%. So what that tells us is that's improving. I can't tell you where it's coming from, but it tells us that we're improving in terms of our capture rates and our market share.

The other thing to rely on, and this is more anecdotal, is we look at how we rank. And as I pointed out, the ENR has just gone through their updated rankings. And in the markets that we're in and transportation and environment, and in facilities, program management, we've retained our number one ranking. But more importantly, in water, we moved from number three and number two. And we did that entirely organically.

So it's a combination of those things that tells us that we're taking some market share. And as we move forward, we certainly are seeing momentum building up and it's not going to translate into meaningful revenue improvement this year. We certainly believe it will next year. But what we're seeing now is our wins in the month of April in our design business have picked up at a faster rate than we've seen in the first half of the year. We've seen our pipeline of opportunities in our design business improve so that they are actually back to pre-pandemic levels in terms of what we're going to be bidding on in the future.

So, again, that tells us that things are lining up so that there will be growth in the business in the future.

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

Q

Okay. That's really helpful, Troy. And I know these touch questions are a little tricky to answer. But just in light of the backlog ticking down sequentially and this dynamic where Construction Management is kind of in more of a burn mode...

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yes.

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

Q

... how much longer does that last? Do you think we'll reach a sustained sort of positive inflection point in the backlog as we go into the second half, Troy?

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Sure. So maybe breaking it into two parts and just following along your question. So in our Design business, we've seen our Design business and our backlog grow. So during this quarter, our Design backlog was up 8% and our Construction Management backlog obviously was down. But it's – again, as we had expected, we expected things to burn – burn off that backlog in the quarter. Those are the types of longer-term decisions that, in fact, had been pushed off during the pandemic. But I'll say this is we certainly did burn off backlog in the second quarter, but we were pleasantly surprised because we won about $900 million – a little more than $900 million of work in our Construction Management in the quarter. And that was a little ahead of our expectations.

And again, in terms of the pipeline, we are seeing the pipeline of opportunities improve in our Construction Management business, but certainly not at the level that we're seeing in our Design business.

And again, just as a reminder, the profitability of the company is driven by our Design business. 90% of the profit of the company comes through our design business and 10% comes through Construction Management.

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

Q

Okay, got it. One last one for me, a little bit more high level. But one of your peers disclosed an annualized ESG-related revenue figure. Where would you place that number for AECOM or perhaps what portion of AECOM's revenue mix have you seen ESG actually start to drive accelerated growth opportunities?

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yeah. So we actually don't have a measure of ESG revenue. We haven't called it out separately. And the reason we haven't done that is because we're really seeing in almost all of the work that we're taking on and doing today, there is some element of ESG included in that. And so it might be focused on improving emissions or lowering carbon. It's focused on improving communities or helping – improve a return to prominence. So there is a significant amount of what we're doing in almost everything that we're doing. So we don't look at it as we have a separate ESG business. We look at it is that it's a significant part of everything that we're doing.

So I'm not going to say we're – that every dollar is ESG revenue, but there certainly is a focus. And just to expand on that, maybe, Lara, I could ask you just to give a little more background on ScopeX because that really describes how we're including it in all of the work we do.

Lara Poloni
President, AECOM

A

Yeah. Sure. Thanks, Troy. And Sean, look, I think there are some very big numbers being thrown around and it's very easy to sort of assign big numbers to entire segments of the market. But I think where we're coming from – our strategy, our Sustainable Legacies strategy, which we just launched last month, has been greeted very positively by our clients and by our staff. And I would say it's unique in the industry at the moment because it is quite granular. And that is because we are coming from a real position of strength because we are the largest and the most diverse environmental services firm.

So there we have some market leadership and real subject matter expertise when you dig into areas such as climate adaptation or carbon capture and storage and resilience. So, they are some of the, what I would call, some of the specialty areas. And to Troy's point, we as part of our strategy to embed ESG in everything we do, one of the commitments that we are really following up on is ScopeX, which is our process where we are embedding through all of our project work and through our design and ESG action plan on all of our major projects, and the commitment there is to reduce our carbon impact by at least 50%. So that's pretty bold. And I think that will really demonstrate again at a far more granular level just how strongly positioned we are and how we're really in a great position to capitalize on this big momentum in the market at the moment around ESG. I hope that answers your question.

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

Q

Very helpful.

Lara Poloni
President, AECOM

A

Yeah.

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

Q

Yeah. All very helpful response. I'll turn it over. Thanks.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Thanks, Sean.

Operator: Your next question comes from Michael Feniger with Bank of America. Your line is open.

Michael Feniger
Analyst, BofA Securities, Inc.

Q

Yeah, guys. Thanks for taking my question. Just firstly, you guys have repurchased 10% of your shares. You have the existing share buyback plan. The stock is kind of at all-time highs. Are you – is there any thought, Troy, of slowing it down, shifting capital allocation to invest in other areas? Curious how you're viewing the capital allocation after repurchasing so much already of your buyback.

And then, the second question is just, the fact that we are going into this growth environment and we're expecting funding to pick up, is there more investment required from you guys to support that? I mean the 140 basis points of margin expansion in the first half. Do we see any temporary pause as you guys maybe invest to support that higher growth backdrop?

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yeah. Thanks for the questions, Mike. I'm going to let Gaur take the first one and I'll take the second one.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Hey, Mike. This is Gaur. So in response to your first question on repurchases, there's going to be no change to our capital allocation policy. We still continue to see a discount between our valuation and what our peers are currently trading at, where we believe we have superior earnings growth, clean results compared to our peers. Our margin expansion story, investment in BD, which Troy is going to expand upon, is going to position us to really capture and monetize on the global infrastructure trends, ESG and sustainability that Lara and Troy just outlined. And this is also further supported by our plan to double our earnings per share by 2024. So repurchases continue to make the most sense for our capital allocation.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

And so with respect to your second question, there's no question that as you head into an environment like this where there's a growth opportunity that you have to invest more in improving the opportunities that you're bidding and increasing the pace at which you're bidding. But as we said in the past, we expect to do all of this through our margins. So our objective is to continue to expand our spending on BD, and at the same time, we will be living up to our margin improvement commitments. And the increased pace of bidding is already included in our results. We've increased the amount we've been spending on BD and time to change this – chase this pipeline and we'll continue to invest in growth, but, again, we will do it through our margins. And all of this is built into our longer-term commitment to get to a 15% margin target.

Operator: Okay. Your next question comes from Andy Kaplowitz with Citigroup. Your line is open.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Hey. Good morning, guys. Troy, can I ask you about...

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Good morning.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Good morning. So global backlog in Design, as you said, has been up high single digits over the last couple of quarters, but revenue has been slow to turn at least in the Americas. So what do you think the probability is that AECOM could see a relatively strong revenue inflection, as many of your state customers who now have unexpected surpluses, turned their FY 2022 budgets over the summer, especially given the $350 billion stimulus you mentioned? I know you mentioned your pipeline is up double digits. Maybe when the last time your pipeline was like this and what kind of revenue growth were you able to convert?

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yeah. Andy, thanks. So if you go back, I think, probably – again, I mean, you go back a ways to the kind of 2010, 2009 era, where we certainly saw this kind of improvement in pipeline and backlog. And again, I can talk about our – the industry and talk about us. But at that time, we had strong growth. We're talking at points in that time double-digit growth. It's over 10% growth in terms of revenue during that period of time.

I certainly see there is a growth or revenue inflection that's coming. And to the point of timing that you alluded to, again, there's a lot of funding that is coming into place, but that funding is just being distributed now.

So, for example, the $350 billion that was the American rescue package, that money is just getting distributed to state and local governments. So it will find its way into budgets. And the money was devoted to transportation infrastructure. It's just finding its way into budget. So I think the timing you described is right, is we're going to see increase in the pipeline. We're going to see, and expect – we have an expectation that we're going to be bidding that work. We'll get awarded during the second half of this year, leading to an expectation of an inflection point in growth in fiscal 2022.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Thanks for that, Troy. And then this question might be for Lara. It's kind of a similar question on the International side. Contracted backlog up 16%. That's a big improvement in terms of growth versus the last few quarters. Obviously, easier comparisons help, but it does seem like you're seeing a nice inflection in International market. So could you give us color on where you're seeing the biggest acceleration? I know you talked about – seems like kind of across the board, UK, Canada, Hong Kong, Australia. But are the improvements you're seeing just broad-based? Is stimulus just ahead in these places versus where it is here in the Americas? Any more color you could give us.

Lara Poloni
President, AECOM

A

Yeah. Sure. I think we see continued positive growth in terms of the infrastructure pipeline in particular. I think, for sure, our very deliberate positioning to secure market leadership across all of the frameworks that we mentioned in the UK is one of those key examples, and that's now paying dividend. And a number of the wins in this quarter in the UK were fairly and squarely on the back of those frameworks.

And then, I think just our ongoing market leadership in markets like Hong Kong, Australia, where we had some great wins in transport infrastructure and data markets also where we see continued positive growth in terms of the government commitments to infrastructure through the recent budget announcements.

So I think it's looking really positive in terms of that segment of our business, for sure. And I would say also, just continued focus on our most important clients through our key account management program, which we have really doubled down on in the last couple of quarters as well.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Appreciate it, Lara.

Lara Poloni
President, AECOM

A

Sure.

Operator: Your next question comes from Andy Wittmann with Baird. Your line is open.

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

Q

Yeah, great. And thanks for taking my question. I was just hoping to get a little bit more detail inside of the margin improvements. Obviously, this has been a important story for your company and your stock for some time, talked about some of the things that we're going to be driving this. But maybe, Gaur, if you could help us break down a little bit of what led to the improvements in your consolidated margins this quarter, including the benefit of utilization of your personnel from other things that would be kind of more episodic or structural in terms of how you've gone to find cost in your business and become more efficient?

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Sure, Andy. Specific to margins, one thing I'd like to highlight, as you've already stated is, it did significantly improve when you compare first half of last year to what we experienced in the current year. However, compared to Q1 and Q2, they're quite consistent. And it's a trend that we expect to continue because we did go through a significant transformation last year, completed majority of our restructuring activities that included rightsizing of our real estate opportunities, investments in our Global Design Centers, our biz shared support centers in Manila that we spoken to previously, exiting countries, completing those exits in 2020. So this is a byproduct of all those transformational activities that we executed upon successfully and you're seeing it in our results.

One thing I would also like to state is your specific question to utilization. Utilization was consistent with our expectations. But what Troy had alluded to earlier in regards to business development, we did have a higher investment in business development based on the pipeline of opportunities we're seeing in the current quarters, specifically in the Americas, because we're keeping our eye on the prize and the future of what potentially could be coming down the pipe.

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

Q

Great. That's helpful. And then I guess it was probably worth asking here on your guidance. You mentioned a couple of times in the prepared remarks that suggested EPS, EBITDA, free cash flow and maybe there's even some other metrics that we are focused on that we're kind of at least a little bit ahead of expectations. The EBITDA guidance stayed the same. I think that the mechanisms on the EPS with interest savings and the buyback are very clear. But I just was wondering if you could speak to the fact that despite a little bit of outperformance here, not just in 2Q, but also a little bit in 1Q, EBITDA didn't get the nudge up. And I was wondering the thought process behind that.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Sure. So I'll just expand on that. When we started in 2021 and provided the guidance of some significant strong growth in 2021 coming off of last year, we had confidence in the guidance we had provided, even though there were a lot of market uncertainties at that time. And you're absolutely right. We've delivered the first and second quarter above our expectations on all metrics, including EBITDA. And today, most of our major markets are more stable than they were beginning of the year with improving outlook, as Troy has already spoken to, reinforcing our confidence in the second half. But at the same time, we're being prudently conservative because five – every one of us on the call today, if you were to ask us five weeks ago what's happened in Southeast Asia, India, none of us could have predicted. So we're just being prudently conservative and confident in what we're going to deliver for the year.

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

Q

Great. Have a good day. Thank you.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Thank you.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Great. Thanks, Andy.

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

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Good morning, gentlemen, Lara.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Good morning, Mike. How are you?

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Great. Thank you. So maybe, Troy, share your thoughts on federal direction relative to infrastructure bill negotiations. You get optimistic one day and they get pessimistic next day. Given your exposure in your leading markets in transportation and water, is this water, some of the opportunities, some of the consensus, appear to maybe drive some funding and some opportunities in the water maybe before highway or infrastructure comes through? And do you get the sense that the administration and the folks in Washington are – can get something together that will be meaningful for visibility in – beyond 2022 and 2023 certainly in the broad part of your – of the services you provide?

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yeah. So, Mike, I'm going to answer this in two parts. The first part is that there's already been a lot of action taken by the federal government in terms of funding that will support infrastructure and state and local budgets. And so what we're seeing today is that state and local budgets have returned and I think are healthy and improving in health, and I mentioned that in my prepared comments.

So I already think we've got a trajectory in terms of federal funding and state and local funding in markets that supports a continued investment in infrastructure and certainly the places you described. In transportation and in water and certainly in the environment, there are some things that are being done by the federal government to focus, for example, on things like PFAS remediation. And so there is momentum already building and funding building.

And the second part of that is, with an infrastructure bill, that this would layer on top of that. Now, I don't want to predict what I think the outcome will be, but it certainly feels like there is support for getting something done. And it feels like there is support for finding some form of compromise to get something done. So, yeah, I'm optimistic about that. But if that happens, then it gets layered on top. And frankly, if you just took the President's proposal for his infrastructure plan, in its current form, we think that that would increase the addressable market spend for our US Design business by 15% to 20% over and above where it sits today. So that would be incredibly meaningful if it got done. But again, our job is to prepare for that if that happens and we'll see what the outcome is.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Well, if that happens, it will be a race for talent, for sure, I would think.

W. Troy Rudd
Chief Executive Officer and Director, AECOM
A

Yes, it will be.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

Okay.

W. Troy Rudd
Chief Executive Officer and Director, AECOM
A

And that's something that we're very conscious about today in preparing for the future is thinking about that race for talent, is attracting the right people to the organization. And a great example of that is Drew Jeter and Jenn Aument joined us. And then there are obviously a lot of folks that are joining around them to the business.

The other thing we're focused on is just our – continuing our – to invest in technical and professional development to increase the strength of the people that are here and to attract more people to the workforce. And then – and a really important part of this, which Lara mentioned, which is we call it a Freedom to Grow initiative, which is we're going to create flexible work environments so that it helps attract people here.

What we've learned through the pandemic is that people really can be productive remotely and they can be working virtually. We've learned that our clients are very accepting of it. And at the same time, what we've learned that it's what people want to do.

We've also found that having everybody having to commute into a major city to do all the work together, maybe isn't the right answer every day, but maybe it's being around each other so you can have a mentoring and apprenticeship environment at the right time to be around your clients. But at the same time, offering this flexibility for people to be around their families and their communities. Simple answer is we want to make sure that our people are able to be home on Wednesday afternoon at 3 o'clock to go their daughter's soccer game.

And so we're going to create an environment where that exists and we believe that's a competitive advantage to attract talent to AECOM. So we are absolutely focused on that as we move forward.

Michael S. Dudas
Analyst, Vertical Research Partners LLC
Q

I think the resumes will be flying in once the call ends. Troy, thanks so much for your thoughts. I appreciate it.

W. Troy Rudd
Chief Executive Officer and Director, AECOM
A

Thank you.

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

Steven Fisher
Analyst, UBS Securities LLC

Q

Thanks. Good morning. Good afternoon. I wonder if you could just give us a little bit more color on the larger pursuits. Could you just remind us what do you consider a larger pursuit, kind of the timing? How balanced is it between, say, Q3 and Q4 and how broadly these larger pursuits are across the regions and end markets?

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Well, I have to say, Steve, I don't really think about the portfolio as large pursuits and small pursuits. What we think about our portfolio is being based around our clients and what's important to them and their initiatives. So what we are seeing is we're seeing our clients coming to us with those opportunities to ask for help, and the place that we're first seeing that is in our advisory business. So where they're asking us to help shape what those outcomes will look like. And then, that's the reason we're building the program management business and expanding upon that is to actually help them and take those projects through that lifecycle and deliver an outcome.

So it's not so much that we're seeing. We're focused on the larger ones. I will say we are seeing more large projects come to market as we see the pipeline build. But our focus is on being there on day one to provide that initial advice, be there on day two to help the program management, and of course, throughout the process to help with design.

And again, I can't give you stats on big projects. We certainly are seeing more of them, but we're seeing our just pipelines expand broadly.

Steven Fisher
Analyst, UBS Securities LLC

Q

Okay. And then I guess just building on some of those comments. It's not that long since your Investor Day. But I was just...

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yeah.

Steven Fisher
Analyst, UBS Securities LLC

Q

... curious if there are any kind of next key milestones or activities related to the consulting angle or program management initiatives that you have. Any sort of more key hiring or wins or any other milestones we should be looking for, now that you've kind of announced it or a few months into it.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yeah. Those actually are our milestones. It is actually key hires and key wins. And so we're not going to announce those key hires, but certainly we have been making progress in bringing some people into those teams that will absolutely have an impact. But in terms of wins, I did mention two wins for program management in the quarter. We can't talk about all the wins because we're just simply not allowed to. We have to have our client's permission to do that. But I can tell you that in program management that it is around those key wins and building that business. And we've identified a number of projects that are priorities for Drew and his team, and that pipeline that they're bidding right now represents a little less than $2 billion of bids. So, those – winnings those projects over the next 12 months will be important milestones.

Steven Fisher
Analyst, UBS Securities LLC

Q

Terrific. Just one quick clarification on cash flow, I know it's always difficult to predict the timing with precision. But how Q4 weighted do you think this year will be on cash flow?

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Hey, Steve. This is Gaurav. I'll respond to that question. Historically, we've always been a second half weighted cash flow-generative company. However, when you look in the current year, one thing we have been successful at is instead of being significantly negative for the first half of the year, we're actually breakeven. On its own, it may not be a big deal, but when you look at the impact on return on capital and that it's made cash available for the first half of year to execute almost $300 million of repurchases between mid-November to today, it's a significant advantage for us. It drives the right behavior for us in the business as well.

So, we'll expect positive cash flow in Q3 and the biggest quarter will be in Q4, consistent with our seasonal trends.

Steven Fisher
Analyst, UBS Securities LLC

Q

Got it. Thanks a lot.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Absolutely.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Thanks, Steve.

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

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning and nice – I guess, good morning your time, and nice quarter. I guess two questions. You already answered sort of my question on the guidance, which seems conservative, in particular, on the margin front, just given the year-over-year improvement you had in the first half versus what's implied in the second half. But I guess my question is, you also talked about business development costs spending there, just as you see the pipeline look more robust. I'm wondering if just the BD costs in the – relative to when you initially guided are higher than what you thought. So you can capitalize on some of this growth. And that also, I guess, would imply maybe your margins are at a better point than you would have expected as well, even though you're not changing your guidance.

And then my second question, obviously, based on the ENR records, you're in very strong positioning in some of your key markets. But I guess, as you look at what's proposed under the infrastructure bill or you're just in conversations with where clients want to spend their money, are there any areas that you sort of aren't big enough in, where you would like to get bigger in? I'm just wondering if there's adjacent areas of growth that are underappreciated. Thank you.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yeah. Thanks, Jamie. So, first, with respect to margin and business development, we believe that over the course of the year, even though our business development needs are accelerating, we had built that into – we have built some of that into our plan year-over-year improvement. So it was already built into our margins.

And we believe that, again, in the second half of the year, that we can bid all of the work that we want to and need to bid and still maintain our margins. So you can look at it as maybe we're doing a little better on margins than we thought we would be. But nevertheless, we also anticipated reinvesting some of that money in the growth of the business in the future. We saw there's an opportunity.

And with respect to some of our key markets, there absolutely are places where we should and we will be investing in the markets. Maybe you can think about it in terms of our business lines, and there are places across all of our business lines where we would be – we will be investing and investing in our people. But the places that we said we're dedicated to building and recruiting is certainly in our advisory business, which covers all of our business lines, in building up our digital business, we have a group that's dedicated to digital solutions, and then the last point is program management. We are absolutely dedicated to investing in that capability. We believe that is a huge opportunity for us.

As I said, I think we can – over the next few years, we can build that business, not by percentage points in terms of growth, but by multiples.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Thanks, Jamie.

Operator: Okay. And your last question comes from Adam Thalhimer with Thompson Davis. Your line is open.

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

Q

Hey. Thanks. Good morning, guys. I'm still a little curious on the state and local side. How those customers are reacting to this cash infusion? Like, did they have a backlog of physical work that they're now working through or are they earlier in their process?

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Well, so Adam, I think it's very particular to each – again, to each particular client. But almost all of our clients have had some form of projects that they have in their pipeline that they want to be doing. So, they already have a long-term pipeline of things that they're working on.

So, again, I'll just use here in Los Angeles, there is a lot of infrastructure that's being invested in to get prepared for the 2020 Olympics. Also, there's a lot of work that the local politicians want to do in terms of improving the economic conditions in their – in local communities, and funding was difficult for that over the last year. But now that funding has become available, so that agenda can be funded. And those new opportunities and priorities for our – the state and the local governments here now can be funded.

So, there certainly is a pipeline that already existed and there is a pipeline that is being built up and to be invested in. And this is where it gets to the point of ESG, is there are a whole bunch of projects over the last year that will come online, that will add to that inventory because of the ambitions that state and local governments and private clients have set for themselves.

If we go back a year ago, there certainly weren't these ambitions that were laid out that are laid out today. And so that's where you're seeing the momentum for the new projects that builds along the already existing portfolio of projects that those clients want to fund.

So there certainly is a lot of opportunity, and now the funding is lining up behind it. And that's why we feel confident about the growth as we move into 2022.

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

Q

Okay. I think you said the Construction Management pipeline is improving as well.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Yeah.

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

Q

Can you give some geographic color? And I'm particularly curious about New York.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

I can say that we are certainly seeing an improvement in the pipeline in New York. And we are seeing a pipeline improvement in the places you'd expect, the larger cities where there is a growth in population. So places like in the Nashville area, the Dallas-Fort Worth area. And so those are the places where we are seeing that growth opportunity or the increase in the pipeline. But certainly, again, we are seeing the pipeline improve in New York as well.

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

Q

Okay. Thanks, guys.

W. Troy Rudd
Chief Executive Officer and Director, AECOM

A

Thank you.

Operator: I'll now turn the call back over to Troy Rudd for closing remarks.

W. Troy Rudd

Chief Executive Officer and Director, AECOM

Great. Thank you, operator. And again, I want to, first of all, say thank you to our teams for the contributions to a strong first half of this fiscal year. Our professionals have worked incredibly hard to create a leader in our industry and are energized by the mission that we've laid out. I'm pleased that we are creating a stronger business and it's defined by our people's unparalleled experience. It is our industry-leading margins giving us the ability to invest in the business and the backlog and the cash that we have so that we can proceed with our capital allocation program.

So, again, I'm happy about our momentum, and I want to thank everyone for joining the call and thank you to all of our people here at AECOM. Have a good day.

Operator: Okay. This concludes today's conference call. You may now disconnect.