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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the AECOM Fourth Quarter 2024 Conference Call. I would like to inform all participants that this call is being recorded at the request of AECOM. This broadcast is the copyrighted property of AECOM. Any rebroadcast of this information, in whole or part, without the prior written permission of AECOM is prohibited.

As a reminder, AECOM is also simulcasting this presentation with slides at the Investors section at www.aecom.com. 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, Treasury and Investor Relations.

William J. Gabrielski

Senior Vice President-Finance, Investor Relations & Treasurer, 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 reconciliations are incorporated into our materials and are posted to our website. Growth rates are presented on a year-over-year basis unless otherwise noted. Any references to segment margins or segment adjusted operating margins will reflect the performance for the Americas and International segments.

When discussing revenue and revenue growth, we will refer to net service revenue, or NSR, which is defined as revenue excluding pass-through revenue. NSR growth rates are presented on a constant currency basis, unless otherwise noted.

Today's remarks will focus on continuing operations. On today's call, Troy Rudd, our Chief Executive Officer, will review our key accomplishments, our strategy, and our outlook for the business. Lara Poloni, our President, will discuss key operational successes and priorities. And Gaurav Kapoor, our Chief Financial & Operations 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 & Director, AECOM

Thank you, Will, and thank you, all, for joining us today. I want to begin by thanking our professionals across the globe for their unwavering commitment to our purpose of delivering a better world. The value that we bring to our clients and communities every day is a testament to the collective strength of our organization.

I would also like to thank our professionals for supporting our teams and communities impacted by both Hurricanes Helene and Milton in the Southeastern United States. All of our employees remain safe, and safety is a core value at AECOM. We take great pride in our best-in-class safety record, which is well above our peers.

Before discussing our financials, I want to comment on the US election. First and foremost, the election creates certainty. Infrastructure investment is a bipartisan priority, and we do not foresee this changing. The incoming Trump administration is focused on a strong US economy, which is built on a foundation of world-class infrastructure. While specific initiatives and objectives may shift with 70% of our workforce fungible across market sectors, we are in a great position to capitalize on the investments in the US economy.

Specific to our US federal exposure, I want to highlight the following. The US federal client represents 9% of our revenue. Within that, nearly all of our work is for funded, multi-year, mission-critical, and essential infrastructure projects. The EPA and USAID combined represent less than 50 basis points of our enterprise revenue. And similarly, the Inflation Reduction Act accounts for less than 1% of our revenue.

On the other side of the equation, we see several growth opportunities emerging from the new administration's priorities. For example, deregulation. Prudent deregulation is a positive for our clients and our business. This includes permitting reform, which is one of the greatest bottlenecks to infrastructure investments, and simplification would increase the volume of project opportunities.

With respect to the IIJA, 95% of the IIJA funding is secure and not at risk. And with only one-third of the money allocated to date, plenty of runway remains. A reduction in government staffing would increase demand for advisory, technical, and program management services to support infrastructure investment.

Lastly, voters demonstrated continued support for infrastructure funding in the November elections, including \$41 billion of state and local transportation-specific ballot measures, as well as \$20 billion of bonds in California that includes sizable investments in water. Taken together, we expect the next several years to bring new growth opportunities for which we are well-suited to deliver on.

Turning to our fiscal 2024 financial results and key accomplishments. First, our financial performance was strong on all fronts and included records for net service revenue, margins, earnings, and cash flow. We also exceeded the midpoints of our previously increased adjusted EPS and adjusted EBITDA guidance with 22% and 14% growth, respectively. This was driven by 140 basis points of EBITDA margin expansion in the fourth quarter. And record free cash flow enabled the return of approximately \$560 million to shareholders through repurchases and dividend payments.

Second, we are winning what matters and extending our visibility. We had a 1.2 times book-to-burn ratio in the design business in the fourth quarter with strength in both segments, and we ended the year with a record backlog. In fact, our enterprise-wide book-to-burn ratio has been at 1 or greater in each of the last 16 quarters, which speaks to our competitive advantage and the strength of our end markets.

Our pipeline achieved a new high and increased by 10%. Our win rate remains at a record high at 50% and is notably even higher on larger pursuits, where our competitive advantages are greatest. And we are winning recompetes at a 90%-plus pace in our largest markets.

Third, we gained organic revenue market share. For the first time in our history, we achieved the number one ranking by Engineering News-Record in the water design market. This is consistent with our goal of doubling our water practice over the next five years, and we are now number one in every key market sector.

I also want to highlight that global program management took another big step forward, moving to the number two ranking, which is on track to be number one this year following 20% growth in fiscal 2024.

Fourth, we executed on a returns-focused capital allocation policy. This includes record investments in organic growth initiatives, continued growth in our dividend, and \$450 million of share repurchases during the year.

Today, we also announced that the board of directors approved an increase in our repurchase authorization to \$1 billion and an 18% increase in our quarterly dividend. Our dividend has increased by an average of 20% annually over the last three years, and the indicative dividend yield is now at the top of our direct peer group. We remain committed to double-digit annual growth in the per-share value of our dividend for the long term.

Finally, we are investing in new high-margin growth businesses that leverage existing strengths. For instance, the Water and Environment Advisory business, which draws on the technical leadership of our number one ranked water and environment practices, furthers our vision of becoming the global leader in infrastructure advisory services.

We expect this business to double within three years from \$200 million of NSR today and will become our next \$1 billion platform, similar to what we've already accomplished with program management. Importantly, this growth will be at higher margins, which further underpins our confidence in not only delivering on our 17% long-term margin target, but exceeding it.

As we look to 2025 and beyond, the secular growth drivers of our business are firmly intact. The need for infrastructure investment has never been greater. For instance, more than 46,000 bridges are considered

structurally deficient in the US and the average bridge is more than 40 years old. The IJJA created a competitive grant program with the goal of improving bridge safety and reliability.

And larger projects such as the Brent Spence Bridge, on which AECOM is a lead designer, received more than \$1 billion of large federal bridge grants and will continue on for several more years. Funding for transit, highway, rail and aviation infrastructure is also increasing, which is driving the record backlog and double-digit pipeline growth we are seeing in the Americas.

Around the world, urbanization is transforming infrastructure demand. Nearly 70% of the world's population is expected to live in cities by 2050, which has created enormous investment demand for safe, reliable drinking water and for building modern transportation systems while minimizing environmental impacts.

Additionally, energy demand for electrification and data centers to support AI creates several growth opportunities where we are poised to capitalize, from permitting to air quality, to energy storage and grid modernization. To give you a sense of how this is directly benefiting us, our transmission and distribution backlog has increased five times compared to just a few years ago.

Our role as a design partner on the UK's Great Grid project, as the program manager on San Diego Gas & Electric's undergrounding investment, and as the advisory partner for a major transmission grid build-out in Australia demonstrate the depth of our expertise and the strength of our brand in the market.

Turning to 2025, our backlog, pipeline and continued high win rates underpin our conviction in another record year for the business. This includes expectations for 5% to 8% NSR growth and adjusted EBITDA and EPS of \$1.19 billion and \$5.10 at the respective midpoints.

I could not be prouder of what we've accomplished over the last several years. Through our strategy and focus on winning what matters, we've created and are expanding our competitive advantage. As we look at 2025 and beyond, the ceiling for what's possible has never been higher.

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

Lara Poloni

President, AECOM

Thanks, Troy. I'm incredibly proud of our team's accomplishments in fiscal 2024. Our consistently strong performance reflects the realization of the key elements of our strategy. Let me provide a few examples.

First is our focus on only the highest growth and best-returning markets and clients. Today, our top four geographies of the US, Canada, UK, Ireland and Australia account for approximately 90% of our profits. And our win rate remains at an all-time high. Second, AECOM is the most desirable place to work in our industry. We are the number one ranked firm by ENR across all of our major end markets, which matters to both clients and recruits.

We consistently win the key roles on the most iconic and exciting projects, which creates a tremendous career opportunity for our professionals. And we offer the best leadership and technical development training in our industry. In fact, more than 10% of our workforce is enrolled in leadership development training at any given time. And the return on these investments is evident in the reduction in voluntary attrition rates amongst participants.

Finally, we formed the new Water and Environment Advisory business. This business will blend strategic advice with our technical and domain expertise to unlock new solutions for our clients in some of the largest and fastest-growing markets in the world.

The most critical element of any organically-led initiative is appointing the right leader. And in September, we announced Jill Hudkins was joining AECOM to lead this business. Jill brings a wealth of experience, expertise and market credibility to AECOM, and has a proven track record of leading similar value-creating initiatives throughout her career.

As Troy detailed, we expect this business to grow rapidly, similar to the trajectory we delivered with program management, which increased from only a few hundred million dollars three years ago to approximately \$1.3 billion in FY 2024.

A great example of the opportunity is in digital water, which is a \$70 billion opportunity through 2030. In the US alone, there are 500 municipal water utilities serving populations of over 500,000 people, and each requires substantial digital investments to modernize operations, embed predictive analytics and cybersecurity, and drive process efficiencies.

Similarly, in the UK, AMP8 is set to substantially increase regulated water utility investment over the next five years, including a deeper emphasis on digital water investments. To date, we have won 100% of the frameworks on which we had an incumbent position and we've also secured 60% of new frameworks, consistent with our focus on gaining market share within the AMP program.

Expanding our advisory services is a key element of our strategy to more deeply engage with our clients and provide services from conception of the project through execution. Importantly, we lead with our scientific and technical excellence, which places us in a competitively-advantaged position as compared to traditional advisory firms. As a result, the energy inside of the organization as we build our advisory capabilities is palpable.

With that, I'll turn it over to Gaur.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

Thanks, Lara. Echoing both Troy and Lara's comments, we have built a strategy and culture that results in consistently strong performance, which is evident in both our strong 2024 results and in our guidance for double-digit adjusted EPS growth in 2025.

I want to highlight three metrics that underpin our continued value creation. The first is margins, where we continue to lead our industry. We exited the year with a 16.7% adjusted EBITDA margin in the fourth quarter, up 140 basis points from the prior year. For the full year, the adjusted EBITDA margin increased by 100 basis points to 16%, reflecting continued execution on key margin expansion initiatives.

Importantly, this margin expansion is what funds the record level of high-value organic investments we have made and are continuing to make, which are expensed through the income statement. The second is EPS growth. We delivered 26% adjusted EPS growth in the fourth quarter and 22% for the full year. Our EPS has compounded at 21% rate since 2020, which directly correlates to shareholder value creation.

Finally, free cash flow, which exceeded \$700 million for the first time in our history. Notably, free cash flow represented 10% of our net services revenue, which is great representation of high quality of our earnings.

Turning to other highlights from our results. For the year, we delivered record net service revenue, including 8% organic growth in the design business, which is a historically strong growth rate. Results could have been even better if not for two impacts in the fourth quarter. First, Hurricane Helene resulted in several lost days in a few of our larger markets. We expect a similar impact from Hurricane Milton in the first quarter, but this is incorporated in our strong guidance for fiscal 2025.

Second, we made the decision to not proceed with an already awarded construction management project, where the owner wanted to change the commercial risk profile. We will always prioritize appropriate risk management, even if it means sacrificing some of the revenue in the near term.

Despite this, the competitive edge of our platform was evident in our over-performance versus guidance for margins, adjusted EBITDA, adjusted EPS and cash flow. I also want to comment on the new Water and Environment Advisory business.

I am sure you are asking yourselves how much investment will be required and what is the payback? Unlike M&A, which has a high upfront cost and risk, the cost here is much smaller with focus on hiring the right leader and teams to organically grow the business. As we've proven, we deliver more than 40% incremental return on capital on our organic growth investments. Also, unlike M&A, the cost of our growth runs through our margins and is already reflected in our expectation for another year of record margins in fiscal 2025 and continued expansion beyond that.

Turning to our segment results, beginning in the Americas, net service revenue in the design business increased 9% for the fourth quarter and included strong contributions across all key end markets. Key funding drivers, including the IIJA, are still ramping up and state and local clients continue to have strong budget outlooks and historically high reserves, which adds to our confidence.

The design book-to-burn in the fourth quarter was 1.2 and we are confident that the backlog will continue to increase based on our strong pipeline. Adjusted operating margin in the Americas achieved a new annual high at 18.8%, including 19.6% in the fourth quarter. We continue to deliver on initiatives that increase margins and return on capital and are confident in our margin expansion in 2025 and beyond.

Turning to the International segment, net service revenue increased by 6% for the year. This was materially consistent with our expectations. We had a 1.2 book-to-burn ratio in the fourth quarter and backlog remains at an all-time high. We delivered a 12.6% adjusted operating margin in the quarter, which increased 260 basis points from the prior year and is at an all-time high.

We continue to benefit from our focus on our highest growth and lowest risk end markets and clients and ongoing continuous improvement initiatives. Across our markets, trends are strong. The autumn budget in the UK released in late October provides key funding for infrastructure, including £100 billion for energy, transport, healthcare, and housing CapEx, and £70 billion for growth industries such as green hydrogen and gigafactories. Additionally, AMP8 spending is set to accelerate, and our wins to date position us to gain market share.

In Australia, our backlog increased by 26%, driven by larger water and T&D wins. And in the Middle East, we continue to win large scopes of work, including another nine-figure win in the fourth quarter, and other opportunities in the UAE are picking up.

Turning to cash flow and capital allocation, we delivered record free cash flow exceeding \$700 million for the first time and increasing 20% from the prior year. Free cash flow per share increased even more at 23%, further demonstrating the value of our capital allocation policy to shareholders.

As I noted earlier, free cash flow conversion was 115%, and as I noted, we achieved a new milestone with a 10% free cash flow margin on net service revenue. As a result of our strong cash flow, we repurchased \$325 million of stock in the fourth quarter and approximately \$450 million for the full year. We also paid \$115 million of dividends during the year, and we completed an acquisition of an environment permitting practice focused on federal land, which is rapidly growing opportunity under the incoming Trump administration.

We are affirming our returns-focused capital allocation priorities. This includes the increase of our repurchase authorization to \$1 billion and the 18% increase to our quarterly dividend, beginning with our January 2025 payment. Our balance sheet is strong with net leverage of 0.8, which supports our ability to remain opportunistic in how we deploy capital.

I want to provide an update on our discontinued operations. Since our last quarterly call in August, Shimmick successfully resolved two legacy projects disputes resulting in gross cash infusion of approximately \$130 million. This infusion of cash enhances their visibility and reduces the risk profile.

Turning to our guidance. We expect net service revenue growth of 5% to 8% in 2025, supported by our 1.2 book-to-burn ratio in the design business in the fourth quarter and a record backlog and pipeline. We expect revenue phasing to follow a normal seasonal pattern, which means we expect NSR growth will accelerate as the year progresses. We expect 30 basis points of adjusted EBITDA margin expansion to 16.3%. Adjusted EBITDA is expected to increase by 9% at the midpoint to \$1.19 billion and adjusted EPS to increase 13% at the midpoint to \$5.10.

With that, operator, we are ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We'll take our first question from the line of Andy Wittmann with Baird. Please go ahead.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Oh, good. I just wanted to ask kind of clarification here. I was looking at your adjusted EBITDA guidance and the reconciliation for that. And I noticed that after spending \$100 million on restructuring and transaction costs in 2024, which was kind of a big number, there was nothing listed in 2025. I was just wondering if that's just because you don't know what it is, or if you expect that your earnings will be devoid of these kinds of one-time charges.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Andy, thanks for the question. You know what, I'm going to turn that over to Gaur, but I'm also acknowledging that is a good observation.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Yeah, morning, Andy. Thanks for the question. So, your assumption that FY 2025, we do not contemplate any restructuring as we've said before. There were some significant restructuring programs that we had to right-size as we were exiting countries and being very focused on the six geographies that have the best growth fundamentals. We have completed through it. There is no new contemplated restructuring. So, our FY 2025 results and beyond should be clean.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Got it. Okay. That's good to hear. Kind of a similar question, maybe another one for you, Gaur, but just to understand, because I just noticed that you're doing something a little bit different. So again here in the adjusted EBITDA, you guys are calculating the margins at 16.7%. But that's not the number that people would immediately calculate from the income statement.

So can you talk about what the difference between the 16.7% and the 16.0% is, that most of us are calculating, what that is and why you're doing that? And maybe if you could just maybe take that same concept and apply it towards the guidance. When I look at the adjusted EBITDA dollar guidance and look at the implied margins, it doesn't back into the organic growth rates that you're talking about. And so, I think maybe all this has to do with the same thing, and you could clarify that for all of us.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

No, absolutely. Not a problem at all, Andy. So, specific to adjusted EBITDA that we're guiding to, and we started that midway through last year as well, there was feedback from our shareholders, prospective shareholders, that they wanted a margin target that was comparative, inclusive of all cost of the enterprise. And as you know, adjusted operating income that we provided for segments did not include corporate cost that we were incurring. So that is now reconciled within adjusted EBITDA.

Further, the denominator in adjusted EBITDA has net services revenue for all consolidated JVs. But our EBITDA that we report, it is attributable EBITDA only. So it excludes NCI. We add that back. What we have also included is we've included a margin reconciliation bridge in the release that we provided for you and for investors that walks through the separate steps I just articulated. And for us, it's all about simplicity as we go forward with clean results that one can compare easily for us.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Got it. Okay. I thought the quarter was pretty straightforward, so just those definitional questions for me. Have a good day. Thank you, all.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Thanks.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Thanks, Andy.

Operator: And our next question comes from the line of Sangita Jain with KeyBanc. Please go ahead.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah, good morning. Thanks for taking my question. I just had a couple on the International segment. Is there anything in particular that you would call out on the International backlog strength in 4Q? Maybe a sizable project or a specific geography where you may have seen more strength?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Thanks for the question, and I'm going to pass it over to Lara.

Lara Poloni

President, AECOM

A

Thank you, Sangita, for the question. We closed another strong year for International. And we're seeing continued strength amongst all of those key end markets for us, whether it's the UK, Australia, New Zealand, Middle East, so where the growth is going to continue to be led for us in terms of the long-term mega trends in infrastructure and energy.

We've got renewed optimism in the UK, where now we've got clarity in terms of the autumn budget, which creates certainty for the next wave of infrastructure investments. And importantly, we can capitalize on that through our long-term positioning with the frameworks, whether they're for transportation or water or energy. So, we've got a very solid position there.

And importantly, we've got coverage of most of those frameworks, including in AMP8, where we've now won 100% of the recompetes, where we were the incumbent and 60% of new frameworks. And importantly, those

frameworks, we're going to continue to define the value of those over the next few months. And so, they're currently not included in our backlog.

But equally, we have, yeah, strength in terms of our KSA market, where we grew 15% fiscal year and we continue to see long-term opportunities there for infrastructure. And also, the 2030 initiatives around the FIFA World Cup and also the other initiatives there. And then also, Australia, New Zealand, there's a long-term trend there that we're seeing in terms of \$120 billion of long-term infrastructure investment as well. So, continued strength across all of the key infrastructure segments in our International business.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. That's helpful, Lara. So, if I can just stay on International and ask you a question on margin expansion. You only turned double-digit margins in International just a year ago and now you're over 12.5%. Should we expect the same pace of improvement in fiscal 2025 or should we moderate expectations somewhat as we go into 2025?

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Hey. Morning, Sangita. This is Gaurav. I'll take that question. When it comes to margin, we are the North Star in industry and we will continue to be the North Star in industry in terms of the art of possible. And as we have made investments in prior years, including FY 2024, what we've realized the ceiling of that art of possible, it continues to increase for both segments because we have made and continue to make investments in high-growth, high-margin platforms similar to the advisory services we have now launched in Q4, investing and efficiently delivering our services.

And to your point, International has led the way on that margin expansion. We provided guidance. We expect on the top end of our long-term algorithm range. 30 bps is what we expect will be the enterprise increase for margin expansion. And we do expect International will lead that way.

One thing I do want to note is the investments that we have made and will continue to make, these are record investments again in FY 2025 that we're contemplating, they go through our income statement. And it allows us the confidence as we sit here to say, not only are we going to be able to deliver our FY 2025, continue to lead our industry in margins, but exit FY 2027 at 17% for the enterprise. And beyond that, we are now pretty confident, again, that ceiling, it is 17-plus-percent with all the significant initiatives and investments we're making.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks so much, Gaurav.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Thank you.

Operator: Our next question comes from the line of Andy Kaplowitz with Citigroup. Please go ahead.

Natalia Bak

Analyst, Citigroup Global Markets, Inc.

Q

Hi. Good morning. This is Natalia Bak on behalf of Andy Kaplowitz.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Good morning.

A

Natalia Bak

Analyst, Citigroup Global Markets, Inc.

First question I'd like to ask, in the 5% to 8% organic NSR growth for 2025, do both segments grow in the range, or does Americas grow faster? And if you could also update us if you've seen any improvement in the pauses you've had in the Middle East.

Q

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

Sure. Morning. I'll take the first part and Lara will respond to your question on Middle East. The NSR organic growth that we're contemplating for FY 2025, it's 5% to 8%, which is consistent again with our long-term algorithm we articulated during our Investor Day.

A

We do expect, as you've seen in the second half of the year, Americas will be the organic growth leader between the two segments for NSR growth and expectations on International will be – it'll start off slower during the year because as Lara articulated in her opening comments and in response to one of the questions, their funding is now coming back online in some of our key international markets and we expect that to ramp up into the second half.

Lara Poloni

President, AECOM

Yeah. If I can just add specifically on the Middle East, we didn't see a slowdown at all in Q4. In fact, our business grew in Q4. It grew in the year. And then some of the specific – the larger segments like the Saudi Arabia business, we won another nine-figure major program in Q4, giving us additional long-term visibility. And as I said earlier, we've got confidence in terms of some of the longer-term programs that are going to continue for us. So, we are the leading consultant in the region and we have broad coverage across many of the key programs that cover infrastructure and major projects as well. And then...

A

Natalia Bak

Analyst, Citigroup Global Markets, Inc.

Okay. That's helpful.

Q

Lara Poloni

President, AECOM

Thank you.

A

Natalia Bak

Analyst, Citigroup Global Markets, Inc.

And next, maybe a question focusing on margins. Just on margin, so you did 100 bps of margin expansion in 2024. And I think annually, you've averaged about 80 bps or a little over 80 bps of margin expansion for like the

Q

past few years. With still reasonably good growth in 2025, why would you only average 30 bps of margin expansion in 2025? Like, what's holding you back from more margin expansion?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

So, it's a great question. I would not describe it as being held back from margin expansion. We've said this a number of times over the last three years, is that we're continuing to invest heavily in the business. And in each of the last four years, we've invested more in the business than we've had in the prior year.

And as we move forward, we're going to continue to invest in the business. And again, there's pretty significant returns from that, which is obviously higher margins in the future and a growing business. I'll just give you kind of a highlight of where we've invested. First of all, we've invested in our workforce. We've invested in recruiting extraordinary professionals to the organization and most importantly, investing in leadership and technical development of our workforce.

Secondly, we are investing in transforming the way that we deliver our work, deliver it now, and actually deliver it very differently in the future. And we think that will have very significant margin benefit to us as we go forward. And then we're looking to expand our business. We have said that design and engineering or our knowledge of science is the base of our business. And we've looked to expand this. Our vision is to actually have 50% of the business in engineering and design and have our rest of our business, so the other 50%, perform the advisory and program management work in the future.

We've made a significant investment in program management. In the last three years, we've grown that business. So, it represents about \$1.3 billion of NSR this past year, and we see double-digit growth for that business. And now, we're making an investment in growing that advisory business, which Lara referenced in her comments that we're going to look to double that business and make that our next \$1 billion platform.

So, again, it's not that our margins are not growing as fast as they have, it's that we're being very thoughtful in terms of investing in the future of the business so our margins will go well beyond the 17% target.

Natalia Bak

Analyst, Citigroup Global Markets, Inc.

Q

Got it. Helpful. Thank you.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Thank you.

Operator: Our next question will come from the line of Michael Feniger with Bank of America. Please go ahead.

Michael Feniger

Analyst, BofA Securities, Inc.

Q

Hey, guys. Thanks for taking my questions. Just, Troy, I am curious just on the bigger picture here as we turn over to a new administration, there are some concerns out there around federal funding and budgets could be under tighter scrutiny. Are you starting to hear any of those concerns from your customers that are on the public side? Does it hold back some of the pipeline? I know it's early days, Troy, but just would love to get a sense of what you're hearing, risks or tailwinds as we're kind of heading into this new administration.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Yes. So, at the moment, we're not hearing anything directly from our clients. I think that the sort of the thoughts around the impact of the election are actually just sort of coming from the election process itself. And so, we don't have any insight into the agenda of our clients, our federal clients, than what exists today. But what – based on what we do know, is we know a couple things. One is, is that the federal election does create certainty. It means it creates certainty that over a period of time, we're going to understand what the new investment agenda is going to be for the federal government.

And from my perspective, the fact is we have a very agile business. We made reference to this that about 70% of our workforce is fungible across our markets. The other thing that we do know is that there needs to be a continued investment in infrastructure. And the majority of that investment, while supported by federal funding predominantly comes from our state and local clients or municipal clients or city clients and private clients. And that represents more than 90% of our work.

So, when we sort of look forward, we do have a great degree of certainty on what the priorities of the government in the US and the governments of the US and our private clients are going to have on their agenda. And we believe that based on what we know about the – also the election agenda of the new administration is that they're going to need to invest in infrastructure. Because if you're going to strengthen the manufacturing base in the United States, you're going to have to invest in aviation, ports, rail, roads and all the supporting infrastructure for those that increase manufacturing base or manufacturing investments.

And then the other thing that we know is if there is permitting reform, there is an awful lot of money that is going to be spent in infrastructure in the next few years. And if there is permitting reform that's meaningful in the next few years, we see that as actually improving the returns on the investment and accelerating investment in infrastructure. So, well, I think there's an environment of some uncertainty. I think when we look forward, just kind of given the focus of our clients and the focus of – on the need for infrastructure that we feel very good about the future.

Michael Feniger

Analyst, BofA Securities, Inc.

Q

Helpful, Troy. Thank you for that answer. And just on 2025, it sounds like there were some things that were holding back the NSR growth in Q4 and there's a mention of acceleration of that NSR growth in the second half in 2025. So, just curious on the first half or second half and to get that acceleration in the second half, does it require certain recompute wins or a bigger pickup in the pipeline that we're seeing now? Or do you kind of have visibility on that second half acceleration? Thank you.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Yeah, the simple answer is we have good visibility on the second half acceleration. And that's driven by the kind of the work that has been awarded that we're going to contract on. And as – and even as Lara pointed out, with some of the – as a result of the election, some of the changing agendas that that work has been coming to market and it's been awarded through frameworks, and that gives us confidence in the second half of the year that we'll take the work out of those frameworks.

And then, in terms of just what's happened in the first six weeks of this quarter, we've kind of had continued success, which also gives us confidence in terms of the – confidence in the year, but also confidence in the growth in NSR in the second half of the year.

Michael Feniger

Analyst, BofA Securities, Inc.

Q

Great. If I could just sneak one more in, Gaur, just the 10% of NSR to free cash flow, is that – in your view – is that sustainable? Can you actually expand that? Or in 2025, 2026, 2027, just curious on how to think about that free cash flow conversion of NSR going forward. Thanks, everyone.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Sure. Not a problem, Mike, and thank you for acknowledging that fantastic accomplishment for the enterprise of 10% to NSR growth. We have 35,000 to 50,000 projects that are ongoing at any point in time. So it's very hard to be precise to say that's the number we're going to land on.

More importantly, what has driven these great results is cash conversion is embedded in the culture and DNA of how our professionals operate. It's one of the core tenets. And that provides us the confidence, to your point, that 10% conversion, it is achievable, especially as we move forward, continued margin expansion even on industry-leading margins that we delivered, expectations that our investments will pay dividends, leading us to unheard of levels of margin at 17% and 17-plus percent.

All those things bode exceptionally well for great cash conversion at a very high rate. And that will be our focus year in, year out, to have the best cash results, including continue to deliver on that 10% conversion rate.

Operator: We'll take our next question from the line of Steven Fisher with UBS. Please go ahead.

Steven Fisher

Analyst, UBS Securities LLC

Q

Thanks. Good morning.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Morning, Steve.

Steven Fisher

Analyst, UBS Securities LLC

Q

I just wanted to follow up on – good morning. Just wanted to follow up on the growth rate in the pipeline that you have. I thought I heard you mention 10%, but just if you could kind of remind us what's the growth rate you're seeing in the pipeline of the larger pursuits. I think it was 20% last quarter, or maybe that was just program management. I'm not sure if you're differentiating between kind of large pursuits in general and program management pursuits. So just trying to clarify a little bit on the pipeline growth rate. Thank you.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Sure. Hey, Steven, it's Gaur. I'll take that question. You're right in your recollection, our pipeline year-over-year, which was very robust when you compare to this time last year, it's up 10% again in all our end markets. And it gives us a lot of confidence, especially when you look at the book-to-burn in our design business of 1.2 as we exited the year, but as importantly, 50-plus-percent win rates overall that we've been capturing for multiple years in a row.

And when you look at our larger pursuits, not only is the pipeline more abundant with those larger pursuits coming in at higher velocity throughout the year, but our win rate is greater than that when it comes to win rates, greater than the 50-plus percent on the larger pursuits, greater than \$25 million. And including program management, where it seems to be we've almost been clearing the deck as those opportunities have come up over the last few years. So it gives us a lot of confidence as we march into FY 2025.

Steven Fisher

Analyst, UBS Securities LLC

Q

Okay, that's helpful. And then maybe a question around sort of private sector versus public sector and short-term interest rate policy is still a little bit an open question and also the outlook for long-term rates as well. So, how do you see the influence there on the private sector? And when you think about your business for the next couple of years, how do you see private sector versus public sector from here?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

So, Steve, we actually have optimism obviously around both. Again, there's a need for – there is clearly a need for infrastructure that's going to support the expansion in the economy and is going to support the agenda of things like addressing the concerns around resiliency and sustainability, and infrastructure is certainly as you've seen, the impact of kind of climate events.

So, we have that optimism around governments and we see it in our pipeline, but we also see that within our private customer base. And simple places to look for that is you really look at sort of the insatiable need for energy. And that need is – it really exemplifies the significant amount of investments being made by our private clients.

And so, when we sort of look across it, we have optimism around that entire pipeline. The thing that we're hopeful of is that with permitting reform, it will increase the returns for our private clients. And in fact, our client – our private clients will have an even larger appetite to invest in the infrastructure they need to support their growth ambitions.

Steven Fisher

Analyst, UBS Securities LLC

Q

Thank you. Actually, just a follow-up there, I do want to ask you, since you talked about the permitting reform, where you see it having the biggest impact on your business? Is that exactly where you see it on that private sector side?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

No. I mean I – the answer is I see it across the entire portfolio of work that we do. When you sort of look at whether it's private or publicly funded infrastructure projects, the permitting process can take anywhere from three to six years. That's sort of a statistical industry average.

But even beyond that, when you start to look at all of the work that has to get done to take something from design and all the way through construction, there is a significant amount of sort of a government regulatory review that goes on in that process. So, we actually see that as an opportunity as well for simplifying the process. So, it's permitting, but it also extends right into the delivery of the project. And so, it's a really significant opportunity.

Steven Fisher

Analyst, UBS Securities LLC

Perfect. Thanks a lot.

Q

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Thank you.

A

Operator: We'll take our next question from the line of Michael Dudas with Vertical Research. Please go ahead.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Good morning, gentlemen, and Lara.

Q

Lara Poloni

President, AECOM

Hey.

A

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Morning.

A

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

Morning.

A

Michael S. Dudas

Analyst, Vertical Research Partners LLC

In your – the new Water and Environment Advisory business that you've created and looking to grow, is that going to be mostly driven by your current account base and you're just adding, getting more involved in from beginning to end type services or is there opportunities away from your existing clients? I'm assuming it's both, but where the program management can be much more impactful, especially with some of your non-US government clients as you're looking to grow that program management business.

Q

Lara Poloni

President, AECOM

Yeah. Thanks for the question, Mike. And we've got a lot of excitement about this new business. And our new leader, Jill Hudkins, is off to a flying start, it's only been six weeks but there's been such positivity internally and externally in terms of this new business for us and the aspiration that we have.

A

Look, to answer your question, it's both. And we obviously have very strong coverage across many municipal water clients. It's – there's possibilities in the federal segment where we're also sort of the leading player, but obviously, opportunities in the private sector. So, if we look at the core markets, there's certainly opportunities to take more market share in the municipal space where there – in the US alone, for example, there are 500 municipal water utilities serving populations of over 0.5 million people. And each of them require substantial digital investment to modernize their operations there. All of the existing clients have challenges in terms of water supply optimization.

So, the time is right for this new business and the fact that there are existing clients and there's opportunities to take more market share with many other clients in the municipal space augers well for us.

And also in the UK, I mean, just the anticipation around the wave of work that's coming with the AMP8 program I mentioned earlier, our positioning at the moment, our win rate in terms of those very important frameworks. Again, these clients will benefit directly from this new business that we've established. So, we're poised to really capitalize on the timing of standing up this new advisory opportunity. We're super excited about it.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Excellent. Thank you, Lara.

Q

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Thank you.

A

Operator: Our next question will come from the line of Kevin Wilson with Truist Securities. Please go ahead.

Kevin Wilson

Analyst, Truist Securities

Hey, good morning. Thanks for the time.

Q

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Morning.

A

Kevin Wilson

Analyst, Truist Securities

Following up on the Water and Environmental Advisory business, I think you spoke to the sort of lower level of investment required. But I'm wondering, understanding it's a higher margin area, can you speak to sort of the level of business development spending and reinvestment in the business that you're expecting and how that potentially maybe weighs on margins in the shorter term?

Q

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

Yeah. Hey, Kevin. This is Gaur. I'll take that question. In terms of lower level of investment, that comment is just a comparative to if we were to do a very expensive M&A, which it would be in this type of space. We've proven our

A

track record, including program management that we're able to make very smart investments through our P&L by attracting great market resources and professionals to drive this organically.

If you look at our program management business, four-and-a-half, five years ago, that was less than 3% of our overall NSR and it's now almost 15% of our overall NSR based on the organic investment. So, not to say that they're low investments, but comparatively the investments we make are organic and drive very high ROI, in fact, close to 40-plus-percent.

And when we look at what is the specific investments, it's all included in our guidance because it's all going through our income statement. We don't break out individually what an investment costs. But this, again, is what we build on and gives us confidence to continue to be the industry leader and continue to separate ourselves in margin delivery. A few years ago, nobody thought 13% was possible. Two years ago, nobody thought 15% was possible. We're going to deliver 17% and continue to march forward from that 17-plus-percent.

Kevin Wilson

Analyst, Truist Securities

Q

Thanks. That's helpful. And then my second question, I'm wondering if you could speak to if you see consolidation opportunity in the space among infrastructure services, professional services firms. And if so, why? Are there scale benefits? What would be the biggest risks to do something like that be in your opinion? And sort of related to that, to what extent do you think M&A or portfolio optimization from peers is creating opportunities for AECOM to gain share as peers could maybe be distracted? Thanks.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

So, yeah, it's difficult to talk about what other people's ambitions are, but I can talk about our own. And so, first of all, the way we think about this is if you're going to do M&A, is there a need for – is there a need to do it? And so, first of all, if you're already number one in all of the marketplaces that you serve, is there a need to do acquisitions to kind of grow, again, grow your capability? We don't think so. We do believe that you do need scale to invest in the future of this business. There are some trends – I wouldn't even say there are some trends, there are investments that we're making and investments that need to be made in the industry to keep up with us.

The fact is, is that we are going to transform the way that we deliver work. And that could lead you to the question, does it really make sense to do an acquisition to acquire more people in a business where, in fact, in the long term, you're going to need less people to deliver the same amount of work? So, we look at this and say we're focused on growing the business organically, transforming the way that we're going to deliver work in the future and extend our vision of actually expanding how we serve our clients by growing advisory and by continuing to grow program management. So, organic investments is where we think it's important to be focused.

Now, the other issue is when you look at making an acquisition in today's market, the prices are very expensive. And so, it – just again, just in terms of a return model, it doesn't make any sense to do that, especially when we're actually deploying capital and compounding our existing earnings so that we're delivering – at least in the last three years, we're delivering compound EPS growth in excess of 20%. And so, that's where we see the greatest opportunity to deploy capital.

Is there going to be an opportunity for others in the industry? Possibly. But that's not where we're focused. And we also view that as scarcest resource that we have in the business is actually management time. And our management time is dedicated to what I just described if we were to do – participate in large acquisition, it would

absolutely detract from how management is spending their time to continue to create a competitive advantage. So, that's our focus.

Kevin Wilson

Analyst, Truist Securities

Q

Thank you.

Operator: Our next question will come from the line of Adam Thalhimer with Thompson Davis & Company. Please go ahead.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Hey. Good morning, guys. Nice quarter.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Thank you.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Good morning.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Did you guys see any caution in the US in the months leading up to the election from public or private sector clients? And I'm just curious if that was the case, are you seeing any signs of improvement there?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

We really didn't see any signs from our clients, whether they were private or whether they were public sector clients. One of the things we did observe, though, is, as we said this, is that when you're focused on larger project awards and we've been focused on that and winning a lot of larger project awards is that the process to bid and the process to award and the process to contract takes a little bit longer.

So, we didn't see anything unusual, but that was really what we saw in our business as a result of our focus on kind of what we describe as winning the things that matter, the larger – iconic or larger programs.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Okay, interesting. Thanks. And then I wanted to ask on the construction management issue that you called out. Curious if that was a one-off issue or is that a reflection of the state of the industry as a whole?

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Hey, Adam. This is Gaur. I'll take that question. That was a one-off issue. We haven't experienced that ever. And as I said in my comments, my prepared remarks, any time there's a situation where a client will try to push onerous risk on to us, we will walk away. We have no interest in taking onerous risk. The great thing is, at any given point in time, again, something I alluded to earlier, we have 35,000 to 50,000 projects ongoing and not one project is ever material.

So, we will manage – we will continue to employ our risk management and continue to deliver organic growth. And as importantly, as Troy mentioned in his comment to Kevin, 21% EPS compounded CAGR over a five-year period.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

And I'll just – I want to just add to Gaur's comment. I think it's not necessarily the project itself, but I think it's also important to recognize that it's – this is something built into the culture of our organization is we're going to continue to make, again, really thoughtful decisions about how we manage the risk in our business and we manage the risk around projects. And that when we are uncomfortable with that, we're willing to, again, not chase revenue, not chase revenue growth, where sometimes that would be to your detriment in the long term. So again, that's a really important part of what's become our culture.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

And then just real quickly, staying on that theme, could you actually make a case to the opposite that the construction management business is about to get better for the next couple of years?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Oh, I have no doubt that it's getting better for the next couple of years. And the reason is we've won a pretty significant amount of work over the course of the last few quarters. And we have good visibility into the future. But in construction management, when you win projects, there's typically a start-up phase. And that start-up phase can take anywhere from nine months to a year we think about as pre-construction.

And during that phase, they are smaller projects. They are sort of on a time and materials basis. They don't have significant margins in them. But you then get to the point where you move from that pre-construction phase to award, and then all of a sudden your backlog expands and you have great projects that show up that you deliver for the next four or five years.

And so, that business has had some fairly significant wins. We're in that pre-construction phase. And so, it gives the impression perhaps that the backlog isn't as strong as we believe it to be, but it'll become visible in a short period of time.

Adam Robert Thalhimer

Analyst, Thompson Davis & Co., Inc.

Q

Good color. Thank you.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Thank you.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

Thank you.

A

Operator: And that will conclude our question-and-answer session. I'll turn the call back over to Troy Rudd, CEO, for closing remarks.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Thank you. Again, thank you, everyone, for joining the call today. And I want to close by just thanking all of the people at AECOM for the very significant contributions and effort that they exerted during the course of this year and what they're doing as we already start entering into this new fiscal year. Again, I thank you all. And thanks again, and we'll talk to you next quarter.

Operator: Thank you, all, for joining today's call. You may now disconnect.

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