AECOM-Citi Fireside Chat with CEO Troy Rudd

August 19, 2020

Operator:

Good day, and welcome to the AECOM group meeting hosted by Andy Kaplowitz, Citi. Today's call is being recorded. At this time, I'd like to turn the comments over to Mr. Andy Kaplowitz. Please go ahead, sir.

Andrew Kaplowitz – Analyst, Citi:

Thank you, operator. And good morning to everyone. We appreciate you joining us today. Again, this is Andy Kaplowitz. I cover engineering and construction and multi-industry for Citigroup. We're really excited to have today with us AECOM and the brand-new, CEO Troy Rudd. As most of you know, he was CFO of AECOM for almost the last 5 years. He's been with the company since 2009. He's held a series of operational and financial leadership roles.

We're going to do this in fireside chat format. I know that Troy has a few prepared remarks that he wants to make, which I'm going to turn over to him in a second. But again, we really appreciate him joining us for the call. I think it's going to be interesting. So with that, Troy, I'm going to turn it over to you. And again, thanks for joining us this morning.

Troy Rudd – Chief Executive Officer, AECOM:

Great. Andy, thank you very much. I have to admit, just as you introduced me, a fireside chat seems a little unusual in LA given that the temperatures are 100 degrees. So maybe today it would have been better to describe it as a poolside chat.

Andrew Kaplowitz – Analyst, Citi:

I like that.

Troy Rudd – Chief Executive Officer, AECOM:

And again, thanks for your introduction. I have just a few minutes of prepared comments, and then hopefully we'll spend most of time on Q&A. But first, I just want to start with the fact that I'm incredibly proud of the performance of our company so far this year. And that's really led by the strong teams that we have of phenomenal people that lead our industry. Over the last 18 months, as people are well-aware, we've been transforming our business into a pure-play professional services or design and consulting firm. Through this, this last six months and particularly since January, we've been working through the pandemic. And the focus of our people has been on making sure that our people and their families are healthy and safe, but at the same time balancing that with the health of our business. And I think they've done a fantastic job of achieving that balance. We set out a goal of making sure that we could maintain as much of our workforce, so that when we do come through the pandemic that we are as strong as we've ever been.

Our people have been incredibly resilient working remotely. At the peak, 90% of our people have been working remotely. And we're not far off that today, as there's been a second wave of the pandemic through many of the places where people are working. The other thing that's been surprising is they've been adapting and innovating at a pace that's certainly beyond the expectations that we had ever set in the past. And the contingency planning for the host of outcomes that we've been experiencing has been outstanding. Again, I just want to thank our teams and just the outstanding performance that they've had in kind of leading through these last 6 months. And I know we reported our third quarter results in August. Since then, we've had the opportunity to see how we've stacked up against our peers. So from my perspective, I wanted to highlight a few things.

One is our organic NSR was flat for the quarter, which doesn't sound that impressive. However, when we benchmarked against our peers, we saw that our peers organically were declining in the range of 2% to 10% in the quarter. So it certainly made us feel better about that outcome. We grew in our largest and most profitable market in the Americas. And in our transportation and water businesses, which are our largest and, I think, one of our premier franchises, we actually grew at 5% to 6% during the quarter, outgrowing the market and leading us to believe that we've taken market share in those sectors.

We've also worked hard at our margins. And we delivered industry-leading margins, NSR margins of 13.2%, up significantly over the prior year, 250 basis points up over the third quarter of the prior year. And importantly, our client satisfaction is a priority for us. And our net promoter scores have gone up substantially. Over the last few years, our net promoter scores have gone up 25%. Our utilization across the business, which has been very strong, remains at or above pre-COVID levels. And when we look at our earnings growth, again, our earnings growth for the quarter was 18%. And our earnings growth or EBITDA growth was 20% year over year. And again, that was leading our peers.

The other important part of this, when we started the year, we all set expectations of how we were going to perform. And as we ended the third quarter, we certainly had confidence that we were going to be able to be very close to achieving our EBITDA guidance. We have ourselves with 1% of the guidance we gave at the beginning of the year. And you know, we faced a fairly significant FX headwind. So as we sit here today, we look at this and say, we really are going to achieve our guidance for the year. Again, when we look across our peer group and see that everyone, since the beginning of the year, is now guiding the results down by somewhere in the range of 7% to 9%-- so again, those are some stats that certainly make us feel good about where we are. But more importantly, they provide a clear demarcation of how the people in our business have been excelling in this difficult time.

As we look forward, and I know that certainly as people are looking forward and see a lot of uncertainty in the environment, the pandemic has caused shocks to some of our customers and certainly is creating a lot of uncertainty in funding environments, in particular in our state and local markets here in the US and in the UK and the Middle East. But as we look forward, we see our strong franchises and professionals giving us the opportunity to continue to take market shares even in difficult markets. We've had some very significant wins in EMEA during the third quarter, which give us a good line of sight as we head into the fourth quarter and into the following year. So even in that challenging market where we did experience a decline in revenue, we did see ourselves setting ourselves up well and creating some stability in those businesses in the future.

We do have several years of backlog, which creates good visibility into the future and gives us the opportunity to manage through this continued uncertainty. We do have low fixed costs or a highly variable cost structure, which gives us the ability to change and react to an uncertain environment. And our teams, again, and our management teams and our people been incredibly engaged and agile through this process. And I don't see that changing.

Our focus is this: we can't control things in the world in which we operate. We can try and influence some outcomes, but ultimately we don't control those outcomes, certainly the legislative outcomes. But what we can do is we can control the things that we're required to deliver on. And that's entirely our focus. And at the same time, making sure we're doing the right things, so we find a balance between employee health, business health, and looking forward to the future, so we maintain the strength of our workforce when the pandemic ends.

Again, as I look to the future, Andy, the question I'm most often getting is, what's going to change at AECOM and in your industry now that you're in place as a new CEO, and Lara Poloni is in place as the President, and given the uncertain environment across the globe? The simple answer is, I think very little is going to change. But in some of the ways around our industry, I think there's going to be a lot of change that we're going to have to react to and take advantage of the opportunities that are created. So in terms of our direction, strategic and financial priorities, there will be little change. We are steadfast in our conviction that we will continue to transform into a professional services business, exiting our at-risk businesses.

We believe that the results for the last 2 years confirm that we're on the right track. And our capital allocation focus is going to prioritize high-returning investments in our businesses or business lines or countries. And we are going to be deploying our cash to return it to our shareholders through repurchases.

But on the other hand, again, as I said, that's what's going to stay the same. There are other things that are going to change rapidly. And what we're seeing is the pace of change in our industry and our markets is very rapid. Our clients are learning to operate remotely and are embracing the new operating environment. They're also embracing the move to digital tools and to new ways of interacting. And when I look at us, we certainly have the scale and the capital. And we certainly have a track record of innovative solutions, so that we can take advantage of the rapid change in the market and create separation between, certainly, ourselves and some of the smaller mid-sized firms that we compete against and some of the larger firms that we compete against.

And we have a focus at the moment of investing in new software platforms that are going to open up some higher-margin revenue streams for the organization. I still need to say there is a great example of that, and I did refer to this in the earnings call, which is we've been working on the Digital Environment Impact Assessment Tool. We are piloting that, where we'll be able to provide the first-ever Digital Environmental Impact Statement for the Corps of Engineers, so they can file under NEPA. It is, as far as we can see, light years ahead of what is currently available. And we do see a move and great interest in our client base in adopting this as a tool and from some government agencies adopting this as a means to facilitate the ongoing approval process.

We're also capitalizing on what we're referring to as the digital transformation related to our workplace of the future. So we recognize both our employees and our clients have learned to be productive while working remotely. And we don't see that changing in the near future, but we're going to benefit from that. We see ways to deliver our work far more efficiently than we have in the past, at the same time furthering efficiency in our overall operating structure. So the investment we've made over this past year in cloud computing platforms and in our Global Design Centers and our Shared Service Centers have given us a unique advantage to take advantage of our global footprint, our global focus, but also to accelerate the change in how we're going to deliver our work.

The workplace of the future initiative is really focused on how our professionals are going to work differently, how we're going to equip them differently, and how we're going to create more flexibility for those professionals. It is going to obviously change the way that our real estate footprint is positioned. It's also going to change how we're going to provide, ultimately, our service for our clients and how we're going interact with those clients.

The best way I can describe this is today when we do our work for our clients, our designs are effectively captured electronically. We have the ability through capturing that information in digital libraries to use that information repetitively in future designs, at the same time taking a significant piece of the work that may have been done in a local office. And now, because of our ability to work remotely, it's to have more of that work done in regional and Global Design Centers. And then have again, the creative elements of the work, the front-end work, and then ultimately the delivery of the designs and the continued work with our customers to be done on the ground with our customers. And we can do that either remotely, or we can do that in person.

But what that means is, because of the rapid change, the remote working, and because of the advancements in technology we've made and are continuing to make, that we'll have the ability to be much more efficient in delivering the design by taking advantage of the information we've captured digitally around individual projects and to make much better use of our regional and global design centers to ultimately deliver that work cheaper, faster, and ultimately at higher margins for ourselves for our clients. And again, that gets back to the scale and the investments that we've made to date. It allows us to create separation between us and our competitors. And I view that as being a way to accelerate competitive advantage across our industry. So Andy, I'm going to stop there and then maybe answer some questions.

Andrew Kaplowitz – Analyst, Citi:

Troy, so that's all great stuff, much appreciated. So let me start maybe asking you one question on sort of looking back before we look forward. Because I do have some thoughts to your prepared remarks. So I mean, you've been at the company for a long time, right? And so I would say that the transformational aspect of AECOM has really happened more over the last couple of years. You know, maybe some people would argue differently. But really in the last 12-18 months, we've seen major transformation at AECOM. So maybe you can talk about what this transformation has done for the company, obviously selling MS, big restructuring. Why were those changes necessary you think? And what are the sort of ongoing impacts of the changes? Is it more focused? If I thought about the cost out plan in terms of a nine inning game, what inning are we in of the ultimate cost out plan?

Troy Rudd – Chief Executive Officer, AECOM:

So Andy, I don't want to go back too far in history, but there was a recognition a number of years ago that the overall portfolio was not performing as well as it should have. And there were a number of different reasons for that-- some very significant changes in market conditions and, also, just some very significant changes the way that risk was being taken on by certain elements within the overall engineering, construction, and delivery lifecycle. And so we recognized that we needed to change and effectively to separate from integrated delivery and focus on one element that made sense. And for us, that was becoming a professional services firm or a professional services consulting firm. And so we set out on the path.

It's not something that you can do overnight. And we set out on that path. And we recognized that we needed to, within that framework, certainly improve our margins. And we needed to focus on our people. And we needed to focus on making sure that we were delivering the best solutions for our clients as we move forward. And that may sound like a cliché, but ultimately the strength of our business as a professional services business is its people. And so if we have the best professionals in the marketplace, most focused professionals in the marketplace, the best-trained professionals in the marketplace, and we have a system where we can take-- I'm going to call it-- the rock stars of the design industry and bring them to the best projects around the globe, that we then have the platform to have a phenomenal professional consulting business.

We then look behind that and say, well, to do that, you also need to have the best cost structure. And ultimately, that best cost structure translates into margins. And then you have to take that and turn it into effectively a cultural change, which is, how do we make sure that we're constantly seeking to drive efficiencies in the business? Because over time, a lot of efficiencies you gain do get competed away. But you need to be focused on doing that. That then creates the opportunity to take some of the improvement or efficiency and to reinvest it in the business in improving margins and, also, opportunities to generate growth. And we viewed that as an important change, because I see that as a virtuous cycle. You have the best professionals in the business. You bring the best professionals to your customers.

You invest in making them better and attracting more people to the organization, great people at the organization. You improve your cost structure, so you've got the best cost structure in the industry. And then you just keep taking pieces of that and investing to get better and to continue to grow.

But at the same time, you have margin improvement. And that margin improvement allows you to deliver better returns to our shareholders. And then because we have a cash generative business, we then take that cash. And we continue to return that to our shareholders. I feel like we have the entitlement, as we drive efficiency, to take some of that and invest that in the business. But we have an obligation to take the free cash from our business and return that to our investors.

Andrew Kaplowitz – Analyst, Citi:

So Troy, just responding to that, what then, if I'm sitting here 5 years from now and I think that you've been successful over the last 5 years, what defines success to you? What do we need to see from AECOM that we would deem you successful in your first 5 years as CEO?

Troy Rudd – Chief Executive Officer, AECOM:

Well, I mean, I kind of look at this and say, cut to the chase, right? I mean, at the end of the day, we look at stock price. Stock price has to be materially improved, no question about that.

Andrew Kaplowitz – Analyst, Citi:

I like that. That's a good answer. Continue.

Troy Rudd – Chief Executive Officer, AECOM:

But I mean, when you look at all the things I'm talking about, they all have to translate or manifest themselves in a more valuable organization. And that means a higher stock price. I would measure success by saying that we need to be trading at a premium or a multiple, a multiple or premium multiple to our peers, our industry peers.

I think we have to have a business that has the highest return on invested capital in the businesses that we're in. And I think we have the opportunity to do that. And I think we just continue the cash generative nature of our business. There's no reason to change that. And again, as I said, underlying that is this virtuous cycle that I think it's imperative that we create.

Andrew Kaplowitz – Analyst, Citi:

To your point, what do you think the market doesn't understand then, Troy? And how can you fix that perception either through reality or through perception?

Troy Rudd – Chief Executive Officer, AECOM:

Well, that's a good question, Andy. You know, we've been going through, I think, a pretty significant transformation. I look at the company and say, it certainly is more valuable today than it was.

And so it's difficult for me to speak about the things that are outside my control. But what I can say is, I think if we continue to focus on growing our earnings, improving the underlying prospects of the business, continuing to advance our margins-- and I do believe that the 15% NSR margin target, the aspirational target that we set for ourselves, is certainly achievable.

Again, I look at that and say, those are things that are within our control. We have strengthened our balance sheet. So you know, we now have a balance sheet, I think, that's much stronger than it was. And again, I just think of ourselves as a more valuable company today. So I can't speak to things beyond our control. What I can say is what I'm focused on next is making sure that we complete the exit of our at-risk businesses. And that process now has more momentum than we've seen in the past. And then the other is making sure that we return our capital to shareholders. And as I said, you know, I look at us as returning our free cash flow to our shareholders.

So those are the things that I can control. Ultimately, I think those are the next elements of focus. And I think you work through those things and have the expectation that the stock will become more fairly-valued.

Andrew Kaplowitz – Analyst, Citi:

So, Troy, you brought it up, so I think I should ask you about it. How risky are the at-risk businesses at this point? I know you've commented on them that they were making money as we speak. But maybe one of the perceptions of AECOM is that there's still some way to sort of get hurt by owning AECOM. Maybe we could talk about that. You know, how risky are the at-risk businesses?

Troy Rudd – Chief Executive Officer, AECOM:

Well, maybe just to talk about them individually, because they are very different. But first of all, I'll start with the ones that are easy, our oil and gas business. The oil and gas business isn't very risky. But it is subject to certain market fluctuations. Certainly, the rapidly-changing price of oil or decline in the price of oil hurts that business. But it is a business that has a very good market position. But it is effectively in Western

Canada. And even through this period of time, we did lose some money in the second quarter in that business. But it returned to profitability in the third quarter. But again, even in these conditions, it's not a large or highly profitable business. It doesn't fit within the portfolio. Though it is risky, but it's really subject to the price of oil.

Look at our power business. We certainly had some fixed-price projects that certainly bring risk with them. When I look at that portfolio of projects, the largest and the riskiest of those projects was our Alliant Power grant construction project. And we've now completed that project. And I mean, it certainly under-performed the original expectations when we entered into the contract back in 2015. And it was certainly far more difficult to deliver than we had ever anticipated. But the good news there, it certainly was risky. The good news is it is behind us. Within the rest of that portfolio, we've been changing it so that we've been exiting the fixed price pieces of work. The other large contract that we have is the SONGS contract. And within SONGS, it certainly is in that power portfolio. But it is a decommissioning project, which is a very different risk profile than a construction project. Effectively, it is complex demolition where we have a partner that is responsible for disposing of the waste as we deconstruct it. And so it is a large project that certainly fits within that at-risk classification, but is certainly a very different type of risk profile.

And then when our civil construction projects or business, again, we had some projects in there that under-performed. But again, I'm pleased to say that we've narrowed the list of underperforming projects. And as I said, as I look at that business, there certainly is risk, because a lot of that is fixed-price construction work. But we've reshaped the portfolio. We've changed the nature of the risk that's been taken on in that portfolio. And I see that business continuing to be profitable and, more importantly, not being a source or a use of cash as we move forward, but actually being able to deliver cash, which, again, gives us the ability to, as I've said, gain momentum in the process to dispose of those businesses.

Andrew Kaplowitz – Analyst, Citi:

And to be clear, Troy, as you're disposing these businesses, it doesn't seem like you dispose them all at the same time. Because some of them are pretty unrelated. But you would just kind of methodically go through and dispose of them? Is that kind of the plan?

Troy Rudd – Chief Executive Officer, AECOM:

It is. Yeah. Again, just by their nature, I don't think you have a strategic or financial buyer that-- you know, it's possible. There are some that are interested in. And we certainly have had some interest from some. But I think the most likely outcome is that they'll be disposed of individually.

Andrew Kaplowitz – Analyst, Citi:

OK, great. And then sort of talking about some other sort of important details that you brought up, I mean, I think the workplace of the future initiative is really, really interesting, right? Both because of making the company more efficient, but also sort of the quantitative tailwind that it can give you. As you think about the 15% EBITDA margin goal that you have out there, what kind of economic conditions, what kind of footprint does AECOM need to have to be able to achieve that goal? And is there any way, Troy, to help us think about-- I mean, again, if I think about sort of leveraging work from home, the pandemic response, you guys would come to mind. Because you do have a pretty disparate real estate footprint.

So maybe you can sort of narrow that scope a bit over time, but it's hard for us to all sort of think about how to quantify that in the context of your 15% goal. So any color you'd give us in economic conditions, is this a meaningful tailwind to real estate over time, real estate costs for you? How do we think about that?

Troy Rudd – Chief Executive Officer, AECOM:

So when we gave the original 15% target, certainly we had no visibility to a pandemic or this kind of accelerated change in our industry. So dealing with the 15% first-- which is what we saw was a path to achieve that, but, again, by reshaping the portfolio and continue on the path of driving efficiency in the business. So that meant we've exited a number of countries. And so it's continuing. And I do see us continuing to exit a number of places in the world and to narrow the portfolio of the businesses that we're in. We simply set our path. We said we're going to evaluate our businesses. And if they're not going to be high enough returning businesses, then we're going to try and fix them. And if we can't, then we're going to exit them. And so we laid out a path that we thought we would undertake over a period of years, because it's not something you just exit businesses quickly. But that path, along with changing the efficiency with which we delivered projects and run the business, could get us there.

We move forward to the pandemic. And obviously, the pandemic has created some headwinds we didn't anticipate, certainly in the UK and the Middle East and perhaps with the uncertainty around some funding in the short term in the US. But ultimately, with kind of the steady state that we saw, we saw a path to get there. Obviously, the headwinds, it made it a little bit more difficult to achieve that certainly in our UK and our Middle East markets. But again, I believe there was a path to get there. And I believe those markets will return, and there's still a path to get there. Then fast forward and say, what's the impact of the pandemic and what we're referring to as workplace of the future, which is just a way of describing how we will change the way we work, how we work with our customers, and ultimately how we'll deliver our work? So in terms of how our people work, they're going to have more flexible schedules. There'll be flexibility in kind of the balance between work and their personal lives.

But importantly, there certainly will be a reduction in our office footprint. I have no doubt about that. So there will be some opportunity to improve margins, but some of that will also be reinvested in the business. And when I say it's reinvested, it's reinvest in the business, so that we can take the next large step, which is, how are you going to deliver that work differently to your customers, which means that, first of all, we're going to have to equip our people a little bit differently. So they can work remotely and work with their customers and not be in the office the way that we used to work.

The other thing we were doing is, again, we're looking at the projects and how we can capture the information digitally and using information for some of the repeatable tasks that take place in design that we would then have the ability to capture that work more efficiently. And then take advantage of creating regional and more Global Design Centers, which improves quality, improves productivity. And all that then just manifests itself, as I said, in a project that's quicker to a client, a project that is certainly more cost effective. But again, it manifests itself in higher margins. I'm not in a position to quantify what that means, but I will say that I think that we have the opportunity to certainly fill in for some of the shortfalls created by some of the headwinds and some of our markets to get to the 15% and perhaps go beyond that.

But I really do see this as industry changing is changing the way that we work. And I think it will create a much different competitive landscape and will create significant competitive advantage for the people that have scale and have already started on this journey of investment in digital and greatly using Design Centers.

Andrew Kaplowitz – Analyst, Citi:

Troy, and you mentioned, in terms of what's holding you back a bit, places like the UK and the Middle East. And I know you know this. When you buy URS, URS just had come off buying some pretty significant assets or companies in the UK as well.

The journey to sort of the 10% or double digit margins on the international side, is this nothing more than over time you get regions, such as the UK or the Middle East, which have, call it, layers of complexity and just sort of simplify them, if you may? And it just takes time to do that, especially in places like Europe. And so what I'm really trying to figure out for our investors, right, is how much is under your control when you go from mid-single digits to 10% in international? Because that seems like probably the biggest opportunity right now. And again, you see that it was pretty complex in regions like I just mentioned. And part of that is this kind of acquisition upon acquisition.

Troy Rudd – Chief Executive Officer, AECOM:

Yeah. Again, I think a lot of that isn't in our control. Again, there's a headwind. If I look at the third quarter, we did see a revenue decline in our EMEA business. And it was about 5%. But we still saw margins improve even with that decline. So what that tells me is that we can continue through the efforts that we're undertaking to continue to improve margins. Now, if we had stability in that market, obviously we can do better than what we have done. Those things that we're doing are certainly within our control, which, again, it's just evaluating the footprint of our business and making sure that we are in businesses that have the right returns, or think about it as the right margins, and then continuing the path where we just consolidate a number of the things that we do centrally. And you become more efficient as you do that. And again, that's the things like Design Centers. It is our Shared Service Centers. And it is also the operating structure, the way that we manage the business.

And then, again, along with that there will be some additional benefit as we kind of move to the workplace of the future, driving some efficiencies in productivity and some of our real estate footprint. So those are the things that we're focused on. And I believe they're within our control to get to double digit margins in our international business.

It does take time. Because again, I use the example as we exited 30 countries over the last 2 years. You set out on that path, but you don't just stop doing your work for your customers. You may reshape that business, so that you are going to stop work. But you still have to continue to deliver that work for a period of time. And it's an orderly exit from a marketplace or a business. So it will take place over a period of time, and we're continuing that process. So it's a year or two journey to get to those double digit margins, but it's achievable and within our control.

Andrew Kaplowitz – Analyst, Citi:

Great. So I mean, I think I talked too much, Troy, because we only have 10 minutes left. So let me shift to a couple other topics. One thing you mentioned is-- you talked about this on the call-- this sort of a little bit of slowdown in orders that you saw in June. And everybody's sort of asking me how to think about this in context for AECOM. Your backlog is at strong, very healthy levels now.

Obviously, there continues to be some contentiousness in Washington around stimulus for state and local governments. So let's say that we don't have stimulus at least for a while. I mean, I think we can agree that you will have a replacement of the FAST Act at some point, maybe toward the end of next year. But in the meantime, sort of how do you want us to think about your backlog burn as we go into '21, the ability of the company to be resilient? If we do have state and local governments, which are a quarter of your business, it'd be pretty weak here over the next 6 to 9 months, let's say.

Troy Rudd – Chief Executive Officer, AECOM:

So just I'll give you the punch line, and then I'll give you some background on that. The punch line is this is that, you know, given the fact that we do have long lived backlog and we do have a variable cost structure, I believe that we can continue to grow our profit into '21 even given the market conditions today. So we've delivered certainly stronger EBITDA performance this year compared to the prior year. And I expect us to be able to continue to grow that. Now, when I look around the business, certainly look at the places where we are seeing concerns around funding for our clients. I'll point out US state and local governments. There's no question that we have seen a decline in, certainly, the pipeline and in the awards that we're seeing in those businesses. But we do have long lived backlog.

And importantly, as I said, during this last quarter in transportation and water, you may see a decline. But I see us taking market share. So through a combination of things, unless there's some catalyst for state and local funding in the near future, I think that the next two or three quarters would be difficult. But nevertheless, I think our business is resilient. And I think, because of the nature of it, we have the ability to manage our way successfully through that. Private sector, we see a similar type of environment. And I'll just start there with our environment business. We have seen a lot of awards and bookings be delayed. The difference in that business is I said it's delayed. We haven't seen significant amount of cancellations in that business. So I think we manage our way through that.

When you look around the rest of the business, there clearly are bright spots. Because we have generated a significant amount of backlog. In some of our business, even in these tough short-term funding environments, there is certainly backlog to continue. So our businesses can be flat, and perhaps they can grow modestly. And then in certain places in the world, in some of our largest businesses, we do see, based on the strength of the underlying markets and the strength of our clients, we do see the opportunity to continue to grow. Australia, at this point, I have a great degree of confidence that that business will grow in '21. I see the opportunity for us to grow certainly in civil infrastructure in Canada, because of the funding programs that have been put in place by the federal government and in Alberta and Quebec. And then I see our Hong Kong market-- this may sound odd-- but being, frankly at this point, stable. We've seen a more stable funding environment. And I recognize that all of our international businesses certainly represent a smaller portion of the overall business.

70% of our business is here in North America. But again, we see strength in the markets and strength in our backlog, which I think see us through the short term. But we are certainly facing the same headwinds that everyone is facing, because of the funding shortfalls from some of our larger clients. And then beyond that, I just think that the demand for infrastructure remains constant. So if I look out 12 months, we certainly in the US will have an election behind us. I expect that whatever happens there will be some recognition and need that funding needs to be provided for infrastructure, certainly for job creation, but just for underlying infrastructure. Because it drives higher returns and opportunities in the economy. And I believe that there will be some stability and some funding created. I don't know what that's going to look like, but I see in the long term that that has to happen. And that bodes well for us. And it certainly creates a tailwind for where we are today and what we're doing in the market with respect to our margin improvement actions and the actions it will take around our workplace of the future initiative.

Andrew Kaplowitz – Analyst, Citi:

So, Troy, let me just push you a little bit on pipeline commentary that you made. And then we'll move over to capital allocation to finish this. So if you're still thinking that you could grow profitability in '21-- I mean, some of that is, obviously, good backlog coming into this.

I mean, again, if I'm thinking about this, you can't have that big of revenue decline to grow profit even if, obviously, you're going to focus on good margins or improving margins. So if I tried to sort of aggregate your overall pipeline of opportunity right now, I guess the key question that I get asked is it down low single digits, double digits? Again, is there anything that you can give us more along those lines if I thought about the aggregate pipeline that you guys are looking at?

Troy Rudd – Chief Executive Officer, AECOM:

So, Andy, I couldn't give you the aggregate number. I don't look at it that way. But what I can tell you is maybe I can look at some of the larger markets. So we've said our state and local government markets, which represents about 23% or 24% of our business, we're seeing the decline in pipeline and the awards being down 10% and a little bit higher than that. And that's during the course of this quarter.

When I look at our non-US government business, which represents about 20% to 22% of our business, we actually see, again, as I said, certain markets growing. But I do see the UK and the Middle East, I certainly see a single digit decline in the awards and the opportunities there. But we've been successful in winning some very large projects from some very large clients, which take us through a period of stability and take us through a period of time.

In our US Federal Government business, we see an abundance of opportunities. We don't see decline or shrinking in the pipeline. And in our Environment business, we've seen it decline, say, 5% to 10%. But we look at that as being delayed or deferred, so that might be recaptured in '21 or perhaps in '22.

Andrew Kaplowitz – Analyst, Citi:

Great. And to be clear, that has nothing to do with what you're current backlog is. That's just sort of your pipeline of opportunity?

Troy Rudd – Chief Executive Officer, AECOM:

Yeah, I'm talking about pace of awards in the pipeline.

Andrew Kaplowitz – Analyst, Citi:

Exactly, OK. So then moving to capital allocation just to finish is out, so obviously, there are a couple questions that I always get asked, right? When does AECOM think it's appropriate to start going back into the market to buy stock? And obviously, you've said, you don't want to signal that. But maybe talk about some of the conditions that you need to see. And then I also get asked about consolidation within infrastructure. You now are a pure-play, obviously. So do you see a period of consolidation amongst your peers within infrastructure as you go forward, given that, I think, more companies have become a little bit more pure-play focused? As you know, there's not that many public US infrastructure companies out there, too. So, it's kind of a dual part question.

Troy Rudd – Chief Executive Officer, AECOM:

Yes, I heard you. You said, Troy, you're not going to give guidance on when you're going to start buying back stock, but could you tell me all the conditions under which you will buy back stock so I can measure them, so I can know when you're going to be buying back stock?

Andrew Kaplowitz – Analyst, Citi:

That's right. So give me guidance without giving me guidance. Yes, sorry.

Troy Rudd – Chief Executive Officer, AECOM:

Yeah. So the best way I can say that is, again, I said this. Our priorities are unchanged. We certainly went through a period of time where there was a significant amount of uncertainty. And we had to gain some confidence that we felt we could work our way through that. And we realized that our business was going to be very healthy as we move forward. And I think we've achieved that.

We've proven that in our results. And based on kind of the guidance that I've given, it should indicate that we certainly have confidence in the future of our business and the strength of our business. We've also redeployed cash to create a stronger balance sheet and to improve our liquidity. And we had to deploy some cash in our at-risk businesses during the course of the year. But as I said, there are some projects that were challenged. But I think we've put those behind us.

So when I look at our balance sheet, I've said, my intention is to run our business at gross leverage under three times. We are there. And again, I think we have a strong liquidity position. And we had cash flow that we generated in the third quarter. And we expect to achieve our full year result. So I think that's indicative of the confidence that we have. But again, I think it's important to reiterate that the last thing I want to do is front run this and harm our long-term shareholders. I think I'd do them a disservice by doing that.

Andrew Kaplowitz – Analyst, Citi:

I agree. And then just sort of the final part of that is, again, it's a pretty fragmented overall infrastructure industry, as you know. Do you think we will see more of a period of consolidation? Obviously, you bought URS back in the day. But there really hasn't been that much here over the last few years. And so do you see more activity here over the next couple of years?

Troy Rudd – Chief Executive Officer, AECOM:

You know, Andy, it's difficult for me to say. I certainly think that our industry there's always consolidation going on. But it's typically the larger players kind of adding capabilities or adding technologies. And I think that you'll continue to see that. I think that's important if you want to grow organically and take advantage of opportunities. So in that respect, I do see consolidation. In terms of the larger plays, as you pointed out, there's only a handful of them. So you know, I can't speak to that, because I don't know the intentions of others. But I can talk about our intentions, which I don't see a need for us to get larger than we are.

As I've said already, we're number one in transportation globally. We're number one in buildings globally. We're number one in environment globally. We have the scale that's needed to implement our workplace of the future actions. We certainly have the expertise. We have, I think, the best professionals in the world in the right markets to be successful.

So from my perspective, I don't see any need for us to be doing anything that is certainly meaningful. I think we have the size, the scale, and the right people. And we certainly have the platform to take advantage of the opportunities there in front of us and to create what I think is a fairly significant competitive advantage.

Andrew Kaplowitz – Analyst, Citi:

Well, Troy, we're all really excited for you to take the reins here of AECOM. Obviously, it's a great company and a lot of potential here to continue to improve in the future. So we do really appreciate the time. Good luck to you, obviously, in the new role. And I'm sure we'll keep in touch.

Troy Rudd – Chief Executive Officer, AECOM:

Yes, we will.

Andrew Kaplowitz – Analyst, Citi:

So thanks again to you guys for allowing us to host this.

Troy Rudd – Chief Executive Officer, AECOM:

No, Andy. Thank you very much for arranging it. And thanks for everyone who joined in to listen to the discussion.

Andrew Kaplowitz – Analyst, Citi:

Thanks, Troy. Stay well.

Troy Rudd – Chief Executive Officer, AECOM:

Thank you, take care.

Operator:

That will conclude today's conference. Thank you for your participation. You may now disconnect.