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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the AECOM First Quarter 2021 Conference Call. I would like to inform all participants this call is being recorded at the request of AECOM. This broadcast is copyrighted property of AECOM. Any rebroadcast of this information in whole or part without the prior written permission of AECOM is prohibited. As a reminder, AECOM is also simulcasting this presentation with slides at the Investors section at www.aecom.com. Later, we will conduct a question-and-answer session. [Operator Instructions]

I would like to turn the call over to Will Gabrielski, Senior Vice President, Finance, Investor Relations. Please go ahead.

William J. Gabrielski
Senior Vice President, Finance, Investor Relations, AECOM

Thank you, operator. I would like to direct your attention to the Safe Harbor statement on page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the SEC. Except as required by law; we undertake no obligation to update our forward-looking statements. We use certain non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation where available, which is posted on our website. As a reminder, we sold the Management Services business last January and sold our Power and Civil Construction businesses in October of 2020 and January of 2021, respectively. These businesses are classified as discontinued operations in our financial statements.

Today's comments will focus on the continuing operations of the Professional Services business unless otherwise noted. Today's references to margins and adjusted operating margins reflect segment-level performance for the Americas and International segments. We will also refer to net service revenue or NSR, which is defined as revenue excluding subcontractor and other direct costs. Our discussions of NSR growth rates will adjust for two fewer available working days in this year's first quarter as compared to the prior year period. Our discussion of margins will be on an NSR basis unless otherwise noted.

On today's call, Troy Rudd, our Chief Executive Officer, will begin with a review of our strategy and key accomplishments. Lara Poloni, our President, will discuss key operational priorities; and Gaur Kapoor, our CFO, 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 Rudd

Chief Executive Officer, AECOM

Thank you, Will, and thank you all for joining us today. I'd like to begin by first acknowledging and thanking our 47,000 professionals who've contributed to a great start for the year and are the key reason for our success and trajectory. I'm proud of how our employees have responded over the past year and continue to focus on the health and safety of their families, clients and communities. We have built a track record of consistently exceeding our expectations over the past two years and our first quarter performance continues this momentum. This is a direct result of the commitment of our teams to leverage the strength of our platform and deliver amid an uncertain backdrop. In mid-November, we unveiled Think and Act Globally which outlines the foundation of our strategy and the path forward for AECOM with an ambition of setting a new standard of excellence in the professional services industry. We are well on our way. We've dedicated much of our time over the past few months towards implementing key elements of this strategy. As our financial results demonstrate, we are benefiting from a simpler operating structure, strong collaboration, investments in innovation and delivering the full breadth of our portfolio to our clients across the globe.

We'll now turn to a more detailed discussion of our financial results starting on page 3. We exceeded our expectations on every key financial metric in the first quarter. Organic revenue increased by 2% and NSR declined by 2% from the prior year. Backlog increased by 8% over the prior year and included record contracted backlog providing strong visibility. Our segment adjusted operating margin was 13.1%, which marked a 140 basis point increase from last year and a 560 basis point increase from the first quarter of 2018. Of note, International margins are now at 7% which is more than 400 basis points better when we compare it to the beginning of fiscal 2019. We are operating the business as efficient as ever, investing in business development opportunities to position for growth and transforming how we deliver through innovation. Adjusted EBITDA increased by 9% to $189 million and adjusted EPS increased by 35% to $0.62. Both of these metrics were ahead of our expectations for the quarter and provide a strong start to the year.

We set as a measurable priority this year to improve cash flow phasing and I'm pleased with our results in the first quarter. Operating cash flow was $7 million and free cash flow with a slight use of cash in the quarter. This compares to an average outflow of $230 million in the first quarter over the past two years. This performance combined with our strong balance sheet enabled us to repurchase nearly 9% of our shares outstanding since September. We are increasing our EPS guidance to reflect the strong start to the year, the accelerated pace of share repurchases and the lower interest expense associated with a new sustainability and diversity linked financing. Our guidance does not include any prospective repurchases, though it is our expectation that we will continue to deploy cash to buy back stock under the $825 million of capacity remaining on our current board authorization.

Please turn to the next slide. Reflecting on the first quarter performance, several key points are apparent. First, our teams have embraced our Think and Act Globally strategy. This strategy is driving greater collaboration across the organization and serves as a foundation from which we are pursuing accelerated growth and expanding our industry-leading margins. As a result, we are more deeply engaged with clients. We are expanding our advisory practice to shape how clients plan and execute their priority projects. Through our focus on program management, we are supporting clients through their largest and most complex projects. To support growth, we are investing in business development and key client account programs and we are developing new and more efficient ways of working led by deploying innovation at scale and executing our Workplace of the Future initiative to support the growing preference for greater workplace flexibility and to reduce our real estate costs.

Second, we have created a culture of continuous improvement and we are setting new standards for profitability in the industry. We are focused on driving efficiencies across the organization and for our clients. As a result, we are delivering industry-leading margins and unlocking capital to invest in growth and innovation.

Third, we have narrowed our focus to our higher-margin and lower-risk Professional Services businesses. Over the past few months, we completed the exits of our Power and Civil Construction businesses. As a result, our leaders are now exclusively focusing their time and resources on our largest, fastest-growing and most profitable endeavors.

Fourth, several inherent attributes of our business enable us to perform and continue to invest through periods of uncertainty. These include the proven agility of our workforce, a highly variable cost structure with low capital intensity, a substantial backlog with several years of visibility, industry-leading client satisfaction and strong cash flow.

Finally, we are complementing our strong team with new leaders and fresh perspectives. Last month, we announced the appointments of Jennifer Aument as Global Lead for Transportation and Drew Jeter as Global Lead for Program Management. Both are world class leaders who bring proven track records of success and we are energized by the positive response we've received from both our teams and our clients since their appointments. We will continue to strengthen our teams and invest in our people to ensure we achieve our collective ambitions.

Turning to review of our markets beginning in the Americas; our teams remain focused on building a sustainable future and we're bringing elements of sustainability to every aspect of what we do. It bears repeating we are the number one environment firm, the number one transportation design firm, the number one facilities design firm as ranked ENR. We are the leader in the PFAS market having spent decades supporting clients both public and private. And today, we are organized around ESG as a key priority within AECOM. The Biden administration has outlined an ambitious and broad-based plan that touches nearly every element of what we already do for our clients every day in the markets where we lead. These include transportation infrastructure, clean energy, offshore wind, wetland and coastal restoration and PFAS remediation, to name a few. Needless to say, we are well-positioned to benefit from a prevailing direction of US policy and funding.

In the near term, as we wait for clarity on a potential larger relief and infrastructure stimulus bill, our US public sector clients continue to face funding challenges. We've seen clients slow the decision making process and this has impacted our growth over the past several quarters. However, key indicators are trending positively. Vehicle miles traveled have recovered notably since the prior lows in April. The enacted COVID relief bill in December provides $45 billion for transportation, our largest end market and includes $14 billion for transit systems across the country which represents approximately 75% of normal annual funding levels. State tax receipts are benefiting from higher spending due to stimulus funding. These trends matter to AECOM. US state and local remains our largest client base at 24% of our NSR and approximately 40% of NSR in the Americas.

Pivoting to our Construction Management business, our contracted backlog increased by 26% and our pipeline remains strong. However, our total backlog declined sequentially and client decision making has slowed. In addition, our backlog was impacted by a reduction in scope on a large project though the impact to profitability was more limited as we continue to perform services for the client. Positively, during January, we were awarded more than $600 million of wins in our core markets, and in times like these, the value of visibility afforded by our substantial backlog and our leading market position are apparent.

Turning to international markets; in the UK, our market position has greatly improved over the past several years. We've put in place the right people and strategy and we are taking market share. This includes gaining significant positions on several leading public sector frameworks, all of which provide substantial opportunities for growth and provide several years of visibility. In the Middle East, our sizable backlog on key programs provides us with several years of visibility especially in Saudi Arabia where we have large roles on projects critical to the Kingdom's economic diversification efforts. While others are pulling back from the market given the slowdown in hydrocarbon-related activity, we are managing and delivering large complex and iconic projects which plays to our strengths. In Australia, we continue to execute several large infrastructure projects such as our work on the Melbourne Metro Tunnel which is supporting high levels of activity. In Hong Kong, our business was stable and work is progressing on key projects that are supporting high levels of backlog.

Across the business, the next six months include a number of macroeconomic uncertainties and we will be constantly vigilant to manage the business and deliver. We are energized by our accomplishments and the level of funding and long term commitments to infrastructure investments happening across our largest markets. Our momentum instills great confidence to our outlook for the remainder of the year and I'm excited by the opportunity to create exceptional value for our employees, our clients and shareholders. I look forward to discussing many of these elements in greater detail at our virtual Investor Day on February 16th.

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

Lara Poloni

President, AECOM

Thanks, Troy. Please turn to the next slide. As Troy detailed, we are focused on driving growth and profitability through a simplified operating structure, greater collaboration across the enterprise and deeper engagement with our clients. We are in an enviable position from which to execute. We maintain a leading position in many of our key markets and our client satisfaction scores reflect the market's acknowledgment of these strengths. In fact, our leading position was affirmed last week with our number one ranking by Fortune as the World's Most Admired Company in our industry which is a great testament to the value our people bring to their clients and communities every day. These strengths will serve us well as the funding environment across our markets improve and with the US rejoining the Paris Climate Accord and committing to invest to build back stronger, we are energized by the opportunities ahead. To best position us for growth, we recently announced two key strategic hires with the additions of Jennifer Aument and Drew Jeter to further strengthen our already strong leadership team. We are confident that with our established market leadership in these key practices, both Jennifer and Drew will hit the ground running.

As we look ahead, we have tremendous opportunities to leverage our competitive advantages to more holistically advise our clients and to gain greater share in the marketplace. A great example of this is the market share gains we have made in the UK. In particular, we have been selected for key positions on the $800 million SCAPE framework which is the UK's leading public sector procurement authority. Following several years of delivering for our client, we successfully gained positions on multiple lots that significantly increased our exposure to this framework. A stated priority for this framework is to generate substantial social value through infrastructure such as designing new bridges, adding electricity charging points to car parks or new hospital refurbishments and school extensions. In addition, we have gained framework positions to Network Rail, Highways England and Transport for London that each has similar priorities on advancing infrastructure to benefit communities. These are precisely the sort of projects where our expertise can be best brought to bear and our focus on ESG directly aligns with our client's top-most priorities.

I'd also like to take a moment to highlight our commitment to advancing our ESG initiatives including our efforts to reduce greenhouse gas emissions and to further increase our diversity. We announced a new sustainability linked credit facility yesterday and I am proud that we are one of the earliest US companies to do so. This agreement includes incentives and penalties around achieving our publicly stated Science Based Targets for emission reductions as well as targets for the percentage of women employees across our organization. We are literally putting our money where our mouth is. We were also pleased with our announcement last month of our fourth consecutive year receiving a perfect score on Human Rights Campaign Foundation's Corporate Equality Index.

This is a great recognition reflecting our commitment to diversity and inclusion especially for our LGBTQ employees. Our teams are energized by the opportunity to further advance our strategic ESG and diversity initiatives and I am proud of the progress we have already made on this front.

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

Gaurav Kapoor

Chief Financial Officer, AECOM

Thanks, Lara. Please turn to the next slide. Our first quarter financial performance exceeded our expectations in every key financial metric including a new high for the first quarter margins, strong EBITDA growth and double digit EPS growth. Importantly, to capitalize on this performance, we accelerated our repurchase plans which is underpinning our increased adjusted EPS guidance and was driven by our best first quarter free cash flow since 2018. While pockets of uncertainty remain in several of our markets, I am proud of our team's proven abilities to deliver. Looking forward, we will continue to benefit from our substantial backlog position including record contracted backlog. In addition, with a highly variable cost structure and continued strong cash flow trends, we are confident in our ability to deliver value.

Please turn to the next slide. In the Americas, NSR declined by 1% on an organic basis. Backlog in the Americas increased by 9% including 15% growth in contracted backlog. Our Construction Management backlog declined sequentially but our design backlog grew and affords us strong visibility. Although decisions on a few larger pursuits in the Construction Management business have slowed in the near term, our sizable backlog will continue to provide visibility for the next several years. The Americas segment had a 17.5% adjusted operating margin for the quarter; an 80 basis points improvement from the prior year. Americas margin performance demonstrates an engrained culture of continuous improvement even as we continue to deliver industry-leading margins.

Please turn to the next slide. Turning to the International segment, our NSR declined by 3% on an organic basis, contracted backlog increased by 6% and is at record levels reflecting our successful efforts to gain market share and win key positions on large frameworks. Notably, our adjusted operating margin in our International business was 7%, a 230 basis point improvement from the prior year and a 440 basis point improvement since the beginning of fiscal 2019. We are proud of the progress the teams have made to operate more efficiently while successfully positioning for growth and we reaffirm our confidence to achieve double-digit International margins.

Please turn to the next slide; turning to cash flow, liquidity and capital allocation. As we shared on the last quarter's earnings call, we made it a key priority to drive greater consistency in our cash flow phasing. In the first quarter over the past two fiscal years, we have experienced negative free cash flow of approximately $230 million on average. With free cash flow use of $14 million in the quarter we are pleased to see our efforts quickly translating to results. Accordingly, we are reaffirming our $425 million to $625 million free cash flow guidance for the full year. As a reminder, at the midpoint this reflects 75% unlevered free cash flow conversion of EBITDA which is our long term forecasted conversion rate on a normalized basis reflective of highly cash generative nature of our business.

We continue to drive a strong balance sheet and financial position with gross leverage under 3 times which is consistent with our long term target. Reflecting our strong balance sheet and business prospects, last night we announced an amendment and extension of our credit facilities. This reduced our borrowing costs and furthered our commitment to achieving certain ESG objectives creating a cost of capital that is consistent with the high quality nature of our business. Since September, we have completed $630 million of repurchases which reduced our diluted share count by nearly 9%, and with strong cash generation expected in the remaining three quarters of the year and our ongoing conviction that share repurchases offer the highest return on our capital, we will continue to execute repurchases throughout the year.

Please turn to the next slide. This robust start to the year provides confidence in raising our outlook for the full year. We are increasing our adjusted EPS guidance to between $2.60 and $2.80 and now expect to deliver 26% growth at the midpoint of our new range. This increase reflects the benefits of our accelerated repurchase activity as well as lower expected interest expense due to our credit amendment. This guidance contemplates a fully diluted share count of 151 million shares which only incorporates our repurchases to-date.

With that operator, we are ready for questions.

QUESTION AND ANSWER SECTION

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

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

Q

Hi, team. Thanks for taking my questions. I just wanted to get some more color on the advisory and program management growth strategy that you guys introduced this quarter. How would you characterize the growth opportunity here and how would you characterize the benefit to the client of having AECOM get involved earlier and sort of stick around longer?

Troy Rudd
Chief Executive Officer, AECOM

A

Sure. Sean, thank you for the question. First, just in a word, I would characterize the growth opportunity is extraordinary. So when we think about the opportunity to help our clients, they've got large infrastructure investments in programs that will be rolled out over the course of the next year. And we believe that those will go on, frankly, for decades. And also with all of the decarbonization agenda or decarbonization ambitions that our clients have, we also, again, see that similar opportunity. There's large capital investments that will be made that would last perhaps for a decade and we see ourselves being perfectly positioned given our technical ability to support them. And also, this may be lost but we actually are a global leader in program management already. So, it's not like we're starting from zero, look at the ENR rankings. We sit at the top of that group. So we already have a great base and experience upon which we can fulfill those ambitions. That was a reason we're making in the investment bringing people on board. We were really happy to have Drew Jeter join us. He's a recognized leader in the industry and is taking over our leadership of global program management. So again, we see this as a very sizable business in the future and I don't think it will grow in terms of percent. We think this has the opportunity to grow in terms of multiples of the business that we do today. And along that point, just maybe to help make this a little more real about what this means in terms of our clients and how we would help them, Lara, if you wouldn't mind, maybe I could ask you just to give the example of what we're doing for the NEOM Project in Saudi Arabia?

Lara Poloni
President, AECOM

A

So – and thanks for the question, Sean. Yes, to Troy's point, we're very excited about – this is our most significant growth opportunity looking forward. And in the case of NEOM, many of you know these are the new giga cities of the future in the Kingdom of Saudi Arabia. And we assisted the Kingdom with a lot of frontend support. It wasn't just project control and systems, the traditional program management offering that many others talk about. There was a lot of frontend advisory support to help them scope the project; consider the sort of technology that would be required and really the approval of all the permitting and regulatory issues and those sorts of services at the beginning. And then of course, that involves a program management support contract admin. And then all of the technical and environmental support that we are very strongly placed to deliver. And in more recent times, that role expanded to include all of the very complex backbone utilities and transport infrastructure. So that evolution from early frontend advisory support to the more traditional place that we play for our clients and bringing the full weight of global multidisciplinary teams that a client like that expects from AECOM, and all performed in a fully digital environment. So it's a very comprehensive opportunity for us and one that we're very excited about, and we've got a great pipeline and we really look forward to sharing more of the detail on that at our upcoming virtual Investor Day. So thanks for that question, Sean.

Troy Rudd
Chief Executive Officer, AECOM

A

Yeah. Thank you, Lara. And Sean, maybe just a simple way to think about this is what we're talking about is not delivering projects. This program management is delivering outcomes for clients. A simple way to think about it would be again in terms of an Olympic Games. Instead of delivering a venue which you might do in terms of the design or the construction of it, we actually would be involved as program managers and delivering the games; so delivering the outcome of a successful Olympic Games. So that's the difference. We look at what our people are already doing and the large change that's going to go on in the world and we see this as our, again as Lara said, our most substantial growth opportunity.

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

Q

Okay. Great. I appreciate the color on that. And my second one is just on the margins; clearly, a stronger than expected start to the year. But the full year margin guidance is intact. So I'm just wondering how you'd characterize that. I mean is this just kind of prudent conservatism early in the fiscal year or is there something maybe unsustainable from a cost perspective helping the first quarter results?

Troy Rudd
Chief Executive Officer, AECOM

A

Yeah. So Sean, in terms of our margins for the year, we believe first of all, these are sustainable. There's no temporary items that we believe are built into the margins that would cause us to back away from our ambitions for the year. I would describe this as us being prudent. We are still in an uncertain environment in fiscal 2021 and I certainly don't want to make any projections or predictions that would be aggressive in this environment. So we're sticking to our 13.2% for the year. Certainly, our 13.1% in the first quarter we were very pleased by and it certainly gives us more confidence in achieving the full year result. The other point I'll make about within those margins and this is difficult to see, but we've continued to invest in business development and we've invested more in this year that runs through those margins than we have in the prior period. And again, we've done that because we have conviction about the opportunities in the marketplace and we see the opportunity to position for things that are going to be coming to market in the second half of 2021 and into fiscal 2022.

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

Q

Super helpful responses, guys. I'll turn it over.

Troy Rudd
Chief Executive Officer, AECOM

A

Thank you.

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

Michael Feniger
Analyst, BofA Securities, Inc.

Q

Yeah. Hey, guys. Thanks for taking my question. Just following up on that. The margins are impressive but there is a view, Troy, that AECOM is cost-cutting its way to growth. With another quarter of organic decline, one of your peers reported today saying has visibility to grow in fiscal year 2022. I'm not asking you right now for a 2022 outlook, but based on what you're seeing on a state level, customer level, so many initiatives, do you see momentum for organic growth to really return to AECOM in 2022 and that your growth is going to be more driven outside of just being able to cost cut?

Troy Rudd
Chief Executive Officer, AECOM

A

Yeah. Thanks for the question again. The simple answer is absolutely yes. We do see growth into 2022 and let me give a little bit of color on that and certainly in terms of our margins. So we have reduced costs in the organization. We've created efficiency in the organization. And that's absolutely has benefited our margins, but today what we're doing is we're driving efficiency in how we actually deliver the work and we run the business. And so again I view that as being sustainable and as I already made the point we're not cutting our investment in business development nor cutting our investment in the future and achieving those margins. And I'll say it. We believe that those are sustainable margins and we still have room to improve and I'll certainly share more of that when we get to our Investor Day, a virtual Investor Day on the 16th.

When I look at this year, again, we said that this year was going to be challenged and we expected our revenue to be around flat for the year. When we look at the first quarter, there are tough comps. Last year, those are pre-COVID periods. So in terms of where we think we are, I believe that we are holding our own and gaining market share in some challenging markets. We are investing in growth in the future. And I don't see that growth coming in fiscal 2022. I see this year continuing to be flat, but I do view there being substantial upside as we move into 2022. So growth in 2022 and beyond; and again we'll share more of those ambitions in detail when we get to our Investor Day. In terms of the backlog in the pipeline, we are seeing some growth in our backlog, but I think more importantly, if I talk about our pipeline and in particular in our design business in the Americas, we are seeing the pipeline start to get back to pre-COVID levels which is indicating our clients are gearing up to let out work in the second half of the year and into fiscal 2022 which again leads us to believe there is a significant opportunity to grow into 2022 and beyond.

Michael Feniger
Analyst, BofA Securities, Inc.

Q

Thanks, Troy. That's helpful. And just on – you kind of touched on some of the funding initiatives. I mean, we saw the FAST Act was extended. We just saw the COVID relief package I think sending $40 billion to transportation markets, but like outside of the big bang infrastructure package, obviously that would be the homerun. Well, outside of that, what signposts are you looking for that can be a catalyst outside of that big infrastructure package? So there's a new EPA Chief there. There's PFAS regulation in the headlines. Any catalyst that we should be monitoring that would maybe drive momentum outside of the whole infrastructure package in the environmental and water-type areas that we should be keeping an eye on? Thanks, Troy.

Troy Rudd
Chief Executive Officer, AECOM

A

Yeah. Okay. Well, actually, you kind of did my job for me in re-listing all of those. But when we look at what – again, so what we're looking towards is we're looking predominately to our levels of Federal funding. And we are seeing levels of Federal funding improving. And I'm not thinking about what might come or what President Biden has announced in his agenda. That would be kind of upside for the future. We haven't built up our plans around that. We're also looking at our state and local governments. And what has been difficult for them has been funding levels. Funds have been devoted to fighting the pandemic, but we've actually started to see a return of funding to those customers. And a lot of the funding doesn't come through the Federal budget. A lot of it comes through user fees and it comes through other measures. So we're seeing – because people are returning a little bit towards normal, we're seeing funding start to build up within our state and local government clients. And there's no doubt that if there is a package that is passed, the stimulus package is passed, it will help our state and local government clients, but again we're seeing the kind of the green shoots around funding as people are returning to work and businesses started to head in the right direction, so some growth in the economy here in the US.

Worldwide, it's a little bit different. We've actually seen some governments already step up to the plate and provide levels of funding for infrastructure programs. And so we've seen that building in Australia and New Zealand. We see that certainly building in Canada. And as Lara has pointed out in her previous points is that in the UK, we are very confident. We've been taking significant market share. So even while the funding has been building in that market, we're confident that we're positioning ourselves through our framework wins to grow based on what will be available in the future in that market.

Lara Poloni
President, AECOM

A

And if I can just add a couple of just very quick points. I mean, I think, infrastructure is obviously the main area of exponential growth. And even in the quarter, we did see growth in Australia because that pipeline continues to be very strong for us, we have secured all the major infrastructure projects. We had growth in Asia, again, on the back of some strong infrastructure programs, but the other exponential growth plays that we've talked about previously, we're feeling pretty bullish about extending our market leadership in the PFAS space which you mentioned. We think that's a $100 billion-plus opportunity over time. And we have a market leadership and then we're very excited about the above and beyond which exists which is really our niche area in terms of the destructive technology where we have a pilot. We're hoping to commercialize that later this year. That's another example, and then of course, the program management which is the three to four times growth opportunity. So they're just a few examples of very big sort of exponential growth plays, but I think we can absolutely signpost along the way over the next few quarters and a couple of years.

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

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Good morning, guys.

Troy Rudd
Chief Executive Officer, AECOM

A

Good morning, Andy.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Good morning.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Troy or Gaur, is there a better way to frame the piece of operating improvement and cost takeout that you're in the middle of? Because obviously it seems to have accelerated in the first couple of quarters that you've been CEO, Troy? For instance, your sales were down sequentially on an NSR basis but both segments recorded margin of 50 basis points sequentially. So can you give us a read of how much additional streamlining you've done since you took over as CEO and what that can mean for AECOM's progression toward that 15% longer term margin goal?

Troy Rudd
Chief Executive Officer, AECOM
A

Yeah. Andy, what I'm going to do is I just want to make a headline comment on it and then I'll pass it over to Gaur to give us some more of the details, but in terms of the streamlining changes that we've made, for the most part, we have made those. If you look at our results for the quarter, again you'll see that we have very little restructuring planned for the year. We've put most of this behind us. Our results are I believe to be very clean. So we've taken the actions to restructure the business. And now as we move forward, we've really engrained in our culture a focus on efficiency and continuing to deliver and focus on the work we're bidding and how we deliver against those margin targets. So we've kind of taken the actions in the past and we certainly have a little bit of work that we'll do in the future which Gaur will give you the little details on, but I view this as kind of changing the culture in terms of our efficiency in running the business and delivery. It's not a significant action undertaken. We have to take on to move from here.

Gaurav Kapoor
Chief Financial Officer, AECOM
A

Yeah. Andy, this is Gaur. Just adding on to that, Troy is absolutely right. Simply put, this is the annualized benefit of restructuring that we performed last year. And that's why you see such symmetry between our GAAP and adjusted results. We have minimal restructuring going forward, but consistent with the messaging, right? Being in the upper echelon of margin delivery in our industry, we're not satisfied with that. Our goal, our vision is to achieve 15% margins which we will provide more detail during our upcoming virtual investor relation day next week. And if you were to say, well, what exactly is changing in the current year? Why are we ahead – maybe a little bit ahead in Q1? I think it really has to go towards the new organizational structure that Troy put in place as well, right? We have really created a dynamic environment that is allowing us to leverage best practices in terms of cost structuring globally and executing it on as quickly as possible because we no longer have the multiple layers as we had in the past.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.
Q

Helpful, guys. And then you did mention the decline in your Construction Management backlog but still good visibility. So could you tell us how you're thinking about the growth of that business? I know you've had several years or you have several years of backlog coverage, but how does that business factor into your growth assumptions from flat this year and return to growth in 2022?

Troy Rudd
Chief Executive Officer, AECOM
A

Sure. Well, again, just in terms of our Construction Management business, again it represents about 10% of the profit and the NSR of our business overall. And again we see the environment that the Construction Management business in has been challenging. There is no question that there are decisions on projects being delayed and even some of the work being delayed on some of our existing projects. So I view that as we're going to be burning off some backlog during the course of this year. The great thing about that business is we certainly have multiple years, more than three years of backlog. And when we look at the pipeline of the opportunities, the actual pipeline of opportunities and the things that we've been pursuing, that isn't really shrinking. So I think the story around Construction Management is more about delays on decisions and projects and maybe some changes in scope, but we certainly don't see kind of a long-term decline in the opportunities for that business.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Troy.

Troy Rudd
Chief Executive Officer, AECOM

A

Great. Thank you, Andy.

Operator: Your next question comes from the line of Andrew Wittmann with Baird. Your line is open.

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

Q

Oh, great. Thanks for taking my questions. I guess most of my questions have been asked and answered but I thought there could be a couple of technical questions would be helpful first also understanding. Gaur, starting with you. What's the expected annualized interest rate savings from the renegotiated credit facility that you guys announced last night?

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Andy, we expect for 2021 it'll be $2 million to $3 million, but on a full run rate basis, it'll be $4 million to $5 million.

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

Q

Okay. And then just in terms of the cash flows here. Obviously, it looks like you guys are trying to smooth out the seasonality and that's great. I assume that part of that is the sale of receivables, but how are you doing it in terms of managing the other parts of the working capital in terms of DSO collections in the payables? What's the process that you're using to get better, I don't know, smoother quarter-to-quarter variations in cash flows? And what's the customer experience of that? Is it burdening the customers, is it burdening your employees? How does it work to do that just mechanically?

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Sure. Absolutely. As I mentioned during our fourth quarter year-end call last year, a key priority for us from a cash flow standpoint was not to have the seasonality as we had previously experienced. And there are some key contributors to that. Right? One is, it's a simple byproduct of us becoming a true professional services organization which is lower risk, higher margin profile, aided by more predictability in our cash flow because of the disposal of our at-risk businesses. We're no longer burdened by those huge variations of large construction projects. And a key change we made in the current year is we've aligned our operational incentives to align with our cash flow phasing instead of just being an annual target. And in terms of the specifics, you really have to look at how we are transforming our organization operationally and the finance transformation we're going through. This allows us to utilize shared services where again we leverage best practices on invoicing, billing and collections across the board globally where instead of having these services being provided in various geographies, you're in a center of best practices and leveraging it globally.

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

Q

Got it. Thank you for your interest.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Thank you.

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

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Q

Hi. Good morning. Nice quarter. I guess just two follow-up questions. One on the cash flow; I appreciate how you helped us figure out how you're doing better sort of seasonality with regards to your cash flow, but given the success that you've had in the first quarter relative to the past two years, is it fair to assume you see sort of the mid to high end of your free cash flow guidance as more achievable just because of where we're starting the year off, I guess, is my first question.

And then my second question just relates to Troy. It sounds like the portfolio that you have in place after getting rid of some of the assets, the construction at-risk business, the Management Services. I'm just wondering if you look at your portfolios or anything else that's potentially isn't core to AECOM or there are holes in your portfolio that could help you achieve some of your longer term goals quicker with the balance sheet where it is. Thank you.

Troy Rudd
Chief Executive Officer, AECOM

A

Thanks, Jamie. Gaur, why don't you take the cash flow question and I'll take the second one.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Absolutely. So, Jamie in regards to cash range, we've hit our cash guidance six years in a row. And we expect current year to be no different. We feel very confident in the guidance we have provided and expect better than historical phasing consistent with our performance in Q1.

Troy Rudd
Chief Executive Officer, AECOM

A

Yeah. It's a good question, Jamie, just on the overall business. I guess, first of all I think it's important to make the point that we've been making for a while which is we're going to constantly evaluate our portfolio of businesses and make sure that we're in the businesses that we believe have the highest returns and the highest growth potential. So that's just going to be part of our DNA and our culture. We'll continue to do that. In terms of, as you said, holes in the portfolio, at the moment I don't see any significant holes in our portfolio. And to the extent that we do see that there are some opportunities to add some capability, we are going to do that, but I have no intention of doing that through M&A. There're other means that we can do that that I think are easier for us to digest and frankly have a lower cost associated with them. But we certainly have opportunities to grow some capabilities. We will do that, but we anticipate doing that and investing in those capabilities through our margins, not doing M&A.

Jamie Cook
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thank you.

Troy Rudd
Chief Executive Officer, AECOM

A

Sure.

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

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Hi. Good morning, gentlemen and Lara.

Troy Rudd
Chief Executive Officer, AECOM

A

Good morning.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Good morning.

Lara Poloni
President, AECOM

A

Good morning.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Yeah. Part of your business development and investment, Troy, going forward certainly, I guess would be expanding or accelerating your best practice centers, your high value-added centers that AECOM has. How has that been progressing and is that an area where you could see significant help especially when you're targeting some of the margin potential in the International design business going forward?

Troy Rudd
Chief Executive Officer, AECOM

A

Yeah, Mike. So that is important to us. We had set some pretty ambitious objectives of improving the work that was going through our design centers. Through the pandemic, we've actually modified our thinking around that, that it doesn't have to be design centers. We can actually set up kind of regional design centers. The interesting thing about the pandemic we've figured out is that with everyone working remotely, you can actually connect your teams and have everybody working around the kitchen table quite well. So it means that we can create sort of centers of excellence virtually or even regionally, and that's something we've learned through this process. But more importantly, we're continuing to invest in what I'm going to refer to as, digital, which is having some of the work that we've done in the past, be replaced by script or code. And given our people are freeing up the time of our people to do things that are more innovative or focused on their clients and the project to growth opportunities. So I'm going to talk more about that on the 16th, but that absolutely is a focus of it and we refer to that as changing the way that our work is delivered.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

I appreciate and I look forward to meeting next week.

Troy Rudd
Chief Executive Officer, AECOM

A

Thank you.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Yeah. Appreciate and look forward to meeting next week. Thanks, Troy.

Troy Rudd
Chief Executive Officer, AECOM

A

Great. Thanks, Mike.

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

Steven Fisher
Analyst, UBS Securities LLC

Q

Thanks. Good morning.

Troy Rudd
Chief Executive Officer, AECOM

A

Good morning, Steve.

Steven Fisher
Analyst, UBS Securities LLC

Q

Good morning. You mentioned that America's design customers are gearing up to award more work in the second half. Do you have any sense from your conversations with them about what has to happen to give them the confidence to release those projects and in what areas do you think you'll most likely see those project releases?

Troy Rudd
Chief Executive Officer, AECOM

A

Yeah. I think that again it's difficult to pinpoint something. Every client conversation is a little bit different. But generally each of the conversations it's driven by – it's again driven by sources of funding. And the sources of the funding that is becoming available or the confidence around it becoming available is improving. And in terms of the areas or the opportunities that we're seeing, we certainly are seeing the opportunities in transportation, in water and also in environment. Again, as I said, our Construction Management business is certainly challenged at the moment and the pipeline is still robust, but we're not seeing the pipeline or the pipeline growing in the same way that we are in the design business, and certainly in those end markets transportation water and environment.

Steven Fisher
Analyst, UBS Securities LLC

Q

Okay. And then just out of curiosity as we're thinking about margin improvement from here. How important is increased project selectivity to your plans and how would you characterize the work you're actually turning away at this point? Is it more regions or types of customers or services?

Troy Rudd
Chief Executive Officer, AECOM

A

So I wouldn't say that we're turning away work at this point. However, I would say we have set return targets for the work that we do and so we certainly have a process by which we evaluate the returns on a project. And so there might be projects that don't meet our hurdles in terms of returns and there're some other measures that we use to make sure that we're properly managing the risk associated with the work that we do, but there is no – again there's no trends in terms of us turning away work. We're just thoughtful in terms of what we want to do to help our clients and making sure that it's going to be appropriately in terms of the turn and the risk that we're taking on.

Steven Fisher
Analyst, UBS Securities LLC

Q

Got it. Thanks.

Troy Rudd
Chief Executive Officer, AECOM

A

Thank you.

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

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

Q

Hey good morning, guys.

Troy Rudd
Chief Executive Officer, AECOM

A

Good morning, Adam.

Gaurav Kapoor
Chief Financial Officer, AECOM

A

Good morning.

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

Q

I wanted to ask about the slower decision-making because it sounds like, through this call, it's a little more focused under US Construction Management business. Is that right?

Troy Rudd
Chief Executive Officer, AECOM

A

Yes, that is right. I mean, think about it as just in terms of the work that gets done. A lot of the work that we do in that business, it's commercial work. It's been aviation work and it's been sports work. And again it's just what we're seeing is that through the pandemic, some of those capital decisions are being rethought or again they're being delayed. So it's not that there aren't those opportunities as you move out into the future. Again, decisions around aviation projects, there certainly is a need for that similar to a lot of infrastructure investment, but some of the decisions today, just an environment win that they're being delayed and they may be adjusted or changed.

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

Q

And Troy, I would think you guys are in the sweet spot for this I would think you guys are in the sweet spot for this next US stimulus bill. Even if that hits state and local and not transportation specifically, how quickly could you benefit from that?

Troy Rudd
Chief Executive Officer, AECOM

A

Well, certainly if there is – first of all, we don't have that baked into our result. That's why we're anticipating, again, I'll say a flat year in terms of revenue. There's no question that if there's significant funds that are made available either through another COVID relief package to support state and local governments or through an infrastructure initiative or program from the Biden administration. There's a huge benefit to us and to our industry, but I don't see it being immediate. It will take a while when those programs are put in place where then the customers to actually put together the projects that they're looking to receive that investment. So it's probably certainly quarters, a number of quarters before you would see an impact in our business and it could even be a little bit longer than that.

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

Q

Okay. So it kind of pushes you towards what you said earlier which...

Troy Rudd
Chief Executive Officer, AECOM

A

It does. It pushes us towards fiscal 2022.

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

Q

Yes. Great. Okay. Thanks a lot.

Troy Rudd
Chief Executive Officer, AECOM

A

Great. Thank you.

Operator: Okay. And I'd now like to turn the call back over to Troy Rudd for closing remarks.

Troy Rudd
Chief Executive Officer, AECOM

Great. Thank you, operator. Again, I want to thank our teams for their contributions to a strong start to the year. We're really pleased and we believe we're in an enviable position. We've built a strong foundation in the business and I believe we have unrivaled technical expertise. We have, again, margins that are near the top or at the top of our industry. We've been able to grow profitability. And more importantly, we're building backlog and opportunities and continue to have strong cash flow in the business that positions us well for the future. So I look forward to discussing these trends in a little more detail and sharing more detail about our long-term plans and targets at our Virtual Investor Day next week. Thank you for your interest. Have a good day.

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