Good morning, and welcome to the AECOM First Quarter 2019 Earnings Conference Call. I would like to inform all participants this call is being recorded at the request of AECOM. This broadcast is the copyrighted property of AECOM. Any rebroadcast of this information in whole or part without the prior written permission of AECOM is prohibited. As a reminder, AECOM is also simulcasting this presentation with slides at the Investors Section at www.aecom.com. (Operator Instructions)

I would like to turn the call over to Will Gabrielski, Vice President, Investor Relations.

Will Gabrielski AECOM - VP of IR

Thank you, operator. I would like to direct your attention to the safe harbor statement on Page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the SEC. Except as required by law, we take no obligation to update our forward-looking statements. We are using non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation, which is posted on our website. Please note that all percentages refer to year-over-year progress, except as noted.

Our discussion of earnings results and guidance refers to adjusted financial metrics as defined and reconciled in today's earnings press release filed with the SEC and the presentation accompanying this call. Today's discussion of organic growth is on a year-over-year and constant-currency basis and is adjusted to exclude impacts of non-core businesses.

Beginning today's presentation is Mike Burke, AECOM's Chairman and Chief Executive Officer. Mike?
Additionally, shortly after the quarter closed, we completed the sale of an AECOM Capital property, which resulted in an approximately 40% IRR and provides a strong start to our second quarter. Wins of $11 billion set a new high for the company and have exceeded $6 billion for 5 consecutive quarters. Our book-to-burn ratio was 2.0, resulting in a record backlog of $59.5 billion, which is a testament to our competitive position and our investments in growth.

Our successes were highlighted by the contract for the $7 billion Terminal One project at JFK airport in New York City. In addition, backlog in the Americas design business increased for ninth consecutive quarter and we also delivered a 1.3 book-to-burn ratio in Management Services where our pipeline of qualified pursuits increased by 20% to $35 billion.

The second quarter is shaping up to be another stellar wins quarter, including awards for 2 projects in Building Construction valued at approximately $1 billion each. As a result, we expect backlog will increase, again, in the second quarter. The partial shutdown of the U.S. government had varied impacts to AECOM in the first quarter. Approximately 25% of our total revenue is for the U.S. federal government, primarily in our MS and DCS segments. Nearly 80% of this revenue is for the DoD and DOE, which are funded through this fiscal year and our work was not interrupted. However, the shutdowns impact was more material to the phasing of our cash flow, which Troy will detail. Outside of the shutdown impact, cash flow met our expectations and we expect to achieve our full cash flow guidance.

I also want to provide an update on the strategic actions we continue to take to maximize the profitability of our record $59.5 billion backlog. First, we have taken nearly all the required actions to achieve our targeted $225 million of G&A savings. Net of estimated leakage and reinvestment we expect to reduce G&A by $140 million in total, including $85 million expected to be realized in fiscal 2019. These cost reductions are enabled by our investments in IT systems, shared services and other efficiency drivers. With these actions and underlying market strength, we are on a trajectory to significantly enhance our margins.

Second, we continue to simplify our operating structure and hone our focus on our fastest-growing markets where our competitive advantages are greatest. We have completed approximately 25% of our planned country exits and continue to target the exit of more than 30 countries, which will ensure management time and capital are allocated to our best growth opportunities. In addition, we recently completed the spin-out of the infrastructure investment business, which further narrows AECOM Capital’s focus on the real estate market.

Finally, in addition to the previously announced decisions to exit the fixed-price combined cycle gas power plant construction market and certain non-core oil and gas businesses, we will no longer pursue at-risk construction projects in international markets, and we are continuing to review our at-risk construction exposure. Upon completion of these initiatives, we will have a greater concentration of higher-margin and lower risk professional services work, which we believe will result in substantial long-term value creation.

To take advantage of this value creation opportunity, we have repurchased $210 million of stock under our $1 billion Board repurchase authorization. Going forward, we intend to synchronize repurchases with our cash flow, which is typically second half weighted. Our conviction remains high that repurchasing stock at current levels is the best and highest use of our industry-leading free cash flow.

Please turn to Slide 4 for a discussion of our business trends. Beginning in the DCS segment in the Americas, revenue increased by 12% with strength across nearly all market sectors. Performance was led by continued high levels of storm recovery work in the southeastern U.S. and ongoing growth in the transportation market. To date, we have won more than $1 billion of storm recovery work and we continue to pursue a nearly $2 billion pipeline of opportunities. As such, we expect this market to continue to create opportunities for growth and our scale and agility position us well to capitalize.

Transportation, our largest market in the Americas is benefiting from increased state and local funding, which accounts for more than 70% of public infrastructure investment. Total funding has benefited from the more than $40 billion of transportation-specific funding initiatives in 34 states that passed in the 2018 election cycle. These measures, which build on the more than $200 billion of infrastructure specific ballot measures that passed in 2016 and ongoing FAST Act investment demonstrate our clients commitment to developing a diverse set of funding sources to meet demand.

Turning to our international markets, beginning in the Asia-Pacific region. Increased public sector infrastructure investment in Australia
and stable trends in Hong Kong contributed to another quarter of revenue growth. In the EMEA region, uncertainty related to Brexit has negatively impacted business confidence and foreign investment into the U.K. and our revenue declined slightly in the first quarter. Even so, the pipeline for major infrastructure projects remained strong and we were recently selected for a nearly $100 million contract for network rail to support rail investment. We have already taken actions to align our cost structure with uncertainty ahead of the March 29 separation date and we are well situated to benefit from a recovery in activity.

Turning to the Management Services segment. Following several years of investments in organic growth, revenue increased by 17% in the first quarter. We had $1.4 billion of wins, including a nearly $500 million defense project in the U.K. and increased scope on a number of existing programs, including our classified work. As a result, our backlog remains near an all-time high. Importantly, the funding outlook is strong for both the DoD and the DOE, our largest clients. As a result, our total pipeline of qualified opportunities has increased by 20% to $35 billion and is dominated by pursuits for these 2 clients. This pipeline features a growing set of higher-margin DOE opportunities. As a result, we are reiterating our long-term 7% operating margin target.

Pivoting to Construction Services. In Building Construction, we remain on track for a fifth consecutive year of growth, supported by a record nearly $20 billion backlog. Wins in the first quarter included the new $7 billion Terminal One at JFK airport underscoring our successful efforts to diversify the business. While our record wins and 51% backlog growth demonstrate our successes in the market, they do not tell the complete story. We were also selected for additional projects valued at nearly $1 billion in the first quarter, including another large aviation win.

The full value of these wins is not reflected in our wins or backlog due to the accounting treatment of agency basis work. As I mentioned earlier, after quarter close, we awarded 2 additional projects valued at approximately $1 billion each, which adds to our unprecedented visibility. Performance in the civil construction business exceeded our expectations in the quarter. The pipeline of opportunities is robust and as sold margins continue to improve creating a favorable backdrop for continued profitable growth. In power, the Alliant Riverside gas power plant is approximately 85% complete and remains on schedule and on budget. We've reached another major milestone in December with all buildings now substantially enclosed and we expect to complete this project later this year.

Finishing with AECOM Capital, I'm pleased to report that in the second quarter, we closed on another property sale, which generated approximately 40% IRR and $10 million gain on our investment. Activities are well underway to support our new third-party real estate investment joint venture with Canyon Partners, importantly we remain poised to fully benefit from the expected embedded gains in our existing portfolio while limiting future investments off our balance sheet. Our strong first quarter results are a testament to the progress we are making to hone our focus on our higher-margin and lower risk professional service markets.

I will now turn the call over to Troy who will discuss the quarter in more detail.

W. Troy Rudd - Executive VP & CFO

Thanks, Mike. Please turn to Slide 6. Our strong first quarter results, including record wins and backlog, continued revenue growth and 16% adjusted EBITDA growth inspire a great deal of confidence towards achieving our fiscal 2019 guidance and our 5-year financial target. As Mike detailed, we've made substantial progress on de-risking the business and honing our focus, which will allow us to maximize the profitability of our record backlog. We've already taken nearly all the necessary actions to achieve our $225 million G&A reduction plan. The benefits of these actions are expected to result in higher margins, primarily in our DCS segment where we expect to achieve a 110 basis point margin improvement this year and further improvement in 2020 and beyond. Importantly, we expect to deliver 12% adjusted EBITDA growth this year, driven by continued growth and higher margins.

As a demonstration of this confidence, we have been actively repurchasing our stock under our $1 billion Board authorization and continue to believe allocating capital to repurchases is the best use of our cash flow.

Please turn to Slide 7. Revenue in the DCS segment increased by 7%, led by 12% growth in the Americas, growth in the Asia-Pacific region and a slight decline in the EMEA region due to reduced level of activity in the U.K. The adjusted operating margin was 6.2% in the quarter, which is a 150 basis point improvement over the prior year. This operating margin was consistent with our expectations and we expect to achieve a margin of at least 7% this year with sequential improvements as the year progresses.
Please turn to Slide 8. Revenue in the MS segment increased by 17% in the first quarter, reflecting the full benefit from our large wins and record backlog. The adjusted operating margin was 6.1%, which was consistent with our expectations and reflected solid execution across the business. We continue to expect the adjusted operating margin to approximate 6% this year. We are committed to our long-term target of 7%, supported by favorable mix shift in our pipeline of pursuits and our continued high win rate.

The return profile of this business is highly attractive. We require very little capital to grow and as a result we generate a high return on invested capital with very little execution risk.

Please turn to Slide 9. Revenue in the CS segment declined by 2%. Power revenue declined as expected due to our decision to de-risk the business. We also faced a very tough comparison for the Building Construction business, where revenue increased by 22% in the year-ago period. However, we are confident that our Building Construction business backlog and recent wins will result in another year of growth. The adjusted operating margin was 1.5% in the quarter. Reduced activity in the power business contributed to the decline in the margin, but we remain confident in our 2% expectation for the year.

Please turn to Slide 10. Operating cash flow was a use of $200 million, and free cash flow was a use of $222 million. While cash flow is typically weak in the first quarter, the partial shutdown of the U.S. government and the cash cost we incurred to execute our margin improvement plan negatively impacted performance. We estimate these 2 factors resulted in an approximately $200 million impact to our cash flow. As Mike noted, this is a timing issue. The cash generative nature of our business remains intact. Importantly, we have produced an industry-leading cash flow for a number of years, including $2.7 billion of free cash flow between fiscal 2015 and 2018, or approximately $675 million per year. And we expect to deliver cash flow within our $600 million to $800 million guidance this year.

With the stock trading at a price below what we believe is the long-term value, we continue to prioritize repurchases. We will synchronize our repurchases with cash flow as we move through the year.

Please turn to Slide 11. With strong first quarter results that exceeded our expectations, a record backlog and momentum in the business, we remain upbeat. As a result, we have reaffirmed our guidance, including our expectation for revenue growth, 12% adjusted EBITDA growth at the midpoint of our guidance range and $600 million to $800 million of free cash flow. For the second quarter, we expect adjusted EBITDA to approximate 23% to 24% of the midpoint of our full year guidance. Our guidance balances strong trends in our largest markets with ongoing uncertainty around the potential future U.S. government shutdowns and continued uncertainty in the U.K. market.

With that, I will turn the call over for Q&A. Operator, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Andrew Kaplowitz of Citi.

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

Mike, everything sounds good at CS when you talk about the strong Building Construction bookings, the better-than-expected civil construction business and the progress you're making on your power project. But you obviously continue with your strategic review and you decided to exit at-risk international projects. Building Construction was down in the quarter on a revenue basis. So as a result, have you reaffirmed our guidance, including our expectation for revenue growth, 12% adjusted EBITDA growth at the midpoint of our guidance range and $600 million to $800 million of free cash flow. For the second quarter, we expect adjusted EBITDA to approximate 23% to 24% of the midpoint of our full year guidance. Our guidance balances strong trends in our largest markets with ongoing uncertainty around the potential future U.S. government shutdowns and continued uncertainty in the U.K. market.

With that, I will turn the call over for Q&A. Operator, we're now ready for questions.

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

Mike, everything sounds good at CS when you talk about the strong Building Construction bookings, the better-than-expected civil construction business and the progress you're making on your power project. But you obviously continue with your strategic review and you decided to exit at-risk international projects. Building Construction was down in the quarter on a revenue basis. So when we step back, how should we look at the business going forward? Is CS just going to be a smaller business? How much at-risk international construction is in the backlog? Can you give us your confidence level that Building Construction revenue grows in FY '19 because I think you said last quarter that it will be flat.

Michael S. Burke AECOM - Chairman of the Board & CEO

Yes, so I make sure I got all the components of those questions Andy. But first of all, the international at-risk construction is about 0. There might be 1 small project that we are finishing up, but it's about 0 and will be 0 going forward. The backlog -- you take the overall
CS business, exclusive of, civil is doing well; power, we've scaled back our market exposure there in our quest to de-risk that business, we have scaled it back; but Building Construction overall continues to grow. We had significant multibillion-dollar wins in the -- in this quarter already, about $2.4 billion of wins in January and February already. We've got about $20 billion of backlog in Building Construction alone. So that's about 3.5 years of revenue. We've got about another $10 billion of decisions that we're waiting on just in the next 12 months alone. And the importance of that business -- you and some others have asked about the exposure to the real estate markets and are we close to the peak? I think our backlog and growth in that backlog is evidence that a couple of things are happening. One is, we are still the premier provider of tall vertical construction across the U.S. We continue to win sizable projects in New York City, including $1 billion win in the month of January. We spent a lot of time repositioning that business and diversifying it outside of the New York market. Despite the significant wins in New York, we've now grown that business in the West Coast markets of Los Angeles that has been booming for us. We have -- also as we've talked about over the past year and half started to reposition our expertise into the aviation markets because we see here in the U.S. alone about $100 billion of opportunities in the aviation markets. You're starting to see projects in Newark, projects at JFK that are being done by private sector developers, which were clients of ours in the high rise vertical markets. So all in all, we feel pretty good about that market. We feel that the Building Construction business will continue to grow. And when I look at that backlog, that $20 billion of backlog, it tells me that in FY '20, we're going to grow even faster than we will grow in '19.

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

Okay, Mike. That's helpful. Let me shift gears and talk about DCS for a second. I mean, you progress with this G&A savings plan I think a little faster, being basically done at this point, I think you said by Q2, you'd be 90% done. So when we look at margin going forward, should you experience a decent increase here in Q2 from Q1? I know you mentioned sequentially -- sequential improvement, but I guess there is a balancing act here between the improvement from the restructuring and maybe a little bit of U.K. underutilization. Is there any risk to that 7% guide that you have if the U.K. continues to be a drag?

Michael S. Burke  AECOM - Chairman of the Board & CEO

Why don't I let -- Troy, you want to take that up?

W. Troy Rudd  AECOM - Executive VP & CFO

Andy, so as you pointed out, we are ahead of the pace we said we'd be in terms of completing the restructuring. And we will see the impact of that in our design business in the second quarter, so the margins will improve. And we still are on track as we said to exceed the 7% number for the full year. In terms of the balance, again, as Mike pointed out in his prepared comments that we have actually undertaken restructuring in the U.K. to position ourselves for the softness in that market. So at this point in time, we don't see that being a risk to the overall margins in the design business. And also, I'll remind you that in the U.K., that does present 4% of our overall income. So a decline may have from where we are now would have a modest impact. But, again, I'll reiterate our margins. We're on track for the 7% -- margins are exceeding that 7%, the target we set out at the beginning of the year.

Michael S. Burke  AECOM - Chairman of the Board & CEO

And also, Andy, you may have seen the announcement last week in the U.K. that we won a $100 million engineering design fee for network rail, which is the biggest win we've had for design work in the U.K. in probably in a couple of years. So -- that happened just last week. So that portends well for the rest of this year and into '20.

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

And Troy, just one quick follow-up on cash. Do you think you'll catch up to the normal seasonality as you go into Q2? Or is it just going to become more backend loaded, given the government still seems to be a little bit uncertain as to what it's doing here over the next few weeks?

W. Troy Rudd  AECOM - Executive VP & CFO

Yes, so I guess, first, the answer is, yes. I see us clearly catching up. We're reiterating our full year guidance of $600 million to $800 million of free cash flow. And there is no question that we were impacted by the shutdown during the first quarter. In fact, it would be
difficult to find -- it couldn't have been worse timing for us. We already have seasonality in our cash flow first -- for the first half of the year and second half of the year, and so this impacted that, but we see ourselves catching that up in Q2 and Q3. We also -- with growth in the business, we are consuming some cash to fund that particular growth in working capital as well. And in terms of the timing, we did have a pretty significant impact from one of our projects, just to give you an example, we have the storm recovery work that we are performing in the Caribbean in the U.S. Virgin Islands. And we had at the end of the quarter, $185 million of net AR that we had anticipated collecting. And frankly that money to get collected it has to go through a lot of hands because it has to be approved by the customer and also because it's U.S. government-funded. It has to be approved by the agency that's funding that contract. And with the shutdown, those approvals just stopped. So we are seeing now money being collected last week and this week on that particular contract. So we do expect that being collected over the course of this quarter and into Q3. So I'd say there is -- just in terms of our overall cash flow, we do have confidence around that full year number and underlying that there's no real changes in our processes or the reward systems that we have across the company or the nature of the underlying clients. So we see this as timing, not collectability and we will expect to recover that over the course of this year.

Michael S. Burke AECOM - Chairman of the Board & CEO

Andy, if I could just expand on that or reinforce that, I am not worried about cash flow, of course, I would have preferred the U.S. government paid our receivables in the quarter. But having receivables of that level outstanding from a very high credit quality client is not a concern to me for 1. But also, as Troy pointed out, when you have 7% organic growth in the DCS business and a 17% growth -- organic growth in the MS business in the quarter that chews up some working capital that I think is a really good use of working capital to see that kind of outsized growth. And we've had over the past 4 years aggregate of $2.7 billion of free cash flow over the last 4 years. So I think our track record on that is pretty strong and that gives us a high level of confidence that we're going to hit our cash flow numbers for FY '19.

Operator

Our next question comes from the line of Michael Dudas of Vertical Research.

Michael Stephan Dudas Vertical Research Partners, LLC - Partner

Michael, talk about -- maybe you can expand on your comments about the better visibility in the DOE and DoD pipeline. What kind of change? And is it more -- what type of specialties or types of skill sets that you are bringing to these different and more expanded contracts or different agencies that is allowing you to get better positioned to fulfill some of this work?

Michael S. Burke AECOM - Chairman of the Board & CEO

Mike, Randy will take that question if you don't mind.

Randall A. Wotring AECOM - COO

What we've said Michael is that the pipeline continues to grow. One is because we are better positioned across the marketplace in terms of our footprint with agencies. The projects that we're qualified to perform on and the experience we have, and as well as the key personnel that we bring to the table. So over the last few years, the pipeline has been heavily weighted towards Department of Defense opportunities. As we look forward though, we see, as I think described as a shift mix to more -- a higher number of DOE opportunities that we are extremely well positioned for. We are currently a leader in the environmental management marketplace in DOE and we look to over the next few years expand our presence into the nuclear security administration type work too, the defense type projects within the Department of Energy. So again, half of the pipeline increase that you've -- that we've announced moving from $30 billion to $35 billion is in DOE projects alone.

Michael Stephan Dudas Vertical Research Partners, LLC - Partner

I appreciate that. Just second question would be on the -- just thinking about the Construction Services business, one about -- talk about little bit about you're talking about you're getting out of the at-risk international type projects and refocusing on what kind of maybe domestic ones you're shying away or repositioning. Maybe you can explain on some of the projects that you would have done in the past you're not going to do in the future. Does that have any impact on some of the design or kind of like a combined work that you've been able to generate from those types of projects either design or program or construction management fees? And following that up, how long before we get to see the visibility and the benefits on the margin side in CS as that works through the system?
Michael S. Burke  
**AECOM - Chairman of the Board & CEO**

So a prime example of de-risking the portfolio, which we’ve talked about for quite some time, we are clearly evaluating all strategic options to de-risk our construction portfolio, 1 piece of that is to no longer take on at-risk construction outside the U.S. A second piece of that, a prime example, is last year, our decision not to pursue any more combined cycled gas power plant business. It's also a strategic decision on our part to change the risk profile of the projects we are willing to take on across the portfolio as well as considering strategic options for segments of Construction Services. At the end of the day what we expect to have is a higher-margin, lower risk business, much more akin to construction management consulting work. That's our objective. That's where we're heading. With respect to margins, we fully expect this year to hit our target of 2% margins in the CS space. And when you think about that business going forward, think about a construction management business that has on a net service revenue basis margins that are in excess of 20%, think about a business that has a negative net working capital, and so you have a very high return on invested capital, a very low risk business, with very high net service revenue margins. That's the type of business you should be expecting to see as we evaluate our strategic options and execute against that.

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

I appreciate the comments. Final thought, Mike, you want to pick a swing at what might come out of the State of the Union tonight and maybe an update on your thoughts on infrastructure build?

Michael S. Burke  
**AECOM - Chairman of the Board & CEO**

Well, I've been predicting what's going to come out of the White House for quite some time. And I have a very good track record of being wrong every single time. So with that caveat we have been expecting for quite some time that infrastructure actions would come out of the White House. We clearly have broad bipartisan support for infrastructure. Right now both sides of the aisle want to get something done. We clearly expect that infrastructure is going to be one of the top 5 points in the State of the Union tonight. But beyond that, I'd be speculating.

Operator

Our next question comes from the line of Andrew Wittmann of Baird.

Andrew John Wittmann  
**Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst**

I just wanted to get a technical question out of the way. It's not new that you guys have been having a significant contribution from storm, I think in the past you have given us some brackets around that. Troy, can you just help us quantify that in the quarter just knowing that it's a lumpy business we like to get a handle on what's -- how much is actually contributing?

W. Troy Rudd  
**AECOM - Executive VP & CFO**

Yes. If you think about what we said about our DCS Americas business, which was up 12% year-over-year in the quarter, I guess simply if I think about absent the storm work, we would've had single-digit growth in that business.

Andrew John Wittmann  
**Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst**

Got it. Is it mid-single-digit or I mean single digits?

W. Troy Rudd  
**AECOM - Executive VP & CFO**

Yes, yes. I'm going to say low single digits.

Michael S. Burke  
**AECOM - Chairman of the Board & CEO**

Just to be clear, and I don't want to suggest I don't want you to draw the wrong conclusions from that. Had we not been pursuing storm recovery work we would be pursuing other opportunities. And so, I don't think we ought to be concluding from that you take out all the storm work and we'd be growing at 3% or something. It's still -- there's a bunch of resources that would be deployed towards something else.
Andrew John Wittmann Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst
Sure. Okay, that makes sense. I guess, Mike for you, as I understand that the line that's called non-core operating losses in your statement, it contains a number of things. I think the biggest chunk of that has been some of the oil and gas businesses that you're trying to get out of in Canada. I think it also includes this quarter some of the other international businesses and offices that you're looking to exit as well. I guess my question for you, is just an update on the process around selling or monetizing or even just shutting down any businesses here? And when we can expect to see that line of -- to moderate and get closer to 0 rather than the numbers that have been up the last couple of quarters?

Michael S. Burke AECOM - Chairman of the Board & CEO
Troy, do you want to take that one?

W. Troy Rudd AECOM - Executive VP & CFO
Sure, I'll take that Mike. So Andy, you're exactly right. That relates to the oil and gas business that we described that we were exiting in Q2 of last year. We're still continuing that process. And then we also are closing down the 30 countries and we're about 25% complete. So at this point in time, we have 8 countries that we're considering dormant. We're still continuing that process through this quarter, but maybe a way for you to think about this is as we get to Q3, that there should be no continuing financial impact as we get through those actions in Q3.

Operator
Our next question comes from the line of Tahira Afzal of KeyBanc, your question please.

Tahira Afzal KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst
Mike, I guess, first question, you had very good execution you said, internally you outperformed. Does that make you a little more comfortable around the midpoint of guidance for the full year? And I guess, what I'm trying to get out is if you haven't adjusted your guidance up, is that partly just because it's too early?

Michael S. Burke AECOM - Chairman of the Board & CEO
Yes. First of all, it has increased our confidence. When you beat your internal expectations for the quarter and you come out and put $4 billion of wins up in the first 5 weeks of the quarter here, we feel pretty good, the government is back open for business. So there's no question it increases our confidence level, but it's a little early in the year to start putting up an increase in our guidance. And we also had the AECOM Capital gain in the quarter. We expected that in Q1. And so the fact that moved to Q2 and we still exceeded our expectations for Q1 tells you that we significantly outperformed our internal expectations for Q1. So there's no question we have more confidence in our guidance range throughout the year, but not prepared to increase that guidance just yet.

Tahira Afzal KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst
Got it. Okay, Mike. And Mike, if you look back 10 years ago when the whole world was falling apart and really look at this macro downturn, which hopefully will be a little milder. How do you see the visibility in your backlog? When I did an analysis, it suggested longer durability and higher visibility projects in terms of funding sources.

Michael S. Burke AECOM - Chairman of the Board & CEO
Yes. So Tahira, if I think back to 10 years ago, when we would look at our backlog at that point in time, we would say 75% of the next year's revenue was in backlog, and so, you had maybe 1.5 year duration to backlog going back 10 years ago. One of the things that has really changed in our business over the past few years is the duration of the projects that we won. And so, with backlog in excess of $60 billion now as of today, that's obviously, that's almost 3 years of revenue. So our duration has doubled over the past 10 years. Our -- and I look at our business in some of the areas in the private sector, which generally we hear as a concern sometimes, I look at that business, the $20 billion of backlog, that's 3.5 years of visibility with growing demand in the public sector aviation space. So our backlog is of much longer duration than it was 10 years ago. It's much more diverse than it was 10 years ago, and gives us a lot more confidence than we would have had at a similar point 10 years ago.
Operator

Our next question comes from Jamie Cook of Crédit Suisse.

Jamie Lyn Cook Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst

A couple of questions. First, Mike, obviously the organic growth has been very strong within the Management Services business. So can you talk about understanding the comps get a little more difficult in the remaining 9 months. How we should think about organic growth in that segment? My second question, your EBITDA guidance for the second quarter, the 23.5% of total year EBITDA, just understanding you started the year at $207 million, if you add back the gain from AECOM Capital and then you assume you get some benefit from the restructuring actions you've taken, which you're ahead of where you wanted to be, why shouldn't that number be greater as a percent of total earnings relative to normal seasonality? And then my last question, Troy, I guess is to you, just on the free cash flow side again, understanding the nuances of the quarter, but just given the issues with the government and the working capital requirements you talked about, is it more prudent for us to think about the low end of the range or low to mid-point end of the range versus high end?

Michael S. Burke AECOM - Chairman of the Board & CEO

Okay, Jamie, let me -- I'll try and orchestrate the different parties to answer that multipart question. So maybe Randy will touch on the organic growth in MS and what we might expect for the rest of the year on that and then Troy will take on the cash flow and the guidance piece for Q2.

Randall A. Wotring AECOM - COO

Jamie, what I'd tell you is that I think we have great momentum in our growth activities in the MS organization, both in terms of generating pipeline that we qualify quite a long time out and we have great visibility on our bidding activities over the next 3 years in that business and in our win rates and capture rates, so both have been outstanding. We have a lot of confidence that the bids that we currently have under evaluation we feel good about those, and we expect the Savannah River site to be awarded any day now or some news about that particular bid. And the best predictor I think of our ability to capture business on a go forward basis and to continue to bring in backlog and organic growth there is performance. And I'll tell you that, that organization continues to perform well across all of our contracts. Last week, we received our latest award fee score on Savannah River site and again, we received an excellent rating and I think capturing over 95% of the award fee. So in my nearly 40 years of experience in this marketplace, the best predictor of capturing growth is performance and that organization continues to perform well, invest wisely and capture business. So I'll leave at that and pass the ball to Troy on...

W. Troy Rudd AECOM - Executive VP & CFO

Yes, so Jamie your question just on Q2 guidance. Look, I think when we created the Q2 guidance we were trying to find the right balance. So reflecting the optimism that we have in business based on what we've done in Q1, the restructuring that we've undertaken, and what we've seen in terms of wins. But we're also trying to balance that against some of the macro events that we're facing, including the possibility of a shutdown in a few weeks in the U.S. government business. So the best way to describe this is, this is consistent with what we've typically seen in our quarters in the past year being around 23%. And we want to set a plan that we believe we will achieve and we'd like to drive out performance as we have in Q1. And in terms of cash flow, I haven't changed my particular view that we should be guiding to the low end of that range. That range is still intact for us. We have confidence in achieving a number within that range. As we said in the last 4 years, on average we've done $675 million of free cash flow. So we've got a path based on the expectations of business performance to get into the middle of that range and then, there are some things that can go our way, a few lumpy collections around the quarter that can have a still in the high end of that range. So there is no real change in our confidence coming in -- coming within that guidance range at this point.

Operator

The next question comes from Steven Fisher of UBS.
Steven Fisher UBS Investment Bank, Research Division - Executive Director and Senior Analyst

I'm just wondering about the organic growth outlook in the DCS segment. You gave us the 3%-or-so ex-storm work. But as you do lap that storm work in the second half, how easy or hard do you think it will be to continue to show positive organic growth when you lap those comps? I mean should we put a decline in there and then parse it out between storm, no storm or do you think you can kind of keep it positive overall?

W. Troy Rudd AECOM - Executive VP & CFO

So Steve, I think we'll keep it positive overall, you're right in pointing out that there are difficult comps as we move through the year. But when you look at our contracted backlog in the design business, it was up 6% in the quarter and in the Americas, it was up a higher number. So there is a very clear relationship between contracted backlog and growth in the next 12 months. And so, we see -- based on our contracted backlog, we see sustained growth over the course of the next 9 months or the 3 quarters of the year.

Michael S. Burke AECOM - Chairman of the Board & CEO

And Steven, just to point out, we still have $2 billion of bids that we're pursuing for storm recovery work. We've generated about $1.1 billion of wins to date, but we still have another $2 billion of opportunities that we're chasing. We don't see that abating. We are just -- we just finished this year a project from Hurricane Katrina, which you'll remember that was 2005, so 14 years ago. It gives you a sense for the long tail on the storm recovery work. So they are difficult comps, but we now have -- Will how many quarters of backlog growth in DCS Americas? Will is telling me 9 quarters of backlog growth in a row in DCS Americas. So we're continuing to get after the market.

W. Troy Rudd AECOM - Executive VP & CFO

And Steve, it's Troy, again. Just to attack one further point on that is, organic growth is now more valuable than it was in the first quarter, because having undertaken the restructuring, we're adding 110 basis points through our DCS margins, which means we're adding 110 basis points to the backlog that we currently have. And that means that, that growth even at mid-single digits has become more valuable.

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

And just to follow-up there, do you think your book-to-bill on a contracted basis within the DCS segment is going to start to go over 1, because as you point out the backlog on a contracted basis is growing year-over-year, but basically, it was 1x book-to-bill this quarter. Do you think we will see it above 1x? And if so, kind of what pieces of the business are going to drive that in the next few quarters?

W. Troy Rudd AECOM - Executive VP & CFO

So the simple answer to that question is, yes, we do expect a book-to-bill -- our book-to-bill to be greater than 1 for the full year and certainly in the next 3 quarters. And again, we go to our largest markets where we're continuing to see the largest opportunities, which is, in our Americas business, our Asia-Pacific business, we're seeing the largest growth opportunities.

Michael S. Burke AECOM - Chairman of the Board & CEO

And Steven, I just hear your point on the contracted backlog, I just -- I can't help myself here, but to reiterate that distinguishing between awarded backlog and contracted backlog is not all that meaningful. It is very, very rare that we have an awarded backlog, that doesn't move into contracted backlog. And so, I'd just be careful in trying to do too much analytics on just the contracted portion because it's -- in my mind a distinction without a difference.

Chad Dillard Deutsche Bank AG, Research Division - Research Associate

So I just want to go back to your review of your at-risk construction business. Just to understand what sort of accretion opportunities there are. Can you just help us like, I guess, understand what the margin profile is for that type of business as well as in the cash flow conversion rate just so we can get sense for what the go-forward business will look like.
Michael S. Burke AECOM - Chairman of the Board & CEO

I'm not sure I understand the question. Are you asking for what is our cash flow conversion and our margins go-forward? Let me try, and I think -- I know what you're asking. When we go-forward on a -- we expect to have a low margin -- I am sorry, a low risk high NSR margin, low working capital business. So let me try and take that in pieces. On a gross revenue basis, we expect margins to be north of 2%. On an NSR margin basis, we expect that to be around 20%. We expect to have negative working capital in that business. So it produces a very high ROIC. And so hopefully that helps you understand the business that we're aiming for after we get done with our strategic review. Does that answer your question?

Chad Dillard Deutsche Bank AG, Research Division - Research Associate

Yes, no, that was helpful. And then, just switching over to DCS. Can you just give some color if you can, some quantitative color on the bidding pipeline, how that compares year-on-year? And then what you're seeing in terms of relative strength for region for new work that has not been won yet?

Michael S. Burke AECOM - Chairman of the Board & CEO

Yes, I mean, well, I think the 12% organic growth in the Americas business tells you a lot about the market conditions. Our backlog continues to grow. The opportunities in front of us continue to grow. We are -- as we take our attention away from some of these markets that are far afield as we start to retrench from 30-some-countries, we are getting more of our resources focused on the hot markets of North America and Canada. We now have about 80% of our business in North America right now. That market continues to be hot. We saw in the end of '18 November election cycle, $40 billion of new ballot measures. We see strengthening -- late in the cycle strengthening across the infrastructure markets here in the U.S. And hopefully, if there is a federal infrastructure build, it starts to gain momentum coming out of the State of the Union tonight, that will be even further fuel to the fire here. So we feel pretty good about that market. And the other thing that we feel really good about is this 100 basis point improvement in the margins in the DCS Americas business, with an expectation of another 50 basis points in FY '20, and we're not stopping there. So we're seeing organic growth, we're seeing growth in the backlog, we're seeing strengthening markets and more importantly, a 150 basis point improvement in the margins that we expect to drive from the backlog over the course of the next year and half.

Operator

At this time, I'd like to turn the call over to Mike Burke for any closing remarks. Sir?

Michael S. Burke AECOM - Chairman of the Board & CEO

Thank you, operator. So before we conclude the call today, I just want to emphasize a few points from our first quarter results. As you heard me say a few times now, we're continuing to deliver positive organic growth. But most importantly that organic growth is coming in our higher margins DCS and MS segments. And as a result, it contributed to a 16% growth in our adjusted EBITDA, it puts us fully on track for our full year guidance of between $920 million and $960 million of EBITDA. Secondly, we are exceptionally well positioned to continue to drive profitable growth. Our backlog grew 22% in the quarter to an all-time high. We had another $4 billion of wins in the second quarter to date. That's just in the past 5 weeks and we expect more wins on the horizon. But even more importantly, we have taken very quick decisive strategic actions to maximize the value of our recorded backlog. We're well ahead of plan on our G&A reductions that will produce more than 100 basis point improvement in DCS margins this year and another 50 basis point next year. We are continuing to de-risk our portfolio and the types of projects we're taking on as well as evaluating options to spin off pieces of that business that would further optimize our portfolio going forward. So we're increasingly confident in our ability to drive substantial value for AECOM and our shareholders going forward. And with that, I'll look forward to our next discussion in May. Thank you, and have a great day.

Operator

Thank you, sir. Ladies and gentlemen, this concludes today's conference. Thank you for your participation, and have a wonderful day. You may disconnect your lines at this time.
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