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Andy:

Okay, we're going to get started again. Thanks for joining us for now afternoon sessions. So we're very excited to have AECOM with us. Troy Rudd, who is the CEO. He joined AECOM in 2009. Time goes fast, huh? And was the CFO before he was CEO. So I'm going to turn it over to Troy. I think you have a couple of prepared remarks and then we'll go to Q&A.

Troy Rudd:

Okay, sounds great. Thanks, Andy. And I will say, just for everyone's benefit, I looked a lot different when I joined in 2009. So, just to start with a reminder of a little bit about AECOM, what we do. So we are an infrastructure consulting firm, about 52,000 engineers, architects, scientists, program managers, construction managers. So the base of our business is based around deep technical ability. We have about 90% of our business now in four countries, the US, Canada, Australia, and the UK. And one of the biggest hurdles that we've had in the past has been around our ability to hire people so we can grow. That's been a limiter on our growth. But also, it's really important to have a highly engaged workforce. And I'm pleased to say that over the last few years we've been investing significantly in leadership development and technical development. And I feel really comfortable where we are in terms of an engaged workforce.

And a couple of really important data points. Number one is our voluntary turnover this last quarter and today is about 15% lower than we saw pre-COVID. Secondly is amongst our, I'm going to say, most influential people in our business, we put people through leadership training, the 5,000 people that participated in the last 12 months, our turnover amongst that group, and there are different groups within that 5,000 people, is turnover is between 1.9 and 5.5%. So it means that the people that are most influential in our business, we see voluntary turnover being around 3%. So that's fantastic for our business because one of the limitations in our business when we're a technical advisor is our ability to add people. So we had an investor day in November or in December, and a couple of really important points I felt we wanted to communicate out of that investor day.

Number one is we are lucky enough to be participating in really healthy markets. I would say 95% of the markets that we participate in are actually well-funded and probably near their peaks in terms of funding and longer-term opportunities. Secondly is the business has been winning work at an extraordinarily high rate. In the last nine quarters, of all the work that we bid, we won more than 50% of the work that we bid. So out of every $2 we bid, we win more than a dollar of work. But most importantly, within what we define as the largest and most important projects to our clients and to us, our win rate is actually over 70%, which I'll come back to this in the Q&A, why that's important, but it's helping us actually transform the business. The other important point to us is we have a really solid technical foundation of people, and what they do is they deliver the most complex iconic infrastructure projects in the world.

There's only a few people that can compete with us to do that. We have been transforming that business so that we're not focused on the design, but we're actually participating much more in our client's project spend. And we've been building and advising a program management business. So in the past, we would participate in about 10 to 15% of the project spend. Given what we've built, we now participate in about 30% of a project spend. And more importantly, when you look at the underlying profit in that project spend, it represents somewhere between 30 and 50% of the profitability that might be inside that project. So we've been transforming the business by growing our program management advisory business very rapidly. And we've doubled the size of that in the last three years and now represents about 15% of our total revenues. The other thing that we've been focused on is actually transforming how we deliver work. And I'll simply leave it at this, we believe, based on the investments we've made and we're continuing to make, that over the next three years, we will be able to deliver the same amount of work with five to 15% less hours, which will have a tremendous impact, obviously, on the business, our ability to invest, but also on our margins. And then last, over the last really four years, we've transformed the business and we've been a place where our mantra is that we will deliver on our targets, deliver what we said we would do today, but at the same time, we're investing to deliver more tomorrow. And over the last four years, we've very consistently delivered against all of the targets that we set out for ourselves.

Andy:

Great choice. So I think you answered half my questions, but let me start. So you've been at AECOM for a little less than four years. You and Lara took over as CEO and President. Obviously, a lot has gone right since you took over. You talked about some of the highlights, but what are the one or two accomplishments or changes that you're most proud of, and what are the one or two targets that have either lagged or you're still working on to get to accomplish?

Troy Rudd:

When we first took over the role, we recognized that there was an amazing opportunity for the people at AECOM, but what we thought was to get the best out of the organization and those people is we had to take a lot of risk. And the risk that we took was we changed everything. We changed what we were going to reform in terms of our business. So we exited and we're still finishing that process, but we exited a whole bunch of businesses that we didn't think were of importance. They were important to the future of the business being an infrastructure consulting business. We changed the entire leadership team. We changed the operating structure.

We changed the strategy. And most importantly, we changed the culture of the organization. And I think that changing the culture of the organization has been what's really been important to our success. So what we're most proud of is that we took that risk and we changed everything and ultimately it turned out to be successful. But that was a risk in the beginning. When I look forward, I think the things that are most important for us to accomplish is to continue to transform the business so that we have half of our business in advisory and program management. And that becomes really important to our people. The people who work at AECOM are purpose-driven.

Their view is they really want to deliver a better world, and that's the mantra of the company because they really do feel that and they believe that that's why they join us. And delivering a better world in the past meant that you would deliver better economic outcomes through infrastructure. Well, now, it's even more meaningful because they can deliver social outcomes and environmental outcomes, transform the world through infrastructure. So by us continuing to invest and build advisory and program management, we give them a much greater opportunity to participate in it and the business participate in it. And then the second thing is we've got a lot of work to do to actually, as I said, transform how we deliver our work.

Andy:

So I want to go talk about the funding environment for a little bit. Can you characterize, maybe give us the US baseball analogy, what inning you think AECOM is in in terms of fiscal tailwind in the US? And then you talk about the visibility you have to what I think are relatively high growth forecasts for the company, 8 to 10% for this year, five-day percent over the longer term, do you worry about US elections, what that could mean for AECOM's future? How do you think about all that?

Troy Rudd:

I worry about a lot of stuff every day. This just goes with the job. But I feel very good about the opportunity in North America, but I'll start with the US. So there's been a lot of funding that's been available for infrastructure. And if I think about a baseball analogy, I would put us in the third or fourth inning in terms of the funding that's available and how it's being deployed. So we have the opportunity to look through a dialogue with our client, the pipeline of projects that are coming to market. And I think that we see the peak funding being 27 or 28. So 2027 or 28 around the IIJA and the other money that's being brought to market to fund infrastructure. An example of that was the CHIPS Act. The first large award was actually just made today.

Andy:

Yeah. Very recently.

Troy Rudd:

So it takes time for that to come. So I look at that, but then when I look around the rest of the world, I said, we're in four really important markets. In Canada, the federal government and the provincial governments in Ontario and Quebec and in British Columbia have announced really large long-term programs to invest in infrastructure. So that's just coming to market and it will come to market over a number of years. And similar in Australia, the Australian government has a large bold program. They just went through revisiting all of their planned investments, and they have completed that, and now there's great certainty around what they're going to be investing for the next number of years.

And in the UK, there's a lot of, I think, certainty around water investments and certain social infrastructure investments. It's the one place in the world where I say there's a little bit of a speed bump because I think transportation and large transportation programs that were announced have been canceled. And I don't think we'll have certainty as to what's going to happen until after their next federal election, which is in the late fall. And it'll probably take a year before the new government or the current government figures out what they're going to do in terms of that long-term investment. But I think it'll come.

They canceled High Speed Rail Two, which was a $35 billion investment, but they immediately pivoted and said, "We're going to invest the same amount of money in infrastructure in the northern states within the UK." So when I look at the medium-term and the longer-term, I think that there are fantastic long-term opportunities. And that's why I said I'm really happy about our markets.

Andy:

Troy, I want to ask you about regions in a second, but just while we're on the UK, how much of a percentage of the business is it these days approximately?

Troy Rudd:

The UK would be less than 10% of the business.

Andy:

Okay. And do you think it can still grow through this, or is it going to be more muted? What do you think?

Troy Rudd:

So our UK business has actually been growing double digits the last two years.

Troy Rudd:

I think it will be muted. I think it will still continue to grow, and as I said, because of the growth in environment, water and social infrastructure, transportation, I think, will be slow growth. What we will benefit from is over the last three or four years, we've been investing to win what are called frameworks. And so framework with the large transportation customers. So as they continue to spend money on their operating budgets or their maintenance capital budgets, we participate that, and so the business remains stable, but I don't think growth in transportation will be significant until we get through this election.

Andy:

Got it. And I want to go back to your comments on program management and larger wins in general. Obviously, 50% win rate on just across the portfolio and 80% for large projects, that's pretty good. I think you said program management is 15% of the business now?

Troy Rudd:

It is now, yeah.

Andy:

So how do you keep that up though? Because it just seems to me like wouldn't competitors try to adjust to that? And then in your five-day percent long-term guides, you talk about 2 to 3% from expanding your markets, of 1 to 2% from market share gains. Again, how do you keep that up? It seems hard to sustain that.

Troy Rudd:

I think of the long word. It's hard to sustain. But again, the focus of our strategy has been in investing to create a competitive advantage. And if you create a competitive advantage, so something is different, your customer's experience, the win rate is the byproduct of that. It's not something that we're doing to say, "We're going to get this win rate, we're going to win no matter what." So we've got the question, are you winning because of price? And the answer is no, we're not winning because of price. We're price competitive, but in being price competitive, we're still generating the best margins in the industry. At the same time, again, we're investing to create a competitive advantage. And so we're doing that in some very different ways. And will the competitors recognize that and will they start to try to repeat that? The answer is yes, but at the same time, we're continuing to invest to maintain that advantage and that win rate.

So I'm going to give you a simple example of why I think we're winning at a really high rate. One is because I said we changed our culture. We've created a culture of globally collaborating. Now in our industry, this may sound weird, but a lot of the competition is local. So it's what does your local team bring to the table against the other people you're competing with to win that project and they bring that local expertise? We've pivoted. What we do is we figure out what do we need to bring globally and we bring the best globally. And it doesn't mean that they have to fly into town and relocate and live there. It means that they'll participate in a project where they bring this very different experience. And when you talk to the customers about it, they say, "I want that because that's not something I'm getting through the conversation through the bid or even through my experience with your competitors."

So will other people do that? Yes. But to do that, takes a little bit of time. It requires leadership change, behaviors. It requires culture change and it really requires an operating structure change. And it requires the investment in the tools and the ability to actually be able to do that, to deliver work globally. So that's one example. It sounds simple, but it makes a meaningful difference. Beyond that, we're investing in some other things. So transforming how we actually deliver the underlying work and when we're also focused on... This is going to sound a little odd, but delivering an entirely different customer experience. And so I could talk for this for quite a while. So in the interest of giving you one more question, I'll simply say is, "Our customers in our industry, they typically expect you to deliver something that is technically correct and capable of being delivered on budget and on time." That's great. Do you know how often that happens? Never, right? There's always some element of change. There's always some element of how confusing it is or how you interact with your customers.

Well, imagine if you can change the way using technology and through how your people work, is you can deliver something that's an entirely different customer experience. So even as that happens, the customer is understanding and you work with them to adjust and change. So ultimately, they get something that they want. And along the way, they get the outcome in a uniquely different way that gives them confidence, transparency, accountability, and trust. And so we're able to do that with technology and we're able to use that again, through our platform of the people that we bring to projects. And so that's going to be a really important part of the future. We're making some fairly significant investments in how we actually change the customer experience of delivery.

Andy:

That's helpful, Troy. And then maybe just focusing on the near term for a minute, your total design backlog growth in your fiscal Q1 that you reported still look good, up 9% year over year. It was a bit of deceleration versus Q4, I think you're at 12%. Obviously, 9% is right in line with your growth expectations for the year, but would you say your pipeline momentum is still growing? Is it stable? Is it moderating a bit? What do you think?

Troy Rudd:

Well, our pipeline is growing. First of all, the marketplace opportunity is moderating. They're continuing to grow and we're looking at a number of years. In terms of our win rate, we haven't seen a meaningful difference in the last nine quarters, so we're still winning at a really high rate. I don't expect that to change. But in terms of the ebb and flows around timing of projects, I would expect our backlog to grow organically 7 to 12%, just bump along quarter to quarter and continue to match the trajectory of the market and our win rate.

Andy:

It's helpful. And maybe if I focus on international markets for a second, we already talked about the UK, but you're pretty strong in the Middle East, Australia, Hong Kong. So can those markets still grow in that 7 to 12% range as you just talked about? Or how do you think about those other ones?

Troy Rudd:

The answer is yes, but it's a portfolio. So will it bump around a little bit? As I said, the UK and transportation, I don't think it's going to grow at the same rate, but over long term, it probably will. Our Middle East market is still a very healthy market. What we have been seeing in the Middle East is we've actually seen a rationalization of the number of projects down to a smaller few and the things that really are the priority of the Crown Prince. And so there still is a really healthy pipeline of opportunity in Saudi Arabia and growing across the Middle East. In Hong Kong, I mean, it's a really good stable business, but there hasn't been a great pipeline. But in the last two quarters, we have actually seen the dialogue and the momentum building around a really good long-term pipeline of large infrastructure projects that will be invested in over the next decade around Hong Kong or the Greater Bay. And so I think that there's an opportunity for that market to grow over the next decade.

Andy:

Very interesting, Troy. And then the other way to split your sales is into public and private, 60% public roughly. I think you suggested on your last earnings call that you don't see a discernible difference between the growth rates of either, but I continue to get the question around your private-centered clients, as I think you do too. When rates are higher, people worry about offices, blah, blah. Maybe tell us your confidence level that both sides, public and private, could grow at those high single-digit rates?

Troy Rudd:

Yeah. My confidence around both of those markets would be equal, but it's a little different. So there are certain private-sector markets that are interest-rate sensitive. So the most obvious everyone talks about is commercial real estate. No question. I would say that the investment in commercial real estate has, I'll just say slowed, really slowed. But at the same time, again, we have the benefit of understanding from our customers what will happen over the course of the next two or three years based on their activity of bringing things to market that we would help them with or bid on. So we saw that starting to happen a few years ago. So our reaction to that was is we said, "Well, there are opportunities where they will grow." For example, in aviation. So aviation is sometimes private, so it's developer led. Or sometimes it's government led. We've been able to take the teams of people that do the kinds of work and pivot into aviation, away from something that would be looked like commercial real estate investment.

So I have confidence around it because I see broadly the opportunity in private and public the same. But I do see that within the private sector, that there are things that have slowed down or will stop and there are things that are picking up. And if you look at North America, for example, there is a very strong and large investment that is going to be made in aviation or airports. And whether that's at the large city level, large airport level, or it's at the local or regional airport level, it is going to be made and it's going to happen for the next decade. I apologize to everybody who is using JFK, but I'm sure the airport experience is difficult. And you can blame that on us because we're in the process of rebuilding terminal one and terminal six. O'Hare has got a large redevelopment plan. New Orleans has a redevelopment plan. Fort Lauderdale has a redevelopment plan.

And so we can see this visibility of this investment being made in airports over a longer period of time. So long-winded way of saying, I'm comfortable with it, they're both equal, but you have to manage those opportunities.

Andy:

It's helpful, Troy. And then related to that, I should ask you AECOMs work on PFAS and the DE-FLUORO technology that you've talked about occasionally. Lar did mention in the call, growing opportunities with large industrial clients. I think we're caught instead of the fact that a couple of companies I cover are potentially settling with water utilities here in the US. So are you seeing any meaningful pickup? How do you define PFAS's potential growth at AECOM?

Troy Rudd:

Well, PFAS, the work that we do around PFAS, predominantly in our environment water business, I'd say today represents maybe about 1% of our revenue. I would think over time,

Troy Rudd:

Time, based on the visibility that we have to what our clients are going to spend their money on. I would think over time it would grow maybe in the 3% to 5% of revenue. So it would be over a period of years. So it's an opportunity, but it's not a massive transformative opportunity. And the work that we do is for the customers that have to do the work to first of all understand if they have a problem and then they have to build a plan to remediate and then they remediate and then they report back that it's been addressed. And so we're seeing that funding grow within our government client base, and it's here in the US, it is in Australia and it's in Canada, but it's slowly picking up momentum. So I just see it as a slight gradual increase over time.

Andy:

Got it. Any questions from the audience? Anybody? Tim?

Tim:

Thank you. I just want to circle back to the comment you made about the peak funding being, you think, potentially '27 or '28. A, what were you referring to? Is that infrastructure, focus? And then B, if the funding dollars occur in '27 or '28, when does the actual spending associated with that peak?

Troy Rudd:

What I was referring to, was I referring to a funding under the IIJA specifically. So just Andy's question was around that particular source of funding. And so originally when the law was enacted, it was long-term funding that was appropriated. And the view was is that the peak spending would happen earlier. It took a lot longer to actually start to execute and get the funding into the market. I see IIJA funding peaking sometime in '27 or '28. The question is what's after that? There are other sources of funding in the US. Federal funding for infrastructure, but the bulk of funding around infrastructure actually comes at the state and local level. And so I would describe this, it's probably better classified as there's good long-term momentum and need in infrastructure. So will there be ebbs and flows along the way? I think the answer is yes, but we have the view that in the foreseeable future, the funding will continue to increase the support of buyer pipeline.

Longer term, a little different view, there'll be a bumpy ride. But over the next few decades, we see there being a long-term investment being made in energy transition. And without me belaboring the point, technology has enabled and will enable a bespoke investment in generating, creating energy capacity. So instead of being lucky that you actually have hydrocarbons in the ground, you'll be able to actually invest in energy. But in order to store that energy to distribute it and to use it will require an investment in infrastructure and all of the investment infrastructure, I believe that again, we will participate in and in a meaningful way because that infrastructure is large and complex. And again, there are only certain organizations in the world like ours that have the ability to actually deliver that complex infrastructure. And whether it's the design or whether it's the program management of it, we will participate in that in the long run.

So when I look across our long-term opportunities, I see the long-term opportunities as always, there's always going to be bumps in the road, but there's just a massive transformation that's going to happen over the next 30 years in energy infrastructure and energy generation. And as a result of that, almost all of our infrastructure is going to have to be transformed as a result of that.

Andy:

Any other questions? So Troy, maybe let's go back to margins for a second. When you hosted your investor day, you came out, your new long-term framework was 20 to 30 base points plus of margin expansion every year. But when you took over, you've averaged 75 basis points plus of margin per year. And this year the guidance is actually maybe even slightly higher than that with 15.6% margins. So why can't AECOM do better than your long-term guide? I know you want to leave room for investment and rainy days, but is there some sort of upper limit and that's why margin expansion might be less. How do you think about that?

Troy Rudd:

Two points. One is, as we're investing in the business, so as our pipeline grows, we have to spend more money on business development because we can create the backlog for the future. So we spend more money and that goes through margins. So we're growing margins while actually increasing our investment and delivering better results in the future. We're also investing in transforming the business, as I said, to create long-term competitive advantage. And part of it is also moving ourselves from being a design firm into a consulting firm. So we have half of our work in the future being advisory and program management and half being design. And so we're investing to do that. And those are some fairly substantial investments that we've made over the last three years and we're going to continue to make. And so they go through margins. So that's, I'm going to say, we've set out some reasonable expectations about continuing to improve our margins because as we build these things and are successful at them, they allow us to increase margins and we borrow some of that and we invest that in the future of the business.

We set a margin target at 17% for the business over the next few years. Do I believe we can go well beyond that? I do, but we don't want to be too ambitious in setting a target that we can't show some visible progress and success at. So we originally set a target at 13% and achieved that. Then we set one of 15% and we've gone through that. We've now set 17% and we'll go through that. But ultimately, I would think we would start to look like a consulting business, less like a design business. And consulting businesses typically have operating margins that are 20% or higher and they have return on invested capital as well in excess of 25%. And so as we transform, that's the view that we have in mind. But what we've set out as an ambition today is to try and be reasonable that we can attain a goal and then keep stepping beyond it.

Andy:

It feeds right into my next question, Troy, about this wanting to become a digital consulting design firm. You talked at the investor day about getting to 25% ROIC, from 20%. But if you're going to tread on management consultants turf in the sense it just seems like you will have to invest more, maybe you change your business a little bit more. So how do you get there? How hard or easy is it?

Troy Rudd:

Well, I don't think it's easy. It does require investment, but I can say that we've been making the investment, we've proven success. So for example, in program management, we doubled the size of the business in the last three years and that will be the business over a billion dollars. So we've proven that we can make the investment and through our margins to do that. So we'll continue to make those investments and advance that forward. Are we treading on management consultants toes? Absolutely. Yeah, for sure we are. Do we have something that's different? I think we do, because if you look at the underlying expertise, and I think about this as building a mote around a castle, we have 52,000 professionals that have these deep technical skills, where we have an understanding of engineering, design technology, and we keep building that knowledge.

So in terms of energy, we have teams of people that have a fundamental understanding of the technology that is evolving and will be developed. So we can give advice on what technology will look like around energy generation 20 years from now. Management consultants can't do that. So we're taking advantage of the strength that we have and what we're building on top of that are the skills that a management consultant would bring to the table. So ultimately what we would bring to the table is something different. Are we stepping on the toes? Absolutely we are. But are we doing it in a way where they can't step on ours? The idea is yes, we can. Because if they want to go and create that technical ability, there's two ways they can do it. They can come and they can buy it on a per gold basis from us, but I don't know if we'll be selling it since we're competing.

And secondly, is they can go out and build what we've built, but that will cost you tens of billions of dollars. I'll just say billions of dollars. You can do it in a smaller fashion. But it will take time to do it and you have to integrate it into their culture. And so I haven't seen any management consultant that is actually in a meaningful way willing to do that or to step up and do that. So I view us as actually having the path where we have something that creates an advantage and we're going to build on it like we've done with program management and we'll encroach on the management consulting space.

Andy:

Helpful. Just shifting gears, how should investors think about your construction management business overall in fiscal '24 and beyond? Maybe talk about the outlook for that business. I think you're transitioning a little bit toward net service revenue in that business. So maybe talk about that. Can that NSR backlog grow and how do you think about the strategic value of construction management in terms of AECOM running it and owning it versus someone else?

Troy Rudd:

We have program management and we have construction management.

Andy:

Two different things,

Troy Rudd:

Two different things, but a little bit similar. So a program manager will actually manage the delivery of outcomes, which means that they will manage contractors. A construction manager will actually manage all of the people that a contractor would manage to deliver that. So they will actually manage procurement, they will actually manage the delivery of design and they'll actually manage the delivery of the project, but they will do it on a fee basis. And so it effectively provides depth to your program management ability. So from our perspective, is program management, we're always trying to figure out how do we create that differentiation

Troy Rudd:

If we have really deep skills in construction management which complement our program management skills, we bring them together and we offer something that's not available in the market. So we view it as being strategically important, and it can differentiate us. In terms of the business that we have, it's a smaller part of our business. Our construction management business maybe represents 6% of our business today. As I said, one of the things we're doing is we're pivoting that business. We're having that business participate and bid on aviation projects, and actually take that construction management skill and build it into a new market and move that away from the markets that we'd been in the past. So it's in a transition period. It's a great technical professional consulting skill that exists. It is a world-class consulting skill, and we think it works well with our program management offering, that creates some differentiation for us.

Andy:

And then Troy, maybe digging into margin again for a second. Your America's margin has been best in class. It's high. But it's been growing maybe a little more slowly than international, which I know you've been working on. So when you think about the 17% plus NSR margin target, how do the two shake out in that target? Maybe a couple years ago you were telling me, I thought, you could get to 12 in international. But now it feels like maybe 13 is the new 12. How do I think about where the margins can go?

Troy Rudd:

Each of the markets are a little structurally different. And some of it has to do with the scale of your business, and some of it has to do with the actual underlying market and how those services are valued. And so our international margins on average will never achieve the same level of margins that we have in the Americas. It's not to say that in certain places in the world the margins aren't the same. So, for example, in our Australia business the margins rival the margins in the Americas. It's just that in other places in the world they don't. So it's just the way we've divided the pie up, it shows that there's a visible difference.

I think our international margins should do better than 12%, so there's still some room to go. I also believe our North American margins will continue to improve. We will reach a point in time where I think the margin opportunity for expansion will be the same in all of our markets, and we just view it as a large portfolio. Part of this is the way the world of design has divided up the world and said, "This is how you should look at it." But the truth of the matter is you should just look at it as the entire portfolio.

Andy:

So I'm not going to complain about a hundred percent cash conversion, a hundred percent plus, excuse me. But you've averaged close to 120%, I think, over the last couple of years. So was there anything different this year, or is it 100% plus and we'll see how it goes, and you could do better?

Troy Rudd:

Year to year there are ebbs and flows. This year we are investing some more money in the CAPEX of the business, our CAPEX budgets are higher. So that will have a little bit of an impact. But over the long run, I would expect us to be 100% plus. And we've been that way in the last seven years, and so I don't see that really changing. Again, as a consulting business, you should have really good cashflow conversion.

Andy:

And then on cashflow deployment, you have a very prescriptive way of doing things, as you know. You focus on organic growth, shared purchases, then dividends. You bought back a lot of your stock, 1.8 billion since 2020. However, as you think about the next several years and you focus on how to achieve the highest growth with the best returns, it does seem like at least a couple of your peers have chosen a different path than you, focused on strategic acquisition. So why not augment your growth with strategic bolt-ons?

Troy Rudd:

First of all, to be fair, some of our peers have also pivoted away from M&A, so that maybe the AECOM way is not so bad. It's not that we don't like M&A, just to be clear. The fact is that we try and take a very disciplined returns approach. And the fact is that we see the greatest opportunity is to invest in organic growth, but also to invest, to transform the platform of our business. So you could take your capital, invest in M&A, but what have you really gained that builds long-term competitive advantage? We think it's more important to actually spend the time and the energy and the capital to transform how we deliver. Which means that you got a business that delivers meaningfully better margins.

Then at some point in time you say, well, if I have something that can deliver that same revenue in a much meaningfully different way, with the higher margins, well then maybe it is time. Because now if you are returns-focused, maybe M&A makes sense. You can acquire something on someone else's platform, but you can deliver a lot higher margin and a higher return. That's what we've chosen in the long run. It's not because we don't like M&A, it's just that we want to be very disciplined at what we're trying to do. Our job is to invest in organic growth, create a long-term competitive advantage, deploy capital in a very disciplined way. And at the moment it's organic growth. And we look at our stock price and we say, to us, it looks like it's a good place for us to deploy capital. And over a period of time, maybe it isn't. But we will always be returns-focused, and our priority is to create a different platform, which then will create opportunities that might look different than how we deploy capital today.

Andy:

Great. And then last question. I asked you this question last year, I ask it to every company. What are the top two or three innovations and structural changes affecting your company over the next five years? And are there any emerging industry trends that are perhaps being overlooked in the current discourse?

Troy Rudd:

Well, first of all, the thing that we can't overlook is the energy transition. Again, I just think that there is a massive investment that's going to be made. People think about it or talk about it as decarbonization, but instead think about it as you're investing in technology to generate energy that you can choose to do independently. And ultimately the cost of that energy will be cheaper than fossil fuels. It makes great economic sense, and at the same time it is better for the world, the future of the world. That's a tremendous trend that we'll participate in.

Second thing is innovation. And again, we're investing to actually transform the way that we deliver work. And as I said, simply, at the beginning of this, is we're investing to deliver work that will require 10% to 50% less effort or hours. So if it took 100 to deliver something, we'll do it for 85. That is transformative if you can accomplish that. The world that we've lived in has been delivering work the same way forever. If we can transform that, that creates a long-term competitive advantage. And then it creates an opportunity, a platform, which then you can leap forward. So I would say those are the two most important things.

Andy:

Great, Troy. We really appreciate you being here.

Troy Rudd:

Andy, thank you very much. Thanks for having me.