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AECOM (ACM)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the AECOM Second Quarter 2024 Conference Call. I would like to inform all participants this call is being recorded at the request of AECOM. This broadcast is the copyright 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 Investor section at www.aecom.com. Later, we will conduct a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the conference over to Will Gabrielski, Senior Vice President, Finance, Treasury, and Investor Relations. Will, you may begin your conference.

William J. Gabrielski

Senior Vice President-Finance/Investor Relations & Treasurer, AECOM

Thank you, operator. I would like to direct your attention to the Safe Harbor statement on page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the SEC.

Except as required by law, we undertake no obligation to update our forward-looking statements. We use certain non-GAAP financial measures in our presentation. The appropriate GAAP reconciliations are incorporated into our materials, which are posted to our website.

Growth rates are presented on a year-over-year basis unless otherwise noted. Any references to segment margins or segment adjusted operating margins will reflect the performance for the Americas and International segments. When discussing revenue and revenue growth, we will refer to net service revenue, or NSR, which is defined as revenue excluding pass-through revenue. NSR and backlog growth rates are presented on a constant-currency basis, unless otherwise noted.

Today's remarks will focus on continuing operations. Our discussion excludes the results of the AECOM Capital business. After the end of the second quarter, we closed a transaction that transitioned the AECOM Capital team to a new platform, while ensuring the team will continue to support AECOM's existing investment vehicles and investments through completion.

During the quarter, we also incurred a non-cash $103 million loss in discontinued operations related to revisions to estimated contingent consideration receivables recognized at the time of sale of the Civil Construction business in 2021.

On today's call, Troy Rudd, our Chief Executive Officer, will review our key accomplishments, our strategy, and our outlook for the business. Lara Poloni, our President, will discuss key operational successes and priorities, and Gaurav Kapoor, our Chief Financial and Operations Officer, will review our financial performance and outlook in greater detail. We will conclude with a question-and-answer session.

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

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Thank you, Will, and thank you all for joining us today. I'm pleased to report that based on our strong second quarter and first half operational performance, we are increasing the midpoint of our adjusted EBITDA guidance for the full year. The strength of our results rests on the expertise and focus of our 52,000 professionals who have distinguished AECOM in the market.

Through our TechEx Initiative, we continue to make key investments in the professional and technical development of our people, ensuring that we bring the best of our expertise to our clients around the world. With our unrivaled technical expertise and highly collaborative culture, we are consistently recognized as a leader in all of our markets.

To this point, I'm pleased to report that in late April we were recognized by ENR as the number one Water consulting firm in our industry, adding to our existing leadership positions in the transportation, environment, and facilities markets. This accomplishment reflects our scale and record level of investments in growth, which have contributed to us winning work at a record high rate.

This recognition also comes at an opportune time when key issues including the impact of climate change, water scarcity, and emerging contaminants are creating unprecedented demand and funding.

The recent final EPA rule establishing maximum contaminant levels for PFAS stands as a great example. This is a market where we have supported clients for more than two decades, and our backlog increased by nearly 50% during the second quarter.

Turning to our second quarter results in more detail, net service revenue increased by 8% and by 9% when adjusted for year-on-year fluctuations in workdays. Notably, this included strong performance in every key geography as well as growth in the environment, water, and transportation end markets. We also delivered records for our adjusted EBITDA, margins, backlog, and pipeline of opportunities, and adjusted EPS increased by 13%.

Cash flow is also strong, which is a testament to the higher-returning and lower-risk characteristics of our Professional Services business. Our consistently strong cash flow generation supports our returns-focused capital allocation policy, which is built on organic growth investments and returns to shareholders through repurchases and dividends.

A few key themes across the business underpin our confidence. First, we are winning at near-record level, and it is clear that our competitive advantage is delivering organic market share gains. In the second quarter, we won approximately $0.50 of every $1 we bid, which marks the 10th consecutive quarter with a win rate at or nearly 50%. On our largest pursuits, where our competitive advantages are even greater, our win rate is 30% higher.

Second, our adjusted EBITDA margin increased by 40 basis points to 15.4%, a new all-time high. Importantly, our strong margins enabled us to reinvest in organic growth. Today, we are investing at record levels in business development and digital initiatives to capture a greater share of our record pipeline and compound our advantage over time.

Third, long-term megatrends of global investments in infrastructure, sustainability and resilience, and the energy transition are firmly intact. As a result, activity is strong in all of our largest and most profitable markets.

For example, in the US, funding from the Infrastructure Investment and Jobs Act and strong federal, state, and local trends supported a 1.4 book-to-burn ratio in the quarter. In Canada, the government released a $56 billion 10-year infrastructure investment program, which is double that of the prior multi-year plan.

In the UK, near-term election uncertainty has clouded the picture on larger transportation projects. However, our backlog is at record levels and reflects an increasingly diverse set of opportunities. This includes the expected near doubling of funding over the next five years for the AMP8 water program, where we have existing experience with nearly every large water utility involved.

In the UK market, we also have ongoing investments through transportation frameworks and new opportunities around energy transition. And in Australia, the ongoing $120 billion infrastructure investment program is advancing, and we are already working on several key projects that support this pipeline. Finally and most importantly, our decision to build a global program management advisory business has been a game changer.

I want to expand upon why this has been the case and why we have set a longer-term ambition of delivering 50% of our revenue through program management advisory services. Our investment in program management was born from an emerging need we identified in the market, resulting from a few accelerating trends. First, project size and complexity continued to increase, including a tenfold increase over the past 10 years in the number of multibillion-dollar projects in the US alone.

At the same time, our clients are increasingly facing internal capacity and capability constraints to deliver on their ambitious objectives, which has created more demand for technical expertise and program management consulting services to augment their in-house capabilities.

Lastly, while plenty of companies offer a program management capability, we saw a void in that none combined this capability with the deep technical expertise and the culture of global collaboration that we have.

Program management advisory services also include several financial benefits to the organization, including elevating the value of our technical expertise, expanding our addressable market share of higher margin, lower risk elements of an infrastructure project or program, creating more visibility through larger multi-year wins, and elevating our role with clients, which leads to more opportunities over time.

As a result, we set out to truly redefine how global program management is delivered. We invested to bring on the best program management and digital resources in the industry and we focused our resources on the biggest opportunities.

I'm pleased to report that we have over-delivered on our initial goal to double program management revenue within three years. And today, program management represents 15% of our net service revenue. In fact, we have won 15 of our last 16 large pursuits, including several defining wins. These include the FEMA PA-TAC win this quarter, which further establishes AECOM as a leader for FEMA on disaster response work. We are also the program management (sic) [Program Manager] for California High-Speed Rail, the largest high-speed rail investment underway globally, and for the US Navy on its largest environmental contracts.

Taken together, we are energized by the strength of our performance, trends across our markets, our record backlog and pipeline and the clear advantages created by the execution of our strategy.

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

Lara Poloni

President, AECOM

Thanks, Troy. I am proud of our continued strong performance. Today, not only are we winning larger and higher-value pursuits, but we are winning at a consistently higher rate than ever before. These accomplishments are the culmination of several elements of our strategy that are bearing fruit. First, the volume of investment and opportunity across our industry is at unprecedented levels. To fully capitalize, we have built our strategy on allocating our time and resources to our largest clients where we see the greatest growth opportunities.

Reflective of this effort, revenue with our top 200 clients who represent more than 50% of our revenue, has grown multiple times faster than the rest of the business over the past several years. Importantly, our backlog with these clients is growing even faster which underscores the confidence we have in our growth outlook.

Second, through our program management business, we are elevating the value of our technical expertise within our number one ranked transportation, water, environment and facilities businesses. As a result, we are also winning more larger projects than ever before. Our share of wins valued at more than $50 million has doubled and wins valued at greater than $100 million have tripled over the past few years. Large wins enhance earnings visibility and capitalize on our company's global scale and industry-leading technical expertise.

Third, our focus on technical excellence and career development is paying dividends. We have been very intentional about reinvesting to build global Technical Practice Networks and Technical Academies to support our strategy and drive collaboration across the business. These programs are a key part of what we refer to as TechEx, which is designed to elevate our culture through technical development programs for our teams. These investments are contributing to our low employee attrition, which is at levels that rival the lows we experienced even prior to the pandemic.

Finally, our focus on high-growth end markets is contributing to our strong revenue and backlog trends. This includes the nearly 50% backlog growth for PFAS-related work this quarter, and we expect net service revenue growth to accelerate following the recent final EPA water rules.

Importantly, we already hold every major environmental contract vehicle, including the key vehicles for PFAS-related work, for all of the Department of Defense, NASA and many other civilian agencies of the US government. This strength was further solidified with our recent selection by the US Army for a $464 million multiple award contract.

Our number one position in water and environment has us well positioned to continue to capitalize. This also includes nearly 20% growth in our digital consulting practice where our infrastructure clients are turning to our capabilities and deep knowledge of their assets to help drive automation and digitization opportunities. In addition, investments in electrification and renewable energy is driving a record pipeline of opportunities and continued growth.

In the UK alone, we have recently been selected for marquee programs, including for the SCAPE Power Utilities Consultancy framework and for the Great Grid Upgrade. On the latter, in particular, the integration of our global design centers into our offering provided a key advantage in addressing a local shortage for electrical grid design experts. We also realized some key milestones in our data center business during the quarter, including a landmark win for us in the US. As we look ahead, we are well positioned as these markets continue to accelerate.

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

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

Thanks, Lara. Our second quarter and first half results extended our track record of delivering on our financial and strategic objectives. We delivered another quarter with strong net service revenue growth and our adjusted EBITDA margin expanded to new highs. As a result, adjusted EBITDA increased by 10% to $268 million in the quarter and adjusted EPS increased by 13% to $1.04.

Turning to the Americas segment. Net services revenue increased by 10%. We also delivered strong profitability with an adjusting operating margin of 18%, which continues to be at the top of our industry. Our business development investment in the quarter was 50 basis points higher as a percentage of net revenue than what was built into our plan, so we can continue to take advantage of robust pipelines for all of our end markets with record win rates in our largest, most profitable businesses.

This is a great example of how we prioritize organic investments that drive a greater than 40% ROI and give us more confidence in our near- and longer-term margin expansion objectives. To that point, our backlog increased to a record high and wins in our water, environment and transportation end markets contributed to a 1.3 book-to-burn ratio.

Notably, we won FEMA's Public Assistance contract for disaster recovery and our zone is amongst the most active, including the Caribbean and New York area. We also won a landmark rail tunnel replacement contract for Amtrak's Frederick Douglass Tunnel and were selected to provide program management services for San Diego Airport's Capital Improvement program, including the replacement and expansion of the new Terminal 1. The scale and significance of these wins underscores the strength of our capabilities.

Turning to the International segment. Net services revenue increased by 6%. I should note that we had fewer working days this year as compared to last year, which impacted our growth by approximately 200 basis points. Importantly, the adjusted operating margin expanded by 240 basis points to 10.9%, which is a new high and reflects substantial progress on our commitment to deliver best-in-class margins in this segment. In addition, our backlog increased across all of our largest geographies, which provides for continued strong visibility.

Looking ahead, demand trends across all our markets remain strong. In the Middle East, our clients are undertaking unprecedented infrastructure programs. While there have been reports of extended timelines for one element of NEOM, we do not expect this to impact our trajectory. In fact, our head count for NEOM client is at an all-time high, which we expect will be maintained well into the future.

In the UK, our revenue increased and backlog is at an all-time high, and we have built substantial positions on key frameworks that will continue to benefit us through periods of uncertainty and accelerating energy transition and water investments that Troy mentioned is not impacted by the near-term political considerations.

Turning to cash flow. Free cash flow was $161 million in the first half of the year and enabled the return of $145 million to shareholders through repurchases and dividends. Further enabling our returns-focused capital allocation policy, we successfully completed a strategic amendment and extension of our credit facilities after the quarter ended.

This transaction allowed us to lock-in historically attractive pricing and extend the maturity of our debt. As a result of the refinance, 70% of our debt is fixed or capped and we are operating from a position of strength and certainty on our cost of debt. Reflecting this strong financial outperformance to date, we are increasing our adjusted EBITDA guidance for fiscal 2024.

We continue to expect strong net services revenue growth of 8% to 10%, a record segment adjusted operating margin of 15.6% and 20% adjusted earnings per share growth for the full year. We also reaffirmed our expectations to convert adjusted net income to free cash flow at a rate of 100% or greater. Our tax rate in the third quarter is expected to be again in the high 20s.

With that, operator, we're ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Michael Feniger with Bank of America. Please go ahead.

Michael Feniger
Analyst, BofA Securities, Inc.

Q

Hey. Thanks everyone for taking my question. I just want to start off with the Americas seeing the investment there. Obviously, margins came down a little bit. It's just interesting to see AECOM making business development investment at this part of the cycle. Like what does it suggest that you guys are seeing in the pipeline? How that's informing your thoughts really on the growth outlook into 2025? And what's kind of the timeframe should we think about this incremental investment that's coming to business? Is this something we should expect also maybe in Q3? It's bracketed in the second half. Just helping to get in front of what you guys maybe are expecting to see growth-wise in 2025? Any help there would be helpful.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Thank you, Michael. So let me start by saying maybe there is a different belief about where we are in the cycle. We seem to get this question, and it indicates that maybe people believe we're late in the cycle. And what we're finding is, in fact, we're not late in the cycle. We view this as we're in the beginning of some really long-term trends around the investment infrastructure. And so certainly, the investments in traditional infrastructure, you see the appetite for it and you see the funding that's available. But also, there's investments in infrastructure that are just improving the sustainability and the resilience of that infrastructure, and we see that happening for a long period of time.

And then beyond that, there is a large energy transition that is taking place. And I won't get into a lot of detail about it, but I will point out something like a win that we have in the UK, the UK Great Grid project, where there's been a long-term investment in actually renewables. And now there is a very large investment being made in making sure that that energy can be actually transmitted to the communities that it will benefit.

So, we don't really view this as we're late in the cycle. We believe we're early in that cycle and then the other things that give us confidence are the fact that we've worked to extend our addressable market share. So, by building and investing in a program management advisory business, we're actually exposing ourselves to significantly more of our customers' spend and we think that has a long-term impact on us.

And then we are winning at an outsized rate. And so, we believe that we're taking market share. So it's really all three of those things lining up together that give us really great confidence in the long term. And sort of in the midterm or the short term, if you want to look at it, in particular in the US, you know, there's a budget that's been put in place in March. So, there's funding through the year.

There's money that's been put in place that will benefit the midterm when you look at the IIJA and you look at the IRA, so there certainly is funding in the US, and then at the state and local level, there's a lot of funding. But also I don't want to give the impression it's the only place in the world where there's – it's set up well in sort of the midterm for us, because when we look at Canada and the UK and we look at Australia, there are great long-term packages that have been put in place by those governments to invest in infrastructure.

And just to remind everybody, we did say that and we continue to say this, 90% of our business is generated in those four markets. So, again, we believe that we're early in a long-term investment in infrastructure cycle.

Michael Feniger
Analyst, BofA Securities, Inc.
Q

Thanks for that. And just to ask actually about the free cash flow, to see in the quarter, I think it was positive $74 million. Is there anything onetime going on there or is this something where AECOM is kind of starting to smooth out that free cash flow profile? And just to follow up with that, I think the first half of free cash flow is tracking above your target on the conversion rate.

I'm just curious if some of the growth you guys are seeing maybe in program management advisory, is there a step function change where actually free cash flow can consistently track above that 100% conversion rate based on your end markets and the capital-light structure? If there's anything we should kind of take away from that first-half performance? Thanks, everyone.

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM
A

Hey. Good morning, Michael. This is Gaurav. I'll take that question. So, first and foremost, there's nothing unusual in the first half cash flow, including the second cap that we generated. It's consistent with what we've communicated when this management team took over. The culture that we've tried to percolate and now you're seeing it in our DNA in every facet of our results is of continuous improvement and cash flow phasing is also part of that.

The second thing I would also say is in terms of what we expect and what we've committed to, remember, our guidance is 100% plus on free cash flow and that's been consistent with what we have historically delivered.

Operator: Your next question comes from the line of Jamie Cook with Truist Securities. Please go ahead.

Jamie Cook
Analyst, Truist Securities, Inc.
Q

Hi. Good morning and nice quarter. I guess two questions. One, as you think about winning larger projects and moving the business more towards program management, can you just talk to what you're seeing in terms of like the gross margin that you're seeing in backlog? I'm just wondering if, over time, there's an opportunity for greater operating leverage in the business model as you move to some of these larger projects or more technical projects.

And then my second follow-up question, can you just talk about your capability in the grid, T&D. It sounds like you've been winning some share there and maybe the market underappreciates the opportunity for you guys in utility transmission and distribution? And then, wait, sorry, one last, you didn't answer the last question. The 50 bps on investment, was that a pull forward or was that incremental? I'm just trying to see if you kept your guidance the same with incremental investment. I know that was a lot, but I was out for two quarters, so I gave myself an extra one. Thanks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Jamie, we'll give you the benefit of the extra question.

Jamie Cook
Analyst, Truist Securities, Inc.

Q

Thank you.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

So, I'll take the first one. Lara will take the second one and Gaur will take the third one.

Jamie Cook
Analyst, Truist Securities, Inc.

Q

Thanks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

So, we'll equally distribute the load. So, first of all, with respect to program management, that business, we actually see it have very similar margins to what the rest of the design business has had over the years. But, similar to the design business, we also see the margin improving over time. The one – I guess I'll say the one point about the program management business and you've described it, I think you made reference to leverage, which is there certainly is leverage in that business because what we have found is that when you undertake a large program management project, that over time for various reasons, that the workload will expand.

And typically on those large projects, we would see change orders that would be very significant in size. And so really those projects are – when you reach the conclusion of the majority of those outcomes, they're much larger than you had anticipated. And so, you certainly have much better leverage on the investment that you made to capture and originally set up and deliver those projects. So, over a long period of time, they can end up having much better margins than we would see typically in our design business.

Lara Poloni
President, AECOM

A

And Jamie, with respect to the capabilities that we brought to the table with the Great Grid win, certainly, our number one position in environment was a big factor. So environmental and energy grid design we're seeing is a particularly labor constrained submarket in the UK. So the fact that we bring not just the local environmental credentials, but the global leading position was a significant factor in that win. But when we look at the broader energy transition, there are many capabilities that we bring globally. So, with generation, we're supporting with permitting and design work, transmission and distribution. We're a leading firm for consulting and broader planning services.

And then, of course, the water component of these projects is considerable. And so our market leading position in water across all the disciplines is another key contributor to the infrastructure that's required for pumping for any aspect of energy transition.

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM

A

Morning, Jamie. This is Gaurav. Good to hear from you again. I'll answer – I'll respond to the margin question you asked. Our margins in Americas are very healthy and robust, even at 18% what we delivered in the quarter. They're at the top of the peer group, public peer group.

But to your specific question and what my remark was, we spent more BD than we had planned and still delivered on that 18% margin. So, let me just give you a little bit more color what do I mean by that. When we set our plan and we commit to deliver on our margin targets, they're at the consolidated enterprise level. And also when we set those plans, we always include BD growth according to plan that we're going to spend consistent with our NSR and revenue growth.

So, as we saw the first half play out, we had the luxury of two segments in our Americas and International margins that were delivering really strong margins. And the key thing I want to point out here is we've always talked about organic investments and why we prioritize them because they deliver more than 40% ROI and we make organic investments through our margin. This is a perfect example of that, on how do we assess and make those organic investments.

So when we saw those strong margins coming through that first half of the year in International and the Americas, we also saw to Troy's point earlier, pipeline in our largest market in Americas, that's at record high in all of our end markets where our win rates are at 50-plus-percent and our Enterprise Critical Pursuits for the largest projects, it's more than 70-plus-percent.

So, we decided to spend to take advantage of this robust pipeline and we decided to spend 50 bps more in the second quarter and 40 bps more than what we have planned year-to-date in Americas. So, we can continue to deliver on margin growth into the future. It provides us more confidence not only in the second half, but as we even operate beyond FY'24 on the strength of our business in terms of growth and margin delivery.

Jamie Cook
Analyst, Truist Securities, Inc.
Q

Thank you so much.

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM
A

Also, just to clarify – sorry, Jamie, there's no change in the guidance that we expect to deliver for FY'24. We will be delivering on our margin commitments.

Jamie Cook
Analyst, Truist Securities, Inc.
Q

Okay. I appreciate the time. Thanks, guys. Nice quarter.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Thank you.

Operator: Your next question comes from the line of Sabahat Khan from RBC Capital Markets. Please go ahead.

Sabahat Khan
Analyst, RBC Dominion Securities, Inc.
Q

Great. Thanks and good morning. Just want to get a little bit more color on the International side. There's obviously been a lot of margin improvement there. I guess outside of just steady, maybe progress on the International side, with you having pruned a lot of your International markets, is there any kind of sizable change, new end markets you might pursue, or just trying to get an idea of what's sort of the next leg of improvement on the International side, could be? Margins are obviously now in double-digits for a few quarters now. Just trying to understand, if it'll look more like a mature business now or if there's any possible new strategy on that front? Thanks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Thanks, Saba. I'm going to – I'm first going to just take the opportunity in our International markets and talk about that and then I'll turn over the margin question to Gaur. But as we look across the International markets, we see robust opportunities. And I'll just to give you a sense of the opportunities that we realized this quarter, our book-to-burn in the UK was 1.7 times. Our book-to-burn in Australia was 1.2 times, and our book-to-burn in Canada was 1.1 times. And so that indicates that again, we have healthy markets and we have healthy opportunities. And as we said in our prepared comments, we actually are seeing our pipeline, our global pipeline continue to improve.

In terms of what's next for us, we are still working to drive an improvement or transform how we deliver our design work, and we see that continuing to create an opportunity to take more market share. We're going to continue to invest in and expand in program management and advisory. And in particular, we have a focus on the energy markets. And so there's nothing really new that we're doing other than just continuing to advance the strategy that we set in a few years ago, which is to expand the opportunity in our design business, to grow our advisory program management business, and then continue to differentiate ourselves to create a competitive advantage and continue to take market share. And we see that as being sort of very equally distributed and opportunity being equally – equal around the world.

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM

A

And Saba, this is Gaurav. To your question on margins in International, they're very healthy but I just want to clarify, as we have done before. Our expectations of what we will be delivering on international is not the status quo. Yes, we've experienced over 200 bps of margin growth year-over-year, quarter over – past year quarter to this year. But our expectations and ambitions are to be best-in-class, just like we are in the Americas, and that's what we're marching to.

So as you look to our near-term target that we've set, the enterprise at a consolidated level will deliver 17%. And beyond that, 17% plus margins, International is going to be a significant contributor of that margin growth through various initiatives, including the growth opportunities that Troy clearly laid out.

Those are going to be very important and then when you combine that with how we use our Enterprise Capability Centers, how we incorporate digital technologies into the delivery, all of those things are going to continue to expand our margins at the international and the enterprise level.

Sabahat Khan
Analyst, RBC Dominion Securities, Inc.

Q

Okay, great. Thanks. And then just one on, I guess, the larger funding packages. You talked about some of the near-term growth and near-to-medium term growth coming from the IIJA. Can you maybe talk us through which end markets you're expecting to see maybe more of the support from the IIJA over the next call it 12 to 24 months? And maybe medium-to-longer term we are hearing that funding probably accelerates over the next 12 to 18 months and plateaus for about three to four years, is that directionally in line with your expectations of how the money flows as well? So, maybe just a bit on the near-term and just your perspectives on how the longer-term money comes? Thanks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah. So, just in terms of the end markets, our end markets that have been particularly strong for the last few quarters and have remained strong this quarter and we see it remaining strong, again, driven by transportation, water and the environment business. We also see increasing opportunities in energy. And then as we look out through the next three years, as I said, we really are optimistic about our continued opportunity to grow because while we see funding in the midterm lining up, we see some very good long-term trends but most importantly, as I said a little bit earlier, we've expanded our exposure to our client's spends on project through program management advisory, and that is significant.

And based on our win rates, we are taking market share and we don't see that continuing to change. As I said in the prepared comments, overall for this is the 10th quarter where we've won at 50% or higher in terms of our win rates or capture rates. And on the larger programs or projects, we're winning almost two out of every three times. So, that indicates that we're taking market share. And I think we've created an advantage that will take a lot of time for others to replicate if they can.

Sabahat Khan
Analyst, RBC Dominion Securities, Inc.

Q

Thank you.

Operator: Your next question comes from the line of Sangita Jain with KeyBanc Capital Markets. Please go ahead.

Sangita Jain
Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Thank you so much for taking my question. So, I want to go back to an earlier question that was asked on the momentum in the business with the strong US book-to-bill, the higher business development expense, the PFAS rulings, should all these point to a higher sustainable revenue growth rate than the 8% that you've outlined? How should we think about that?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

So, again, I wouldn't think about this – I wouldn't think about this as long-term sustainable growth beyond the guidance that we've given this year. What we said previously is that we think this year is a very good year for growth. We haven't commented on the future. And so this year our guidance has been 8% to 10%. We believe that over the long term and when I say long term, we're talking multiple years. Our guidance still remains between 5% and 8%. And we think that's a reflection of the opportunity and the investment in infrastructure. Our exposure to client budgets and frankly, us taking market share. And so in the long term, that's where we sit.

But the other important part of this is to think about this as margin improvement, because it's a combination of the two that really we think create value, because as we continue to grow, we also will continue to invest heavily in the business and in the future and at the same time expand our margins. And so it really is the combination of the two that we think you should – again, I think you should think about because you can certainly have a lot of growth in a business like this, but you can do it at declining margins. And we don't think that makes any sense.

Sangita Jain
Analyst, KeyBanc Capital Markets, Inc.
Q

Great. Thanks. That's helpful. And on the PFAS rules that came out recently and you talked about your backlog build in that, can you help us map it out in terms of revenue recognition and maybe average project size? And I also want to ask you about your destruction technology and how you're marketing that?

Lara Poloni
President, AECOM
A

I'll take that. Thank you, Sangita. I mean we're still very optimistic about the opportunities with PFAS. And, of course, we come from the market leading position there. And we believe that what separates us from the peers at the moment is we have complete coverage going forward of the most important US government contracts. So, obviously, the new maximum contaminant level and the hazardous substance designations are both meaningful catalysts for us but we've been positioning for these sort of legislative changes for quite some time, and we've got the technical capability and global scale to mobilize there.

But today it's about 1% of our revenue, but we're optimistic that there's going to be substantial growth and NSR growth acceleration. And it has the potential to be two-to-three times bigger over the next few years for us.

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM
A

And Sangita, this is Gaurav. We don't provide average contract size into the sub disciplines.

Sangita Jain
Analyst, KeyBanc Capital Markets, Inc.
Q

Got it. Appreciate it. Thank you.

W. Troy Rudd
Chief Executive Officer & Director, AECOM
A

Thank you.

Lara Poloni
President, AECOM
A

Thank you.

Operator: Your next question comes from the line of Vlad Bystricky with Citigroup. Please go ahead.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.
Q

Hey, good morning, everyone. Thanks for taking my call. So, maybe just following up on that last question around the PFAS wins, can you just talk about sort of beyond the US and North America, how you're seeing PFAS regulations evolve and how you're thinking about the potential for PFAS opportunities globally?

Lara Poloni
President, AECOM

A

Sure, Vlad. I'll take that. We, I mean, there are opportunities certainly at global scale. And what we've seen over the last few years is, in fact, that other parts of our International operations, for example, the European regs, probably moved ahead faster than the pace that we've seen in the US and certainly in Australia as well. They were quite advanced in terms of the minimum contaminant – maximum contaminant levels. And this is a team of global scale for us that works very well globally.

And it's not just the environmental credentials, but also a number one position in water. So, we see substantial opportunities at global scale for both of those end markets for us. And it's not just with the government clients. We see substantial private sector opportunities as well. So, the fact that we have the complete coverage of all the government contracts is a very robust starting point together with the key clients that we focus on in the private sector so there are opportunities at global scale across both private and public sectors for us going forward.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

Great. That's helpful, Lara. Appreciate it. And then maybe just separately, you highlighted the increase in the number of large projects over the past few years, above the $100 million and above the $50 million range. And obviously you're focused on program management. So can you just talk about is there a way to think about how big these larger projects are as a portion of your overall backlog today as compared to a few years ago? And what do you think that can go to over the next few years?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Yeah. So, we may have given the statistic in the past and it's improved. What we talked about is that wins over the size of $25 million have increased substantially. They go back a number of years and I think it might be in [indiscernible] , I'll call, low-teens as a percentage of our wins. That's been improving. And in this quarter, we were – about one-third of our overall wins were over $25 million. So, that's a very substantial increase over the course of the last four years.

And as we continue to advance forward, we see that remaining consistent and most likely continuing to improve. I'll say that in terms of the size and the nature of projects that are in the market and the ambitions of our clients, that the size of the programs and projects they're taking on are very large.

Again, I think we made a reference in our prepared comments to the increase in the number of programs or projects that are well over a $1 billion. And so, sort of when you look at a firm like us, given our scientific expertise and the expertise we build in program management, we really are unrivaled in terms of our ability to deliver those large, complex infrastructure projects on behalf of our clients.

And that puts us in a market-leading position and the best evidence of that market-leading position, we said, is that in our last 16 large bids, which are over $25 million, we won 15 of them. So, again, when we think about the opportunity is someone with the ability that we have and the size and scale that we have to take advantage of that, that's where you go in the marketplace. As to those large, complex projects where we have the opportunity to help our clients like no one else.

Vladimir Bystricky
Analyst, Citigroup Global Markets, Inc.

Q

Appreciate that, Troy. Thanks.

Operator: Your next question comes from the line of Steven Fisher with UBS. Please go ahead.

Steven Fisher
Analyst, UBS Securities LLC

Q

Thanks. Good morning. Just wanted to follow up on the business development cost. I know, Gaur, you said that you will hit the margin targets this year. How should we think about the trajectory of those business development costs and when should we think about the margins, specifically in Americas, starting to grow again on a year-over-year basis?

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM

A

Yeah. So, Steven, in terms of the trajectory of that, what I commented was and how you guys should look at it is these organic investments have historically delivered to us 40-plus-percent ROI. And as we look at the enterprise level as to our commitment to deliver 15.6% margin for the year, if you just look at our historical phasing, including the Americas and International segment, and apply that historical phasing to the second half, it will lead you to the same conclusion we have, which is full confidence in delivering the year target of 15.6% on margin delivery.

Steven Fisher
Analyst, UBS Securities LLC

Q

And does that imply within the Americas that the margins will be growing year-over-year in the second half?

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM

A

Again, we manage to the consolidated margin targets, right? And we're going to evaluate all the different opportunities that exist at that point in time to decide what are the best investments to make at the enterprise. So, not only do we continue to deliver our promises for today, but we continue to deliver strength-to-strength as we move into the future.

So, yeah, I think Troy said this in past quarters too. If our margins are within each segment, 25 bps to 30 bps of whatever the models may state, we're comfortable with that. Again, we're focused at the overall health of the business, strong backlog growth that you're seeing in the markets. These investments that we have made in the past and we're continuing to make, they're the ones leading to 1.3 times book-to-burn in our biggest market in Americas, 1.7 times in the UK, 1.3 times in ANZ. These are great results on the back of very, very healthy NSR growth that we're delivering in our businesses.

So again, I would kind of sway away from really being very fixed and tunnel vision into some particular segment margin target, but just focus on the overall healthy growth we're delivering and expectations going forward to deliver the 17% and then 17-plus-percent from thereon.

Steven Fisher
Analyst, UBS Securities LLC

Q

Fair enough. And then just in terms of the time lag between when you incur these expenditures on business development relative to when it should translate into organic growth, is there any particular correlation there?

What would be the typical timeframe for seeing that translate into organic growth? Is it just within a couple of quarters or might it be longer than that, given the scale of these opportunities?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

So, Steve, typically we would see it translate in a number of quarters, but as the wins become larger and larger, it does take a longer period of time for them to start and then to ramp up to scale. And so, what typically would have been a few quarters in some of these larger programs and projects is a little bit longer than that. But of course, the benefit is that large projects last for a very long period of time and give us visibility and certainty in the business that we haven't had in the past.

Steven Fisher
Analyst, UBS Securities LLC

Q

Terrific. Thank you.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Thank you.

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM

A

Thank you.

Operator: Your next question comes from the line of Michael Dudas with Vertical Research. Please go ahead.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Good morning, gentlemen and Lara.

Lara Poloni
President, AECOM

A

Morning.

Gaurav Kapoor
Chief Financial & Operations Officer, AECOM

A

Morning.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Morning.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Troy, in a couple of your prepared remarks, one about customers and clients having less capacity to do the work that maybe have done in the past and relying on firms like yours more? And secondly, the enterprise value –

system that you have relative to engineering centers and such, how do those two dynamics going to aid not only the growth and maybe your shift towards project management work, and secondly, how it impacts generating the margins that you guys are anticipating for here in the future?

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

So, just in terms of the program management business is, when we saw this opportunity with the significant investments starting years ago in infrastructure that, the size of the projects and really the complexity of projects and programs was getting to a point where it was clear that customers would need help to actually manage that. And so that created a market opportunity for us. And then coupled with our, again, I'll say, our design expertise, our engineering and scientific ability put us in a position to be the best person to provide those – again, those owner-side services.

The other thing that was happening as kind of go back to the trend around COVID within our customer base, there were a lot of people that were leaving the industry, and whether that's retiring or choosing to do something different, they were leaving the industry and that was happening on our client side.

So well, the demand for our clients was increasing, effectively, the supply of the scientific ability and the management ability to provide that, that help on those projects was declining, and it created a perfect opportunity for us. And so, as we go forward, again, we see this as a very robust, long-term opportunity because of the marketplace, but also because we believe we built something that we think at the moment has certainly a competitive advantage. There are others in the market that offer that opportunity, right? They provide program management services, but they do not have the expertise that we bring, the technical expertise around engineering and construction oversight and supervision that we bring and so it puts us in this unique position.

Michael S. Dudas
Analyst, Vertical Research Partners LLC

Q

Thank you, Troy.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

A

Thank you.

Operator: Your next question comes from the line of Adam Thalhimer with Thompson Davis. Please go ahead.

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

Q

Hey, good morning, guys. Two questions probably both for Lara. The Canadian infrastructure program you mentioned, can you expand on the like the size, timing and then which particular opportunities you guys are focused on from that? And then the – you said you had a landmark data center win, I was curious if you could give additional color on that and also the outlook for data centers?

Lara Poloni
President, AECOM

A

Sure. Thanks for the question, Adam. So, we've been talking about Canada for a few quarters now and it is one of our core international markets for us where we have very strong capability across all of the key segments of our business. We know that the Canadian federal government has been talking about doubling their funding for infrastructure over the next 10 years so a very robust long-term pipeline for infrastructure projects, for rail, for water. Our signature wins over the last couple of years have been in transit and also in water. So, we've got very strong long-term coverage of those segments in particular.

And I think Troy mentioned a book-to-burn this quarter of 1.6x (sic) [1.1x] so good – very strong from a backlog position and a long-term visibility point of view as well. So, we expect the long-term infrastructure outlook in Canada to remain very strong.

With respect to your question about data centers, we have a global scale coverage and long-term relationship with all of the major hyperscalers and the win in the quarter was a data center win with one of those clients here in the US. And I think the long-term positioning, again, our key client program, it includes that segment of the facilities business as well. So – and all parts of the business are engaged in those opportunities, be it the building engineering, the environmental teams doing the due diligence of sites for data centers. We know that there's a hungry appetite for more of these data centers to be built, not just here in the US, but across the world. So, it's certainly a segment that we have a lot of optimism about.

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

And then do you guys get a – or do you have a sense for – I get a lot of questions about what are the, like, limiting factors for data center growth, so power and permitting and those kinds of things?

Lara Poloni A
President, AECOM

Sure, I think...

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

Are you seeing that as a limiting factor for your growth in data centers, or is that maybe two years from now?

Lara Poloni A
President, AECOM

We see – I mean, all of the service coverage that we have puts – creates massive opportunity to be frank. So we can assist not just with the electrical supply. I mean, often it's the power supply and the supporting infrastructure that is a limiting factor for many of our clients, but that's why they come to us. I mean, from the very beginning in terms of site selection and giving them a lot of options through the work that our permitting and land-use planning teams do to the transportation access for the fulfillment and logistics centers as well.

So again, I think we're well-placed and at a global scale, again, is the other factor why we're winning what matters in this segment as well. So, these are global clients and they want full-service capability and that global reach. So, it's a significant opportunity for us and really plays to our strength.

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

Good answer. Thanks, Lara.

Lara Poloni
President, AECOM

A

Thank you.

Operator: That concludes our question-and-answer session. I will now turn the conference over to Chief Executive Officer, Troy Rudd for remarks.

W. Troy Rudd
Chief Executive Officer & Director, AECOM

Thank you, operator. And I'd like to end the call by thanking our teams for a very strong start to the year. We are winning more work than we have ever won before and continue to expand our margins. And we're growing at a very high rate. And I would like to congratulate our teams again for being recognized by ENR as the number one water consulting firm and again, adding to our position as the leader in transportation, environment and facilities. Well done. Thank you very much.

Operator: This concludes today's conference call. Thank you for your participation and you may now disconnect.