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AECOM (ACM)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is JL and I will be your conference operator today. At this time, I would like to welcome everyone to the AECOM Third Quarter 2025 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

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

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 reference 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 growth rates are presented on a constant currency basis unless otherwise noted.

Today's remarks will focus on continuing operations. 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

Chairman, Chief Executive Officer & Director, AECOM

Thank you, Will, and thank you all for joining us today. Our third quarter financial results surpassed our expectations. This performance stems from the dedication of our professionals' unmatched technical expertise, high-returning organic growth investments, trusted client relationships, and strong market trends. We set new records for NSR, margins, EBITDA, EPS, backlog and pipeline. As a result, we are confident in raising our annual financial guidance for the third consecutive time this year.

Turning to the details of our results. Organic NSR growth accelerated to 6%, led by 8% growth in the Americas, our highest margin segment. Growth increased in most of our large International markets as well. Importantly, we delivered a 17.1% segment adjusted operating margin, which is a new record for the organization. This performance reflects three key elements of our strategy. First, we have demonstrated consistently that through our returns-based capital allocation policy, investments in organic growth initiatives have the highest returns. This includes not only standing up and accelerating the growth of our program management and advisory businesses, but also the record level of business development investment we make quarter-after-quarter.

Second, we continue to make organic investments in our technical capabilities to drive the highest level of productivity and quality in our industry. This investment also includes the development of advanced technical solutions that drive greater client value, which allows for us to excel in the marketplace and add to our record backlog position.

Third, we build trusted client relationships and offer the broadest and deepest capability set in the industry, which gives us an advantage on our pursuits. Looking ahead, we have line of sight to several drivers of continued margin expansion as we continue to make critical investments that are consistent with our long-term margin objectives.

Our third quarter adjusted EBITDA and EPS increased by 10% and 16%. And on a year-to-date basis are up 9% and 20%. Cash flow was also ahead of our expectations in the quarter and on a year-to-date basis, we convert earnings to cash flow at an industry-leading rate. And year-to-date, our free cash flow increased by 27%. We have also returned nearly \$240 million to shareholders this year. Importantly, we have an unprecedented level of visibility for continued growth. Backlog increased both sequentially and year-over-year to a new all-time high. And we delivered a 19th consecutive quarter with a book-to-burn ratio in excess of 1.

Two factors drive this strength. First, we continue to win work at an all-time high rate. This includes another quarter where we won more than 50% of the value we bid. Embedded within this result is a more than 80% success rate on our largest pursuits, where our competitive advantage is greatest, and where our focus on winning what matters is evident.

Second, the multi-decade secular megatrends that are driving our markets are accelerating. This includes global investments in infrastructure, sustainability and resilience and energy. As the number one ranked transportation,

water, environment and facilities firm in the world by ENR, we are ideally suited to benefit. These megatrends are apparent in our pipeline, which also achieved a new all-time high for the fifth consecutive quarter.

Within the pipeline, growth remains fastest in the earliest stages, which indicates several years of continued strong market conditions as our clients plan for a future of higher spending. For example, in the UK, the government recently released its 10-year infrastructure strategy, committing to invest £725 billion, including substantial investments in transportation, water and energy. Our leading positions on key frameworks position us to ideally benefit. In the Middle East, where we maintain a market-leading position, we've successfully navigated a reprioritization of investment dollars to emerging areas to support the World Expo and World Cup infrastructure in Saudi Arabia. Our revenue growth also picked up this quarter and our contracted backlog was up by double digits. We are also experiencing strong growth in the UAE, another key market in the region for us.

In Australia and Asia, long-term demand drivers are firmly in place. However, near-term budgetary constraints have led us to a pause in larger transportation awards, which has weighed on the near-term revenue trends. The water market is strong, but these projects tend to be longer in duration and therefore less impactful to near-term revenue as compared to the large civil projects that we completed during the last cycle.

Finally, in the US, market environment continues to be one of the best in the world. Only 36% of IJIA funding targeted to our markets has been spent, which provides for continued growth opportunities as evident in our pipeline. Furthermore, state and local budgets remain robust, with state DOT budgets forecasted to achieve another record high in 2026. Our state and local clients continue to prioritize infrastructure spending to maximize available federal matching funds.

The passage of the Big Beautiful Bill only enhances this opportunity. The US federal government is prioritizing investments in critical infrastructure to attract investment and secure a leadership position in growth industries such as AI. To that end, the bill includes tax incentives such as bonus depreciation that attract investment to onshore manufacturing, expand data center capacity and build energy infrastructure necessary to meet unprecedented demand growth. This bill also allocates \$150 billion of mandatory defense spending. The DOD is our largest single client and activity is gaining momentum. It also includes substantial funding for aviation and the Coast Guard, both markets where we have a leading presence.

Across the business, we've built a track record of delivering on and exceeding our financial and strategic commitments. As a result of our outperformance this year, we are raising our fiscal 2025 financial guidance for the third consecutive quarter. At the new midpoints, we expect full year adjusted EBITDA and EPS to increase by 10% and 16% and we remain confident in delivering further growth and value for shareholders long into the future.

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

Lara Poloni

President, AECOM

Thanks, Troy. We're excited about the significant growth opportunities ahead, particularly in the US, our largest and most profitable market. Government initiatives are driving infrastructure investment with a focus on advancing US leadership in key markets. This is especially true regarding AI, with US data center investment projected to triple by 2030. And alongside it, demand is also expected to grow substantially for electricity and supporting infrastructure. We can address this demand holistically, like no other firm in our industry through our advisory, program management and design capabilities. In fact, we are ideally suited for the complexities of this growth and the new challenges facing our clients, including scarce resources like land, power and water.

Looking at data centers specifically, we have supported some of the most complex projects in over 40 countries around the world, establishing us as a global leader in this market. Our scale and expertise in environmental permitting, siting, stakeholder engagement, energy and water give us a significant advantage. In fact, our global data centers practice doubled in NSR in the last two years, and we're confident growth will continue to accelerate. Moreover, supportive government policies are critical to sustaining this growth. And recent actions in several of our largest markets demonstrate the progress being made.

In the US, a recent Supreme Court ruling and several executive orders are streamlining the NEPA permitting process. While Transportation Secretary Duffy's America is Building Again agenda focuses on removing investment barriers.

Similarly, the UK's 10-year strategy prioritizes efficient project delivery, and Canada is centralizing permitting with the goal of approving projects 60% faster. These are bold steps that will deliver better outcomes for our clients and attract more capital to our markets. Within this accelerating demand environment and global push for more efficient infrastructure delivery, three key areas give us a competitive edge.

First, our advisory business informed by our technical expertise, helps clients plan dynamically for their investments and solve complex challenges faster than ever. This business grew at a double-digit pace this quarter, and we aim to double advisory to \$400 million of NSR within three years, positioning it as our next \$1 billion growth platform.

Second, our program management business excels in delivering our clients' largest and most complex projects. We have won nearly 90% of our largest program management pursuits this year, and we remain on track with our long-term target of delivering at least 50% of revenue from program management and advisory over time.

Finally, our competitive advantage would not be possible without our inspired and engaged professionals. As Troy noted, we're continuing to invest in leadership and technical development as well as our AI capabilities, which provide our clients with the best technical solutions and generate higher returns. In fact, we had record high satisfaction in our most recent employee survey, and voluntary attrition remains well ahead of industry expectations. Taken together, we stand in a very strong position through the first three quarters of the year and are continuing to build momentum as an organization.

With that, I'll turn the call over to Gaur.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

Thanks, Laura. Our third quarter results continue to reflect strong operational performance across the company. NSR growth accelerated, margins and profitability reached new records. Our backlog and pipeline are at all-time highs and our cash flow was very strong. Of note, our segment adjusted operating margin achieved a major milestone of 17.1%, a 90-basis-point improvement over the prior year and exceeded our long-term target more than a year ahead of our prior expectation. There were no extraordinary items in our margin. Leading our industry in margins has been a hallmark of our performance over the past several years. Our record business development expense continued to increase over the prior year and is ahead of our plan for the year, which has been the case for many quarters. These margins also continue to include record investment in organic growth initiatives, such as in our advisory business and in our technical capabilities underpinning the high returns we earn on our investments and the continued opportunity to expand our margins over time.

Turning to our segment results. Beginning with Americas, NSR grew by 8%. The adjusted operating margin increased by 120 basis points to 20.5%, a new quarterly record that reflects growth in our largest market and the benefits from high returning organic growth investments in the business. Backlog in the Americas design business grew by 4%. We expect business development expense to increase as a share of revenue in the fourth quarter as we will continue to capitalize on a record pipeline.

Turning to the International segment. NSR grew by 3%, driven by the UK and the Middle East, which was partially offset by a decline in Australia. The adjusted operating margin increased by 20 basis points to 11.9% as we continue to execute across our largest and highest returning geographies. Backlog grew by 8% in the International segment and contracted backlog was even stronger at 15% growth, which underpins our expectation for growth accelerating in the fourth quarter.

Turning to our cash flow and capital allocation. We delivered \$262 million of free cash flow in the quarter, contributing to a 27% increase for year-to-date period to a new all-time high. We are on track with our guidance for at least 100% free cash flow conversion for the full year, which would mark the fifth year in a row we have delivered at or better than this level. We returned nearly \$240 million to shareholders year-to-date and \$2.7 billion of capital since September 2020. We maintained excellent balance sheet strength with net leverage of 0.6, a low cost of debt and no maturities until 2029.

Our returns-based capital allocation policy remains unchanged. This includes our high-returning organic growth investments and capital returns to shareholders through repurchases and dividends. While the timing of cash flow within the year and within a quarter can influence the pace of returns from period to period, importantly, all capital allocation decisions are returns based to ensure we build on our industry-leading return on capital performance.

Concluding with the details of our guidance. We are raising our financial guidance for a third consecutive quarter. This is driven by our year-to-date outperformance, our record backlog and a strong end market environment. We now expect adjusted EPS and EBITDA to increase by 10% and 16%, respectively at the midpoint of ranges. We are also raising our full year margin guidance, including our expectation for a 16.5% segment adjusted operating margin, a 70-basis-point increase over the prior year. This improvement is more than double the 20-basis point to 30-basis point annual improvement we have in our long-term financial framework.

With that operator, we're open for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question comes from the line of Sabahat Khan of RBC Capital Markets. Your line is open.

Sabahat Khan

Analyst, RBC Dominion Securities, Inc.

Q

Great. Thanks and good morning. Just wanted to get, with evolving backdrop, if you could just share some thoughts specifically on the US market and more curious on sort of how the private sector is evolving. And just given some of the noise during calendar Q1, did things sort of change or stabilize during calendar Q2? And so, just curious sort of specifics on the US market across private and public, please.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Yeah. Good morning, Sabahat. It's Troy here. Just to clarify your question, when you say Q1 and Q2, I think you are referring to the calendar year.

Sabahat Khan

Analyst, RBC Dominion Securities, Inc.

Q

Yes, yes. Calendar, of course.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Yeah. I'll focus on that. Yeah. So first of all, I think these comments actually apply to the US market and to our large International markets, which is – so, I'll start with a backdrop, is that there were a lot of elections that took place over the last year, and it has taken time for those governments to get into place and for their agendas and the funding of those agendas to become clear. And so, we've actually seen that now in the US. We're seeing that in Canada. We're seeing that in the UK and we're starting to see that the very beginning of that in Australia. But with respect to the US market, I think inherently, you question, you said that there was some stability and there's no doubt there is stability in terms of the agenda of the US federal – the new US administration and the US federal government.

And we're seeing the funding now come behind that. And it's becoming quite clear that there's a very important agenda, which is investing in infrastructure in the United States. And there's a lot of support to do that and encouragement to do that. Encouragement through, first of all, funding coming from the Big Beautiful Bill, encouragement coming through reducing the regulation to get infrastructure into the market faster, and encouragement in terms of the environment for focused investment in the US in the long term. So, all those things seem to be coming to better together and are supporting a more stable market and a much clearer picture in terms of the long-term investment infrastructure in the US.

I also said in the prepared comments that we're also seeing the setup at a state level. And we're seeing next year, certainly, in transportation infrastructure, the expectation forming around state budgets, so that there'll be more money spent in transportation by the states in aggregate next year than there has been in this current year.

So, overall, we're seeing clarity come together and that clarity means what we think is continued long-term investment in infrastructure in the US.

Sabahat Khan

Analyst, RBC Dominion Securities, Inc.

Q

Great. And then, just for my follow-up, just kind of, the margins obviously trending in the right direction. Could you sort of just dig into some of the drivers there just for this year and kind of over the next little while, just across maybe operating leverage and just breaking out some of the operational initiatives that might be driving some of the margin improvement? How much more juice is left there? A bit more detail on the margin side, please. Thanks.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Sure. So, I'm going to turn that over to Gaurav.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Good Morning, Sabahat. Thanks for the question. Margins were – we're very pleased with our margin performance and thanks for acknowledging the delivery this quarter. We delivered a margin target that is almost 15 months ahead of schedule. And first and foremost, the credit goes to our professionals who work hard every single day and operate not only in the marketplace where their clients from a quality delivery and being – having a DNA of always improving from a cost standpoint as well. You have to do all of those things well across the board to have this kind of performance that we've had.

And for us, specifically on margin and to your question, delivery in the quarter and what the trajectory opportunity looks like going forward, for us, it starts in investing in high-returning organic growth opportunities, starting with our traditional core end markets where business development expenses not only higher than prior year, but it's higher than what we had even planned year-to-date and quarter-to-date.

So, we continue to make robust investments in the pipeline to make sure our book-to-burn, our backlog is very healthy. As Troy commented in the opening comments, this is now 19th quarter in a row where we've delivered our book-to-burn at 1 or greater, a testament to that business development, investment – organic investment that we make. It's also a lot of operational focus on improving our cost base. While we're still in the early stages of benefiting from some key strategic initiatives such as our infrastructure advisory business that we launched middle of last year, solutions focus, drives higher margins for us, our enterprise capability centers, we're still in the mid to high-single digit in terms of total labor hours that we deliver. And as we've stated before, we will get to middle digits in this delivery of our capability centers in the short to medium term.

So, there's still a lot of opportunity left and I'm not yet going into a lot of detail. But AI is not only something in the future, but right now, it has been providing us with a good lift in all facets of how we go to market, how we operate, deliver in the opportunity to become more efficient in each one of those phases. So, for us, you'll notice two years ago, when we had put the target for it of 17% and said we were going to deliver it in three years, we did it earlier, of course, but about a year ago, the confidence we were seeing internally is why we shifted that target to 17-plus percent. Because we're not – we knew the opportunity is not just a North Star of delivering 17% and being higher than anybody else in the industry, as we have been for past few years. But the opportunity still in front of us.

Sabahat Khan

Analyst, RBC Dominion Securities, Inc.

Thanks very much.



Operator: Your next question comes from line of Adam Bubes of Goldman Sachs. Your line is open.

Adam Bubes

Analyst, Goldman Sachs & Co. LLC

Hi. Good morning.



W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

Good morning.



Adam Bubes

Analyst, Goldman Sachs & Co. LLC

I'm wondering if you folks could just provide an update on the AI and automation initiatives. How long until these initiatives start to move the needle on utilization or margins? And just where are we in that journey?



W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

Yeah. So, we are already – we've already begun that journey to actually deploy AI and we've talked about this, I think, for about 18 months now. So, we started thinking about investing in AI and how we would do that about 18 months ago. And we've been doing that consistently. We think about it in two ways. First of all, we think about it how we actually use AI to sort of improve how we support or run the business. And second, is we think about how it will actually change the way we deliver our work for customers. And obviously, there's a lot of discussion around the impact of AI. Without getting into the details of how we're deploying it, the answer to your first question is yes, it is having an impact on our margins and our results.



And the second most important thing is, is that we believe that AI will have a visible, material and a really favorable impact to our business over the next three years. Most importantly is never lose sight of the fact that the most important thing in our business is our people and what they bring to solving our clients' problems, especially for our – from our perspective, the really complex and highly visible and important problems that our people solve. But the investments that we're making in AI are absolutely going to extend their capabilities. And I would just leave you with this, so just restate the fact that we think that AI is going to have a material impact on our business over the next two or three years. And if you think about this, the sort of the question around, is there more juice left in margins? No question that there is.

Adam Bubes

Analyst, Goldman Sachs & Co. LLC

Great. And then, I think, you know, the EBITDA margin guidance implies margin step down slightly sequentially at the midpoint from these really strong levels in 4Q. Looking at recent years, I think margins typically step slightly up 4Q versus 3Q. Any moving pieces that should drive margins different than normal seasonality in 4Q. Is that maybe the business development expenses in Americas that were referenced?



Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Hey. Morning, Adam. This is Gaur. You're exactly right. In our prepared comments, one of the things we pointed out is we're very happy and pleased with how strong our pipeline is across all the end markets in all of our key regions. So, one thing we're not going to shy away from is making sure we put our best foot forward to take advantage of these – this great pipeline that we have, which means making the business development expense.

As you can see, with high level of confidence, anytime we've made these organic investments over the last six years, they've had an outsized organic return on that investment, including the margin trajectory growth. So, we're just being very balanced as we look forward into Q4, saying we're going to make all these continuing great business development investments expense, because we know the outsized return it drives for us in the future.

Adam Bubes

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much.

Operator: Your next question comes from line of Andy Wittmann of Baird. Your line is open.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Great. Thanks for taking my questions. And good morning, everyone.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Hi, Andy.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

So, I guess, I'm going to ask a margin question a little bit different way than some of the other ones that's been asked. Obviously, basically this year, it looks like you're on track to deliver actually more than twice the annual level that was kind of the straight-line effect, the 20 basis points to 30 basis points, it'll be 70-ish this year. So, I guess, as you think about kind of the planning period, is that a pull forward of like some of next year's margins or is next year just build off a higher base than maybe was originally anticipated? I guess, I just kind of want to be clear as to how the phasing of these margins go in? Obviously, this is a relevant question for the investment community with your initial guidance coming up next quarter.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Yeah. So, Andy, it is absolutely premature for us to give guidance next year. But, nevertheless, I will say that the margins this year are not a pull forward of something from the future. They represent the run rate margins that we see in our business and in our backlog. And I did try to give an answer in the last question, a preview of our expectations, which is we see that there is significant upside still remaining in our margins based on the investments that we have been making and investments that we think we're going – that we know we're going to continue to make next year.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Yeah. Okay. Just wanted to make sure on that. And then, I guess for my follow-up question, I wanted to ask on your capital deployment and specifically your buyback in the quarter was really light compared to kind of where you've been. And in the past, it's been – kind of you've kind of married it up with your cash flow. Fourth quarter is always a big cash flow quarter. So, I understand that. But you've done things to smooth out your timing of your cash flow, the seasonality of it, at least throughout the year. And so, your buyback has correspondently getting a little bit more smoothed out this quarter pretty light. And I was just wondering if there's something that we should know about that affected that. Maybe it's just as simple as you're expecting a lot more cash in the 4Q, but the balance sheet here is in great spot.

So, maybe Gaur, can you just kind of talk about the buyback and how important it is and maybe the performance in the quarter, what you did there and why?

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Yeah. Fair question, Andy. No change in our capital allocation policy. We will continue to execute that consistent with how we have acted in the past. And specific to this quarter, in this business, cash always comes into the quarter. And as we've stated before, our buybacks will follow as we generate that free cash flow. So, as we've generated in Q3, we'll executed it during Q4. And as we generate more cash in Q4, consistent with our expectations, we'll continue on that path.

Andrew John Wittmann

Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Thanks.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Thanks, Andy.

Operator: Your next question comes from the line of Andy Kaplowitz of Citi. Your line is open.

Q

Hey. Good morning, guys. This is actually Jose on for Andy.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Good morning.

Q

Good morning. The last several quarters, your book-to-bill has been at a steady greater than 1x, even despite tariff uncertainty and increased volatility in International markets. Do you think you can continue to record a book-to-bill over 1x in the current environment based on your current pipeline? I know your high win rates have been

helping you out, particularly in your large pursuits. So, maybe you can talk about the confidence level there and how sustainable these win rate levels are?

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Well, I guess, again, I'd start with saying that the past is not a perfect predictor of the future, but it certainly helps having a track record of 19 quarters, with a book-to-burn greater than 1x. So, I think that what that indicates is that we do have the underlying conditions to repeat that. And so, again, going back to some of the prepared comments is we have a very healthy pipeline and it's in the good locations where we have great strength in the marketplace. We continue to have a very high win rate, which means that we are somehow have an edge in that market – in our marketplace against the competition.

And I described that edges. We focus on things where it plays to our strengths. The strength of our team is, is that we have a large, very sophisticated global team with a very diverse set of experiences and qualifications. And it allows us to compete on those projects and to win at a very high weight rate. So, I look at the business and say nothing has really changed. Our markets are strong and healthy. We see more clarity around the funding agendas for our governments, which allows us to pre-position for the longer term. And we have the strength in the business, so we're taking advantage of that, manifests itself that are very high win rates. So, we have confidence that we'll keep it up.

Q

Thanks for that. And then, as a follow-up, I wanted to ask about the water and environment advisory business you introduced in 1Q 2025. Curious if you could talk about how you're seeing that business progress and any development or opportunities that have made you incrementally more excited about the growth prospects of that business?

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Yeah. Lara will take that.

Lara Poloni

President, AECOM

A

Yeah. Lara here. Thank you for the question. We continue to be really excited about it. During the quarter, the advisory business grew double-digit, doubling the scale of this business to \$400 million of NSR over the next three years. And for it to be our next billion-dollar platform. We've had – we continue to have such positive client feedback. We're winning great work. We're hiring great people. So, we've got great momentum and we're absolutely on track and really excited about the future growth of that business.

Q

Excellent timing, guys.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Thank you.

Operator: Your next question comes from the line of Sangita Jain of KeyBanc Capital Markets. Your line is open.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thank you for taking my questions. So, one question I want to follow up on the AI discussion that we just had earlier. How does the shifting of work to the overseas technical centers intersect with the use of AI? Do you think there could be a risk of possibly overinvesting in these if AI can take over some of the tasks?

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Well, first of all, I think that they work well together. I think you sort of have to look at the portfolio of skills that are required to solve our – to solve the problems of our customers or to deliver those projects. And so, there is always certainly a piece that you have to spend time on the ground. You have to spend time with your customers. And that goes at the beginning and throughout those projects. I don't think that part is really frankly ever going to change.

Then, you have to have, again, people with really sophisticated experiences and skills, and that's a combination of people that are on the ground with customers and in our enterprise capability centers. And then, what I think you'll see is that AI will certainly supplement what both of those groups do. So, we think about how AI works to support our teams, and it frankly supports our teams regardless of where they are. And we're very conscious in terms of how we're thinking about investing in the teams and investing across the business, so that we take advantage of the existing strength of the business and supplement – supplemented by investing in AI.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. That's helpful. Thank you. And just on NSR growth, I know you're heading towards the end of your fiscal year. This year, it looks like it's going to trend towards the lower side of your guidance range. And just wondering how that positions you for next year, probably easier comps in certain areas and maybe UK picks up. So, any thoughts, early thoughts there would be appreciated. Thank you.

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

A

Hi, Sangita, this is Gaurav. I'll take that question. You're right in terms of we are going to be within the range of guidance we have provided, but it is going to trend towards the lower part of it. We are expecting growth to pick up in Q4. It's historically consistent number of work days also impacting us gives it – gives us good strong confidence going into Q4 and we're currently in our plan process. But, again, if you look at what we have delivered in terms of backlog growth, contracted backlog growth, wins, book-to-burn, it all gives us confidence that long-term algorithm, we had put out a 5% to 8%. We have high level of confidence, even though we haven't completed our planning process that continues to be a good range for us as we look into next year.

Sangita Jain

Analyst, KeyBanc Capital Markets, Inc.

Q

Appreciate it. Thank you, guys.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

Thank you.

A

Operator: Your next question comes from line of Michael Dudas of Vertical Research Partners. Your line is open.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Good morning, gentlemen and Lara

Q

Lara Poloni

President, AECOM

Good morning.

A

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

Good morning.

A

Gaurav Kapoor

Chief Financial & Operations Officer, AECOM

Good morning.

A

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Troy, you highlighted in your prepared remarks the earlier stage of investment from your clients and your seeing more opportunities and I guess more access and exposure there for your company. Does that provide the longer term confidence in organic growth and the cycle in front of us? And is it your ability to grow some of these advisory opportunities and infrastructure in water that we're finding a lot of low-hanging fruit to drive [indiscernible] (00:47:22) and also drive more wallet share amongst your clients?

Q

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

Well, yeah, I think – so, Mike, think about this in two different ways. First of all, is that, as I said earlier, we've seen a lot of our clients formulating their agendas. So, after you come through an election period, it takes a little while to formulate that agenda. But then, when it is formed and the funding is made available through it, through the legislative process, well, then that means that you typically have good line of sight for four or five years on what's going to be spent and what the focus is going to be. And I think when you look at our earlier stage pipeline, again, we have a very significant portfolio of government clients. I think it's a good example that when those agendas form, you start to see your early-stage pipeline growing, which indicates that there's good funding and good pipeline that will take you through the next four or five years.

A

And then, the second point is, you think about the diversity we've created in the business now focusing on advisory or being there earlier in the process, bringing really good tactical underlying skills to provide that advice to our customers, which does differentiate from the typical advisor. And then, you have program management,

which keeps us there throughout the process. So, as that pipeline forms, I think you rightly pointed out, we're going to be more exposed to that pipeline. And as we said in our Investor Day almost two years ago, we would typically in the past been exposed to our clients maybe to 10% to 15% of our clients' budgets.

Now, through advisory program management, our design business, we're exposed to 30% to 35% or 40% of our clients' budgets. And more importantly, the margin in those budgets is higher than where it is, the other places of their infrastructure spend. So, you line those two things up and based on the investments we've been making growing our at bats and the early-stage pipeline, continuing to grow and gives us good visibility and confidence into the next four or five years.

Michael S. Dudas

Analyst, Vertical Research Partners LLC

Well said, Troy. Thank you.

Q

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

Thank you.

A

Operator: Your next question comes from line of Nandita Nayar of Bank of America. Your line is open.

Nandita Nayar

Analyst, BofA Securities, Inc.

Hey, good morning, guys. This is Nandita Nayar on for Michael Feniger. Thanks for taking my questions.

Q

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

Hi.

A

Nandita Nayar

Analyst, BofA Securities, Inc.

So, you mentioned that advisory was up double digits. If we think – I'll just pull that thread a bit more here. How much of this would you say is the overall market? And how much is this AECOM initiatives capturing more share? Thanks.

Q

Lara Poloni

President, AECOM

Thanks for the question, Nandita. In terms of the project lifecycle, I think we're capturing an earlier segment of the project lifecycle because we're advising clients much earlier. So, I think that is additive if you look at it in total project lifecycle terms. And then, for us, obviously, there is the low-hanging fruit which is the existing clients where we can grow the share of wallet, so to speak, in terms of providing them additional advisory services. And then, with the pull through of all of the usual technical disciplines and design work that they know us for. So, I think there's sort of two dimensions that I would respond with. And – yeah.

A

Nandita Nayar

Analyst, BofA Securities, Inc.

Q

Great. That's helpful. And if I can just squeeze one more in, you mentioned margins hitting a bit, a big milestone. How much would you balance investing in the business and expanding margins going forward? And like how much would you say, like the opportunity going forward is in the Americas versus International?

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Well, so, look, I think our margins have improved not because we've been managing the costs, but we've actually been investing and generating returns from those investments. So, I think, again, our belief and the strength of what we've been capable of doing is actually investing in growing margins in the business, and that's not going to stop. We're going to continue to invest. And as we look forward, we actually see more opportunities to invest, to drive a much better result than we have in the past. So, looking back, it's a great track record, but looking forward, we actually are even more optimistic to continue to improve in the future based on what we think we can invest in.

Nandita Nayar

Analyst, BofA Securities, Inc.

Q

Great. Appreciated the answers. Thank you.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

A

Thank you.

Lara Poloni

President, AECOM

A

Thank you.

Operator: With no further questions, that concludes your Q&A session. I'll now turn the conference back over to Troy for closing remarks.

W. Troy Rudd

Chairman, Chief Executive Officer & Director, AECOM

Thank you, everyone, for joining us today and we thank you for your support. And most importantly, I thank all of the employees and all the people working here at AECOM for their fantastic contributions this quarter. They've continued to provide just a superior result to the work that we do for our clients. So, thank you.

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

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