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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, and welcome to the AECOM Third Quarter 2023 Conference Call. I would like to inform all participants this call is being recorded at the request of AECOM. This broadcast is the copyrighted property of AECOM. Any rebroadcast of this information in whole or part without the prior written permission of AECOM is prohibited. As a reminder, AECOM is also simulcasting this presentation with slides at the Investors section at www.aecom.com. (Operator Instructions)

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

William Gabrielski - *AECOM - SVP of Finance & IR*

Thank you, operator. I would like to direct your attention to the safe harbor statement on Page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including those described in our periodic reports filed with the SEC. Except as law requires, 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. Any references to segment margins or segment-adjusted operating margins will reflect the performance of 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 discussion of key performance indicators will focus on the continuing operations of the company and will exclude AECOM Capital, which is reported as noncore given the company's intent to transition the business.

On today's call, Troy Rudd, our Chief Executive Officer, will review our key accomplishments, our strategy and outlook for the business. Lara Poloni, our President, will discuss key operational successes and priorities. And Gaurav Kapoor, our Chief Financial 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. Troy?

W. Troy Rudd - *AECOM - CEO & Director*

Thank you, Will, and thank you all for joining us today. The strength and consistency of our results are a testament to the competitive advantage we have built through our Think and Act Globally strategy, which has enabled the strong collaboration of our 50,000 technical experts and a focus on winning what matters to expand the long-term earnings power of the company.

I'm pleased to see that our leadership was again recognized by ENR in its recent annual survey. In addition to our top rankings in transportation and facilities design and environmental design, we overtook the top spot in mass transit, chemical remediation and environmental consulting. Our focus on organic growth in our Program Management business also resulted in us moving up the rankings, displacing strong competitors, and we expect this trend to continue.

These market share gains are especially notable as they are driven by high-margin organic growth which is in contrast to our peer group that remains highly acquisitive. I want to thank our teams for their commitment to our success and congratulate them on these remarkable achievements.

Turning to our third quarter performance. A few key trends are apparent in our results. First, our investments in organic growth are paying off. NSR growth in the design business was 10%, which is the highest growth rate in many years and included strong performance across nearly every major geography in which we operate. Second, this growth is coming at consistently high margins, which is enabling us to invest in a high rate of growth in our backlog and pipeline. And our adjusted operating margin of 15.2% reflected an all-time high. This trend affirms our confidence in delivering a 17% margin in the future. Both the Americas and International segments contributed to this strong performance, which resulted in adjusted EBITDA and adjusted EPS increases of 10% and 12% on a constant-currency basis.

Third, we continue to generate strong cash flow with $265 million of free cash flow in the quarter, which enabled the consistent execution of our returns-focused capital allocation policy, including returning more than $220 million to investors fiscal year-to-date. Finally, we have built a foundation for continued growth throughout our strong pipeline and targeted investments. Backlog in the design business increased by 10% to a new record, driven by both the Americas and International businesses. This growth included 3 other noteworthy attributes. First, given our record quarterly margins, our backlog is more profitable than ever. Second, delivering a double-digit increase in backlog on top of a double-digit increase in revenue reflects the strength of our pipeline and our continued high win rate. Third, our share of wins valued at greater than $25 million have more than doubled over the past few years, which creates greater visibility and certainty into the future. Please turn to the next slide.

Turning to our markets. In the U.S., funding for key infrastructure initiatives is advancing. This includes increasing activity from the IIJA, Inflation Reduction Act and robust state and local infrastructure investment. A great example is our selection to serve as a lead designer for the renovation of the historic Brent Spence Bridge Corridor Project, which we were awarded after the quarter closed.

Our technical expertise beat out the formidable competition on this landmark pursuit that is being supported by $1.6 billion of funding from the IIJA. We expect these drivers to further accelerate in 2024 and beyond, which is consistent with the continued growth in our pipeline of proposals and bids submitted. In Canada, our backlog continued to increase. Both provincial and national priorities are aligned around transportation, environmental remediation, energy transition and hydrogen infrastructure investment, markets where we are well positioned to capitalize. Across our international markets, backlog reached a new high with strength across nearly every major market. Importantly, with our margins now effectively at our double-digit target, each point of growth is increasingly valuable to the enterprise, and our confidence is high in continuing to increase our margins in the future.

Importantly, in all of these markets, our program management and advisory businesses have expanded our addressable market to provide a strong complement to our technical expertise. I want to highlight another noteworthy accomplishment during the quarter. We successfully positioned AECOM as the leader in the long-term rebuilding of Ukraine, which is estimated to cost nearly half a trillion dollars. This included a memorandum of understanding with Ukraine's Ministry for Communities, Territories and Infrastructure Development to serve as its reconstruction delivery partner.

In addition, we signed an agreement with the Ukraine State Agency for Restoration and Development of Infrastructure, which will advance national design standards and provide engineering support for critical infrastructure projects. Discussions to begin are already underway, and we are proud to be at the forefront of the reconstruction of Ukraine.

I'm also pleased that our recent activities are consistent with our planned transition of AECOM Capital and include the following. First, we have signed a term sheet to transition the AECOM Capital team to a new platform, which will be facilitated by AECOM on a transitional basis and will enable the team to continue to support AECOM's existing investment vehicles and investments in a manner consistent with their current obligations. This transaction, which we expect will close later this fiscal year, will create continuity for the team, reduce overhead costs for AECOM and ensure the right level of ongoing support for the management and delivery of our commitments.

Second, we have completed a project-by-project review of our existing investments. Based on this review, we expect the disposition of AECOM Capital investments to return between $50 million and $100 million of capital to AECOM over the next several years. Third, we also evaluated alternatives for investment on its balance sheet, including funding additional carrying costs that might be required if the current market conditions persist. We determined that additional investments of time and capital in these investments would be inconsistent with our return-driven capital allocation policy.

Finally, to reflect this change, we've adjusted the carrying value of these investments which resulted in a noncash impact to our P&L. However, as I spoke a moment ago, we are confident that the realization of our investments will be a positive cash contributor to AECOM and create additional capital for higher-returning opportunities.

Before turning the call over to Lara, I want to provide an update on our guidance. Against a strengthening market backdrop and with our strong year-to-date performance, we are increasing our fiscal 2023 financial guidance. This performance would mark the fourth consecutive year that we have outperformed our initial expectations.

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

Lara Poloni - *AECOM - President*

Thanks, Troy. Please turn to the next slide. The business is delivering at a high level, and we are well positioned to capitalize on the substantial growth opportunities ahead. Against a backdrop of rising demand for talent, we are investing in our teams, which is an essential element of our success. To that point, I am pleased to report that our teams are highly engaged and thriving.

In our most recent employee survey, a record level of our employees stated that they would recommend AECOM as a great place to work. This positive feedback validates the benefits of our career and leadership development programs, and the superior career opportunities afforded by our leading position on marquee projects across the globe. In addition, our safety performance leads our industry, which is a critical advantage that matters to all of our stakeholders. Safety is a key element of any pursuit, and our safety record is a great leading indicator of retention, employee satisfaction and the success of the business.

In a human capital business, employee engagement and safety go hand-in-hand with client satisfaction. To that point, I am also pleased to report that client satisfaction continues to increase and exceed key benchmarks. Our strong employee and customer satisfaction is especially important as the 3 secular megatrends of continued investments in global infrastructure, sustainability and resilience, and long-term energy and supply chain transitions converge to create a powerful multi-decade growth cycle.

This convergence is apparent as we look across our largest wins over the past year. From transformational high-speed rail and transit projects across the globe, to critical federal environmental and resilience programs in the U.S. and Canada, to megacity developments in the Middle East, we are playing a leading role in the most iconic projects around the world. And in each and every win, our technical excellence remains the key component of our success.

As the convergence of these megatrends becomes more ubiquitous, our strength stands us further apart from the competition. Let me share a few examples. Across both our transportation and water businesses, projects are increasing in size and clients are demanding more. A great example of how we distinguish ourselves is our global tunneling practice. While our tunneling team represents a small percentage of a larger project, it is an essential element of any proposal and is heavily weighted in overall technical evaluations given its critical nature to a project's success. As such, our tunneling expertise has seen us unseat incumbents on projects.

Additionally, tunneling has a high pull-through rate to the rest of the organization. We estimate that every dollar of tunneling revenue often creates as much as $10 of revenue opportunity for other disciplines within the organization. Investment in energy transition is also gaining momentum, particularly in the U.S. from funds provided by the Inflation Reduction Act and other initiatives. We are poised to benefit in many ways with leading advisory, environmental permitting, air quality, transmission and distribution, and program management expertise. This positions us to lead the rapid growth in offshore wind, where our multi-disciplined expertise is well equipped for the technical challenges inherent in this emerging market.

Similarly, we are leading the advancement of other forms of alternative energy, such as hydrogen, where we were recently awarded a contract to manage the delivery of a green hydrogen facility for Chemours. Our transmission and distribution business is also growing rapidly, bolstered by continued growth with San Diego Gas & Electric to move transmission lines underground as well as several engagements to advance proposed mega transmission lines in the U.S. Momentum is also building in the PFAS market, where we are a clear leader with more than 20 years of experience on over 500 sites for the largest clients.

Our backlog and pipeline increased 50% and 40%, respectively. The EPA's new drinking water regulations passed in March, which created a timeline for water utilities to advance plans to meet stringent requirements. Demand in this market is set to accelerate for the next several years.

Lastly, our leadership in sustainability continues to create opportunities. Our appointment to advise on delivering a carbon neutral COP28, a leading global climate summit to be held this November, is a testament to our reputation and credibility with the key thought leaders and subject matter experts across the globe. All of these markets represent substantial growth opportunities for AECOM.

As demand increases across our markets, the investments we are making to extend the capacity of our workforce will enable us to deliver. These investments include digital delivery capabilities and automating repeatable elements of the design process. As an example, we are integrating our local teams with our enterprise capability centers to automate computational design scripts, the key elements of transportation projects, such as bridges, which accelerate delivery and improve quality. As an organization, we embrace the opportunity to innovate and transform how we deliver work, which will compound our competitive advantage over time.

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

Gaurav Kapoor - *AECOM - CFO*

Thanks, Lara. Please turn to the next slide. Our teams continue to embrace our culture and strategy, which is extending our competitive advantage and driving strong performance, as evidenced by this being the fourth consecutive year in which we expect to outperform our initial guidance expectations. This year's increase is especially notable in that our strong underlying performance has more than offset the previous removal of the expected $5 million to $10 million contribution to adjusted EBITDA from AECOM Capital that was contemplated in our initial guidance.

We have spent the last 3 years instilling a mindset of continuous improvement into our culture, and we have rooted our decision-making and risk-adjusted returns on capital and on time. As an organization, we avoid unnecessary layers and complexity, and focus on winning what matters and delivering for our clients. As a result, we delivered another quarter that included several key milestones, including double-digit organic NSR growth and a record design backlog.

In addition, our growth remains highly profitable. Our margin surpassed 15% for the first time ever at 15.2%, a 60 basis point increase over the prior year. Our international margins reached 9.9%, and we are well on our way to delivering continued profitability improvements across the business as we progress towards our 17% longer-term target. All of these accomplishments build on our momentum over the past few years and create confidence in the opportunities ahead. Please turn to the next slide.

NSR growth in the Americas was 10%. The adjusted operating margin was 18.8%, up 20 basis points from the prior year. Our proposals and bids submitted are growing faster than our backlog, which allowed us to grow our design backlog by 8%, more than replacing the accelerating revenue growth. This reflects our high win rate and continued investments to collaborate and bring the best resources and ideas to our critical pursuits. Please turn to the next slide.

NSR in the International segment increased by 10%, with growth in nearly every key region. While weakness in Mainland China persists, we have taken actions to significantly decrease our exposure in the region. The adjusted operating margin was 9.9%, reflecting continued progress on our key initiatives to drive operational efficiencies and focus on the highest-returning markets. Backlog increased by 17% and included several large wins in the U.K., Hong Kong and the Middle East that enhance our visibility. Please turn to the next slide.

Free cash flow was strong, and we affirmed our expectation to deliver free cash flow within our guidance range for the ninth consecutive year. Our balance sheet is unchanged and remains in great shape. We have no bond maturities until 2027, and the vast majority of our debt is fixed or capped at highly attractive rates. Our returns-focused capital allocation policy is unchanged and is supported by the highly cash-generative nature of our business. This includes allocating capital to the highest-returning opportunities, which remains organic growth investments followed by share repurchases and dividends.

In addition to our investment in business development and growth initiatives, we have returned more than $220 million to shareholders this year, including our July dividend payment. Please turn to the next slide.

As Troy noted, we are raising our financial guidance for this year to reflect our strong growth and margin performance. At the midpoint, our guidance reflects 10% and 11% constant-currency growth for adjusted EBITDA and adjusted EPS, respectively. AECOM Capital is excluded from the adjusted results given our intent to transition the business.

With that, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Sean Eastman with KeyBanc Capital Markets.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

Hi team, nice update here. I thought a good place to start would just be -- kind of driving home some of the comments around the resilience in the revenue build, the momentum in the business headed into fiscal '24, particularly in light of some confusion last quarter around the commercial real estate exposure, that would be a helpful start.

W. Troy Rudd - *AECOM - CEO & Director*

Right. Sean, thank you for the question. So maybe I'll sort of start with the success that we've had in the quarter -- the last few quarters. We've seen accelerating NSR growth which has been important. But again, behind that is the backdrop of our pipeline, which has been consistently growing. And we've actually seen it continue to grow at a faster rate than we have been winning work. And then behind that is our backlog growth, and particularly in our DCS business, which, again, represents 90% of the overall business. And our backlog grew extraordinarily well, again, another 10% year-over-year in the quarter.

And within that, our win rates. We are continuing to win work at an extraordinary high level. This is our seventh quarter in a row where our capture rate has been over 50%. And just for everyone's benefit, I remind you that capture rate is for every dollar we bid, it's how much dollars of work that we win. And so that's an extraordinary result. And even within that, in what we refer to is our most important and largest and complex pursuits, we've been winning at even a higher rate. In fact, our year-to-date capture rate amongst our largest and most important bids is over 80%. So we are winning at an extraordinary rate, which obviously is driving our great success.

And what that leads to is that leads to great visibility and predictability or even certainty for the future. With building kind of those -- I'll call it, the competitive advantage or the must continue to win, gives us great confidence that even beyond next year and the backlog that we've built for next year, we will continue this kind of success. And again, I should also make a comment just around our Construction Management business. Again, our Construction Management business, the way we win work, it's a little bit lumpier than what you see in our design business. And I'll say that our Q4 is off to a very great start. And so again, it's lumpy, but we've had some really positive success already heading into Q4.

And then the important thing is around our pipeline in the Construction Management business. Our pipeline is actually up year-over-year and even up sequentially. And so what that tells us is that the opportunities in front of us are greater than they were a year ago or even last quarter, but they're just different, right? We're focused again on different geographies and, in particular, continuing to have success in aviation, sports and convention centers. So the opportunities for construction management as we go forward in aggregate are actually greater than they were in the past. And again, as I said, they're just going to be in different geographies and different markets.

Sean D. Eastman - *KeyBanc Capital Markets Inc., Research Division - Senior Equity Research Analyst*

Very helpful. And then switching over to margins, I thought it would be helpful just to get a bit of a refresh on the bridge from the 15% plus segment level margin to the 17% plus target. I mean we're talking about the enterprise capability centers. There's a real estate strategy. There's new way of working. Just kind of the build -- understanding the building blocks and the most significant contributors to that bridge to 17% would be helpful.

W. Troy Rudd - *AECOM - CEO & Director*

Yes. Thanks for the question, Sean. In fact, I'll pass it on over to Gaurav.

Gaurav Kapoor - *AECOM - CFO*

Good question. It's a great achievement. The whole team has collaborated towards achieving 15%, a little bit ahead of our expectations, especially what we thought 3 years ago. And the main reason for this, if we want to talk about it, is creating a platform over the last 3 years that is built on competitive edge. And you know what I mean by that is we're focused on key markets where we dominate in the business lines, have the best growth opportunities in those markets. It's a Think and Act Globally strategy, which sounds like a tagline, but it's so important to what we have done over the last 3 years, because it's bringing the best talent and winning what matters to us, as Troy just articulated, on the fantastic win rates we have experienced now for 7 quarters in a row.

It's a culture of having continuous improvement on all cost facets in the business. And there's more to go there. As you pointed out in a few things, including real estate, our capability centers across the globe of how we share resources and workload, looking at our support functions on the most cost-efficient structure. Digital is something we're just scratching the surface, and this is more focused on our productivity and delivery platform, digital. And then you combine that with the strategy Troy and Lara have initiated very successfully over the last 3 years for our program management business and advisory, those opportunities are abundant.

You put all those together, it gives us a lot of confidence that we're going to go from what people a few years thought was unachievable, 15%, to now our ambitious target of 17%. And look forward to laying out the detailed building blocks of each one of those pillars I just discussed during our Investor Day in December.

Operator

Our next question comes from the line of Andy Wittmann with Baird.

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

Great. I guess -- so just -- I guess probably for Gaurav. The comments on the '24 running at $5 or north of $5 of adjusted EPS is interesting. But that assumes, like you said, historical interest rates and historical FX factors. So Gaurav, could you just help level set us what that means in today's interest and today's FX? I just want to kind of understand what it all boils down to as we head into the year-end and your [Investor] (corrected by company after the call) Day.

W. Troy Rudd - *AECOM - CEO & Director*

Yes. Andy, it's Troy. I'm going to surprise you by answering that question instead of Gaur. I guess -- first of all, this is an opportunity to talk about our operational performance because I think that we sort of separate the world and the things that we can control and the things that we can't control. And again, as you pointed out and we pointed out in our earnings release that based on the path we set out back in 2021, we set a certain bar for performance and certainly financial performance. And in terms of what we can control, we've exceeded that, and we're continuing to exceed that, and that just gets to outperforming on NSR and organic growth. And as Gaur said, improving our margins to an all-time high.

But most importantly, behind that is we've been building backlog across the business, and our pipeline continues, as I said, to grow. So when we look at that and then combine that with our new margin target and where we expect to get to over time is 17%. We're externally optimistic about continuing to exceed on those things that we can control. But as you point out, there are some things that we simply can't control, and those are interest rate and foreign exchange. Those are the 2 things that have the most significant impact, certainly below the operating performance line.

And as we look forward, it's our belief that those items have certainly gone against us and our industry. And we believe they've stabilized. Again, we can't really be accurate in terms of that prediction, but we do believe that they have stabilized and they're not going to be a significantly growing headwind in the future as they have been over the course of this past year.

And so again, I'm not at this point ready to sort of say here's what our guidance is for '24. We will give our guide in November. We are right in the middle of our planning process, and so it's premature for us to do this. And when we do that, it will incorporate our foreign exchange and interest that exists at that point in time. But in terms of those long-term targets, all I can say is we do believe that in '24, we will have a significant growth in our overall earnings.

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

Okay. That makes sense. I guess just for my follow-up, I just wanted to check in on your utilization rates and your ability to find the right number and the right people to fill the growth that you're delivering here. Over the last couple of years, it's been kind of knowledge that labor of all sorts, including some of the technical labor, has been more scarce and we've seen a little bit higher turnover rates in the industry. So I was just wondering what AECOM's experience has been in the last 90, 180 days on that front. Are you seeing greater stabilization for the labor force as well as what are you seeing in terms of the overall cost of labor in the projects that you're executing today?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. Yes, it's a good question, Andy, because obviously, our most important input in the business is our people. And what really fuels our growth is obviously our ability to continue to perform really great work for our clients. And so just in terms of our people, I'm going to deal with them in 2 respects. First of all, just our hiring and retention. We've been able to add significantly to the overall headcount in the business over the course of this past year. Even though the labor force only grows by a limited rate, we've actually grown at a faster rate in terms of adding people.

Our turnover has gone down very significantly over the course of the last year, and we continued to see it decline even in the last 6 months. And we're at a point where we look at the industry benchmarks and we're significantly below that. But also we're at a point where we are comfortable. We sort of set expectations about where we should be with respect to what healthy turnover looks like, and we're in a good place. I wouldn't see -- I wouldn't want us, frankly, to go a whole lot lower from where we are.

And then just in terms of productivity, you're always trying to drive improved productivity in the business, and there are certainly things that we're doing to improve that productivity. And in terms of that, why don't I turn it over and let Lara answer that part of the question.

Lara Poloni - *AECOM - President*

Yes. And the other key part of this strategy is just continuing to leverage our enterprise capability centers. And just this quarter, our volumes were up 54% year-on-year. So it's a key part of our labor and productivity strategy. And just building on what Troy said, we're going to continue to be laser-focused on just continuous improvement with our employee value proposition. So the investment in training and benefits, which we really believe are leading the industry. We've done a lot of work on our career paths. So we're feeling pretty good about just that the voluntary turnover exceeding our own expectations and sitting well above industry standards.

In an industry where we know that -- in the E&C sector that headcount growth typically runs at about 1% per annum. So when you consider all of those things, it's a pretty positive picture in terms of productivity and, most importantly, the ability to grow and continue to attract and retain top talent.

Operator

Your next question comes from the line of Steven Fisher with UBS.

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

So it's nice to see the organic growth rate hit that double-digit 10% rate. Just looking though at the implied Q4 organic growth rate, it's consistent with the full year of 8%, but that would be a little bit of a slight slowdown, I think, from that 10% in Q3. I'm curious what's driving that assumption, if anything, in particular? And then kind of related to this, I think you've talked about potential for double-digit growth in 2024. So do you see kind of a reacceleration into 2024 on that metric?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. So Andy, I'm just simply going to use a line that Gaur has become famous for in terms of our guidance, which is we still remain prudently conservative. While we've seen accelerated growth over the years and across the quarters, we set an expectation for 8% for the year and we still think that that's the right approach. And again, you're right to point out, our 10% organic growth is the first time that we've had double-digit organic growth in the business for, frankly, more than -- well more than a decade. So it is a milestone for us.

As we look forward, we do see an opportunity to have accelerated revenue growth off the 8% number. But we're always looking to make sure that there's a balance to that because it's our -- again, it's our priority to not just grow the top line but to grow the business and make it more profitable. So we clearly believe, based on our wins and the pipeline of the opportunities, there is an opportunity to accelerate growth beyond that 8% in the future, but we're always going to be balancing that to make sure that we're making those important investments in the business, and we're maintaining, frankly, a cost structure in the business that means that we're going to actually grow profitability at a faster rate.

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

Okay. That's very helpful. And maybe you can just give us an update on what's been the impact of inflation on your infrastructure customers. I know it's been disruptive for a little while, has that now kind of steadied with some moderating inflation? And what has it been doing to the pace of project progression? We hear some rumblings from another company we cover this quarter that is maybe slowing things down, particularly on the -- kind of the road-building transportation side of things. I'm curious what you're seeing the impact of inflation, on sort of the whole infrastructure progression of spending?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. So Steve, we actually have seen inflation obviously have an impact. And that impact has been on the planned budgets or the ambitions that existed a few years ago. So it certainly has had an impact. The cost of actually delivering infrastructure projects has increased. But the other thing that we started to see is we've seen those costs begin to stabilize. And so while they did rise over a period of time, they see -- the costs seem to have stabilized. But in terms of the opportunities in front of us, what's most interesting is, again, is we've seen our pipeline continue to grow over that period of time.

So I think that's just the fact that there is a lot of funding that has been put in place that exists today that is just starting to get deployed. Here in the U.S., what we're starting to see this year is we're actually seeing the IIJA money come into the market for projects. And I mentioned a project, the Bruce Spence Bridge Corridor project -- Brent Spence Bridge, sorry, project in the quarter. And that's a great example of the IIJA money coming into the marketplace, that's significant. That was a $1.6 billion planned expenditure. So while inflation has had an impact, we've seen it stabilize, but we don't see it, at this point, really impacting the pipeline for the future, pipeline is still growing at a faster rate than our backlog.

Operator

Your next question comes from the line of Andy Kaplowitz with Citi.

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

So this question might be for Troy, Lara or Gaur. Like International margin continue to rise basically at double digits. As it's gone there, have you gotten more clarity around where it could go? I think you've said you see it materially above 10%. But what does that mean? Could it be low to mid-teens? And where are you on your sort of process of making international more efficient these days?

Gaurav Kapoor - *AECOM - CFO*

Andy, this is Gaur. Thanks for that question. It is, again, a fantastic milestone that we had set for ourselves and achieving it earlier than our expectations we laid out is, again, a testament to the team. And as we move forward, our objectives are very clear and unchanged. It wasn't to get to double digit, our objective is what we have delivered in the Americas, which is head and shoulders above our competitors. That's what we're targeting, too, for international as well. And as we sit here today to Troy's point earlier, we're in the middle of our planning process for FY '24 and we will be having our Investor Day in December, we'll provide much more clarity and detail. But there, we clearly see international margins expanding. A lot of opportunity for us there that will help us achieve the overall 17% margin ambitious target that we have laid out.

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

Got it. Very helpful. And then maybe to Lara, like the longevity of some of the international drivers that you see. Obviously, the Middle East has been pretty strong here recently. Sometimes it does tend to be cyclical or maybe cycle faster. So do you see this as a more elongated cycle in the international markets? And maybe more clarity in sort of your bigger markets there.

Lara Poloni - *AECOM - President*

Yes. Thanks for the question, Andy. So the book-to-burn 1.3, very healthy for international. In part because it's increasingly comprised of much more long-term projects, typified by a lot of those program management wins. And a lot of those, as you say, are in the Middle East, but it's our strategy, obviously, to grow that not just in the International segment but also across the Americas.

So I think that strategy -- that program management is key for getting much more long-term visibility of the pipeline and much more longer-term contracts that give us much more certainty in terms of the longer-term outlook. And it's a key part of the growth -- and we've set very ambitious targets in terms of the rate at which we intend to grow our program management business, and it is growing at double digits. So we're on track with our aspiration there.

Operator

Your next question comes from the line of Sabahat Khan with RBC Capital Markets.

Sabahat Khan - *RBC Capital Markets, Research Division - Analyst*

Just curious, I think when you talked about the IIJA funding, if you can give a little bit of color around maybe some of the end markets where you're seeing some of the IIJA money. And then maybe just kind of a broader question, as you look across your global footprint, can you maybe talk about some of the end markets that might be doing better than others? Or have any moderated? Have any accelerated? Just curious in the macro environment how the various end markets may be trending?

W. Troy Rudd - *AECOM - CEO & Director*

Sure. Thanks, Saba. So just again around the U.S. and the deployment of IIJA money. First of all, the point that it's really not the deployment of IIJA money, right, there's also the Inflation Reduction Act, the CHIPs Act, there's just a lot of other things that have caused funding to be in the marketplace and will be there for a long period of time. But nevertheless, across all of those, and you get all those increased funding opportunities. There are opportunities across our transportation business, and I see it very diversely across the transportation business. Again, transit, roads, rail. And so there are significant opportunities there.

We are also seeing a significant amount of funding coming to the water market. And we have a number of states that are undertaking some very ambitious water programs that will address either the fact that there's too much water or there's not enough water in a lot of the regions in the U.S. And then also, we're seeing the impacts in energy and alternative energy. As Lara had mentioned earlier in her script about -- again, our impact in hydrogen and new technologies to store and deploy energy. And now we're even seeing it in the areas of transmission. And I think that the money is going to be funding those themes for many years. But those are the most significant themes that we see here in the U.S.

When we go around the globe, in all of our major markets, we are actually still seeing strength. There are a few exceptions to that, but they're in places, for example, like China. We have not seen strength in China. And what we've been doing -- again, our reaction to that is that we are actually shrinking that business. And ultimately, that means decreasing in our exposure to China in the long run. And again, it's not a large market for us. It represents less than, I think, 1.5% of revenue of the business. So it's not material to us, but we certainly do see, again, a significant -- have a significant slowdown in that market.

But the rest of the world, we still see very positive funding and we see very positive indications of infrastructure funding. One of the constraints that we have seen in markets has frankly just been the constraint of our clients, being able to bring their awards and their contracts to market as quickly as they originally had anticipated. And so the only thing that I'll say is in a lot of our markets where we have wins, it's taken a little bit longer to get started than our clients had expected and we had expected. But again, it isn't really slowing us down for the moment, given the fact that we had 10% organic growth.

Sabahat Khan - *RBC Capital Markets, Research Division - Analyst*

Great. And then just one quick, I guess, follow-up. Not to push on the '24 guidance, but I guess as you look out to the next fiscal year, what inning would you say we will be in kind of the rollout of the IIJA funding? Obviously, a little bit is showing up in the back half of this year. But just curious, when you look out over the next few years, where about do you think that funding will be over the next year?

W. Troy Rudd - *AECOM - CEO & Director*

I continue to see the IIJA -- the deployment of IIJA funds accelerating next year. And I think we may have said this before, we actually see those funds or deployment of funds peaking maybe in '27 or '28. There is a significant amount of money that has been -- again, as I said, from -- not just IIJA, but from all the other funding instruments that's available. But we see that growing in '24 and growing even through '27 and '28 and perhaps peaking at that point in time.

Operator

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

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

Just following up on some of the international comments. First, you did call out in your prepared remarks, Canada. So I just want to see, that appears to be maybe a better contributor to the overall mix and what areas for AECOM. And secondly, internationally, how do you see the pace of some of the Middle East projects, the major NEOMs in the world, are they still on pace? Has there been a little bit of slowdown of digestion? Is that, you think, going to accelerate as we move over the next couple of years?

W. Troy Rudd - *AECOM - CEO & Director*

Yes. Again, Mike, thank you for the question. And I will take the first part, and then I will turn the second part with the Middle East over to Lara. So with respect to Canada, there -- Canada they've always been focused on investing in infrastructure. Certainly, if we go back a number of years, there's been a very robust environment for investment in infrastructure. And a number of the provinces and federal sort of re-upped their ambitions this past year and the funding for those items. But it's actually similar to what we're seeing here in the U.S. It's funding around transportation, and a lot of that is around, again, transit.

And then we're also seeing it in water, in major urban markets, investment in water. And then we're seeing it in energy, just significant investments in energy transition and again transmission. So the themes are the same as we're seeing here in the U.S. And from our perspective, that really describes our business in Canada. We are a transportation, water and energy business in Canada. So it lines up really well for our Canadian business. So a great amount of optimism for the future in Canada.

Lara Poloni - *AECOM - President*

If I could just add also, with respect to Canada, some of the world's largest infrastructure projects that's going to continue to be in Canada, the most ambitious transit programs. And again, this we played very well. This aligns perfectly with our #1 position in transit globally. So we're bringing not just the fantastic Canadian resources, but a lot of the global expertise that we have from our leading transit business to Canada, and the outlook continues to be very strong. And another dimension of the Canadian outlook also is the growth in some of the environmental projects and very large-scale remediation programs, again, our leading environmental franchise, we're bringing that and those technical skills to bear in the Canadian market.

And with respect, Mike, to your question about NEOM specifically and the Middle East and longer-term outlook, we're pretty optimistic about that. Projects like NEOM now are out in construction, well beyond shovel ready. And as you probably know, some very ambitious time frames around the realization of many of these programs. But our strategy in the Middle East and our presence and our bookings aren't just limited to NEOM. We've had a very comprehensive presence and involvement in all of the major giga-city programs. But also some of the newer long-term programs in some of the key cities, such as Jeddah and Riyadh as well. So it's a much broader sort of play, particularly in Saudi Arabia, and we're well positioned in the long term.

And as we've said, these programs are multiple -- they're decade-long programs and we've been in there since the beginning, and we're bringing our global strength across all of the technical capabilities to bear on this fastly growing market.

Operator

Your next question comes from the line of Adam Thalhimer with Thompson, Davis & Co.

Adam Robert Thalhimer - *Thompson, Davis & Company, Inc., Research Division - Director of Research & Partner*

First question on capital allocation. Now that we're in a higher rate environment, does that change your thought process, your calculations at all, specifically with buybacks?

W. Troy Rudd - *AECOM - CEO & Director*

Yes, Adam, it really doesn't. Our capital allocation policy still remains unchanged. And again, it's -- the headline that is that we're always going to deploy capital to the highest-returning opportunities. Again, I think sometimes we forget about this, but the first is obviously organic growth. That clearly has the highest-returning opportunity for us. And then beyond that, when we look at the business, returning capital to shareholders, it still remains our next highest-returning opportunity and priority even with rising interest rates in the world.

Adam Robert Thalhimer - *Thompson, Davis & Company, Inc., Research Division - Director of Research & Partner*

I guess when you say investing in growth, I mean, with your backlog growing and you said the opportunities are even greater, are you opening new offices, hiring more people? How does that look?

W. Troy Rudd - *AECOM - CEO & Director*

Well, the answer is we're not opening a lot of new offices. That's not something that is a significant investment for us. Obviously, as the business grows in certain places, you have to create -- you have to invest in real estate to create capacity for people to work. But that's not part of our overall strategy for investment. I would say that we're just continuing to become more efficient with respect to real estate. However, in terms of growing the business, we are making significant investments in business development. In fact, this year's business development spend remains at elevated rates similar to our past year. And so while we've got so many opportunities in front of us, we're going to continue to invest in business development at an elevated rate, which also is important, because we've been able to get our margins over 15%, while continuing to have elevated investments in business development.

But as the other things that we're investing when I say organic growth, it's investing to grow our program management business, investing to grow our advisory business, investing in our people and developing our technical ability, investing in our enterprise capability centers, and investing in technologies so that we can transform the way that we deliver work and become more productive. And so that's what I mean by investment in organic growth. It's all of those things.

Adam Robert Thalhimer - *Thompson, Davis & Company, Inc., Research Division - Director of Research & Partner*

Okay. That makes sense. And lastly -- sorry to sneak one more in. We talked about water more today than we have in the past. Just curious if you can help size the forth coming water opportunity versus where that market has been historically?

W. Troy Rudd - *AECOM - CEO & Director*

Well, water -- again, I think water when we think about it, we have a tendency to talk about a lot in the United States. But there is certainly funding from the federal government that has been focused on expanding water. But also across all the states, and so it's very broad-based. The fact is -- I mean, the best way to describe this is we have situations where we don't have enough water and situations we have too much water. And it's probably -- that trend has probably been accelerated over the first -- in the last few years. And it really is causing city and state and local governments in the U.S. to focus their investment on water.

Again, you look along the Southwest and certainly the biggest impact and the biggest concern is drought and water shortage. And you look along the Gulf Coast and you look along the East Coast of the U.S., and it's frankly, it's too much water. And so there is just a very significant focus and investment in it. But it doesn't just end there, it goes across the world because the rest of the world is experiencing those same trends. And we are starting to see more of the funding and focus being put on water projects around the world. So again, I'd say that's -- from our perspective, that is a great long-term fast-growing opportunity.

Operator

There are no further questions. I'll turn the call back to Troy Rudd for closing remarks.

W. Troy Rudd - *AECOM - CEO & Director*

Great. Thank you, operator. And again, I'd just start by thanking our teams for their tremendously hard work over the course of this past quarter and year. And I'm really proud of the team and our very consistent strong performance. It's continued to position us really well to do great things for our clients and have great success, and continue to create long-term sustained shareholder value. So again, thank you for your time today, and we look forward to talking to you next quarter.

Operator

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