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AECOM Value Creation Update

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CORPORATE PARTICIPANTS

Michael S. Burke *AECOM - Chairman of the Board & CEO*
Randall A. Wotring *AECOM - COO*
W. Troy Rudd *AECOM - Executive VP & CFO*
Will Gabrielski *AECOM - VP of IR*

CONFERENCE CALL PARTICIPANTS

Andrew John Wittmann *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*
Jamie Lyn Cook *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*
Michael Stephan Dudas *Vertical Research Partners, LLC - Partner*
Steven Fisher *UBS Investment Bank, Research Division - Executive Director and Senior Analyst*
Tahira Afzal *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

PRESENTATION

Operator

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

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

Will Gabrielski ***AECOM - VP of IR***

Thank you, operator. I would like to direct your attention to the safe harbor statement on Page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the SEC. Except as required by law, we undertake no obligation to update our forward-looking statements. We are using non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation, which is posted on our website. Our discussion of financial performance and guidance refers to adjusted financial metrics as defined and reconciled in today's press release and the presentation accompanying this call. Beginning today's presentation is Mike Burke, AECOM's Chairman and Chief Executive Officer. Mike?

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

Thank you, Will. Joining me today are Randy Wotring, our Chief Operating Officer; and Troy Rudd, our Chief Financial Officer. I will begin the call with an overview of the proposed spinoff, Troy will review preliminary financial details, then Randy will provide an overview of the government services business and its competitive advantages that have contributed to double-digit revenue growth over the last 3 quarters and a record backlog position. We'll then conduct a question-and-answer session.

Please turn to Slide 3. This morning, we announced that the Board of Directors has unanimously approved the plan to pursue a spinoff of the company's Management Services segment into a stand-alone government services business. Upon completion, the business will continue to be a leader with scale in the fragmented government services sector with $4 billion of trailing 12-month revenue, a record $20 billion backlog and a more than $30 billion pipeline of pursuits.

The business has strong capabilities across the U.S. Departments of Defense and Energy, which account for approximately 75% of the revenue. In addition, the business has growing exposure to intelligence and cybersecurity markets, a robust classified business with high barriers to entry, long-duration contracts and more than 10,000 employees with security clearance. These are all competitive advantages that have contributed to our success.

This announcement builds on the value-enhancing actions we have taken and continue to take and is part of our ongoing comprehensive strategic and financial review to maximize long-term value.

As we conducted this review, it was clear to us that through a spinoff, both AECOM and the stand-alone government services business could unlock value from a sharpened strategic focus and an ability to pursue growth strategies best suited to each company's businesses, end markets and strategic growth objectives.

Please turn to Slide 4. The spinoff is expected to benefit all stakeholders by creating 2 companies with unique and compelling investment attributes and by positioning both companies to operate with a honed focus on their respective core markets to drive long-term strategic and financial success. Each company will also benefit from having dedicated employees with a sharpened focus and incentive plan opportunities that are directly aligned with each company's business objectives. And both companies and their respective clients will benefit from targeted investments in their respective core capabilities to support their long-term growth ambitions.

Specific to the stand-alone government services business, we expect a number of benefits that create a compelling investment thesis. First, the business will position to scale in the highly fragmented and rapidly growing government services market. This scale, which is the result of several years of heightened organic growth investments and a win rate of approximately 50% over this period, has resulted in a consistent ranking as a Top 20 government services business by Bloomberg and Washington Technology.

Second, the business will benefit from a sharpened focus on its core capabilities, enabling the company to direct capital for the best growth opportunities with the highest return potential. The business will also be in a position to participate in the ongoing consolidation of the government services sector to enhance its value proposition to clients and to expand its share of client wallet by adding complementary capabilities over time to its already strong platform.

Third, the business will be able to pursue a capital structure and capital allocation policy optimized for a low-risk profile and consistently strong free cash flow generation. Fourth, the business will benefit from a Board of Directors with specific backgrounds and experiences tailored to the business.

Lastly, the business will be positioned to attract new investors. Valuation multiples in the government services market are near all-time highs and new investment opportunities have been scarce. We expect investors to be able to better value a stand-alone investment and recognize the strong team, consistently strong business performance, lower risk profile, above-peer growth rate and consistently strong cash flow.

Please turn to Slide 5. The Management Services segment is in the strongest position possible to continue to build on its momentum as a stand-alone government services company. This strength followed several years of investments in growth. Backlog has increased by 127% since the start of fiscal 2017. Organic revenue has increased by double digits in each of the past 3 quarters, and we have a $30 billion pipeline of pursuits and expect the Department of Energy to award more than $30 billion of projects in the coming years that the business is ideally positioned toward.

These successes and solid execution have resulted in 18% year-over-year adjusted operating income growth in the first half of fiscal 2019, which underscores our confidence in the future. It is one of our top priorities to ensure that we continue to deliver for our clients. To this point, today, we have also announced that John Vollmer and the existing leadership team are expected to continue to lead the business. In addition, Randy Wotring is expected to be named Chairman of the Board of Directors. These executives have a long history of excellence with AECOM and predecessor companies and their continued leadership adds to the expected high level of continuity and certainty. In addition, the business has maintained many independent systems, which simplifies the separation process.

Please turn to Slide 6. The decision to separate Management Services segment into a stand-alone government services business is part of an ongoing commitment to maximizing growth and long-term value and build on the many value-enhancing actions that we have taken over the past 2 years and that we will continue to take as we go forward. These actions include stock repurchases under our $1 billion Board authorization, the already executed $225 million margin-enhancing G&A restructuring plan, our ongoing exit from hard-bid fixed-price construction markets, our plan to exit from more than 30 countries to hone our focus and our decision to no longer pursue at-risk construction work in international markets.

Importantly, we are off to a strong start in fiscal 2019, and today, we reaffirmed our fiscal 2019 financial guidance as well as the long-term forecast through fiscal 2022. These include at least a 5% revenue CAGR, 9% adjusted EBITDA CAGR, 12% to 15% EPS CAGR and at least $1 billion of adjusted EBITDA in fiscal 2020.

With that, I will turn the call over to Troy to discuss a few financial details and key milestones we are tracking. Troy?

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

Thanks, Mike. Please turn to Slide 8. We're excited about today's announcement and the prospects for long-term value creation. Importantly, as Mike detailed, both companies and all stakeholders stand to benefit. The stand-alone government services business is expected to have approximately $4 billion of revenue and a 6% adjusted operating margin in fiscal 2019 and strong prospects for continued growth. We expect that on a stand-alone basis, profitability will be upwards of 5% higher, inclusive of estimated public company costs.

Over time, we expect profitability will be further enhanced through a dedicated growth strategy, prudent capital allocation and hurdle rate specific to the government services business as well as incentives that most closely align employees with their performance.

With respect to a few key points from the transaction. First, we expect the spinoff to be tax free to AECOM and AECOM shareholders for U.S. federal income tax purposes. The transaction is subject to certain customary closing conditions.

Second, we expect to complete the spin in the second half of fiscal 2020. Importantly, the business will be further delevered at this point, positioning both companies for success. Third, both businesses are expected to be capitalized with ample liquidity to support their operations and strategic investment plans. We expect the stand-alone government services business' strong free cash flow will enhance financial flexibility to pursue growth and to return capital to owners.

Finally, we expect to address any stranded corporate costs and other overhead costs that result from the separation over the course of this next year. We do not expect any earnings dilution associated with stranded costs.

Please turn to Slide 9. I want to underscore that the strength and quality of the new entity's cash flow will support the company's day 1 capital structure plan and long-term value creation opportunity. The stand-alone business' largest client is the U.S. Federal Government, which accounts for approximately 93% of revenue, is growing and is less susceptible to macro variability and cyclicality.

DSOs in the business typically run between 50 and 60 days, which result in a very strong cash flow conversion cycle. On a normalized basis, adjusted EBITDA converts to unlevered free cash flow, after excluding cash flow from noncontrolling interests, at more than 80%, and cash flow is typically well in excess of net income. This is expected to provide the stand-alone business with financial flexibility to pursue growth ambitions and potentially return capital to owners.

Please turn to Slide 10. The stand-alone government services business has built a record backlog position over the past several years. The win rate remains high, and we have won longer duration work in the classified sector, where barriers to entry are high. This visibility is especially valuable in the government services sector as it limits the impact from short-term budget fluctuations. Importantly, our more than $30 billion pipeline of pursuits positions us well for additional backlog growth and added long-term visibility.

Please turn to Slide 11. As Mike noted, we are reaffirming all fiscal 2019 financial guidance today, including 12% adjusted EBITDA growth at the midpoint of the range. We continue to expect adjusted EBITDA in fiscal 2020 of at least $1 billion. Based on our record backlog and strong momentum across our markets, we anticipate growth across the entire portfolio next year.

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

Randall A. Wotring *AECOM - COO*

Thanks, Troy. Please turn to Slide 13. I've been a part of our government services organization for more than 35 years, serving in many different functions, including in the leadership position from 2004 until my appointment as Chief Operating Officer of AECOM in 2017. I can confidently say that this business has the people, systems, capabilities and entrepreneurial culture to continue to be a leader in the aerospace and defense sector.

As such, I am looking forward to serving as the Chairman of the Board of the stand-alone business upon completion of the separation, and I'm excited to be joined by John Vollmer and the existing Management Services leadership team that is expected to remain in their roles. The business is as energized as ever to deliver on its financial and strategic initiatives in the near term and by the opportunities created as a stand-alone company.

Mike and Troy have already detailed the strong recent financial performance of the business and the technical aspects of the separation. I will speak briefly about end-market trends, our competitive differentiation in the marketplace and long-term growth priorities. Following several years of investments in our capabilities and in business development, MS is poised to succeed as an independent company and capitalize on its many strengths. We have built an industry-leading record of safely executing our clients' mission, which has been made possible by the use of innovative technologies to enhance our offering and more efficiently deliver our work.

In addition, we have developed a critical mass of highly qualified personnel, including more than 10,000 people with some level of security clearance, which is an important qualification for many of our customers and the programs we support and is a key differentiator and competitive advantage.

Please turn to Slide 14. As we look at current market dynamics and our strategic growth priorities, it is clear that we are in the early innings of what we believe will be a sustained upcycle for spending across our markets. For the Department of Defense, which accounts for approximately half of the business' revenue, priorities are aligned with markets where we are poised to benefit, including growth in cybersecurity and intelligence and underlying strength across their markets. The President's fiscal 2020 budget calls for another strong increase in defense spending. Discussions are underway between the House and Senate on another 2-year budget agreement to avoid caps on spending under the Budget Control Act and to provide certainty for our clients and service providers.

Importantly, our business was not materially impacted during the last government shutdown and most of our work is considered essential, which limits impacts during periods of funding uncertainty.

For the Department of Energy, which accounts for approximately 25% of revenue, demand is strong, and we are pursuing 2 growth paths. First is the high level of bidding activity we are seeing and expect to see for several more years in the environmental management program for the Department of Energy. We have 2 major bids submitted at Hanford, including a substantial takeaway opportunity with decisions expected this summer. And we are pursuing several other environmental management large opportunities.

Second, we are actively seeking opportunities to expand the DOE practice into the NNSA market. We were recently awarded similar work in the U.K. for the Atomic Weapons Establishment, which underscores client recognition of our capabilities. We expect to pursue a number of Tier 2 opportunities ahead of a larger Tier 1 opportunity in the coming 3 to 5 years. We're also leveraging our leadership position in the DOE decommissioning market into the commercial market. We are executing on the more than $1 billion decommissioning of the SONGS nuclear plant in California and expect to play a key role in the $200 billion plus global opportunity set, as the majority of existing nuclear reactors reach or exceed their original end-of-life dates.

Importantly, the business has a solid foundation for growth, both in existing and new markets. We are actively expanding our cyber and intelligence market capabilities, pursuing international growth opportunities as demonstrated by our U.K. Atomic Weapons Establishment win and a recent selection for a framework contract at the Dounreay site in the U.K. and through other organic investments. The stand-alone government services business will have the financial flexibility to balance returns of capital to owners and to pursue complementary acquisitions over time.

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

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

Thanks, Randy. Before turning the call over to Q&A, I want to thank the senior leaders and all employees at AECOM for their contributions to our success over the past several years. Through their dedication to our shared success, we have delivered strong organic revenue growth, record wins and backlog, consistently strong cash flow, and we have built industry-leading capabilities. As a result, we are highly regarded by clients and partners and are able to take steps such as today's announcement to enhance strategic and financial success to drive long-term value for both companies.

Importantly, our strength as an enterprise is reflected in our recent financial performance. We exited the second quarter with a record $61 billion backlog following 6 consecutive quarters of more than $6 billion of wins and a book-to-burn ratio of 1.4 over the past 2 years. We exceeded our adjusted EBITDA guidance in the first half of the year with 16% growth and delivered 6% organic revenue growth led by higher-margin and lower-risk DCS and MS segments. We have reaffirmed all of our fiscal 2019 financial guidance, including for 12% adjusted EBITDA growth at the midpoint of the range.

I will now turn the call over for Q&A. Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tahira Afzal from KeyBanc Capital Markets.

Tahira Afzal ***KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst***

Mike, I guess, the first question from me. You talked a bit about all the transformations you are making. Would love to also get an update on some of the divestments you've been looking at and the streamlining of the regions, if possible?

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

Sure. Thank you, Tahira. First of all, over the past year, we've had really 3 large buckets of substantial change in the organization. The margin improvement initiative where we took out $225 million of G&A costs is largely complete, which is driving towards much higher margins, certainly in the first half of the year, and we expect that to continue through the rest of the year and into the future. The derisking process that we've been underway, we are actively in the market with certain of our self-perform construction businesses. We have indications of interest from potential buyers in that space. We're working our way through the process. We have extracted ourself from the combined cycle gas turbine business, we have extracted ourselves from international at-risk construction. We have changed our leadership in our Construction Services group to ensure that going forward, we have a business that is a non-self-perform business or a low-risk construction management professional services type organization that will significantly reduce the volatility that we've seen in the past in that sector. And we continue to deliver on our commitments to grow our revenue and continue to grow our EBITDA this year. We put forth the target to grow our EBIT at 12% this year. In the first half of the year, we're up 16%. And as you heard today, we're reaffirming our guidance for this year and our long-term guidance. So all is proceeding on path and on schedule to transform the organization throughout the course of this year.

Tahira Afzal ***KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst***

Okay, thanks Mike. That's definitely helpful. And I guess as a follow-up, it might be too early to answer this question, but do you perceive a change in cash allocation strategy once the 2 companies are separate? Is there something you foresee that could be a little different given the profiles of the companies will change a bit?

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

No, we do not see any change to the capital allocation policy that we've previously stated. Our intention is to drive our leverage ratio down into the low 2x net and use the remainder of our cash to repurchase our stock. It's the same capital allocation policy that we've been working under for the past year or so.

Operator

And our next question comes from Andrew Wittmann of Baird.

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

Where do I want to start? I guess, there is a comment on the nuclear decommissioning opportunity. It's one that you guys actually haven't talked to -- talked about in a while, at least on some of the public forums but, as you mentioned, it's a big opportunity. As I recall and maybe, Mike, you can correct me on this one. This was being -- the current jobs, the San Onofre work, in particular, that you have and that you're working on was being worked on in a couple of different segments, was there any DCS contribution? In other words, is there any RemainCo contribution to that work that we should expect as these companies get split out that some of that DCS work is going to move over to NewCo?

Randall A. Wotring ***AECOM - COO***

Most of the -- the existing work that's with DCS now will remain. It's minor in nature. Most of that work was done on the front-end, but will -- but it will continue at a minor level. The majority of the work is being accomplished by MS and our power organization, and that will continue.

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

Okay. And then, I guess, I think something that might be a little bit surprising to some of the investors today is about the fact that you're not seeing an issue with stranded costs here as the company gets split. And it even sounds like even with NewCo, you don't feel like there's that much new overhead to come in there. I guess, Mike, as you've gone through the buildup of that plan, can you talk about how that was able to be achieved? You guys have already done a very large restructuring this year. Obviously, it seems like you've taken some of the costs out of the company already. So I guess, any more detail that you can give us or a comfort you can give us with how you plan to obtain that goal would be helpful.

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

Andy, I'm going to let Troy answer that.

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

Yes. So again, you pointed out, I think it's a helpful starting point, is that, over the course of this past year, we actually were able to take out significant amount of costs in the business without impacting our ability to win work in the market. And so based on that confidence, we're going through a process that we think will benefit both Management Services and RemainCo over the course of this next year as we go through the -- again, the separation of the 2 companies. So it's going to be similar types of things that we've done in the past. We've built a platform or platforms upon which give us the ability to become more efficient. So we're going to do those similar types of things that we've done in the past. And that will allow us to, again, remove stranded costs and to go beyond that. And going beyond that, we think, to the Management Services business means that there could be 5% additional earnings in that business from where we sit today.

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

Yes. Andy, I think it's important to point out that, that organization because of the classified nature of it has had separate systems historically. And so those systems are already in place and those costs are already in place today to operate the business. So there is not a lot of incremental costs that come along with that. And as Troy mentioned, we think there are significant opportunities to continue down the path of our restructuring effort to reduce the overall costs and therefore drive up the margins and profitability on both RemainCo and SpinCo.

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

Okay. Then, just my final question is on John Vollmer. He hasn't been particularly, at least to my knowledge, externally facing with investors. I was hoping you could just give us a little bit more on his background, why he is the right guy to take MS forward? Obviously, we've known Randy through various iterations for years and I think the Chairmanship role is well-earned there, but some background on John? And do you plan to get him out and more visible as we undergo this year long process or so?

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

Let me kick that off, and then I'll turn it over to Randy. First of all, John and his leadership team have done an exceptional job of building this business and leading it over the past several years that's produced a backlog that's up 127%, their revenues continue to grow, their profitability continues to grow. And so he and his management team have done an extraordinary job. He spent his entire career in this space. And on top of that, we've asked Randy to serve as the Chairman of the Board. So Randy has got 35 years of experience in this space. And so between an already great leadership team that we have today, further enhanced by Randy's leadership as the Chairman, we feel that this team is exceptionally well-positioned. And in fact recently, John has met with a few of our largest shareholders and spent significant amounts of time with them, and they have unanimously told us that they think John and his leadership team that they met with were some of the best leaders in this space that they have seen. So with that, maybe, Randy, you want to comment on this also since you and John have worked together for most of your career.

Randall A. Wotring ***AECOM - COO***

Yes, John is an industry executive that's been in this -- that's been with the company on and off. He was one of our high-potential employees 30 years ago and has grown up in the business, left for a while, ran his own businesses and then came back as an alumni to run our Management Services organization. He and I have worked together, and his entire leadership team has been together for more than 5 years. Many of them have been with the company for 30 years. So it's very matured management team, very matured systems, processes and tools. And we are very confident that this organization will continue to clip along as they have over the last few years. As Mike said, from an organic growth standpoint, this organization has just knocked it out of the park, and we are confident that working all together, we'll continue to be able to grow our business in this marketplace. The pipeline is full, and the win rates have been high. So we're very confident in this leadership team and looking forward.

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

So Andy, one follow-up there that you had asked, what are our plans to get John in front of the shareholders. And like I said that he has already spent a considerable amount of time with shareholders that own more than 1/3 of the company. So he is not unknown to 1/3 of our shareholders anyway. But we will certainly, over the course of getting ready for this spin, have John work with us in our analyst meetings and shareholder meetings over the course of the coming months.

Operator

And our next question comes from Jamie Cook of Crédit Suisse.

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

I guess, my first question, just trying to think about the government business on a stand-alone basis, Mike. Obviously, the revenue growth has been strong, the backlog growth has been strong. How do you think about sort of the earnings trajectory for this company over the next couple of years, just given the backlog visibility that you have? And then do you sort of think the 6% margin is sort of the way we should think about this business on a stand-alone basis? And my second question relates to M&A. I just want to clarify, it felt like in the prepared remarks, you mentioned that M&A might be introduced back into the business model, but that was different from what you said in response to, I think, Tahira's question. So I just want to make sure M&A in government or not?

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

Sure. Thank you, Jamie. So first of all, we would expect that on a stand-alone basis, the Management Services segment, as a separate company, will continue to grow in excess of 7% that we have projected for the entirety of the organization. That's consistent with our 5-year projections for the entire company. So north of 7%. Your comment on margins at 6%, actually our margin projections are at 7%. So a 7% growth in EBITDA and a 7% margin. We feel pretty good about that based on the $30 billion of opportunities in the pipeline, about $10 billion of those are expected to be decided in the very near future on top of the $20 billion of backlog that we already have. So -- and when we look at the markets that they play in, in DoD and DoE, these are all growing markets where we are incredibly well-positioned in. And so we feel good about that continued growth trajectory in that business.

With regard to M&A, we do not have any plans for M&A on the table right now. I think the comment was that, as we think about capital allocation going forward, the two companies separate, will have their own capital allocation policy that may lead towards an M&A down the road. But I'll tell you, right now, we have no M&A opportunities that we are considering in the short or medium term on either side, either RemainCo or SpinCo. Our capital allocation policy continues to be focused, first of all, on getting our debt down to between 2 and 2.5x net and then use the remainder of that cash to buy back our stock, which, we think, is a very attractive opportunity.

Operator

And our next question comes from Michael Dudas of Vertical Research.

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

First question for Mike or Troy. As you look through the spin, maybe you can give us a little sense of pro forma capitalization? How you anticipate the debt being allocated one way or another? What goes into those thoughts? How do you feel comfortable relative to which businesses can handle more? And how you think about the capital allocation, how it plays into return to shareholders as that free cash drops?

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

Mike, it's Troy. So I guess, first of all, I want to say it's a little bit early to give an update on what we think the capital structure of either company will look like. But as Mike said, that we anticipate over the course of this next 10 to 12 months as we progress with the spin that our leverage will get to 2x on a net basis, which means that, as we split the companies apart, there is ample opportunity to have great liquidity and a capital structure that allows them both to pursue their separate capital allocation programs.

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

So just to reiterate, so by the end of, let's say, the March quarter of -- or maybe the June quarter of next year, your target to get to 2.0 is valid. Is that what you're saying, before the spin gets effected?

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

Yes. March might be a little early. I think we're looking at probably 10 to 12 months to effectuate the spin. So it's a little bit longer than that. But yes, you're right, approximately it's -- we anticipate to be approximately 2-point -- 2x on net leverage basis.

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

My follow-up is for Randy. Randy, how -- again, congrats on the Board -- Chairman of the Board announcement. As you've been going through this the past, I'm sure, several months to set this up, how do you think AECOM or government services is going to be benefited much better as a stand-alone relative to what you've had today? And is it really set up to again use the scale that you're going to have for more consolidation, is there are parts of the marketplace at AECOM you could probably see more visibility and enhance those skill sets as a separate company, I guess, rather than dealing with as a combined?

Randall A. Wotring ***AECOM - COO***

Well, thanks for the question. Look, in the near term, I think the company is -- will be better focused. MS will be laser focused on its pipeline of opportunities in front of us. Again, when the spin comes, there will be debt that comes across and then we'll stabilize the business, focus on clients, focus on employees and continue to drive organic growth. There is $30 billion of opportunities in front of us, and the pipeline behind it, given the budgetary considerations, looks strong. So it will just be a laser focus on winning work, serving clients, and taking care of employees.

Operator

And our next question comes from Steven Fisher of UBS.

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

Congratulations. Just can you talk a little bit about how you concluded that this was the best strategic option that you considered versus, say, a sale of Management Services or keeping it together with DCS and getting out of CS.

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

So, thank you, Steve. A few things. Our government services business has certainly had a great past few years, as I mentioned, the growth in the business, the amount of opportunities in front of them and the backlog they have created. And so as you heard the comments earlier about why we believe the 2 companies will be more successful going forward, but we also saw an opportunity to unlock value. We look at this business that sits within our organization today and the EBITDA multiples that we are currently trading at, and we know this business is worth a lot more than the current aggregate multiple of our business. And so it's an opportunity for us to, first of all, focusing on maximizing the value for our shareholders and extracting this value and realizing the full value for this entity. And so we believe that now is the right time to do that. We've got not only great trajectory but great runway in front of us. And with regard to your questions about the rest of the business, we are constantly looking at opportunities to extract value from our business. We're constantly looking at opportunities to derisk our portfolio, which has been underway in our Construction Services segment for quite some time. And when we get done with all of the moving pieces by the end of this year, we will have an organization remaining that is a high-quality, higher-margin, low-risk professional services business without a self-perform construction group. And so we feel that when we get through all of the moving pieces of this strategic plan, we will have a new company that has focused on the core of a professional service organization with a low risk profile.

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

And just a clarification there. Would there have been certain prohibitive tax consequences of just selling off the Management Services business?

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

No. There wouldn't -- it wouldn't be prohibitive. We do because of the way that business came together over the course of acquisitions, historically on the URS side and historically on the AECOM side, there is certainly a high tax -- a higher tax basis than one might expect. So the tax opportunities are not prohibitive. And so -- but we're focused on the spinoff right now, and there are sizable synergy opportunities should a strategic buyer be interested, but right now, we're focused on the spinoff.

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

Okay. And then just on the remaining DCS business. How do you think about the scale of that business? What's the right scale for it? What's the right risk profile? And how might the type of pursuit that you go after in terms of the size of projects, how might that change, if at all, under the new structure?

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

So, first of all, scale, we are clearly at scale now. We're #1 or #2 in all of our prime markets of transportation, water, buildings, et cetera. And so as far as scale, we're already there. We already enjoy all the benefits of scale. From a risk perspective, that is a low-risk business with very high returns on invested capital. So the risk profile does not change. The size of the projects, it's still -- we're still -- after the spinoff of this business, we're still a $16 billion revenue business with size and scale that puts us, again, like I said, #1 or 2 in all the markets we participate. So I don't see scale being an issue. The risk, it's a very low-risk business when we get through the restructuring and the divestitures that we have planned for this year. And the size of the projects, we continue to participate in bigger and bigger sized projects that very few companies are at our scale that can handle those. And so all in all, this does not change our strategy at all for our DCS business going forward.

Operator

And we have no further questions at this time. I will now turn the call back over to Mike Burke for closing comments.

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

Thank you, operator. So before we finish today's call, I just want to reiterate just a few key points. Today is a real transformational step forward for AECOM in pursuit of our maximizing long-term value for all of our stakeholders. And so after the completion of the spinoff, both AECOM and our stand-alone government services business will be very well positioned to capitalize on all of their respective strengths and continue to deliver the exceptional results as independent companies. So today's announcement just builds on the value enhancing actions we've taken and continue to take, including the stock repurchases under our $1 billion Board authorization, the already-executed $225 million margin-enhancing restructuring plan, the ongoing exit from our hard-bid fixed-priced construction markets, the planned exit from 30-plus countries to hone our focus and our decision to no longer pursue at-risk construction work in international markets. But most importantly, we are off to a strong start in fiscal '19. And today, we reaffirmed our fiscal '19 guidance as well as our long-term forecast through fiscal '22. So with that, I look forward to speaking with many of you about our commitment to maximizing long-term value over the coming days. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may now disconnect.