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# EDITED TRANSCRIPT

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## PRESENTATION

**Operator**

Good morning, and welcome to the AECOM First 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. Please go ahead.

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

Thank you, operator. I'd 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. Any references to segment margins or segment adjusted operating margins will reflect the performance for the Americas and International segments. When discussing revenue and revenue growth, we will refer to net service revenue, or NSR, which is defined as revenue excluding pass-through revenue. NSR and backlog growth rates are presented on a constant currency basis unless otherwise noted. Today's remarks will focus on continuing operations.

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 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.

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

Thank you, Will, and thank you all for joining us today. I'd like to begin by acknowledging the continued commitment of our approximately 50,000 professionals to fulfilling our shared purpose of delivering a better world. We have the best teams in the industry, and our widening competitive advantage stems from their passion, technical expertise and global collaboration. Our continued high win rate, record design backlog and continued margin expansion and strong cash flow are a testament to the strength of our teams and the benefits of our strategy.

Nearly all of our end markets are growing, and we are aggressively adding to our workforce to deliver on our commitments. Strong end market conditions and the continued growth of our professional workforce differentiates us from many businesses that are seeing macro conditions continue to soften.

I also want to highlight that for the third year in a row, we have been recognized as the Most Admired Company in our industry by Fortune. This is a great accomplishment, and I couldn't be more proud of our people.

Turning to our financial performance. Organic NSR growth accelerated to 8%, which includes strong growth across both segments and was led by 9% growth in design, which matches our highest for the past decade. Notably, our growth in the Americas design business continued to accelerate. State and local activity remained strong, and when combined with the unprecedented infrastructure funding in the U.S. and the increases in the recently enacted 2023 U.S. Federal budget, we are confident in a multiyear growth cycle.

Our segment adjusted operating margin increased by nearly 40 basis points to 14%, which is a new high for a first quarter. Our profitability leads our industry and reflects strong execution, the benefits of our strategy and our lower-risk, higher-value backlog composition. We are well advanced in our path to deliver on our 15% fiscal 2024 margin target, and we are increasingly confident in our continued margin expansion over time.

Adjusted EBITDA of $224 million and adjusted EPS of $0.86 were consistent with our expectations and included strong underlying operational growth. Consistent with our track record of delivering on our commitments, strong operational performance contributed to 19% growth to year-over-year earnings, which allowed us to deliver on our targets despite macro-related factors.

Free cash flow was also strong, which enabled the execution of our returns-focused capital allocation policy. Our primary use of capital include investments in organic growth opportunities, share repurchases and our quarterly dividend program. I should highlight that our recent January dividend marked a 20% increase over our prior payment, which is consistent with our intent to grow our per share dividend by a double-digit percentage annually.

Importantly, we are prioritizing our investments to pursue transformational growth opportunities where we have a competitive advantage. This resulted in another near-record-high win rate, strong backlog momentum and an unprecedented level of visibility. The design backlog increased by 9% to a record high, which is an acceleration from the prior quarter and was driven by a 1.3 book-to-burn ratio.

In addition, our pipeline of opportunities is also at an all-time high. This includes a nearly 30% increase in proposals and bids submitted, which is up from 20% growth in the prior quarter. As a result, we are confident that our design backlog will continue to increase as the year progresses.

Across our business, the benefits of our Think and Act Globally strategy are apparent in the changing composition of our backlog. Let me share a few examples.







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During the quarter, we were selected for the sizable water program management contract in Southern California. This win resulted from collaboration between our world-class water and program management practices, which led to an unrivaled technical solution for our client. In addition, this win fortifies our leadership position in this rapidly growing region, where last quarter, we won the sizable Padre Dam advanced water purification program in San Diego. As a result, we are well positioned to benefit as the billions of planned investments to address persistent drought and water supply challenges increase.

We were also successful in our selection for the Navy-specific CLEAN program, which builds on our success with this client, including last year's award of the Atlantic CLEAN program. Both programs will run for at least 5 more years.

We are experiencing a similar trajectory in our #1 ranked global transportation business. In Canada, we were selected to serve as the technical adviser on a transformative light rail project, creating visibility over the next decade on a marquee project in the region. In addition, while not reflected on our first quarter backlog, we've been notified that we were selected on another 9-figure win in the global rail market.

We are very deliberate in how we allocate time and capital, with a focus on the best-returning and highest-value opportunities. As a result, an increasing share of our wins are generated from scope increases and additional phases on existing programs. In fact, our largest first quarter design win was an additional phase to an existing project we already held.

Several of our first quarter wins have the potential to increase in value. We have identified more than $500 million of potential incremental opportunity from the first quarter wins that we expect to add to backlog over time. This demonstrates the more valuable composition of our wins and backlog, and with it, contributes to our visibility and confidence.

Also contributing to our confidence is the funding growth across our largest end markets. In the U.S., the initial wave of IIJA funding is beginning to materialize in our pipeline. And we continue to expect the benefits from IIJA funds to accelerate through the coming years. An increasing share of our activity today is helping clients position for this funding, and clients are increasingly turning to us to utilize our digital AI-powered tool, Fund Navigator.

In Canada, provincial investment in rail infrastructure, a market where we lead, is supporting NSR, backlog and pipeline growth. The same is true of the U.K., where we have an established position on key frameworks and are converting large pursuits to wins. In Australia, our momentum continued, including another win in the first quarter which has further extended our backlog visibility. And finally, in the Middle East, our backlog and NSR have increased at a double-digit pace due to our positioning on the substantial infrastructure investments transforming Saudi Arabia.

As we look ahead, we remain committed to executing our strategy, which is focused on: Expanding our addressable market through organic growth in our advisory, digital and program management practices; driving collaboration to fully capture the strength of our global platform; prioritizing our time and capital on the highest-returning growth opportunities; investing in Digital AECOM at an unprecedented rate to lead our industry through digital transformation; and finally, creating an industry-leading employee value proposition to attract and retain the best professionals in their fields.

Taken together, we are better positioned than ever to capitalize on the growing set of opportunities in front of us. Our competitive advantages are expanding the long-term earnings power of the company. As a result, we are reaffirming our 2023 financial guidance and remain confident in delivering on our long-term 2020 financial targets and aspirations.

With that, let me turn the call over to Lara.

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**Lara Poloni** - *AECOM - President*

Thanks, Troy. Please turn to the next slide. I'd also like to acknowledge our teams across the globe for another strong quarter. We've built a culture around collaboration and expanding our competitive advantages, and our strong performance represents the realization of our strategy.

In nearly every conversation with our clients, we've received consistent feedback: Our teams are delivering unrivaled technical solutions. Our technical proposal is the most often cited factor in our wins. These technical capabilities are an essential element of our competitive advantage, which is apparent in our consistently strong win rate, and we are winning half of every dollar we bid. The great work we do is a reflection of our professionals, and we are energized by the opportunities ahead.

Across our markets, we are ideally positioned to capitalize on the 3 secular megatrends, including growing global infrastructure investments, investments in sustainability and resilience and post-COVID supply chain and asset investments. These drivers were prevalent in several of our recent wins.

In the U.S., our leadership in sustainability and resilience continues to be a differentiator. For instance, investments to modernize and strengthen the U.S. electric grid are expanding. This was highlighted by our selection to support a key renewable energy client in the U.S. on a large interstate transmission line that will leverage both our technical capabilities and our innovative digital PlanEngage tool for the NEPA environmental impact statement.

In addition, PFAS activity is accelerating ahead of expected regulatory milestones in 2023. We are the leader in this market, and our backlog for PFAS-related programs increased by 40% in the quarter.

Finally, we were selected to advise the City of New York on its cloudburst program, which creates clustered stormwater management projects in flood-prone and underserved communities across the city. This win positions us to deliver similar services in other metros globally, which plays to our strength.

In Australia, the government is investing at record levels in transportation infrastructure. We won the design contract for a substantial highway tunneling project in the first quarter, building on a series of large transportation wins over the past year. The ingenuity of our global tunneling expertise was critical in developing a technical solution for the client that reduced the environment and biodiversity impacts of this project. This was a key differentiator in our successful bid.

Finally, in the U.K., where the government has reaffirmed its commitment to expand its rail network and reconnect communities as part of its leveling up strategy, we are winning marquee projects that support this vision.

To fully capitalize on the accelerating set of opportunities ahead, we are continuing to make investments in our teams. This includes our increased investment in U.S. health care benefits, which we rolled out earlier this year; and ongoing investments in technical academies to bring professionals together and foster collaboration.

I am pleased to report that we are experiencing a strong return on these investments. Our workforce is growing, employee engagement is high and employee retention across the globe is ahead of our internal targets. The return on these investments is essential to retaining and attracting the best professionals, which is key to expanding our competitive advantage.

Across our business, our technical excellence, empowered by a culture of collaboration and focus on pursuing the best growth opportunities, have contributed to substantial momentum in our business and energize us as we pursue a record pipeline of opportunities today.

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

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**Gaurav Kapoor** - *AECOM - CFO*

Thanks, Lara. Please turn to the next slide. The strength of our financial results is a testament to our focused allocation of time and capital to the highest-returning opportunities, the strength of our teams, the power of harnessing that strength through collaboration, and our disciplined capital allocation policy that is driven by one key element: Return on investment.

Importantly, we exited the first quarter with even more momentum than we entered. NSR and backlog growth accelerated. Our win rate, especially on transformational pursuits, is at historic levels. And funding behind the 3 secular megatrends driving our business is firmly in place. Just as importantly, we are delivering profitable growth. Our segment adjusted operating income margin increased by nearly 40 basis points, which is consistent with the expectations in our fiscal 2023 guidance for a 14.6% margin.

Our performance reflects the competitive advantage we are creating by investing to expand our addressable market, collaborating across business lines and geographies and narrowing the focus of our time and capital on the highest-value opportunities.

Please turn to the next slide. NSR in the Americas design business increased by 6% and marked an acceleration from the prior quarter. The adjusted operating margin expanded by 50 basis points to a new first quarter high. Visibility continues to increase, with backlog up 7%, driven by a 1.2 book-to-burn ratio. In addition, our contracted backlog is at all-time high and bid and proposal activity increased by double digits.

These trends are a direct result of our accelerated business development activity we spoke about on our fourth quarter conference call. The growth and profitability profile we are delivering is enabling us to invest to capitalize on the growth opportunities ahead to create the best long-term earnings power while also continuing to deliver on our margin expansion targets.

Please turn to the next slide. Turning to the International segment. NSR growth increased by 12%, led by the U.K., Australia and the Middle East, where we have built an incredibly strong backlog position over the past 2 years. Margins also expanded, which reflects our narrowed focus on key markets and vectors that drive the most value to the organization. Backlog growth accelerated to double digits with a 1.5x book-to-burn ratio. We are now positioned on several multiyear projects with billions of dollars of committed funding, which creates an enhanced level of visibility.

Please turn to the next slide. We had a strong start to the year on cash flow with $84 million of free cash flow in the quarter, which continues to reflect better phasing. It bears repeating: Our cash flow remains consistently strong because of the rigor we put into converting earnings to cash; and the inherent attributes of our professional services business, which includes high-quality clients with strong balance sheet; and the higher-margin and lower-risk nature of our work. As a result, we are able to invest in our organic growth opportunities and have substantial available cash to execute our other capital allocation priorities.

After investing in organic growth opportunities, share repurchases remain the highest and best use of our cash flow. Our quarterly dividend is a key element of our long-term commitment to return capital to our shareholders. During the quarter, we returned approximately $70 million in total, and we have returned approximately $1.6 billion to the shareholders over the past 2.5 years.

Our balance sheet remains in great shape with no bond maturities until 2027 and 80% of our debt is fixed or capped at highly attractive interest rates for several years to come.

Please turn to the next slide. Turning to the financial outlook. We are affirming our guidance for all metrics built on the strong foundation we set in the first quarter and the strength of our strategy that has created strong visibility for the remainder of the year.

We continue to expect 10% adjusted EBITDA and EPS growth at the midpoint of the ranges on a constant currency basis, with organic NSR growth accelerating to 8% for the year compared to 5% last year. We also continue to expect segment adjusted operating margin to increase by 40 basis points to 14.6%, which would mark a new annual high and continue to lead our industry.

Our ability to expand margins while investing in our teams and delivering accelerating top line growth is a testament to the strength of our platform.

With that, operator, we are ready for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) The first question today comes from Michael Feniger with Bank of America.

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**Michael J. Feniger** - *BofA Securities, Research Division - Director*

Troy, there's some concerns in the market with these headlines in D.C. I think a lot of the headlines are more on the defense budget. But can you just help us understand, when we look at your exposure to public funding, how locked in some of that funding is? Are you hearing any issues on the ground about that pipeline? It seems like the building could slow at all? Just curious if you could kind of comment on some of the headlines we're seeing. And if we flesh that out, what the actual risk to your growth outlook there?

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

Okay. Yes, Michael, thanks for the question. So I'm going to -- that's a broad question. I'm going to take it in a few parts. First of all, in terms of the federal government, there certainly is an ongoing debate about spending and debt ceiling.

And it's our perspective, first of all, that we think that our government will ultimately act rationally. If we go back and look at history, it always does seem to turn out that way. At the very least, there have been some periods of time where the government has been impacted for a few days.

For us, we only have low single-digit exposure to the federal government, and that really has no material impact on our business in the short term. And again, most importantly, those times of shutdowns are really irrelevant for the long-term performance of our business and the long-term investment cycle in infrastructure.

Again, I think the second part to that question is, when we look at the -- again, in the United States, the funding that has come into infrastructure has been building for a period of time, and it certainly has been bipartisan. And those funds, for the most part, have been appropriated. So when we look forward, we really don't see there being a significant risk to the money that's been set aside by the IIJA or the other acts. And so in the long term, we see that as not having an impact on the opportunity for our business in the U.S.

And then going a little bit even deeper than that. When we look at our state and local governments, state and local governments have very significant funding, and we see the rainy day funds in state and local governments being at the highest level since, I think, going back to the 1980s. And so again, I think there's just really strong underpinning for the long-term investment that's been set aside for infrastructure, and there certainly is demand for it.

And the last one I'll make just about our overall business. Again, we're focusing on the U.S., but the trends that we're seeing are across our entire business. So they're global in nature. And we certainly see -- again, while there are always going to be blips, in terms of the long-term opportunity, we really don't see that being any significant risk to the long-term value of the business.

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**Michael J. Feniger** - *BofA Securities, Research Division - Director*

And Troy, over the last 12 months, many of -- some of your public peers have acquired other businesses. You stayed the course and are talking about some increasing win share. So how do you view your organic approach versus the M&A approach as we think about capturing some of these bigger projects, these growing bigger projects, more scale, as the funding levels start to really pick up and ramp up into 2024?

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

Yes. No, again, so Michael, our focus and our strategy has been built on taking advantage of the long-term opportunities. And so again, we built the strategy around that, and we're executing against it. And then in terms of allocating capital, we had discipline around our return profile. And we look forward and said, "The highest-returning opportunity is to invest in organic growth." We still believe that, and it is certainly paying off for us. And I'll expand upon it in a second, but it is paying off for us.

And then we look at just the next-best opportunity, it is certainly returning that capital to shareholders. Maybe it changes over time, but as of today and as we look forward, investing in organic growth and returning it to our shareholders is what we're focused on.

And when you contrast that to doing M&A, we just had a difficult time being comfortable, that doing transactions at 15x earnings in businesses that really have organic growth opportunities that are in the mid-single digits, or certainly, they can reach double digits at certain points in time, it is hard for that return on the capital being deployed at a 15x transaction to make sense.

And so again, we're just -- we are governed by the discipline to making sure we're providing the best return on capital. And so our strategy is built around that, and we don't see that -- we just certainly don't see that changing.

And we look at the opportunities in the market that were bust, and it's paying off. And we made reference to the fact that the large wins that we're seeing in our portfolio of business has increased significantly. So now almost 30% of our wins are over $25 million. And if we go back a number of years, that number was approximately 12%, 13%, 14%. And that bodes really well.

It bodes really great for us because those are long-life projects that give a great visibility into the future. The other is they expand the relationship that you have with your customers. And using those long projects, actually have the ability to expand. And statistically speaking, we see them expand fairly significantly. So by winning those long-term programs, you're not just winning what's in backlog, you're winning something over the long term that's a much higher number.

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**Operator**

Our next question comes from Andy Wittmann with Baird.

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

Great. I guess you guys are guiding NSR growth of organic 8% for this year. In the quarter, the first quarter, you posted that. And you've got the benefit of some of the stimulus things that you referred to, and previously even said that you expected the year to accelerate as the year goes on. So it seems to me that the 8% could be conservative. And I was wondering if that is the case, or if there's an offset that's developed somewhere in your forecast or planning that we should know about.

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**Gaurav Kapoor** - *AECOM - CFO*

Andy, this is Gaurav. I'll take that question. There's no change in our outlook and the plan we had committed to in FY '23. Look, we're early in the year, and as you noted correctly, a little bit ahead of our expectations for Q1. And underlying bookings growth was very strong across our design business. But similar to what prior years have taught us is to be prudently conservative due to ever-changing macroeconomic conditions, but the management team will always be focused on delivering on its commitments.

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

Got it. And maybe, Gaur -- maybe you reiterated the 2024 longer term, which is not that longer term anymore, guidance here today. In that, you've said that 15% margin would be kind of the target. And so I guess when I look at like 15% margins and the $4.75 with, frankly, the newer interest expense assumptions, it does imply a fairly material acceleration in organic growth rates to get to $4.75. I guess my question is, what's the most likely way that you get there? Is it by exceeding or well exceeding the 15% margin target? Or are you increasingly confident in the organic growth rate in the medium term?

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**Gaurav Kapoor** - *AECOM - CFO*

Yes. Good question again. Thanks for that, Andy. So you're right. There's no change in what we have committed to, including when we spoke just 2, 3 months back. In our FY '24 outlook, we feel confident. In fact, as we sit here today, we're more confident than we were 3 months ago.

And it's a dynamic model, right? The 3 key pillars we're focused on are growth, margin expansion and our capital allocation strategy. We have outperformed to date on every single one of those metrics. Our growth is ahead of expectations. Our margin expansion has been faster, and we expect to deliver on that 15% with the focus being to maximize that delivery as we move forward over the next, call it, 21 months, 20 months, into 2024.

And these things are allowing us to overcome some things that are outside of our control, like FX or interest, as you said. But even those, this management team is focused on making sure we put the best foot forward on every single facet we can control. A great example of that is our balance sheet and how -- the strength of our balance sheet we've created over the last 2 years, where 80% of our debt is fixed at very favorable, and I want to really emphasize very favorable, interest rates. So those headwinds are absolutely there. We overdeliver on the factors that we can control.

Now you layer on top of that our strong book-to-burn you've seen over the last 18 months continuing into Q1, it really supports not only our 2024 model, but puts forth strong results we expect to deliver for years to come.

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**Operator**

The next question comes from Sabahat Khan with RBC Capital Markets.

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

Great. Just a question on the earlier comments around still continuing to sort of ramp up hiring given the demand outlook. I guess, how are you balancing that against maybe just some of the uncertainty in the backdrop? Or do you have enough visibility to support some of this hiring? And I know some of your peers kind of used contract engineers and things like that. Are you using some of those tools? Just trying to understand how you're balancing your hiring needs with sort of the evolving backdrop.

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

Yes. Saba, thank you. It's Troy. We're kind of in an unusual predicament in that we're focused on trying to continue to create capacity to keep up with the rate at which we're winning work. And so we are focused on hiring broadly across the business.

And at the same time, we're focused on trying to increase the capacity of our entire professional team. And we're doing that by using digital tools to deploy on projects. And then we're also building and expanding our enterprise capability centers, which allow us to actually create efficiencies in the delivery of some of our work.

And so at this point in time, we don't -- again, our focus is really on trying to increase the capacity to keep up with the rate at which we're winning work.

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

Okay. Great. And then just, I guess, the comments around the increased win rates, particularly on larger projects. I was hoping maybe you could share some color around, are these changes that you made to win these projects? And are these structural things that you think could last sort of through the economic cycle, through the demand cycle? How do you sort of adjust your approach to bidding and things like that if the demand environment over the next 12 to 24 months maybe moderates? Just a little bit of color on maybe the changes you've made and how sustainable you think some of those impacts are.

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

Okay. Yes. So I guess I'm going to start by saying I think that they're highly sustainable. We've, again, focused on our strategy and trying to create competitive advantage. And I think we're seeing that pay off. And again, the payoff is, again, seeing backlog grow, but also seeing the composition of our backlog change in a meaningful way that creates much more long-term visibility and therefore opportunities for the people that are here.

The other thing we've done is we've exposed ourselves to more of the client spend on projects. In the past, if you're a design business, you're exposed to a certain component of the spend on a project. And so by building out an advisory and a program management business, and our program management business has now been growing at over 30% per year, it exposes us to much more of that client budget. And so again, that's sort of structural and things that we don't think will change.

And then in terms of creating that competitive advantage, it really is built around investing in our teams, making sure that we provide the best technical solutions to our clients. It is focused on bringing the best that we have around the globe to our clients and to our most important projects. And it's our investment in building changes in how we deliver.

And we refer to that as Digital AECOM, but it really is delivering some different consulting services, some different external tools that are used by our clients, but importantly, it's focused on how we actually deliver that work differently and create efficiencies.

And I'm going to give -- I'm going to turn this over to Lara just to talk a little bit about what we're seeing in terms of the winning around the world. It's a great example of that competitive advantage that we're building.

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**Lara Poloni** - *AECOM - President*

Yes. Saba, I mean, I think to answer your question, the Technical Academy is a great example of the difference and that point of differentiation. So -- and another key element of our investment in our people and the return on investment that we're seeing with that.

So we have invested in Technical Academies and we've got great uptake and engagement from all of our 50,000 employees in that, that is ongoing technical learning. And that's how we show up to interviews, and it's a key differentiator in terms of our positioning.

And anecdotally, we know that, on 9 out of the 10 recent key enterprise critical wins that we've had, AECOM earned top technical scores, which means that our technical prowess and capability is that key differentiator and a key reason why we're winning. So I think that's a very material point of differentiation for us at the moment, and it's really paying off in terms of that investment in technical talent.

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**Operator**

Our next question comes from Andy Kaplowitz with Citigroup.

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**Andrew Alec Kaplowitz** - *Citigroup Inc. Exchange Research - Research Analyst*

So [book-to-burn] (corrected by company after the call) accelerated in Q1, 1.3x. I think you mentioned the 30% increase in bids and proposals from last year. You obviously had a nice move in contracted backlog as well. So just 2 questions. Can you maintain this kind of [book-to-burn] (corrected by company after the call) based on your increased proposals for the next few quarters? And do you see Americas NSR growth based on current conditions continuing to rise from 6%? Or is it more that double-digit international growth that will carry you to the 8% growth for the year?

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

So Andy, I -- yes. The answer to your question is yes. I do see us being able to continue the high book to burn. Just again, given the fact that, as Lara pointed out in our prepared comments, we're actually winning $1 out of every $2 that we bid. So our capture rate is at 50%. And frankly, it's been that way now for 5 quarters. So you create a lot of confidence when you are winning the things that you define as really matter.

Secondly is with our pipeline growing so significantly, and the pipeline is in the U.S. and around the world, with that increased pipeline, yes. We do think, as we keep winning at this rate, we're going to keep building our backlog at the clip that we're seeing. So we do have confidence around that. And I'll take it to Gaur to answer your second question.

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**Gaurav Kapoor** - *AECOM - CFO*

Yes. Andy, as we look forward, what's really driving our confidence in the market, how our progress in the marketplace and how we're being successful is, if you really look at it, our strategy is simple yet focused. We're focused on the 9 key geographies that have significant funding macroeconomic tailwinds. Our people are some of the best professionals in the industry. We're investing significantly in ensuring that their brand, their technical brand, continues to outpace competition in the marketplace. While at the same time, looking at those key geographies and being very focused on return-based investments. As Troy alluded to earlier, program management, advisory, the digital tools.

So all this builds and bodes so well not only sustaining what we have done, but to continue to take our competitive differentiating platform we have created into the future and capitalize on the funding that's going to continue to be available for us.

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**Andrew Alec Kaplowitz** - *Citigroup Inc. Exchange Research - Research Analyst*

And then could you update us on your Construction Management business? Are you growing backlog in that business? And I know last quarter, you mentioned some nontraditional developers were pulling out of the market, but your business was more than supported by aviation, convention centers, other end markets. Can you give us an update of what you're seeing?

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

Yes, Andy. So we're seeing sort of the same thing happening. I mean, while there certainly is some softness in residential and commercial markets and that business is in the United States. We are still seeing a great pipeline of opportunities, in particular some large opportunities.

And it is a more diversified portfolio of opportunities. And it's focused around the same things. It's aviation, it is certainly sports and leisure, it's investment in convention centers and investments that cities are making across the country. So we do see -- continue to see a robust pipeline. But I think the really important part around that business is that we do have almost 4 years of work and some large projects that will create great long-term visibility for us to build upon.

And then again, I'll just say the last point about that business is, even with some softness in the market. And we do have -- it is lumpy in terms of how wins work. Our book-to-burn was almost 1x in this quarter. So I think our CM business is exposed to some markets that's slower. But it's because of the exposure we've created to other market segments, it's in great shape.

**Operator**

Our next question comes from Jamie Cook with Credit Suisse.

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

I guess just 2 questions. One, Troy, understanding that your win rates are up and you have projects with longer duration, which helps create visibility, can you talk to sort of the margin profile of the backlog today relative to where we were 12 months ago or 24 months ago as you're refocusing on higher profit-type opportunities?

And then my second question, just confidence level in getting the International margins to double digit? Like what are the 2 or 3 things that need to happen from here in order to execute against that?

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

Okay. Thanks, Jamie. I'll take the first part of that question. I'll let Gaur handle the second question.

And first of all, with respect to win rates, they've been -- again, I'd say we're really pleased with those kind of high win rates. And even in the larger projects, our win rates are even higher than that.

And in terms of the margin profile and what we're winning, the margin profile continues to get better, which again, is part that gives us confidence in expanding margins as we move forward. If you go back a few years, the margins that currently exist in our backlog by comparison are up more than a few percentage points.

So again, part of the progress we're making on improving margins, which gives us the opportunity to continue to invest through our margins, it's because of the profile of the work that were awaiting comes with significantly higher margins than it did years ago.

**Gaurav Kapoor** - *AECOM - CFO*

Yes. And Jamie, looking at the margins going to double digit. That is our focus. We're going to deliver double-digit margins in 2024, and there's going to be various pieces, some of which we've already spoken about during the call. They go from making the right investments in our people, providing the right platform for them to be successful in the marketplace, while at the same time, being very rigorous in how we review our portfolio to make sure it meets our risk and return profile.

Something you saw in the first quarter, as we spoke in Q4, we exited parts of our Southeast Asia business because we knew on a long-term basis, the risk in those businesses and the return available in the marketplace is not consistent with what we want to expect and deliver for sustained shareholder value creation.

Our expectations on the long term for the International business are not just to get to the double-digit margins. It is similar to what we have done in the U.S., in our Americas business, is to be leading the pack, on top of the pack, in terms of margin delivery.

And that's going to be significantly driven by the growth, not only what we're seeing in the marketplace, in our international marketplace. And maybe, Lara, you can speak to that factor a little bit more.

**Lara Poloni** - *AECOM - President*

Sure. Jamie, the 1.5x backlog that we have at the moment, we have a lot of momentum in the international part of the business, and we have definitely taken market share across all of the key geographies that comprise our International business. And we have confidence because infrastructure is one of those long-term secular trends. And we're winning more than we ever have before. And they're great examples of the long-term nature of some of those wins.

So whether it's the key wins we talked about in ANZ, the very transformational long-term wins in the Middle East, and particularly Saudi Arabia, where we have a leading position in the market. And then even in the U.K., where some might consider that a somewhat uncertain market, that we had a very simple plan a few years ago to ensure we had a strong position on all the key infrastructure frameworks, and we secured all those positions and we've had some great wins.

So again, long term, we have confidence around our margin improvement strategy and our -- the strength of our business to capitalize on those infrastructure trends, which are very long term.

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**Operator**

The next question comes from Michael Dudas with Vertical Research.

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

Great. Troy, you mentioned in your prepared remarks, you've been very successful helping your state and local clients and others, I guess, in the whole ecosystem of IIJA, etc, finding and capturing funds. Can you maybe talk a little bit about the base business of just the typical blocking and tackling in your water, municipality, transportation, highway work? And then that acceleration and timing of that acceleration for the federal funding and some of the projects that get left from there. Is that going to provide a big uplift as we move into '24 and '25?

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

Yes. Mike, the answer to that is yes. And I think the long-term uplift goes beyond that. So if you think about how the IIJA funds or other funds from the investment, the Federal investment bills, have been put in place, that it was slow to start. And so we're starting to see the impact in the marketplace today, but we think we'll see the more significant impact of the funding from IIJA when matched with state and local funding in '24. But we see that going well through '26 and '27.

In fact, what we're forecasting is the peak of that money being in the market in infrastructure projects is probably in '26 and '27, and again moves up into '28 and '29. But that's where we'd see that peak. So we see those opportunities extending for quite a long period of time.

And again, I made the comment about state and local governments, they again have -- they're well funded. They have good rainy day funds, and they set aside funding for these large investments in infrastructure. So again, I think this is an opportunity that will extend for a long period of time, and we're looking to take advantage of it.

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

And to follow up, maybe you could share us some thoughts on your exposure to new energy, renewable energy. Certainly those, the transmission projects you've been booking, are quite supportive. And it was a big wind, offshore wind, phase here in the U.S. and certainly in Europe.

So how is AECOM positioned there? Can that be an improving part of the pie over the next couple of years? And is there any margin? Or is that an area where some of the higher-margin or better-value work that you're talking about capturing, in that subset?

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

Yes, Mike. We do see that as, again, an expanded opportunity as funding is coming into I'm going to just call it the generation of new energy to support the economy, and then the infrastructure to support that generation of new energy.

We're well positioned across the entire business. So it's not our group of people that are actually focused on those elements of projects, like you made reference to some of our transmission wins, yes.

But the -- across our business, we participate in that. So in the beginning of the process, our environment teams would participate in that. And then all of the infrastructure that has to go in place around that are -- usually, I would see our entire business participate in that.

So again, those are -- as part of the long-term megatrends that we're looking to participate in. And I think that the investment in infrastructure and energy infrastructure isn't just something that's going to last 3 years. That investment will last for decades. So again, we're very well positioned for that, and very broadly.

**Operator**

Our next question comes from Adam Thalhimer with Thompson Davis.

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

Can you give a little more color on private sector demand? Troy, I think in response to Andy's question, you mentioned there was a little bit of weakness in resi and nonresi, particularly in the U.S. Just curious what your outlook is there.

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

So our -- again, our exposure to residential is very limited in the U.S. So it really has been through our Construction Management business. So that exposure for us is limited. And then I'll just remind our Construction Management represents 9% of our overall business.

When we look across the broader private portfolio of work, most of our exposure is that -- is in our environment, our water business, our transportation business, our ports, our aviation. And so our private customer base really, really touches on all those pieces of the economy that are being invested in. And so we're just -- we're really not exposed significantly to residential.

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

Perfect. And then when you're talking about adding capacity, I'm just curious if now might be a good time to ramp up M&A again.

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

Not for us. That's the way I can answer that. And I'm going to -- I'd say, look, I'm going to -- I'll give you a little bit more color on that, which is -- we're having great success in the business because we're building momentum, right? It's sort of like a flywheel effect. You invest in organic growth, you create competitive differentiation, and the business starts to expand. And then people will join you, clients pay more attention to what you're doing, you deliver a better solution and you keep creating this flywheel effect.

And really important around that is you create a consistent culture. So everybody is, again, working together collaboratively to produce much better results. And that's where our focus has been. And I think that's important, too, because it's a returns-driven strategy, but it's where our focus is, and we don't want to be distracted by having an inconsistent culture, being focused on having to integrate businesses and other people into that culture. We want to focus on just continuing to drive that flywheel effect.

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**Operator**

Our next question comes from Avi Jaroslawicz with UBS.

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**Avinatan Jaroslawicz** - *UBS Investment Bank, Research Division - Associate Analyst*

I'm on for Steve Fisher. Just in terms of the resources that you have today in place, is it enough to meet that 8% growth for the year? Or if it's not, how much would you need to add -- or is the -- kind of the question there with International being up double digits, and presumably an acceleration from 6% in Americas, just in terms of when work is actually ready to burn.

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**Gaurav Kapoor** - *AECOM - CFO*

Avi, thanks for that question. This is Gaur. So we did deliver 8% in the quarter with the labor base we have. And a good question you asked is, as we look forward?

What we're focused on is not only providing, again, the right platform for our people to be successful but making sure the investments we're making are very focused in delivering our 2024 and long-term ambitions we have. We continue to expand on this competitive edge, this differentiation we talk about. A great example of that is digital, automation.

We have been making investments in the business more than ever over the last 3 years to capture -- to not only capture in the marketplace, but to outdeliver our competition. And part of that strategy is also what we call our Enterprise Capability center, right? Where only very few firms have the opportunity to truly use scale for a benefit. And that's what we're doing, is making sure we're able to capture in the marketplace and deliver it as effectively and efficiently we can across the globe because we do have the #1 or 2 position in practically every single geography that we operate, in the business lines that we operate.

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**Avinatan Jaroslawicz** - *UBS Investment Bank, Research Division - Associate Analyst*

Got it. That's very clear. And then just in terms of the market share that you're capturing. So are there any areas where you're notably outperforming? Or are you gaining share in pretty much every sector?

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

I would characterize it's broad-based across our sector. But really, where we're seeing that is in the, I'll call it, the larger projects. And so we're seeing that to be very broad-based across the business, whether it's by geography or whether it's by business line. But that's where we're seeing this -- that's where we're seeing ourselves gaining that market share.

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**Operator**

Our next question comes from Alex Dwyer with KeyBanc Capital Markets.

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**Alexander David Dwyer** - *KeyBanc Capital Markets Inc., Research Division - Associate*

Alex on for Sean. I just have one question. So I just wanted to get your -- I just wanted to hit on the IIJA in the past -- your updated thoughts on where we will see it flow through the model first. Like will it be your water and environment business? Will it be transportation? And is there a major difference in margin profile between the work you guys do in these 2 end markets? Just wanted to get your thoughts there.

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

So yes, I wouldn't see there being any difference in terms of how we see it roll out, that the IIJA funds, when matched with state and local funds, are coming broadly across our entire portfolio that's covered by all of our business lines. So I don't see a difference.

And in terms of a margin profile difference generally don't see that across our business lines. Obviously, you see it project to project, but not across the business lines. And as I said earlier, what we have been seeing is the margins within the profile of our backlog continue to improve.

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**Operator**

Those are all of our questions, so I will now hand the call back to CEO, Troy Rudd, for closing remarks.

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

Thank you, operator. And again, I want to thank everyone for joining us on the call today. I appreciate the questions from our analysts. And I want to, most importantly, thank our teams for their great contributions to the first quarter and the work that they've done just to create great momentum across our entire business and create opportunities for our professionals and the opportunities to continue to do great work for our clients.

As we look around the world, we certainly see a lot of conditions in many markets that are volatile. But we're lucky we're in an industry that's benefiting from very favorable long-term funding trends. And I'm proud to say, with the work of all the people here, we've really done a -- we really create a great opportunity to position ourselves to take advantage of or capitalize in those opportunities for the long term. So again, a thank you to all the professionals here at AECOM.

And we'll talk to you next quarter. Thank you.

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**Operator**

Thank you, everyone, for joining us today. This concludes our call, and you may now disconnect your lines.

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