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PRESENTATION

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

Again, welcome. Andy Kaplowitz. We're really excited to have AECOM with us today. We have Troy Rudd, who is the CEO; and Will Gabrielski, VP of IR. So very, very excited to have you guys.

I'm going to turn it over to Troy, I think you have some prepared remarks, and then we'll get into Q&A.

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

Great. Thanks very much. And I am really happy to be here. When I got off the plane, I was really happy to be here. I only wished that I was here on vacation and to spend time with you all.

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

Me too truly.

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

So I would -- I'd like to just take a few minutes and for the folks that may not be familiar with AECOM, just spend a few minutes giving some background on us. And talk a little bit about the success we're having and why that is. So first of all, we're a consulting company. We consider ourselves to be the premier infrastructure consulting company globally. We have about 50,000 engineers, designers, architects, project managers, scientists, very wide range of people and a very large group of program managers.

So people that don't just deliver a project, but actually deliver large programs around the world. And I think what makes us very different is that in the world of infrastructure that's being built and developed today, we have unrivaled global technical abilities. So there are a lot of engineers and designers and people that can do work on say, local projects, but on these large mega transformational type projects, I don't think there's anyone in the world that has the skills and the experiences that our people do. And so that sets us apart. And when we bid work, 9 out of every 10 times, that's usually the rule of thumb, what wins that work is your technical ability.

And then the other thing that we've been doing over the last few years is actually focused on building what we think is long-term competitive advantage. And it's really 4 different things: First is, clearly, it's our people. We've been investing heavily in our professions. Second thing is bringing together our groups from around the world to collaborate on programs. This may sound odd, but for the most part in the world of engineering and design, you have people that compete and work on projects locally. And we've got people all over the world that have these vast experiences. And so, we've created an operating structure.

More importantly, we've created a culture where people actually come together and put the right team around what we define, this is our term of art, win what matters; the things that are really those large transformational programs where we really want to participate. And so that might sound odd and very simple, but it's just a unique way that our world has worked and bid on projects, and we've changed that and it's making a profound difference.

The next important thing is we actually built an advisory and a program management business. So we were -- in the past, we were a company that had a broad range of services all across the entire infrastructure spectrum. We narrowed that to design. But then with design, you're only exposing yourself to say, 5% to 10% of an actual project of program spend. We said, well, we should be there at the beginning of the project, and we should be there longer.

So we had program management as an activity. We've now invested heavily in building that out as a business, and it's been growing over the last 6 quarters at a rate of over 30%. So it's making a tremendous difference to what we're doing. And what that means is we get there sooner and we stay there longer. The other thing about program management, it takes advantage of all the skills that our organization has.

But when you win these projects, on average, the scope of that work over the life of the project increases by 40%. So it's effectively like winning 40% of our -- it's like adding 40% of our backlog without actually having to do bid work. And when you're talking about large programs makes a meaningful difference. And then the last thing that we're doing is, we recognize that there's a shortage of people in our industry.

The talent that comes in our industry out of school every year represents about -- it grows at about 1% per year on a net basis, but we're growing at a much faster rate. So we can attract more than our fair share of that talent, but we have to recognize there have to be different ways of actually delivering the work, and that's how you add capacity, so it's not the limiting factor in your growth. And we've been doing that by actually investing in technology.

And I'll just simply say that 1 of the things we're doing is writing script to replace hours because we are an hours-based business. So all of those things for us have been paying off, and the way I view it's been paying off and say look at the way we're winning work. And so, we've been growing our backlog as at the same time, we've been growing our revenues and growing our bottom line. But the quality of what we're winning is different.

So if I looked at our wins 2 years ago, about 12% or 13% of our wins at the time would been projects over $25 million. Today, projects over $25 million represents 30% of our wins. So that's a massive transformation in terms of what we're delivering. And that means that it gives you much greater, certainty and visibility into the future. And certainly for your people, it allows you to continue to attract people that want to participate in these iconic programs, which is important.

And then the second thing it does is, it gives us a much better profile in terms of what we deliver. Our gross margins in that work improve, and our net margins in that work improve because of the size and the scope and the scale and duration of its projects. The other thing that's happened in our business is our win rate. So for the last 5 quarters of every $2 that we bid in terms of work bid, we're winning $1. So our win rate is 50% across our entire portfolio.

If you look at our industry and you look at the history of our company, we used to be happy with something that was in the mid-30s, but now we're winning consistently at a 50% rate. We call it our capture rate. And that's across our portfolio. In these bigger programs, the ones I said, projects that are over $25 million, we're actually winning them at a higher rate. And I'll just generalize that of every 3 of those big programs, on average, we're winning 2 of them.

So flip that around, and that means that if we're competing against others, we're winning 2 or 3x. All of our competitors are competing to win 1 time. So again, that's -- for us, that's the big payoff. The big payoff is that we're winning at a much higher rate, and it's creating much more long-term visibility and much more long-term visibility into continued improvement in the overall profit profile of the company.

And I'll just finish by saying there's 2 things that I'm very proud of that we do. First is, is that we are investing in our business. I talked about those things that focus on building competitive advantage. We're doing that, but we're investing while we continue to increase our margins. So we are investing through our margins, which, again, incredibly proud of because it creates great discipline to do that.

The second thing is we've increased the return on invested capital in our business. We've doubled it over the last 3 years. And that's our focus on having great discipline around capital. So whether it's the investments that we make in the business, organic investments, we set hurdle rates and we don't go below those hurdle rates. So we're prioritizing the investment organically. And then, secondly, as organic is our highest returning opportunity, no question.

And then we have other opportunities to deploy capital. And what we've decided, which is different than everyone else in our industry, is we've decided that during this period of time, we shouldn't be doing M&A. It just has been too expensive for us. It takes our focus away from what we think is important right now, which has created the industry's best platform and so, we're returning capital to our shareholders. And we think that, again, has been a very good return on that capital deployment over the last 3 years.

QUESTIONS AND ANSWERS

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

All sounds good, Troy. So you kind of answered my first question, but I'll ask it to you like this, like -- so you and Lara as the President, took over a little less than 3 years ago. What would you say is sort of your -- the accomplishment you're most proud of or 1 or 2 accomplishments you're most proud of? And then maybe alternatively, what still needs to be done, 1 or 2 things that still need to be done?

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

The thing I'm most proud of is that we changed everything about the company on day 1. We changed the focus of the company. We changed the strategy of the company. And we -- again, we did that because we saw long-term opportunity, spend long-term mega trends in spending infrastructure she said well, to take advantage that we've got to change the strategy of the company. Then we changed the leadership team.

Then we changed the operating structure, so it actually would be able to allow us to execute on what we said we were going to do. And then most importantly, we worked very hard, and we're always doing this is to change the culture of the company. Because the only way you can execute the strategies if you can get all 50,000 people working alongside you in that same direction and it requires you to have a culture that supports the execution of that strategy.

So we did all those things. What we still is lagging or we still have left to do, we've been investing heavily in changing the way we deliver our work. And again, I just -- I refer to that as just using different types of technology and different ways of delivery. So again, taking hours and replacing them with code or script. And then we -- the talk of the day for the last 6 months has been the use of AI. We've been using that in our business in some of the tools that we create. And so, we'll continue to do that. But that's -- I view that as sort of a 5-year journey. You're actually creating a very different platform for how work gets delivered. And that's where we have a lot of work to do. That was always defined as a 5-year journey.

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

Got it and very helpful. So you mentioned, I think when you had your earnings call, you mentioned 3 drivers of growth. I mean you talked about 1.3x, book-to-burn for Q1, growing global infrastructure, investments in sustainability and resilience and investing -- changing global supply chains?

So when you look at your sort of 9% net service revenue in constant currency, booking revenue and bookings growth in Q1, how much of that growth is driven by sort of traditional global infrastructure, maybe call it fiscal stimulus versus these other growth drivers?

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

Well, it's difficult to differentiate whether there's 1 single within those drivers. I think they're all driving our growth. What I described this as is the growth is global. So it's not that we're experiencing it here in the United States, because there is funding for certain types of change, whether it's change in supply chains or whether it's investing in transforming the energy that we use and provide or it's the infrastructure, it's all around that.

That certainly is happening here, but it has not been happening at the pace that we had expected. So the money that's been made available federally and then is matched with state and local funding is not coming as quickly as we thought it was. So that's not at the moment. That's not a significant driver of what we're experiencing in terms of revenue growth and backlog, where we are seeing that, we look at our pipeline.

So the things that we work with our client to see that's coming forward and our pipeline of opportunities out of the CHIPs Act and the infrastructure bill, that's gone up a quarter ago, it's kind of grown by 20%. This last quarter, it's expanded by about 30%. So we don't see the impact yet. We see the impact. It's -- we're sort of on the initial stages of that. And I think that the peak of spending out of the infrastructure bill will be sometime in '27 or '28.

But nevertheless, we're experiencing growth around the world because these long-term trends, funding is becoming available to support these trends around the world. And so, we actually saw growth in our international business at 12%. And that's because the money is being deployed around the world to these megatrends, and it's actually coming to market faster outside the U.S. than it is inside the U.S. But again, for us, that's a great thing -- it's not a unique trend isolated at the United States. It's across our entire global footprint.

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

It's very interesting Troy like so - is it possible to tell us whether your private sector sales are actually growing faster than your public sector sales now?

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

They're about the same, okay. Obviously, within a business as large as ours, there's always some that's slower and some of it's faster. So as I said, private, there are some elements if they're a little bit slower. We have a buildings and places business, and we have a construction management business that's focused in the United States. And we are seeing it being a little bit slower.

But within that, we're actually seeing sort of the slowness in some of those what's being made up. So for example, within those businesses, we have a lot of aviation work. And well during the pandemic, nobody was interested in investing in aviation, all of a sudden, there's a ton of money that's been available and funding that's coming into infrastructure. So where we have some slowness it's being replaced by other parts of our work.

So that -- if you look at the investments being made in cities around events, infrastructure for events like convention centers and then investments in aviation, it's being replaced. So that's maybe public sector work, but there's sort of within the public sector, there's stuff that we do that's growing at a faster rate.

So overall, our job is just to sort of meet that demand and morph to that demand, and that's what we're doing. So we see -- we don't see a big slowdown in private investment, even though we see some spots we see it being made up in others.

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

So I want to ask you about construction management I'll do that a little later, but let me just ask you, maybe a follow-up to Americas design, right? Because like you had an Analyst Day, you had talked about 6% NSR was sort of embedded in your $4.75 over the long-term. But that was really before IIJA was passed, right? So now as IIJA has been passed and IRA has been passed and CHIPs Act has been passed. What do you think that ultimately means for your Americas design business?

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

So we said a few years ago, an EPS target and within that, an implicitly and NSR or a revenue growth target. And that revenue growth target was 6%. We've since surpassed that in the last few quarters, it's been 8% or 9%. And so, we set a target for this year being 8%. So we're a little ahead of where we thought we would be in terms of that growth. I don't see that changing. And I don't see that changing in the future. There is so much abundant opportunity.

And if I look at the backlog and the duration of the things that we're winning these large multiyear programs, I don't see that slowing. Now what I'm not going to say is, I'm not going to say, oh, we're going to immediately jump to double-digit growth. The reason is that there's a limiting factor and that limiting factor is the capacity of our industry to provide the people to do that work. It still exists.

And so, while we can disproportionately attract people in our industry, because who we are and the projects that we do and the opportunities that we involve and how we invest -- heavily invest in our employees, we can do that so we can grow at a faster rate, but then this -- why it becomes so important to change, how we deliver our work. I mean the world makes leaps and bounds based on productivity improvement.

All I'm saying we're doing is we're investing in different forms of technology so that we can improve the productivity, and we can make those leaps and bounds. And so, if we can continue to advance our agenda around transforming how we work or the digital tools that we provide to our clients to work, then we have an opportunity to do better than that. But until we get to that point where I say, we're definitively there and have the confidence to do it.

I wouldn't -- I wouldn't say we should set our ambitions any greater than they are today. But 1 thing I will say about that is when you get to that destination, you've created a moat around your business, right? We have a moat today because there are a lot of people that want to enter what we're doing, but or technical experience. They just don't have it. So we sort of built a moat around our business. There's a huge barrier to entry.

There's, only a few people in the world that can do what we do. Lots of people want to come into it, when you get -- again, we see sort of encroaching from large consulting firms, even from the big 4 firms. They're talking about hiring people and building this ability to do what we do. They can't come close. So we've got a moat around the business. When we then get to -- where we can deliver something that is faster of better quality and it's cheaper.

We've created a moat around our business. So even the people we compete with, they can't catch us. Now because we've had the scale and the time to invest in it, it creates a really powerful moat around our business. So that's where we want to get to is a place where we build a moat around the business. And then it's not necessarily about growth it's about growth and choosing the work they want to be in because it's got a very different margin profile than everyone else in our industry has.

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

Yes, that's helpful. And then -- so you seem confident in high single-digit growth at least in the near and medium term. I already asked you -- we talked a little bit about construction management. 1 of the questions I get is, will AECOM have any cyclicality to it over the next couple of years. You see the ABI coming down a little bit, things like that. And so how do you think about now the cyclicality of the business?

And maybe just a related question is, you've been asked this 12 times, but I'll ask it to you again. There is a lot of noise in D.C. You know that. What can it do to slowdown, if at all, your sort of core Americas design business?

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

Okay. Well, I don't think we're a cyclical business. I think we have within our business, right, components where you're exposed to the cyclical nature of the economy or industry. But overall, I don't view us as having a cyclical business. And I'll go back and say if we went back to 2008 and '09, our business actually grew from 2009 to 2012 for the period right after the last recession, which sort of says.

We don't -- we have, if you want to claim be countless or countercyclical, but I don't view it that way. I just think we have a business that constantly has opportunity to grow because the world builds buffers in. So when there is a recession, then money usually comes into infrastructure. I think what's happened now is if there is a recession or there is a down cycle, the money has already been committed to infrastructure.

So it's someone like the government doesn't have to react to put money into infrastructure to counteract the cycle the way that they normally do. And then within our industry, even though as I said, we had public sector client or private sector clients, their exposure is to water, environment and transportation work. And so that work continues to go on. And even some of our buildings and places work, which is typically where there would be some cycles.

Those investments will be made in other things that are sort of in the private industry, but are things like aviation and investing in cities that makes it countercyclical for us. So I don't view us as actually having a cyclical business. I think our job is to react to the opportunities. And then in terms of what's going on in Washington with respect to funding, the nature of the funding that has been put in place is longer-term funding. So it's stable.

And there's the support for the CHIPs Act and there's -- again, there's -- even though there's a discussion, there's bipartisan support for the money that's being put in infrastructure. And more importantly, a lot of that money that goes in infrastructure is coming and has already been raised at the state and the local level. So that's sort of funding certain. Every year, there's the annual appropriations process.

But we've been through an appropriation cycle, where now there's been enough money appropriated and starting to invest in these infrastructure expenditures, but it's a place where you can't stop it. There might be elements, right elements or 2 over the government would have an impact. But because it's already started, and it's already been appropriated, it's already being funded. It's already been granted. It's enough through the process that you can't slowdown the momentum of it.

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

Got it. So let me ask you 1 more question. I'll open it up to the audience, and then we can keep going. So you've gotten on this question also about the $4.75-plus next year, many, many times. But I guess what strikes me right, is it's still 30% EPS growth over 2030, that's a lot right?

So maybe talk about your confidence level in getting there, like we've just talked about IIJA and sort of it, ramping up. How much is under your control to like could you pivot and have higher margins or something like that if you needed to? Like how do you think about that?

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

Sure, so first of all, I am highly confident about the things that we can control. The things that we can control are growth in the business. We can control the margins in the business. We can control how we deploy capital. And so, when I look back and we set out the plan to achieve the earnings targets at the end of next year. We're ahead of where we thought we'd be in terms of growth or ahead of where we thought we'd be in terms of margins.

And at the same time, during this process, we actually set higher margin expectations, where we said we would achieve 15%. What we've said that we don't have a concern about achieving 15%. And last year, we set an aspirational target of 17%. So can we keep going? Yes, we can keep going. And how we deploy capital, we've been returning it to shareholders which, means we've been buying our stock.

Well, when we built the plan 3 years ago, we didn't think our stock price would be where it is today. We're a little more conservative. So we haven't been buying stock as fast as we thought we would. But nevertheless, we've been advancing on that. But what I don't know is I don't know what's going to happen between now and 20 months from now. The things that we can't control are obviously foreign currency, which has become a headwind, I think, for U.S. multinationals.

And it was a headwind for us, and it seems to be changing. I don't know where that's going to go. I can't control it. So we don't worry about it. And then interest rates, we had made a decision about 2 years ago that we would create a more certain interest rate structure to our capital stack. And so, we actually have 80% of our borrowing that is now fixed and fixed at very favorable rates. So we're not tremendously exposed, to changes in interest rates.

We've obviously had some exposure, but we put some hedges in place that actually kicked in during this quarter, and we'll go for a number of years. So I feel to get better about that particular headwind. So overall, I feel confident about achieving the outcome, but I'm very confident in controlling what we can control. And in terms of the exposure to currency, we'll just -- we've been able to overcome it so far. We'll just keep working at it.

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

Yes got it. Any questions from the audience? Anybody have a question and do you want to ask, can we bring the mic over to him.

Unidentified Analyst

Okay. In terms you talked about gaining share from others. Could you just elaborate more on that? Is this from smaller competitors? Are these the public guys? Is it everyone?

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

So I think it's -- I would again, my hypothesis is from everyone, but that's where I'm focused. I'm focused on the large, meaningful programs. So when you look at our business, the programs that really create, I would call it momentum in the business. So when you're in a consulting business, you create momentum when you win a, larger, more complex projects, right? You get the clients' attention through their life cycle.

They become more dependent upon you. The people in your industry look around you, they say, well, what's going on over there? I need to talk -- because people are -- they know each other in the industry. What's going on? I should be thinking about maybe coming over to AECOM. And you start to create this momentum in a consulting business. And so, our focus has been on creating momentum, right, so that people are interested in joining us.

People want to join us, you build that experience in the bench. You then have the ability to put those in front of your clients and win the larger programs. So in those places where we define what matters, right, we keep very targeted lists of these pursuits, and that's where we spend our time on our dollars. And that's why our capture rate has gone up so much. And that's why I said, even in those larger programs where the capture rate is even higher than that.

Because as you win those, you keep building momentum so, I can say that we measure that, and I know that we're capturing market share in the momentum winning projects. My underlying assumption is when you do that, it has a conceding effect across the business because you're focused on building momentum sort of program-by-program, office-by-office, business line-by-business line.

Unidentified Analyst

Okay. And then just a follow-up, you talked about technology and how that helps you. But in general, your revenue, it's billable hours, right? It's just you have x amount of seats in people?

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

Yes, that's a great question.

Unidentified Analyst

Or I'm misinterpreting?

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

No, no, no it's a great question. That is typically the way that a consulting business works, right? It's hours, times rate equals revenue. But when you get to a point where you might be hours constrained and you still have to deliver the work, you've got to find ways to accelerate the delivery. What that means is we don't have to spend the hours. And within our portfolio, about 30% -- it depends it's 30% to 40% of our work, you think is being sort of cost-plus or hours-based work. The rest of it is really it's sort of fixed price type work.

And so, if we bid that work and deliver that work, the same quantum of work, but with less hours, it means that we're more profitable. So we're making a move where I wouldn't necessarily -- again, as we move along, I wouldn't necessarily measure our success entirely growth based on revenue, because if I can deliver the same quantum of work for 10% less hours, you see my margin move. You won't see my revenue move.

And so, you have to sort of think about the 2 in combination. And that's why I said what we're really proud of is investing in the business through our margins, which means that we're investing more, for example, in our people. We're investing more in business development. We're investing more in actually making this investment in technology than we ever have, but because we're able to improve our margins at a faster rate than our revenue grows, that we're able to invest in this is still -- can still perform.

And so, it is a great question because we're moving away from the really traditional way of viewing a consulting business hours times rate. Don't get me wrong. That's the biggest part of our business today, no question about it. But that's how we're able to make this move where margins improve. We invest in the business, and we still grow. But if we were just -- pure hours times right business, our growth would be higher.

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

Any other audience questions? So maybe following up on that and just in terms of investments, right so, you've been investing in program in advisory for a while now. And I think you're something like 10% of your business approximately is program and advisory. Have you reached what you would call critical mass in that business? And ultimately, how do you think about the potential of that business in terms of percentage of revenue? Could it go a lot higher than it is now and what about sort of execution risk? Because the -- when I hear bigger jobs, sometimes I get nervous, but I think there's a different type of bigger job?

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

Yes, so I think you -- that's about right, maybe it represents about 10% of our business. Program management, I think, can grow, so it's a much greater proportion of our business. It's been growing at a rate of over 30% for the last 5 or 6 quarters and we started to invest in it heavily 2.5 -- about 2.5 years ago. Our backlog in that business is also growing at that same rate.

So what we said we were going to do over 3-year periods we're going to double that business. And it was about a $400 million business. And so, we're going to double it. You say, well great. Well, why wouldn't your whole portfolio grow at 30%? Well, because again, what we're doing is we're building that business, but we're also switching some of the capacity of what people do because those programs are larger, they create more certainty.

But they create a different entirely different relationship you have with your customer. So let me -- I guess, maybe just definitionally, let me just talk about what program management is. A great example of program management is the Los Angeles '28 Olympics. So -- that is a program, meaning that it started 10 years ago, and we were -- sorry, it's a 10-year process, not 10 years ago. It's a 10-year process.

We started, first of all, as being the group that actually was alongside making the pitch on behalf of the city of Los Angeles to win the Olympics. So that's the advisory piece of program management. You're there. You give the advice you shape this and help them win the project. Second thing is we started doing the master planning. So you do all of the work around the master planning to actually deliver the Olympic Games in '28 Los Angeles.

And the Olympic Games, the delivery of it is sort of like a -- it's sort of like - it's a traveling group of people. They start come 10 years and then it expands and we get within 2 years, the same people that do it every year show up and they start to get ready and deliver the Olympics, but they don't have the team to do it. So they rely on someone like us to be the program manager to deliver the actual Olympics. So it's not projects.

Within that, there are many, many projects whether design or built, but what we're delivering is we're delivering an outcome, a successful games, meaning that you have to have the venues, the athletes have to show up, the fans have to show up and be safe. And so that's what the difference between a project and program management is, we work with our customers to the point about being big, larger projects, you're there for a long period of time because you're doing all of the elements.

So we have all of the breadth and knowledge and experience to do all of those things that you have to do to deliver that game, so it takes advantage of the strength of our entire team and network. But ultimately, we're working with the client to win, plan and ultimately to deliver outcomes. And that's what program management is. And so, it's very different than what we've typically done in the past, which has done the design work and then some construction management work around the delivery of an individual project.

We still do that that's a big part of our portfolio, but that's where program management is. And so, it gives you a much bigger opportunity to have that broad relationship for a long period of time. And frankly, as I said, those programs, typically, when you win them, they typically grow on average 40% over their life. And that's because within that, you're doing all kinds of elements of work, whether it's the design work that come with programs or, it's managing some of the venues or the build-out of some of the venues. So it's a great opportunity.

So it's not that the projects necessarily came with it, they come with a different risk profile, maybe little difference because the date's certain -- we can't miss the date of the Olympics, they're going to happen that one we know. But it's just a different -- it doesn't really change the risk profile in fact, because you're more involved and you there for longer and you have the people that have those skills, I actually think the risk within the delivery of that business profile is actually lower than it is in a design business.

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

Got it very helpful. So let me ask you about your international business because you mentioned at the beginning of our conversation, it's been very strong growth. So maybe the duration and visibility to that growth, you're growing in the U.K., Middle East, Australia. Any sort of volatility or lumpiness in China you could address. But like how do you think about the ability of growth indoor in these international areas?

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

I have the same level of confidence that they have around both the growth profile of the Americas business. And I see Americas we have Canada included in that, just because there is so much appetite to invest in infrastructure. There is so much appetite in funding to invest in the energy transition that's going on in the world, which ultimately is part of the big infrastructure change.

There is just this money that's being put into a long-term energy transition within countries that will be invested in for 30 years. And so that's going to continue on, and that's going on all around the world. So that gives me the optimism is because of these long-term trends and the underinvestment infrastructure. So this is going to go on for a long period of time and I don't see any slow spots.

Like I look around the world, and I don't see any country saying, well, I'm just going to wait 10 years and get left behind. They're not doing that. Everyone is seeing -- they're all competitive. They're seeing the advances that everyone else is making and the investments that they're making in infrastructure. And they want to compete. And so, you think about it as a race, they're all in that race together. So that happens. Where we have seen a lumpiness is COVID.

The rest of the world has evolved, and we're just slowly seeing China get to a point where they're moving beyond COVID. I was in Singapore last week and they're moved along. They're a little bit slower than the rest of the world. But last week, they actually went to what they call condition green in Singapore. It's the first time that you didn't have to wear a mask on public transit.

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

Interesting.

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

So the rest of the world isn't quite where we are here in North America, but they're moving beyond it now. And so, while we have seen some -- again, we all say we've seen bumpiness -- our China business actually shrunk in the last 2 years, but it represents a really small portion about 2% of our overall revenue. So it doesn't really have an impact on our aggregate performance. But we're at a point now when I look around the world and Asia is sort of been the place, it's a little behind, they really are moving beyond that.

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

Got it. And then we talked about margins a little bit. Let me ask you specifically, I mean, just a few years ago, you were sitting in the high single-digits now for '23 your guidance is 14.6%. We know you've been doing a lot like you've got the workplace of the future, real estate, consolidation, all that kind of stuff. What are you doing now? Like could you update us on sort of what you're doing over the next year? Because obviously, you want to get to 15% next year, so you still have margin improvement dialed in for next year, too?

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

Yes, well let me just simply say -- getting to 15%, it's not a concern at this point. We've got sort of the path that we have built that just leads us beyond that. We started out looking at -- as I said, on day 1, we said we changed everything about the company. And so, we evaluated how we operated the business and see make those improvements in the business. It could be your real estate portfolio. It could be how you operate.

And you look at all those things to drive efficiency and that improves margins. We've moved way beyond that. I'm going to say we'll never lose sight of that because an organization, if it doesn't sort of stay the course and have a culture of driving efficiency, you can find yourself very quickly sort of becoming bloated. So we're going to make sure that we keep that the culture of continuous improvement. So we'll do that, but that's not, now what improves our margins.

Now what improves our margins is winning work that comes with it better gross margins. And then winning work that we can deliver differently that has better net margins and that we can win at a higher rate that has better net margins. So it's really about the choices we make in how we operate the business, the business that we're focused on investing in and then focus on how we deliver our business. And that's what's giving us the opportunity to continue to advance our margins.

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

I want to make sure I get it. There's 1 question I'm asking all companies?

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

Yes.

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

So I make sure get that question in. So what are the top 2 or 3 innovations and megatrends or structural changes that have affected or affecting your company over the next 5 years? And are there any emerging industry trends that have perhaps been overlooked in the current discourse?

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

I think there's 2 things. 1 is, I think we've built a company that's positioned to take advantage of the long-term trends in infrastructure. And I don't see that changing. So we've invested to sort of build an organization that's prepared to take advantage of that for the next decade or longer. So I think that is a -- again, I think that's a huge consistency. That's not going to change.

There's going to be an investment in infrastructure, energy transition, supply chain transition and even investments in sustainability and resilience of that infrastructure is different kinds. So that's going to happen and so that's 1 trend that we're taking advantage of. I think the second thing is, people are recognizing that there is technology that exists or you have to have a path to create the technology, that's going to drive massive productivity improvement or change.

Because our workforce isn't growing, generally at a fast enough rate to support what we need to do. And so, we have to do that. And again, I'll give you a really simple example is, we have work that we do for our customers, we look at water conveyance systems, right? You have to go and you have to send a camera down these systems and it could be sewers, it could be fresh water. But you do this on a regular basis, and you map out what's going on in the system.

So that you can figure out how you're going to spend your capital, either your maintenance and repairs or you're going to actually spend some real capital on changing systems. And so that used to be done by engineers sitting at a desk with the cameras guiding through the pipes and marking the anomalies. And then coming back and putting a report together over a month and sitting out with a customer going through that report, like that, was really expensive and time consuming.

So what we did is we realized that we had a whole library right, experience set of having done this. So what we did is we took an AI platform and we trained it, because we've done this over and over and over, and we trained it. So now what we provide to our customers is we provide a software tool. And we call it PipeInsights. But now the cameras are guided through the pipes and you collect all this information and the AI actually marks the anomalies in real time. And at the end of the journey, it can actually produce the report. So now what we do is we just have an engineer. So the AI will actually identify, there might be -- there might -- we say it's on average, about 10% of the anomalies that the AI doesn't identify. And so, then the engineers will take a look at it and they can quickly produce a report. So now we're able to do that work using the tool that we created.

Again, so we -- it took us a number of months to train the AI tool to be able to do this, but we had a lot of experience. And now we can deliver the same project in about 20% of the time, and it's much faster and the report can be delivered at the end of the project, not a month later. So those are the kinds of ways that technology is going to change what we do. And that's why I say, that's the real big leap in our industry whoever gets that right.

Will have a huge competitive advantage and it's hard to catch up. And the reason it's hard to catch up is because if you want to catch up, you have to go to customer-by-customer -- you have to build the tools, you have to go customer-by-customer, team-by-team, your own team and convince them to do something in a different way with new technology. And that takes years to do that across the portfolio. So if you get to part where I've got that done, you like -- I talked about building a moat on your business, now you've built a real moat around your business. So that's a really important trend.

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

Awesome, very much appreciate your time, Troy.

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

Andy, thank you.

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

Appreciate it, Troy.