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AECOM (ACM)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the AECOM Fourth Quarter 2022 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. Later, we will conduct a question-and-answer session. [Operator Instructions]

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

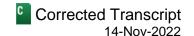
William J. Gabrielski

Senior Vice President-Finance/Investor Relations & Treasurer, AECOM

Thank you, operator. I would like to direct your attention to the Safe Harbor statement on page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to the 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.

For year-over-year constant currency growth for 2023 guidance, the foreign exchange rates are based on the underlying rates used when we set our 2024 target in late 2021. Return on invested capital is measured on the continuing operations of the business and exclude any retained assets or liabilities of previously disposed businesses. Today's remarks will focus on continuing operations and exclude impacts related to our exit from Russia.

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. Troy?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Thank you, Will. And thank you all for joining us today. Fiscal 2022 was a year of many accomplishments and successes. I want to begin by thanking our employees for their unwavering dedication to their clients and to our purpose of delivering a better world. Our teams truly differentiate us in the market and are key to our widening competitive advantage.

To fully capitalize on this advantage, we are continuing to invest in the professional development and personal well-being of our teams. Let me give you a few examples. First, we recently made a substantial investment in employee healthcare benefits in the United States. Beginning in 2023, employees' premiums are being reduced by as much as 80%, which is especially beneficial against the backdrop of continued rising healthcare costs and inflation. We expect our healthcare benefits to lead both our industry and Fortune 500 companies.

Second, we are investing to expand our technical practice networks, which bring together the best and brightest minds to share ideas and experiences. Today, tens of thousands of our professionals are connecting with colleagues around the world, which is furthering our commitment to enhanced collaboration.

Finally, we're doubling down on professional career development. We have multiple leadership programs underway to expand opportunities for our employees. This includes a partnership with The Wharton School of the University of Pennsylvania. Our people are benefiting individually from these programs and the opportunity to expand their global collaborative relationships. Please turn to the next slide.

Turning to our fiscal 2022 results, we extended our track record of delivering on all of our financial targets for the year. Our success in the market has transformed the trajectory and expanded the long-term earnings power of our business. Our fourth quarter results were highlighted by 9% organic NSR growth in the design business, which is the highest quarterly growth rate in more than a decade. This performance reflects our continued high win rate, a near-record design backlog, and healthy end market conditions. Notably, this performance does not include a material benefit from IIJA funding, which has materialized at a slower than anticipated pace.



Turning to profitability, the full-year segment adjusted operating margin increased by 40 basis points to a new high, exceeded guidance and included accelerated business development investments in the fourth quarter. We also achieved our earnings guidance while overcoming a significant currency headwind, particularly in the fourth quarter. If not for these impacts, we would have exceeded our ranges for both adjusted EPS and EBITDA.

Importantly, backlog in the design business which accounts for approximately 90% of the NSR and profitability increased by 8%, reflecting an all-time high win rate, while our pipeline of opportunities is also at a record level. We are winning what matters to transform the earnings power of our business. Please turn to the next slide.

Our successes are the direct result of the deliberate actions we have taken over the past two years to deliver on our Think and Act Globally strategy and capitalize on our strengths. These actions have included collaborating globally like never before to capture the full power of our industry-leading technical capabilities, expanding our addressable market through program management and advisory services to complement our technical expertise, investing in Digital AECOM to enhance our value proposition for clients, and finally, prioritizing our resources to the highest returning growth opportunities.

Today, these actions are bearing fruit in the form of our record win rate, accelerating growth, industry-leading margins, and increased return on capital. I should note that our momentum has continued in all of these fronts into fiscal 2023. We've had notable design wins in the first quarter of fiscal 2023 that further underpin the confidence we have in our growth outlook.

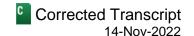
As we look ahead, three secular growth drivers are accelerating across our markets. The first secular growth driver is the global infrastructure investment renaissance, which is driving synchronized funding growth across a number of our largest markets. In the US, multiple bills have been signed into law to fund infrastructure investment, creating many years of funding visibility. This includes the IIJA where, as I noted, funding has not materialized as quickly as expected. However, this funding is committed, and we expect these short-term impacts to resolve and create strong multi-year tailwinds.

Internationally, the Australian and Canadian provincial governments are committed to their sizable infrastructure investments, and our backlog growth and win rates in these markets remain exceptionally strong. In fact, in both markets, we have secured large wins in the last few months that further solidify our confidence in growth for the next several years.

The second secular growth driver is demand for sustainable, resilient infrastructure and investments in energy transition. The need for this investment is especially apparent in the aftermath of the Hurricanes Ian and Fiona. In fact, we recently aided the rebuilding of the Sanibel Causeway that was severely damaged by Hurricane Ian. We're also recently selected by San Diego Gas & Electric for a program management contract to move a substantial share of its green infrastructure underground to protect the communities against wildfire, which is a growing demand driver for which we are well-positioned to deliver.

Finally, our clients are accelerating investments to adapt assets and supply chains to a post-COVID new normal. The US, for instance, is prioritizing the re-shoring of critical manufacturing capabilities, while Europe and many parts of the world are advancing energy transition priorities.

It bears repeating that we are ranked at or near the top of every high value market that is critical to delivering these secular growth drivers. We're number one in transportation design, facilities design, green design, environmental engineering and hold several leadership positions in the water sector.



In addition, we have built a world-class program management business, which is a distinguishing competitive advantage that we did not have at scale in prior cycles. This capability has resulted in a step change in how we engage with clients and the scope of the opportunities on each project and has resulted in some of our largest wins over the past two years. For example, we just announced our appointment as the program manager for California High-Speed Rail. Please turn to the next slide.

We've initiated fiscal 2023 guidance for adjusted EBITDA of between \$935 million and \$975 million and adjusted EPS guidance of between \$3.55 and \$3.75. This guidance is based on accelerating organic NSR growth of 8%, which is underpinned by our strong backlog position and a 20% increase in bids and proposals submitted in our design business.

This expectation is also balanced against near-term uncertainties in a few markets, most notably in the UK, where funding on major highway programs is uncertain due to leadership transition and the potential austerity measures.

In addition, we expect to deliver 40 basis points of adjusted operating margin expansion to 14.6%, a new high, with profitable growth enabling both margin expansion and a continued high level of investment in our teams and to capitalize on our record pipeline.

Finally, we expect another year of strong cash flow, and we are reiterating our returns-driven capital allocation policy, including our attempt to return substantially all available cash flow to shareholders through repurchases and dividends.

I should note the rising US dollar, which is not within our control, is having a translational impact on our international earnings. In fact, if not for impacts of foreign exchange, we would have expected to deliver adjusted EBITDA in excess of \$1 billion in 2023 at the midpoint. This would have been ahead of the expectation built into our long-term model that supports our 2024 targets. As a result of this underlying outperformance, we are affirming our 2024 adjusted EPS target of at least \$4.75. We're also increasing our 2024 return on invested capital target from 15% to 17% to reflect our strong performance to-date and continued discipline on capital allocation.

Taken together, the strength of our outlook speaks to the durability of our strategy and platform and the benefits of our focus on organic growth and high returns. I am proud of how well we are collaborating and going to market. Through our actions, we have created enduring competitive advantages with unrivaled technical expertise and a culture that is fully committed to our purpose of delivering a better world.

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

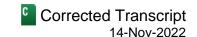
Lara Poloni

President, AECOM

Thanks, Troy. Please turn to the next slide.

Our accomplishments over the past year were transformational and represented the realization of our strategy. We are a purpose-driven company and we continue to be inspired by the positive impact our teams have for our clients and in our communities. Our competitive advantages and culture of global collaboration are visible in the many momentum-changing wins that are changing the trajectory of the business. I will take you through a few examples.

Beginning in the transportation market, we were recently selected for a nine-figure contract for California High-Speed Rail. This win reflects so much of what makes collaboration so powerful. To this pursuit, we called upon



our world-class rail, program management, digital and local market expertise to create an innovative approach. In the end, our offering was substantially ahead of very formidable competition.

Our transportation business not only leads in the US but globally as well. The ingenuity of our teams was on full display in a recent win in Australia, where we were selected for a substantial tunneling project that will transform transit options for the community. Key to our selection was the close relationships we've built with key partners and our approach to reducing technical risk and construction cost through our design.

We were also recently selected for the North East Link in Melbourne, Australia, won several notable projects in Canada, including the 16-kilometer Ontario Line South of Metrolinx and have key pursuits in the UK with decisions expected this year. It was a great year for our transportation business.

Turning to our industry-leading environment business. We had several marquee wins during the year. For instance, we were awarded the multi-year NAVFAC Atlantic contract by the US Navy, unseating a very formidable incumbent, and we also hold the contract for another key large region for this client. On a combined basis, we now have the greatest value exposure to this client's environmental programs.

In addition, we are gaining critical share with FEMA, as demonstrated by our selection for the Risk MAP program early this year. This program represents the key flood risk assessment and disaster response program with this client.

Our success also extends to the private sector, where we are advising on some of the largest and most complex environmental remediation projects in the world, including the Faro Mine Remediation program in Canada, which is the largest project of its kind in that country.

In water, we are increasingly responding to growing demand for clean and safe drinking water supply. During the year, we were selected for the Padre Dam East County Advance Purification program. This facility will recycle up to 95% of water throughput, which will set the bar for water reuse. This program is part of an expected nearly \$10 billion being allocated in California alone to address the growing need to ensure adequate water supply.

Similarly, in Canada, we were selected for the North Shore Wastewater Treatment plant, a LEED-certified facility that will serve a quarter of a million residents in the Vancouver area. These large, complex facilities are a great representation of how we are helping clients and communities address the biggest challenges of our time. These wins are changing our momentum, and our Digital AECOM investments are expanding our advantages further.

A great example is in the water market, where we recently unveiled our PipeInsights product, which uses proprietary algorithms to accelerate water system inspections and enhance defect detection. Through this technology, we can provide actionable insight to our clients in one hour versus the several weeks or months it takes our competitors. This is possible because of our deep technical understanding of our client's critical infrastructure, which sets us apart.

Across all of these successes, we are in great position to lead the development of transformational projects that will leave a lasting impact for future generations. With a strong foundation in place and further progress on our strategic priorities, we are confident that AECOM will continue to lead the industry with our expectation of delivering growth over the long term.

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





Gaurav Kapoor

Chief Financial Officer, AECOM

Thanks, Lara. Please turn to the next slide. Our focus on sustained value creation through highly profitable organic growth and disciplined capital allocation is resulting in consistently strong performance. In fiscal 2022, we encountered numerous unplanned market headwinds. Even so, the competitive advantage of our platform and dedication of our teams to delivering on our commitments produced another strong year of performance.

In the fourth quarter, we delivered our highest organic NSR growth in the design business in nearly a decade. Our margins for the year reached a new all-time high and exceeded our guidance, and strong cash flow supported our shareholder value-focused capital allocation policy. Importantly, we are positioned for continued growth with record full-year wins in the design business and a near-record backlog position. As Troy and Lara noted, our success in the market is transforming the trajectory and long-term earnings power of our business. Please turn to the next slide.

NSR in Americas design business increased by 5% in the fourth quarter, which was the highest growth rate this year and reflects the continued acceleration we saw throughout the year. Our wins and pipeline were strong. We had a 1.2 book-to-burn ratio in the design business in the fourth quarter, which had resulted in 9% total backlog growth in the design business to a record high and our contracted backlog also increased.

Our Americas business continues to lead the industry in margins and delivered in the fourth quarter consistent with our expectations. We strategically accelerated business development during the quarter to capitalize on unprecedented pipeline of opportunities, which contributed to double-digit growth in our bids submitted and proposals. These investments already started to pay dividends in the early wins in fiscal 2023, as noted by Troy and Lara earlier. Investing in the future while leading our industry in margins is a perfect example of the competitive advantage we have built within our platform. Please turn to the next slide.

NSR growth in the International segment accelerated to 13% in the fourth quarter and included growth in all of our largest geographies. Key to delivering this double-digit growth is our high win rate in our core markets. Backlog increased by 6% highlighted by strong growth in the UK, Australia and the Middle East. Contracted backlog also increased and remains near a record high, which is a great leading indicator of growth.

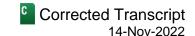
Margins expanded to 9% in the quarter, a new high for the segment and a 160 basis point increase from the prior year. We have made tremendous progress on our target of double-digit margins by executing our strategy and creating efficiencies within the organization. We have exited and will continue to exit lower returning markets, so we can prioritize our capital and time to our highest returning opportunities. Please turn to the next slide.

Turning to cash flow, liquidity and capital allocation, our returns-focused capital allocation policy is unchanged. As such, our first priority is investing in our teams, our digital capabilities and to capitalize on the strong organic growth opportunities ahead, which provide an incremental return on capital of approximately 50%. After these investments, which are made through our margins, we are repurchasing our stock and paying dividends with substantially all available cash flow.

During the year, we returned nearly \$500 million, including more than \$420 million of share repurchases. In total, we have bought back 26 million shares since September 2020 when we initiated our repurchases or 16% of our shares outstanding and have earned a high return.

We continue to believe investing in ourselves through organic growth or share repurchases provides for superior EPS growth and returns when compared to other options. This includes M&A given today's disparity between





value and price in the market. The result of our capital allocation policy is evident in our EPS growth, which has increased at a double-digit pace organically and our strong ROIC.

With respect to dividends, it remains our intent to grow our per share dividend by double-digit percentage annually for the foreseeable future. Our ability to deploy capital is supported by strong cash flow. For the year, our free cash flow of \$586 million exceeded the midpoint of our guidance and we had a better phasing of cash flow throughout the year, which is a benefit to our return on capital.

Given the volatility in many sectors of the economy and across the globe, it is worth repeating that our business has inherent attributes that lend to consistently strong cash flow through cycles. These include a highly variable cost model, strong backlog visibility, a high quality and diverse client base, and a highly agile culture focused on profitable growth and cash conversion.

In addition, our balance sheet is in a very strong position. 80% of our debt is fixed or capped over the next several years, and we have no bond maturities until 2027. We believe our balance sheet is a competitive advantage. Please turn to the next slide.

Turning to our financial outlook, we expect organic NSR growth to accelerate in fiscal 2023 to approximately 8%, reflecting momentum in our backlog and across our markets. We expect adjusted EBITDA and adjusted EPS to both increase by 10%, respectively, at the midpoint on a constant currency basis. The rapid rise of the US dollar will have a translational impact on our reported results. We expect NSR growth to be negatively impacted by approximately 400 basis points, including a more than 500 basis point impact in the first two quarters of the year. We expect to deliver 14.6% adjusted operating margin for the full year, which represents a 40 basis point increase from fiscal 2022. This would mark a new high and includes an approximately 10 to 20 basis point FX impact. Importantly, we are continuing to make growth investments to achieve our long-term targets.

We are also affirming our fiscal 2024 financial targets. As Troy noted, this includes outperformance on underlying NSR growth and profitability, which are within our control and includes headwinds from FX, which are outside of our control. We are increasing our return on capital target from 15% to 17%, which reflects strong profitability and the benefits of our return-focused capital allocation policy. Consistent with our approach, our guidance does not include any future share repurchase activity.

With that, operator, we are ready for questions.

QUESTION AND ANSWER SECTION

forward while investing in the business more than we ever have.

Operator: Thank you. [Operator Instructions] And our first question today comes from Michael Feniger from Bank of America. Michael, please go ahead. Your line is open.

Michael Feniger

Analyst, BofA Securities, Inc.

Hey, guys. Thanks for taking my question. The targeted investments you're making in Americas that have kind of weighed on the margin in the second half, do we get margin expansion in 2023 in Americas next year? Where are these investments? And what kind of leads to that margin coming back up, is it a pickup in growth so utilization goes up, is it a drop-off in investments? So love to understand the cadence as we take the Americas heading into

next year.

Gaurav Kapoor

Chief Financial Officer, AECOM

Hey, Michael. This is Gaur. I'll take that question. Our goal as a management team, if you just take a step back, is to deliver on sustained long-term value creation. Path to deliver that for us is to meet or beat every single target that we put forth today, while at the same time creating a competitive edge or expanding the competitive edge we have created in our platform for tomorrow and in the future. And margin is a perfect example of this competitive edge that we have created. This is where, again, in FY 2022, we beat our target for the enterprise we have put

And the investments specific to your question are in business development opportunities, in abundant pipeline that we saw in front of us in the second half of the year, some of which we've already started to capitalize on, as Lara and Troy commented in their opening remarks. It also includes our digital capability, our PM and advisory services which will expand the total addressable market that's available to us. And we have no interest in just growing.

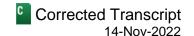
What we always will have interest on is growing with profitable growth. Profitable growth is always a focus of ours and this is where you step back and say 2.5 to 3 years ago, when a lot of people thought we put forth a very aggressive target of 15% to deliver in 2014 (sic) [2024] is no longer a question mark. We will deliver 15-pluspercent. FY 2023 will be a continuation of that, where we expect margin expansion as we put forth on the enterprise level, but also at both of the segments. And we're putting forth the stepping stones to what we want to deliver in the future, our mid to long-term target of 17%. And just to be redundant, what I've said before is we're never going to be penny-wise today and pound-foolish tomorrow.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

And Michael, this is Troy as well. I'll just make a couple of quick points here to be maybe a little bit more specific about this. As Gaur said, for us, this is about balance. We're trying to create, again, sustained growth in earnings and that's a balance between growth and investing in the future. And this past quarter and frankly through this past year, there are a couple of things that gave us that great opportunity.

A few quarters ago, we talked about the increase in our pipeline, and we said that was in our pursuits, which is where clients are telling us about the things they're bringing to market. In this last quarter, we actually saw that



move through our funnel and there was a significant increase in the bids that we submitted and the proposals that we're investing today to bid on, and that increased by almost 20% this last quarter. And so, again, that's an important investment in the future.

And the other investment we're making is something like program management, where we said we would double the size of that business over a three-year period and we expected to grow that business 25% this year. Well, that business grew over 30% this year and has us well on track to double it in that two-year period. And that's a very specific investment that we're making to deliver today but also build into the future.

So, again, I'd just think about it this way. There's not one thing that we're going to be doing, but we're focused on finding that balance, which is continuing to invest in a business while continuing to expand the margins of that business in the future.

Michael Feniger

Analyst, BofA Securities, Inc.

Thank you. And, Troy, just on balance, I mean, when we think of that 2024 targets you all laid out, since you laid those targets out, what dynamics are coming in better than expected? What headwinds are coming in stronger than expected? It looks like FX will be one. And just help us get comfortable with how you build off of that 2023 and the building blocks to kind of accelerate us to that EPS target in 2024, how should we kind of think about that? Thanks, everyone.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Okay. Yeah, good question. When we laid that path out a few years ago, we did anticipate that things were going to change, and they certainly have. But there are a lot of things, as you said. There's a lot of - a lot of things have gone in our favor, a lot of things that kind of have gone against us.

But through all of that, we've been increasing the earnings capacity of the business. So you mentioned foreign currency, and that certainly is a headwind, and it was a headwind in the second half of this last year, and we predicted it will be a headwind into this next year. And that's not really what our guidance is dependent upon. The other thing that's happened in this past year is a lot of — or the last two years is a lot of money has actually come into the market to support the long-term future of infrastructure.

But through all of that, we focused on delivering on increasing the earnings capacity of the business. And frankly, when you take those factors out, we have actually built the earnings capacity of business at a faster rate than we had anticipated. And so that's given us, again – I'd say that's given us confidence in the longer term in achieving our targets.

And I'll give it - I'll pass it over to Gaur to give you a little bit more detail.

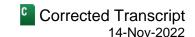
Gaurav Kapoor

Chief Financial Officer, AECOM

Yeah. Troy, you said it best. The targets we put forth in FY 2024 is a dynamic model. There's not a singular path that we will take to achieve it. And as you noted, Michael, the key metrics, let it be NSR margins or a stepping stone ROIC, we're ahead on every single one of them compared to what we've built into that model almost two years ago when we unveiled it. Everything that is in our control is ahead, and things that are not in our control like

FX, yeah, is a headwind. Where FX could be 20 to 24 months from now? Your guess will be as good as mine but,

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at the same time, just being cognizant, when we built that model, another dynamic piece to it is utilization of our very strong balance sheet that we have created, which we will continue to utilize for capital allocation purposes.

Operator: The next question comes from Andy Kaplowitz from Citi. Andy, please go ahead. Your line is open. Andrew Kaplowitz Analyst, Citigroup Global Markets, Inc. Good morning, everyone. W. Troy Rudd Chief Executive Officer & Director, AECOM Good morning. Gauray Kapoor Chief Financial Officer, AECOM Morning. Lara Poloni President, AECOM Good Morning. Andrew Kaplowitz Analyst, Citigroup Global Markets, Inc. So, Troy, your total backlog is up, but your contracted backlog is down year-over-year and sequentially, particularly in the Americas. Can you give us a little more color into what's going on and your expectation for contracted backlog heading into 2023? Have you seen any signs of slower awards in design? It doesn't look like you have. And should we generally see sequential and year-over-year growth in contracted backlog from here? W. Troy Rudd Chief Executive Officer & Director, AECOM Yeah. Andy, the answer is yes. You will see a significant increase in contracted backlog from where we sat at the end of the year. And I'll break the backlog down into two components. Our design business, which, over the course of the year, was up 8%. And the fastest growing part of that was in the Americas and as we mentioned in the call, transportation. And so, we're seeing some slowness in conversion of that backlog and that just gets to the - again, the situation of some of our clients, which, frankly, are overwhelmed with the amount of opportunities that are out in the marketplace that they're managing. So that will just convert over time. And that has been a little bit

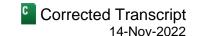
And with respect to our Construction Management business, remember that business is a little larger and a little lumpy. And so, we have some awards that we received that had not converted by the end of the year. But I can say with a very high degree of certainty that they will be converted to contracted backlog in the quarter, and you will see our contracted backlog grow significantly.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.



slower to convert than we had expected.



Very helpful, Troy. And maybe just following up on that, just a little more color regarding the balance between your 8% design backlog growth and the double-digit pipeline that you mentioned versus sort of watching some markets like the UK. When you're doing — when you made the slide and you talk about 8% NSR growth, how much visibility do you have into generating that revenue growth? How dependent is it on IIJA funding ramping in the US? And is the growth back-end loaded at all? I know you mentioned currency is front-end loaded, but what about organic as you go throughout the year?

W. Troy Rudd

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Chief Executive Officer & Director, AECOM

Okay. Andy, that was a lot. I'm going to just – I'm going to give you this. I'm going to give you a little bit higher level. And then, I'll let Lara give some more detail on this. You asked about a few markets. So, first of all, I would expect our back – our NSR to grow in the same way that it has over the past few years, which is – it's a little lower in the first half of the year and will grow in the second half of the year.

And again, that gets to the – that gets to the trajectory with the backlog. But that also gets to what I described is in our pipeline. Things move through our pipeline. We hear from our clients what's going to come to market. It then comes to market. We submit the bids and proposals which we've been doing this last quarter. And we will work through that in the first half of this year. There will then be the awards and we'll head to contracted backlog and we'll start to deliver it. So that will contribute to this next year. But nevertheless, we go into the year with 8% growth in our DCS backlog, which, as we always said, is the best indicator of the future.

And so I will - I'll pass it over to Lara for a little bit more detail in particular about the UK.

Lara Poloni

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President, AECOM

Yeah. Thank you, Troy. And Andy, with respect to our UK business, it's a key part of our business. It did grow 7% over the last year. So despite the changes in prime minister and some of the other headwinds that we've navigated, let's not forget it's a — we had a very deliberate strategy a few years ago to secure our key long-term positions on the UK frameworks. We have achieved that. And that gives us confidence about the longer term. And there are some very key prospects that we're awaiting decisions on. But despite that, we closed the year with a 1.1x book-to-burn ratio for the UK. So we had a lot of confidence in that business in the long term.

Andrew Kaplowitz

Analyst, Citigroup Global Markets, Inc.

Appreciate all the color.

W. Troy Rudd

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Chief Executive Officer & Director, AECOM

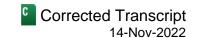
Thanks, Andy.

Operator: The next question comes from Andy Wittmann from Baird. Andy, your line is open. Please go ahead.

Andrew John Wittmann

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

Yeah. Great. Thanks for taking my question. I guess when you guys set the original 2024 guidance, it's I guess \$4.30 and then you raised it to \$4.75. Your stock was cheaper at the time. The free cash flow yield was probably



in the high-single digits and debt was cheaper then, too. And so, your long-term targets were therefore benefiting much more substantially from the buybacks impact to EPS accretion than they can today with the stock being frankly just more expensive as well as the debt being more expensive. So I was just wondering if that changes your approach at all towards the ferocity of your share repurchase plan, or even your confidence in achieving the \$4.75 2024 guidance.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

A

Yeah, Andy. So you're right to point out that as your stock price increases, you should at least be thoughtful about how you're buying back stock. But I'll start with the headline is we set that goal. As you said, we started at \$4.30, moved it to \$4.75 based on our growing confidence in the business. And we still maintain that confidence and that's why we've retained that target.

As we said, we still believe the right way to allocate capital is to allocate the majority of that, first of all, the extent to organic growth, and secondly, to our shareholders through repurchases and dividends. And we will remain true to that.

The other element of it is, we don't have any intention of using debt markets to go out and to borrow over the long term in terms of our capital allocation strategy. Again, but I'll say we'll always be opportunistic. And then when we look forward, we said we would match our cash flow, our buybacks with our cash flow, and we intend on doing that, although we will look for opportunities as we did this past year to accelerate those opportunities.

Andrew John Wittmann

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

Okay. That makes sense, yeah, if you're funding the buyback totally out of free cash flow with little debt, then the arbitrage works a little better.

W. Troy Rudd

Chief Executive Officer & Director, AECOM

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Yeah.

Andrew John Wittmann

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

Okay. So I guess the other thing I just wanted to ask about h

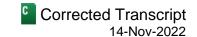
Okay. So I guess the other thing I just wanted to ask about here is trying to understand the organic growth revenue guidance that you're delivering here today. There's obviously some degree of inflation that's causing wage rates, and therefore, the multipliers or whatever you're using to bill your clients should go up slightly, too. So is there a way you can help us just think about how much is kind of pass-through pricing here versus actual volumes of man hours or labor hours delivered, something to get an idea of kind of price versus volume in these numbers? I know it's tricky in a business like yours, but I think it's an idea that I think would resonate and be helpful to understand how the business is progressing.

Gaurav Kapoor

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Chief Financial Officer, AECOM

Hey, Andy. This is Gaur. In terms of your specific question as to hours versus rates, we don't provide guidance or break out on each of those specific metrics. But overall, we are in a very strong position to manage our contracts,



which, in general, right, at any given point in time, we have 40,000, 50,000 contracts going on average term in, call it, five to six months or less.

So these are not long, burning contracts. It allows us to price them in appropriately, and there is going to be some scale that we're going to leverage for our benefit in terms of increasing our hours by utilizing capability centers across the globe to deliver the work.

Andrew John Wittmann

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

Got it. Thanks.

Operator: The next question comes from Steven Fisher from UBS. Steven, your line is open. Please go ahead.

Steven Fisher

Analyst, UBS Securities LLC

Thanks. Good morning or afternoon. Nice to see the International margins closing in on double-digits here. How much of that is driven by mix versus operational efforts or anything else? I know you just mentioned centers of excellence. So just curious kind of – I know you also have some of these bigger programs in, say, the Middle East. So what are the drivers of the margins in International, and what do you see is the runway from here?

Gaurav Kapoor

Chief Financial Officer, AECOM

Yes. Steven, this is Gaur. I'll take that question. International margins are a clear example of us realizing the strategy we have put forth, focused on winning the big transitional jobs that Lara pointed out to early, while at the same time being very cognizant of running a very efficient and effective cost structure, which is the combination of all those — all those matters. And in terms of the market opportunity, I'll turn it over to Lara to provide a little more clarity on it.

Lara Poloni

President, AECOM

Yeah. Sure. Steven, so we're continuing to see a very strong infrastructure outlook. A good example of that is the Australian market, where we secured some key wins that we've announced at the end of fiscal 2022. There are another couple of big transformational transportation wins that we'll be able to announce in the not too distant future. And then, the other – another great example is our work in the Middle East. Middle East, most notably Saudi Arabia, up 33% in terms of NSR growth year-on-year. So the long-term outlook there for our program management capabilities and infrastructure generally is very strong. So a strong outlook, and as Gaur said, it's a realization of our strategy and our Think and Act Globally strategy.

Steven Fisher

Analyst, UBS Securities LLC

Okay. And then, I wonder if you could just give us a little bit more specificity or a breakdown of bridging from 5% NSR growth in 2022 to 8% in 2023. Any sense of what's the Americas design growth you expect for 2023? What's the Construction Management, International? Any of those sort of bridge items to get that acceleration?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

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Yeah. So, Steve, maybe think about it this way is we did have strong growth in the International business this past year. And so to actually have that expand at a significantly faster rate would be difficult. So I think that's where we will have very good growth. But in terms of a significant improvement, that's more difficult.

But turning to our Americas business, in particular our DCS business, that's where we see there's a larger opportunity to grow that business in the future.

Steven Fisher Analyst, UBS Securities LLC	Q
And can you quantify what the Americas design growth you expect for 2023 th	nen?
W. Troy Rudd Chief Executive Officer & Director, AECOM	A
No. No. We're not going to – we were not going to define that because – when make dynamic decisions all through the year about the things that we're going just describe it as a balance and we're not giving – we're not giving up a proje would look like in each of the businesses.	to take advantage of. So, again, I'll
Steven Fisher Analyst, UBS Securities LLC	Q
Okay. Understood. Thank you.	
W. Troy Rudd Chief Executive Officer & Director, AECOM	A
Yeah. Thanks.	
Operator : The next question comes from Sean Eastman of KeyBanc Capital Your line is open.	l Markets. Sean, please go ahead.
Sean D. Eastman Analyst, KeyBanc Capital Markets, Inc.	Q
Hi, team. Thanks for taking my questions.	
W. Troy Rudd Chief Executive Officer & Director, AECOM	A
Yeah, Sean.	
Sean D. Eastman Analyst, KeyBanc Capital Markets, Inc.	Q
So just continuing on with that last discussion on the revenue ramp. So, we're Steve called out there. A lot of that ramp is being driven by DCS. And you guy sounds like there's not much tailwind from the IIJA in this fiscal year. So I gue sounds like we're still going to have some gas in the tank in terms of the American strains.	ss what I'm driving at here is that it

next year as well with that big funding tailwind still not really driving the model. Is that fair?



W. Troy Rudd

Chief Executive Officer & Director, AECOM

I think – so, Sean, I think that's a fair characterization. But when we did – we are – again, we said we saw an increase in what we thought was – when our clients were telling us it was coming to market. We've seen an increase in terms of what we're bidding, and a lot of that is in the Americas, and that is in the US.

So I think we're starting to see the impact from IIJA. What I think we've been describing is it's slower than we had been anticipating. But it is – nonetheless, we are starting to see that. And it's impossible to sort of break down and say, well, this percentage of that increase is related to IIJA and this percentage isn't. The fact is it's influencing all of our clients and creating positive momentum.

So I think the way that you actually described it is, it is a tailwind for the business and something that we'll capitalize. And we see this as now entering into the market, and we think we'll expect to see that in our results in 2023 and beyond. But, again, if something doesn't come to market as fast as you had thought, that means that it's probably going to stay there for longer than you had thought. So I think you should think about this as a long-term tailwind for our US business.

Sean D. Eastman

Analyst, KeyBanc Capital Markets, Inc.

Okay. Got it. That makes sense. And you guys highlighted re-shoring of critical manufacturing as kind of a core megatrend. And it'd be helpful just to get a little more color on how to think about AECOM's exposure around that trend, in particular, and what types of things are kind of entering the pipeline around that theme?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Yeah. Well, again, I would describe it as – I mean, the trends themselves, I think I'm not going to describe. I think they've been – they're well-described by you, the analyst community, and are fairly well-understood. But in terms of our exposure to them, our exposure is fairly broad. Through our buildings and places business, we certainly have a lot of exposure to clients as they relocate and build new infrastructure to support supply chain changes.

But our exposure is actually broader than that because we're exposed well across our business because you've sort of think about those trends, there has to be the planning that you do upfront, which again our business is exposed to. There's the program management work that you do along the way, which our business is certainly now exposed to more than it ever has, and then there's all the supporting infrastructure.

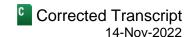
For example, a lot of these changes in facilities that are being built use a lot of water and kind of our water business is participating in that as well, you think about a semiconductor facility that's been built. We've built over a long period of time, but you go through the permitting process, there's a program management element to it, there's our buildings and places exposure to that, and our water business is exposed to that. Now, we certainly don't do any work inside that facility, but, frankly, nobody really does because that is proprietary to that particular manufacturer. So, we're fairly well exposed to all of those trends broadly across our business.

Sean D. Eastman

Analyst, KeyBanc Capital Markets, Inc.

Thanks a lot, Troy. I'll turn it over.





W. Troy Rudd Chief Executive Officer & Director, AECOM	A
Okay. Thanks.	
Operator : The next question comes from Jamie Cook at Credit Suisse. Jamie, your line is open. Please go ahead.	
Jamie Cook Analyst, Credit Suisse Securities (USA) LLC	Q
Hi. Good morning.	
W. Troy Rudd Chief Executive Officer & Director, AECOM	A
Good morning, Jamie.	
Jamie Cook Analyst, Credit Suisse Securities (USA) LLC	Q

A follow-up question. I think in your prepared remarks, Troy, you talked about 20% increase in bid prospects. And I'm just sort of wondering, where that's coming from? Is it increasing? Is it market share? Is it specific to a certain market? Are you looking at additional markets that you haven't looked at before? So any color on that front.

And then I guess my second question like back to your 2024 target, again, just comfort to get there given where you're guiding for 2023, I mean, do we just assume like the sort of constant EBITDA growth that you guys have been targeting in the high-single digit, 10% range and then you get the rest of it through just to hit the EPS target. So just – you're going to just buying back the stock. That's how you get there. Thanks.

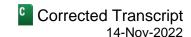
W. Troy Rudd Chief Executive Officer & Director, AECOM

Sure. Thanks, Jamie. So for the first question, the 20% is coming across our entire business. And we're seeing it. We described in the opening comments. It certainly is here in North America, in the US and in Canada and in Australia and in the Middle East. So that is – we're seeing that broadly across the business. We're also seeing that broadly across our business lines. The one difference is now we have an exposure to program management that we didn't have two years ago. So if you want to look at something that has changed, we are exposed to more of those markets than we have been in the past. So, certainly, some of that increase, that 20% is coming through an increased exposure to program management. And those opportunities are fairly large opportunities.

In terms of the guidance, I'm going to hand it over to Gaur.

Gaurav Kapoor
Chief Financial Officer, AECOM

Hey, Jamie. So FY 2024, again, just a reminder, it's a dynamic model, right? There's not one singular path and that's how you get there. But to give you some examples of this dynamic model is, if we would achieve very low double-digit organic growth in FY 2024, mind you, we're already doing – we're projected to do 8% in FY 2023 without significant tailwind from IIJA. And we achieve our 15-plus-percent margins, which we have full confidence in. That will propel us consistent with our capital allocation strategy we had built into our model to get to the \$4.75 while incurring significant headwinds from FX, which is not in our control.



And the second thing, as a reminder for our FY 2023 EPS guidance we put forward, it does not incorporate any repurchases beyond what has already been executed in FY 2022. Jamie Cook Analyst, Credit Suisse Securities (USA) LLC Thank you. W. Troy Rudd Chief Executive Officer & Director, AECOM Thanks. Jamie. **Operator**: The next question comes from Michael Dudas from Vertical Research. Michael, your line is open. Please go ahead. Michael S. Dudas Analyst, Vertical Research Partners LLC Good afternoon, gentlemen and Lara. Lara Poloni President, AECOM Good afternoon. W. Troy Rudd Chief Executive Officer & Director, AECOM Good afternoon. **Gaurav Kapoor** Chief Financial Officer, AECOM Good afternoon. Michael S. Dudas Analyst, Vertical Research Partners LLC Troy, can you maybe give us a little more thoughts on your federal business, which I'm - we've been tracking, it seems to be doing, has been growing quite well. And is the funding and access an issue there as opposed to like some of the complications seeing and getting it from federal states to these projects that you talk about in the pipeline?

And then secondly, on Construction Management, I mean that's just the general tone of, given the sharp back up at interest rates. So what's the temperature of developers or folks you say you got some contracts converting here to the next couple of quarters? Is that something that's kind of plateaued or I'm assuming like kind of getting a leg about itself? Or is there some concern about the opportunities maybe for 2024 and 2025, given some of the

funding issues we've seen in the market?

W. Troy Rudd

Chief Executive Officer & Director, AECOM

Okay. Yeah. So first, with respect to Federal, again, our US Federal business. First, I guess the most important point there is just as a starting point is we've unseated some incumbents on some rather large programs or high value programs. So that obviously gives us confidence as we move into the future. The other thing is that a lot of our activity in that market is determined by the kind of the contract vehicles or the IDIQs that you've won. And over this past year, we've had a great amount of success there, increasing our IDIQ capacity. And as it stands today, we have over – again, this isn't in our backlog, but we have over \$100 billion of IDIQ capacity, which means that there's – we'll have an ongoing – we have an ongoing dialogue with those federal clients to do project work for them under those contract vehicles.

And they're experiencing the same thing that all of our clients are. They have a lot of things they have to – they are working to accomplish, but it's a lot for them to handle. And so it's a little slower, I think, than we would have had anticipated. But nevertheless, in terms of that long-term opportunity with the programs of IDIQs, it does create a great long-term tailwind into the future.

And with respect to the Construction Management business is – we certainly have seen in the quarter a couple of I'm going to call sort of some nontraditional development investors, kind of not the large mainstream developers, where they've decided to not proceed with projects. And so that – we certainly did see that in the quarter.

But I will say this again just about our Construction Management business. It is a much more diversified business than it has been in the past. We now have a fairly significant exposure to aviation, convention centers, government buildings, and sports facilities. And so, we're – in terms of that portfolio, we're less dependent upon commercial office and mixed-use development.

And so that's what we're seeing today. And I think two other important points to highlight, which is we have 3.5 years of backlog in that business now. And it certainly had – even this past year, we came out of this past year with a 1 book-to-burn – 1 times book-to-burn in that business, and does represent somewhere between 8% or 9% of the overall business.

So again, it's a contributor. It's not a significant contributor the way that our design business is and it's – even with some of the market turbulence, it's set up well for the future.

Michael S. Dudas Analyst, Vertical Research Partners LLC	Q
Thank you, Troy.	
W. Troy Rudd Chief Executive Officer & Director, AECOM	A
Yeah. Thank you.	
Operator : The next question comes from Adam Thalhimer from Thompson Davis. Adam, please go ahead. line is open.	Your
Adam R. Thalhimer Analyst, Thompson Davis & Co., Inc.	Q

Hey, guys, congrats on a solid Q4.	
W. Troy Rudd Chief Executive Officer & Director, AECOM	A
Thank you, Adam.	
Gaurav Kapoor Chief Financial Officer, AECOM	A
Thank you.	
Adam R. Thalhimer Analyst, Thompson Davis & Co., Inc.	Q
One more if you will on the IIJA. In terms of	
W. Troy Rudd Chief Executive Officer & Director, AECOM	A
Okay.	
Adam R. Thalhimer Analyst, Thompson Davis & Co., Inc.	Q
not coming as fast. Yeah, all right. In terms of not coming as fast as expected, is that a transbecause I feel like some of the water and wastewater opportunities are starting to flow through	
W. Troy Rudd Chief Executive Officer & Director, AECOM	А
Actually, I'm just – I'll just say, Adam, it's fairly broad-based. Again, there's some elements of come through a little bit faster than others. And water is certainly a place because there's a litt to market than there is in transportation. Transportation usually comes through another agency again, it has to be married up with either it's a local government agency or a state agency. So true. But we have seen that broadly across all the business – all of our business lines that it has to market.	tle more direct path by. So it has to be – , that is certainly
But again, what we're seeing now and as I said, it's difficult for us to differentiate and say within what we're biding and submitting today, is it purely IIJA or not? I think it's a fair comment to sa increase, the pipeline certainly is contributed to by the IIJA, but it was slower than I think we – anticipated when the bill was passed.	y that entire
Adam R. Thalhimer Analyst, Thompson Davis & Co., Inc.	Q
Got it. Okay. And then lastly I wanted to ask on the \$30 million to \$40 million of restructuring exports and the same of the s	
Gaurav Kapoor Chief Financial Officer, AECOM	A



Hey, Adam. This is Gaur. I'll respond to that question. We are – I think I mentioned this before, right? We're always committed to driving profitable growth in our business while at the same time being very cognizant of markets that may not meet our hurdles, our hurdles on ROIC growth, margin profitability and cash conversion. If they don't meet those in the small, mid to long term in those markets, we will prune them. And we will always hold ourselves accountable to deliver as high of return on invested capital returns to our shareholders as we can. And a great example of that is we've already increased our ROIC target from 15% to 17% based on these small tweaks and pruning is what I would call have led to better working capital conversion, better profitability, better growth, and really focused on geographies and markets that have the long-term fundamentals to support the growth strategy we've employed.

Adam R. Thalhimer Analyst, Thompson Davis & Co., Inc. Okay. Good answer. Thank you.	Q
W. Troy Rudd Chief Executive Officer & Director, AECOM	A
Adam, thank you.	

Operator: We have no further questions at this time. So I hand back to Troy Rudd for concluding remarks.

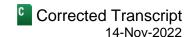
W. Troy Rudd

Chief Executive Officer & Director, AECOM

All right. Thank you. And I will keep this brief. Look, I said this at the opening. We've had a successful year. And as we look forward, we certainly feel good about the business because we're exposed to what we think are some very long-term investment trends in infrastructure. We've built a business that has created some long-term competitive advantages. And frankly, we have a lower – a high returning lower risk business model. And as Gaur made reference, we're always looking to fine tune and improve that. And ultimately in a difficult time, if there is one ahead, 90% of our costs are valuable (sic) [variable]. And when you add all this up, it means that we have a great platform for the future.

And I have to end the call, most importantly, by just thanking our teams again for their contributions this past year. You aggregate the contributions of all of the people that work here, and it aggregates to our strong results. So thank you all, and thanks everyone for joining today's call.

Operator: This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.



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