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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Will Gabrielski AECOM - Senior Vice President, Investor Relations Contact

W. Troy Rudd AECOM - Chairman of the Board, Chief Executive Officer

Lara Poloni AECOM - President

Gaurav Kapoor AECOM - Chief Financial and Operations Officer

CONFERENCE CALL PARTICIPANTS

Andrew Kaplowitz Citibank Cameroon SA (Douala Branch) - Analyst

Andrew Wittmann Robert W. Baird & Co Inc - Analyst

Jamie Cook Truist Securities - Analyst

Adam Bubes Goldman Sachs Group Inc - Analyst

Michael Dudas Vertical Research Partners LLC - Analyst

Lauren Sullivan UBS - Analyst

PRESENTATION

Operator

Thank you for standing by. At this time, I would like to welcome everyone to AECOM's second quarter 2026 earnings conference call. (Operator Instructions) I would now like to turn the call over to Will Gabrielski, Senior Vice President of Finance and Investor Relations. You may begin.

Will Gabrielski - AECOM - Senior Vice President, Investor Relations Contact

Thank you, operator. I would like to direct your attention to the safe harbor statement on page 1 of today's presentation. Today's discussion contains forward-looking statements about future business and financial expectations. Actual results may differ significantly from those projected in today's forward-looking statements due to various risks and uncertainties, including the risks described in our periodic reports filed with the SEC. Except as required by law, we undertake no obligation to update our forward-looking statements.

We use certain non-GAAP financial measures in our presentation. The appropriate GAAP reconciliations are incorporated into our materials, which are posted to our website. Growth rates are presented on a year-over-year basis, unless otherwise noted. Any reference 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. And as our growth rates are presented on a constant currency basis, unless otherwise noted.

Today's remarks will focus on continuing operations. On today's call, Troy Rudd, our Chief Executive Officer, will review our key accomplishments, our strategy and outlook for the business. Lara Poloni, our President, will discuss key operational successes and priorities; and Gaurav Kapoor, our Chief Financial and Operations Officer, will review our financial performance and outlook in greater detail. We will conclude with a question-and-answer session.

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

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Thank you, Will, and thank you all for joining us today. Our second quarter results demonstrate the strength and resilience of our teams and our focus on delivering the most iconic infrastructure projects around the world.

Before discussing our results, I want to highlight that we have once again been named the number one firm by ENR in the transportation, facilities and water markets. Our industry leadership, investments in our professionals and technical excellence, infrastructure domain expertise and strong client relationships are pivotal and our competitive advantage and the unparalleled value we deliver to our clients.

Turning to our results. NSR, margins, adjusted EBITDA and adjusted EPS reached new second quarter highs despite a dynamic market environment, and backlog increased 8% to a new record. The increase in NSR was driven by 8% growth in our Americas design business, which is our most profitable. The segment adjusted operating margin increased by 50 basis points to 16.5%, which is reflective of the high value we deliver to our clients, our focus on efficiency and the benefits of our strategy. Through these margins, we are investing in and beginning to realize the benefits from our strategic priorities, which include our proprietary AI and growing our advisory practice.

Backlog reached a new high in the quarter, which further enhances our visibility. This was driven by a design book-to-burn of 1.2 times. This performance reflects the combination of strong secular growth demand and robust funding in many of our markets as well as continued strong win rates. This is especially apparent across our largest pursuits, where our advantages are greatest, and our win rates are consistently highest.

Turning to our development and deployment of proprietary AI. We are delivering on all of our key internal milestones and investments expanded in the quarter as expected. Importantly, deployment of AI onto projects and client deliverables is growing rapidly as are the number of use cases identified by our teams.

The best measure of how AI is benefiting AECOM is our largest wins. We were recently selected for a substantial recompile for a major energy client where our proprietary AI solution was a central element of the project proposal and our competitive edge. Notably, these contracts include specific mechanisms that allow us to capture value and deploy AI to deliver greater value to our clients.

Turning to end markets. In the US, both of the demand and funding environments are strong. More than half of the IJJA funding remains to be spent, and that number is even greater for several of our largest clients and market sectors. An example of the positive benefit of this funding is the Brent Spence Bridge project in Ohio, where our strong performance on Phase 1 helped us win a sizable contract for Phase 2 during the second quarter.

As we highlighted last quarter, investment in US national defense is also growing rapidly. Our pipeline with the Department of War, which is our single largest client, increased by 50%. The President's \$1.5 trillion budget proposal points to accelerating defense spending in the key areas that we support. This includes significant increased facilities work, where we are a leading provider to the Army and Navy.

In Canada, NSR growth continues to be strong and broad-based across all market sectors. We maintained a leading position in this market, and recent national and provincial funding pronouncements underpin our confidence that this growth will continue.

Turning to the International segment. In the UK, growth turned positive with continued strength in water and energy, led by accelerated activity on AMP8 and Great Grid project. However, partially offsetting this strength is ongoing weakness in the transportation market. Longer term, there is an undeniable need for transportation investment.

In Australia, trends have improved and our backlog reached a new multiyear high. This includes a notable set of wins to support the \$3 billion AUKUS partnership and other defense investments. In addition to defense, we also have a growing pipeline of transportation work, which bodes well for 2027 and beyond.

Finishing in the Middle East. Despite the near-term uncertainty, we continue to win work at a higher rate, including strong wins after the quarter ended. In addition, an estimated \$40 billion to \$50 billion of spending is likely to be needed to repair, fortify and expand the US military infrastructure in the region, which presents another growth opportunity for us.

Turning to our outlook for the remainder of the year. We are increasing our full year profit guidance for the second time this year. This guidance increase reflects our strong year-to-date financial performance, record backlog position, strong funding across our core markets and execution of our strategic initiatives. At the same time, our guidance is capturing uncertainties related to the Middle East as the ongoing conflict continues to have an unclear resolution timeline.

At the midpoints of our updated guidance ranges, we expect adjusted EBITDA and adjusted EPS to increase by 7% and 14% from the prior year. Taken together, we continue to deliver consistently strong performance, with a record backlog and pipeline, and are confident in delivering on our increased guidance for the year and our long-term strategic and financial objectives.

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

Lara Poloni - AECOM - President

Thanks, Troy. Our teams continue to differentiate in the marketplace by leading with technical excellence, strong collaboration across market sectors and disciplines and focus on delivering unrivaled value to clients. These attributes are key drivers of our record performance. I'd like to highlight a few trends where this is most apparent.

First, our clients are investing record amounts in AI infrastructure. Our expertise extends from the conceptual phase of an asset through its ultimate delivery, including environment permitting, site selection and due diligence, stakeholder engagement as well as design, project and program management. Our high-tech business is one of our fastest growing, especially in the US. Of note, during the quarter, we expanded our relationship with a key hyperscaler that positions us for accelerating growth, and we see several similar opportunities across this market.

Second, power demand continues to increase. We work across the entire power generation stack, and we have taken a leading position in emerging areas as well. One area we'd like to highlight is nuclear fusion, where we expect to deliver nine figures of NSR in the coming years. This includes our ongoing work in the US with Type One Energy and TPA as well as our selection during the second quarter to deliver design and technical services for the UK Step nuclear fusion program.

These two programs are amongst the most advanced fusion programs in the world, and our decades-long leadership across the energy sector played an essential role in our positioning.

The third trend I'd like to highlight is our incredibly high success rate on recompetes, which is a great indicator of the strength of our technical expertise and high client satisfaction. Our win rate on recompetes is in excess of 90%. And increasingly, we are securing an even greater share of the client spend on these recompetes, which aligns with our focus on expanding our addressable share of the market.

In the environment sector, two marquee recompetes for global energy companies over the past several months told this story well. On one of these wins, our scope is substantially greater than the prior contract. This outcome not only reflects our strong performance on the last contract, but also the value we are poised to deliver in the future through our strategic investments, including AI. On the other win, we stood out against the competition because of our technical expertise and scale.

Finally, our Advisory business is on track to double its NSR within three years, consistent with our prior expectations. Importantly, by bringing infrastructure-led expertise to our clients, we are differentiated versus traditional consulting peers, and we are consistently beating these firms across the globe for our clients' most critical assignments.

As always, I am extremely proud of our professionals who are energized by our investments to enhance capabilities, better serve our clients and increase the value we can deliver to our stakeholders and communities. The result is sustained strong performance across the business and clear visibility for future growth.

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

Gaurav Kapoor - AECOM - Chief Financial and Operations Officer

Thanks, Lara. As demonstrated by our second quarter results and increased full year guidance, the business is outperforming our expectations contemplated in our initial guidance. There are a few trends that I would like to highlight within our performance.

First, we continue to deliver on all key metrics. I should note, this quarter included an approximate 100 basis points headwind to NSR due to the impacts from the conflict in the Middle East. And as a reminder, revenue is disproportionately impacted given the substantial consolidated joint venture work we have in the region, but the impact to profit is much smaller as demonstrated by our strong earnings growth.

Second, strong margin outperformance remains a hallmark of our business. Building on our consistent industry-leading profitability, our segment adjusted operating margin increased by 50 basis points year-over-year. We continue to unlock capacity to invest in our strategic priorities, and we are on track with our full year margin expansion goals.

Finally, our backlog and pipeline are at a record high, including growth in both the Americas and International segments. In fact, our pipeline has increased by double digits for three consecutive quarters, which provides for long-term visibility. Both our backlog and our pipeline underpin our expectation for strong NSR growth in the second half of the year and beyond.

Turning to Americas. NSR in the design business increased by 8% as we continue to execute our strong backlog position and capitalize on favorable market trends. The adjusted operating margin increased by 60 basis points to 20%, contributing to 10% operating income growth, which reflects a continued focus on driving operating efficiencies across the business and the high return on investments we are making to extend our advantages.

Turning to the International segment. NSR increased by 2% and declined by 3% on a constant currency basis. Growth in the UK and Australia was offset by declines in the Middle East and Asia. Our adjusted operating margin remained consistent with the prior year at 11%, and our operating income increased by 2%.

Our backlog in the International segment increased by 25% to a new record and our pipeline of opportunities remain near an all-time high as well. This is consistent with our expectation that international growth will improve in the coming quarters.

Turning to cash flow and capital allocation. We returned \$155 million of capital to shareholders in the second quarter through repurchases and dividends. Underlying cash flow in the second quarter was consistent with our expectations, but was offset by delayed payment timing in the Middle East business as well as longer-than-anticipated claim resolution on certain projects. Importantly, collection in the Middle East has already recovered in the third quarter, and we have demonstrated track record of delivering strong free cash flow.

As a result, we are reaffirming our free cash flow guidance for this year as well as our long-term 100% plus free cash flow conversion target. We remain committed to our returns-focused capital allocation policy, which includes returning substantially all available cash flow to shareholders through repurchases and dividends.

Concluding with our raised guidance, we now expect to grow adjusted EPS and EBITDA by 14% and 7%, respectively, at the midpoint of the ranges. As a reminder, our fourth quarter growth rate will be impacted by fewer workdays than prior year, which is accounted for in our reaffirmed guidance for 4% to 6% NSR growth for the year. Excluding this impact, we continue to expect 6% to 8% NSR growth for the year.

With that, operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Andy Kaplowitz, Citigroup.

Andrew Kaplowitz - *Citibank Cameroon SA (Douala Branch) - Analyst*

Hey, good morning, everyone.

W. Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Good morning, Andy.

Andrew Kaplowitz - *Citibank Cameroon SA (Douala Branch) - Analyst*

So your backlog growth has obviously been relatively strong. But I think in order to get to your organic revenue growth range for the year, you'll need a pickup in burn rates to get to your guidance. What needs to happen to see that? Are you counting on a quick ending to the Middle East? Or do you see the Americas work ramping up faster in the second half?

W. Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Yeah what? Gaur will take that one, Andy.

Gaurav Kapoor - *AECOM - Chief Financial and Operations Officer*

Hey, Andy, thanks for the question. So you're right, our backlog growth has been really strong. In fact, when you look at our international trailing 12 months, it's 1.4 times book-to-burn that we have delivered. But at the same time, there have been geopolitical issues that have impacted the first half as we've already discussed last quarter and on our prepared remarks here.

But as we go into the second half of the year, given the strong backlog growth that we have had, the book-to-burn I just mentioned, we do expect growth to inflect to support growth we're already seeing in our design business in the first half of the year, which has grown at over 7% in the first half.

So in the Americas design, just to note, has grown in spite of the government shutdown in Q1 and it also impacted Q2, but we saw a recovery of wins and bookings in our federal clients, which were impacted by the shutdown in the second quarter. So we expect that to provide good tailwind to us as we go into the second half of the year, and feel good about our guidance we have put forth.

W. Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

And Andy, I'll add just a little bit to that is when we started the year, we anticipated growth ramping up in the second half of the year, and that was built into our plans. Obviously, during the second quarter, we did see growth as we expected in the UK business and in the Am's

business, and we had expected growth to be in the Middle East business, which, obviously, for reasons that everyone is discussing, it didn't happen.

What we did see though in the quarter, again, is actually very significant, the backlog growth in the Middle East. And even post quarter, we had some very significant awards that we continue to add to that backlog in the Middle East. So we do expect the Middle East to grow quite significantly. The part that is difficult for us to forecast is sort of exactly the pace that it's going to grow in the third quarter. But nevertheless, with the backlog in that business, we do have a very good line of sight or visibility to growth in the Middle East.

Andrew Kaplowitz - *Citibank Cameroon SA (Douala Branch) - Analyst*

Very helpful. And then, Troy, I want to double click on the marquee wins you're talking about that you -- AI contributed to and how the mechanics are working. For instance, if you are successful in delivering for the client, what exactly does that mean? Is it like your man hours or revenue are lower than the project in a similar size project without AI? And what is the potential profitability of this type of project versus a similar project without AI? I think more color would be helpful.

W. Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Okay. Sure. Well, again, I'll just -- I think I pointed out in the prepared remarks, one of our wins, but I'll actually say that we've had two wins that I'd report on, and the aggregate value of those wins is almost \$1 billion, one of which came after the end of the quarter, so it's not currently in our backlog.

But what we would expect to see in the commercial model that we've agreed is that revenue will continue to grow on those projects. But as we deliver using AI, we have a mechanism where we effectively will share the benefit from doing that.

And so there's a pretty large upside to that project. I'm not -- just again, because I'm talking about some client contracts in particular, I'm not going to share the ranges, but I will say that there is certainly an opportunity for us to share meaningfully in that upside.

And then the other thing that we're experiencing, and I think this is the most important message through this is, these are two large projects and two large wins during the year. And so what we also see -- is we also see an improving win rate in the conversations on these large types of programs and projects. So I would think about it this way in terms of revenue. It's not necessarily that we're going to see more revenue from these particular contracts. We will see improved margins on those contracts.

But what we are seeing is an improved revenue opportunity as a result of the competitive -- effectively competitive advantages that we've created and so I'm going to pass to Gaur for give you some more color.

Gaurav Kapoor - *AECOM - Chief Financial and Operations Officer*

Yeah, Andy, on a little bit more color on some of the contracts that Troy is talking about. Now clearly, we can't go into the details of them. But just to give you an overview, each one of these is a multiyear contract. And for -- specifically on Scottish Water that we did give you a lot of detail in Q1. Recall, we virtually had -- practically no exposure to this client.

And now we're part of the largest contract, water contract that has ever been let out by that client in Europe, UK geography for us. And in fact, in -- from what we can tell in the water discipline, it is the largest contract that was let out.

And the second one that happened subsequent to the quarter also follows a very similar pattern, where we didn't have exposure to the client currently, and what we have won, again on a multiyear basis, is a multiple of what we currently deliver on an NSR basis.

So the question that you're specifically asking, how is it impacting manhours revenue, that's a very good direct result of what we're seeing when you bring technology that drives efficiency. Our clients are asking for more because the demand for our services far exceed sometimes the funding that has historically been in place.

And specifically on that contract too, KPIs, where the more efficient we are in delivering, it's a pain share gain -- a pain share -- there's actually no gain share, I should say, pain share mechanism on that contract, which will allow us to share with the client that did not exist before that KPI on the gain share.

Andrew Kaplowitz - *Citibank Cameroon SA (Douala Branch) - Analyst*

Appreciate the color, guys. Yes.

W. Troy Rudd - *AECOM - Chairman of the Board, Chief Executive Officer*

Thanks, Andy.

Operator

Andy Wittmann, Baird.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

Great. Thanks for taking my questions this morning. I just wanted to dig into your comment about the Middle East. I think you mentioned there was 100 basis points NSR hit from the delays that you saw there. But you said that the profits weren't hit as large as the revenue. Is that because it's like a consolidated joint venture and it reduced your NCI? I noticed your NCI guidance was lowered for the year by about 5 million. Is that the delta that you would say between like the -- what would be the expected profit and the actual profit hit to you?

Gaurav Kapoor - *AECOM - Chief Financial and Operations Officer*

Yeah, morning, Andy, you're spot on. It's exactly what you have articulated. Middle East is the one region where we have significant NCI. Regulatorily, you're required to have local partners in Saudi Arabia, in UAE. So the margin impact isn't as equals whatever your NSR miss is.

And that's why even though there was some margin impact into the business, the rest of the business, as Troy mentioned and Lara mentioned in her prepared remarks, with UK Australia, US performing very well. The whole company operationally delivering better than we had expected. It was able to cover that small miss on the bottom line.

Andrew Wittmann - *Robert W. Baird & Co Inc - Analyst*

Okay, Great. And then I guess kind of related to that, you were talking about the impacts to your cash flow. It sounds like some of the delays you saw in the quarter from Middle East have been resolved after the quarter, and that's good. But as I looked at kind of your claims balance over the last four or five quarters, it has been kind of going up sequentially each quarter by a decent amount, and it sounds like that might continue.

So I'm just wondering if you could just give some detail on that? And if you're continuing to maintain the \$400 million free cash flow guidance, I'm just wondering if there's an offset somewhere else in the business because of that item specifically?

Gaurav Kapoor - AECOM - Chief Financial and Operations Officer

Sure. Andy, if I miss anything, please let me know, and I'll revert back to it. Specific to full year guidance, we have full confidence that we will be delivering on our guidance for the current year, similar to what we have done over the last nine years.

And I'll take the last part of your question first, which is what are the offsets? Over the last nine years, we've looked at what the drivers are on how we deliver on our cash so consistently, and there's no consistent drivers. When you have multiple geopolitical and geographic issues that you navigate around clients, we deliver anywhere between 35,000 to 50,000 contracts during the year, it gives you a lot of different paths to deliver on your cash, and the current year will be the same.

Specific to Middle East, you're again spot on. In April and continuing into May, our Middle East business is back to the normal cadence we expect, on cash receipts, including some advanced payments, which again gives us confidence that some of the large wins that we've had are now setting up to be -- we're going to be working on these projects in the second half of the year based on these advanced payments coming through.

And last, specific to the claim amounts that you raised, yes, these are projects we bid in fiscal year 2019 and 2020, two projects. And for two clients that have very strong creditworthiness. And specific to the claims, in our view, we have a clear right to these claims. In fact, what we've seen is four of the claims have individual claims for these two clients have gone through the resolution process. And we've been successful on each one of them.

But it's just been very slow and dragged out on the resolution process. That is what has surprised us as to how long the process has taken. And occasionally, we come across these type of issues. And you'll see on our results that we have delivered over multiple years, we have a very good history of recovering our balance sheet position, and we feel confident on these two as well.

Operator

Jamie Cook, Truist Securities.

Jamie Cook - Truist Securities - Analyst

Hi, good morning. Thank you for the question. I guess this is my first question. Gaur, can you help remind us how much you're investing sort of in AI and how that's impacting margins this year? And I guess the EBITDA conversion relative to sales is still, I don't know, mid-single digit at best. I'm just wondering whether -- when we could start to see the EBITDA or the operating leverage of the business start to accelerate more as you get past some of this investment?

And then I guess my second question is, as you are talking to your clients about your AI capabilities and what you can deliver, does it change your addressable market at all and that some customers are more willing to try AI or new technology or think about doing the business differently versus some that are still sort of legacy in an old school way? I'm just wondering if that changes your addressable market at all? Thank you.

Gaurav Kapoor - AECOM - Chief Financial and Operations Officer

Hi, Jamie, thanks for the questions. I'll take the first one specific on AI leverage and margin EBITDA conversion. For the current -- for the first half of the year, we've delivered good strong margins, a little bit above our expectations of what we had laid out earlier in the year. If you recall, we had said 20 basis points to 30 basis points, and we've been doing better than that. And it's a combination of a few key things.

First is our Americas business organically is very robust and driving incremental margins. Second is throughout -- our organization has a very strong operating culture of delivering -- continuing to deliver better every single quarter.

But third, as you specifically asked about on AI leverage, in the first quarter, you would recall, we had only ramped up approximately \$5 million of spend. Our expectation was 60 bps to 70 bps is what we will spend in FY26. And in fact, in Q2, we ramped up that spend to that full scale.

We spent \$13 million on our AI road map, equates to about 66 bps. So the margin increase that you're seeing where we delivered 16.5% operating margin in the first half of the year versus 16.1% in last year. There is that incremental investment coming through.

As we move forward, we have a lot of confidence that, given what we're already seeing in the early results, not only from the growth standpoint that Troy has already spoken to earlier on some of the Q&A., but if you take a step back with the 66 bps of AI investment we're making in our margins in Q2, our Americas margins continue to grow over prior year and just a little bit better quarter-over-quarter as well because of some of these tools that we have already developed -- deployed -- internally developed and deployed internally are driving benefits.

And it's much more clear when you look at our International business. International business is not having same robust growth we're seeing in the Americas business, but the margins still help because they're being supported by these tools we've developed, which is being a force multiplier for our workforce and being able to deliver more efficiently. So we expect that to continue.

And as you -- consistent with our guidance, as we look forward to FY27 and beyond, halfway through the year, we're very confident as to the guidance, the margin progression and the conversion that you talked about we had put forward, we'll be delivering.

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

And Jamie, to answer your second question. First is our clients, when they have large complex projects, they are looking for a few things. They're looking for an improvement in the value we're delivering, and that can be in different ways, either through improving the speed at which you deliver, reducing the cost.

But more importantly, providing more certainty around very complex outcomes that we deliver for our clients. And so they embrace innovation, and what we're finding in our conversations as we work through this is that they're willing to embrace the innovation that we're providing.

And so those conversations are not -- they're really not that difficult. And in addressing your second question, does this change our addressable market? The answer is it does. And what this does is it allows us to actually have a way of entering some markets that we hadn't previously participated in a meaningful way in the past. And an example of that would be health care. We haven't participated meaningfully in health care design around the world.

And so we're effectively, again, building tools that support our professionals in their conversation with customers that reduce time, the uncertainty associated with the complexity and cost. And so that allows us to more easily enter new markets. And a good example of that is the health care market

Operator

Adam Bubes, Goldman Sachs.

Adam Bubes - Goldman Sachs Group Inc - Analyst

Hi, good morning. I was just wondering if you could talk about the construction management revenue growth and book-to-bill trends in the quarter? How are you thinking about the outlook for growth in that business over the next 12 months?

Gaurav Kapoor - AECOM - Chief Financial and Operations Officer

Hey, Adam, this is Gaur. I'll take that question. On CM business is very much impacted by large projects, specifically timing. Just to be a little bit more detailed on what I mean by that. Is generally, when we first contract into these projects, we work on a T&M agency basis for the first few months, where we help the client out with the design and other factors, procuring subcontractors on -- according to their preference.

And then we enter into a GMP contract with them. Usually it could be anywhere between 10 to 20 months after we have provided that agency work to them. When the design is practically complete, and we have a lot of certainty, all the work has been subcontracted through practically, and that's when you see good book to burn and NSR flow through for that CM business.

So where we are right now is we've got some large projects that have been completed, including the JPMorgan Tower in New York and the like. And we're in process of some of these new projects that have come on, including some of the sports wins and convention centers that we've discussed in the past couple of quarters, we're performing that agency work right now. And my expectations -- so that will continue for the next six months.

And my expectation is in FY27, especially starting in Q2 and beyond, we're really going to start seeing a good ramp up in that revenue burn. So to drive that, my expectation is in Q3, Q4, you'll start seeing a good NSR book-to-burn being contributed by our CM business that we really haven't seen because of the nature of how these projects flow through.

Adam Bubes - Goldman Sachs Group Inc - Analyst

Got it. And then separately, it's been six months -- over six months in from scaling your AI tools and your AI acquisition. Can you just talk about if visibility has improved on your ability to hit your margin expansion target? And if you have any updated thoughts on the cadence of margin expansion in '27, and '28?

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

So we really sort of started this in earnest about, as you said, six months ago. And if you sort of think about this in chunks, so the first three months relate to integration and really ramping up a team and then taking what we have been already working and effectively moving that across our entire population of professionals. So that's started. And we have the majority of our people having access to certain kinds of AI models and tools that help them in their work.

And at the same time, and we mentioned this in our prepared comments, we've been working on actually building out, what I'll call it, the model pipeline. And so that's going on in earnest as well. What we are seeing is that we've been investing in building the team and building the AI tools that our professionals will deploy. But we're also now seeing again the benefit of those tools be deployed.

And so we see that ramping up. All that being said, what we have experienced is where we experienced an increase in our confidence, in our path to ultimately improve margins over the next three years. And so even as we look forward to next year, I'd say that we have increased confidence in our ability to deliver on the margin expectations for next year as well.

Adam Bubes - Goldman Sachs Group Inc - Analyst

Great. Thanks so much.

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Thank you.

Operator

(Operator Instructions)

Michael Dudas, Vertical Research Partners.

Michael Dudas - Vertical Research Partners LLC - Analyst

Good morning, gentlemen, Laura. Good morning.

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Good morning, Mike.

Michael Dudas - Vertical Research Partners LLC - Analyst

Troy, you called out in your prepared remarks, pretty good potential in your US federal business. Maybe you can remind us what that position is? And what areas do you think that could contribute to the pipelines of 50%? What can we maybe think about and look forward to see that ex you get converted into backlog and revenues over the next 6 to 12 months, assuming again the vagaries of government budgeting process in Washington, D.C.

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Yeah, certainly. Well, first, I'll just say that I think about defense in terms of our global client set. And obviously, within that global client set, the largest is the US government or the Department of War here. And so in aggregate, all those defense clients represent about 10% of our portfolio, and the Department of War represents a five or a little bit, maybe slightly higher than that.

But what we have seen in that pipeline, certainly here in the US and around the world, we've seen that pipeline increase by about 50%. So that's, for us, even as you said, putting aside that's kind of the vagaries of funding, there's no question that with the pipeline increasing like that, there will be funding that will certainly match some or all of that.

And so I think that with what's happening in the world, it is certainly supporting a larger investment in defense. And again, through our long-term relationships with these clients in the US in the UK in Australia and Canada, we see a lot of opportunity for our defense business growing.

Michael Dudas - Vertical Research Partners LLC - Analyst

I appreciate that. And maybe touch on you discussed about the relationship -- the new relationship with the hyperscaler, and you touched on your -- on the power opportunities. As you assess what the demand for AECOM services in the next couple of years, six months to a few years in this cycle, do you think you'll get more opportunities with the hyperscaler customer side? Or is it more on the power, distro T&D power work? Or is it going to be a combination of both that's going to significantly inflect part?

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Again, I think as I say, what we're experiencing is we're actually experiencing an opportunity in all three of those markets. And so it is certainly -- hyperscaler is an important part of that, but there certainly just as a significant amount of spending within that supply chain to ultimately support increased compute capacity.

And so it really is across our entire portfolio, but the big places we see it is obviously investment in data centers. And that's all encompassing, from the environmental process all the way through the completion of that. Energy and transmission are an important part of that as well.

So we're seeing that it's a broad opportunity for us to sort of fit the broad client offering that we have, which within our business, there's no one piece that's dominating one or the other.

Michael Dudas - Vertical Research Partners LLC - Analyst

Thank you, Troy.

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

I appreciate it.

Operator

Lauren Sullivan, UBS.

Lauren Sullivan - UBS - Analyst

Hi, thanks for taking my question. My question is, what do you have embedded in guidance for the pace of ramp for those recent wins in the Middle East that started a little bit slower than you were expecting?

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Yeah, I'll let Gaur take that question.

Gaurav Kapoor - AECOM - Chief Financial and Operations Officer

Hey, Lauren, I'll take that. Specific to the growth in the Middle East, which has contracted in the first half of the year, we're expecting the second half of the year, we're going to start seeing the growth to support the guidance we have of 4% to 6%, excluding the workday impact; and including the workday impact, 6% to 8% growth. And I can let Lara speak more to the specific opportunities that we have been successful at, and we continue to win even subsequent to the quarter.

Lara Poloni - AECOM - President

Yeah, thanks, Lauren. I mean just a bit more color. We -- so far, year-to-date, we've 100% of what we call our enterprise critical pursuits across our Middle East business and in addition to those recent wins and confidence about the growing pipeline of transportation work, for

example, in the UAE, I think we're well positioned in terms of the pivot that's happening in Saudi Arabia at the moment, where there's going to be continued investment in sports and entertainment.

And we have an existing position with many of those clients, and there's a very substantial portfolio and pipeline of work, for example, associated with that and some of the downtown mixed-use development in Riyadh. When we look across the whole Middle East portfolio, I think long term, we're positive about continued growth.

Lauren Sullivan - UBS - Analyst

Got it. Makes sense. And for my follow-up, how do you see your AI investments evolving over the next few years? Like will anything change about the type of the magnitude of these investments?

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

I mean, so no, the answer is sort of thinking about this financially in terms of sort of the team and what we've built out, you can think about that as sort of being relatively static over time. But what we are starting to see and we will see this will continue to grow as obviously, an improvement in the overall profitability of the business and certainly in our margins.

So if you look forward, the way you'll be able to sort of get a sense of are we performing or getting a significant return on those investments, you're just going to see a margin uplift certainly over the next year and beyond that.

Lauren Sullivan - UBS - Analyst

Got it. Thanks.

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Thank you.

Operator

There are no further questions at this time. I will now turn the call back over to Troy Rudd for closing remarks.

W. Troy Rudd - AECOM - Chairman of the Board, Chief Executive Officer

Great. Thank you, operator, and thank you, everyone, for joining the call today. And I want to make sure that I thank all of the AECOM professionals and employees that have done an outstanding job this quarter, delivering in, what I'll say, has been a turbulent environment. Thank you, and thank you, everyone.

Operator

Ladies and gentlemen, that concludes today's call. Thank you both for joining. You may now disconnect.

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