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AECOM (ACM)

Investor Day
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MANAGEMENT DISCUSSION SECTION

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Good morning, everyone. Thank you for joining us today. On the screen, you'll see the Safe Harbor provision. It's on page 2 of the handout deck that's on your table. I encourage you to read that. So, today is about the opportunity that we have in front of us at AECOM and going forward. But before I jump into the future of AECOM, I want to at least comment about my recent retirement announcement.

It has been 15 years for me here at AECOM, 6 of those as the CEO of this company, 3 of those prior to that as the President and then the CFO before that. And I have to say, it's been a privilege and an honor of mine to lead this great organization and the opportunity to collaborate with some of the brightest minds in the industry that are doing some of the most incredible things around the world and improving lives and communities in which we operate.

And I have a great sense of pride, not only in the work that we do for our clients and the work that we do in the communities, but I have a great sense of pride in the work that we have done as an organization and this team here on the stage has done over the past couple years to transform this organization. And I feel particularly good about leaving the organization at this time, leaving at a time where we have a company that has an incredibly bright future that you'll hear a lot about today.

A company that has a new very focused strategy, we'll talk more about that. A strong balance sheet after the completion of the Management Services sale in January, our stock price hit an all-time high in the past few weeks. And I'll be leaving a company that is filled with some extraordinary talent and you'll have an opportunity to
meet some of that talent here that's on the stage today. But we'll also be showcasing some of the additional talent within the organization, the Innovation Showcase that you'll see outside here.

So, when we're done with the formal part of this meeting, I encourage you don't rush out here, spend some time meeting some of the technical experts that will showcase some of the incredible innovation that we have underway and we've developed here at AECOM. And I'll say with a great sense of confidence, I'm enthusiastic about the trajectory of this company, the foundation that we've built, the transformation that has been undertaken over the past two years that positions us incredibly well for the future.

What I'd like to do is, move on to the progress that we've made in the past year, in FY 2019. There’s a few five points that I'd like to make here that underscore the transformation during the course of FY 2019. First of all, we have delivered on all of our financial commitments in FY 2019. We had a 13% growth in our EBITDA. We had record backlog, record margins. Our margins increasing 200 basis points over the past two years. But more importantly, as you'll hear today, as we positioned the company for what the future state will look like, our professional services business that's exclusive of management services that we expect to close in January and exclusive of our at-risk construction business. That remaining professional services business in FY 2019 EBITDA grew at 25% in FY 2019, the backlog in that remaining professional services business grew at 19% in FY 2019. So that's point one.

Point two is the transformation that has taken place in FY 2019 to a professional services organization has been quite significant. We have taken many strategic actions to de-risk our portfolio by selling off parts of our at-risk construction business or out-marketing additional at-risk portions of our construction business that you'll hear more about through the course of today.

The third point is building an organization that is a leader in innovation and technology. And you're going to see a lot more about that today, as I just mentioned, the Innovation Showcase. I encourage you to spend some time because it's fascinating the technology that we are deploying today and some of the innovation that we have that is what will differentiate us in the marketplace going forward. We have the size and scale to deploy innovation in a way that benefits our clients and as well as benefits our margins.

The fourth point is that you'll hear Troy lay out some of our industry-leading targets today both our margins, return on invested capital and free cash flow, we expect on all three of those metrics to be an industry leader going forward.

The last point is maximizing shareholder value, which is obviously quite important to us. The Management Services sale that we announced in October and it will close in January was done at a premium valuation that was well received by the marketplace, the margin expansion that's occurred over the past two years and now the balance sheet that we have to deploy against our stock repurchases are all the points that I want to make that position us quite well for continued success in the future.

So, let's go – back here. So, let's talk a little bit more about FY 2019. As I said a minute ago, we've exceeded all of our financial targets. And so, we're quite happy with the progress during FY 2019. But what's important to note is that while we were undertaking this incredible transformation of the business, de-risking the portfolio, selling off our Management Services business, during that period of time, our entire management team was able to maintain our focus on executing against the business, improving our margins, executing against the marketplace to outmaneuver our competition and win at rates that were greater than our competition allowing us to achieve our record backlog.
So, maintaining our focus on executing in the business, winning work and delivering work while we were transforming was something that I think this entire management team ought to be particularly proud of. We spent the year de-risking and simplifying, as we have seen the asymmetrical risks that have been presented to us and others in our peer group around the self-performed construction was something that we made a significant right-hand turn away from that type of business, and we started de-risking that portfolio and simplifying the model.

So that going forward, we'll have a simplified professional service model of higher margin, lower risk work that is much more focused.

And as we started to narrow the focus during FY 2019 towards this professional service organization, we made a decision to exit certain countries. We made a decision to exit 30 countries. We're well under our way to completing that work. These are countries where we didn't think that they had either the long-term opportunity for growth. They had a risk profile that was outside of the boundaries in which we were willing to operate or had a return on invested capital that wasn't quite sufficient to meet our hurdle rates.

And when we think about return on invested capital in some of those countries, we think about it in two perspectives. One is, what is the financial metric within that country on return on invested capital, but we also think about return on intellectual capital or to say it differently, a return on management mindshare. Some of those countries while they may have had a decent return on invested capital from a financial metric, they were far away. They were in countries that maybe had a corruption index that required us to spend a lot more oversight time that when you take all of that into account, we concluded that we want to make sure that we had our management team focused on the best opportunities in markets where we had a more concentrated position, where we had a more dominant position or we had a very differentiated position so that we can grow faster and achieve even higher ROIC.

We also, during the year, made the decision to simplify our AECOM Capital. As you know, AECOM Capital was a business where we were deploying capital from our own balance sheet. We made the decision during the year to go out and raise third-party funds. And in September, we closed our first fund with external money of $500 million in that funds together with our partner, Canyon Partners, so that now we can continue to deploy capital to the benefit of our clients that will differentiate us in the marketplace because we can bring not only the services side, but bring the capital side and we'll be doing that in a way that doesn't require a deployment of capital from our own balance sheet.

During the year, also in that same mode of de-risking and simplifying, we sold certain oil and gas assets during the year and we sold our international development business during the year. All of those maneuvers resulted in a significant increase in our margins during the year. You know that we expected a 100-basis-point improvement in our margins this year. The DCS side of the business, we achieved 110 basis points, that was on top of the 100-basis-point improvement we saw in the previous year in FY 2018 and we'll see that continue into FY 2020 when you see our FY 2020 guidance.

All of that, of course, resulted in shareholder value improvement. So, our stock price increased 38% from this time a year ago that compared to a 15% increase in the S&P 500 and an even larger increase compared to the S&P Construction & Engineering Index over that same period of time. I'd mentioned the sale of our Management Services business of $2.4 billion that we expect to close in January, unlock significant value that contributed to that increase in shareholder value. But equally important, it transforms our balance sheet.

At the close of that transaction, we'll be in a position of near zero net debt position after the close, allowing us to then take the next step in capital deployment, which is as we've previously said, we expect to deploy substantially
all of our free cash flow to the stock buyback program. We have $1 billion authorization. And to-date, we have exercised about $240 million of that authorization.

So that's the path, I gave you a little bit of highlight of where we've been, a little highlight of performance in FY 2019. But I think it's important to give you a sense for what we have set out as our governing principles for the path that we've charted for AECOM going forward. So, I'd like to talk a little bit about these governing principles for the future.

First of all, you heard me mention in a number of times now the professional services business, and that's meant to be our business excluding the Management Services business that we're selling and excluding the at-risk self-perform construction business. So, our governing principle will be that we will be an organization wholly dedicated to professional services with the best and the brightest people deploying technology in a way that allows us to more efficiently deliver our work to our clients more innovatively deliver work to our clients, resulting in better margins. And we think we have the right scale, we don't need more scale to make the kind of technology and innovation investments, we believe we have that scale today and we'll continue to make those investments to improve our margins, improve our growth rates and our win rates even further than we did in FY 2019.

Another guiding principle is going to be a higher return, lower risk model. We have seen this industry -- certain parts of this industry move to an asymmetrical risk where the risk were just significantly in excess of the upside. You'll see us moving, you already have seen us move dramatically away from that type of business. So, our governing principle will be that we will be focused and operating in a world that has higher margins and lower risk taking us to an industry-leading margin and return on invested capital metric, and you'll hear Troy talk about that a little bit more.

You'll hear about some of the investments that we're making and things like PFAS, digital tool boxes that allow us to more rapidly deploy our designs and more efficiently deploy our designs. You'll hear us talk about design centers, global business centers, all these driving towards continued margin improvement and you'll see some of those at the innovation symposium outside afterwards.

Next, we'll continue to have as one of our governing principles, a very high quality balance sheet. I mentioned the balance sheet getting to almost net zero debt after the closing of the Management Services deal, but we of course will put leverage on the balance sheet to deploy the stock repurchase program that we've talked about. But we will have a very conservative balance sheet consistent with the free cash flow that we have always generated for the past five years. We have been an industry leader in converting our EBITDA to free cash flow, and we expect that to be the case going forward.

Another governing principle will be that our commitment to capital allocation. You've heard me say it once and I can't say it enough that we expect to dedicate substantially all of our free cash flow to stock buybacks. We still think there's a lot of value inherent in our stock today that is not unlocked, and we are a big buyer in our stock today.

But equally important to the governing principles of what we are going to do is going to be the things we're not going to do. So, let me touch on a few of those. One thing is, we are not going to be all people to all things in all markets. We have realized over the past 10 years or so, we were in too many markets. Many of these markets had interesting exciting projects, they were iconic projects, but frankly the amount of management time that's required to deploy projects safely, to manage the risks of those projects, to manage the foreign corrupt practices laws in those countries, required amount of oversight that just ate into the margins and took some of our real
talented people away from opportunities in some of the big markets that had even better margins. So, we will not be all things to all people in all markets.

Next is, we will not be highly acquisitive. As I mentioned that’s due to the fact that we think we have the right scale now. We have the right expertise, there could be very small niche acquisitions that bring certain niche pockets of talent that we need, but substantially all of our free cash flow will be dedicated to our return to our shareholders.

Next is growth. You're not going to see growth in revenue unless it clears certain ROIC thresholds. We have historically pursued growth around the world and we’ll continue to grow. You'll see in the models that Troy is laying out for the future. We still expect single-digit organic growth on the top line. We've had double-digit organic growth on the earnings line last year. We will expect to deliver the same thing again in FY 2020, but we can do that through mid single-digit organic revenue growth, if we don't chase revenue growth just for the sake of revenue growth. So, it'll be profitable growth that exceeds our ROIC hurdle rates.

And then last but not least is, you will not see us exposing ourselves to asymmetrical risk as I just mentioned.

So, before I turn it over to Lara and Steve and Troy, I just want to reiterate a few things. So, first of all, this organization is as well positioned as it has ever been to capitalize on the market trends that are in front of us. And I am extremely confident that this company will continue on the trajectory that we've been on for the past couple years to deliver on both our financial commitments and the strategic commitments that you're going to hear laid out in a little more detail today.

So, all of these actions that we have taken that we're currently taking and we will continue to take during FY 2020 are going to position us as an organization that has a higher return lower risk profile of professional services, continues to have strong cash flow from very high quality clients that continues to invest in technology to ensure that we are leveraging the scale that we have and we're leveraging the expertise that we have resident within the company today and a company that is committed to capital allocation, return on invested capital metrics resulting in greatly increased shareholder value.

So, thank you for your time today. Thank you for your continued support of AECOM. And with that, I'll turn it over to Lara Poloni.

Lara Poloni
Chief Executive Officer-EMIA, AECOM


Thank you so much, Mike, and good morning, everyone. I'm the Chief Executive of the Europe, Middle East and Africa business. And I've been in the role for 2.5 years, and before that I've led the Australia, New Zealand business for three years and I've been with AECOM for 25 years. I'm really excited today to tell you about our business and the journey that we've been on to some strong performance and also what we're going to do to sustain and build on those great capabilities that we have, how we have seen gaining market share and how we will continue to grow and extract further market share. And I will cover not just the business that I'm responsible for, the EMEA business, but we'll also touch on the broader international business of AECOM outside of the Americas.

Thank you, Mike. Thank you. So, this is really the overview of our international Design and Consulting Services business, as I said outside of the Americas. As Mike said, our focus is absolutely, going forward, to focus on those being a professional services organization. And really extending our
market leading position and on those core services. As we know, when we have core infrastructure work in our pipeline we know how important that is to sustaining our base business, and it certainly is a large contributor to strong performance in all of our largest markets.

And just a reminder, when we talk about our largest markets by revenue and profit, they are the United Kingdom, Australia-New Zealand, Hong Kong and the Middle East. And we have, as you'll see on the slide, a fairly balanced portfolio between public and private sector clients across the international business. These charts also show you how diverse we are, but I think what's really at the core and sets us up nicely for the future is that we have real market leadership across all of those international markets in terms of our core infrastructure design business, and increasingly we are becoming more and more focused on construction management, program management and in fact some of our recent wins over the last fiscal year have really been strongest testament to that and have really put us in a strong competitive position across all of those markets.

And certainly true for the major urban developments, which I will talk about in a moment in the UK, particularly and I know there probably be some interest in the UK obviously waiting to an election this weekend. We really think that there will be significant infrastructure spend and a return to spending in the property sector. And once Brexit is resolved and certainly we're also seeing over the last two years some new growth spots within our business places like the Kingdom of Saudi Arabia which I'll also touch upon shortly.

So, we really want to take advantage of these market opportunities and I call professional services domain. And as Mike said, over the last couple of years I think we have really focused very strongly on de-risking our portfolio. And as he said, AECOM is no longer pursuing at-risk construction in international markets. I think closer to home in terms of my business we have been absolutely laser focused on the exit of those 30 countries, which we got on to pretty early two years ago. And we've got great progress to demonstrate against all of those exit countries and we're really now down to the final stages of winding down those operations.

And as Mike said, I can tell you that in terms of the focus of the management team being not distracted on some of those small countries where we've historically been through legacy organizations has meant that our leadership team can absolutely focus on what it takes to improve margins and drive to continue business performance and more importantly grow our business in the markets where we absolutely want to be. We'll absolutely continue to be decisive and deliberate around driving that return on invested capital and narrowing our focus going forward.

Turning to our market trends across those markets that I just described. I mentioned clearly the UK market over the last couple of years have definitely been constrained and impacted by political inertia because of Brexit, because of changes in leadership. But we're AECOM, we're a global business, we do see that and we see that volatility I think it is absolutely the new normal, and I'm pleased to say that in a market that we operate in like the UK where we're one of the major players, our business has actually continued to improve its performance over the last couple of years despite Brexit. So, I think that's a very strong message, and means that once we have the election out of the way, once Brexit is finalized, we will be in a fantastic position to resume that growth and capitalize on the confidence, particularly in terms of the next wave of infrastructure spending and the flight – the return of capital to markets like London commercial and some of the other markets in the EMEA region.

So, we're certainly optimistic that we'll have greater certainty going forward. And we know that in fact in the UK at the moment both as the major political parties have a strong commitment to infrastructure spending. They know how important it is for economic productivity. So, the Conservatives for example, have a $100 billion pipeline of projects that they are talking about foreshadowing. And as I said, we're in a very strong position to capitalize on that particularly through the just very disciplined work that we have undertaken in terms of making sure that we
secured long-term positions on framework contracts, which we did not have a few years ago. And each of those large framework contracts for example is typically three to five years. So, we will be able to pivot off Brexit and be in a strong position in terms of that base core professional services work.

We're obviously all aware of what's happening in Hong Kong and it is certainly impacting our market leading business and prospects. Many of you know, we have for decades had absolute market domination and leadership in Hong Kong. And some of the large scale infrastructure projects in Hong Kong have really been exemplary in terms of design, complexity and scale. So, obviously, that market's been a very strong contributor to our financial success, but it's also been a real showcase for a lot of the amazing technical work that we have undertaken as an organization over the last few decades.

We feel though that absent from the current geopolitical uncertainty, we have the underlying drivers for continued robust Hong Kong market are firmly in place. And we're confident that once there's resolution on the geopolitical front, we'll see absolutely a resumption of those trends. And again, we have a supremely strong position in that marketplace as we have had for a long period of time.

Turning to the Middle East, another key part of the EMEA region. Again, we see periods of volatility in certain parts of that vast region. But for us, it's really been a success story of light because of the focus that we've given certain parts of that business. Obviously, this being the Qatari embargo, there has been the continued low oil prices, ongoing geopolitical uncertainties, et cetera. But what we've seen over the last couple of years is that this market has provided tremendous growth for us because we have been very focused in a place like Kingdom of Saudi Arabia and being very focused on the public sector work that's happening there and it's really demonstrated great returns and we have confidence around the pipeline of projects in that part of the Middle East in particular. We have been able to deploy not just local Middle East in our EMEA resources, but indeed a lot of our global expertise which a lot of the clients in that region are really looking for.

And then finally, in Australia and New Zealand, the market that I'm very familiar in, we have capitalized absolutely on the very significant federal and state infrastructure spending that has occurred over the last couple of years. Obviously, there was a mining downturn. It's quite a mature market in terms of private and public sector collaboration around large infrastructures schemes brought to market. And we've had some fantastic wins in several major public funded transportation projects, which means that that business has been performing very strongly and is very nicely set up for the future to capitalize on that.

And ANZ is also one of the markets and I'll touch on in a moment that the PFAS, the emerging contaminant, that we see real opportunity to address Australia and New Zealand is one of the places where the momentum and the technical expertise has resided for quite some time in particular.

So, let me say there are certain trends that will continue to pervade our markets. We feel that we have set with quite skilled and we have a diverse portfolio to be able to navigate that and navigate those economic cycles and have stayed the course. And we have the ability, as I just mentioned in places like the Middle East, to pivot away from places like Dubai and Abu Dhabi where we were focused on the residential market for example and now pivot to places like KSA. So, I think that strategy, that diversity of the portfolio, that geographic spread of our core businesses has meant that we've been able to navigate that. So, I want to take you through that just in a little bit more detail with a couple of specific examples.

I mentioned ANZ where certainly the mining downturn happened very, very rapidly. Projects were turned off overnight. It meant that professional services design firms like ours and others in particular who were very focused on the resources sector and solely on the resources sector were left high and dry. They didn't have that
diverse portfolio that we had particularly in infrastructure and property that were overexposed to mining. So, the consequences of that downturn were very severe for some of that competitive set, but certainly not for us.

So, we were able to re-pivot to our core infrastructure business, and really there had been a period of single-term governments as happens in a lot of other places around the world. And a lot of uncertainty at the state and federal level, which made visibility and navigating the pipeline quite challenging, but we reshaped that business. I think what was key also was that we formed some very successful partnerships with some of the contractors in that space. We had a good mix of design build and client side work and it meant that we emerged very strongly from that downturn and we're in a premier position in terms of the infrastructure improvement that then happened in all of the states.

And as a result, we have a business that is performing very, very strongly in Australia-New Zealand. And at the same time and early, we acted very decisively to make sure that we trimmed quite a lot of the fat and removed non-profitable services just as we said, as Mike said, no to some services that were simply didn't have a strong outlook and were a distraction to our core design business for example.

And we focused also on our clients. And I think all of us in the leadership team, I mean, it's something that we – it's absolutely a mantra. We have to focus on some client groups in particular and shed some clients as we maintain that laser focus on return on invested capital in particular in the markets that we want to play in.

The result of these actions can certainly be demonstrated in the performance that we've delivered. So, for example, in final point on Australia-New Zealand, it's up 40% since the fiscal year 2016, and thanks to the strategy that we put in place. Only just a few years ago, our profitability is up 80% for that same period.

Those G&A reductions that I talked about, so it was everything. And again, they're not just in ANZ but we've also taken the same approach in EMEA to reviewing thing not just in terms of our people expenses, our IT, real estate, no stone has been left unturned in terms of driving some of that efficiency in conjunction with the move to offshoring some of our services in particular which will remain a key element of our margin improvement strategy going forward.

We certainly exited business lines in the regions that weren't as profitable where those competitive advantages were less apparent. So, all of those things and those disciplines I think are now just continuous good practice that we are absolutely taking forward.

I mentioned the UK market and the focus that we've been giving particularly to the public sector frameworks. As I said a few years ago, we did not have such a strong position. In fact, we missed a lot of the major frameworks and that has been a strong focus of our two largest biggest businesses, transportation and also our property and buildings and places business in particular.

And through the success we've had on those frameworks and particularly in the rail sector, for example, Network Rail, the large rail operator in the United Kingdom, we have secured pretty much every framework that we have gone after over the last two years, which gives us strong market leadership in a key element of transportation such as rail going forward. So, we have a real position of market dominance I think in most of these international operations. And at the same time, we have driven a very strong agenda of just improved performance, efficiency, rationalization and focus. Focus is the keyword that we've absolutely adopted.

Let me touch just on the Kingdom of Saudi Arabia for a moment. And there's been extraordinary growth. And I'm sure many of you have heard about the Vision 2030 Blueprint, which was really the Crown Prince's agenda for the
diversification of the Saudi economy away from things solely focused on oil and looking at some of the other growth sectors in the opportunity, most notably tourism where for the first time now you can get a tourist visa to enter Saudi Arabia. And I can tell you just from visiting that region over the last couple of years, pretty much once every month or so, it is transforming by the month.

And we have a very strong market leadership position through some of the very large program management wins that we have had and we see a very significant pipeline ahead of us. We have a diversified portfolio of some of that public sector work that we're undertaking. And again, we think that it gives us good base load work that we can capitalize on over the next few years.

There are several new cities, what this slide talks about Neom Bay, which has really been the first cab-off-the-rank in terms of the new giga-cities, a lot of people didn't believe these cities would happen but they are actually happening here now and we secured a significant contract to be the program manager for Neom, which is projected to be 33 times the size of New York City. And you really have to visit Kingdom to sort of see the scale of what is happening and rising up before you in the sand, so to speak.

So, we've been very well positioned to capitalize on that work. Number one, we've had a long established business in Kingdom for 40 years, which counts for a lot when you're doing business in that part of the world. We have a joint venture that is very strongly connected to that local marketplace. And we had also a strong focus on that particular public sector client that the PIF organization and cultivated that over the last couple of years and I think that's been a big catalyst for the success as well.

And we are part of that transformation in that region, absolutely. And our investment in the talent includes not just some of the global experts that will come in and help deliver some of those giga-cities for example, but continuing investment in young men and women Saudi nationals is part of our that team going forward. So, we have very strong pipeline ahead of us, and we really expect to be able to double the size of that business over the next 12 months for example.

Another, and finally, key strength for us is client-led innovation. And I'm sure Steve and I could talk all day about just some of the great innovations that happen each and every day in our business, but here's an example of a couple that have really got some great momentum in the market and where we see some great growth opportunities.

The first one is our modular housing solution which we're developing in response to market conditions in the UK and Ireland. Like most major cities around the world, there is a shortage of affordable housing. It is enshrined in public policy. So, there is, and again regardless of which government prevails it this week's election, the housing affordability crisis and the need to find fast, affordable housing will remain a key part of social policy going forward. So, we've developed a fully integrated solution which provides design, engineering, assembly and delivery on site. It can be delivered 50% faster than traditional housing construction with high levels of safety and certainty in delivery as 90% of these modular style houses are actually built offsite and delivered offsite.

Critically, it's also high quality. We've designed this modular form of housing in collaboration with leading UK architecture firm, Rogers Stirk Harbour and Partners. It has a low environmental impact, excellent occupy comfort and has the potential to reduce running costs by up to 70%. And it's easily demountable and reusable and we know just how important the focus around the world in terms of zero carbon solutions, environmental sustainability. So, we feel that it has a dual benefit of being able to tackle one of cities' most significant housing issues with being housing affordability and provision. And secondly, it certainly contributes strongly to the environmental sustainability agenda as well.
So, we have a couple of prototypes already up and running. And most significantly, there has been strong market interest here in North America as well. So, we are developing proof-of-concept for a supported housing development in Las Vegas as well.

So that's one of the current opportunities in the market here more locally that we really feel that this solution does have global potential it's early days, but there's absolutely strong growth potential there. Sorry, the second one example, and again, I'm sure you've heard a lot about this in the marketplace. It's PFAS. It's a process for decontaminating sites exposed to a group of chemicals and there's a large number of chemicals in this group, which with very long names which I might attempt to call out but the PFAS group stands for per- and polyfluoroalkyl contaminants. It's a big deal.

There's obviously movies about this topic at the moment. PFAS Chemicals are actually found in a number of consumer commercial and industrial products and processes. Things like even our waterproof jackets, there's PFAS in there. There's – it's historically being used for firefighting foams and a range of facilities, particularly at defense facilities and airports around the world. And it's certainly prevalent in a lot of places and it is one of those very challenging contaminants, and that have found their way into soils and groundwater in a large number of sites around the world.

And it really has resulted in growing public and regulatory concerns around this contaminant. And it's still very early days, there's a limited understanding of how PFAS impacts human health and environment, and there's certainly been a lot of attention, media attentions for example, Erin Brockovich at the moment is defending a 40,000 person class action in Australia around this very issue.

So a lot of other big companies, as well as some of our traditional clients such as aviation and defense has certainly have this at the top of their agenda and they – I guess their risk portfolio going forward. Most importantly, we feel we're in a very strong position in the market to help our clients address these challenges. And I guess our focus and obviously, there's some other players talking about this and playing in this space, we are really the only firm that I think is addressing the destructive technology. So there's others that will talk about what they're doing to separate PFAS from soil, separate PFAS from water sources.

We're actually in a very strong market leading position. We've been doing the consulting part of identifying the properties and talking about appropriate limits and human health risk assessments et cetera around the world in our Professional Services business for about 15 years. I think we're on the cusp now, we're really talking about how we can form relationships with partners that can help us really commercialize the destruction technology.

And we have a patent on DE-FLUORO, which enables on-site destruction of PFAS in water and waste streams without generating hazardous wastes. And we think it's economically and environmentally sustainable. There's been good feedback about it so far. There are currently trials underway in Australia and we're also pilot-testing it at the moment at multiple US DoD sites. And as I said, I think this fiscal year it's all about commercializing that destructive technology. It's really – and we got our – thank goodness we've got our experts that can talk about this outside. But – and there's also been the Bank of America transcript, that I'm sure some of you listened into. It is definitely growing space and we are – we have some of the best technical minds in conjunction with some of the leading universities around the world to tackle this growing environmental contaminant.

So look that's just an example of two fantastic innovations. And as I said, we can hear more about them outside at our information stands. Thank you for the opportunity to present to you all today.
Without further ado, I'm really pleased to introduce my colleague Steve Morris. Thank you very much.

**Steve Morriss**  
*Group President-Design & Consulting Services, AECOM*

Good morning, everybody. My name is Steve Morriss, I am responsible for our business in the Americas. It's – I've been in the business for nine years and running this business for two and a half of those years. So I've got the great privilege to lead a team of 20,000, of the most talented engineer, scientists, project managers, when you see some of the things that we're doing. And I kind of really hope you take up – there will be some of you who'll think, as soon as we finish this, we'll get straight out there in the rain. Please go and talk to some of the guys there, this is the most amazing thing, it's changing our world, they're well prepared for you.

And we are recruiting. So if you're – if you really fall in love with the technology, then we are happy to talk to you. So we have a really great business, got a lot going on in the Americas. Just a quick overview of the business, I've talked about the scale. Let me talk about our clients. We've got a really broad range of clients across every market sector. Our clients are a mixture of private sector and public sector. Like Lara said, we think we're well balanced. Pretty much we've got every client we could wish for. And these are not just passing transactional relationships, these are customers that we've been working for for decades. We know their business inside out, they trust us and that's just as well because they're facing some enormous challenges moving forwards.

Consistently, our business is ranked as number one in the markets that are the most important for us. And if you look at what those markets are, it's transportation, it's the environment business, which Lara has just talked the PFAS thing. It's water, it's facilities, it's our federal space and each of those markets, we got a really, really strong position. What will all of that means is, we are close to our clients, we really understand their business well, we've got real diversity and scale, we can solve their most complex problems they turn to us when those problems arise. We're close to them and all of that is why we're the number one and why we've got the advantage that we've got. So, a little bit about the journey that we've been on over the last two or three years following exactly the themes that Mike and Lara have talked about.

Ours has been a real transformation of the business and we've had a really great few years. That transformation has not been one of transformation of delivery, our project delivery for years has been very strong. Our clients asked us to do something we deliver on-time and schedule with really great quality. It's not been a transformation of personnel largely, we've got a really fantastic team. What it's been is a transformation of our approach and our focus. And you've heard us say focus several times already, there's no accident there, focusing on the things that really matter, focusing away from the distractions onto the things that will give us return, give us profitability in our core markets.

That transformation has really been one of three parts around about 2017, 2018 we commenced the transformation. We took out some significant cost in the business. We aligned what was quite a fragmented structure into a more market and client-focused consistent approach that make it easier for our teams to work together, easier for us to focus on our clients. We began the transformation of our environment business, our environment business is a market-leading business, about 20% of our business and we began to really focus and change the way we focused on the high-end consulting and also bringing together those major programs like we do with Shell, where we sold out all of their environmental work in major programs, bringing those into one place, so we could deliver them more consistently, more profitably, more efficiently.

In the second phase last year, which was a really great year for us, we were – we are focusing on again further simplifying our structure, we went from nine regions to five that allowed us to take overhead out, it allowed us to share our resources better. A really big part of our improvement has been taking those 20,000 people and sharing
them much more effectively, pointing them to where they were most needed, where their skills were most useful and not just trying to do everything with the local team, that created a huge benefit for us.

In that second phase, we're also beginning to ramp up the work we did around our global design centers which give us tremendous profitability, benefits as well as some capability and in our shared services spaces. And we completed the transformation of our environment business into – which in itself generated record levels of performance.

And we took a really good further step out of our overheads finding different ways to do things more efficiently. We had inherited particularly through the merger of really large and expensive portfolio of real estate and we'll talk some more about that and we really start to take some big costs out of that and that led to us having a record year. And this year in the third phase, I think one of the exciting things to me is we just got so much opportunity to continue to improve this business, this is not a one and done transformation, we see a lot of opportunity right ahead of us, so this year we're focusing on procurement, is something that we've under focused on before, we see some big opportunities very systematically looking at everything we spend our money on and going through and can we do more in-house a very detailed exercise there.

A real significant ramp up in the use of our design services and our shared services facilities. And beginning increasingly to ramp-up selectively with the right kind of risk reward balance, the growth work we're doing. And all of that has led to a remarkable improvement in our financial performance, record levels. But one of the things I'm most proud of, is that despite that intense focus on profitability and profit and cash, we also kept the focus on the marketplace. We delivered great safety, great customer satisfaction. We delivered growth and we invested in the future. So it wasn't some short-term exercise, really a long-term deep rooted transformation.

So talking to the financial side, I said that both in 2018 and 2019 we had record levels of performance in terms not only of cash and profit and profitability, but at the same time as I said just now delivering that 8% improvements in our backlog, good high-quality opportunity there for us to move forward. So executing on that transformation really done that at the same time as in keeping very closely engaged with our customers and our people and investing in the future. And the reason we're doing that is that despite the great internal progress we've made, that strong trajectory of moving our business forward, that really great operational performance, that focus.

There's just an awful lot of really good and interesting things going on in our key markets. So we see some very encouraging trends in those markets. There's some real general things that I'll talk about in a couple of minutes. But just to dive into some of those core markets, markets where we've been the leader for decades. There's a lot going on and if we take transportation, which is our biggest single-market whether you look at, at aviation or transit or the surface transportation, we see despite no federal big fundings yet, we see big opportunities growing in the marketplace, we see dedicated bonds, we see sales tax, we see gas tax, just to give you a couple of examples, just here in New York $51 billion on the upgrade of the MTA transit.

Right now, we'll have as a customer that turns to us when they've got the biggest challenges to face and Second Avenue Subway, East Side Access, all of those things are AECOM projects, back in Los Angeles, the Measure M tax there over a decade creating a huge opportunity for us where we've got really great market position.

I call out those two cities, but I could call out any other city in the US pretty much and point to their infrastructure gap, their investment opportunities, and our great local team that knows them very well and has become trusted to solve their most complex programs, so I look at Water and Environment, very often those two things crossover, two of our other big markets. The opportunity is driven by the lack of water, which seems kind of incredible given the weather here makes me feel at home, but you look at, that droughts, the California WaterFix, you look at the
need for dams and then you look at the flipside of that coin and the ever increasing rate of big disastrous storms and flood protection whether it's in the Midwest or on the coasts rising sea level. Wastewater treatment, for those of you, who are the real fans of the technology of wastewater treatment, I'm going to come to that later, but it's a really strong market and for us, there's a lot going on because pretty much everywhere we look there's an infrastructure gap and people are looking to do more with less and we've got the capability to do that.

And a lot of that is driven by strong regulations. Our customers don't have a choice, but to do this, and that's one of the reasons we feel that we're really well-positioned across any likely economic cycle. Just to focus a little bit more on growth and I'll give you a couple of examples. It's the highlights of Troy and looking forward to the questions. But just to look at that growth side of things, we've been investing in building this business whilst we've also been transforming the operational side of things. We'd be delighted to be in a market leading position. We're delighted to be performing at record levels, but we know that what will set our stall out for the future is going to be our ability to keep ahead, to keep on innovating, to keep on getting to a position where we are still number one in five years' time and 10 years' time and 15 years' time.

As we look across pretty much every market and every client, we see these five themes driving much of what we're doing. Urbanization and the shifting demographics more and more people moving to cities, more and more strain on those cities. Issues like social equity, issues like homelessness and just the sheer demand that those increased populations put on cities. It's very often as you all know, those cities and their agencies can be a little bit fragmented, and we can be part of the thing that makes them come together and act more holistically. So cities is a big focus for us and driving things. At the back there you'll see some – later on you'll see some of our amazing leaders in the digital side.

We've seen this trend coming from three or four years, it's affecting as Lara and Michael said everything that we do for our clients, it is affecting everything that's happening to our clients. You think of transportation and you think of the impact of electrification and automation, and internet kind of connectivity, and what's that mean for parking and curbs and congestion and all of those things are really disrupting the markets in a way which we think is very beneficial to us, so digitization technology affecting everything that we do. Across all of our customers that infrastructure gap, they haven't invested enough, it's been well-documented year after year that gap is opening up. So the infrastructure, these new loads that are coming on is weakening, is aging and it's starting to show and it needs to be fixed that's why we're seeing all these measures increasingly getting the popular vote. And we're right in the middle of all of that.

Resilience by which I mean the impact of things like storms and cyber-attack and terrorism and rising sea level on every single thing, these amazing structures that we designed 20 or 30 years ago weren't designed for that. And that rework now, for the new things we're doing how we think about things differently that makes our current challenges even more complex, which is even better for us. And then sustainability the pressure on investors, on our clients through communities decarbonization, zero-carbon goals, try and reverse some of the effects that people are starting coming through.

And again that drives regulation clean up, PFAS is just one contaminant that we're dealing with. As we move forward, we look at this in two parts, the growth side and the operational side. On the growth side, we're focusing on expanding our core, there's plenty in our – right in our wheelhouse there for us to get after. And I think I probably talked enough about that that. There's some new revenue streams that's start to open up as a results of these changes in the market. PFAS on its own, the disaster recovery business for us, is a big and growing business we can't predict it. What we do know is over the last few years that load has risen dramatically, we expect it to come further forward as well.
On the city side, that focus on when we lose – on the odd occasion when we lose a major deal, what we – when we lose it for is not being close enough to the communities, not being close enough to the clients and not coming up with, if a city is going to spend $1 billion on major infrastructure, let us help them to make the biggest impact on the communities as well as getting the best technical capability in there. That holistic view, taking a city wide perspective very often we’re going out there as we’re doing in places like Miami and London and New York. And we’re saying, hey, why don't you do this program because that would make a lot of sense and we’re getting some traction there. So we’re starting with that sort of forward-leading thinking to really drive some of the agenda.

On the operational side, three areas of focus. On the technical excellence, yeah that is our service, that is the product, that is the heart of our business. And that is why we do retain and attract the best talent in the industry. So focusing on training and the use of technology and how we share knowledge and how we get it out to our customers and you’ll see just a glimpse of that after this presentation.

On the operational side, as things move forward, we need to flex, we need to adapt, we need to insert that technology, we need to get that rigorous risk focus that’s kept us on that transformational path. And then in terms of our organization, we're empowering, we've got some really great governance. And now off the base of our good governance, we're empowering our frontline leaders to really make the decisions and close to the client that will make them more effective, make our people -- make it easier for our people to do really good business and that's going to help us to generate these market leading returns that we've really done in our business in the last couple of years.

So like Lara just finished with a couple of examples, I'll now choose these two and I could’ve chosen another 50. Just yesterday, we closed out a competition we said to our teams, send us in your most innovative projects and we get 50, 60, 70 enthusiastic teams coming in with this amazing innovative ways of solving these complicated problems that are often market leading which are often delighting our clients and the top 10, each one of that top 10 could have made this list as well.

[indiscernible] (01:19:37) the automated best consortium because this is one of my favorites. This is where we've come together and connected our clients. One of the things our customers value about AECOM is our ability to connect them with the most worldly and what's going on in Jeddah, what's going on in Dubai, what's going on in Singapore and Sydney and London and I'll bring that to New York or Miami and they're very interested to hear that. Automated buses will come every agency is and every airport is looking at them and AECOM has that deep trusted relationship with them.

So we've been able to group in this instance 10, 11, 12 of our customers, who're growing number together and saying, hey, let's do this together. You don't want to have to repeat an assessment, of the safety hazard, the technology hazards, the procurement issues, how it affects your infrastructure, there's so much commonality to the problems that you're all solving and we know it more than anybody else. So come together then pay a fee to join and we get a high returning program, but it's a high returning that's intimate to our clients and really putting us on the front edge and making sure that we'll be right close to our clients for the next 5 years or 10 years as they tackle this challenge. Where this will lead, I don't know, but it could lead us in seven or eight really interesting areas.

And finally, the highlight of the show is obviously sludge and that may not seem too sexy to you but I'm afraid as a site engineer, it's very sexy to me. This is a technology where we brought together and we have Bev Stinson and some others out there who've really invented this stuff, clusters of these microorganisms, which when deployed in a way that we've patented allows our customers to treat wastewater much more efficiently.
Think about growing city or think about a land-locked wastewater treatment plants. Well, now we can treat the same amount of water with a third less real estate, which makes a huge difference. We're doing it in places like Utah and Washington, doing these trials. And not only is it allowing them to do more in less space, but also 15%, 20% savings in both CapEx and OpEx. So that's when great business technology and great client relationships and great innovation come together. And that's the sort of thing that we do in AECOM. So it's been a real pleasure to talk to you and I'd be happy to answer any questions afterwards. But now I think it's over to Troy.

W. Troy Rudd  
Chief Financial Officer & Executive Vice President, AECOM

Thank you, Steve. So you've heard this morning about the company going through a significant transformation. We're almost there. We'll be at it by the end of this next coming year. You've also heard about the incredible enthusiasm that there is for our business and the incredible opportunities in front of us. So my objective is to bring that together and tell you what our financial expectations are going to be from that future business.

So first of all, the Professional Services business going forward is going to be a combination of – what you've heard – the design business, formula design business and our Construction Management business. Our design business represents about 90% of our revenue, and when I talked about revenue I'm making reference to our self-performed revenue. So we refer to that as net service revenue or NSR. So that's our self-performed revenue. That business has fantastic franchises, it has phenomenal people science – scientists, engineers, designer and architects, it also has very high quality clients. If you look at the portfolio of clients about 60% of those clients are governments, where we've had longstanding relationships, we've done work for long periods of time, and we have great private clients. So that combination gives us a great platform for that particular business for the long-term.

In our Construction Management business – which we formerly called our Building Construction business, that business represents about 10% of our revenue and 10% of our profit moving forward, and again that's on an NSR basis. That is a business that is predominantly focused on the New York Metro market, the Southern California marketplace and a few marketplaces in between, it's also focused on aviation, and on sports construction. Now, that business I think has been very misunderstood and I think it's because it's referred to as a construction business. That is a business where we do work for our customers and it's really putting our fee at risk. So we may be responsible, we bring the white collar labor to those projects, people or construction managers are project managers and they manage the construction of those assets with our clients where we don't take responsibility for the subcontracting. We don't take responsibility for the materials. We work with our clients to buy those things out.

What we do is we put our fee on the table, agree that with the client and then proceed to build that project. If there are problems with that project, typically it relates to schedule, and that's when our fee comes at risk. So that is a business. That really is a Professional Services business. It doesn't fall in the category of what you think about as an at-risk or fixed price construction business. So moving forward, that's what we see as being the Professional Services organization, again 90% coming from formulary design business and 10% coming from our Construction Management business. You also look over the course of the year and you can see that we've improved margins in both of those businesses. And we expect to continue to improve the margins in those business because of the things that we've done over the course this past year and continue to do.

So this lays a fantastic foundation for improving the financial outcomes in that business. Then an important factor in looking forward and certainly in terms of our fiscal 2020 and 2021 performance is backlog, right. That creates
the foundation for revenue in the future. And in our Professional Services business this last year, our backlog grew almost 20%.

When you look at that a little bit further and dig into some of the details, you can see that our Americas business, our design business which is the largest component of the overall Professional Services business grew backlog or contracted backlog 8%. And there's a very, very strong relationship between revenue in the next 12 months and your contracted backlog.

So that gives us great confidence that when we build a plan that has low to mid-single digits growth in terms of revenue that we have the backlog to support that. When you look at our Construction Management business that backlog grew 45% year-over-year. And those projects typically have three-year or four-year lives. So with the addition to the backlog or significant increase in backlog, we can very predictably increase an improvement in revenue and we see double-digit improvements over the course of this next year. So that provides a great foundation for us to move forward.

I do want to just pause for a minute and answer a question that we frequently got over the last six months to nine months, which is how resilient is this business? How does it do through economic cycles or when there's a downturn? And the answer is this business performs incredibly well when you look – when you go through the downturn. And just use the example of going through the 2006 period through 2011. During that period there was clearly a very significant downturn, we looked at our business our business continued to grow through that period. Now this represents a pro forma of what was the AECOM design business, it was the URS design business, and then during that period of time, we added some Construction Management businesses, if we look back at that period of time and look at how they performed, this represents their pro-forma performance.

So if we look at this, we would perform well through a downturn, and the reason we do that is because we have large backlog, we have clients that we have longstanding relationships with, we have very low cancellation rates on the work, in fact, almost no cancellation rates on the work, and a lot of our work is actually mandate by regulatory requirements. So you combine all of that together and add typically in a downturn that governments invest in stimulus packages in infrastructure, it provides a great backdrop or effectively it creates a very resilient business that we have to move through a downturn.

So just to take a few minutes, we've talked about the improvement in the business over this past year and in particularly in terms of margins, so we saw dramatic improvement but that was driven by the fact that we undertook a restructuring of the business and it's been described throughout the morning, the actions that we've taken. So we deliver our work more efficiently, we operate the business more efficiently, we support the business more efficiently. But those actions we take and have a run rate impact. And those actions were improving the support service organizations, and adding a support services center in Manila, it was using design centers to perform more of our work. It was streamlining the operating structures that we had around the businesses.

And then the next big piece of that as you've changed that business is streamlining the real estate footprint. So all those things have improved, the margins in the business this year and the profitability, we see that moving on to improve the profitability of that business in fiscal 2020. And then as a result of those actions they continue to have a knock-on effect and if you look at our fiscal 2020 – fiscal 2021 year and our expectations, you can see that we expect our margins to be moving to the 13% area. And so that's operating margins as a percent of NSR. And again – and when we look at what our public peers are describing as their aspirations and again adjusting for things like the difference between GAAP and IFRS that we find that we on this path expect to exceed the margins that we're seeing in our larger and more competitive peers.
So going beyond that we see an opportunity to improve even further. So there's only so much that we can do in figuring out how do we run the business more effectively? And you can see that our 21 years that's sort of our expectation. We think we can get beyond that 13% mark. But what's the step change beyond that. The step change beyond that is what you've heard today from Steve and from Lara is that we are thinking about how do we take advantage of technology and innovation in two ways. One is how do we do our work differently? So one of the examples that you hear when you go outside today will be something called an anomaly detector. And what that is, is that's technology that we've created so that as we're doing designs, we can run it through the anomaly detector and determine where there are defects in the designs, which means two things.

One is, we don't have significant rework as we're finishing and completing the design plans to go to our customers. The second thing is as we get into construction, we've already identified where those anomalies or those defects might be. So it becomes easier as you start to design during construction or design for constructability. So it's a way that we're going to be able to improve the way that we deliver our work. The other thing we'll talk about outside the room is a digital library. So have been doing a lot of these projects for a long period of time and you capture that information, it gives you the opportunity to recognize that every design project doesn't have to be bespoke. It doesn't have to be designed from scratch by an engineer for a customer.

We can take the collective information and knowledge that we have and we can compress elements of that design out of the process, meaning that we take out costs. We also have the opportunity to change our customers thinking and how they price that. So we can capture some of that, keep it for ourselves and share it with our customers. The other thing we do is the technology adds related to customer initiatives or customer technology. And so again, Steve talked about sludge and it is actually a very exciting topic when you talk about it financially.

It's giving us the opportunity to go to a customer and say, look, you have to improve your throughput. Your population is growing and you have to deal with the wastewater problem. Would you like to be able to do that while having to incur significant CapEx that's going to take multiple years to expand your facilities, your capability or would you like to change the technology or the biology and be able to deliver something, with much less cost and much more efficiently in a shorter period of time. That's an opportunity for us to actually make money on sludge. So we look at those opportunities within our business. How do we deliver the work differently for our customers and how do we provide better solutions or technology that we can monetize or sell differently than we do today instead of selling hours for our clients? Those two things give us the opportunity to improve margins and go beyond that 13%. So as we believe we should hitting and it's not 15%, it's beyond 15%, as we continue to move and we'll define what this technology will look like. We have the opportunity to go beyond that.

So let me talk a little bit of fiscal 2021. We've given guidance for 2020. Based on what we've been doing in the business, our expectations with terms of revenue, we expect to grow at modest rates in 2021, building up the backlog that we have in our Professional Services business. We expect to see improvement in margins and we expect that to manifest itself in significant EBITDA growth. And if you go back over the course of the last three years, the actions that we've taken in the marketplace and the actions we've taken to change the business and the run rate or knock-on effect to that has us getting to a place where over a three-year period, we see double-digit improvement or double-digit CAGR in terms of the EBITDA.

The other important part of this is we're also focused on return on invested capital. And so, we expect the return on invested capital exiting the 21-year to be at a 13.5% rate. So that's fairly significant when you come off 2018 where the invested – the return on invested capital in our business at the end of 2019, the existing business was 8.5%. So, you can see that the impact of the backlog that we've built, the run rate of revenue, the actions that we've taken, the improvement of margins will have a fairly significant improvement in the return on invested capital across the business.
The other element of that as we move forward is also constantly reevaluating the businesses that we're in and the countries that we're in. So, we're going to be continued look for the opportunities to drive an improvement in return on capital.

And the last point I'll make is in this Professional Services business, it converts earnings to cash at a very consistent rate. We expect that we will convert unlevered free cash flow, so unlevered free cash flow being free cash flow of the business. The amounts attributable to AECOM, so removing the impact of minority interest and adding back the after tax interest expense that we would pay, it becomes the unlevered free cash flow. We see a 75% conversion rate compared to EBITDA and we see that being relatively consistent year-in, year-out.

So I want to take just a few minutes and talk about cash flow, starting with fiscal 2020 because it is a year of transformation, it's an unusual year for us. If we hadn't been changing the business, so exiting the – selling the Management Services business, exiting the at-risk construction, that we're the restructuring, we're undertaking, we would have expected the business to produce between $600 million and $800 million of free cash flow. This year is a little bit different and it's impacted by two things, so let me call it out.

Number one is, selling Management Services means that we won't have the cash flow from that business. It also means that we have had a program where we have been selling receivables in that business across all of the business consistently for the last four years or five years. And as we exit that we're going to be replacing the Management Services program with another program elsewhere in our Professional Services business. So during that period of time, that will have an impact on cash flow for the year. And the timing of that and the size of that replacement at this point we're working through, so it's unknown. We also have the restructuring as we incur cost to take out the stranded costs associated with the Management Services and other at-risk construction businesses and we have the restructuring related to our real estate portfolio.

So if you take all those things together and what was the business that was going to generate $600 million to $800 million in this year of transition or transformation, we expect to generate between $100 million and $300 million of free cash flow. On a normalized basis, we would have expected the Professional Services business to generate about $550 million of unlevered free cash flow. And again, so now moving to what does that business look like as we move forward. So if we took our Professional Services business and looked at our fiscal 2020 results on a normalized basis, again as I said we'd expect $550 million of normalized unlevered free cash flow.

With the expectation of improved profitability and improved margins in the business in 2021, we're going to expect an increase of about 14% in our free cash flow moving into 2021. So again, we've got a year of transformation this year in terms of cash flow as we move beyond this, we expect to grow our free cash flow and convert it at a very, very similar rate year-in year-out as we move forward. And again that free cash flow conversion is driven by a number of different things. If you think about the business that we have diverse end markets, right. So even though we might have things happening in the various places in the world, we have the ability to have consistent cash flow.

If you think about the types of services that we perform, in the services because it's a diverse portfolio of services and customers we have the ability to have consistent cash flow. And then, most importantly, if we look at our client base and we have a client base that is a well-established client base, it's funded by governments and funded by large institutions or public clients. So all of that together gives us very high degree of confidence in being able to convert earnings to cash flow as we continue to move into the future.
So Mike’s already touched in this morning and I’m just going to put it down in front of you again and just reiterate that our policy and capital allocation will remain unchanged. We are going to as a result of the Management Services sale delever the business 2.5 times to 2 times to 2.5 times on a net basis, and we’re going to deploy capital in the long-term to buy back stock.

Question is, why do we want to keep doing that? We think it’s a fairly obvious question or fairly obvious answer, and that is even though we’ve moved through this year and we’ve seen stock price improve substantially by hitting on the objectives that we set out at the beginning of the year and we believe selling MS has unlocked value, it's reflected in our stock price, we still don’t have a change in our belief which is, there is a tremendous gap between where stock price sits today and where we believe it should trade. And we have the opportunity again to allocate capital to the client to try and close that gap. So simply if you look at the average yield or unlevered free cash flow yield of our company compared to the S&P you can see that we're still substantially at a very higher yield. And so as we move forward, we expect to see that gap closed and we expect to devote our capital to continue to close that gap.

So just before we get the opportunity for Q&A, just to reiterate the five points the Mike started with. First of all, we delivered on our financial metrics this year, but more importantly, delivering on those metrics, we’ve created a platform that allows us to continue to grow and to deliver on those financial metrics, objectives in the future. We have a fairly substantial transformation we’ve gone through in the business this year. And we expect to complete that transformation during the course of this year. Exiting 2020 with a Professional Services business that you can see the results that I've already described. Number three is we’ve been investing in technology and innovation for the last three years. We'll continue to do that and we see it as a phenomenal opportunity for us to continue to improve the value of the business. And as you – as I have just laid out, there is a very strong plan for continued financial improvement financial growth. And then the last point here is, we continue to devote our energy and our focus to drive in an improved stock price.

So with that, I'll turn it over to Q&A. I think there's some microphones that'll come around the room.
QUESTION AND ANSWER SECTION

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.

Hi, good morning, guys. This is Chad Dillard from Deutsche Bank. So you guys laid out some long-term targets for operating margins about 150 basis point expansion to 2021, 150 over the longer term. And I just wanted to understand I guess just like what underpins that is that from the first part is that the margin expansion in the backlog, how much is kind of like the strategic actions, and then for the second leg of margin expansion though over the longer-term how much of that is driven by the technology?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Yeah. Chad, I don't think it's – we can give you a precise answer breaking it down. You've mentioned all of the key levers and they're all the right key levers but to try to breakout that by how many bps per lever is quite difficult, I think it's important to say, that we are working on all those. We're working on how do we get into the marketplace and change the way the market thinks about pricing, and today in our industry there is a predominant cost plus type mentality, how do we change that, and some of the technology you're seeing out here is how do we make sure that we retain the benefit of the efficiency that technology was passing it along to a client, it's moving to global design centers that Troy talked about, it's moving to our global business centers where we have 500 people and our global business center now will have 1,500 by the end of next year how do we continue to drive efficiencies throughout the business? And how do we continue to take costs out. But it's also making sure that we're getting out of markets that don't have the right margins and refocusing our energies.

You saw markets like Steve talked about in the Americas where our margins there are double what we see in certain international markets, so how do we take some of the resources we have in international markets and get them more focus? So I wish I can give you a very precise bridge by criteria but it's – I don't know that would be all that helpful, other than to say, we will be pushing on every single one of those levers and we have a high level of confidence that we will get to that higher number.

Chad Dillard
Analyst, Deutsche Bank Securities, Inc.

Yeah. And then just a follow-up for the longer-term. Just how are you thinking about the revenue growth between the DCS as well as the Construction Management business?

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Troy, we've given long-term revenue guidance?

W. Troy Rudd
Chief Financial Officer & Executive Vice President, AECOM

Yeah. We see overall the guidance we've given is long term guidance we see-low to-mid-single digits growth across that business. If you look into 2020 and 2021 in particular with the DCS business we're looking at single-digit growth, so low-to-mid-single digit growth and for our Construction Management business we're seeing double-digit growth beyond 10%.
Q – [0C4LTV-E Chad Dillard]>: Thank you.

W. Troy Rudd  
**Chief Financial Officer & Executive Vice President, AECOM**

And again just to add to that the point about the growth and the profitability of the business. That is built up based upon our expectation of our backlog and revenue, and it's based – built up based on the actions that we've taken and that we've planned. And that simply represents over the next two years the things that we have underway this year and leveraging we've done in the past year to get to that destination in fiscal 2021. But it's kind of as Mike said, it's all of those things together.

Michael S. Burke  
**Chairman & Chief Executive Officer, AECOM**

Andy you have a question here?

I've got a mic.

Michael S. Burke  
**Chairman & Chief Executive Officer, AECOM**

Oh, Greg's got the mic. Sorry. Sorry Andy, he jumped in here.

Greg Molinelli  
**Analyst, PRIMECAP Management Co.**

So you touched just briefly on this in Chad's question but I'm curious if you could give us a little bit more information on the spread between DCS Americas and DCS international margins specifically, I'm curious if you could give us some color around what that spread was say 18 months ago before you started closing geographies, where that is today, and what it looks like in the future as you approach the long-term targets you're targeting?

Michael S. Burke  
**Chairman & Chief Executive Officer, AECOM**

Yeah.

W. Troy Rudd  
**Chief Financial Officer & Executive Vice President, AECOM**

Yeah.

Michael S. Burke  
**Chairman & Chief Executive Officer, AECOM**

Go ahead.

W. Troy Rudd  
**Chief Financial Officer & Executive Vice President, AECOM**
Yeah. I'll take that. So the margins that we have in our largest business in the Americas business are higher than we've seen internationally. No question about that and it's driven by a couple of different things. First of all, the fact that it's a larger cylinder means that you have the opportunity to spread those costs to run that business over a larger base. Secondly, there are just – they're just kind of the competitive nature of those businesses they drive different margin profiles. So, I'll give you an examples, within the Americas, our Canadian business, and what we see in our Canadian peers, those margins and those businesses are higher than the – than they are in the US.

When we look outside the US, we see a profile that's different across all of the businesses. We'll see for example, in Australia, New Zealand we have a very high margin profile. We look into Hong Kong, it's a little bit of an anomaly in the current year because we've been forecasting a downturn in the business because of the political unrest, the margins are going to be a little bit lower there. But if you look what our expectations are, we expect our larger business and our North American business to be, I think 50% – 40% to 50% higher than we see them internationally.

But I think you have deployed different lens over that and the other lens deployed over there is return on invested capital, because just margins don't tell the complete story. If we look at the return on invested capital profile, margins feed into that, but the return on invested capital profile can be different based on margins. And so when we look at those all of those businesses, all those businesses meet our return on invested capital hurdle rate. So we believe that they're an important part of the portfolio because they meet that hurdle right and they contribute to an improvement of return on invested capital.

We haven't, as you said, for the last 18 months, we've been taking businesses out that don't meet that hurdle rate. And you see net improvement of margins and you're going to see that as a significant improvement of return on invested capital. As I said, our return on investment capital this year is about 8.5%. As we exit 2021, we see that being about 13.5%. That's a fairly significant improvement, it's driven by a bunch of those different factors,

But our international businesses that we're going to be focused on and investing in, we'll meet that hurdle rate and will get us to the end stake.

Lara Poloni
Chief Executive Officer-EMIA, AECOM

And Troy if I can just add. I mean even the UK business for example again despite Brexit, it features prominently in the top performing businesses, if we look at them through that lens of return on invested capital and I think just focusing on the international business, we have some very bold and aggressive targets in terms of continued margin expansion. We have, for example a – we had year-on-year very aggressive growth in the use of our global design centers, for example, so just the difference between last fiscal year and this we're up again another 40% that is a key lever for us in terms of margin expansion for sure. So as Troy said, some of those larger pieces of our international business. The ones that we are absolutely focused on, will continue to feature very prominently in terms of our ROIC metrics, that's absolutely our strategy.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Jamie – Andy, I think was next.

[indiscernible] (01:49:11).
Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Okay. Jamie doesn't even need a mic, but...

Jamie Cook  
Analyst, Credit Suisse Securities (USA) LLC

We're so nice to each other. I guess two questions. One your longer term margin target at 15% versus your [ph] tiers (01:49:22), what do you think differentiate – difference AECOM to be able to get margins higher than their [ph] tiers (01:49:27). And then when you talk about the level of investment, when you talk about technology investments like how do we think about investment going forward versus where it had been. And then I guess my third question is on the Construction Management business recognizing the backlog up 45% and it's a higher margin business relative to DCS today. Is there a view that you want to increase your mix of Construction Management versus DCS over the longer term, because that would be additive...

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

What was your last part of that question, Jamie?

Q – [05Q2D7-E Jamie Cook]>: Just the CM margins I think are 15%.

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Yes. Yes. Yes. The CM margin...

Q – [05Q2D7-E Jamie Cook]>: And my point is, is like in the backlog in that business grew 45%. So, is there do you want to grow that business, do you instead of being 10% of your portfolio over time, is there do you want to move it to 20% or 25% just because it's a high margin business and the backlog growth has been pretty good.

Michael S. Burke  
Chairman & Chief Executive Officer, AECOM

Yeah. So, I'll start with the last part of that. That business has been growing very significantly building up the backlog. I think a lot of us believe that markets, it's – is it getting later cycle and – but how we think about that when you have four years of backlog in front of you, you don't worry as much about a slowdown that you've got to deliver on that work. So, that is very typical you build up through the cycle. There's a slowdown in new orders, but you have to deliver off of. So I don't see it growing disproportionately to the rest of the business over a long period of time, but there will be anomalies in there like we've just seen with a significant growth in the backlog. And the first part of the question...

W. Troy Rudd  
Chief Financial Officer & Executive Vice President, AECOM

Yeah. It was our margins and competitor margins. So I can't speak to why our competitors are laying out those margin targets and what's behind that, but if you look over the course of last six months to nine months, the competition has been laying out targets. Now a lot of those targets have become difficult to understand because the companies have reported in IFRS are putting out EBITDA margins. And now under IFRS, operating lease expense is now depreciation, says nothing has changed in the business, but the margins have magically gone up...
300 basis points or 400 basis points. So when we looked at what they're guiding to, we normalize that this is what we see as the competitive landscape.

From our perspective, the things that we're doing are focusing on running the business much more effectively. So as Mike pointed out, our back office support for the business in Manila, if you go back a year ago, we had less than 200 people there. At the end of this year, we had 500 people there. By the end of this next year, we'll have – at the end of 2020, 1,000 people there at the end of 2021, 1,400 people there.

That's a fairly significant change in the business, in the cost structure of the business. So that's one thing that contributes to it. It's all these other elements that we've described that give us the confidence to get to those margins and then to go beyond that it is the investment in technology in how we run the business. Because the largest expense that we have as a business is our people. If we can figure out how to get our people to work differently on their projects deploying technology, it can be a meaningful improvement in how the business works and in margins.

So and how that's reflected in our CapEx, it's not really in our CapEx. It's part of the ongoing operating expense. So what it means is that we deploy some of the operating expense that we used to invest in the business into those type of innovations or those investments. So you don't see anything. We're not going to say well, we've got $100 million CapEx investment that's required for technology. It's built into the run rate of our business.

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Michael S. Burke
Chairman & Chief Executive Officer, AECOM

So, Jamie, just maybe to add on to that and let's get to Greg Molinelli's question earlier. Greg had asked me a question about the difference in margins between international and domestic. There's a lot to do when you're trying to compare to peers you have to understand the markets they are in both the end markets as well as the geographic markets. To Greg's point, we have many international markets where our margins are half of what they are in the US. But as Laura said, we may have a return on invested capital there that is very, very good. And so we like the return on invested capital.

But the actual margin percentage doesn't match up. And so as you start to extract yourself from certain markets that maybe have low ROIC and low margins you start to see that margin clicking up. We have a much more distributed footprint than many of our competitors. So places like Southeast Asia where the margins just aren't what they are here domestically, as we start to focus more on deploying our resources in the markets that have 15% margins, you start to close that gap.

Further to Greg's question, what were they like years ago? Well, if I look at maybe two years ago where I may have had margins in, I'm just using Southeast Asia as an example, there may have been half of what they were in the US. While the US margins have continued to grow because of the actions that Steve talked about earlier, at the same time the margins in other parts of the international markets have grown also. So they might still be half of what they are in the US, but they have both moved up through the restructuring actions that we've taken.

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Lara Poloni
Chief Executive Officer-EMIA, AECOM

I would say, there's also an additional piece that certainly Steve and I are looking at when we look at this focus on the core Professional Services and consulting part of the business going forward, we think that there is room for margin differentiation. And so, there's an element around pricing that we're going to look at increasingly going forward. We see there is definitely core repeatable design work and that's the focus of a lot of the offshoring of our work, which we are doing increasingly as I said. But there is definitely and we think we are in a very strong
position in terms of what we call true advisory and front-end services and that's the piece that we will look at in our DCS core business. That we think is capable of some pricing expansion, so that's certainly a common strategy of ours in the DCS business going forward as well.

Michael S. Burke
Chairman & Chief Executive Officer, AECOM

Great. Andy?

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Steve, so I know it's difficult to forecast backlog, but of course, that's our job. And so you look at that 8% growth that you've had in Americas and thinking about the sustainability of that backlog growth. You mentioned lots of things that you guys are doing, but the market's not growing at 8% I don't think. I mean I think it's a little slower than that. So how are you outperforming the market maybe specifically in transportation, in water, the PFAS is still pretty small. When it comes down to, I'm not sure that's moving the needle yet, but you tell me and then as you look at 2020 maybe you can give us some more color around the sustainability of that backlog growth?

Steve Morriss
Group President-Design & Consulting Services, AECOM

Yeah, when we look at the each of the core markets we talk about, all – some of them I think [indiscernible] (01:56:26) the Transportation Authority Association just released some pretty encouraging growth figures for the next few years for that core, transportation, transit, roads, market, that shows that growth is not far off that 8% number we talked about. We see opportunities for us where we are simply not getting the market share that we should be doing. And so there is a real substantial opportunity, so I look at the growth of the pipeline I look at every single part of our business and I don't see soft spots in terms of opportunity.

I see opportunities for us to do much more in the federal space is full of opportunity. We've got bid teams that we're having to increase by 10%, 15%, 20% just to keep up with the demands of the opportunities that we got and the ability to resource and share resources to keep up with that demand is really critical. So I think it's as much as anything about making market share improvements in areas where just we haven't gotten AECOM type share of the market yet. And that's a big opportunity for us. And to create a little bit of the market too there.

Andrew Kaplowitz
Analyst, Citigroup Global Markets, Inc.

Could you just give us some examples of that Steve like where the opportunities are?

Steve Morriss
Group President-Design & Consulting Services, AECOM

Okay. So I'll give you an example of our West Coast business. So compared to the scale and profitability of our East Coast business, we're under-representative relatively in the West Coast. And if you look at the focus in Measure M around LA and you look at the Sound Transit opportunities in Seattle you see some really significant opportunities where we're on a growth path, we got a great relation with the customer but we haven't got the scale of the business, we might have in MTA. MTA is expanding, and we've heard about that anyway Boston and so on, but that would be an example of an area where we are under-representative and we think we can take some more market share.
Lara Poloni  
*Chief Executive Officer-EMIA, AECOM*

You mentioned PFAS. I mean, I wouldn't underplay that. We think that's at least $160 billion market, we're really encouraging the team to be far more bullish than that. I mean, not just with their initial look at some of the key sectors such as defense and some of the industrial customers in particular. We think, particularly when we pull ahead of the competition in terms of just playing the consulting game that we’ve been playing for the last 15 years and you look at commercializing the technology that's where the big opportunities are. So, I think that's going to be a key growth opportunity for us for sure.

Andrew Kaplowitz  
*Analyst, Citigroup Global Markets, Inc.*

Great.

W. Troy Rudd  
*Chief Financial Officer & Executive Vice President, AECOM*

So, we're running out of time, just to make sure we've got people who have other commitments and there we see people departing the room. We've time for one more question. So, Pavel?

Pavel B. Blinchik  
*Analyst, Luminus Management LLC*

Thank you. I have a question about the margin development on the cost plus of the business. Maybe, I don't fully understand why moving execution to low cost service centers in Manila or reducing rework improves margins on the half of the business that is cost plus. Can you just elaborate on this?

Michael S. Burke  
*Chairman & Chief Executive Officer, AECOM*

That's a great question, Pavel. The business is pure cost plus, it does not. Full stop. It does not improve margins. On the work that we're doing for the private sector, design build type contracts it clearly does on the cost plus type work, it may give us a competitive advantage. If we have an ability to offer a solution and win more work and we're properly paid for and can keep maintain your margins, allow you to win more work, allow you to grow more quickly. Lara mentioned some of the work we're doing with Bain is around pricing strategy is trying to change the way the industry thinks about it. And it's difficult, because you've had a 50-year history of municipal clients that have thought about the business in terms of tell me what your labor rates are, add them all up, multiply it by 2.6, that covers all your overhead and everything else and we'll call it a day.

That is hopefully going to change. It's our job to try to change that. It's our job when we talk about the innovations you'll see in the symposium outside here. How do we get clients to pay us for that innovation if we're bringing a patented technology to the table like we have on the PFAS side. If you're bringing a patented technology, how do we make sure that they don't want to pay us just for the hours of the people, they want to pay us for the value we're bringing. We have to bring about change in the industry to fully realize those values. So, your point is spot on, Pavel.

Michael S. Burke  
*Chairman & Chief Executive Officer, AECOM*

All right. So, I think that brings us to the close. So, I don't know, some of us, I've got to get uptown to meet with our largest client here in the city. So, I know a number of us have commitments. Thank you so much for your time
today. Thank you for your continued interest in AECOM and we look forward to an incredibly bright future as we saw from presentation today, we have an incredible foundation, we have an incredible trajectory. Everything is heading in the right directions. And I think we have the future in front of us that's certainly much brighter than it has been in the past. So, thank you.