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ACM - Q4 2012 AECOM Earnings Conference Call

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## OVERVIEW:

ACM reported 4Q12 adjusted EPS of \$0.83. Expects FY13 EPS to be \$2.40-2.50.



## CORPORATE PARTICIPANTS

**Lynn Antipas Tyson** *AECOM Technology Corporation - SVP IR*

**John Dionisio** *AECOM Technology Corporation - Chairman, CEO*

**Steve Kadenacy** *AECOM Technology Corporation - EVP, CFO*

**Mike Burke** *AECOM Technology Corporation - President*

## CONFERENCE CALL PARTICIPANTS

**Tahira Afzal** *KeyBanc Capital Markets - Analyst*

**Andy Kaplowitz** *Barclays Capital - Analyst*

**Chase Jacobson** *William Blair & Company - Analyst*

**Steven Fisher** *UBS - Analyst*

**Andrew Wittmann** *Robert W. Baird & Company - Analyst*

**Saagar Parikh** *KeyBanc Capital Markets - Analyst*

## PRESENTATION

### Operator

Good morning and welcome to the AECOM fourth-quarter and full-year fiscal 2012 earnings conference call. I would like to inform all participants this call is being recorded at the request of AECOM. This broadcast is the copyrighted property of AECOM. Any rebroadcast of this information in whole or part without the prior written permission of AECOM is prohibited.

As a reminder, AECOM is also simulcasting this presentation with slides at the Investors section at [www.AECOM.com](http://www.AECOM.com). Later we will conduct a question-and-answer session. (Operator Instructions)

I would like to turn the call over to Lynn Antipas Tyson, Senior Vice President, Investor Relations.

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### Lynn Antipas Tyson - AECOM Technology Corporation - SVP IR

Thank you, operator. Before we begin I want to make sure that you are aware that we will be holding our annual analyst meeting on December 4 in New York City. If you have not received an invitation and are interested in attending, please let me know.

I remind everyone that today's discussion contains forward-looking statements based on the environment as we see it today and, as such, does include risks and uncertainties. As you know, our actual results might differ materially from those projected in those forward-looking statements. Please refer to our press release or slide 2 of our earnings presentation and to our reports filed with the SEC for more information on the specific risk factors that could cause actual results to differ materially.

Note that we are using some non-GAAP financial measures as references in the presentation. The appropriate GAAP financial reconciliations are posted on our website. Please also note that unless otherwise mentioned, all gross percentages refer to year-over-year progress, and all profit references are on an adjusted basis.

Beginning today's presentation is John Dionisio, Chairman and Chief Executive Officer. John?

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**John Dionisio** - *AECOM Technology Corporation - Chairman, CEO*

Thank you, Lynn. Good morning, everyone, and thanks for joining our call. With me today are Mike Burke, President; Steve Kadenacy, Chief Financial Officer; and Jane Chmielinski, Chief Operating Officer.

Before we begin our discussion on the quarter, I would like to take a moment to acknowledge the efforts of everyone involved in the recovery following tropical storm Sandy. The exceptional professionalism on display by everyone helping our communities recover is nothing short of inspiring.

As many of you on this call know, we have employees who live and work in areas that have been significantly impacted by this devastating storm, so we are particularly sensitive to its impact. We are working closely with our clients to ensure the affected areas recover stronger than they were before.

Now turning to our results. As you have seen in our press release, in the quarter we took a non-cash goodwill impairment charge. The impairment was isolated to two areas of our business, and it in no way impacts our ability to execute on a broader basis. Steve will discuss the charge in more detail in his section.

Our results for the quarter clearly demonstrate the progress we have made to drive our performance culture, committed to improve growth, profitability, and liquidity. Our client-centric focus drove a 3% increase in backlog to \$16 billion, supported by record wins in the Americas.

Our tight execution and improved program management raised productivity significantly. And our unyielding commitment to improve profitability lifted EBITDA margins to 12%, a record level for the fourth quarter.

Relative to liquidity, free cash flow was \$211 million, underpinned by the work we have done to sustainably improve cash conversion. And our balanced capital allocation strategy allowed us to invest \$62 million to repurchase 3 million shares of our stock.

These results demonstrate our strategy is working. However, as we plan for fiscal 2013 we do see headwinds in several developed and emerging markets. As a result we have taken a very pragmatic approach to our plan for fiscal 2013, with earnings per share in the range of \$2.40 to \$2.50.

On today's call Steve will review the quarter, including our goodwill impairment, as well as give an update on our margin and cash flow initiatives and details of our fiscal 2013 guidance. Mike will follow with a strategic overview of how our capital allocation priorities are driving improved returns. And then before we turn to Q&A, I will give you a snapshot of how our business is improving around the world.

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

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**Steve Kadenacy** - *AECOM Technology Corporation - EVP, CFO*

Thanks, John. Let me start off with the goodwill impairment. In the fourth quarter, in conjunction with our annual goodwill impairment testing, we concluded that an impairment of goodwill existed; and this resulted in the \$317 million after-tax non-cash impairment charge equal to \$2.88 per share.

The two drivers of the charge were our Management Support Services segment, or MSS, and our business in Western Europe. During the last few quarters MSS experienced a series of challenges that began with the precipitous withdrawal of US troops from Iraq last December. Though the pace of wins in MSS is healthy, we have not replaced the revenue lost from Iraq, and this has prevented the business from returning to previous profit levels. The business is growing, however, and we expect a sharp increase in profitability in fiscal 2013.

Within our EMEA segment, Western Europe has been buffeted by challenging economic conditions, particularly in the UK. We have worked aggressively to better align our cost structure, including leveraging talent across borders to improve productivity and enhance client experience.

Nonetheless, this business is now growing off a much lower base, and moving into 2013 the prospects for improved GDP growth in Western Europe remain low. Similar to MSS, however, we do expect a sharp increase in profitability for EMEA in fiscal 2013.

The two important takeaways from our impairment are, first, it does not affect our business operations, cash balance, cash flow, covenants, or our capital allocation strategies. Second, both MSS and Europe remain important parts of our business.

So turning to our results, during the quarter we posted strong growth in the Asia-Pacific region as well as power, energy, mining, and transportation markets. We also had better cost leverage in the US and Europe, and our Management Support Services segment showed a sequential improvement in both growth and profitability.

Net service revenue of \$1.3 billion was down 1% year-over-year and up 1% sequentially. On a constant currency basis, organic NSR was flat.

Adjusted operating margin improved 245 basis points sequentially, driven by our cost containment actions. Adjusted EPS was up 11% year-over-year to \$0.83, a 32% increase sequentially. We delivered \$211 million in free cash flow, achieving our fiscal 2012 goal of free cash flow equal to net income.

Our backlog at quarter-end was \$16 billion, up 3%.

Looking at the segments, PTS net service revenue decline 3% year-over-year and increased 1% sequentially. The highlight for PTS this quarter was the year-over-year and sequential improvement in profitability.

Adjusted operating margins reached 12.1%, and a 96 basis point improvement year-over-year and 183 basis points sequentially. This improvement reflects the benefit of actions taken this year across the board to better align our cost structure with the realities of the markets in which we participate, and it positions the business well as growth accelerates.

Moving to MSS, we have worked aggressively to adjust overhead, which has allowed us to better align our costs with our current revenue base, making us more nimble and competitive as we capture new growth opportunities. As a result, gross revenue was up 11% year-over-year and 5% sequentially; and NSR was up 10% year-over-year and 2% sequentially. Profitability also dramatically improved on a sequential basis, as operating income tripled and adjusted operating income margins improved by over 500 basis points, albeit off a low base.

Now let me turn to the progress we have made to increase our operating leverage and effectiveness, with the objective of improving overall EBITDA margins by 200 basis points, a target we set for ourselves in 2011. Over the past several quarters we focused intently on project execution and utilization.

In PTS, for example, project margins were up 100 basis points sequentially; and companywide we delivered a 400 basis point increase in our utilization rate. Real estate consolidation and the migration of more support activities to our shared service centers also contributed to our strong margin performance. All of these achievements underscore the earnings power of our model when we have even modest growth.

Turning to cash flow, in the quarter we generated \$211 million in free cash flow, aided by a one-day sequential improvement in days sales outstanding, which ended the year at 91 days. We continue to target 80 days of DSO by the end of the fiscal year 2013, which is an aggressive goal, but we do believe it is achievable.

On a full-year basis free cash flow totaled \$370 million, well exceeding our goal. This marks the second quarter of very strong free cash flow, and our teams are working hard in every aspect to improve our working capital.

Additionally, in late September we resolve the outstanding audit issue with the US government related to the CSA project. In the first quarter we collected \$28 million of the \$104 million balance, and we expect to collect most of the remaining balance in 2013.

Factoring contributed \$28 million to our free cash flow number. I want to highlight that we view our factoring program as strategic, and it is our intention to use it when it is cost effective.

In particular, we might use it to reduce the negative impacts of milestone payments or other onerous working capital terms within contracts. Over the long term however, I expect factoring to have a de minimis impact on our cash flow and DSO.

This brings me to guidance for fiscal 2013. For the year, we are targeting earnings per share in the range of \$2.40 to \$2.50. At the low end of our range we assume flat revenue, and at the high end we assume modest top-line growth.

We will continue to focus on cost, productivity, and improved business mix. However, with slower top-line growth we expect our blended EBITDA margin for the year to be steady with full-year 2012.

As is customary for us, our recent acquisitions, which were small, are assumed to be GAAP-neutral in year one but cash accretive. For the year we are planning a tax rate of 29%; and based upon repurchases completed to date we are assuming a full-year share count of 106 million.

With respect to the seasonality of our earnings, we expect the first quarter to contribute about 12% to our full-year earnings, a bit below our historical pattern. This is being driven primarily by three things. First, we expect to have a higher tax rate in the first quarter. Second, we will only have a partial benefit from our recent share repurchases. And the third driver relates to costs we expect to incur as the result of the slowdown in the mining sector.

Lastly, like fiscal 2012, we expect full-year free cash flow to equal or exceed net income. In summary, our progress this past year on margins, DSO, and free cash flow has expanded the possibilities relative to our capital allocation strategy. And with that let me turn it over to Mike.

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**Mike Burke** - *AECOM Technology Corporation - President*

Thanks, Steve. Building on our capital allocation discussion last quarter, I would like to share with you how we are benefiting from investments which we are making to drive profitable growth and attractive long-term returns. In 2012 we strategically deployed our capital to organic investments, share repurchase, and M&A, with a primary emphasis on share repurchase.

Looking at organic investments we are focused on business development pursuits that exhibit strong long-term growth potential, while also continuing to make significant investments in our traditional core infrastructure markets. Let me highlight three of the many examples where we have increased our organic investments.

The first is healthcare. This sector represents \$95 billion in annual construction spending around the world, with growth potential in both developed and emerging markets. Three years ago we had virtually no presence in this sector, and now we have advanced our capabilities from architecture to building engineering and construction management. We are now successfully exporting this expertise to new geographies, with recent large-scale hospital projects in China and Saudi Arabia.

The second area of organic investment is major sporting venues. Vibrant national franchises in most countries, combined with over 20 major international events in any four-year period drive annual capital expenditures in excess of \$20 billion. Major international events require significant investments in infrastructure, which aligns well with our core civil infrastructure capabilities.

In the US we have designed more sports arenas for the NBA than any other firm. For example, in September the AECOM-designed Barclays Arena opened in Brooklyn, and we were recently appointed to design a new sports and entertainment complex in San Francisco.

A third area of organic investment is alternative delivery. In North America alone we are positioned for 15 public-private partnership pursuits in the near term with total CapEx of over \$13 billion, almost double last year's pipeline. Over the past year we have strengthened our P3 platform in several important ways.



First, key strategic hires have bolstered our on-the-ground delivery resources, and we established a Spanish design center that has aided our cost position and enhanced our relationships with major P3 contractors. Our leadership position in P3 is just one example of our commitment to core social and civil infrastructure markets.

Last month Meridiam, the infrastructure fund we helped start in 2006, closed its latest North American infrastructure investment fund, totaling \$1 billion in commitments. They now have over \$3 billion under management globally.

Most recently we established AECOM Capital, a wholly-owned fund to explore new investment opportunities to jumpstart certain private sector and P3 projects which complement Meridiam's activities. This gives AECOM additional capabilities to solve client needs and provide a broader spectrum of services to our clients.

Next we deploy capital to repurchase our stock. Through November 9 we have repurchased 5.8 million shares under the current authorization, and since the inception of our program in 2011 we have repurchased 15 million shares, reducing our outstanding share count by 13%. Over time, once we complete the balance of our current authorization, this could approach 20%. Our capital allocation priority right now remains share repurchase.

Lastly, turning to acquisitions, as we mentioned on our third-quarter call we have geared back our capital allocated to M&A. However we did close on two previously announced small strategic deals in the current quarter.

Last month we acquired KPK, with over 600 people. This acquisition strengthens our presence in Southeast Asia, especially in construction services.

Last week in Africa we acquired the engineering firm BKS. This 800-plus-person firm expands our infrastructure capabilities in sub-Saharan Africa, giving us a new platform for growth, including localized support for our multinational clients with projects in the region.

Taking a step back, perhaps the most important attribute of our balanced capital allocation strategy is that we have been able to maintain a very strong balance sheet, which is particularly important in times of economic uncertainty and volatility. At year-end our cash and cash equivalents totaled \$594 million, and undrawn borrowing capacity was \$990 million.

We continue to believe that our business model can optimally support financial leverage in the 1.5 to 2 times net debt to EBITDA range. We ended fiscal 2012 at 1 time net debt to EBITDA.

Looking to fiscal 2013 and beyond, we are firmly committed to deploying capital in ways that will drive profitable growth, enhance our competitiveness, and improve returns over time. I am confident the capital we invested this past year makes us a much stronger AECOM as we head into fiscal 2013.

With that I will turn it over to John to discuss our markets.

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**John Dionisio** - AECOM Technology Corporation - Chairman, CEO

Thank you, Mike. Now let me walk you through our three geographies, the Americas, EMEA, and Asia-Pacific, so I can highlight where we have added capabilities to strengthen our competitive advantages.

Let's start in the Americas. Combined with our MSS segment, this region accounts for 50% of our business. Our team drove a 50% increase in wins, reaching an all-time record level of \$2.3 billion.

We saw particular strength in North American construction projects focused on healthcare and multiunit residential developments. Additionally, our US transportation business recorded its highest level of wins in five quarters, as our deep expertise and long-term client relationships helped increase business in the quarter.



The commercial market continues to gradually improve, particularly in our US Northeast market. For instance, the New York Building Congress forecasts construction spending in New York City alone will exceed \$30 billion this year, for the first time since 2008. This is partially driven by an all-time record spend on non-residential construction; and this amount does not include what will have to be spent to rebuild after tropical storm Sandy.

As Mike noted, the backdrop for public-private partnership continues to improve across North America. The recent US Highway Reauthorization spurred 19 letters of interest for TIFIA loans in only three months, representing CapEx in excess of \$25 billion.

Our Canada business is benefiting from a more established public-private partnership model as well. During the quarter we announced our assignment as lead designers on the \$1.8 billion Edmonton Ring Road, which leveraged our long history working for Alberta Transportation and Meridiam's role as an equity sponsor.

Just last week we announced a \$58 million contract with NASA, a 20-plus-year client for whom we will be providing a broad cross-section of services including master planning, engineering design, facility utilization, and real property management. This is a great example of how clients are increasingly turning to AECOM for our integrated services capabilities. The solid new business performance and increased demand for public-private partnerships point to a stronger future in the Americas.

Now turning to Europe, the Middle East, and Africa. EMEA, which represents 22% of our mix, encompasses markets that are operating at different speeds. Region-wide, backlog was up 16% driven by a more refined market sector focus and targeted business development investments.

An example of how we are harnessing our global delivery model in the region is the \$85 million construction management assignment for the Abu Dhabi Midfield Airport Terminal. The 7.5 million square foot terminal represents approximately \$3 billion in capital expenditure. AECOM's global network was crucial to this important win, as the project team drew upon aviation and construction management expertise from four continents.

In Europe, increased cross-geography collaboration and a sharper market sector focus have driven a steady increase in the average project value in our pursuit pipeline. And now our top 11 pursuits represents over \$1 billion in fees. Our teams in Europe continue to innovate and generate new opportunities locally and abroad.

In Africa we made further progress, expanding our footprint as we won a key port assignment in South Africa by leveraging our existing client relationships in Africa and transportation teams in North America and Australia. This win was also aided by the addition of the local engineering expertise of BKS to the AECOM platform.

Looking at Asia-Pacific, which accounts for 28% of our business, this region was a standout again this quarter, posting double-digit net service revenue growth. New wins increased over 40% in Asia and drove a book-to-burn ratio of 1.3.

Our expansion in the region continues to benefit from our global network. For example, by leveraging AECOM's relationships from the US hospitality and gaming sectors, we recently won new assignments in Mainland China and Macau.

As Steve mentioned, we are seeing an industry-wide slowdown in the mining sector. Historically this has been a very strong market for AECOM; however, the slowdown has driven down CapEx forecasts for 2013, negatively impacting our growth. We are committed to this market and do expect it to rebound in the future.

So these are just a few of the many examples of how we continue to invest in capabilities that allow us to better leverage our global footprint and presence in key end-markets. Our geographic structure is driving better alignment across our organization, allowing us to improve even more value to our clients by enhancing execution and delivery no matter where they are.

As Mike mentioned, we continue to invest organically in strategic growth areas such as healthcare, sports, alternative delivery, as well as other areas where we expect significant opportunities over the next decade. Our results this quarter demonstrate our ability to enhance our competitive advantages and optimize our operating and financial performance, anchored by a focus on disciplined growth and improved returns on investment.



With that I'd like to open the line for questions. Operator, please open the line.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Tahira Afzal, KeyBanc.

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### Tahira Afzal - KeyBanc Capital Markets - Analyst

Good morning, folks.

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### John Dionisio - AECOM Technology Corporation - Chairman, CEO

Good morning.

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### Tahira Afzal - KeyBanc Capital Markets - Analyst

I know your stock might not reflect this today, as of right now. But congratulations; I think you did a good job in the quarter.

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### John Dionisio - AECOM Technology Corporation - Chairman, CEO

Thank you.

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### Tahira Afzal - KeyBanc Capital Markets - Analyst

The first question is, you have touched a bit on some of the moving parts of free cash flow in terms of collections for fiscal year '13. Would it be possible for you to really directionally provide some details on free cash flow as we look forward, given that you have seen a nice recovery in the second half of fiscal '12?

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### Steve Kadenacy - AECOM Technology Corporation - EVP, CFO

Sure, Tahira. This is Steve. We are still looking for improvements or at least a steady state in the coming year. In the script I mentioned that we expect free cash flow to equal or exceed net income again.

We still have room to go on our days outstanding. We closed the year at 91; we are still targeting 80 days. That is an aggressive target, but we think it is achievable.

The CSA -- we also mentioned the large audit issue that we resolved. If that had resolved during the year we would be at approximately 86 days right now.

So we still think there is opportunity there, and we are very, very focused on continuing this trend. It may not be the same every quarter; cash tends to be seasonal for us, so I would expect our first quarter not to have significant cash flow, as has been the case in the past. But we will ramp up during the year.





**Tahira Afzal** - *KeyBanc Capital Markets - Analyst*

Got it, okay. The second question is really in regards to Hurricane Sandy. Clearly you do a lot of work on the infrastructure side in general. But with Tishman you probably have a sizable amount of exposure to New York City and surrounding areas.

I know it is too early to say anything in general. But given that Bloomberg's [council] is planning on spending \$500 million on hospitals and schools in the vicinity and is asking for \$30 billion for restoration work, how do you see your role and potential opportunity for this?

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**John Dionisio** - *AECOM Technology Corporation - Chairman, CEO*

AECOM has an indefinite quantity contract with FEMA, and we are in discussions with them in terms of being assigned either a region in New Jersey or in New York. We also have begun some discussions with New York City to work with them in terms of the reconstruction.

So we anticipate that there will be a significant amount of work, as you know, just to get these poor people back in houses and put the infrastructure back in a state of repair.

So AECOM will be playing a role. And over the next few days and next week that will crystallize a little bit clearer.

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**Tahira Afzal** - *KeyBanc Capital Markets - Analyst*

Great. Last question and then I will hop back in queue. You talked a bit in your prepared commentary about sports arenas, etc. Could you talk about the opportunity in Brazil with the upcoming Olympics [yourself]?

The first message coming out of there is there's a lot of congestion and a lot of work that will need to be done to really prepare the city, to prepare Rio for the Olympics.

Secondly and this is still a little far out, but as you look at the Olympics post-that, which could potentially be in Turkey, given your positioning in the Middle East could you talk a bit about that as well? And thanks.

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**Mike Burke** - *AECOM Technology Corporation - President*

Sure, Tahira; it's Mike. I will take that question. As you know, we were the master planners for the London Olympics which led us to win the master planning assignment for the Rio Olympics also. So we have started on that project, and it is a fairly significant planning project, as you can imagine.

We are hoping and expecting that that project will lead to many other assignments in Brazil relative to the Olympics, whether it be the facilities themselves or the enabling infrastructure, which is our core market. As I mentioned earlier in the call here today, the enabling infrastructure is where most of the money is spent, and there is no question that need exists in Brazil.

With regard to Turkey or Istanbul as a potential for the next Olympic bid, we are -- as is typical in this process -- working with a few different countries, helping them position themselves for the next Olympic bid. So that is an area of expertise given that we have worked on just about every Olympic Games for many decades now. So that is an opportunity for us.

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**Tahira Afzal** - *KeyBanc Capital Markets - Analyst*

Thank you very much.

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**Operator**

Andy Kaplowitz, Barclays.

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**Andy Kaplowitz** - Barclays Capital - Analyst

Good morning, guys. John, if we could talk about Asia a little bit more, I mean you have that strong growth there; you talked about double-digit growth. One of the big drivers of your business has been a region like Hong Kong or -- how do you look at that business going forward? Still see strong growth generally in that region?

Then maybe if Steve could give us a little bit more clarity on what higher costs in 1Q mean for mining. How do we think about that? How much of the lower earnings is associated with the mining costs versus revenue?

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**John Dionisio** - AECOM Technology Corporation - Chairman, CEO

Andy, regarding Asia, we had I think 20% growth in Asia last year; and we are looking at similar type of growth in Asia. As Mike mentioned, we acquired a small firm, about 800 people, KPK. It's primarily located in Singapore and Malaysia, which gives us some construction capabilities.

The Asian market, Asia/Southeast Asia market remains strong in FY '13 and looking into '14. They continue.

China, whatever numbers you want to believe, looking at a 7% growth; but still it is a big number. And we continue to have infrastructure projects both in China, in Hong Kong. We have a presence in Taiwan. We are growing our presence in Singapore and our offices in India.

So looking over the next 18, 24 months, Asia remains a very strong market for us. It is not what we believe is going to happen; when we look we see it in terms of the backlog that we have and the opportunities that present themselves going forward.

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**Steve Kadenacy** - AECOM Technology Corporation - EVP, CFO

To the second part of your question -- this is Steve. The majority of the costs associated with the first quarter lower seasonality is personnel expense. That is both an overhang of personnel as we ramp down but have lower utilization, as well as severance expense.

There is a little bit of higher tax rate. But the real downtick from our normal seasonality is that rightsizing in the mining business.

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**Andy Kaplowitz** - Barclays Capital - Analyst

Steve, would you care to quantify or no?

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**Steve Kadenacy** - AECOM Technology Corporation - EVP, CFO

I would -- in terms of the percentages you might take, if our normal seasonality is around 18% and we are quoting 12% here, you might put 90% of that to the cost factor.

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**Andy Kaplowitz** - Barclays Capital - Analyst

Okay, that is very helpful. So I too I am trying to figure out the reaction of your stock here. I am sure some of it has to do with the impairment. So let me ask you a question like this.



How do you get comfortable? So I mean we know how impairments work; once a year you have got to do the test. How do you get comfortable that we won't have this type of issue again?

I think we are all aware that Western Europe is weaker and that MSS has more uncertainty. But we also know that AECOM has grown through acquisitions over time, so maybe one of the fears is that you might have this come up again. So how do you get us more comfortable with the transparency of the portfolio as we go forward?

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**Steve Kadenacy** - *AECOM Technology Corporation - EVP, CFO*

We perform this analysis every fourth quarter, as you mentioned. And we have taken in terms of our forecast a pretty conservative approach to those forecasts that resulted in these impairments.

There is nothing that we see on the horizon now that would give us reason to believe in the near future, or even in the next three to five years, that we would see an impairment. That doesn't mean something couldn't happen. But for us we are pretty comfortable this is behind us.

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**Andy Kaplowitz** - *Barclays Capital - Analyst*

Okay. John, one more quick one. Customers seem to be signing up projects pretty well. I mean you had sequential backlog improvement here.

But are they still dragging their feet in actually starting up the projects? Are you still seeing that? Is that one of the reasons for some caution as we go into next year?

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**John Dionisio** - *AECOM Technology Corporation - Chairman, CEO*

No; I think one of the -- if you look at the Americas and you look at the infrastructure market, the fact that the Transportation Bill was passed, that gives more assurance of state and local governments, a visibility in terms of spending. So we seeing the logjam break here in the Americas.

We are also seeing -- I mean, it is still too early to tell. But there are some optimistic signs of new projects developing and starting up in Europe and in the UK, and also the Middle East where things had been a big sluggish but they are seeming to pick up.

The one area as we mentioned in the prepared remarks that we have a bit of a concern is in Australia. As was said, it's from the mining market which we feel will come back. But the mining market gets turned on and off like a lamp, and we believe it eventually will come back as soon as people get more comfortable with what is occurring in China and India.

So it is -- going into '13 when we reflect on the wins that we had in '12 and the backlog we have, we feel a little bit more positive about '13 than we did '12. Again, that all depends on what happens here in the United States come December 31.

And also someone just gave me a note saying that our backlog in NSR is up 8% year-over-year. So that is a positive.

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**Andy Kaplowitz** - *Barclays Capital - Analyst*

Really appreciate it, guys. Thank you.

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**Operator**

Chase Jacobson, William Blair.



**Chase Jacobson** - *William Blair & Company - Analyst*

Hi, good morning. I really have one question, focused on the margin, the steady EBITDA margin assumption in the 2013 guidance. I understand that revenue is going to be flattish, but I was a bit surprised to see that EBITDA margin steady, given some of the cost savings initiatives as well as the fact that the issues in MSS are rolling off in 2013.

So I was wondering if you could just talk a little bit about why that is flat and maybe specifically address how much of the planned 200 basis point improvement in margin comes from cost savings versus productivity improvements. Thanks.

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**Steve Kadenacy** - *AECOM Technology Corporation - EVP, CFO*

Chase, this is Steve. Listen, I think you started off with the main point is that we have flat revenue growth, and that is resulting from a tough economic environment.

The cost initiatives that we put in place are driving savings. What they are doing is enabling us to compete in these tough economic headwinds, which you see by the rising backlog. So we continue to win. But the margin initiatives that we have had in place don't fall to the bottom line yet, because the market is more competitive.

We will continue with these cost initiatives. A lot of them, including the real estate, ramp up over time. We took out 7.4% of our real estate portfolio in FY '12, but the savings really start to tick in towards the latter half of FY '13 and '14.

So we will continue, but I just want to highlight one thing. We are taking a pragmatic approach to steady margins with the year. In the previous year also, by the way, we had ins and outs. There were some things that happened that we don't plan for that benefited us in FY '12.

But also recognize that we have seasonality in our business. And as we ramp up towards the end of the year you will see margin start to pick up again. But the restructuring enhance in Australia in the mining business will have an impact. So we are taking a pragmatic approach with the flat margins.

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**Chase Jacobson** - *William Blair & Company - Analyst*

Okay. I mean it seems like the impairment charges in Australia are relatively small on a full-year basis. I mean, is there anything on the pricing or competitive side that we should be paying attention to?

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**Steve Kadenacy** - *AECOM Technology Corporation - EVP, CFO*

Nothing that I think we haven't seen for the past year. It's a competitive marketplace out there, but we are holding our own.

The other thing I might add, as growth returns the way we have structured the business right now margin will come very quickly. For every 50 basis points of margin you will add significant -- I think it is \$0.12 of EPS. So we will see what happens during the year.

Also just a note on your comment on Australia. It is not an impairment. We are downsizing some heads in Australia to match the business; but we are not taking an impairment.

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**Chase Jacobson** - *William Blair & Company - Analyst*

Okay. Sorry about that. Thanks.

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**Operator**

Steven Fisher, UBS.

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**Steven Fisher - UBS - Analyst**

Hi, good morning. Your overall revenue guidance is flat to up slightly. Wondering if you could just give us a sense of that, how that breaks out by region?

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**John Dionisio - AECOM Technology Corporation - Chairman, CEO**

We haven't typically given guidance by region, but I think John walked you through kind of a trip around the world and what we are seeing, where the headwinds are. I would say it is fairly consistent with John's walk around the world.

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**Steven Fisher - UBS - Analyst**

All right. I guess maybe to follow up then, in your press release you mentioned the challenging environment in the US in PTS. But really, based on the commentary it sounds like it is okay and there is a number of things to be optimistic about.

So I guess I am just wondering where you are seeing the particularly challenging parts of the US market for PTS. Is it more a revenue pressure? Or is it pricing? Or does it just boil down to the federal business in general?

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**John Dionisio - AECOM Technology Corporation - Chairman, CEO**

I think the way we look at the -- when we spoke about the US market it included the federal business. And even though our MSS business is improving over '12 it is still not getting to the levels that we had anticipated a year ago.

We are very -- we are cautiously optimistic about the entire transportation market as a result of the Transportation Bill passing, as I mentioned. But again a bit of a concern we have is what happens with the cliff that we are heading for in December 31. Will that be resolved?

So if there is any major cuts with the sequestration, even though our MSS business is relatively small it still will have some impact on not just the Americas but the global economy. So I guess when we look at the future, there are a lot of things that are going -- that are positive. As I mentioned, the wins and the backlog.

But there are some headwinds. There is a headwind here in the Americas. There is a headwind in Australia. And we are still just seeing some improvement in Europe, but again it is too early to start celebrating.

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**Steven Fisher - UBS - Analyst**

Because the comment in the press release about the challenging environment is under the PTS section. So I am wondering, are you assuming that the fiscal cliff would affect your business in that?

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**John Dionisio - AECOM Technology Corporation - Chairman, CEO**

I think the fiscal cliff will hit everybody's business if we have sequestration. I think right now -- I don't mean to be forecasting the future, but it just doesn't bode well when you think about the amount of spending cuts that will occur and how that could permeate into other places of our business.

Remember not only -- our federal business is just not in MSS. We have a piece of our federal business in our PTS business.

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**Steven Fisher** - UBS - Analyst

Right.

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**John Dionisio** - AECOM Technology Corporation - Chairman, CEO

So again, these are the types of things that we consider. And we try to mitigate the risks and make the investments outside the United States. But again it is a concern.

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**Steven Fisher** - UBS - Analyst

Okay. Then Steve, I know you said it is possibly aggressive to get to the 80 days by the end of the year. But if you do I think you have previously quantified that that should be about a \$270 million pick-up, getting to that 80 days.

Should we assume then that if you do, that your cash flow would then be significantly above net income for fiscal '13?

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**Steve Kadenacy** - AECOM Technology Corporation - EVP, CFO

I have tried to hedge that a bit because DSOs don't always fall straight to free cash flow. To give you an idea, on the CSA project where we had \$104 million out, a lot of our subcontractors on that are on a pay-when-paid basis. So that \$104 million doesn't drop to free cash flow completely.

But having said that, DSO in general -- you are right -- does contribute cash. And in a steady DSO environment you ought to get -- approximate net income, and in a declining DSO environment you should exceed.

So do I think we will exceed by that 10 days times our -- the dollar value of that days outstanding? Probably not. But we should at least meet net income for the year.

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**Steven Fisher** - UBS - Analyst

Okay, thank you.

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**Operator**

(Operator Instructions) Andrew Wittmann, Robert Baird.

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**Andrew Wittmann** - Robert W. Baird & Company - Analyst

Hi, so just one other thing about the EBITDA margin guidance again, maybe a little bit different way. Steve, just based on your commentary about the seasonality and the 90% of the difference in seasonality being due to the reductions in the mining group, I don't know exactly how much that is, but it seems like a pretax number of somewhere around \$20 million or about \$0.15 of seasonality for the quarter. That comes out to about 30 or maybe 40 basis points of EBITDA margin improvement.

So is it fair to think about this, that margins would have been up 30, 40 basis points without the first-quarter charges that you are looking at?

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**Steve Kadenacy** - AECOM Technology Corporation - EVP, CFO

I haven't done the exact math that you just did, but I think it is fair to say without charges relative to that rightsizing of the business our margins would have been higher.

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**Andrew Wittmann** - Robert W. Baird & Company - Analyst

Are there any other -- in the EBITDA guidance any other charges that are baked into that, that might be coming later in the year, that you are contemplating?

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**Steve Kadenacy** - AECOM Technology Corporation - EVP, CFO

No, we have disclosed everything that we know about today in our guidance.

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**Andrew Wittmann** - Robert W. Baird & Company - Analyst

Okay. Then just in terms of the factoring, I think you mentioned that it was a \$28 million benefit for the year. But that doesn't necessarily mean that there wasn't factoring that happened in the fourth quarter.

Can you just talk about what factoring, if any, was done in the fourth quarter and how that works through your cash flow statement?

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**Steve Kadenacy** - AECOM Technology Corporation - EVP, CFO

It was about the same size as the previous quarter.

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**Andrew Wittmann** - Robert W. Baird & Company - Analyst

Okay. Does that mean from an accounting perspective that basically you moved a receivable to a payable, since it was -- the net number was in the same range?

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**Steve Kadenacy** - AECOM Technology Corporation - EVP, CFO

No, we sold -- we sell the receivables. What it means is that some of those receivables that we had sold in the first quarter came through, and then we passed the cash on to the banks.

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**Andrew Wittmann** - Robert W. Baird & Company - Analyst

Got it. Then just a couple other things on the cash flows. In terms of the operational changes that you have made, with more focus, I think you mentioned that you beefed up some of your staff on the accounting side. How rolled out are those plans in terms of getting after this cash opportunity? Are they fully rolled out, mostly rolled out? Can you just give us some color there?

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**Steve Kadenacy** - AECOM Technology Corporation - EVP, CFO

I think it is one of those things that you have to have complete focus on and continued focus on. So we have rolled out a lot of initiatives and we will continue to hone those over time.

It is in the DNA of the Company now from a culture standpoint, and I think the biggest change this year or the new change is that it in all of our performance-based plans for every executive in the Company, whether it is a cash performance or an equity performance plan, 50% of that is cash-related now. So that balance is there, but we will continue to execute at the ground level.

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**Andrew Wittmann** - *Robert W. Baird & Company - Analyst*

Okay. Last question was on the IDIQ backlog. I noticed that it took a step back here by I guess it was about \$3 billion. Just wondering what that was and why that came out, if you could just give us some color there. Thanks.

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**Steve Kadenacy** - *AECOM Technology Corporation - EVP, CFO*

From a quarter-over-quarter standpoint you are saying?

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**Andrew Wittmann** - *Robert W. Baird & Company - Analyst*

Yes.

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**Steve Kadenacy** - *AECOM Technology Corporation - EVP, CFO*

That is a tough number to track because we factor our IDIQs. If you actually added up all our IDIQs it would be significantly higher.

But so that factoring, I don't know the quarter-over-quarter change in it offhand. But we will get back to you on that.

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**Andrew Wittmann** - *Robert W. Baird & Company - Analyst*

Okay, thanks.

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**Operator**

Tahira Afzal, KeyBanc.

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**Saagar Parikh** - *KeyBanc Capital Markets - Analyst*

Hi, this is actually Saagar on for Tahira with a follow-up question. Looking at your EPS guidance range, how much of your share buyback reauthorization is left and remaining? And was any of that built into your guidance range that you guys have given?

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**Steve Kadenacy** - *AECOM Technology Corporation - EVP, CFO*

Yes, sure. Let me take that.

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**Mike Burke** - *AECOM Technology Corporation - President*

Yes, sure. Let me take that. First of all, as I said earlier, stock repos are our number-one priority for our capital allocation this year. We have in FY '12 -- through the first half of FY '12 we executed on the first \$200 million of our stock buyback. We authorized another \$300 million in Q4. We bought



back about \$62 million worth in Q4; and then we bought back another \$65 million worth in Q1, for a total of 5.8 million shares under the current authorization.

That leaves us with about \$170 million of capacity under the existing authorization. So we have bought back, as I said earlier, 15 million shares since the inception of our buyback program where we bought back about 13% of our share count, and at or about today's prices. When we execute on the remainder of the authorization we will have bought back about 20% of our shares.

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**Saagar Parikh** - *KeyBanc Capital Markets - Analyst*

And the future share buybacks aren't built into current EPS guidance?

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**Mike Burke** - *AECOM Technology Corporation - President*

That is correct. The share count guidance that Steve mentioned earlier is the share count as of today.

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**Steve Kadenacy** - *AECOM Technology Corporation - EVP, CFO*

As of Friday.

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**Mike Burke** - *AECOM Technology Corporation - President*

I'm sorry, as of Friday.

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**Saagar Parikh** - *KeyBanc Capital Markets - Analyst*

Perfect. Thank you very much.

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**Operator**

Thank you for your questions, ladies and gentlemen. I would now like to turn the call over to John Dionisio for closing remarks.

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**John Dionisio** - *AECOM Technology Corporation - Chairman, CEO*

Thank you, operator. Before we end the call I want to leave you with a few thoughts. First, we ended 2012 as a much stronger company evidenced by our improvement in growth, profitability, and liquidity. This could not have been -- this could not have happened without the commitment and dedication of our team of members around the world.

And second, in FY '13 we remain focused on cost, productivity, and providing our clients with the best possible solutions.

And third, we have a clear long-term roadmap for driving improved returns and we look forward to sharing more of this with you at our analyst meeting next month. So with that I want to thank everyone for attending this call and for the questions you had, and we look forward to seeing you at our analyst meeting. Take care.



**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a good day.

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