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ACM - Q2 2013 AECOM Earnings Conference Call

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OVERVIEW:

ACM reported 2Q13 EPS of $0.53. Expects full-year 2013 EPS to be $2.40-2.50.

CORPORATE PARTICIPANTS

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

John Dionisio *AECOM Technology Corporation - Chairman and CEO*

Steve Kadenacy *AECOM Technology Corporation - CFO*

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PRESENTATION

Operator

Good morning, and welcome to the AECOM second-quarter 2013 earnings conference call. I would like to inform all participants that this call is being recorded at the request of AECOM. This broadcast is copyrighted property of AECOM. Any rebroadcast of this information in whole or part without prior written permission of AECOM is prohibited. As a reminder, AECOM is also simulcasting this presentation with slides at the Investors section at www.aecom.com. Later, we will conduct a question-and-answer session.

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

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

Thank you, operator, and good morning. I'd like to 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 page 2 of our earnings presentation and to 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 percentages refer to year-over-year progress. Before we get started, I wanted to note that as part of our IR outreach, tomorrow, Steve Kadenacy will be presenting at the Baird Growth Conference in Chicago. Steve's presentation will be webcast and a copy of the presentation transcript will be posted on the IR portion of our website.

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

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

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

Please turn to slide 4. During the quarter, careful stewardship of our business allowed us to achieve earnings growth. In addition, our persistent focus on cash and liquidity gave us flexibility to invest in profitable growth opportunities while also returning cash to shareholders. In the quarter, we posted $17.1 billion in backlog, supported by $2 billion in new wins. Importantly, the margin profile of our backlog is improving, reflecting the successful execution of our strategy to increase our mix of higher-margin technical and construction services.

Our commitment to improve profitability through cost containment, higher productivity, and enhanced project execution drove an increase in margins year-over-year and sequentially. Our focus on cash flow yielded our fourth consecutive quarter of free cash flow in excess of net income. And our disciplined capital allocation allowed us to repurchase 2 million shares to acquire new capabilities and to invest in organic growth opportunities.

Macroeconomic headwinds did place pressure on our net service revenue growth in the quarter. However, our overall results demonstrate the resiliency of our operating and financial model. Based on our results through the first half of the year, we continue to be confident in our full-year EPS guidance range of $2.40 to $2.50.

Now, I'll turn the call over to Steve. Steve?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

Thanks, John. Please turn to slide 5. In the quarter, we executed well on our cost and productivity initiatives despite the decline in our net service revenue. Additionally, our free cash flow conversion remains strong. Net service revenue was down 3% to $1.3 billion, while organic net service revenue on a constant currency basis was down 5%. These declines were driven by the impact of a slowdown in mining in Australia and declines in the Americas. Excluding Australia, NSR was up 1%.

As John mentioned, new wins and backlog continued to be healthy, which we believe bodes well for future growth. However, the time to convert backlog to NSR is lengthening. Part of this is driven by the favorable mix shift, as our higher-margin construction services business becomes a larger portion of our NSR, and part of the lengthening is driven by the cautious approach to project starts. Solid execution drove operating margins up 75 basis points year-over-year and 145 basis points sequentially.

Our effective tax rate of 20.6% included the favorable impact of the R&D tax credit, which was reenacted by the US federal government in our second quarter. EPS was up 23% to $0.53. We generated $74 million in free cash flow and we invested $65 million to repurchase 2 million shares.

Please turn to slide 8. Looking at PTS, net service revenue was down 5%, yet operating margins were up 85 basis points year-over-year, and we saw a sharp increase in margins sequentially, as our Australia business delivered a sequential improvement in both utilization and profitability. Excluding Australia, net service revenue was flat, operating profit was up 28%, and margins were up 215 basis points. We expect improved top and bottom-line performance in Australia through the second half of this year.

Please turn to slide 9. Moving to MSS in the quarter, the business generated improved growth, profitability, and liquidity. Net service revenue was up 12%, and operating profit was up over 450% on improved project performance and cost control. Notably, DSOs declined by 42 days, as we continue to resolve some of the government audit items that have slowed payments in the recent past. As we have previously stated, MSS is well-positioned to double operating income on a full-year basis versus last year.

Please turn to slide 10. Moving on to our EBITDA margin and cash flow targets, we remain focused on improved operating leverage and efficiency through cost containment and higher utilization. Key initiatives to scale the cost structure of our largest spending categories, such as real estate, travel, and procurement, are on track. And our efforts to align our resources to our project opportunities contribute to a 40 basis point increase in utilization, led by the Middle East, Europe, and the Americas. Excluding Australia, utilization was up 110 basis points. During the quarter, we posted EBITDA margin of 8.2%, up both year-over-year and sequentially, advancing us along the path to our long-term margin target.

Please turn to slide 11. We had a seven-day improvement in DSOs in the quarter, which helped us to generate year-to-date free cash flow of $128 million. We are still confident in our full-year estimates of achieving free cash flow in excess of net income.

Please turn to slide 12. This brings me to our EPS guidance for this year. We have reaffirmed our guidance of $2.40 to $2.50. Our range reflects several factors, including our full-year EBITDA margin target of 9.5%, foreign exchange impacts, and also the continued slow conversion of backlog to NSR. We are assuming a share count of 103 million, which does not include the impact of further share repurchases. Our expected full-year tax rate remains at 27%; but for modeling purposes, it's important to note that our tax rate in the third quarter will be in the mid-30% range, reflecting the impact of additional taxes that we will pay to repatriate about $150 million of foreign cash.

Now I'd like to turn the call over to Mike.

Mike Burke - *AECOM Technology Corporation - President*

Thanks, Steve. Please turn to slide 13. As John mentioned, in the quarter, our disciplined and balanced approach to capital allocation gave us the flexibility to invest in our priority areas -- organic growth, particularly those in emerging geographies; share repurchase; and niche acquisitions.

Let me start with niche acquisitions. In the quarter, we acquired Lend Lease's construction management operations in Russia, where construction sector spending is expected to reach $200 billion by 2016. The combination of our respective leadership positions in program and construction management allows us to expand our service offerings, and gain further access to higher-margin construction management and EPCM opportunities in key end markets such as commercial, healthcare, industrial, and civil infrastructure. This was our second investment this year to broaden our EPCM capabilities in key growth markets. Last quarter, we acquired the CM capabilities from Lend Lease across eight countries in Europe.

Turning to organic investments, as we discussed during the past few years, clients are increasingly looking for partners who can offer alternative delivery and alternative financing options. And we are making investments to capitalize on these trends. Recently, our $150 million AECOM Capital Fund made its first investment of $30 million. As some of you know, our experience with alternative delivery and project financing dates back to 2005 through our successful involvement with Meridiam. For example, we are currently working with Meridiam on several P3 projects such as the Port of Miami Tunnel and the Long Beach Courthouse.

The AECOM Capital Fund is currently focused on investments in P3 infrastructure and commercial development. Over the past 15 years, AECOM has established a leadership position across North America on a wide array of P3 projects. Our first investment is to develop a $200 million residential rental tower in New Jersey as 50/50 equity partners with Toll Brothers, a leading residential builder. We will also oversee construction services for this project.

This new relationship with Toll Brothers is already providing follow-on opportunities for us. We are currently in negotiations with Toll Brothers to provide construction services for a new residential project in Washington, D.C.

We are also making organic investments in other areas of our business. For example, in our PTS business, we are making investments in emerging geographies, such as Latin America and Sub-Sahara Africa, to take advantage of the significant spending required in these countries to address gaps in infrastructure and social needs such as transportation, housing, healthcare, and education. Mexico alone has plans to invest $500 billion over the next six years in these types of projects. And, in our MSS segment, we have an initiative underway to extend MSS services outside of the United States, and also leverage their logistics work in many of our PTS end markets.

Turning to our largest use of capital this year, we continue to believe our stock is one of the best long-term investments we can make. During the second quarter, we invested $65 million to repurchase 2 million shares. And year-to-date, we have invested $238 million to repurchase 10 million shares. We anticipate repurchasing additional shares in the second half of this year, utilizing a portion of our $500 million authorization. We remain committed to returning at least 50% of free cash flow to investors during fiscal 2013 and 2014, and we are on track to deliver between $1.3 billion and $1.8 billion in cumulative free cash flow over the next five years.

Our second quarter was an excellent example of how our balanced capital allocation priorities give us the flexibility to invest in long-term growth-enhancing initiatives while also returning value to our shareholders. Our strong cash flow yield, strong balance sheet, $717 million in undrawn borrowing capacity, and net debt to EBITDA of 1.4 times, ensure we can remain nimble, while preserving our financial flexibility, to take advantage of these high-return investment opportunities.

Now, let me turn the call back over to John. John?

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

Thank you, Mike. Let me take you through an overview of how our geographies, the Americas, EMEA, and APAC performed this quarter. In particular, I want to highlight how we are integrating our global portfolio of services to better serve our clients.

Please turn to slide 14. Let's start in the Americas. This region accounted for 51% of our net service revenue in the quarter. Our end market performance in this region was mixed this quarter. We saw particular strength in our transportation end market and construction services had another quarter of strong wins. Our strategy in our largest developed market is to continue to focus on our core strength in civil infrastructure, as well as capitalize on growth opportunities such as healthcare.

On this first point, during the quarter, our transportation business grew 2%. This growth in transportation reflects the pent-up demand in developed markets for investment in civil infrastructure. It's estimated that, in the United States alone, $3.6 trillion in investments are needed through 2020 to improve our aging infrastructure. AECOM's end-to-end service capabilities, including planning, engineering, program and construction management, provide turnkey resources for these projects.

We won $360 million of new work in this sector in the quarter, indicative of the freeing up of funds to satisfy the long-standing needs of transportation infrastructure in the United States. We see increased confidence with improvements in state revenue, due to an improving economy as well as increased federal support.

In healthcare, we've invested to strengthen our medical engineering and design capabilities. And, as a result, in the Northeast United States, our portfolio of contracted work in the healthcare space is now over 6.5 million square feet. Recently, we were awarded a project by Stony Brook University Medical Center on Long Island to provide planning and project management for its new $275 million wing.

Now please turn to slide 15. Looking at Europe, the Middle East, and Africa, EMEA represents 24% of our business this quarter. Europe, a very difficult market for us over the past few years, continues to improve. Our careful management of cost and productivity, combined with some significant wins, has turned this geography to profitability, and we continue to make strides. In the quarter, both wins and backlog were up 33%. Our strategy here is to leverage resources across Europe, the Middle East, and Africa, and bring the strongest expertise to bear on the largest, most complex projects.

A good example of this is a recent win to provide design and construction services for the redevelopment and expansion of the King Khaled International Airport in Riyadh, Saudi Arabia. Our services will span project planning, design, and construction management. This project could not have been secured without leveraging the capabilities of the entire geography. This cross-border collaboration positions us well to take advantage of the roughly $400 billion in expected infrastructure investments in this region directed towards key AECOM end markets, including social infrastructure areas of healthcare and education, and civil infrastructure projects.

Additionally, in Africa, we are utilizing the strong base provided by our recent acquisition in South Africa to take advantage of rapid growth in infrastructure spending in Sub-Sahara Africa. South Africa alone is expected to invest $500 billion over the next five years on transportation and energy projects. Other opportunities include Nigeria, Mozambique, and Ghana. In Ghana, we recently were awarded a contract for the Western Corridor Gas Infrastructure Development project. Under the contract, we will provide full program management services, including consultancy and construction management, and also technical training and professional capacity building during the entire development of the project.

Please turn to slide 16 -- Asia-Pacific, which represented 25% of our net service revenue. It benefited from strong growth in transportation and environment end markets in Asia. Our approach in APAC has been to extend our capabilities in core markets, such as Hong Kong, into high-growth emerging markets like Southeast Asia and China, while carefully managing the downturn in Australia. Southeast Asia and China continue to provide double-digit growth for us in both backlog and organic revenue. For example, in China, AECOM has been appointed by the Zhengzhou Xian Railway to provide construction supervision and management services for a portion of their 360 kilometer high-speed railway. This is the third high-speed railway project we have won in Mainland China -- evidence of our technical expertise in this area.

Turning to Australia, the slowdown in mining investments continues to place pressure on the overall Australian economy. Against this backdrop, we have restructured our operations, redeployed talents, and refocused our capabilities on large infrastructure projects where we can best leverage our broad portfolio of services.

We are well-positioned to bring our resources to bear on key projects. For example, we are part of a consortium to deliver Western Australia's largest road project, The Gateway -- a $1 billion project designed to improve access to Perth Airport, one of Australia's fastest-growing airports. As a design partner, we will provide engineering design for this project.

In the power and energy markets, we were awarded a contract from TransGrid to provide environmental management and construction-phase support for the construction of 90 substations in New South Wales. The project is part of a substation program with a total design and construction value of up to $1.7 billion.

All of the project wins I just discussed reflect our ability to deliver multiple services to advance crucial client projects. And as demonstrated by these examples, our growing global footprint ensures our ability to participate in projects in every part of the world. Most importantly, in this current economic environment, we are focused on making investments that take advantage of growth opportunities in our different geographies, while carefully managing our broader business.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tahira Afzal, KeyBanc.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Thank you very much and congrats on the good quarter. I guess my first question is, given what you have seen to date, you have half the year that's gone through. Typically, for example, in the case of last year, since you kind of narrowed your guidance qualitatively at this point, could you talk about where you stand in a sense, if there is some near-term uncertainties that are not allowing you to do that at this point?

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

Well, Steve...

Steve Kadenacy - *AECOM Technology Corporation - CFO*

Sure. Hi, Tahira. It's Steve. Overall, the guidance -- we're very, very confident in the range that we've given. We haven't narrowed -- I guess it could be looked at that we've expanded the range, but we're still quite happy with it and comfortable. One thing I do want to highlight for everyone is, we do have somewhat of a more significant ramp into Q4. And in my comments, I mentioned that our Q3 tax rate was going to be significantly higher due to the repatriation of some cash. And so we would expect that the back half would be about 40% of net income in Q4 of the total year. But the total range $2.40 to $2.50, we still have high confidence in.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Yes, super. And my follow-up question is in regards to the joint venture with Toll Brothers. Sounds pretty interesting. If you could kind of highlight the opportunities in scope and contribution that this could potentially be translating to for AECOM? Thank you.

Mike Burke - *AECOM Technology Corporation - President*

Sure, Tahira. With respect to Toll Brothers, it's -- as I mentioned, it's our first investment out of our AECOM Capital Fund. And what we're trying to do there is create a real differentiator for AECOM in the marketplace. We have a number of clients that are looking for alternative financing arrangements. And to the extent that we can bring the total solution of design, construction and now financing to the table, we create a real differentiator for ourselves in the marketplace, allowing us to attract higher margins on that type of work. That is a -- almost $200 million project where we are doing the construction for it.

So, we are not only getting a very good return on the equity side, but we are also, of course, producing the margin from the construction revenue on that project. And then, as I mentioned, that relationship with Toll Brothers has also allowed us to spin off into other work for Toll Brothers, where we are currently in negotiations with them on another construction project in D.C., where we will not bring capital to the project but we will earn the construction revenue.

Tahira Afzal - *KeyBanc Capital Markets - Analyst*

Thank you very much.

Mike Burke - *AECOM Technology Corporation - President*

You're welcome.

Operator

Justin Hauke, Robert W. Baird.

Justin Hauke - *Robert W. Baird & Company, Inc. - Analyst*

Good morning, guys. Thanks for taking my question. I guess, I mean, just continuing that theme on the equity investment that you made, I guess is there an exit strategy on these types of investments? Or how do you think about when the project reaches maturity? Do you have an option to sell it to Toll Brothers? Or what's kind of the long-term thinking? Or do you want to continue to hold equity projects after they're complete?

Mike Burke - *AECOM Technology Corporation - President*

No. It would be -- we do have an option to sell it back to Toll Brothers or to sell it to another party. It is not our intention to hold assets for the long-term. Our objective is to be able to bring capital to our clients to generate service revenues at the same time. And so, we would certainly like to recycle that equity as quickly as possible to the extent we can sell out of that interest after the completion of the project, that would allow us to bring that capital back to a new project that would generate new service revenue. So it is our intention to recycle our equity.

Justin Hauke - *Robert W. Baird & Company, Inc. - Analyst*

Okay, that's helpful. I guess my next one, just moving to the income statement, on the G&A moving up -- and I apologize if you did quantify this on the call. But was that primarily the restructuring actions in Australia? And if so, can you quantify the impact that was in the quarter?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

No. It wasn't the restructuring in Australia. That's primarily employee compensation. For most of you who have been following the story for a while, we redesigned our compensation programs last year to be 50% free cash flow related to drive the focus on free cash flow. And we are having a record free cash flow year, so that line contains about a little over $3.5 million of compensation for employees.

Justin Hauke - *Robert W. Baird & Company, Inc. - Analyst*

So some expense is going to be recognized in your fiscal second-quarter going forward?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

I'm sorry. I didn't understand the question.

Justin Hauke - *Robert W. Baird & Company, Inc. - Analyst*

I'm sorry. That incentive compensation is recognized in your fiscal second-quarter? Or is that an ongoing expense each quarter depending on your cash flow?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

We accrue it throughout the year.

Justin Hauke - *Robert W. Baird & Company, Inc. - Analyst*

Okay. And then I guess the last question, on the decision to repatriate cash, is -- I guess can you talk to the rationale of your thinking of what that cash is going to be used domestically? And is that part of the channel that you plan to use to deploy towards share repurchases?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

We use it for our overall capital allocation strategy. So that could be a use for it, obviously. We have $600-plus million on the balance sheet, and that could either be used for buybacks to pay down debt or other investments, or like AECOM Capital that Mike was discussing.

Justin Hauke - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. Thank you very much. I'll jump back in queue.

Operator

Andy Kaplowitz, Barclays.

Andy Kaplowitz - *Barclays Capital - Analyst*

John, can I ask you about North America in particular? You talked about transportation growth of 2% there. But there are clearly things that are not growing. So maybe you can just talk about what's -- give us a little more color in North America. Because we've seen more of a mix of (technical difficulty) really a mix, and we've seen what looks like a healthier market, yet maybe it's not translating quickly into the market. And I just wanted your opinion as to why.

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

Well, okay. Let me go through the different -- Andy, let me go through the different markets. As I mentioned in the prepared notes, the transportation market remains strong. I mean, it's -- a lot of things are driving it.

First of all, there's the governments -- or state governments have increased their revenue year-over-year. And we also had the Reauthorization bill, which was passed by Congress this past March, which will give $105 billion over 27 months. It will increase -- it will speed up the projects coming online by shortening the environmental process, expanding toll authority. And also, one of the key drivers is the TIFIA, which will increase from the previous bills by 500%. And it could leverage over $50 billion into transportation.

So, the civil infrastructure market in the United States is really starting to take off in terms of expanding from what it was over the past three or four years. The water market, though, is still depressed because of the lack of funding by municipal and states, that they're wrestling with where do they get the funds to make the upgrades on the system. So, we still see that as something that's lagging.

The facilities side -- it's interesting. Overall, I think nonresidential spending has been -- has gone down in the United States. But in New York, it has increased significantly and we've been very successful in that market. So, we're seeing that -- for instance, in our construction services business, we, over the past three quarters, we won over $2.5 billion worth of new work. So, that bodes well for our business.

And then the next piece is the energy. It's a small piece of our business, but we're focusing a lot of attention on the oil and gas and the industrial side, because that's being driven by oil and gas companies. So, from looking at our overall U.S. market, where we feel good about the R&I, the Resource and Industries business; the transportation business, as well as the nonresidential commercial building/construction business, which is -- could be hospitals, education, arenas, sports arenas. The one market that remains sluggish, and we're trying to diversify our business as much as possible, is the (technical difficulty) water business.

Operator

I believe Andy's line has disconnected.

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

Who disconnected?

Operator

We'll move -- Andy, who was asking the question, yes.

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

Okay.

Operator

We'll move to our next question, which is from Steven Fisher from UBS. Please go ahead.

Steven Fisher - *UBS - Analyst*

So on the cash flow, free cash flow at $128 million year-to-date, it's running at around $2.50 on a per-share basis for the full year. But your cash flow tends to accelerate in the second half of the year, so it seems like your cash flow should come in pretty well ahead of net income this year. Am I thinking about that the right way? Or was there something unusual in the first half or something you're unusually expecting in the second half of the year?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

No, I don't think you're seeing anything unusual. Typically, we do have a ramp-up in the second half, but we've done a good job of managing that to be flatter this year. So I would expect it to be flatter this year. And we're sticking by the guidance of full-year cash flow equal or greater than net income. But we'll continue to push hard on it, and if we exceed that, we'll be thrilled.

Steven Fisher - *UBS - Analyst*

Okay. And it looks like there were some programs in MSS that shifted from awarded backlog into contracted backlog this quarter. And it seemed to be pretty meaningful. Can you just give us a sense of what those programs were and what's kind of gotten them moving forward?

Mike Burke - *AECOM Technology Corporation - President*

Yes, sure. We are really happy with the 17% increase in contracted backlog year-over-year in the MSS segment. One of the more significant ones -- we did just have a $100 million add-on on our Southwest Afghanistan project. So, there's still money being spent over in that part of the world and we are happy with that.

We're also spending a fair amount of our energies on diversifying our business in that sector. And you know, over time, we have been moving our business away from DOD. We had historically been very focused on DOD. And as those budgets are in jeopardy, I think we've done a good job of maneuvering into new areas such as intel and sensitive areas, as well as some Department of State work. So, that's a part of our diversification efforts.

We still have -- even though there is a lot of talk about sequestration in Washington, we currently have $4.2 billion in bids with the government right now that are under evaluation. Of course, we're not going to win all of those. We're going to win a percentage of them. But the fact that there are $4.2 billion of bids under consideration with the government right now makes us feel pretty good about the prospects there.

Steven Fisher - *UBS - Analyst*

Okay. So it sounds like, to date, sequestration has not had much impact. I guess I'm just curious, if this is the right way to look at it -- how is your federal - U.S. federal headcount within your PTS business today changed since the beginning of your fiscal year? And where you might expect it to be by the end of September?

Mike Burke - *AECOM Technology Corporation - President*

You know, the overall business is still relatively flat year-over-year, the federal sector. To say that sequestration has not had an impact would not be fair. There is a lot of uncertainty in Washington. And while the predictions were greatly exaggerated about the impacts of sequestration, there is still a cautious environment as budgets are getting reordered. And that uncertainty has slowed down the awarding process. So, there is a little bit of a delay there, and we're seeing it taking a little longer for government agencies to make decisions.

But, overall, in the MSS side of the federal business, as we've said in the past, we expect our operating income to double in FY '13 over FY '12, and relatively flat overall on the revenue side for all of federal government, although we are -- as you know, we are up on the NSR line in the MSS segment. Just in this quarter, we are up 12% year-over-year on the NSR line.

Steven Fisher - *UBS - Analyst*

Okay, thank you.

Operator

John Rogers, D.A. Davidson.

John Rogers - *D.A. Davidson & Co. - Analyst*

A couple of things. Just first of all, in terms of the cash flow, Steve -- and I apologize if I missed this -- receivables sales in the quarter, the factoring, how much was in there?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

The impact of the sale of receivables was about $5 million.

John Rogers - *D.A. Davidson & Co. - Analyst*

Okay. And then just in terms of the margin that you've got in backlog, with the increase in construction work that you're doing, does that help your margins that are embedded in that backlog? Or -- with the procurement involved, or does it dilute margins? And I'm also curious how to think about sort of volatility and seasonality of that business now? And is there a transition there?

Mike Burke - *AECOM Technology Corporation - President*

John, that's a great question. When you look at the margins in the construction services work that you're talking about, the margins on gross are not as good as normal. But when you look at margins on net service revenue, they're greatly in excess of our companywide margins. So on a net service revenue basis, the margins are much better in construction management than they are in traditional design work.

One of the things we are seeing, though -- and I think it's important to point out -- is, we have had, especially the past three quarters, an exceptional number of wins -- almost $3 billion of wins in that sector. It's a little more long-dated work. And so, I can give you examples of a $300 million construction project we just won, but we are in preconstruction phase now, which is a very modest amount of work. And it won't kick off until the fall of this year. So, some of that work that we won doesn't start up for six months. So it doesn't hit the revenue scoreboard right away. But the encouraging thing is, it paints an even better picture for 2014 and forward.

John Rogers - *D.A. Davidson & Co. - Analyst*

Okay. That helped. And is that what's -- and in the third, or I guess your fourth fiscal quarter, Steve talked about being, what, 40% of your earnings in that quarter. Are there specific projects or driving margins substantially higher there? Or is it just the timing of work that we're seeing? Or that you're seeing?

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Steve Kadenacy - *AECOM Technology Corporation - CFO*

We always have a timing in the fourth quarter just from the seasonality of the construction business. But we also have the ramp that -- the re-ramp of our Australian business, which was depressed in the first half and will continue to ramp in the second half and into the fourth quarter. And then, lastly, is the tax rate will be considerably lower because we'll be repatriating the cash in Q3.

John Rogers - *D.A. Davidson & Co. - Analyst*

Okay, perfect. Thank you.

Operator

Sameer Rathod, Macquarie.

Sameer Rathod - *Macquarie Securities - Analyst*

Just a couple of quick questions. How can -- can you help us reconcile the lack of revenue growth, despite the backlog being up for the last several quarters? It kind of seems like revenue peaked out in the fourth quarter of 2011. Backlog is up since then. Didn't seem like revenue is really going anywhere.

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

Well, one of the big -- one of the -- not one -- the major impact on our topline growth in the first two quarters of FY '13 has been the downturn in our Australian market. If you take out the Australian revenue, our topline growth would be slightly positive.

And then, if you look at our backlog, you'll see that even though where backlog sequentially of $17.1 billion is flat, the difference is in the contracted backlog. We've moved more of the awarded backlog into contracted backlog. And so -- and what that means is it's available backlog, which we could spend immediately; where the contract of the awarded backlog, if we're having -- there's a lag in the amount of time that it takes for us to get it into contracted backlog.

So, year-over-year, that's up 11%. So when you look at those two issues -- and we are managing our way out of the issues in Australia by downsizing the organization, restructuring it, and focusing it on some of the different markets other than the mining. And then when you look at what just was said by Mike about our construction market, where we just recently had the $2.5 billion worth of wins, and as you -- and that has a long tail. And now those projects, which we won in late quarters of '12 and in the first two quarters of '13, they will start kicking in, in the third and fourth quarters of fiscal '13 and on into the first two quarters of '14. So when you add those things up, we're confident that we're going to see an increase in our topline over the next two quarters.

Sameer Rathod - *Macquarie Securities - Analyst*

Okay. Okay, I think that makes sense. I guess my next question is on the G&A. You touched upon this earlier. So do you expect those to be the run rate going forward? Or should we expect additional drag on margins for you to hit your cash flow target? Thank you.

Steve Kadenacy - *AECOM Technology Corporation - CFO*

I think the G&A could vary based on performance. But full-year -- year-to-date is probably a decent indication for your model for the second half.

Sameer Rathod - *Macquarie Securities - Analyst*

Okay. Thank you.

Operator

(Operator Instructions) Justin Hauke, Robert W. Baird.

Justin Hauke - *Robert W. Baird & Company, Inc. - Analyst*

Just a quick follow-up here. Steve, I guess, can you talk about the status of the large receivable contract that you guys have highlighted? I know you collected some -- I guess, really, I think the last quarters. But how much is left and where you are on that?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

Sure. I mean, we've cut loose a bunch of longer-term receivables in the MSS sector over the last quarter, as you can see from the decline in DSOs there. The big one that we've talked about specifically in the past has been the CSA contract. And there is no significant issues there. But we still have about $75 million left out to be collected that we're still working with the government on getting funding into those contracts, and tying up a few of the loose ends to get. But there's no issues related to it.

Justin Hauke - *Robert W. Baird & Company, Inc. - Analyst*

Okay, great. Thanks. That's all I had.

Operator

Sameer Rathod, Macquarie.

Sameer Rathod - *Macquarie Securities - Analyst*

Yes, just a quick follow-up. What's driving the ramp in Australia in the second half?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

The ramp is really associated with rightsizing the labor force to the reality of the market. So, we had a labor -- in the first quarter, we had some severance. And then the -- as we've taken the people out, the utilization ramps back up, and we've seen the utilization improve there sequentially. And we'll continue to see that into Q3 and Q4.

Sameer Rathod - *Macquarie Securities - Analyst*

Okay, so it's more utilization versus the topline ramp?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

That's right.

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

As well as (multiple speakers) -- there has been -- we also won some additional work that will go into -- we will see it contribute to the topline in the third and fourth quarters. So, it's a combination of things.

Mike Burke - *AECOM Technology Corporation - President*

Yes, not having the severance that you had, as Steve mentioned, in Q1 and Q2.

Sameer Rathod - *Macquarie Securities - Analyst*

Okay, thanks.

Operator

Matt Diserio, Water Asset.

Matt Diserio - *Water Asset Management, LLC - Analyst*

What share count are you using for the $2.40, $2.50 earnings per share guidance for the year?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

103 million is the full-year, and we're at 101.8 million in the current quarter.

Matt Diserio - *Water Asset Management, LLC - Analyst*

Okay, so basically, that presumes no share repurchase in the second half of the year. Is that right?

Steve Kadenacy - *AECOM Technology Corporation - CFO*

In our guidance, we've assumed that as consistent with our past practice. We intend to continue to buy back, as Mike mentioned earlier; but in the guidance, we have not included any further buybacks.

Matt Diserio - *Water Asset Management, LLC - Analyst*

Thank you. Understood.

Steve Kadenacy - *AECOM Technology Corporation - CFO*

You're welcome.

Operator

And that was our last question. I'll now turn the call back over to John Dionisio for any closing remarks.

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

Thank you, operator. Before we end the call, I wanted to reinforce three things that are supported by our results this quarter.

First, our careful management leadership of our business has allowed us to achieve earnings growth despite macroeconomic headwinds. Second, our persistent focus on cash and liquidity gives us the flexibility to invest in profitable growth, while also returning cash to our shareholders. And the third -- investments we're making now we're confident will enhance our competitive position as the macro environment improves.

So, we look forward to having future strong quarters, and look forward to hearing from you all over the next several months, and then speaking to you on our next earnings call. So, if there are no other questions, I'll say take care and I'll see you in three months.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.
