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## ACM - Q3 2013 AECOM Earnings Conference Call

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**OVERVIEW:**

ACM reported 3Q13 EPS of $0.70. Expects FY13 EPS to be $2.30-2.40.





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## CORPORATE PARTICIPANTS

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

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

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

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

**Steven Fisher** *UBS - Analyst*

**Justin Hauke** *Robert W. Baird - Analyst*

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

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## PRESENTATION

**Operator**

Good morning and welcome to the AECOM's third 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 and a 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 investor 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. You may begin.

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

Thank you, operator, and good morning, everyone. I'd like to remind you 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. Our actual results made 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 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 certain 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'll note that as part of our investor relations outreach, Mike Burke and Steve Kadenacy will be presenting at the D.A. Davidson conference in San Francisco on September 10. The presentation will be webcast and a copy of the presentation and transcript will be posted on the investor relations portion of our website.

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

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

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

As you saw in our press release, we reduced our full-year fiscal 2013 EPS guidance range to $2.30 to $2.40. This is due primarily to the performance of our business in Australia, which has been significantly impacted by the decline in the Australian mining industry and its effect on all of our end markets in the region, as capital programs have been either delayed or put on hold.

In addition, year to date, our Americas revenue has been flat due to persistent delays in projects being converted from awarded to contracted backlog. This is despite a 23% increase in gross revenue wins. We finished the quarter with $16.8 billion in backlog, up 6% including $1.9 billion in new wins.

We made a targeted investment in key hires and niche acquisitions in the emerging geographies, which support a strong growth in Europe, the Middle East, Africa, and China and the rest of Asia. In a challenging growth environment, our performance during the quarter was supported by the capital management of our operations, our commitment to improved profitability and liquidity, and our disciplined approach to capital allocation.

We also benefited from the broad span of our global footprint and increasing growth in emerging geographies.

During our prepared comments, Steve, Mike, and I will dive deeper into our performance and outlook, and we will also cover the steps we continue to take to optimize our performance and drive organic growth. I'll now turn it over to Steve.

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

Thanks, John. Please turn to slide 5. In the quarter we executed well on our cost and productivity initiatives which contributed to improved operating margins. In addition, our free cash flow conversion remains strong.

Gross revenue declined 1% while net service revenue was down 6.6% to $1.2 billion. Organic NSR on a constant currency basis was down 9%. These declines were primarily driven by Australia, the Americas, and our MSS segment, which I will expand on later.

New wins in backlog remain healthy. As we have mentioned, however, the time to convert backlog to NSR is lengthening. Part of this is driven by the favorable mix shift to our higher-margin construction services business, which has a longer average project lifecycle. And part of the lengthening is driven by a more cautious approach to project starts in the Americas.

Backlog of $16.8 billion was up 6% year-over-year and down 2% sequentially, partly due to currency. Operating margins of 9.1% were up 128 basis points year-over-year, and 263 basis points sequentially. On a year-over-year basis, the impact of the decline in NSR was more than offset by improved profitability in MSS and cost control generally. Cost control also benefited margins sequentially.

Our tax rate for the quarter was 29.9%. During the quarter we completed a restructuring that resulted in the return of $148 million of foreign cash, which increased our tax rate by 490 basis points. The impact was roughly 500 basis points lower than we originally anticipated.

EPS in the quarter was $0.70, up 11%. Please turn to slide 8.

Looking at PTS, gross revenue was flat, while net service revenue was down 5.4%, primarily driven by the declines in Australia. Americas also contributed to the decline in NSR, which John will elaborate more on in his comments later. Despite the impact of the decline in NSR and profitability, our margins and profit were up both year-over-year and sequentially. Excluding Australia, NSR was flat.

Please turn to slide 9. Moving to MSS, gross revenue was down 11.4% and net service revenue was down 15.6%, while operating profit increased by almost threefold. The decline in gross revenue and NSR was primarily due to the closeout of certain low-margin projects as we advance our diversification strategy, which drove the significant increase in profit. We also achieved a 26-day decline in DSOs.

Please turn to slide 10. Turning to EBITDA cash flow and capital structure, our focus on improved operating leverage and efficiency through cost controls and higher utilization continued in the quarter. From a cost perspective, we continue to execute on consolidating our global real estate footprint and we are on track to achieve $40 million in savings by 2015.

In procurement, we have plans to roll out a new centralized online purchasing tool that is expected to help us save about $30 million on our indirect goods and services spend over the next three years. And careful management of resources contributed to a 30 basis point increase in utilization sequentially, with improvements in Europe and construction services. All told, EBITDA margin was up 118 basis points to 10.9%. Please turn to slide 11.

DSOs improved by three days in the quarter, which helped us generate $84 million in free cash flow, well above our target to convert at least 100% of our net income to cash.

Turning to our capital structure, in June we took advantage of attractive debt market conditions to improve the pricing on our term loan facility, extend its maturity and enhance covenant flexibility. Supported by a strong bank group, we increased the facility by $75 million. During the quarter, we also deployed $148 million in foreign cash to share repurchase and debt paydown.

In the quarter, we invested $74 million to repurchase 2.4 million shares. And, year-to-date we have invested $312 million to repurchase 12.4 million shares. We are well ahead of our target to return at least 50% of our free cash flow to investors during fiscal 2013 and 2014. And we have $426 million remaining on our current repurchase authorization.

We are also on track to deliver between $1.3 billion and $1.8 billion in cumulative free cash flow from fiscal 2013 through fiscal 2017.

Our balance sheet remains strong with $907 million in undrawn borrowing capacity and net debt to EBITDA of 1.3 times. This strength ensures we remain nimble and preserve our financial flexibility to take advantage of additional high return investment opportunities, which Mike will talk about in a moment.

Please turn to slide 13. This brings me to our EPS guidance for the year. As we stated throughout the year, NSR growth has been challenging. We take a pragmatic view when we set guidance. And, as we look at the balance of our year, we expect continued softness in Australia and less than previously expected growth in the Americas.

As a result, we now have full-year EPS for fiscal 2013 to be in the range of $2.30 to $2.40. In this guidance, we are assuming a share count of 102 million and we now expect our full-year tax rate to be 28%, which implies a rate in the low 30%'s in the fourth quarter.

Our updated guidance range reflects the impact of the challenges that we are seeing in some markets, but it also reflects our ability to optimize our results by leveraging AECOM's diverse portfolio of services, expansive global footprint in conjunction with our disciplined execution.

And now I'd like to turn the call over to Mike, who will provide us more context on our third-quarter performance and highlight key elements of our business strategy. Mike?

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

Thanks, Steve. Please turn to slide 14. Let me give you an update on the investments we have made through our balance capital allocation strategy, with a focus on how these investments are driving new business opportunities for AECOM.

As Steve already mentioned, share repurchases has been the largest use of capital this year, so I will focus my comments on our organic investments and niche acquisitions. Our organic investments allow us to expand the breadth and depth of our offerings to our clients.

As you know, a key focus for us is to increase penetration in our top 100 major private and multinational clients. Every year we estimate these clients invest over $150 billion in CapEx that is addressable by AECOM. These clients span many industries, such as oil and gas, manufacturing, sports, health care, et cetera.

The common thread among these large, multinational clients is that they are looking for a multinational partner such as AECOM to provide integrated delivery around the globe. Our geographic footprint and breadth of service offerings position us well to capitalize on these opportunities.

To capture this expected spend and increase our market share with these clients, we continue to invest in the expansion of our key account management program. Through this program we bring to bear our global capability to provide integrated solutions to these large, multinational clients.

Examples of this developing approach are recent wins with GE, Shell, and Exxon Mobil. Early results from this initiative are encouraging, with higher levels of growth and profitability from the clients now in the program. Over the next year, our key account management program will continue to allow us this expansion across a broader group of multinational clients across various segments and geographies.

The next area of investment is AECOM Capital, which we launched earlier this year. It is another organic investment with encouraging early results. This platform allows us to play an important role in development projects as our clients pursue alternative delivery options and look for partners who can provide financing along with our traditional services.

The $150 million fund is currently focused on P3 investments, particularly infrastructure opportunities, as well as private real estate projects. We are off to a fast start. In just the first 12 months of operation, we expect AECOM Capital projects to add $750 million in construction service revenue to our backlog.

Real estate markets in key cities like New York and Los Angeles are improving, and we have a very healthy pipeline of projects. Over time, our goal is to bring third-party investors into the fund, which will drive even greater opportunities for both the fund and AECOM services.

Turning to niche acquisitions, our recent disciplined investments are driving significant new opportunities for us in key end markets and geographies. We have clear criteria for potential targets. They must provide technical capability that can be driven across our global platform and/or they must provide a geographic base from which we can expand and offer our global services.

Over the last 12 months we have made four strategic acquisitions that bolstered our presence in Africa, Eastern Europe, and Southeast Asia, and also added construction services and multidiscipline engineering capabilities. Our success with this strategy is evidenced by several key projects, including design services on the $10 billion expansion of the Port of Durban in South Africa, the largest port on the continent.

Here, we leveraged our strength and capabilities in Africa through our acquisition of BKS and our transportation and port expertise from Australia and North America to win this megaproject. This example demonstrates that we are executing well against our long-term goals and objectives, including increasing our mix of higher-margin technical and construction services, driving growth organically as well as through acquisitions, increasing our penetration in top private and multinational clients, and increasing revenue and profit from the emerging markets.

We have achieved this success in part by applying innovative ways to grow, ways unique to AECOM that extend our competitive differentiation by providing unique solutions to our clients. For example, three years ago we acquired construction service capabilities in the U.S. Since then, we exported this capability to our other geographies and now we are pairing these capabilities with AECOM Capital investments.

Very few companies have the global reach and expertise that AECOM has to design, build, and finance major capital projects. This is the kind of differentiation that will allow AECOM to grow faster than the competition and earn higher margins. Now let me turn the call back over to John. John?

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

Thank you, Mike. As I mentioned in my opening remarks, our business in Australia and the shortfall in growth in the Americas have been the two largest contributors to the reduction in guidance for the year. That said, our business in our other geographies remain strong as evidenced by our gains in wins and backlog.

To give you a better picture of our geographies, I'd like to spend the next few minutes describing our business in the Americas, EMEA, and A-PAC. Please turn to slide 15.

Let's start in the Americas. Year to date, the region accounted for 60% of gross revenue and 50% of net service revenue. Year to date, gross revenue was flat.

Growth in this region remains challenging due to industrywide delays and projects being converted to contracted backlog, particularly in our civil infrastructure markets. Our confidence in future growth for this region is supported by over $4.5 billion in gross revenue wins year to date, up 23%.

Wins in our construction services business, which are best measured in gross revenue, have doubled year-to-date, driven by a rebound in residential and commercial spending in the Northeast. And wins in our design business, which are best measured in net service revenue, are up 8% year-to-date, supported by growth in each of our major end markets. Please turn to slide 16.

Year to date, our Asia-Pacific geography, which includes China, the rest of Asia, and Australia and New Zealand, represented 19% of our gross revenue and 26% of our net service revenue. Asia continues to be a strong market for AECOM and we benefit from significant investments in civil infrastructure as well as health care. Net service revenue of Asia-Pacific, excluding Australia, was up 18% in the quarter and 21% year to date.

In Australia, net service revenue was down 26% in the quarter and 19% year to date. We continue to manage the downturn, which has affected every market, by carefully focusing our resources on large projects, on which we can utilize our resources more effectively.

In China, despite moderating growth in their GDP, net service revenue was up 16% in the quarter and 15% year to date. In our strongest Asian market, Hong Kong, we are now leveraging our global capabilities in health care to capture a large share of the estimated $50 billion in annual health care spend, a significant portion of which is being directed towards building new health care assets and improving existing facilities.

In Southeast Asia, we are broadening our reach of our proven civil infrastructure and large scale aviation capabilities. In the quarter, both net service revenue and backlog were up 45%, benefiting from our acquisition of KPK ay this year. Please turn to slide 17.

Looking at Europe, the Middle East, and Africa year to date, EMEA represented 21% of our gross revenue and 24% of our net service revenue. Backlog was up 34% year to date supported by double-digit gains in each of our subregions.

In the Middle East, in our three key markets -- Qatar, UAE and Saudi Arabia -- there are $400 billion of investments being made in our key end markets of civil infrastructure, health care, and education. Year to date, net service wins in the Middle East were up 40%.

Our business in Africa has expanded significantly as a result of our acquisition of BKS. The additional capabilities have allowed us to grow our presence in South Africa, Nigeria, Ghana, and Mozambique. And, as Mike mentioned, these capabilities helped us win the large Durban port project in South Africa.

And in Europe, where we have struggled over the last several years, our strategy to leverage our resources across EMEA has driven improvement, especially in the UK. Year to date, net service revenue was up 7%, wins were up 8%, and backlog was up 19%.

Our results year to date are tangible proof in the midst of a challenging growth environment that the investments we are making to drive future organic growth, enhance our capabilities and expand our geographic reach even further have been successful. Importantly, our organizational structure is a true competitive differentiator for us as we bring the best AECOM has to offer to our clients around the world.

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

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Andrew Kaplowitz, Barclays.

**Andrew Kaplowitz** - *Barclays Capital - Analyst*

Good morning, guys. John, so slow conversion of backlog in the Americas has seemed to be an issue for a while now. It seems like it has gotten a little worse in the quarter.

I guess the question is why, and where in the business has it gotten worse? Is it because nonresidential -- the private side -- has slowed down a little more than you would have expected? Or maybe anymore color you can give us on the slow conversion of backlog would be helpful.

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

I think there are two things that are attributed to the lower than expected net service growth in the Americas. One is that a larger percentage of our work is on our higher margin construction services projects, which have a longer tail in turning them into awarded backlog.

But in our traditional design business, we here in the United States still are under the influence of a very sluggish economy. The growth areas are in states like New York, California, Texas, Florida, New Jersey, which have stock projects because they have dedicated fundings either through tolls, taxes, or bonds. But in the other parts of the country, it just takes longer to get these projects started.

What's happening, we are finishing projects, okay? So we are finishing projects and the new projects are not coming on board. That's what I think is exacerbating the problem as we see it now.

But, again, what frustrates us is that all being said, we continue to win work and we are making significant investments in winning work. Our gross revenue, as I mentioned, was up 23% year to date and we have in backlog $4.5 billion. So if you just looked at it from that perspective, you would say, wow, that's a real healthy business and it should be going like gangbusters.

But what we are finding out is there is just these delays which are really frustrating for us. (multiple speakers) Overall, when we look at our -- in 2013 PTS and construction services business altogether we have $9.5 billion in total backlog.

**Andrew Kaplowitz** - *Barclays Capital - Analyst*

John, that's helpful. Maybe if we could shift to MSS, could you talk a little bit more about that business? And maybe Mike could chime in.

It seems like revenue now is sort of on this slowly declining pace. Is that how we should think about it as we go into 2014 or maybe a flattish business? And we know the margins have continued to rise. Can that trend continue?

And then just one point of clarification on the MSS backlog. It looks like you moved contracted backlog back to awarded. Could you talk about that?

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

Let me, before I turn it over to Mike, I think when you look at the net service revenue, it looks like it's going down. But it's probably good news because we are closing out some of the low margin projects. And as Mike will explain, our profitability as a result has increased.

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

Yes, thanks, John. Yes, Andy, when you look at the NSR revenue, obviously NSR revenue was declining in the quarter. Much of it is attributable to the completion of contracts that were not very profitable for us.

So what you are seeing is us burning off and closing out contracts that weren't as profitable. And as we continue to shift our diversification efforts towards more profitable contracts, you see our operating profit up significantly. And as you have heard as say before, our profits for the full year will be double what they were in FY 2012.

So we are continuing to diversify the revenue to more profitable work, and so that's the good news. But there is a continued challenge in Washington around the uncertainty of sequestration.

And while sequestration is only expected to create an 8% to 10% cutback in federal budgets, there is some uncertainty right now about where the money will fall and which line items of the budgets, which are slowing awards just a bit. So that's what we are seeing right now.

With respect to the backlog, it wasn't a move from one to the other, but rather government shifting from two contracts -- both of them within the overseas contingency operation theaters of Iraq and Afghanistan -- one contract came down and another one came online. So, it's just a matter of shifting government priorities from one battle theater to another.

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**Andrew Kaplowitz** - *Barclays Capital - Analyst*

Mike, does that mean that one -- I mean, it looks like it's a big shift, right. So I mean, it's like $500 million, $600 million. Did they take one and say, hey, we don't want you to do that and then give you another one or award you another one? How would that work? Because it's a big number, it seems.

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

Yes, it's one contract going down and Department of Defense money's being allocated to a new [region] (multiple speakers), both of them in the foreign theater.

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**Andrew Kaplowitz** - *Barclays Capital - Analyst*

Okay. I understand. Thanks, guys. Appreciate it.

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**Operator**

Tahira Afzal, KeyBanc Capital Markets.

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

Thank you, and good morning. I guess my question is, if you look out past this year, and you look out to this prospect, especially on the government sector, how do you see 2014? What variances do you put around that? And how correct can you be if the business continues to be slow on the public sector side? I am more hopeful on the private sector side, but it's more the federal aspect I'm a little worried about.

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

Let me take that from a couple of angles. We are not prepared to give guidance on FY 2014 yet. But what you heard John say earlier portends well for 2014, which is the significant increase in wins.

And so we are being successful in the marketplace, pursuing work, and winning work. And, ultimately, it will convert to revenue. It's just a little slower than expected.

So while we are not prepared to give guidance on 2014, you can read a lot into, as John likes to say, the barometer of wins. That gives us the -- that's the most current signal for the future. And that looks good.

With regard to government budgets -- and I think you were referring to federal government budgets -- as I mentioned, the drop-off in new awards in Washington is greater than the expected decline in government budgets through sequestration. So our view is that there is a temporary decline in awards that is greater than the ultimate reduction in budgets that we will see.

And that is simply due to the uncertainty of where the money will fall by line item in the federal budget. So our sense is that, right now, the awards are a little slower than they will be coming into 2014.

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

Let me expand on it a little from a more global position, because we seem to be focusing on the Americas.

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

Sure.

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

Australia, this year we will have about $14 million in severance, which would account for about $0.10 earnings per share. We will not have that next year.

We believe we stabilized the organizational structure. The $14 million represents over 1,000 people which we have excised. So, going forward, we feel that we have gotten Australia in 2014 back on a healthy footing.

And then you look at the growth that we have in A-PAC where we need to -- in the Middle East alone, we need to hire 3000 people. So -- and those people could come from our India operations, from the UK, Europe.

And then you just look at the backlog back I mentioned to Andy that we have is in the Americas -- $9.5 billion of backlog, which is up 4% year-over-year, and the total backlog for the company is $16.8 billion. So, all the signs of future opportunity and growth are positive.

The key will be, here in the Americas -- will we move in the public sector? The private sector has grown and we are looking at, for instance, private sector in the Northeast, or in the New York area anyhow, was about 30% increase in residential and commercial real estate.

And with the transportation build with the new Secretary of Transportation in saying that they are going to have seven public-private partnership contracts -- projects coming out this year and next, and with the amount of TIFIA money, which has increased 500% from the previous transportation bill, which now creates about $1.75 billion, I think there are good signs on the horizon.

But, as Mike said, we are not prepared to give guidance today, but three months from now we will be giving you guidance. And I think we'll have a clearer picture over the next 60 to 90 days of what's happening.

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

Got it. Okay. Thank you very much. That's all I had.

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

Okay. Thank you for calling in.

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**Operator**

Steven Fisher, UBS.

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**Steven Fisher** - *UBS - Analyst*

Good morning. We have thought about the AECOM story as being very much cash flow improvement driven and return of capital driven. And I think that holds as long as the organic growth holds in line.

But broadly speaking on the professional services side in particular, it continues to deteriorate -- down another percent this quarter; down 7% last quarter, down 8% in professional services. So I guess my question is, what are you anticipating that metric does over the next couple of quarters and how are you preparing for that right now?

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

Well, from the previous phone call, I mentioned that what we see is growth opportunities in our super geographies of Asia-Pacific, and that we're growing in the Middle East and that the question is in the Americas. We believe that we will get some positive growth in the Americas, but when you look at today, without Australia, our service revenue is flat.

Australia has been a major impact on us. Just from the redundancies, $0.10 on the earnings-per-share. So if we didn't have that redundancy, we would also -- if we didn't have that redundancy, we would have also had a significant increase in their bottom line. So my point is, it has put an enormous amount of pressure on AECOM to deliver the top line growth as opposed to the bottom line growth that we had anticipated.

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**Steven Fisher** - *UBS - Analyst*

Okay. So to be clear, it sounds like you are not anticipating a further deterioration going from 3% to 7% to 8%? We kind of get a little bit better from here on that metric?

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

Yes.

**Steven Fisher** - *UBS - Analyst*

Okay. And then in terms of -- maybe I missed this, but the Afghanistan -- I know that you've got some good exposure there. Another company in the industry was talking about they are seeing the LOGCAP activity weaken already. I guess I'm wondering -- what are you seeing in that business and what are you doing to plan for that now?

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

Sure. Right now, Afghanistan is actually picking up a little bit. We think that's just a short-term blip, frankly. But, Afghanistan -- our operating income out of Afghanistan is about 3% of our total operating EBIT. So, just to put it in perspective, it's about 3%.

That business is going to be dependent on what happens in Washington, frankly. As we know, the status of force agreement predicts a drawdown at the end of 2014. And there are discussions about how many troops will be left for the 10-year status of force agreement that goes on after 2014.

So that's going to be dependent on which way the wind blows in Washington and how fast or how extensive that drawdown is. But what are we doing to respond to that 3% of our business that ultimately, at some point in time, will go away. We won't be in Afghanistan forever.

We have put an incredible effort into our diversification efforts. So, for instance, the State Department and the work we do for USAID in Afghanistan is growing. As we draw troops down, we start spending more money with the State Department on stabilization of the country that is non-troop related. So we are investing and we are growing our business in USAID.

We are growing our business in non-Department of Defense work here in the U.S. We have grown our work in the cyber-intel, homeland security and other government agencies outside of the Department of Defense. And we are also focusing our efforts on foreign military sales where we have opportunities with foreign governments that are purchasing military assets from the U.S. government. And we are bidding on programs to support that.

So Afghanistan is not as big of a part of our business as you might think. And we are very focused on that drawdown and very focused on diversifying our efforts in the U.S. government space.

**Steven Fisher** - *UBS - Analyst*

Okay. Thanks, Mike.

**Operator**

Justin Hauke, Robert W. Baird.

**Justin Hauke** - *Robert W. Baird - Analyst*

Yes. Good morning. So I guess my question is on the free cash flow commitments. Is the target -- is it greater than net income this year or is it still an 80-day DSO target? And, if so, does that -- if you get to 80 days, is that -- I mean, should we be thinking of another $200 million of free cash flow just from getting to that target or what is the goal now?





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

Well, Justin, our primary goal is free cash flow. DSOs is a mechanism to get us to the free cash flow numbers that we are targeting, but it's not always a perfect indicator because there is a lot of ins and outs in the DSO calculation.

Revenue, for instance, when it is increasing or decreasing, it can drive that days. But our goal to exceed net income, we are well on track. We are doing it on a quarterly basis. Our goal is to do it on a full year basis. And we will exceed that for the full year.

Whether or not we hit 80 days exactly, we are still targeting that and we think it is achievable next quarter -- at the end of the next quarter. But that is just where we think we should run the business. Ultimately, looking at the free cash flow is where you need to see.

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**Justin Hauke** - *Robert W. Baird - Analyst*

Okay. And then I guess my next question, just in the quarter, the equity income in the PTS segment was pretty light relative to where it has been. Was there anything one-time there? Or is this the run rate we should think about at this level going forward?

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

Yeah, no, I would see -- in the PTS segment you'll probably see a rebound in that in the fourth quarter. One of our JVs in the Middle East had a little bit less income than it typically does.

But that is a line that we tend not to overly focus on because the accounting rules have us consolidating JVs -- or unconsolidating them and bringing them through the equity line based on the accounting rules. So it's really better to look at PTS at the bottom line.

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**Justin Hauke** - *Robert W. Baird - Analyst*

Okay. Great. Sure. Thanks.

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**Operator**

John Rogers, DA Davidson.

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

Good morning. John, I guess, could you talk a little bit about what you are seeing in terms of pricing in the market? Any changes there, either by region?

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

I think on a global basis, it is becoming an increasingly more competitive market. Probably the most competitive is in the Middle East, where there is an enormous amount of capital programs, but it is very competitive.

Here in the Americas, we haven't seen much of a change over the past two years. Since the recession, it had become more competitive and it hasn't changed. It hasn't gotten any more seriously competitive. Our margins are remaining constant.

And when we look at Asia and China, they are remaining about the same. There's more competition in Southeast Asia, but our margins are remaining constant. And then, through some organizational controls and organizational restructuring, we have been able to overall, as a company, improve our bottom line EBITDA margins.

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

And as you look out -- and I know you are not giving guidance for 2014, but presumably the mining business is going to continue to stay difficult, and it has got relatively stable margins. Where are the market opportunities for AECOM 2014, 2015 that you can either grow into organically or acquisitions?

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

Okay. That is a good question. For one thing, though, I mean, the mining market is a chicken or an egg. I think the real catalyst of the mining market that is deteriorating was the slowdown in China with their GDP growth. Even though it is strong, it was reduced and it did have an impact on Australia's mining market.

And, as a result, the Australian economy softened and so it wasn't only the mining business that was hurt. All our markets -- the civil infrastructure markets, the building markets.

But on a good note, I mean, we just won a freight rail job. So I'm going from mine to port in South Africa where we were able to utilize our capabilities in Australia. So there are places where there are investments being made in mining.

I can't emphasize the opportunities in the Middle East enough. Right now, it's an incredible market. Since the quarter's end, we just were awarded the Riyadh Metro project, which is a 50-kilometer, 25-station capital program, $15 billion in Saudi Arabia. And as I said, we need to hire 3,000 people over the next several months.

And the other thing, if you recall Mike's prepared remarks is our AECOM Capital, where we have partnered with some very, very distinguished developers in the investment where we will do the design and the construction of these facilities. And, Mike, maybe you want to go into a little bit more detail. And I think that is the wave of the future for a good portion of our business as we grow our construction services piece.

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

Yes, you know, there was a comment earlier about the private sector. And probably the hottest market right now in the United States is the private sector residential multifamily construction, otherwise known as apartment buildings. We are seeing a lot of activity in that space.

And through AECOM Capital, as I mentioned, just in the first year of that initiative we will add $750 million of construction revenue backlog to AECOM in that market. So we are seeing a lot of opportunity in that market.

We are seeing a number of things from that. First of all, when we bring some capital to the table -- and you don't need to bring a lot of capital to the table here, but when you bring capital to the table, your sales efforts, your sales and marketing costs are much lower. So we drive higher margins. And we have a different seat at the table than we do if we are just the service provider. So we are fairly bullish on that market and that opportunity.

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

Does that answer your question, John?

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

It helps. I guess what I struggle with is, back to comments a little earlier about still slow organic growth, flat margins and investing in a lot of free cash flow back into share repurchases. I am just trying to think about the growth over the next couple of years, how that gets revived.

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

Look, John, I think, as John mentioned earlier, we need to be clear that, without the Australian declines, we had flat revenue. So -- and on top of that, we had a 6% increase in our backlog year-over-year. So we are adding wins to the backlog with Australia -- and you know, the mining sector, as fast as it turns down, it comes back just as fast. There is a very fast on-off spigot on mining CapEx, as you know.

And so we think that Australia, the mining sector, will come back. It always does. It's just a matter of time. And the rest of the business, while it was flattish, the wins were up. So that's how we see it coming back.

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

Okay. I appreciate the help. Thank you.

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**Operator**

(Operator Instructions) Sameer Rathod, Macquarie.

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**Sameer Rathod** - *Macquarie Securities - Analyst*

Good morning. Couple of quick questions. Can you comment on the receivables? I know in prior quarters, you generated cash by selling receivables. And as a follow-up to that, can you comment on what percent of your cash flow in the past year has been generated by selling receivables?

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

During the quarter it was about $9 million net. Without the sale of receivables during the year, which was about $65 million net, we would still be around 90% of our net income. So really the sale of receivables is to help us balance that cash out throughout the year, and it's been quite effective in doing so.

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**Sameer Rathod** - *Macquarie Securities - Analyst*

Okay. I guess my next question is on organic growth. If I look at your new orders by quarters over -- since 2008 -- over the past five years, it seems like they are pretty stable, call it between $1.5 billion to $2.5 billion. But during this time, AECOM has done several large acquisitions. So I would expect the orders would be greater than the stable range. Does this mean organic growth has been negative in this time?

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

If you are going back to 2008, I don't have that much history at my fingertips. But we did experience a decline in NSR in the past year. We had very slight, negative organic growth during that period.

So the answer to that question, I think, is yes over the immediate past, but I can't comment going back to 2008.

**Sameer Rathod** - *Macquarie Securities - Analyst*

Okay. Well, I guess my only point is, if you had done several acquisitions, you would expect a proportional increase in new orders. But it seems like orders have been kind of stable. It doesn't even have to be back to 2008, but even if I go back to 2009, 2010, 2011, it seems like the orders are stable, but you are doing lots of acquisitions. So I just -- kind of understand the organic growth behind some of these acquisitions that you have done. That's all.

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

Again, just speaking for the current year, our organic year-over-year backlog growth is 4.4%. That's organic.

**Sameer Rathod** - *Macquarie Securities - Analyst*

Okay. Thank you.

**Operator**

And at this time, I show no further questions. I'll now turn the call back over to Mr. John Dionisio for closing remarks.

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

Okay. Well, first of all, I want to thank all the people calling in and their interest in AECOM. Before we close the call, I wanted to reinforce our confidence in our future growth, which is based upon the operating controls that we have put in place. That we are confident we will achieve our earnings growth in the future despite any lingering sluggishness in global macroeconomic headwinds.

And, second, we remain having a persistent focus on cash and liquidity, which will give us the flexibility to continue to invest in profitable growth, while also returning cash to our shareholders. And, lastly, the fact that where we stand today with an increase in our gross total backlog, up 4% from FY 2012 third quarter, to FY 2013 third quarter with a number of $9.5 billion and with growth in the Americas of up to 23%. I mean, we have all the -- I believe we have all the tools at our disposal to have organic growth and continue to grow and be successful as we look into FY 2012 (sic).

So, with that, I want to again thank you all for joining us and I look forward to speaking to you all in about 90 days. So thank you very much.

**Operator**

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