THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

## ACM - Q4 2017 AECOM Earnings Call

EVENT DATE/TIME: NOVEMBER 13, 2017 / 5:00PM GMT

**OVERVIEW:**

ACM reported 4Q17 adjusted EPS of $0.74. Expects FY18 adjusted EPS to be $2.50-2.90.





THOMSON REUTERS

## CORPORATE PARTICIPANTS

**Michael S. Burke** *AECOM - Chairman & CEO*

**Randall A. Wotring** *AECOM - COO*

**W. Troy Rudd** *AECOM - CFO and EVP*

**Will Gabrielski** *AECOM - VP of IR*

## CONFERENCE CALL PARTICIPANTS

**Alan Matthew Fleming** *Citigroup Inc, Research Division - VP*

**Andrew John Wittmann** *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

**Chad Dillard** *Deutsche Bank AG, Research Division - Research Associate*

**Jamie Lyn Cook** *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

**Michael Stephan Dudas** *Vertical Research Partners, LLC - Partner*

**Robert Joseph Burleson** *Canaccord Genuity Limited, Research Division - MD and Analyst*

**Steven Fisher** *UBS Investment Bank, Research Division - Executive Director and Senior Analyst*

**Tahira Afzal** *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

## PRESENTATION

**Operator**

Good morning, and welcome to the AECOM Fourth Quarter 2017 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, and 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. (Operator Instructions)

I would like to turn the call over to Will Gabrielski, Vice President, Investor Relations.

---

**Will Gabrielski** - *AECOM - VP of IR*

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

We are using non-GAAP financial measures in our presentation. The appropriate GAAP financial reconciliations are incorporated into our presentation, which is posted on our website. Please note that all percentages refer to year-over-year progress, except as noted.

Our discussion of earnings results and guidance excludes the impacts of acquisition and integration-related expenses, one-time financing charges, the amortization of intangible assets and financial impacts associated with non-core businesses and assets unless otherwise noted. Today's discussion of organic growth is on a year-over-year and constant-currency basis.

Beginning today's presentation is Mike Burke, AECOM's Chairman and Chief Executive Officer.

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

Thank you, Will. Welcome, everyone. Joining me today are Troy Rudd, our Chief Financial Officer; and Randy Wotring, our Chief Operating Officer.

I will begin with an overview of AECOM's results and discuss the trends across our business. Then, Troy will review our financial performance and outlook in greater detail before turning the call over for a question-and-answer session.

Please turn to Slide 3. We began the year with substantial momentum and delivered on numerous key financial and strategic objectives. First, we delivered 9% revenue growth in the fourth quarter, which marked our highest quarterly growth in several years and contributed to the full-year growth of 4%. All 3 segments grew in the fourth quarter, including double-digit growth in Building Construction and Power and growth in our Americas Design business.

Second, we delivered record wins of $23 billion, and our backlog increased by 11% to a new all-time high of nearly $48 billion. This performance was led by our higher-margin MS and DCS segments and included double-digit growth in our Americas Design business, where we are capitalizing on improving market trends.

Third, we had another year of exceptional free cash flow, which was consistent with our expectations. We have now paid down approximately $1.5 billion of debt over the past 3 years, continued to invest in growth, and expanded our AECOM Capital portfolio.

Fourth, we announced the new capital allocation policy in September built on the confidence we have in our 5-year financial forecast including $3.5 billion of cumulative free cash flow. This policy, which includes achieving net leverage of 2.5x and a new $1 billion stock repurchase authorization, underscores our commitment to creating substantial shareholder value.

Finally, our design, build, finance and operate capabilities are creating meaningful competitive advantages. There is no more apparent than in our selection to deliver the more than $1 billion decommissioning of the San Onofre Nuclear Plant in Southern California, which we were awarded in the first quarter. In addition, in the fourth quarter, we won a sizable multiyear global design build contract for a leading multinational pharmaceutical company. Both of these wins draw on more than one AECOM discipline.

Overall, we are pleased with these accomplishments. However, a few unexpected market challenges impacted our results. Following the U.S. election last fall, nearly $1 billion of projects that we expected would contribute in 2017 were canceled due to NAFTA concerns. In addition, the devastating storms in the fourth quarter impacted some of our larger U.S. markets. And low energy prices persisted, which weighed on our Middle East markets and pressured our oil and gas environment business in the Americas.

In response to some of these dynamics, we are taking measured actions to streamline a few of our operations to better align our overhead and to deliver work more efficiently. Importantly, we executed through these challenges and ended the year with a record backlog and confidence in the trajectory of our business, which is underscored in our financial outlook that Troy will detail shortly.

Please turn to Slide 4 for a discussion of our business and market trends. Beginning with the DCS segment in the Americas, the improved funding environment and strong support for infrastructure investment are creating one of the most favorable growth backdrops in recent history. We exited the year with a record backlog. We delivered substantial growth in our transportation and water markets, which account for more than half of the business. This backlog is already translating into improved results as evidenced by our fourth quarter revenue performance.

Several of our key markets are benefiting from improved overall levels of funding, specifically, Los Angeles, Seattle, San Francisco and Atlanta. Across these markets, our clients are beginning to release major projects for bid, and we expect $15 billion of projects to be bid over the next 18 months. Importantly, many of these projects are part of our growing $15 billion pipeline of integrated civil infrastructure pursuits, where the acquisition of Shimmick Construction complements our leading design capabilities and expands our addressable market.

We are also encouraged by trends in Canada. Our revenue growth accelerated through the year and backlog increased by 20%. Prime Minister Trudeau's $180 billion infrastructure development plan is providing significant long-term visibility.

Some of our markets were impacted by the devastating hurricanes that struck the Southeast and Puerto Rico during the fourth quarter. I am pleased to report that all of our people are safe and have been accounted for. We are mobilized to support the recovery and are working with federal, state and local teams on emergency response efforts. We are also well positioned for and actively pursuing opportunities for the estimated $200 billion disaster recovery and resilience initiatives to help return these communities to normalcy.

Let's pivot to our international design markets beginning in the EMEA region. In the U.K, our largest international market, transformational infrastructure initiatives such as High Speed 2 and Crossrail are progressing, and we delivered another year of growth. In India, Prime Minister Modi's nearly $60 billion infrastructure modernization plan and the country's overall economic growth are creating substantial opportunities and are contributing to great optimism for modern infrastructure development.

Importantly across EMEA, we delivered growth despite continued Middle East market pressure from persistently low oil and gas prices. Encouragingly, the Middle East market is stabilizing and we are seeing signs of improved demand. For instance, Saudi Arabia's recently announced $500 billion NEOM development plan highlights the substantial growth potential in the region as greenfield development advances.

Turning to the Asia-Pacific region. We delivered our strongest revenue growth in several years in the fourth quarter, which included solid performance in Hong Kong where we maintain leading market share, and substantial growth in Southeast Asia, where work on several large transportation projects is progressing. Importantly, across the region, we are increasingly leveraging our leading capabilities and the expertise from Hong Kong and Australia into new markets, which is a competitive differentiator.

Turning to our Management Services segment. Following nearly 3 years of intensified business development investments, our backlog increased by nearly 50%. Our wins included a $3.6 billion contract with the U.S. Air Force, which greatly expanded our portfolio of classified work and provides substantial long-term visibility in our highest-margin segment. Of note, our backlog does not yet include an approximately $500 million win that is currently under protest.

These successes reinforce our positive outlook. Our qualified pipeline of pursuits is over $30 billion, including $16 billion of expected decisions over the next several quarters. Both the House and Senate-approved increased defense spending as part of the National Defense Authorization Act, and we are confident that our pipeline and backlog will continue to grow in fiscal 2018.

Let's pivot to Construction Services segment. The benefits of our diverse industry-leading capabilities resulted in another solid year. In Building Construction, we delivered a third consecutive year of double-digit organic growth. We broke ground on the iconic One Vanderbilt project in New York, bolstering our resume that includes nearly 60% of all towers taller than 1,000 feet built in that market in the past decade.

In addition, we continued to expand beyond New York, including over $5 billion of projects across California, Florida, New England and Texas, and our selection as construction partner for Spire London, the tallest residential building in Western Europe. We also delivered 2 new professional sports arenas in Detroit and Atlanta and broke ground on a new NFL Stadium in Los Angeles, bolstering our leadership position in this market.

In power, our work on Alliant's combined cycle gas plant in Wisconsin has cleared its early milestones. Foundation work is nearly complete, and underground piping work is progressing as planned.

Concluding with AECOM Capital. We completed the first sale of an AECOM Capital property in 2017 for an approximately 30% IRR in addition to fees earned by our Construction Services segment. We have a premier portfolio of properties at different stages of maturity, and we expect to realize substantial gains in the future. With AECOM Capital, approximately $2.5 billion of construction value will be executed by our Construction Services segment, and we are building a reputation as a development partner of choice.

Across AECOM, our performance in fiscal 2017 underscores the strength of our diverse portfolio of capabilities and end markets. Momentum is building across a number of key markets, and we are confident in our long-term growth potential.

I will now turn the call over to Troy, who will discuss the quarter in more detail.

**W. Troy Rudd** *- AECOM - CFO and EVP*

Thanks, Mike. Please turn to Slide 6. Our results highlighted a number of accomplishments including solid performance across the business, accelerated revenue growth in the second half of the year and positive growth in all 3 segments in the fourth quarter. Adjusted EPS in the fourth quarter was $0.74, and our EPS for the year was within our guidance range. During the quarter, we drove strong outperformance on tax, which offset some of the market challenges Mike spoke to. Importantly, we generated $618 million of free cash flow, which was within our annual guidance range for the third consecutive year and included very strong performance in the fourth quarter. Our consistently strong cash performance is a result of our diverse business model and culture focused on driving cash flow. Importantly, our backlog and revenue momentum solidify our confidence in our 2018 outlook.

Please turn to Slide 7. Revenue in the DCS segment increased by 4% in the quarter, including growth in the Americas Design business, despite the U.S. hurricanes. This strength was led by our transportation and water businesses, where both revenue and backlog increased by double digits. We also had growth in our international markets, with large transportation projects ramping up across both Asia Pacific and EMEA regions. The full year adjusted operating margin of 5.9% was consistent with our expectations. The underlying execution was strong, and we increased business development investments to capitalize on substantial market opportunities. These investments contributed to our record backlog in the Americas and underpinned our confidence in continued growth in 2018. We expect margins to exceed our 6% target, especially as volumes accelerate during the year.

Please turn to Slide 8. Revenue in the Construction Services segment increased by 21% for the quarter and 11% for the full year. The full year adjusted operating margin was 2.1%, which is a 60 basis point increase over the prior year. We are benefiting from a favorable mix shift to higher margin power work and solid execution. As anticipated, the Shimmick acquisition was moderately accretive to our results, and we expect additional accretion in fiscal 2018. In addition, we expect our strong backlog of large commercial, stadia and power projects to drive another year of revenue growth and margins consistent with our 2% target.

Please turn to Slide 9. Revenue in the Management Services segment was unchanged for the year. The full year operating margin was 8.8%, reflecting strong underlying performance across our vast portfolio of projects. Importantly, our significant investments in business development and leading capabilities contributed to nearly 50% backlog growth, which provides substantial long-term visibility in our highest-margin segment. While the large $3.6 billion Air Force win carries a longer-than-typical duration, we expect revenue growth in 2018 and margins to approximate our 7% target, which does not include the potential project incentives and award fees.

Please turn to Slide 10. Full year operating cash flow was $697 million and free cash flow was $618 million. We have now generated $2 billion of free cash flow and reduced our debt by approximately $1.5 billion since closing the URS acquisition in October 2014. In addition, we closed on the Shimmick acquisition in the fourth quarter, which greatly expands our integrated infrastructure offering in attractive Western U.S. markets. Our consistent cash performance is a key differentiator that enables significant opportunities for stockholder value creation.

Accordingly, we formalized a long-term capital allocation policy to provide visibility into our intended use of capital. This policy includes a commitment to allocating substantially all free cash flow to continued debt reduction to achieve our 2.5x net debt to EBITA target. We anticipate achieving this goal by the end of fiscal 2018, and immediately thereafter, allocating substantially all free cash flow to stock repurchases under our new $1 billion board repurchase authorization. Acquisitions are expected to be limited to strategic niche targets where we have an established successive history, such as Tishman, Hunt and Shimmick. We are confident in our ability to drive substantial value for our investors.

Please turn to Slide 11. Our accomplishments provide us tremendous confidence. As a result, we have initiated adjusted EPS guidance of between $2.50 and $2.90. In addition, we have also initiated adjusted EBITDA guidance of $910 million. After adjusting for favorable legal resolutions that we recognized in 2017 and normalizing for tax, our adjusted EPS and EBITDA guidance reflect 10% and 7% growth respectively.

We anticipate AECOM Capital to contribute $0.08 at the midpoint of our EPS guidance, which compares to $0.18 in 2017. The variation is due primarily to the timing of project realizations, which benefited from a large gain we recognized during 2017.

We have not yet included any benefit from potential stock repurchases under our new $1 billion repurchase program. In addition, while we are hopeful that tax reform proposals translate into action, our expectations do not yet include any anticipated benefits.

Our guidance also assumes a 21% tax rate, $210 million of interest expense and 162 million shares outstanding. I should note that our guidance includes between $20 million and $25 million of expected restructuring charges to reduce overhead and drive efficiencies across the business, which Mike spoke to earlier. These costs are expected to be incurred during the first quarter, but would largely be offset by the anticipated recognition of discrete tax benefits. As a result, we expect our first quarter adjusted EPS guidance to approximate 20% of our full-year guidance. This is consistent with historical phasing.

We are forecasting free cash flow between $600 million and $800 million. The near-term priority remains debt reduction to achieve our 2.5x net leverage target.

With that, I'll turn the call over for Q&A. Operator, we're ready for questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And our first question comes from Michael Dudas from Vertical Research.

**Michael Stephan Dudas** - *Vertical Research Partners, LLC - Partner*

Michael, as you think about business development for 2018, where do you -- from a board and from an executive management level, see the best opportunities, not only to kind of achieve and continue the growth in '18 but maybe even looking forward to '19 and '20? Maybe start with the Design business, and more so on the Management Services side, where I think there's -- could be continued visibility.

**Michael S. Burke** - *AECOM - Chairman & CEO*

Sure. Let me start off. I'll talk about the DCS and CS, and Randy will talk about MS. So first of all, based on what we saw in the fourth quarter, 9% organic growth, the highest growth we've seen in many, many years, as well as the 1.2 book-to-burn ratio, gives us a lot of confidence that the momentum is increasing. And so as we start to see momentum increasing, of course, we're seeing that because we have invested for the past year in business development activity, and we're going to continue to invest in business development activity. But when you say where are some of the hot markets, you've heard us mention some of the recent ballot measures in some of the hot markets that we've seen, like Los Angeles, Seattle, San Francisco and Atlanta. If I look at just those 4 markets alone, we are expecting about $20 billion in bids to be put out to the market in the next 12 months alone just in those 4 markets. So we are seeing some incredible strength in some of these markets. The U.S. infrastructure market really gives us some real confidence. And so we're starting to see -- while we've had great growth in Construction Services 3 years in a row of double-digit organic growth, now we're starting to see the growth come back to the DCS and the MS segments, our 2 highest margin segments. And so it's not only growth, but it's growth in the right segments. And we feel pretty good about the U.S. infrastructure market, the construction markets. We have long been benefiting from the uptick in the vertical construction markets in New York City, but we have diversified outside of that market into many other regions with, you heard us mention the win in London for the second tallest building in London. You've heard us mention the 5 other markets outside of New York and the U.S. where we have over $1 billion of construction revenue. So overall, we feel good about the construction markets growing outside of New York, and we feel good about the infrastructure markets. But I'll let Randy comment about Management Services.

**Randall A. Wotring** - *AECOM - COO*

Thanks, Mike. We entered the year with about $50 billion in pipeline and $28 billion of decisions expected in the year, and we delivered substantial growth. We had a strong success in converting the pipeline to wins, and MS backlog actually increased by nearly 50%. Of the $20 billion in decisions we anticipated, we won about $8 billion or 40% of the pursuits. And importantly as Mike indicated, beyond this success, we still have a qualified bid pipeline of over $30 billion, which reflects our investment to backfill the pipeline with new opportunities. And beyond that, I think if you look at the defense spending trends, the outlook across defense and intelligence markets remains robust. The President's 2018 budget calls for a 10% increase over FY '17 budget levels. And so we're talking budgets well over $0.5 trillion. It's a very large market and growing. And AECOM is able to address an increasing amount of the programs that are put up for bid. And there's also a growing pipeline internationally, and governments all over the world are signaling increased defense budgets. And recently, we saw the Saudi Arabia deal or agreement with the U.S. that adds to our confidence that higher global defense spending is going to be in place. So we feel bullish about the pipeline opportunities in the MS marketplace.

---

**Michael Stephan Dudas** - *Vertical Research Partners, LLC - Partner*

Just my quick follow-up would be -- when you -- talking about your $25 million restructuring that you expect to hit in Q1, is that just for those underperforming businesses you highlighted, Mike, in the quarter? Or is there something more general to those numbers and where you're starting to target, maybe, some tightening of the belt?

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

Yes. I'll let Randy answer that, if it's okay?

---

**Randall A. Wotring** - *AECOM - COO*

Yes. Following several years of integration and a pivot to external growth focus, we see a few areas that could see some fine-tuning and pruning to drive efficiency in how we operate and deliver work. We're always looking for ways to improve the efficiency with which we operate and deliver work. We're focused on positioning the company best for '18 and beyond, and very much focused on delivering growth and having a highly efficient cost structure. So look, I think included in the guidance this year is approximately $20 million to $25 million of expenses. This will primarily accrue to the DCS business with a little bit in CS, where we reorganized a few businesses to reflect the overall lower business volumes. And you may recall for instance, as Mike mentioned in the prepared remarks, we went from having a few large industrial jobs to none following the election last year and NAFTA concerns. So you may recall, we have talked about pressures in our U.S. government environmental business due to weak oil prices. So we're realigning the cost structure there. And if not for that environmental market pressure in Americas DCS, we would have had positive organic growth for the year.

---

**Operator**

Our next question comes from Andrew Kaplowitz from Citi.

---

**Alan Matthew Fleming** - *Citigroup Inc, Research Division - VP*

This is Alan Fleming on for Andy this morning. Mike, I want to come back to the MS backlog, because the 50% growth there is a great result. But I think you had talked about doubling MS backlog this year, and it does look like you lost one significant recompete in the quarter. So how much, if at all, does this impact your ability to generate 5% organic growth in 2018 and beyond? And can you talk about any protests that you filed on the recompete that you lost and maybe your confidence in being successful there?

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

Yes, I'll let Randy respond to that, but it's -- this could be the first time in history where a 50% increase in backlog is not enough to satisfy. But I'll let Randy jump into that one.

**Randall A. Wotring** - *AECOM - COO*

Yes, let me talk about -- I think, you're referring to the Savannah River job with the Department of Energy. And we're extremely disappointed by that initial decision. Our team has performed very well there, very high performance scores for years. And our record is unmatched in the industry relative to our ability to safely treat and dispose of radioactive waste. We're very selective in what we protest and we'll only move forward with a protest when we believe that an agency has not followed its evaluation criteria or applicable procurement negotiations -- regulations. We do not believe that the DOE award decision was consistent with the RFP evaluation criteria or applicable procurement regulations. Now although protest turn on their individual facts and circumstances, we have a strong record of successfully utilizing the protest process when necessary. So thus, we have filed our bid protest as well as others, where we -- with the Government Accountability Office. Now look, we still are very bullish on growth. We still have a full pipeline. And from time to time, we will lose contracts we should win and win contracts we should lose. But we're very bullish that we are continuing to win above industry average. And we have visibility on pipeline that will provide growth well into the future.

**Alan Matthew Fleming** - *Citigroup Inc, Research Division - VP*

I appreciate that, Randy. And maybe, sticking with MS, I think you guided -- I think you said 7% margin there for '18, but you've done quite a bit better than that the last several years. So is this just some conservatism on your part, kind of given the variability of the performance enhancements fees there? And can you do better than that in '18 if you continue to execute well?

**W. Troy Rudd** - *AECOM - CFO and EVP*

So this is Troy. I'll take that question. So our guide this year and our guide for next year has been a 7% margin for the MS business. And I think we said this in the prepared comments, that that excludes any award fees or any significant performance fees that we would earn in the year. So as we move forward into '18, that -- our guidance is built around that 7% operating margin. And we do see upside in the business as we move forward into '18 and beyond that.

**Operator**

Our next question comes from Steven Fisher from UBS.

**Steven Fisher** - *UBS Investment Bank, Research Division - Executive Director and Senior Analyst*

Mike, over the last few years, there've been some false starts on the Americas Design business. One quarter, it starts to look good and then, it starts to fade. How are the dynamics that you're seeing this time different? And I would guess you're going to say it has to do with some of the scalable funding initiatives. And if that's the case, how do you kind of think about the federal side of things?

**Michael S. Burke** - *AECOM - Chairman & CEO*

So listen, we have been participating in a difficult environment in the U.S. infrastructure market for quite some time. And if you look at the revenue growth, the backlog growth, anything else relative to our peer group, we have considerably outperformed that peer group. Our backlog is up 12%, and our book-to-burn rate is up in the key markets of water and transportation, all up double-digit numbers. We're feeling pretty good about that momentum. We're feeling good about our execution. We're feeling good about the investments in business development we've made in target markets. And we're feeling good about that $20 billion I mentioned coming to market in the next 12 months in just those 4 markets of Seattle, San Francisco, L.A. and Atlanta, all markets where we have a very strong presence. And so I don't know if you call it a false start, or you just call it -- we have been participating in a shrinking market for a number of years. We have taken market share in that period of time, and our backlog now portends quite well for FY '18 and forward.

**Steven Fisher** - *UBS Investment Bank, Research Division - Executive Director and Senior Analyst*

Okay. And I don't know if I missed it, but can you give us an idea of what you're assuming for overall organic revenue growth in 2018? And then, how the individual segments, kind of some color around how they would relate to above or below that overall target?

**Michael S. Burke** - *AECOM - Chairman & CEO*

So we have not given guidance specifically for FY '18 on revenue, but we have given long-term guidance of 5% organic growth in revenue over the next 5 years CAGR. We've given guidance of 10% growth in earnings over that 5-year period of time. And we will be updating that guidance in our December Investor Day. And I think everything we're seeing is a positive to those expectations. The momentum feels better than it did a year ago. So you can read into that what you'd like, but we haven't given specific revenue guidance on FY '18.

**Steven Fisher** - *UBS Investment Bank, Research Division - Executive Director and Senior Analyst*

Okay. Maybe I'll just ask you about cash flow then. What do you think your cash taxes are going to be in 2018? And what are the big puts and takes to free cash flow year-over-year in '18 versus '17?

**W. Troy Rudd** - *AECOM - CFO and EVP*

This is Troy. I'll take that question. So in terms of cash taxes, we would see a profile similar to the current year, which means that we would expect to have a tailwind from our cash taxes. We don't, at the moment, we don't have a specific -- I don't have a specific guide to give you on this, only that's my expectation it would be similar to the prior year. We also don't have any legal settlements that we anticipate to pay out in the current year. If you recall, in this past year, we had an unplanned payout of about $60 million. We also don't have any legal settlements or expected payouts in the coming year. So putting that all aside, the underlying business hasn't dramatically changed. We still have a diversified portfolio of projects. We still have an incentive system that rewards people for cash performance. And if you look back at the last 3 years, we've been pretty consistent. We've generated $2 billion of free cash flow in the last 3 years and that's all been consistent from year to year. So I just see the underlying performance of the business delivering cash flow similar to what it has in the past.

**Operator**

Our next question comes from Andy Wittmann from Baird.

**Andrew John Wittmann** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

I guess, I wanted to specifically ask about the burn rate, to start out with, particularly in the DCS and MS segments. I guess, over the last few years, it slowed down a little bit. But with a little bit more visibility, could you talk about how you expect the burn rate to trend in those 2 segments in particular?

**W. Troy Rudd** - *AECOM - CFO and EVP*

Yes. Andy. It's Troy, again. So if you just -- just at a high level, our backlog year-over-year is up 11%. And so, just given the nature of some of the projects in the Management Services business, we see that extending for Management Services. So the burn rate, as you described -- and I'm assuming you're talking about the conversion from backlog to revenue. So we do see that lengthening, but we do see growth in that particular business year-over-year. Our Construction Services profile really is the same. So we are expecting, again, that business to grow. We haven't given guidance yet. We will at our Investor Day specifically around that business. We do see that growth, and in our design business, I don't see a discernible change in the profile of that business. So we have seen the backlog grow in our DCS business, a little more than 10%. And we would expect it to translate into revenue in '18 at the same rate that it's translated to in the past.

---

**Andrew John Wittmann** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great. I guess, my next question, I wanted to dig in a little bit more about kind of the overall industry utilization rates and the impact that it might be having on your pricing or terms and conditions? Unemployment is really low, broadly speaking, but I don't know if it's low for your employee base. Is there enough of a scarcity factor here that you're able to get better pricing or terms or conditions? Or do expect that '18 will be similar to '17?

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

We're expecting '18 to be similar to '17 in terms of margins. We've given our margin guidance, and we're not expecting labor pools or labor issues to impact that. Except for the fact that we get operating leverage, and the more we grow our revenue, the more of a positive impact it has on our margins. So we are not concerned about labor scarcity and the type of work we're doing or in the locations that we are doing in any way that would negatively impact margins.

---

**Andrew John Wittmann** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great. And then, I guess, my last question is probably for Randy, and that just has to do with the federal environment. And Randy, if you could just remind us, which of your recompetes are up in 2018 for the federal? I think it's Los Alamos in Hanford, but maybe I'm wrong on that. Maybe if there's any others that we should be monitoring, that'd be helpful to know.

---

**Randall A. Wotring** - *AECOM - COO*

Yes, I think there's nothing unusual about what we have next year. I think, in fact, it's no major recompetes that are up other than those that we've started in fiscal year '17. So I know of no major recompetes. We have a smaller contract I guess with DOE at the National Energy Technology Laboratory, where we've been for a large number of years, but nothing major. I will say that we still consider the Savannah River site competition to be open and not closed. So from that standpoint, it's a major recompete that's out there.

---

**Operator**

Our next question comes from Chad Dillard from Deutsche Bank.

---

**Chad Dillard** - *Deutsche Bank AG, Research Division - Research Associate*

Just want to touch on the $20 million to $25 million in restructuring. I just wanted to understand how big of a benefit that will be? And then, how should we think about the timing to when that benefit will reach the eventual run rate? And then, also, just related to your 2018 guidance, how much of that cost-saving benefit is included, and how much, if at all, you are including a nonrecurring tax benefit for '18?

---

**W. Troy Rudd** - *AECOM - CFO and EVP*

Chad, I'm sorry. I missed the very last part of your question. Could you repeat that please?

---

**Chad Dillard** - *Deutsche Bank AG, Research Division - Research Associate*

Oh, just how much, if at all, you're including for nonrecurring tax benefits in 2018?

---

**W. Troy Rudd** - *AECOM - CFO and EVP*

Okay. So I'm going to answer that one first. In our 21% rate that we're guiding to, we do expect a benefit of a restructuring in the first quarter. Other than that, we don't anticipate anything in subsequent quarters, but that is baked into our 21% rate. In terms of the overall restructuring, first of all, it is included in our $2.70 guidance, and we expect that to go through our results in the first quarter. And the restructuring will take place in the first quarter, and some of it in the beginning of the second quarter. And in '18, in terms of the impact, we see a very modest impact in the full year result. But once we get through that, we see a more permanent and lasting impact in fiscal '19 and beyond.

---

**Chad Dillard** - *Deutsche Bank AG, Research Division - Research Associate*

Got it. And then, just switching over to Management Services, you mentioned that you have about $16 billion in your pipeline over the next 12 months. And I understand that this business can be pretty lumpy, but in terms of what you're seeing in terms of visibility. I mean, do you expect that $16 billion to be more first-half weighted versus second-half weighted? And then, also, maybe you can speak to the level of visibility that you're seeing in the international portion of Management Services? I think, one of your peers today mentioned that they're seeing a slowdown at the U.K. Ministry of Defence. And I just want to get a sense for are you seeing this as well as? And if there's -- or how big of an impact would that be to your business?

---

**Randall A. Wotring** - *AECOM - COO*

Yes, I'd have to tell you to predict the timeframe when the government's going to make awards is very difficult now. So I would tell you that most of the pipeline that exists where we expect awards in '18 will be spread over the year. We've seen delays. There was a question earlier about we haven't won as much as we thought we would. It's because some of those awards were delayed and kicked over into fiscal year 2018. So the timing on awards is hard to predict. I'd just tell you that we expect that those will occur spread out over the year. With regard to international activities, we are seeing a tick-up in opportunities in India, and we do see some nuclear-related opportunities in the U.K., although we've seen some of the same slowdowns in the U.K. Defence Department, but we're not necessarily impacted by that in fiscal year '18.

---

**Operator**

Our next question comes from Jamie Cook from Credit Suisse.

---

**Jamie Lyn Cook** - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

I guess a couple of questions. One, back to the Management Services business, Mike, you've been very successful. You talk about your backlog being up 50% year-over-year. But I'm just trying to think through how that -- when -- I mean, you said revenues would be up and that you'd assume a 7% margin or so for MS services. At what point do you expect on a profit dollar basis that your management services business can grow over a year? Is that more of a 2019 scenario? Or could we see that in '17? My second question is with regards to the $20 million to $25 million restructuring. Do we see this as sort of the last year sort of restructuring? Or should we think about that as sort of an ongoing improvement that we'll do to continue to streamline the business? And then, my third question is on the -- your longer-term financial targets. Based on what you're seeing, and I know you want to wait until the Analyst Day, but should we now assume you think you can do -- that your 10% EPS growth target, we could potentially do better than that with now your share repurchase in place. Because I didn't think before, you assumed share repurchase when you talked about your 10% EPS growth target.

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

Okay. I think I got all 3 of those down. So let me start with what our expectations are for us in the MS segment to see growth in 2018. So...

---

**Jamie Lyn Cook** - *Crédit Suisse AG, Research Division - MD, Sector Head of United States Capital Goods Research, and Analyst*

Profit dollar -- profit dollar growth?

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

Yes. Yes. Profit. We expect profits to increase in the MS operating segment in 2018 and of course in 2019 and forward. Secondly, on the restructuring, when you say, is this something -- are we done with it, or is this something that -- there's more to come. I think any business of our size with $18 billion of revenue, we ought to be looking every year at what things we can prune so that we can grow. And we are -- I don't -- we don't see any other restructuring charges planned for 2018, certainly, after this, but I wouldn't rule out us in the future looking to prune businesses based on market conditions. We have a -- we see a -- we saw a downturn in the oil and gas environmental engineering business that caused us to restructure around that and a few other small areas. So I think that's just normal and healthy. With regard to your third question, our long-term financial targets, when we put them out last year, did not include share repurchases. And so I think you know how to interpret that comment, and we'll have more to say about that in the December Analyst Day. But we still feel very confident in our 5-year growth and our cash flow projections, with cash flow, you heard Troy mention we had $2 billion of free cash flow over the last 3 years. And you could straight line that right to our 5-year cash flow projections that we've given. And so we think there's upside to that. And the recent organic growth rates give us confidence. We set out a 5-year, 5% organic growth target. We hit 4% in FY '17 with 9% in Q4, so we like the trajectory of that. We like the trajectory of our win rates, and all of that gives us some real confidence in the direction of that business.

---

**Operator**

Our next question comes from Bobby Burleson from Canaccord.

---

**Robert Joseph Burleson** - *Canaccord Genuity Limited, Research Division - MD and Analyst*

So just a couple of quick ones. Just wondering on this China-U.S. energy agreement that's kind of a verbal agreement right now, talking about $83 billion in shale gas and chemical investment in the West Virginia area. I'm wondering how your midstream engineering business is positioned there, whether or not you think there's some meaningful potential uptick in projects coming and what the timeframe might be? I know it's early.

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

It's just simply too early to tell on that, but it's, obviously, an area that we would have an interest in it, in some capacity. But too early to tell at this point.

---

**Robert Joseph Burleson** - *Canaccord Genuity Limited, Research Division - MD and Analyst*

Okay. And then, nuclear decommissioning, just wondering if some of the rule-making changes that are said are in the process could actually speed up the pace of additional projects coming your way, or whether or not you think that that's not really a core issue. I understand there's some -- trying to lower costs during the decommissioning phase by lowering personnel requirements. Is that something you see as a significant move that might be happening soon?

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

So the nuclear decommissioning opportunity is a big opportunity. You've heard us mention before, we think that's a $200 billion market. Clearly, the San Onofre win was the first big one that we were able to compete very well on, given our new combined capabilities. It was a real test case for us to bring together our extensive power construction expertise, our environmental engineering expertise, and most importantly, our Federal Government nuclear decommissioning expertise and put all that together. And I think it was a real testament to the value of our integrated delivery model that allowed us to win that project. And I think it positions us incredibly well for nuclear decommissioning, not just here in the United States and all the regulatory loosening around that, but Canada has an enormous nuclear decommissioning opportunity. We've been spending time in Japan, where they're going to take down 35 reactors. We've been spending time in Taiwan where they're going to take down a large reactor. So I think we are as positioned as well as anybody to benefit from that $200 billion market.

---

**Operator**

Our next question comes from Tahira Afzal from KeyBanc.

---

**Tahira Afzal** - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

I guess my first question, you've talked a bit about all the -- or hinted at how to cushion as you look out into your 2018 guidance. I would love to get a little more color in terms of what you've assumed around the interest expense, in terms of debt reduction?

---

**W. Troy Rudd** - *AECOM - CFO and EVP*

Yes. Tahira, it's Troy. So again, what we've assumed is that we're going to apply substantially all of our cash to paying down debt during fiscal 2018. Now the profile of the business is typically that debt paydown as -- in this past year comes in the second half of the year. So we have interest expense coming down during the course of the year. But as you can see in the interest guide, it comes down -- when you just look at the rate that we've applied, it comes down in the second half of the year. And so it's down a few pennies during the course of the year in our guidance. And I will also remind you that as a result of the bond offering we did successfully in February, we now have more than 90% of our debt being fixed. So even if we see a rise in interest rates over the course of this year, we're relatively immune to the impact of that.

---

**Tahira Afzal** - *KeyBanc Capital Markets Inc., Research Division - MD, Associate Director of Equity Research, and Equity Research Analyst*

Okay. And I guess as a follow-up, Mike, you talked a bit about the NEOM city proposed. It seems more like a whole state by the size of it. But I guess, I would love to get your thoughts. We've seen the King Abdullah initiative sort of yield mixed results in the past. How real do you think this is based on what you've learned so far, and then the timeline? And if you roughly break it out, it means there's around $35 billion, $40 billion in spending every year going on for a decade. So what could be your scope as an opportunity within that?

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

Tahira, I had the good fortune of being in Riyadh just 2 weeks ago and participating in many meetings about the NEOM project, about the new Red Sea tourism projects as well as the infrastructure growth of the region. And I'll tell you, I really felt like it was history in the making, without being overly dramatic. I've never felt more hope for the country of Saudi Arabia than I did on that trip, with the moderation of the cultural issues in the country that are causing many foreigners to invest into Saudi, that's causing them to bring technology and innovation, talent and tourism to the country. And I think as they make their shift away from their dependency on oil, there're a lot of opportunities for companies like us to help them develop industry, tourism, and infrastructure for many, many years to come. So we feel really good about that. We feel really good about our position there. We have 700 or so employees on the ground now. And I think you're going to see a lot of bright things coming from that country.

---

**Operator**

This concludes the question-and-answer session. I'll now turn the call over to -- back over to Mike Burke, for closing remarks.

---

**Michael S. Burke** - *AECOM - Chairman & CEO*

Thank you, operator. So listen, hopefully, what you take away from this call is that we're really excited about what 2018 holds in store for us. We delivered on growth in FY '17. We finished with 9% organic growth in the fourth quarter, and we expect to continue that growth in 2018. But more importantly, we're seeing growth come back to the higher-margin segments, and we're starting to see an overall mix shift to higher-margin work. And we're also seeing that our design, build, finance and operate strategy is truly creating a competitive differentiation that is driving success on many very large pursuits.

And so that, coupled with another robust cash flow year in FY '17, and you heard me -- us mention it a couple of times, that we've delivered on $2 billion of free cash flow since 2015. And all of that gives us incredible confidence in our 5-year growth and cash flow projections. And we're hoping to continue this dialogue at our Investor Day on December 12 in New York. And we'll be talking more about our strategy and a more detailed look at our capital allocation plan.

So thank you for your continued interest, and hopefully, we'll see you in December. Bye now.

---

**Operator**

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

---