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ACM - Q2 2018 AECOM Earnings Call

EVENT DATE/TIME: MAY 08, 2018 / 4:00PM GMT

OVERVIEW:

Co. reported 2Q18 adjusted EPS of $0.67. Expects 2018 EPS to be $2.50-2.90.

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PRESENTATION

Operator

Good morning, and welcome to the second quarter 2018 earnings call. I would like to inform all participants this call is being recorded at the request of AECOM. This broadcast is the copyrighted property of AECOM. Any rebroadcast of this information in whole or part without the prior written permission of AECOM is prohibited. As a reminder, AECOM is also simulcasting this presentation with slides at the Investors section at www.aecom.com. (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 business 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 is adjusted for noncore operating losses, loss in assets held for sale, foreign exchange gains, financing charges and interest expense, amortization of intangible assets, deferred taxes, and tax effects and discrete tax items associated with the U.S. tax reform, 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. Mike?

Michael S. Burke - *AECOM - Chairman of the Board & 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. Our second quarter results reflect continued momentum across our end markets, the strength of our industry-leading capabilities and continued progress on our long-term financial and strategic objectives. Revenue increased by 8% and organic revenue increased by 5%. This marks the sixth consecutive quarter with positive organic growth and was led by the higher-margin DCS and MS segments.

We delivered total wins of $6.9 billion, which is the second highest quarterly total in the company's history and resulted in a 1.4 book-to-burn ratio. This performance included a greater than one book-to-burn ratio in all 3 segments, with the highest growth in the DCS and MS segments. Importantly, this momentum continued into April, where we already have more than $6 billion of wins in the MS segment alone. Including these wins, our MS backlog has more than doubled since the beginning of fiscal 2017 to $20 billion, and the pipeline remains strong.

I am also pleased to report that we delivered $95 million of free cash flow, which was consistent with our expectations. Our first half free cash flow is well ahead of last year, and we are on track to achieve our full year cash flow guidance.

Before turning to our view of the segments, I want to comment on 2 strategic decisions that we have taken to best position the business for long-term success. First, we will no longer pursue fixed-price EPC projects in the combined cycle gas market. This decision was informed by weak market conditions and a decreasing number of opportunities that align with our desired risk profile.

Consistent with this decision, we have removed $500 million from our backlog related to 2 combined cycle gas plants that had not yet begun construction. Importantly, our ongoing work on Alliant's Riverside Gas Plant in Wisconsin is progressing well, with the team working diligently to ensure an outstanding outcome for the client. We expect construction to be completed on time and on budget in 2019.

Second, we plan to sell and exit certain noncore oil and gas operations where potential buyers see higher ongoing strategic value and which are not aligned with AECOM's broader growth objectives. We expect to announce details of completed sales by the end of the fiscal year.

We will use the expected cash from the sales to accelerate our deleveraging and stock buyback plans under our $1 billion authorization. These actions reflect our commitment to maximizing shareholder value by capitalizing on the substantial opportunities in our core infrastructure and government services markets.

Please turn to Slide 4, for a review of our business highlights, beginning in Management Services. With more than $6 billion of wins already in the month of April, our backlog has more than doubled since the start of fiscal 2017, reflecting a more than 50% win rate and strong end market trends. In February, the GAO upheld our protest on the Savannah River project, and we received a contract extension through May 2019. Based on our history of strong performance for our client and the strength of our bid, we are optimistic on our revised proposal. In addition, our joint venture at Hanford was awarded an extension through September 2019, which adds to our visibility across key DOE sites.

We exited the quarter with $30 billion pipeline of pursuits and are confident that we can continue to grow backlog from here. In fact, the $1.3 trillion omnibus budget signed into law in March included a nearly 10% increase in defense spending and sets a solid baseline for fiscal 2019.

Turning to our design business. Organic revenue growth in the Americas accelerated to 6% and backlog increased by 15%. Both metrics represent the highest growth in several years, with growth continuing to be led by our transportation and water markets. Key funding drivers are firmly in place. These include the $200 billion of ballot measures that passed in 2016, increased P3 and alternative delivery adoption, the $30 billion Canadian infrastructure bank and ongoing funding for hurricane recovery in the U.S., where we already have several hundred million dollars of hurricane recovery-related wins, and the pipeline now exceeds $2 billion.

International markets also contributed positively to growth, led by strength in Hong Kong, Southeast Asia and Australia. While near term geopolitical funding uncertainty from Brexit and of budget shortfalls are impacting conditions in the U.K. and Middle East, we continue to position of our strong long-term demand for infrastructure services in those markets.

Moving to Construction Services. In our Building Construction business, which accounts for approximately 3/4 of revenue in our CS segment, there has been a reacceleration in our pipeline. We converted a number of key pursuits to wins in the quarter, including several of the large opportunities we referenced last quarter. As a result, total wins through the first half of the year have already exceeded our total wins for all of fiscal 2017. Importantly, given the longer duration of our building and stadia construction projects, we expect to deliver a fourth consecutive year of double-digit organic growth this year and have increasing visibility into growth in 2019 and beyond.

In addition, revenue increased by more than 40% in the Shimmick Construction business, which we acquired in the fourth quarter of fiscal 2017. The integration has gone well, and having a leading civil construction capability in strong markets is creating new growth opportunities.

Turning to AECOM Capital, the financing arm of our DBFO value proposition. We are managing an attractive portfolio of investments and continued to drive significant volume through our CS segment. This quarter, we were awarded a greater than $100 million construction contract for a project ACAP is co-developing in Denver. And we are progressing on our plan to expand ACAP by working with a co-sponsor to jointly raise third-party capital to invest in real estate development projects.

Across the business, we are pleased with our industry-leading backlog and revenue performance, and we are confident in our trajectory in the second half of the fiscal year and beyond. I will now turn the call over to Troy who will discuss the quarter in more detail.

W. Troy Rudd - *AECOM - Executive VP & CFO*

Thanks, Mike. Please turn to Slide 6. We delivered 5% organic growth, including positive organic growth in all 3 segments. Importantly, our growth is increasingly shifting to our highest margin DCS and MS segments. These 2 segments accounted for 75% of our growth this quarter.

In the second quarter, we had $6.9 billion of wins and a $50 billion backlog, which set a new high for the company. Our 18% backlog growth in the quarter also reflected this favorable mix shift to our higher-margin segments. Our backlog in MS and DCS increased by 54% and 15%, respectively. Including the substantial MS wins in April, 2/3 of our total backlog is in our highest-margin segments, which compares to slightly more than half in the year-ago period.

I should note that we removed $650 million from backlog related to 2 combined cycle gas plant projects and the noncore oil and gas operations. Even so, our backlog quality is stronger than ever and positions us well for the future.

Free cash flow was $95 million in the second quarter and $129 million for the first half of the year, which are both ahead of last year. As a result, we are on pace with our guidance for the year and remain committed to our long-term shareholder value-focused capital allocation goals.

Adjusted EPS was $0.67 and adjusted EBITDA was $201 million. Our EBITDA was short of our expectations due to 2 nonrecurring items in CS. We're taking action to ensure these types of issues do not repeat, and we expect margins to return to our 2% target in the second half of the year for CS.

In addition, in the quarter, we executed a refinancing of our credit agreement, which extended our debt at lower rates and created more flexibility for continued debt reduction. Importantly, more than 80% of our debt is now either fixed or swapped on a multiyear basis, which limits our exposure to changes in interest rates.

As Mike discussed earlier, our strategic decisions in the oil and gas and power markets de-risk our overall portfolio and better position us to deliver on our strategic and financial objectives. We intend to apply the expected cash from any oil and gas sales to accelerate debt reduction as we progress towards our year-end net leverage target of 2.5x.

Please turn to Slide 7. Revenue in the DCS segment increased by 5%. The Americas grew by 6%, which is the highest growth in several years. The acceleration reflects continued strong conversion of our backlog into revenue and positive market tailwinds. The adjusted operating margin was 6.5%. We're driving higher volumes through the business, which has provided a margin benefit. We're on track with our full year guidance for better than 6% margins.

Please turn to Slide 8. Revenue in the MS segment increased by 9%, reflecting strong execution and positive momentum across the business, especially on some of our shorter cycle activities with the Department of Defense. Including the $6 billion of wins in April that Mike mentioned earlier, our backlog has more than doubled since the start of 2017 to provide significant long-term visibility.

The adjusted operating margin was 5.9%. We did not recognize any material milestones or incentive payments in the quarter. However, we expect margin to improve in the second half of the year, and we are on track with our long-term 7% target. We expect revenue growth and future milestone incentive payments to create upside.

Please turn to Slide 9. Revenue in the CS segment increased by 4%. The Building Construction business had another strong quarter. And with more wins in the first half of the year than in all of fiscal 2017, we're confident in the trajectory of the business. In addition, Shimmick Construction exceeded our expectations for revenue growth and had strong wins as well. We have a growing set of civil construction prospects at increasingly favorable terms and pricing.

In anticipation of the noncore oil and gas sales, we recorded a noncash loss in the quarter, including a $168 million reduction in the carrying value of other noncurrent assets and goodwill. The adjusted operating margin was 1.4%. Execution across the majority of our portfolio was solid, including on the Alliant combined cycle gas plant, which remains on track with our expectations to deliver a profit and is nearly 60% complete. However, as noted, our margin was impacted by 2 nonrecurring items. Importantly, our first half margin was 1.9%. It is mostly consistent with our full year target of approximately 2%. I should note that we expect to incur higher restructuring costs in the second half of the year to sell and exit the noncore oil and glass operations noted earlier.

Please turn to Slide 10. Operating cash flow in the second quarter was $118 million and free cash flow was $95 million. Our first half free cash flow represented approximately 20% of the midpoint of our annual $600 million to $800 million free cash flow target and was normally -- and is consistent with normal seasonality. As a result, we are confident in achieving our full year free cash flow guidance of between $600 million and $800 million for a fourth straight year. Our consistent execution on cash flow is notable in an industry that tends to have lumpier cash flow performance, and is a key for stockholder value creation.

Please turn to Slide 11. As we disclosed in our press release, we are reducing our EBITDA guidance for the year to $880 million from $910 million. This reduction is primarily due to our decision to no longer proceed with 2 combined cycle gas plants that were previously in our backlog, and the related impact of repositioning the power business. In addition, our updated guidance includes the impact of the 2 nonrecurring items in the CS segment.

We are reiterating our full year EPS guidance of between $2.50 and $2.90. This guidance reflects better-than-anticipated tax performance. And we now expect a full year tax rate of 18%, down from 20% previously. We continued to expect $0.08 of earnings from AECOM Capital at the midpoint of our EPS guidance, which is most likely to occur in the fourth quarter. We did not have any material realizations in the second quarter, but we have an attractive portfolio of properties at various stages of maturity and line of sight to achieve in this year's guidance.

As a result of this expected phasing, we expect EBITDA to grow slightly in the third quarter from the second quarter, with a more substantial sequential increase in the fourth quarter.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And from KeyBanc Capital Markets, we have Tahira Afzal.

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

Congratulations on making a decision around the power plant business. I know you guys are still doing pretty well there. But as you exit these 2 businesses, does it create room for you to look at other verticals? Or given the strength in your verticals, do you feel you have enough on your plate?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

So Tahira, thank you for that question. Yes, certainly, as we exit that portion of the fixed-price EPC power market, we're still going to be in the power business, just not in the fixed-price EPC arena. But it does allow us to redeploy some of those resources to markets where we think present us a much better return and much better opportunities. For instance, the nuclear decommissioning space, we won the first big project here in the U.S. for the San Onofre decommissioning. We have -- we're focused on Diablo Canyon, which will be the next big decommissioning in the U.S. Bruce Power has a number of decommissioning activities in Canada. So we see that as a $200 billion opportunity. And when we look at how do we deploy our resources, we're constantly looking for opportunities to take resources away from markets that don't present the right margin and the right risk profile, and redirect it towards opportunities that we think create much better margin and much better growth opportunities. So we will certainly be doing that in the power business.

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

Got it. Okay. And I guess second question is you had decent free cash flow, as you said, a little earlier this year than last. And you've kept your free cash flow outlook essentially the same, even though you had, had some sort of headwinds, in a sense, in the EBITDA side, et cetera. So are there some areas in the free cash flow side that you are seeing just come in a little stronger? Or is it just reflective that you've had a wide range to begin with?

W. Troy Rudd - *AECOM - Executive VP & CFO*

Tahira, it's Troy. When I think about our free cash flow guidance, really, our view is unchanged is that we're going to drive free cash flow simply from the conversion of our underlying earnings. We have a wide range because during the course of the year, there are always puts or takes or timing issues related to cash flow. But again, there's nothing in our view that's going to change our perspective of achieving that guidance for the full year. In terms of headwinds, there's always some headwinds, and there's always some tailwinds, and we manage our way through that. But it's driven by the conversion of our earnings to cash flow.

Operator

From Vertical Research, we have Michael Dudas.

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

Mike, certainly great news on the backlog and incoming orders across the board. Could you -- are you surprised by the pace and the quickness of what we've seen? And have you seen from a public or private sector, does this change how you're thinking about how you're attacking new business trends, given that your backlog is getting pretty full and given your resources, whether you're constrained around certain businesses?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

So we weren't particularly surprised. I think we have been talking about it for a while. We're very encouraged. I think the most important thing about the growth in the backlog is the growth in the higher-margin segments of DCS and MS. So that's what's most encouraging about it. But we, a couple of years ago, we started investing heavily in increasing our business development activity in the MS segment, and we have been seeing the results of that. We have a win rate that's greater than 50%. And so we're going to -- we are continuing to invest business development dollars. We have still a $30 billion pipeline of opportunities in front of us in the MS segment alone that we're pursuing. In DCS Americas, we've gone through restructuring that business over the past few years, and that's caused it to be best positioned to maximize the potential in that segment. So I wouldn't say it's surprising to us. It's something we've been working on for quite some time, and we're delighted to see the results coming through. And we expect that momentum to continue well into the future.

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

I guess it's more nice to see the results starting to show up as opposed to being surprised. My follow-up question, Mike, would be, looking at civil infrastructure, U.S. and the construction services opportunities, are you feeling comfortable about the funding levels that you've highlighted, the metro areas in the past? And are you starting to see some visible opportunities there? And are those opportunities at backlog margins and expected as-sold margins at or above what you would anticipate going forward?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

Yes, a few things. First of all, the U.S. civil market as a whole is -- the success there is most evidenced by the trajectory of the DCS Americas business where margins are trending up. The win rate is very high. Organic growth is back. But also in the white-hot markets of California, where Shimmick has the most presence, we had a greater than 40% growth in that business year-over-year. And so in those white-hot markets, you tend to see better-than-average margins. And so we're seeing the growth and we're seeing some margin expansion in that space. So we continue to be very encouraged, not just by what we have won to date and what we're currently experiencing, but the size and nature of the opportunities in front of us look better than ever in the civil space.

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

And just one final -- a quick follow-up, Mike. Do you have any views on the repeal efforts of SB 1?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

No. No. None -- nothing new.

Operator

From Citigroup, we have Andrew Kaplowitz.

Andrew Alec Kaplowitz - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

Mike, how should we think about MS organic revenue growth moving forward? Your growth has begun to tick up here over the last couple of quarters into the high single digits. You mentioned the extensions of Savannah River and Hanford. Awarded backlog, as you said, up over 100%. You just won $6 billion worth of work. The only thing that I see that's I guess offsetting a little bit is contracted backlog continues to be down a little bit. So despite that decline in contracted backlog, why wouldn't we see MS organic growth begin to tick up from here into the double digits moving forward and on a relatively sustainable basis?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

Yes. I -- if it's okay, Andy, I'm going to ask Randy to respond to that question.

Randall A. Wotring - *AECOM - COO*

Yes, we are pleased with the organic growth at MS. And we have seen the revenue begin to ramp up. We do expect -- we're involved in transition on 2 major contracts at this point in time. And we expect the ramp-up of revenue over the second half of the year, and we would expect to be in double-digit revenue growth in -- certainly in FY '19. And on top of that, I think as Mike said, we see -- we still have a $30 billion pipeline of opportunities in front of us. We have more than $5 billion in proposals already submitted awaiting awards. So we see some likes to this market.

Andrew Alec Kaplowitz - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

And Randy, maybe let me ask a follow-up there, while I have you. Obviously, the margins are still a little bit lower than the 7% target you guys talked about your confidence level to sort of get there for the year, based on performance enhancement fees. Is there anything to the sort of concept of there's you're winning new projects. So as new projects start, maybe they get -- you don't have as many performance enhancement fees in the beginning? Or is it just really timing? And we should expect decently higher margins in the second half to get us to that sort of 7% range?

Randall A. Wotring - *AECOM - COO*

So there are some benefits to volume to our margins, one thing. Two, I think we continue to invest, Andy, in business development. As long as we see a great opportunity pipeline in front of us, we're going to continue to invest and try to take share in the marketplace. And third, as we do transition and get involved in the contracts, we do see margin improvement opportunities on these contracts. So we expect to see our business continue to perform. Our -- in MS, in general, all of our major contracts are performing in an outstanding manner. We have no major performance issues and are scoring high on our performance awards.

Andrew Alec Kaplowitz - *Citigroup Inc, Research Division - MD and U.S. Industrial Sector Head*

So Mike, obviously, investors are watching the fixed-price power stuff closely, and I think they had seemed to applaud your decision here. But let me just ask you about what remains in backlog in the context of as you did your strategic review, did you do anything to sort of adjust your plans, to make sure that projects like Alliant and San Onofre go through without a hitch, given we know that they're fixed-price work and people will be watching them?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

Our process -- we went back and looked at these projects very carefully. When we saw some of our competitors experience a lot of foot faults, it causes you to really closely dig back in and make sure that we don't have any issues that some of our peers have had. And so we've gone back and taken a hard look at those projects. We doubled back and checked all of our risk management protocols. And we feel very comfortable that our risk management protocols are as rigorous as they've ever been. And we very closely watch these projects. A couple of things to point out there, we've seen some people talk about the 650,000 per kilowatt for some of these projects. And the fact that they're not making money on that projects, that we totally understand, because our pricing on the one project that we are finishing up now is almost 50% higher than that on a price per kilowatt. And so we do not chase projects where we think the margins are below a point to justify the risk inherent in the contract. So we've come back and looked at these very carefully. We feel confident that we're going to finish that Alliant project on time and on budget. And we closely watch all of our other risk projects. We only have 5% of our revenue today is on fixed-price projects, and you've always got to watch them closely. That's what we do for a living.

Operator

From Baird, we have Andy Wittman.

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

I wanted to dig in on the Construction Services segment here. It looks like there's some recurring and maybe some nonrecurring stuff. But Troy, just can you help us get our arms around the Construction Services -- the 2 nonrecurring items that you called out here, what the impact of those were to the quarter? And maybe, also, so we can understand how this impacts the balance of the year, when those jobs will complete? And is that the reason that the margins are expected to improve in the second half of '18? Or is it something else?

W. Troy Rudd - *AECOM - Executive VP & CFO*

Yes. So Andy, that was a lot all at once. Let me make sure I hit all those points. First of all with respect to CS and the issues we had, we view those as being nonrecurring. We've had 2 project issues in businesses where we've never in the past had a problem on those types of projects. So we view that as being unusual, and we view it as being nonrecurring, especially given the fact that one of those projects will be completed this summer. The impact on that was drove our margins down clearly below where we had expected them to be, which was 2% and above. And that did have an impact on the quarter, and it did have an impact for our guidance for the year. The biggest impact on our guidance this year was again related to our withdrawal from these 2 combined cycle gas power plants and the cost that we have to take to reposition those teams in the business on the other projects.

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

But just -- can I come over the top on that? Just to be clear, our expectation is that our margins in the CS segment for the full year will be back north of 2, including the impact of the project hits that we have in the past quarter. So that implies that we'll have significantly better margins than the 2% in the remainder of the year in the CS segment.

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

Okay. That's helpful. It looks like the CS segment also had something that you excluded from the adjusted EPS. There's about $21 million. I guess those are probably related to the oil and gas business. Are those -- Troy, are those the normal operating losses associated with that segment that you're excluding, now that you plan to be exiting it?

W. Troy Rudd - *AECOM - Executive VP & CFO*

Yes. So those are a combination of things. That's the impact or the loss from what is our noncore businesses or businesses that we're selling and exiting. We had planned at the beginning of the year that those businesses would have been EBITDA-neutral. But again, as we've seen market conditions have worsened. In addition to that, there are restructuring costs and project wind-down costs that are included in that result. And again, I'll just remind you that in that particular business, there's a seasonality in the oil and gas business, especially in Canada. So typically, in the first half of the year, you actually see worse results, than in the second half year. Because of the ability to be out in the field and provide services for your customers, it improves dramatically in the second half of the year. But I guess -- I'd leave you with just what I think is the key point, is that the business that we're going to remain with, is going to be an O&M business serving large oil and gas clients or oil and gas majors. And we see that being profitable and EBITDA contributor in the second half of the year, consistent with our guidance, our guidance for the beginning of the year. And we see that continuing and improving in the long run.

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

Okay. Okay. So the -- that was supposed to -- in your original guidance, so the fact that you're excluding this, as it relates to your original guidance, it would have otherwise suggested that you would have probably had to raise your guidance, since you're excluding the normal losses. So you were previously expecting it to be EBITDA-neutral for the year, instead of the losses. And so you're saying this is not an impact and shouldn't be an impact to your guidance. The guidance is cut, and EBITDA is fully explained by the exit of the gas plant and mostly by that, right?

W. Troy Rudd - *AECOM - Executive VP & CFO*

Yes. That's right, Andy.

Operator

From UBS, we have Steven Fisher

Erika Mary Jackson - *UBS Investment Bank, Research Division - Equity Research Associate and Generalist*

This is Erika Jackson on for Steve Fisher. I just had a question about the MS segment. I know that there were some business development costs, and that those investments are helping drive strong backlog growth. But I think last quarter, you had said that those costs would be flat year-over-year. So just wondering if that's still how we should be thinking about those costs for the full year? Or if maybe you're thinking it might be up now if there's an incremental investment opportunities?

Randall A. Wotring - *AECOM - COO*

Yes. This is Randy. So for the first half of the year, our business development costs did increase over last year. As again, I think we see a full pipeline of opportunities still in front of us, even though we've had great success in bringing some of those over to the win column. We expect to continue to stay on about the same spend rate in business development. And again, we'll continue to invest as we see our opportunities in front of us. We see a full plate of opportunities that -- and we're being very successful in our capture. So we'll continue about the same level of spend that we have in the first half.

Erika Mary Jackson - *UBS Investment Bank, Research Division - Equity Research Associate and Generalist*

Okay. And then, how much CapEx was associated with the noncore oil and gas businesses that you're selling? And should that add to the free cash flow guidance at all for this year?

Randall A. Wotring - *AECOM - COO*

It wasn't. The answer is that the CapEx really wasn't material in that particular business.

Operator

From Credit Suisse, we have Jamie Cook.

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Themistoklis Davris-Sampatakakis - *Crédit Suisse AG, Research Division - Research Analyst*

This is actually Themis on for Jamie. Just a question going back to the hurricane efforts. You noted booking work in the hundreds of millions and over $2 billion in potential opportunities. So could you provide any color on how much work benefited the second quarter, and maybe what's now embedded in your full year outlook?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

So our year-to-date, we've had about $100 million of revenue year-to-date that's come through the P&L. We've had wins of greater than $600 million year-to-date. And we have a pipeline of opportunities of more than about $2 billion that we are pursuing currently.

Themistoklis Davris-Sampatakakis - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And then, maybe, if we can talk about Shimmick, I was wondering if you could update us in terms of organic growth for that business? And also, its bidding pipeline, and how these opportunities are progressing on the civil construction market?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

Yes. The Shimmick acquisition integration has been incredibly successful. The organic revenue, of course it's -- their revenue is excluded from our organic calculations because it's still in the first year of acquisition. But their year-over-year organic number on a stand-alone basis is up over 40%. So it is performing very well both on the revenue line as well as on the profitability line. And equally important is Shimmick's activities are almost exclusively in California, which is the -- one of the hottest -- not one of, it is the hottest civil and infrastructure market in the United States right now, and practically in the world. And so we see a very large pool of opportunities in front of us right now, and we expect that to continue to perform exceptionally well.

Operator

From Bank of America, we have Anna Kaminskaya.

Anna Kaminskaya - *BofA Merrill Lynch, Research Division - VP*

Maybe I'll start on your outlook for DCS segment, organic outlook, just trying to square off your double-digit growth in backlog, and just how should I think about organic growth for the business in the second half of 2018 and 2019? Can we get the double-digit organic growth in the business? And if we do, where can margins go?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

So Anna, sort of -- to be clear, you said the organic growth in the DCS segment? Is that what you said?

Anna Kaminskaya - *BofA Merrill Lynch, Research Division - VP*

Yes. DCS segment. Yes.

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

Yes. So clearly, we continue -- you saw the growth rates in the backlog that were quite exceptional. And so we continue to see mid-single-digit organic growth and growing from there. And it's not just the organic growth, but the backlog continues to perform exceptionally well. The book-to-burn rate is -- has been very solid now for several quarters in a row, and this quarter, I think 1.7 book-to-burn rate in DCS. And we're seeing improving margins in that backlog -- not just in the backlog, but improving margins in the actual results for the quarter. So I think we like the trajectory of that business also.

Anna Kaminskaya - *BofA Merrill Lynch, Research Division - VP*

So why should we not see kind of organic growth of the business go north of 5% in the coming quarters and into 2019? I'm just trying to reconcile the moving parts in the backlog. Is it just longer duration of the projects? I always thought of the business as a little bit more quicker book and perform type of work.

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

Yes. So we're not giving, other than our long-term guidance for our overall organic growth, we're not trying to -- we're not giving guidance for the next couple of quarters on organic growth. It's -- whether it starts to tick up in one quarter or 2 quarters out is difficult to project, given the large number of projects, 50,000 projects we've got going on at any one point in time. But I will leave it with everything is pointing in the right direction to support the thesis that I think you're trying to get to there, Anna. But I wouldn't want to try to point to a very specific quarter and give guidance on revenue line by quarter. But the organic revenue has been heading in the right direction for a number of quarters now. Margins are heading in the right direction. Wins are heading in the right direction. Backlog continues to increase significantly, especially in the higher-margin segments of MS and DCS. So everything is pointing in that right direction.

Anna Kaminskaya - *BofA Merrill Lynch, Research Division - VP*

Okay. And any numbers you can provide around oil and gas business in terms of revenue? And should we be thinking that the business is effectively breakeven or losing money? We should be thinking about tens of millions of proceeds? Or is it hundreds of millions of proceeds? Just any ranges around that business.

W. Troy Rudd - *AECOM - Executive VP & CFO*

Anna, just -- I'll just give you some information around the business -- the oil and gas business, the O&M business that's staying with us. Again, as I said a little bit earlier, that is going to be a profitable business. It's an EBITDA contributor. That business, we expect to be somewhere between $400 million and $450 million in revenue for the full year. And we do see that as growing at a low single-digit rate.

Anna Kaminskaya - *BofA Merrill Lynch, Research Division - VP*

How about the business that you're exiting? Just trying to get a sense of what (inaudible) you will be down next year.

W. Troy Rudd - *AECOM - Executive VP & CFO*

The businesses that we're exiting, the revenue, are about the same size. So it's roughly about $400 million, and again it's not a positive. Yes.

Operator

From Deutsche Bank, we have Chad Dillard

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

So you've seen some strong pickup in DCS bookings. I just wanted to know how broad-based is it versus, maybe, from a year ago, from a geographic perspective, and maybe inside the U.S.? I'm just trying to figure out if there's enough work in that business to drive further acceleration in the margins over the next 12 to 18 months.

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

So it's -- just to take the DCS globally, we're seeing significant growth in Asia Pacific, significant growth in the U.S., not so much in Europe and the Middle East for obvious reasons, with Brexit and the price of oil. But within the U.S. then, that growth is happening in the markets that you've heard us talk about for a while, the big cities of Los Angeles, and Seattle, and Atlanta, where you've got very specific civil infrastructure revenue sources. So we're seeing a fairly broad-based win rate, and fairly broad-based organic growth. And we're quite confident that we're going to be able to continue to achieve that mid-single-digit organic growth rate with a real positive trajectory.

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

And then, I also wanted to dig in to the $6 billion of MS awards this past April. Just, is there any risk of protest for any of these projects? How chunky were the awards? And how should I think about the margin of those projects that you won? We should be within that 7% target? Or higher? Lower? Any color on that would be helpful.

Randall A. Wotring - *AECOM - COO*

Yes. This is Randy. So the projects -- there were a number of projects that we recently won, and they are all going through a transition period. Usually, those transition periods are 45 to 90 days. So you should start to see revenue ramp up over the last part of summer here significantly. They are, I guess, the same mix of work that we have in the rest of our business. So I think from a margin standpoint, you should model using, I think, the same methodology. Most of these are -- a lot of the work that we're winning is cost reimbursable, given the nature of it, so the risk is lower. Margins are less than you would normally see in a fixed-price world. But again, most of our work in MS today is cost reimbursement. So I think use the same model you have been using for purposes of projections.

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

And Randy, on -- the one part of that question was, are we expecting a protest? And I think the answer is...

Randall A. Wotring - *AECOM - COO*

Yes. So look, we passed the protest periods for all major new awards. So we have no protests in place on the awards that were made in April.

Operator

From Barclays, we have Adam Seiden.

Adam Marshall Seiden - *Barclays Bank PLC, Research Division - Research Analyst*

So you're seeing nice growth in Shimmick. I think you mentioned 40% growth or so. How do you think you sit today with the scale of your civil business versus where you'd like it to be?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

The scale of our civil business is limited to the California, Washington and Hawaii markets. And so -- I -- with the exception, we do have a couple of projects in the Rocky Mountain states. But it's not a global civil infrastructure business. It's not widespread across the U.S. But what's important is we were attracted to Shimmick because of the attractiveness of the California market. When you look at the $52 billion transportation bill in the state of California, you look at the $120 billion Los Angeles Measure M, wholly dedicated to transportation and infrastructure, we felt that, that was a market that was, as I said earlier, white hot, and I think that's the best way to describe it. And so our civil infrastructure is mostly limited to that area, and it's a good place to be right now.

Adam Marshall Seiden - *Barclays Bank PLC, Research Division - Research Analyst*

No. For sure, I understand that. So then, just in the -- it seems like there you're very positive on it with everything that you see in California. But I guess, generally, when you think of civil and some of the positive trends, do you expect that to carry over in various markets across the country in the U.S.?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

Yes. It does. But we're -- we will carefully move into those markets, if we think the markets are -- have the right competitive metrics that allow us to attract the margins we want, and allow us to perform in those markets with the right capabilities. And so if we wanted to move into any of those other markets, it would probably require us to undertake some small niche acquisitions that would give us some capabilities similar to what we did with Shimmick. But we don't have anything on the docket right now to do that.

Adam Marshall Seiden - *Barclays Bank PLC, Research Division - Research Analyst*

Excellent. I appreciate that, and just one last one. I believe, maybe, Randy, you spoke a little bit MS margins in the last question. Maybe just thinking more broadly, or at least perhaps in DCS, when we look at some of the new awards that you have, and then, where backlogs sit today, how does the margin in the DCS business compare today versus a year ago?

W. Troy Rudd - *AECOM - Executive VP & CFO*

Yes. Adam, it's Troy. So I think consistent with what we've described is we saw margins improving over time. And that was really going to be driven by the organic growth in the DCS business. And with the growth, that has proven to be true. So we gave a longer-term guide of margins in that business being -- in the DCS business, being in the 6.5% range, up from our long-term guide of 6%. And as you've seen in the first quarter, we saw margin improvement. And certainly in the second quarter, we're already at that 6.5% point. And so, again, we see ourselves performing in line with that long-term expectation. And as we continue to grow that business, as we said in our longer-term forecast, we see margins expanding beyond that with growth.

Operator

And from D. A. Davidson, we have Brent Thielman.

Brent Edward Thielman - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Just to follow up on the CS margins, I guess with the discontinuation or removal of the gas-fired power and a noncore oil and gas operations, should that structurally change expectations for margins for the segment? Obviously, not this year, but kind of longer term? Or is it that 2-plus percent still a fair longer-term target?

W. Troy Rudd - *AECOM - Executive VP & CFO*

No. That's still our longer-term target. We -- there's -- again, there's changes in the business. And as -- so we -- as we moved out of power, we -- again, we see the expansion in our civil business through Shimmick. So we -- that's still the right long-term target.

Brent Edward Thielman - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Okay. Great. And then, Mike, I know it's early. I think you touched on it in the prepared remarks, just in regard to the Middle East. Obviously, it's an area that could be a great longer-term opportunity. Can just elaborate a little more on what you're seeing there, when you think that could really develop to a bigger longer-term opportunity for you?

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

So we continue to focus on the Middle East. It's a smaller part of our business nowadays, but there are some incredible opportunities right now in that region. The Dubai Creek Tower, which is out to bid right now, is a $2.5 billion tower that would be the tallest building in the world that's expected to be built. The opportunities for new city development in Saudi Arabia are incredibly exciting, and the amount of money that's going to be spent there that we are currently focused on. So there's still opportunities there that are of great interest to us. And when oil comes back to a little more reasonable level and allows budget surpluses to come back to the oil-rich nations of the region, we expect growth will return there. But over the past couple of years, it's been a little sluggish due to the price of oil.

Operator

We will now turn it back to Mike Burke for closing comments.

Michael S. Burke - *AECOM - Chairman of the Board & CEO*

Okay. Thank you, operator. So before we wrap up today's call, I just want to reiterate just a few points that support the tremendous confidence that we have in the business.

First of all, we have continued to deliver not just great revenue and backlog, but clearly, industry-leading revenue growth and backlog growth, and further supported by the $6 billion of wins that we had in the first week of April. And so we're now up to a $56 billion backlog that gives us quite a bit of long-term visibility.

The second point I want to make is we expect continued momentum in the business, mainly due to the growth in the higher-margin segments of DCS and MS. And that gives us a great deal of comfort and confidence in the long-term profitable growth of this business.

And then, finally, and most importantly, we remain committed to driving value for our shareholders. And you saw that evidenced by some of the strategic decisions that we announced today. We are constantly looking at how we allocate capital and ensuring that we are focused on the right capital allocation to the right growth opportunities. And that caused us to de-risk our portfolio by extracting ourselves from the EPC power market. And it caused us to redeploy capital away from the Canadian heavy crude oil and gas business. And that will allow us to accelerate the stock buyback program that we have previously announced, once we get to our desired debt ratio of 2.5x during this fiscal year.

So we are quite confident in the current state of our business and even more confident in the future of our business. So thank you for your continued interest in AECOM, and thank you for participating today. Have a great day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for joining. You may now disconnect.