AECOM (2019 Investor Day)

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Corporate Speakers:

- Michael S. Burke, AECOM - Chairman of the Board & CEO
- Randall A. Wotring, AECOM - COO
- W. Troy Rudd, AECOM - Executive VP & CFO

Participants:

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- Steven Fisher, UBS Investment Bank, Research Division - Executive Director and Senior Analyst
- Anna Kaminskaya, BofA Merrill Lynch, Research Division - VP
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PRESENTATION

Michael S. Burke: Okay. Let's get started. Welcome, everyone. Thank you for joining us today. And what I'd like to do is we'll have some prepared comments from me, from Randy Wotring and Troy Rudd. Then we'll move into Q&A and we'll stay here for as long as you want to ask questions.

So let me get started with a few things. First of all, on the screen here is our safe harbor provision as well as it's on your desk. Please read at your leisure.

So during the discussion today, we're going to cover off some of the business market overview. I'll talk about the value creation update that we see in front of us. Randy will focus on our operational excellence and some of the markets as we see them today. Troy will give you a financial update. We'll talk about not only our backlog but help give you a little more visibility into the margin that exists in our backlog today and how we see that rolling out over the coming years. We'll talk about our cash flow and our capital allocation priorities. Then I'll come back up to close it off and begin the Q&A.

So let me start off with a few key messages that we hope to leave you with today. First of all, we are reiterating our FY '18 to FY '22 5-year financial targets. We have, as we set forth a year ago, we expect a 5% compound growth in our revenue over the course of that 5-year period. We are increasing our EBITDA growth from 7% to 9% for the remaining 4 years to take into account the minor shortfall in FY '18. That will translate into a 12% to 15% EPS CAGR. And of course, the variability within that range depends on the price of the stock that we intend to buy back over the course of that period.

We are also reiterating our expectation of $3.5 billion of free cash flow over the course of that 5-year period with our almost $700 million of free cash flow in FY '18. That leaves us about $2.8 billion left to go in the next 4 years. And as you heard us say before, we expect to use substantially all of that cash to buy back stock under our current $1 billion stock buyback authorization program. But just to underscore what that means, $2.8 billion is almost 60% of our market cap over the next 4 years that we can buy back, so an incredible opportunity for us to return cash to shareholders and increase the value of the organization.

During today, you'll hear us focus also on FY '18 and some of the successes that we had. We have -- now have a foundation that is better than we've seen it in many years. During FY '18, we had record wins of $28 billion. We grew our backlog to $54 billion in the fiscal year, an all-time high for us. We started off the first month of this fiscal year with almost $7 billion of wins in the first month of this year alone. And we're off to a real solid start for FY '19 based on the foundation that we set in '18.

We also announced the execution of a plan to reduce our G&A by $225 million. This is critically important for a number of reasons. One is that when we look at the increase in the margins that we will have after the execution of that program, it increases the value of that $54 billion of backlog. And to put it in perspective, for every 100 basis point improvement in our margins in the DCS segment, it puts $170 million of profit to the bottom line based on the revenue that we have in backlog today. So just taking the revenue that we have in backlog today in DCS, improving the margins by 100 basis points puts another $170 million to the bottom line.

And so the actions that we took to execute on this $225 million G&A reduction was, one, to not only improve our margins but improve the value that we will extract from the almost $60 billion of backlog that we have today. And I want to reemphasize once again that by the end of this month, we will have taken 80% of the actions necessary to reduce that $225 million of G&A. Another 10% of the actions will occur in Q2 with the remaining 10% occurring in FY '20 due to certain leasehold commitments. So this isn't a futuristic G&A reduction plan, this is happening now. Almost all those actions have already been undertaken in the month of October, so we're well on our way.

The next theme I want to make sure that you take away from today is that our actions to derisk this business and prioritize investments. We started off at the beginning of calendar '18 by extracting ourselves from the EPC combined cycle gas turbine business because we saw an asymmetrical risk in front of us. Although we had a great success in that business, we saw other competitors having great challenges in that market, and we thought the market was turning, so we extracted ourselves from that business.

We also extracted ourselves from the oil and gas business. During the year, we sold off one chunk of our assets. We have another portion of those assets that are currently in due diligence, and we hope to close that shortly. But we're not stopping there. We have more work to do to derisk the portfolio that we have today. And we are aggressively working

on that to ensure that we reduce the volatility in our earnings, ensure we maintain our industry-leading free cash flow over the coming 5-year period of time.

And then last but not least, we remain committed to our capital allocation policy, which is evidenced by the $223 million of debt reduction that we achieved in FY '18 plus the $150 million accelerated stock repurchase program that we executed on against in the month of August. And we have continued to execute open market purchases during this quarter currently. As we said at the beginning of this fiscal year, we expect to continue to buy our stock back against that $1 billion authorization, and we will allocate our cash to the buyback consistent with the cash flow that we experienced throughout the year. And as you know, our first quarter is always our lightest quarter on cash flow. But nevertheless, we have been in the market this quarter buying our stock.

So I'd like to focus on a few things here and some of the investments that we've made over the past few years and how those investments are now delivering results. So our Americas design business, this is a business that has been challenged for a number of years and turned around dramatically in FY '18, and we expect the same in FY '19. We acquired a business from URS 4 years ago. We paired it up with -- it was an underperforming DCS business. We paired it up with our underperforming DCS business in the Americas. And we spent a couple of years restructuring that business. And we have now made investments and restructured that business to turn it around. That came home to roost in FY '18 with a high single-digit organic growth, a 9% growth in our backlog, a 17% organic growth in the second half of the year.

So that being the biggest engine in our business, a little more than half our EBITDA comes from that business. So we see that business is clicking on all cylinders based on that restructuring over the past few years. And that restructuring was taken at a time when the overall market was challenged and the overall market was shrinking. Now that we're coming into a market that is growing again, and we'll talk a little bit about that in a moment, we're coming into market that is growing, we have a restructured business and we're seeing the benefits of that in the second -- we saw the benefits of that in the second half of '18, and we are going to see it coming into FY '19.

The next investment that we made over the past few years was our Management Services business. This is a business that also required a different investment and a restructuring. We came off of that after the combination of our MS business and the URS business. We are coming off of a high point in that business due to the chemical demilitarization program and due to the Sellafield nuclear work in the U.K. As we had 2 of those contracts, one of them being the most profitable contract in the history of the company, we knew those contracts were winding down. We had to reinvest. And we spent a couple of years reinvesting in business development in that business. Over the past 2-year period of time, we grew our backlog from about $8 billion to about $18 billion over that 2-year period of time. We had win rates that are almost double what our historical win rates have been. And we see that business continuing to grow.

We still -- even though the backlog grew from $8 billion to $18 billion, we still have another $30 billion of opportunities in front of us. More importantly, the opportunities that are in front of us are higher-margin work than the opportunities we won over the course of the past year. Our business is about -- 75% of that business is in DoD and DOE. DoD, while they are very long-term contracts, they tend to be a little lower margin. The work in the pipeline that we won over the past year was more heavily weighted towards DoD. We still love that business with long-term certainty and visibility, low risk but lower margin. The opportunities now that are left in the pipeline that we see in front of us are more DOE work that attracts much higher margins. So we're confident in the trajectory of the margins in the MS business going forward.

Next, the actions that we've took -- taken in our Construction Services group in FY '18. We doubled the wins in that business from a little over $4 billion of wins in FY '17 to $8 billion of wins in FY '18. We followed that up with about $7 billion of wins so far in the first quarter here in the Construction Services business. And that backlog now gives us 4 years of visibility in that space. And we'll talk about some of the challenges that we experienced in that business last year. But we're very confident that, that business is on the right track with a great portfolio with long-term visibility.

And then AECOM Capital. AECOM Capital is a business that we have been investing in for a couple of years. We have now raised outside money to the point where we will no longer have a drag on our earnings from any of the G&A associated with that because the investment management fees that are coming from the outside money will offset the cost to run that business. So now we're in a position with very little capital deployed, we're harvesting and selling off the assets to recoup the investment that we have made. We have had a significant profit in the assets that we've sold. We have significant built-in gains in the assets that we have not yet sold. But the underlying strategy there now is that we will not be deploying any significant capital. We will not be experiencing any further investment from a P&L perspective. And we will just be realizing asset gains as the projects come to fruition through a carried interest in the outside fund as well as realizing value from the construction work that we do for those projects.

So let me talk a little bit about the market opportunity that we see in front of us now. When I look at the core Americas market, as I mentioned, the Americas market from a profitability perspective is about half of our EBITDA. It's a market that has turned quite a bit. I mentioned earlier that we've gone through a number of years in a sluggish market. We spent those -- that period of time combining 2 businesses into a market-leading franchise that is now poised to take advantage of these markets and take advantage of these markets at much higher margins than we have in the past. You've heard us talk in the past about the $200 billion of ballot measures that came out in the November '16 elections. In the November '18 elections, we had another $30 billion of ballot measures here in the U.S. wholly focused on infrastructure spending. We had about $200 billion of opportunities due to disaster recovery across the U.S., Southeastern U.S. and the Caribbean, that we have been a benefactor of. And those monies will continue to be spent for many years to come.

And people have asked me about, "What's the longevity of that?" I'll tell you that we just finished up our last project from Hurricane Katrina. And if anybody could remember, Hurricane Katrina was in 2005. And we just finished up our last part of that disaster recovery. So there's plenty of disaster recovery work in front of us. All of these monies that are coming to the market are still without the benefit of any federal spending. And I said it because you know 77% of all infrastructure in the U.S. is funded at the state and local level. The rest is done by the federal government. So any federal infrastructure program that comes forth that we're -- we're hopeful about that. But any of that is on top of these state and local funds that I just mentioned.

When I look at the U.S. government business, the Management Services business, as I said a minute ago, about 75% of our business is in [DoD] and DOE. The DOE budgets continue to grow. But you'll see here, the increase in U.S. defense spending from a little over $600 billion to a little over $700 billion from '17 to '19 gives us confidence that we'll continue to see that business grow. We'll continue to win work in that space and hopefully continue at the win rates that we've seen.

So a couple of things here, the strategic actions that we've taken recently. The $225 million G&A reduction plan, I want to make sure we understand how we came about that $225 million number. Somebody asked me yesterday, "How do you know that's the right number? Is that enough? Is it too much? Is it not enough? But how did you come about that?" Well, first of all, sometimes, people use general margins among the industry. And the problem with our industry is there's no perfect comp in our industry. Every one of our members of our peer group has widely varied businesses with different types of clients, different geographies, different segments.

So we worked with Bain Consulting, who's done a lot of work in our sector for other companies, to help us arrive at what we thought was the right level of margins to target. And that's how we came about this $225 million program. We came about this early in FY '18, I should say about halfway through FY '18. We worked in the second half of FY '18 to finalize our plans. And then we executed on that plan at the beginning of this quarter, which will lead us to the point that I made earlier, 80% of those actions will be completed by the end of this month.

But we didn't just cut back on cost. We have been working for a couple of years now to position ourselves to take certain administrative costs out of the system. When I look at IT and HR systems, we outsourced a big portion of our IT department to IBM. We've been working on that for the past 1.5 years to reduce the overall cost of the IT. That has gone well. Overall, we've had some challenges with that. That's never easy. But overall, it's gone well.

The HR systems, we had a dozen system HR IT systems around the world due to the acquisitions that we have done. We spent the past year implementing a Workday system so that we have one HR system globally, allowed us to take a lot of headcount out of the system because we could do our work more efficiently. But the real side benefit of that is also improved utilization because having a better line of sight to all of your resources,

regardless of where they sit in the organization, is going to allow us to more effectively deploy our resources. But we didn't come about that easily. It's been 1.5 years in the making on a lot of these projects. Moving to a shared service center in the Philippines has allowed us to outsource much of our back-office operations.

So what we see is that G&A benefit primarily focused on the DCS Americas business. I should say the DCS business as a whole because it also focused on the EMEA business, where we pulled back a significant part of our cost. But again, to emphasize the point I made earlier, we will grow our DCS margins from 6.5% to 7.5% this year with an expectation that those will be over 8% in FY '20, when we get through the entire rollout of this G&A program. And again, 100 basis point improvement allows you to extract another $170 million of profit from the existing DCS backlog, not counting whatever backlog we continue to add over the course of the coming year.

The next is derisking our portfolio. And I touched on it a minute ago. That continues to be an emphasis of ours. We are looking at markets that have changed on us. Some markets have become much more risky than they were when we got into them. Even markets where we have performed well, we still don't like the risk profile. And so we are working very aggressively to ensure that the type of work that we're doing allows us to have consistent and predictable free cash flow over a long period of time. We think that's what our investors want. Certainly, it allowed me to sleep a little bit better at night. And I think that's what you'll see over the course of the next year as we further derisk that portfolio.

We have, in the course of FY '18, we did look at some of those projects, construction projects that presented more risk than we had hoped. And over the course of our business, especially on the Building Construction side of the house, we can look back 25, 30 years and see a business that never had a material project loss. We would have one immaterial loss a year and it would just be rolled into the rest of our business and it never got much notice. Unfortunately, in FY '18, we have 4 projects that were immaterial in and of themselves, but 4 of them that added up to material. Now we do look at a business that has gone through 4 years of double-digit organic revenue growth. So a little bit of growing pains, but we have analyzed those projects. We understand very clearly what went wrong in those projects. And we feel very confident that, that is an anomaly and not to be repeated going forward. And Randy will talk more about that in a minute.

Now we also during the year took some actions to, I'll call it, derisk our portfolio, for lack of a better word, but extract ourselves from about 30 countries. We were operating in almost 150 countries. And what we find is that in some of these countries where we are breakeven, maybe making a little bit of money, but it was a distraction for us. And we see opportunities in our core markets where we clearly have a market-dominating position. We want to be sure that we're deploying our resources to markets where we're #1 or 2 in the markets. We have a real strong understanding of the market. We have a franchise that allows us to achieve win rates higher than our competition.

And some of the countries that we were in, while they were interesting countries, they presented some one-off opportunities for growth, but they tended to distract us with our best resources. They were countries that required higher levels of oversight because of Foreign Corrupt Practice-type issues. And so when you layer in all the legal and F&A and internal audit costs to do business in those places, you end up seeing a drag on your margins. So that is -- that's been an important action that has taken place this year. And we're still not done on that front, either.

So our capital allocation policy, I mentioned a minute ago. I can't underscore enough the opportunity this presents for us. We have had a, without a doubt, an industry-leading free cash flow yield. And as someone said to me, Jamie, we are in an industry that sets a low bar. And so being top in our industry is not something to brag about. But she cut me off before I finished saying that not only are we #1 in our sector in free cash flow yield, but if you look at the S&P 500, exclude financial institutions, we'd be a top decile performer on free cash flow yield.

And so that is something that we ought to be particularly proud of. Despite a few glitches on the project execution in FY '18, nevertheless, we had $688 million of free cash flow. We have had industry-leading free cash flow for 4 straight years. And we certainly expect FY '19 to be the fifth straight year. So that is something that allows us to repurchase $1 billion of stock, why we have this authorization out. As I mentioned, we completed $150 million of that at the end of FY '18. We're buying in the market right now. And the opportunity at today's prices give us a lot of encouragement about the value that we can create through deploying that through stock buybacks.

So with that, I'll turn it over to Randy for further comment.

Randall A. Wotring: Thanks, Mike. Good morning, everyone. Thanks for joining us today. I'm going to touch on the profile of our business. I'm going to talk a little bit about margin expansion, execution and talk a little bit about our business, our Building Construction business.

As we look at our portfolio, I want to spend a few minutes talking about what makes our markets and businesses attractive from a return, risk and cash flow standpoint. Now in stepping back, if you look at how we're positioned, I mean, we are a higher margin -- for the most part, a higher-margin, low-risk professional services organization with great cash flow, as Mike said, industry-leading cash flow and long-term visibility. And this, I think, sets us apart from most typical EPC peers that have much more construction exposure.

I mean, we're really focused on the public sector market for the most part as well as the infrastructure market plays. In our design business, we have market-leading positions in transportation and facilities. And as Mike said, we've created real agility in that business, demonstrated by our ability to ramp up quickly for storm recovery efforts associated with the major storms we had in the Southeast last year. And it really was a benefit to our business. But this business again has great margins and improving margins. It has very

attractive returns and consistent cash flow. Not only that but revenue, backlog and margins are all pointing north. They're all improving.

In construction, in the construction business, again if you look at where we're at, we've clearly established ourselves as the premier builder in the Northeast and in California. And in BC, if you step back and look at the margins without the pass-throughs, those margins are very, very attractive. And from the standpoint of capital intensity, we have very little capital involvement there. And in fact, some say that our return on invested capital is infinite based on how those contracts are funded. And while our BC margins may appear lower, again if you strip those out, strip out those pass-throughs, the margins are probably the highest in the company. And as Mike said, we're taking measures to derisk, while at the same time, we're seeing great growth in backlog in areas of the country where we are very strong, the Northeast particularly.

Our Management Services business is and has been consistently ranked a top 20 government service provider. And again, we're a pure play. So if you just look at the pure-play service providers, we're probably in the top 10. That business has a great and growing backlog, a big pipeline of opportunities in front of us, and as Mike indicated, a pipeline that also has a lot of new DOE contracts. That's a lot -- DOE is a lumpy contracting organization. They have very big, long-term contracts. And so we're getting back into the cycle where we have more of those coming up. And there's about $30 billion of bids over the next 3 to 4 years that we'll be looking at but very strong backlog in that business and long-term visibility.

So Mike touched on our cost reduction efforts. And again, this is following years of investments in both systems, processes, tools as well as an investment in growth, really trying to simplify the business, make it easier for our employees to run the business across the globe. We worked with Bain, as Mike said, over a long period of time, ensuring that we get this right. We didn't want to disrupt our business development momentum. We didn't want to destroy any of our competitive advantages. And we didn't want to distract our workforce, who's out growing the business. And as you can see, it was successful from a growth standpoint. We have record backlog and record revenue in FY '18.

So now as we continue to focus on profitability, we're trying to get optimal profit maximization out of the backlog that we have. And in that regard, we've done a lot of work to take out redundancy and improve decision-making, being more agile within the businesses. We've consolidated our DCSA business, our largest business, from 9 regions down to 5 super regions. And again, I think it's helped us from an agility standpoint. A lot of redundancies come out of that business. Likewise, we streamlined the EMEA business. That's been a market that's been challenged. And from that standpoint, we think we've now taken the steps to ensure that, that business' business model is right for the current market and the market as we see going forward.

Mike indicated that every 100 basis points we take up significantly improve profit. So the changes we have made will improve profitability by 110 basis points. And if you look at

what he said importantly, the vast majority of those changes have been made in the first quarter. And what we can, we'll finish up in the second quarter. We have some tail on some of the leaseholds. But for the most part, those changes and actions have been taken. So we expect very swift payback on those. Most of those were personnel-involved cost, very swift payback. And within -- those costs have been included in our guidance, which is reflected at about 12% adjusted EBITDA growth at the midpoint of FY '19.

So look, FY '18 was a really good year for us in many ways. But we had a few issues as Mike mentioned that really weighed on profitability. And in 2018, as he indicated, we experienced problems on 4 CS projects, disappointing and preventable. Now while on normal years, as Mike indicated, we may have 1 contract that has a problem that wouldn't be material, this year, we had 4 hit at the same time. So we've really, really taken a hard look at our business.

Importantly, we have looked at the root cause analysis. We've looked at our risk management processes. And we have strengthened all those. We made changes. We took out the leader in CS, made a leadership change. We increased supervision on those projects. We updated a number of factors that trigger us regarding risky projects. And we've strengthened and improved our healthy start program to make sure these programs get off to a great start and then they're audited and tracked as we move across the life cycle of the project.

Now given all that, just to give you a perspective as a whole, we are a diversified business. Yet I think we carry lower contracting risk than most of our peers. In fact, if you look at our business exposure today, you'd see that we have fixed price exposure in 2 areas. One is power, where we're still doing some combined cycle work. We have one contract left. It's Alliant. It's 84% complete. It's on schedule and on budget. The power group has not had a blow in 20 years. We expect and have great confidence that project is going to end on a positive note. The other areas is civil construction. As you know, we bought Shimmick. They have performed above plan. Their primary focus areas is in the California area. It's a white-hot market where we are seeing improved terms and conditions and we are getting better pricing. So we feel good about that, where we're focused in that organization also.

Let me just close by talking a little bit about Building Construction and that business. I got to spend a lot more time with that group, given our changes and the challenges we had. And as I mentioned earlier, this business is incredibly attractive when you strip out the pass-through cost. It's really a professional services organization. In fact, for those of you who have been following the company for a long time, you may recall that prior to the URS acquisition, Building Construction was a part of our DCS business.

And look, most of the contracting activities in there is done on a guaranteed maximum price. So just a reminder on GMPs. The price on those contracts is set after we are selected. Subcontracts are fixed price. They're insured and bonded. There's some pain and gain share on those. But look, unless we have negligence, gross negligence, there's not significant risk on those contracts. The capital requirements are extremely low. We are

able to get consistent cash flow out of those contracts. And as I said, the return on invested capital is extremely high. When you remove the pass-throughs, our margins are highest in the company in that business, highest in the company.

And importantly, our visibility in that business is outstanding. We don't have any major project that finishes in FY '19. As Mike indicated, we've had 4 years of double-digit growth. We've won $10 billion worth of business in the last 6 months -- $10 billion worth of business. So we have good visibility and line of sight on revenue in that business for the next 4 years. And we feel very good about that business, where it's at and how it's positioned.

So with that, I'll close and Troy will -- pass the baton over to Troy.

W. Troy Rudd: Thanks, Randy. I am going to pick up where Randy and Mike left off. Building on the comments that they made about the investments that we've made this past year, the success we've had in building backlog, the momentum that we have in our markets, the restructuring changes that we're making and talk about that -- how that translates into our financial results and then talk a little bit more in depth about our capital allocation.

The first thing is we talk about $54 billion of backlog and we talk about it growing 26% over the last 2 years. That's a gigantic number, $54 billion. So the question is how do you think about that and the impact on the future? So I want to spend some more time talking about that backlog to create some more visibility as to why we have confidence in this next year about how that translates to growth and growth in profit and how it does that over the next 4 years. So just at very high level, we've seen 26% growth in our backlog over the last 2 years, the end of '16 to the end of '18. And as Mike and Randy have both pointed out, we haven't stopped there. We've already in the month of October won more than $7 billion worth of work.

We've had a change in the mix of our business. The work we've been winning has been in our Management Services business and our consulting business, less so in our Construction Services business. Those are our 2 highest margin businesses, which means that the quality of that backlog has improved in terms of future profits. And you can see from the chart that, in fact, that backlog has improved the profitability rate at a 40% rate. So that positions us well for '19 and positions us well because of the duration of that backlog for the next 4 years.

So let me give you a little more depth on that. First, talking about our Management Services and our Construction Services business. So the important -- or to me, the important takeaway here is the foundation that it creates for the longer term and it creates a foundation our Management Services business that we see for the next 10 years. That foundation also looks different. The work that we've won over the last 2 years has been primarily with a Department of Defense client. We are pursuing more opportunities with our Department of Energy client, which has a different profile to it.

But the work we've won moves us to more cost-plus-type work. And now we have visibility for a 10-year period that's improved. It's more cost-plus-type work, which means that it has less volatility in it, so more certainty as with respect to the outcome. And then as we continue to be in the market for the next 2 to 3 years as we build our backlog through Department of Energy wins, we'll see an improvement in the margins over time. But again, this sets a very good foundation for the next year and for the next 4 years.

In our Construction Services business, first start by pointing out that 75% of our Construction Services business and backlog is from our Building Construction business. And the wins that we've had over the last 9 months in that business have given us visibility for the next 4 years. And again, it's a different makeup. A lot of that work has been won in our aviation projects and aviation markets. That business, by its nature, that backlog by its nature, is again lower margin, less volatile backlog and carries with it, as Randy pointed out, the highest margins in self-perform work that we have in the company.

So what I would take away from this particular picture is that we have won a lot of backlog in these businesses. And they've created a future that has a clear line of sight to it, a foundation for at least in Management Services almost a 10-year period, but certainly combined for the next 4 years, and less volatility in our backlog than we've had in the past.

So now the design business. And I get this question all the time, "Troy, you won all this backlog, but how do I think about this turning into revenue?" I'm going to give you a simple rule of thumb that we see and that we use when we think about this. We see that the next 12 months of revenue in our design business will grow based on the preceding month's or the preceding quarter's backlog. But 90% to 95% of the revenue comes from what's in contracted backlog at the end of the period. So what that means is this past year, we have improved our DCS backlog overall at 4% rate. And our Americas, our largest market, has grown at 6%. That gives us clear line of sight, and that's in our contracted backlog, that gives us clear line of sight for the next year to see moderate single-digit growth in those particular markets, DCS overall and importantly in the Americas.

If you look at this past year, the second half of the year, our Americas business had 17% growth in revenue. Our backlog, our contracted backlog certainly didn't reflect that. The reason we ended up there is because our backlog creates this foundation, but then there are certain types of work that we pursue during the year that are short-lived or short-term opportunities that we continue to pursue that actually support an upside in that growth. And so this past year, that storm revenue work that we did, the storm recovery work that we did, provided that increased revenue opportunity. And as Mike and both Randy have pointed out, we don't see that changing in the coming years. We still see a significant amount of short-term opportunity that provides upside certainly in the Americas and to our overall DCS revenue in this coming year.

The other important point here is in terms of margins in that backlog. As Randy pointed out, we went through a process to make sure that we were building a business based on a backlog that was going to have margins that would be in the top tier of our peer group. So I'm going to first just talk about a conversion of our operating margins. When we talk about operating margins today, we talk about operating margins in terms of excluding depreciation from those margins. But when you go and look at peer groups, for the most part to get that comparable information, depreciation is included.

So if I take our operating margins and I convert them to EBITDA margins as a proper comparison, I add about 50 basis points to our margins. So what would be a 6% margin at the end of last year in our DCS business would be a 6.6% margin if I was looking at EBITDA. If I then move forward and I look at our EBITDA margins that we expect in '19 as a result of our backlog and the restructuring in DCS, I see we're expecting EBITDA margins of better than 7.5%. And we move to '20, because of the tail on the restructuring that we're doing, we see margins that are going to be over 8% in terms of EBITDA.

And when we go through a peer analysis, we see that, that puts us, in terms of pure-play peers in the design market, it puts us at and above the median of that particular group. Now there's no perfect comparison because they're operating in different markets and they do have different segments and different contract types. But it does tell us based on where we are that we've gotten ourselves to a point where we sit in the meeting in the peer group. And again, as Mike said, we're not done with that. But it certainly gives us confidence as to where we are.

Now the important point from that is with the visibility into DCS growth and the improvement in the margins in the business, it means we have backlog of $17 billion. We don't have to go out and spend money to win that backlog. We don't have to go out and work on the terms and conditions of that backlog to get it under contract. That's work that we have in our backlog today that we can now deliver at significantly higher margins, which means that the $17 billion, the almost $17 billion of backlog in our design business, can be delivered over the next few years, is significantly higher margin or contribute a few hundred million dollars to the profitability of the company. $17 billion represents about 2 years of revenue in our DCS business. So if you want to make this as a simple rule of thumb, if we improved our margin by that 1% from when we won that work, we can deliver it now at $170 million more profit or approximately $80 million, plus or minus, over the course of the year, which adds $0.40 in terms of EPS by just delivering the work that we already have at backlog.

So this all comes together when we talk about our 5-year plan. So during '18, we fell short of where we expected to be. But with the wins that we've had in our Management Services business, our design business, our Building Construction business, that we see a clear foundation for the next coming year and for the 4 years beyond that, the 3 years beyond that. We also, through the restructuring, have created a path to improve the profitability in that backlog that we spent, so we deliver it. It is to a point where we will be back on track with our 5-year plan in fiscal '19 and gets us to the same endpoint as we

anticipated to be when we announced our 5-year plan last year, which is in 2022, delivering $1.2 billion of EBITDA.

So that's important. But the important element of how we run the business and how we drive value is converting earnings to cash. And there's frankly nothing that's changed in the underlying conditions of the business. In fact, given the work that we've won in Management Services has less volatility, increased backlog in our Construction Services or Building Construction business, the improved profitability in our design business means that we've actually created conditions where it becomes even more certain to be able to deliver that long-term cash forecast or that long-term cash outcome.

Just want to give you a picture why we believe that over the course of the next 4 years, we're going to be able to deliver at the end of 2022 more than $800 million of free cash flow, so an improving free cash flow trajectory over the next 4 years. We've got on this chart our '18 conversion of earnings to cash flow. You can see when we look out to 2022, we have improved earnings. But there are a couple of differences. One is, over time, we've benefited from our cash taxes being less than our book taxes. Over time, we see that equalize and then having a 25% rate. That is represented in 2022. We have a higher tax rate and higher cash tax at payout.

We also have growth in the business. And typically, we have some things like cash provided from the equity to provide to our employees. It probably is affecting the tailwind to our cash conversion. It's not reflected in 2022 because really we see that being offset by the working capital that is needed to fuel growth. And just something, looking at the improved earnings capacity of the company in 2022, converting earnings to cash in the same that we have in the past puts us in a position where we're able to deliver and should be able to deliver more than $800 million of free cash flow in 2022. And what that means is improving cash flow in the interim from where we sit today.

Now the last thing I want to cover is just to explain why we believe we should be in the market buying our stock. I think it's clear, but I wanted to share with you our thinking behind that. And the simple answer here is that we believe that in terms of a free cash flow yield on the enterprise value, that we're certainly below where our peers are, industrial companies are and frankly most of the S&P 500, putting aside financial institutions are.

So how we reach those in a little different way. So we look at unlevered free cash flow. The unlevered free cash flow is adjusting ours and our peers and our company's and other companies' cash flow to take out the impact of a different balance sheet. So different companies are capitalizing in different ways. We have more debt than a lot of our peers. So if we look at the unlevered free cash flow, effectively it means that you take the aftertax interest expense and you add that back to your cash flow for all companies. Then you remove the impact of the cash flow that goes to minority interest holders.

So you take out NCI cash flow, which means that this is a cash flow that's attributed to us based on an unlevered balance sheet, and compare that to peer companies. When we

compare it to peer companies, we sit at a 9% yield. Our peers, the industrial companies that would compete for investment dollars, in the S&P 500 all sit at 4% and below, pretty stark difference. And that means that we believe that there's an opportunity for us at this price and the continued improvement in our cash flow to buy our stock because it's undervalued when you compare it to those peer groups. And we will continue to do that. And as Mike said, we're in the market today continuing to do that. And this drives a strong belief for us, this is where we believe we need to be devoting our cash flow until a point in time where we've reached some sort of equilibrium.

So Mike, I'll turn the stage back over to you for some concluding comments. Thanks.

Michael S. Burke: Thank you, Troy. So I thought before we move to Q&A, I'd close with an answer to a question that was asked of me yesterday by a couple of ours sell-side analysts. And I think the question was simple. It was, "Tell me why is now, why is now the right time to buy your stock?" And so I gave my off-the-cuff answer at that time. But I jotted down a few notes to hopefully recollect the discussion as we had it yesterday.

But when we're out meeting with new potential investors, we're telling them a few things. First of all, we firmly believe the stock is undervalued now. And we believe it's undervalued and we're following it up with our actions by buying our stock. Now we're buying our stock back, of course, with our seasonal cash flow. But we're putting our money behind our words on that. It's very clear to us, as I mentioned earlier, our free cash flow over the next 4-year period of time would allow us to buy back almost 60% of the market cap of the company at our current stock price. But we also believe that the value today is not reflective of the value of this company. It's not reflective of the leading franchises that we have in this organization. It's not reflective of the industry-leading free cash flow and the S&P 500-leading free cash flow and it's not reflective of the market opportunities that are in front of us right now.

So you have to ask yourself, "Why is there a valuation disconnect?" Well, there's a valuation disconnect for a few reasons. First of all, you have to look at where we've been for the past few years. We bought into the URS transaction that had a significant presence in oil and gas space 4 years ago. And people ask me, "What did you learn about that deal when you reflect on it?" What I learned is don't buy oil and gas at peak oil. But that's what we did. We bought a mediocre oil and gas business at peak oil. We spent a few years suffering through the pain of that. We have now sold off most of those assets. And that is no longer a headwind for this company. And I think that's an important why the time is now, the headwinds of oil and gas are behind us.

Secondly, we talked earlier about our Americas design business. Our Americas design business is the biggest engine of profitability in this company. We bought an underperforming DCS business. We coupled it with an underperforming business. And 2 wrongs don't make a right there. We had to spend a couple of years restructuring that business. We restructured it. We pulled costs out of the business over the course of this past year. And we now have an incredible focus that is allowing us to grow that business organically, 17% in the second half of the year, to grow at an organic rate and grow our

backlog at rates that are far superior to anybody in our sector. And the fact that we are now able to increase our margins allows us to extract even more profitability now as this market moves into an upswing than we were before.

Secondly, where we've been on the Management Services business. I talked about the repositioning of that business as we rolled off of chem demil, the most profitable contract in the history of this company, as we rolled off of that and we rolled off of Sellafield and we had to build up that business. We invested over the past couple of years significantly in business development, which allowed us to grow our backlog by $10 billion. We still have another $30 billion in front of us. We're winning at rates that are almost double the win rates that we've historically had. Typically, win rates in this sector are about 30%. Our win rates over the past 2 years have been double that. So the investments are paying off. We have much longer-term visibility in that space. And the opportunities in front of us now in our pipeline that we're pursuing or awaiting decisions are DOE contracts that are higher margins.

Fourth, the CS, the Construction Services business. There is no question that over the past 25, 30 years, we have had a stellar track record in Construction Services, stellar. We have not seen a material project write-off in that space ever with this company. Unfortunately, last year, we had 4 projects that Randy mentioned. We feel very confident that we have a handle on those. But that misstep in FY '18 has caused a disconnect between the value of the company and where the stock price is today.

So those are the 4 principal reasons. Some of those challenges have resulted in our stock, I'll say, being cheap today because a few of those missteps have caused a bit of a concern. But with the restructuring actions that we took place and the $60 billion of backlog that we have currently, we believe we are very well positioned to extract the most value from that backlog. We are derisking the portfolio to provide even greater certainty to our free cash flow over the coming years. In the context of the organic growth, the growing backlog, the derisking of the portfolio, we believe we are at an inflection point to this company today. And that's the pitch to our new shareholders or new potential shareholders who are saying, "Why should I buy today?" So hopefully, that gives you a sense of how we feel about how the opportunities in front of us.

And with that, we'd be happy to open it up to any questions.

QUESTIONS AND ANSWERS

Michael S. Burke: Yes, Andy? Microphone right behind you.

Andrew Alec Kaplowitz: Mike, so just kind of addressing that. If I look at the slide deck, you gave us a 2020 EBITDA number. I don't know if that's the forecast, but 6% growth from 2019. I think we all want 2020 "to be cleaner" than 2019 just in terms of you still have $50 million drag from the power stuff ending, right? You have $85 million, I think, of benefits in '19, too, from the restructuring. $50 million that you've told us is sort of a claim in '18 that's not going to be there in '19. And hopefully, you still follow me. But the

point is that maybe you should have more growth even than 6% in 2020 if there is this momentum in the business on the backlog side. You still have some of the restructuring benefits hitting 2020.

I guess, really the simple question is does the noise of you getting out of stuff basically end in '20 so that we should just have -- we can focus on MS and DCS sort of growing again?

Michael S. Burke: Yes. I think that's a fair point. There has been noise, no question. There's been a lot of noise over the past few years. Our expectation is that derisking of the portfolio will be completed in FY '19, so the noise will be gone by the time we start '20. With respect to the growth in the profitability, I take your point, you're spot on. We will realize the last 10% or so of that benefit from the restructuring in FY '20. But we'll be rolling into FY '20 with a solid chunk of those savings already in the bag. But we do have a little bit of growth in savings through FY '20. What you hopefully heard me mention at the beginning was that we expect our EBITDA to grow 9% over the coming 4-year period of time. That is at 12% growth in FY '19 at the midpoint of our guidance range and then modulating a little bit after that but getting us on track -- back on track to the 7% 5-year EBITDA growth that we announced last year. We hope there's upside there, Andy. And if the market continues anywhere near the pace that it's been on, there is upside to that. But it depends on the market continuing where it's been and not seeing any other hiccups. But we feel good about the market today. And the last half of FY '18 was incredibly strong. The win rates have been incredibly strong, adds to the backlog have been strong. So we're not prepared to go much further than that. But I think 9% EBITDA growth over the coming 4 years seems pretty solid.

Andrew Alec Kaplowitz: And then I think it's a pretty clear presentation, but -- and I know you can't go into the derisking maybe in much more detail. But if I think about your stock and the pitch sort of you've made versus some of your close peers, right, they've started to move more into government services. You're already there and you have this very high free cash flow yield. So is there anything more that you can do? I mean, some people would argue that why does the MS business have to be with the other businesses? So maybe you can talk about what the conglomerate aspect of AECOM brings to the table? And is there anything else that you can do to realize value here?

Michael S. Burke: Yes. So it's a good question. Let's focus on the MS business. Why does it make sense to be a part of this organization? When you look at the opportunities that have presented through the rest of the organization, I'll take the $1 billion San Onofre nuclear facility project. That is a combination of our Department of Energy nuclear expertise from MS, a combination of our construction capabilities and a combination of our environmental engineering group for the DCS group. It's $1 billion opportunity that we won, a high-margin work that encompasses all of the 3 groups of the organization. We also see a lot of work in front of us on private sector nuclear remediation. Obviously, we've been one of the biggest players in the U.S. government space. We're taking those capabilities outside the U.S. We're taking those capabilities to the private sector.

There's another opportunity coming up at Diablo Canyon in California, which would be similar to the size of San Onofre. So that's one example. Another example is if you look at the DCS business today, delivers $800 million of revenue to our MS federal government clients. Right, so the MS -- but if you take the MS business and then you look at this $800 million of DCS revenue that we're generating today, delivering it in those MS clients, and we think that we are only scratching the surface there. We think there's a lot more opportunity for delivering more services to those clients. So that's the market-facing synergies that we see today. And we think there's more upside in front of us for that. Yes? Steven Fisher? And Anna, you're next.

Steven Fisher: Great. I just have a question about backlog growth. Once you get beyond the $7 billion of bookings that you have in CS this quarter, what's the expectation in thinking around backlog growth over the course of the next year or so? In your mind, is that an important part of the story here? Or is this really not profit growth based on the higher margins in DCS and executing on that going forward?

Michael S. Burke: So I want to be very clear, Steven. That is not -- what I was saying we've got a $60 billion of backlog, so let's take a breather. Absolutely not. We are continuing to invest. And we believe as part of this whole focus on what's the right margin level, obviously the biggest move -- needle mover there is if you scale back your business development activities, you can increase your margins in the short term, but you'll have a real problem in the long term. We are not doing that. The SG&A that we took out of the system doesn't in any way impact the amount of money we're spending on business development. And we expect to continue to grow that business. I don't want to give you too much guidance on what kind of wins and backlog growth we're going to see this quarter. But I'll tell you now, unless Will cuts me off, that this quarter will be, without a doubt, the biggest win quarter we've had in history of the company. And you know we've had a number of quarters with $7-plus billion of wins. This quarter will be the biggest win quarter. But we're not slowing down. We have a number of other opportunities. I'm talking about multibillion-dollar opportunities that we're waiting on decisions on. So we're not slowing down.

Steven Fisher: Maybe just a follow-up there. I think your MS awarded backlog is about 4x what the contracted backlog is. What's the expectation for that? Does that converge over time? And then maybe related to margins within MS, I think one of the surprises in the quarter was the sort of projection of lower margins in MS, which sounds like it was related to a number of prime contracts that you might have. So if you could frame sort of how many prime contracts you're anticipating that it would take to kind of push that margin down to that level.

Michael S. Burke: Okay. So that's -- there's a lot of pieces. Let's try to unpack that a little bit. And Randy and Troy, feel free to jump in.

Randall A. Wotring: Yes. So I mean, the first question was on backlog, and you asked if it's going to converge. I'm not sure what you mean there, but...

Steven Fisher: I guess, do you think -- how is that awarded backlog going to come in to -- into the [backlog]? Is it going to be mostly contracted backlog? Or is (inaudible) stage is a whole lot of working (inaudible)?

Randall A. Wotring: Well, look, I mean -- yes. No, look, the government's contracting method is really to get awarded contract's value or awarded backlog 1 year at a time. But in my experience, over 38 years in the government market, 99% of the options for [in] contracts get extended. The big contracts that we won, that gives us that long tail, we're on very long-term classified contracts. They're very sticky, and those contracts don't go away. And so I don't imagine they'll be pulled back. Those contracts have historically ran their course over the last 5 decades, and I would expect them to continue to do that. We're not seeing cancellations on government contracts. So I mean -- and we're -- again, we're a field, for the most part, a field provider. We're not a headquarters provider. We have some headquarters work, but we are out in the field where the action is. So whenever you hear about beltway contractions, we're really not impacted by that as much as the folks, the beltway bandits, if you will.

Michael S. Burke: So Steven, can I ask maybe if you would have a follow-up, detailed discussions for our Investor Relations department on that exact point? I think it's an important point on how items move in an MS business in particular, how they move from awarded to contracted. Some contracts, as Randy mentioned, the funding comes annually. So we would get awarded a 5-year contract. Unless it is fully 100% funded, it doesn't go into contracted backlog. It might go in on a yearly basis. But I think the important point there that Randy made is once it goes into our awarded backlog, it's high 90% certainty that it comes to fruition in revenue. And I know there's a lot of focus on how those move, but it's not -- it's something that doesn't keep me up at night. I'll tell you that.

Randall A. Wotring: Yes. We can give you a history on how -- on our contract experience and the exercise of options because very rarely you get a 5-year contract, which is the basic time period for most government contracts in the services area that they'll give you more than 1 year. Sometimes 2, sometimes 3 and a 2-year option or 2 1-year options. But for the most part, it's a 1-year with 4 1-year options, and that's the way the business runs.

Steven Fisher: And then how many prime contracts do you assume with a 6% margin?

Michael S. Burke: I don't even know. I mean, the whole -- I tell you how -- I don't think about that -- to be honest with you, Steve, it's not something that's even in my vernacular. What I care about is the EBIT that comes from the contract. And we could be a 49%, so we're sub, or we could be a 51%, and we're the prime. But it doesn't change my EBIT other than by that 2%. So I'm much more focused on the profitability that comes to me through that contract. And revenue or nonrevenue, it's just -- I'm indifferent to what it -- it's a meaningless data point to me. But maybe Will could follow up with you on that. I just don't know that number off the top of my head.

Randall A. Wotring: Yes. One other point I'll make, Mike, on the MS contracts. As a cost-reimbursable contract, as long as our costs are allowable, allocable and reasonable,

they're reimbursed by the government. So as our base grows, more costs are recovered in those contracts. So it's very helpful.

Michael S. Burke: Yes. So I think, Anna, has the next question.

Anna Kaminskaya: Yes. So I just wanted to follow up on Andy's question on you being a conglomerate and being undervalued. Maybe you can also comment on the value of your CS business because inside of the company, you seem to value it and you do a lot of math on pass-through costs. But us being sell-side analysts, I'm sure investors are having a tougher time putting valuation at the 2% reported margin and providing a lot of volatility last year and what's going to be a drag in 2019. How does that create value for AECOM? And how committed are you to the business?

Michael S. Burke: Yes. So first of all, you made a statement that I don't think is accurate. A drag in '19. I don't think it's a drag. And it's...

Anna Kaminskaya: So I think year-over-year, right? You said that CS will be down in profitability.

Michael S. Burke: I think it's -- I don't think so. So it's -- I don't think that's correct. So -- but in any case, when you say, "How do we value the CS business?" very difficult because the components of our CS business today are widely varied. And I'll tell you, power has a very different potential multiple, EBITDA multiple for valuation than the civil business, than the Building Construction business, than the industrial manufacturing business. And so to look at it as a whole is very complicated, which I think is the problem as some investors look at it. As you're probably hearing, Anna, the people look at it, and they don't know what type of business they are looking at. And so I think that is a discussion for another day when we've significantly derisked that portfolio and what's left of it. Randy mentioned earlier that the pure construction management, the professional services-type work, at one point, before the URS acquisition, that was part of our DCS business. And many of our competitors, without mentioning names, have the similar type of program management, construction management, professional services work included in some other segment. And so I think if you derisk that portfolio to the point where you have PM and CM work, it's a very different business. As Randy mentioned, your margins on that, on a net service revenue basis, are 15% to 20%. It is one of the highest margin businesses. But you have to derisk that portfolio before you can apply a DCS-type multiple to that. And so I'm not dodging your question but saying it's very difficult today because of the widely varied business. You shouldn't expect that business to be as widely varied in the future once that portfolio is derisked.

Anna Kaminskaya: And just how committed are you to the business if stock price continues lingering around $30?

Michael S. Burke: So listen, I am -- it depends on which business you're talking about. I mean -- again, CS is a big area. I am not committed to businesses that present asymmetrical risk. And some markets have moved dramatically on us where the risk just

doesn't come anywhere near the rewards. I am committed to a business that is a low-risk construction management or program management-type work where you have very low risk even if it's low margins because on the net services revenue basis, your margins are extremely high, that it deploys 0 working capital, so your return on invested capital is infinite. So I am committed to large program management, construction management-type work. We do that business around the world. We have program management for the Port of Doha. It as a professional service project. There are 325 people on site doing program management, construction management at very high rates of return

(technical difficulty)

In the presentation (inaudible)?

Michael S. Burke: Yes. I don't want to get too far ahead of ourselves on the built-in gains on assets that are in the process of completing. But suffice to say, we invested about $250 million off of our own balance sheet in 17 AECOM Capital projects. I believe the revenue generated from asset sales is $170 million or $180 million Troy, do you know off the top of your head? Will?

W. Troy Rudd: Yes, that’s about right.

Michael S. Burke: Yes. $170 million or $180 million, we have returned to us in both basis and gains on about 6 of the 17. Okay, I got the thumbs-up from Will. So 6 of the 17 projects, we have sold, realized our gains, brought $170 million of the $250 million back, $170 million, $180 million. So we're somewhere between $70 million and $80 million of remaining basis in another 11 projects. I don't want to extrapolate too much from that, but these projects have been very successful, and we're in the process of realizing gains from those assets over the coming years. I think we've given some guidance that we do have one gain that we expect to occur in this fiscal year, and they will roll out over time. Sure. Right there in the back.

Unidentified Participant: Just optimism now that a federal infrastructure bill is a possibility. And kind of where do you stand now on that optimism versus, say, 12 months ago, 24 months ago prior, et cetera?

Michael S. Burke: All right. Thank you for that question. Well, my track record on predicting a federal infrastructure bill is very weak. But I was in D.C. last week. I met with Congressman Peter DeFazio who's a ranking Democrat from Oregon of the Infrastructure and Transportation Committee. It's expected being a ranking Democrat that he will be the Chairman of the Infrastructure and Transportation Committee. I spent a good deal of time with him last week. He is very committed to infrastructure. He has been for quite some time. I think he's been on that committee for 17 years or so. And so he's a real veteran in that space. We think there's daylight in front of us for a way for the Republicans and the House to come together. There is support from the administration. I do spend a decent amount of my time in Washington trying to advance that cause. And I feel better than I have probably since January of '17. Of course, January of '17, I thought

we were primed for a bipartisan approach to infrastructure right after the inauguration. It didn't happen, but I've got more optimism today than I have in the past 2 years. Yes, Chad?

Chad Dillard: So you guys mentioned that you're seeing your win rate in MS double than your, I think, historical range around about 60%. So as we shift from DoD being the main driver of those awards to DoE, how do you see that evolving?

Michael S. Burke: Randy, you want to...

Randall A. Wotring: Yes. Well, again, I think we're well positioned. We are a market leader in the DoE environmental management marketplace, have been for years. So we're very well positioned. There's a minimum number of players. And most of those opportunities, you're teaming, more aligned together. And most of that teaming has occurred. So we're in a strong position. We feel good about our opportunities, and we have confidence that we're going to win our fair share of those new ones.

Michael S. Burke: Yes, I think that's right. But just to make sure we're not giving the wrong impression here. Our win rates have been double what they have been historically. That is not sustainable. Nobody can win at 60% in this space for a long period of time. We have for the past 2 years. That is a great fortune that we've had. But I don't want to give the impression that we expect to keep winning at 60%. That's not reasonable. 30% hit rate would be a long-term average in the space and is still a pretty good track record. But we still feel good about the opportunities in front of us. I think we had a question right here.

Jamie Lyn Cook: Sorry, just a follow-up question on Anna's question and then a separate one. Back to the Construction Services business. Obviously, the business that you're highlighting today within that is the Building Construction business, which has better margins if we did break out the pass-throughs. So is that what we should be focusing on or the message that, that's the part of the business that's more interesting to you relative to the rest of Construction Services?

Michael S. Burke: Yes. So since we're in the process of dealing with that business, as you know, Jamie, we certainly don't want to send earlier, premature messages to our clients, to our employees, to prospective employees, prospective clients. I don't want to go too far down that path, but you've got the gist. Hopefully, you're interpreting it correctly.

Jamie Lyn Cook: Okay. And then just, sorry, as I think about your longer-term EBITDA growth assumptions, the 9% sort of CAGR, internally, when you're thinking about growing your business, do you care where the growth is coming from in the sense that you'd rather grow the DCS business more or the MS business more? Because that creates more stable or stable earnings or margins relative to -- you want growth for the sake of growth, I guess.

Michael S. Burke: Yes. I mean, that's a good question. Do I care about where growth comes from? Flipping answer is -- would be growth is growth, and I love all growth. But really, as we look at our portfolio today, we stretched for growth in some faraway places. And we won some incredible projects in places like Azerbaijan, and faraway, they require a lot of oversight. It's -- you look at a map and you think Azerbaijan, it's kind of close to London. No, it's not. It's further from London than New York is. So these places are hard to get to. They present risks. And so what we want to focus on is growth in markets where we have incredibly strong position, we have incredible depth of resources, we have incredible depth in network and understanding in a market because if you focus on growth anywhere, what you find is there's a hidden risk there that sometimes comes home to roost when you're ins market that you don't know as well. And we've seen that over the past couple of years. And so I think the more complete answer is we want to grow in markets where we have a real dominant share because I think that growth presents less risk than stretching in, in unknown markets. Does that help? Yes, Mike?

Michael Stephan Dudas: Michael, given that your growth put in front of us, say, growth, good cash flow, more predictable story, talk about that in a context of your current balance sheet. Now you've had this 2.5x target for several years, it seems. You could argue that you're under levered relative with that cash flow that you're projecting that it could go higher, given where your stock price is and maybe some activity in monetization of some businesses going forward. Should that change? How is that going to change? Especially, do you believe that you're set up to provide? And you already invested in such strong growth over the next several years.

Michael S. Burke: I'll let -- Troy, do you want to tackle that?

W. Troy Rudd: I'll simply say that based on where we sit today, we believe that's the right answer. And we've come at that from a number of different ways. One is we look at the volatility in the portfolio of businesses. We look at the alternative returns on our capital, and we currently believe today that the best return is from buying back stock, but also from a path, which is right in front of us, to delever to that point in time. We also look at the capital structure and the right returns based on the cost of the capital associated with that capital structure. So today, nothing's changed from where we believe we are. But if things materially change in the future, so the conditions can be -- the business could change through growth, cash profile could improve. We could also see some dispositions as we manage through the next year, and that could change that outcome in some way. But for right now, we believe that's the right place for us to be.

Michael S. Burke: We got a question back here.

Unidentified Participant: Just 2 questions. On management service margins first. The step-down in '19 and the step-up in '20, the main driver being the mix, Department of Energy more -- less of that, more of that. Besides mix, was -- is execution part of that story at all? Does that come into play? And then the second question will be on Construction Services. Can you quantify the headwind from the 4 projects? And if you have good execution next year, does that mean earnings should be up in that segment?

Michael S. Burke: So first of all, MS was not an execution issue. Very -- without question, it was not an execution issue. It was more around the -- whether you're prime or you're sub. If you're prime, you're bringing in more revenue for the same profitability, the timing of the work. We are pursuing DoE and DoD. We won the DoD work first. The DoE is still in front of us. And those margins overall balance out to our long-term guidance of 7. We had a little anomaly this year. We have some award payments that are due to us at the beginning of the following year. So you missed the fiscal year cutoff. So -- but definitely not an execution issue. With regard to CS, I think the number in 10-K, Troy, was 43. What...

W. Troy Rudd: That's right.

Michael S. Burke: Yes.

W. Troy Rudd: So a little more than $40 million, was the impact.

Michael S. Burke: Yes. Yes?

Unidentified Participant: Mike, I think, to be fair, over the last couple of years, there's always been kind of 1 or 2 things that has kind of come up unexpectedly that's overshadowed some of your success. So how comfortable are you that this time next year, we're not going to be talking about some unexpected things that have come up in '19 that overshadowed some of your success? And I'm thinking, specifically, you laid out the momentum you're seeing in Americas design, but I'm thinking specifically about the Middle East and U.K. How comfortable are you that those headwinds aren't going to slow down the growth that you're seeing across other parts of the portfolio? And then I have a follow-up.

Michael S. Burke: A good question. I mean, how do I -- I can't predict the unexpected. But I feel better about FY '19, certainly, than I did at this point about FY '18. I think the issue is -- and it's why we've talked a lot about derisking the portfolio. It's much more difficult to predict the riskier portfolio side of the house. Predicting our Management Service business, Randy would tell you that we're kind of spot on to our predictions on project execution, on timing over a long period of time. And that's not a business that presents us with a lot of uncertainty. Our DCS Americas business, we had a great year this year. Our Asia Pacific DCS business, incredibly well. The EMEA business was challenged. And trying to predict that there's a hiccup with the Brexit. I think we have scaled back our G&A costs there. I think we're well positioned there. It's a small percentage of our business now. Our EBIT from that region is less than 5%. Yes, less than 5% of our EBIT is coming from that region. So flexibility, if you're up by 20%, it's 1% of our EBIT. It's not that material. Construction Services, we feel much more comfortable about the building construction side as we start to derisk that portfolio. It provides us with more certainty, and that's, I think, what we're trying to achieve because we recognize that as many people in this sector have a lot of volatility, that impacts valuation multiples. And it's our job to start taking a good, hard look at our business and

carving out the pieces of the business that present volatility that affects how much people want to pay for our stock.

Unidentified Participant: Okay. And I think you gave some good color on the AECOM Capital. But do you believe that you can realize the full potential of AECOM Capital as part of a bigger AECOM? Or do you need to think about carving that out in some way so that the value of that piece of the business is more fully realized in the share price?

Michael S. Burke: Yes. So I don't think you're ever going to get full value for that with -- in the share price. It's -- people aren't paying in this business for one-off gains, and that's what it is, right? It's just they're not going to pay for it. And so we have made a number of decisions in that space, and it affects the type of investments we're willing to make. What affects that is the ultimate end markets that we play in. So the P3 markets, for instance, we were building up a business in P3 within AECOM Capital. That business has changed dramatically. The risks are very asymmetrical there. The cost of bidding is very high, and we just don't think there's a proper return on the business. And so that's a business that would be very difficult to operate within our organization for the long term. The same thing with infrastructure investing, private sector infrastructure investing. You have to have a significant EPC business to participate in that. So read into that what you want, but that may not make sense. With regard to real estate investing, that is essentially off of our balance sheet now. The new fund will have a very minor capital commitment to that. We'll continue to realize all the gains from our previous asset investments. But the new fund has a cost of running that fund that is wholly borne by the outside investors. So you have no negative cash flow. You have very little capital, and you only have gains going forward. But equally important, you're generating Construction Services revenue. We generated over $2 billion of Construction Service revenue from AECOM Capital projects. So it's more about taking out pieces of AECOM Capital that don't make sense, given our expectation of what our portfolio looks like going forward; keeping pieces of it where we have very little capital invested; that don't create a negative cash flow or negative P&L effect and that have upside gains when you have gains from your carried interest; and then fourth, that produce revenue to the construction side without PM-type CM work without presenting risk. So it's a reformulation of our strategy there, frankly. Yes, Mike?

Michael Stephan Dudas: Maybe a follow-up along those lines. How much revenue or how much program management, construction management revenue comes from these AECOM Capital or these relationship projects that you retain? Is it meaningful for the overall organization? There's also been a very large hesitancy amongst investors or people to invest in business to get revenue, to get margin. So maybe you can clarify a little bit how that might be different than, say, some other current (inaudible).

Michael S. Burke: Yes. And so that may have been -- look, there's a 2-part question. First part of the question is, so far, we've realized about $2 billion of revenue from that. We still have projects that are in various stages of gestation, so there will be more from that. I don't know if I was guessing off the top of my head. From the first portfolio, the first

$250 million is probably $3 billion of total revenue to the building construction side of the house.

Michael Stephan Dudas: Over how many years is that like...

Michael S. Burke: So we started that 3.5 years ago, ish. But to the second part of your question, it's a valid concern. Do you want to ensure that you're not investing your own capital to win a project just to feed building construction? That would be a foolish exercise. We built our own internal controls and risk architecture to avoid that. And how we did that is we set up a separate AECOM Capital fund. The employees in that group are wholly judged and wholly paid on the success of the fund only. They have no benefit from any construction revenue and vice versa. So we felt like we had that pretty well isolated, and we had the performance metrics and compensation system driven towards protecting that risk. That is not a risk going forward because going forward, we don't make the investment decisions going forward. It is made by -- it's all outside money. We have a third -- we have another third-party partner called Canyon Partners. It's a $25 billion fund that invests -- investment manager. They are very well schooled in making sure that we're -- that the fund, in no way, is ever going to invest in a project just to give AECOM a revenue. So -- though that was a risk previously, we felt like we had a good risk architecture to prevent that. I believe we did. And then going forward, it's not an issue at all because these decisions are made by somebody else that maintains a fiduciary responsibility.

Michael Stephan Dudas: And the follow-up on the building construction market. It seems like you are refocusing on, say, New York, California. Is that a fair for like -- I mean, how many more tall buildings can we build in Manhattan? I mean, we all love the construction. We all love the traffic that is [in that area]. Is that market late in the cycle? Is there still visibility from what you see in these metro areas for you to generate reasonable growth and opportunities in that, too?

Michael S. Burke: Yes. Great question. I don't want to say we're entirely focused on L.A. and New York. But that's -- of our backlog today, I don't know, it's 75% -- 75% of our backlog is in those 2 markets. Do you think that market is topping? It'd be hard to argue that it's we're 10 years into the real estate building boom. It's hard to argue that, that cycle isn't late. Our -- what we've been doing in that space is moving our investments towards markets that we think are growing much more quickly and are in the early stages. And so a great example of that, you heard Randy mention earlier about the aviation market. A year ago, we saw a real uptick in the number of inquiries in aviation. We carved our aviation experts outside of our -- the normal structure of our organization. We created a global aviation group. They went out, won $1 billion of projects in FY '18. They started off FY '19 with a $6.4 billion win at JFK Airport. There is more money being spent in big city airports around the world than we've ever seen before. So it's very similar capability that people are building high rises here in New York City. You're going across the bridge, and we'll be doing it over at JFK. That is a project that has an 84-month construction cycle. There are a number of other big projects on the horizon right here in New York City. One of the large banks has publicly said they're going to build a $2.5 billion

headquarter building. So there is still some room there. But the important thing is that we have 4 years of visibility in our backlog right now in that space. We have a focus on the aviation work that I mentioned. We have another $3 billion of opportunities in the aviation space that we're pursuing. And so we think there's big PMCM-type opportunities in that space, both here in the U.S. and abroad. I think we had a question back here next. And then, Andy, I'll come back to you.

Unidentified Participant: So you've pulled back from parts of energy and power and shrunk some of your exposure overseas as well. It seems like you're getting more selective. Is that blamed by that you're content with the footprint that you have now and the growth opportunities you have in front of you? Or are there other areas that you're not currently in that you could see growing if -- and even in a small way? And buyback's, obviously, the focus here, but are acquisitions entirely off the table?

Michael S. Burke: Yes. So first of all, we're always looking at new markets where maybe we have some expertise. Want to double down on aviation as a good one. We have -- we had a decent amount of -- a lot of expertise in that space. We doubled down on it. There are things -- there are a number of different one-off initiatives throughout the organization. Data centers is one that Randy and his team were focused on, doing both design and CM work in the design center space. And so are we -- we're generally satisfied with our footprint. We are always looking for new markets that might give us a growth opportunity. You can't sit idly by. But to this -- the third part of your question there on acquisitions, right now, there is no question that the best use of our capital is stock buybacks. But if you look at acquisition opportunities now in the MS space or otherwise, you see people paying 14x multiples, that's just not something that we have an interest in. I think we've done a good job of spending money to grow that business organically. It's been a great value creator for us. And there are no opportunities that I can imagine that would cross the threshold of being a better investment than our stock today. So we've got $1 billion authorization. We got through $150 million of that in the last fiscal year. We're currently buying. That's our focus right now. Andy?

Andrew Alec Kaplowitz: I just wanted to follow up and Mike's question on building construction in the sense that a couple of years ago, maybe a few years ago now, you talked about trying to branch out into these other markets, London, the Middle East, all that kind of stuff, right? And it seems like you know how to do New York very well and maybe California, too. But like, I don't know, maybe you don't want to give us a lot of detail on the projects, but were they in all these strange places that you tried to branch out to and now maybe you pulled back from those places, and that's part of what derisks the portfolio there?

Michael S. Burke: Yes. Randy, do you want to...

Randall A. Wotring: Yes. Look, I mean, from our standpoint, we don't -- we are in a position where we have great backlog. We don't need to take unnecessary risk. So we are not focused on building lump-sum -- any lump-sum activities anywhere international at this point in time. Will we look at big projects where we follow our existing customers

from New York to London, perhaps, but it will be where we have a relationship, where we have some advantage, visibility and based on the current work we have. But we are not being adventurous at this point in time.

Andrew Alec Kaplowitz: I guess, Randy, are you taking Tishman to London, for instance, or the Middle East, and they were the same type of contracts that you had in New York, the GMP stuff? Were they not the same type of contracts and that's what got you into trouble?

Randall A. Wotring: Well, we certainly had a problem in London with an opportunity, but that's one-off -- that's one contract. We haven't had any other international construction-related issues. The others were right here. In essence, though, we are focused primarily in New York and California. There's great opportunities here. There's other opportunities where we are following our existing customers, where we see opportunities. If there's a new arena being built in Seattle or in some other city in the country, we would go up -- we would be very interested in that because of our capabilities in Hunt. But again, we're being very selective on our opportunities. And internationally, we are not focused on the heavy end of construction at this point in time. That's not our focus.

Michael S. Burke: And just to clarify, when Randy said the problems were right here, he did not mean here in New York. He meant here in the U.S. But Andy, you are spot on. The -- we did not have any problems in our core markets, New York and L.A. 75% of our backlog is in those 2 markets. We understand the markets. We have incredible depth of resources. We have incredible depth of relationships with the subcontractors. We know the trade unions. We know the regulatory bodies. Those are markets that we have a real dominating position in. When you get outside, and Randy said they are right here, meaning here in the U.S., but in towns that some of you don't travel to, right? They were similar contracts in terms of scope and risk. But listen, if you don't perform on any contract, you're going to have a problem, right? I mean, if you don't perform on a low-risk engineering contract, if you don't do great work or you misjudge the schedule, you're going to have a problem. And you're going to have to settle up with your client in some way, and that's on the professional services side or the building side regardless of the contract. And what you find is it's more difficult to do work in markets where you don't have a history and a presence and relationships with the subcontractors. And I think that's probably the biggest learning point that we had in coming off of a 4-year period of time where we had double-digit organic growth for 4 years in a row. I'll call them growing pains and call them executive decision-making that went awry. Call it what you want, but we learned from it. You're not going to see us building in London. You're not going to see us building in strange places here in the U.S. where we don't have the requisite depth of experience to execute.

Randall A. Wotring: And by the way, those weren't large projects. I mean, the hits weren't large necessarily, but in aggregate, they were. So they weren't on our biggest projects.

Andrew Alec Kaplowitz: And then most of us lived through 2009, the last big slowdown. You guys, obviously, had stimulus there. It was just -- it's a different market. But given the market has sold off here a little bit the greater market and there is a fear of a slowdown, when I look at your business and outside of what Mike asked around maybe building construction cycles at some point, it seems a little more resilient, given the backlog, to a slowdown. Maybe you can talk about any sort of conversations you're having around. Right? I hate to say recession planning, stuff like that. Like, how do we think about that business if we do get a bigger slowdown here over the next 12 months in the global economy?

Michael S. Burke: Yes. So if I look at the U.S. government business, that's just 20% of our business, the U.S. government. I don't think, in the history of the United States, we've ever had a U.S. government budget go down in totality. Maybe the rate of growth slows, but -- so we feel pretty solid about that chunk of business. If you start to see a slowdown in the general economy, we start to see deficit spending for infrastructure. Maybe not to the level of the stimulus spending that we saw in the '09 time frame. But generally, in the public sector, that seems to be the tool that comes out quite often, that usually presents a little cushion to the trough of a cycle in civil infrastructure. I think that the point about whether we're long in the cycle in real estate is a valid point. I think you have to agree we're getting late innings. I don't know what inning, but it's a late in the game or we might be in extra innings. But our planning there has been to move into markets that are more focused on long-term projects like JFK Airport, that have long-term public sector projects that can give us good visibility for many, many years to come. So generally, we've got a pretty diverse business, Andy, that cuts across so many segments. And even in -- if you go back and look at our business through 2009, '10, '11, we were held pretty steady relative to the rest of our peers because we have still a big presence in Asia. We had a bigger presence in the Middle East at the time, which came off quickly. But that wide dispersion of business allowed us to buffer that. We didn't have a one concentration that hit us hard. And usually, those recessions, they don't -- as you know, they don't get the entire globe at an even pace. They tend to move in slightly different cycles. So that's one point. The other point is what kind of planning. Well, obviously, cutting back our G&A like $225 million positions us even better to extract the maximum value from the $60 billion of backlog. We have a lot of backlog in front of us. You want to make sure that if there's a slowdown, not that we are expecting one on the near-term horizon, but if there is, you're better positioned for that. Anna? Behind you, [Pat].

Anna Kaminskaya: So just thinking about some of the investments you've done on the IT side to get the cost savings from the P&L standpoint. Is there an opportunity on DSOs? Have you done any kind of benchmarking analysis if you can improve these? I mean, I can't complain about $700 million in free cash flow, but there are upsides to working capital maybe from '19 initiatives of [product] services?

W. Troy Rudd: Well, so there's a balance in working capital as we grow. But the important thing is as we grow in different markets, so as we grow in markets in government, as we grow in the North America and the U.S. markets, typically, we see DSOs from the customers being lower than we do in the rest of the world. As we start

moving away and having our growth in those markets, there is a natural offset to that increased working capital. So we have seen that in our markets, and I would expect to see that in the future. And in terms of DSOs, I would simply say that we have a tremendous amount of focus and rigor across the entire business every day on managing working capital. And so it's a combination of DSOs but also getting contract terms so as we deploy on projects that on these contracts like in building construction, that we are paid and then subcontractors are paid. So we can actually grow that business without the use of working capital. So DSOs are less important in some elements of our business. But because we're migrating our growth to markets, markets where customer terms are -- will be better, we see an opportunity for DSO improvement.

Michael S. Burke: Yes, Steven?

Steven Fisher: Mike, you said that you expect the derisking to be done by fiscal '19. And I'm sorry if I missed this, but did you say what gives you the confidence that, that will be the time frame for that? Are you far enough now down the path of whatever it is that you're going to do? Or is that sort of just the base case and the timing could still be a bit fluid?

Michael S. Burke: No, this is something that we've been actively working on. Trying to predict exactly when something may happen when you're dealing with external markets and buyers is -- it's not easy to predict. But this isn't something we're hoping happens. This is something we're in the market with. We're talking to prospective buyers. We're -- I mean, we've done carve-out analysis. It's far along.

Okay. We got a few minutes left. Any last questions? Okay, we've tired out the room. Good. Glad you got tired before I did. All right. So with that, I'll close it out. First of all, thank you for making your way downtown here to join us. I know it's -- the traffic is rough around the city during the holiday season, but thank you so much for spending time with us. Thanks for your continued interest. Thanks for your real penetrating questions and insightful questions. We appreciate it. Wishing you all the best for a real happy holiday season, and we look forward to talking to you at our earnings call in early February. Thank you.