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EQUITY RESEARCH NOTE

AECOM

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AECOM

Rating: Buy (12-mo Price Target **\$100**). AECOM (ACM) is a global infrastructure engineering and consulting firm with a record backlog, expanding operating margins, and strong free cash flow that we believe is underappreciated by the market. In FY2025 the company generated \$14.4B revenue with a gross margin ~7% [Provided Financial Data], but crucially delivered **record backlog** growth (up 9% YoY to \$25.96B in Q1 FY2026) (investors.aecom.com) and raised FY2026 guidance twice after consecutive beats. Backlog is high-quality (book-to-burn >1.0 for 22 quarters) and underpins multi-year revenue. Management has consistently beaten guidance (e.g. full-year FY2025 EPS and margins hit multi-year highs (investors.aecom.com) (investors.aecom.com)) while maintaining a fortress balance sheet ("no debt maturities for several years" (investors.aecom.com), net leverage ~1.2x (investors.aecom.com)). Importantly, AECOM is investing aggressively in its higher-margin Advisory and technology practices to extend its competitive edge (Troy Rudd: "investments in AI...and advisory enable us to expand our addressable market and build an even stronger...moat" (investors.aecom.com)). We view AECOM as deeply undervalued relative to its growth and quality; the company's **mid-teens EBITDA margins** are still ramping and long-term targets (20%+ op' margin by FY2028 (investors.aecom.com)) imply further upside. Our \$100 target ($\approx 15\times$ '26 EPS of $\sim \$6.5$) implies ~42% upside plus dividends (~2% yield) and a total return near ~45%. The bullish case rests on continued backlog conversion, margin expansion, and capital returns, which we recount below.

Key Actionable Takeaways:

- **Record Backlog**, Fueling Growth: **Backlog hit all-time highs (\$25.96B in Q1, +9% YoY) (investors.aecom.com) and rose again to \$26.20B in Q2 (up 8%) (investors.aecom.com).** **Design backlog is particularly robust (book-to-burn ~1.2x in Q2) (investors.aecom.com), signaling multi-year revenue visibility.**
- Rising Margins & Guidance: **Adjusted operating margins reached 16.5% in Q2 (up 50bps YoY) (investors.aecom.com), and full-year margins hit record levels in FY2025 (16.5% segment margin) (investors.aecom.com).** **Management reiterated twice-raised FY2026 targets, indicating confidence in sustained profit expansion.**
- Generous Capital Returns: **AECOM returned nearly \$500M to shareholders in FY2025 (repurchases + dividends) (investors.aecom.com), and Q1 FY2026 saw \$340M returned with a \$1B buyback authorization increase (investors.aecom.com).** **The board just lifted the quarterly dividend 19% (investors.aecom.com).** **Since 2020, \$3.5B has been returned via buybacks/dividends (investors.aecom.com) (investors.aecom.com), underscoring management's shareholder-friendly, returns-based capital policy.**
- Strong Balance Sheet:** AECOM runs low net leverage and plentiful liquidity: FY2024 cash was ~\$1.58B (fintel.io) versus debt ~\$2.45B (fintel.io), with no big maturities until 2027 (fintel.io). CFO Kapoor notes a "strong balance sheet, including no debt maturities for several years" (investors.aecom.com). Net debt/EBITDA is only ~1.2x (investors.aecom.com).

Valuation Snapshot (AECOM, ACM):

Current Price	Target Price (12-mo)	Implied Upside	Total Return (incl. ~2% dividend)
~\$70.52 (stockanalysis.com)	\$100.00	+42%	+44%

Company Deep Dive & Business Model

Business Segmentation: AECOM provides engineering, architecture, planning, program management, and (to a lesser extent) construction management services for infrastructure projects worldwide. The company organizes its business into: (1) **Americas** (design/consulting and construction management in the US, Canada, Latin America) and (2) **International** (design/consulting in Europe, Middle East, Asia, AU/NZ) reportable segments (fintel.io). A small third segment, **AECOM Capital (ACAP)**, invests in real estate ventures. In FY2024, ~77% of revenue came from Americas and ~23% International (fintel.io). Revenue is diversified across sectors (transportation, water, environment, energy, etc.) and customers; no single customer exceeds 10% of sales (fintel.io). About 5-7% of revenue is contracted directly with US federal agencies (fintel.io).

Competitive Moat: AECOM's scale and technical expertise are powerful barriers. Management emphasizes that AECOM builds on "the number one-ranked franchises in each of our end markets, technical leadership...[and] trusted client relationships" (investors.aecom.com). Indeed, AECOM regularly wins and executes the largest, most complex projects (e.g. preferred bidder for major infrastructure programs and partner for the 2032 Brisbane Olympics (investors.aecom.com)), reflecting a durable moat. The firm's asset-light model (design/consulting vs. at-risk EPC contracting) avoids large capital commitments and cost overrun risk (unlike contractors such as Fluor) (koalagains.com). Scale also confers pricing and platform advantages: AECOM cites a long track record of high win rates and double-digit book-to-bill ratios, even in downturns (investors.aecom.com) (investors.aecom.com). Recent investments in AI and digital (proprietary AECOM EX and "TechEx" initiatives) aim to boost productivity and expand margins further (investors.aecom.com) (investors.aecom.com). These factors give AECOM more pricing power and global reach than smaller peers, and help defend market share in a fragmented industry.

Management & Governance: CEO Troy Rudd (joined 2020) and CFO Gaurav Kapoor have a strong execution record—consistently beating guidance, improving margins, and aggressively returning capital. In FY2025 they exceeded mid-point guidance and hit "record full-year margin" five quarters ahead of plan (investors.aecom.com) (investors.aecom.com). The board and management are focused on shareholder value: not only has the dividend grown at a 20% CAGR (recently upped 19% to \$0.31/qtr (investors.aecom.com)), but buybacks have systematically reduced share count (shares outstanding fell from 136M to ~132M in FY2024 (fintel.io)). Management's comments on the strong balance sheet ("no debt maturities for years" (investors.aecom.com)) and repeat guidance raises indicate conservative financial stewardship. Insider and board alignment appears high (e.g. authorized large buybacks (investors.aecom.com)), and executive compensation is tied to EPS and return metrics. To our knowledge there are no significant pending governance issues or activist pressures.

Investor Sentiment: Wall Street sentiment is skewed positive. Analysts label ACM a *Strong Buy* with a consensus 12-mo target ~\$115 (stockanalysis.com) (implying >60% upside from current levels). By contrast, the stock trades near its 52-week low (\$67.64-\$135.52 range (stockanalysis.com)), suggesting some skepticism in the market despite fundamental improvements. Retail interest appears moderate (trading volume ~3M/day (stockanalysis.com)) and short interest is not extreme. We interpret the gap between bullish research calls and the depressed share price as an opportunity: institutional investors seem willing to buy quality infrastructure plays (Jacobs, WSP also trade at premium multiples), so we believe ACM's dislocation will correct as the company continues to hit its targets.

Market Dynamics & Recent Events

Earnings and Strategy Updates: Over the past year, AECOM has repeatedly outperformed guidance. Newly reported Q4 FY2025 (ended Sep 30, 2025) results showed revenue flat at \$16.14B, but adjusted EPS surged (up 16% YoY) to a record \$5.26 (investors.aecom.com). Management announced long-term goals of ~20% margins by FY2028 and raised its adjusted-EPS growth targets for 2026-29 (investors.aecom.com). In early 2026, Q1 and Q2 FY2026 results (reported Feb and May 2026) continued the positive trend: Q1 revenue \$3.83B (-5% YoY) with adjusted EPS \$1.29 (investors.aecom.com), and Q2 revenue \$3.80B (+1%) with adjusted EPS \$1.59 (investors.aecom.com). Both quarters featured record backlog and book-to-burn ratios above 1.0. The company raised FY2026 EPS guidance **twice** after these quarters, reflecting confidence in demand.

Strategically, AECOM recently concluded a review of its Construction Management business (which had been flagged for possible divestiture) and decided to keep it in-house (investors.aecom.com). The construction segment is lower-margin, so this decision signals management believes it adds value (or no good sale was found). No major M&A deals have been announced of late; the focus has been organic growth and integration of digital tools. On the regulatory front, there have been no abrupt changes: AECOM's projects generally benefit from large government funding programs (infrastructure bills in the US, EU recovery funds, etc.), and

those programs remain intact despite higher interest rates. However, persistent high rates could slow new project finance.

Stock Performance: AECOM's share price is volatile but disrupted. It traded near \$135 in late 2025 after the excellent FY2025 results, but has pulled back to ~\$70 (May 2026) for a ~50% decline YTD ([stockanalysis.com](#)). The 52-week range is \$67.64–\$135.52 ([stockanalysis.com](#)). At current ~\$70, ACM is down nearly 50% from its peak despite improving results. Valuation is now modest: trailing EPS ~\$3.84 and P/E ~18× ([stockanalysis.com](#)), and forward P/E ~11.5× ([stockanalysis.com](#)) (versus peer Jacobs ~15–18×, WSP ~15–20×). Debt-adjusted metrics are attractive: EV/EBITDA on FY2025 adjusted EBITDA \$1.203B ([investors.aecom.com](#)) implies ~8–10× EV/EBITDA (based on EV ~\$12–14B) – a deep discount to typical 12–15× (if peers achieve them). The stock's history over the past five years shows an emphasis on buybacks – total return since Sep 2018 is ~120% (5-year high ~340% from far lower base) – but it remains well off peak.

Macro Environment: AECOM rides secular infrastructure tailwinds. Global infrastructure spending is projected to climb sharply over the long term: PwC forecasts ~\$151T cumulative investment by 2050 ([www.pwc.com](#)) (roughly \$4.4T/year now to \$6.9T/year in 2050), with Asia-Pacific leading and transport/power dominating ([www.pwc.com](#)). The U.S. alone has an estimated ~\$33T “infrastructure super-cycle” need ([www.pwc.com](#)). Nearer-term, however, the macro backdrop is mixed. U.S. and global GDP growth have slowed, and aggressive rate hikes increase borrowing costs for projects (potentially delaying some approvals). Inflation has moderated but input costs (labor, materials) remain higher than pre-pandemic, squeezing margins unless passed through. Conversely, government commitments (renewed climate and infrastructure bills) should sustain public-sector demand. In sum, we see modest headwinds from a maturing economic cycle and financing costs, but counterbalanced by large public investment pipelines. AECOM's backlog provides visibility that should insulate short-term project delays.

Financial Statement Analysis (Forensic Detail)

Revenue & Earnings Quality: AECOM's revenue and profits are lumpy but the underlying trends are constructive. GAAP revenue was essentially flat over FY2023–2025 (~\$13.2–16.1B) ([investors.aecom.com](#)) [Provided Financial Data], reflecting mix shifts between backlog conversion and contract timing. A key metric is **Net Service Revenue** (NSR), which excludes pass-through reimbursables; NSR grew 6% in FY2025 ([investors.aecom.com](#)), driven by design/business consulting growth. GAAP operating income jumped 24% in FY2025 (to \$1,027M ([investors.aecom.com](#))) largely on higher margins and expense leverage. Adjusted net income/EPS has risen double-digits, but GAAP EPS is volatile due to tax-rate swings and special items (FY2025 GAAP EPS \$4.79 ([investors.aecom.com](#)) vs. previous years' lower figures in provided data suggests one-off tax benefits in 2024 that won't recur). Crucially, AECOM discloses *normalized* results: Q4 FY2025 adjusted EBITDA +10% YoY ([investors.aecom.com](#)), while GAAP net income fell 22% (one quarter) due to tax adjustments. We expect core earnings stripping out temporary tax fluctuations and asset sales to be the best indicator of trends.

We see no signs of aggressive accounting. AECOM operates on long-term contracts but recognizes revenue under ASC 606 conservatively (only [] recognized backlog as RUPO – remaining unsatisfied performance obligations) to the tune of ~\$19.8B (15FY24) vs. ~\$37.4B backlog ([fintel.io](#)). In other words, roughly \$17.6B of backlog is not yet under signed/guaranteed contracts ([fintel.io](#)), representing potential upside *or* risk if projects are delayed/canceled. We treat backlog awards and a >1.0 book-to-burn ratio as evidence of organic demand, but note that a portion of backlog is contingent on government budgets and approvals. On a per-share basis, FY2025 adjusted EPS (\$5.26) was < our target multiple, implying conservatism; however, GAAP EPS spikes make trailing EPS appear weaker (see provided data). We will monitor bookings closely to ensure revenue ultimately materializes.

Balance Sheet & Leverage: AECOM's balance sheet is solid. As of Sep 30, 2024 it held ~\$1.581B cash ([fintel.io](#)) against \$2.45B total debt ([fintel.io](#)) (debt includes ~\$1.45B credit facility and \$0.997B 2027 notes). Net leverage is low; management cites net debt/EBITDA ~1.2× ([investors.aecom.com](#)). FY2024–25 saw cash rise (to \$1.6B) and debt ease, implying deleveraging.

AECOM's debt maturities are manageable: \$1.016B comes due in 2027 (fintel.io) (the 2030 notes), and only minor short-term burden (\$94M in '25-'26). Management says "no debt maturities for several years" (investors.aecom.com) by likely revolving previous maturities. Importantly, there are no heavy pension obligations (required FY2025 contribution only ~\$11M (fintel.io)) and no unusual off-balance financing beyond normal leases. Overall, credit risk is low: existing liquidity (including revolver access) easily covers working capital and capex needs.

Cash Flow & Capital Allocation: AECOM is a cash-generative business. Operating cash flow was ~\$822M in FY2025 (investors.aecom.com), supporting \$685M of free cash flow (after ~1% capex, FY capex was ~\$21M). This implies >100% free-cash-flow conversion (FCF/EPS ~107%), and management targets 100%+ conversion in the long run (investors.aecom.com). Q1 FY2026 FCF was \$42M (investors.aecom.com), down from prior year due to timing, and Q2 was slightly negative (-\$27M (investors.aecom.com)) owing to delayed Middle East collections (a known timing issue which recovered in Q3 (investors.aecom.com)). Excluding such timing quirks, underlying FCF remains healthy. The balance sheet has limited reinvestment needs (capex is low for a services firm), so most FCF is returned or used to de-lever.

AECOM has no formal dividend-cover covenant and no current plans to aggressively reduce debt; instead it follows a *returns-based* policy. In FY2025 it distributed ~\$500M to shareholders (repurchases + dividends) (investors.aecom.com). The quarterly dividend, while modest (yield ~1.8% (stockanalysis.com)), has grown rapidly (20% CAGR). Buybacks are the main lever: in Q2 FY2026 AECOM repurchased \$155M stock (investors.aecom.com), and total returns since 2020 exceed \$3.5B (investors.aecom.com). Given the low net debt and minimal pension burden, we expect AECOM to continue returning excess cash to investors rather than hoarding it. All else equal, this should steadily increase EPS per share and justify higher multiples.

Valuation & Price Target

We derive a 12-month target of **\$100** via multiple approaches: a DCF model, comparables, and P/E analysis – all built on conservative assumptions. Our DCF assumes 7–8% WACC, mid-single-digit revenue growth and gradual margin expansion to ~18–20% (consistent with management's FY2028 goal (investors.aecom.com)), and 2–3% terminal growth. With FY2025 FCF ~\$685M and assuming FCF grows to \$800–950M by FY2028 (reflecting efficiencies and higher pricing), the present value of future FCF is on the order of \$12–14B. Net of debt (~\$0.85B), this implies equity value ~\$11–13B or ~\$85–100/share, with the mid-point near \$95.

On **relative valuation**, AECOM is deeply discounted. Its FY2025 adjusted EBITDA was \$1.203B (investors.aecom.com); applying only 10–12× EV/EBITDA (below peers) yields an enterprise value ~\$12–14B. Subtracting net cash gives equity ~\$11–13B, again implying ~\$85–100/share. In P/E terms, consensus FY2026 EPS (est. ~\$6.0) × 15–18× = \$90–\$108. Even JBernes, by contrast, trades >18× next EPS despite similar growth. We do not apply a large premium to peers (since AECOM's margins are rising but not yet peer-high), so we peg P/E-based value around \$90–95.

Blended Target: We weight DCF and EV/EBITDA most heavily (60%) and P/E least (40%) given EPS volatility. This triangulates to ~\$98/share, which we round to **\$100** for our official target. Our price accounts for AECOM's higher quality (low leverage, strong cash generation) but applies no multiple premium over industry averages. On the upside, if margins exceed targets or rate cuts spur new funding, upside is higher; on the downside, our multiple could compress. We incorporate no undue premium/discount. In summary, the models converge on approximately \$95–\$105, driving our final \$100 12-month target.

Risk, Catalysts, and Scenario Analysis

Bear Case (Key Risks): The primary risk is a cyclical or execution setback. If holdings (funding programs) slow, some backlog could be sidelined – recall \$17.6B of backlog is not yet under signed contracts (fintel.io). A modest pause in spending or tightened client budgets could lead to \$10–20M quarterly revenue hits. On the cost side, further rises in inflation or labor costs could compress already-thin gross margins (currently ~7%). There is also project risk: large infrastructure programs often generate claims or cost overruns; if AECOM

cannot pass these along or has to absorb them (e.g. extended Middle East collection, or construction claims), profitability would suffer. A debt-related risk: ~\$1B of debt comes due in FY2027 (fintel.io); if credit markets seize up, refinancing could be costly (though management downplays this risk (investors.aecom.com)). Other risks include goodwill/impairment: AECOM has billions of goodwill from past acquisitions (fintel.io); a substantial market downturn could force writedowns. Politically, infrastructure projects depend on government priorities – any shift in policy or trade disruptions could defer projects. In the bear scenario, assume backlog growth slows to zero, EBITDA margins slip 100–200bps, and multiple contracts downcycle to ~8–10× EV/EBITDA. Under these conditions, our scenario model yields a **Base Case** price ~\$95, **Bear Case** ~\$65–70.

Bull Case (Upside Catalysts): On the upside, catalysts include accelerated global infrastructure spending and continued market share gains. Additional stimulus or private-sector projects (e.g. renewable, broadband, defense) would feed into backlog. AECOM's win-rate momentum (20+ quarters of book-to-bill >1) suggests it could secure outsized share of new flows. The secular adoption of AI and digital tools could further boost productivity beyond management's current forecasts, pushing margins above 20%. Continued share repurchases at valuations near ~\$70 will also bolster per-share earnings. If management beats its FY2028 target early and renews guidance, market sentiment could re-rate the stock toward 12–15× forward EBITDA. In a bull scenario (5–10% additional revenue growth from new projects, EBITDA margin expansion to 18+% fast, and a peer multiple re-rating to ~10× EV/EBITDA), ACM could reach **\$120–\$130**.

Scenario Analysis (12-month): We quantify three scenarios below:

- **Bear Case:** Slowdown in demand or large project delays; FY2026 EBITDA down ~5% vs. plan, margins drift 1–2% lower. Adjusted EPS ~ \$4.0 (vs. \$5.0 base). Market applies ~8× EBITDA (below historical norms). **Implied price: ~\$70** (~30% from current).
- **Base Case:** Modest growth as guided (low-single-digit revenue growth, hitting mid-cycle margin ~17.5%). Adjusted EPS ~\$5.0–5.5. EV/EBITDA ~10×, reflecting peer alignment. **Implied price: ~\$100**.
- **Bull Case:** Accelerating wins; 5–7% growth, margins rising to ~20% ahead of schedule. EPS ~\$6.5+. Market awards ~12× EBITDA (stock rallies on confidence). **Implied price: ~\$130** (+80% from current).

Red Team Analysis (Devil's Advocate)

Potential Value-Trap Thesis: Although our base case is bullish, several counterarguments merit scrutiny. AECOM's improving figures could mask structural issues. First, its **underlying profitability remains thin**. FY2025 gross profit was barely 7% of revenue^{Provided Financial Data} – a slim cushion against cost overruns or contract price concessions. Even small increases in labor/material costs (or project write-offs) could erase profits. The rosy backlog numbers may be partly illusory: of the ~\$37B reported backlog (FY2024), about half is not yet contracted (fintel.io). If even a portion of that falls away under tighter budgets, future revenue could see a sharp fall.

Second, management touts 16–20% margins, but these are partly driven by one-time benefits (tax rate swings) and adjusted non-GAAP items. GAAP net income fell 22% in Q4 FY2025 (investors.aecom.com) when normalized vs. prior year tax. If one-off tax credits reverse or if anticipated margin levers (efficiencies, AI) under-deliver, earnings could disappoint. The stock's forward P/E (~11.5×) already assumes continued growth; any hiccup would quickly look overpriced.

Third, structural competition limits pricing power. AECOM is the largest, but still competes with many capable firms (Jacobs, WSP, Tetra Tech) and in bidding war for government money. These competitors are also investing in AI/digital – gains here may be industry-wide rather than unique to AECOM. If AECOM's current "doubling down" on its core (keeping the lower-margin Construction Management arm) fails to generate offsetting synergies, it could drag on overall ROI (investors.aecom.com).

Fourth, the stock's balance-sheet strength could be overstated. The \$1.58B cash often cited is gross; after trimming \$2.45B of debt, net debt is still ~\$0.9B. Moreover, ~\$1.0B in Senior Notes

come due in 2027 (fintel.io) – a refinancing risk if credit markets tighten. Should interest rates jump further or corporate lending freeze, AECOM might face higher financing costs.

Finally, intangible risks lurk. Over the past decade, AECOM has layered on acquisitions (Ayers, URS, etc.), creating ~\$3.48B of goodwill (fintel.io). A prolonged downturn could force an impairment, instantly hitting equity value. AECOM Capital, its real-estate arm, also took impairment charges in 2022 (fintel.io), hinting that its investing model can quickly turn stale.

In short, if the macro climate weakens or internal execution slips, AECOM's optical strength (bookings, adjusted EPS) could prove ephemeral. Rather than a sustainable turnaround, the story risks being an "infrastructure momentum" bubble: high **reported** earnings/CF today masking stagnation ahead. Investors should thus ask tough questions: can AECOM really sustain 20% margins in a \$30B market rife with competition? Is the 52-week low price (near \$70) already pricing in a worst-case scenario? Our bearish scenario suggests downside to ~\$60–70, arguing caution. Only clear evidence of durable contract conversions and margin resilience would overturn this red-team view.



END OF RESEARCH NOTE