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INDUSTRY SNAPSHOT

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Newly Public AECOM Driving Consolidation

Slew of acquisitions help construction design firm build its global influence

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With a name like **AECOM Technology**, it's easy to get mistaken for a communications or Internet business.

But those in the heavy construction industry know AECOM^{ACM} as a leading design firm and provider of professional engineering and technical support services.

The Los Angeles company's name "throws a lot of people off," says Michael Burke, AECOM's chief corporate officer and chief financial officer. AECOM, pronounced "A-E- Com," stands for "Architectural Engineering, Consulting, Operations and Management."

AECOM went public May 10 at \$20 a share and now trades near 26. It has averaged 35% year-over-year sales growth the last eight quarters, posting \$3.421 billion in 2006.

The firm has been making acquisitions in a highly fragmented market. This year alone, it has purchased four companies involved in engineering, consulting and environmental projects.

AECOM has enjoyed a compound annual growth rate of 20% in revenue

over the past 10 years, Burke says. That growth has been about half organic and half from acquisitions, he says.

"We expect to continue to have a very healthy balance of both organic and acquisitive growth," Burke said.

Many smaller, privately owned firms dominate the market, making it ripe for consolidation. The top 10 companies account for 32% of the \$70 billion domestic market for design and engineering business. The remaining 490 companies in the top 500 control the other 68% of the market, according to D.A. Davidson & Co.

AECOM has completed more than 21 acquisitions over the past nine years. These additions have helped the company expand its technical capabilities and geographic reach.

"It's becoming more and more difficult for the middle and smaller players to work on the biggest projects, which tend to be the most profitable," Burke said.

AECOM has been a beneficiary and driver of industry consolidation, says John Rogers, an analyst with Davidson.

"AECOM has been able to leverage its market strengths and broad geographic and sector coverage to position itself as a



Michael Burke, AECOM chief corporate officer and chief financial officer

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provider of choice and as a preferred buyer of smaller firms," Rogers wrote in a recent research note. "We look for the company to further leverage these drivers."

Davidson is forecasting AECOM's sales to rise 23% this year to \$4.2 billion. It sees sales growing 15% to \$4.8 billion in 2008. It's targeting earnings per share of \$1.13 this year, up 53% over 2006, and \$1.15 next year, up 2%.

AECOM is focused on three broad sectors: transportation, facilities and environmental projects.

In the transportation business, AECOM designs new roads, subway stations and other infrastructure projects. Its marquee projects include the Second Avenue Subway, the World Trade Center PATH Terminal and Trans-Hudson Commuter Rail Tunnel Project, all in New York.

Facilities include commercial building projects such as the Etihad Towers in Abu Dhabi, United Arab Emirates. AECOM also is the master planner for the London 2012 Olympic games, which involves urban planning and revitalization of the city's east side.

Environmental work includes projects such as the Haihe River Embankment project in Tianjin, China.

AECOM gets 40% of its revenue from business outside the U.S. and is well positioned to take advantage of international growth, Burke says.

"None of our competitors have the geographic footprint that we have," Burke said. AECOM is pursuing business in fast growing markets such as Hong Kong, China, Australia, Canada and the United Arab Emirates.

"Right now we're experiencing growth rates outside the United States that are twice what they are inside the United States," he said.

AECOM has expanded internationally primarily through acquisitions.

"As some of our competitors have found out, it's difficult to parachute into a region and start a business like this," Burke said.

AECOM is proud of its diversification both in geographic terms as well as customer types, he says.