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KCI WATER/ENVIRONMENTAL GROUP BOLSTERED BY STEADY GROWTH IN COMPLIANCE-DRIVEN WATER BUSINESS

__KCI__ is a 100% employee-owned engineering, planning and construction firm serving clients throughout the United States and beyond. With more than 1,700 employees nationwide collaborating on diverse projects, KCI is constantly driven by energy, passion and talent. KCI's staff of experts contributes to a body of knowledge in a variety of fields through training, technical articles, published white papers, and conference presentations. KCI employs cutting-edge technologies, management practices, and strategic growth initiatives. KCI operates in four markets: Transportation, Water, Facilities, and Utilities. With a long-standing reputation for leadership in the transportation, site/facilities, water/environmental, construction and communications sectors, KCI has a broad technical knowledge of industry guidelines and processes that define each, along with an understanding of the various governing regulations.

Mehmet A. Boz, is a vice president and manager of the firm's Water/Environmental discipline, which includes the company's Water/Wastewater regional practices in the Mid-Atlantic, South Atlantic and Southwest regions, as well as the GeoEnvironmental regional practice, including Geotechnical Engineering, Environmental Management and Industrial Hygiene practices. He is a recognized community leader that is involved in a number of organizations, including being the current Chair of the Board of Directors for the Public Works Experience, and serving on several committees of the American Society of Civil Engineers.

EBJ: 2021 is a year of transition. What will this transition look like at KCI? Will operations be reconfigured again? In which ways?

Boz: 2020 has certainly been a difficult year for everyone around the world. The A/E/C industry faced its own challenges during the pandemic, which included work stoppage due to lockdowns or funding issues, and we have also spent considerable energy re-configuring our workforce to execute our day-to-day operations and manage our project delivery process remotely. In the past, the industry was sometimes viewed as being slow to react to changes. The pandemic altered this; we had to go through a shift and adjust quickly, so we could keep moving forward.

We feel very fortunate that our business remained strong during these tough times, and 2021 is shaping up to be another good year for us. We are not currently considering re-designing our organizational structure or the markets that we serve, but we are looking at flexible work options for our employees, including remote/virtual work opportunities. This is still a work in progress as we assess our workflow process as well as our projected backlog and staffing needs.

EBJ: How will this transition define the environmental industry? Will there be a rebound on the amount of work due to a better economic outlook? And if so, how fast would you anticipate the increase in spending to be and which client sectors will have a faster recovery?

Boz: The Environmental industry generally fared better than others in the A/E/C realm, due to most of the work continuing regardless of what was developing during the pandemic and through updates to local restrictions. Environmental work is largely compliance-driven, meaning projects needed to be executed, permits needed to be maintained, and operations and maintenance work had to continue. When it comes to water and wastewater engineering, many of the public clients that we serve maintained their user-fee based budgets and continued with the execution of their capital programs.

Source: KCI, 2021

A better economic outlook is certainly encouraging. We expect our work to remain strong and continue to grow as public agencies spend more on their infrastructure needs, and as the federal government supports a nationwide effort to update, renew, and maintain our critical public infrastructure.

We will likely see an uptick in spending for work related to water treatment and distribution as there is a growing concern and emphasis on emerging contaminants. This could possibly lead to more hazard identification and remediation related activities, as well as having further downstream effects on wastewater discharge, biosolids treatment, and solid waste handling and disposal.

EBJ: How are markets changing in each of the following environmental segments in which you operate and what should we expect for the next couple of years?

Boz: KCI's Water/Environmental discipline operates in four regional practices:

- GeoEnvironmental Greater Mid Atlantic
- Water/Wastewater Greater Mid Atlantic
- Water/Wastewater South Atlantic
- Water/Wastewater Southwest

The markets that we operate in vary greatly depending on geographies that we serve and the business lines that we are engaged in. Though some regions remain relatively flat in their population projections and economic growth, others continue to experience sustained growth, which produces new opportunities for KCI. Specifically, in 2020, even though we experienced a pandemic-related slowdown in the GMA, we also saw an increase in business opportunities in Texas and in the Carolinas. As previously mentioned, overall, the wide variety of services that KCI's Water/Environmental discipline provides are essential in nature, and are generally compliance-driven, which means continued business even during times of social and economic duress.

For Geo-Environmental GMA, though budget and procurement problems persist, our clients have continued to contract our services for their compliance-driven projects and programs. Due primarily to the emergency "lockdown" and stay at home orders initiated this past spring in response to the coronavirus pandemic, the agency clients have endured reductions in revenue collection via the gas tax in Maryland, subsequently resulting in significant budgetary shortfalls. We expect the work to gradually rebound once we are past the lockdowns and the pandemic-induced slowdown.

The capital spending trend in the W/WW GMA market has continued to be strong and steady over the last 15+ years. This has been mainly fueled by the regulatory enforcement to improve water quality in the Chesapeake Bay watershed and the waters of the US (WUS). In addition, new and/or updated regulations and failing water and sewer infrastructure continues to be a big driver in the W/WW market. A majority of the key wastewater treatment plants (WWTP) have been upgraded to Enhanced Nutrient Removal (ENR); however, rehabilitation and renovation of water and wastewater treatment plants, pumping stations and associated facilities maintain the steady source of work opportunities in the region. Municipalities will also continue to perform routine maintenance and upgrades to existing facilities to include pumping stations, treatment equipment and storage facilities. Asset Management (AM) continues to be an emerging business line in the W/WW market, which helps enhance the planning and implementation of these improvements.

In the South Atlantic, W/WW work is steady and has not experienced any sustained negative impacts due to the pandemic. On the contrary, there are indications that the pandemic may have added to the already growing population projections for the region. The Interstate 85 corridor between Atlanta – Greenville – Charlotte – Raleigh (identified as the Piedmont-Atlantic Megaregion) has experienced steady to rapid growth on the order of 2-5% annually over the past 20 years. Home sales in upstate South Carolina for July and August have exceeded peak sales that were observed in March prior to the COVID lock down and continue to trend upward.

The W/WW market in the Southwest, more specifically for KCI, in Texas, revolves around three major initiatives: Sanitary Sewer Overflow programs (ongoing in San Antonio and starting in Houston), water supply programs, and City Bond and CIP programs. The state is experiencing a sustained population growth, which increases the need for infrastructure related projects and programs. Funding is available at the local state level, and at times, through federal programs. COVID-19 has not created much change in municipal W/WW projects because W/WW work and related services are considered essential. The pandemic has created challenges such as reduced city tax funds, and much of our municipal clients are often still working from home leading to slow starts for projects and programs.

EBJ: How do you anticipate M&A activity in the Environmental Industry to be in 2021?

Boz: The M&A activity has been very strong across the board, in every market and in every region that we operate in. I expect this situation to continue in 2021, and well into 2022 and beyond.

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EBJ: What EPA changes have you noticed and what are we expecting?

Boz: As I mentioned previously, there is a growing concern regarding emerging contaminants, namely PFAS/PFOA. I expect a clearer direction followed by stronger enforcement from the EPA regarding these contaminants in the near term.

EBJ: KCI has been recognized by Top Workplaces USA in 2021. What could you attribute this to and what initiatives are you implementing so that remote work does not affect KCI's culture?

Boz: This is easy to answer. Our employee-owners make KCI the best place to work. We have been an ESOP for more than 30 years. Our employee-owners are among the best in the industry, and they care about what KCI does and how it does it. Having strong employee engagement makes us a stronger business, and in turn makes KCI a top workplace and a best place to work.

We have many employee engagement programs, such as the Wellness and Green Committees, the Equity, Diversity, and Inclusion initiative, the Community Volunteering Day Off, the Technology Sharing group, and many other employee-suggested, employee-founded and employee-driven programs. Our company leadership is accessible, and communication and feedback channels are always wide open, and we all, collectively, find ways to improve KCI through the entrepreneurial spirit that is engrained in the core of our business strategy and our processes. I absolutely love working here, and I love being an employee-owner of KCI.

EBJ: What impact has 2020 had on the Fourth Industrial Revolution? And how does the Fourth Industrial Revolution look like at KCI?

Boz: Technology moves fast. It actually moves exponentially faster with every passing day. We have taken the approach of thoroughly incorporating technology in our project execution and delivery programs, though the speed with which things change can make this difficult. Our service offerings have also changed over the years to include more smart technology in our end products and services.

In addition to things that are now industry standard data management systems that are heavily utilized across the industry, KCI offers cutting edge services in 3D modeling, Digital Twin technology, asset management and asset registry, computerized maintenance management systems, and many others. Especially in the water and wastewater market, we see the future of maintenance and operations being heavily tied to advancement of data monitoring and management systems such as smart SCADA and Digital Twin. ☐

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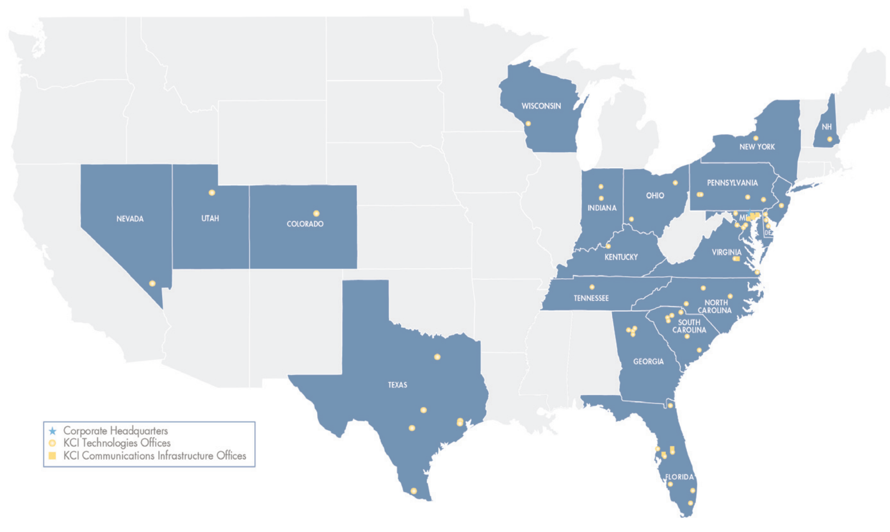
KCI Office Locations



Source: KCI, 2021