



Agility (AGLT.KW)

April 27, 2008

- On April 17, 2008, the US Army announced it was awarding three contracts for the provision of logistics support under the Logistics Civil Augmentation Program (LOGCAP) IV.
- The selected providers are teams led by DynCorp International, Fluor Intercontinental and Kellogg, Brown and Root (KBR) Services.
- Agility and CH2M Hill are members of the DynCorp team.
- The LOGCAP IV contracts were originally awarded on June 27, 2007, but two unsuccessful bidders protested the results with the United States' Government Accountability Office (GAO). After implementing the corrective measures recommended by the GAO, the US Army awarded the contracts to the same three providers.
- The services that will be rendered for the US Armed Forces in the Middle East under LOGCAP IV are very similar to the services rendered under LOGCAP III, which was handled solely by KBR. The services include: supply operations (delivery of food, water and fuel); field operations (dining facilities, laundry facilities, waste management and postal services) and other operations (engineering, construction and support for the communication network).
- Each of the three contracts is awarded for one base year and nine option years. Also, each contract has a cap of USD five billion per year.
- The three contractors will bid for individual LOGCAP task orders. Task orders will be awarded through a bidding process, which means that there is a chance that a provider will not win any task orders. Hence, revenues (generated from LOGCAP IV) for each of the three providers could range from zero to USD five billion per year.
- Accordingly, it is very difficult to forecast a revenue stream from LOGCAP IV for each of the providers. Estimating the combined revenue of the three providers might be possible by examining KBR performance under LOGCAP III. In 2007, KBR rendered services worth almost USD 5 billion under LOGCAP III. As this is a relatively mature contract, it is unlikely for it to experience growth unless there is a significant change in the strategy of the US Army in the Middle East.
- We note that Agility has the assets, infrastructure and the experience (from providing services to the US Army under the Prime Vendor Contract) to allow the DynCorp led team to bid competitively.
- Even though we regard the news concerning the LOGCAP IV contract as a positive event for Agility, we are not changing our forecasts for the company due to the uncertainty of estimating revenues and margins generated from this contract for a single provider. We will incorporate the effect of LOGCAP IV (if any) on Agility's performance only if it is awarded individual LOGCAP IV task orders in the future.

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Related Research

- Agility Update - 20 Nov. 2008
- Agility Update – 15 June 2008

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