


Midsized Firms: Far From An Endangered Species



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AWARD-WINNING BUSINESS MAGAZINE

COUNCIL OF ENGINEERING COMPANIES

House
Transportation
& Infrastructure
Chairman

Bill Shuster

Tackles Nation's Long-Term
Infrastructure Funding Dilemma

>> Risks/Rewards
Of ESOPs

>> Health Care
Construction
Surging

>> PPPs Growing
In Global
Prominence

>> Study Shows
Midsize Firms
Not Endangered

What We Did

A study of
*Engineering
News-Record*
data

Groundbreaking Research
Shows Midsize Firms Are Far
From an Endangered Species

Why Did We Do This?

We were hearing...

Mid-sized firms saying:
"We feel squeezed and threatened."

Mega firms suggesting: "Mid-sized firms should give up and sell to me"

Experts touting:
"The death of the mid-size firm."

Why Did We Do This?



Why Did We Do This?

We were
hearing...

Our experience
was different...

**Should mid-sized firms be
confident or concerned?**

**We wanted
facts...**

How Did We Do It?

Who

- Research done by the University of Colorado
- Four independent sponsors
- Goal – Maintain independence of the findings



What

Data came from public information:

- *Engineering News-Record*
- US Economic Census Data
- US Bureau of Labor



Fun Research Facts

Used 35 years
of overall data
from 1977 to
2012

...with sector
diversification data
in the last 25 years

Encompassed
multiple economic
cycles

Entered 400,000+
data points into
database

ENR
Engineering News-Record

THE TOP
500
DESIGN FIRMS

116,000
engineering
firms in
census data

Over 1500 firms
of ENR data
included in the
study

We Analyzed These Aspects Of The Data

- **Does Size Matter?**

Industry trends & characteristics

- **Are Mid-Sized Firms in Danger?**

Volatility of the firms on the list

- **Does Size Matter For Market Sectors?**

Sectors where firms worked and role of diversification

- **Are You On The Menu?**

Influence of industry consolidation

- **How Do The Megs Grow?**

Influence of international work

That Was Then...This Is Now

1986

2012

ENR Top 10

- Morrison-Knudsen
- CRS Sirmine
- Sargent & Lundy
- Gibbs & Hill
- CH2M Hill
- Gilbert/Commonwealth
- Holmes & Narver
- Black & Veatch
- Sverdrup
- Louis Berger

- AECOM
- URS
- Jacobs
- Fluor
- CH2M Hill
- Bechtel
- AMEC
- Tetra Tech
- KBR
- Parsons Brinckerhoff

That Was Then...This Is Now

1986

2012

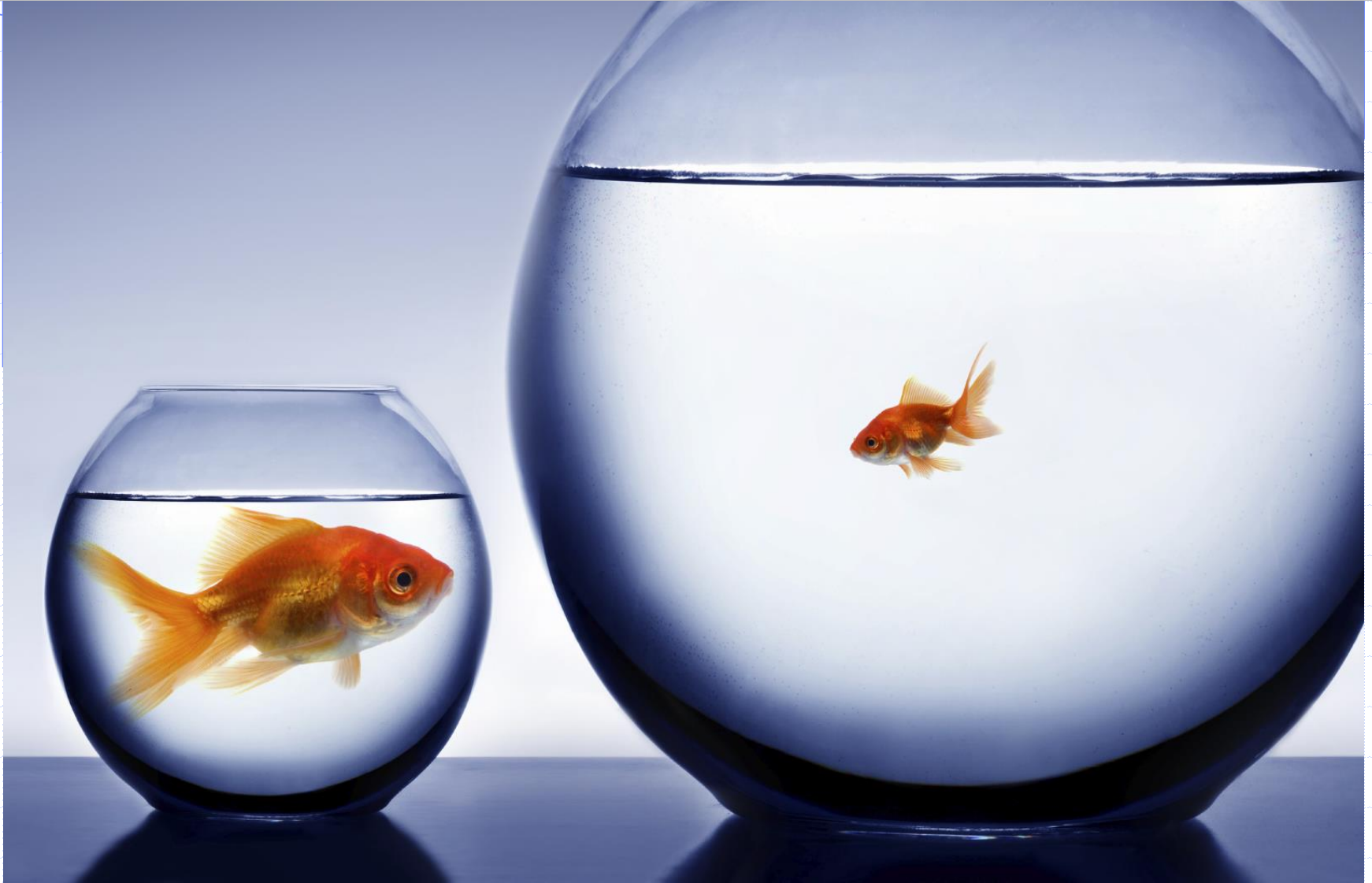
ENR Top 10

- Sargent & Lundy
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- Louis Berger

- AECOM
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- Fluor
- CH2M Hill
- Bechtel
- AMEC
- Tetra Tech
- KBR
- Parsons Brinckerhoff

Does Size Matter?

(industry trends & characteristics)



Study Categories for Data Analysis, 1977 to 2011*

Category	ENR Ranking Range	% of 2011 Total Revenue	2011 ENR Revenue Range
Small	Not on ENR Top 500		<\$17M
Midsize	ENR 500 to ENR 101		\$17M to \$113M
Large	ENR 100 to ENR 31		\$114M to \$447M
Very Large	ENR 30 to ENR 11		\$481M to \$1.59B
Mega	ENR Top 10		\$1.68B to \$6.87B

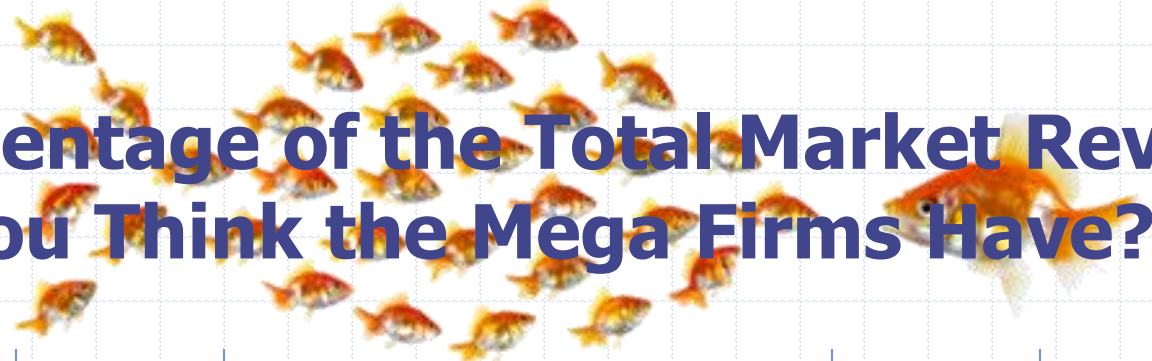
Source: *Engineering News-Record using 2011 data before 2012 was published*

What Percentage of the Total Market Revenue Do You Think the Mega Firms Have?

Study Categories for Data Analysis, 1977 to 2011*

Category	ENR Ranking Range	% of 2011 Total Revenue	2011 ENR Revenue Range
Small	Not on ENR Top 500	66%	<\$17M
Midsize	ENR 500 to ENR 101	7%	\$17M to \$113M
Large	ENR 100 to ENR 31	6%	\$114M to \$447M
Very Large	ENR 30 to ENR 11	7%	\$481M to \$1.59B
Mega	ENR Top 10	14%	\$1.68B to \$6.87B

Source: *Engineering News-Record using 2011 data before 2012 was published*



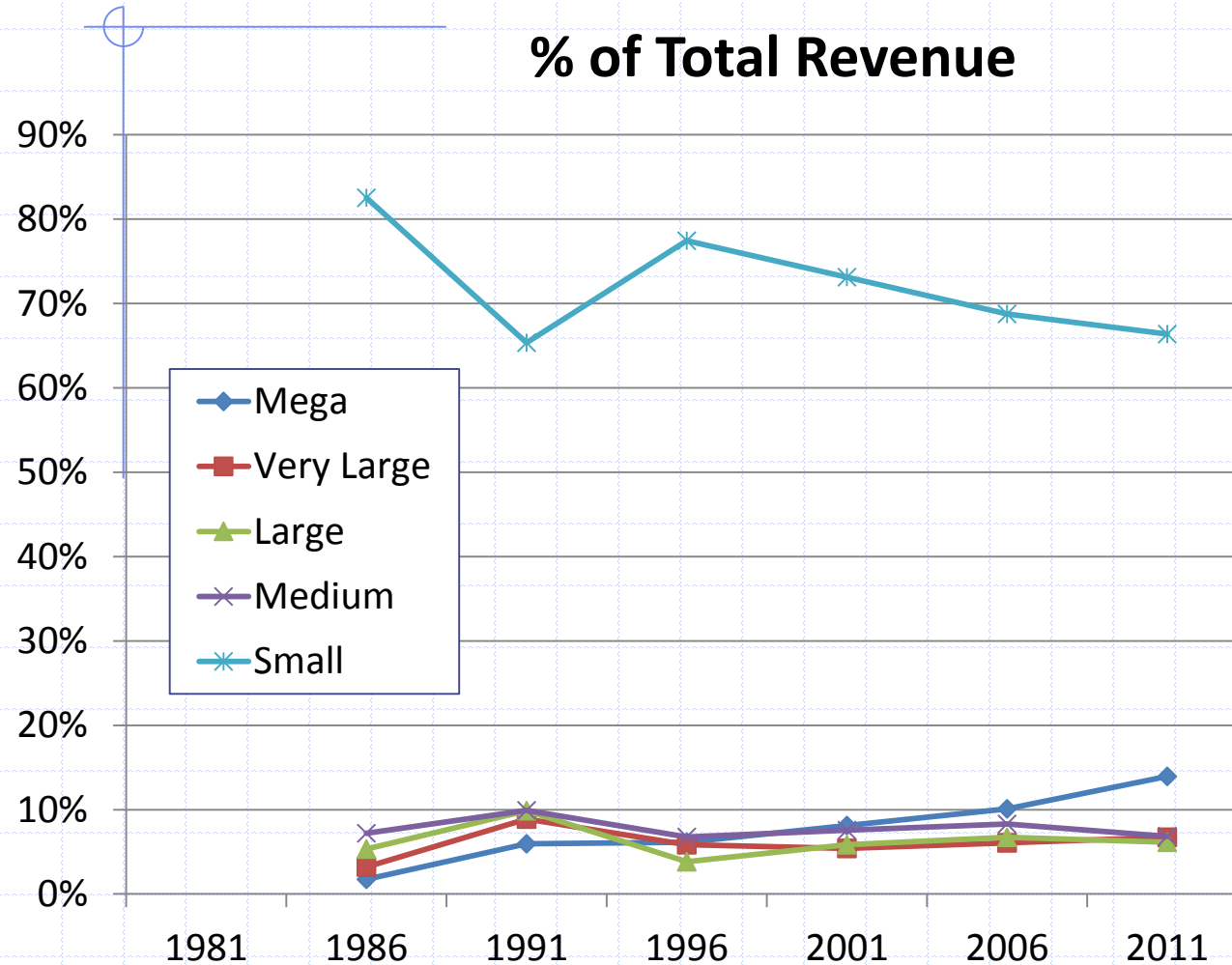
What Percentage of the Total Market Revenue Do You Think the Mega Firms Have?

Are Mid-Sized Firms In Danger?

(volatility of ENR firms)



Change in Percentage Of Total Revenue For The Last 25 Years



Mid-sized firms' percentage of total revenue has stayed the same over the last 25 years

And The Data Also Says...

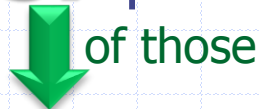
1550 firms have been on ENR since 1977



61 stayed throughout the 35 years (31 mid-sized)



37 positively increased their rankings (18 mid-sized)



17 outperformed their peers in growth rates (10 mid-sized)

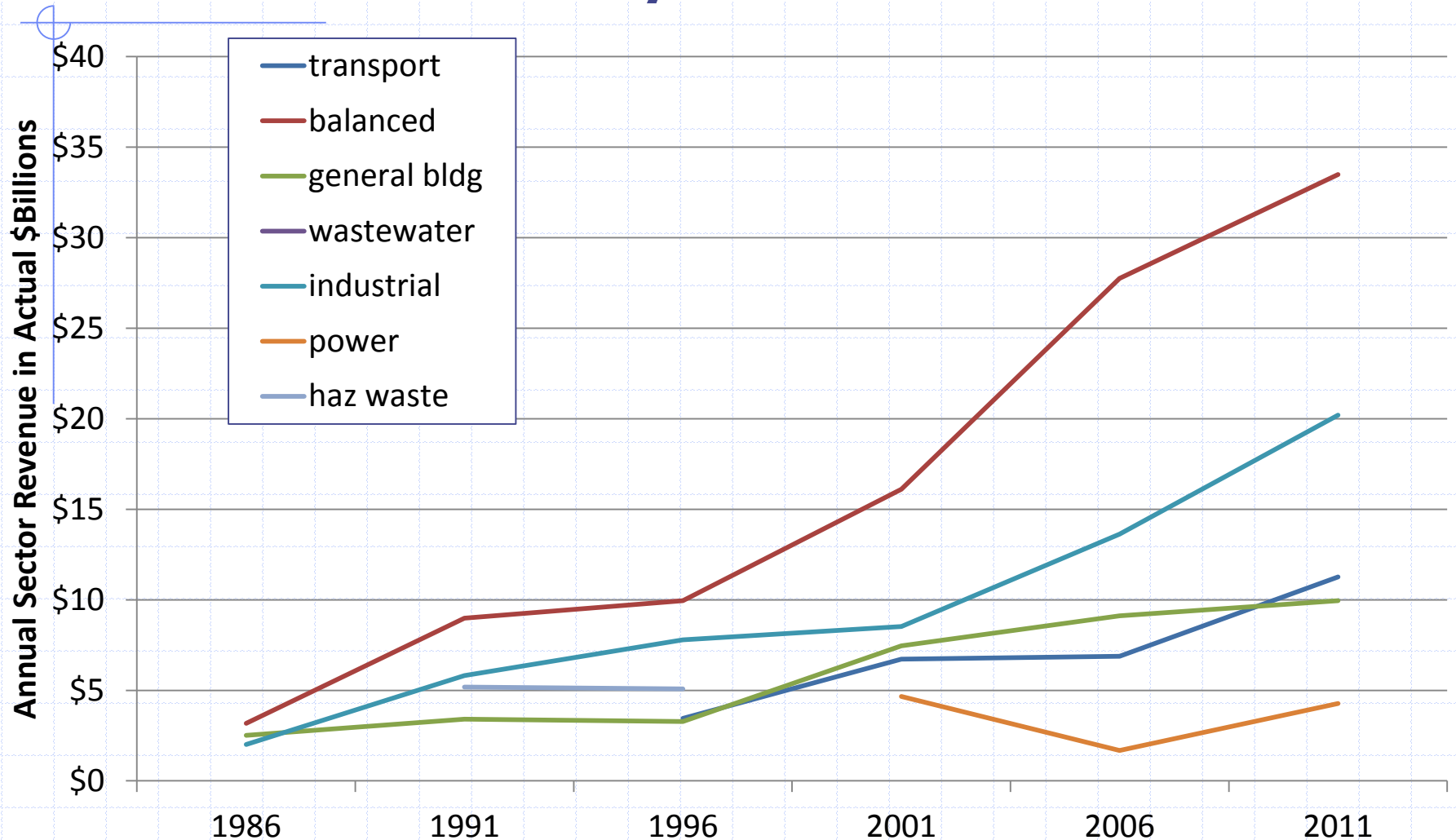


**Mid-sized firms
have endured
and performed!**

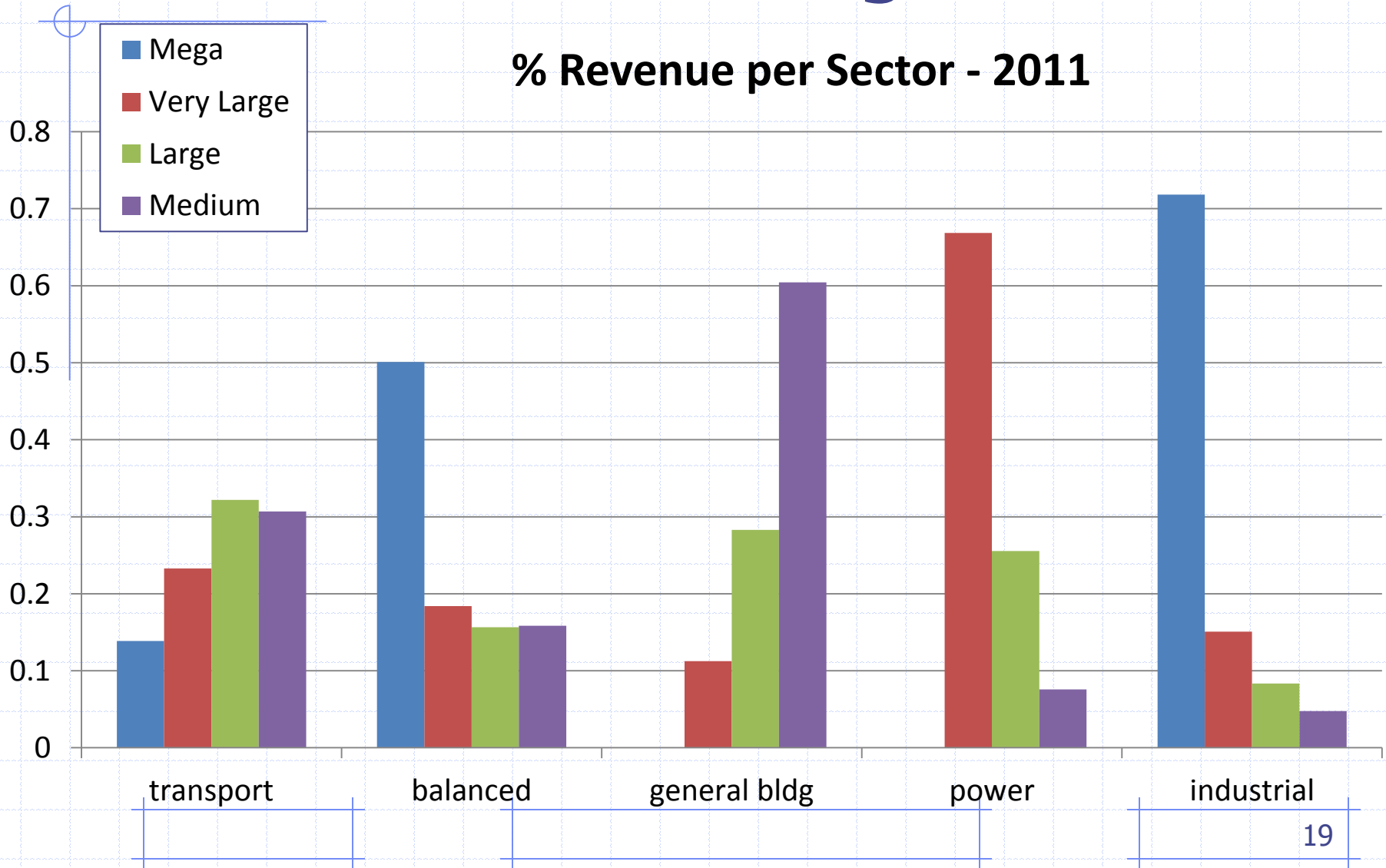
Does Size Matter For Market Sectors?



The Market Has Segmented Over Last 25 years



Different Size Firms Dominate Different Market Segments



Are You On The Menu?

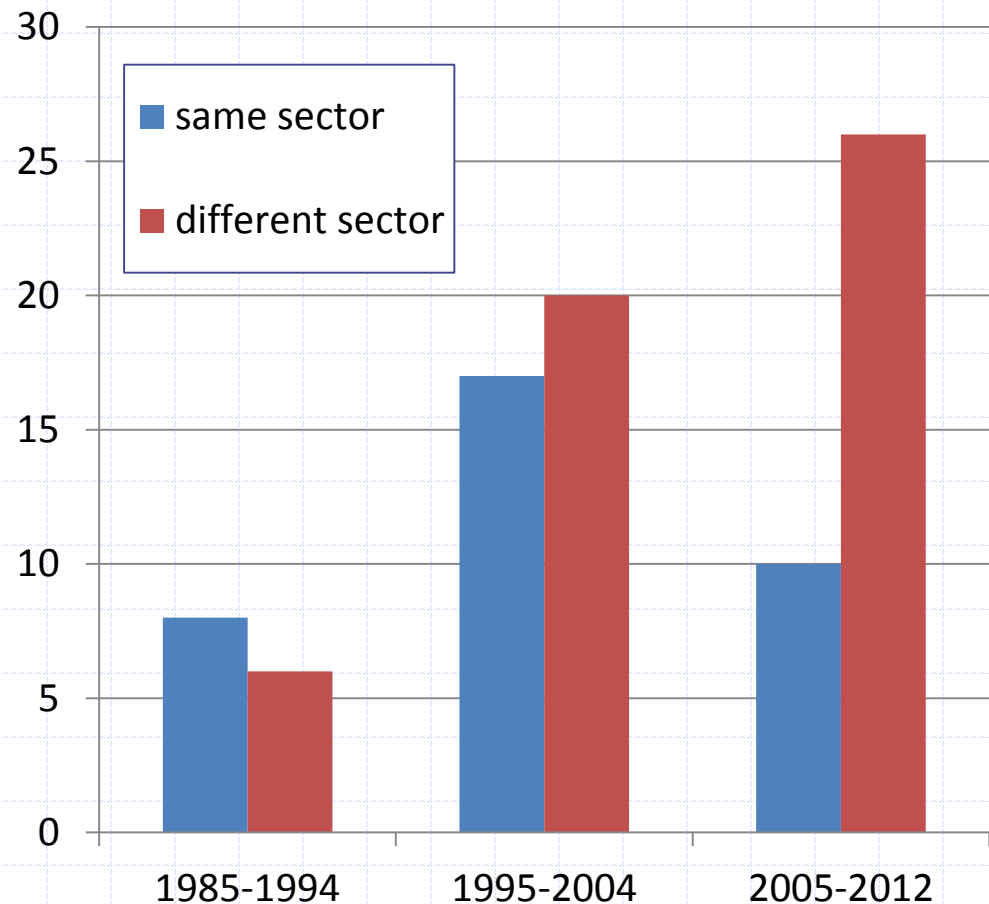
(merger and acquisition activity)



M & A Activity and Market Consolidation - **Sectors**

Since 2005, has been a shift from acquiring firms in the same sector to acquiring a diversity of firms (especially for Mega Firms)

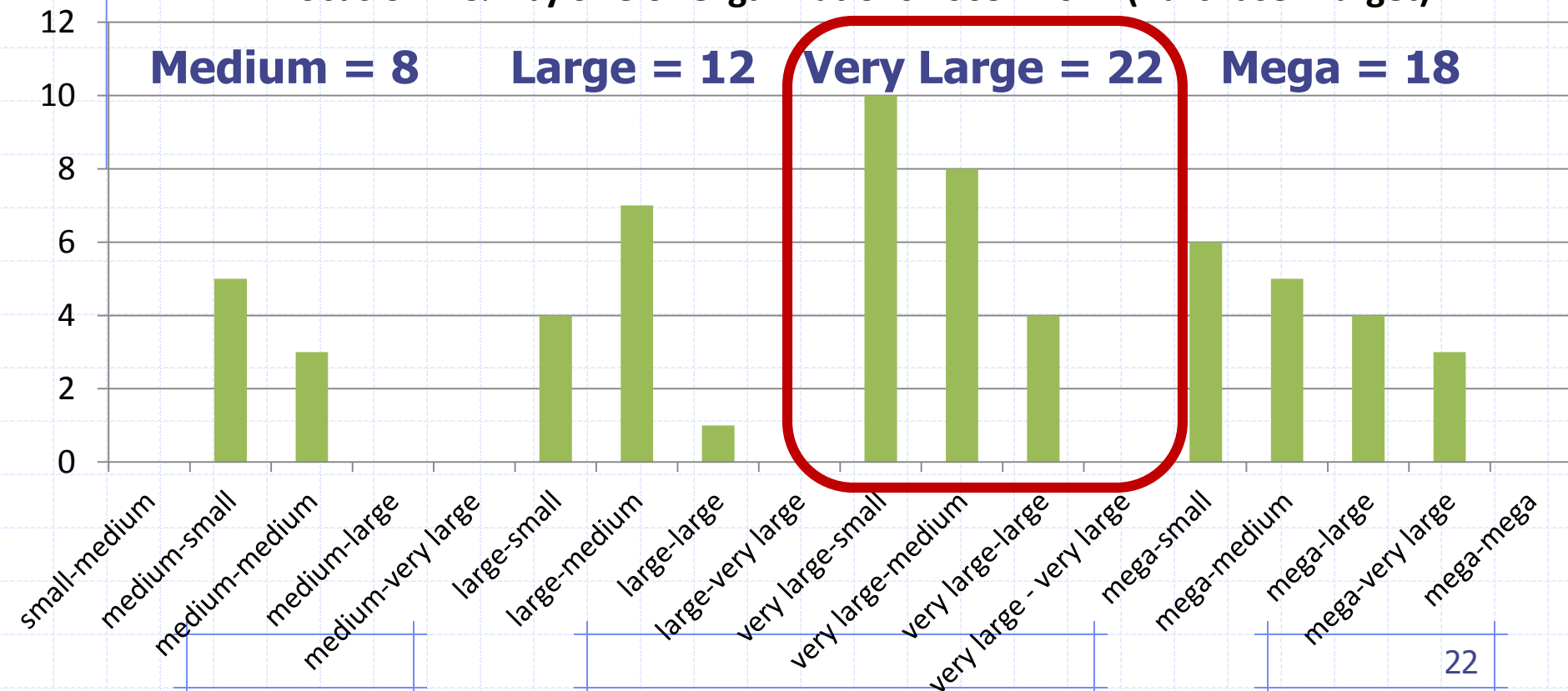
Same Sector versus Different Sector Purchases



M & A Activity and Market Consolidation - **Purchasers**

Since 2005, Very Large Firms
have been the largest purchaser of firms

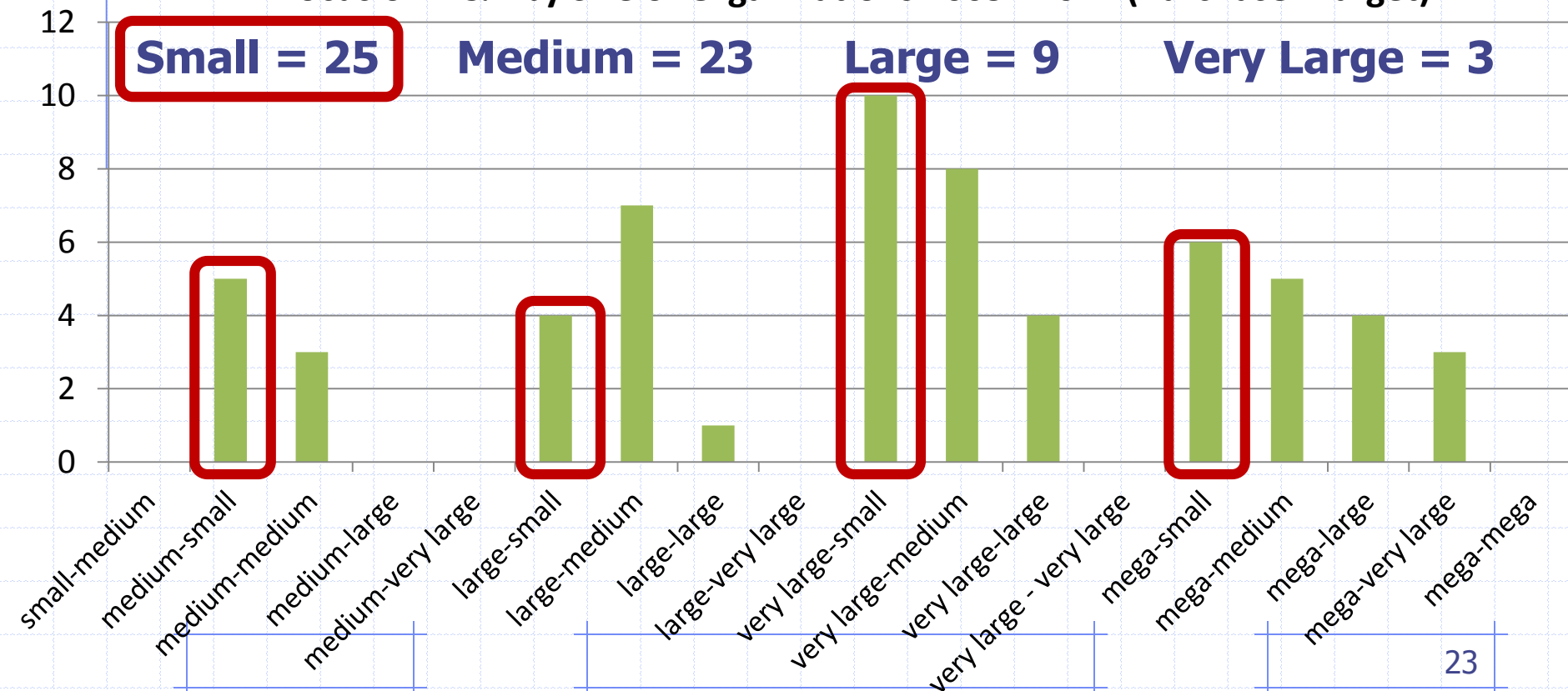
Focus of M&A by Size of Organizations 2005 - 2012 (Purchaser-Target)



M & A Activity and Market Consolidation - **Targets**

Primary targets are Small Firms

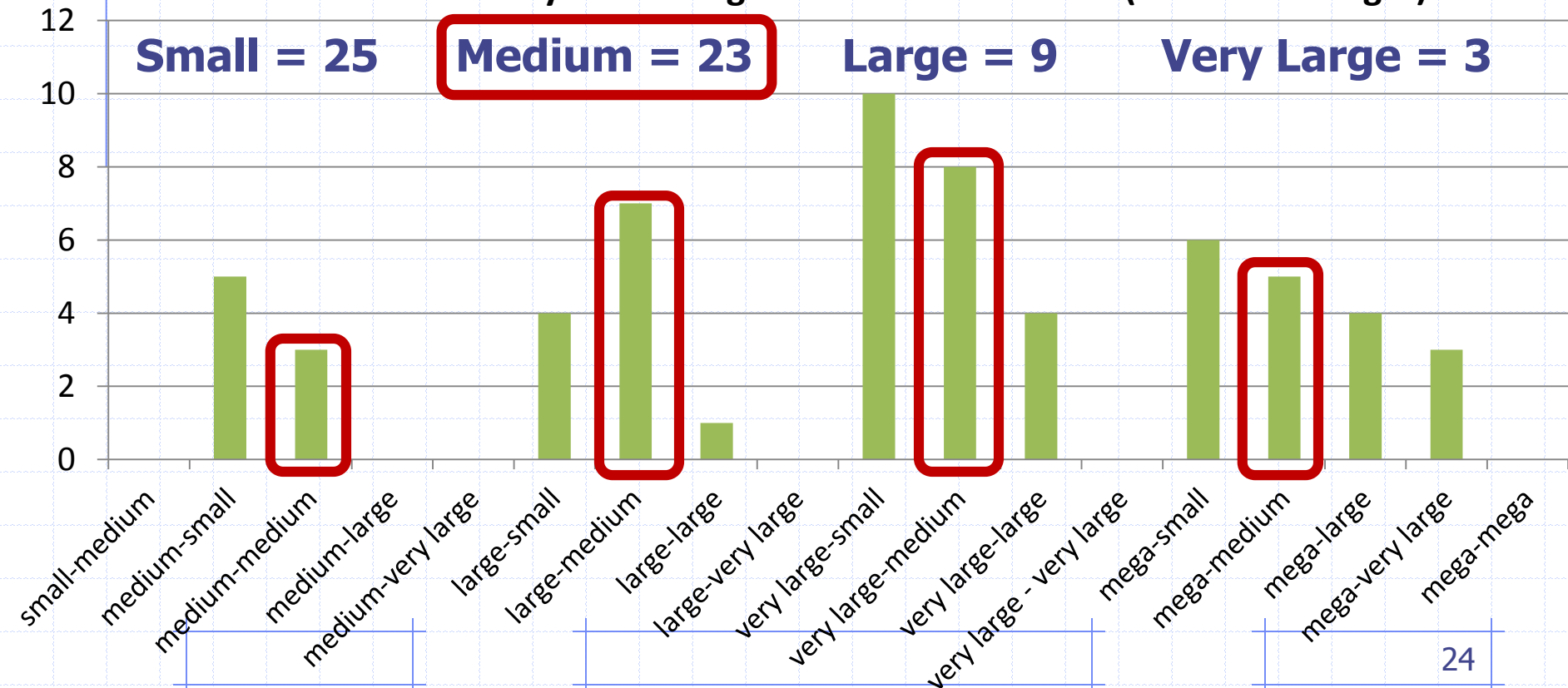
Focus of M&A by Size of Organizations 2005 - 2012 (Purchaser-Target)



M & A Activity and Market Consolidation - **Targets**

Primary targets are Small Firms
With Mid-size Firms second

Focus of M&A by Size of Organizations 2005 - 2012 (Purchaser-Target)



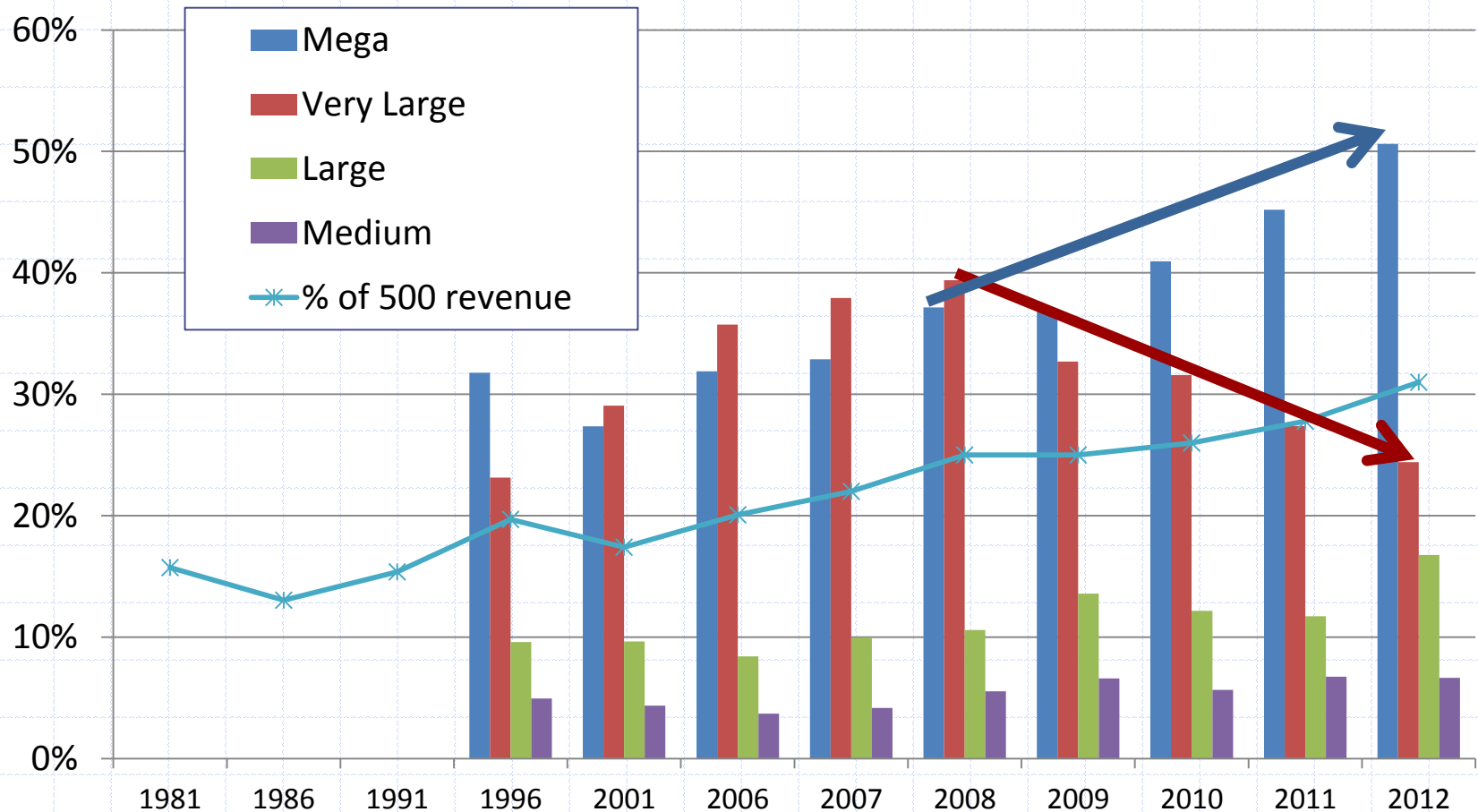
How Do The Megase Grow?

(versus everyone else)



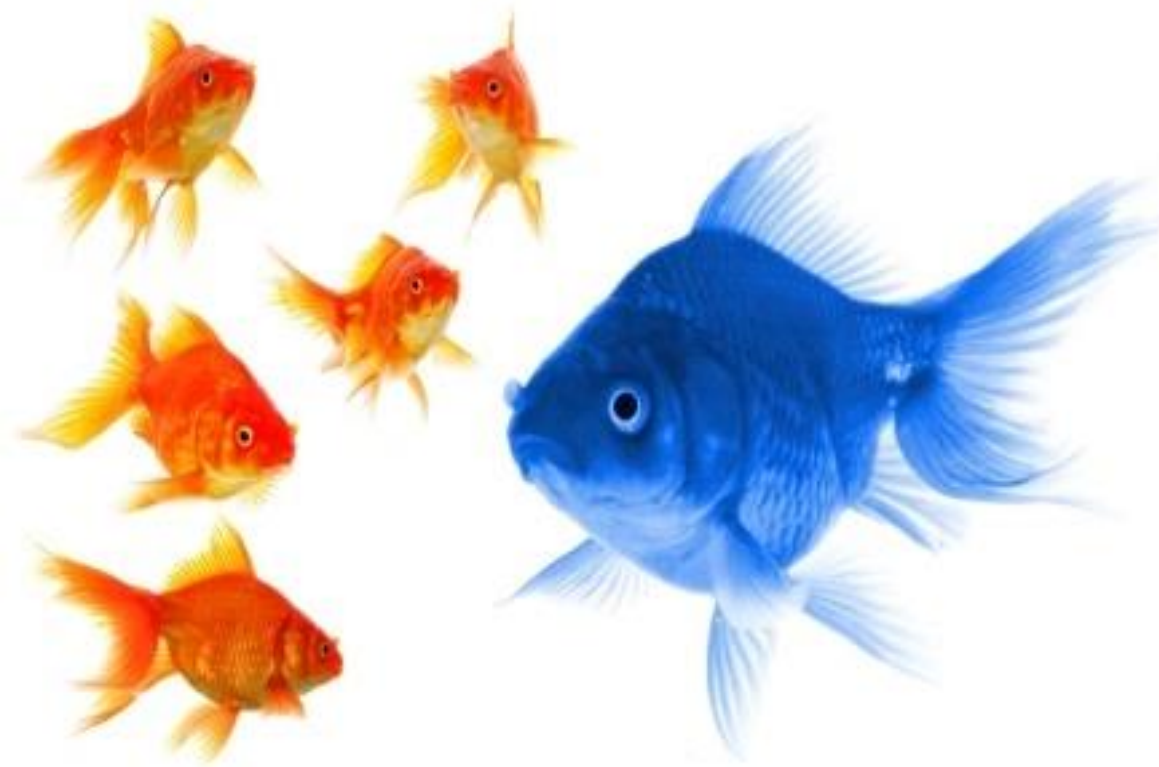
Role of International – Factor In Recent Growth Of The Megas

International Billings as Percent of Group Bilings



What's Next?

Study Phase 2: Compare firms that have “sustained” for 35 years vs firms that “have not”



- What does it takes to prosper?
- What does it take to sustain success?
- What might have contributed to firms who are no longer around?

Phase 2: Our Questions



Phase 2: Our Questions

Internal Strategy

Cultural/philosophical business characteristics

External Strategy

Impact of mix of business services and
geographic diversification

Financial Drivers and Performance Management

Key financial practices and performance drivers

Succession

Level of leadership/management/ownership
planning & development

Significant Events

Triggering events that set the stage for long-term success

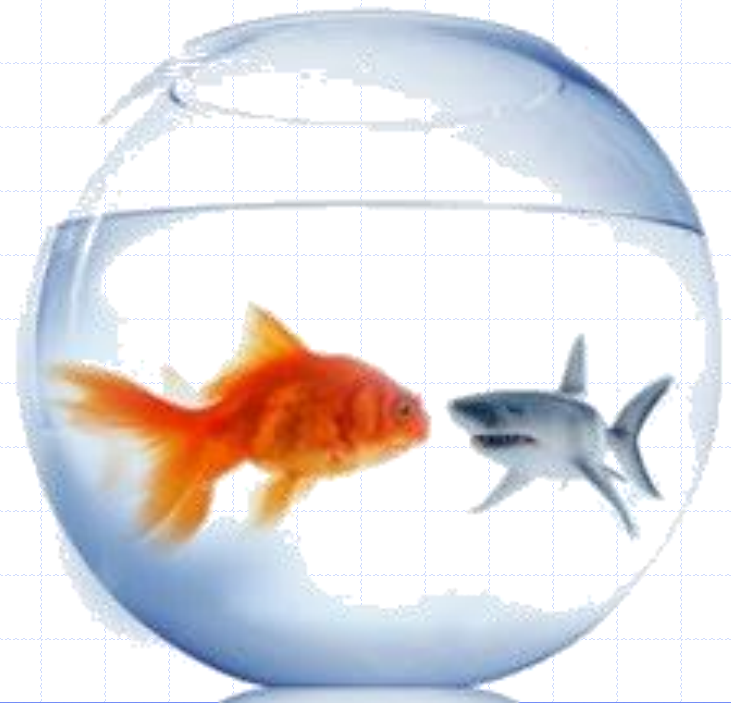
Early Results – Characteristics of Firms That “Prosper”

- ✓ Know themselves, where they’re going...use it well
- ✓ Client & people-centered
- ✓ Stick to their “knitting” & keep things simple
- ✓ Goal-oriented – accountable
- ✓ Challenge to improve
- ✓ Financial performance paramount – fiscally conservative
- ✓ Invest in growth, tools, development & transition
- ✓ Had an event that “changed” them

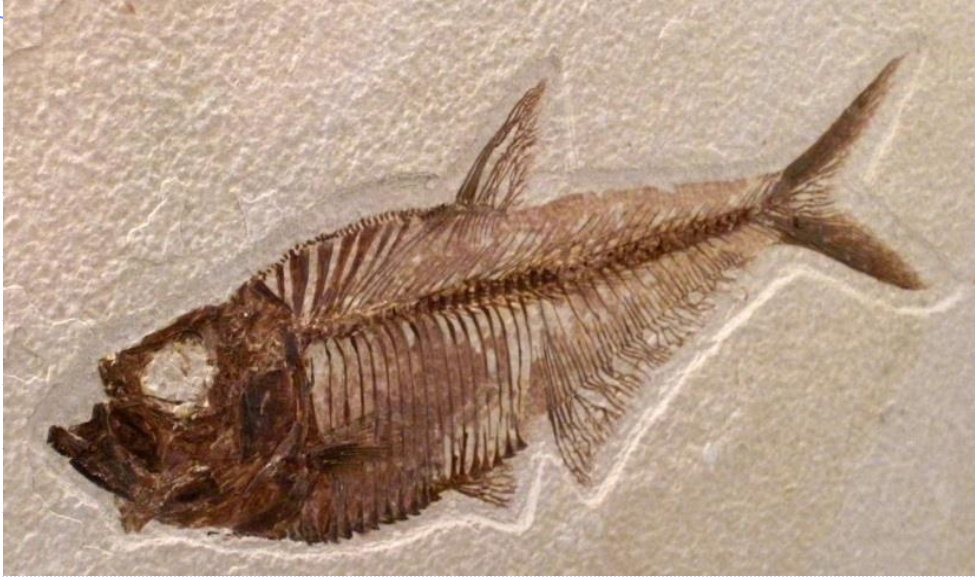


Early Results – Characteristics of Firms That “Sustain”

- ✓ Commitment to stay the course
- ✓ Also client and people-centered
- ✓ Don't place growth as a high priority
- ✓ BUT less accountable
- ✓ Slower to change – “sub-evolutionary”
- ✓ Fiscally conservative...but lower financial performance
- ✓ Plan for the future



Early Results – Characteristics of Firms That Are “No Longer Around”



- ✓ Slower to change
- ✓ Misplaced or “overused” emphasis
- ✓ Distracted &/or spread too thin
- ✓ Low financial performance & took fiscal risks
- ✓ Little or no planning for the future
- ✓ Had a “put them over the edge” triggering event

Phase 2 Goals

Finish interviews &
analysis by fall 2014

Publish Findings –
Report, short-read
book, articles,
presentations



Q & A

