

Strategic Planning in the Face of Disruption

Rebecca Zofnass, Managing Partner at EFCG



EFCG

Environmental Financial
Consulting Group

About EFCG: Who We Are



Advisory

500+
A/E/C Firms Advised

- Financial & Strategic Consulting
- Talent Strategy
- Technology Practice
- Sustainability & ESG



Mergers & Acquisitions

160+
M&A Transactions Completed

- Sell- and Buy-Side Assignments
- Consultation on Capital Raises
- Market Creation for a Merger or Sale of a Firm
- Post-Merger Integration



Executive Conferences

70+
Conferences Hosted

- Analysis on Industry Trends
- Advice from Subject Matter Experts and C-Level Executives
- Peer-Networking Opportunities

Uniquely positioned with 30 years of EFCG proprietary industry data from 300+ private & public firms

How We Support Our Clients

Data & Insights

Provide tailored insights using EFCG's 30+ years of confidential A/E/C firm data, from growth and profitability to overhead and turnover metrics



Expertise

Offer an expansive advisory perspective, with diverse team experience in engineering, M&A, finance, technology, talent, leadership, sustainability, business development, and more



Partnerships

Bring together organizations and advisors from across the A/E/C space to deliver distinctive, comprehensive industry guidance



Customization

Create a personalized solution for every client by committing to understanding your purpose and priorities first, enabling you to realize your ambitions



Agenda

Key Trends Impacting the A/E/C Industry

Technology

Talent

DE&I

Sustainability

M&A

Strategic Planning Best Practices

Implications of Key Trends on Strategic Planning

Technology Investment and Adoption is Accelerating

Multiple Trends Are Converging...

- 1 Pricing pressures / commoditization are driving firms to look for opportunities to lower costs
- 2 Talent constraints mean firms are looking to do more with less people, leading to investments to drive efficiency
- 3 The risk of potential disruption (e.g. by automating key processes) means some firms are considering opportunities to disrupt themselves first
- 4 Increasing competition is pushing firms to look for opportunities to differentiate their value proposition and create additional revenue streams

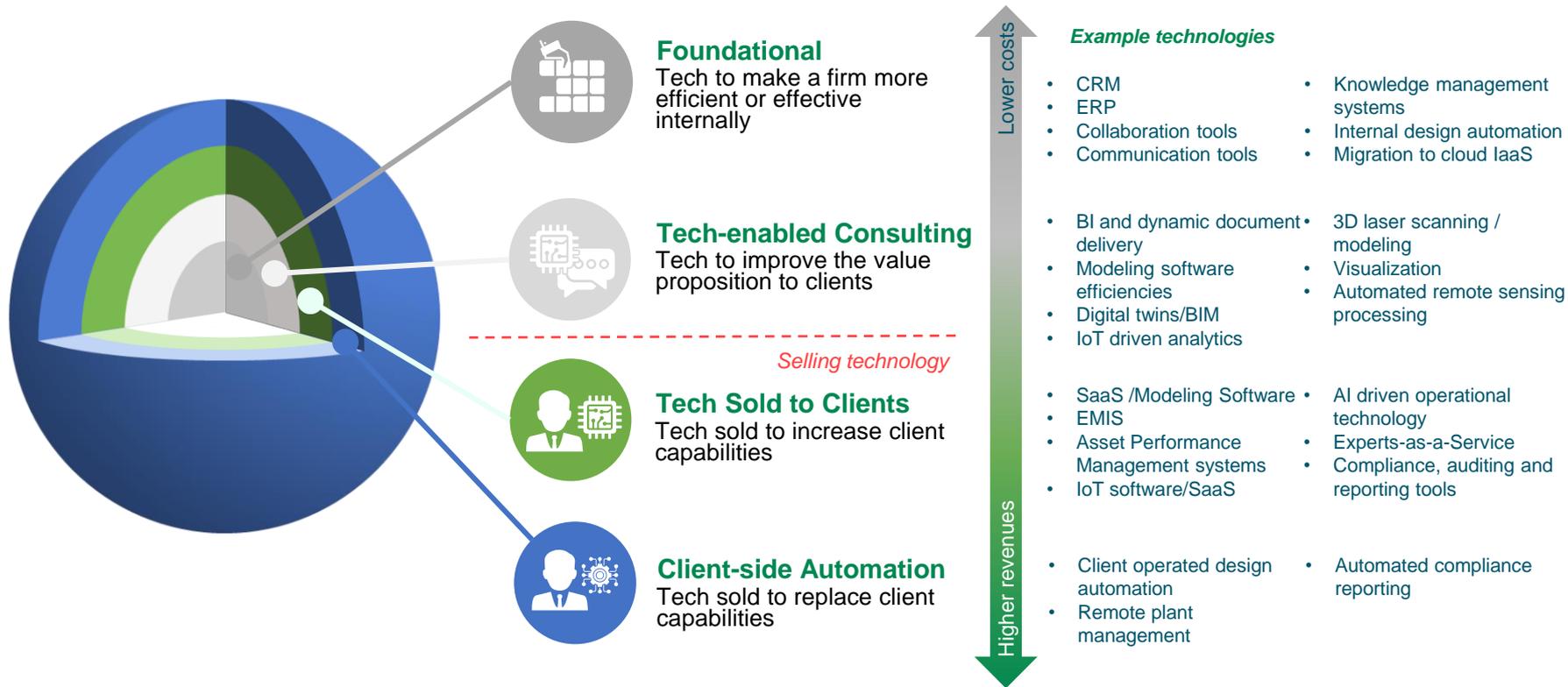


...Driving Increased Investment in Technology and Innovation

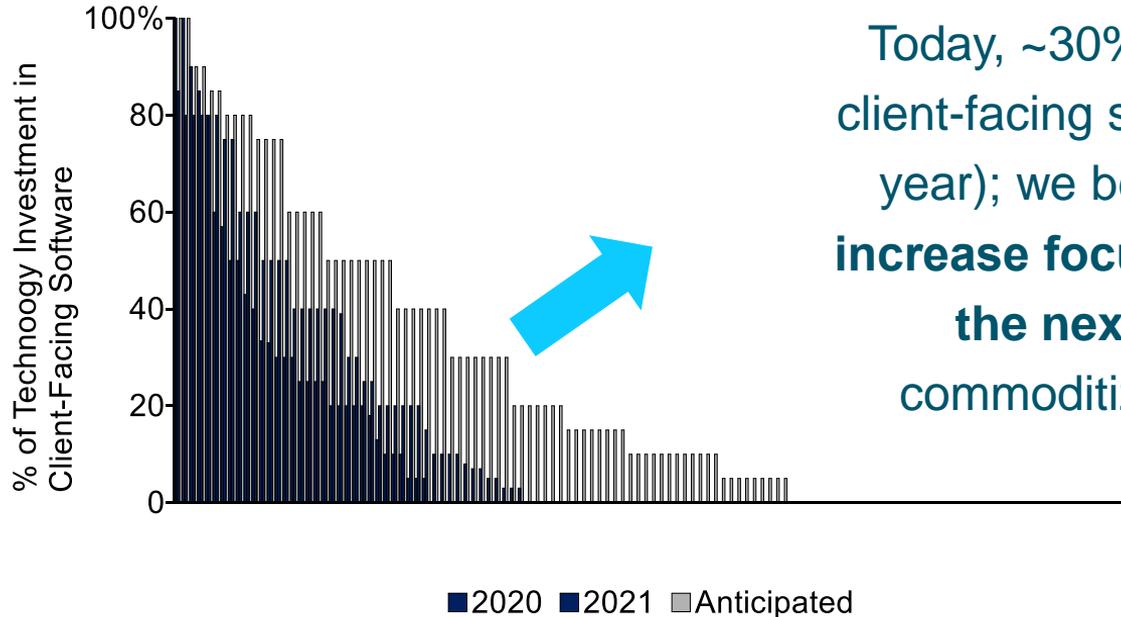
- Technology acquisitions across the A/E/C industry have gone from 4% in 2015 to 7% of total acquisitions in 2020
- 20% of firms have acquired at least one firm in the last five years specifically to add technology / innovation capabilities
- 19 of the top 20 engineering firms cite technology as part of their strategy

Median R&D and Tech Investments <i>(% of Net Revenues)</i>	2021E: 1.5% vs. 2019: 0.5%
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EFCG Technology Framework – Building a Portfolio of Four Circles of Technology



We believe the industry will continue to shift toward selling technology



Today, ~30% of firms of firms invest in client-facing software (up from ~25% last year); we believe that many firms will **increase focus on the 'outer circles' in the next 3-5 years** to prevent commoditization and drive revenue

Source: 2021 EFCG CEO Survey and EFCG 2022 HR Survey

Key Talent Concerns

Existing trends in talent (e.g. changing generations and preferences) and pandemic-driven shifts (e.g. work-from-home) are coming together to create greater talent challenges in the A/E/C industry than ever before



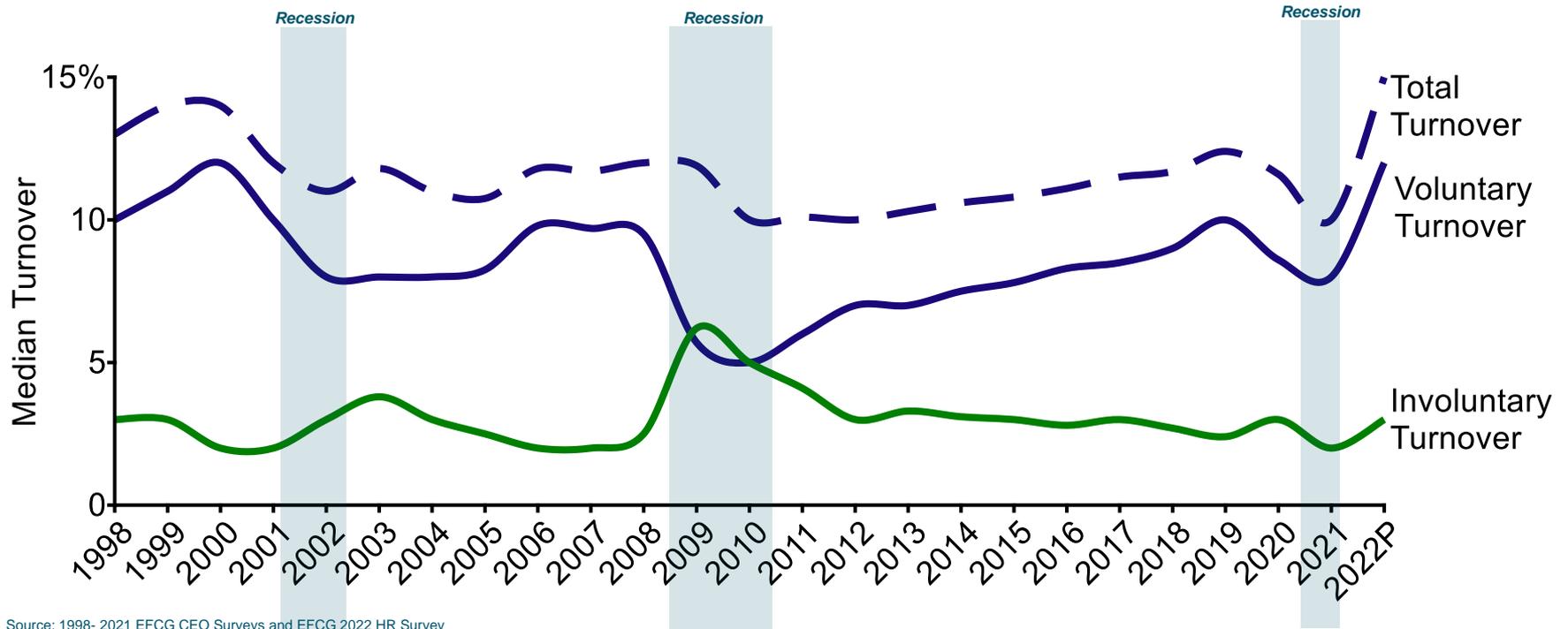
Where Firms are Seeing an Impact:

- Attrition among students pursuing STEM degrees contributing to a potential deficit of 1.3 million A/E workers in the US by 2030¹
- Intense competition between firms in finding “skilled / qualified candidates”
- Strong need for additional training and development, including digital skills, across all levels of the organization
- Heightened levels of depression and anxiety, in addition to new family obligations, stemming from the pandemic
- Continued above-average turnover among younger employees, women, and underrepresented communities
- Increase in employees leaving firms to work for a competitor (*48% of voluntary turnover in 2021 vs 42% in 2020*)

Statistic Source: BCG – The Future of Jobs in the Era of AI; 2021 EFCG CEO Survey and 2022 EFCG HR Survey

Current Turnover vs Previous Recession Trends

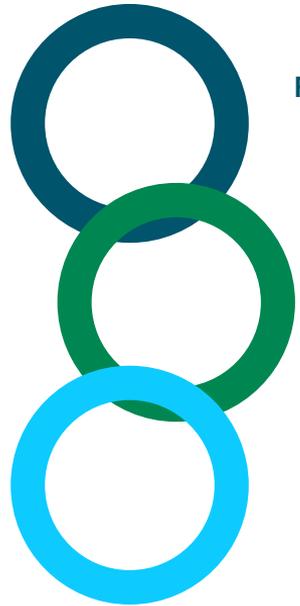
Both voluntary and involuntary turnover are increasing in 2022, and looming questions remain about how hard the A/E/C industry will be hit during the “Great Resignation”



Source: 1998- 2021 EFCG CEO Surveys and EFCG 2022 HR Survey

How Firms are Addressing the War for Talent

Firms are leveraging new ways to strengthen their talent recruitment, employee experience, and talent retention strategies.



Talent Recruitment

Employee Experience

Talent Retention

Diversity, Equity, & Inclusion

- Hiring employees from new sources (ex: HBCUs)
- Hiring remote employees to expand geographic pipelines
- Actively fostering inclusive workplaces that welcome and value diversity (ex: ERGs, DEI councils)

Technology Adoption

- Using programs to conduct virtual interviews and candidate screening (ex: HireVue, Hiretual)
- Implementing tools to enhance collaboration and real-time flow of information (ex: Teams, CRMs, ERPs)
- Investing in technology to drive efficiency and deliver “more with less”

Flexible Work & Benefits

- Adopting “Work From Anywhere” policies to provide more flexibility / balance to employees
- Providing stipends for home office equipment
- Offering additional financial support for mental health resources and family care

ESG is becoming increasingly important to A/E/C firms

There are multiple drivers supporting this -

-  • Demand from employees / prospective employees
-  • Demand from clients
-  • Demand from investors
-  • Need for new / increased revenue streams
-  • Positive valuation impacts
-  • Risk management

As a result of these drivers...

- **35%** of firms now have an ESG lead
- **34%** of firms publish annual ESG reports, and 22% plan to start
- **45%** of firms have increased their public reporting of ESG initiatives in the last year

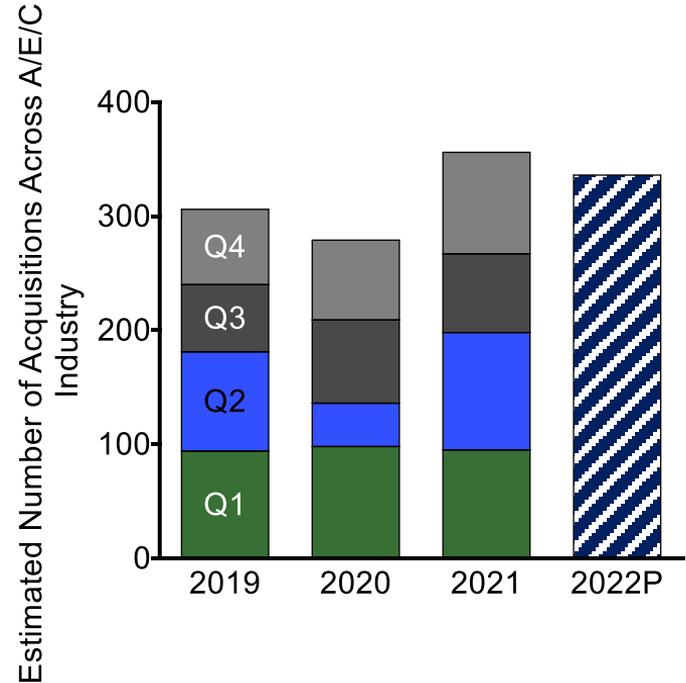
Source: 2021 EFCG CEO Survey and EFCG 2022 HR Survey

M&A: State of the Industry

- Robust activity in 2021 (driven by strong Q2 activity) leading to record-high number of transactions in recent years
- Financial buyers remain active and continue deploying significant capital into A/E/C, with at least 26 deals carried out in 2021; significant “dry powder” expected to be deployed in the next 18-24 months
- Continued focus and interest in the “hot” verticals of water / wastewater and transportation (alongside traditional environmental and geospatial), and firms in the Southeast, Texas and California
- M&A multiples are holding strong, driven by a combination of structural and cyclical factors, with multiples for firms >\$250M accelerating
- 2022 expected to maintain the high rate of transactions in our space

Source: 2021 EFCG CEO Survey and EFCG 2022 HR Survey

Recent M&A Transactions



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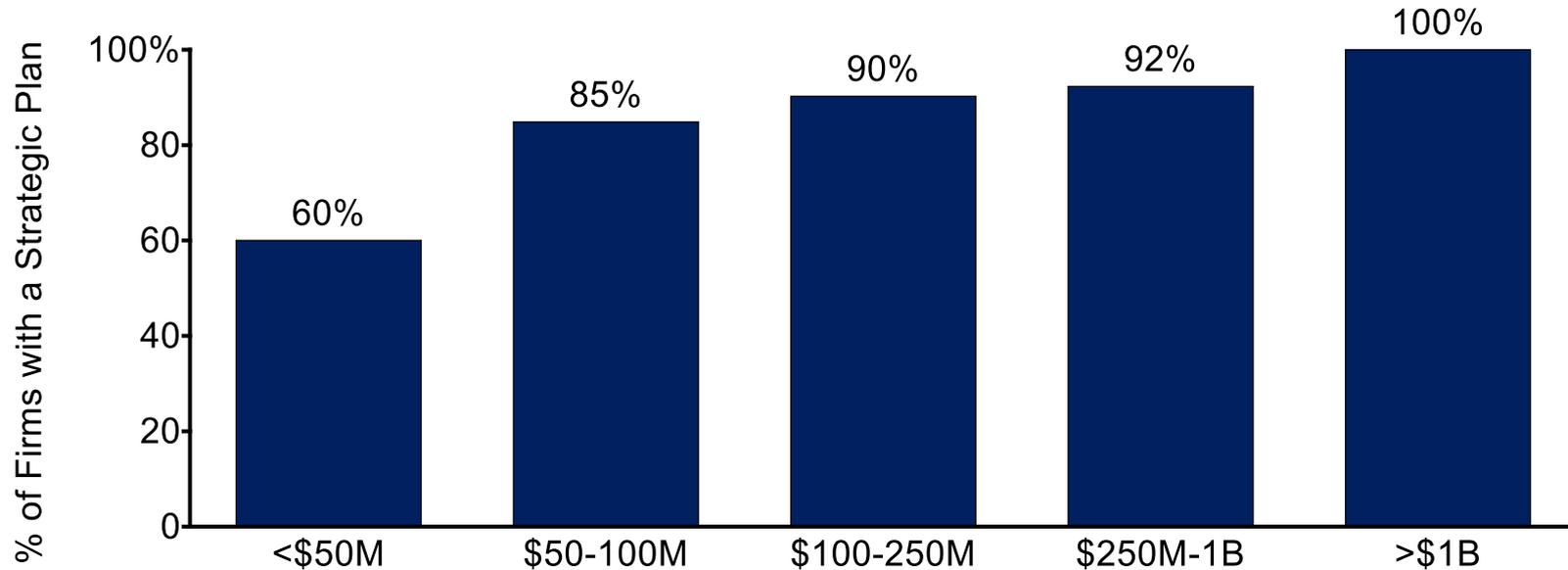
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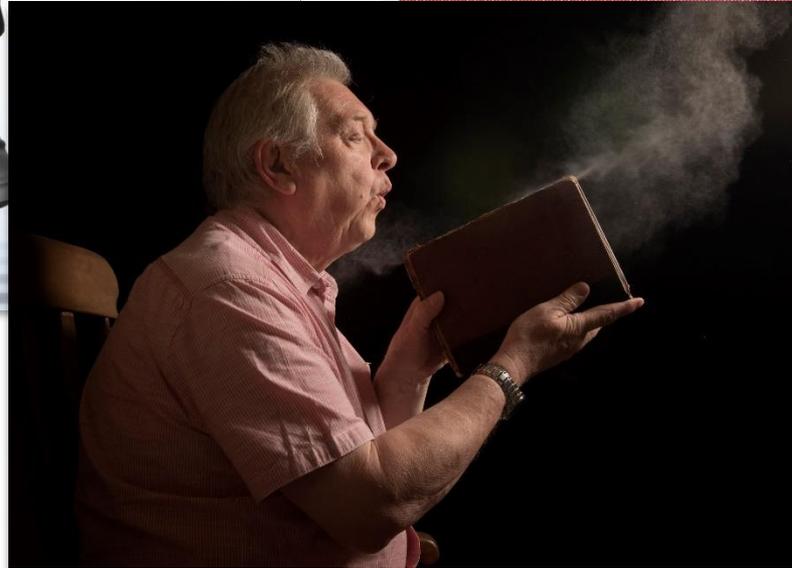
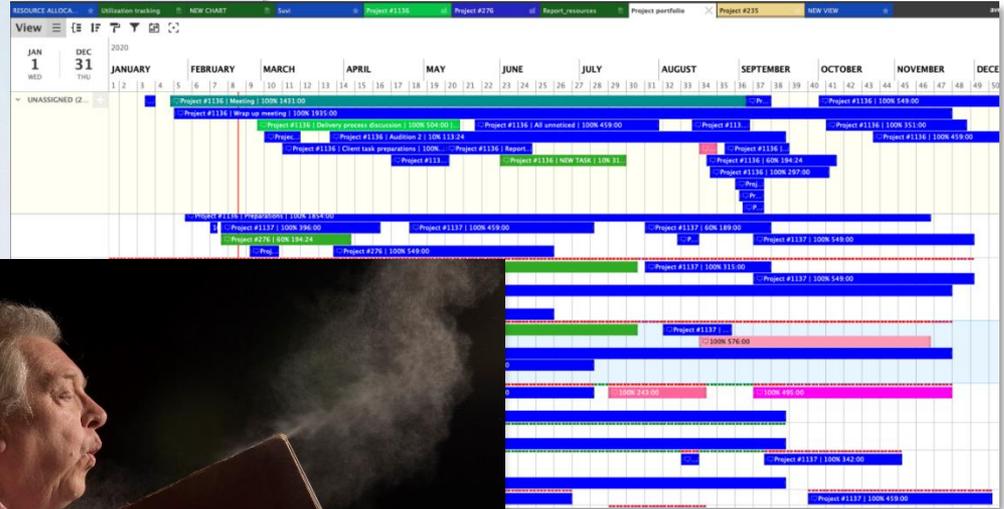
Strategic Planning Best Practices

Implications of Key Trends on Strategic Planning

Strategic Plans in the A/E/C Industry

On average, ~70% of firms have a strategic plan in place, and this number is higher for larger firms





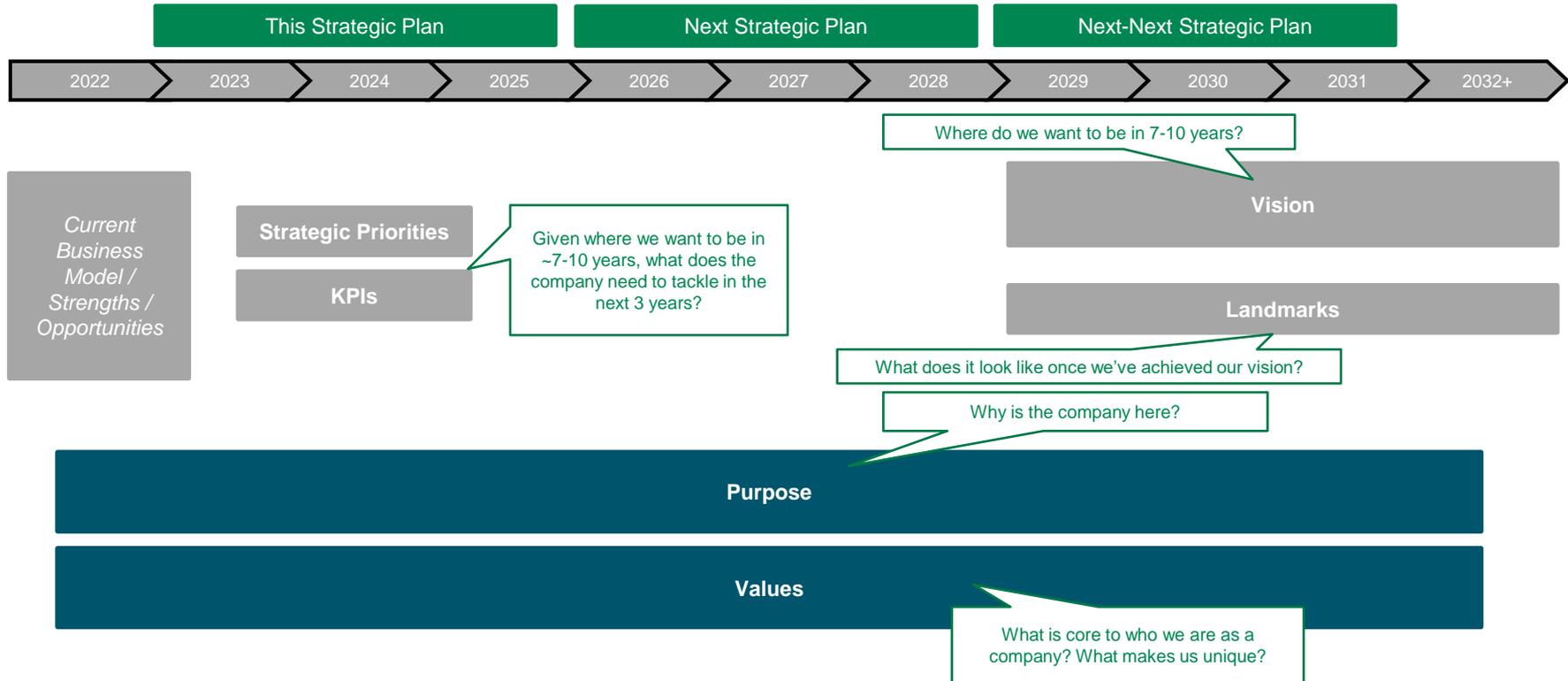
What is a Strategic Plan?

- A Strategic Plan is a firm-wide roadmap that outlines what a company would like to achieve in the short-, medium-, and long-term
- It provides guidance on how resources (ex: time, money, focus, etc.) can be allocated and ensures all employees are aligned on a common direction
- It helps answer the following questions for the employees of the company:
 1. Where do we want to be?
 2. What should we do to get there?
 3. How can we do it together?

Key Components of a Strategic Plan

- **Purpose:** Why is the company here?
- **Values:** What is core to who we are as a company? What makes us unique?
- **Vision:** Where do we want to be in 7-10 years?
- **Landmarks:** What does it look like once we've achieved our vision?
- **Strategic Priorities:** Given where we want to be in 7-10 years, what does the company need to tackle in the next 3 years?
- **KPIs:** What metrics will we use to track progress?

Key Components of a Strategic Plan



'Guiding Principles' for Strategy / Strategic Planning Process

- **Simple**
 - The strategy needs to be simple and memorable so that all employees can know it and remember it; it should fit on a page that sits at everyone's desk

- **Inspiring**
 - The strategy should be reflective of the firm's vision, in line with the firm's core values, and provide an exciting perspective about where the firm is going

- **Accountable**
 - The work needs to include a plan for how to follow through and execute, and maintain accountability across the organization for achieving the goals

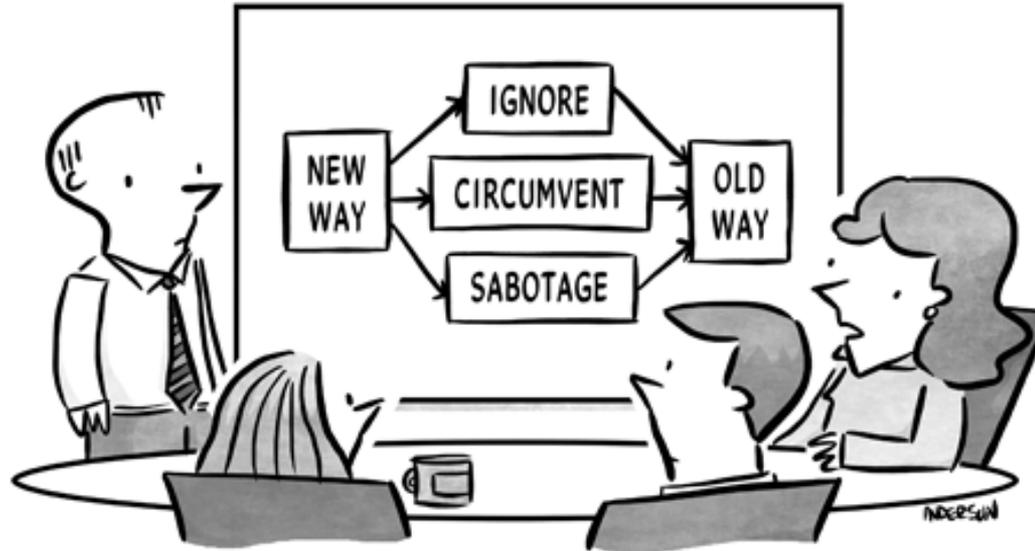
- **Transformational**
 - The leadership team needs to be willing to challenge "business as usual" in order to prepare for a quickly changing environment, particularly as it relates to technology

- **Fast**
 - The process must be based on quick iterations, quick implementation, quick wins and quick adjustments in order to drive the best possible results

Common Challenges

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"So business as usual."

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Agility in Budgeting / Resourcing

- Many firms create annual budgets based on previous year budgets (e.g. +5%)
- COVID-19 / the recession continues to create major shifts in our industry and is throwing a lot of “business as usual” into question
- Firms should be looking for agility in budgeting, and the ability to redeploy resources against changing priorities

Agility in Budgeting / Resourcing

Within a given year, consider actively redeploying resources based on performance

Traditional Resource Allocation:

- Fully allocating budgets and resources against initiatives at the beginning of the fiscal year

Agile Resource Allocation:

- Partially allocating budgets and resources against initiatives at the beginning of the fiscal year
- Redirecting resources based on results / ROI / diminishing returns
 - Reducing investment in some areas
 - Increasing investment in others
- Particularly useful for ‘testing’ innovative initiatives – enables you to prove the value of different opportunities before making a full investment

Thank you!



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