

2023 Fall Conference

Rebecca Zofnass, Managing Partner at EFCG

Today's Presenter: Rebecca Zofnass



Rebecca Zofnass
EFCG Managing Partner

Experience

2018-Present

Managing Partner

Environmental Financial Consulting Group (EFCG)

2009-2018

Senior Manager

Bain & Company

EDUCATION

M.B.A.

Harvard Business School

A.B., Psychology, with Honors

Harvard University

Agenda

01 GBA Survey Results

- Growth & Profitability
- Overhead
- Outlook

02 Looking Ahead: Trends Impacting the AEC Industry

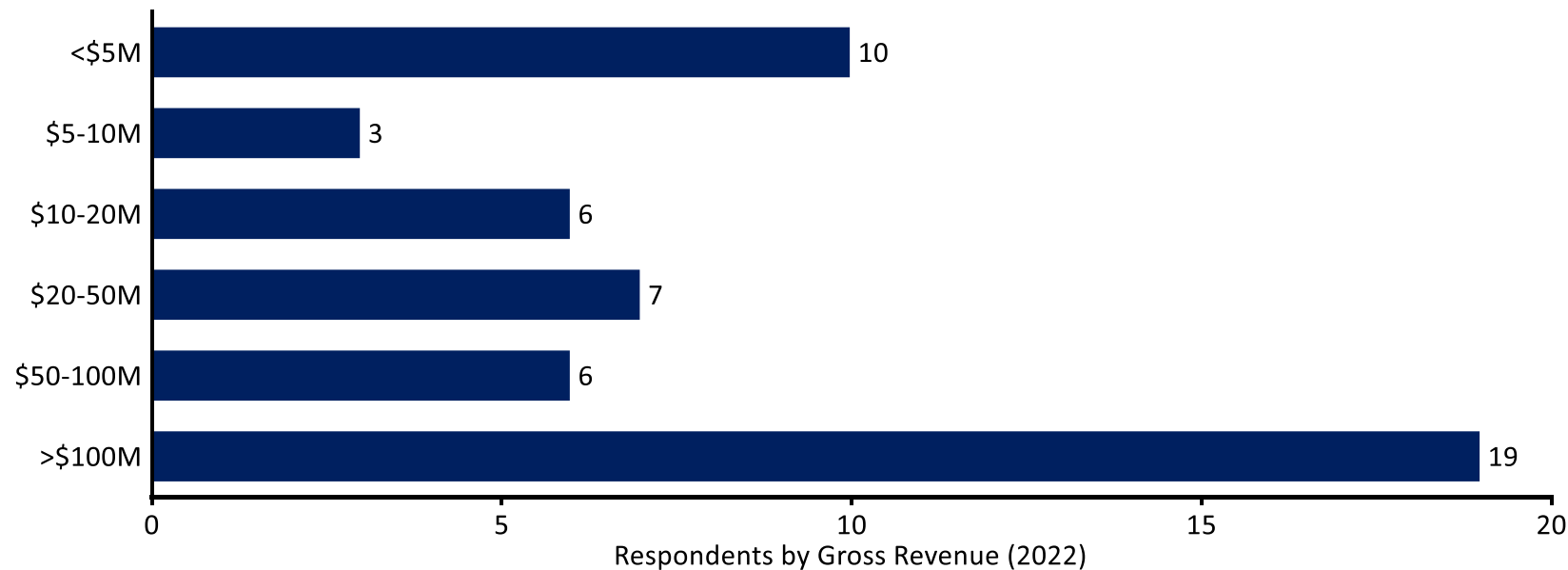
- Challenges Attracting and Retaining Talent
- Technology & Innovation
- Mergers & Acquisitions
- Pricing
- Emerging Business Models

03 Key Takeaways



2023 GBA & EFCG Key Financials Survey Demographics

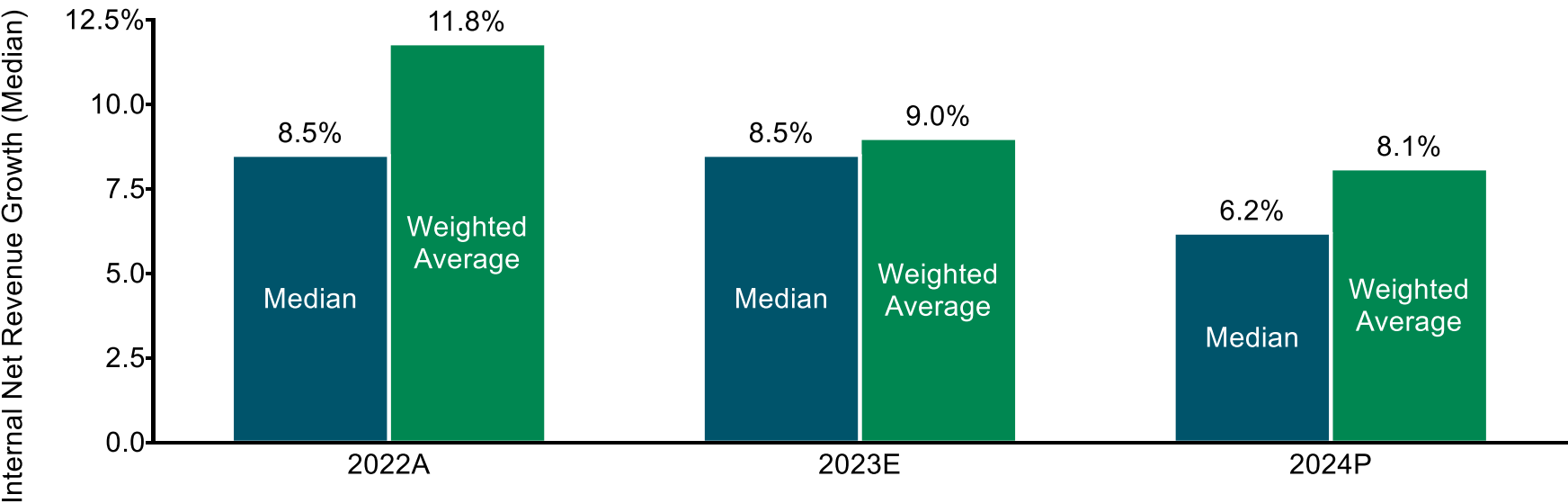
Survey respondents were varied across different size groups, with 10 firms under \$5M in Gross Revenues, 19 firms with more than \$100M in Gross Revenues and 22 firms in between.



Source: 2023 GBA & EFCG Key Financials Survey

Current Internal Growth Estimates

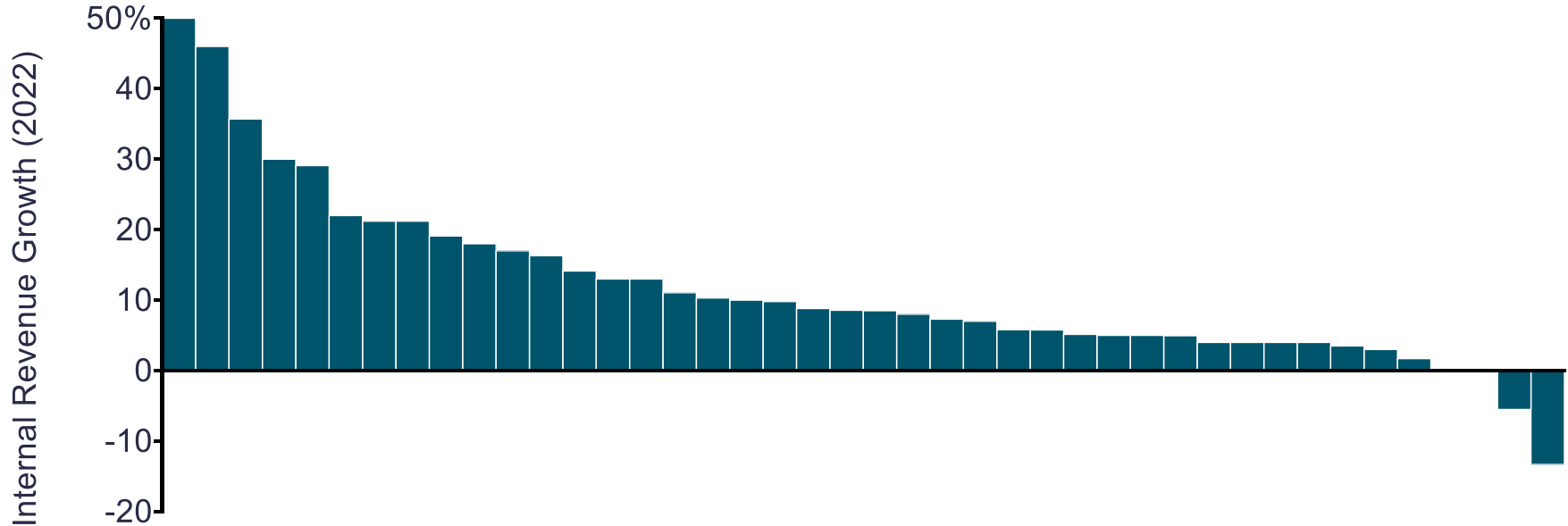
Median growth rates in 2022 and 2023E are 8.5% and expected to drop slightly next year to 6.2%. Weighted Average growth rates (reflecting what's happening with the largest firms) show that larger firms are experiences higher growth rates than smaller firms, potentially due to diversified market or sector exposure.



Source: 2023 GBA & EFCG Key Financials Survey

Internal Growth Results Distribution

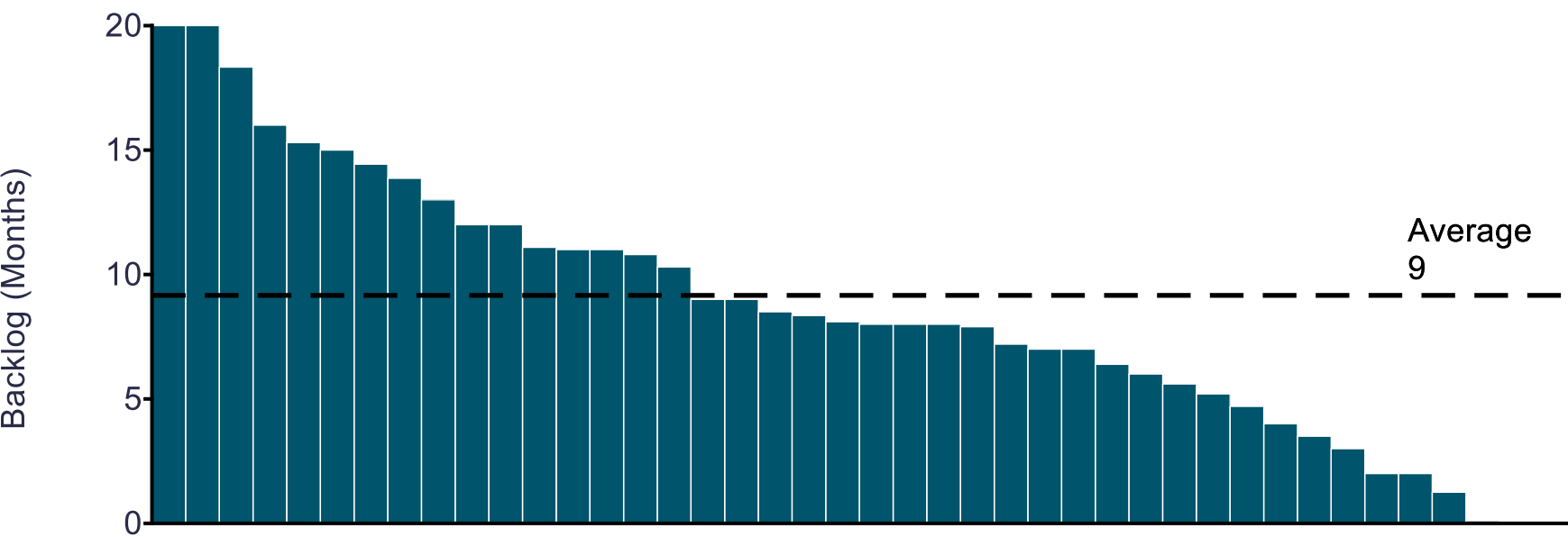
However, median doesn't tell the whole story. Individual firm growth rates last year ranged from -10% to over 50%! Where does your firm sit? Where do you want it to sit?



Source: 2023 GBA & EFCG Key Financials Survey

Backlog Rates

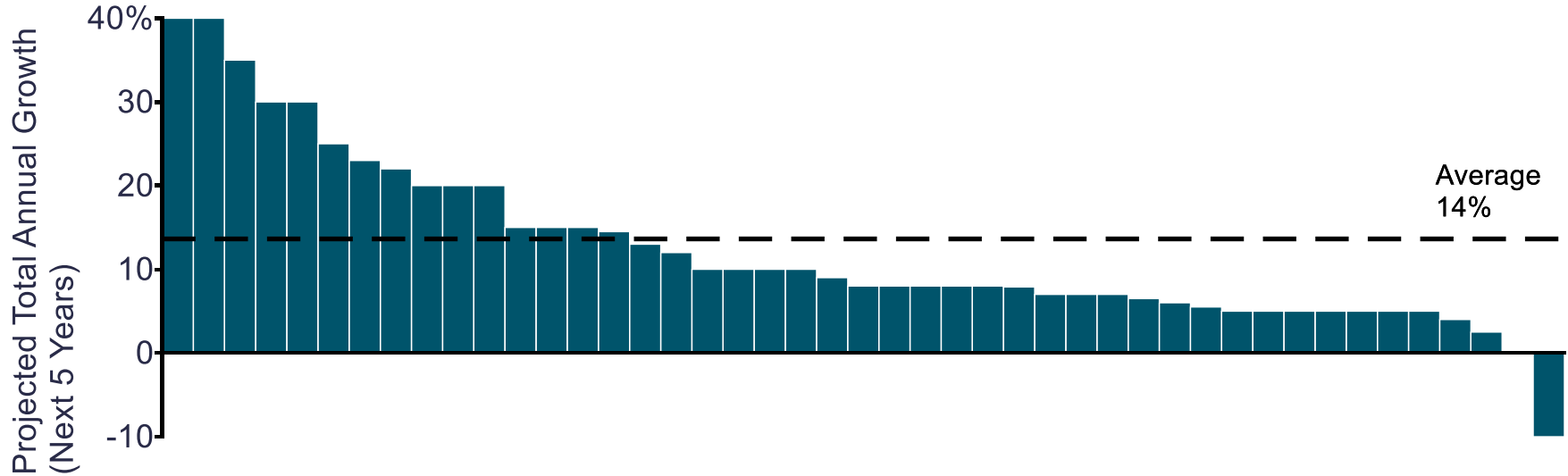
The growth projections are supported by strong backlog; on average, firms currently have 9 months of hard backlog, with individual firms ranging from a few months to 20+



Source: 2023 GBA & EFCG Key Financials Survey

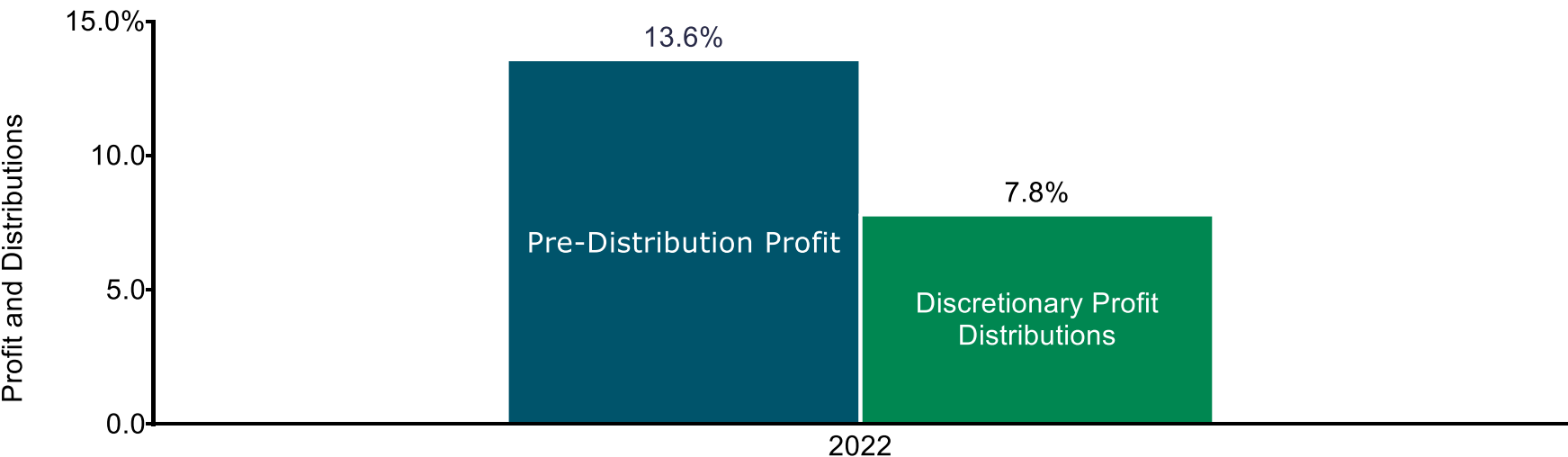
Industry Outlook - Growth

Projected annual growth over the next five years is estimated at 14%, but historically the A/E/C industry has been **overly optimistic, and over-estimated growth rates.**



Current Profitability Estimates (Pre-Distribution Profit)

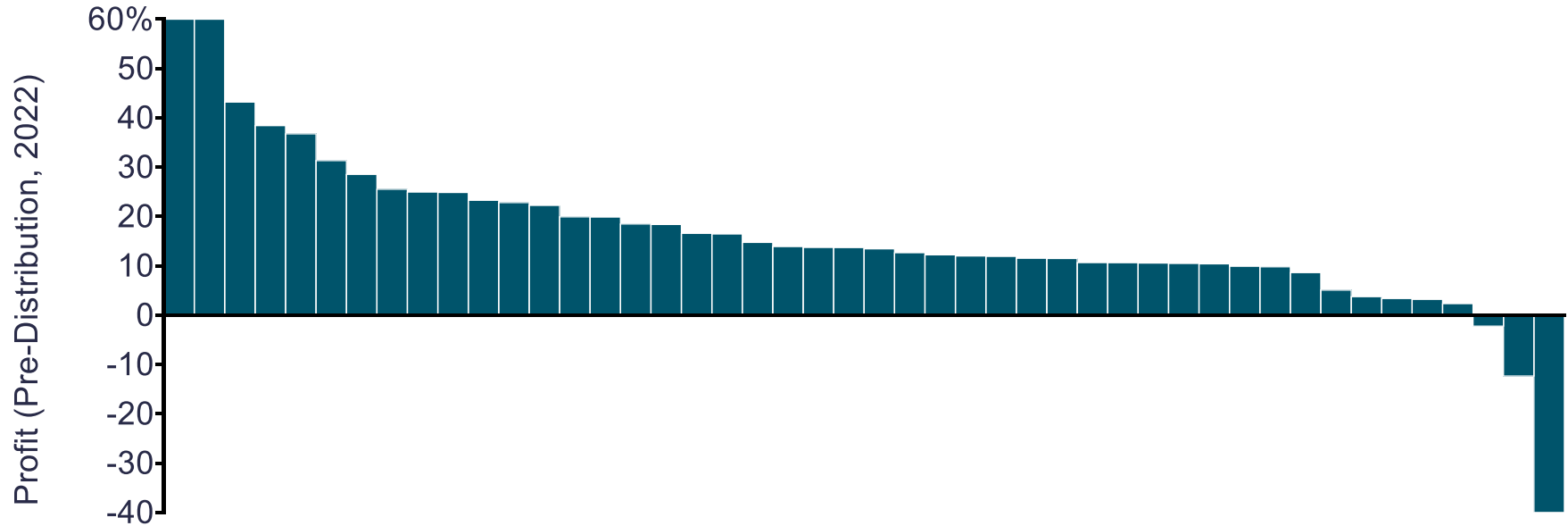
2022 Pre-Distribution Profit (profit before bonuses, profit sharing, other distributions and taxes) came in at 13.6%; total discretionary profit distributions came in at 7.8%



Source: 2023 GBA & EFCG Key Financials Survey

Profitability Results Distribution

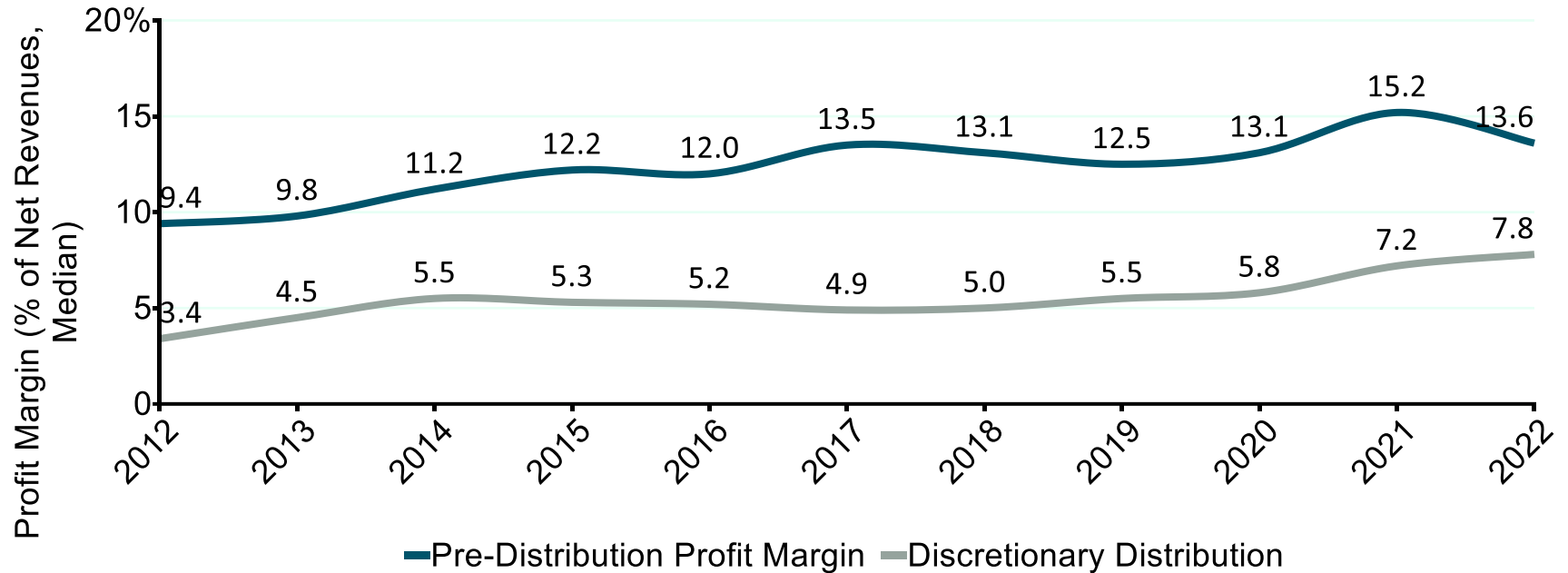
However, like growth, median doesn't tell the whole story. Individual pre-distribution profit rates ranged from -40% to over 60% of Net Revenues!



Source: 2023 GBA & EFCG Key Financials Survey

Historical Profitability Trends

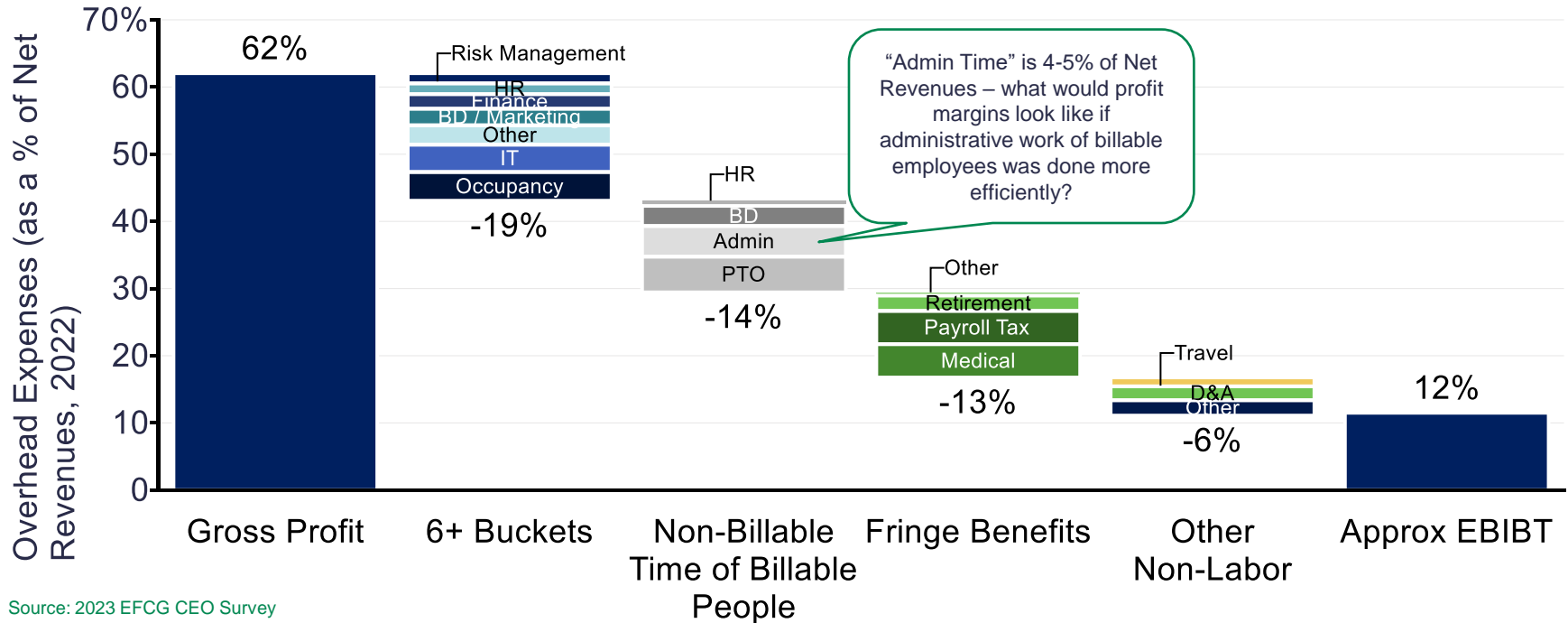
2022 Pre-Distribution margins are coming in slightly lower than 2021's high point, but still higher than 2012-2020 results



Source: 2023 GBA & EFCG Key Financials Survey; 2013-2022 GBA Key Financials Survey

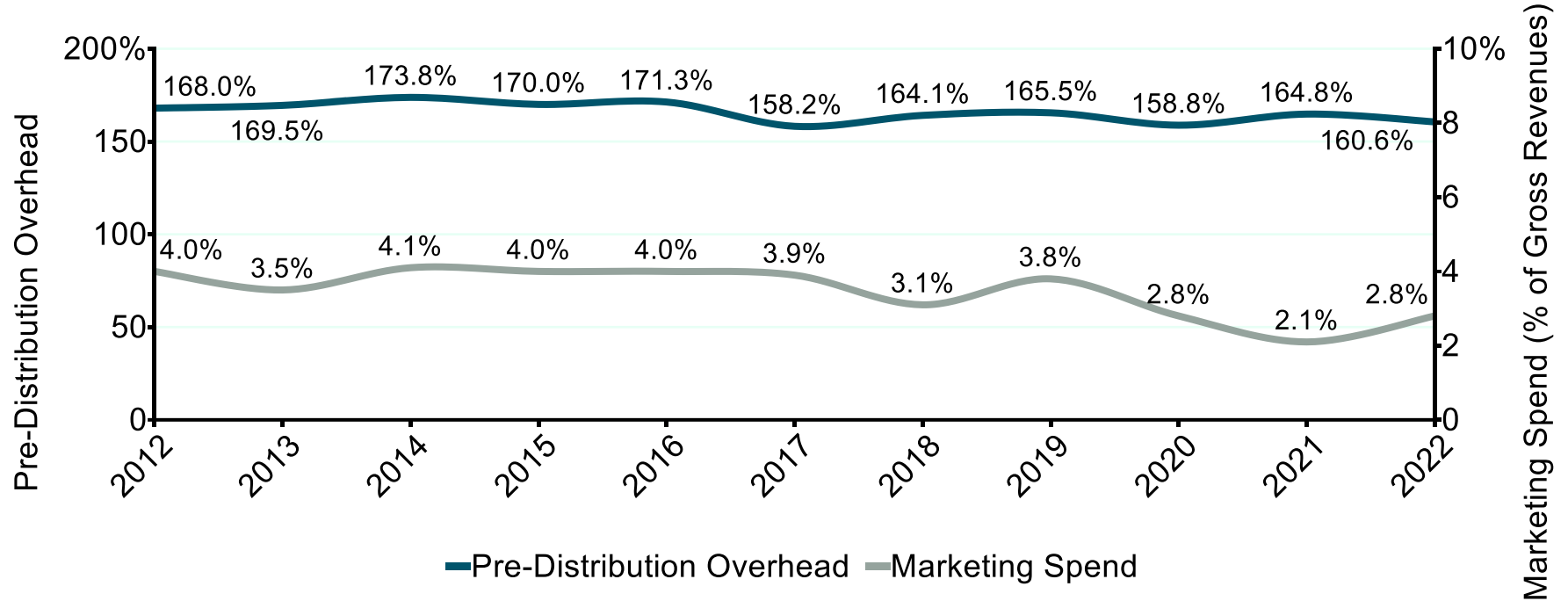
Driving Value From Overhead Costs

6+ Buckets (core shared services) and non-billable time of billable people continue to drive overhead costs (and are where we see the greatest differences between firms).



Historical Pre-Distribution Overhead & Marketing Spend

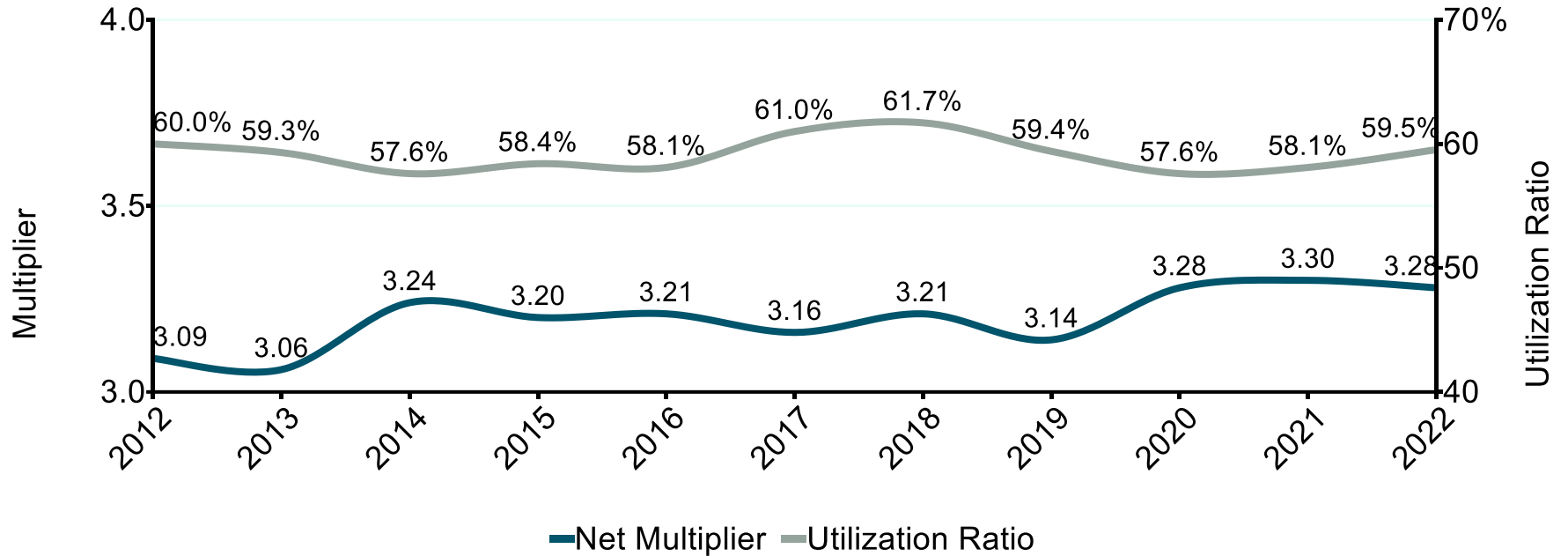
2022 Overhead was in line with previous years at 160.6% at the median (although individual firms ranged from ~60% to 600%!). Marketing spend ticked back up slightly, with a median spend of 2.8%.



Source: 2023 GBA & EFCG Key Financials Survey; 2013-2022 GBA Key Financials Survey

Multiplier and Utilization Rates

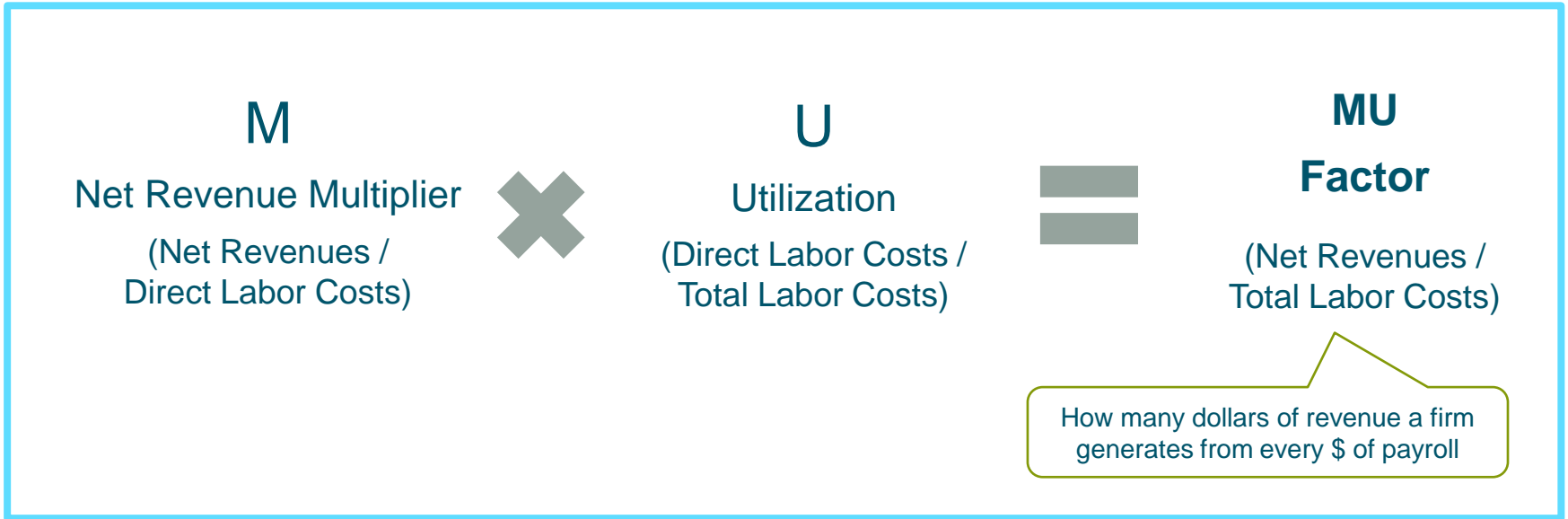
In 2022, median multiplier held steady around 3.3 while median utilization ticked up to 59.5%



Source: 2023 GBA & EFCG Key Financials Survey; 2013-2022 GBA Key Financials Survey

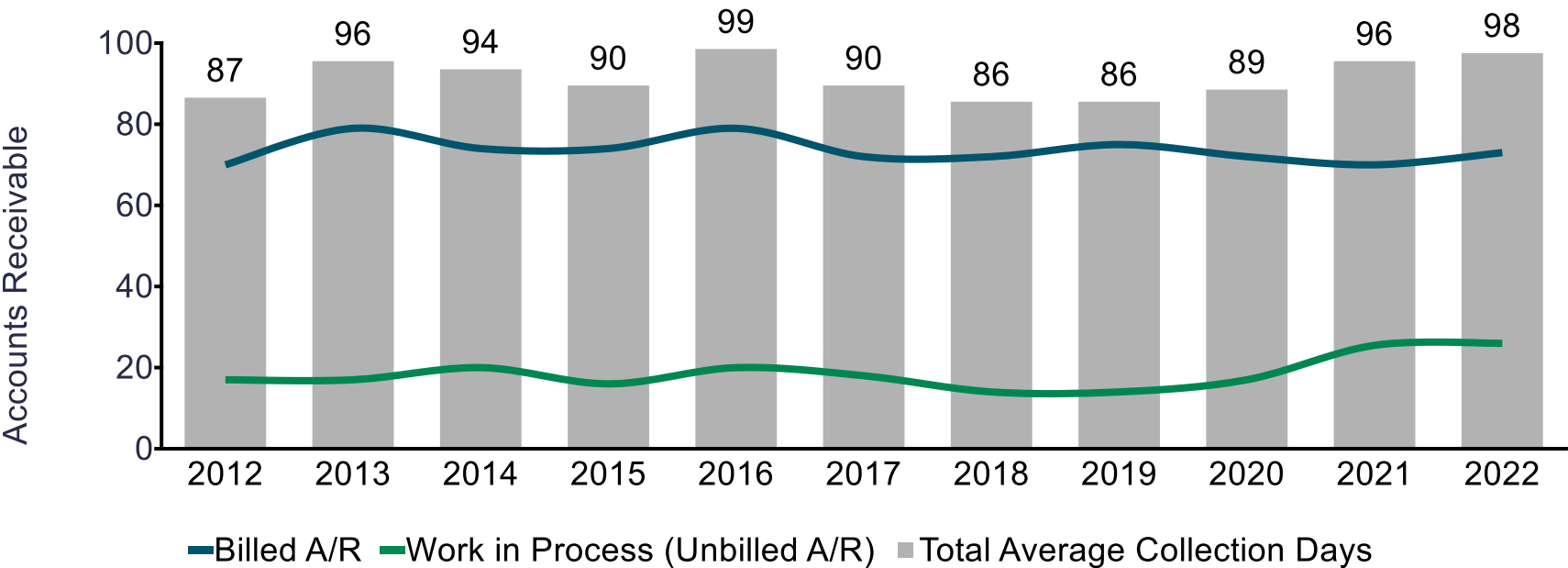
What is MU Factor?

A lot of different factors drive profitability, but one in particular – MU Factor – has the strongest correlation to a firm's profit margin!



Working Capital

Median working capital increased slightly in 2022, driven by slightly higher Billed A/R versus previous years



Source: 2023 GBA & EFCG Key Financials Survey; 2013-2022 GBA Key Financials Survey

For Survey Participants

Firms who completed the GBA & EFCG 2023 Key Financials Survey will receive a comprehensive summary of the results, including benchmarking of each metric by firm size

If you missed the opportunity this year, make sure to complete the 2024 survey next summer to see exactly where your firm sits relative to peers!

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Challenges Attracting and Retaining Talent

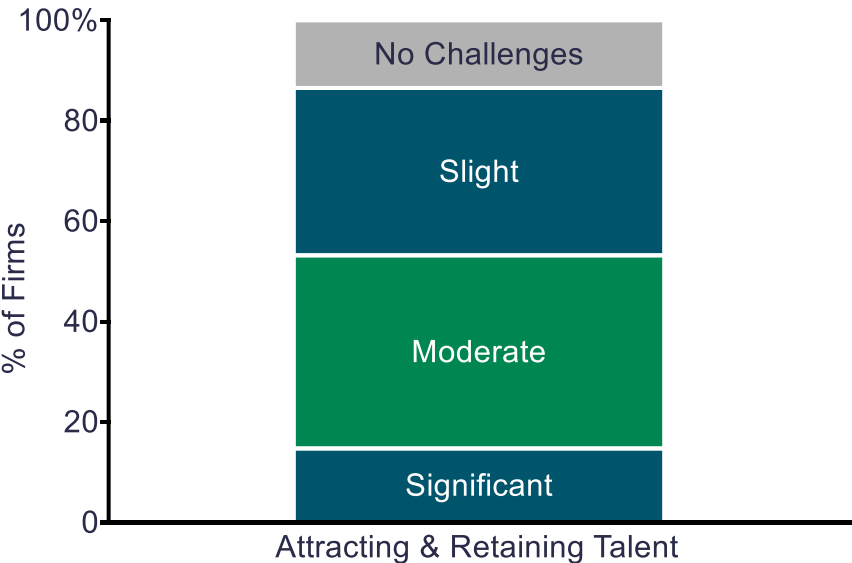


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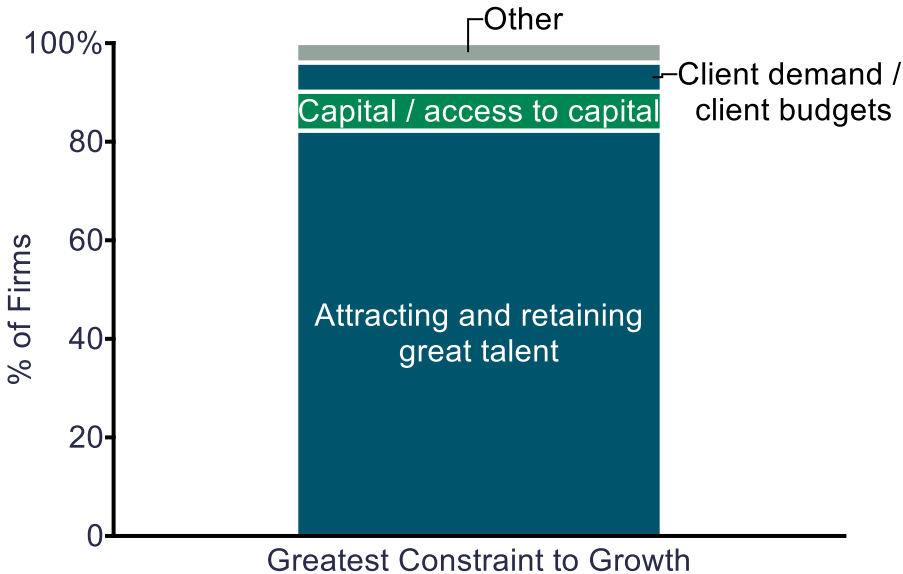
Talent is the Primary Constraint to Growth

90% of firms report challenges attracting and retaining talent, and 80% of firms report that talent is their primary constraint to growth.

Challenges Attracting & Retaining Talent



Constraints to Growth

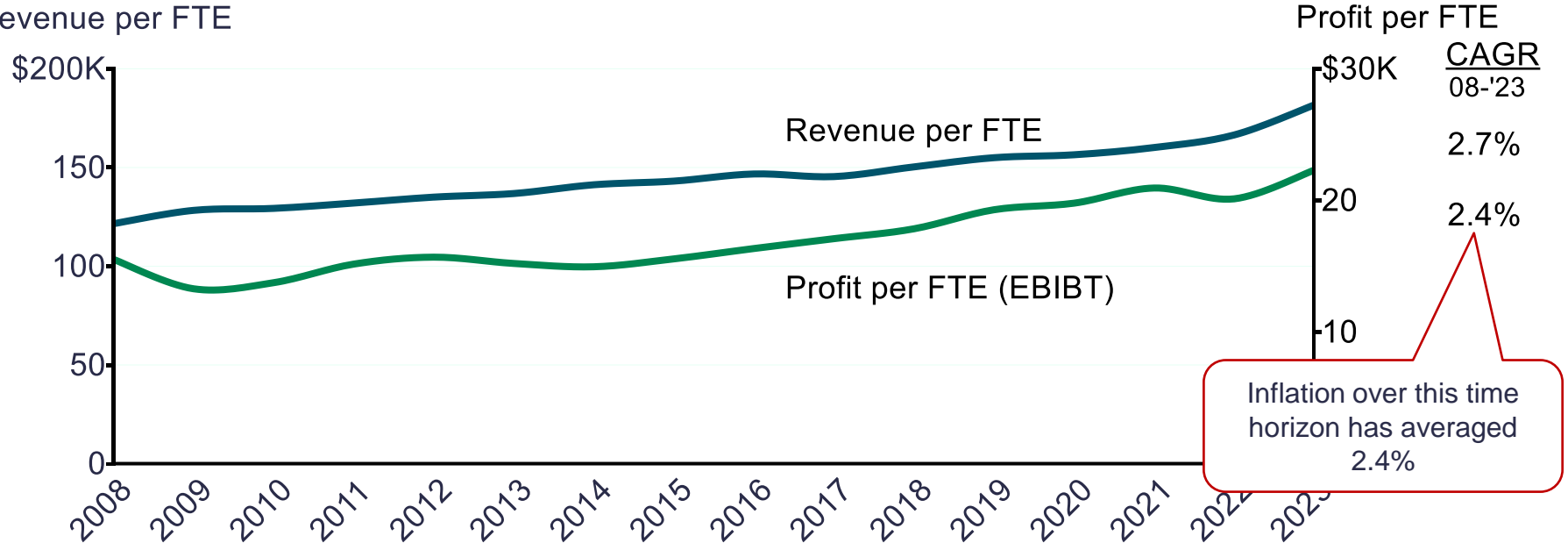


Source: 2023 EFCG CEO Survey

Revenue and Profit Per FTE Haven't Outpaced Inflation

Talent constraints are particularly problematic because revenue and profit per FTE have barely increased over the last 15 years; growth is still driven by growth in headcount.

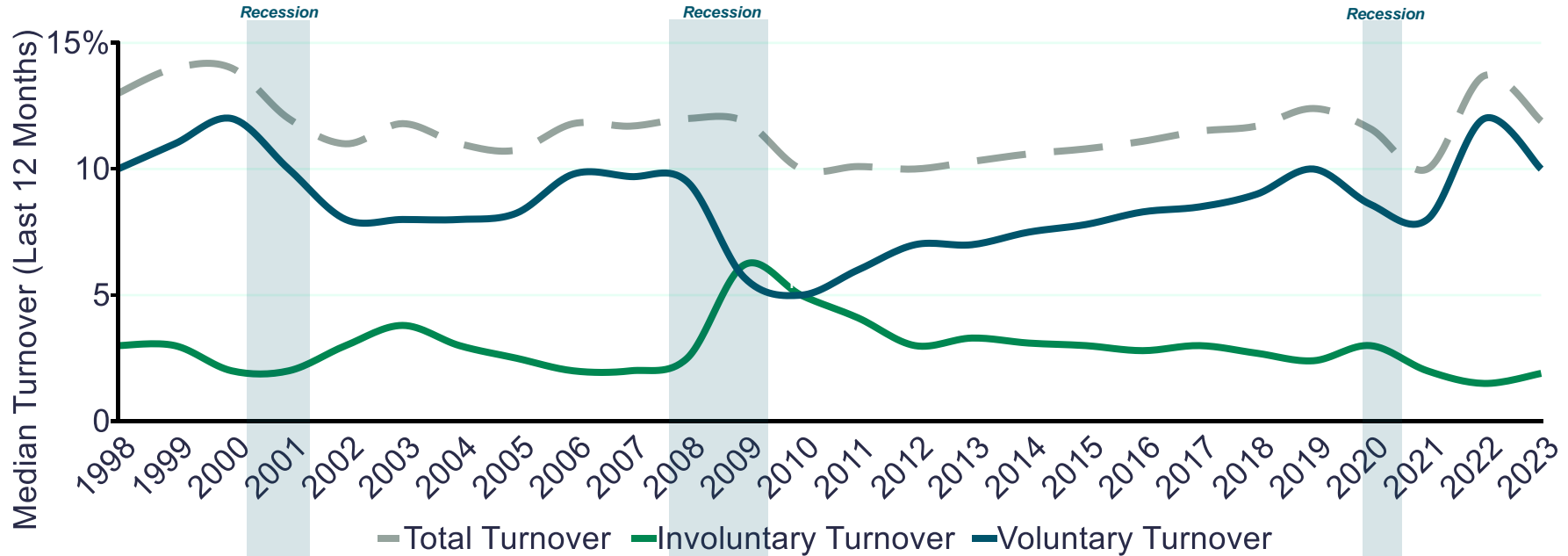
Revenue per FTE



Source: 1998-2023 EFCG CEO Survey

Turnover in 2022 and 2023 Near Historic Highs

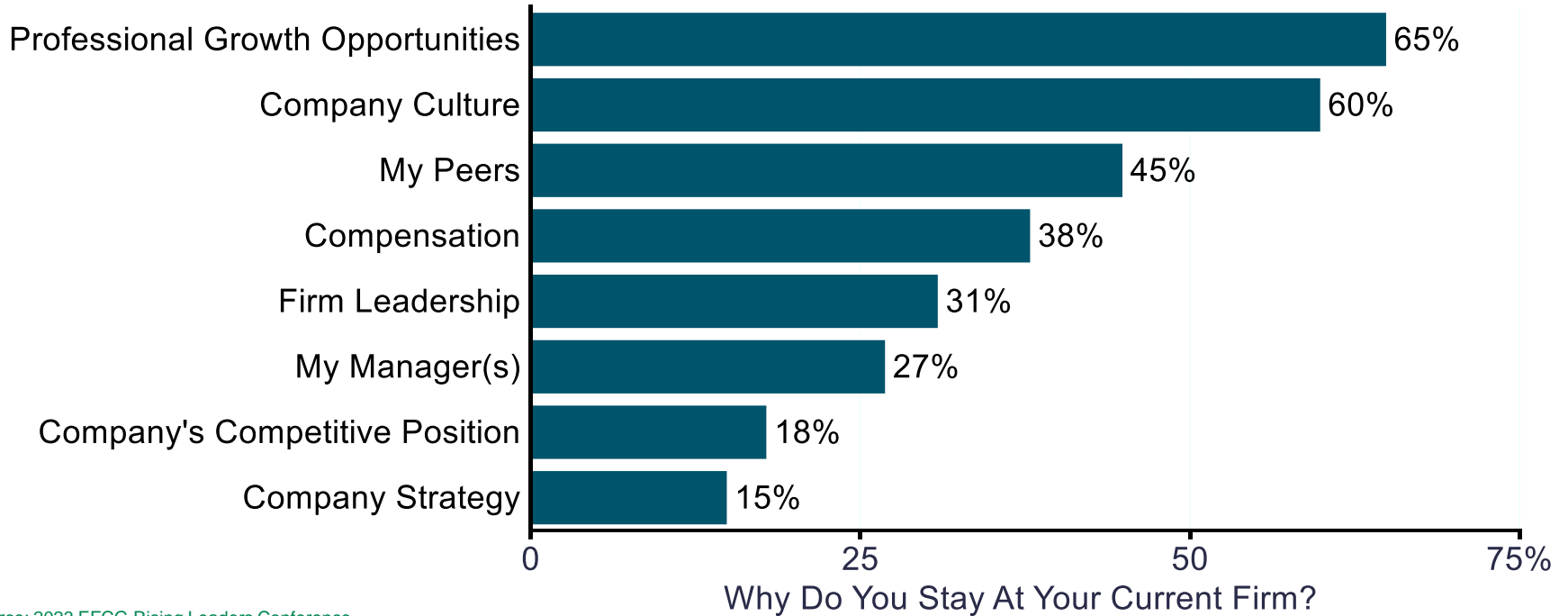
Although turnover has decreased from the 2022 high point, voluntary turnover remains high at 10%. Companies are trying hard to retain their workforces, but employees hold most of the “bargaining power” in this tight labor market.



Source: 1998-2023 EFCG CEO Survey

Why do Rising Leaders Stay?

Rising Leaders reported that they stay at their firm because of professional growth opportunities and company culture (followed by peers and compensation).



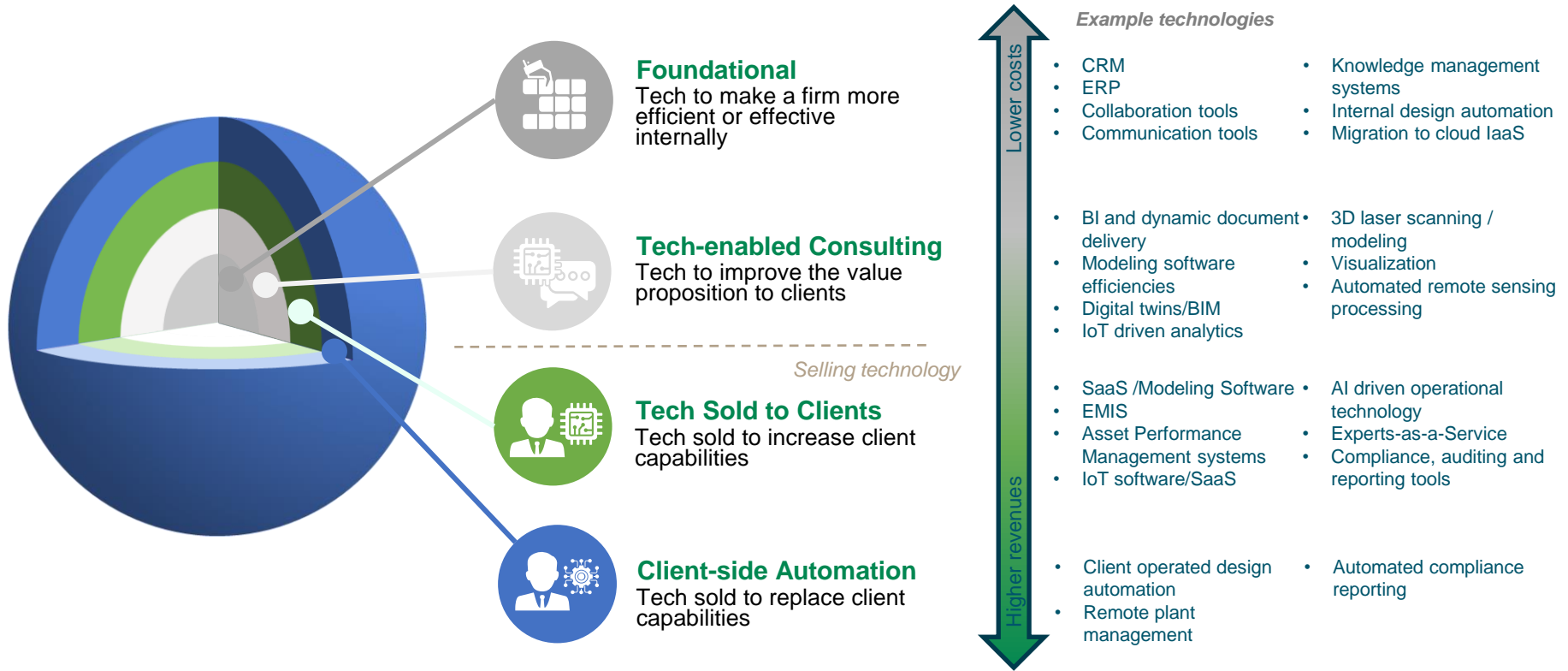
Source: 2023 EFCG Rising Leaders Conference

Technology & Innovation



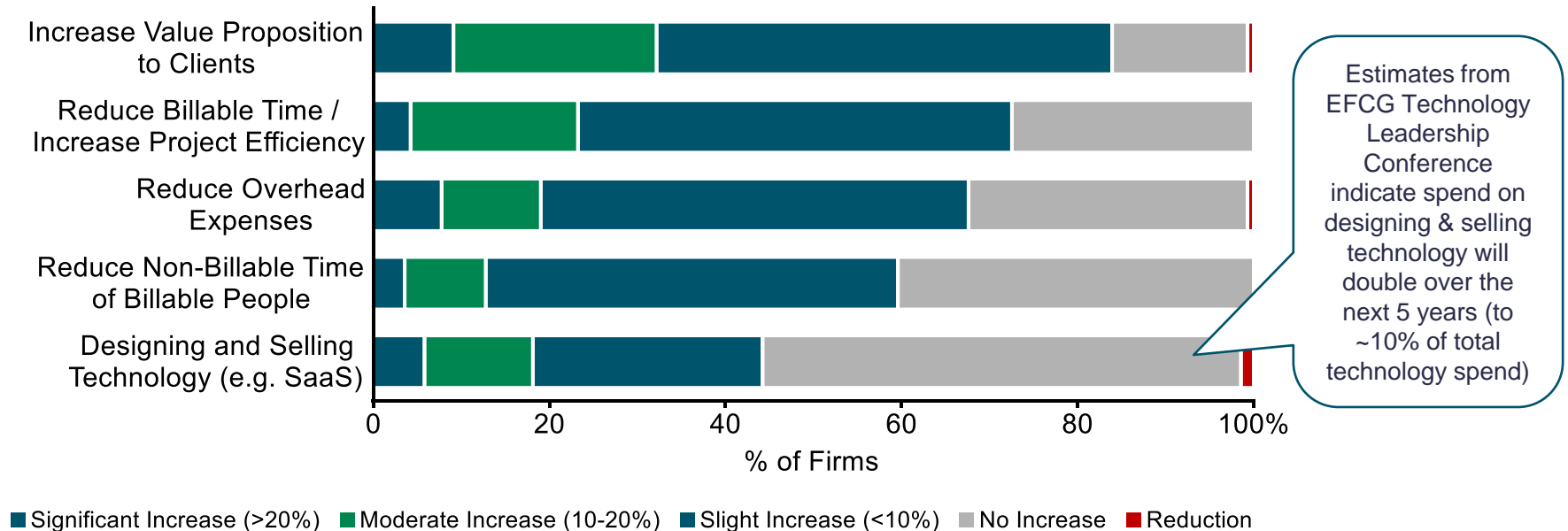
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EFCG Technology Framework – Building a Portfolio of Four Spheres of Technology



Technology Investment is Increasing Across the Board

Over the last 12 months, most firms have increased their investment in technology, with 85% of firms increasing investment in technology to increase their value proposition to clients and 75% increasing investment to reduce billable time or increase project efficiency.

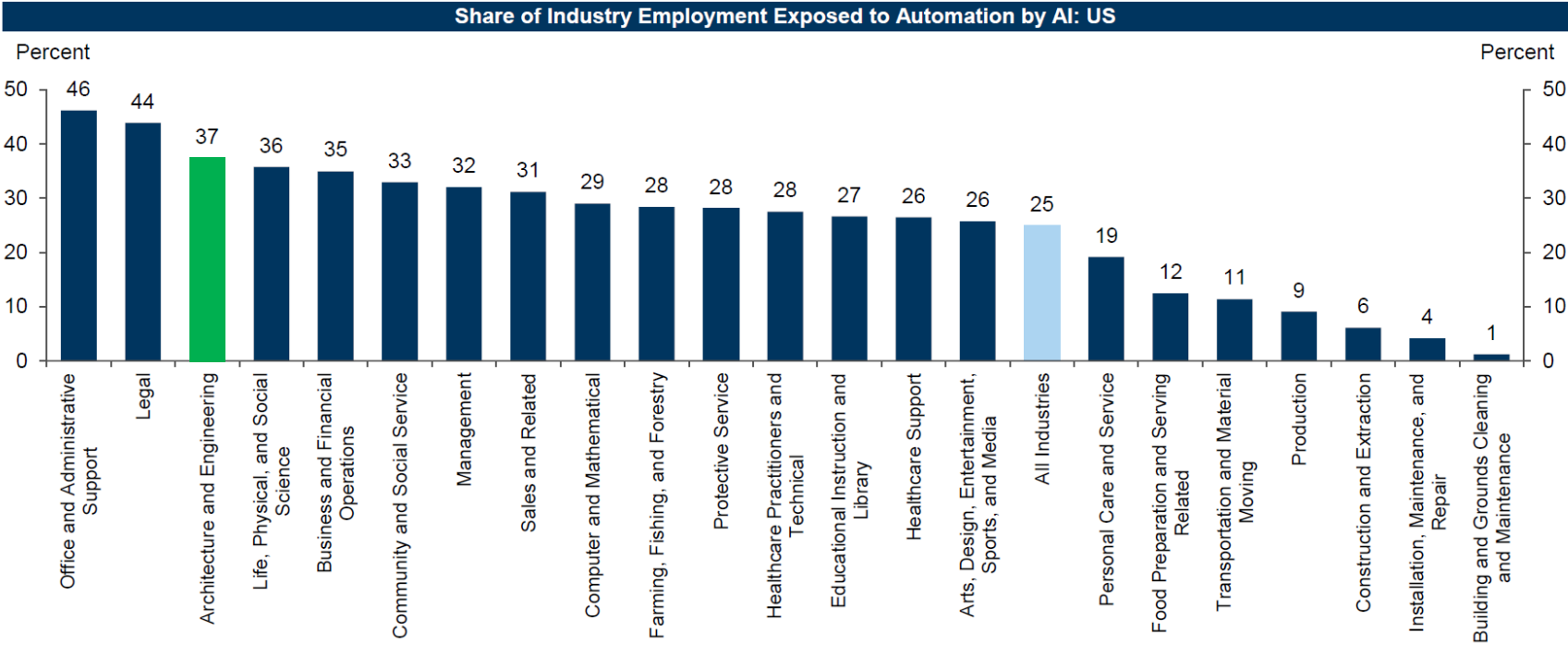


Source: 2023 EFCG CEO Survey

Generative AI



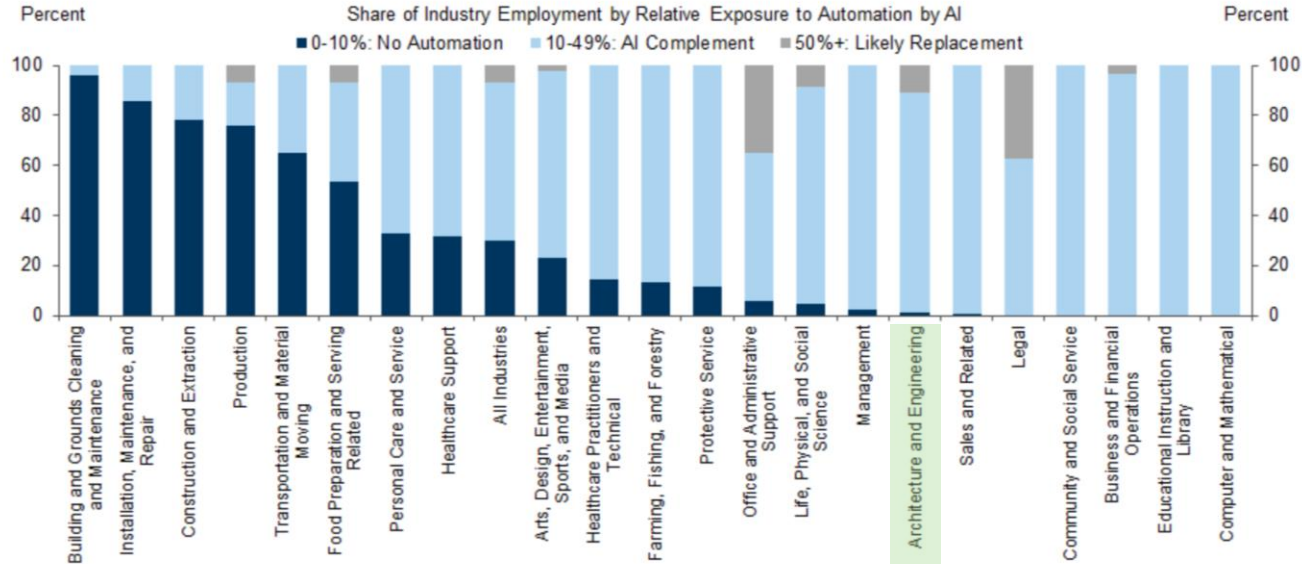
AI Could Impact 37% of the AEC Industry



Adapted from Goldman Sachs Economic Research March, 26, 2023, "The Potentially Large Effects of Artificial Intelligence on Economic Growth (Briggs/Kodnani)"

However, AI Expected to Complement (Not Replace) Employees

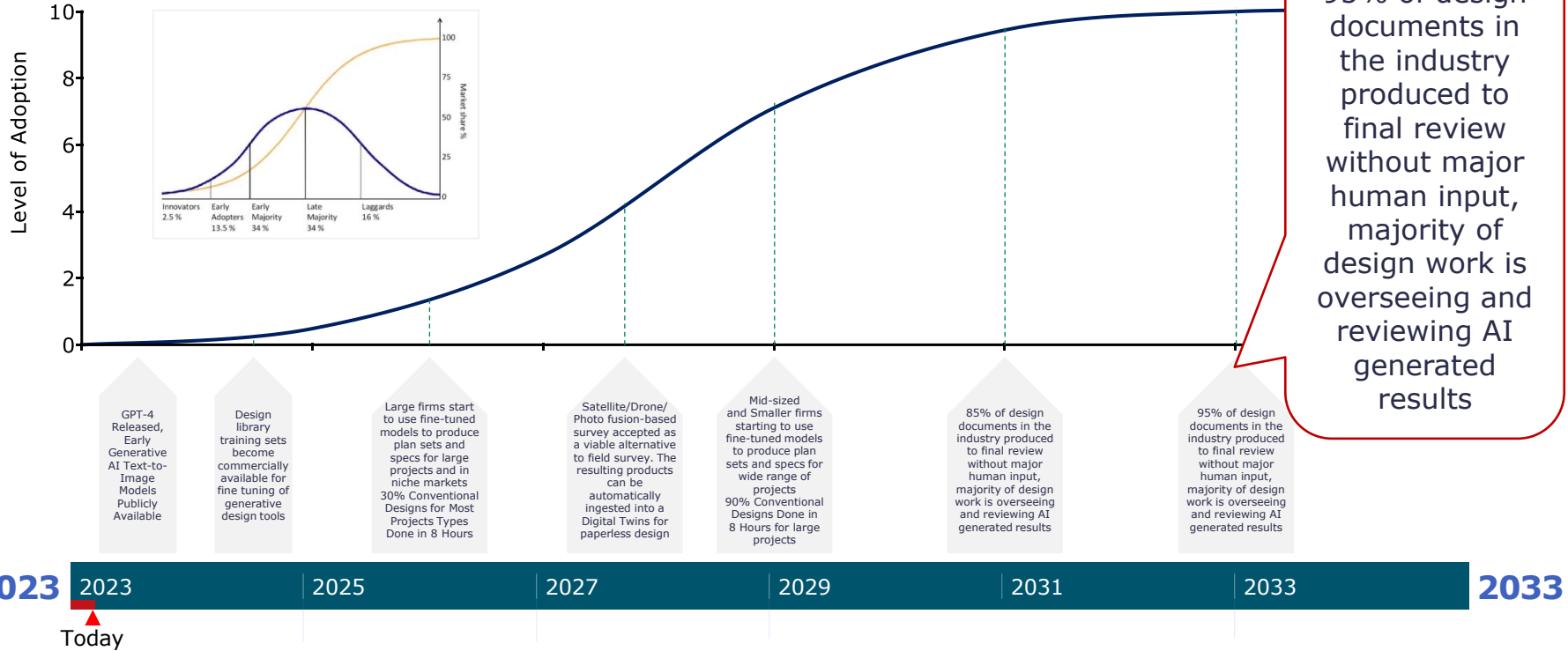
Replacement in Legal and Administrative Fields, Little Effect in Manual and Outdoor Jobs, and Productivity-Enhancement Everywhere Else



Adapted from Goldman Sachs Economic Research March, 26, 2023, "The Potentially Large Effects of Artificial Intelligence on Economic Growth (Briggs/Kodnani)"

What Could the Next 10 Years Look Like?

A moderate / aggressive uptake curve would result in significant shifts by 2033.

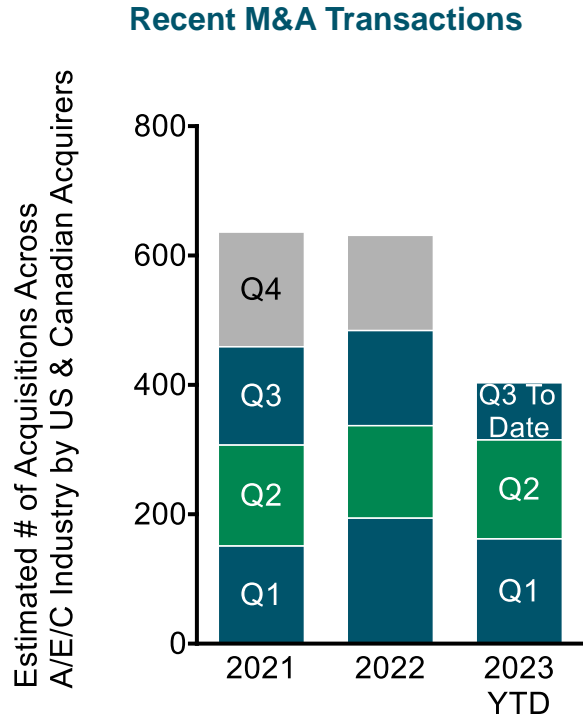


Source: EFCG

Mergers & Acquisitions



M&A Market Overview (AEC Industry)

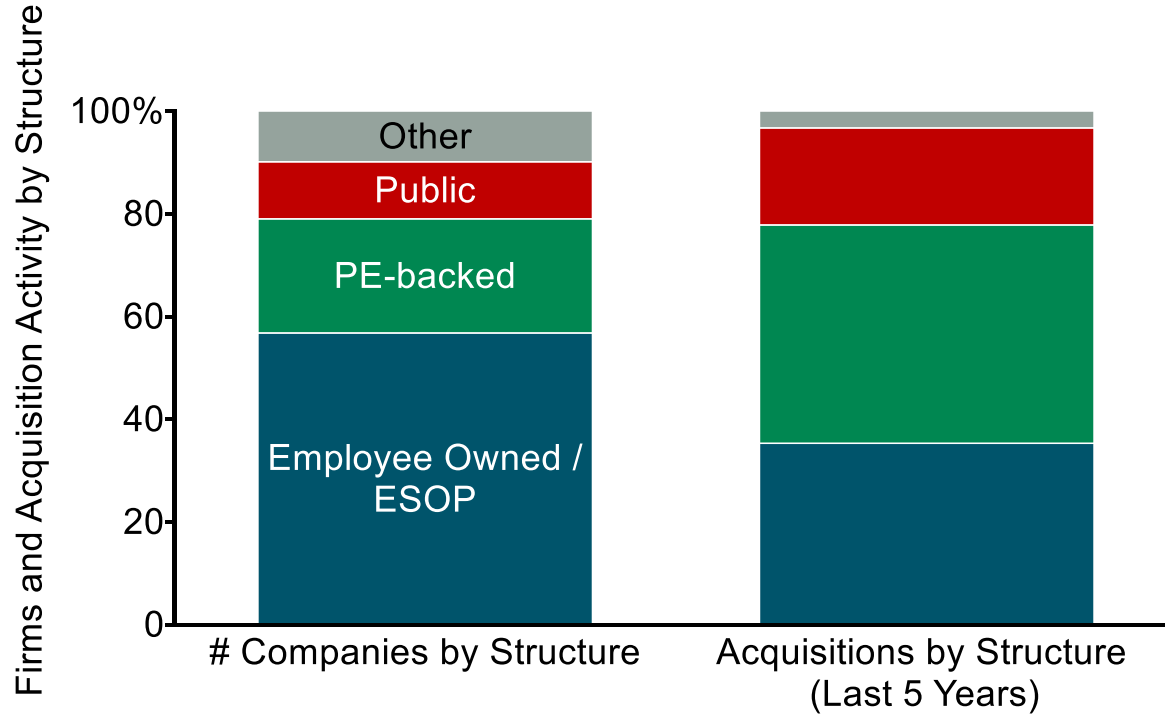


Key Trends

- ~30% of firms made or plan to make an acquisition in 2023
- M&A activity is **~20% lower YTD** compared to this time in 2022, although firms are projecting similar total acquisition count as last year – can the gap be closed in Q4?
- Acquisitions of smaller firms (<50 FTEs) are rising across the board by all buyer types
- California, Texas and Florida continue to be “hot” markets for M&A
- “Buy and Build” strategies are becoming more common
- There have been big moves in the industry
 - Anser Advisory joining Accenture
 - Littlejohn investing in Ardurra
 - Oceansound investing in Gannett Fleming
 - Matrix New World joining True Environmental

Source: 2023 EFCG CEO Survey; EFCG M&A Database; EFCG Analysis

What Types of Firms Are Making All These Acquisitions?

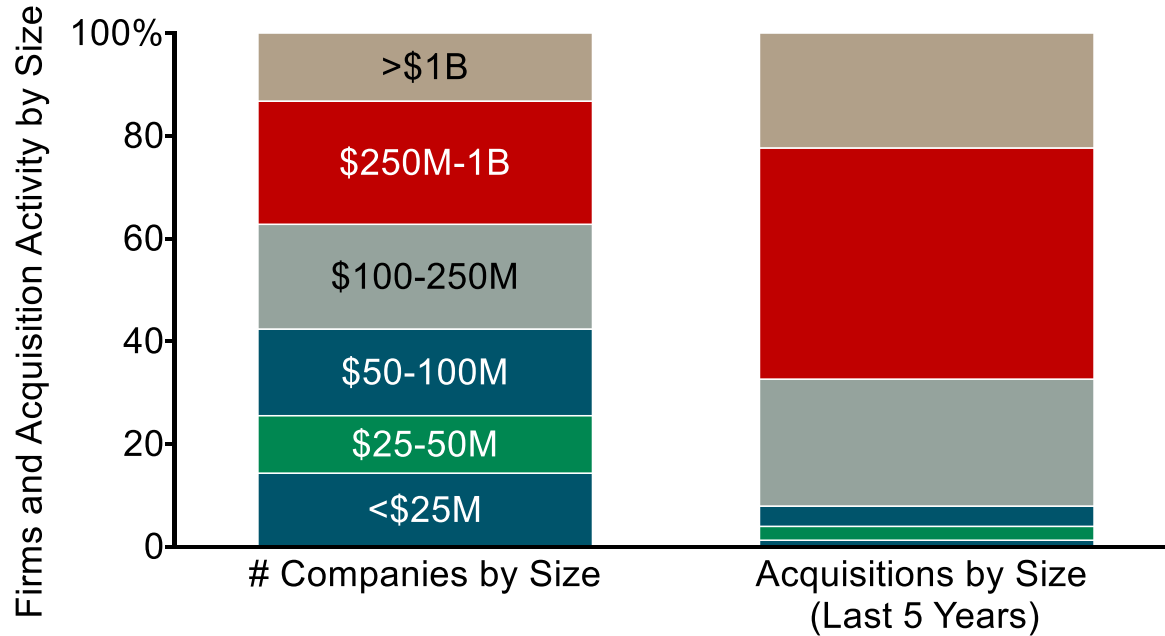


Source: 2023 EFCG CEO Survey; EFCG Analysis

PE-backed firms represent 20% of firms, and **40% of transactions**

Publicly traded firms represent 10% of firms and **20% of transactions**

What Size Firms Are Making All These Acquisitions?



Source: 2023 EFCG CEO Survey; EFCG Analysis

Firms \$100-250M in Revenues represent 20% of firms and **30% of transactions**

Firms \$250M-\$1B in Revenues represent 25% of firms and **45% of transactions**

Pricing

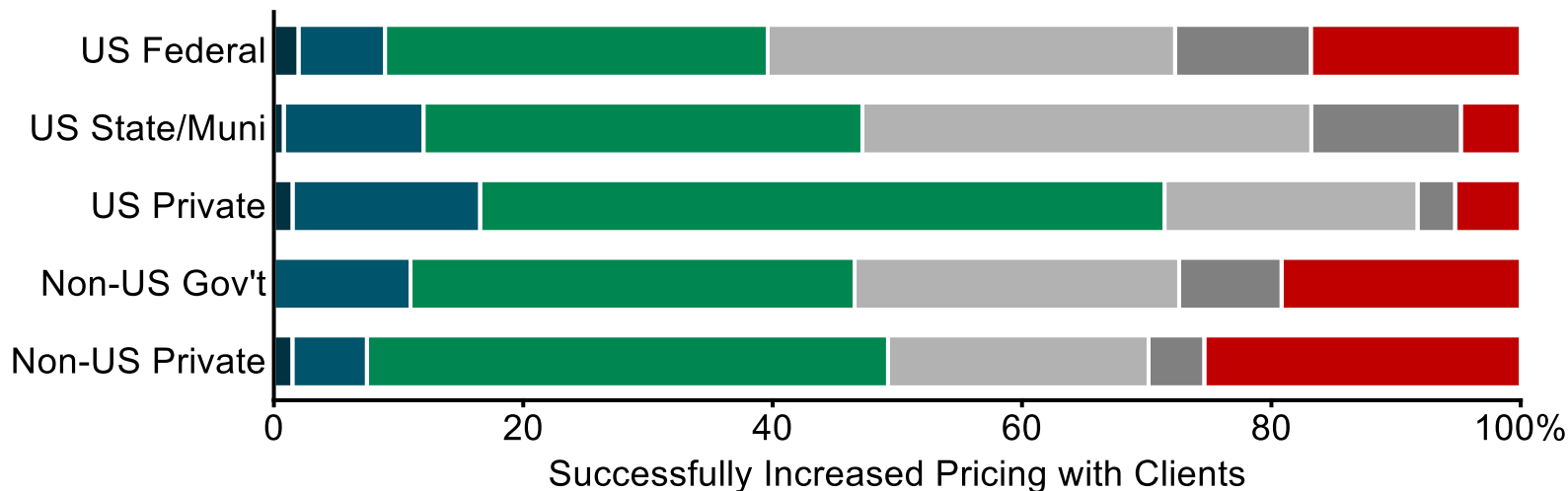


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Firms Report Moderate Success at Increasing Pricing

Most firms report successfully increasing pricing across all client types, with the biggest pricing gains among US Private clients. Are these increases enough to increase revenue and profit per FTE?

Have You Successfully Increased Pricing With Clients?

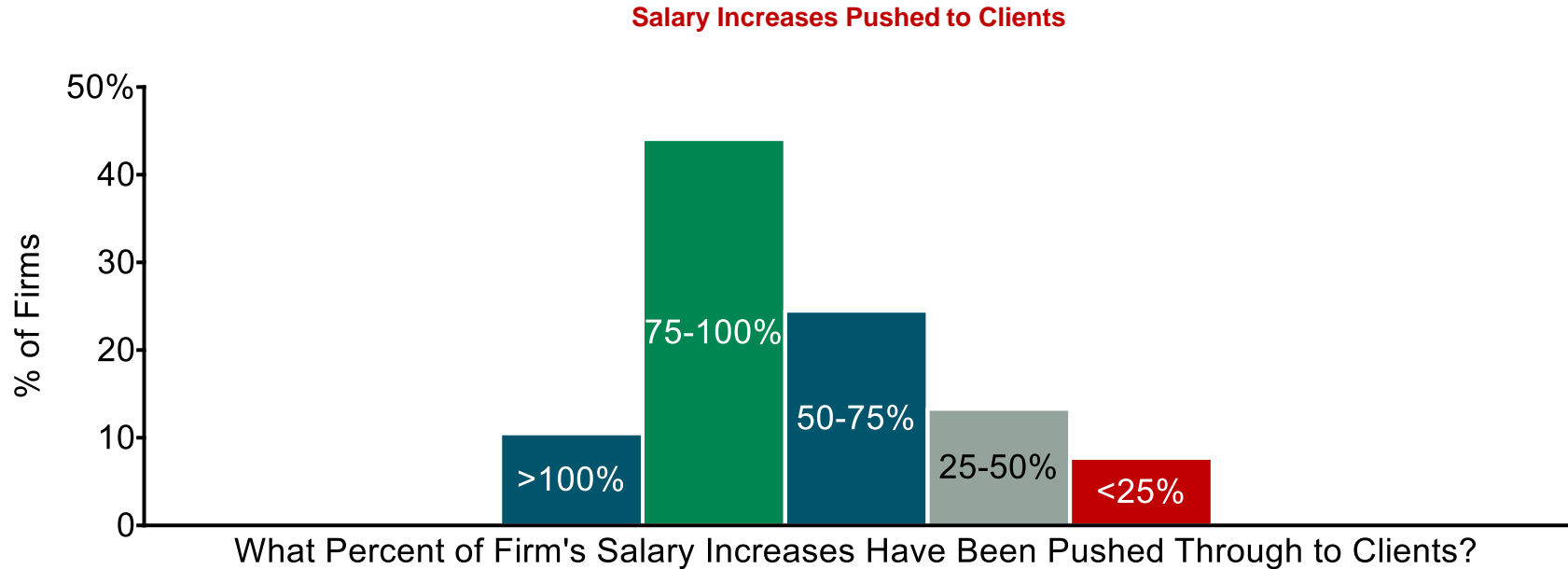


■ Yes, >15% ■ Yes, 10-15% ■ Yes, 5-10% ■ Yes, <5% ■ Not Yet (But Expect To Soon) ■ Not Yet (And Don't Expect To)

Source: EFCG 2023 CEO Survey

However, Pricing Continues to be a Challenge

Every firm reported pushing salary increases through to clients, although more than half of firms weren't able to push through all salary increases in the last 12 months



Source: EFCG 2023 CEO Survey

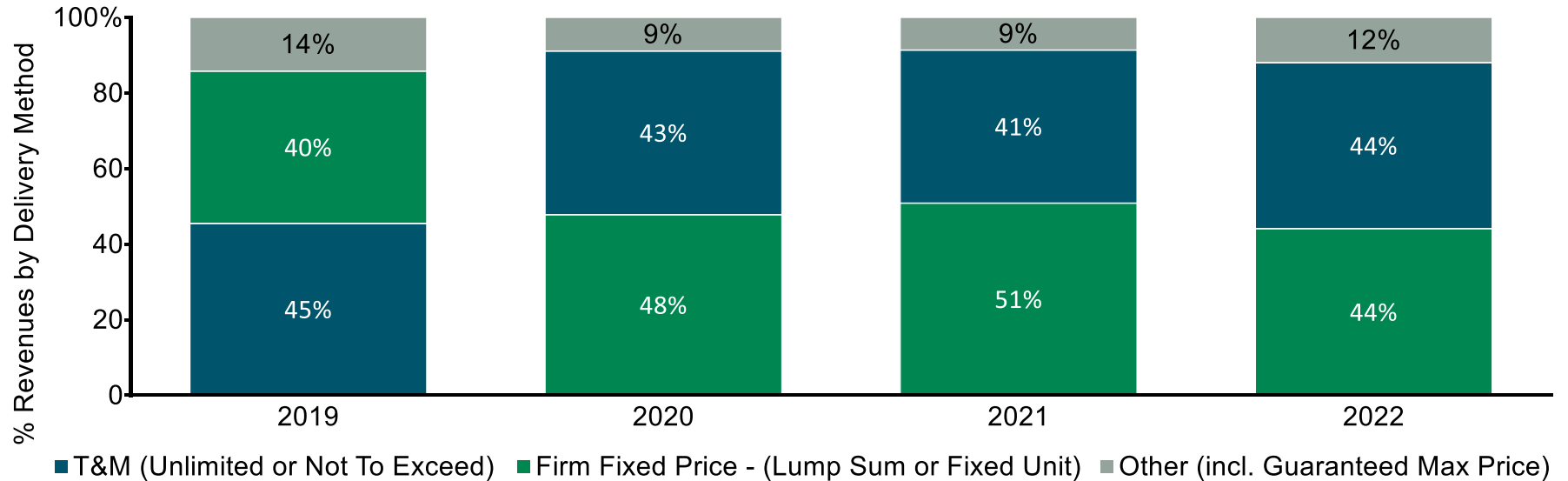
Emerging Business Models



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Firms Increasingly Need to Balance Different Delivery Methods

We are seeing a shift in the primary delivery method from T&M to Firm Fixed Price work as firms look to increase margins and clients look to reduce risk.

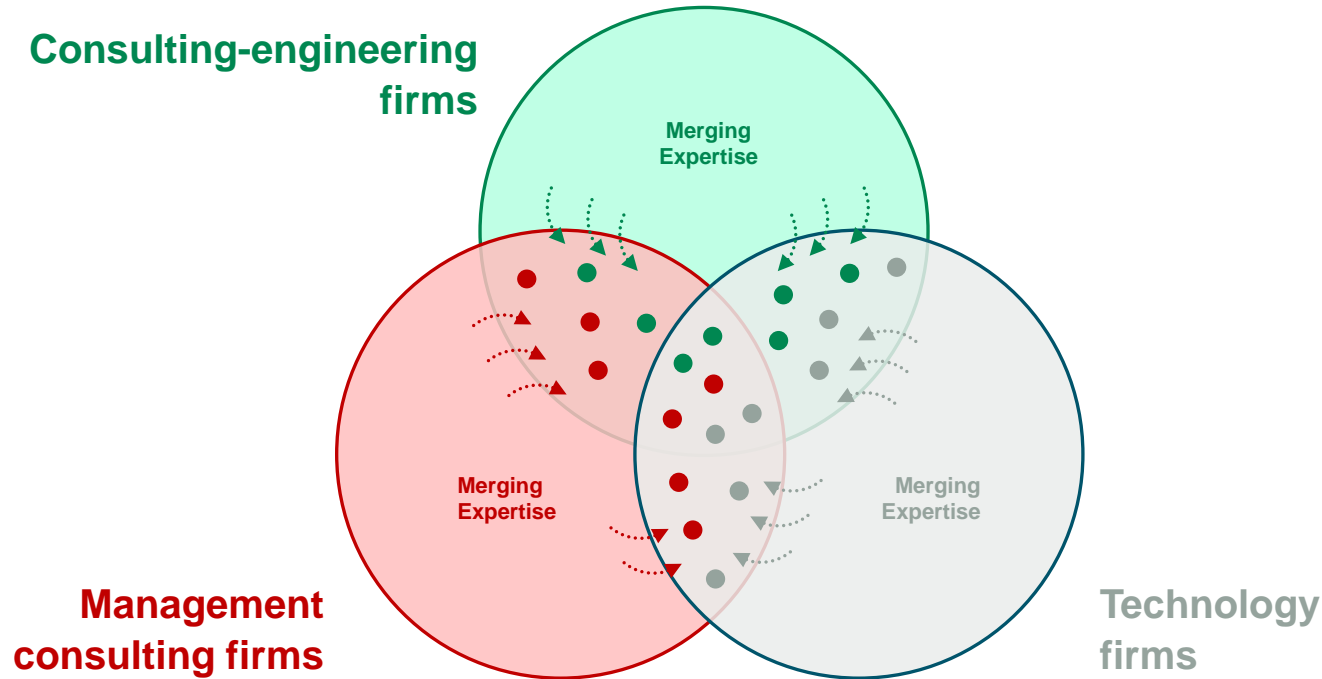


Shifting to fixed price work has implications on profit, risk, KPIs and even technology investments

Source: 2020-2023 EFCG CEO Survey

Traditional Industry Barriers Are Blurring

As consulting-engineering firms become “tech-enabled” and seek to move up the value chain, the differences between consulting-engineering, management consulting and technology are becoming harder to define.



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Key Takeaways

The fundamentals of our industry remain strong

- 2022 growth was strong with 2023 expected similar; firms are slightly more cautious for 2024 although backlogs remain strong
- 2022 profit dropped slightly, likely driven by high inflation and turnover, but the general recession-resiliency of our industry bodes well for any future economic of global uncertainty

However, talent is the limiting factor to future growth

- In a talent-constrained environment, firms will need to pull every lever possible to find, hire and retain great talent

We believe this is an inflection point for our industry

- As long as revenue and profit remain linked to headcount, most firms will see a “ceiling” on growth and profitability
- A clear strategy around technology & innovation, M&A, and emerging business models will likely determine the next wave of market leaders

Ask Me Questions

Rebecca Zofnass

rzofnass@efcg.com

<https://calendly.com/rzofnass>