



Overview of the Engineering/Consulting Industry

**Prepared for ACEC/MA
50th Anniversary Dinner Presentation
June 2, 2010**

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Compiled by EFCG; Web: www.efcg.com

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Participants in the 20th Annual EFCG EFCG CEO Conference Survey for Engineering/Consulting Firms (Oct 2009)

| <u>Size Category</u> | <u>Revs</u> <u>(\$MM)</u> | <u># of</u> <u>Firms</u> | <u>Gross Revs.</u> <u>(\$Bil)</u> <u>2009</u> [*] |
|----------------------|------------------------------|-----------------------------|--|
| Mega Major | >1 Bil | 19 | 60 |
| Mini Major | 250-1 Bil | 33 | 16 |
| Micro Major | 100-250 | 31 | 4 |
| Mid-Size | 25-100 | 73 | 4 |
| Small | <25 | <u>41</u> | <u>1</u> |
| Total | | 197 | 85 |

**Primarily Environmental, Transportation, and Infrastructure Engineering/Consulting ("e/c") Revenues.
For the largest firms we use engineering revenues only.*

Ownership of E/C Firms

(Historical Perspective)

| <u>Type of Ownership</u> | <u>By # of Firms</u> | | | | <u>By Revenue (\$Bil)</u> | | | |
|--------------------------|----------------------|-------------|-------------|-------------|---------------------------|-------------|-------------|-------------|
| | <u>1995</u> | <u>2000</u> | <u>2005</u> | <u>2009</u> | <u>1995</u> | <u>2000</u> | <u>2005</u> | <u>2009</u> |
| Public | 49 | 33 | 16 | 29 | 6 | 12 | 17 | 47 |
| Private | 111 | 140 | 171 | 168 | 5 | 14 | 25 | 38 |
| Total | 160 | 173 | 187 | 197 | 11 | 26 | 43 | 85 |
| % of Public Firms | 30% | 20% | 9% | 15% | 58% | 47% | 41% | 55% |
| # ESOP's | 22 | 31 | 48 | 48 | | | | |
| # Private Equity | | | 15 | 17 | | | | |

- **Big swing in public/private balance**
- **1 in 4 firms has an ESOP**
- **17 firms have “private equity”**

Revenue Distribution By Firm Size

(Historical Perspective)

| | <u>1995</u> | <u>2000</u> | <u>2005</u> | <u>2009</u> |
|----------------------------|-------------|-------------|-------------|-------------|
| <u># of Firms</u> | | | | |
| > 1 Bil | 3 | 7 | 13 | 19 |
| 250-1 Bil | 14 | 20 | 23 | 33 |
| 100-250 | 23 | 23 | 24 | 31 |
| 25-100 | 43 | 57 | 68 | 73 |
| <25 | 77 | 66 | 59 | 41 |
| Total | 160 | 173 | 187 | 197 |
| <u>% of Total Revenues</u> | | | | |
| > 1 Bil | 20% | 35% | 55% | 70% |
| 250-1 Bil | 33% | 35% | 26% | 19% |
| 100-250 | 23% | 15% | 8% | 5% |
| 25-100 | 13% | 12% | 8% | 5% |
| < 25 | 5% | 4% | 2% | 1% |
| Total | 100% | 100% | 100% | 100% |

Billion Dollar Players now represent 70% of industry!

Shifting Estimates for 2009

(medians)

| | 2009 | |
|---|-----------------------------------|--|
| | Internal <u>Revenue Growth</u> | Profit Margin <u>(EBIBT/Net Revs)</u> |
| @ April '09 (CFO Survey Fcst.) | 4.0% | 10.8% |
| @ October '09 (CEO Conf. Estimates) | 0.0% | 10.0% |
| @ April '10 (CFO Reported Actuals) | -2.0% | 10.8% |

'09 Revenues came in 6% below earlier estimates,

But median Profit Margin held.

Theoretical Impact of an Unanticipated 5% Revenue Shortfall for an e/c firm

- Assumptions: \$100 expected revenue
10% operating margin

- Calculation:

| | <u>Expected</u> | <u>Actual</u> |
|-------------------|-----------------|---------------|
| Revenue | 100 | 95 |
| - <u>Expenses</u> | <u>90</u> | <u>90</u> |
| = Profit | 10 | 5 |

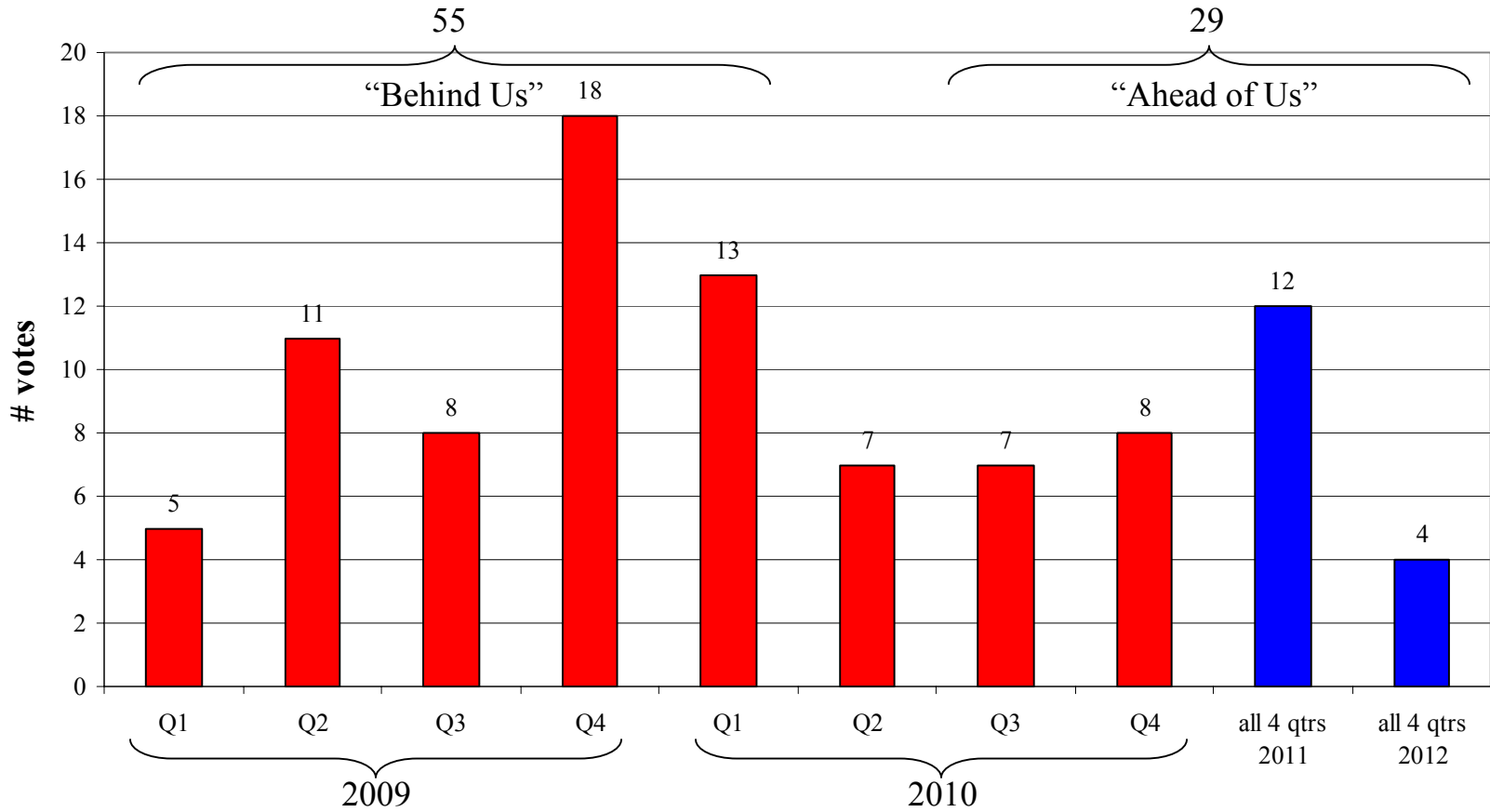
An unanticipated revenue shortfall of 5% would lead to a profit shortfall of 50%!

**In 2009, it looks like our industry did a good job at anticipating the revenue shortfall,
and cutting costs early.**

Looking Forward

| | <u>Internal Revenue Growth</u> | <u>Profit Margin (EBIBT/Net Revs)</u> |
|-------------------------|------------------------------------|---|
| <u>2009 Actuals:</u> | -2.0% | 10.8% |
| <u>2010 Estimates:</u> | 4.5% | 10.7% |
| <u>2011 Projections</u> | 7.0% | N/A |

When is the Bottom of the Recession?

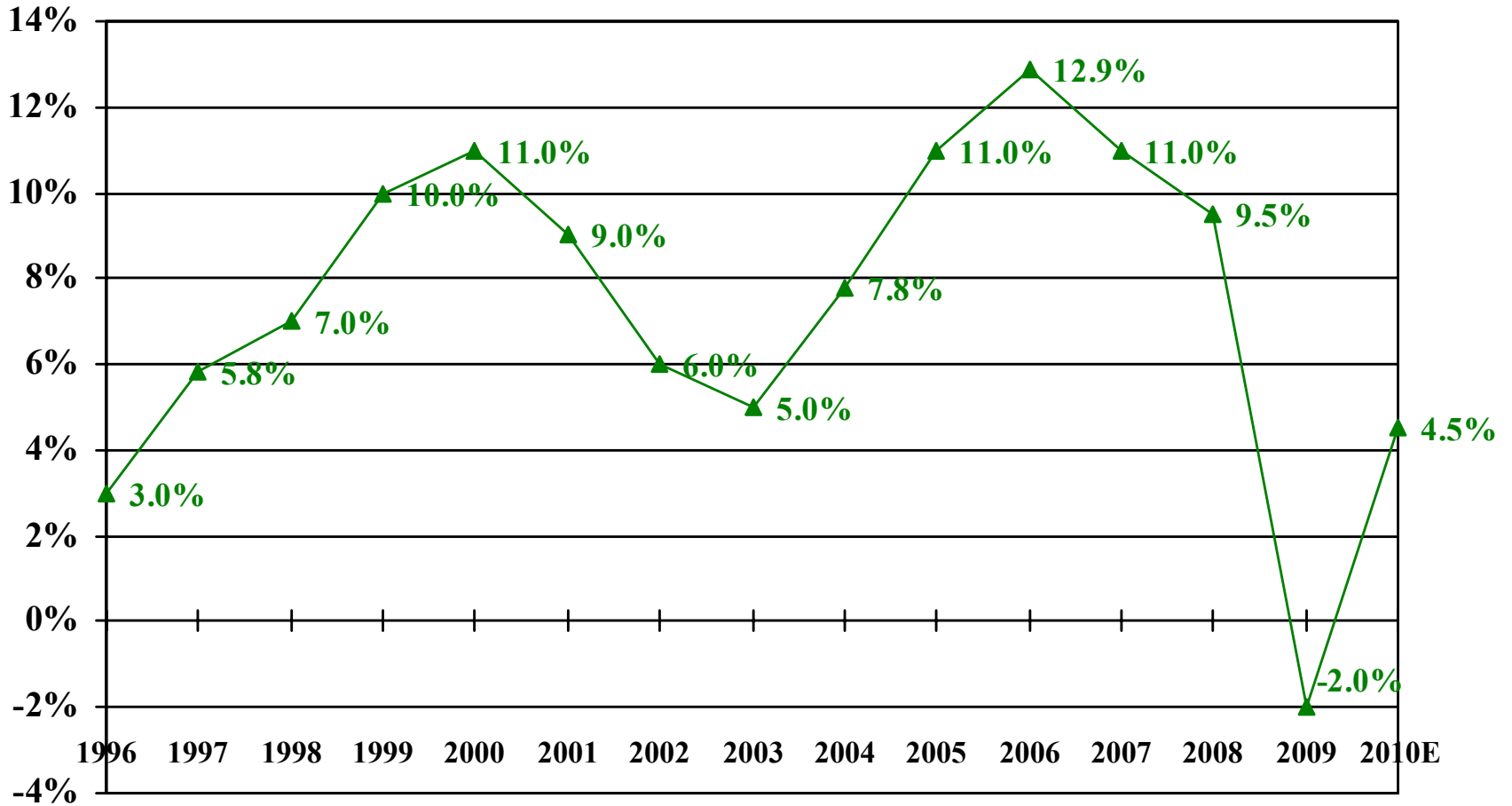


The bottom seems to be behind us!

Source: April '10 EFCG CFO Survey

Historical Internal Growth Rates

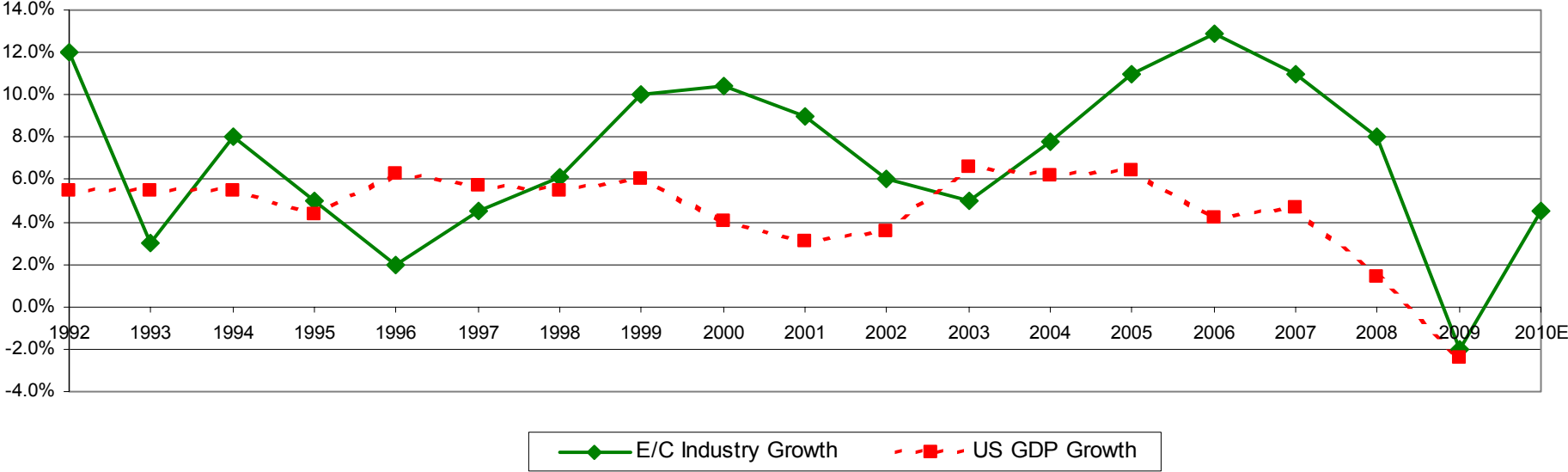
(medians)



Volatile or Not?

E/C Industry Internal Growth vs. US GDP

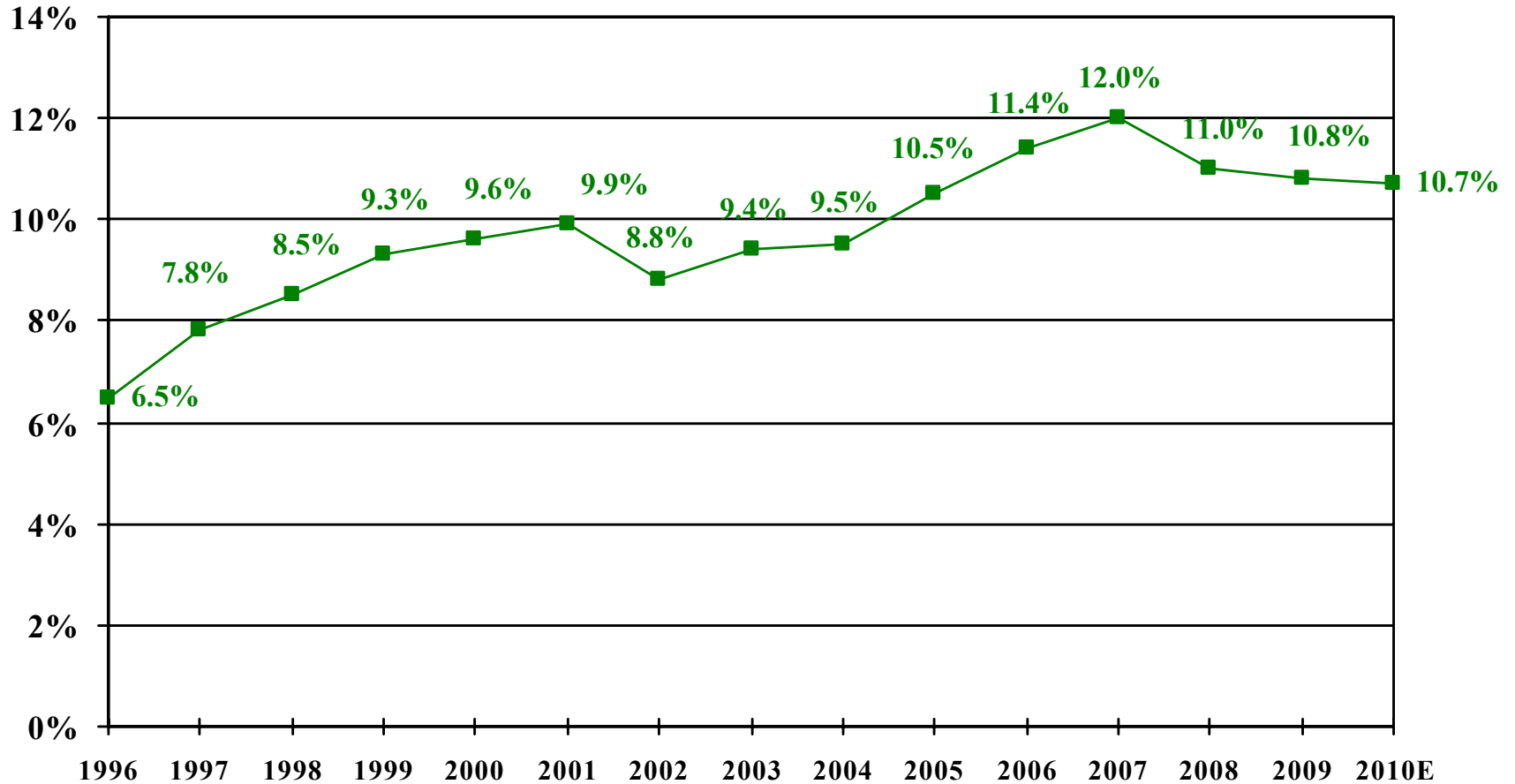
(Medians)



E/C Industry has outgrown US GDP in all but 4 years

Source: EFCG Database and US Dept. of Commerce

Historical Profitability (EBIBT/Net Revs) (medians)



Pretty Positive Earnings Trend!

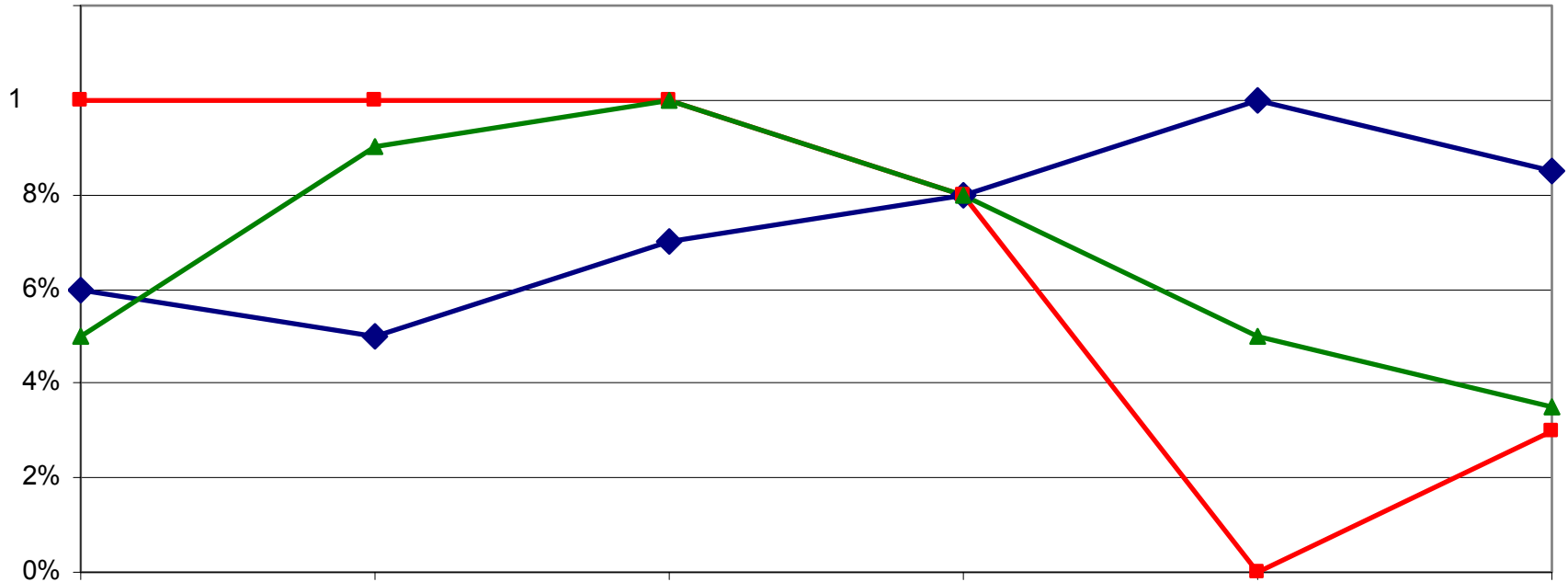
Source: EFCG Database

Performance By Size

| <u>Rev. Size:</u> | <u>Internal Revenue Growth</u> | | | <u>Profit Margin (EBIBT/Net Revs)</u> | | |
|-------------------|--------------------------------|------------------|------------------|---------------------------------------|------------------|------------------|
| | <u>Act. 2009</u> | <u>Est. 2010</u> | <u>2-Yr Avg.</u> | <u>Act. 2009</u> | <u>Est. 2010</u> | <u>2-Yr Avg.</u> |
| > 1B | 0.0% | 7.0% | 3.5% | 10.0% | 10.4% | 10.2% |
| 250 - 1B | -7.8% | 8.0% | 0.1% | 11.4% | 10.4% | 10.9% |
| 100 - 250 | -2.0% | 2.0% | 0.0% | 11.7% | 11.5% | 11.6% |
| 50 - 100 | -0.5% | 5.0% | 2.3% | 7.4% | 8.9% | 8.2% |
| < 50 | -2.0% | 2.0% | 0.0% | 11.0% | 11.8% | 11.4% |

- **Firms over \$1 Bil fastest growing**
- **\$50-\$100 MM firms are least profitable** (zone of inefficiency?)

Projected Growth By Customer Sector



Federal: the winner
State/Muni: up and down
Private: takes a dive

Source: April '10 EFCG CFO Survey; each data point represents what was projected by firms in their respective businesses in the CFO Survey of that year.

Geographic Performance

(Sorted by Happiness Quotient)
(3-Year (2008-2010) Average %)

| <u>Sector* (# of Firms)</u> | <u>Internal Growth</u> | <u>Profitability (EBIBT/Net Revs)</u> | <u>"Happiness Quotient"</u> |
|-----------------------------|------------------------|---------------------------------------|-----------------------------|
| Northeast (28) | 4.4 | 10.7 | 15.1 |
| Mid-West (13) | 2.9 | 11.2 | 14.2 |
| Mid-Atlantic (7) | 7.7 | 6.0 | 13.7 |
| California (15) | 0.0 | 10.6 | 10.6 |
| Southwest (7) | 0.3 | 9.7 | 10.0 |
| Southeast (13) | -0.4 | 8.7 | 8.4 |
| Canada (12) | 11.3 | 19.1 | 30.4 |
| Global (23)** | 7.8 | 11.5 | 19.3 |
| US National (49)*** | 5.0 | 10.6 | 15.6 |

Key: = Not so Good! = Good = Very Good

*Criteria: Firms primarily (>50% of revs) in respective geographic area

** Global Firms=Firms with no one country generating >40% of its revenues

***US National Sector= US Firms with no one geographic area generating >50% of its revenues

International: Hot/Cold Analysis

| Country/Region | 2010 CFO Survey # of Votes | | "Net Hotness"* |
|-------------------------|----------------------------|------|----------------|
| | Hot | Cold | Quotient |
| Asia | 33 | 4 | 29 |
| <i>China</i> | 16 | 2 | 14 |
| <i>India</i> | 7 | 0 | 7 |
| Middle East | 18 | 6 | 12 |
| South & Central America | 16 | 5 | 11 |
| Australia/ New Zealand | 10 | 0 | 10 |
| Canada | 9 | 2 | 7 |
| Africa | 6 | 2 | 4 |
| USA | 0 | 2 | -2 |
| Europe | 6 | 36 | -30 |
| <i>UK</i> | 1 | 5 | -4 |
| <i>Western Europe</i> | 0 | 3 | -3 |
| <i>Russia</i> | 0 | 7 | -7 |

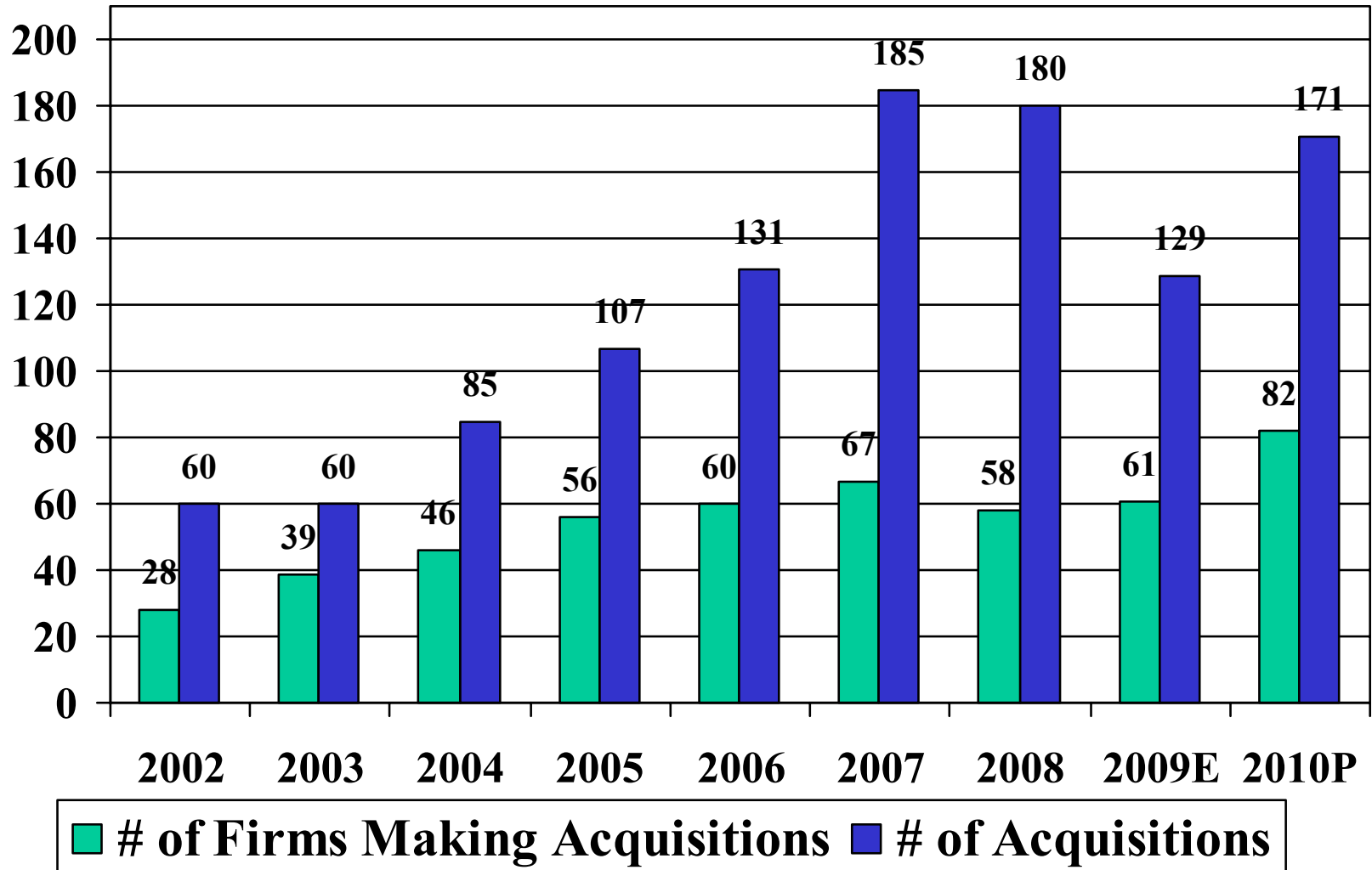
* Net Hotness = # of Hot votes - # of Cold votes

Asia is “hot”; Europe is not

Acquisition Activity

(Historical Perspective)

of Acquisitions



“Total” Growth (Incl. Acquisitions)

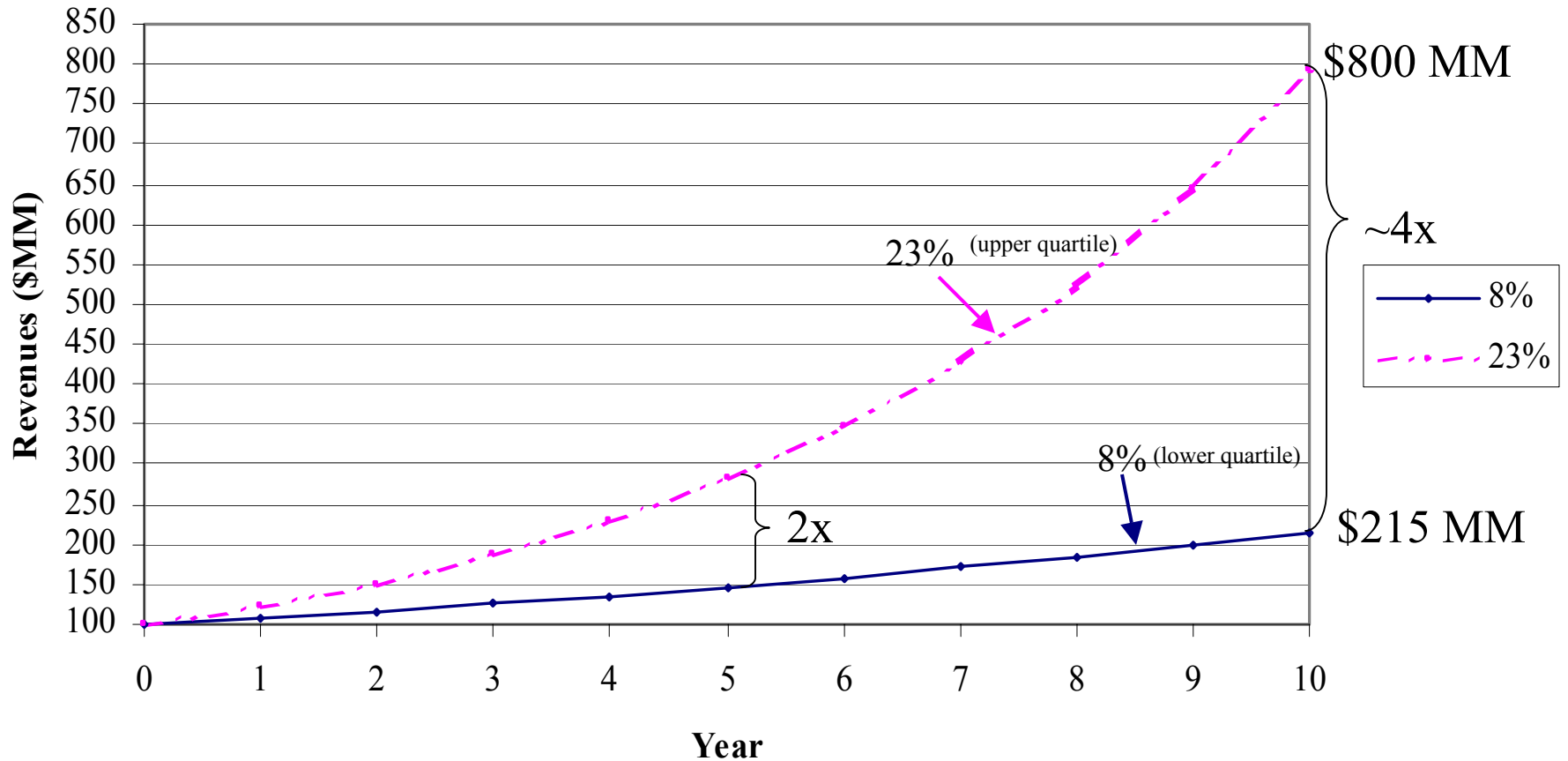
(10-Year Avg. CAGR*)

| | All Firms | Over > \$250 MM Only | |
|----------------|-----------|----------------------|--------------------------|
| Upper Decile | 26% | 30% | } Doing Acquisitions |
| Upper Quartile | 17% | 23% | |
| Median | 11% | 14% | |
| Lower Quartile | 5% | 8% | } Not Doing Acquisitions |
| Lower Decile | 2% | 4% | |

Top Growers are growing at 20-30%, per year.
How acquisitions can impact overall growth rate and strategic positioning.

*CAGR = Compounded Annual Growth Rate
 Source: EFCG Database

The Impact of 8% vs. 23% Growth Rate On Relative Size



The Challenge of Internal Ownership Transition (“IOT”)

“Capital Flows Analysis”

Basic Assumptions:

10% growth, 10% operating margins, 2x Book Value

| <u>Sources</u> | <u>% of Gross Revs</u> |
|--|------------------------|
| -Profit After Tax | 2.5% (A) |
| -Employee Purchases | <u>0.5%</u> (B) |
| Total Sources | 3.0% |
| | |
| <u>Uses</u> | |
| -Increased Working Capital @ 10% growth | 1.5% (C) |
| -Net Capital Expenditures | 0.5% |
| -Employee Stock Retirements | <u>1.5%</u> (D) |
| Total Uses | <u>3.5%</u> |
| | |
| <u>Net Cap Flows</u> (before any acqs.) | -0.5% |

Not “Sustainable”

Notes:

(A) 10% EBIBT/Net Revs = 7% EBIBT/Gross Revs, less 1% Interest = 6%, less 30% Bonus (1.8%) = 4.2%, less 40% Taxes (1.7%) = 2.5% PAT/Gross Revs

(B) Employee Purchases: typically half of after tax Bonus = $\frac{1}{4}$ X Bonus = 0.5%

(C) Increased Working Capital: typical firm has 25% A/R, less 10% A/P + AL = 15% NIWC @ 10% Growth = 1.5% of GR

(D) 20 year average ownership period = 5% ownership retires each year. If company is valued @ 30% of revenues (or about 2x book value) = 1.5%

Ownership, Compensation, & Capitalization Plan “OCCP”

How to balance a firm’s:

Ownership – participation; economic rewards & incentives;
control issues; valuation

Compensation – financial benefits; bonus policy; recruiting

Capitalization – adequacy of capital to finance growth and
stock repurchase (financial sustainability)

- **An “OCCP” needs to incorporate all the above**
- **OCCP needs to change with time and challenges**

Where are they Now?

(Firms > \$100 million in 1997)

| | (in \$Billions) | 1997 Revs | 2009 Revs (S = Sold, B= Bankrupt) | S or B | Major Ownership Change |
|----|------------------------------|-----------|--------------------------------------|--------|------------------------------|
| 1 | CH2M Hill | 0.8 | 6.0 | | * |
| 2 | AECOM | 0.7 | 6.0 | | * |
| 3 | Black & Veatch | 0.5 | 3.0 | | * |
| 4 | ICF Kaiser | 0.5 | B/ S/ Earth Tech/ IPO | * | * |
| 5 | Parsons Brinckerhoff | 0.5 | S/ Balfour Beatty | * | * |
| 6 | Dames & Moore | 0.4 | S/ URS | * | * |
| 7 | IT Group | 0.4 | B S/ Shaw | * | * |
| 8 | URS | 0.4 | 10.0 | | |
| 9 | Montgomery Watson | 0.4 | 1.2 | | * |
| 10 | CDM | 0.4 | 1.0 | | |
| 11 | Parsons | 0.4 | 4.0 | | |
| 12 | Tetra Tech | 0.3 | 2.0 | | |
| 13 | ERM | 0.3 | 0.6 | | * |
| 14 | Foster Wheeler Environmental | 0.3 | S/ Ttek | * | * |
| 15 | OHM | 0.3 | S/ IT | * | * |
| 16 | AWT | 0.3 | S/ Vivendi | * | * |
| 17 | Woodward Clyde | 0.3 | S/ URS | * | * |
| 18 | Arthur D. Little | 0.2 | B | * | * |
| 19 | Morrison Knudsen Envir. | 0.2 | B/ S/Wash/URS | * | * |
| 20 | Radian | 0.2 | S/ D&M/ URS | * | * |
| 21 | Earth Tech | 0.2 | S/ Tyco/ AECOM | * | * |
| 22 | HNTB | 0.2 | 0.9 | | * |
| 23 | HDR | 0.2 | 1.6 | | * |
| 24 | Roy F. Weston | 0.2 | 0.5 | | * |
| 25 | SAIC Envir. | 0.2 | 0.6 | | * |
| 26 | Law | 0.2 | S/ Mactec | * | * |
| 27 | GFI | 0.2 | S/ FD/ IT | * | * |
| 28 | Metcalf & Eddy | 0.2 | S/ AECOM | * | * |
| 29 | Golder | 0.2 | 0.8 | | |
| 30 | Geraghty & Miller (ARCADIS) | 0.2 | 0.8 | | |
| 31 | Rust | 0.2 | S/ EarthTech | * | * |
| 32 | Smith | 0.2 | B D | * | * |
| 33 | PSI | 0.2 | 0.2 | | * |
| 34 | ENSR | 0.2 | S/ AECOM | * | * |
| 35 | Malcolm Pirnie | 0.1 | S/ Arcadis | * | * |
| 36 | Jacobs (Infra) | 0.1 | 11.6 (2 Infra) | | |
| 37 | Emcon | 0.1 | S/ IT | * | * |
| 38 | Agra E&E | 0.1 | S/ Amec | * | * |
| 39 | Harding Lawson | 0.1 | S/ Mactec | * | * |
| 40 | Ogden | 0.1 | S/ Agra/ Amec | * | * |

Of the 40 firms:

- 23 have “sold” or gone “bankrupt” (58%)
- 33 have undergone a major ownership change (83%)