



Overview of the Engineering/Consulting Industry

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Compiled by EFCG; Web: www.efcg.com

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Participants in the 20th Annual 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

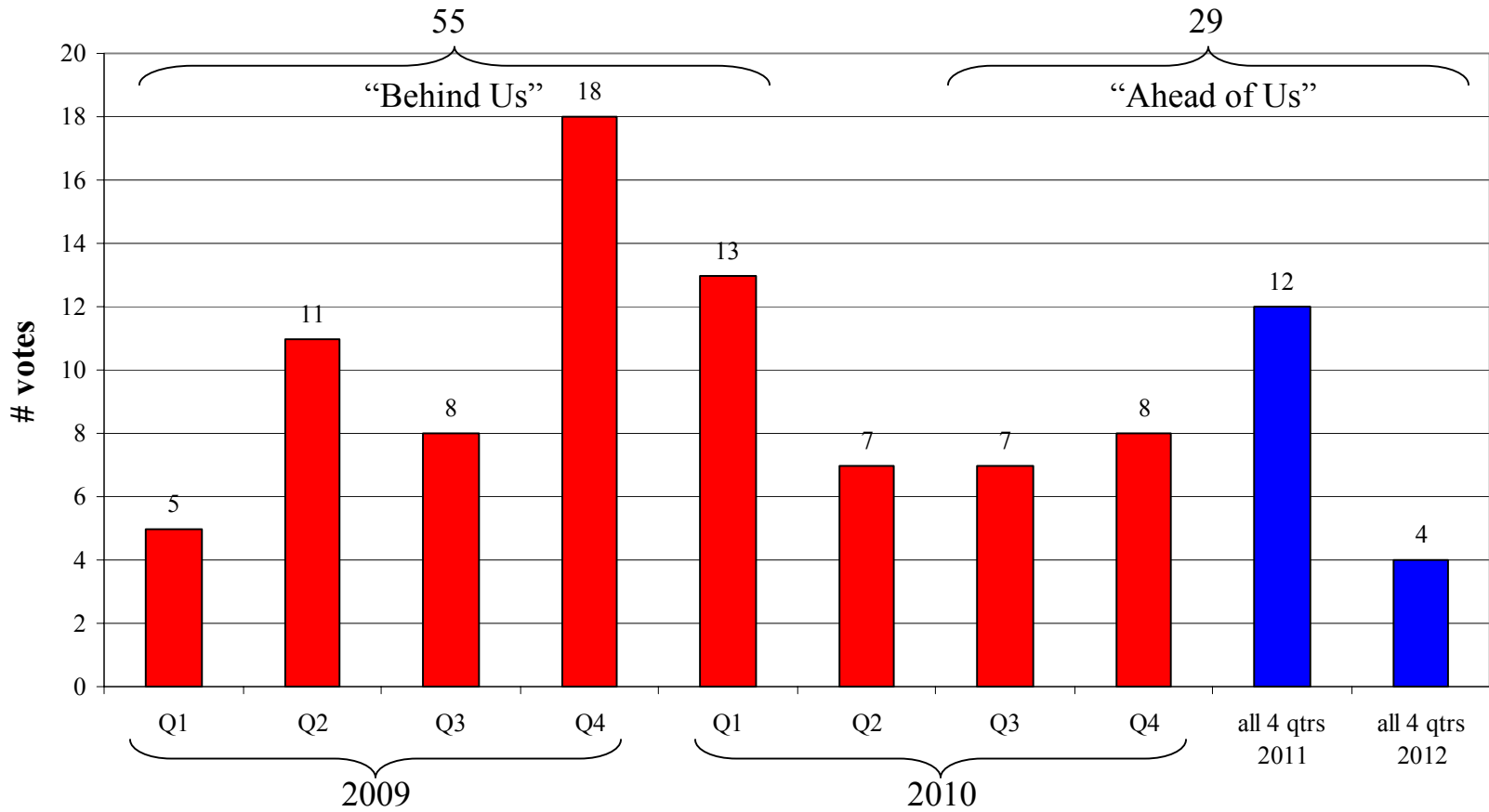
An unanticipated revenue shortfall of 5% would lead to a profit shortfall of 50%!

**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

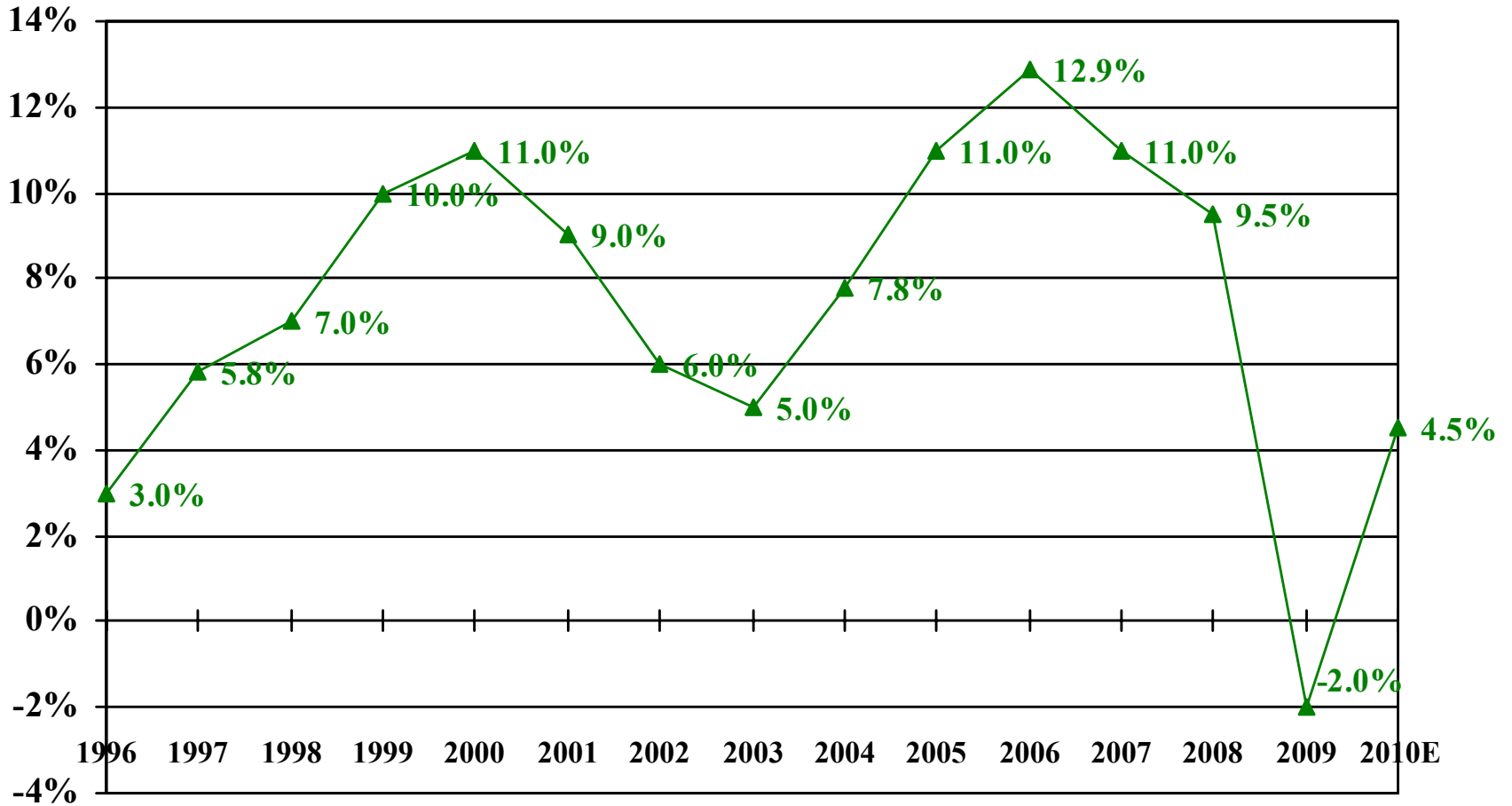
When is the Bottom of the Recession?



The bottom seems to be behind us!

Historical Internal Growth Rates

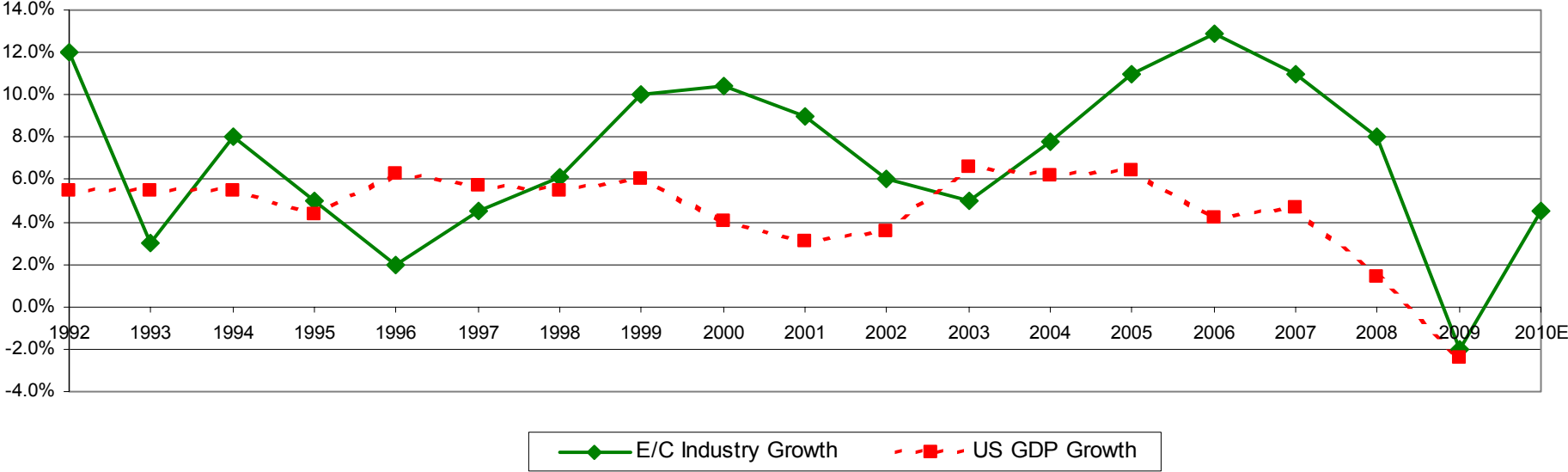
(medians)



Volatile or Not?

E/C Industry Internal Growth vs. US GDP

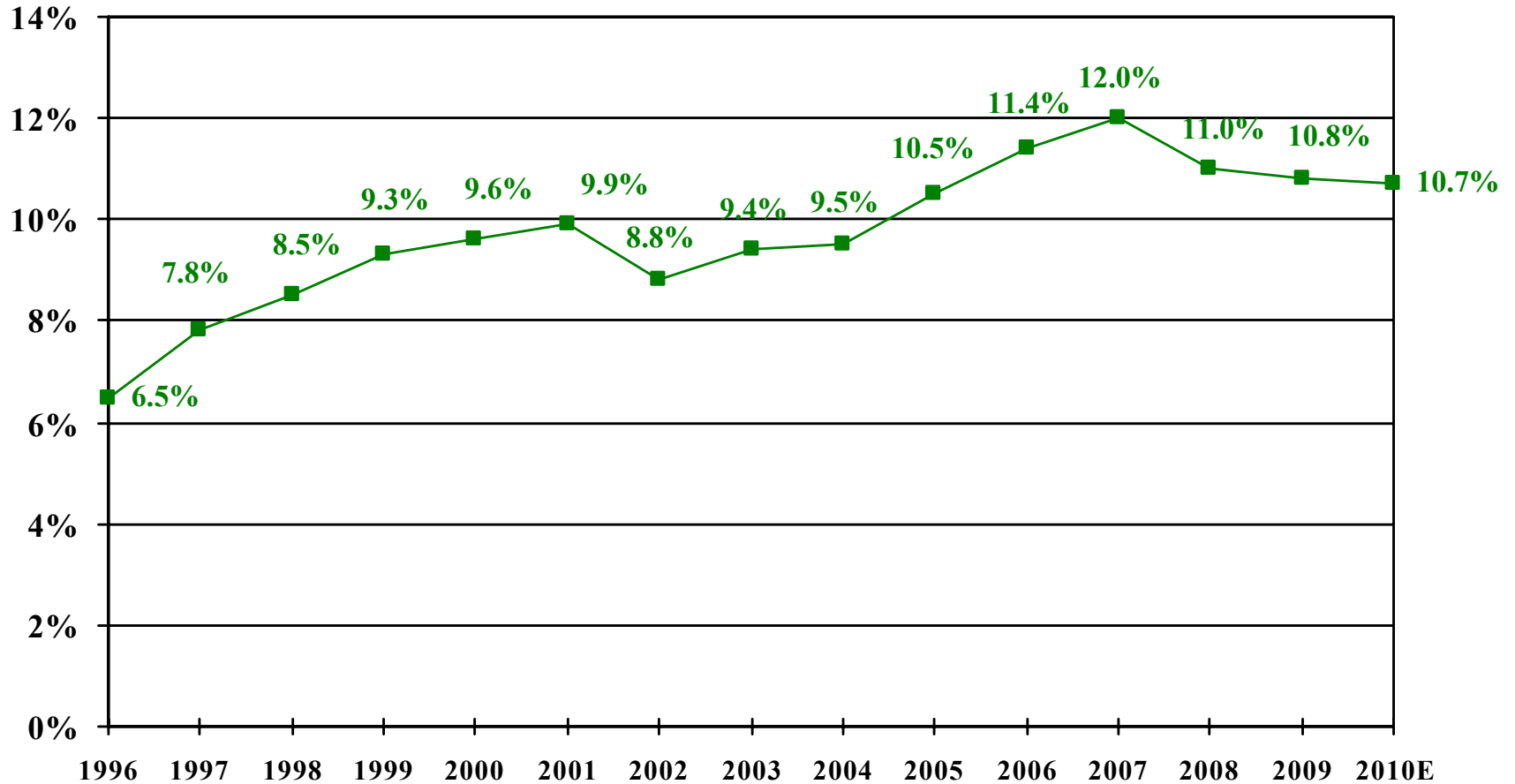
(Medians)



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!

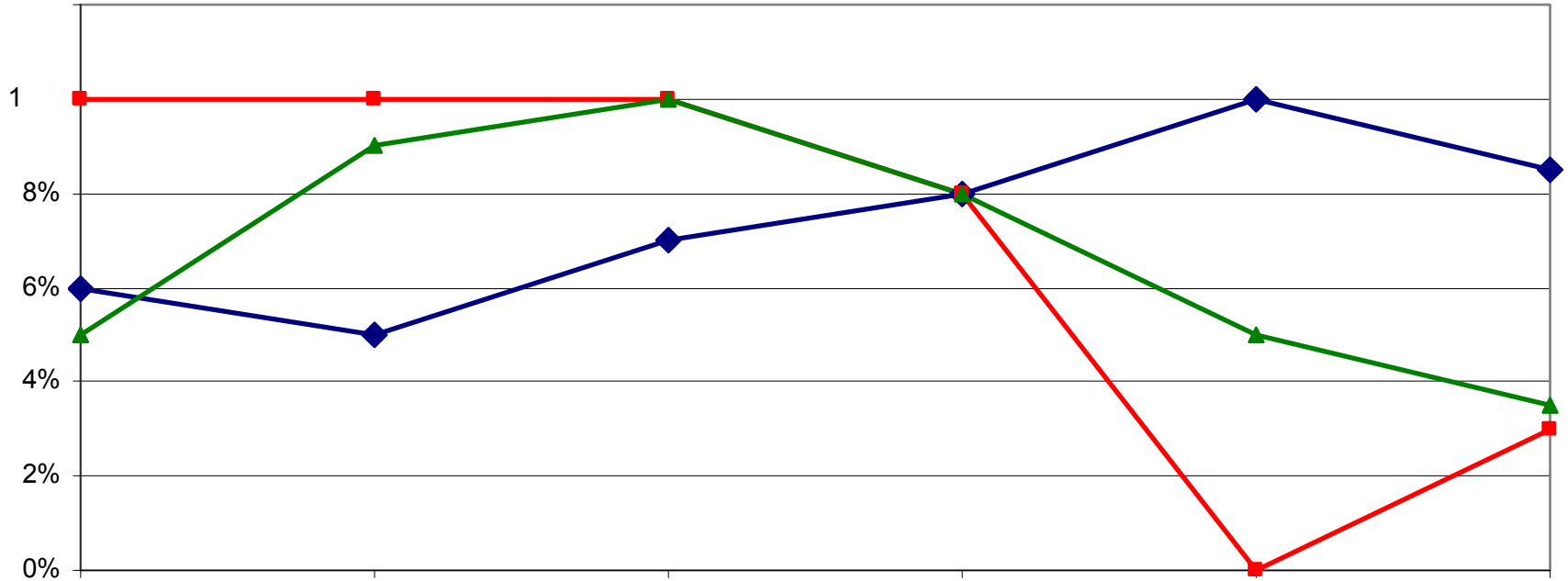
Source: EFCG Database

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

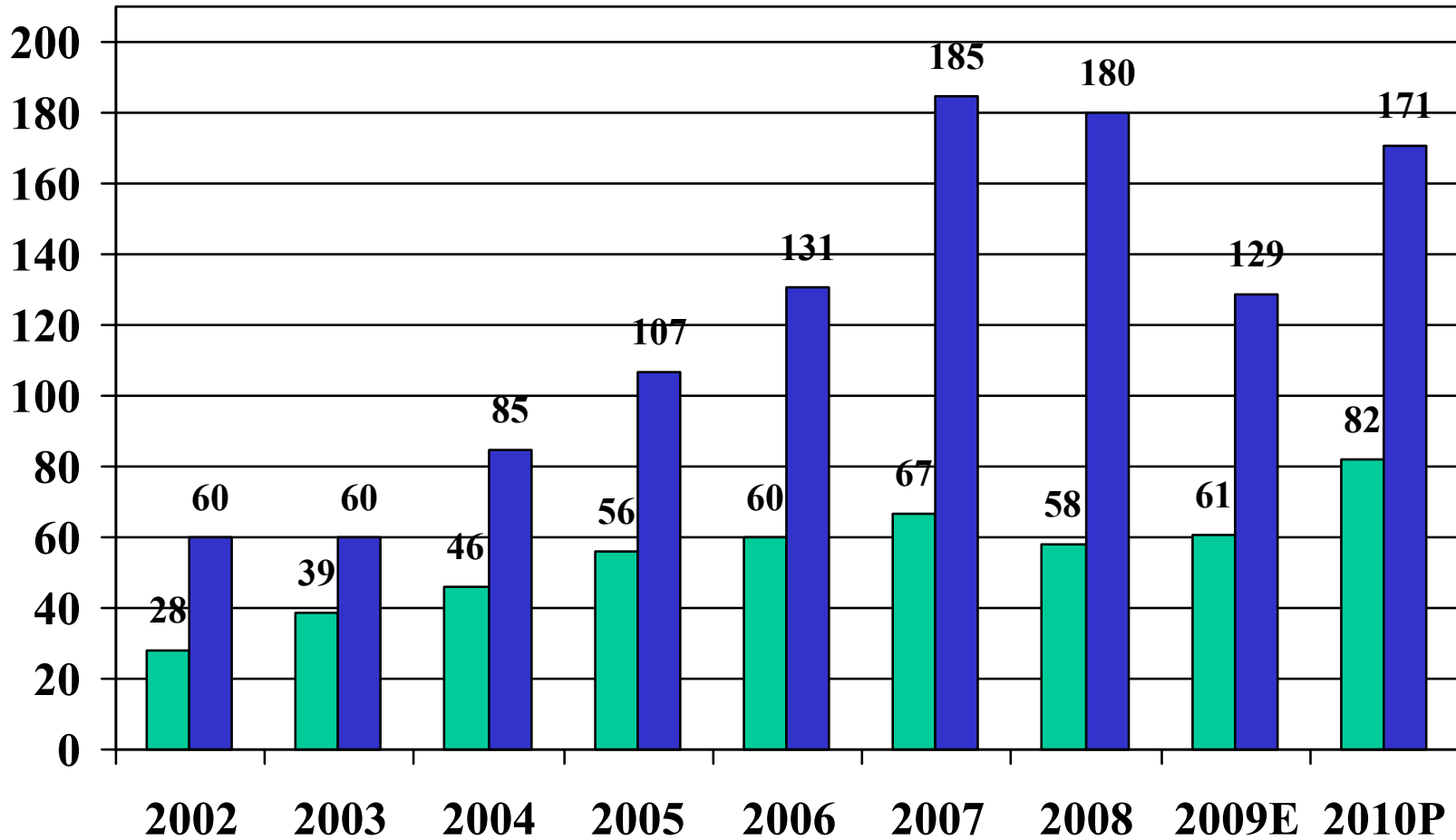
* Net Hotness = # of Hot votes - # of Cold votes

Asia is “hot”; Europe is not

Acquisition Activity

(Historical Perspective)

of Acquisitions



■ # of Firms Making Acquisitions ■ # of Acquisitions

“Total” Growth (Incl. Acquisitions) EFCG

(10-Year Avg. CAGR*)

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

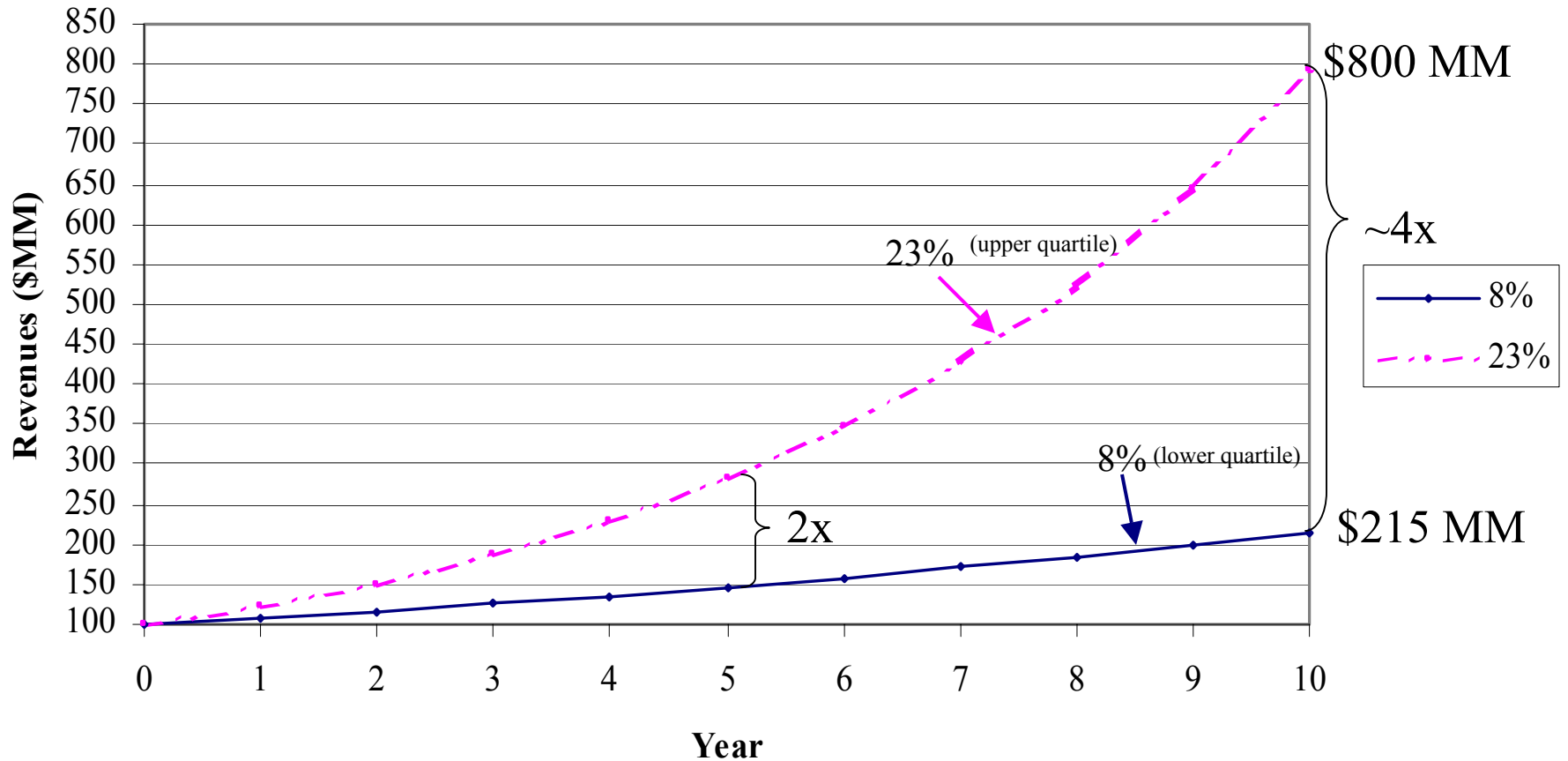
Top Growers are growing at 20-30%, per year.

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%)