

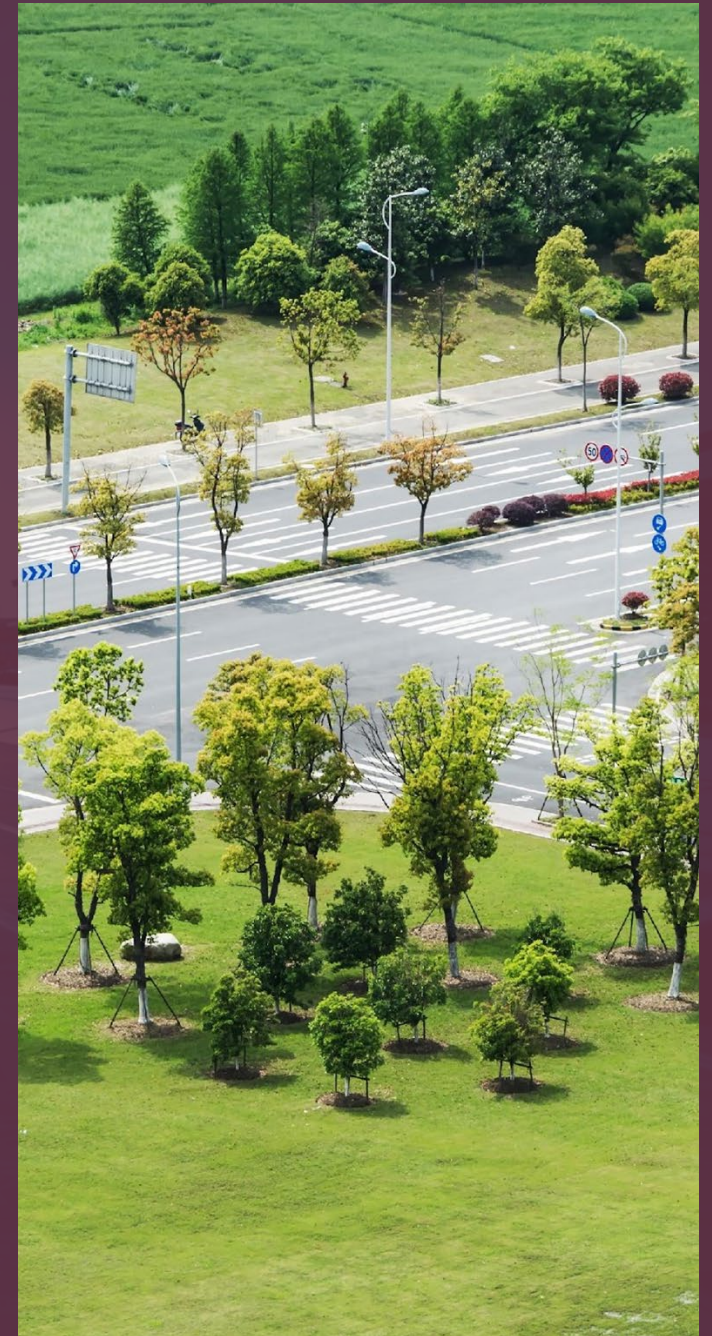
18 April 2024

Industry Overview

Perspectives

Austin , Texas

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Topics Covered



Unprecedented Pace of Change in Consulting Engineering Business - Industry Overview

Consolidation Trends

Markets- Geographic and Sector

Competitive landscape and Technology

Challenges in Human Capital Management

Develop a Deeper Understanding of the Business



Industry Overview Funding

- ✔ Overall Industry Funding increased in 2024
- ✔ Expected to Peak in 2026/2027
- ✔ Driven By:
 - ✔ IIJA-Infrastructure investment and Jobs Act- \$1.2 T
 - ✔ IRA-Inflation Reduction Act-\$579B
 - ✔ CHIPS- Creating Helpful Incentives to Produce Semi Conductors-\$280B



Legislative Details



IIJA- Infrastructure

Infrastructure Improvements, Infrastructure resiliency, Water Infrastructure, Broadband Internet, Power Infrastructure, Roads and Bridges



IRA- Inflation Reduction

Healthcare, Energy and Climate Building Efficiency, Air pollution



CHIPS-Semiconductors

Semiconductor Manufacturing, Energy Research



Industry Overview

Resilience



Engineering industry on a 15 year run- rebounding from the “Great Recession”



Median Backlog 11 months= very comfortable and at all time highs

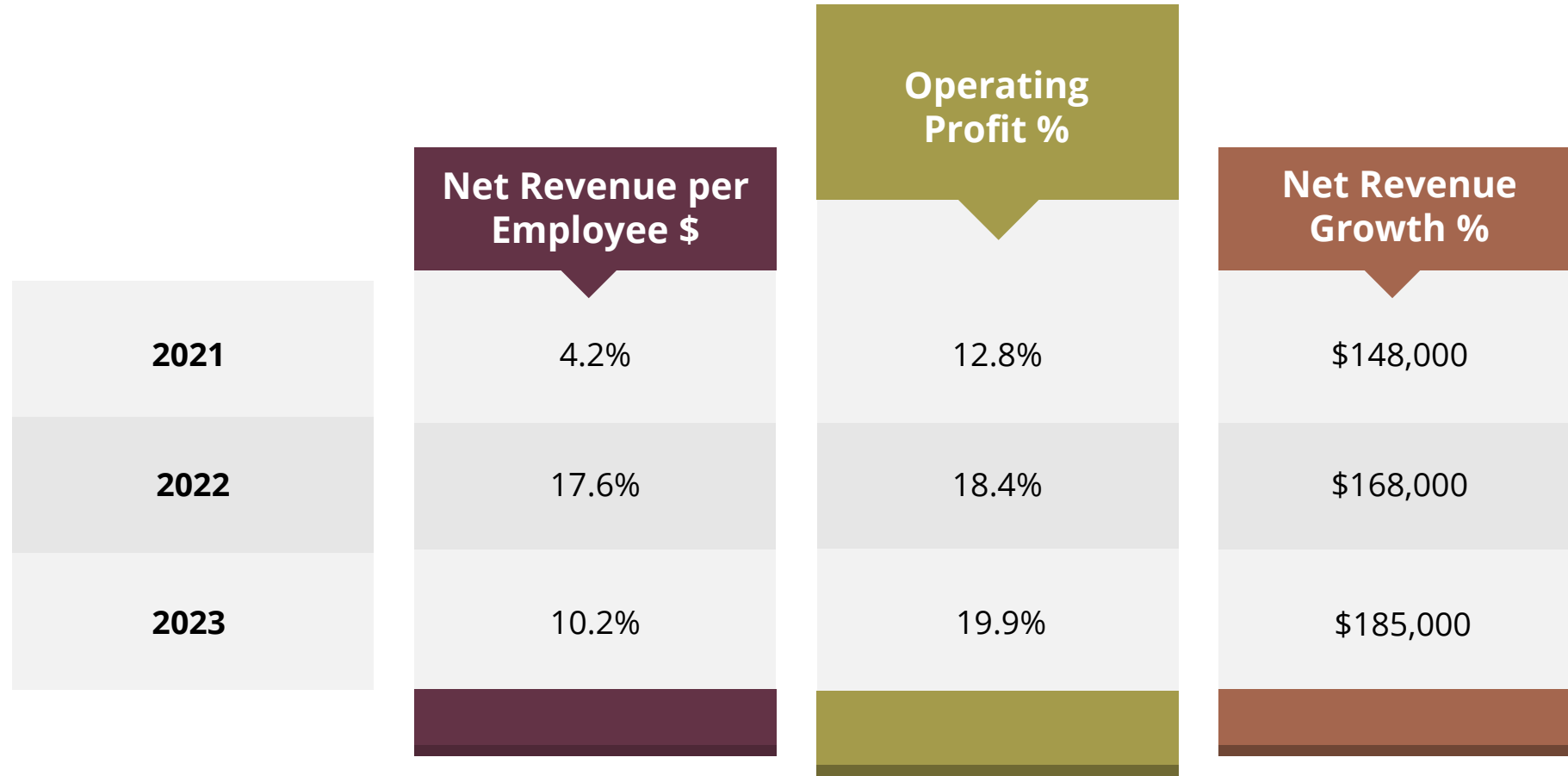


Many firms placing big bets on expansion and improvement- PE backed firms plus Employee owned firms have strong balance Sheets



Federal Highway Funding- funded at \$350 B over 5 years, prior funding authorization \$36B per year

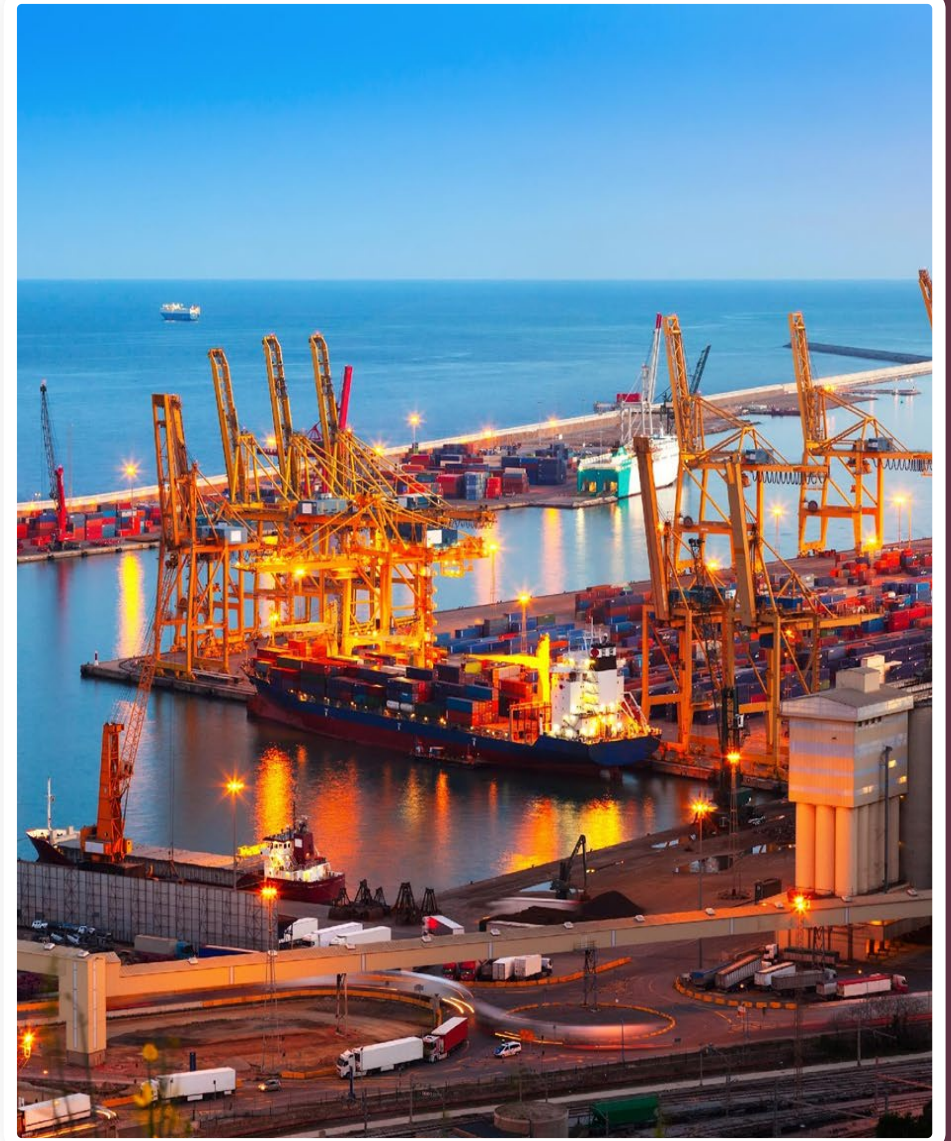
Industry overview-Operating Specifics



Industry Overview

Performance Strong

- ☑ Most significant Industry growth rates ever - 17%
- ☑ Operating Profits back to 2020 levels at ~ 18% (previous highs ~15%)
- ☑ All Other financial metrics strong and in balance
- ☑ Net Revenue per Employee up 10 % to \$185K per employee with strong wage increases
- ☑ For an average firm to grow 1 Million in revenue requires ~ 6 new employees!



Industry Consolidation Continues

of M & A Deals

2014- 2017	Average 233
2017- 2020	Average 315
2020- 2023	Average 450

Industry Ownership Trends

2016- 2023

Private Equity Backed-	4% to 18%
Public-	21% to 18%
Employee or ESOP-	75% to 64%

(70% of firms in Industry have 50 or less employees)

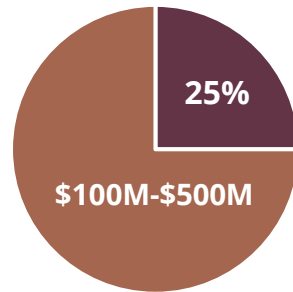


Merger and Acquisition details

- ④ Historically, firms with less than \$25 Million Net Revenues , the multiple on EBITDA was 5X
- ④ More and More firms are using a “Buy and Build “ strategy
- ④ This and other factors have caused multiples to creep up!
- ④ Smaller firms under \$25M in Net Revenue – 6 to 7 multiple on EBITDA Midsized firms ranging from \$25M to \$75M in Net Revenues-8 to 9 multiple on EBITDA
- ④ IJA (Infrastructure investment and Jobs Act) and IRA (Inflation Reduction Act) have driven a lot of interest in investing in Engineering Firms by PE investors,,,,,,
- ④ Over 400 deals expected in 2024

Private Equity Impact on the Industry

Firms with Revenues of :



25% of Firms have a Private Equity Investor

Firms with PE Investments Gannett Fleming, STV, TranSystems, CHA, Langan, Geosyntec, Salas O'Brien

How does this affect the future competitive environment?

The Rise of Private Equity

PE and our Industry

- Long Term Growth- Firms are poised to outperform broader economy
- Low Volatility- Significant Public Sector and Institutional Funding
- Consistent Profitability and Cash Flow- Engineering Firms rarely lose money, have strong cash flow and low Cap Ex

Attraction to Engineering Firms

- An Investment not a Sale- provides liquidity to SH's at FMV and provides investment growth capital
- Maintain Brand and Leadership Positions- Does not usually happen with strategic buyers
- Capital for M&A and Growth-Prices for firms with \$20M or more in Revenue are increasingly expensive

PE Investments in 2023

1

100 + PE Investments
in 2023

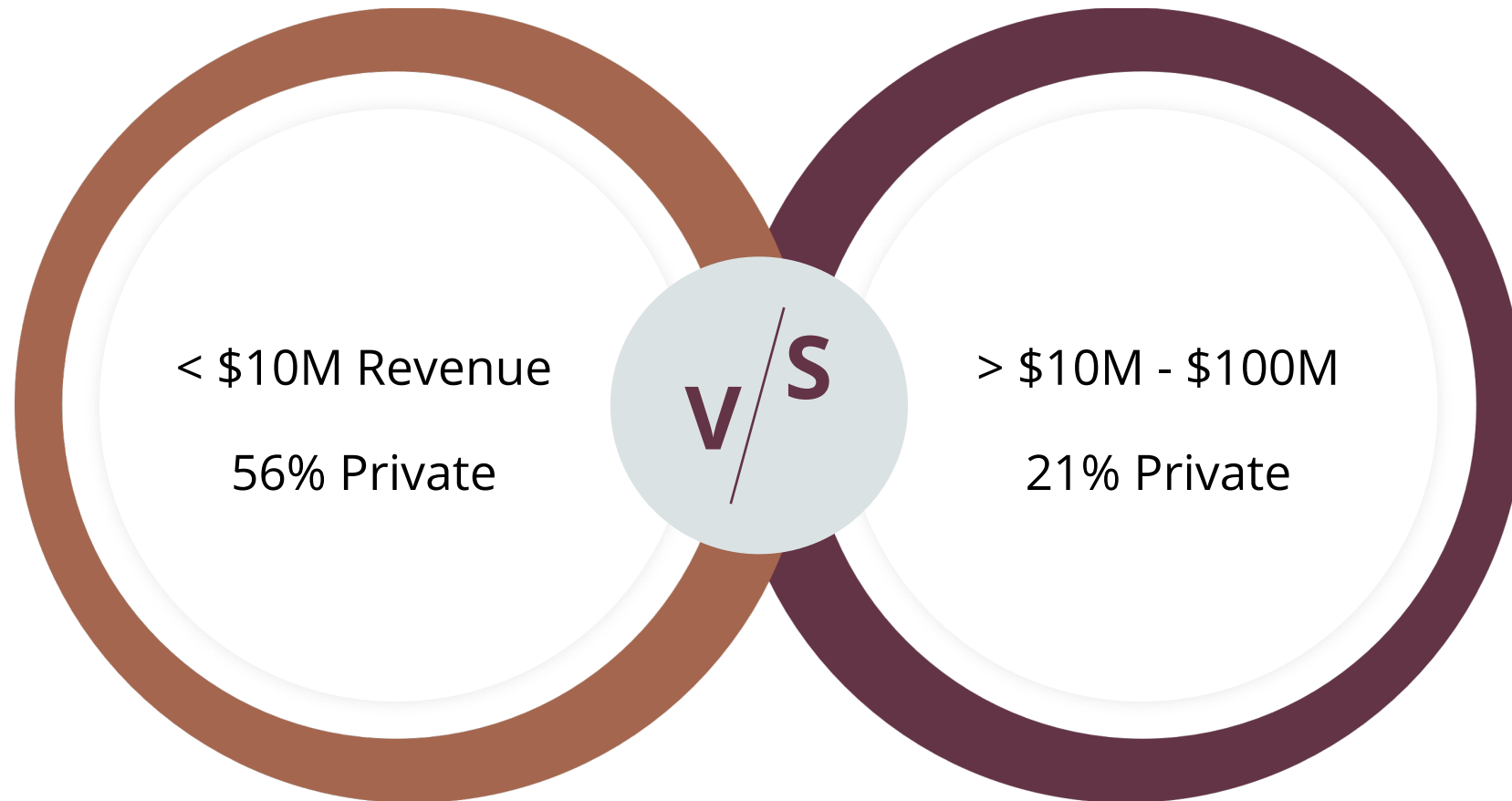
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Seemingly Involved in
the majority of Deals
over \$15 Million

3

Have driven prices up,
willing to go higher in
BAFO stage

Private Equity Vs Private Buyers



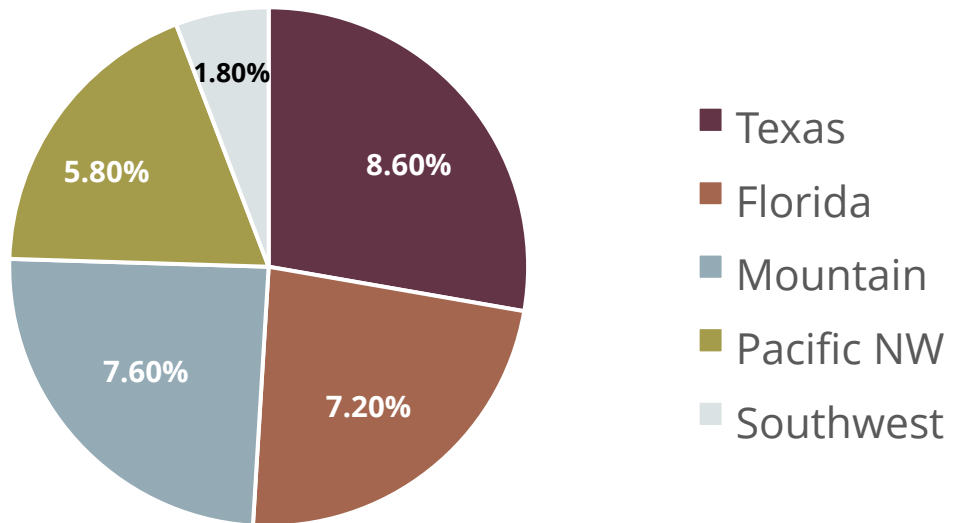


Acquisitions That Involve PE

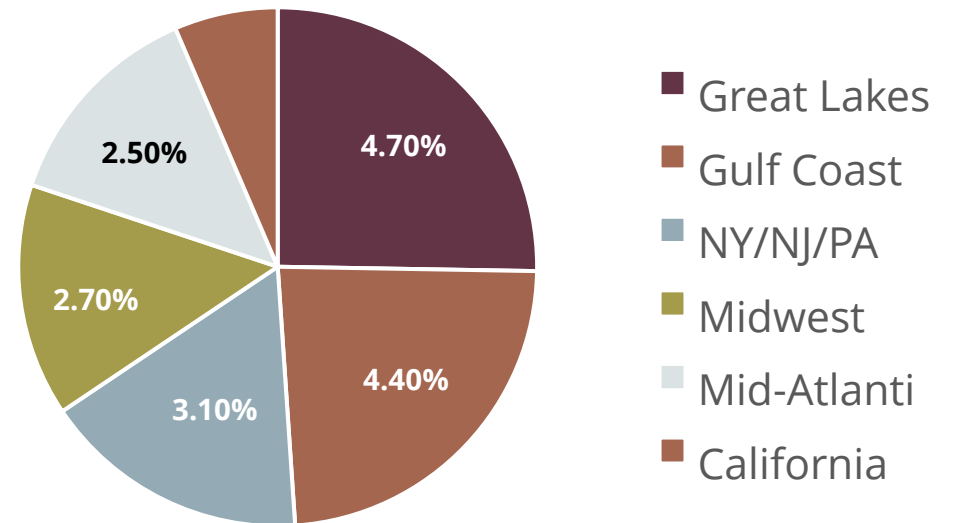
- ✔ Extremely Competitive and Price oriented
- ✔ Extremely Hard To Emerge Victorious
- ✔ Then at What Price ?
- ✔ And what Concessions?

Markets- Geographic

Growing Regions-Population

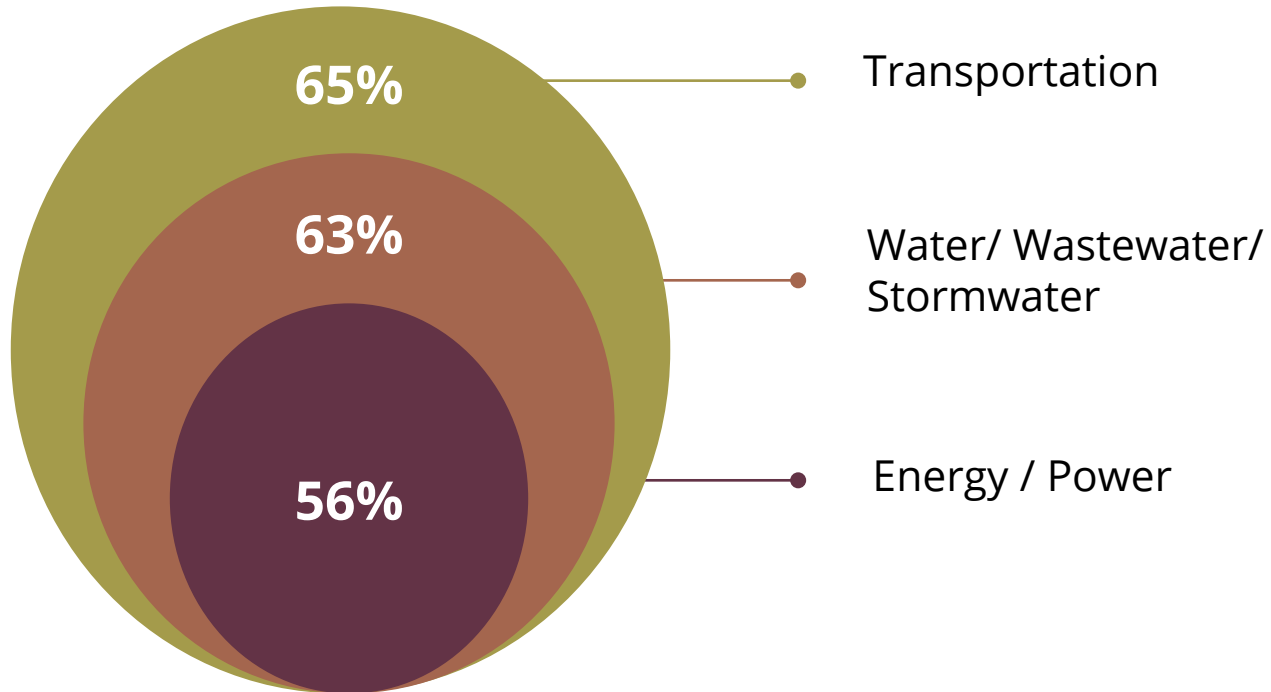


Shrinking Regions-Population



Markets- Sector

Industry View of Hot Growth Markets

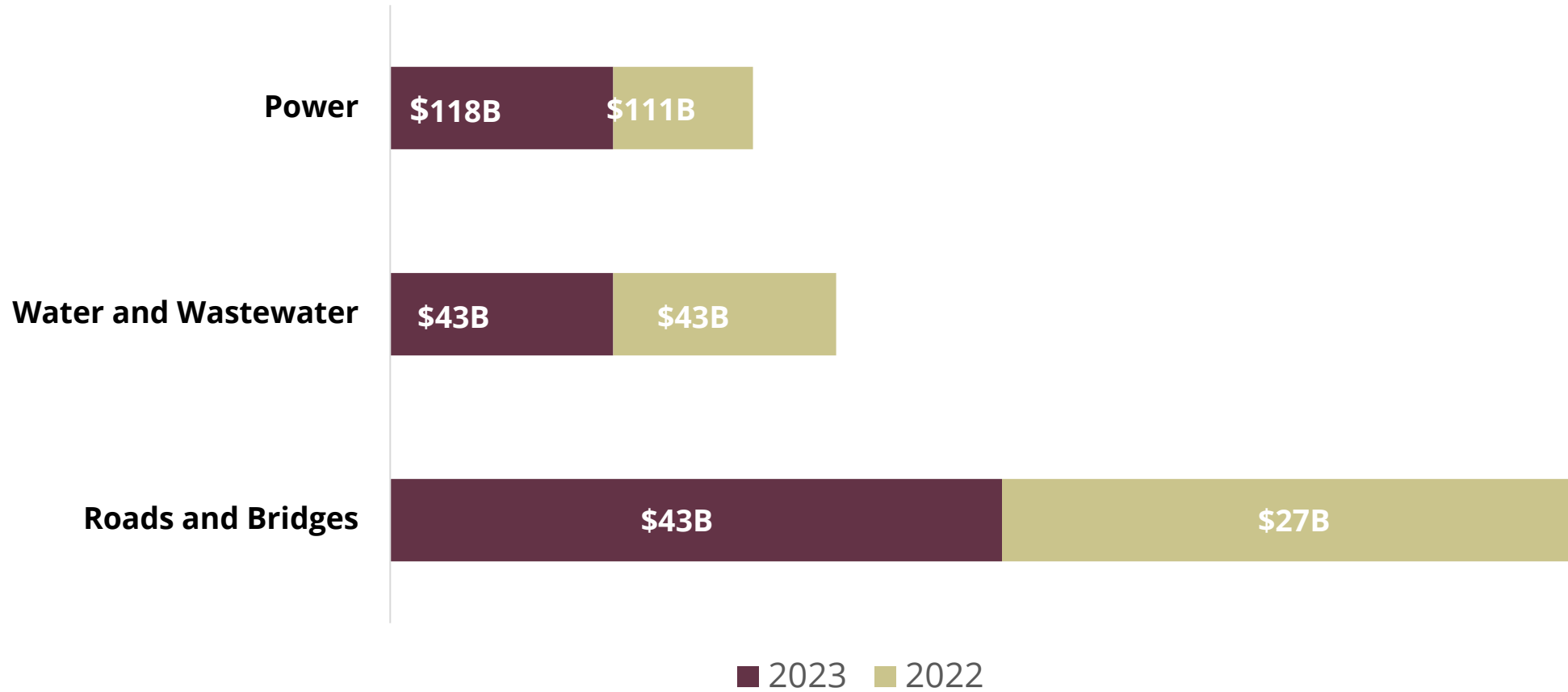


**No Other Sectors
over 50%**

Government Funding driving much of this optimism



Markets Sector Size



Competitive Landscape

**Industry is being
challenged by 3 major
issues:**



Private Equity Consolidation- creating a more complex playing field in M&A, Talent Retention and Recruitment, and stronger Competitors

Talent and Leadership- sheer #'s (demographics), Total compensation for performers rising, increase in viable competitive options for key employees

Technology-internal challenges to increase operating efficiency, BD tools and project delivery, external challenges to address rapid change in client deliverables



Firm Competitive Necessities

- ☑ Consistent revenue and earnings growth
- ☑ Minimize working capital
- ☑ Strategic approach to technology
- ☑ Risk management of alternative delivery approaches
- ☑ Maximize Employee ownership culture to minimize turnover
- ☑ DEI
- ☑ Performance



Technology

- ⊙ Creating different project solutions
- ⊙ Large firms creating sophisticated product offerings with technology
- ⊙ Competitors or teaming partners will be data and technology firms
- ⊙ Challenges in being Innovative, disciplined and firm wide standardization where appropriate
- ⊙ Cost recovery and quality deployment of technology will need focus

Technology Evolution

Drafting to Cad

BIM 2D to 3D – Model
Oriented

BIM 2.0 Data in the
Cloud

Bim Today: Data not
used in operations or
Maintenance, and used
for future projects

Technology Future Developments



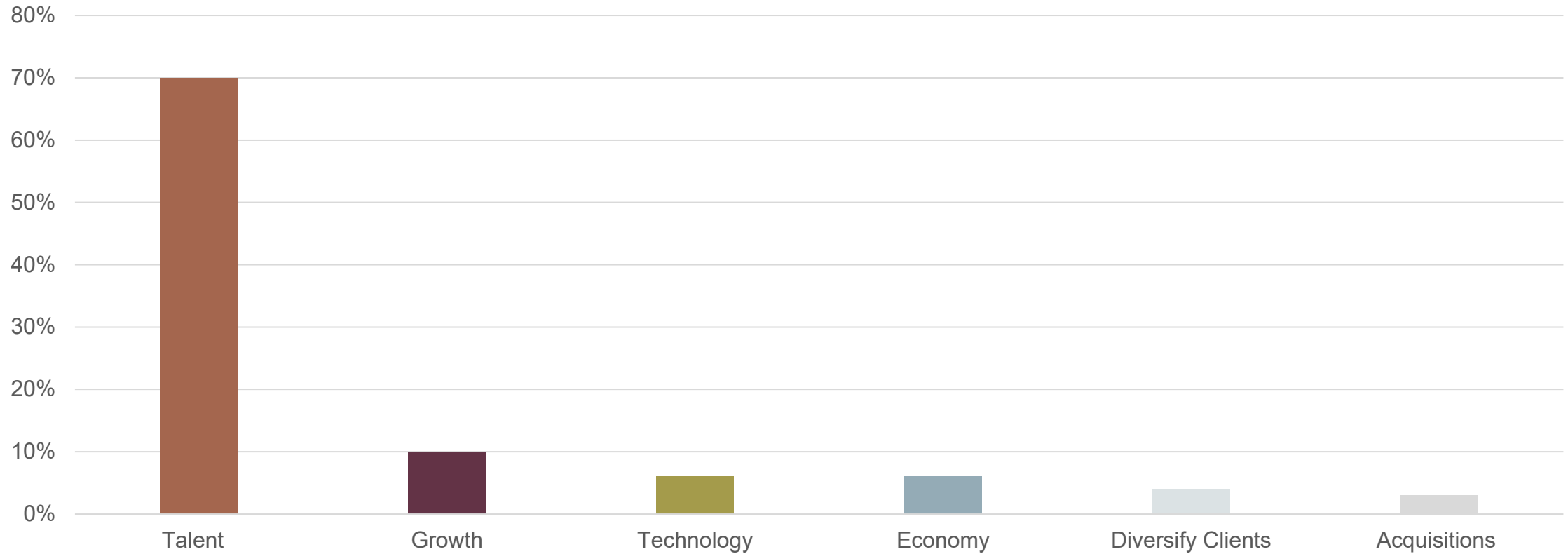
- ✔ Data and Tool Expansion
- ✔ Digital Twins requested by owners
- ✔ Automation and Generative AI

Creating a

Outcome Based Approach

Leadership Concerns

Talent is the Top Concern



Talent/ Hiring #1 Concern by 5X!

01

Finding and Retaining Qualified Staff-

Shortages are real throughout the Industry

02

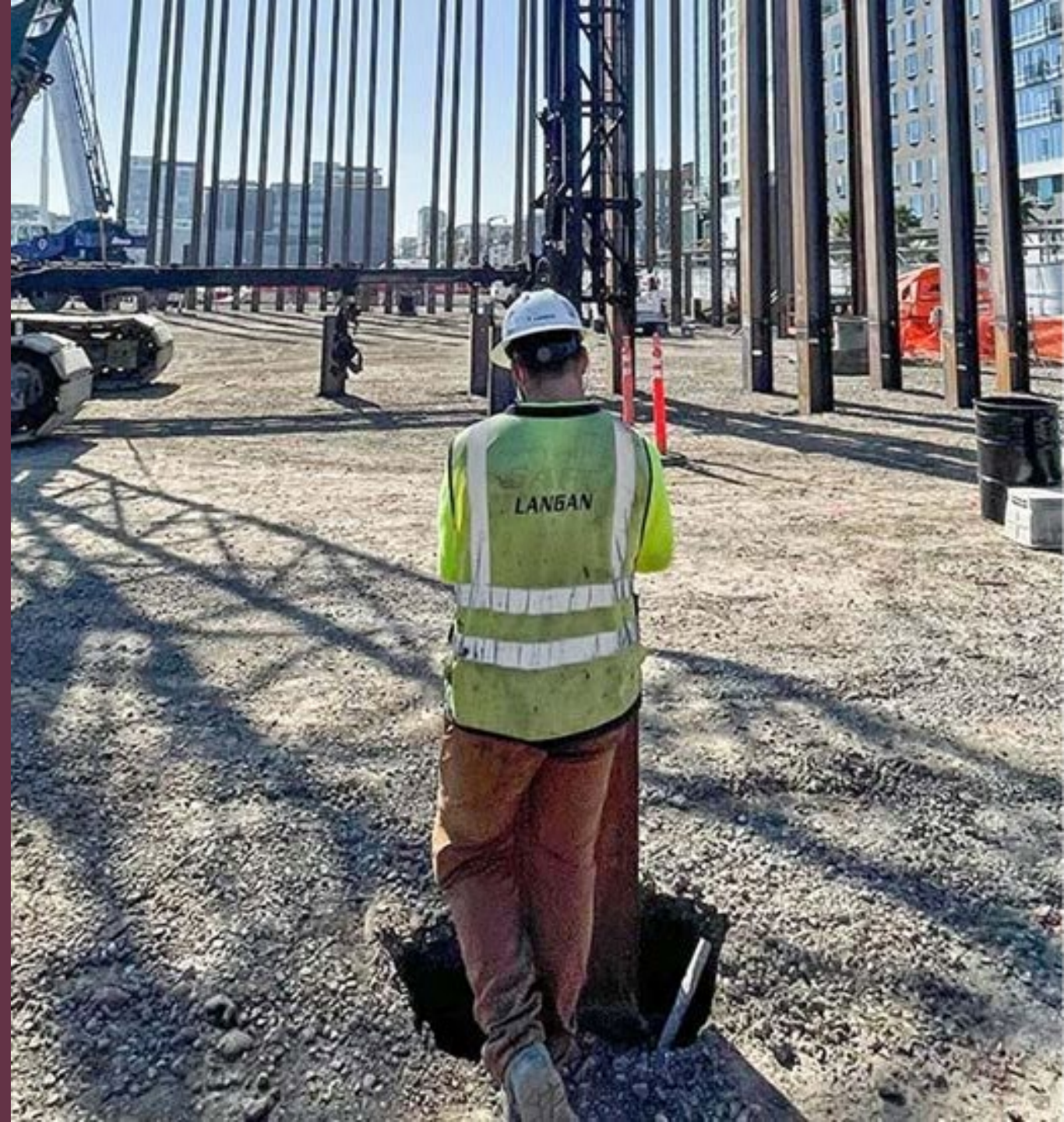
Staff Shortages- Increase in Business Acumen across Industry will ratchet up competitor responses

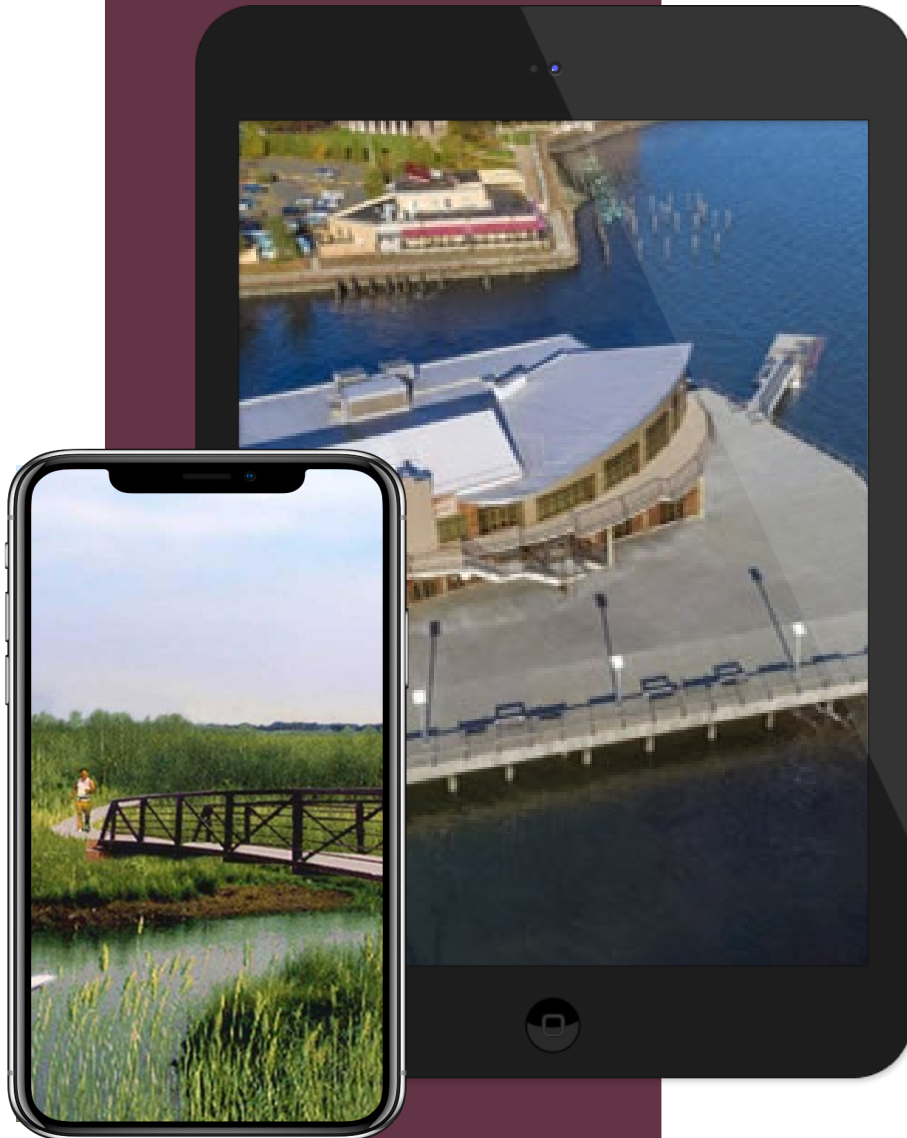
03

Lack of Time to invest in learning- Training and development a large issue for new employees

04

Finding time to nurture client relationships- Turnover decreases internal developed client relationships





Talent Observations

- ☑ “War for Talent” will get worse
- ☑ Labor Costs will be increasing fast and well beyond the norm
- ☑ Inclusion and adherence to values will increase in importance for younger professionals
- ☑ Include challenges such as work-life balance, career development and communication
- ☑ Retention takes prominence as a KPI
- ☑ Emerging Skill sets will be in short supply (Technology and Data)

A background image showing a business meeting. In the foreground, a person's hands are writing in a notebook. Below the notebook, there are several documents with bar charts and data tables. In the background, another person is visible, also working at a desk. The overall scene is professional and focused on data analysis and business operations.

Talent Observations

- ✔ Specific strategy around Talent a business requirement
- ✔ Employee ownership structure is a competitive advantage in M&A and recruitment
- ✔ Internal leadership development a must
- ✔ Leadership identification needs to be a core competency

Challenges in Human Capital Management



Retention Requires a Strategic Approach

- ☑ Career Development Paths must be visible and personal
- ☑ Need to provide opportunities for skill development
- ☑ Training programs must be meaningful
- ☑ Mentorship needs to be rethought
- ☑ Clear path must be seen for career advancement



Work Life Balance

- ☑ Identify Hourly Boundaries for each employee
- ☑ Flexibility requires structure!
- ☑ Leaders must set expectations for the team
- ☑ Leaders must understand individualized issues and be transparent throughout the team





Meaningful Work

- ☑ Young professionals are driven by a sense of purpose
- ☑ Want to contribute to projects that align with their values and interests
- ☑ Begin process in recruiting stage
- ☑ Providing Challenging opportunities can increase job satisfaction and retention

Feedback and Recognition

- ⊙ Decouple Compensation and development discussion
- ⊙ Performance management systems have not had a positive effect on employee or organizational performance (McKinsey Global survey)
- ⊙ Improve manager skills through Coaching
- ⊙ Link Employee skills to business priorities
- ⊙ Provide differentiated compensation





Positive and Inclusive Culture

- ☑ Physical location no longer drives organizational culture
- ☑ Rituals must adapt to hybrid work sharing important information (Town Halls vs Intranet)
- ☑ Communication Channels may have shifted entirely
- ☑ Identify behaviors that reflect your cultural values and adapt them for a hybrid environment



Technology and Innovation

- ✔ Younger Professionals embrace cutting edge methodologies
- ✔ Can become the source of innovation
- ✔ Opportunities for reverse mentoring



Leadership and Responsibility

- ☑ Our industry is slow to advance Talent
- ☑ Opportunities abound for leadership opportunities
- ☑ Find ways for more client interactions, managing project elements
- ☑ Delivering the work with innovation offers many possibilities

Communication and Transparency

- ⊙ Provide frequent and transparent communications about company goals, strategies and decisions which builds trust and loyalty
- ⊙ Keeping younger professionals informed about the direction of the firm and how their work contributes to its success can increase engagement and retention
- ⊙ Solicit their input!



Become an Operations Partner



Talent Acquisition and Recruitment Strategy

- ⊙ Develop a deeper understanding of specific skills and expertise needed for your Firm projects and Client engagements
- ⊙ Develop targeted recruitment strategies that attracts top talent with the right technical skills, industry knowledge and client facing relationships and skills





Training and Development Programs

- ☉ Partner with Operations to design and implement meaningful training and development programs that enhance the skills and competencies of Engineering Consultants
- ☉ This can include technical training and experiences, Project and Task Management workshops, leadership development programs, and certifications

Improve Performance Management Systems

- ⊙ Partner with Operations to align performance management systems that align individual goals with the firm's strategic objectives.
- ⊙ Assist leaders in establishing clear performance metrics, providing regular feedback and improving the practice of performance reviews
- ⊙ Goal is to optimize staff performance, productivity, engagement and retention





Partner to Improve Employee Engagement

- ✔ Measure Engagement at appropriate Operations levels
- ✔ Partner with Operations to address leadership drivers
- ✔ Areas to consider: Employee recognition programs, supervisor feedback, work-life balance, career opportunities, localized turnover metrics


Firm Wide Succession Planning

- ☑ Partner with Operations to Identify High Potential Employees at all levels
- ☑ Develop overall and deeper dive succession development efforts
- ☑ Be creative in providing learning opportunities
- ☑ Hard Code some development opportunities in Firm Rituals



Develop a Deeper Understanding of the Business





Immerse Yourself in the industry

- ☑ Read Industry Publications and subscribe to newsletters
- ☑ Listen and learn from webinars
- ☑ Attend Conferences
- ☑ Develop and engage with a broad network

Shadow Operations Leaders

- ☑ Attend Client Meetings and Presentations to gain firsthand insights into Client engagements
- ☑ Engage in Project Reviews, Operations budget Developments, Proposal development, scope negotiations to develop a more nuanced view of the business and skills required



Participate in Training and Development

- ☑ Attend Industry driven outside training programs
- ☑ Attend and participate in internal operations and sales programs



Collaborate with Operations Teams

- ④ Partner with Operations on developing and delivering annual results and forward-looking plans
- ④ Actively participate in operational meetings, strategy sessions and project reviews
- ④ Strategic insight into the day-to-day workings of the business, will lead to creative solutions that enhance operational effectiveness.





Summary

- ✔ Market funding and growth dynamics strong
- ✔ Private Equity is changing the competitive landscape
- ✔ Industry expanding into growing geographical markets
- ✔ Stronger Competitors are being Funded and created
- ✔ Talent-Fundamental business strategy required
- ✔ Technology- A tidal wave of change, evolution of strategic approach an imperative

Thank You

