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## Design-Firm CFOs Relate Post-Recession Strategies

04/20/2011

By *Debra K Rubin*

Text size: **A** **A**

Chief financial officers of engineering companies underestimated the speed of the industry's post-recession recovery, but they are taking aggressive steps to rein in costs and focus on balance sheets. In a survey of 120 firms, CFOs report median growth of 2% in 2010, below the 4.5% increase they projected for the year when queried last April. They also report a 9.6% median profit margin for last year, less than the 10.7% return they had forecast a year ago.

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"I see the increasing role of metrics and squeezing costs," said Paul Zofnass, president of EFCG Inc., a New York City financial adviser and industry-focused mergers-and-acquisitions broker, which conducted the survey. Results were shared at an April 15 conference in New York City that attracted about 125 respondents and other CFOs. Firms appear more confident this year, projecting 6.3% median revenue growth and an 11.1% median rise in profits by the end of 2011, he said.

Zofnass found varying results based on characteristics such as revenue size and market sector, with the smallest firms growing the fastest and medium-sized (\$100 million-\$250 million) designers the most profitable (see chart). Firms in the environmental-cleanup sector posted the best growth rates, while those in the water-wastewater niche had the best margins. Transportation firms trailed both.

Respondents said their need for larger projects and more work as well as globalization trends will drive more

consolidation. "Conservative valuations of employee-owned firms make them attractive targets," says Zofnass. But not all deals work out. Citing results from EFCG's 2010 survey of design-firm chief executives, Zofnass said the CEOs termed 38% of their acquisitions disappointing or "marginally" successful.

In the CFO analysis, most respondents said the key lesson learned from the recession was to "react faster and more aggressively." One anonymous CFO urged peers to "cut payroll costs as soon as revenue takes a dip."

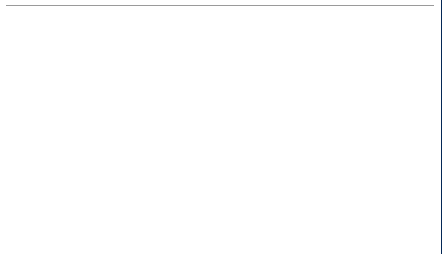
David Barnes, CFO of MWH Global, Broomfield, Colo., told attendees the firm saw strong demand for services in natural resources and hydropower, "but we're less rosy on municipal projections." Michael Lucki, CFO of CH2M Hill, Denver, anticipates a "tougher 2011," noting slowdowns in the transportation and federal sectors. He projects just 1% growth in U.S. environmental work, but the firm's microelectronics niche prospects are booming. "We can't hire fast enough," Lucki said.

HOW DESIGN-FIRM CFOS SEE KEY FINANCIAL TRENDS (MEDIANS)					
Revenue in \$ mil. (# of firms reporting)	Internal Revenue Growth			Profit Margin	
	Actual 2010	Forecast 2011	Projected 2012	Actual 2010	Forecast 2011
\$1,000 (16)	0.6%	8.5%	8.5%	10.0%	11.1%
\$250-\$1,000 (18)	0.0%	5.5%	7.4%	8.7%	9.4%
\$100-\$250 (26)	1.7%	6.0%	7.5%	12.5%	12.4%
\$50-\$100 (23)	2.0%	5.9%	8.0%	10.1%	10.5%
Less than \$50 (34)	6.0%	8.8%	8.8%	9.3%	11.2%

FOOTNOTE: BASED ON SURVEY OF 117 ENGINEERING-FIRM CHIEF FINANCIAL OFFICERS IN APRIL 2011  
SOURCE: EFCG

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