



EFCG

Environmental Financial
Consulting Group

2021 Chief Executive Officer Conference

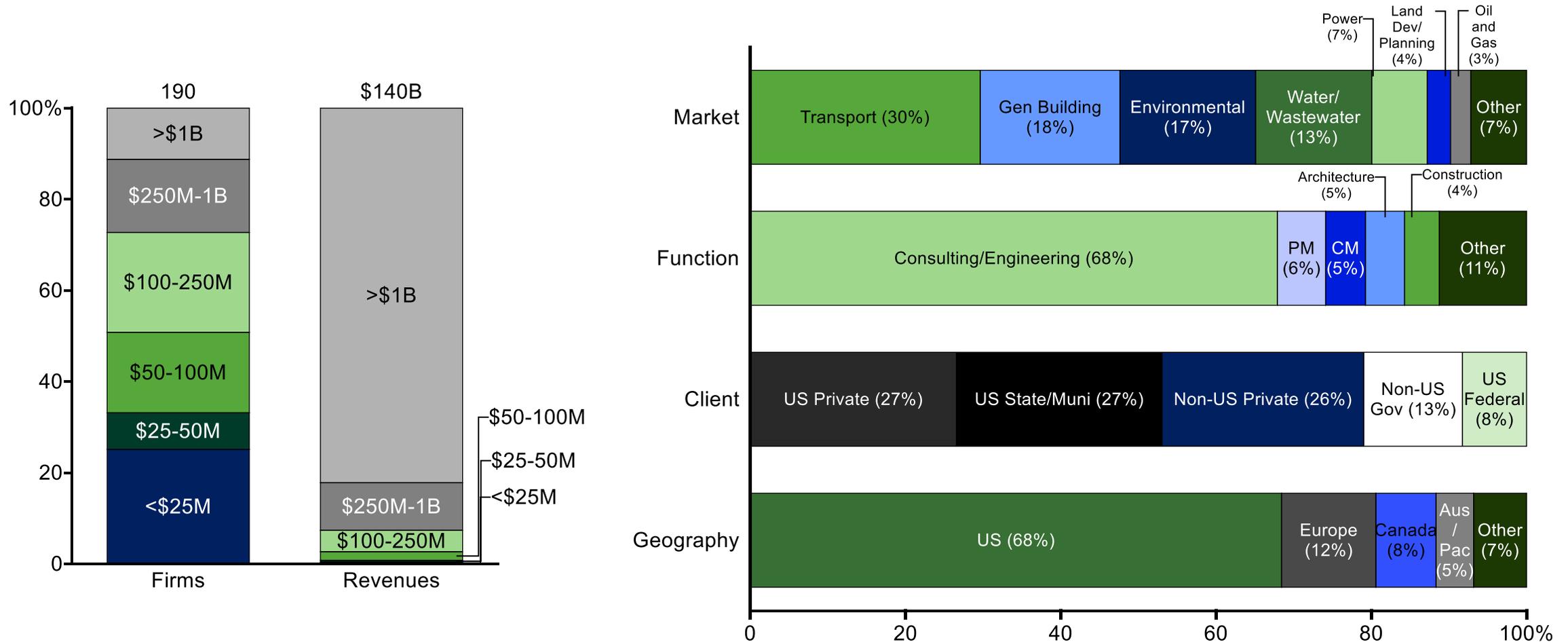
Sample Industry Overview

Agenda

- **Survey Demographics**
 - Survey participants by size, end market, function, client type, and geography
- **Executive Summary**
 - Industry overview key takeaways, and upcoming industry trends
 - CEO perspective on priorities and threats
- **Key Benchmarking Metrics**
 - Current, historic (1996-2022), and projected growth and profitability trends by firm sizes (medians and averages)
 - Backlog, utilization and net revenue multiplier
 - Overhead cost compositions
 - Working Capital and Cash (2006-2020)
- **Industry Outlook**
 - Organic vs inorganic growth projections
 - Analysis of potential end markets and geographies with most business opportunities
- **War for Talent**
 - Current and historic turnover (1998-2021); and turnover by firm size and ownership structures
 - Key talent concerns and strategies on tackling the issue
 - COVID pandemic impact on in-office vs remote work settings
- **Acceleration of technology**
 - Technology and its implications on the industry
 - Firms forward stance on technology
 - Four circles of technology related to the AEC space
- **Sustainability / ESG**
 - Drivers of increased importance of ESG to AEC firms
- **Mergers & Acquisitions**
 - Current, historic, and estimated M&A activity in the industry
 - Current and historic M&A multiples by target firm size Drivers of higher transaction multiple
 - Consolidation of firms in the space through M&A
- **Valuation Conundrum**
 - Internal ownership vs M&A multiples – arbitrage opportunity / risk
- **Managing Risk**
 - Drivers of success / challenges in a downturn (and benchmarks around profit / risk)
- **Appendix**
 - *Demographics*: Ownership Breakdown - % of firms and % of revenues
 - *Growth and profit*: By firm size
 - *Growth*: Historic AEC industry growth (1996-2021) indexed against the US GDP
 - *Balance Sheets*: Average balance sheets by size of firm
 - *Utilization*: Time-based professional employee utilization by firm size
 - *Client Concentration*: revenues and profits for top 10 clients by firm size
 - *Business Development*: Key Business Development metrics and benchmarks
 - *Alternative Delivery*: % of firms taking on that risk (and what type)
 - *Diversity*: Employee diversity by firm size
 - *Diversity*: Historic employee diversity (2010 – 2021)
 - *Compensation*: CEO compensation by firm size
 - *Pricing*: Perceived pricing pressure by client type

Survey Demographics

This year's CEO Survey participants were widely distributed across revenue buckets and comprise over \$140B in revenues. Firms are predominantly e/c focused, across transportation, gen building, environmental, water/wastewater and power.



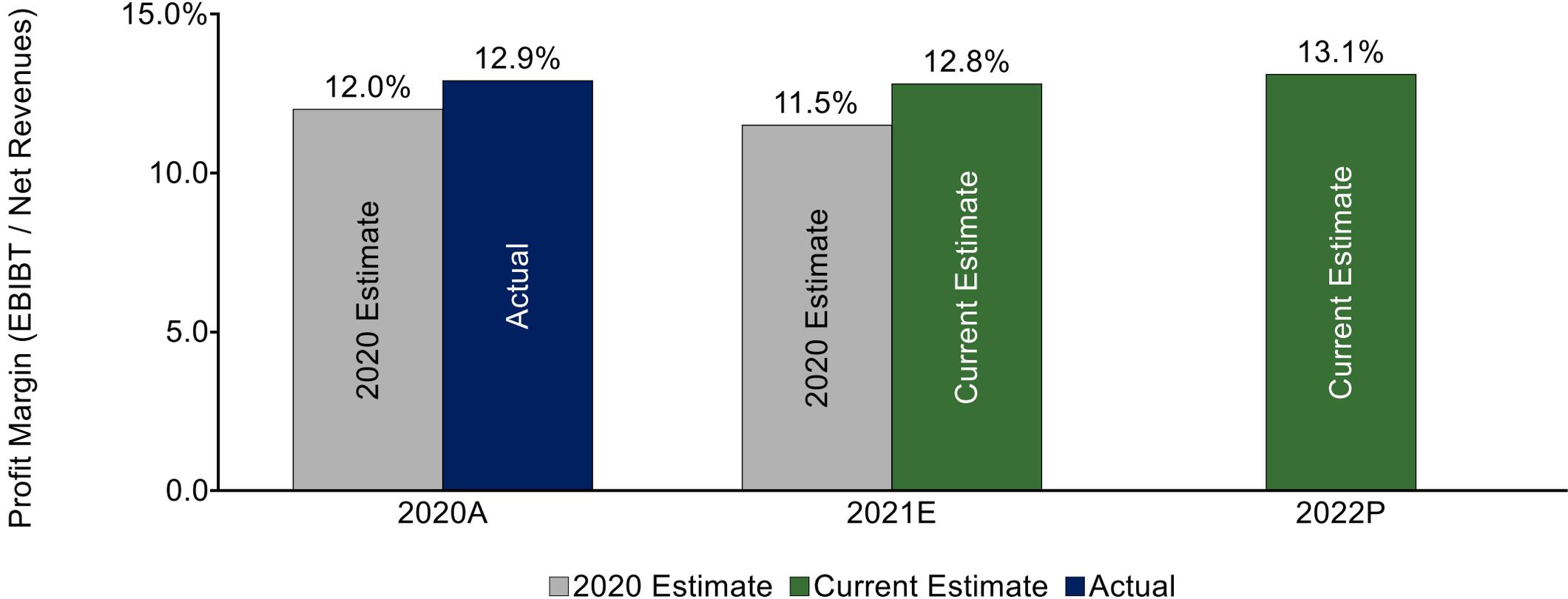
Source: 2021 EFCG CEO Survey

Industry Overview & What's on the Horizon

- 2020 finished stronger than anticipated for AEC firms, in terms of growth and profit
 - However, we saw greater variance / more extremes in 2020 compared to 2019
- As growth recovers and costs come back, profitability is expected to hold steady around 13% EBIBT/Net Revenues
 - The underlying drivers of revenue (e.g. backlog) and profitability (e.g. revenue multiplier and utilization) remain strong
- Looking ahead, the growth outlook is optimistic (but beware the over-optimism bias we usually see in the industry!), and transportation, environmental and water/wastewater are viewed as the hottest markets going forward
- We expect that the downturn and challenges of 2020 will accelerate key market trends, including the war for talent, technology and innovation, ESG, mergers & acquisitions, the challenges of internal valuations, and managing a risk portfolio

Current Profitability

2020 profitability came in higher than projected at this time last year, and is expected to hold steady in 2021 and 2022 around 13%

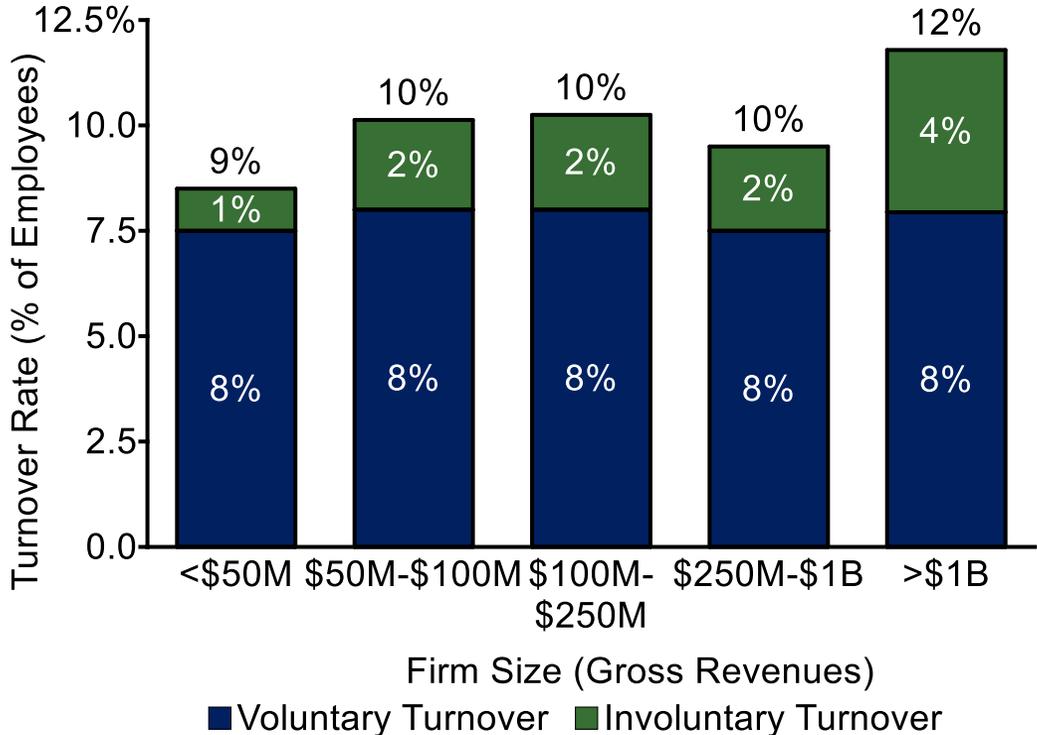


Source: 2021 EFCG CEO Survey; 2020 EFCG CEO Survey

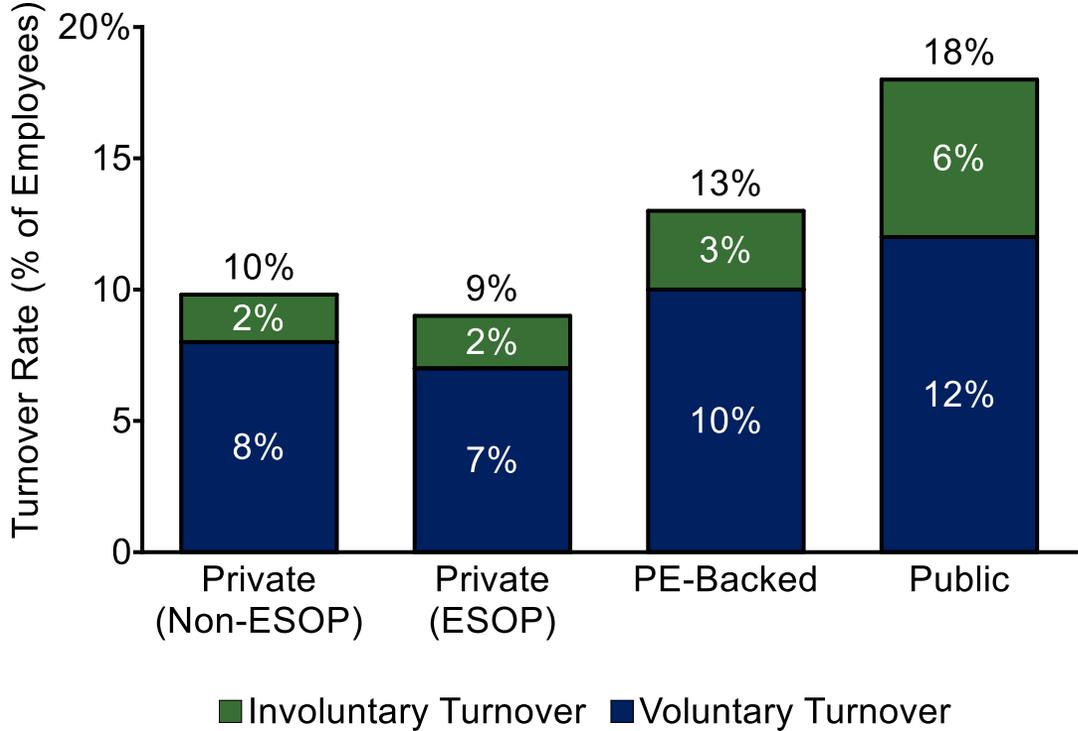
Turnover by Firm Size & Ownership

Turnover across firm sizes and ownership structures dropped compared to last year, with the exception of public firms which saw a 4% total increase.

Median Turnover by Company Size



Median Turnover by Company Ownership

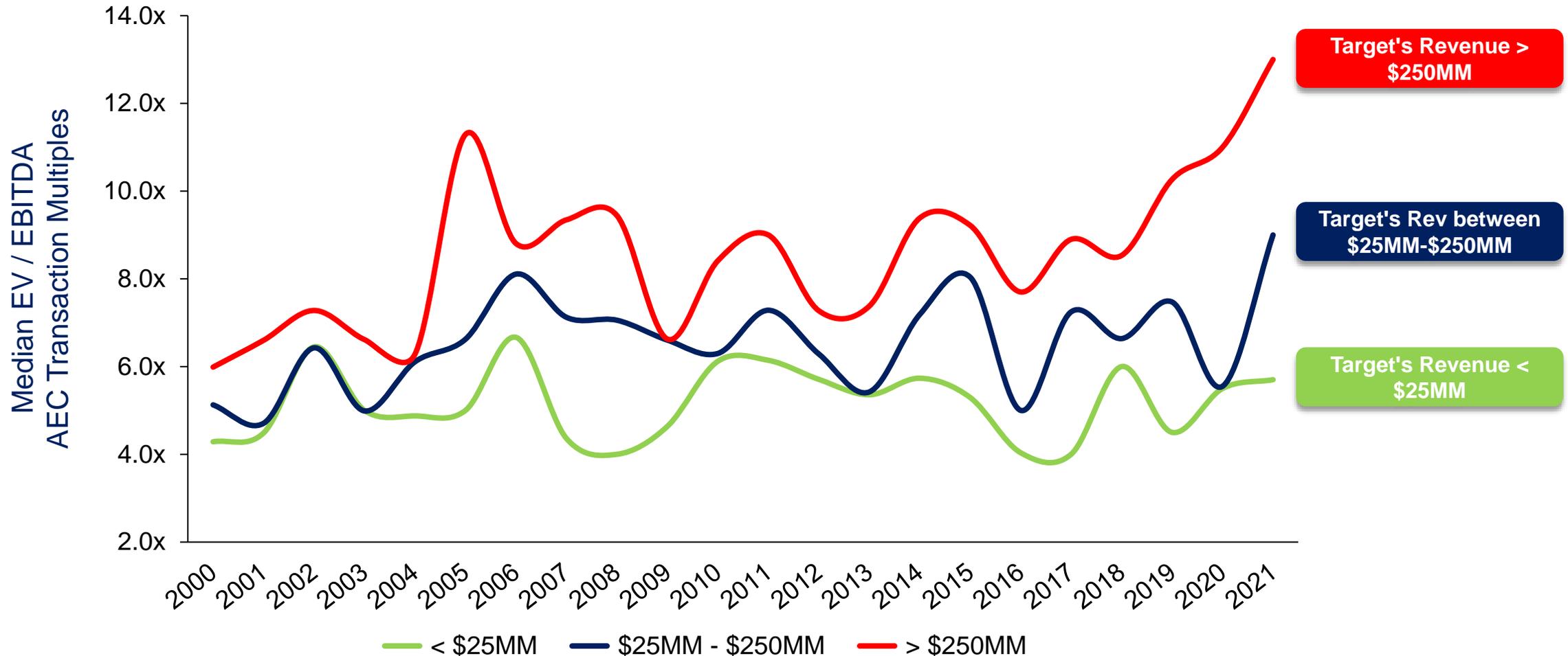


Turnover is estimated to cost \$50-150K per employee.
 Reducing voluntary turnover by 1pt (e.g. going from 10% to 9%) adds **4-5%** to a firm's bottom line

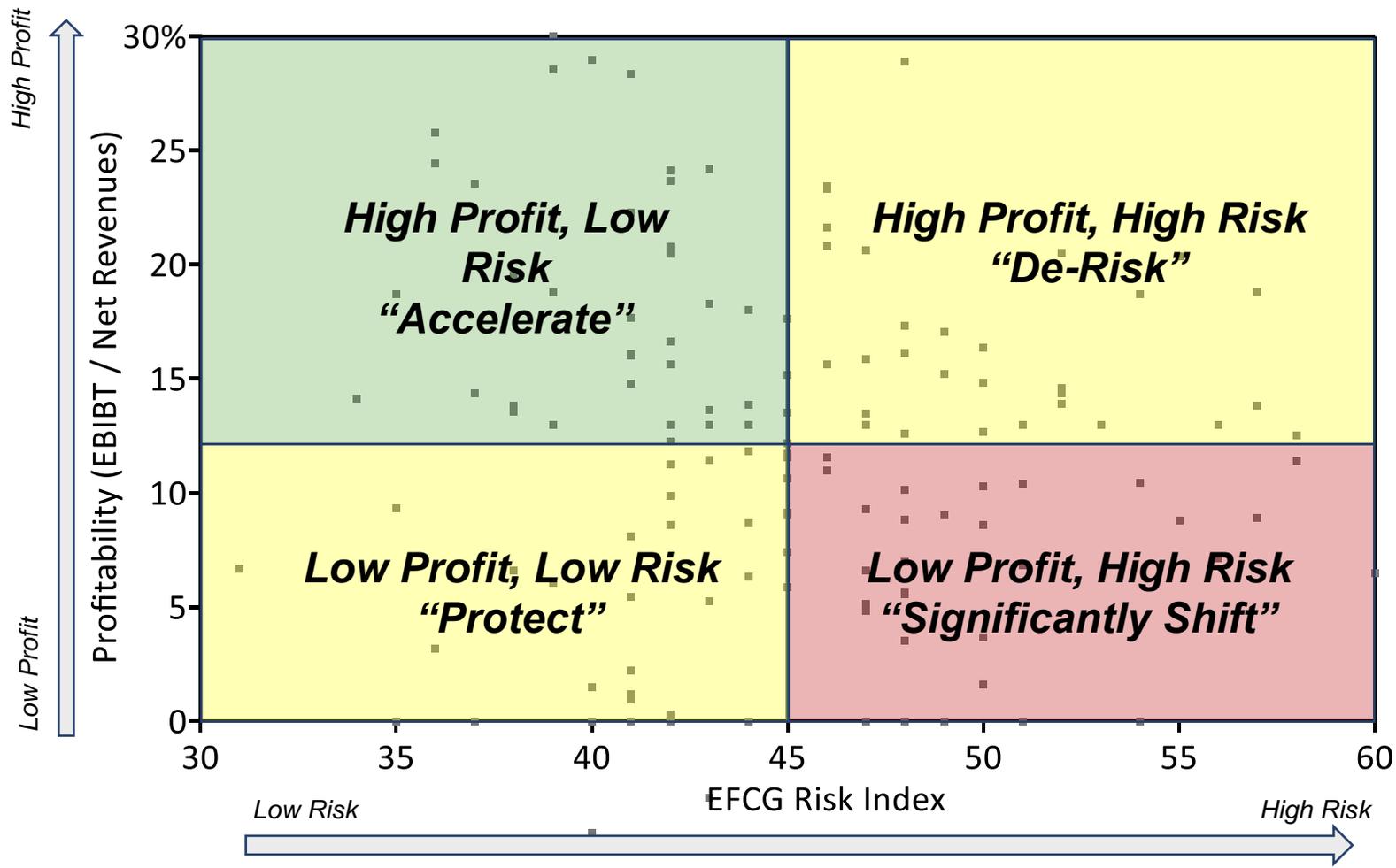
Source: 2021 EFCG CEO Survey

EFCG M&A Multiples in the AEC Industry

M&A multiples are strongly correlated with the target firm's gross revenue. Large and mid-size transactions are occurring at even higher multiples, while smaller transactions are converging around the long-term average.



Estimating Success in a Downturn: EFCG's Profit / Risk Matrix



Are you well-positioned to navigate through a downturn?

What implications does this have on your priorities?

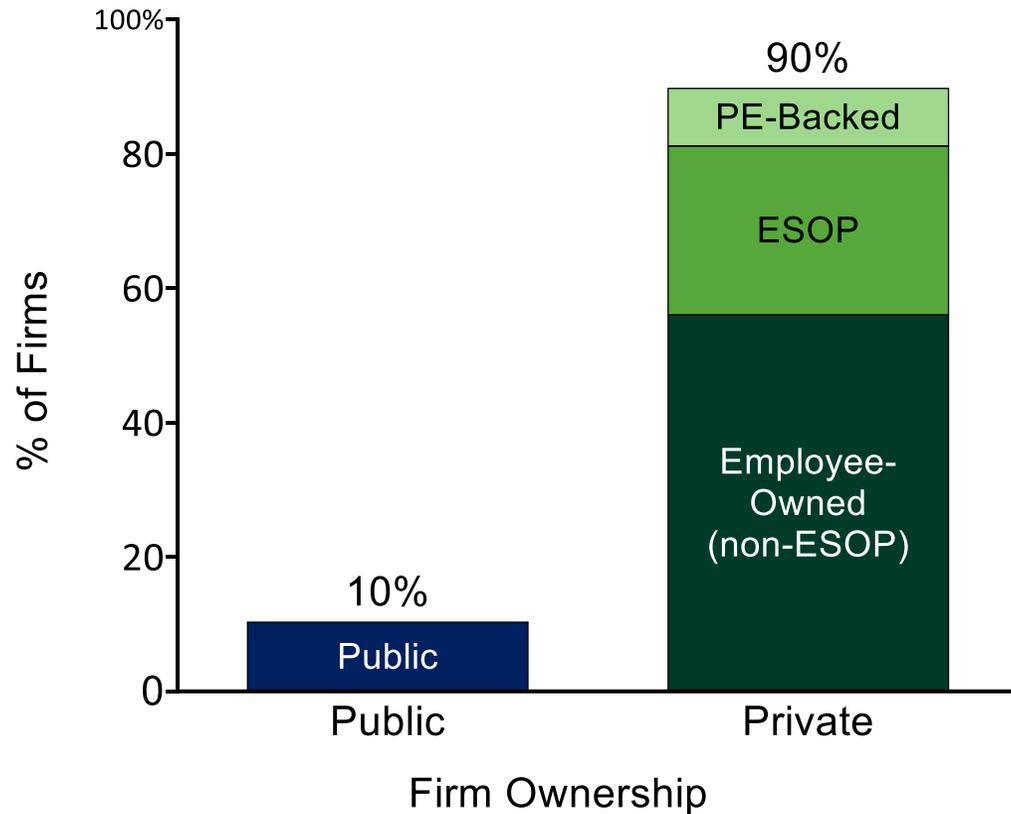
Which steps are most imperative in the short term? The long term?

Source: 2021 EFCG CEO Survey

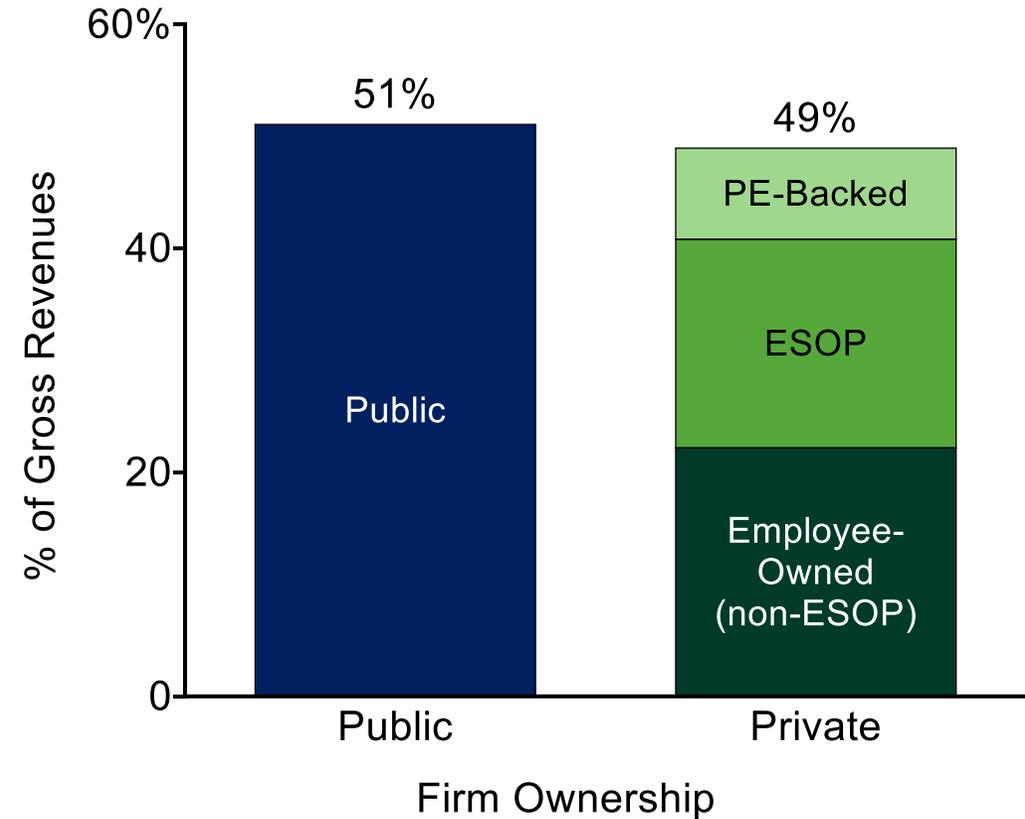
Ownership Breakdown - % of Firms and % of Revenues

Public firms only make up 10% of firms but comprise 51% of revenues.

of Firms



Revenue of Firms

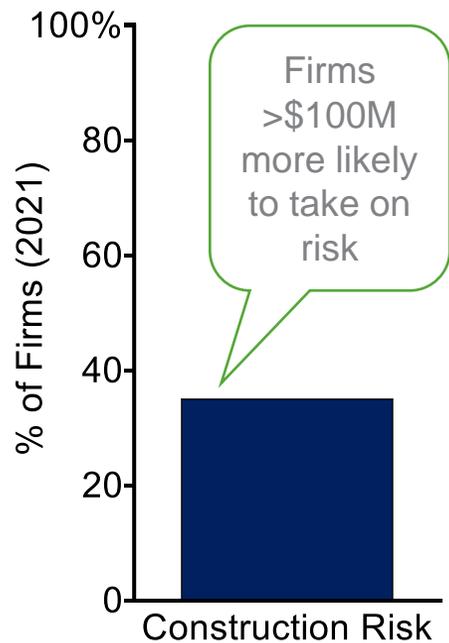


Source: 2021 EFCG CEO Survey

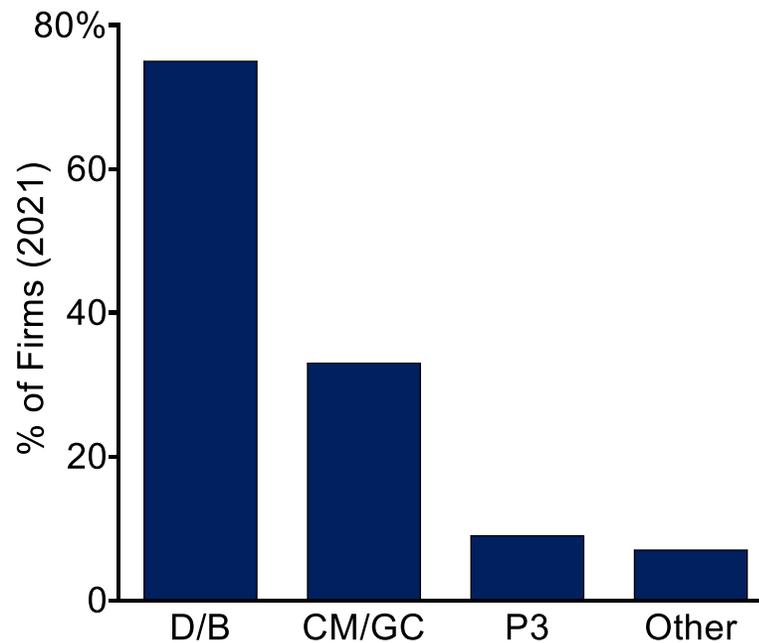
Alternative Delivery Methods

~35% of AEC firms assume some type of construction risk (down from previous years) – ~75% of those firms take on Design / Build and 30% do CM/GC. But alternative delivery has not become as financially meaningful as was projected four years ago. Are firms being increasingly cautious about the risk exposure? How can firms provide these services without taking on excessive risk (or ensuring that they are compensated for the increased risk)?

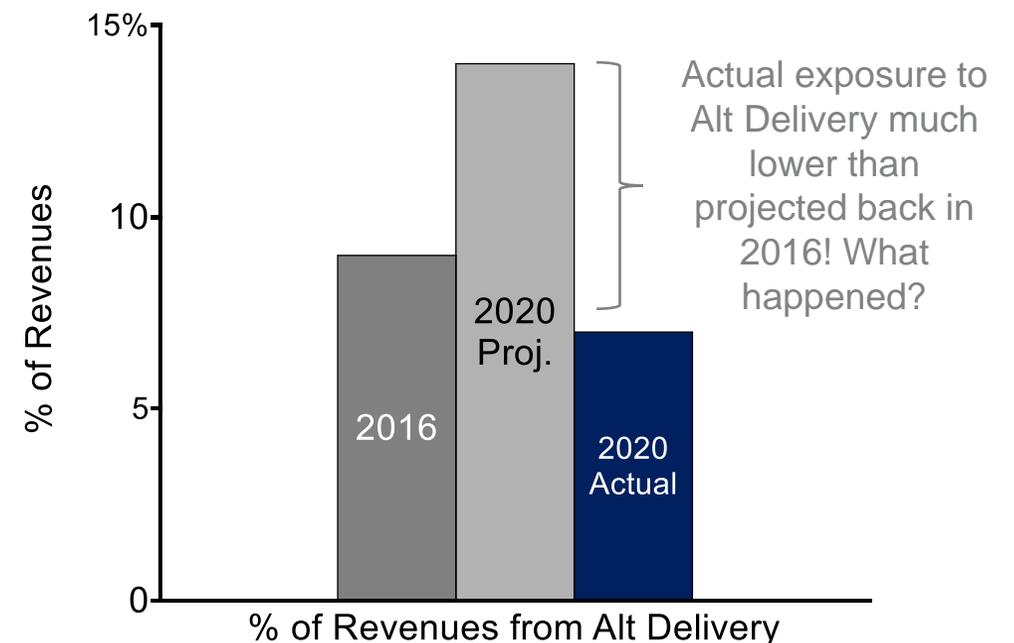
Assumed Risk



Types of Construction Risk



Revenues from Alt Delivery



Source: 2021 EFCG CEO Survey

Ways to access the remaining 50+ pages of EFCG's AEC Industry Overview covered in the agenda

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