

CEOs Enjoy Strong Markets But Are Wary of the Future

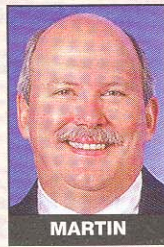
With engineering and construction firms seemingly in the pink these days, some CEOs are making plans to give something back in the form of “social responsibility” initiatives—from buying carbon credits to offset energy use to more *pro bono* consulting work. They see the efforts as a key recruiting and image tool, but other corporate chiefs warn that continued industry growth and profitability still faces some key challenges.

The economic views and fledgling social plans were discussed in New York City Oct. 19 at the annual industry CEO conference sponsored by locally based financial management firm EFCG Inc. Its survey of 192 industry companies showed that they posted total revenue of \$47.8 billion in 2006, a 12% hike over the previous year, said EFCG President Paul J. Zofnass. Backlog similarly rose 13% over last year, while operating margins were estimated to rise 11.8% by year end and 12.5% next year, the firms say.

About 70 of the firms have annual revenue of more than \$100 million, while more than 50 have under \$25 million. Zofnass said that for the first time since 1994, annual growth and profit results exceeded the prior year's projections.

Zofnass pointed to a strong global economy, federal spending, real estate boom, low interest rates, aging infrastructure, disaster relief, private investment, better pricing and “hot markets” as among the catalysts for the industry's “good times.” Some CEOs agreed. “We are connecting historical underinvestment and building in underdeveloped countries,” said Ralph Peterson, CEO of CH2M Hill Cos.

Robert B. Uhler, president and CEO of MWH, Broomfield, Colo., pointed to the revenue surges generated by reconstruction in Iraq and along the Gulf



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“We'll all be under attack by Indian firms in the next decade or sooner. We now see clients being approached by firms. If it continues, it will have a meaningful negative impact. We also want to take on less risk. Taking risk on because you can buy insurance for it is a slippery slope. It's not a good idea.”

Coast, but he emphasized that “none are sustainable at the peak they're in now.”

Craig Martin, CEO of Jacobs Engineering Group Inc., Pasadena, which specializes in industrial markets, noted the impact of skyrocketing oil prices on that sector's work. “If oil stays at \$40 to \$80 a barrel, it's good news for the industry,” he said. But he was less than certain that the strong market would continue for a “long time.”

Other CEOs pointed to state and municipal budget recovery and burgeoning tax receipts. Said Peterson of that sec-



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“The favorable economic conditions allow for more [project] selectivity. You are less likely to be squeezed. But the war for talent is heating up. In the short term, higher salaries will make the E&C business more attractive, but we could still get sucked into the black hole of commodity pricing.”

tor, “There's no muni too puny.”

But the assembled CEOs did not mince words about the gathering black clouds that could cause problems. “With constraints of available staff, we're not eager to take on contracts with bad terms,” said Alan Krusi, CEO of Earth Tech, Long Beach, Calif. “The percent of our work that's cost-reimbursable has diminished over the last 10 years. There are caps on some of our projects.”

Firms are paying more attention than ever to the “R” word—risk. “Firms are taking a more sober look at what they're good at,” said Dan Batrack, who about a year ago took over as CEO of Pasadena-based Tetra Tech, following rough financial times for the firm and a corporate realignment. Uhler noted that as firms such as his have grown and added new capabilities in construction, “we've morphed into a riskier business platform.”

Krusi said his firm “has peaked at [the] ability to assume risk. We've got more open-book contracts now than in our history,” he added. The large firm CEOs saw continued consolidation as a way to manage risk and offer owners “scale,” Noted Krusi: “The value of diversification is that you've spread your risk.”

Even with future worries, industry CEOs seemed to embrace efforts to be socially responsible. Some impetus for their raised consciousness came from Joseph H. Highland, CEO of Environ, Princeton, N.J., who noted efforts such as carbon credit purchase to offset energy use for employee travel and business meetings. Highland said Environ spent \$250,000 this year on social responsibility efforts and may extend them to clients as well. He said they have aided employee retention. “They tell me long-term commitment to the firm is enhanced by *pro bono* work,” said Highland.

Other CEOs applauded the efforts, but struggled with joint approaches and admitted that such initiatives might not be apparent in firms. Said Pat McCann, CEO of West Chester, Pa.-based West-on Solutions, “Do we remind employees of what we're doing?” ■

By Debra K. Rubin