



2023 CEO Conference

AEC Industry Overview:
Critically Assessing the Data

SAMPLE



Survey Demographics

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- CEO Perspectives on Priorities and Concerns

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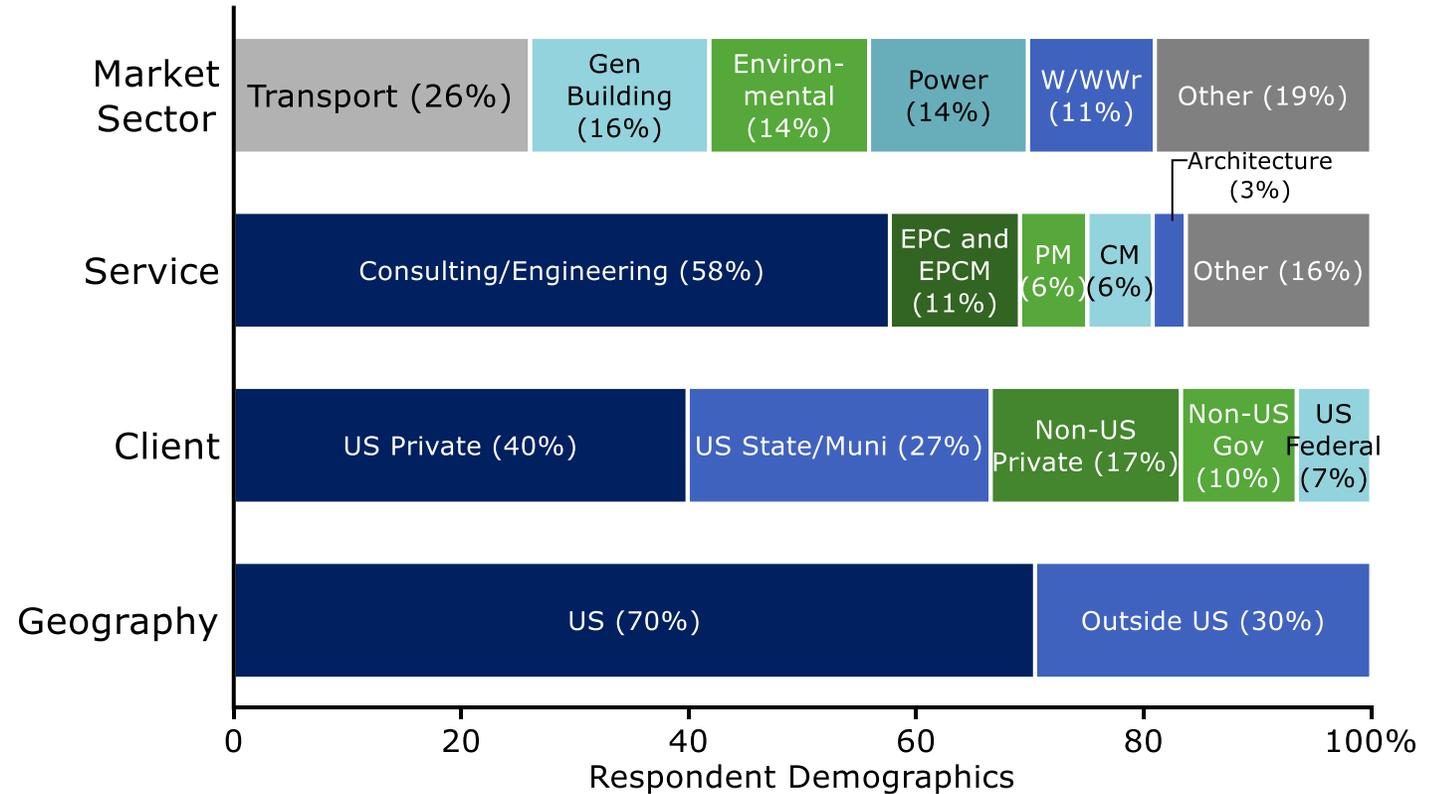
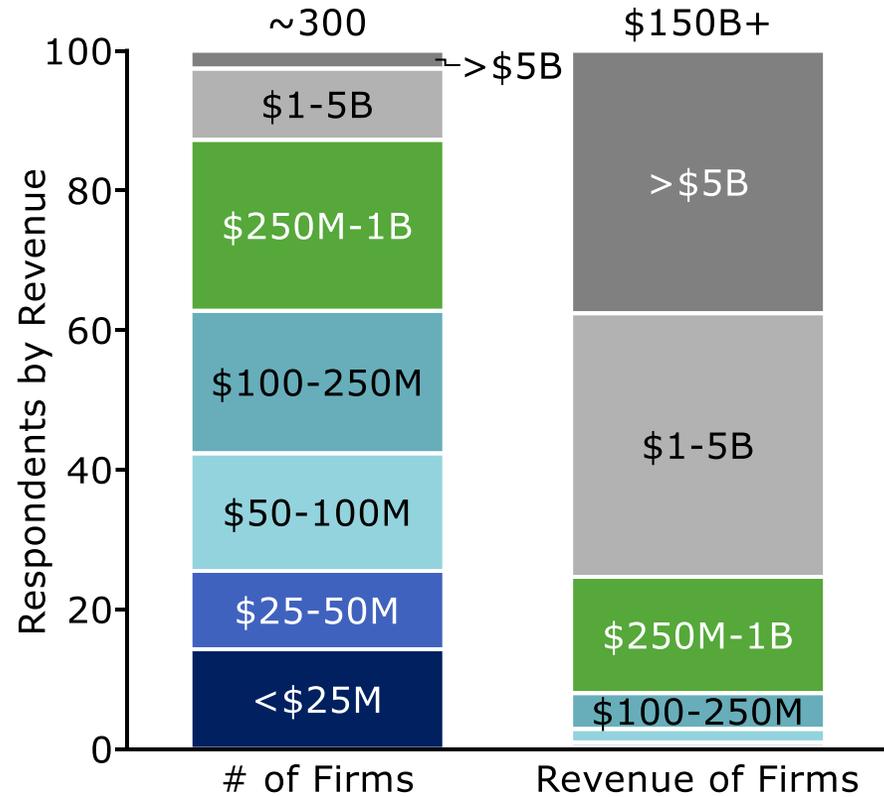
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2023 EFCG CEO Survey Demographics



This year's CEO Survey participants were widely distributed across revenue buckets and comprised over \$150B in revenues. Firms are primarily US-based and E/C focused, working in Transportation, General Building, Environmental, Power and Water end-markets.

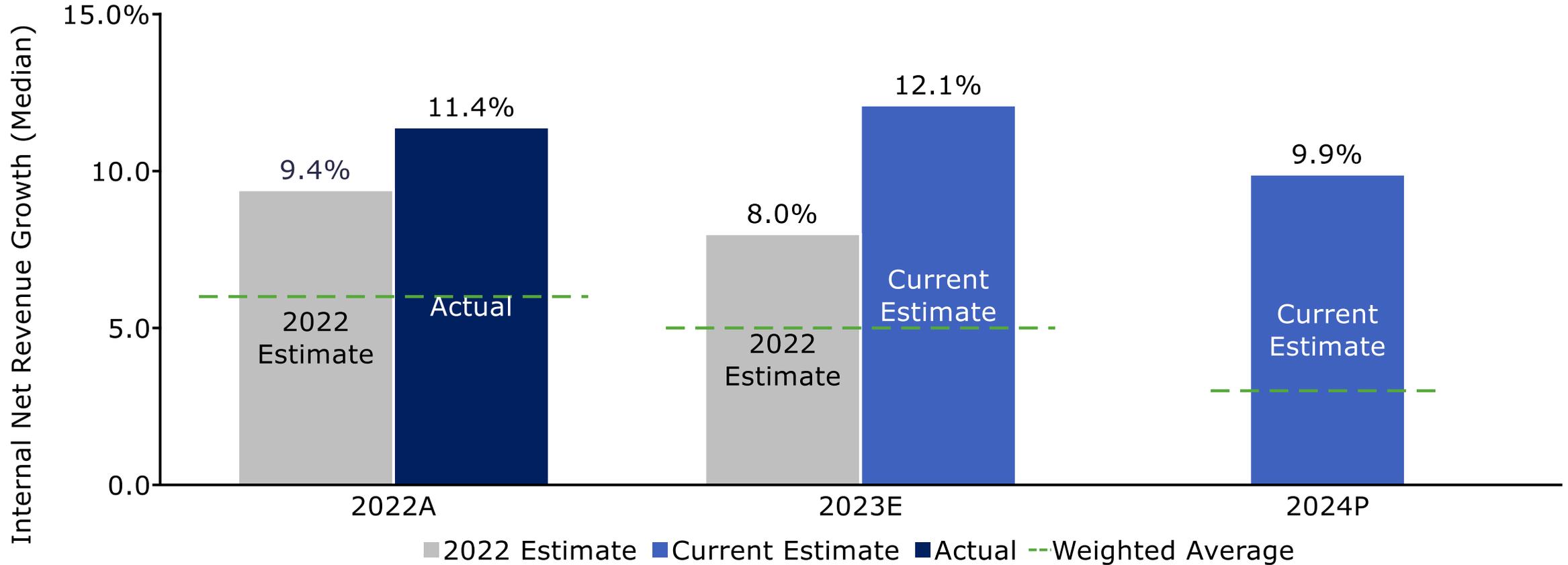


Source: 2023 EFCG CEO Survey

- Firms closed 2022 strong, with the highest median growth since pre-2008, coupled with strong profit margins
 - This strong financial performance is holding steady in 2023 and 2024. Although growth is expected to come down slightly next year, this likely reflects constraints to growth versus true uncertainty
- Strong backlogs indicates that demand is there; for most firms, attracting and retaining great talent is the limiting factor to growth
 - Higher turnover, increasing salaries, and a decreasing talent pool means firms are pulling every possible lever to find and keep talent
- In response to these challenges, firms are increasingly looking to technology & innovation, M&A, emerging business models, offshoring, client selectivity and improving the employee experience to increase productivity and retention

Current Internal Growth Estimates

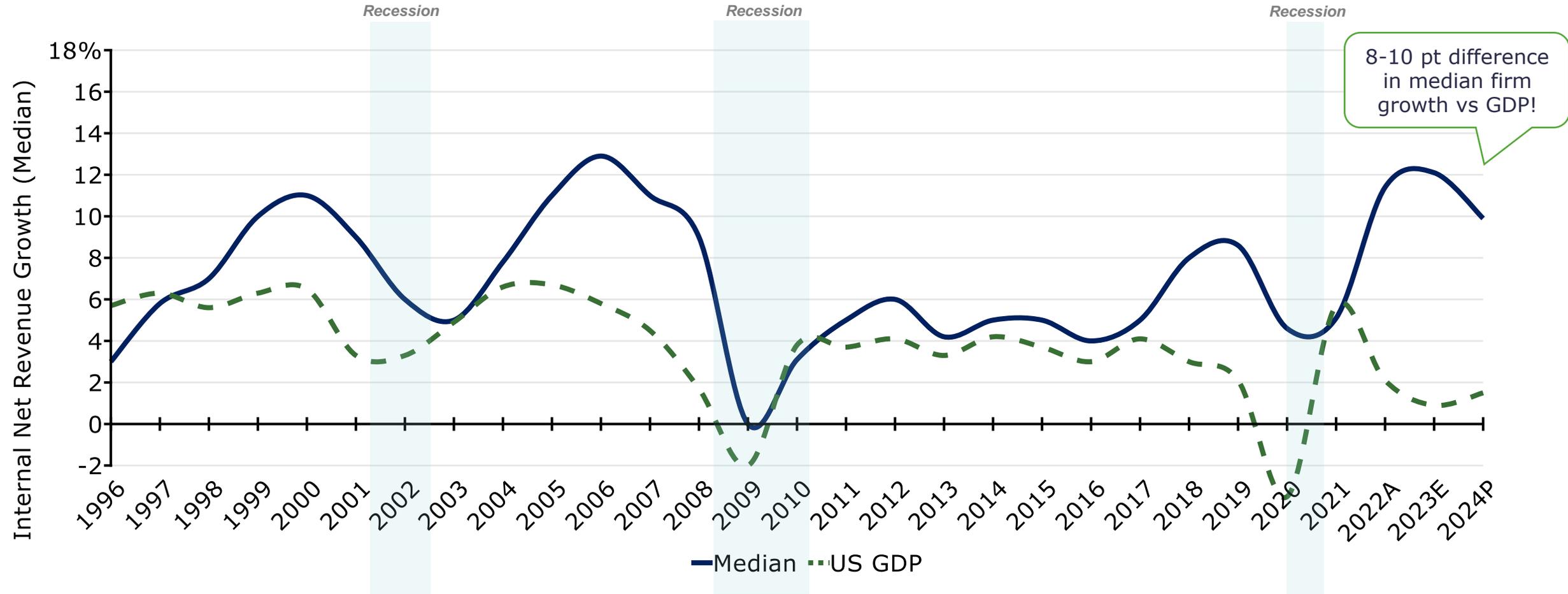
2022 growth came in above previous estimates, at 11.4%. 2023 growth is expected to continue strong at 12.1% and 2024 projections indicate slightly lower growth at 9.9%.



Source: 2022 – 2023 EFCG CEO Survey

Historical Internal Growth Trends vs US GDP

Our industry has outperformed the US GDP in all but four of the last 29 years! 2022-2024P represent one of the largest gaps between industry growth and US GDP that we've seen – will we eventually see the effect of the current economic environment?

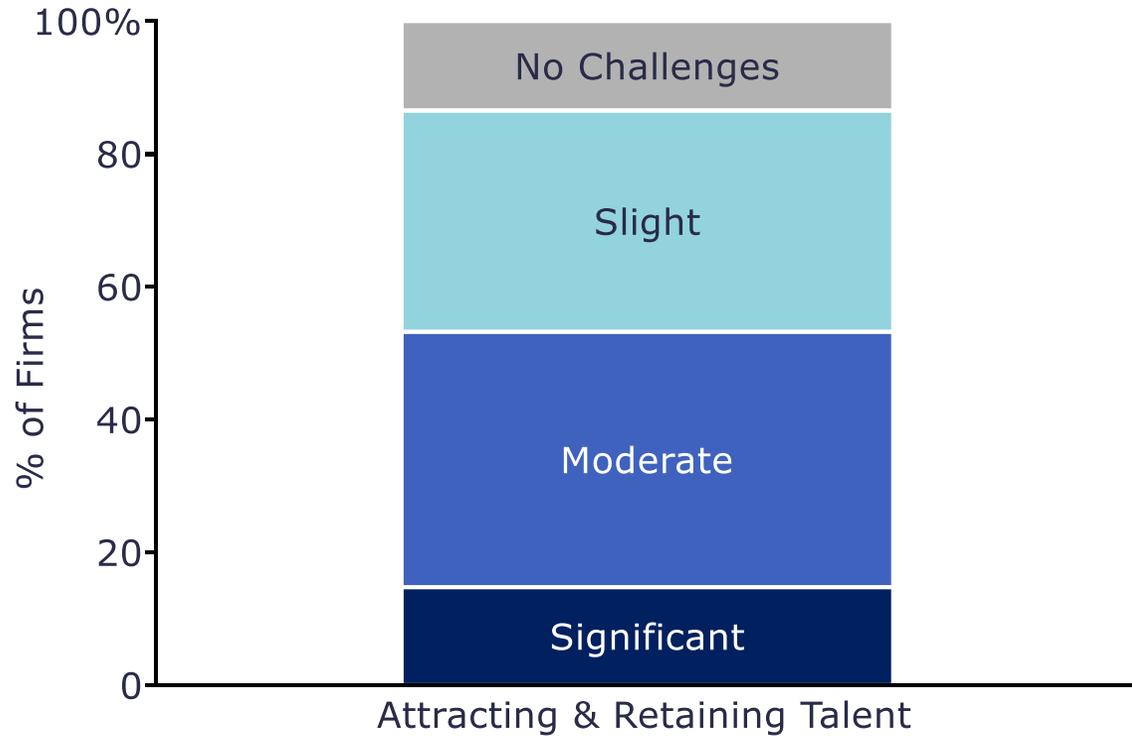


Source: 1996-2023 EFCG CEO Survey

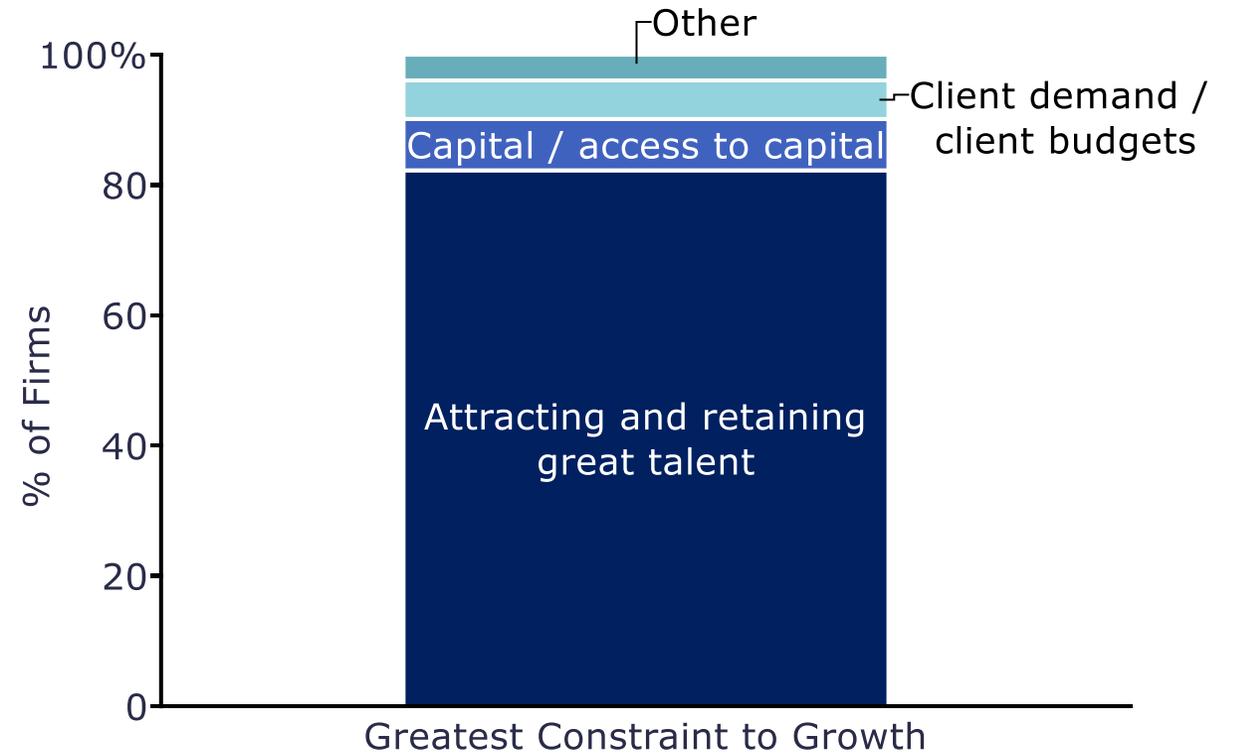
Talent is the Primary Constraint to Growth

90% of firms report challenges attracting and retaining talent, and 80% of firms report that talent is their primary constraint to growth.

Challenges Attracting & Retaining Talent



Constraints to Growth

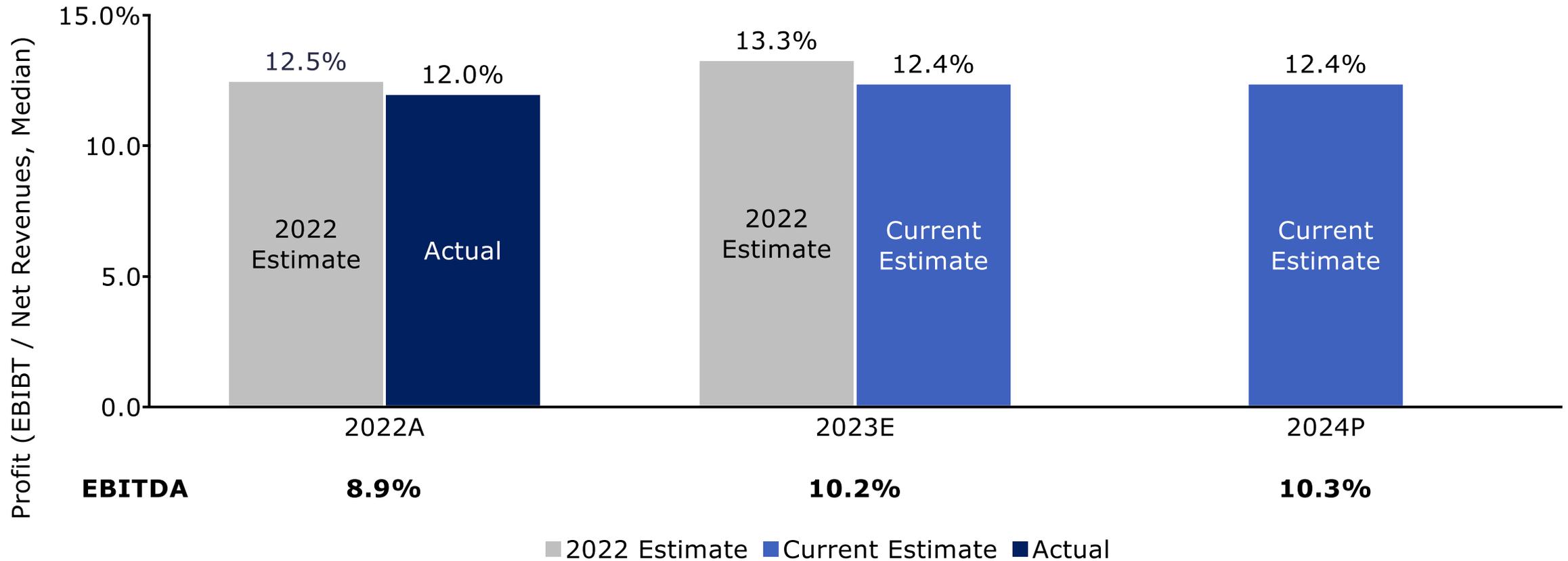


Source: 2023 EFCG CEO Survey

Current Profitability Estimates



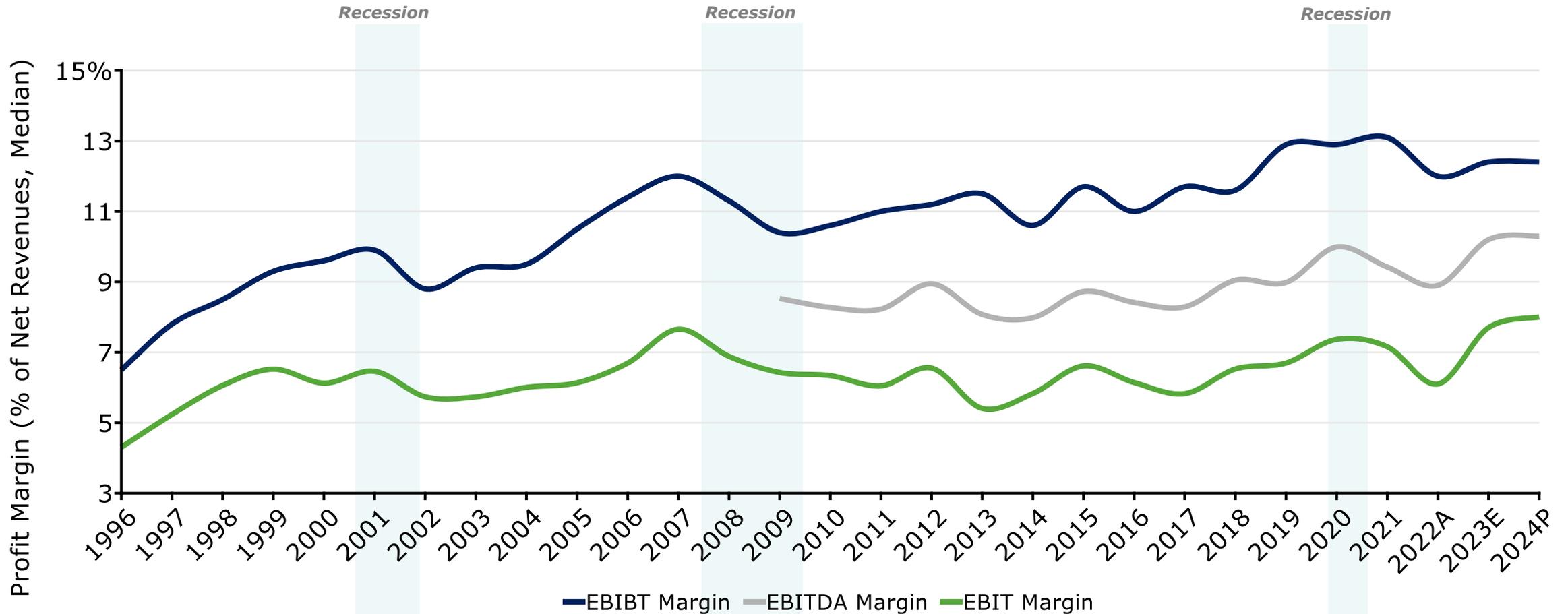
2023 profitability is expected to come in lower than previous estimates, at 12.4% EBIBT / Net Revenues. 2024 is estimated to hold steady. Similarly, 2023 / 2024 EBITDA is expected to be higher than 2022.



Source: 2022 – 2023 EFCG CEO Survey

Historical Profitability Trends

Key profitability metrics (EBIBT, EBIT and EBITDA) tend to track over time, although an increasing gap between EBIBT and EBIT suggests firms are paying out more in bonuses as profits increase



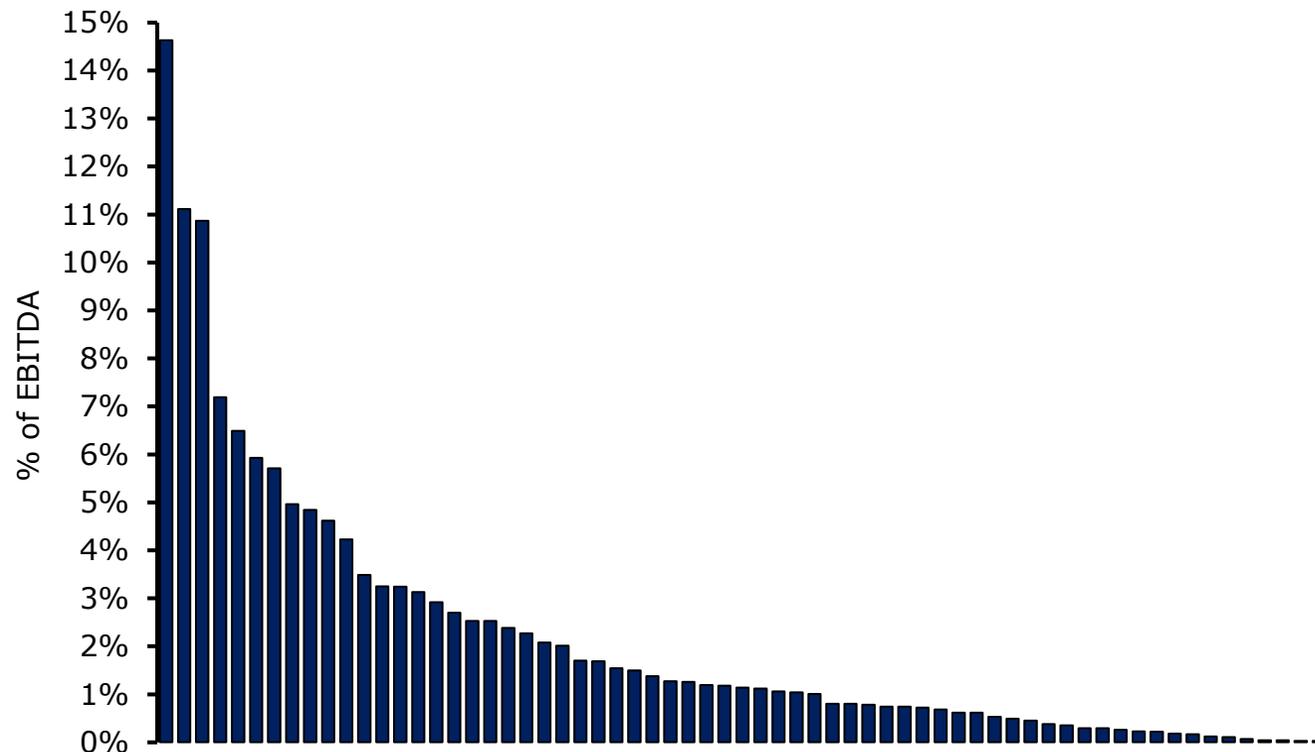
Source: 1996-2023 EFCG CEO Survey

ESG Disclosures and Reporting



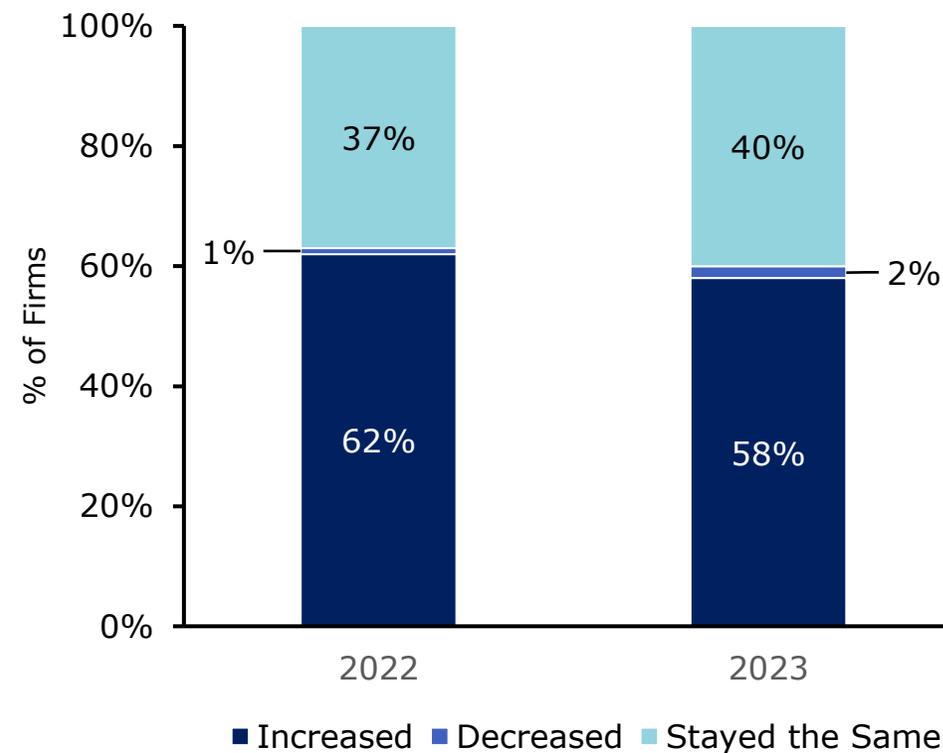
2023 has more firms assessing their ESG reporting as Good or Excellent. Client requests on ESG keep rising, though at a slightly slower rate than last year.

Annual Spend on ESG Reporting as % of EBITDA



Number of firms: 209, Source: EFCG 2023 CEO Survey, September 2023

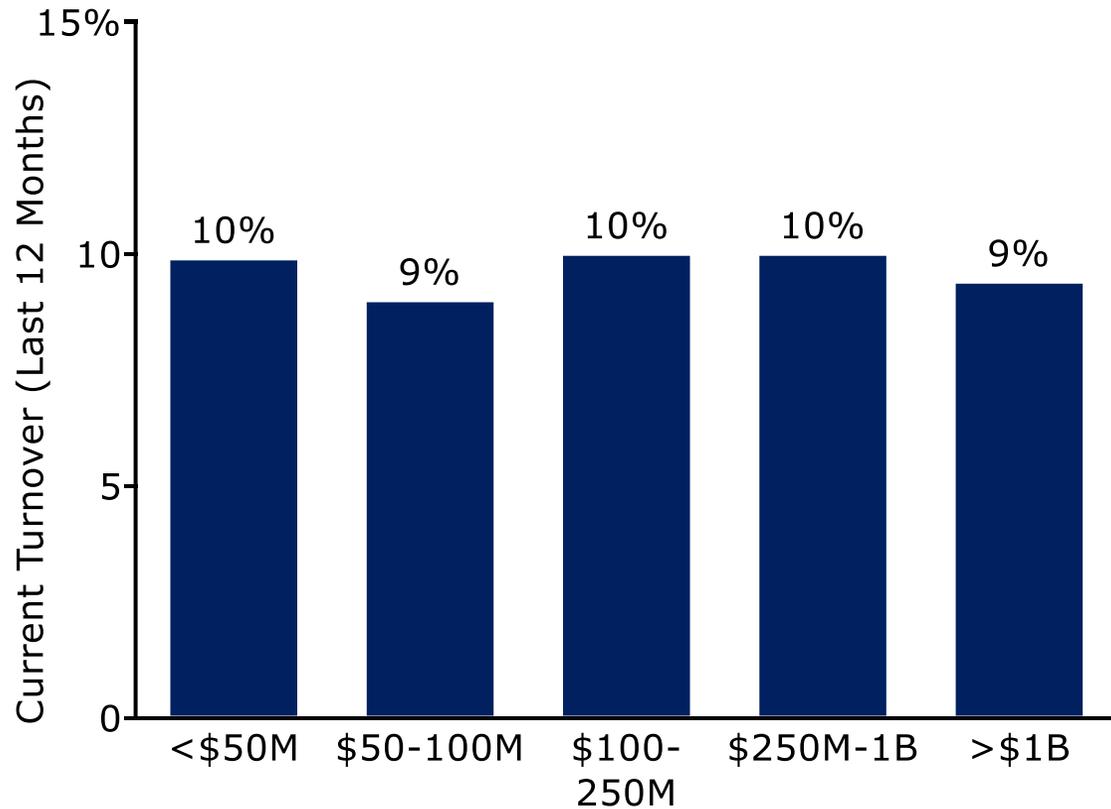
Requests to Report ESG Efforts from Clients



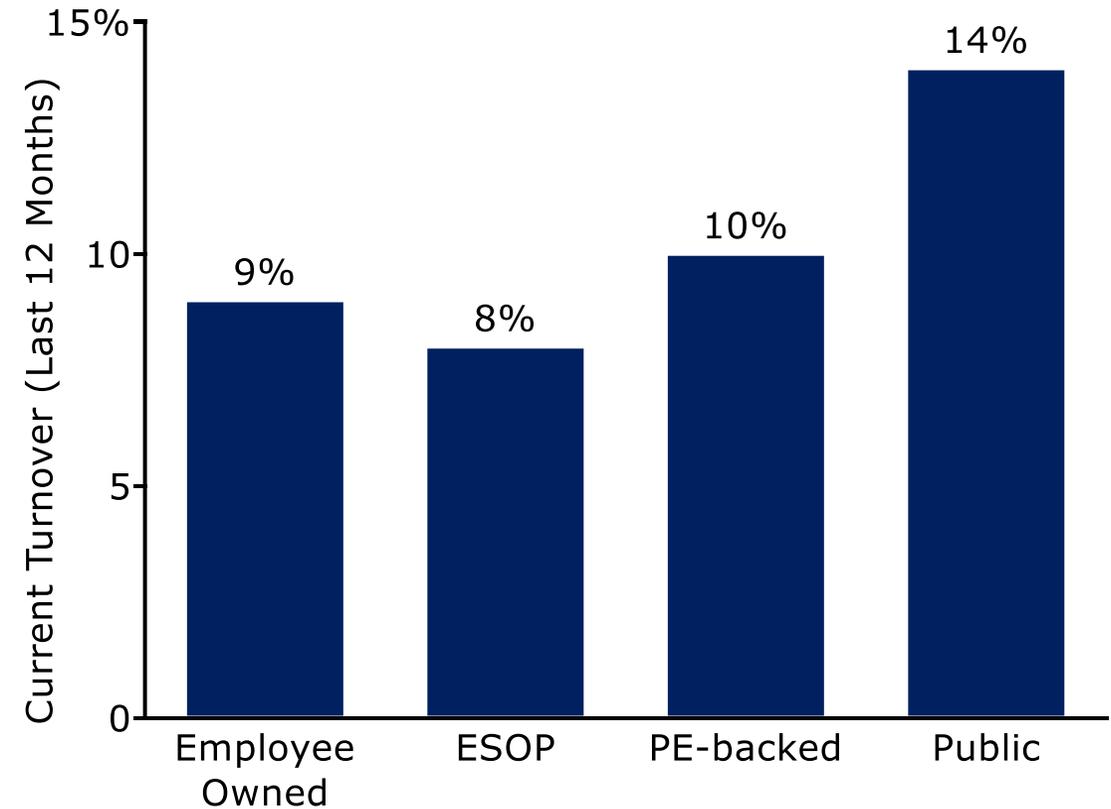
Voluntary Turnover (Part I)

Voluntary turnover is similar across firms of all sizes over the last 12 months, although higher for public firms

Firm Size



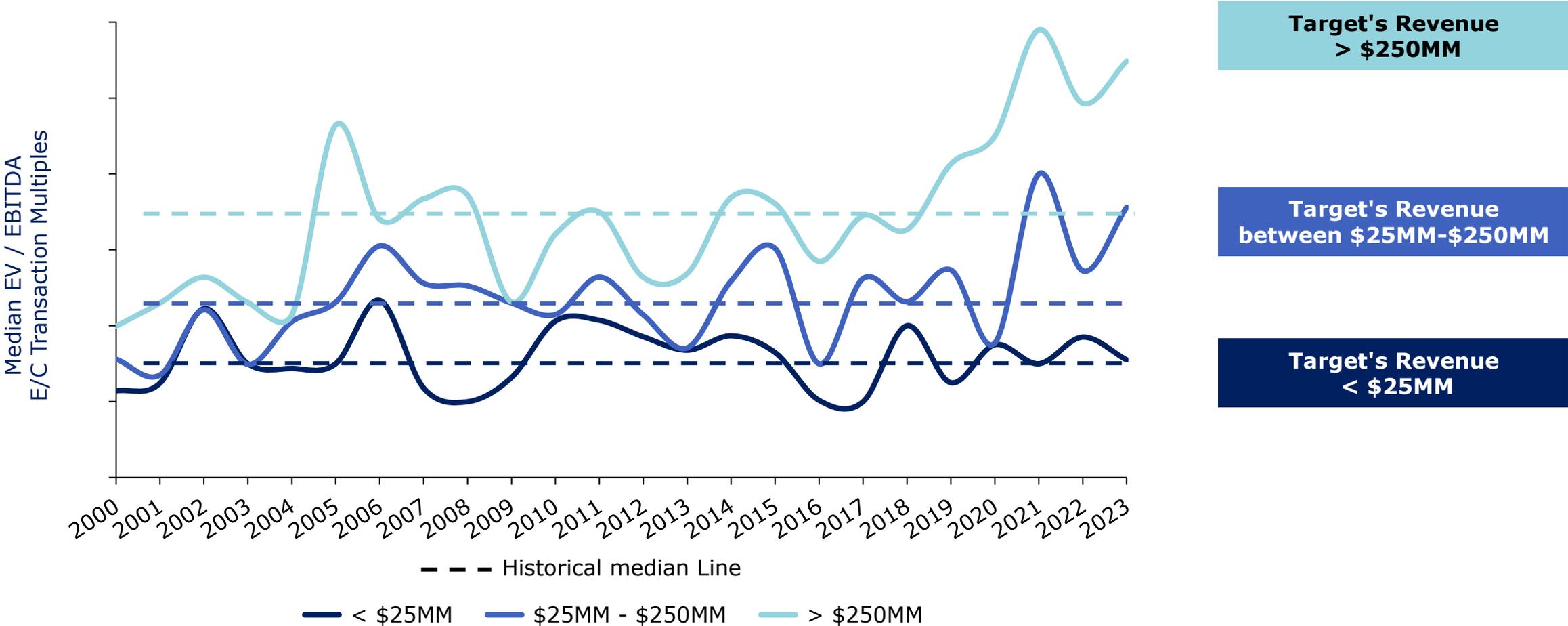
Firm Structure



Source: 2023 EFCG CEO Survey

M&A Valuations Are Recovering

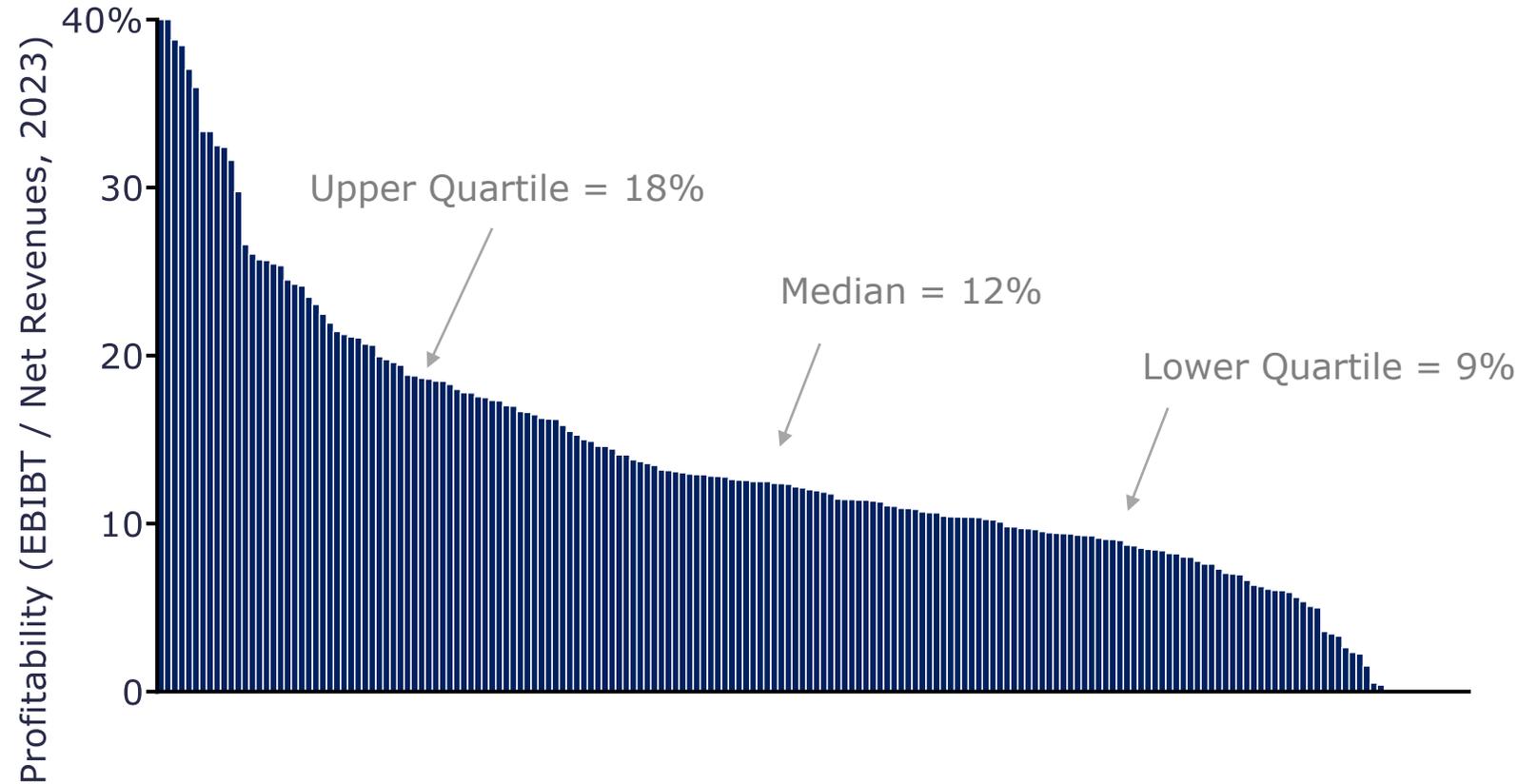
M&A multiples are highly correlated with the target firm’s gross revenue. Multiples for large/mid-size firms are recovering from the dip in 2022, while multiples for small-size firms are hovering around its historical median.



Source: EFCG database.

Profitability Distribution & Trends

Individual firm profitability is ranging from negative profit margins to over 40% in 2023; like growth, firm characteristics drove some of the differences in profitability.

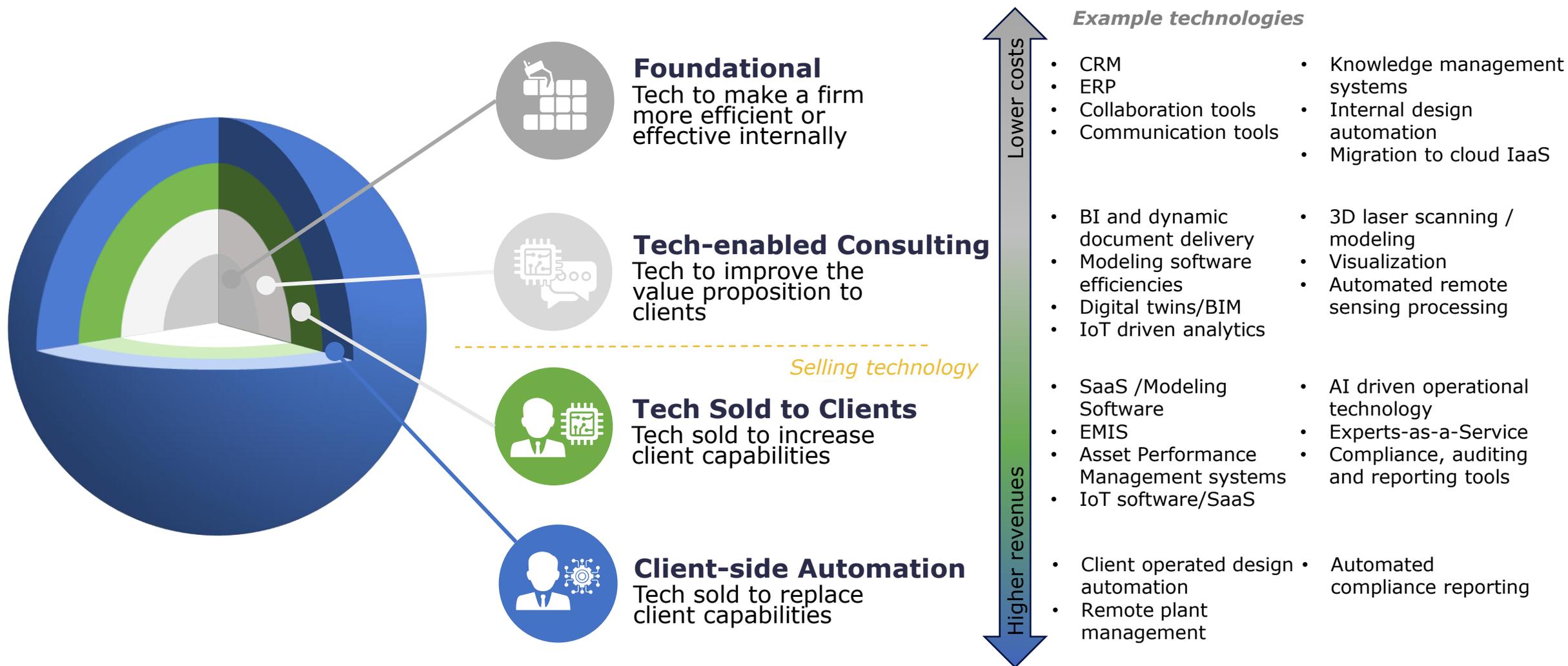


Source: 2023 EFCG CEO Survey

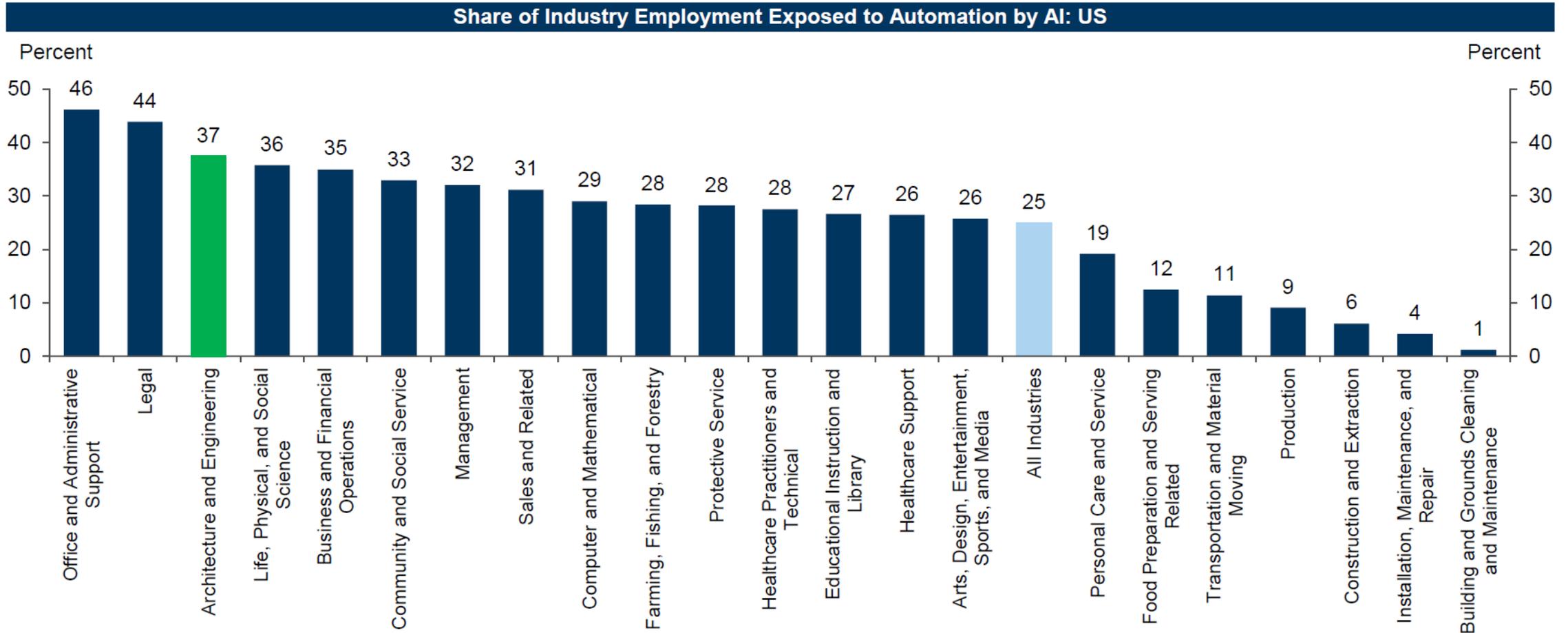
Firms with the highest profitability in 2023 include:

- Firms focused on Water and General Building
- Firms that are Employee-Owned
- Firms focused on US Private Sector clients

EFCG Technology Framework – Building a Portfolio of Four Spheres of Technology



AI Could Impact 37% of the AEC Industry



Adapted from Goldman Sachs Economic Research March, 26, 2023, "The Potentially Large Effects of Artificial Intelligence on Economic Growth (Briggs/Kodnani)"

The fundamentals of our industry remain strong

- Growth and profit were strong in 2022 (despite high inflation and turnover), and 2023 and 2024 estimates indicate similar performance
- Strong backlogs and the recession-resiliency of our industry bodes well for any future economic or global uncertainty

However, talent is the limiting factor to future growth

- In a talent-constrained environment, firms will need to pull every lever possible to find, hire and retain great talent

We believe this is an inflection point for our industry

- As long as revenue and profit remain linked to headcount, most firms will see a “ceiling” on growth and profitability
- A clear strategy around technology & innovation, M&A, emerging business models, and the employee experience will likely determine the next wave of market leaders

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

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Price: Free

Email dmilions@efcg.com to select any of the above options