EBC Leadership Webinar:
EFCG Special Briefing: Impacts of COVID-19 on Environmental & Engineering Firms
Welcome

Daniel K. Moon

President & Executive Director
Environmental Business Council
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Van Oppen & Co. 2

In California: Van Oppen & Co. 2 Insurance and Risk Control Services, Inc.
Impacts of COVID-19 on Environmental Consulting & Engineering Firms

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Managing Partner

Environmental Financial Consulting Group
EFCG Special Briefing: Impacts of COVID-19 Environmental & Engineering Firms

May 27, 2020
About EFCG

**Our Mission:** Providing a data-driven and strategic edge to A/E/C firms to advance the innovation, sustainability, and success of the industry.

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**Advisory**

- 500+ A/E/C firms advised

**Sample Service Offerings**
- Management Consulting
- Valuations
- Capital Flows Models
- Peer Benchmarking Analyses

We help clients work smarter, grow faster and become more resilient

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**Mergers & Acquisitions**

- 160+ M&A transactions advised

**Sample Service Offerings**
- Sell- or buy-side advisory
- Consultation on capital raises
- Acquisition searches
- Market creation for a merger or sale of a firm
- Post-merger integration

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**Executive Conferences**

- 70+ conferences hosted

**The Value of Our Conference**
- Assessments on industry trends & top performance metrics
- Insights from subject matter experts
- Invaluable peer-networking opportunities
Agenda

- Immediate impacts of COVID-19
  - Growth & Profit Projections
  - Performance by Business Area
  - Cost & Cash Management Levers

- Navigating the Impending Recession

- Risk & Profit – The Two Most Critical Metrics Now
Total Net Revenue Growth

Total Net Revenue Growth is projected to drop to ~3% this year, but recover in 2021 (potentially defying past recession trends). Majority of firms are seeing project delays / stops but there are still new projects and RFPs coming out. Few firms are seeing meaningful delays in payments.

Based on previous downturns, we would expect to see revenue growth recover after 3-5 years.

Source: EFCG State of the Industry Survey (n= 150)
Performance by Business Area

- **Outperforming**
  - None
  - Transportation / Infrastructure
  - Healthcare
  - Technology
  - Power
  - Water / Wastewater

- **Holding Steady**
  - Transportation / Infrastructure
  - Water / Wastewater
  - State / Muni Clients
  - Federal
  - Industrial
  - Power

- **Declining**
  - Oil & Gas
  - All
  - Private Client Work
  - Airports / Aviation
  - Transportation / Infrastructure
  - Hospitality

Business Areas listed in order of # of mentions

Source: EFCG State of the Industry Survey (n= 150)
Current Profitability

2020 Profitability expected to drop ~15% from previous estimates, to 11.2%, then begin to recover in 2021. However, significant variation in profitability among firms, ranging from negative profit to over 30%.

~50% of firms believe 2021 will be the most challenging year, yet are projecting strong profits – is this driven by planned cost-cutting in anticipation?
Profitability Over Time

Current estimates for 2020 profitability (at this point) indicates a profit drop slightly quicker and steeper than previous recessions, but also a quicker recovery in 2021.

Based on previous downturns, we would expect to see median profitability drop 1-2 points and recover over 4-5 years.

Source: EFCG CEO Conferences; EFCG State of the Industry Survey (n=150)

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Cost & Cash Management Systems In Place

To manage cash flows, most firms have sought to limit non-essential spending, sped up collection of A/R, and implemented hiring freezes. Over a third of firms have laid-off employees, furloughed employees and reduced non-labor overhead costs.

- **90%** Of firms implemented cash management steps
- **5** Average number of measures
- **16%** Average cash on hand (% of Net Revenues)

- Firms should have a month-by-month view of capital flows, and know which levers are the best to pull
- To learn more about EFCG’s tool to model short-term cash flows, please reach out to Daniel Sosnay (dsosnay@efcg.com)
Projections for Timing & Severity of Downturn

Most firms expect the downturn to last well into 2021, with respondents split on whether 2020 or 2021 will be worse financially for firms.

**How Long Do you Expect the Downturn to Last?**

- **Until End of 2020:** 30%
- **2021:** 53%
- **2022:** 14%
- **Beyond 2022:** 3%

**Which Year Do You Expect to be Worse For Your Firm?**

- **2020:** 50%
- **2021:** 46%
- **2022:** 3%

Source: EFCG State of the Industry Survey (n=150)
Impact of Downturn on Revenue Growth & Profitability

~90% of firms expect a decline in revenue growth due to the downturn, with ~65% of firms expecting a 5-15% decline. Expected profitability has greater variability among firms, with 17% of firms expecting no change, 50% of firms expecting a 5-15% decrease, and ~30% of firms expecting a greater decrease or profit loss.

<table>
<thead>
<tr>
<th>Impact of Downturn: Revenue Growth</th>
<th>Impact of Downturn: Profitability</th>
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<tbody>
<tr>
<td><strong>No Change</strong></td>
<td><strong>No Change</strong></td>
</tr>
<tr>
<td>11%</td>
<td>17%</td>
</tr>
<tr>
<td><strong>5% Decline in Growth</strong></td>
<td><strong>5% Decline in Profitability</strong></td>
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<tr>
<td>26%</td>
<td>24%</td>
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<tr>
<td><strong>10-15% Decline in Growth</strong></td>
<td><strong>10-15% Decline in Profitability</strong></td>
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<tr>
<td>38%</td>
<td>29%</td>
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<tr>
<td><strong>15-25% Decline in Growth</strong></td>
<td><strong>15-25% Decline in Profitability</strong></td>
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<tr>
<td>8%</td>
<td>24%</td>
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<tr>
<td><strong>Negative Growth</strong></td>
<td><strong>Profit Loss</strong></td>
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<tr>
<td>15%</td>
<td>4%</td>
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Source: EFCG State of the Industry Survey (n=150)
How Will Clients Fare During a Downturn?

US Federal expected to perform the best in a downturn, while US and International Private sectors expected to face the most significant challenges. US State / Municipal and International Public expected to face moderate challenges.

- **US Federal**: 9% (Opportunities will arise), 50% (Significant challenges)
- **US State and Municipal**: 8% (No answer), 12% (Opportunities will arise), 20% (Slight challenges), 34% (Moderate challenges), 26% (Significant challenges)
- **US Private**: 6% (No answer), 5% (Opportunities will arise), 14% (Slight challenges), 38% (Moderate challenges), 36% (Significant challenges)
- **International Public**: 26% (Opportunities will arise), 5% (Slight challenges), 15% (Moderate challenges), 27% (Significant challenges)
- **International Private**: 27% (Opportunities will arise), 3% (Slight challenges), 11% (Moderate challenges), 20% (Significant challenges)

Source: EFCG State of the Industry Survey (n= 150)
Does Your Firm Have a Strategic Plan on How to Deal with a Downturn?

Most firms now have at least a partial plan in place, although 30% of firms are still in the process of developing one; this is a significant change from January 2020 when ~50% of firms hadn’t considered a downturn plan.

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<td>Source: EFCG State of the Industry Survey (n= 150)</td>
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The Importance of Understanding Your Firm’s Risk Profile

The NEW Quadrant Analysis

- When the economy is growing, the two most important metrics are growth and profit
- In a recessionary environment however, growth is no longer correlated with success
- Our research indicates that two key metrics drive success in a downturn: profitability and risk

EFCG’s Risk Index

- Risk is defined by dozens of drivers correlated with success in prior recessions
  - Working Capital
  - Leverage
  - MU Factor
  - Concentration of Revenue and Profits
  - Office efficiency
  - Share Buy-Backs
  - Diversification
- We then layer in additional drivers based on specific current risk (e.g. riskier markets / segments / clients)
EFCG’s Profit / Risk Matrix (The NEW Quadrant Analysis)

Where does your firm sit?

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: EFCG 2019 CEO Survey
Key Session Takeaways

- Current projections for growth and profit suggest a very quick recovery. Be cautious, as our industry tends to be overly optimistic.

- Most firms have implemented 5+ cost measures, but more levers may need to be pulled – make sure you have enough cash on hand to manage through capital constraints.

- We are fully into a recession – we don’t know how long it will last, but it will impact our industry both in the short and long term.

- Your profitability and risk profile may be an advantage or a disadvantage going into a downturn – your strategy should reflect this.

- Actions today will define the future – there will be winners and losers. Focus on what you can control, avoid unnecessary risk, and build resilience into your organization.

Contact Us

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EFCG Tools to Help You Now

- Capital Flows Modeling
- Recession Planning Toolkit
- Technology Strategy Assessment
- Talent & Workforce Planning
Panel Discussion

Moderator: Daniel Moon

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