



State of the Industry

Presented by
Jon Escobar, Vice President

July 2023

Agenda

1

State of the
Industry

2

What Lies
Ahead

Data sources and inputs

Deltek Clarity



Attendees

Deltek. Clarity

Deltek.

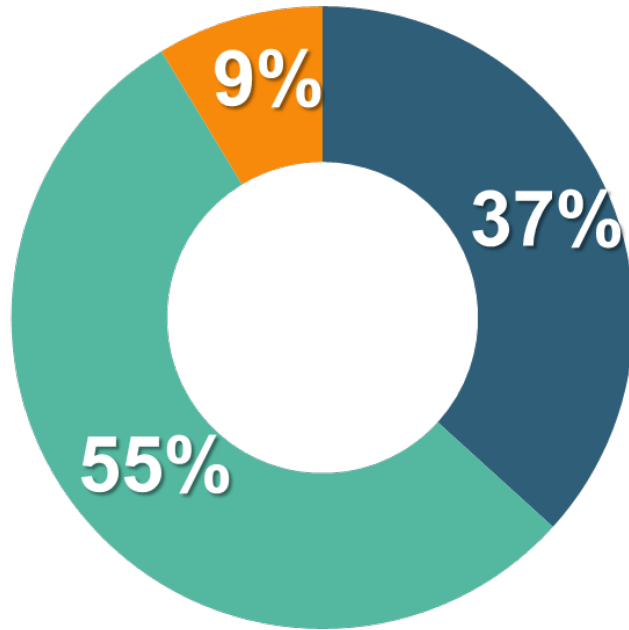
Clarity: Architecture & Engineering Industry Study

44th Annual Comprehensive Report

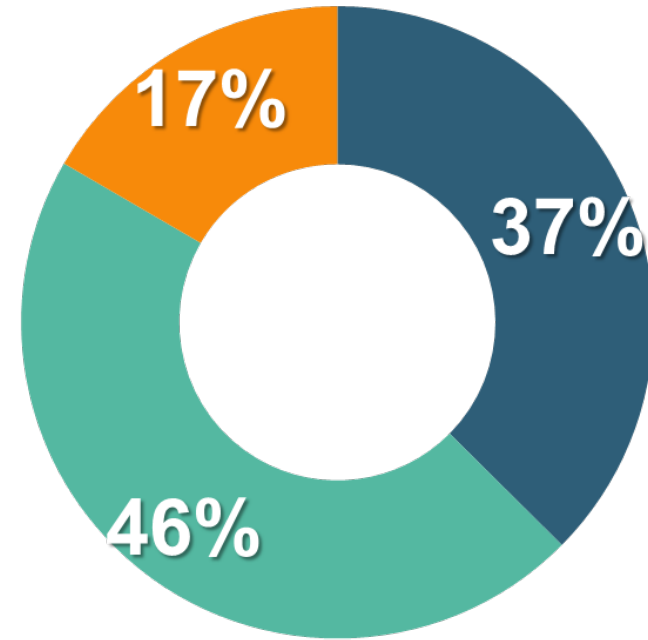
In collaboration with:



Deltek Clarity participant profile



■ Architecture or A/E
■ Engineering or E/A
■ Other



■ Small (0-50 employees)
■ Medium (51-250 employees)
■ Large (251+ employees)

Deltek. Clarity



Clients



Research &
Databases



Word on the
Street

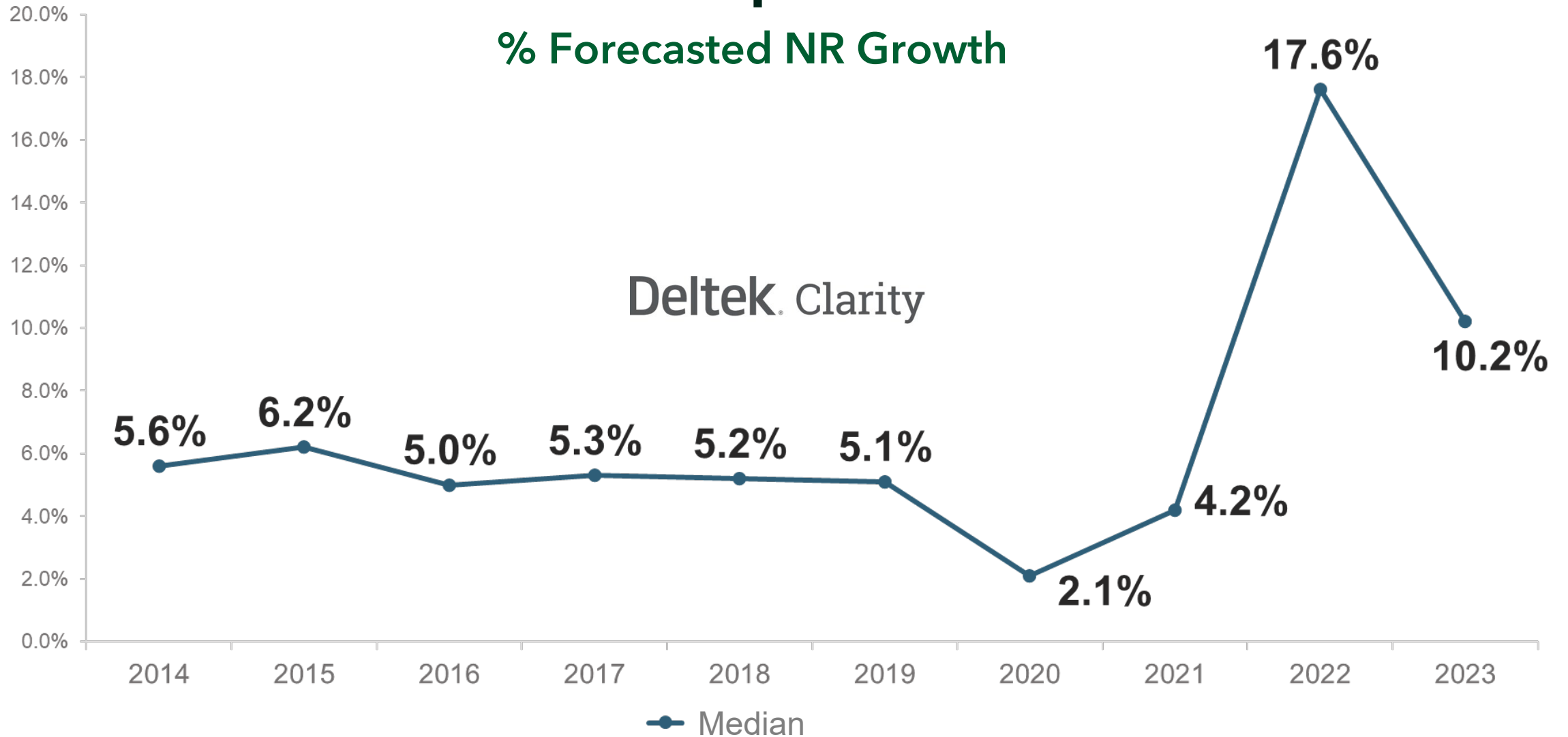
The background image shows a group of business professionals in a meeting. A hand in the foreground holds a green pen, pointing at a tablet held by another person. The image is overlaid with various data visualization elements: a circular gauge with a 20% segment highlighted, a horizontal bar chart with six bars of varying heights, a line graph with multiple data points, a bar chart with several vertical bars, and a network diagram with interconnected nodes. A green rectangular box in the lower-left corner contains the text 'State of the Industry'.

20%

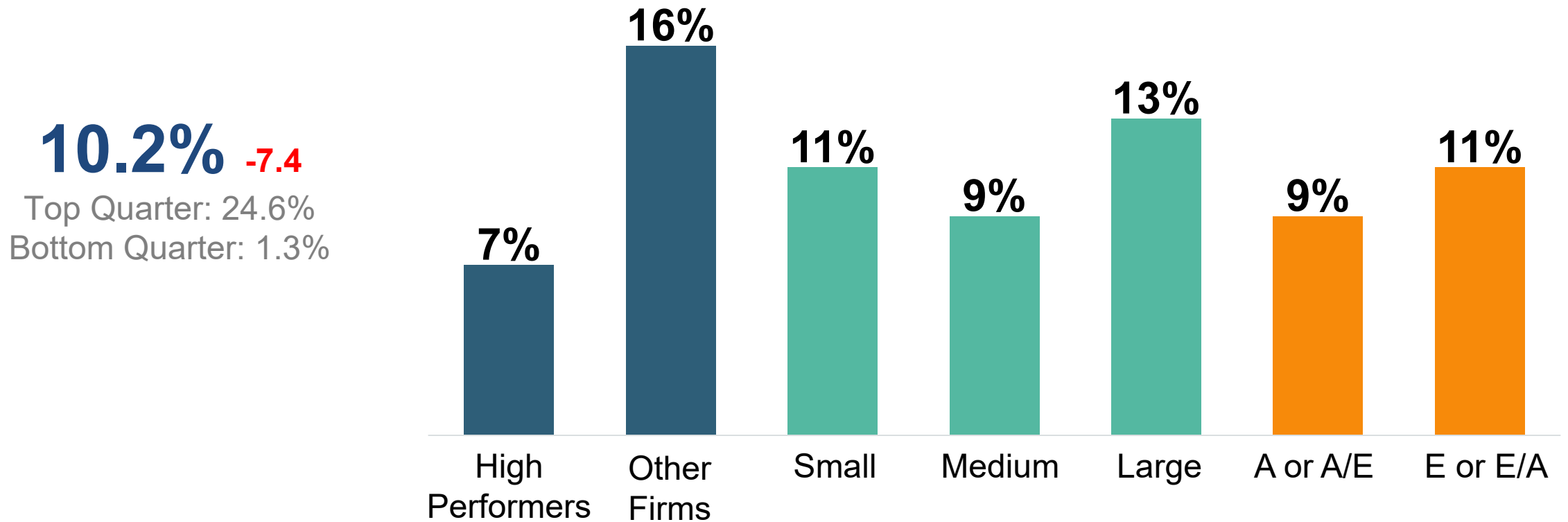
State of the Industry

"Great Expectations"

% Forecasted NR Growth

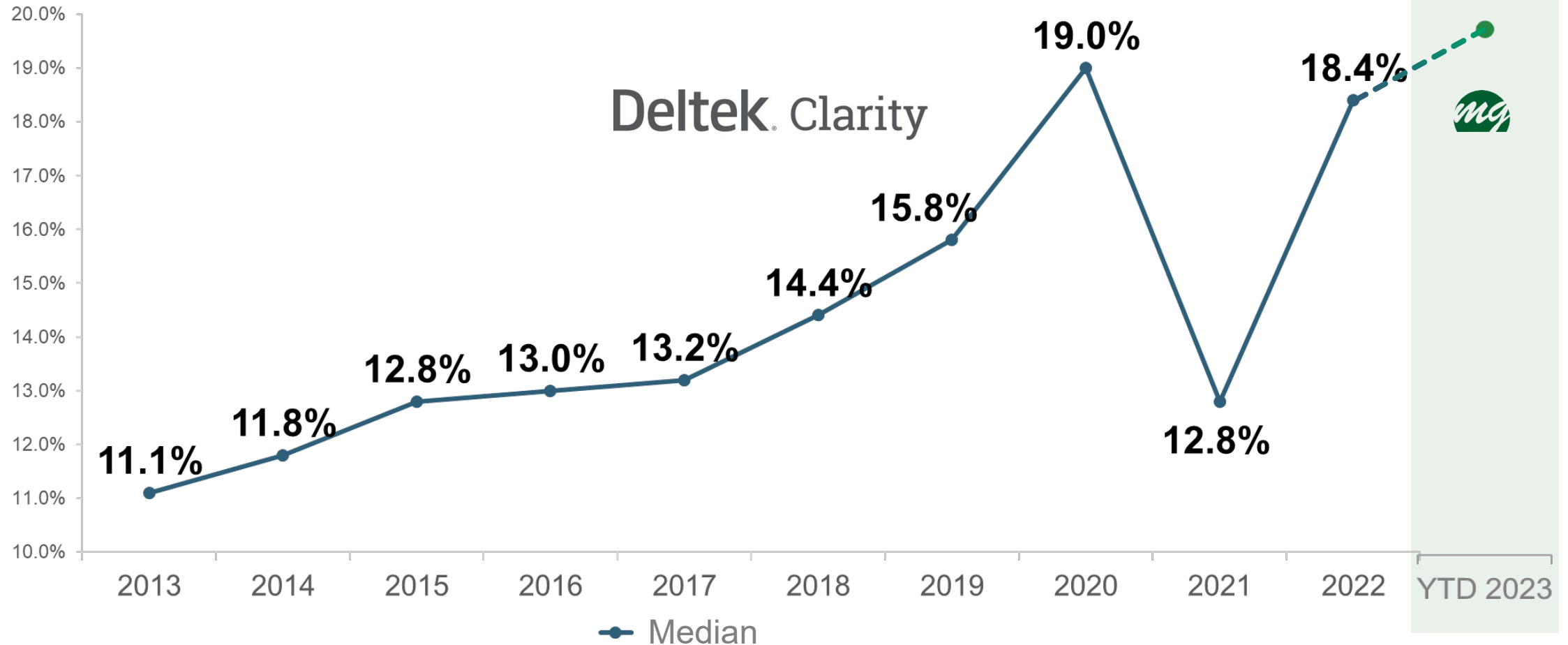


Net Revenue Growth Forecast

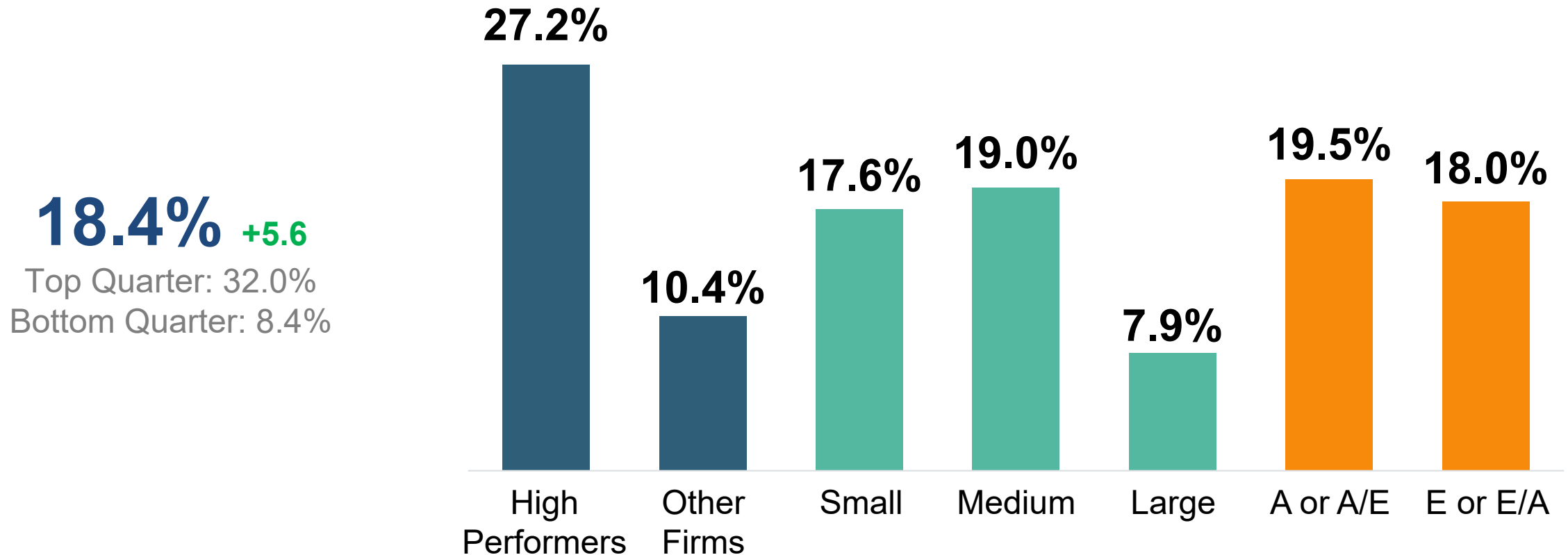


Incredible performance— still

Operating Profit on NR



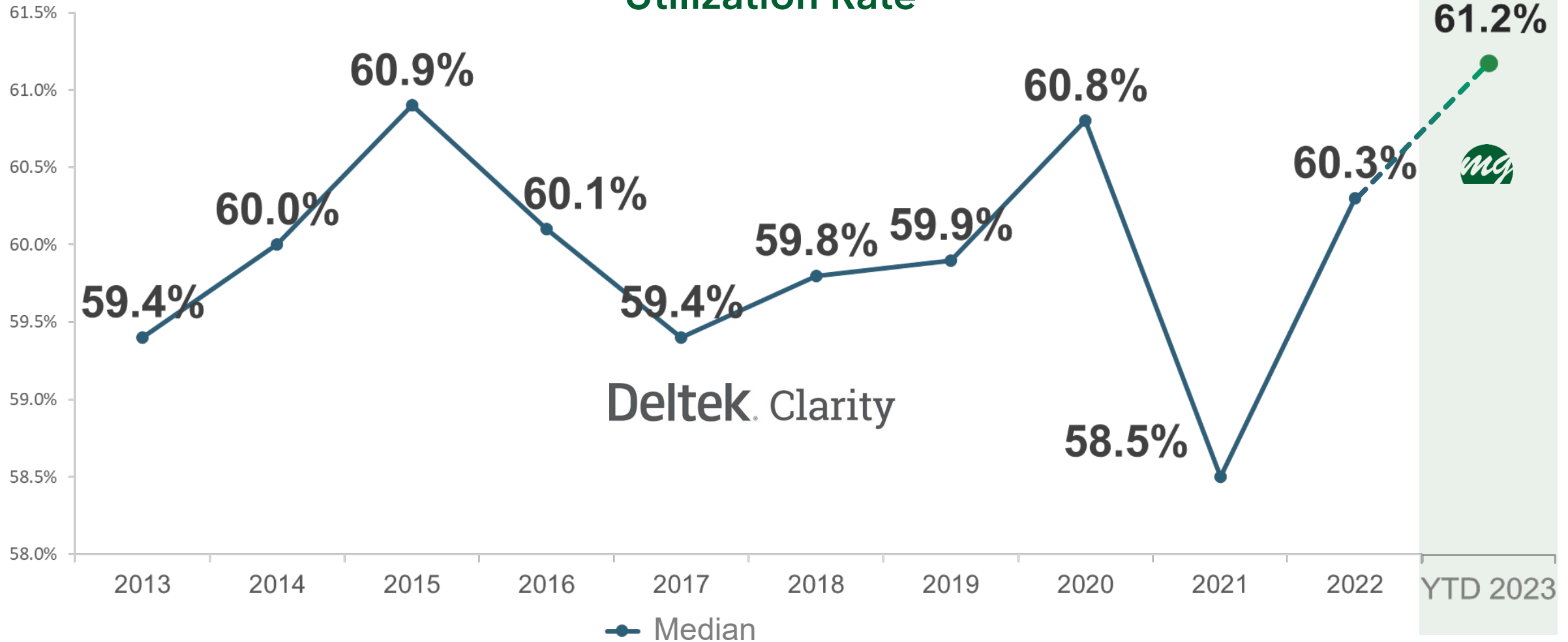
Operating Profit on Net Revenue



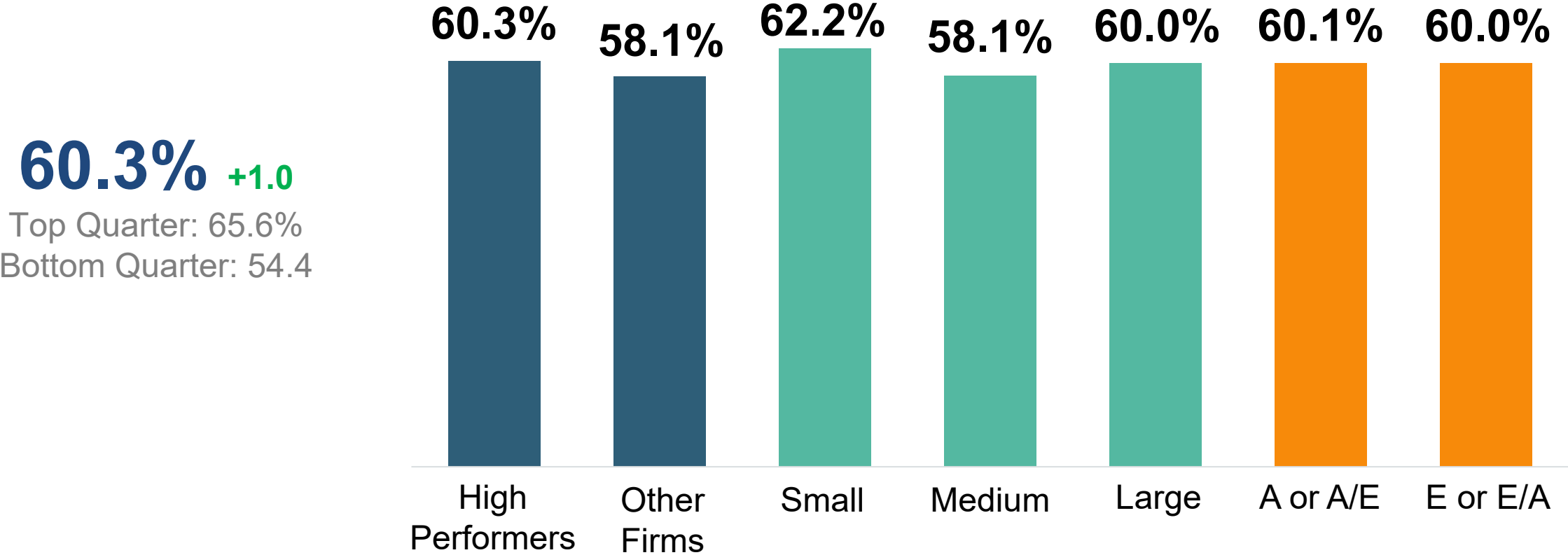
Divide pre-tax, pre-distribution profit by net revenue (total revenue minus consultants and other direct expenses).

Noses to the grindstone

Utilization Rate



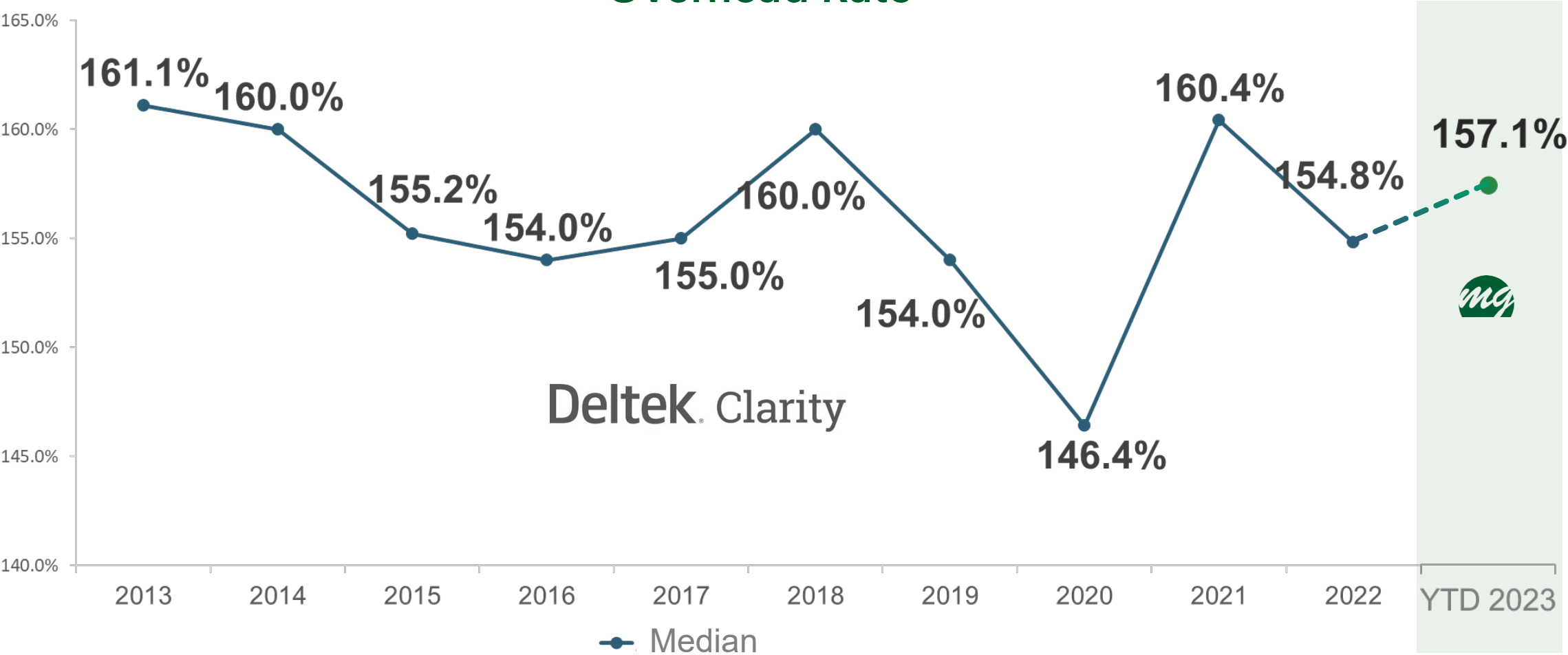
Utilization Rate



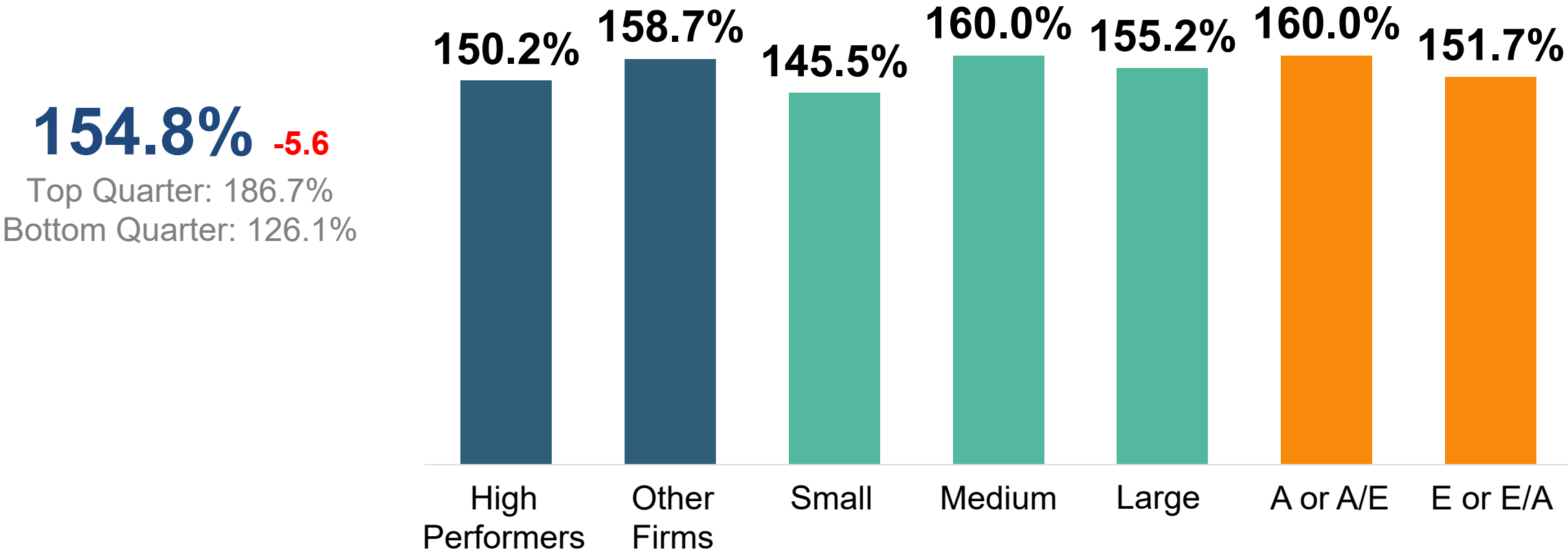
Divide the cost of labor charged to projects by the total labor cost of the firm.

Belts tightening?

Overhead Rate



Overhead Rate



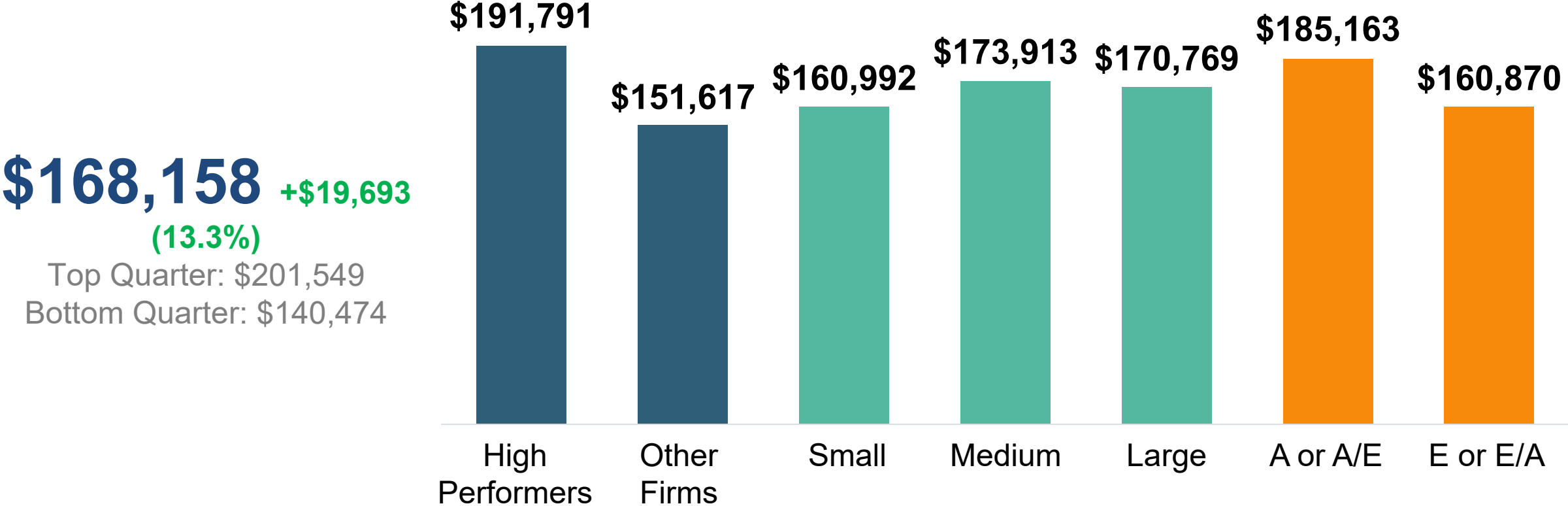
Divide total overhead (before distributions) by total direct labor expense.

Big-time production

NR per Employee



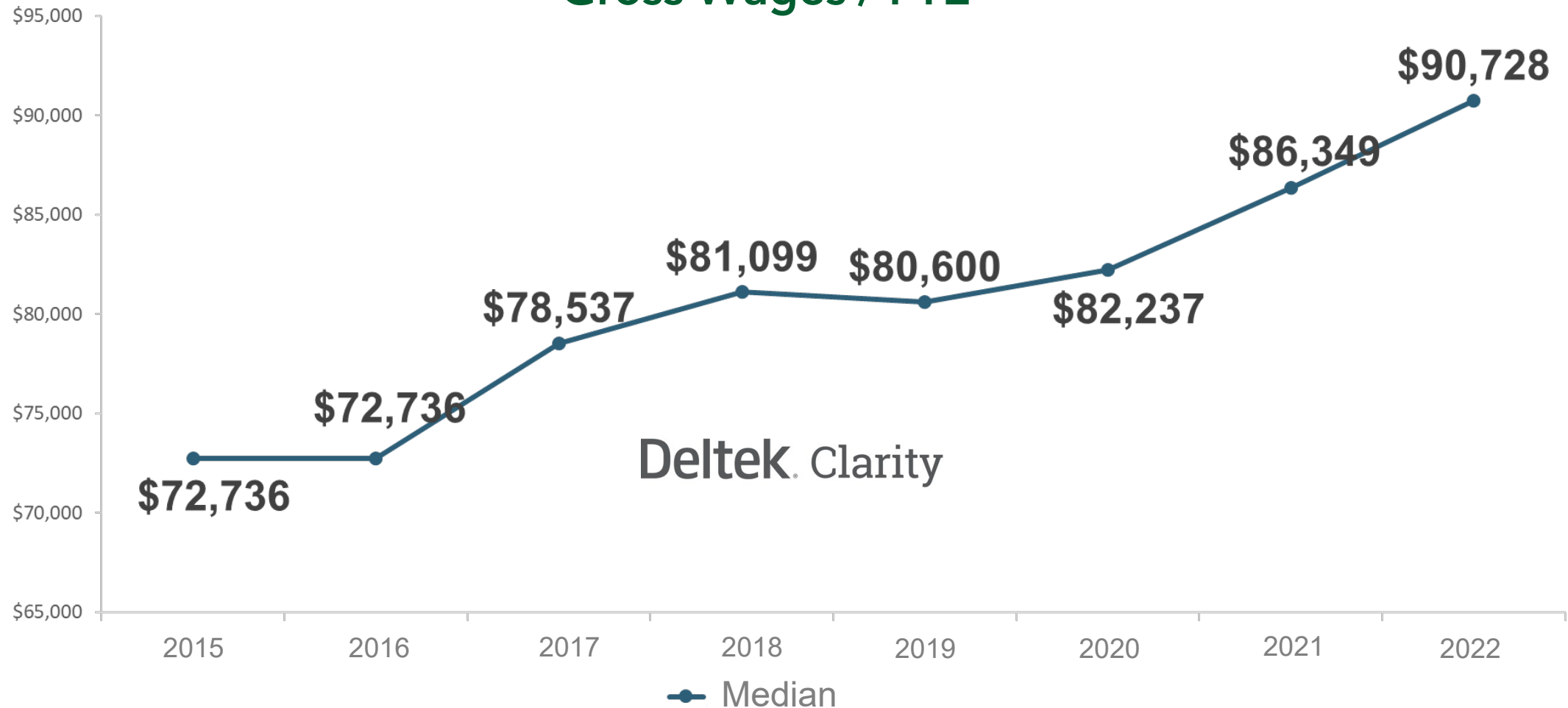
Net Revenue per Employee



Divide net revenues by average total staff during the year, including principals.

Labor costs keep breaking records

Gross Wages / FTE

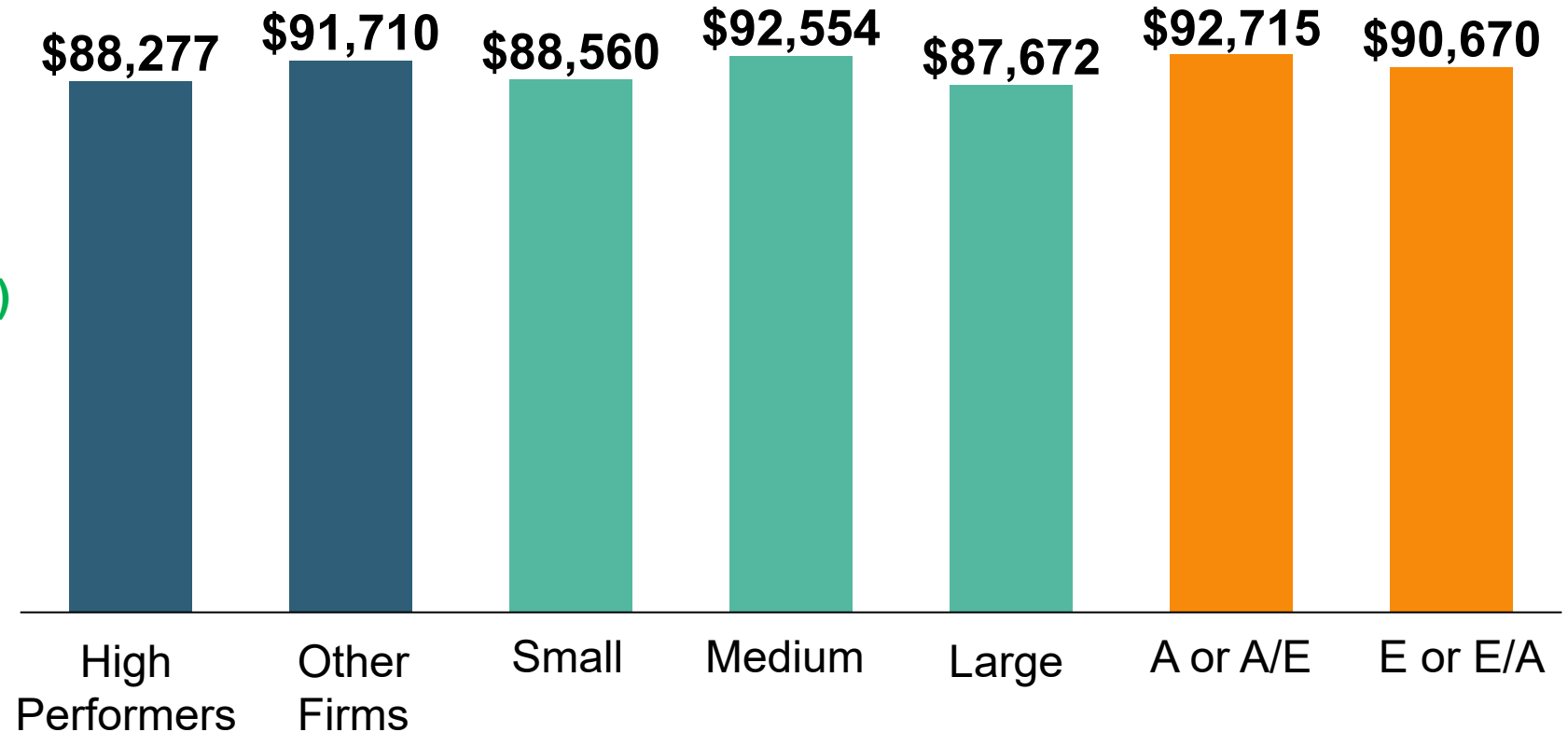


Gross Wages per FTE

\$90,728 **+\$4,379 (5.1%)**

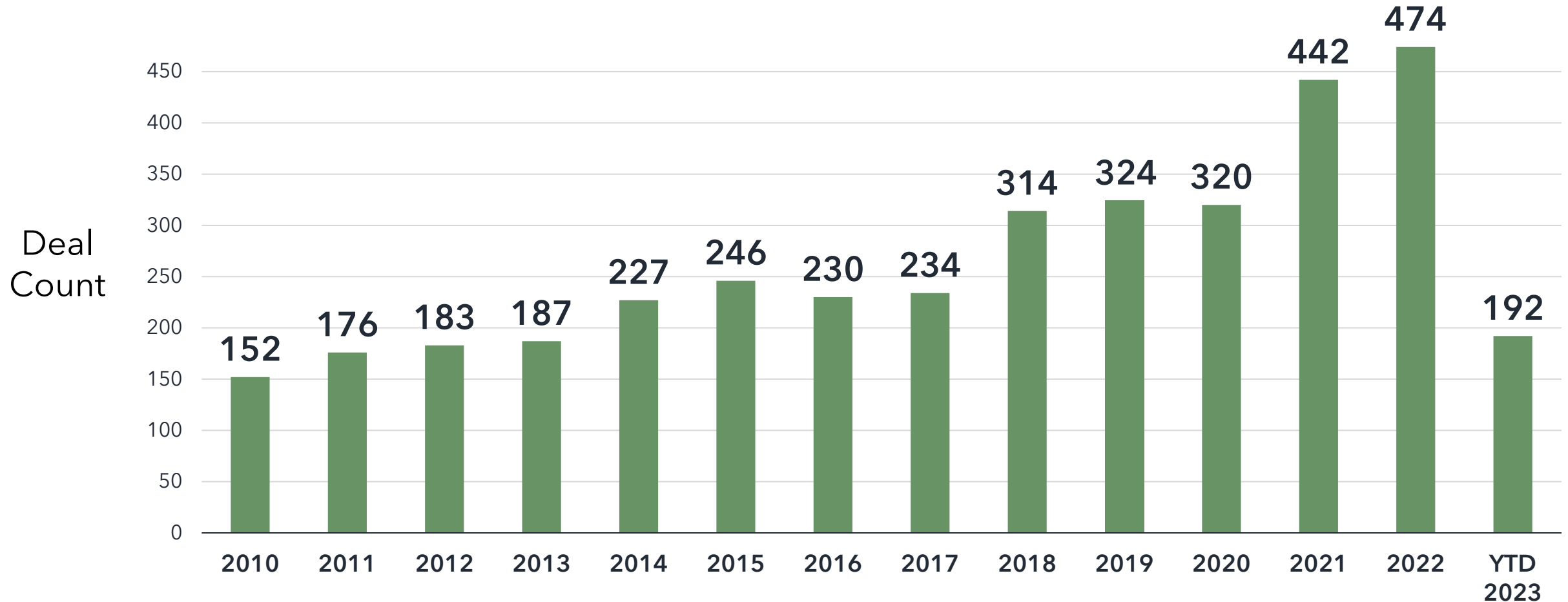
Top Quarter: \$101,009

Bottom Quarter: \$79,807



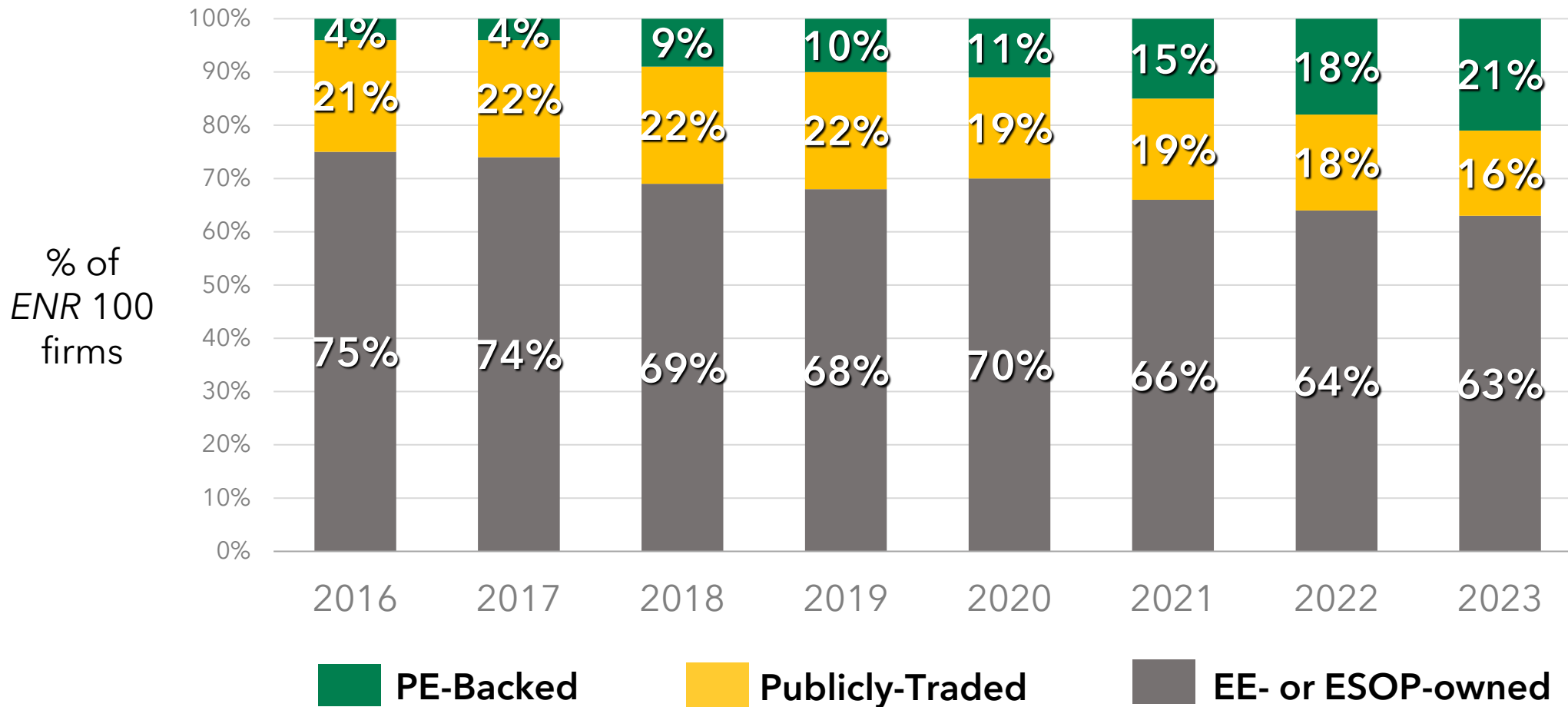
Divide net revenues by average total staff during the year, including principals.

AE industry consolidation continues



Source: Morrissey Goodale Research

Recapitalizing before our eyes



Source: Morrissey Goodale Research



Who's leading?



Average age of ENR Top 500 CEOs



Source: Morrissey Goodale Research - ENR Top 500

Average years an industry CEO has been with their firm



Source: Morrissey Goodale Research - ENR Top 500

Average years an industry CEO has been in their position



Source: Morrissey Goodale Research - ENR Top 500

Industry CEOs that are women



Source: Morrissey Goodale Research - ENR Top 500

Industry CEOs that have a graduate degree



Industry CEOs that have a non-AE undergraduate degree

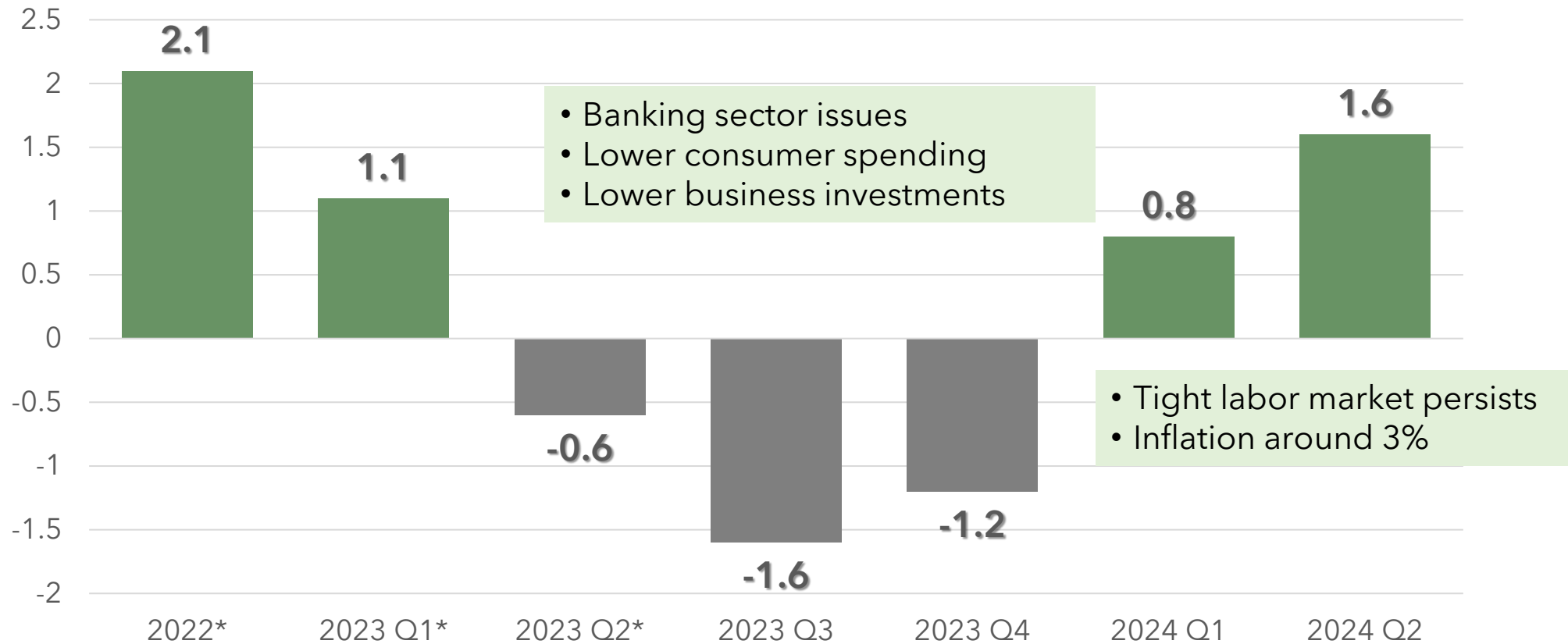


A hand is shown turning a circular dial on a futuristic, glowing interface. The dial has a 'START' label in the center. To the right of the dial, the year '2023' is displayed in large, glowing, 3D-style digits. The background is dark with various glowing blue and green lines and patterns, suggesting a high-tech or digital environment. The overall aesthetic is futuristic and high-tech.

**What Lies
Ahead**

It's a slowing, yet resilient economy

Real GDP
Annual Rate (%)

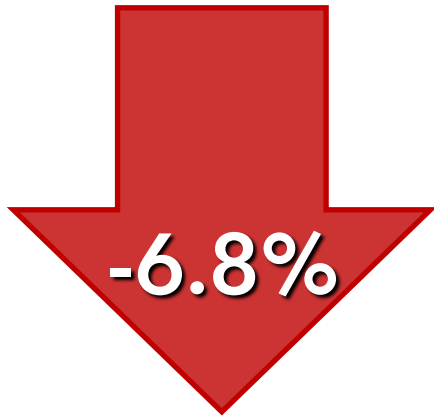


* Actual data

Source: The Conference Board; WSJ

Consumer Confidence is Down

**UNIVERSITY OF MICHIGAN
CONSUMER SENTIMENT INDEX**
(May)



**THE CONFERENCE BOARD
CONSUMER CONFIDENCE INDEX**
(May)



The AE remains optimistic, even if a little less so

Q1



March Symposium
attendees believed 2023
will be better than 2022

Q2



June Symposium
attendees believe 2023
will be better than 2022

Dodge Momentum Index agrees

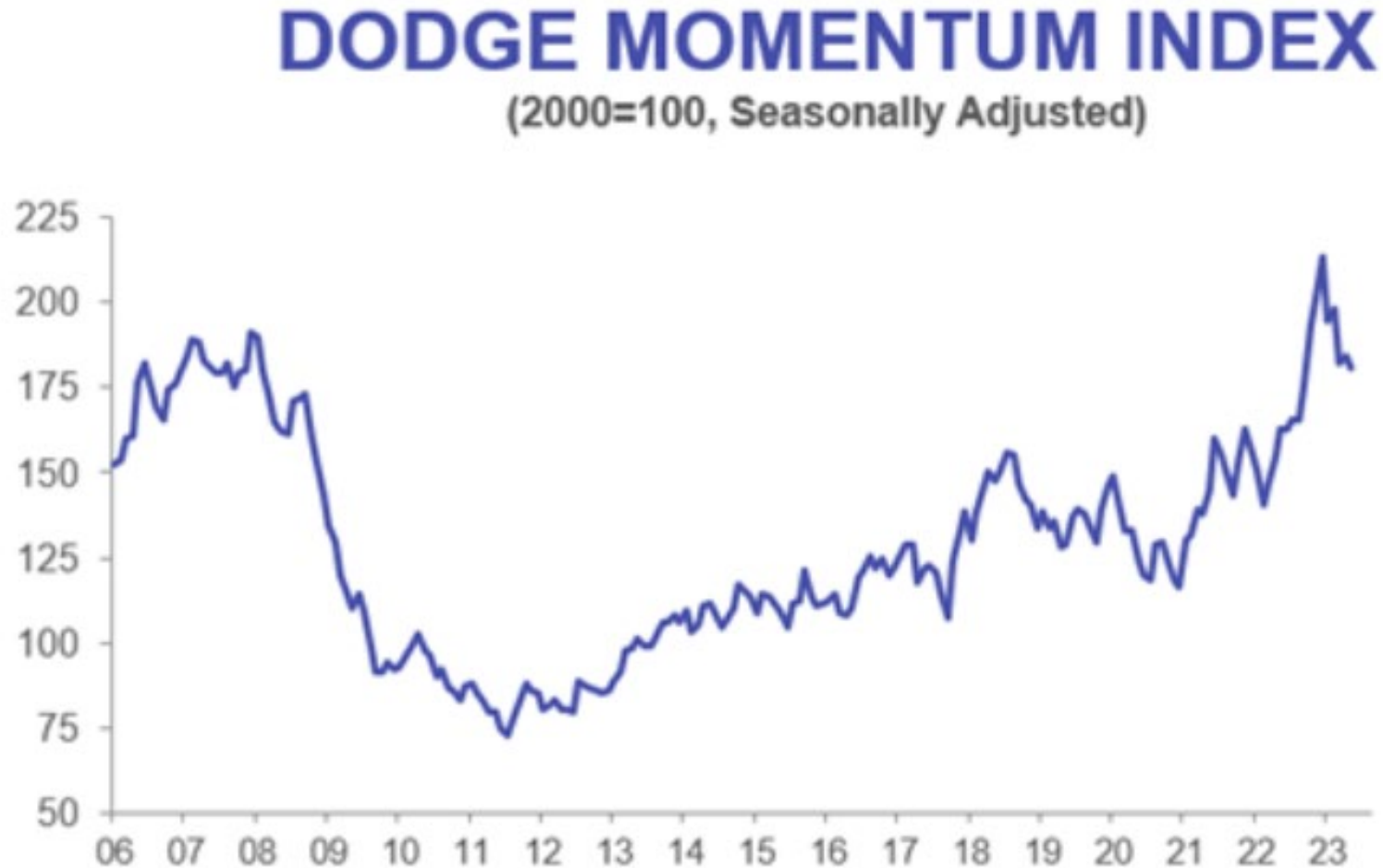
DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)

	May-23	Apr-23	% Change
Dodge Momentum Index	180.5	184.1	-2.0%
Commercial Building	202.9	216.0	-6.1%
Institutional Building	152.8	144.7	5.6%

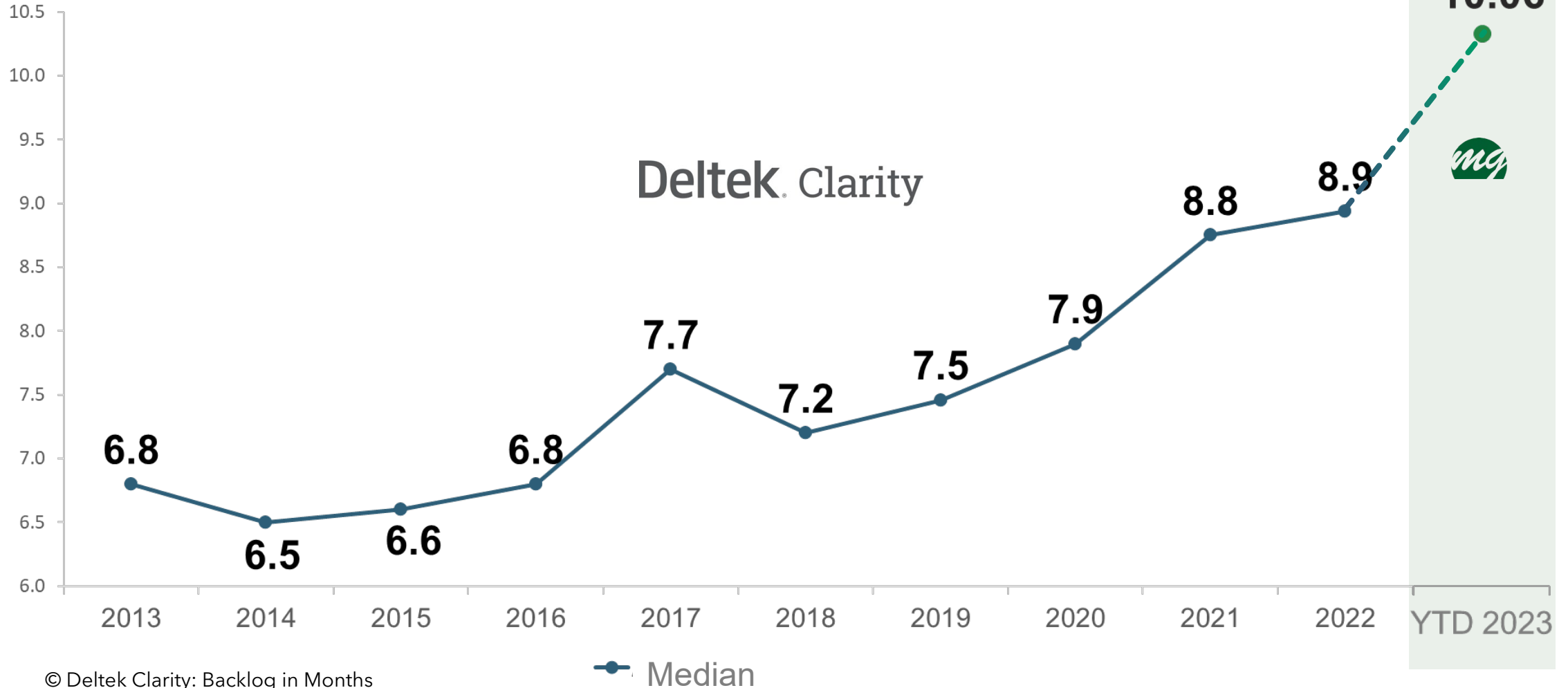
Source: Dodge Construction Network

But the index is still near a 17-year high



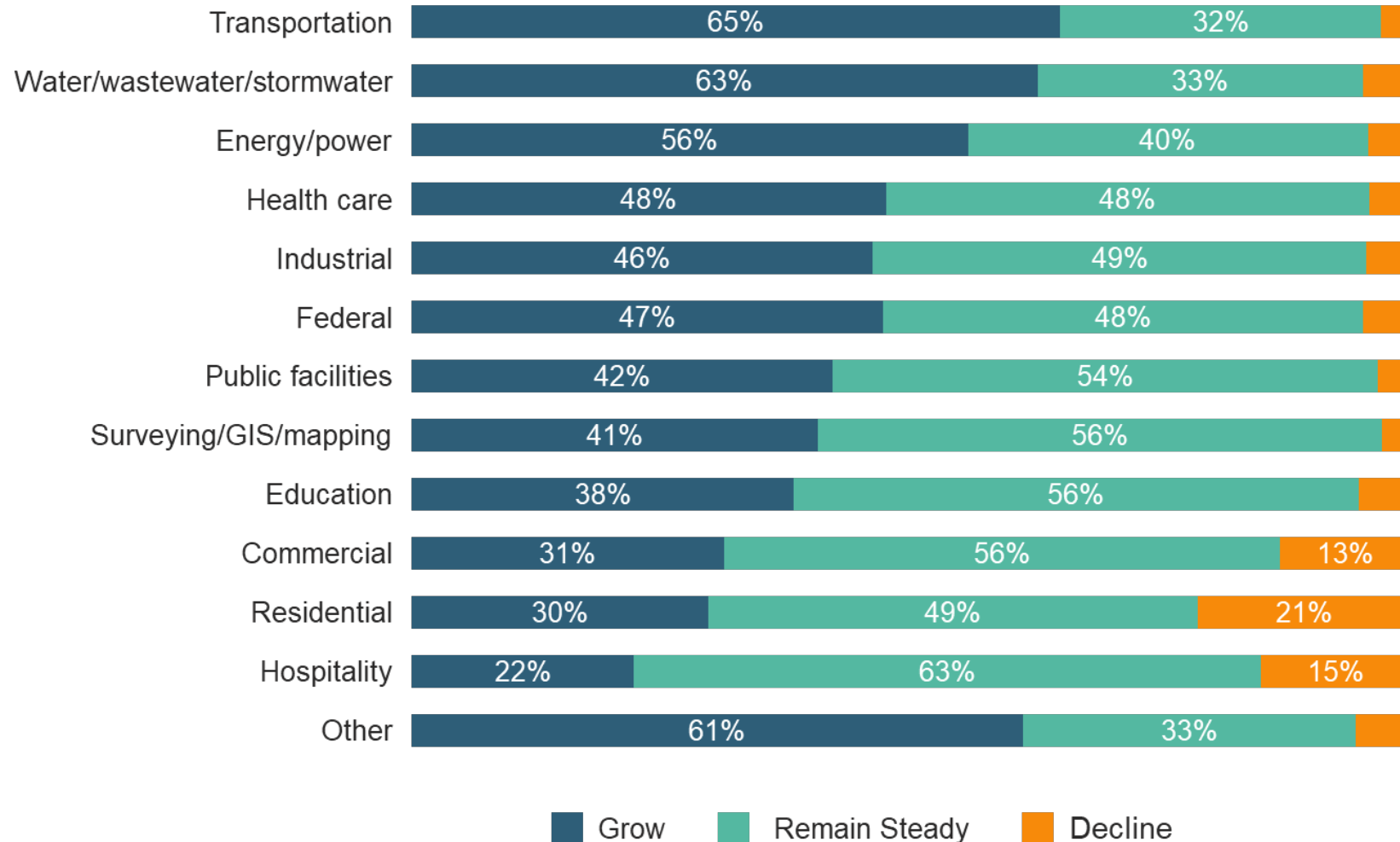
AE backlog at an all-time high

Backlog in Months

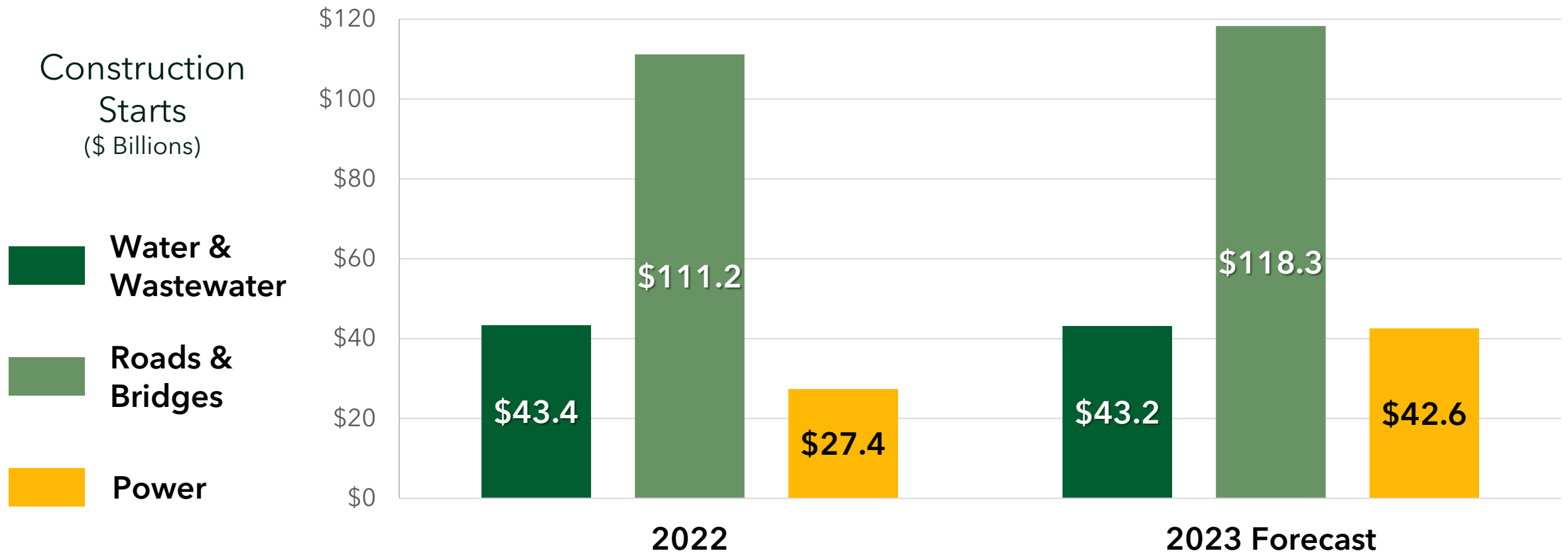


Market forecasts - Deltek Clarity (44th)

Market position in next 18 months



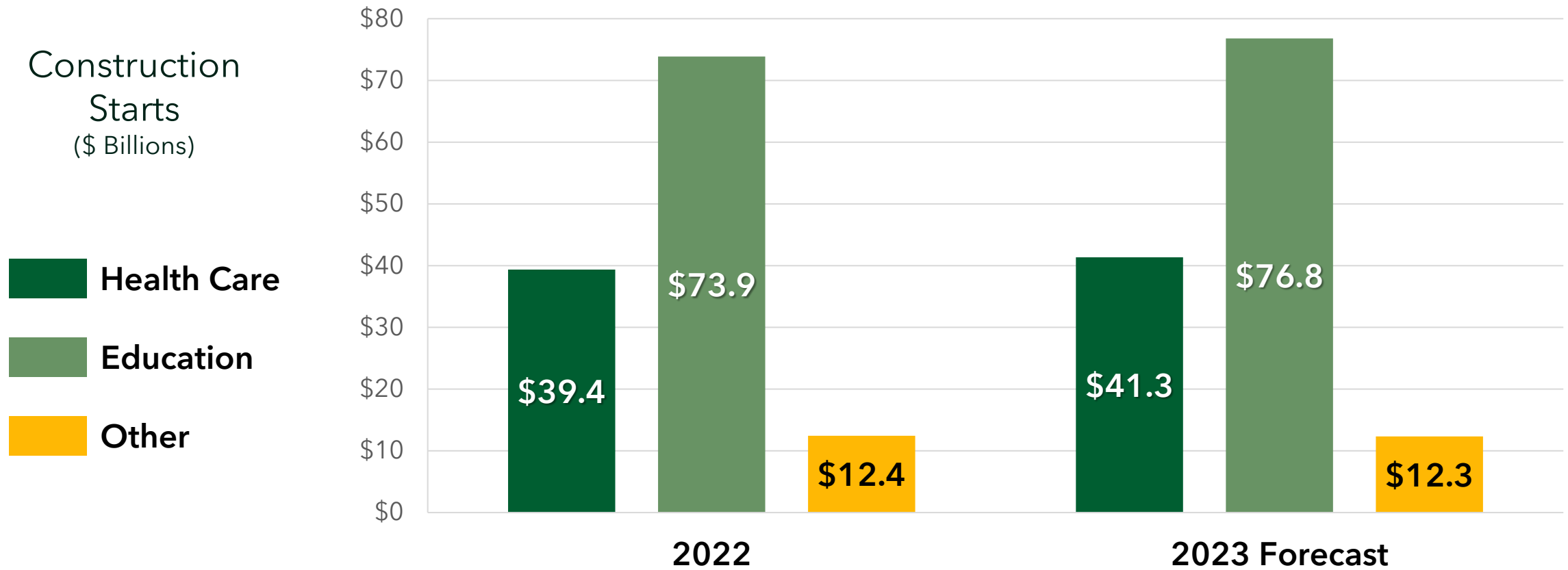
Infrastructure investment up 12%



Source: Construct Connect

Institutional markets: steady

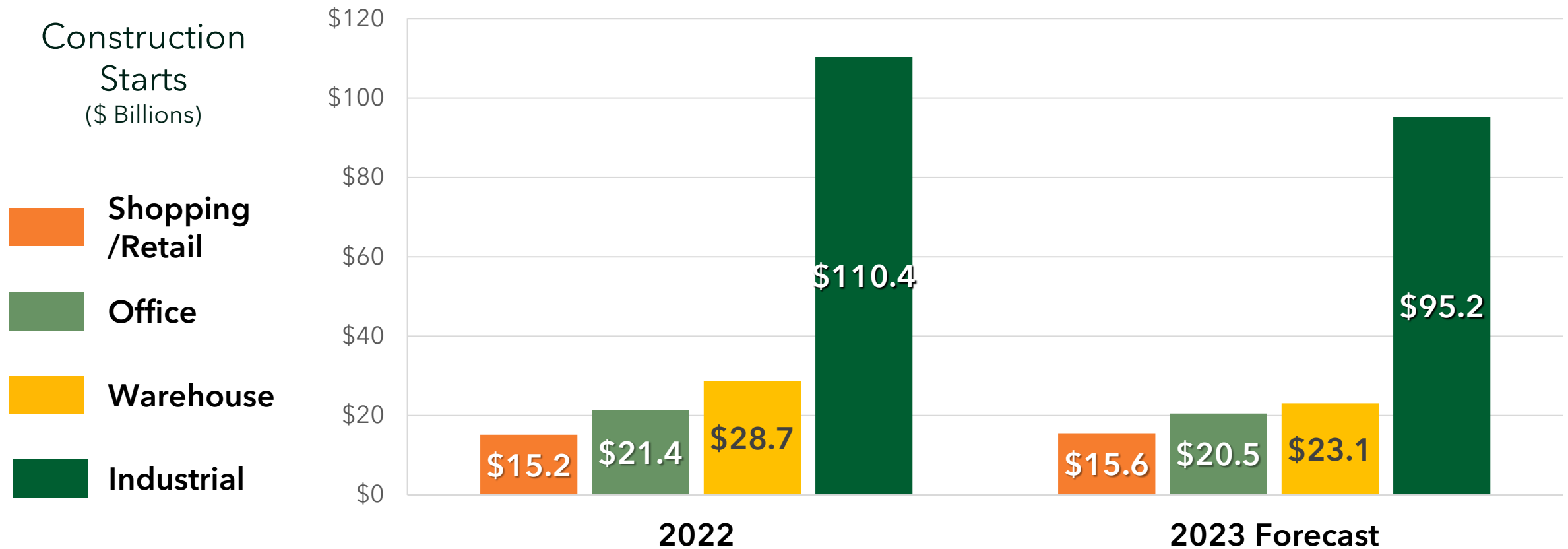
Overall growth at 4% in 2023



Source: Construct Connect

Commercial and industrial facing challenges

Overall decline of 12% forecasted for 2023



Source: Construct Connect

Where are we investing?



Time to pay up– and up



Planning on increasing
salaries between
6% and 9%



Bonuses will be
the same or higher
than 2022

Digital deployment

Q1



48%

The infographic for Q1 features a large green circle with the text '48%' in white. A small white dot at the bottom of the circle is connected by a thin green line to a horizontal green line. Below this line is the explanatory text.

March Symposium attendees expected to generate revenues through digital products and/or digital service offerings in 2023

Q2

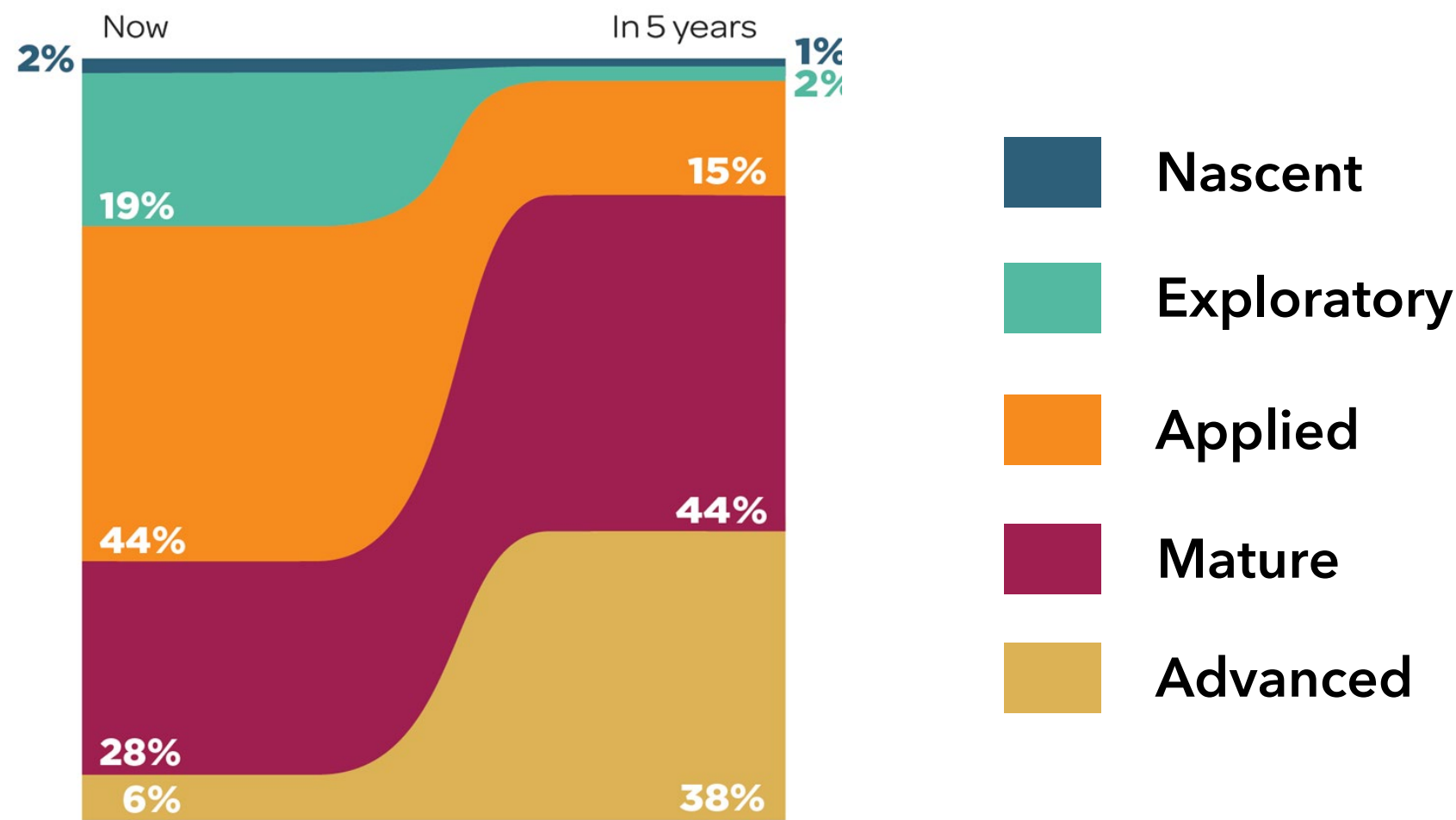


44%

The infographic for Q2 features a large orange circle with the text '44%' in white. A small white dot at the bottom of the circle is connected by a thin orange line to a horizontal orange line. Below this line is the explanatory text.

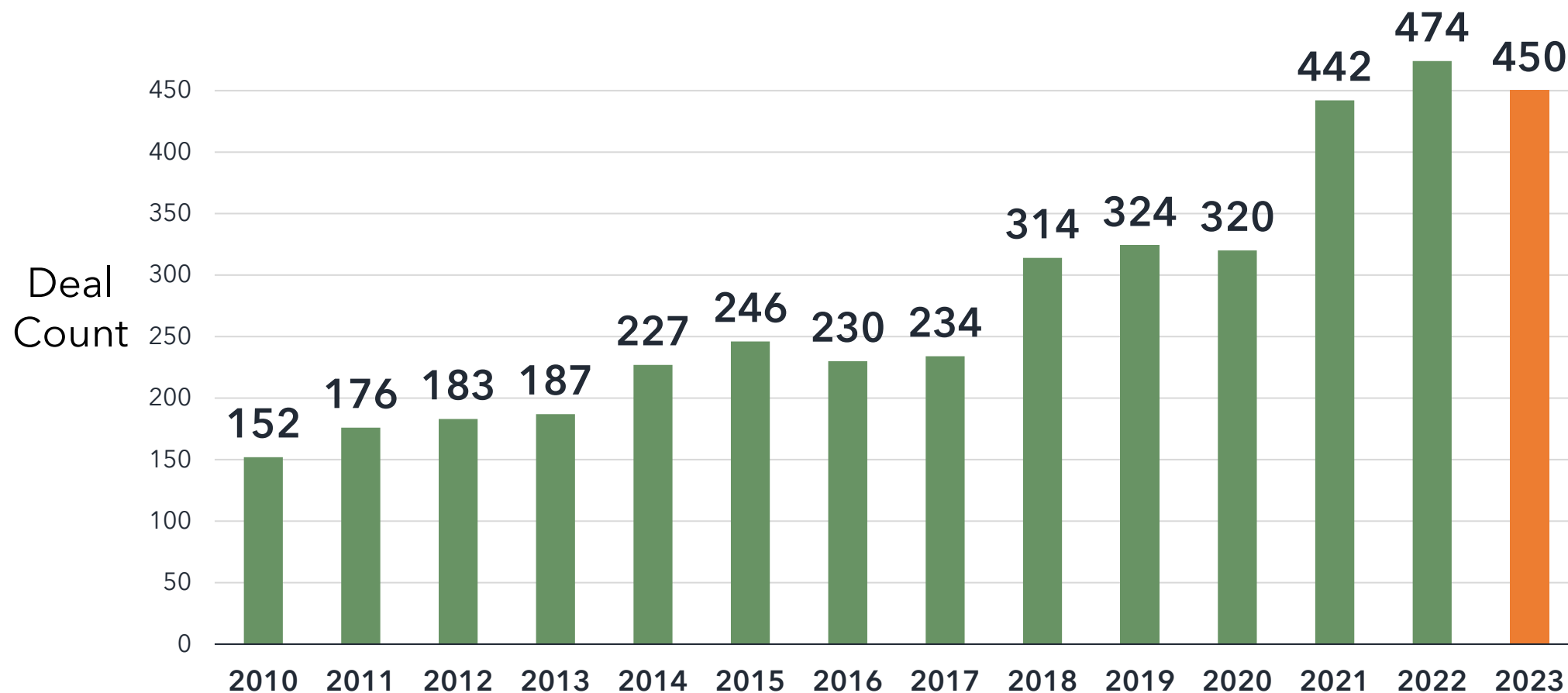
June Symposium attendees expect to generate revenues through digital products and/or digital service offerings in 2023

Digital transformation maturity Deltek Clarity (44th)



Deltek Clarity

Close to record consolidation in 2023



Source: Morrissey Goodale

69%

June Symposium
attendees are
planning a deal in
2023

Top challenges Q1



Talent / Hiring
66%



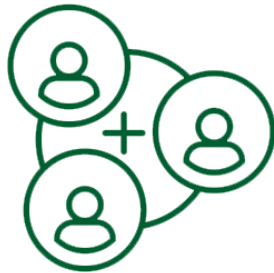
Economy
11%



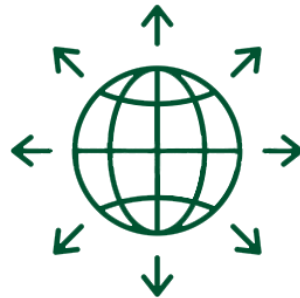
Capacity
6%



Acquisitions
6%



Diversifying client types
6%



Growth / Expansion
4%

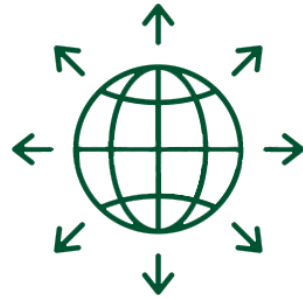


Business development
1%

Top challenges Q2



Talent / Hiring
70%



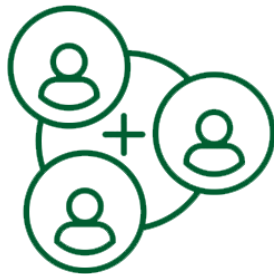
Growth / Expansion
10%



Economy
6%



Technology
6%



Diversifying client types
4%



Acquisitions
3%



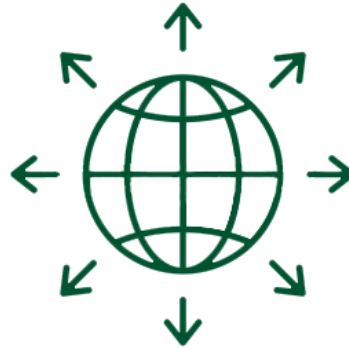
Capacity
1%

Greatest opportunities Q1



Expanding presence in
specific end markets

24%



Geographical
expansion

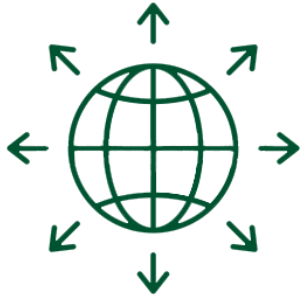
22%



Specific
markets

18%

Greatest opportunities Q2



Geographical
expansion

23%



Expanding presence in
specific end markets

22%



Technology

18%



Mergers &
Acquisitions

10%

In Summary

Major Themes:

- ✓ "Great Expectations" describes revenue growth
- ✓ Backlog stands at all-time highs
- ✓ Firms are hiring, or at least trying to
- ✓ Optimism stems from the infrastructure sectors of water, transportation, and energy
- ✓ Nearly half of firms are investing in and generating revenue from digital and technology initiatives
- ✓ 66% of our industry leaders expect 2023 to be better than 2022

That said...

- Labor costs and staff wages are at an all-time high
- Hiring and retaining capable staff is top of mind for just about everybody in the room
- Finding time to nurture client relationships isn't far behind



Q&A



Thank You!

For more information, please contact
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