Agenda

1. About the Study

2. Key Performance Indicators: The latest data and 10-year trend for 5 key operating benchmarks

3. Ideas to improve your company’s performance

4. Market Outlook for 2013 and beyond

5. Inside High Performing firms
About the Study

- Covers financial statistics (P&L, Balance Sheet) and market outlook
- 34th year of performing the study
- Conducted in February & March 2013
- Includes 2012 financials
- Over 200 US and Canadian firms participated
- In collaboration with ACEC
- Greatly expanded and updated this year
Participant Mix—Firm Type

- Engineering or E/A: 59%
- Architecture or A/E: 34%
- Other: 7%
Participant Mix – Firm Size

- 1-50 employees: 45%
- 51-250 employees: 42%
- 251-500 employees: 8%
- 501-1000 employees: 4%
- 1000+ employees: 1%
High Performing Firms—Criteria

Profit 15% +
Multiplier 3.0+
Key Performance Indicators for the A&E Industry
A&E Industry 2003-2012
Operating Profit: Ten Year Trend

- 2003: 9.75%
- 2004: 11.29%
- 2005: 12.86%
- 2006: 13.89%
- 2007: 13.00%
- 2008: 11.18%
- 2009: 8.35%
- 2010: 9.10%
- 2011: 9.26%
- 2012: 10.13%
Operating Profit: 2012

10.1%

- Pre-tax, Pre-bonus on Net Revenues
- Calculated by dividing pre-tax, pre-distribution profit by net revenues (total revenue minus consultants and other direct expenses).
- Operating Profit on Total Revenues was 7.9%
Operating Profit 2012: Comparison

By Firm Size

- Small 1-50: 9.4%
- Medium 51-250: 11.1%
- Large 251+: 8.7%

By Firm Type

- Architecture or A/E: 12.5%
- Engineering or E/A: 9.6%
Operating Profit 2012–High Performing Firms

Operating Profit Rate (on Net Revenues) 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>Profit Rate</th>
</tr>
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<tbody>
<tr>
<td>High Performers</td>
<td>25.0%</td>
</tr>
<tr>
<td>All Other Firms</td>
<td>8.3%</td>
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</table>
Net Labor Multiplier 2012

2.91

- Calculated by dividing net services revenue by direct labor, the cost of labor charged to projects.
Net Labor Multiplier 2012–Ten Year Trend
Net Labor Multiplier 2012–Comparison

By Firm Size
- Small 1-50: 2.91
- Medium 51-250: 2.90
- Large 251+: 3.10

By Firm Type
- Architecture or A/E: 3.04
- Engineering or E/A: 2.86

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Net Labor Multiplier 2012—High Performing Firms

Net Service (Project) Multiplier 2012

- High Performers: 3.43
- All Other Firms: 2.86
Utilization Rate 2012

59.9%

- Utilization by DOLLARS
- Calculated by dividing the cost of labor charged to projects by the total labor cost of the firm.
- Excluding Vacation, Holiday, Sick time it was 65.4%
Utilization Rate—Ten Year Trend
Utilization Rate 2012 – Comparison

By Firm Size

- Small 1-50: 60.9%
- Medium 51-250: 60.2%
- Large 251+: 57.7%

By Firm Type

- Architecture or A/E: 58.6%
- Engineering or E/A: 60.9%
Utilization Rate 2012—High Performing Firms

- High Performers: 60.4%
- All Other Firms: 59.5%
Overhead Rate 2012

161.6%

- Overhead Rate EXCLUDING Bonuses
- Calculated by dividing total overhead (before distributions) by total direct labor expense
- The Overhead Rate Including Bonuses was 175.7%
Overhead Rate 2012–Ten Year Trend

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Overhead Rate 2012 – Comparison

By Firm Size

- Small 1-50: 151.8%
- Medium 51-250: 161.6%
- Large 251+: 174.0%

By Firm Type

- Architecture or A/E: 164.8%
- Engineering or E/A: 154.9%
Overhead Rate 2012–High Performing Firms

High Performers: 161.8%
All Other Firms: 161.2%
Net Revenues Per Employee 2012

$121,902

- Calculated by dividing net revenues by average total staff, including principals.
Net Revenues Per Employee 2012–Ten Year Trend
Net Revenues Per Employee 2012–Comparison

By Firm Size
- Small 1-50: $116,462
- Medium 51-250: $123,059
- Large 251+: $124,609

By Firm Type
- Architecture or A/E: $122,670
- Engineering or E/A: $121,420
Net Revenues Per Employee 2012—High Performing Firms

High Performers: $144,133
All Other Firms: $116,888
Promote a Strong Project Management Culture

Your Operations
- Well-Defined PM Approach
- Well-Defined KPIs, Clear on Poor Performers
- Better Contracts
- Higher Fees
- Higher Profits
- Fewer Claims

Your Clients
- Timely Delivery
- Meeting Expectations
- Leadership
- “Trusted Advisor” Status
- Client Satisfaction – Surveys?

Your Work
- Better Project Plans
  - Plan for contract obligations
- Consistent Execution & Delivery
  - Deliver on contract obligations
- Collaboration – Social networking, socialization

Your People
- Confident Career-Path Planning
  - Well-defined role for young staff
- Staff Development
  - PMs teach by example
  - PM resources & training material
  - Assistance on contract management
A&E Market Outlook
Market Position 18 months

Market Position in 18 months

- Public Infrastructure
- Institutional
- Private Sector
- Residential

- Served this market in the past and expect to re-enter it
- Expect our work to decline
- Do not focus on this market
- Expect our work to grow
- Expect our work to remain steady
Anticipated work in rehab/retrofit for Green Building principles

- Major source of work: 24%
- Minor source of work: 49%
- Not a source of work: 27%
Importance of international business in the next 18 months

- Unimportant: 65%
- Slightly Important: 27%
- Very Important: 6%
- Very Critical: 3%
Technology Investments

- Information Management: 62.8%
- Design & Documentation: 49.7%
- Not anticipating investment in technology: 20.2%
- Other: 3.8%
Go/No-Go: Factors influencing whether to propose on a project

- **Existing client relationships**
  - Rank 1: 80%
  - Rank 2: 20%
  - Rank 3: 10%

- **Likelihood of profitability**
  - Rank 1: 60%
  - Rank 2: 40%

- **Targeted client**
  - Rank 1: 50%
  - Rank 2: 50%

- **High probability win**
  - Rank 1: 45%
  - Rank 2: 40%
  - Rank 3: 15%

- **Staff utilization**
  - Rank 1: 40%
  - Rank 2: 20%
  - Rank 3: 10%

- **Experience in new sector**
  - Rank 1: 10%
  - Rank 2: 30%
  - Rank 3: 60%
Firm Success Factors

- Right people
- Long term relationships with clients
- Firm reputation
- Flexibility to grow
- Develop expertise in new disciplines
- Expertise in new markets

Rank
1
2
3
Inside High Performing A&E Firms
## High Performers – Key Metrics

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Contract Types

- Top performers negotiate mostly Fixed Fee contracts that have higher risk and higher reward.
- Then by managing projects effectively they earn higher rewards.
A/R Collections

- High performers manage their A/R and cash flow more effectively.
- Higher client satisfaction?
Current Ratio

- High Performers have stronger balance sheets, based on high profitability.
- They are in a better position to aggressively pursue new opportunities, including new projects, new people, and new markets.
Staff Bonuses

- High performers reward their staff for their contribution to financial success.
- Not all about the money, but where would you rather work?
High Performing firms do better at holding onto their people.

Turnover is costly in lost productivity, management time, wasted training dollars, recruiting fees, and more.
Benchmark your A&E firm against the High Performers

Welcome to Deltek’s Architecture and Engineering (A/E) Online Benchmark tool. We have developed this tool as a service to Architecture and Engineering firms to compare the operations of your firm with other firms in the industry.

Please enter the following information using your firm's operating data. After entering the required information, hit the Submit button to view comparison results for your firm.

- Company Name:
- First Name:
- Last Name:
- Email:
- Title:
- Phone:
- What is your Net Profit Before Tax (as % of Total Revenues)?
- What is your firm's Net Multiplier (Net Revenue / Direct Labor)?
- What is your firm's Marketing Expense (as % of Total Revenues)?
- What is your firm's Average Number of Days from Completion of Project to Invoicing?
- What is your firm's Average Number of Days from Invoicing to Collection (Days Sales Outstanding)?
Questions?
Thank you for your time

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