INSIGHT BRIEFING

# European consulting leaders respond to COVID-19 and re-opening challenges

AEC Advisors brought it's well-respected CEO Forum series to Europe, in partnership with BST Global and Environment Analyst. Business leaders from Egis, ERM, Ramboll, and Witteveen+Bos took part in a virtual panel discussion focused on the changing market outlook, managing the impacts of the COVID crisis and return to the workplace, as well as more strategic implications

BY LIZ TREW

environmentanalyst BST GLOBAL AEC ADVISORS

# Market outlook and business planning scenarios

The European edition of **AEC Advisors**' CEO Forum provided a platform for professional & technical services and environmental consulting firms to compare notes and strategies in coping with the effects of the global pandemic on their people, clients, workflow, cash management and leadership.

**AEC Advisors** president **Andrej Avelini** and **Environment Analyst** co-founder and editorial director **Liz Trew** moderated an interactive panel-led webinar featuring:

- **Keryn James**, CEO of **ERM** (HQ London, UK; ~5,300 FTE)
- **Jens-Peter Saul**, CEO of **Ramboll Group** (Copenhagen, Denmark; ~13,000 FTE)
- **Karin Sluis**, Managing Director of **Witteveen+Bos** (Deventer, Netherlands; 1,300 FTE)
- **Nicolas Jachiet**, CEO of **Egis** (Guyancourt, France; ~15,000 FTE)
- **Javier Baldor**, EVP of **BST Global** (Tampa, FL, USA)

Around 575 senior architecture, engineering, and consulting (AEC) industry executives signed up for the webinar.

Environment Analyst presents an overview of the interactive discussion, which also featured headline findings from AEC Advisors' latest European and global COVID-19 industry impact surveys, which attracted participation from around 240 CEOs, CFOs and MDs in total worldwide.

Avelini kicked off proceedings by looking at the survey results on 2020 and 2021 industry revenue growth expectations (see Figure 1). He observed that, while European firms experienced a "high water mark" in 2019 averaging 8% organic growth for the median firm, this is expected to go down to 0% in 2020. And this is slightly worse than the global respondents are indicating (2019: 9.7% and 2020: 1.0%).

But the both survey cohorts agreed on a 2020 downswing in the region of 8% followed by 'bounceback' to growth of 5% in 2021.

"The last time we saw zero growth was in 2009 at the height of the GFC, but this still seems a fairly optimistic projection to me," said Avelini. "The figures suggest a V-shaped recovery in 2021, but I wonder if there is going to be a lag on the economic downturn as we've seen before in this industry. Some of the government payroll support schemes may have helped prevent layoffs to date but then what happens when they come to an end?"

Jens-Peter Saul said that **Ramboll** is considering three main economic scenarios in its business continuity planning; a worst-case L-shaped, prolonged downturn; a best-case V-shaped, rapid recovery; and a more realistic and what "we think most likely" U-shaped recession.

"I believe the growth expectations indicated in the survey are a little on the optimistic side, but it really depends which markets you are in and which sectors you depend on most. In the UK for example things are pretty dire due to the protracted lockdown," he commented.

"We expect a five percent decline overall this year. In continental Europe there's a more moderate impact, but the businesses in the UK and US are impacted more so because they are private sector oriented and infrastructure programme support is not coming through like in Scandinavia. Similarly, our private sector-leaning environment and energy businesses are more impacted than our transportation division."

"In 2021, we anticipate growth coming back up close to the 2019 level of revenue dominated by government infrastructure investment programmes," Saul added.

Drawing on **ERM**'s experience, Keryn James suggested the impact really depends on what type of services are being performed and if the work is heavily field work oriented, which she said "has been quite significantly impacted in Europe simply because people haven't been allowed to get to the work".

"This is different to in the US where a lot of that sort of work has been designated essential infrastructure so we've been able to continue a lot of field work programmes. Italy was the first European market to go into lockdown and ERM's performance has held up very well in that market, which is a function of the mix of work being delivered and if services can be delivered virtually."

## Beware the lag

In general, James has been "pleasantly surprised by the way that sales and revenue have continued to come in above our expectations". Parts of the business are still completely flat out, she noted, including ERM's product stewardship services and its business in the tech sector. But it's still too early to tell how it is all going play out and whether there will be a lag to a more significant impact. "The stimulus has been holding up the equity markets and providing confidence to some clients to continue spending, but as the economic impacts start to be felt we may see a wave of reprioritisation from clients on spending."

And similar to **Ramboll**, **ERM** is planning

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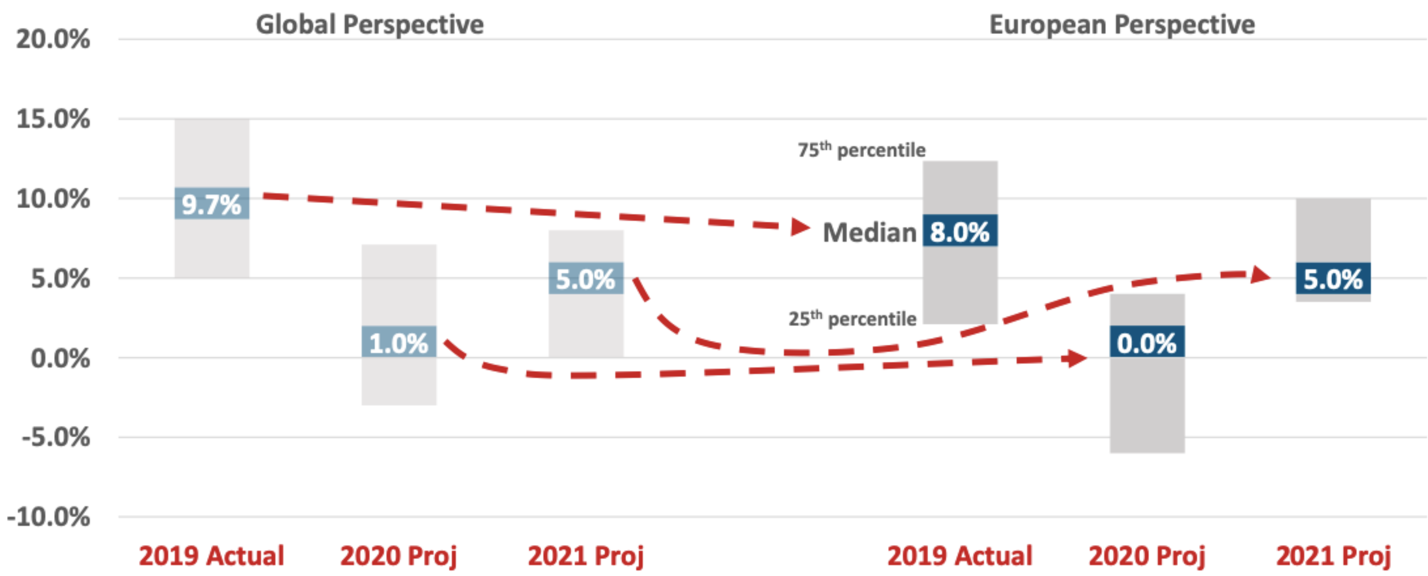
Zero growth by the median firm is not bad compared to negative GDP projections

**Andrej Avelini, AEC Advisors**

Figure 1 : Organic Growth (Excluding Acquisitions). [Source: AEC Advisors' European Industry Survey (May 2020)].




around three different scenarios and expects European revenues to decline in the order of five percent this year, recovering to 2019 levels next year. "You've got to plan for the worst and hope for the best," said James. "You need to be incredibly agile in terms of resources which is not always easy to do in some of the jurisdictions we're operating in."

Karin Sluis of **Witteveen+Bos** - a firm whose presence is concentrated in the Netherlands and Belgium - agreed with the need to be flexible on resources. "We've now got central Asian oil & gas staff working on Benelux projects, which is a first. This reflects the spirit of the hashtag we have adopted - 'we're all in this together'." She also noted the surprisingly strong variation in how different countries are being impacted by, and dealing with, the crisis and hence how the businesses are performing from country to country.

"We are seeing a huge difference in the impacts in the Netherlands and Belgium, which is really down to the national governments. In Holland, our main base, the government has been executing plans and bringing forward projects, so here we're doing better than planned and we've already reached our target growth for the year (six perfect organic growth) within the first five months. But in Belgium the business is not faring as well because the government hasn't been so pro-active and we have more private clients."

**Egis**' Nicolas Jachiet echoed Sluis' observations on the diversity of market impacts. "France represents 26% of our business and the rest is widely spread over the world, and as concerns Europe, mainly in Eastern Europe. France is the most deeply affected of all our markets - field work has stopped for several weeks.

"We expect net revenues to be down by a few percentage points this year, although I am more optimistic for next year. It's very difficult to say if 2021 will be worse than 2020 yet but we do expect public sector work for us in France to be stronger next year thanks to stimulus packages. In other locations there might be issues with public finance coming through for projects and so perhaps markets that have been reasonably strong this year might have an impact next year," he added.

Avelini then suggested that "zero growth by the median firm is not bad for the industry compared to negative GDP projections".

## Addressing profitability and utilisation impacts

He went on to note that **AEC Advisors**' survey indicates that European firms are perhaps a little more realistic than the global (primarily American-focused) firms on the impacts of the crisis on pre-bonus profit (EBIBTA) margins. The latter predict a ~10% year-on-year decline to an average margin of 13% this year, compared to a ~30% downswing for the former to an average of 9.1%.

It's also a similar picture on utilisation, as Avelini explained: "Our data shows that working from home seems to have had a significantly negative impact on utilisation for the European industry (with the median change reported at -4%). American firms said utilisation was 2% up when we surveyed them in early May, although that may have changed as they burned off backlog and then struggled to replace it."

**W+B** has seen a slight increase in productivity company wide, according to Karin Sluis, but differences on utilisation between individuals have been significant depending on the country and type of work. The firm has developed a digital tooling system to monitor productivity statistics very closely; which enables a rapid response if there is a need to move people onto new tasks or divisions which are more busy. 'Reskilling' is presented to employees as CV-enhancing and positive for career development; and as such has "generally been greeted very positively".

**Ramboll**'s Saul commented: "When considering utilisation it's very important to note the different government support mechanisms - especially the furlough schemes - which act as a buffer so I'm a bit surprised to see that European firms anticipate a big drop in margin than the US operations. Looking at our utilisation, the rate

has only dropped by a couple of percent but that is because it doesn't include those people sent home on the government-supported furlough schemes which are more generous in Northern Europe than they are globally."
He also makes the point that with the specific profitability measure, EBIBTA, it's difficult to compare like with like given the larger bonus ratios typical in the US industry than in Europe. "On margins we were more pessimistic at the beginning of this year when we first saw this coming, but we are now seeing a good stabilisation, there will be a decline of course, but also we expect an upswing in the Nordics coming with public investment programmes. This is why we want to keep our people on board and to avoid permanent layoffs."

That said, layoffs may be unavoidable in some areas such as oil & gas - described by one panelist as a "blood bath" - it was noted.

**BST Global**'s Javier Baldor highlighted that one key concern that his industry business leader contacts have voiced relating to protecting profitability is around the "downstream impact on margins of some of the fixed-price contracts at risk of write-down".

## Protecting margins, cash flow and resources

According to James, **ERM** took fairly swift action a few months back to protect its industry-leading margin range, which is consistently well into the double digits. "We were watching this freight train coming down the track from Asia, as we have a pretty big business there, so we had some early insights on what to expect.

"So in mid-March we took the decision to go for a 20% reduction in hours for all our staff because we knew there wouldn't be quite enough work (and for our partners it was more of a pay reduction). So there was an immediate drop in utilisation - when also factoring in those on furlough - but within the next week it was back up again and has stayed remarkably steady over the last eight weeks at both a global and European level."

The French government's payroll support scheme (furlough) has also helped support **Egis**' employees, remarked Jachiet. But the firm is still in a position of needing to recruit in certain areas such as its rail business: "We also plan to move people out of areas with decreasing business such as aviation into the less impacted ones. Another tactic we've used is anticipating paid time off."

Figure 2 shows the measures AEC firms have put in place to reduce their cost base. Baldor observed: "What we're hearing from our clients is that it's all about cash, how is that protected and how is that managed; and then it really comes down to two key areas, discipline and leadership, but not all firms have that focus."

Avelini pointed out that "what probably stands this industry in good stead is its conservatism where debt is concerned." Exploring tactics on protecting cash flow and margins based on the experience of a private equity supported model, James said that **ERM** prepared itself by "massively stepping up our invoicing capability based on the early experiences of the Chinese and SE Asian operations".

"We are expecting at some point clients to start to push to extend their payment terms. We try for 30 days, but expect something more like 60-90, with the odd one looking to push it even further...Now we've a centralised team managing these negotiations, it's been pretty successful and we're at an average collection time of 67 days, including work in progress."

"Employees need to feel the bar is high from a health and safety standpoint

**Javier Baldor, BST Global**

## Planning for the 'new normal'

Avelini shared results of the European CEO industry survey which suggest a major shift to home-working post-COVID, perhaps unsurprisingly, from approximately 5% of the workforce pre-COVID to ~35% in its wake. Many offices in countries such as Denmark, Sweden, Switzerland and Germany are already open, while countries expected to come out of lockdown later are the UK, Ireland & Austria. Avelini asked the panel to explain how they are approaching the big re-opening and new norms in the workplace.

Sluis underscored that "it's much easier to get people out of the office than back in", in terms of the practicalities such as how people get there, whilst also noting the psychological

"There will be M&A opportunities, although timings maybe deferred

**Nicolas Jachiet, Egis**

> "Visibility of leadership is now more important than ever
>
> **Jens-Peter Saul, Ramboll Group**

issues. "Some of our employees are very excited to go back, some don't want to, they may still have childcare issues or are afraid for the health of their loved ones. It's difficult to handle all these perspectives. So **Witteveen+Bos** is supporting all those wishing to go back to their offices, but not pushing the others if they've got enough work that they can carry on doing it from home."

**Ramboll** carried out a pilot antibody testing study on a sample of 100 staff, centred on those who tend to travel a lot with their jobs. "We found that not a single person had immunity so that doesn't really give any comfort to people coming back, indicating that we haven't got to herd immunity (which is c60-70%)," stated Saul.
"Our own epidemiologists provide global valid minimum office safety guidelines and then it's up to country managers to invite people back in or let them continue to WFH."

**ERM** surveyed it's staff on returning to the office, and found that around two-thirds have concerns about it. James expanded: "ERM already has a number of offices open across Europe, but we are very cautious on a possible second wave and the health impacts, including mental health, especially with a second lockdown potentially. A quarter of our employees said they want to carry on with home working in some form for the longer term."

Meanwhile, **Egis** is expecting all employees except those with serious personal reasons to come back to the office at some point this month for a one-to-one assessment. Baldor shared some perspectives on health & safety from **BST Global**'s perspective, stating: "We've listed eleven specific measures to make the workplace as safe as possible - a couple of which have been particularly well received such as the installation of commercial air filters, and on the testing front, we are going to have a medical professional screen all our staff and all those coming in and out of our offices.

"Employees need to feel that the bar is high from a health and safety standpoint. Travel is also going to be dictated by clients for us; and whether they will even want to host you in some cases."

## Deal or no deal?

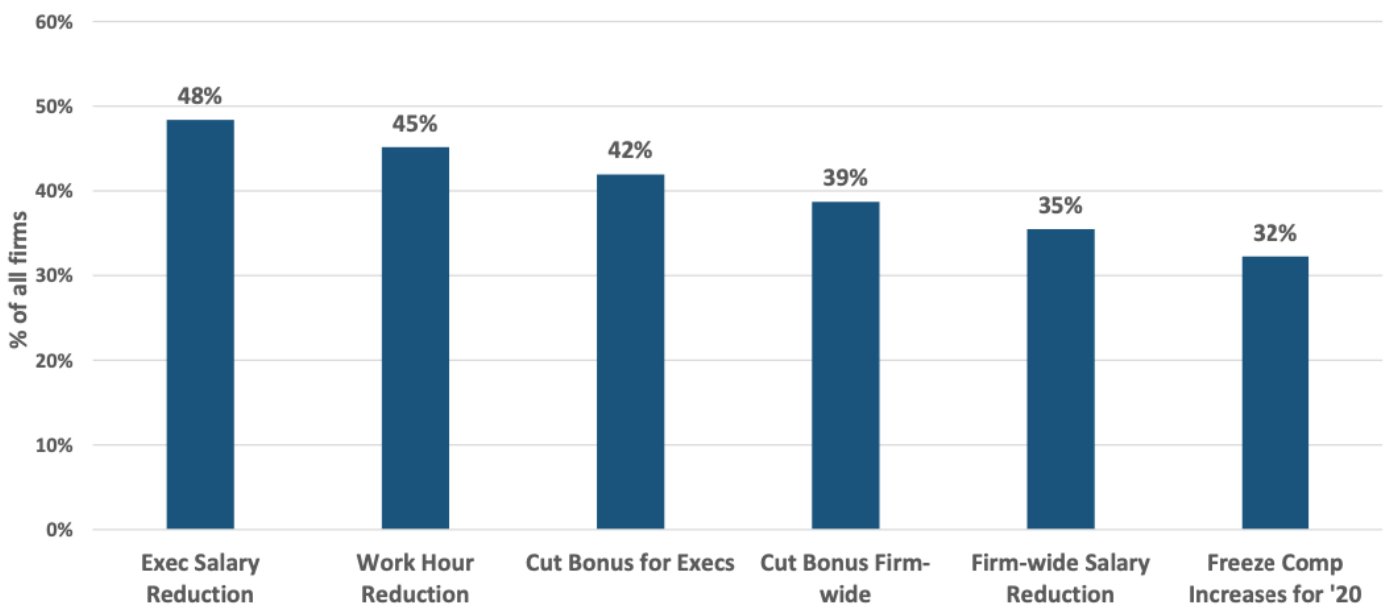
The current situation is not necessarily preclusive on the strategic acquisition front as one might assume. Jachiet believes there will be M&A opportunities for **Egis**, "but from a practical point of view deals will probably need to be deferred because you generally do need to meet people in person to do due diligence."

Avelini pointed out that **AEC Advisors** has helped close two transactions just in the last week, "so some deals are getting done even in this environment". About one in five firms are looking to be more aggressive on M&A, according to the industry survey.

## Key learnings and hopes for the future

For the **Ramboll** chief exec, a major learning and 'silver lining' through the crisis has been an improvement in closeness and

Figure 2 : Other Cost Cutting Measures. [Source: AEC Advisors' European Industry Survey (May 2020)].



collaboration throughout the organisation. "Ramboll has never worked so good together!" said Saul. "I give a 'state of the nation' video address talking about how we are working on this every one or two weeks and focusing on being very proactive on reaching out.

"Visibility of leadership is now more important than ever to provide to reassure people we are taking measures to protect them, their jobs and our company."

For **W+B**'s Sluis an important lesson learned has been that although you have to focus on short-term issues initially such as sick leave rates, productivity, cash flow, etc, there is also an opportunity to challenge the company's mid-term goals. "You may find you can actually get there quicker though better and faster solutions in the digital transition," she said. "This crisis has made clear we can accelerate things while we've also come up with new solutions and tools we hadn't thought of before."

"Our supporting / back office departments have played a much more important role though this, which really enhances the diversity of the organisation," she added. Sustainability is another important pillar for the company, which is being amplified: "Our philosophy is that engineers are making sustainability happen in the real world. And the crisis has shown that there's even more to do than the obvious things such as energy transition, including sustainable mobility, health, and biodiversity.

"We as consulting engineers should use this crisis to take a step forward and make sustainability happen now."

## COVID, climate and consulting

Picking up on this sentiment, Avelini wrapped up the session by asking James - as the CEO of the "largest pure-play company focusing on EHS, environmental management and sustainability risk" - whether she felt the crisis would accelerate global action on climate change given the nexus we are at to find solutions here?

James replied: "This is very central to the ERM purpose. The pandemic has put a sharp focus on the issues of biodiversity, wildlife and nature loss rising up the agenda almost on a par with the climate emergency. The pandemic is generating very significant dialogue around ESG, climate change, energy and biodiversity statistics.

"Current government commitments under the Paris Agreement will only get us to about a 3.9°C [global temperature increase]. In the COVID year, 2020, the prediction is that we will reduce greenhouse gas emissions by 8%, and these are very unusual circumstances. But we need reductions in the order of 7-8% every single year this decade to get to the 2°C scenario. There's no question about the imperative and traction to achieve this, but the big unknown is government.

"Undoubtedly we need a change in the US administration in November, without which it is extremely unlikely we'll get global collaboration - or some form of global position - on the carbon price, which is critical.

"The next international climate change meeting COP26 is considered crucial. And there are some really good early signs from government commitments in terms of linking in climate targets with COVID recovery assistance plans as recently announced by Canada and France. I'm an optimist on this; we have to get a better outcome and I believe by doing so there's a huge opportunity for us," James concluded.

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We should use this crisis to make sustainability happen now

**Karin Sluis, Witteveen+Bos**

The full recording of this webinar may be accessed here (using password: 1x@8&$9h). With thanks to the panelists, BST Global (www.bstglobal.com) and AEC Advisors: (www.aecadvisors.com)
For more information visit:
www.environment-analyst.com/global

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