

19th Annual

Architectural Study

**KNOW
GREATER
VALUE®**

Summary of Our Architecture & Engineering Practice

Comprehensive Capabilities, Enduring Client Commitment

Long recognized for serving the architecture and engineering industry, our Firm's breadth and depth of resources enable us to deepen our commitment to the industry and provide services that will support our clients through the life cycle of their business.

Our dedicated team of industry advisors provides tailored services to help A&E firms address the challenges and explore the opportunities ahead. Our team includes specialists in advisory, tax and financial statement matters – areas vital to success in today's complex business environment.

We speak the language of our A&E clients, which enables us to offer innovative solutions to improve profitability and organizational value. Whether it is growing through acquisition, maximizing tax credits or leveraging fast-moving technologies, we have the specialized expertise to help A&E firms grow their businesses.

Services for the A&E Industry

Advisory

- Ownership Transition and Succession Planning
- Business Valuation Advisory
- Deferred Compensation Plans and Section 409A Compliance
- Mergers and Acquisitions
- Benchmarking Financial Performance
- Project Management and Profitability Analysis
- Cybersecurity Assessments and Penetration Testing
- ESG, Sustainability and Impact Optimization
- Cash Flow and Financial Forecasting
- ESOP Advisory Services
- Working Capital Reviews
- Development of Long-Term Tax Strategies
- Employee Retention Credits
- Employee Benefit Consulting
- Design of Internal Control and Financial Reporting Systems
- FAR Compliance and Documentation Evaluation and Agency Audit Support

Accounting and Assurance

- Agreed-Upon Procedures
- Employee Benefit Plan and ESOP Audits
- Financial Statement Audit, Review and Compilation
- Overhead Rate Audits in Accordance with FAR
- Outsourced CFO

Tax Planning and Compliance

- Corporate, Partnership and Individual Tax Planning and Compliance
- Multi-State Taxation
- International Taxation
- Maximization of Tax Credits and Incentives

To learn more about our A&E practice and how we can collaborate to help your organization achieve its objectives, please contact one of our A&E industry experts or visit pkfod.com.



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Introduction & Key Takeaways

It is with great pleasure that we present our 19th annual Architectural Study. The benchmarking data included here should prove extremely useful as you plan ahead in today's unique economic environment.

We have gathered data from our survey participants and analyzed key performance indicators such as utilization rates, billing multiples, overhead costs, and working capital ratios. This annual study provides architectural firms with an indication of where they stand relative to their peers, as well as key takeaways to keep in mind for the future.

To all who participated in this study, we extend our thanks. We appreciate your contributions to this project and value our relationship with you. We look forward to discussing pertinent topics with you as they come up throughout the year.

We encourage you to give us feedback about any additional industry and financial information that you would like us to incorporate into next year's study. Please feel free to reach out to us directly.

We wish you good health and continued success in 2024 and beyond.



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Our analysis of this year's data revealed several key takeaways for the A&E industry.

- In 2022, the average architectural firm showed profit of 15.6%, a 1.2 point increase from 2021.
- The breakeven multiple and overhead rate continued to trend upwards as the impact of inflation affected many firms. This is an area that should be monitored in 2023.
- Labor costs continued to surge, as seen in rising employee hourly wage rates and bonuses, including a ten-year high of pay raises.
- The hybrid work environment appears to be here to stay. Only 7% of firms are requiring employees to be in the office for 5 days.
- Staff turnover dropped slightly in 2023 but remained in double digits at 12.2%. Firms should continue to focus on retention of key staff.

| | Study Average | Range of Studied Firms | |
|---|---------------|------------------------|------------|
| | | High | Low |
| Ratios based on labor dollars | | | |
| Direct ratio (utilization) | 63.2% | 78.3% | 45.6% |
| Total labor billing multiple | 1.98 | 3.09 | 1.48 |
| Direct labor billing multiple | 3.30 | 4.94 | 2.43 |
| Breakeven multiple* | 2.83 | 4.09 | 1.98 |
| Overhead rate* | 183.0% | 309.0% | 97.8% |
| Ratios based on hours | | | |
| Direct ratio (utilization) | 65.4% | 78.2% | 50.2% |
| Billing rate per direct hour | \$ 148.71 | \$ 203.69 | \$ 96.08 |
| Overhead rate per direct hour | \$ 79.64 | \$ 153.68 | \$ 38.69 |
| Employees' average hourly rates | | | |
| Direct labor rate | \$ 45.88 | \$ 61.93 | \$ 38.48 |
| Indirect labor rate | \$ 50.55 | \$ 60.52 | \$ 39.34 |
| Combined labor rate | \$ 48.11 | \$ 61.46 | \$ 39.50 |
| Calculation of profit (loss) per direct hour | | | |
| Billing rate per direct hour | \$ 148.71 | | |
| Direct labor rate | \$ (45.88) | | |
| Overhead rate per direct hour | \$ (79.64) | | |
| Profit (loss) per direct hour | \$ 23.19 | \$ 80.98 | \$ (13.94) |
| Profitability ratios | | | |
| Profit (loss) as a % of net fee income ** | 15.6% | 39.8% | -11.6% |
| Net fee income per employee | \$ 195,578 | \$ 314,370 | \$ 128,963 |

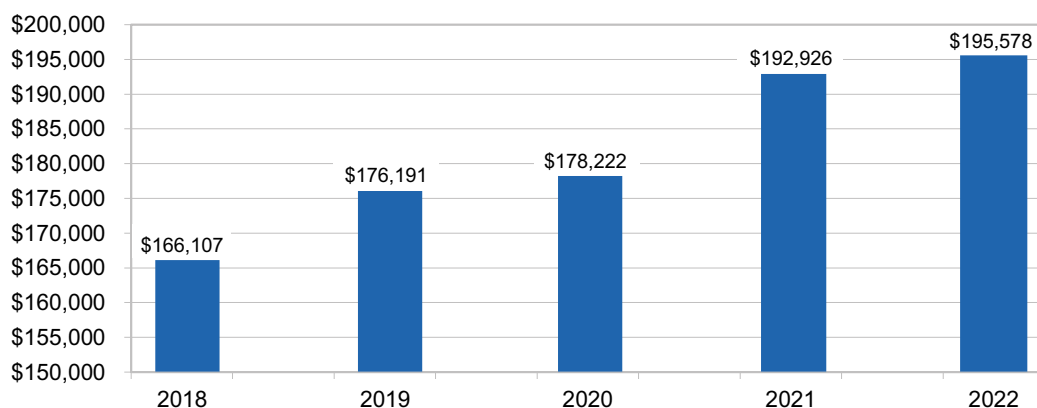
* Breakeven multiple and overhead rate include staff bonuses.

** Profit (loss) as a % of net fee income is calculated before bonuses to principal owners.

HISTORICAL TREND ANALYSIS

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|------------|------------|------------|------------|------------|
| Ratios based on labor dollars | | | | | |
| Direct ratio (utilization) | 61.7% | 61.0% | 61.6% | 61.1% | 63.2% |
| Total labor billing multiple | 1.87 | 1.92 | 1.91 | 1.96 | 1.98 |
| Direct labor billing multiple | 3.18 | 3.31 | 3.09 | 3.24 | 3.30 |
| Breakeven multiple | 2.77 | 2.83 | 2.68 | 2.82 | 2.83 |
| Overhead rate | 177.3% | 183.3% | 167.9% | 182.0% | 183.0% |
| Ratios based on hours | | | | | |
| Direct ratio (utilization) | 64.4% | 63.8% | 63.7% | 63.8% | 65.4% |
| Billing rate per direct hour | \$ 127.34 | \$ 135.48 | \$ 134.33 | \$ 140.87 | \$ 148.71 |
| Overhead rate per direct hour | \$ 72.30 | \$ 73.01 | \$ 72.05 | \$ 77.11 | \$ 79.64 |
| Employees' average hourly rates | | | | | |
| Direct labor rate | \$ 40.51 | \$ 41.49 | \$ 42.13 | \$ 43.43 | \$ 45.88 |
| Indirect labor rate | \$ 46.86 | \$ 48.12 | \$ 48.77 | \$ 49.85 | \$ 50.55 |
| Combined labor rate | \$ 42.49 | \$ 44.47 | \$ 44.67 | \$ 45.74 | \$ 48.11 |
| Calculation of profit per direct hour | | | | | |
| Billing rate per direct hour | \$ 127.34 | \$ 135.48 | \$ 134.33 | \$ 140.87 | \$ 148.71 |
| Direct labor rate | \$ (40.51) | \$ (41.49) | \$ (42.13) | \$ (43.43) | \$ (45.88) |
| Overhead rate per direct hour | \$ (72.30) | \$ (73.01) | \$ (72.05) | \$ (77.11) | \$ (79.64) |
| Profit per direct hour | \$ 14.53 | \$ 20.98 | \$ 20.15 | \$ 20.33 | \$ 23.19 |
| Profitability ratios | | | | | |
| Profit as a % of net fee income | 11.4% | 15.5% | 15.0% | 14.4% | 15.6% |

Net Fee Income Per Employee



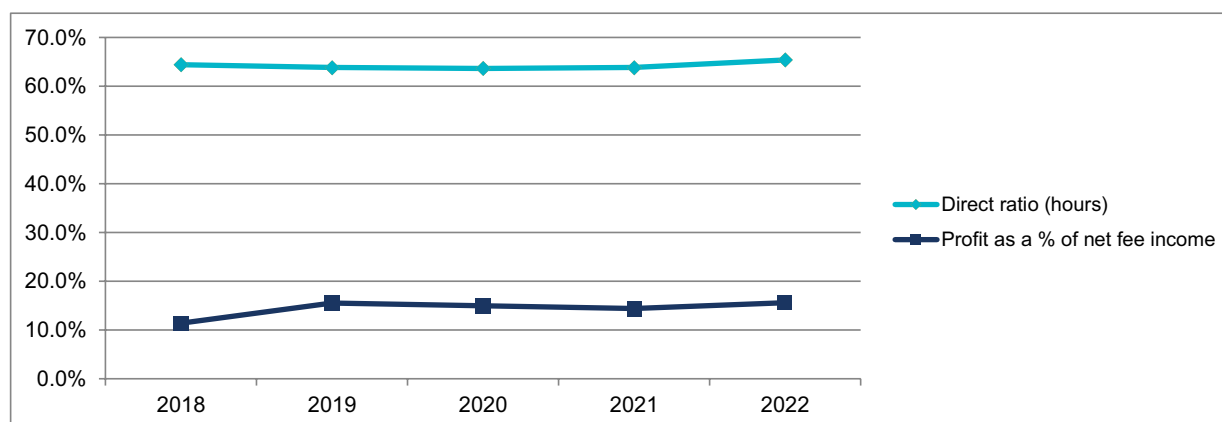
TREND ANALYSIS OF HOURS

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------|---------------|---------------|---------------|---------------|---------------|
| Total firm | | | | | |
| Direct hours | <u>64.4%</u> | <u>63.8%</u> | <u>63.7%</u> | <u>63.8%</u> | <u>65.4%</u> |
| Indirect hours: | | | | | |
| Holiday, vacation, sick | 10.4% | 10.1% | 8.9% | 10.2% | 10.5% |
| Marketing | 6.0% | 6.4% | 6.1% | 5.0% | 5.8% |
| Other | <u>19.2%</u> | <u>19.7%</u> | <u>21.3%</u> | <u>21.0%</u> | <u>18.3%</u> |
| | <u>35.6%</u> | <u>36.2%</u> | <u>36.3%</u> | <u>36.2%</u> | <u>34.6%</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Principals | | | | | |
| Direct hours | <u>49.0%</u> | <u>49.1%</u> | <u>52.1%</u> | <u>49.3%</u> | <u>49.5%</u> |
| Indirect hours: | | | | | |
| Holiday, vacation, sick | 12.3% | 12.4% | 10.2% | 11.8% | 11.6% |
| Marketing | 12.7% | 14.0% | 9.9% | 10.2% | 10.5% |
| Other | <u>26.0%</u> | <u>24.5%</u> | <u>27.8%</u> | <u>28.7%</u> | <u>28.4%</u> |
| | <u>51.0%</u> | <u>50.9%</u> | <u>47.9%</u> | <u>50.7%</u> | <u>50.5%</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Professional staff | | | | | |
| Direct hours | <u>80.2%</u> | <u>78.5%</u> | <u>78.7%</u> | <u>79.2%</u> | <u>78.4%</u> |
| Indirect hours: | | | | | |
| Holiday, vacation, sick | 9.5% | 9.6% | 9.1% | 10.2% | 10.0% |
| Marketing | 3.3% | 2.5% | 2.7% | 2.1% | 2.4% |
| Other | <u>7.0%</u> | <u>9.4%</u> | <u>9.5%</u> | <u>8.5%</u> | <u>9.2%</u> |
| | <u>19.8%</u> | <u>21.5%</u> | <u>21.3%</u> | <u>20.8%</u> | <u>21.6%</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |
| Support staff | | | | | |
| Direct hours | <u>3.2%</u> | <u>2.7%</u> | <u>0.7%</u> | <u>1.0%</u> | <u>2.9%</u> |
| Indirect hours: | | | | | |
| Holiday, vacation, sick | 11.4% | 11.0% | 9.7% | 10.0% | 11.1% |
| Marketing | 15.3% | 18.9% | 18.2% | 16.6% | 16.7% |
| Other | <u>70.1%</u> | <u>67.4%</u> | <u>71.4%</u> | <u>72.4%</u> | <u>69.3%</u> |
| | <u>96.8%</u> | <u>97.3%</u> | <u>99.3%</u> | <u>99.0%</u> | <u>97.1%</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> | <u>100.0%</u> |

Direct Ratio & Profit as a % of Net Fee Income

The direct ratio represents the percentage of total hours that are chargeable to projects. Maintaining a high percentage here can be the key to a firm's profitability. Profit as a percentage of net fee income represents the ratio of income from operations to net fee income.

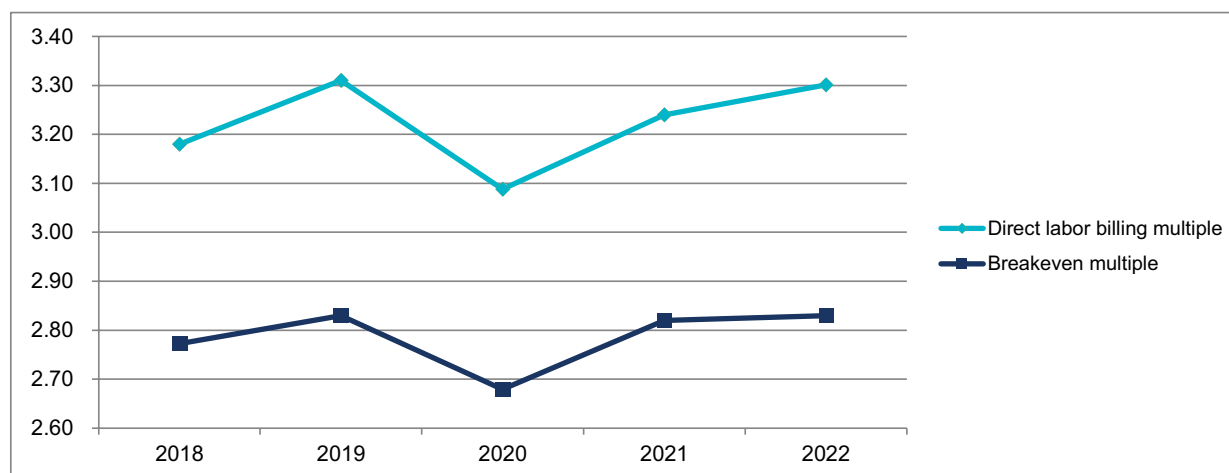
| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------------------|-------|-------|-------|-------|-------|
| Direct ratio (hours) | 64.4% | 63.8% | 63.7% | 63.8% | 65.4% |
| Profit as a % of net fee income | 11.4% | 15.5% | 15.0% | 14.4% | 15.6% |



Direct Labor Billing Multiple & Breakeven Multiple

The direct labor billing multiple is calculated by dividing net fee income by direct labor cost. This ratio represents the average amount billed as a multiple of direct labor. The breakeven multiple is calculated by dividing total operating costs (including direct labor) by direct labor. This ratio multiplied by an employee's pay rate is the amount that needs to be billed out to cover their salary and overhead (breakeven). Both ratios are heavily influenced by a firm's direct ratio.

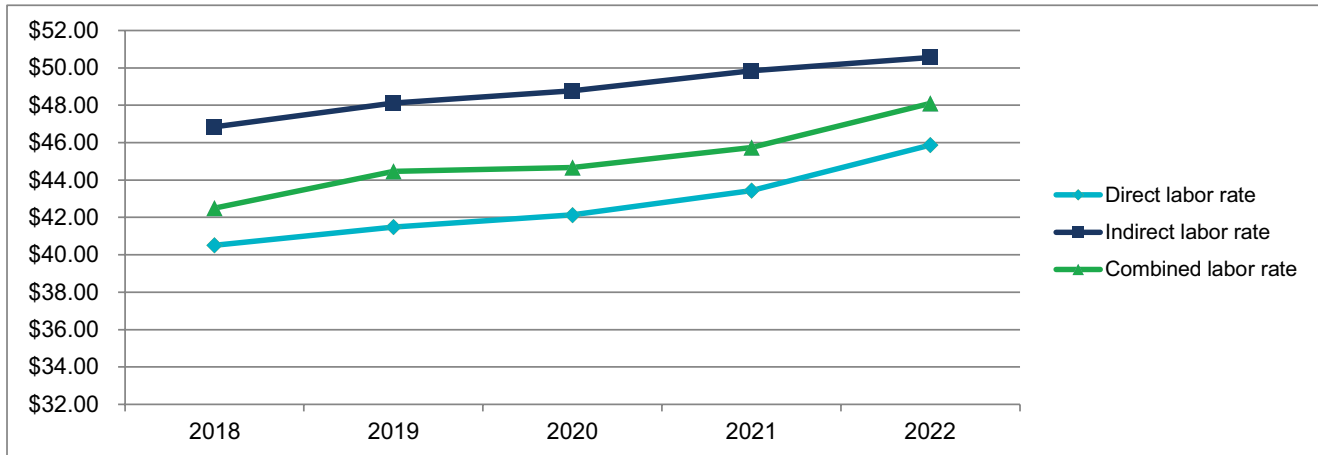
| | 2018 | 2019 | 2020 | 2021 | 2022 |
|-------------------------------|------|------|------|------|------|
| Direct labor billing multiple | 3.18 | 3.31 | 3.09 | 3.24 | 3.30 |
| Breakeven multiple | 2.77 | 2.83 | 2.68 | 2.82 | 2.83 |



Employee's Average Hourly Rates

Direct labor divided by direct hours represents the average wage rate for each direct hour worked. Indirect labor divided by indirect hours represents the average wage rate for each indirect hour worked. Total labor divided by total hours represents the average wage rate for an hour worked.

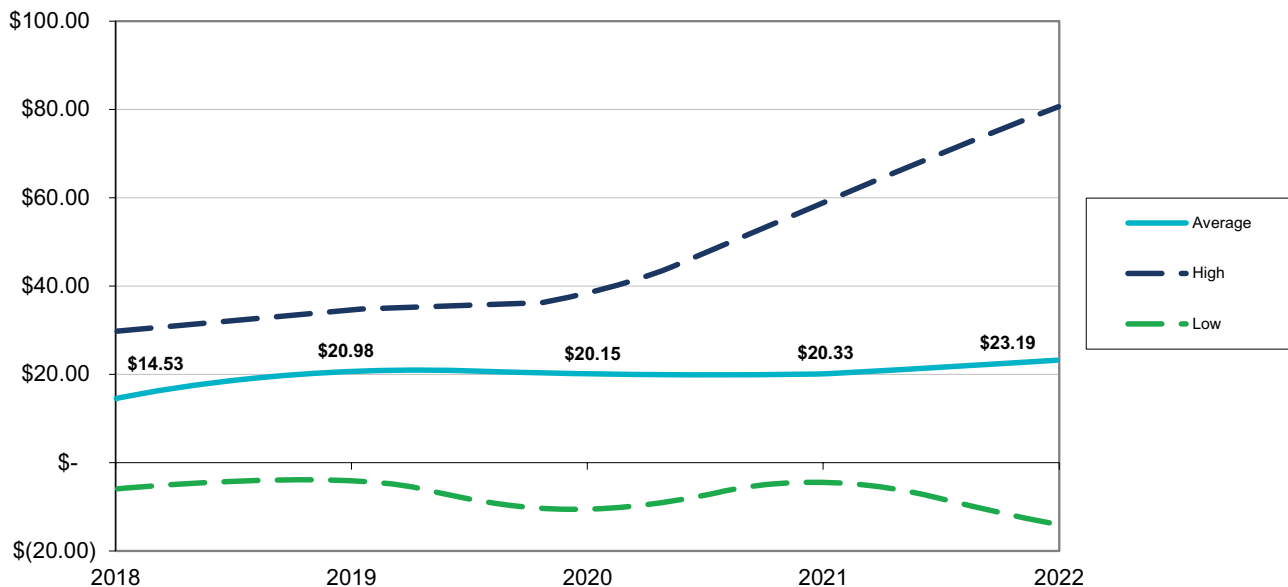
| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------------------|----------|----------|----------|----------|----------|
| Direct labor rate | \$ 40.51 | \$ 41.49 | \$ 42.13 | \$ 43.43 | \$ 45.88 |
| Indirect labor rate | \$ 46.86 | \$ 48.12 | \$ 48.77 | \$ 49.85 | \$ 50.55 |
| Combined labor rate | \$ 42.49 | \$ 44.47 | \$ 44.67 | \$ 45.74 | \$ 48.11 |



Profit (Loss) per Direct Hour

Profit (loss) per direct hour is calculated by dividing income from operations by the direct hours charged to projects.

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---------|-----------|-----------|------------|-----------|------------|
| Average | \$ 14.53 | \$ 20.98 | \$ 20.15 | \$ 20.33 | \$ 23.19 |
| High | \$ 29.63 | \$ 34.69 | \$ 38.25 | \$ 59.32 | \$ 80.98 |
| Low | \$ (5.57) | \$ (4.19) | \$ (10.61) | \$ (4.17) | \$ (13.94) |

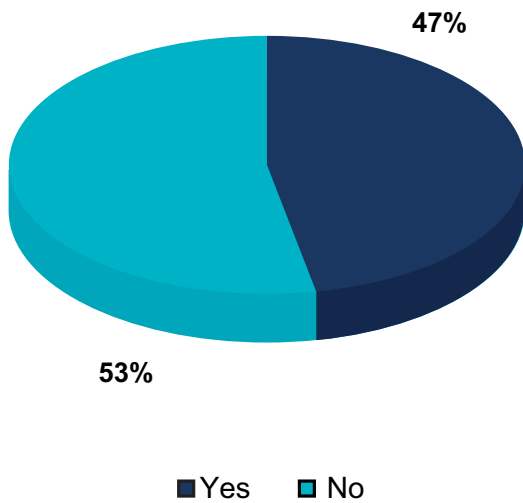
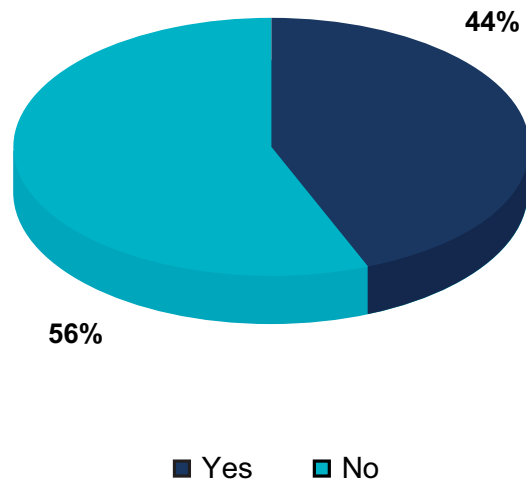
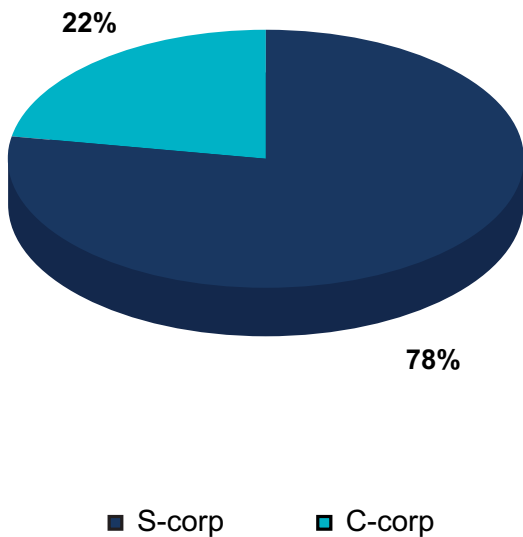
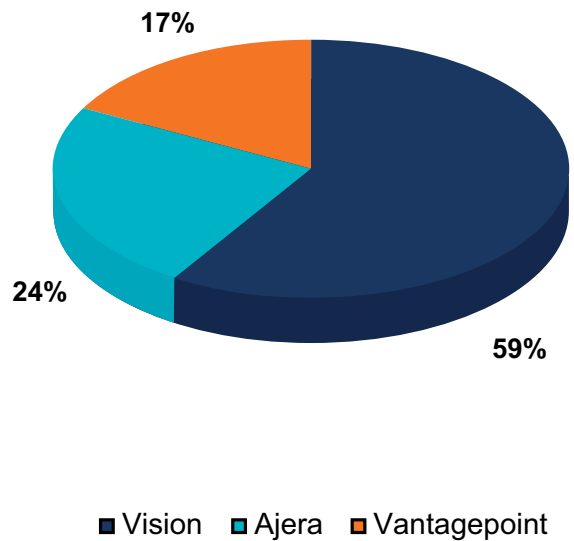


OTHER STATISTICS

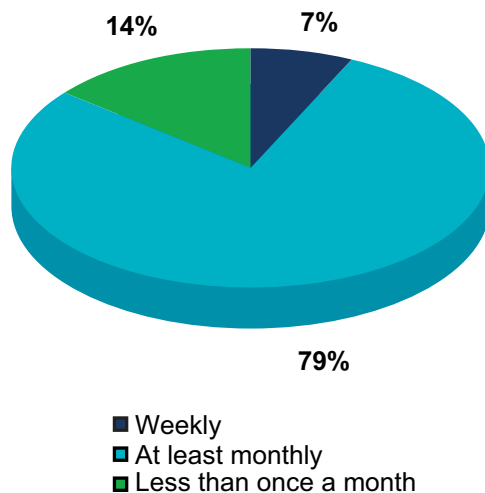
The following table is presented to show additional firm statistics, including various compensation rates, billing rates and the percentage change in the volume of business.

| | 2022 | | | 2021 |
|---|---------------|--------------------------------|------------|---------------|
| | Study Average | Range of Studied Firms High | Low | Study Average |
| Ratio of shareholders to total employees | 17.4% | 45.8% | 2.0% | 16.5% |
| Staff turnover ratio | 12.2% | 32.0% | 0.1% | 13.8% |
| Ratio of non-technical employees to total employees: | | | | |
| Administration | 3.9% | 8.0% | 0.0% | 2.8% |
| Finance/accounting | 4.8% | 10.5% | 1.9% | 4.6% |
| Human resources | 2.0% | 4.7% | 0.0% | 1.9% |
| Information technology | 2.5% | 4.4% | 0.0% | 2.2% |
| Marketing | 5.2% | 10.5% | 0.0% | 4.9% |
| Raises as a percentage of base compensation | 6.5% | 11.0% | 3.0% | 4.0% |
| Staff bonuses as a percentage of base compensation | 10.0% | 24.0% | 2.5% | 9.3% |
| Billing rates: | | | | |
| Principals | \$ 310 | \$ 390 | \$ 200 | \$ 290 |
| Senior associates/project managers | \$ 210 | \$ 260 | \$ 165 | \$ 200 |
| Senior architects | \$ 170 | \$ 270 | \$ 150 | \$ 160 |
| Architects | \$ 150 | \$ 180 | \$ 125 | \$ 140 |
| Technical professionals/draftspersons | \$ 130 | \$ 160 | \$ 120 | \$ 115 |
| Base salary (before bonuses), professional staff: | | | | |
| Principals | \$ 179,900 | \$ 264,800 | \$ 130,000 | \$ 175,000 |
| Senior associates/project managers | \$ 120,600 | \$ 153,000 | \$ 85,000 | \$ 115,000 |
| Senior architects | \$ 105,000 | \$ 160,000 | \$ 75,000 | \$ 96,500 |
| Architects | \$ 88,500 | \$ 101,600 | \$ 74,000 | \$ 83,000 |
| Technical professionals/draftspersons | \$ 72,800 | \$ 89,000 | \$ 60,000 | \$ 68,000 |
| Base salary (before bonuses), support staff: | | | | |
| CFO | \$ 184,950 | \$ 270,000 | \$ 147,115 | \$ 174,000 |
| Information technology director | \$ 157,000 | \$ 259,000 | \$ 89,400 | \$ 150,000 |
| Controller | \$ 134,000 | \$ 197,500 | \$ 95,000 | \$ 126,000 |
| Marketing director | \$ 136,000 | \$ 182,400 | \$ 104,700 | \$ 130,000 |
| Human resources director | \$ 133,000 | \$ 185,000 | \$ 95,000 | \$ 126,000 |
| Percentage changes from prior year: | | | | |
| Change in total hours | 3.3% | 34.8% | -10.2% | 0.9% |
| Change in direct hours | 3.4% | 52.6% | -15.4% | 3.6% |
| Change in gross billings | 21.9% | 50.4% | -11.8% | 9.4% |
| Change in net fee income | 18.1% | 51.3% | -8.5% | 8.2% |
| Change in total expenses | 16.4% | 29.5% | -7.5% | 7.6% |

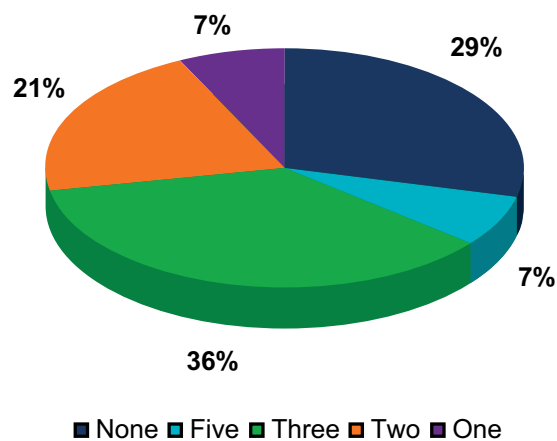
Key Takeaway – Staff turnover ratio remains on the high side, continuing the pressure for firms to focus efforts on retention strategies. Compensation increases continued to rise, with annual raises averaging 6.5% and staff bonuses averaging 10% of base compensation.

% of Firms Outsourcing Design Work**% of Firms Operating in Foreign Countries****Legal Entity Type****Accounting Software Used**

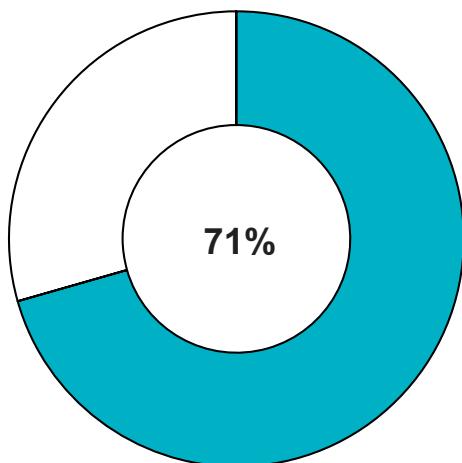
Frequency of Project Budget Review Meetings



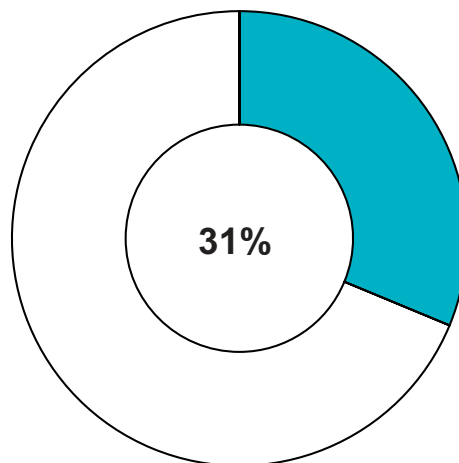
Number of Days Employees Required to be in Office



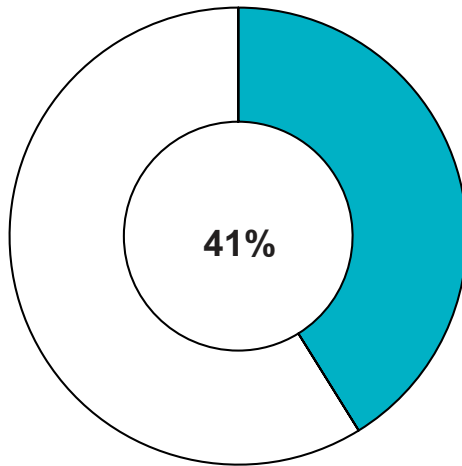
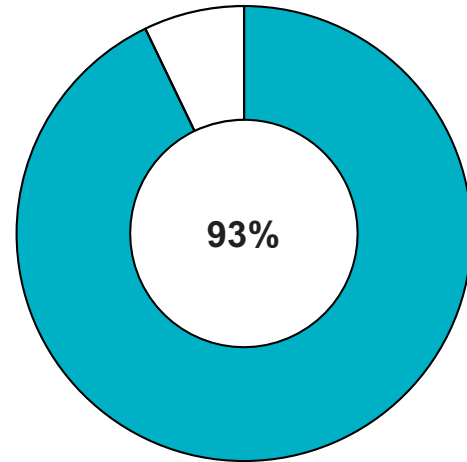
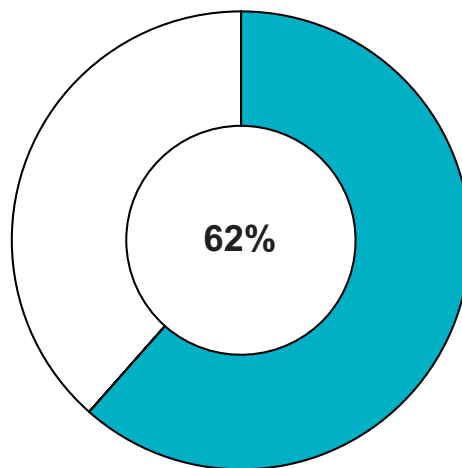
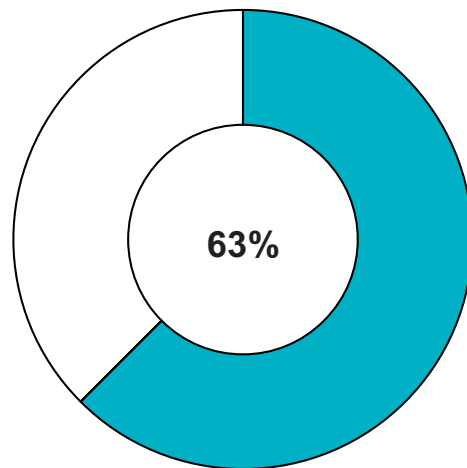
% of Firms with Mandatory Stock Redemption Age



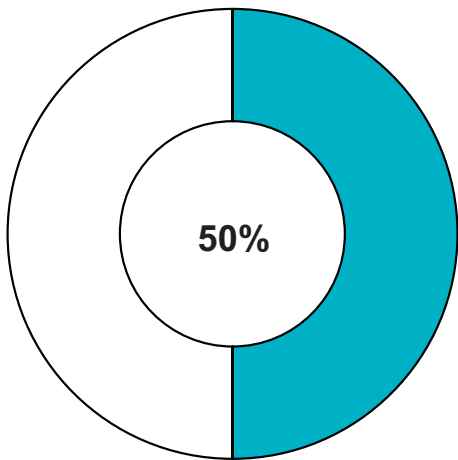
% of Firms Actively Transitioning Ownership



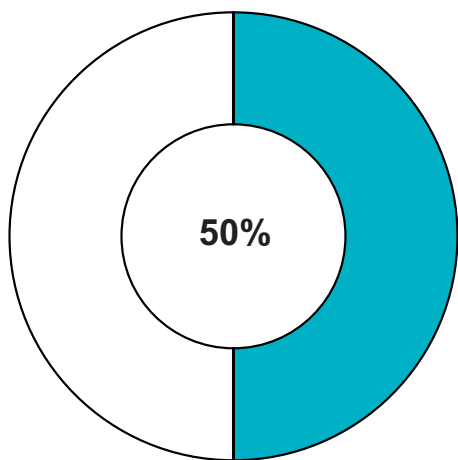
Key Takeaway – Project review meetings less than once a month decreased to 14% in 2022 from 45% in 2021, which contributed to the increase in billing multiple in 2022.

% of Firms Outsourcing IT**% of Firms with Cyber Insurance****% of Firms with an IT Budget****% of Firms with Dedicated Cybersecurity Budget**

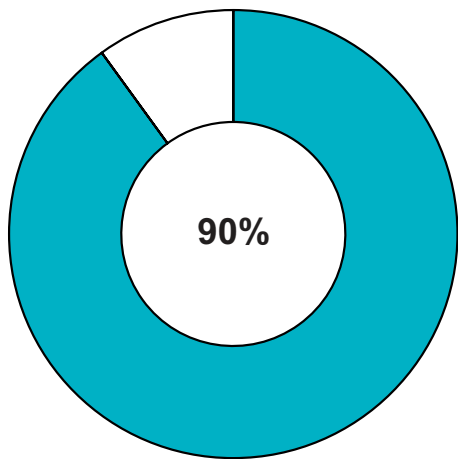
% of Firms with Documented Incident Response Plan



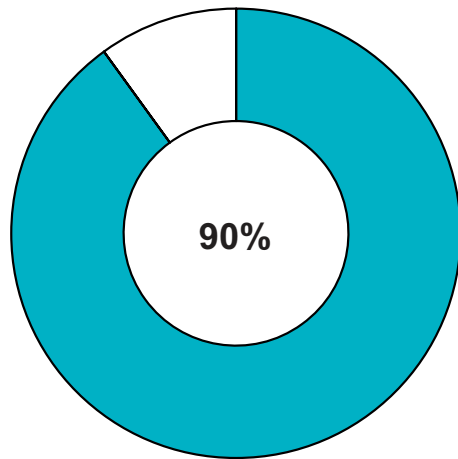
% of Firms with a WISP in Accordance with State Laws



% of Firms that Perform Simulated Phishing Attacks Against Employees



% of Firms that Conduct Periodic Security Awareness Trainings



Key Takeaway – Most firms are conducting security awareness training and have cyber insurance as baseline risk mitigation. A little more than half of the firms have a dedicated cybersecurity budget while the majority of firms perform phishing attacks.

COMMON SIZE INCOME STATEMENTS

Common size income statements are a valuable means of comparing different size firms. The table shows the income statement based on a percentage of net fee income.

| <i>Based on Net Fee Income</i> | | | | |
|--------------------------------------|---------------|--------------------------------|--------|---------------|
| | 2022 | | | 2021 |
| | Study Average | Range of Studied Firms High | Low | Study Average |
| Gross fee income | 100.0% | | | 100.0% |
| Direct consultants and reimbursables | 38.5% | 48.9% | 8.7% | 35.7% |
| Net fee income | 61.5% | 91.3% | 51.1% | 64.3% |
| Net fee income | 100.0% | | | 100.0% |
| Direct labor | 30.9% | 41.2% | 20.2% | 30.9% |
| Gross margin | 69.1% | 79.8% | 58.8% | 69.1% |
| Indirect payroll | 19.9% | 33.3% | 6.7% | 20.8% |
| Staff bonuses | 4.9% | 21.2% | 0.0% | 5.2% |
| Employee and fringe benefits | 9.4% | 15.7% | 6.5% | 10.3% |
| Rent and utilities | 5.9% | 16.7% | 1.3% | 6.1% |
| Other indirect | 13.4% | 22.9% | 8.8% | 12.3% |
| Total | 53.5% | 77.5% | 40.0% | 54.7% |
| Profit (loss) from operations | 15.6% | 39.8% | -11.6% | 14.4% |

OVERHEAD RATES PER DIRECT HOUR

The overhead rate per direct hour equals total indirect expenses divided by direct labor hours. It represents the amount of overhead a firm is sustaining in order to support its volume of business.

| | Study Average | |
|--|-----------------|-----------------|
| | 2022 | 2021 |
| Labor | | |
| Indirect labor | \$ 31.13 | \$ 27.44 |
| Staff bonuses | 7.29 | 6.77 |
| | <u>38.42</u> | <u>34.21</u> |
| Employee and fringe benefits | | |
| Insurance, health | 5.66 | 5.74 |
| Retirement plan contribution | 2.95 | 2.46 |
| Taxes, payroll | 6.10 | 6.01 |
| | <u>14.71</u> | <u>14.21</u> |
| Bid & proposal and marketing | <u>1.65</u> | <u>1.43</u> |
| Depreciation and amortization | <u>1.27</u> | <u>1.35</u> |
| Insurance, professional liability and other | | |
| Insurance, other | 0.42 | 0.41 |
| Officers' life and disability insurance | 0.16 | 0.15 |
| Professional liability insurance | 2.42 | 2.36 |
| Workers' compensation | 0.25 | 0.24 |
| | <u>3.25</u> | <u>3.16</u> |
| Occupancy costs | | |
| Rent | 6.29 | 7.77 |
| Utilities | 0.38 | 0.39 |
| | <u>6.67</u> | <u>8.16</u> |
| Other indirect | | |
| Administrative service fees | 0.28 | 0.29 |
| Bad debts | 0.19 | 0.42 |
| Computer and IT | 5.16 | 4.62 |
| Contributions | 0.20 | 0.23 |
| Dues and subscriptions | 0.74 | 0.72 |
| Office supplies and expenses | 1.18 | 1.15 |
| Postage and shipping | 0.03 | 0.05 |
| Printing and reproduction | 0.33 | 0.39 |
| Professional fees | 3.49 | 4.28 |
| Recruiting | 0.58 | 0.67 |
| Repairs and maintenance | 0.11 | 0.15 |
| Seminars and conferences | 0.21 | 0.16 |
| Taxes, other | 0.07 | 0.10 |
| Telephone | 0.50 | 0.53 |
| Temporary employment and fees | 0.07 | 0.13 |
| Travel and entertainment | 1.10 | 0.82 |
| Expense recovery | (0.03) | (0.04) |
| Miscellaneous and rounding | (0.54) | (0.08) |
| | <u>13.67</u> | <u>14.59</u> |
| Total | <u>\$ 79.64</u> | <u>\$ 77.11</u> |

COMPONENTS OF THE OVERHEAD RATE

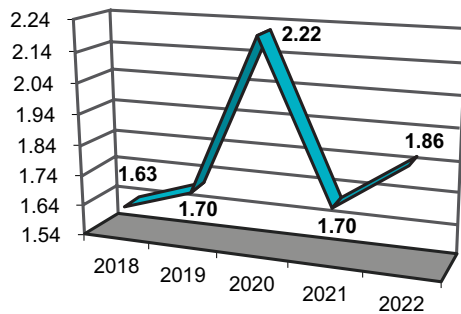
The overhead rate percentage equals indirect expenses divided by direct labor cost. The following chart shows how each indirect expense category contributes to the overall overhead rate.

| | Study Average | |
|--|---------------|---------------|
| | 2022 | 2021 |
| Labor | | |
| Indirect labor | 65.2% | 61.0% |
| Staff bonuses | 19.5% | 18.0% |
| | <u>84.7%</u> | <u>79.0%</u> |
| Employee and fringe benefits | | |
| Insurance, health | 12.0% | 11.8% |
| Retirement plan contribution | 6.5% | 5.7% |
| Taxes, payroll | 13.8% | 14.1% |
| | <u>32.3%</u> | <u>31.6%</u> |
| Bid & proposal and marketing | <u>3.7%</u> | <u>3.4%</u> |
| Depreciation and amortization | <u>2.5%</u> | <u>3.0%</u> |
| Insurance, professional liability and other | | |
| Insurance, other | 0.7% | 1.0% |
| Officers' life and disability insurance | 0.9% | 1.0% |
| Professional liability insurance | 6.3% | 5.6% |
| Workers' compensation | 0.3% | 0.6% |
| | <u>8.2%</u> | <u>8.2%</u> |
| Occupancy costs | | |
| Rent | 19.7% | 21.2% |
| Utilities | 0.8% | 0.8% |
| | <u>20.5%</u> | <u>22.0%</u> |
| Other indirect | | |
| Administrative service fees | 0.6% | 0.6% |
| Bad debts | 0.1% | 0.3% |
| Computer and IT | 13.3% | 12.5% |
| Contributions | 0.4% | 0.5% |
| Dues and subscriptions | 1.6% | 1.6% |
| Office supplies and expenses | 2.2% | 2.3% |
| Postage and shipping | 0.1% | 0.1% |
| Printing and reproduction | 0.6% | 0.9% |
| Professional fees | 8.3% | 9.1% |
| Recruiting | 1.2% | 1.4% |
| Repairs and maintenance | 0.2% | 0.3% |
| Seminars and conferences | 0.4% | 0.4% |
| Taxes, other | 0.2% | 0.3% |
| Telephone | 0.7% | 1.1% |
| Temporary employment and fees | 0.1% | 0.3% |
| Travel and entertainment | 2.4% | 2.1% |
| Expense recovery | -0.1% | -0.2% |
| Miscellaneous and rounding | -1.2% | 1.2% |
| | <u>31.1%</u> | <u>34.8%</u> |
| Total | <u>183.0%</u> | <u>182.0%</u> |

Key Takeaway – Labor and employee benefits continue to increase as firms are experiencing upward pressure in the market for compensation and benefits.

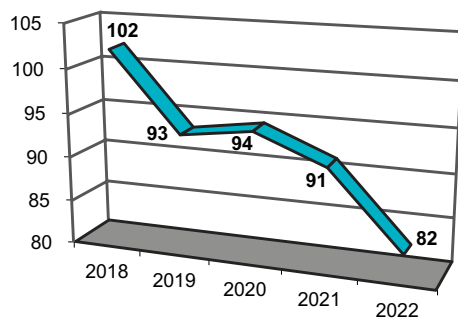
BALANCE SHEET RATIOS

| <i>Current Ratio</i> | 2018 | 2019 | 2020 | 2021 | 2022 |
|----------------------|------|------|------|------|------|
| | 1.63 | 1.70 | 2.22 | 1.70 | 1.86 |



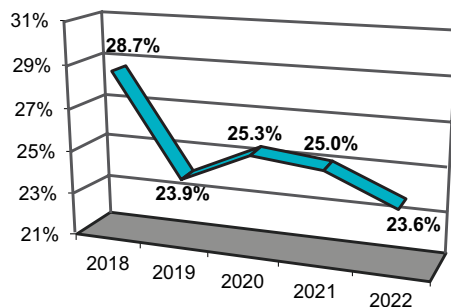
The current ratio is calculated as current assets divided by current liabilities and is an indicator of a firm's ability to meet its current obligations.

| <i>Days Fees in Accounts Receivable</i> | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|------|------|------|------|------|
| | 102 | 93 | 94 | 91 | 82 |



Days fees in accounts receivable represent the average collection period for a firm's receivables.

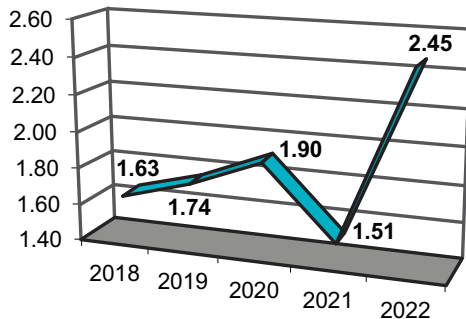
| <i>Receivables as a Percentage of Gross Fee</i> | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|-------|-------|-------|-------|-------|
| | 28.7% | 23.9% | 25.3% | 25.0% | 23.6% |



Receivables as a percentage of gross fee show the portion of the year's sales that remain uncollected as of the end of the year. A higher percentage can be due to the nature of a firm's customer base or collection issues.

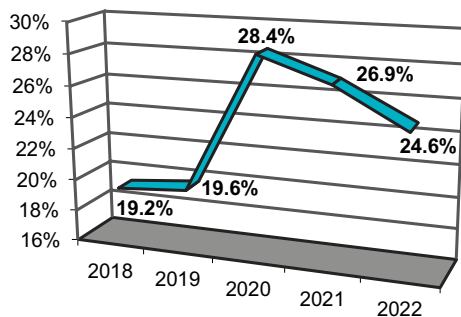
Key Takeaway – Days fees in accounts receivable has been consistently trending downward. It is important to note that this is an average and this can be impacted by project mix and prime versus subconsultant arrangements.

| <i>Debt to Equity</i> | 2018 | 2019 | 2020 | 2021 | 2022 |
|-----------------------|------|------|------|------|------|
| | 1.63 | 1.74 | 1.90 | 1.51 | 2.45 |



The debt to equity ratio is calculated as total liabilities divided by equity. A high debt to equity ratio indicates that a firm has been aggressive in financing its operations with debt.

| <i>Working Capital to Net Fee Income</i> | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|-------|-------|-------|-------|-------|
| | 19.2% | 19.6% | 28.4% | 26.9% | 24.6% |



The working capital to net fee income ratio is calculated by dividing working capital (current assets less current liabilities) by net fee income. The ratio is an indicator of whether a firm has retained a sufficient level of capital and liquidity to fund its annual operations. It also helps to assess whether a firm can achieve growth without incurring additional debt.

Key Takeaway – Working capital to net fee income has remained healthy and firms were well positioned going into 2023.

Our A&E Team and Summit Highlights



PKF O'Connor Davies' A&E team offsite training, August 2023

With in-depth experience in the architecture and engineering industry, our team includes specialists in advisory, tax and financial statement matters – areas vital to success in today's complex business environment.

Expansive industry experience equips our professionals to come up with solutions that make a fundamental difference to architectural firms. With unique specialization in this arena, we work closely with clients on a strategic level, helping them manage core business processes and align operations with near- and long-term growth objectives.

An Enlightening 2023 Summit

We had the pleasure of meeting in person in June for our Architectural & Engineering Summit at the Boston Convention and Exhibition Center. It was great connecting and gaining important perspective on current issues, growing trends and future opportunities. Here are some event highlights:

- We were thrilled that Dr. Anirban Basu joined us as this year's featured keynote speaker. His presentation was filled with important insights about the nation's economic outlook and what that means for A&E firms, as well as significant changes in labor force participation over the last 40 years.
- Partners David Sullivan and Nicholas Tamvaklis gave an engaging presentation about current and long-term trends of key performance indicators that successful management teams in the industry use to run their firms and make decisions.
- Our leadership panel held a riveting discussion about unprecedented growth in the A&E industry and future headwinds, the influence of DEI and ESG initiatives and their impact on how firms operate, the meteoric rise of AI and ways to harness this technology and managing staff wellness in a hybrid work environment.

To all who attended the 2023 Summit, we extend our thanks. The enthusiasm shared by industry leaders and players was energizing. We are confident that these connections, the support our specialists provide at every stage of the A&E business lifecycle, and the insights in our study will be key to devising growth strategies for years ahead.

The Excitement Continues in 2024

We are looking forward to next year's Summit and continuing to help A&E companies expand and flourish. [Subscribe to our Architecture and Engineering e-newsletter](#) to receive event invitations, studies, and more!



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