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G&T M&E **CONTRACTOR SURVEY**

June 2021

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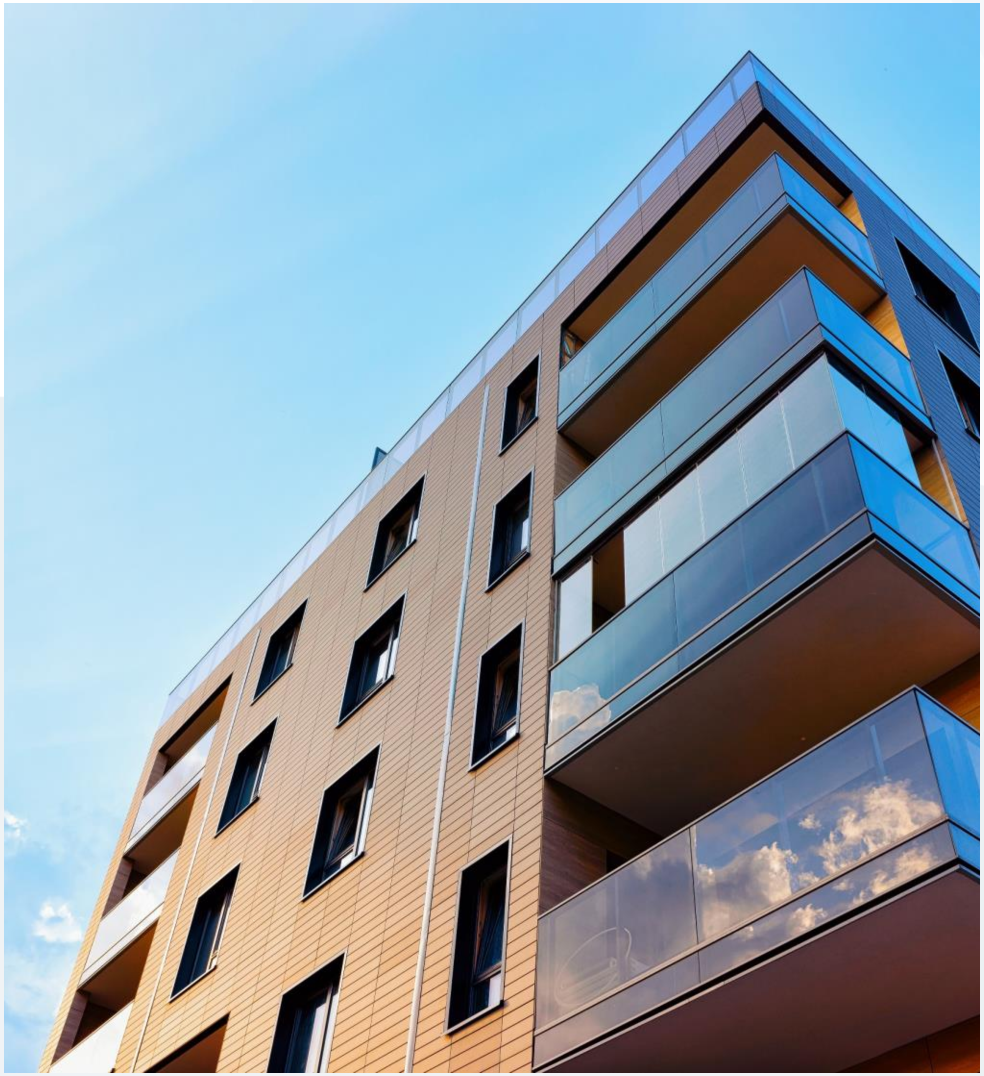
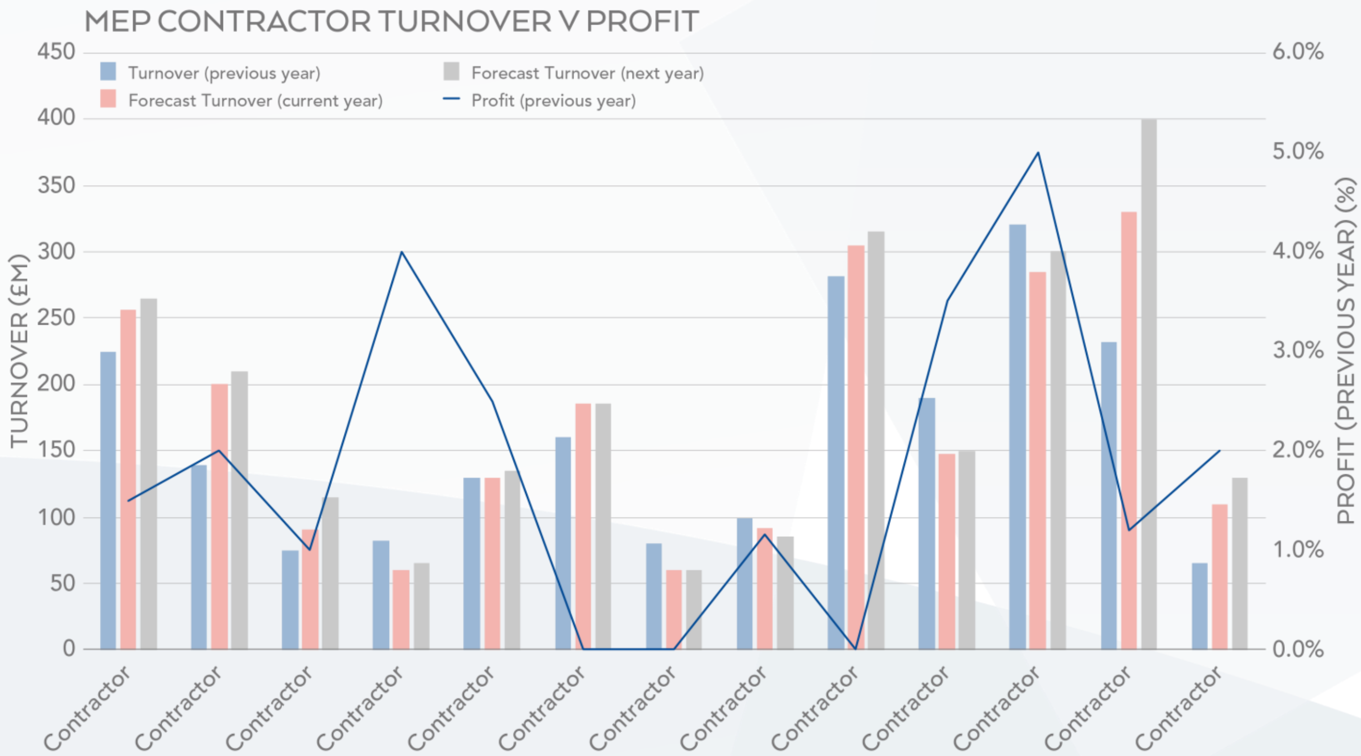
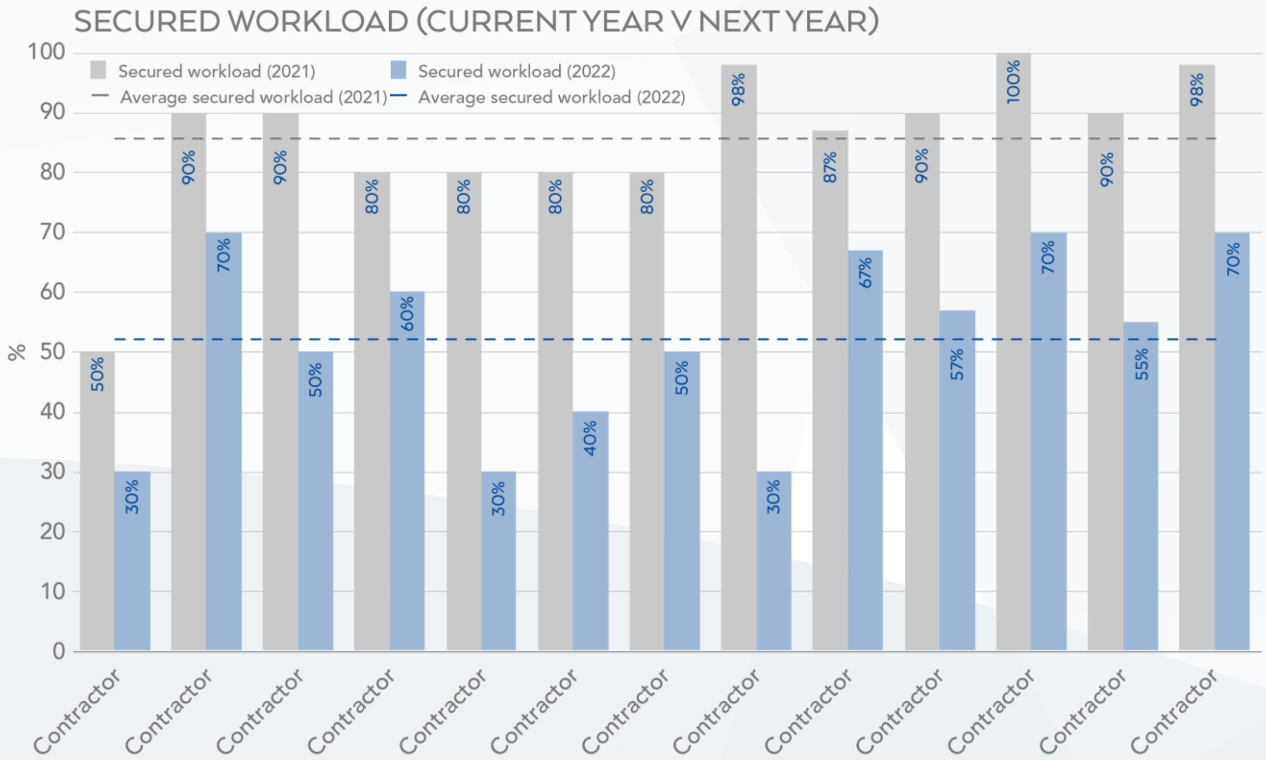


G&T's M&E Contractor Survey summary for June 2021 analyses some of the key trends and themes generated from the responses of our most recent M&E contractor survey.

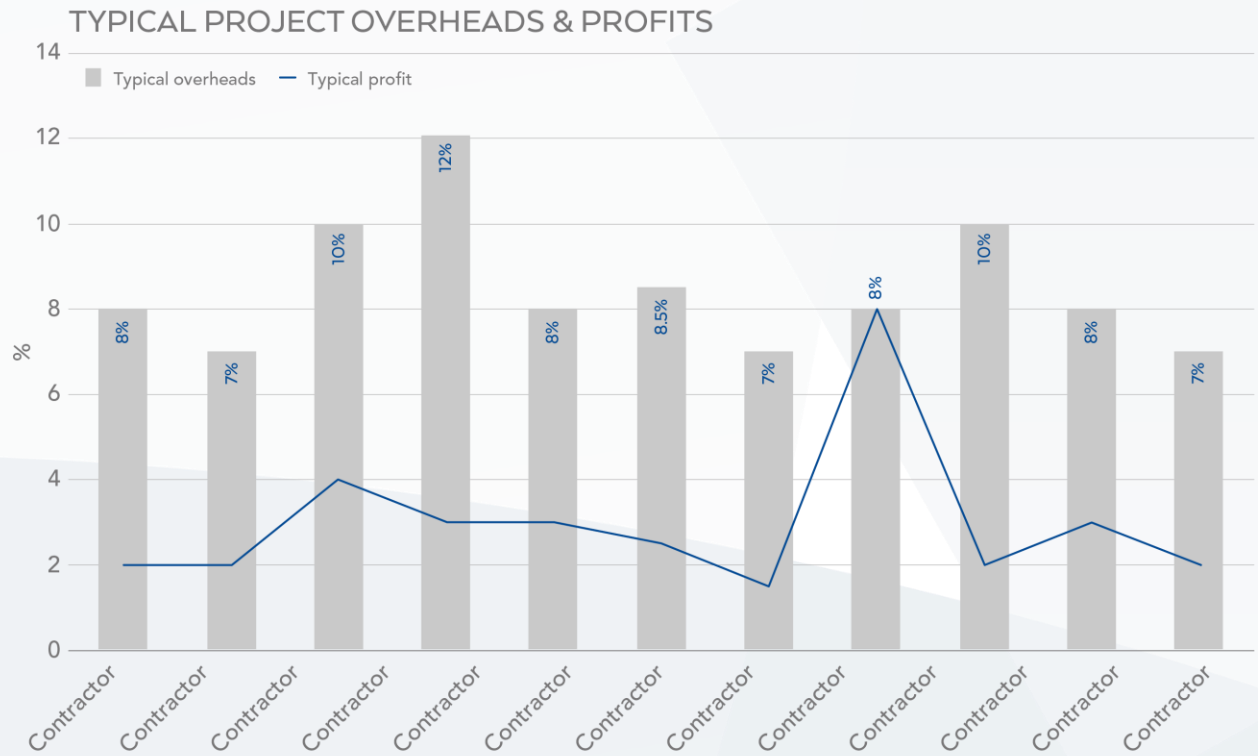
Please note: *Although survey respondents operate across all geographical regions of the UK, the majority tend to operate in Greater London and the South East.*



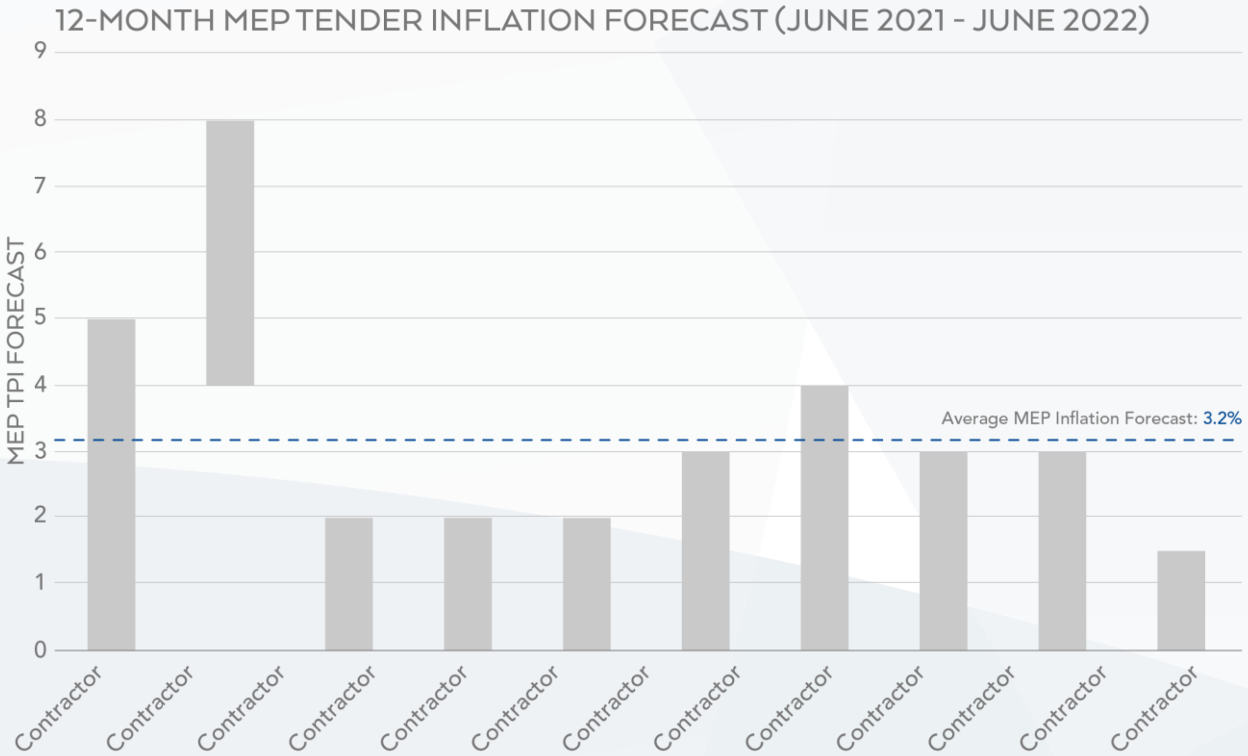
- A slight majority of respondents (**53.8%**) forecast that their 2021 turnover will be higher than their 2020 turnover
- All respondents (except one) forecast that their 2022 turnover will either remain the same or increase compared to their 2021 turnover as client confidence returns and delayed projects get back on track
- On average, respondents forecast that their 2022 turnover will be ***7%*** higher than their 2021 turnover
- Nine out of thirteen respondents (***69%***) also expect that their turnover in 2022 will exceed their 2020 turnover
- Average profit in 2020 (across the ten contractors that provided figures) was **2.4%** - down from **6.2%** in 2019 (or **3.9%** once an anomaly was excluded from the 2019 data)



- The average secured workload for 2021 is ***85.6%***
- Excluding the contractor with the lowest amount of secured work (***50%***) the average secured workload for 2021 jumps to nearly **90%**
- Average secured workload for next year (2022) is currently ***52.2%***. No surveyed firm has secured more than ***70%*** of their workload for 2022
- In our October 2020 survey, the average secured workload for 2020 was **89%** - a figure that has nearly been met four months earlier in our latest June 2021 survey
- Three firms have only secured **30%** of their workload for 2022
- Nearly all contractors reported a surge in opportunities in 2021 but many pre-construction teams are stretched and are unable to respond. It also remains a challenge to convert opportunities into secured work due to intensified competition from lower tier sub-contractors



- Typical overheads were reported to range between **7-12%** in our June 2021 survey, with an average overhead figure of **8.5%**. This was up from a range of **5-10%** in our October 2020 survey and an average overhead figure of **7.9%**
- Typical profits ranged between ***2-8%***, with an average profit of ***3%.*** This compares with a range of **2.5-5%** and an average of **3.7%** in our October 2020 survey
- However, if we exclude the anomalous typical profit figure of **8%** provided by one contractor, the average typical profit falls to around **2.5%.** This suggests that typical profits have fallen by **1.2%** between our October 2020 and June 2021 surveys
- Surveyed contractors reported that many competitors are still buying work to secure turnover. They also reported that in order to remain competitive, the supply chain is absorbing cost increases where possible and taking a hit on margins

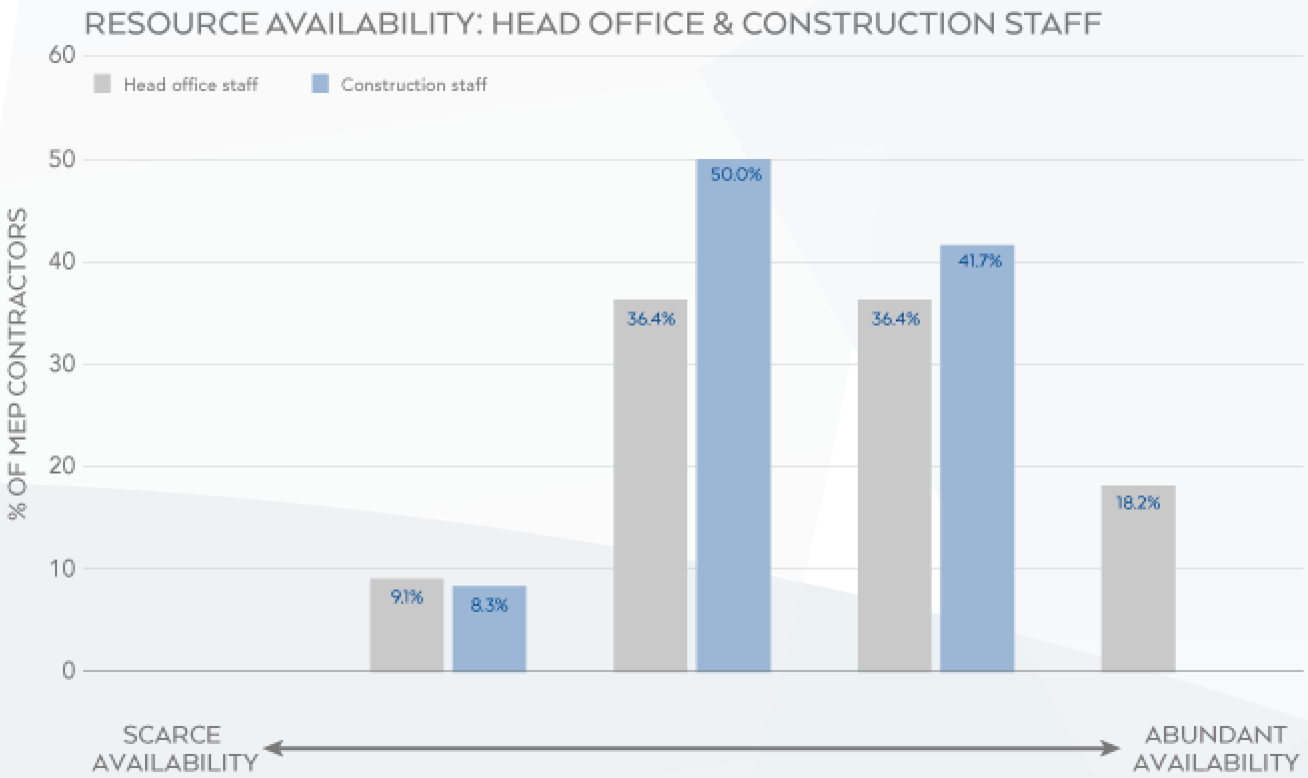


- The average MEP tender inflation forecast for the next 12 months was **3.2%** (after taking the mid-point value by one contractor that provided an inflationary range of **4-8%**)

- The lowest MEP TPI forecast provided was **1.5%.** This contrasts with our October 2020 survey where multiple respondents forecasted an annual MEP inflation rate of **0%**

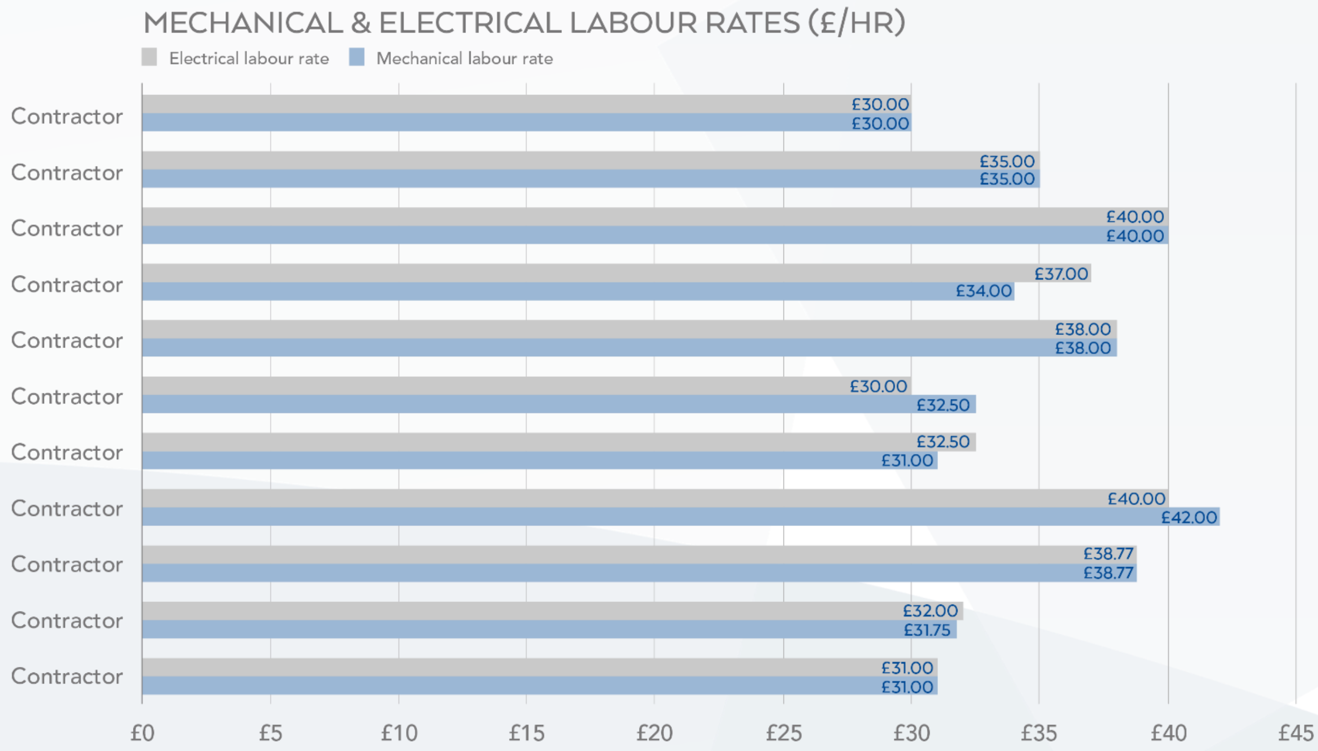
- The average MEP tender inflation forecast in our October 2020 survey was **1.8%**. Rising commodity and raw material prices (particularly metals such as copper and steel), constrained supply and high shipping costs have prompted respondents to increase their inflationary forecasts in the latest survey

- The level of inflation included in the pricing of tenders will continue to be sector-specific. In sectors with fewer opportunities, competitive procurement strategies will be more acceptable to the market and tenders will be more competitive. Conversely, buoyant sectors will experience the opposite and will return pricing in line with cost plans



- In 2020, M&E firms generally reported an abundant availability for both **head office** and **construction** staff. However, there has been a clear shift in the latest survey

- 2020 v 2021 staff availability:
    - Head office staff ('Abundant Availability'): ***37.5%*** (2020), ***18.2%*** (2021)
    - Construction staff ('Abundant Availability'): ***25%*** (2020), ***0%*** (2021)
- While no respondents reported that resource availability was at the far end of the sliding scale (indicating 'scarce' availability), labour resource has evidently become a little more difficult to secure

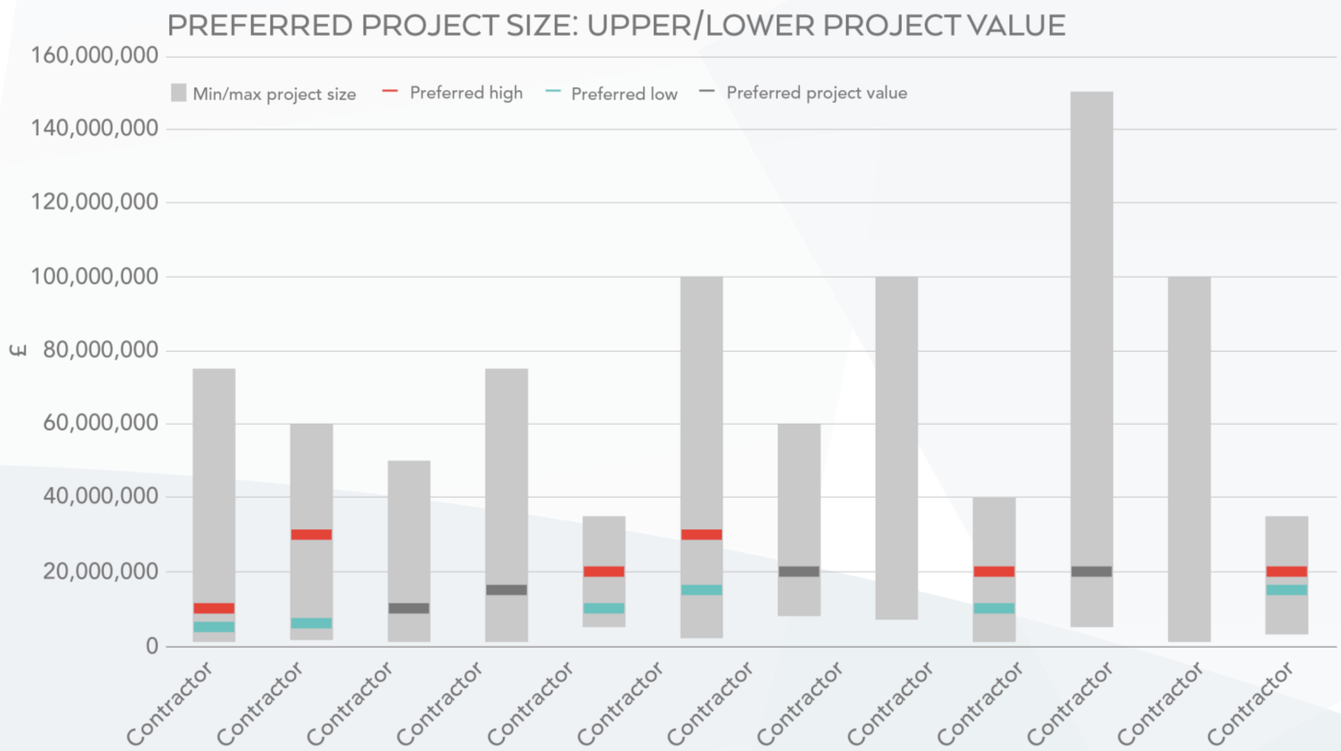


According to our 2021 M&E Survey:

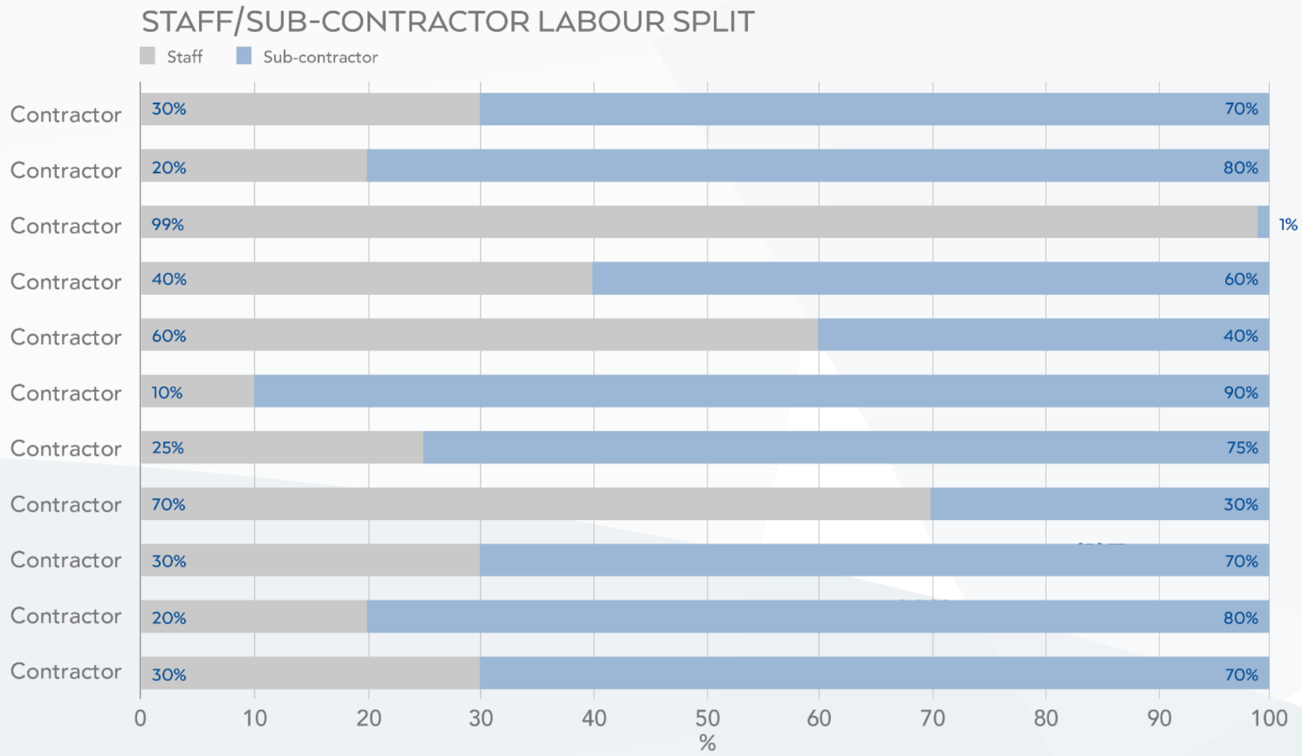
- ***Average Electrical Labour Rate = £34.9 p/h***
- ***Average Mechanical Labour Rate = £34.9 p/h***

Compared to our October 2020 survey, electrical labour rates have risen by ***2%*** but mechanical rates were unchanged:

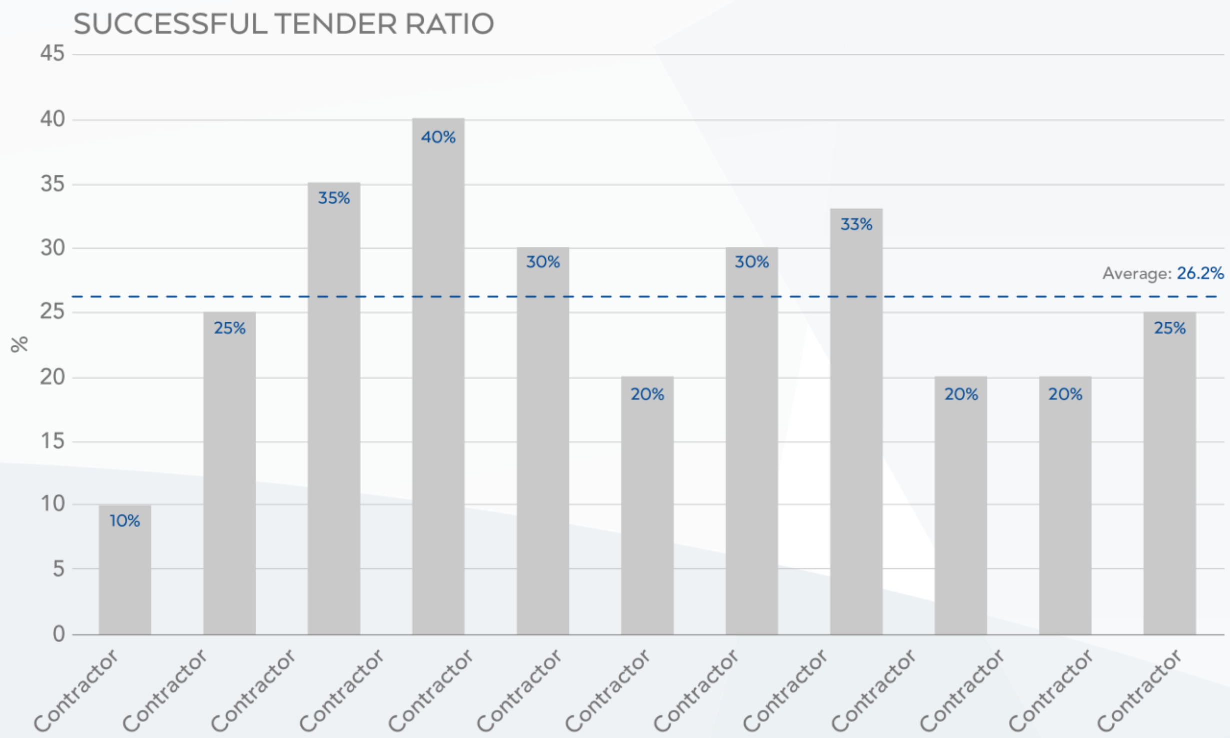
- Labour rates have been fairly static over the past six months but a number of MEP contractors reported that European labour returning home to mainland Europe during the pandemic has resulted in a reduced pool of skilled labour for certain trades. This could put upward inflationary pressure on labour costs
- Self-isolation requirements have made labour planning more difficult and costly
- Some respondents believe that a reduced pool of labour will result in off-site manufacturing facilities becoming the norm for every MEP company



- Across all surveyed MEP contractors, the average minimum project size was just under **£2.9m** while the average maximum size of project was **£73.3m**
- Several contractors stated that their minimum project value was **£1m**. The highest value project that any of the surveyed contractors get involved in was **£150m**
- The 'preferred' project size for all contractors tended to be significantly lower than their maximum project size, averaging around **£15.7m**
- Some noted that they had no real preference regarding size and were able to take on higher value projects in certain regions (eg London)

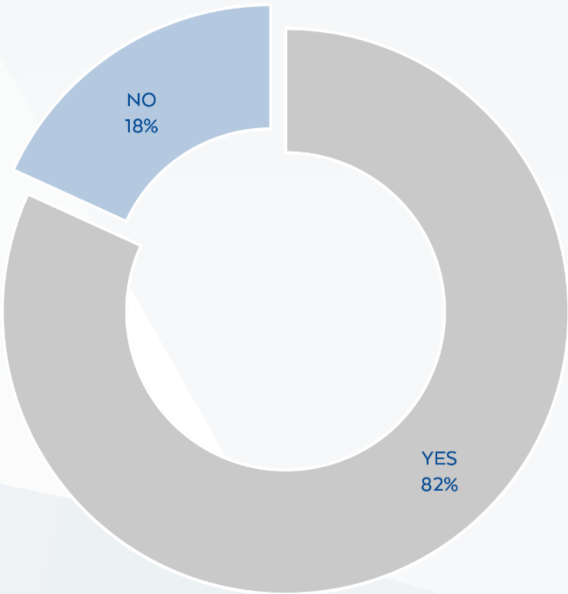


- In our June 2021 survey, the average staff/sub-contractor labour split was ***39:61*** (compared to ***32:68*** in our previous survey)
- M&E contractors generally have a higher proportion of subcontracted labour. Head office and management tend to be staff whilst sub-contractors are used for onsite works
- The staff to sub-contractor ratio has fallen perhaps as a result of reductions in head office and management personal during the pandemic. It may take time for contractors to rebuild staffing levels after redundancy drives and lay-offs made during the pandemic
- Respondents noted that the quality of applicants for positions is generally poor and suitable candidates are demanding high salaries. Some also noted that because the skill base is at an all-time low, they have started to employ apprentices for the first time in more than two years



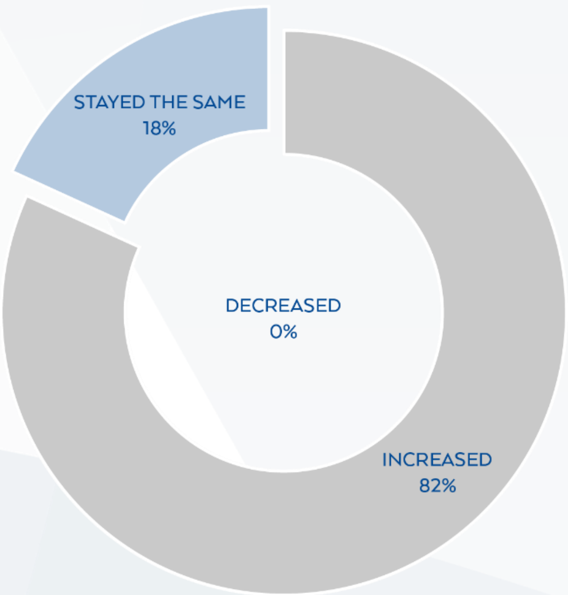
- The average successful tender ratio was ***26.2%*** but the ratio ranged between ***10-40%*** across all respondents
- The average successful tender ratio has risen by **3.1%** since our October 2020 survey, when the successful tender ratio was **23.1%**
- The respondent with the highest successful tender ratio in 2021 (***40%***) was significantly lower than the respondent with the highest successful tender ratio in 2019 (***75%***). While recent new order growth has eased tendering competition levels compared to 2020, respondents reported that bidding competition remains significantly higher than it was pre-pandemic
- According to one respondent there are, on average, 12 MEP contractors competing for open tenders, with the majority of these being lower tier sub-contractors. Tier three and four contractors are bidding for larger projects, the value of which in some cases exceeds their annual turnover. Tier two sub-contractors are also reportedly being given opportunities that they aren't necessarily suitable for
- Keener pricing, larger tender lists and more appetite for risk taking is making winning tenders much more difficult for MEP subcontractors

ARE YOU CURRENTLY EXPERIENCING ANY SUPPLY ISSUES WITH REGARDS TO ANY MEP PRODUCTS/MATERIALS?

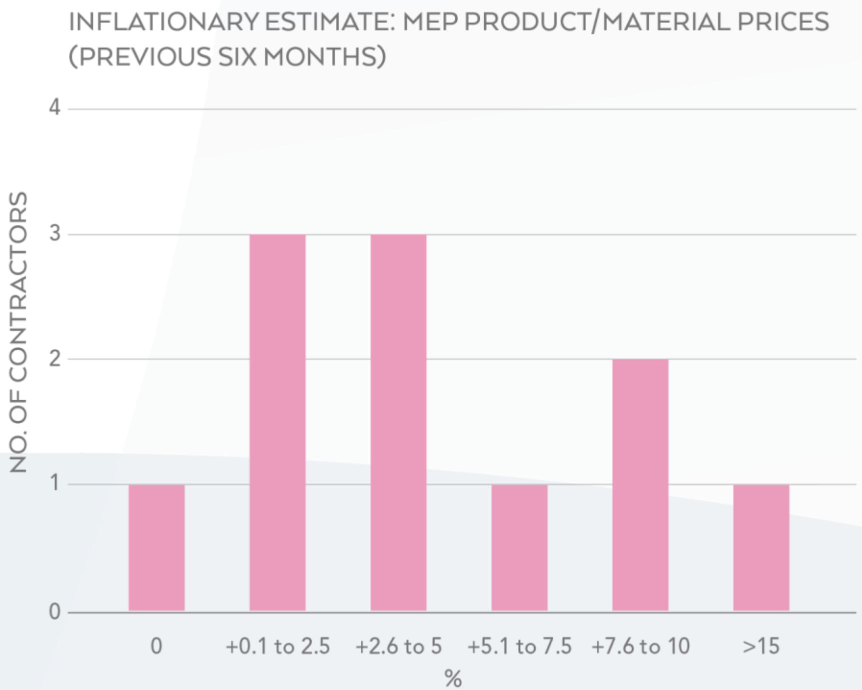


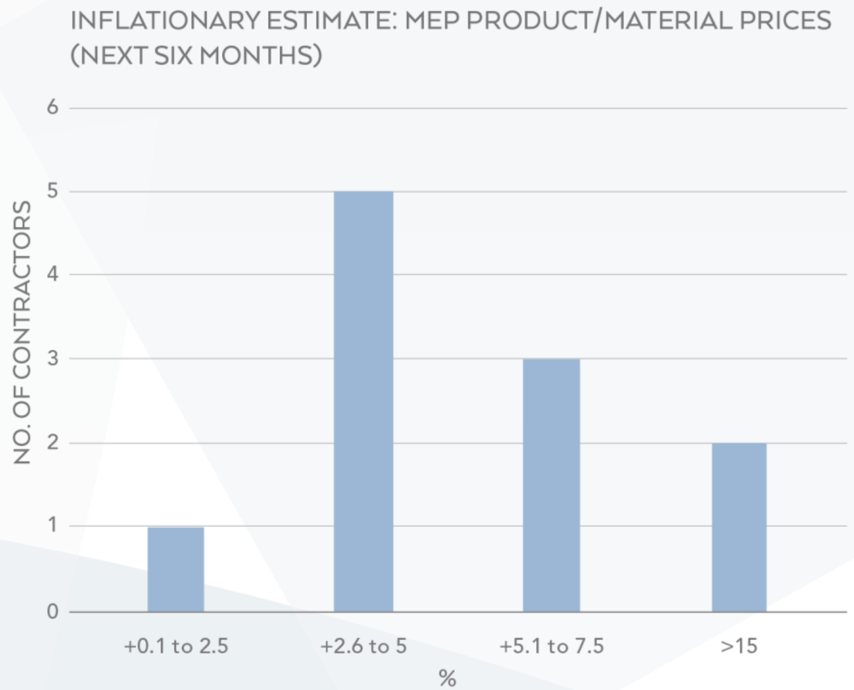
- **82%** of respondents are experiencing supply issues with MEP products/materials
- Volatility and Inflationary pressures on metals (eg steel and copper), microprocessor shortages, increased delivery costs and extended delivery periods were all mentioned as being key issues by respondents
- Also mentioned was a general inability to fix prices on commodity-based items such as cables, unistrut and steel products such as pipe and ductwork. Pricing tends not to be valid for more than one week due to the current steel volatility issues, and delivery dates from suppliers are coming with caveats with delays up to several weeks
- According to one lighting supplier, the DALI component in lights is unlikely to become available until February 2022, rendering suppliers unable to price projects
- One respondent reported that on one particular contract the sub mains cabling had increased by 60% since tender. Demand is outstripping supply, increasing costs across ventilation packages, cablings, pipework and containment in particular. Even larger firms, that had extra stock, are now depleted and this is impacting programmes and costs on “tight” projects

OVER THE PAST SIX MONTHS, HAVE LEAD TIMES FOR MEP PRODUCTS/MATERIALS...?



- **82%** of contractors also said that lead times for MEP products/materials had increased
- Issues with longer lead in periods for certain items of equipment mean that some contractors are asking for longer pre-construction periods at tender stage
- Major plant and equipment lead times are increasing (typically by four weeks for chillers, pumps and switchgear while fan coil unit lead times have increased from four-five weeks to 16-20 weeks) and there is difficulty in fixing/holding prices for any period of time
- Several respondents reported that Brexit is partly to blame for the increased lead times on imported goods and it is also having an impact on UK manufacturers for components
- However, rising lead times were said to be largely pandemic-related. Supply issues (stemming from reduced global manufacturing capacity and container shortages) are primarily driving increased lead times. It is hoped that once pandemic restrictions are lifted and production/distribution becomes more aligned with demand, both lead times and material price volatility will abate



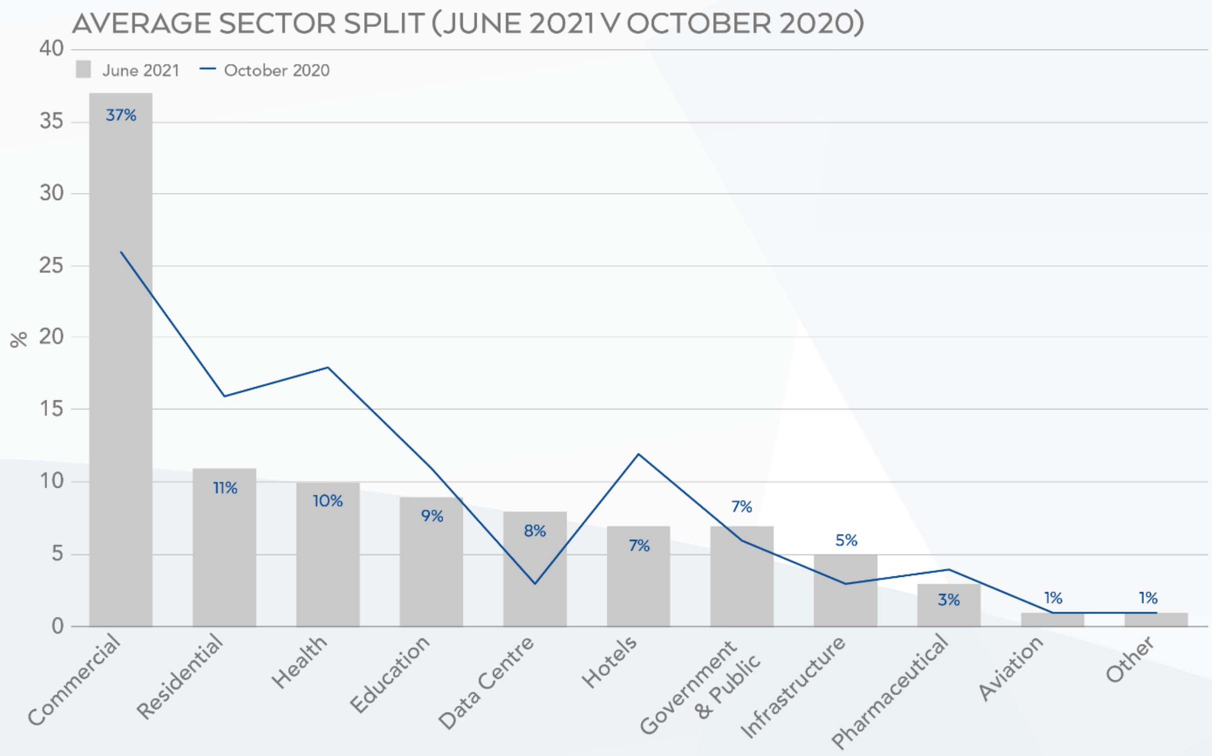


- Inflationary estimates were mixed but the majority said that over the past six months MEP product/material price inflation had been in the '**0.1 to 5%'** range. Inflation has mainly been driven by spiking commodity prices (eg copper and iron ore) having a knock-on effect on any MEP products and components that utilise these materials

- One respondent said that steel and copper pipework, cable and ductwork had increased by more than **20%** in the first six months of 2021 and explained that although we generally see copper cycles go up and down, steel rarely seems to come back down after an increase and so the steel price rises seen so far this year were concerning

- Another respondent noted that they had seen huge uplifts from key suppliers (Philip Graham (**+10%**), Cleveland Cables (**+5%**) per month, Unistrut (**+21%**)). While the biggest driver has been rising raw material costs, respondents said that Brexit-related costs (eg import duties, new administrative burdens etc) and rising transportation costs (a result of international shipping container capacity issues and strong demand for transportation from other sectors creating competition with construction) were partly to blame

- Looking ahead, the general consensus is that MEP product and material price inflation will be in the '**+2.6 to 5%**' range over the next six months. Some respondents explained that the material price rises being reported are significantly higher than this but the supply chain needs to remain competitive and are therefore taking a view on overall costs and absorbing rises where possible



- Unchanged from the previous (October 2020) M&E survey, most work for MEP contractors was still in the commercial sector. On average, **37%** of respondents' work was in the commercial sector. This is up from **26%** in our Oct 2020 survey and has returned to the pre-pandemic (2019) average split of **38%**

- Although there has been a clear rise in the number of new commercial refurbishment and fit-out projects (triggered by shifting working patterns and a greater focus on sustainability) which is keeping contractors busy, respondents noted that they were increasingly targeting sectors including rail, data centres, healthcare, labs/life sciences and even military

- Residential has overtaken health as the next most popular sector after commercial in terms of workload, but both sectors are expected to be the recipients of increased investment and construction activity in the coming years

Impact of COVID-19

- Reduced turnover/lost income
- Initial drop in productivity levels due to new Site Operating Procedures (**SOP**) but this is largely behind us now, with levels returning and new working practices becoming the norm
- Pressured programmes leading to fatigued workforce
- Reduced new orders and delays to project completion
- Supply shortages and increased lead-times
- Resource planning more difficult (due to isolations)

> *"[There is] Fatigue in the workforce, who feel they were the only industry forced to continue working."*

Impact of Brexit

- Most reported no major impacts as a result of Brexit at present but some noted:
- Material price inflation and extended delivery periods (but mostly due to pandemic)
- European labour returning home to mainland Europe creating resource pressures
- Increased customs checks, double conformity standards and restrictions on products not originating from the UK/EU have slowed deliveries of consignments
- Additional administrative work (and associated costs)

What Market Pressures Are Driving Pricing?

- Material price inflation (particularly metals) and shortages causing uncertainty
- Competitors buying work to secure turnover increasing bidding competition
- Nervousness around pipeline
- Clients wanting to revert to single stage D&B
- Main contractors becoming more aggressive, pushing cost increases down the supply chain
- Lower tier contractors taking on larger projects that they aren't necessarily suitable for

Changes to business model and strategic changes planned for the next 12 months

- Some respondents are expanding into and targeting new sectors/areas of business (eg rail, data centres, healthcare, labs/life sciences, military)
- Focus on retaining a tight client list
- Multiple respondents said they were tendering less and being more selective (eg not pricing residential or fit-put projects)
- All remain focused on delivering high quality services to clientele on projects and in sectors where they can add real value
- A number of contractors are taking an expansionary approach with one MEP contractor looking to grow its business to £500m in the coming years

Factors currently influencing successful project procurement

- An adequate pre-construction period in which to set up the project well
- Capable, available and dependable delivery teams that can provide financial stability
- Delivery periods and manufacturing lead times
- Early engagement and collaboration with key stakeholders
- Ensuring designs are complete and comprehensive to assist with design reviews and ordering process
- Trust and clear procurement plans
- Cost and availability of materials and equipment

> *"We need quality design information and time to undertake design reviews, engineering, collaboration with key stakeholders, and also to plan for off-site fabrication. We also need an adequate pre-construction period to set up the project well."*

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