



# Consistent Growth

An interview with Frank T. MacInnis, Chairman and Chief Executive Officer, EMCOR Group, Inc., Norwalk, Connecticut

**EDITORS' NOTE** A graduate of the University of Alberta Law School (Canada), Frank MacInnis began his construction career in Tebran, Iran, in 1975, as an officer of Paris-based Spie Batignolles.

The following years included postings and construction projects in such diverse locations as Baghdad, Bangkok, the United Arab Emirates, and London. MacInnis moved to Oklahoma from London in 1981, when he was named Chairman and CEO of H.C. Price Construction, a continent-wide builder of large-diameter oil and gas pipelines. After serving for several years as the Chairman of Comstock Group, a New York-based construction company, MacInnis joined JWP, the predecessor company to EMCOR Group, Inc., in early 1994. MacInnis sits on the boards of directors of the Williams Companies, ITT Corporation, and the Greater New York chapter of the March of Dimes.

**COMPANY BRIEF** Having recently celebrated its 44th consecutive profitable quarter, Norwalk, Connecticut-based EMCOR Group, Inc. ([www.emcorgroup.com](http://www.emcorgroup.com)), is the world's largest specialty construction and facility services firm, with a client roster that includes 75 percent of fellow Fortune 500 companies, plus other firms in the industrial, commercial, institutional, health care, financial services, hospitality, government, and utility sectors. The company's services include the design, installation, operation, and maintenance of the systems that create facility environments, such as mechanical and electrical systems, power generation and distribution, lighting, voice and data communications, plumbing, heating, ventilation, and air conditioning. It also manages and maintains some one billion square feet of facilities space. Through approximately 70 subsidiaries, EMCOR operates in more than 140 locations, primarily in the United States, Canada, and the United Kingdom. Employing about 26,000 people and traded on the New York Stock Exchange as EME, the group reported total sales of \$4.7 billion and net income of \$60 million in 2005.

**EMCOR Group has reported solid growth, quarter after quarter, for many years. Where is that growth coming from, and when you look to the coming year, are you optimistic that it will continue?**

I certainly am optimistic that EMCOR will continue to grow. We were clearly right in our decision, several years ago, to suppress growth and downsize our presence in specific parts of the public sector, in expectation that the private sector commercial, retail, health care, and hospitality markets would strengthen. All those sectors are indicators of strong economic growth. By suppressing our participation in a segment where we weren't having much success, by consciously accepting the negative revenue impact that represented, and by being willing to be patient and wait for developments, we conserved the capacity that we now have available to realize growth opportunities in all of the sectors I just mentioned.

**In implementing that strategy, was it difficult to get your employees on board? And has the financial community also understood the rationale behind your plans?**

There's inevitably some unhappiness when you deliver a message that implies that an operation is to be downsized or even eliminated. And there was unhappiness associated with the implementation of some parts of the strategy I just described. However, because of the credibility that EMCOR's senior management has gained as a result of our long-term success, there has been quite broad acceptance that we are probably right in

making such decisions. When we began this odyssey 12 or 13 years ago, of course, we had no such track record, so there was no automatic or implicit acceptance that our judgment was sound. But today, I think we get some credit for having been right a number of times before. So these necessary but unhappy decisions are accepted more readily than they used to be.

**Looking at your three core business segments, are you confident that they are all growing at their full capacity?**

Yes, I think we are very close to working optimally at present. We have publicly stated many times that Facilities Services is the area in which we are most actively growing the company, through the allocation of capital for organic growth. However, a strong construction market with rising prices gives us opportunities for profits on the construction side of the business, too. The only distinction is that we think we have, in general, enough construction capacity for the time being. So we are not actively adding to our construction capacity the way we are adding to our capabilities on the Facilities Services side of our business.

**The United States is clearly your principal market. How important do you consider the U.K. and Canada to be, and what is your outlook for those markets?**

Not too long ago, you could have described both our U.K. and Canadian operations as troubled and challenging. And they were, in fact, so. But today, thanks once again to decisions that created some short-term unhappiness, but that were clearly correct, we can speak of both the Canadian and the U.K. operations as profitable and promising, in terms of their current and their future operations.

**Which other markets offer good opportunities for EMCOR around the world?**

EMCOR makes money by charging a premium for the efficient deployment of large amounts of trained technical labor. In markets where no such premium is available, there isn't really a place for EMCOR. However, I do see some targeted opportunities for EMCOR. For example, we can follow some of our major international customers to facilities they are developing overseas and where they require the same standards in construction quality, facility service, and maintenance that they enjoy at home. I think that many American and, indeed, British and Canadian companies, will be looking for ways of ensuring that their manufacturing, communications, and other facilities are standardized and perform to U.S. standards overseas. That's a niche I see for EMCOR.

**Do you ever think of slowing down?**

No, I have always found my work exciting. We are witnessing a unique string of profitable quarters at the moment, and we're unique in the industry in terms of our size, scope, continuity, and predictability. And I love it. I'm very happy doing what I'm doing, somewhat to my wife's chagrin. ●



111 South Wacker Drive, Chicago, an EMCOR client



# Meeting Commitments Every Day

**An Interview with Anthony J. Guzzi, President and Chief Operating Officer, EMCOR Group, Inc., Norwalk, Connecticut**

**EDITORS' NOTE** Prior to joining EMCOR, Tony Guzzi held a variety of senior leadership positions at United Technologies Corporation and its subsidiary Carrier Corporation, including President of

Carrier's North American Parts, Distribution, and Services division. He previously served as an Engagement Manager at McKinsey & Company, and before that, he served as a Light Infantry Captain in the U.S. Army from 1986 to 1991. Guzzi holds a B.S. degree in civil engineering and economics with highest distinction from West Point and an M.B.A. with distinction from Harvard Business School.

## **What is your outlook for growth for each of EMCOR's business divisions?**

I'm very excited about our growth prospects across the board. We play in and are developing leading franchises within fragmented markets, where no single competitor has yet garnered more than 20 percent of the volume in any one of these markets. Therefore, we're not bumping up against any growth restrictions.

Another important reason for our growth is that we provide services that everybody needs. Although the construction industry may be cyclical, it is not prone to off-shoring. As systems become more sophisticated and complicated – and buildings, facilities, and plants become more complicated, too – we are able to consistently demonstrate the extent and depth of our expertise – expertise that continues to escalate in importance.

On the facilities side, there are a couple of things that really help us. One is that we have a leading position in mobile and mechanical and electrical services, which are growing markets. In fact, it has been growing at almost double-digit rates each year. Our business has the potential to grow even faster than that, through consolidation and focus on marketing and sales. The facilities business definitely benefits from outsourcing trends, and we have a leading position in that area. So, to sum up, growth looks good: Markets are strong, the right elements are in place for organic growth, and our balance sheet is robust enough to enable us to make the kind of acquisitions we need to make to drive growth through an acquisition agenda.

## **Is it challenging to differentiate in each of your businesses? Are you able to show what makes EMCOR unique?**

In the construction business, we're able to blend a number of strengths. We give our CEOs in the field the opportunity to run their companies and, at the same time, we back them up with the strength of a *Fortune* 500 company. We have a definite advantage because of our financial wherewithal, our marketing wherewithal, and our ability to draw technical resources on the problem-solving side.

In our Facilities Services division, we're able to differentiate in a number of ways. One is the skill of our people – how qualified they are to do the job that they're doing. Another one is our ability to serve our clients in more than one location. We can bring our national network to play, both on the facilities side and in the areas of mechanical and electrical construction and mobile services. All of that makes a very strong selling proposition when serving clients who have operations in several locations.

Perhaps our most significant point of differentiation is our commitment to service. We give our local managers the ability to make decisions, but behind them, there's a very large company that's going to make sure that we're there to meet

our commitments every day. That's one of the principal ways in which we differentiate.

## **Is there close coordination between EMCOR's three core businesses, or do they run somewhat separately?**

To us, it's about more than coordination; it's about making sure that we have the right technical resources to understand what our clients actually need. So we have a very good business development group and, as we deepen our relationships with clients, we can bring to the conversation the various facilities services that they need at any given point – be it mechanical and electrical construction, facilities services, or energy infrastructure and management – in order to help solve customers' problems on a holistic basis.

As a company, we are focused on growing and improving our revenue mix through this cross-selling of our services, but we're going about it clear-eyed. We know that business is won customer-by-customer, solution-by-solution, and we're ensuring that we have the resources in place to meet the demand. Because of the ever-changing nature of the marketplace, it's a challenge that must always be kept front and center and in focus.

## **Does EMCOR target any industries in particular?**

We work across all industries. We serve just about every sector and service their needs across a broad value-added spectrum. That being said, the more complicated, the more advanced, and the more difficult the projects, the better a client will be served by hiring EMCOR. We know how to solve tough construction, facilities, and energy problems, and we enjoy doing it. We're at our best when we can work side by side with our customers, whether they are owners, general contractors, or real estate managers.

## **You went to West Point and served in the military. How has that background affected your management skills?**

A great deal. Of course, you have to adjust your leadership style to fit the situation at hand. Fundamentally, I believe that everybody should do real work. I believe that when you get a group of talented people around a table, they can come up with the best ideas. From that point onward, it's all about execution excellence. Ultimately, someone in my position is only as good as the team that works with him every day, so I also believe strongly in giving credit when and where it is due.

I also believe that you don't learn by reading reports. You learn by touching. You learn by getting out in the field. So it is not uncommon for me to visit a job site and spend an extended period of time talking about specific issues. It's not uncommon for me to reach down two or three levels in any part of our organization and call somebody to ask them how the business is really doing. I'm big on the people side of the equation and, accordingly, I've learned to be a pretty good judge of talent. People are all different, but ultimately, you have to drive accountability to the lowest levels of your organization if you want to have success. You can't just sit at the top. ●



*An EMCOR Facilities Services client*





# Dealing in Scale

**An Interview with William A. Rodgers Jr., President and Chief Executive Officer, EMCOR Facilities Services, Inc., Norwalk, Connecticut**

**EDITORS' NOTE** A 20-year veteran of the services industry, Bill Rodgers began his professional career with Arthur Anderson & Co. He proceeded to work at Waste Management, Inc., and at Johnson Controls, where he served as Vice President, U.S. Operations. The recipient of a bachelor's degree in accounting from Florida Southern College, Rodgers is an active member of both CoreNet and the International Facility Management Association.

**Have you been happy with the growth of EMCOR's Facilities Services business over the past year or two? What is your outlook for continued growth for the coming year?**

The outsourcing market in the facilities services arena remains very strong, so our activity in that area has also been very strong. In fact, we have seen growth in our position in that marketplace. One significant aspect of our Facility Services business is that we formally put it together as a business back in the late '90s, even though it had been a part of our overall business to varying degrees for a very long time. As a result of that, we deal a lot in scale. In other words, as corporations look for organizations they want to team up with, to outsource their employees and outsource the handling of their facilities, they need to spend a lot of time evaluating not only the size, but the capabilities of those organizations. They need to assess whether or not they can handle their work. As a result, we are having an increasing number of partnering discussions with customers, whereas in the early days, it was more about simple procurement.

As for the future, I couldn't be more excited about our prospects for growth. Our three principal sectors – commercial, corporate, and public – are all showing a tremendous amount of potential. What is particularly exciting is that most of this growth is among first-time outsourcers. That's where the opportunities continue to present themselves. So, the future looks very bright.

**The term "outsourcing" used to have negative connotations, as employees associated it with job losses. Is there now a better understanding of the benefits and value of outsourcing?**

I believe so. In the early days, outsourcing was targeted at specific areas or components of a business. It concerned little more than out-tasking an assignment or subcontracting to a vendor. There was still a fair amount of oversight within the company. Over the last few years, however, the level of comfort has increased to the point where companies not only transition their employees to an organization like ours, but they also see and understand the value that is being provided by that transition. I think confidence levels are now higher than they have ever been. So I look to the future and am very optimistic about our growth opportunities, because companies now see that there is true value in outsourcing.

**You have a centralized Knowledge & Response Center. What is the purpose of that facility?**

This is one of the key things that differentiates us in the marketplace. While we know we have very talented and well-trained technical and managerial people dealing with our customers, we understood very early on in this process that we have to equip them with the right information in order for them to make the best decisions. Our Knowledge & Response Center is geared toward doing just that. One aspect of this is the customer interface. These centers are not traditional call centers, but they do have a call center flair to them, because they can handle requests from our customers.



EMCOR at work in Boston harbor

But the real differentiating feature of these centers is that they enable us to take the information we get from our customer activity and evaluate it, so we can understand trends in particular facilities. This, in turn, enables us to anticipate what is going to happen, so we can make those facilities work at an optimum level. That information is utilized in a knowledge-based format by our people and, in some cases, by our customers who want to truly understand what's going on within their facilities.

**What size is your target customer? Do you only work with the large multinationals?**

No, we deal with companies of all sizes. Small to medium-sized organizations provide a lot of growth for us, in the States as well as overseas. Getting into smaller organizations and putting our programs and practices in place, then growing within those organizations, is a great organic model for us.

Facilities Services has two main components. One is a site-based service, when the majority of our staff actually reports to and resides at our customers' locations, day in and day out, handling those facilities on a full-time basis. The other component consists of technicians who are mobile, working from either a van or a truck, with very strong technical capability. These people deal with customers through what I refer to as "incremental requirements." In these cases, the customer doesn't need staff on-site full-time. But when systems go down, it can be devastating. That's when our mobile folks will come in and do the repairs and project work that's needed.

**You mentioned the importance of having highly skilled people. Is EMCOR able to attract the top talent?**

Yes. The people we recruit into our organization are top-shelf talent. There are several reasons for this. One is that EMCOR has developed a leadership development curriculum that is very focused on the training of our people. It allows them to truly see and understand all aspects of our business, and prepares them for ever-increasing levels of responsibility. I think that is a critical element. Another reason is that there's a tremendous amount of momentum within our industry at the moment, and people are able to see a lot of opportunities. As a result, we have seen a tremendous level of interest from people wanting to be a part of it. ●



# Creating Added Value

**An Interview with Michael J. Parry, President and Chief Executive Officer, EMCOR Construction Services, Inc., Norwalk, Connecticut**

**EDITORS' NOTE** A 30-year veteran of the design and construction industry, Mike Parry served as Executive Vice President of EMCOR's Construction Services division before being appointed to his current position. An active member of the Construction Industry Roundtable, Parry is past President of the New York Metro Section of AACE International. He holds degrees in electrical engineering and physics from the City College of New York, and an M.B.A. in finance from New York University.

## **What type of companies does EMCOR Construction Services serve? Are you primarily focused on large multinationals?**

Our work serves a broad and varied spectrum of clients. EMCOR is uniquely able to perform large and complicated specialty construction for clients in virtually all market sectors, such as manufacturing, health care, and financial services, but we're also very effective at performing jobs that need to be completed in two weeks. Our value-added service is rooted in our ability to bring technical know-how and manpower to solve problems for the customer, whoever that customer happens to be. So our construction operations really do cover a full gamut of companies and requirements; we'll build the world's most complex data center, working with a good general contractor, and we'll also retrofit a mechanical room or trading floor for a client on a quick turnaround.

## **In your sector, does a company need to be a certain size or scale in order to compete successfully?**

Size and scale certainly do make a big difference and create a huge advantage for both EMCOR and our clients. Because of our diversity, we can ride out markets and points in the economy that are less than optimal. We've ridden markets down and up. For example, Las Vegas went way up, then it went down, and now we're benefiting again from its recent boom. So our size allows us to ride the peaks and valleys of very difficult markets.

Our size also enables us to really focus on the task at hand. The management of our local operating companies is not saddled with having to meet with bankers to get cash. They're not meeting with the bonding agents to get the bonding they need. They're not worrying about health insurance for their employees. We do all of that – and more – at a corporate level. That's part of the added value of EMCOR. We like the fact that most of our companies are number one or two in their local markets. That gives them sustainability and, importantly, good access to labor and materials from the wholesale suppliers. Finally, our scale enables us to work more aggressively with suppliers through a combination of pricing agreements and volume rebate programs, and that benefits our bottom line and further helps us drive value for our clients.

## **How much of a role does technology play in the way you conduct business?**

One of the advantages of EMCOR is that our work spans multiple geographies, multiple companies, and multiple sectors. So we can take best practices from one part of the organization and apply it to another part. Technology is one of the elements we apply across the entire organization. An example of one of our key differentiators in this area is our ability to model complex mechanical systems in three dimensions before we build. Because we can create detailed drawings beforehand, we can identify potential problems in advance, coordinate our installation with that of other trades, and fabricate a lot of the job off-site, allowing us to increase the productivity of our field operations.

## **How much of a focus is safety in your part of the business?**

For us, safety is paramount; it's a central tenet of our mission and an integral part of our day-to-day operations. That commitment begins at the very top of the organization and it extends throughout the company to our job sites. And it doesn't stop – ever. As a result, we've seen a 46 percent reduction in the company's total recordable incident rate since 2002. Also, on an annual basis, EMCOR's injury rate is 50 percent less than OSHA published rates for construction and facilities services companies. But even with this impressive record, we are striving to make every year a safer one. We are predicting a further reduction in accidents at a time when we are working more labor hours than any other time in our history. I think a lot of that improvement comes down to our policy of individual accountability for results. We educate our people, we measure them, and then we drive accountability down through our local operations into the field. Our commitment to safety is part of an integrated approach that includes improving quality and productivity.

## **Are projects today more complex and demanding than they were in the past?**

There's no doubt that projects are getting more complicated every day, with energy efficiency, interior air quality, and seismic requirements being some of the drivers. But, that being said, the tools we work with are getting better. So yes, we are always pressed for time, the designs aren't as complete as we'd like them to be, and the systems are more complicated. But that's the added value of – and why we have – great superintendents, foremen, and project managers out on the job. They can react appropriately to get the job accomplished, just as the owner requires and envisions it to be done.

## **What are one or two key priorities for the business going forward?**

One priority is continuing to develop a solid base of tradesmen and craftsmen in the industry. Our workforce is getting older, and that's a challenge. We need to replenish the lower ranks with the right kind of diversity in people going forward, and we have to work with our union partners to do that. In addition, we need to replenish our project management and leadership talent on an ongoing basis. We count on our people on the front lines to make the right decisions about how to push the job forward, and to give us the right indicators of risk. They also need to manage risk in the right way. That just doesn't happen unless you spend a lot of time training people how to do it. We also share best practices and innovative measures and methods across the group, which gives us a competitive advantage. We've done a very good job of that.

Our second priority is material management. Right now, we are operating in a high-inflation market, and we have to deal with volatile material prices, affecting commodities such as steel and copper, as well as engineered products. Therefore, having contracting terms and conditions that protect us from material volatility and price escalation is absolutely critical. ●



*EMCOR Construction Services on site*





# Delivering Energy Solutions

**An Interview with S. Gene Martin, President and Chief Executive Officer, EMCOR Energy Services, Inc., Norwalk, Connecticut**

**EDITORS' NOTE** *With almost 20 years of general management experience in several top-tier Fortune 500 energy companies, Gene Martin is the recipient of many national industry awards for business vision, revenue enhancement, and marketing achievement, and has lectured globally on energy. He has also served on the boards of directors of a number of principal subsidiaries of Fortune 500 companies and on several prominent industry advisory committees. Martin received his bachelor's and master's degrees from the University of South Carolina and is an avid surfer and martial artist.*

**Have you been happy with the growth of EMCOR's Energy Services business over the past year and where do you see future growth coming from?**

Overall, I am satisfied that we made significant progress under a well-thought-out strategy, but we have more to do to reach our potential. I believe that energy, as a business, has fundamentally turned a corner, and there are a number of drivers for that change. In the U.S., our energy infrastructure has suffered from gross underinvestment for a long period of time, as demonstrated by the many incidents over the past several years, including the recent blackouts in several major cities across the national grid. Although we still have the finest electrical grid in the world, it has a serious and growing reliability problem right now, because of a lack of investment and the changing needs of end-users. Our clients require a high level of sophistication in their energy operations characterized by price predictability, quality and reliability of power, convenience, and the availability of efficient and environmentally responsible alternatives. All these factors will stimulate positive growth in our business in the days ahead.

Another significant factor driving the energy marketplace is what has happened to the fuels market. I am skeptical that oil prices will ever return to \$50 a barrel, which suggests that, the volatility and uncertainty associated with fuel supply is here to stay. The price escalation in the fuels market has "raised the commercial bar," making additional investments in alternative power generation, as well as traditional infrastructure investments much more economically attractive and necessary for clients across a broad spectrum to take control of their energy expenditures. Ultimately, energy has become a national priority for the United States, and that is bound to have a positive impact on our business.

**Do you see opportunities globally for the brand?**

Yes, I am optimistic that EMCOR has the management vision, scale, and resources to firmly establish a position as a pre-eminent infrastructure-services provider for energy, facilities, and construction. Our markets include a lot of what I would call "application opportunities" within a number of distinct segments, including universities, municipalities, industrials, pharmaceuticals, and hospitals. For example, we're very excited about the waste-to-energy and alternative-fuels marketplace, including utilizing landfill gas to generate power, and utilizing biomass and bio-diesel to make energy. We're very involved with that market, and see a tremendous opportunity for a company with our scale and execution capabilities to perform there.

We have also done a number of projects focused on cogeneration applications, which is combined heat and power. There are some very good cogeneration systems, and they are improving all the time. The simple notion of utilizing waste heat to improve efficiencies is worth a lot of money, and it is very applicable to a lot of our larger customers.

We're also involved with simple cycle shaping generation. There are a number of municipal clients out there who don't own generation capacity. In effect, they are captive buyers of wholesalers and marketers who generate and sell electricity. We think there's going to be a strong emerging market for peaking and intermediate load applications that allow municipalities to both strengthen the electrical system and reduce their ratepayers' costs by utilizing this "physical hedge" as a component of energy procurement.

In addition, we are very much involved with energy efficiency and alternative energy generation. We build photovoltaic projects, for example. We believe that those technologies are becoming increasingly attractive. As the market is changing, the rising tide is lifting all the boats, if you will, so the opportunities to achieve commercial scale as an alternative-energy generator are improving all the time. The more commercial these technologies become, the more competitive they'll be.

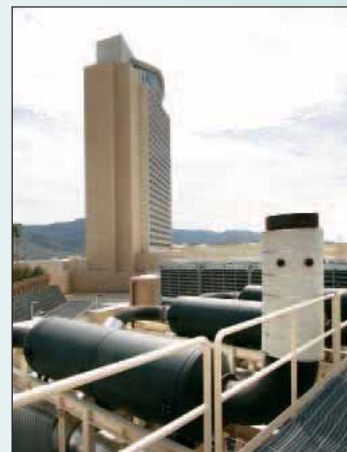
**In your industry, services can sound somewhat similar from one company to the next. Is it challenging to differentiate in the marketplace?**

Our primary challenge is to consistently reinforce our value added service position. Clients are coming to the realization that they are purchasing a long-term, highly technical economic benefit that requires a long-term, fully integrated solution. Unfortunately, the energy marketplace is filled with all kinds of participants, including many who lack the expertise and the staying power to effectively participate in the market. So it's a bit chaotic at the moment. But that chaos is also creating a lot of opportunities. Our brand is about the capacity to be a large-scale, full-service provider. The fact that we can work with a client across multiple geographies and pretty much deliver the same fully integrated design/build-operate-and-maintain product consistently makes us unique. Plus, the fact that we're a *Fortune 500* company with the financial strength and the execution capacity to be here for the long term is also very attractive to the market.

**What are your key priorities going forward?**

Our primary goal is to expand our scale. We want to become a very material business for EMCOR Group. So we are focusing on the niche opportunities that are replicable, and the strategies that allow us to make quantum leaps in our growth. We're profitable now, but we are not growing as fast as I would like. So we're constantly looking at new opportunities. For example, we are actively examining complementary acquisitions in the operations, construction, and engineering areas to enhance our service capability. We are also engaged in efforts to provide OEMs [original equipment manufacturers] a North American execution resource and service-integration opportunities that offer our customers "off balance sheet" ownership options.

We are also very interested in becoming a preeminent application specialist, and we're working hard on various projects that demonstrate our expertise, not only in the Energy Services division but across the whole EMCOR Group. ●



*EMCOR is a leader in energy production*