

# Interview

## 38 Consecutive Quarters of Profit

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



Frank T. MacInnis

**EDITORS' NOTE** Frank MacInnis has served as chairman and chief executive officer of EMCOR since 1994, also acting as president from 1994 to 1997. From 1990 until 1994, he was chairman of Comstock Group, a nationwide electrical contracting company. Also, from 1986 to 1994, MacInnis was president of Spie Group, Spie Construction, and Spie Horizontal Drilling.

**COMPANY BRIEF** Norwalk, Connecticut-based EMCOR Group, Inc., is among the world's largest specialty construction and facility-services firms, with a client roster that includes 75 percent of fellow Fortune 500 companies plus other firms in the industrial, commercial, institutional, governmental, and utility sectors. The company's services include the design, installation, operation, and maintenance of the sophisticated and dynamic systems that create facility environments – such as complex 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, it reported total sales of \$4.7 billion and net income of \$33 million in 2004.*

### How well has EMCOR's business rebounded after the recent economic downturn, and how optimistic are you for future growth?

I'm always optimistic, but my innate optimism has been tempered over the last year by the relatively slow pace of economic recovery and the cautious tone of reinvestment in the private sector. I think that private-sector customers are not adequately confident about the strength and duration of this recovery to make the significant long-term investments that companies like ours count upon for big-ticket projects. So we are not as happy about the pace of recovery as we might have been. At the beginning of 2004, we knew that the year would be a transitional one, coming as it did between recession in 2003 and post-recession in 2005. Our business tends to lag economic cycles, both the down cycles and the up cycles. So, for us, the recession has barely ended.

All that having been said, however, there's always reason for optimism if you look for it. One of the driving factors in this economic recovery has been the increase in efficiency and productivity of U.S. labor. The good news for EMCOR, because we provide large quantities of trained, technically specialized labor, is that we are very much in the business of improving the efficiency and effectiveness of customers who own facilities, and who want to take advantage of the specialization of their labor forces in order to render themselves more effective and productive.

### Is your main focus for growth the U.S. market, or do you see opportunities internationally as well?

We see opportunities internationally as well. The primary markets for our services are developed economies that place a premium on the efficient deployment of trained technical labor. That narrows our opportunities to relatively few countries,

where there are no significant restrictions on the employment, transferability, and mobility of labor. Practically speaking, that means our primary markets will continue to be the United States, Canada, and the United Kingdom. I would exclude Western Europe from that group because the tangible restrictions on the mobility of labor there render it a fixed, rather than a variable, cost. We work best in economies where labor is a variable cost.

### How do you differentiate among your competitors?

It's certainly a challenge to differentiate, and that's why we have worked so hard to become more confident and more efficient in the marketing of our brand. Facility services are marketed and sold as distinct from construction services, which are predominantly reactive and passive. When we began to develop our facility-services capability, we realized that the EMCOR brand would be all-important in attracting advanced and sophisticated customers. So we worked hard at our branding, and have identified a unique niche for EMCOR. I'm glad to say that there is no one in our rear-view mirror at this time.

### As you develop and maintain your relationships with clients, how high up in the executive structure do you operate? Do you always deal directly with the C suite?

Our experience has shown us that the marketing message must be heard in the C suite, and the sales process must involve the senior officers of the company, because they are the people who make the decisions.

### Are most of these relationships long term?

Ideally, for both parties, they are long-term relationships. For example, our relationship with British Airways is now in its 12th year. It has proved to be a mutually productive and pleasant partnership that has grown over the years. It has evolved as their needs have changed, and as our abilities to meet those needs have become more efficient and more effective. But any large company of the type that would work best with EMCOR will be appreciative of the strength of our balance

sheet; the diversity of our employment, the broad geographic reach that we enjoy; our ability to bring to a particular task whatever type of trained, high-level labor is required; and our willingness to provide guarantees of the types that our partners are entitled to receive. Over a long period of time, our major national and multinational customers become partners of EMCOR, and vice versa. We've certainly got the skills, assets, dedication, and integrity to be a good partner.

**Your business would seem to straddle all industries. Do you focus on any sectors in particular?**

There is no particular industry focus. We are, indeed, offering something that everyone needs. However, in the future we may begin to target the facility-services side of our business at companies with large quantities of hard, tangible assets, notably manufacturing plants and the like. I say this because, in the past, ownership of state-of-the-art manufacturing plants and the employment of productive labor was the keynote of American supremacy. Today, those manufacturing plants, by and large, are in danger of being extremely expensive in comparison to manufacturing operations based overseas, with more efficient facilities and cheaper labor. Our job, with respect to our customers, is to provide our services and our expertise to make those American assets as effective, as efficient, and as productive as they possibly can be, and thereby improve the competitiveness of American industry.

**Do you envisage your core offering staying relatively consistent over the medium to long term?**

In my opinion, we will always be the premier specialty-construction company in North America. I can see many significant opportunities for our business, for example, in the growing area of water and waste-water treatment, and we will take advantage of such opportunities as they arise. Health care and biopharmaceuticals are very important sectors for us, as is food manufacturing, and we're becoming much more active in the oil-and-gas sector, too. We already hold a pretty significant position in the Northern Alberta oil-sands development.

**Do you think the financial community fully understands your vision for the company?**

I think so, although it hasn't been easy getting the messages across, partly because of the uniqueness of our model. It's always difficult to get analysts to really engage with our story, because there are relatively few issuers in our sector. However, I think analysts have been struck by the consistency of EMCOR's profitability, notwithstanding the recent recession, which significantly damaged many "pure-play" construction concerns. The reason why we have been able to retain our profitability for what is now 38 consecutive

quarters is the diversity of both our skill sets and our revenue base. The market has noticed the consistency of our performance and has rewarded us with substantially higher P/E ratios than that of pure-play construction companies.

**Does technology play a major role in the operation of your business?**

Yes, it plays a major role in two ways. First, the scope of our business and the size of our revenues mean that our personnel are always installing the most up-to-date, technologically advanced products. So we have a knowledge base and a skill set that is absolutely state-of-the-art, and that's very important to our customers. So I think the fact that EMCOR is a very nimble, large company, and a very knowledgeable one in terms of what's new and what's best among the multitude of products available to customers, is a very significant part of our value proposition.

The second way technology is having an impact on us has to do with our ability to monitor our customers' space remotely. In the past, the only way to manage a facility effectively was for repairmen or technicians to make periodic personal visits, or to place them onsite 24/7, and we're still prepared to do that any time a customer wants or needs that. That's part of the EMCOR service and we're happy to do that to any level of security and integrity that the customer demands. However, increasingly, our customers are looking at remote monitoring, involving the installation of sensors at various points around their property. They realize that the continuous monitoring of their property through those sensors is an efficient and effective alternative to the presence of personnel. We've been able to significantly increase the amount of property that we manage by using remote sensing mechanisms, thereby providing a much more efficient service to our customers.

**Corporate governance has always been a focus for EMCOR. Do you think the new legislation in this area has been effective?**

Ten years ago, EMCOR went through bankruptcy, and those of us who were involved in reorganizing the company at that time learned some hard lessons about the consequences of disorganization and a lack of attention to principles. I think that EMCOR has learned from its own history, in the hardest way possible, perhaps. With respect to the broader issues of corporate malfeasance and the examples being made currently, I hope that many of the prosecutions that we read about today are successful in bringing home to corporate America what type of behavior is and is not acceptable.

Having said that, I fear there has been an overreaction, leading to an overreliance on regulation in American busi-

ness. All of us in business need to price risk and manage risk. Indeed, without risk I don't think there would be much opportunity for profit. Therefore, I think American managers must be permitted to take appropriate risks, consistent with their mandate and with their skills. I'm afraid that an over-reliance on systems like Sarbanes-Oxley, and the criminalization of what, in the past, were seen as management mistakes, are very dangerous precedents to set in terms of the appropriate level of risk that managers of the future should be taking.

**How important is corporate citizenship to the culture of the company?**

It's an essential aspect of the culture of EMCOR. We have established a program called Touching Lives, which is EMCOR's way of emphasizing the importance of corporate citizenship, in the area of our corporate headquarters in Connecticut and in each one of our local locations. We have emphasized to all of our subsidiaries the importance of participating in local charities, and local civic and societal organizations. We want to make sure that the public understands that EMCOR stands for something. It stands for integrity and it stands for a general understanding of communities' needs. A recent and far reaching manifestation of our Touching Lives program is EMCOR's donation, matching those of employees, to support tsunami relief efforts.

**You mentioned the struggle the company went through 10 years ago. At that time, did you imagine you would still be with EMCOR a decade later, leading such a resurgence of growth?**

When I joined EMCOR it was a very troubled company. I had already been in this business long enough to know that, at best, it is a very difficult and dangerous one. So I'm not sure what I expected to happen, although I was optimistic enough to think that I could bring the company back to its feet. But I certainly did not think, at that time, that we would be able to create such a consistent performer within a sector that is remarkable for its inconsistency, if anything. I think that our success has been due to the continuity of management and the ability and willingness of all of our employees to dedicate themselves to principles designed to ensure that we never have to go through failure again.

As for my personal expectations, 10 years ago I thought that if I proved successful in turning the company around, I would go elsewhere and perhaps do another turnaround. However, today I find EMCOR as exciting as ever, because we're building a truly unique story. I don't feel any desire to move on to greener pastures; because the truth is, I really don't see pastures that are any greener. ●