



for the Built Environment

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Planning for The Unknown - Market
Outlook and Scenario Planning

November 1, 2020

“Everyone has a plan, until they get punched in the mouth.” – Mike Tyson

We’ve all been hit by COVID-19. What matters is how you respond.



- The COVID crisis demands immediate action against a range of potential future realities
- Today’s decisions set the stage – good or bad – for 2021 and beyond
- Weathering the current storm is not enough – leaders must confront the crisis today to capitalize on opportunities
- Traditional, long-range planning falls short in times of uncertainty, but strategy is always invaluable

Volatility

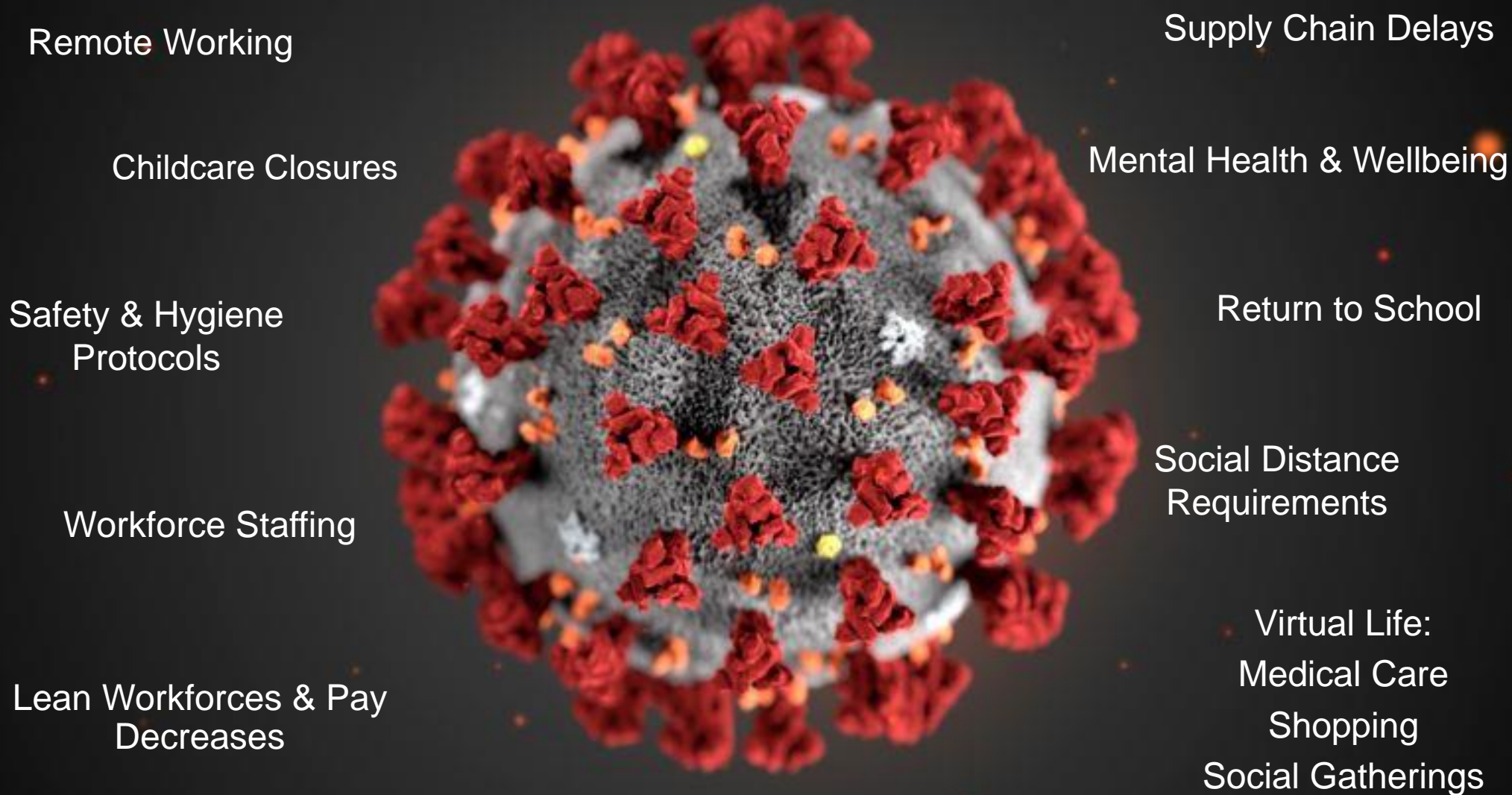
Uncertainty

Complexity

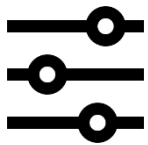
Ambiguity



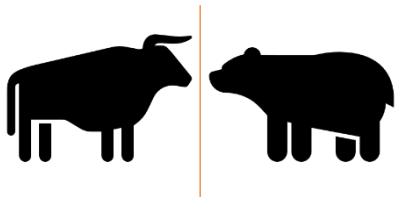
Covid-19's Disruption to Our Normal Lives



Things to keep in mind...



- 1. The present reality of the COVID-19 pandemic and unintended consequences**
A catalyst for the accelerated evolution of competition



- 2. Near-term preparation...**
For the traditional AEC “lag,” however;
Bull markets and bear markets co-exist



- 3. Moments of great uncertainty hold great entrepreneurial potential**

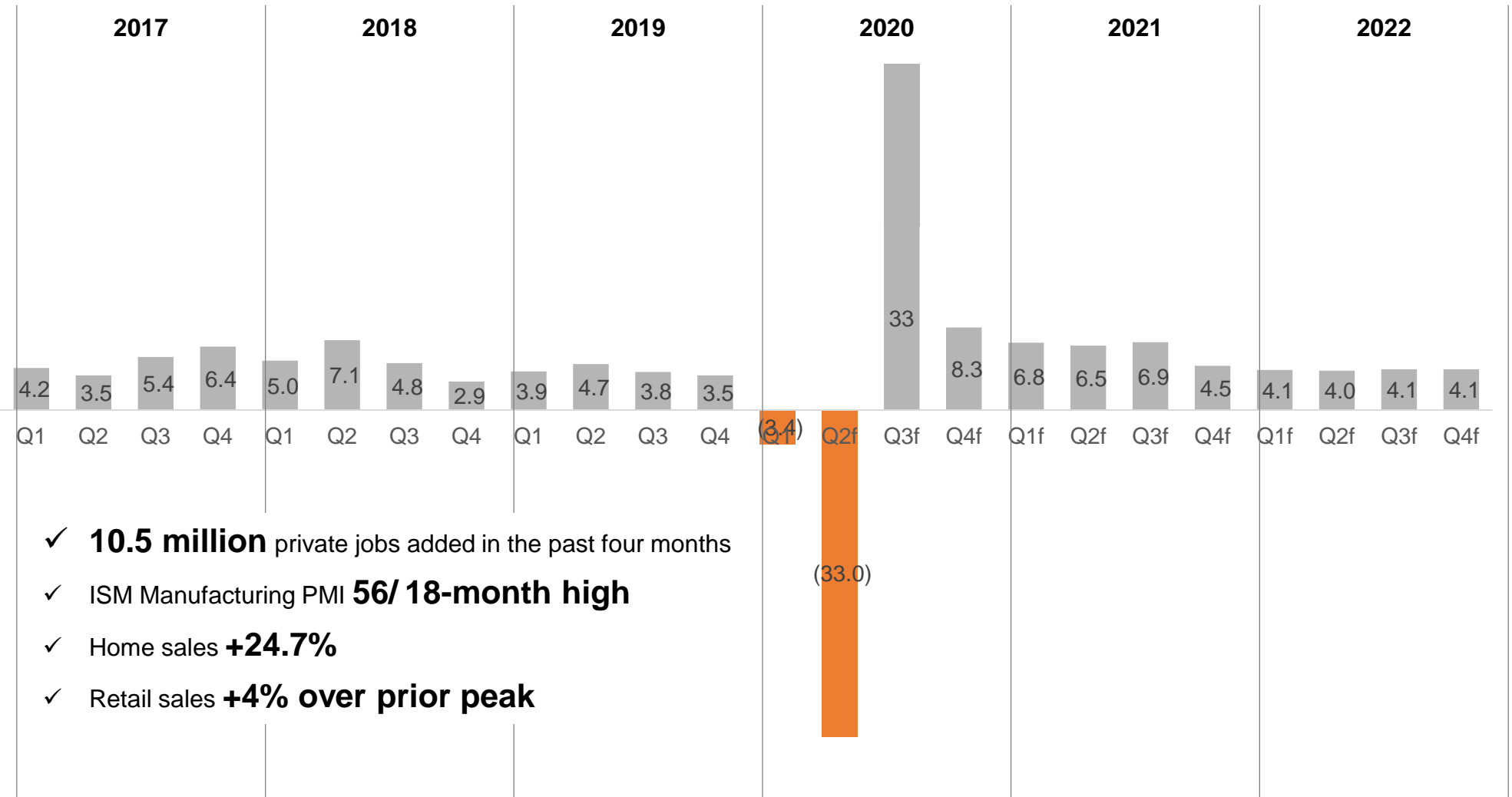
US Construction Outlook Post COVID-19

An unprecedented velocity of change

US GDP

Percentage change, annual rate

Source: CBO



US Construction Outlook Post COVID-19

Seeking clarity in times of uncertainty

Overrated

Gross Domestic Product (GDP)

- Backward-looking
- Infrequent
- Subject to revision

Current Employment Statistics (CES)

- Counts employees on official payrolls only
- Susceptible to double counting

Consumer Confidence

- Sentimental vs. actual economic activity
- Highly volatile

Durable Goods Orders

- Low correlation to GDP

Underrated

Chicago Fed National Activity Index (CFNAI)

- Broad based (compiles 85 economic indicators)
- Not sentiment based
- Strongly correlated to future GDP

Current Population Survey (CPS)

- Accounts for all people who find work
- Does not double count
- Reflects the emerging gig economy

Retail Sales

- Actual economic activity
- Two-thirds of GDP
- Frequent (monthly)

Purchasing Managers Index (PMI)

- Good predictor of GDP
- Stable, timely leading indicator

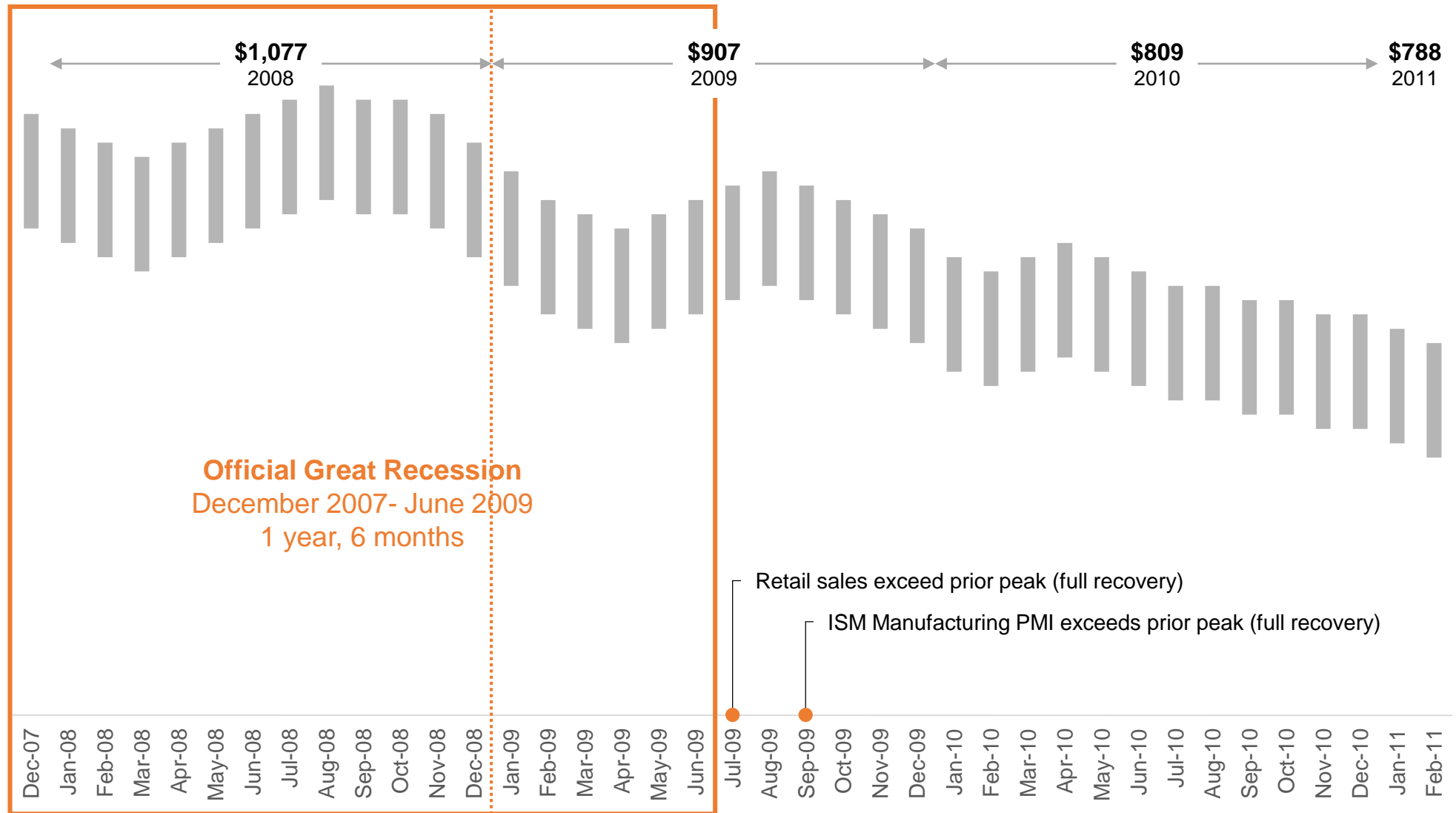
US Construction Outlook Post COVID-19

The long tail effect for the AEC industry

Construction spending put in place for the US

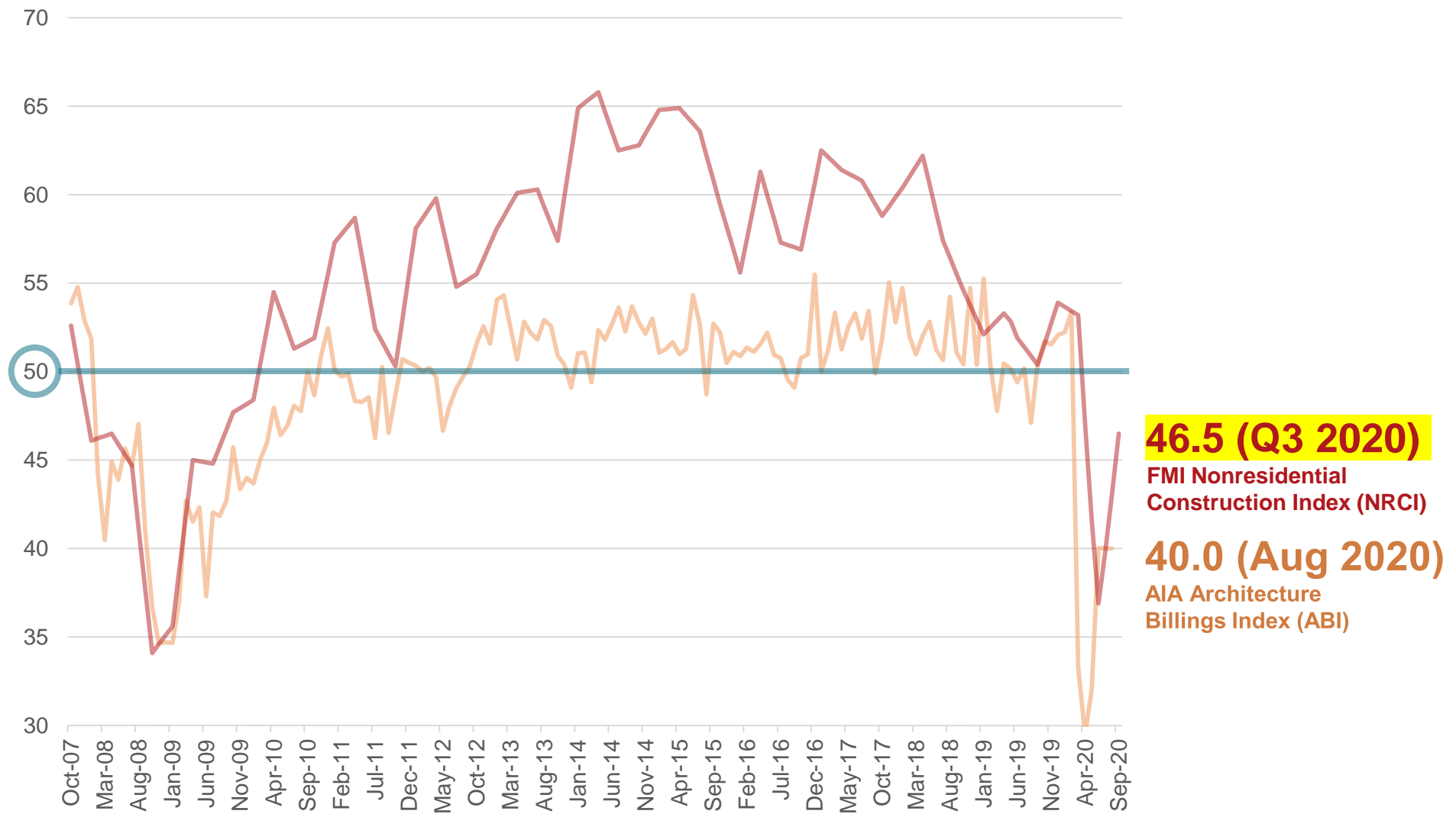
Billions of dollars

Source: FMI



Diverging economic indices

Nonresidential construction sentiment remains below threshold



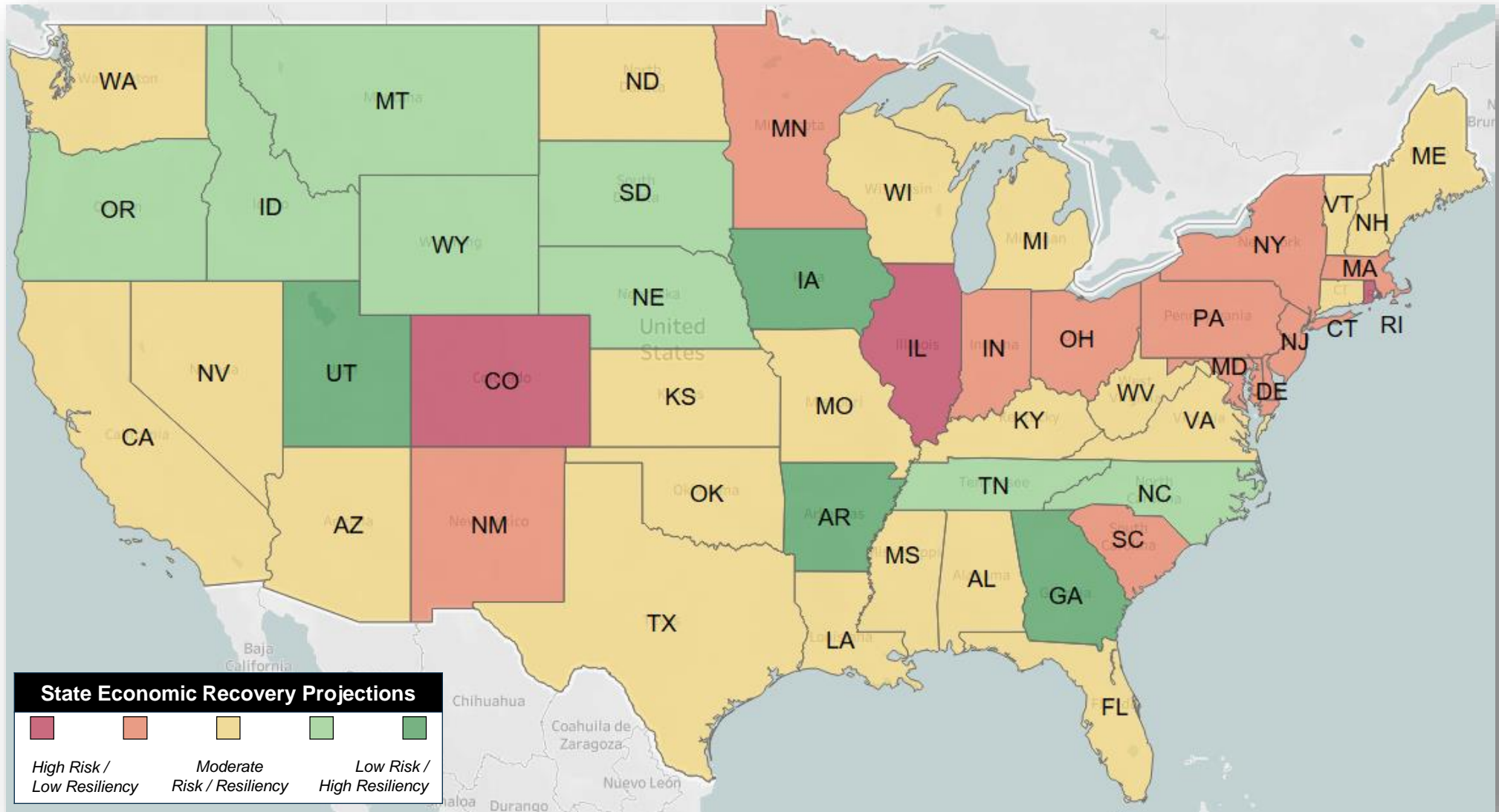
Poll Question

What is YOUR overall economic outlook for 2021?

US Construction Outlook Post COVID-19

The Northeast and Mid-West are challenged to have a strong recovery.

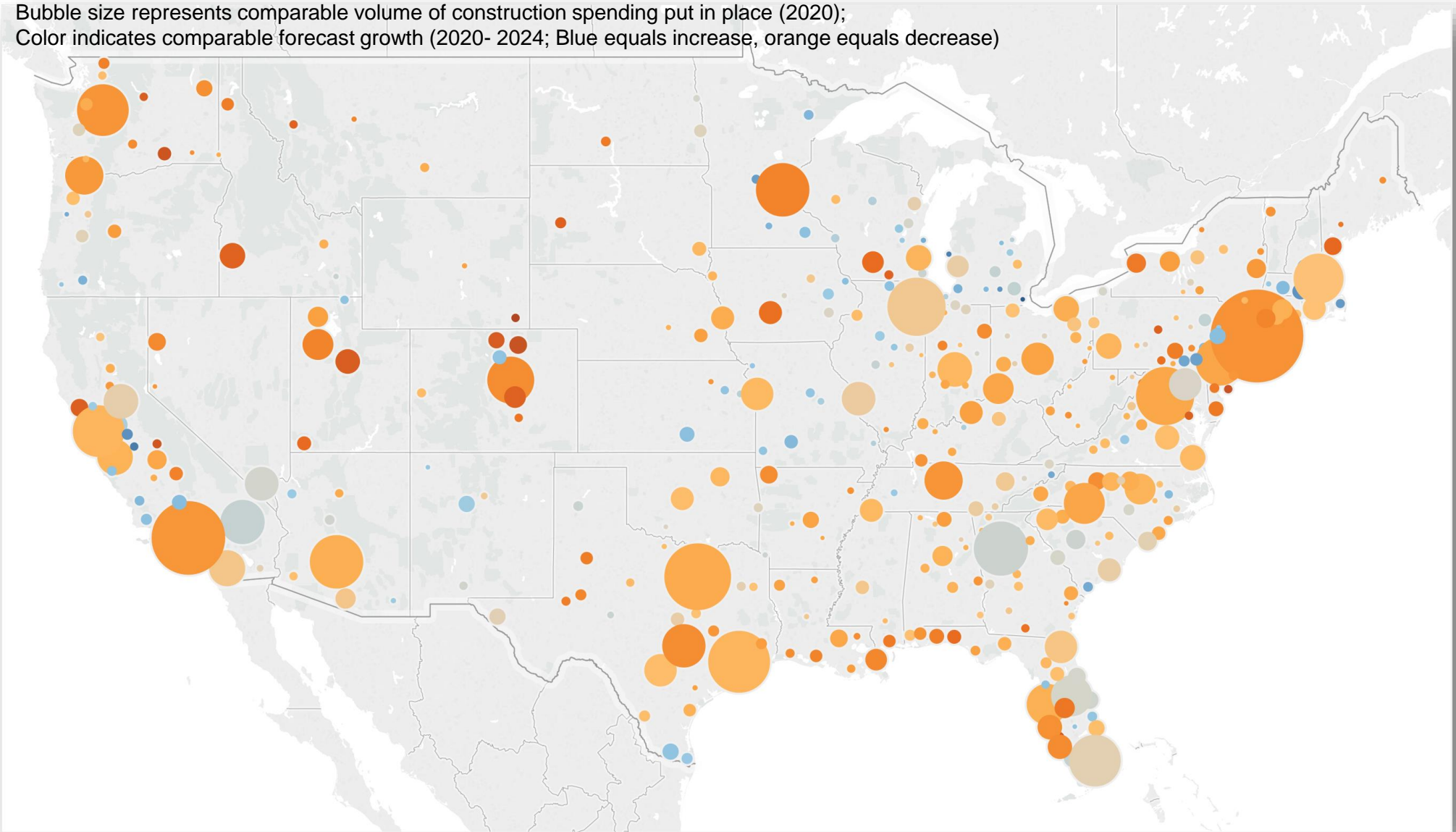
Source: The Council of State Governments Special Report: COVID-19: Fiscal Impact to States and Strategies for Recovery; FMI, As of August 7th, 2020



US Construction Outlook Post COVID-19

Construction spending by MSA (2020) and forecast growth (2020- 2024)

Bubble size represents comparable volume of construction spending put in place (2020);
Color indicates comparable forecast growth (2020- 2024; Blue equals increase, orange equals decrease)



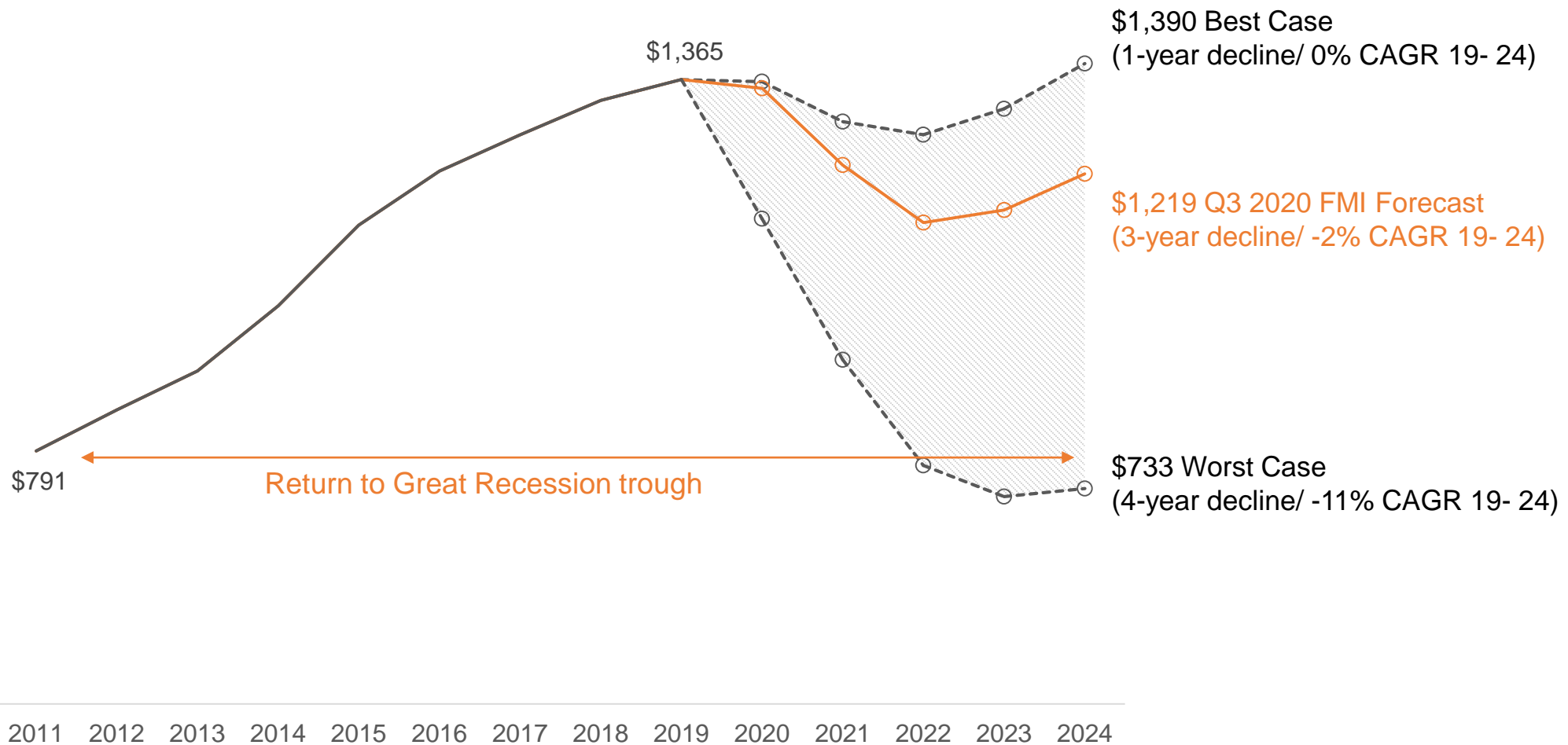
US Construction Outlook Post COVID-19

Preparing for a V, U, or L shaped recovery

Total construction spending put in place (US)

Billions of current dollars

Source: FMI



FMI envisions three potential scenarios – Rebound, Revert, Reinvent

Strategies should include optionality for each possible scenario

Rebound

- Assumes the **economic disruption** is **deep but brief** (i.e., one to two quarters of negative GDP).
- **Construction spending** put in place is **moderately affected** at the **national level**, with more **pronounced declines in specific markets and segments** (e.g., New York, lodging).

Revert

- Assumes a **deep and prolonged** (i.e., minimum of six quarters of negative GDP).
- Construction spending put in place would be expected to fall to **Great Recession levels** and remain there for perhaps the **next three to five years**.

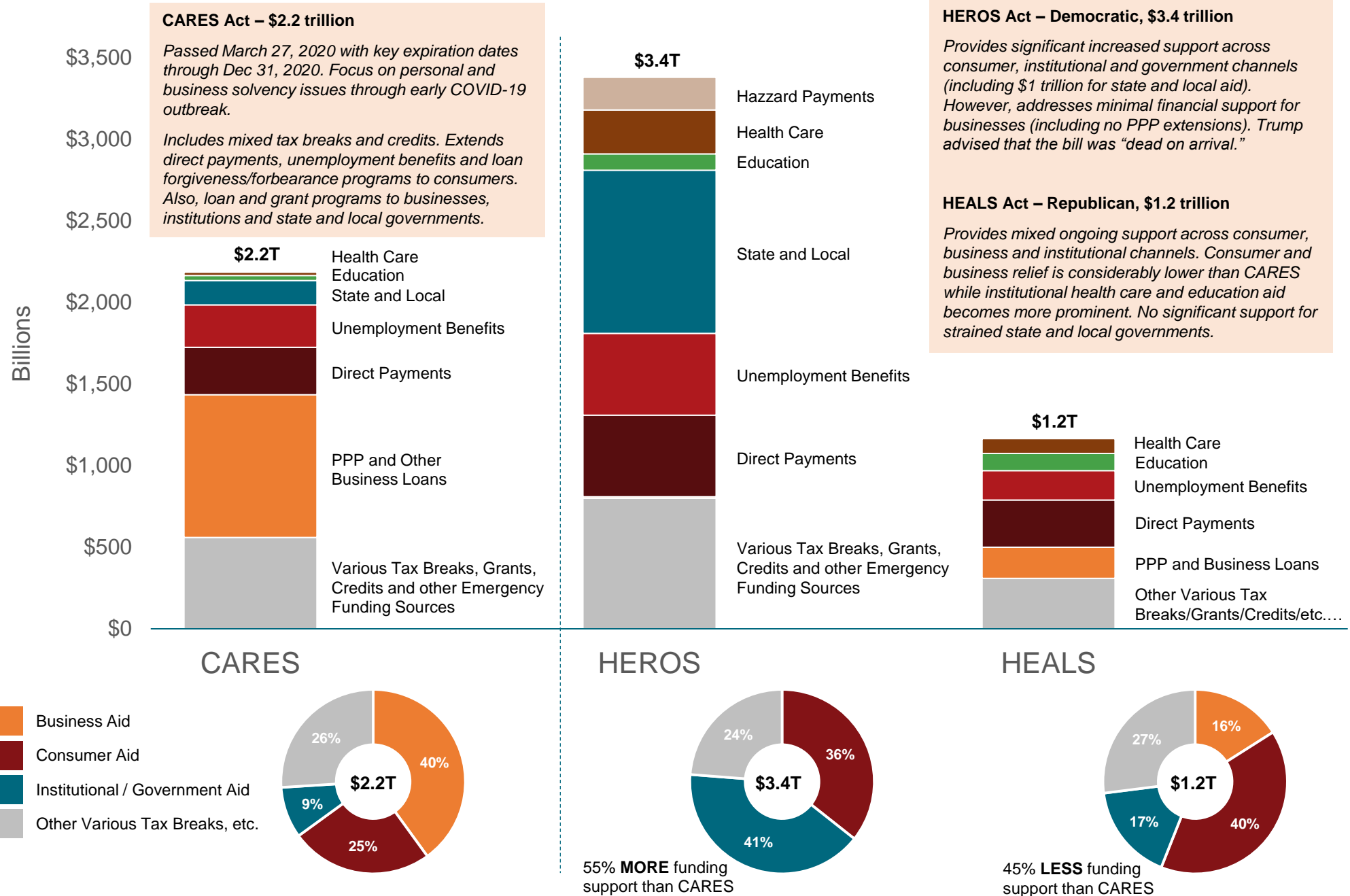
Reinvent

- Assumes a deep but slightly longer extended period than the rebound scenario
- **Major shift to remote learning and work**
- Assumes a range of **fundamental changes in market structure** (e.g., a long-term reduction in business travel)
- **Exponential increase in e-commerce**
- Construction spending put in place may return to near pre-COVID-19 levels within a year or two, but the **divergence of demand across different markets and segments** becomes **significantly more pronounced**

Poll Question

What type of recovery do you think the construction industry will have?

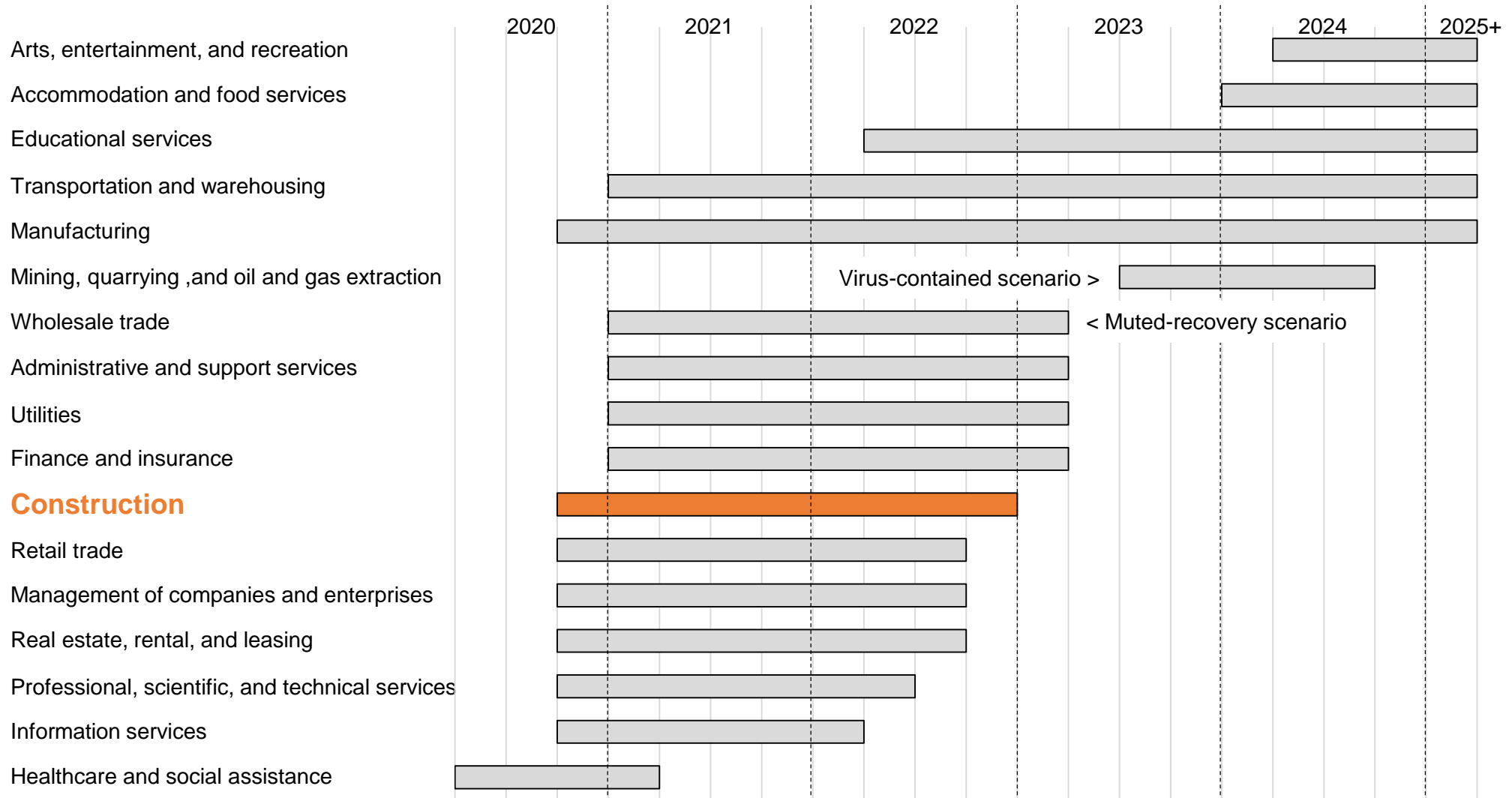
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US Construction Outlook Post COVID-19

It could take more than five years for the most affected sectors to get back to 2019-level contributions to GDP

Source: Oxford Economics, McKinsey



CIRT Sentiment Index

Top 5 Positive Impacts

Top 5 POSITIVE Impactful U.S. Business/Economic Factors, 2020 vs. 2021					
2020	Rank*	%	2021	Rank*	%
U.S. monetary policy (example: Fed interest rates)	1	42%	U.S./ world health issues, vaccines, pandemics	1	60%
Results of U.S. presidential and congressional elections	2	38%	Private sector investment activity	2	45%
Private sector investment activity	3	29%	Results of U.S. presidential and congressional elections	3	40%
Trends affecting specific market sectors you work in	4	25%	Trends affecting specific market sectors you work in	4	25%
Global economic, monetary, security matters	5	20%	Consumer sentiment, spending decisions	5	24%

CIRT Sentiment Index

Top 5 Negative Impacts

Top 5 NEGATIVE Impactful U.S. Business/Economic Factors, 2020 vs. 2021

2020	Rank*	%	2021	Rank*	%
Results of U.S. presidential and congressional elections	1	44%	Results of U.S. presidential and congressional elections	1	54%
Trade agreements, tariffs, embargoes, etc.	2	38%	U.S./ world health issues, vaccines, pandemics	2	43%
Unemployment rates (quality/skilled labor availability)	3	33%	Social and community harmony	3	28%
Cost spikes (labor, materials, etc.)	4	25%	Client failures, bankruptcy, displacement	4	25%
Global economic, monetary, security matters	5	22%	U.S. federal budget	5	24%

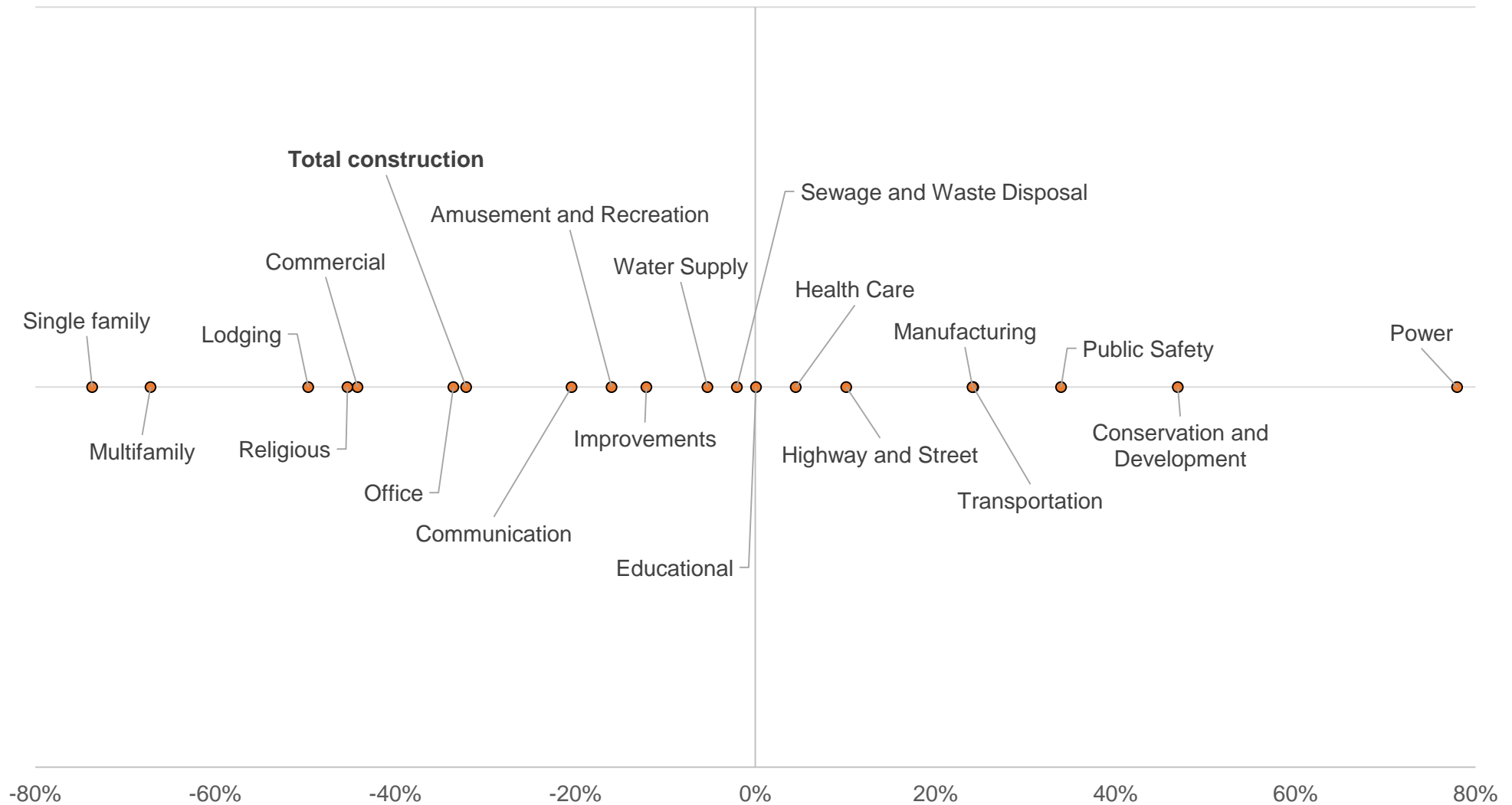
Bulls and bears exist in all economies

Great Recession had mix of winning and losing segments... post-COVID market will too, although the winners and losers will likely differ

2006- 2011 Percent Change in Construction Spending Put in Place

US total

Source: FMI

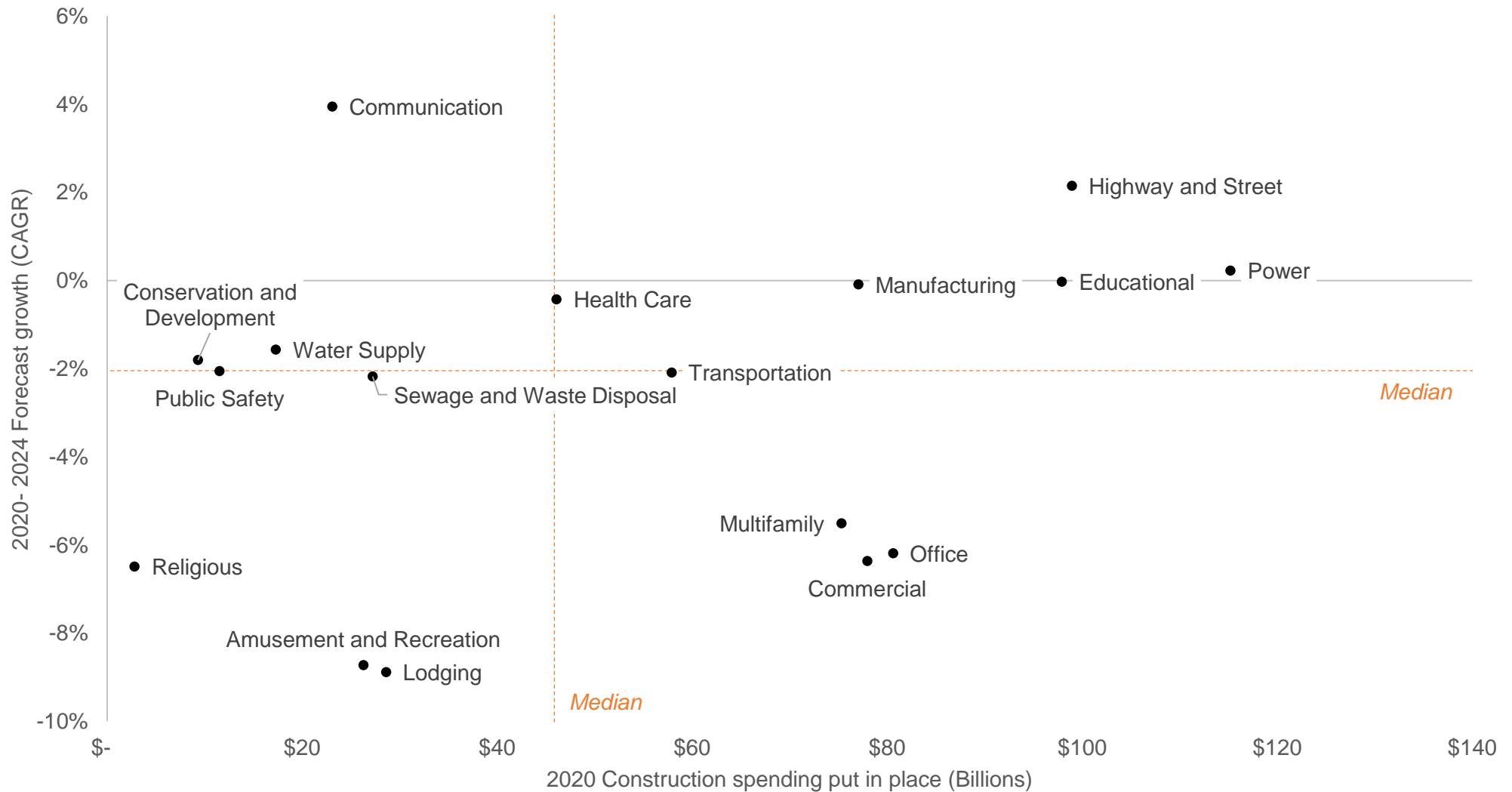


US Construction Outlook Post COVID-19

Nonresidential building activity suffers for several years

Segment comparisons (US)

Source: FMI



US Construction Outlook Post COVID-19

Who are the most likely Bulls and Bears this time around?



Manufacturing



Distribution



**Communications/
Data Centers**



Intelligent Transportation Systems



Lodging



Commercial

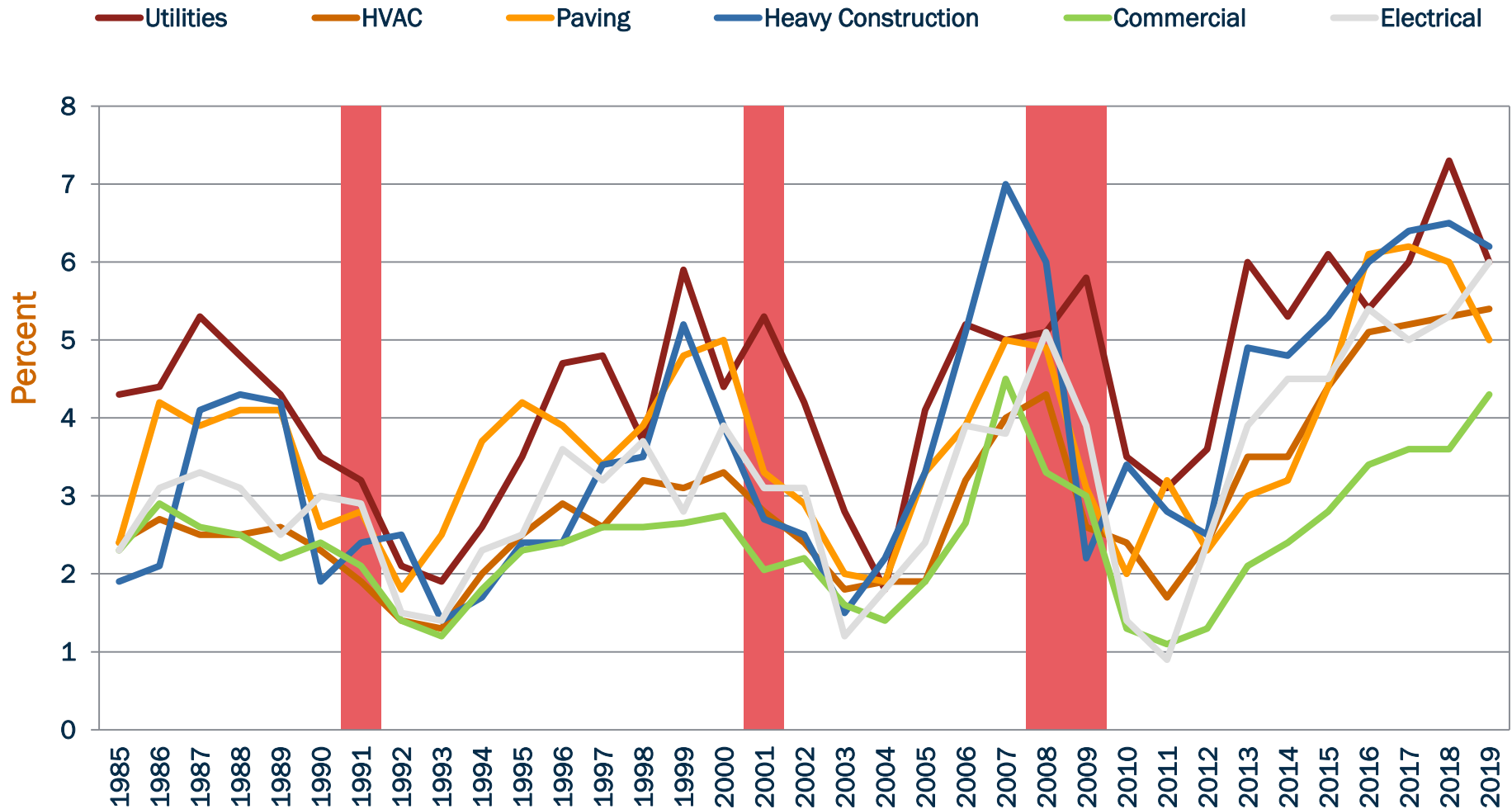


Amusement & Recreation



Office

Contractor Profit Before Tax



Source: Risk Management Associates, Philadelphia, Pa.
Recession Periods Are Shaded Red

U.S. Markets Construction Overview 2020

Top quintile of companies grew more than 20 percent during the last recession by confronting the crisis and capitalizing on opportunities

Prepare for the Storm

Your ability to respond depends on your state of readiness, including:

- Clarity of vision
- Financial condition and liquidity
- Strength of relationships
- Operational capabilities
- Adaptability

Confront the Crisis

More than weathering the storm, you must confront the crisis:

- Assess backlog and pipeline impact
- Take sober view of “how bad it will be”
- Identify exposure to impacted markets & segments

Capitalize on Opportunities

Quickly pivot strategy and accelerate market response:

- Evaluate range of potential futures
- Find replacement revenue
- Translate / develop capabilities to win
- Adapt and act fast

Lessons Learned from Past Recessions

The biggest mistake made during the Great Recession... Not moving fast enough

Confront the brutal facts	<ul style="list-style-type: none"> • Rational understanding of “how bad it will be” • Impact drivers, severity and exposure to markets & segments 										
Bulls & bears exist in every market	<ul style="list-style-type: none"> • Understand where the opportunity will be • Recalibrate “Where to Play?” and “How to Win?” 										
Decisive, informed action required	<table> <tr> <th colspan="2">Balance extreme behavior and decision-making biases</th></tr> <tr> <th>Decision Paralysis</th><th>Gut Instinct</th></tr> <tr> <td>Obsession over data / information</td><td>Abandonment of analytical rigor</td></tr> <tr> <td>Delayed action: “Wait and see”</td><td>Premature action: “Ready. Fire. Aim.”</td></tr> <tr> <td>Potential for normalcy bias</td><td>Potential for confirmation bias</td></tr> </table>	Balance extreme behavior and decision-making biases		Decision Paralysis	Gut Instinct	Obsession over data / information	Abandonment of analytical rigor	Delayed action: “Wait and see”	Premature action: “Ready. Fire. Aim.”	Potential for normalcy bias	Potential for confirmation bias
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Delayed action: “Wait and see”	Premature action: “Ready. Fire. Aim.”										
Potential for normalcy bias	Potential for confirmation bias										
Offensive strategy	<ul style="list-style-type: none"> • Accelerate go-to-market execution / new market penetration • Allocate focus, resources and capital appropriately • Increase pursuit selectivity 										
Defensive strategy	<ul style="list-style-type: none"> • Preserve market share in viable segments • Entrench with core clientele with viable work programs • Avoid costly work acquisition decisions 										

Construction in the “New Normal”

Anticipated dynamics in the post-COVID-19 reality

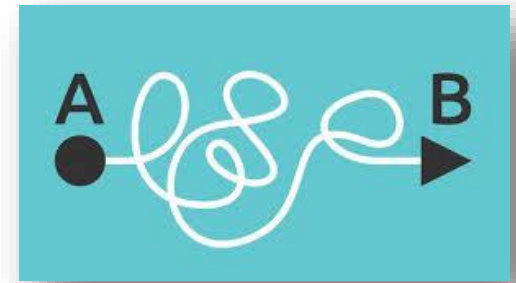
EXTERNAL / MARKET

- Increased competition – new entrants from weaker markets / segments
- Irrational bidding – competitors “loading up” on backlog / torpedoing fees
- Downward pressure on margins – construction “on sale” (or owner/developer perceptions that it should be)
- Elongated pursuit cycle / delayed starts
- Project funding uncertainty / cancellations
- Buyout pressure throughout the supply chain
- Political environment
- Diversity & inclusion a bigger part of your business

INTERNAL / COMPANY

- Decreased productivity
- Wage growth leveling off / stagnation
- Budgeting/forecasting challenges with current backlog/pipeline
- Continuous evolution of COVID-19 compliance regulation
- Increased subcontractor / trade partner risk (and defaults) – stressed balance sheets; irrational bidding
- Shifting of contractual risk mitigation / indemnification language
- Delayed payment – beyond contract terms
- Work from home more prevalent and changing workforce expectations

Leading in VUCA Times



Agility in action...

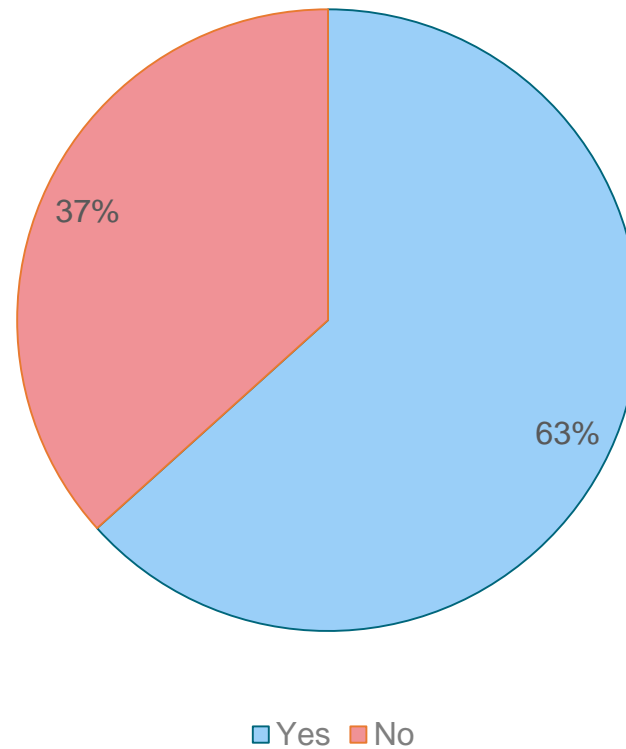
1. Think “macro” drivers to find “micro” sector opportunities
2. Settle in for more assumed risk
3. Stay close to your strategic partners – key trades, suppliers, bankers and surety
4. Solidify and reinforce your core – vision & values
5. Scenario plan
6. To win work, help clients overcome obstacles – “think like your client’s business”
7. Master virtual interaction – it’s here to stay and doing it well represents a potential differentiator
8. Solidify your ownership transition plans sooner than you think necessary – “next norm” realities are extending transition timelines
9. Hold your leaders accountable as trust role models - uncertainty undermines trust; low trust undermines productivity. Trust cultures begin at the top.

Poll Question

Does your company plan to eventually revert to your pre-COVID WFH policy?

2021 Planning

Q16 - Do you plan to eventually revert to your pre-COVID WFH policy?
N = 30

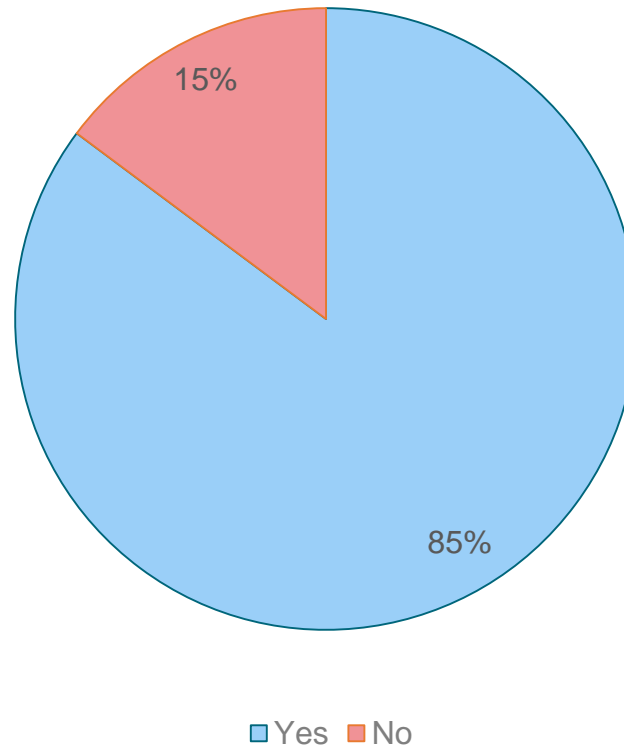


Poll Question

What type of recovery do you think the construction industry will have?

Workplace Diversity

Q24 - Has your company taken any specific steps or implemented any strategies to address inclusion and diversity in the workplace?



US Construction Outlook Post COVID-19

*It's not what you don't know that gets most people in trouble...
...it's what you know for certain that just ain't so.*

How would our industry or our way of doing business change in consideration of the following?

- Social distancing gives way to community distancing
- Democratization of technology/ Diminishing specialization
- Dual purposing: Expecting more of facilities and infrastructure
- Procurement in the age of e-commerce

Jason Baumgarten | Principal



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Jason is a principal and consulting group manager with FMI. He specializes in strategic planning, organizational development, change management and productivity improvement consulting.

Jason has worked with a variety of general contractors, subcontractors, engineers and developers. He has developed numerous long-term relationships and has a proven track record of improving client profitability and operational efficiency.

Jason manages FMI's General Contractor CFO Forum and Specialty Contractor CFO Forum. In addition, he is an experienced instructor for FMI's strategy and productivity related education programs and a keynote speaker for many national associations.

Jason earned a bachelor of science degree and a master of business administration degree from the University of Florida.

FMI Integrated platform

FMI has the ability to bring all its resources to bear in order to deliver customized solutions and exceptional results to its clients.

Position for Growth

- Strategy
- Market Research
- Business Development
- M&A - Buyer Representation

Optimize Performance

- Productivity and Operational Efficiency
- Risk Management
- Compensation
- Peer Groups

- M&A - Seller Representation
- Valuation
- Ownership Transfer
- Management Succession

Transition Successfully

- Leader Development
- Training & Talent Development
- Organizational & Team Development
- Performance Management

Build Capacity



Industry Focus. Powerful Results.

Who We Are

FMI is a leading consulting and investment banking firm dedicated exclusively to the built environment. We serve the industry as a trusted advisor. More than six decades of context, connections and insights lead to transformational outcomes for our clients and the industry.

FMI CONSULTING

FMI Consulting has a deeper understanding of the Built Environment and the leading firms across its value chain than any other consulting firm. We know what drives value. We leverage decades of industry-focused expertise to advise on strategy, leadership & organizational development, operational performance and technology & innovation.

PRACTICE AREAS

Strategy

- Market Research
- Market Strategy
- Business Development
- Strategic Planning

Leadership & Organizational Development

- Leadership & Talent Development
- Succession Management
- High-performing Teams
- Corporate Governance
- Executive Coaching

Performance

- Operational Excellence
- Risk Management
- Compensation
- Peer Groups

Technology & Innovation

- Market Accelerator
- Partner Program
- Tech Readiness Assessment
- Sourcing & Adoption

FMI CAPITAL ADVISORS

FMI Capital Advisors, a subsidiary of FMI Corporation, is a leading investment banking firm exclusively serving the Built Environment. With more than 750 completed M&A transactions, our industry focus enables us to maximize value for our clients through our deep market knowledge, strong technical expertise and unparalleled network of industry relationships.

Sector Expertise

- Architecture, Engineering & Environmental
- Building Products
- Construction Materials
- Contractors
- Energy Service & Equipment
- Energy Solutions & Cleantech
- Utility Transmission & Distribution

Services

- M&A Advisory
- ESOP
- Valuations
- Ownership Transfer

Executive Education

- Acquisitions in the Construction Industry
- Ownership Transfer & Management Succession