



Industry Focus. Powerful Results.™

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Future Proofing Your Company

How to prepare for uncertainty...



Who We Are

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

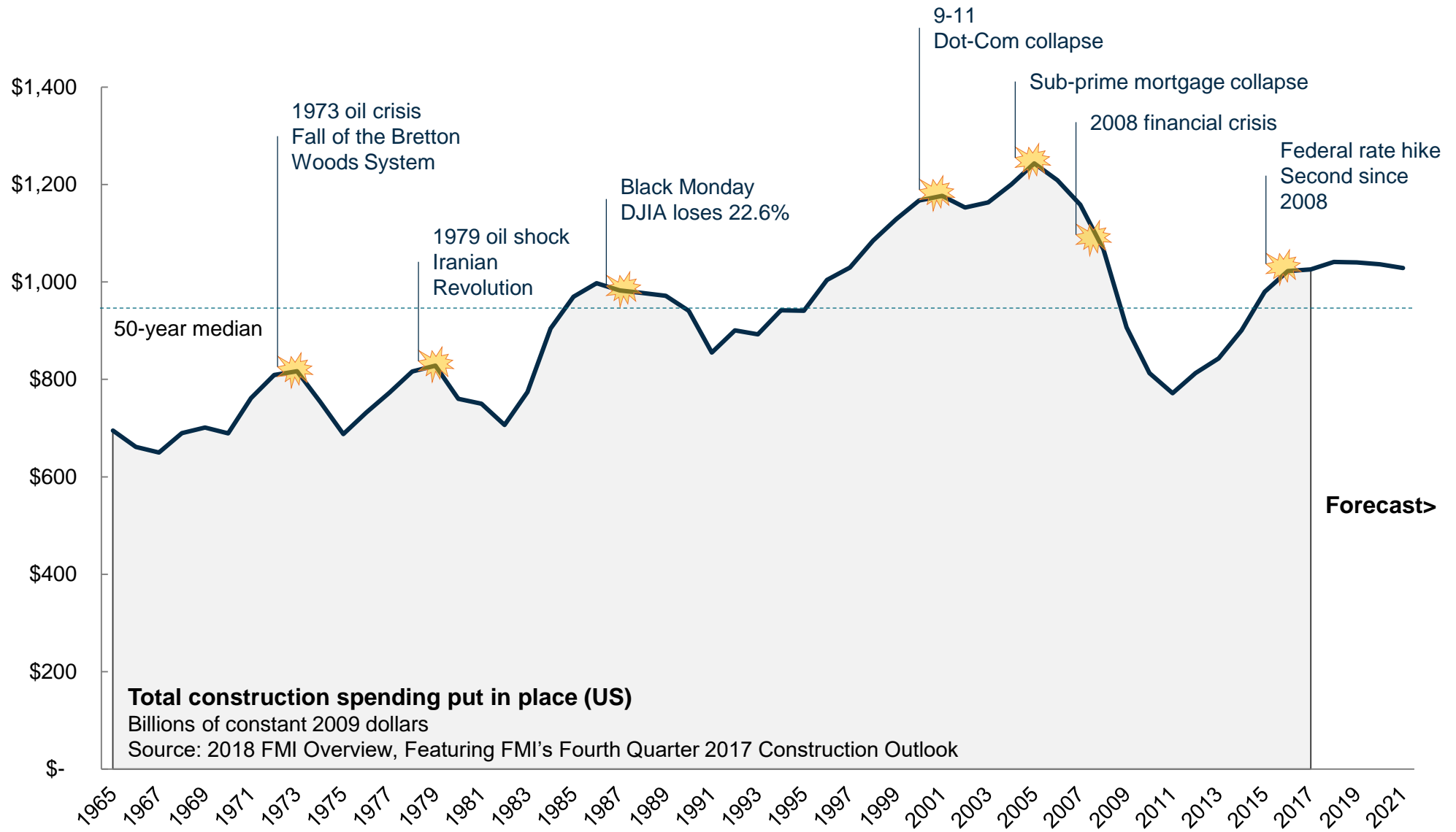
Industry Focus. Powerful **Results.**

2018 Trends in the Construction Industry

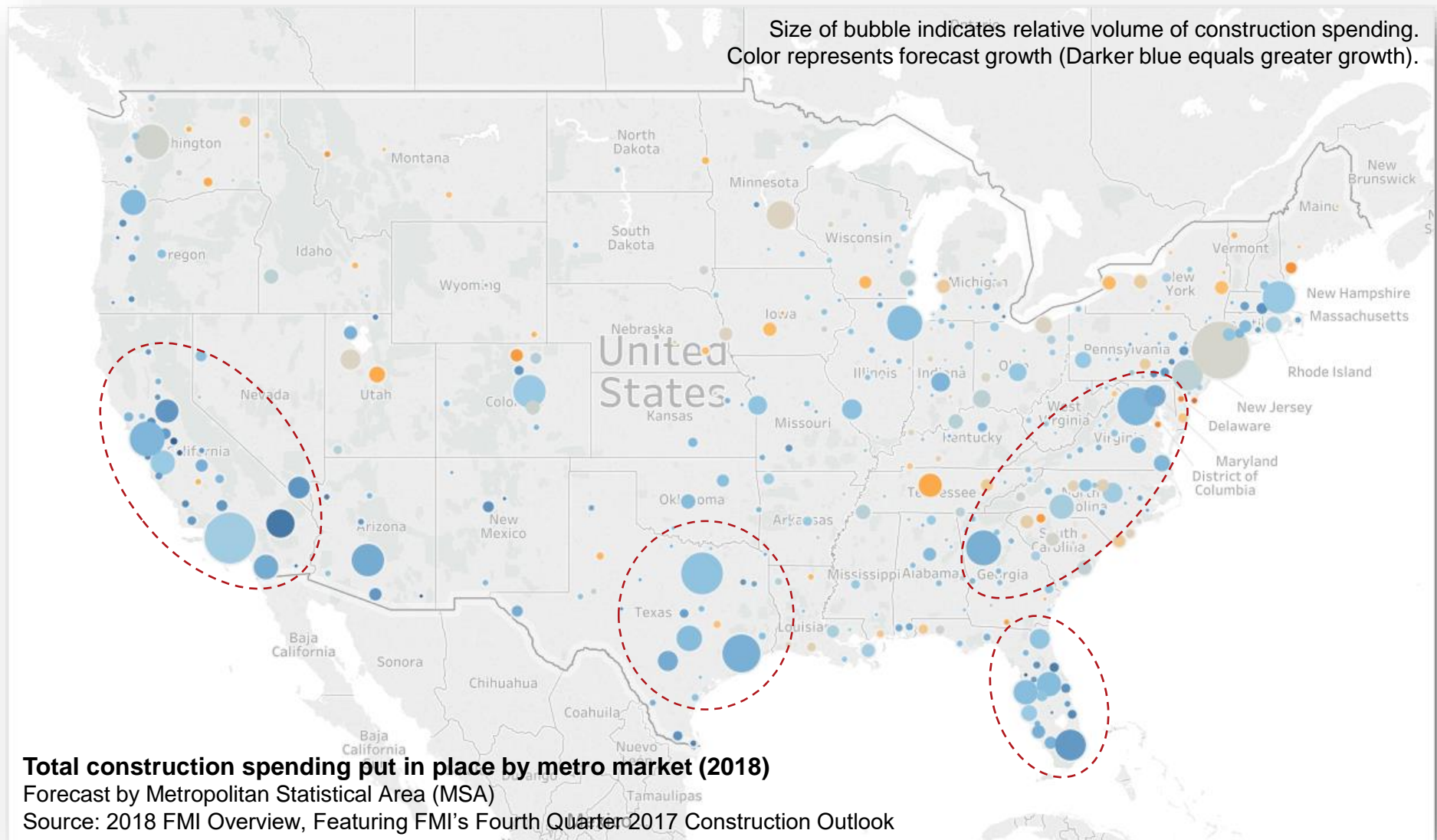


- The war for talent
- Technology
- Managing growth
- Tariffs
- Mergers and acquisitions: remaining strong in many sectors
- Succession issues and building the next generation of leaders

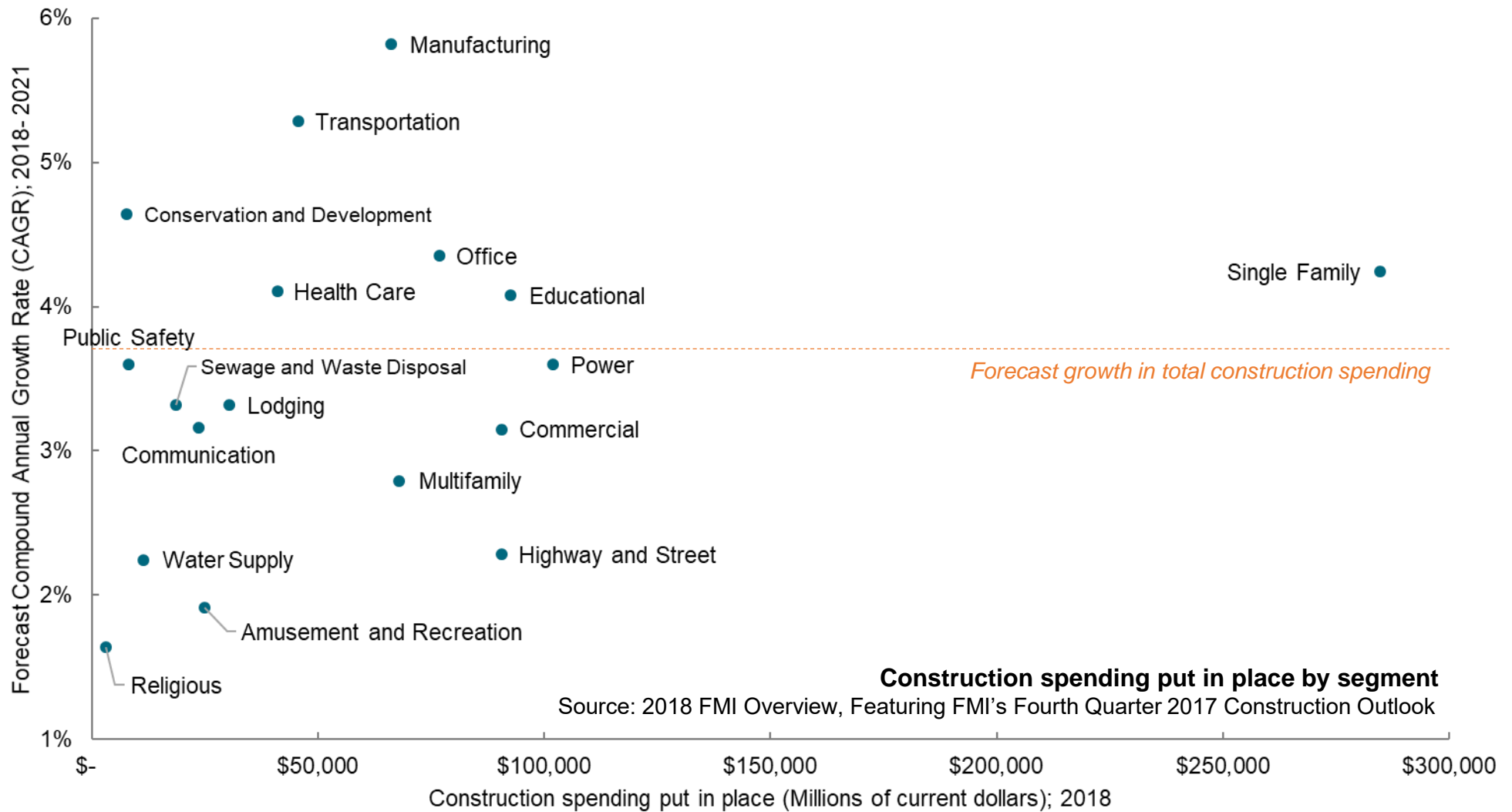
The Overall U.S. Market has the Potential to Stall



Activity is Concentrating in Fewer Markets



Growth is Shifting from the Multifamily and Commercial Segments



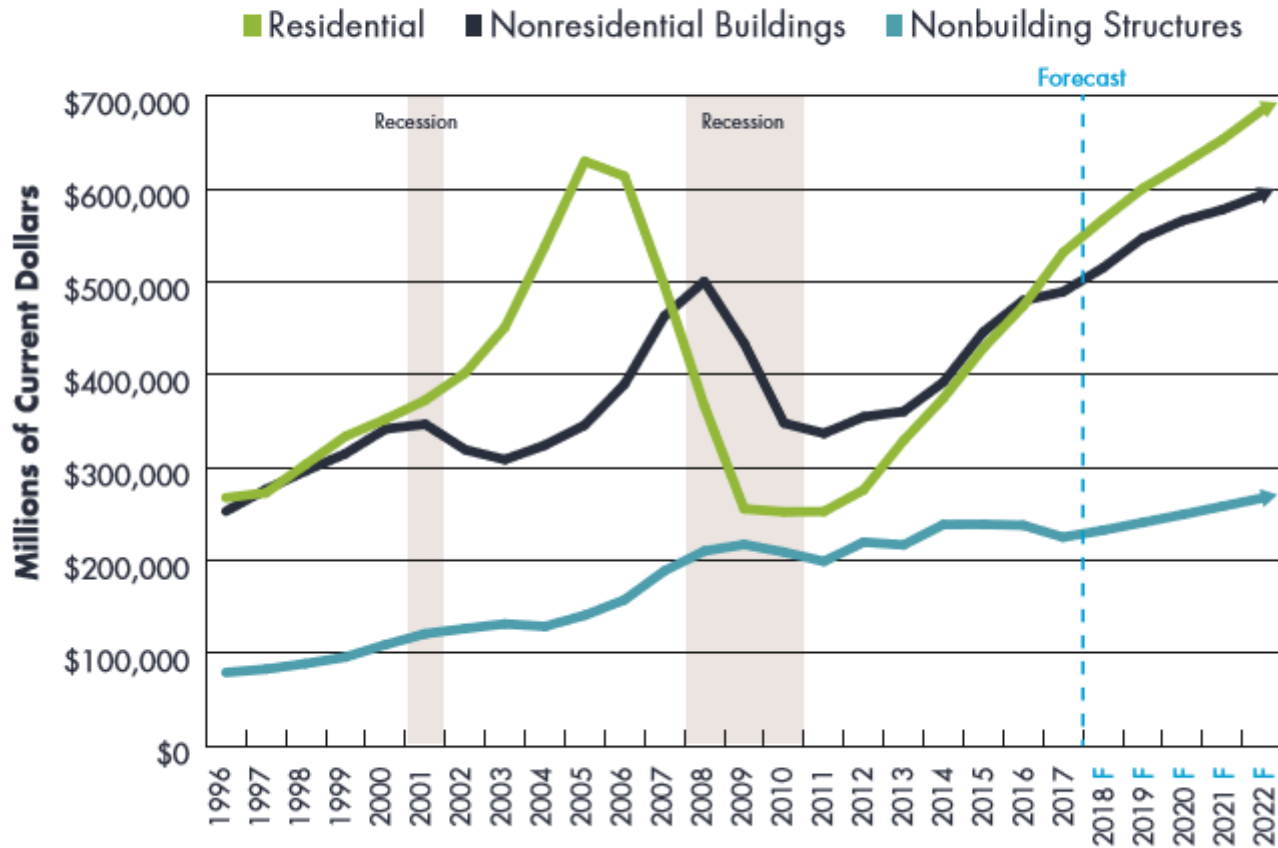
2018 Highlights

2018 Forecast Growth Rates 2018/2017 Comparison

UP	STABLE	DOWN	UP	STABLE	DOWN	UP	STABLE	DOWN
5% or more	0% to 4%	0% to -5%	5% or more	0% to 4%	0% to -5%	5% or more	0% to 4%	0% to -5%
Up			Stable			Down		
<ul style="list-style-type: none"> Single-family Improvements Lodging Office Public Safety Amusement and Recreation Transportation Communication Water Supply Conservation and Development 			<ul style="list-style-type: none"> Multifamily Commercial Health Care Educational Manufacturing Power Highway and Street Sewage and Waste Disposal 			<ul style="list-style-type: none"> Religious 		

Construction Spending

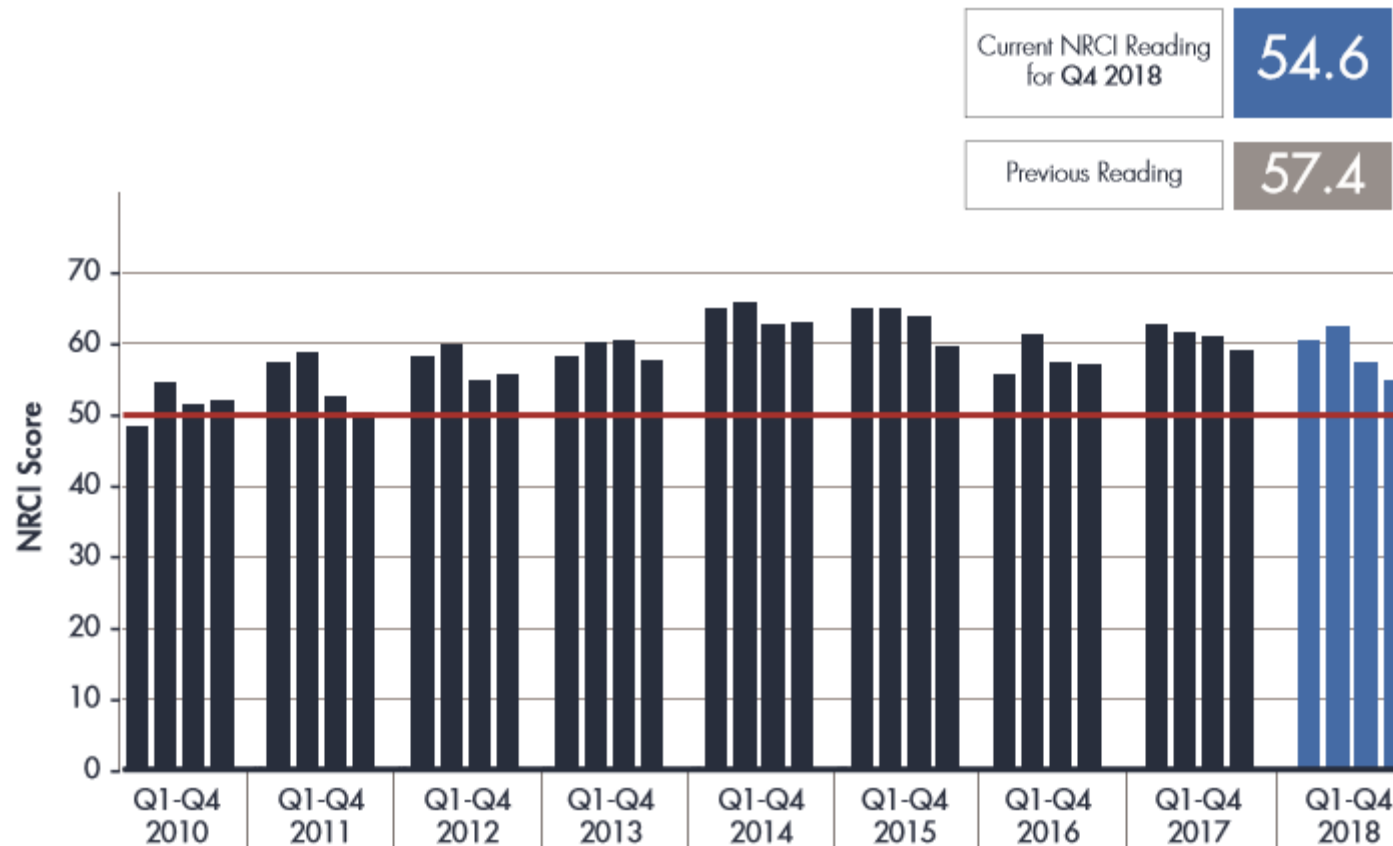
Total Construction Put in Place
Estimated for the U.S.



Source: U.S. Census and FMI Forecast

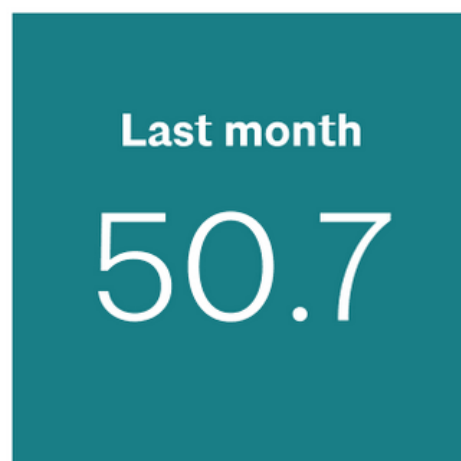
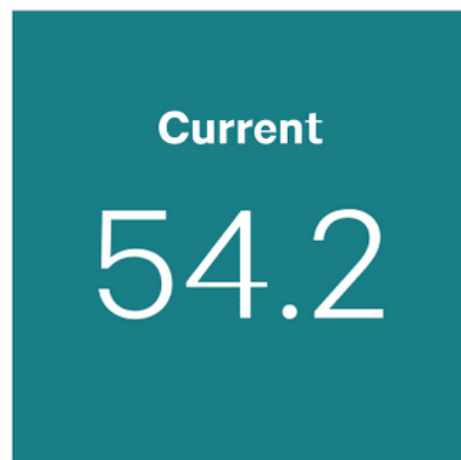
Nonresidential Construction Index (NRCI) Scores Since Inception Q1 2010 to Q4 2018

(Scores above 50 indicate expansion; scores below 50 indicate contraction)

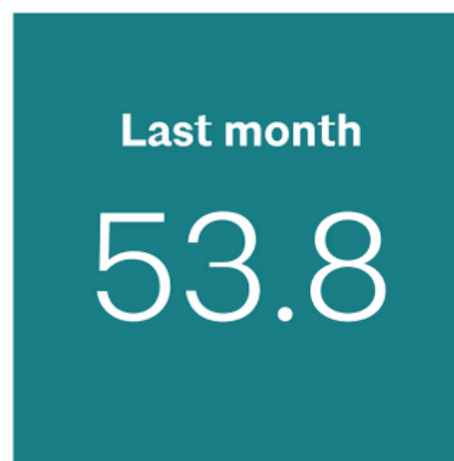
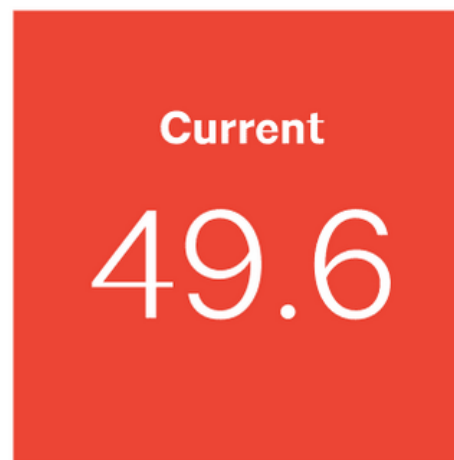


Architecture Billing Index (ABI)

Billings



Design Contracts



Above 50



Below 50

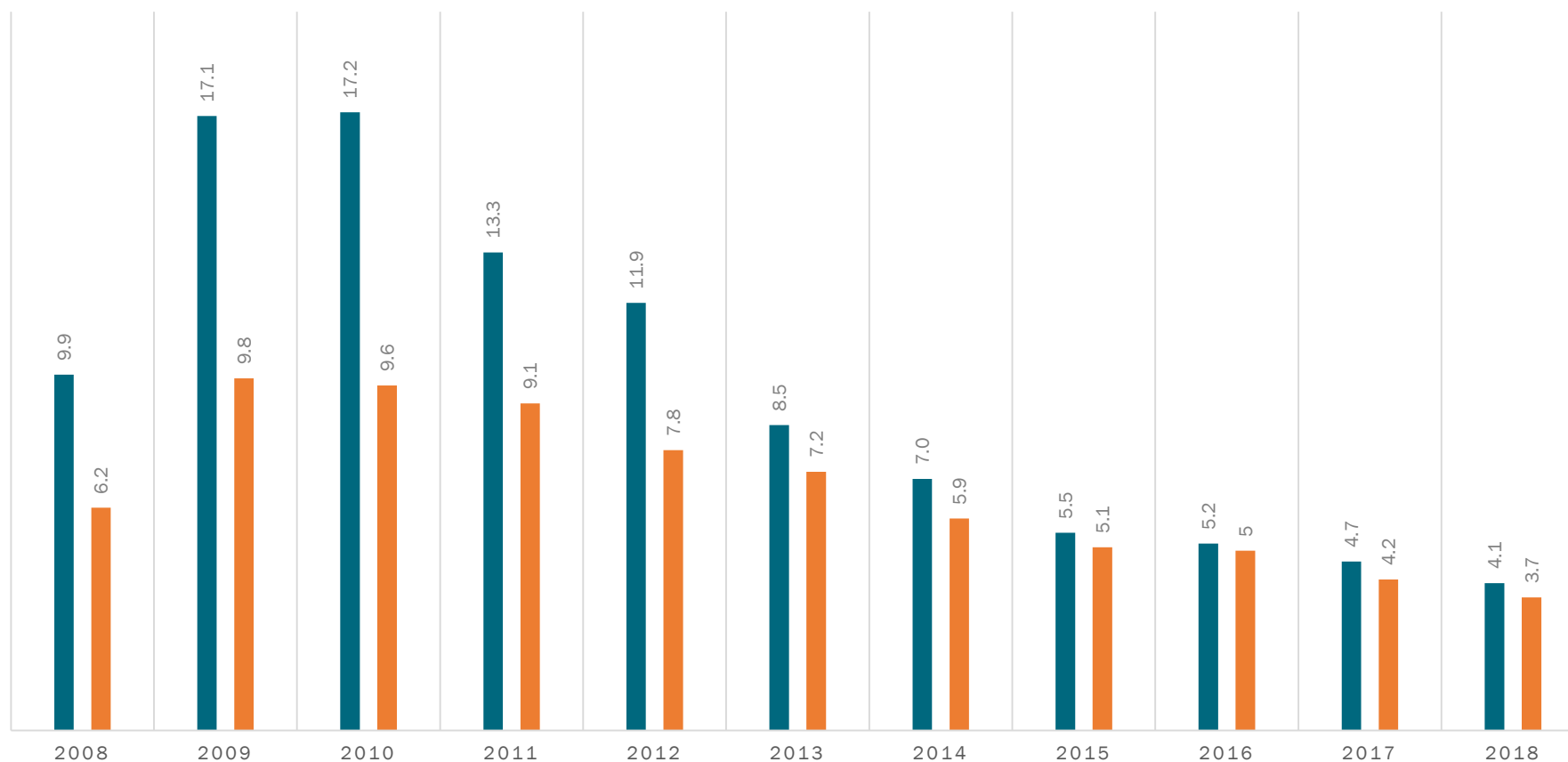


50

Jobs and Unemployment

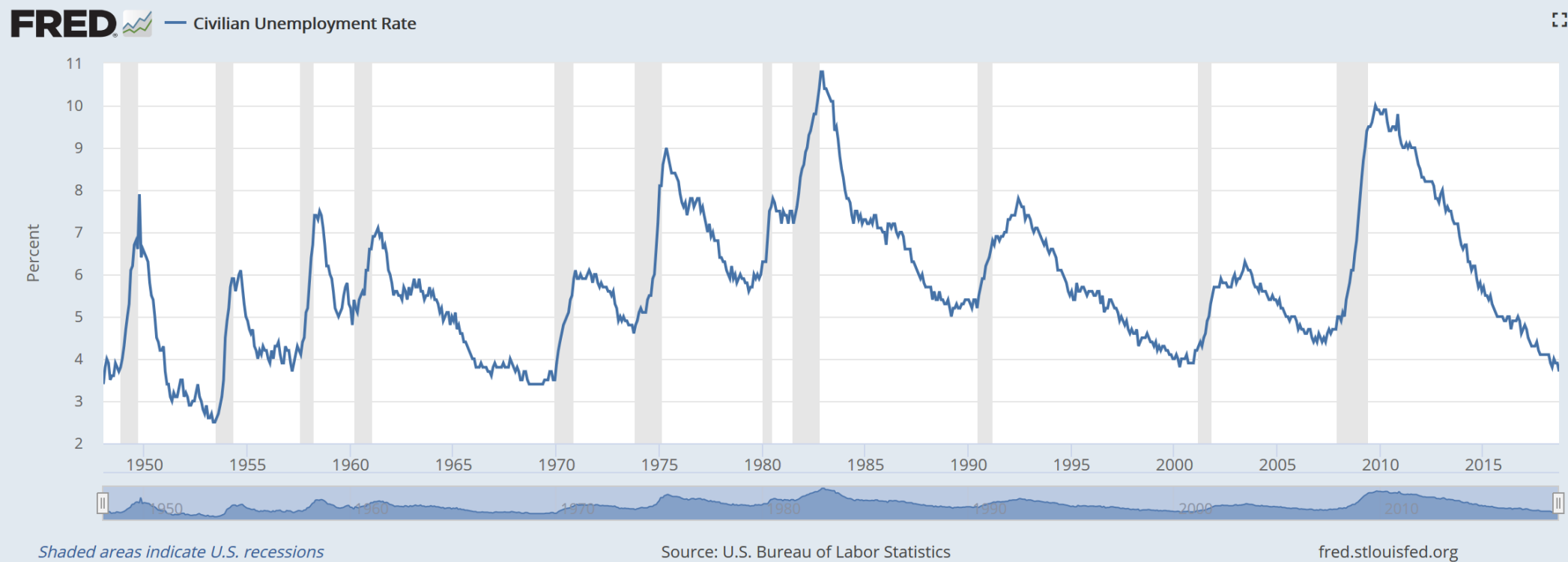
UNEMPLOYMENT STATISTICS (SEPTEMBER 2008-2018)

■ Construction Unemployment ■ National Unemployment

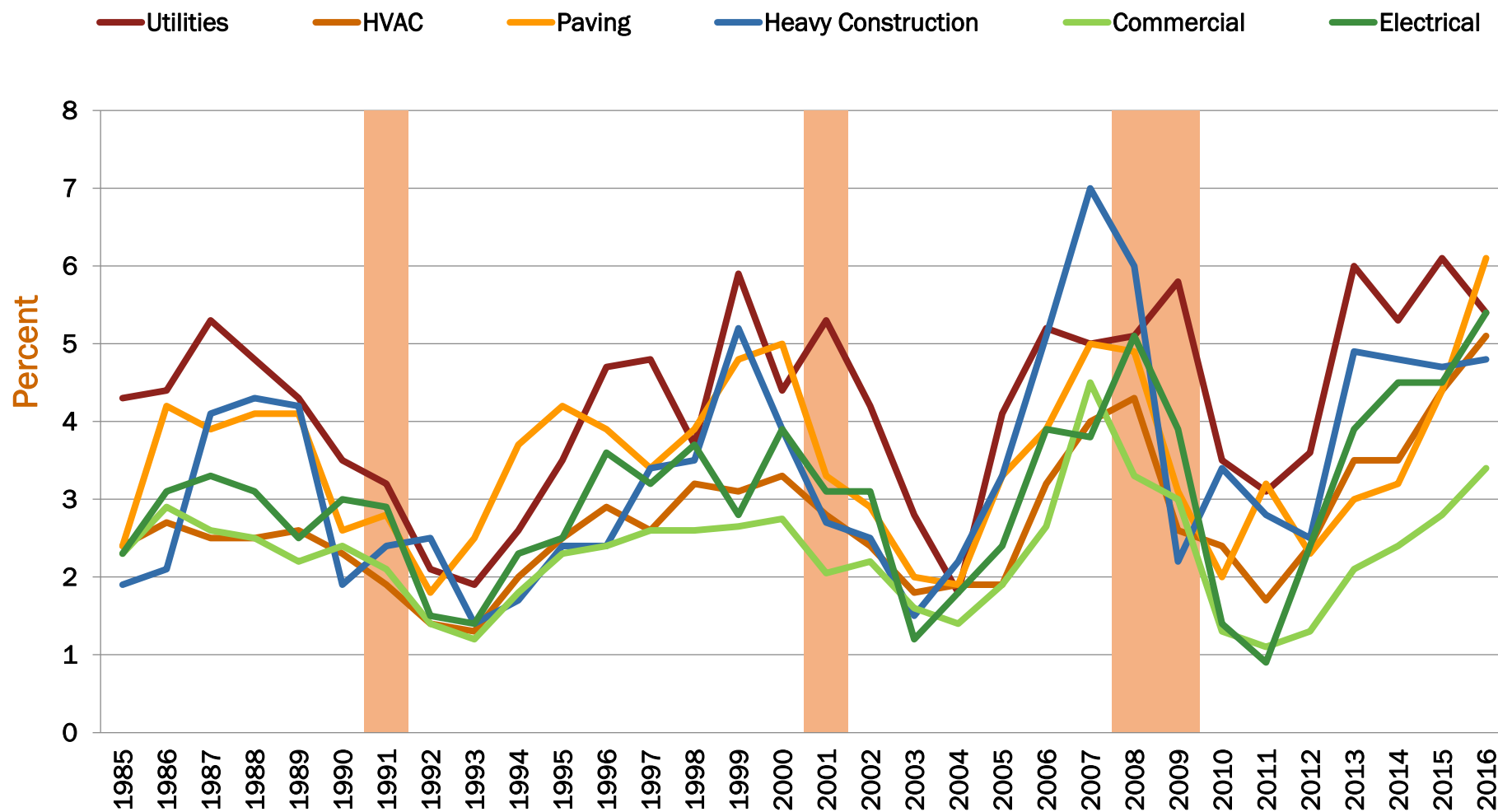


Source: U.S. Department of Labor

Jobs and Unemployment

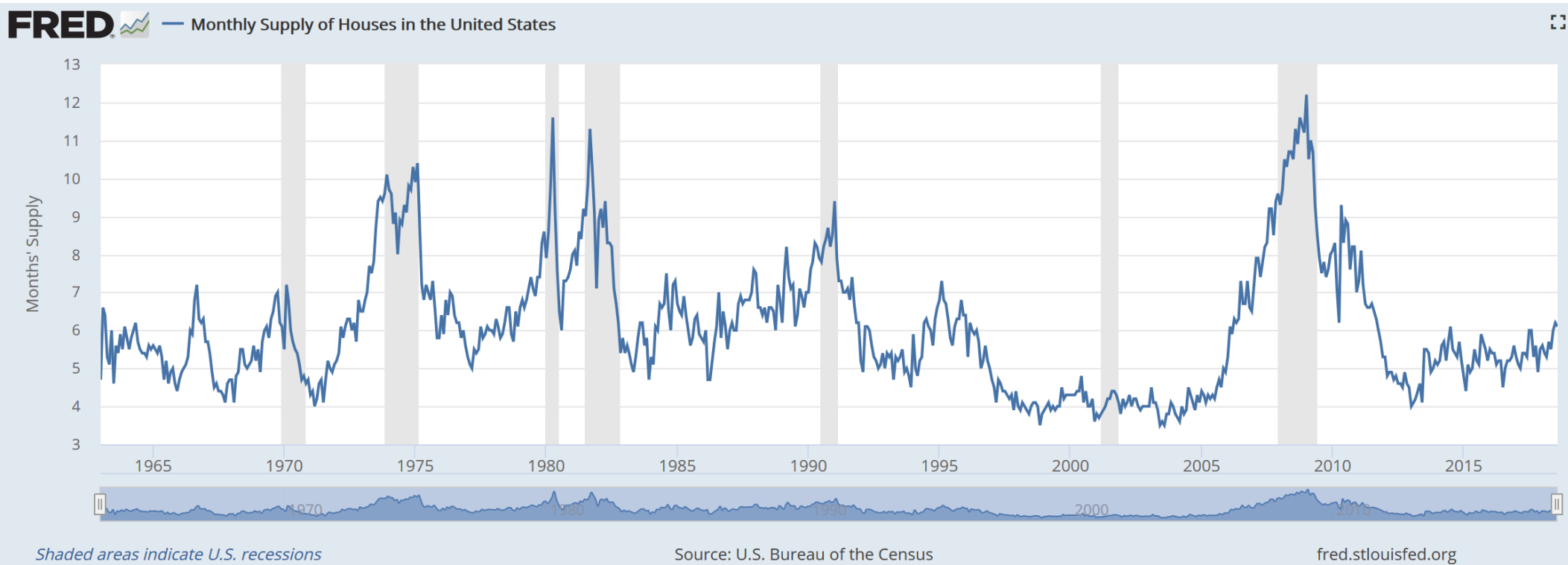


Contractor Profit Before Tax

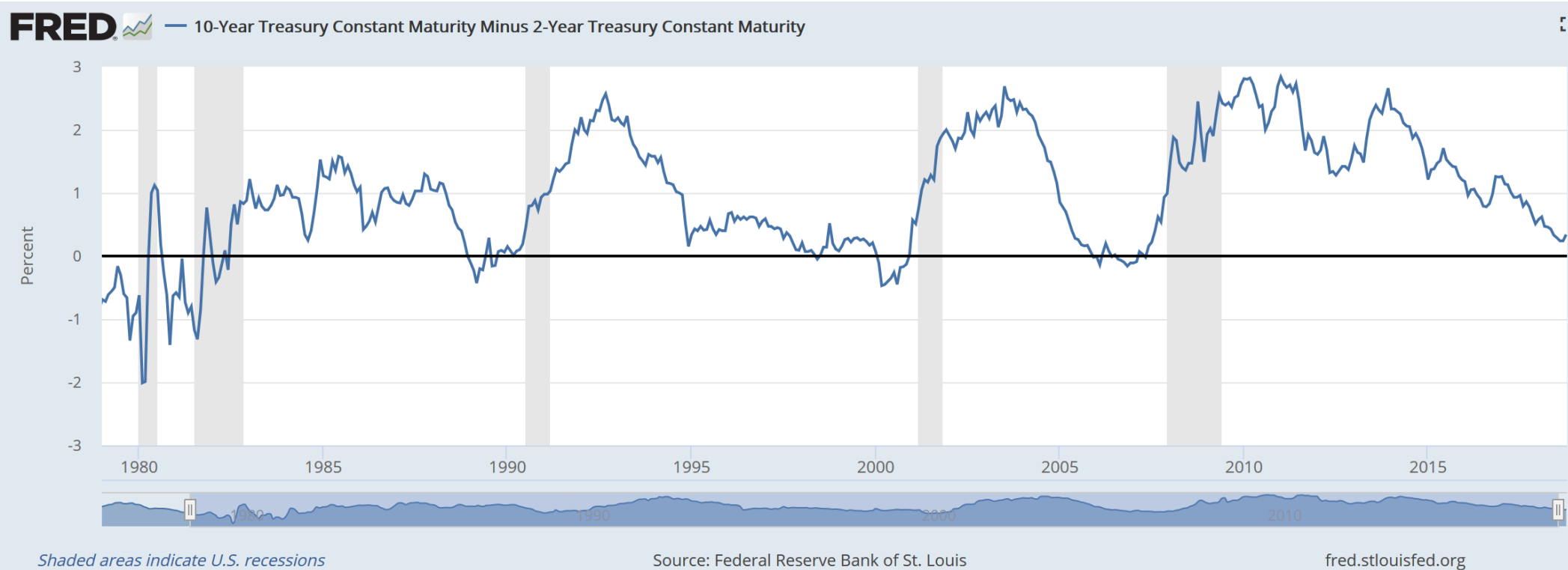


Source: Risk Management Associates, Philadelphia, Pa.
Recession Periods Are Shaded Orange

Monthly Supply of Houses in the United States



Yield Curve



The Most Often Perceived Causes of Failure

- **Strategic**

- Unrealistic Growth/Over Expansion/Unfamiliar New Markets and/or Entry Into New Types of Construction
- Volume Obsession
- Unrealistic Promises/Bad Contracts/Poor Project Selection

- **Organizational**

- Insufficient Capital/Profits
- Lack of Business Knowledge/Poor Financial Management/Poor Sales Skills/Inadequate Marketing
- Poor Leadership/Poor Leadership Transfer
- Project Losses/Poor Field Performance
- Owner Court Battles/Owner Bankruptcy

- **Uncontrollable**

- Industry/Economic Weakness
- Banking and Surety Changes





Four Facts in Good and Bad Times

- There are always contractors making money
- More contractors go broke during expansion
- Individual companies trend independent of the market
- Following the crowd does not guarantee success

Start now to build a resilient business, one that can thrive in expansion, but is prepared for recession

When Will The Next Recession Hit?



When Will The Next Recession Hit?

- Within the next 24 months?
- Recent NRCI survey:
 - 78% “at least mid 2018”
 - 38% “not before 2019”
- Nearly 100% agree that there will be another recession
- What are you doing to be ready?



Develop Insights Beyond Your Backlog

- National Bureau of Economic Research
- Engineering News Record
- ABI Index
- FMI - Quarterly Outlook, Non-residential Construction Index
- Wall Street Journal
- Local Business Journals
- Trade magazines
- Trade associations



Hindsight is 20/20 – Use It!

- “What would you have done differently if you had known 2 years in advance the depth and duration of the recession?”
 - Take a few minutes and discuss what you would do differently...

Hindsight is 20/20 – Use It!

- “What would you have done differently if you had known 2 years in advance the depth and duration of the recession?”
 - Get economic information earlier
 - Make structural changes faster
 - Shift into different market segments
 - Increase or decrease talent pool faster
 - Other lesson’s learned?
- Why would you not use this opportunity to plan ahead?

What You Can Do To Future-Proof Your Business?

- Plan early, plan often
- Don't panic... avoid knee-jerk decisions
- Consider several scenarios within the markets you serve
- Practice good management all the time:
 - Know who your best customers are and stay close to them
 - Look at your core business and compare to potential new markets
 - Don't buy revenue

Some Companies Emerged From Recession Stronger

From 2006 to 2011, construction fell 32%. But there was still \$788B PiP.

- Look for new sources of business
- Redouble efforts with “A” customers
- Reduce waste
- Pare personnel, to only the best talent
- Relentless focus on productivity

Ten Tactics To Plan For Success

Checklist – in your bottom desk drawer

1. Develop nimble strategy based on clearly defined direction
 - Dig in and work to understand and communicate business aspirations and how they connect with company's direction.
 - Recognize gaps in alignment between current strategy and future vision.
 - Assess context in near real time and modify strategy as needed
 - Climate
 - Customers
 - Competitors
 - Company
2. Performance management/ compensation system that reinforces strategy
3. Understand “incremental economics” revenue, margin, overhead... AKA your TRUE COSTS

Ten Tactics To Plan For Success

Checklist – in your bottom desk drawer

4. Incorporate contingency planning into all strategic discussions
 - Best case, worse case, most likely
5. Evaluate nonessential spending periodically
6. Examine your team and strengthen weak positions
7. Keep your bank and bonding company informed
8. Make swift, informed decision
9. Communicate with your team
10. Keep your customers close

Context

Context and Strategy...

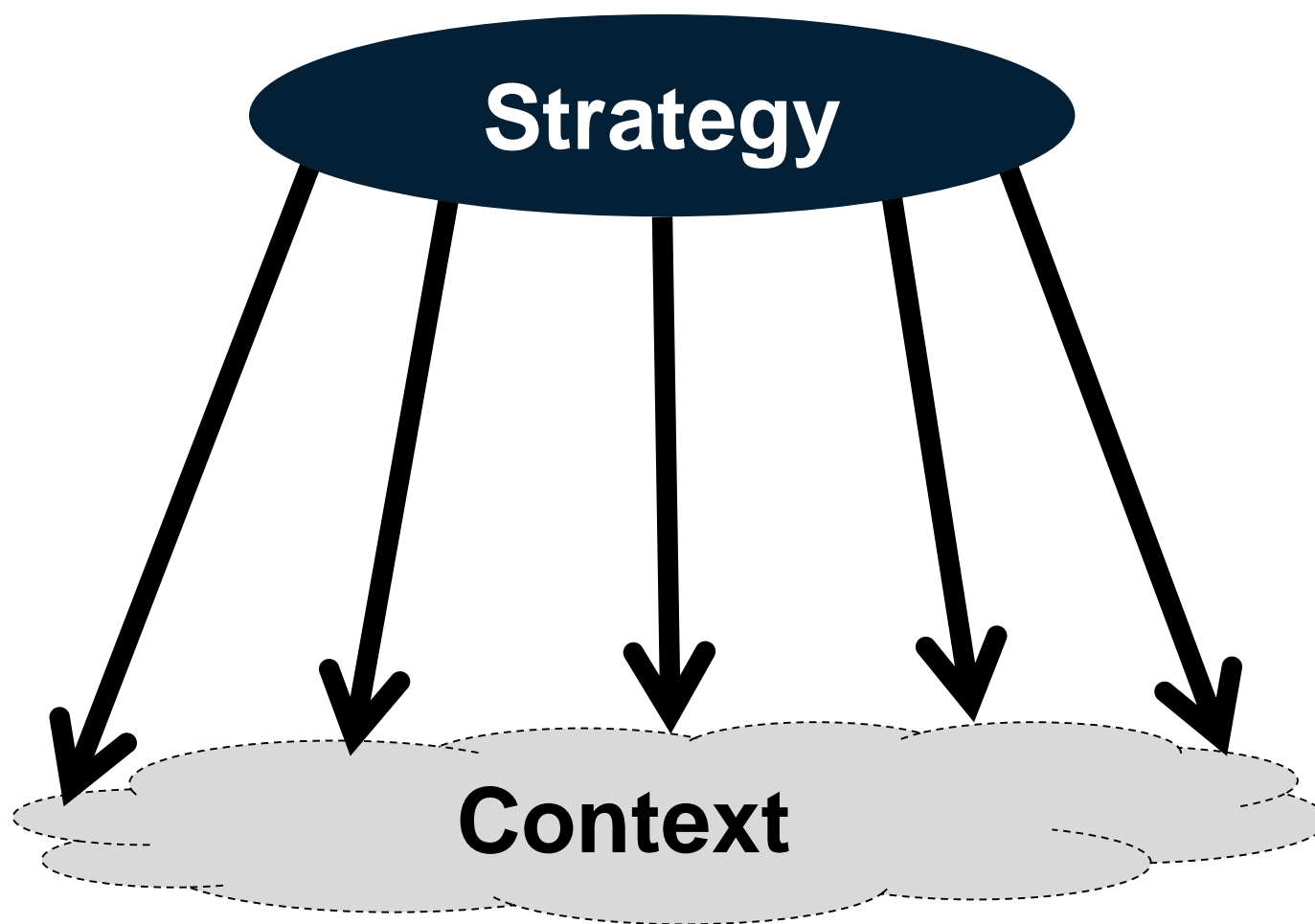
- It is important to remember that *context* drives strategy, *not* the other way around
- So what is context and why is it so important to strategy?



Context

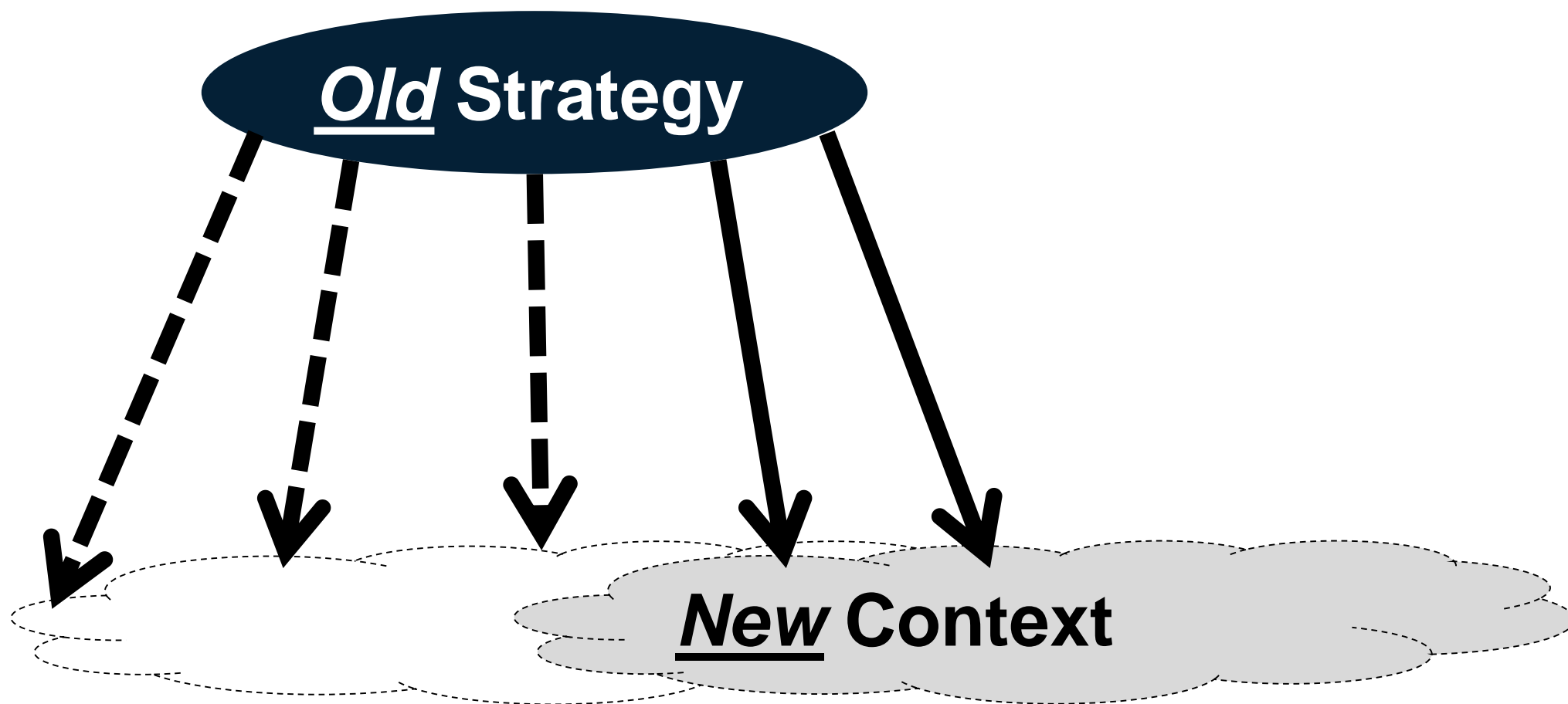
Context and Strategy

- Successful companies build strategies that reflect a good understanding of context



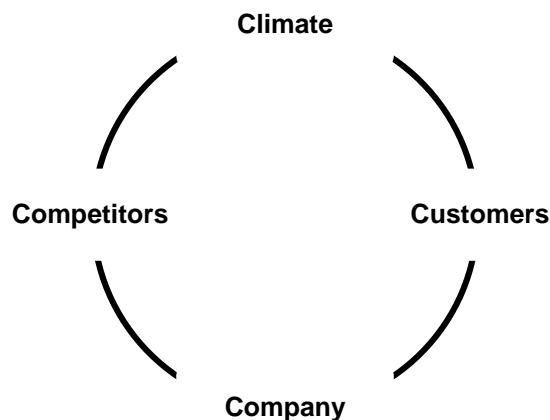
Context and Strategy

- Performance problems can emerge when context changes but strategy does not



Using Context to Generate Strategic Options

Analyze the Context



Climate: What is the demand outlook for our current and prospective markets and segments? What trends underpin demand?

Customers: Who are the leading potential buyers of our services? What are their procurement practices and preferences?

Competitors: Who do we compete with to meet the needs of our customers? How is the competitive landscape changing?

Company: Are we positioned to exploit anticipated opportunities and build long-term value?

Generate Strategic Options

Where to Compete?	"New customers/ existing services"	"New game/ Change game"
	"Same game/ Better execution"	"Existing customers/ new services"
How to Compete?		

Major Themes: Emerging from analysis of context (e.g., consistent patterns, key trends, game changing possibilities).

Prioritize Ideas: Develop screening criteria for priority ideas (e.g., potential market size, impact on customers, ease of implementation).

Hypothesize and Critical Path: How do we think the idea(s) will hold up, and what are the "must answer" questions?

Simplified Framework To Assess “Readiness”

Get Work - basic truths

- The “way we’ve always done it’ may not work
- Exercise discipline in business development and bidding
- Strong estimating requires deep understanding of costs and “win strategy”
- It’s not the project you lose that puts you under
- Clear go/no go processes must be scientific
- Focus improves results

Simplified Framework To Assess “Readiness”

Get Work – best practices

- Know your TRUE costs, price for profits
- Competitors costs are not the same as yours
- Base price on “value”, not just costs
- “Win strategies” on key sales opportunities
- Involve operations in sales, estimating and preconstruction

Simplified Framework To Assess “Readiness”

Do Work – basic truths

- Increasing productivity is the fastest way to boost the bottom line and/or become more competitive
- Standard practices improves efficiency faster than anything else
- Proactive processes trump reactive individuals
- Changing behaviors and habits are the biggest hurdles

Example Construction Company

	Amount	% of Sales
Sales	50,000,000	100.0%
Direct Costs		
Labor	\$20,000,000	40.0%
Materials	\$20,000,000	40.0%
Equipment	\$1,750,000	3.5%
Subcontractors	\$1,250,000	2.5%
Total Direct Costs	\$43,000,000	86.0%
Gross Profit	\$7,000,000	14.0%
Overhead	\$5,000,000	10.0%
Net Profit (Before Taxes)	\$2,000,000	4.0%

What if ... ?

- **Scenario One**

- Improve productivity by 10%
- Maintain sales at \$50,000,000
- Maintain overhead at \$5,000,000

- **Scenario Two**

- Productivity slips by 10%
- Maintain sales at \$50,000,000
- Maintain overhead at \$5,000,000

What if ... ?

- **Scenario Three**

- Drop gross profit to 12% in order to pickup additional sales
- Increase sales by \$15,000,000 to \$65,000,000
- Increase overhead by 10% to \$5,500,000

- **Scenario Four**

- Maintain sales at \$50,000,000
- Reduce overhead by 10% to \$4,500,000
- Drop gross profit to 13% because of reduced support to the field

Scenario One: Improve Productivity

	Amount	% of Sales
Sales	50,000,000	100.0%
Direct Costs		
Labor	\$18,000,000	36.0%
Materials	\$20,000,000	40.0%
Equipment	\$1,750,000	3.5%
Subcontractors	\$1,250,000	2.5%
Total Direct Costs	\$41,000,000	82.0%
Gross Profit	\$9,000,000	18.0%
Overhead	\$5,000,000	10.0%
Net Profit (Before Taxes)	\$4,000,000	8.0%

**10% Improvement
in Productivity =
100% Improvement
in Profitability**

Scenario Two: Decrease Productivity

	Amount	% of Sales
Sales	50,000,000	100.0%
Direct Costs		
Labor	\$22,000,000	44.0%
Materials	\$20,000,000	40.0%
Equipment	\$1,750,000	3.5%
Subcontractors	\$1,250,000	2.5%
Total Direct Costs	\$45,000,000	90.0%
Gross Profit	\$5,000,000	10.0%
Overhead	\$5,000,000	10.0%
Net Profit (Before Taxes)	\$0	0.0%

**10% Decrease
in Productivity =
100% Decrease
in Profitability**

Scenario Three: Increase Volume

	Amount	% of Sales
Sales	65,000,000	100.0%
Direct Costs		
Labor	\$26,325,000	40.5%
Materials	\$26,325,000	40.5%
Equipment	\$2,600,000	4.0%
Subcontractors	\$1,950,000	3.0%
Total Direct Costs	\$57,200,000	88.0%
Gross Profit	\$7,800,000	12.0%
Overhead	\$5,500,000	8.5%
Net Profit (Before Taxes)	\$2,300,000	3.5%

**30% Increase
in Revenue =
11.5% Decrease
in Net Profit Percent**

Scenario Four: Cut Overhead

	Amount	% of Sales
Sales	50,000,000	100.0%
Direct Costs		
Labor	\$20,125,000	40.3%
Materials	\$20,125,000	40.3%
Equipment	\$1,875,000	3.8%
Subcontractors	\$1,375,000	2.8%
Total Direct Costs	\$43,500,000	87.0%
Gross Profit	\$6,500,000	13.0%
Overhead	\$4,500,000	9.0%
Net Profit (Before Taxes)	\$2,000,000	4.0%

**10% Reduction
in Overhead =
0% Change
in Net Profit**

Simplified Framework To Assess “Readiness”

Do work – Best Practices

- Detailed pre-job planning
- Short interval plans to drive performance
- Effective daily huddles
- Proactive management of client expectations and change orders
- Manage cash flow
- Kick finish process
- Post-job review meeting
- Regular project status reporting

Simplified Framework To Assess “Readiness”

Keep Score – Basic Truths

- Cash is king
- Successful companies hoard cash in tight times
- Do not give clients a reason to hold your money
- Cash is OXYGEN! Without it, you die

Simplified Framework To Assess “Readiness”

Keep Score – Best Practices

- Detailed 12 month operating budget and cash flow projection
- Verify project funding for all projects and leads
- Manage cash flow (daily)
- Ensure billing and collection efforts are managed intensely
- Verify contractor solvency

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- More contractors go broke during expansion
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- Following the crowd does not guarantee success

Start now to build a resilient business, one that can thrive in expansion, but is prepared for recession



Joel E. Stinson

Consultant

As a consultant for FMI, Joel utilizes his construction and business strategy experience to provide a variety of management consulting services to construction and engineering firms of all sizes.

Prior to joining FMI, Joel was a senior analyst who focused on revenue growth and innovation initiatives in the professional service industry. Before that, Joel spent 12 years in the construction industry working for a variety of general contractors and building product manufacturers. Joel leverages his broad experience to identify problems and create solutions to complex problems for his clients.

Joel holds a master of business administration with a concentration in finance from the University of North Carolina at Chapel Hill and a bachelor of science from North Carolina State University. Additionally, Joel is a licensed general contractor in the state of North Carolina.

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