

MANAGING LIQUIDITY:

How to Survive and Thrive in the Current E&C Environment





Marsh is the world's leading insurance broker and risk adviser. With over 35,000 colleagues operating in more than 130 countries, Marsh serves commercial and individual clients with data driven risk solutions and advisory services. Marsh is a business of Marsh & McLennan Companies (NYSE: MMC), the leading global professional services firm in the areas of risk, strategy and people. With annual revenue approaching US\$17 billion and 76,000 colleagues worldwide, MMC helps clients navigate an increasingly dynamic and complex environment through four market-leading businesses: Marsh, Guy Carpenter, Mercer, and Oliver Wyman.

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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

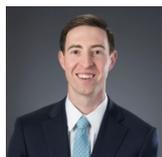
Executive Education

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

YOUR WEBINAR PRESENTERS



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BACKGROUND/IMPLICATIONS FOR CONSTRUCTION MARKET



Alex Miller
Managing Director,
FMI Capital Advisors

- What do we know today?
- What do we wish we knew today?
- Need for Scenario Planning:

- Few in number
- Focused on key variables
- Objective and fact based

“Differentiating between what is possible and what is probable has proven an effective means for developing a strategic response to the present reality and the likely future.” (*Downright Dangerous Decisions*, FMI)

Information is changing daily which requires companies to consider multiple scenarios when evaluating liquidity and strategy

CRITICAL CONCERNS FOR CONTRACTORS



Alex Miller
Managing Director,
FMI Capital Advisors

Why is Liquidity such a critical concern for contractors today?

- Project Delays
- Supply Chain Issues
 - Extending delays and billing
- Slow Paying Clients
- Shrinking Pipelines
 - Lower Revenue = Less Future Cash Flow

While all contractors will be impacted, subcontractors will feel the greatest pinch

Industry Snapshot

(as of April 10, AGC Survey):

- 53% of respondents said they had been directed to halt or cancel current projects
- 65% of respondents reported experiencing project delays or disruptions

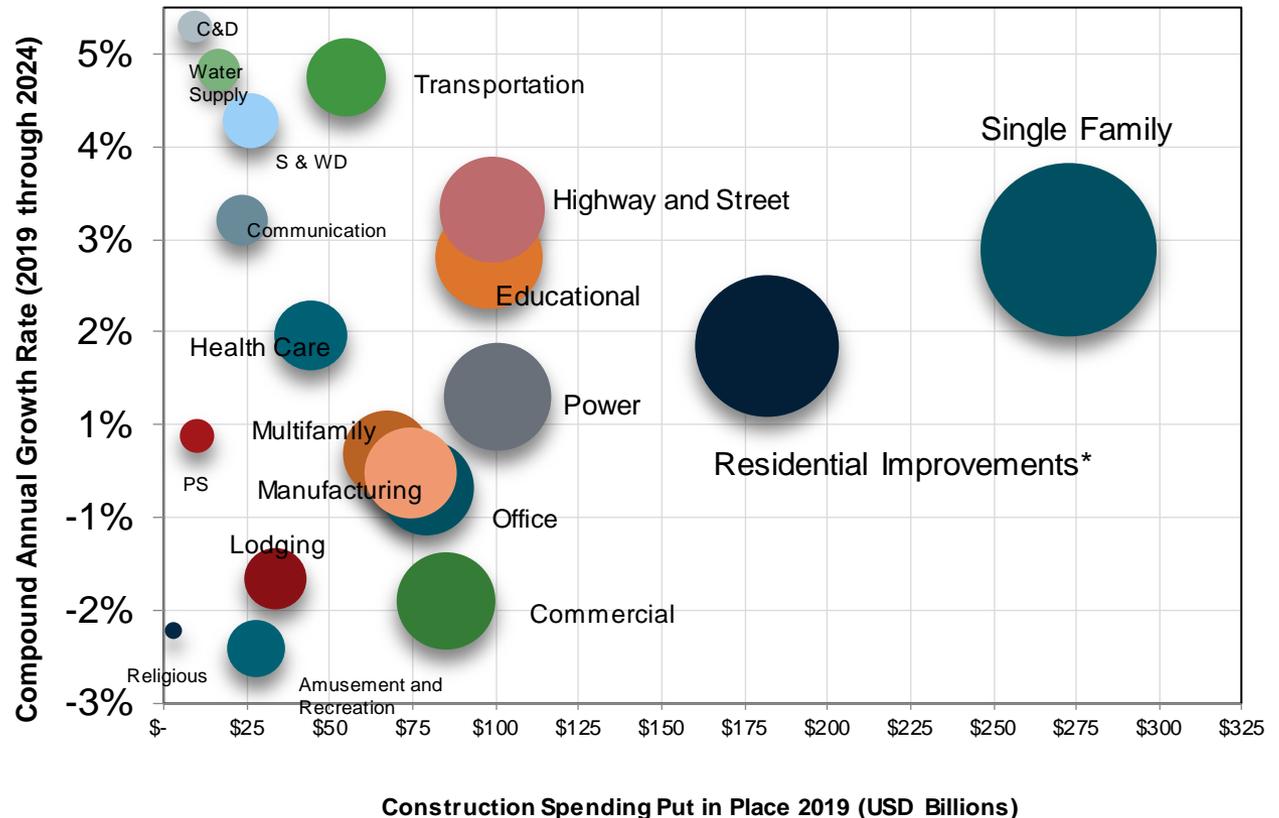


FORCASTED CONSTRUCTION SPENDING BY SEGMENT



Cynthia Paul
Principal, FMI

Very different futures depending on the segment



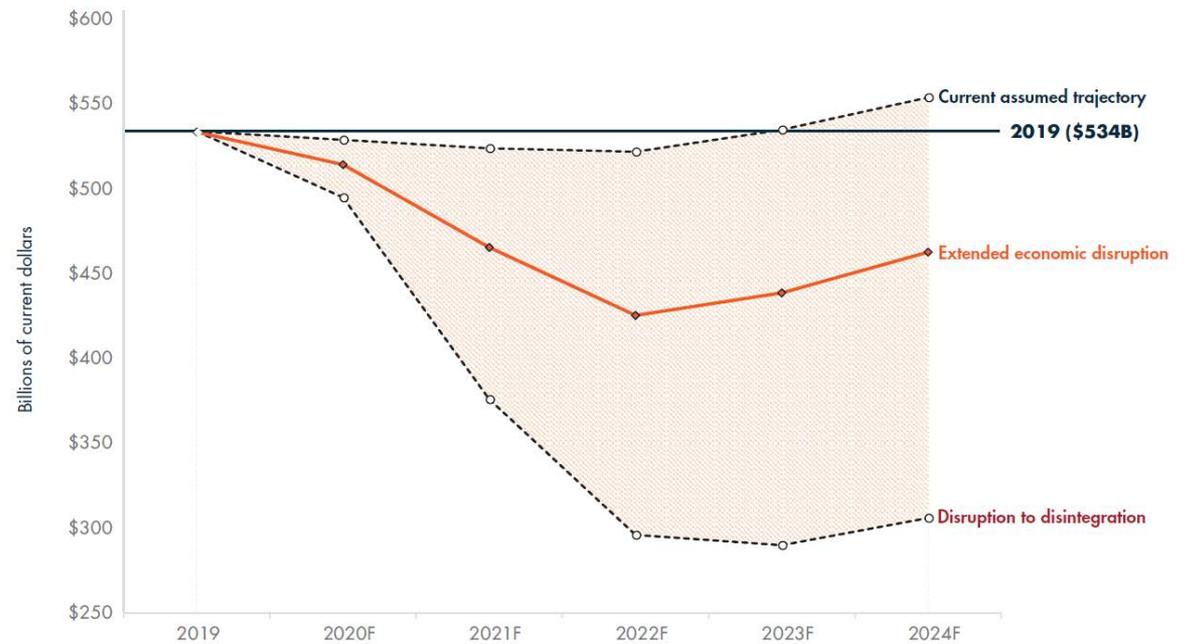
*Improvements include additions, alterations and major replacements. It does not include maintenance and repairs.

U.S. TOTAL NONRESIDENTIAL BUILDINGS CONSTRUCTION PUT IN PLACE



Cynthia Paul
Principal, FMI

Currently at risk of falling below great recession levels over the next five weeks

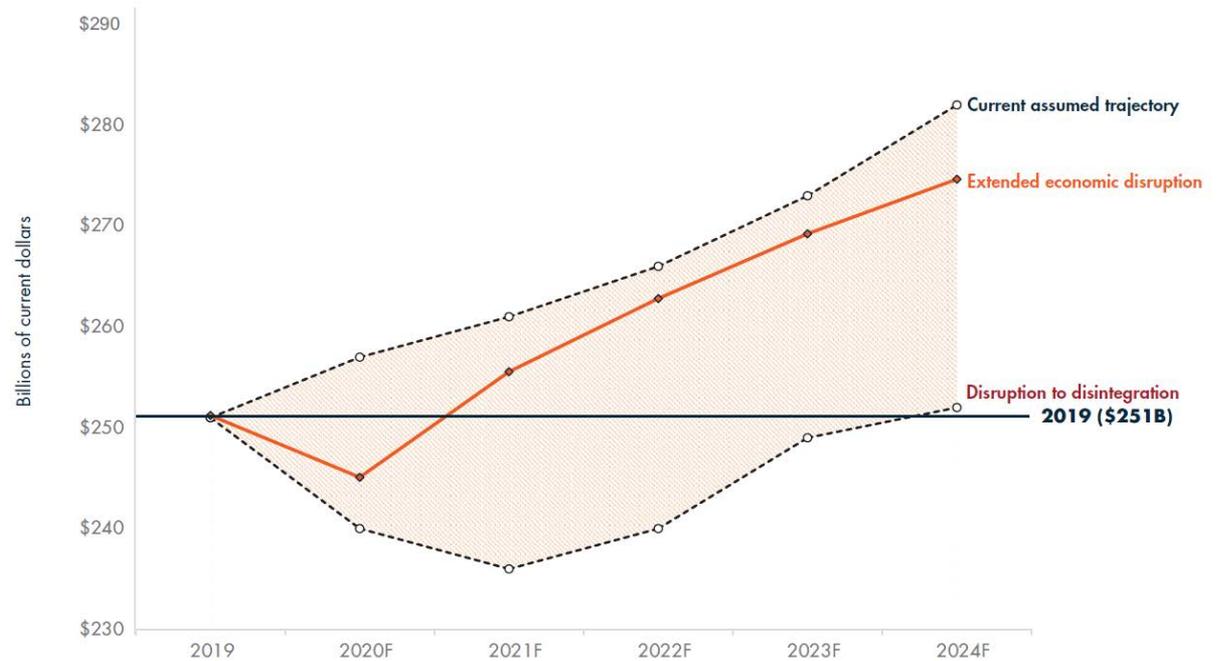


U.S. TOTAL NONBUILDING STRUCTURES CONSTRUCTION PUT IN PLACE



Cynthia Paul
Principal, FMI

Likely to moderate over the next five years



FRAMEWORK FOR EVALUATING LIQUIDITY AND RESOURCE ALLOCATION



Cynthia Paul
Principal, FMI

SURVIVE

"Ensure we have cash to
get through the next 30,
60, 90, etc. days"



THRIVE

"Position the Company
to take advantage of
opportunities – go on
the offensive"

KNOW HOW MUCH CASH YOU CAN ACCESS AND HOW LONG IT WILL LAST



Rob McDonough
US Construction Practice
Leader, Marsh JLT Specialty

SURVIVE

Companies need to evaluate their current cash position and near-term cash needs much more regularly than they did in the past

Sources:

- Traditional: Cash on balance sheet, Line of credit, Additional bank financing
- Alternate sources: Bonds, Government Stimulus, Divesting of assets

How long will it last?

- Days Cash on Hand analysis
- Cash Flow Forecasting (multiple scenarios)

MANAGE WORKING CAPITAL AGGRESSIVELY AND REEVALUATE ALL COSTS



Rob McDonough
US Construction Practice
Leader, Marsh JLT Specialty

SURVIVE

Accelerate collections

- Reeducate and communication to project managers
- Escalate matters when appropriate (know your rights)

Think twice about payments

- Reevaluate payment terms and extend where possible

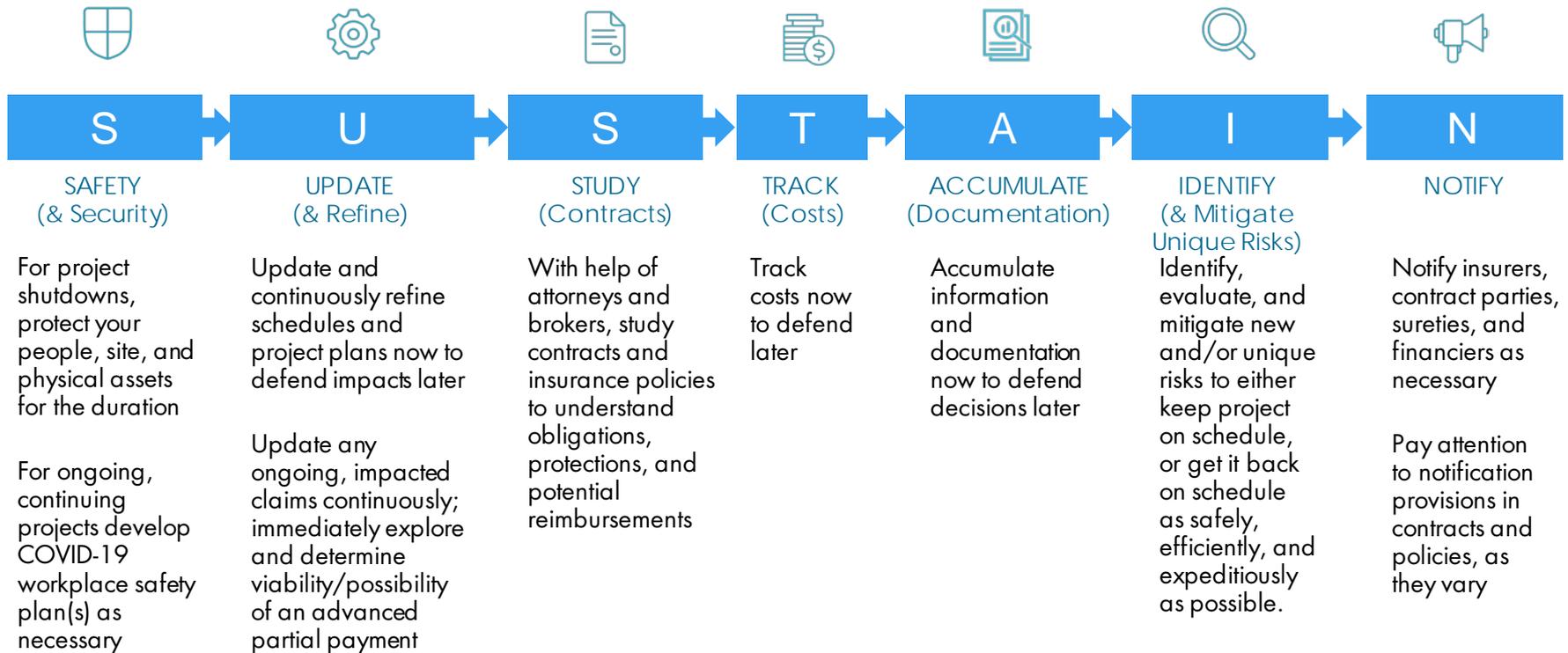
Review all fixed costs and reduce
where appropriate

“SUSTAIN” OPERATIONS THROUGH THE CRISIS



Gary Rodrigues
Construction Consulting Leader,
Marsh Risk Consulting

SURVIVE



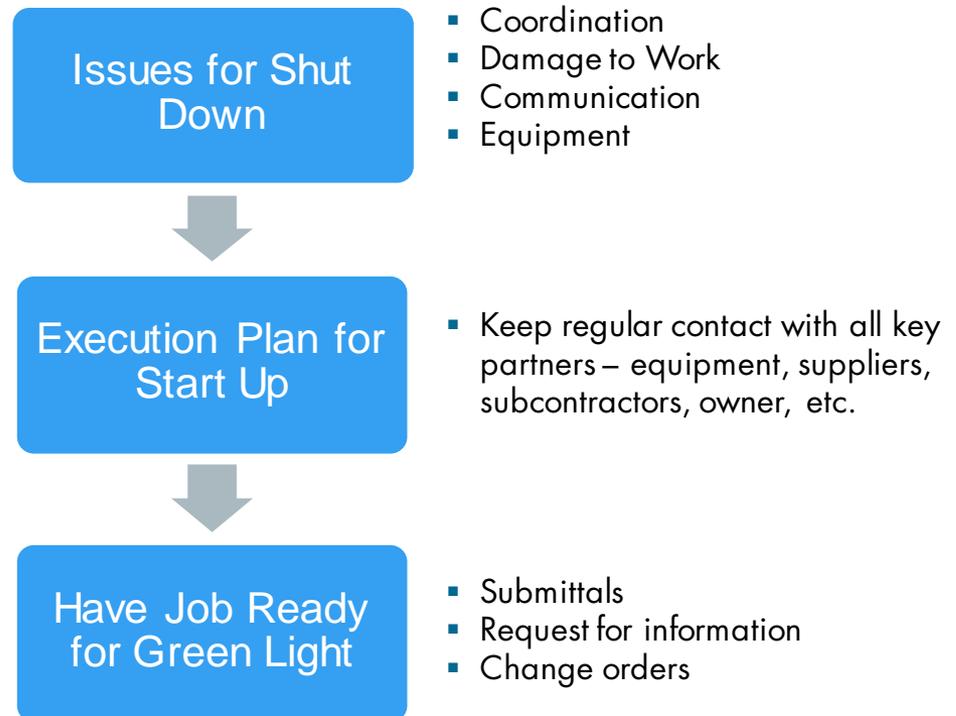
BE PREPARED FOR WHEN WORK RESUMES "AS NORMAL"



David Hewitt
US Surety Leader,
Marsh JLT Specialty

SURVIVE

- Significant number of projects starting "simultaneously" will pose not only logistical challenges but liquidity challenges
- Need to quantify time and money to restart project during shut down and re-quantify as things change



KEEP A LIQUIDITY RESERVE (IF YOU CAN) FOR OPPORTUNITIES



Alex Miller
Managing Director,
FMI Capital Advisors

THRIVE

- Stabilizing the business comes first, only then can you consider opportunities
- Segment operational liquidity (“Survive Liquidity”) from strategic liquidity
- Don’t forgo investments, prioritize investments
- Times of volatility can be times of opportunity
 - Improving or expanding talent
 - Entry into new markets
 - Increase or build self-performing capabilities
 - Acquisitions or “acqui-hires”

“We will look to be opportunistic as the market slows down and the current age of many business owners elect to retire.” (FMI M&A Trends Survey – taken pre-COVID 19)

“We are preparing for a downturn. This will make targets more affordable.” (FMI M&A Trends Survey – taken pre-COVID 19)

“Downturn mergers generate about 15% more value, as measured by total shareholder return, than boom-time mergers” (*Seize Advantage in a Downturn*, HBR)

REEVALUATE STRATEGY FOR AN UNCERTAIN WORLD

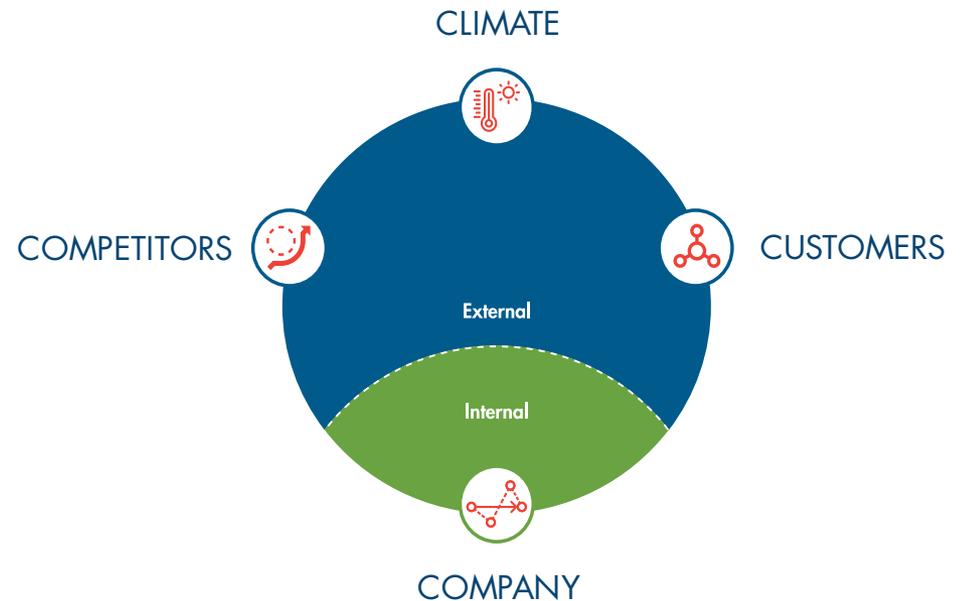


Cynthia Paul
Principal, FMI

THRIVE

- It is all about context
- Clear definition of success
- Discipline to choose
- Strategic and market strategy
- Elasticity of strategy
- Frame of reference:
Revenue x time
- Solidifying engagement —
narrow and wide

STRATEGIC CONTEXT



DETERMINE “WHERE TO PLAY” (AND WHERE TO INVEST \$)



Cynthia Paul
Principal, FMI

THRIVE

Market

- Where are the greatest opportunities?
- What opportunities do our capabilities present?
- How are we different?
 - How could we be different?
- What strategy do we need to protect and grow existing customers and markets?

Project

- How much do we want this project and customer?
 - How much should we invest?
- What will it take to win and out-position the competition?
 - How do we get *prepositioned* to win?
- How do we prove our worth?

DON'T FORGET YOUR PERSONAL LIQUIDITY

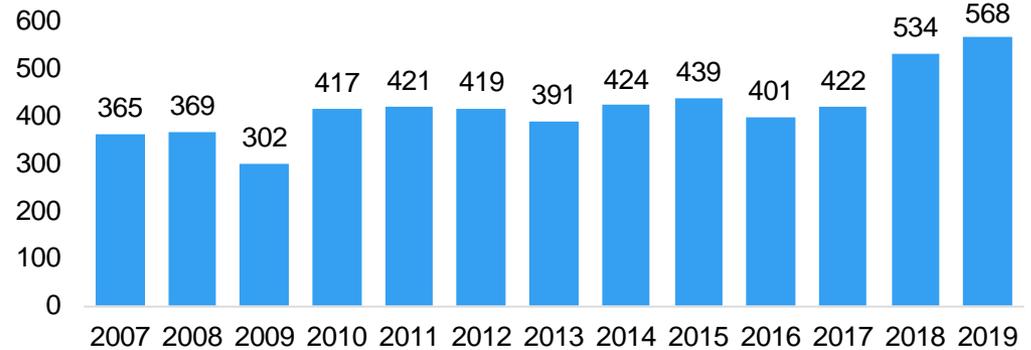


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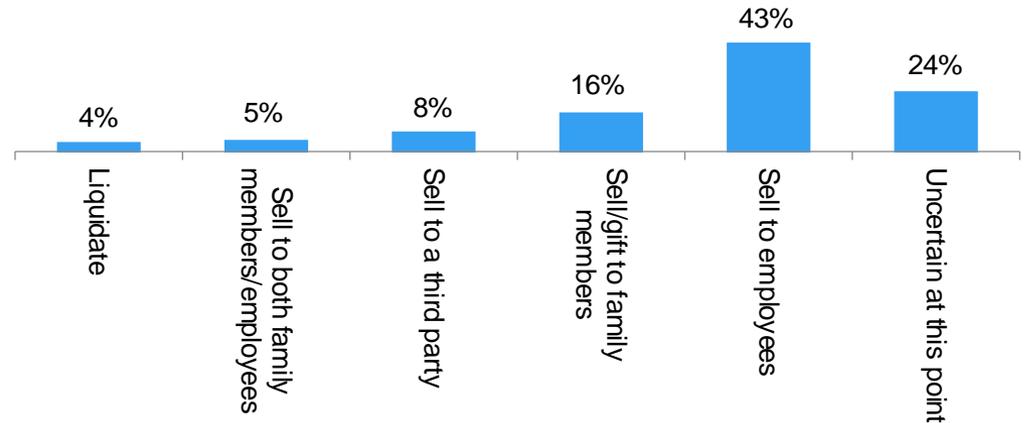
THRIVE

- Last few years have seen significant M&A activity
- Approximately 2/3 of all contractors still transition their businesses internally
 - “BYOWYO\$”
 - Typically takes 8 – 12 years
- Know the difference between “labor” and “talent”

Recent E&C M&A Activity



Ownership Transfer Plans (2017)



KEY TAKEAWAYS



Rob McDonough
US Construction Practice
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Alex Miller
Managing Director,
FMI Capital Advisors

SURVIVE

- Know how much cash you have
- Manage working capital and costs
- “SUSTAIN” operations
- Prepare for restart period

THRIVE

- Keep a reserve for opportunities
- Reevaluate strategy
- Determine “where to play”
- Don’t forget personal liquidity



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