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

FMI

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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 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.

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.

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

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
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BACKGROUND/IMPLICATIONS FOR CONSTRUCTION MARKET

- 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

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
Very different futures depending on the segment.

Construction Spending Put in Place 2019 (USD Billions)

*Improvements include additions, alterations and major replacements. It does not include maintenance and repairs.
Currently at risk of falling below great recession levels over the next five weeks
U.S. TOTAL NONBUILDING STRUCTURES CONSTRUCTION PUT IN PLACE

Likely to moderate over the next five years
FRAMEWORK FOR EVALUATING LIQUIDITY AND RESOURCE ALLOCATION

**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”

Cynthia Paul
Principal, FMI
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

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

SURVIVE

Rob McDonough
US Construction Practice Leader, Marsh JLT Specialty
“SUSTAIN” OPERATIONS THROUGH THE CRISIS

SURVIVE

S
SAFETY (& Security)
For project shutdowns, protect your people, site, and physical assets for the duration

U
UPDATE (& Refine)
For ongoing, continuing projects develop COVID-19 workplace safety plan(s) as necessary

S
STUDY (Contracts)
Update and continuously refine schedules and project plans now to defend impacts later

T
TRACK (Costs)
With help of attorneys and brokers, study contracts and insurance policies to understand obligations, protections, and potential reimbursements

A
ACCUMULATE (Documentation)
Track costs now to defend later

I
IDENTIFY (& Mitigate Unique Risks)
Accumulate information and documentation now to defend decisions later

N
NOTIFY
Notify insurers, contract parties, sureties, and financiers as necessary

Pay attention to notification provisions in contracts and policies, as they vary

Gary Rodrigues
Construction Consulting Leader, Marsh Risk Consulting
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.

- Coordination
- Damage to Work
- Communication
- Equipment

- Keep regular contact with all key partners – equipment, suppliers, subcontractors, owner, etc.
- Submittals
- Request for information
- Change orders
KEEP A LIQUIDITY RESERVE (IF YOU CAN) FOR OPPORTUNITIES

- 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)
RE_EVALUATE STRATEGY FOR AN UNCERTAIN WORLD

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

- 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?

- 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

- 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)

Alex Miller
Managing Director, FMI Capital Advisors

TH R I V E
KEY TAKEAWAYS

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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