FMI Consulting

Market Outlook

September 15, 2021

fmiconsulting.com

WHAT we do and WHO we serve

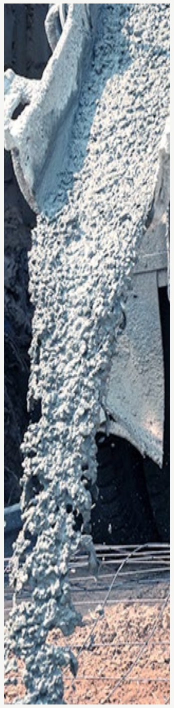
Our Services

- Compensation & Rewards
- Leadership & Organizational Development
- Market Research & Due Diligence
- Operations
- Peer Groups
- Strategy
- Technology
- Training

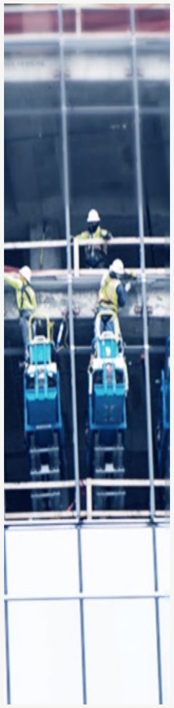
Clients we serve

Building Products

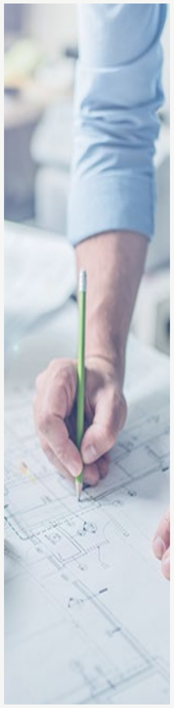
Construction Materials



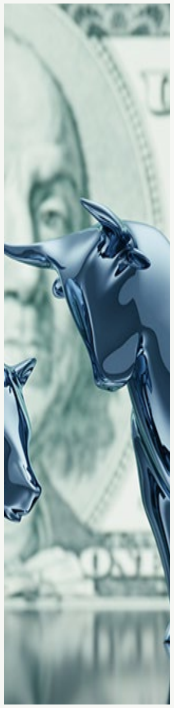
Contractor & Construction Services



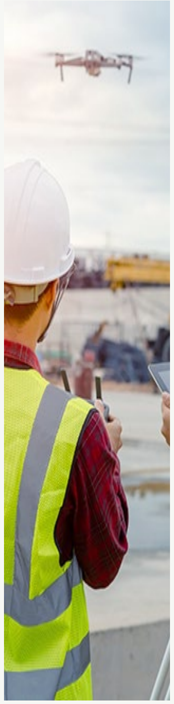
Engineering & Design



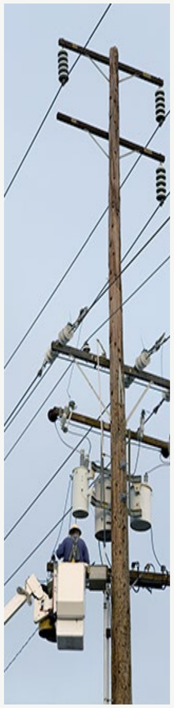
Private Equity



Technology Companies



Utility & Communication Infrastructure



Durable or Fragile

Did we experience a two-year recovery in two quarters?

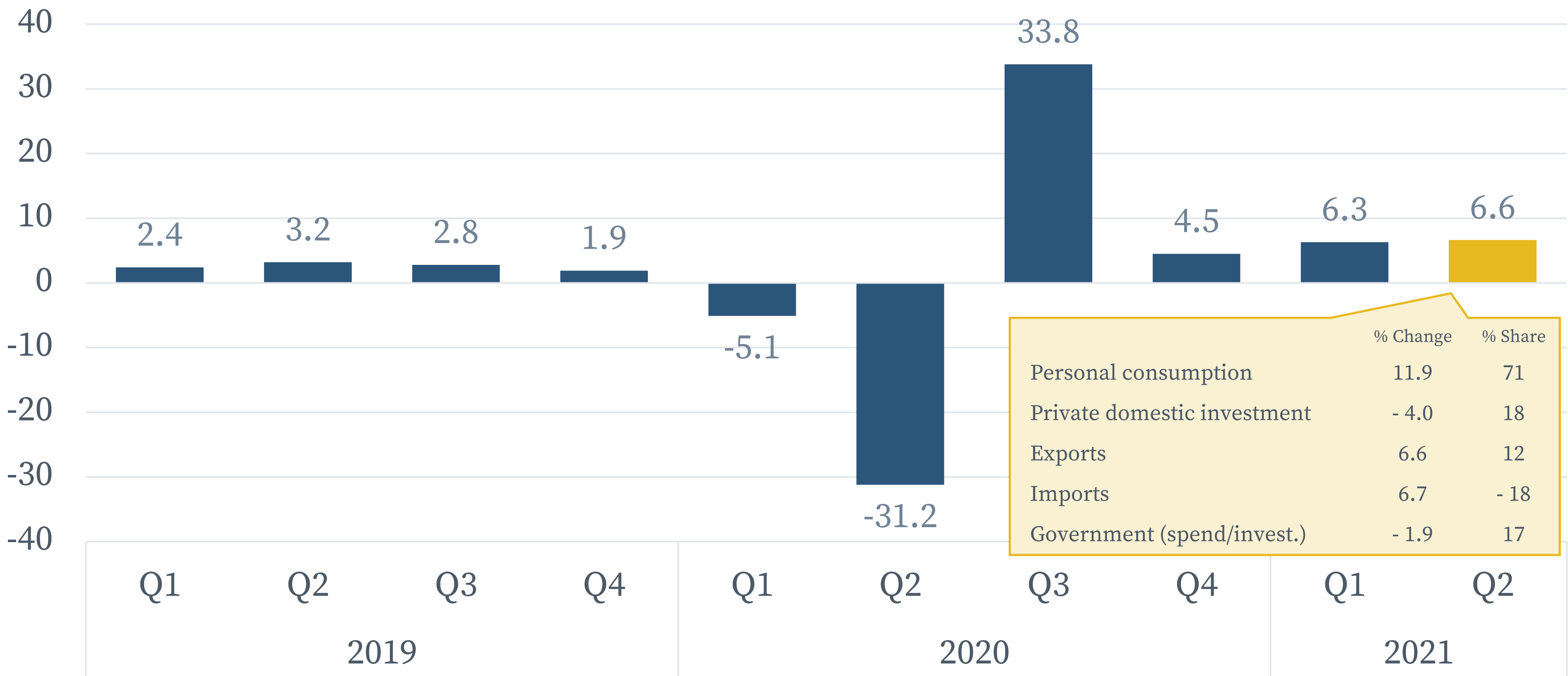
Bulls and bears coexist in all economies

Where will the greatest opportunities present themselves over the next five years?

Bigger, Faster, Better

How will evolving project characteristics define competitive advantage?

Real Gross Domestic Product (GDP)
Percent Change From Preceding Period, Seasonally Adjusted Annual Rate



RECESSION INDICATORS ARE A MIXED BAG

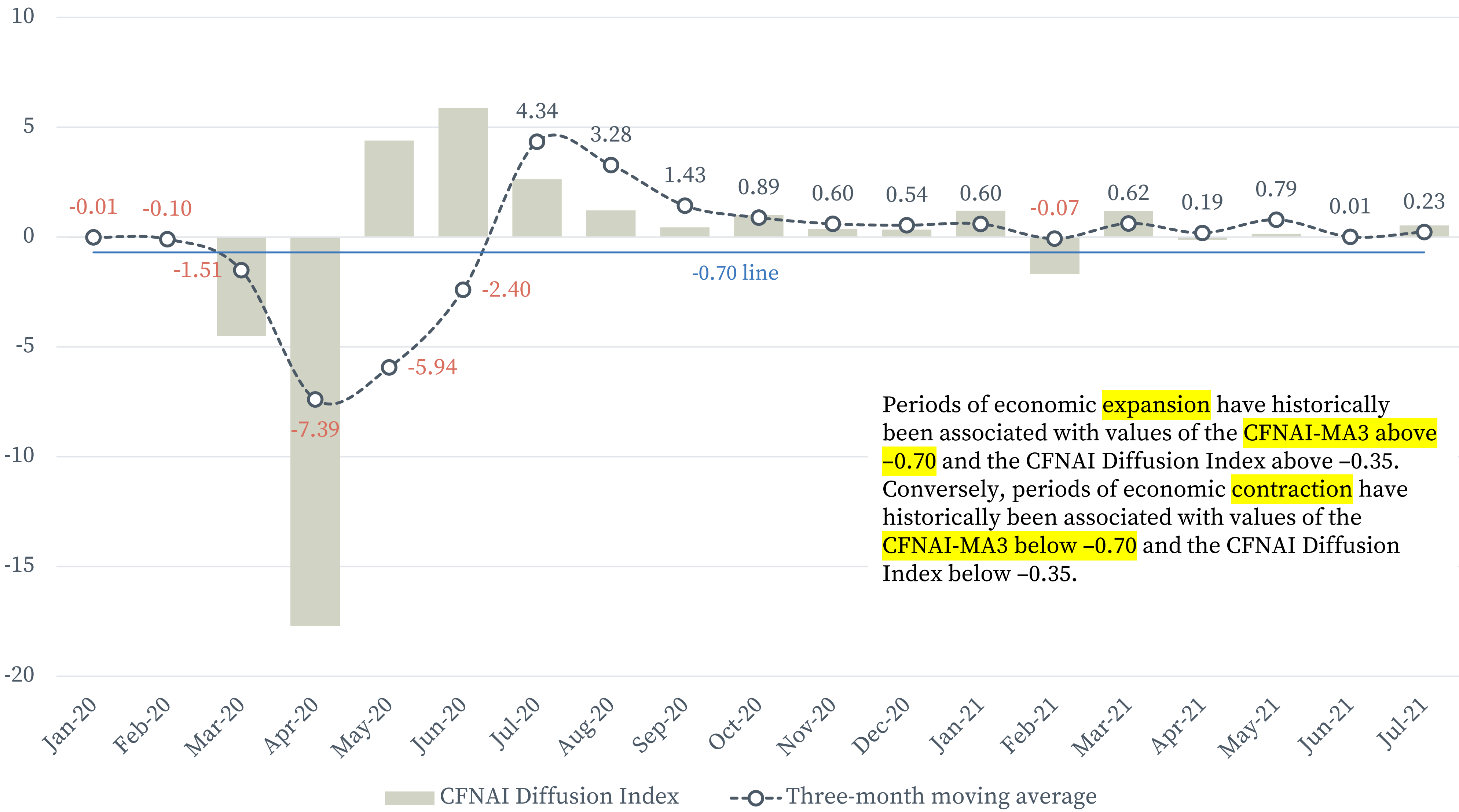
Indicators of the Likelihood of Recession

Indicator/ Metric	Recessions Considered	Correct Predictions	False Positives	Prediction Strength	Flag/ Warning Timing	Risk Assessment/ Trending
Yield Curve Inversion	6	6	0	100%	<1-3 year	MODERATE ↓
New Home Sales	7	7	1	86%	<1-3 year	MODERATE ↓
Money Supply	8	7	1	75%	<1-3 year	MODERATE ↓
Unemployment Rate	7	5	0	71%	<1 year	MODERATE ↔
Lumber Sales	3	3	1	67%	~1-2 year	MODERATE ↓
US Trade Balance (BOP % Change)	7	6	2	57%	~1-2 year	LOW ↑
Months Supply of Homes	8	4	0	50%	<1-1 year	MODERATE ↑
Copper Price (Doctor Copper)	8	7	3	50%	<1-4 year	MODERATE ↔
Stock Market Performance	4	3	1	50%	<1 year	MODERATE ↑
MBS Held by Banks	2	2	1	50%	<1-2 year	LOW ↑
Residential CPiP	7	4	1	43%	<1-2 year	MODERATE ↑
Rental Vacancy Rates	10	5	1	40%	<1-2 year	MODERATE ↓
Manufactured Goods, New Orders	3	2	1	33%	<1 year	LOW ↑
Consumer Confidence (OECD)	8	6	4	25%	~1-3 year	MODERATE ↓
Heavy Duty Truck Sales	8	6	5	13%	~1-2 year	MODERATE ↓

FMI analysis of multiple sources

A REASON TO BE OPTIMISTIC

Chicago Fed National Activity Index
Diffusion Index and three-month moving average

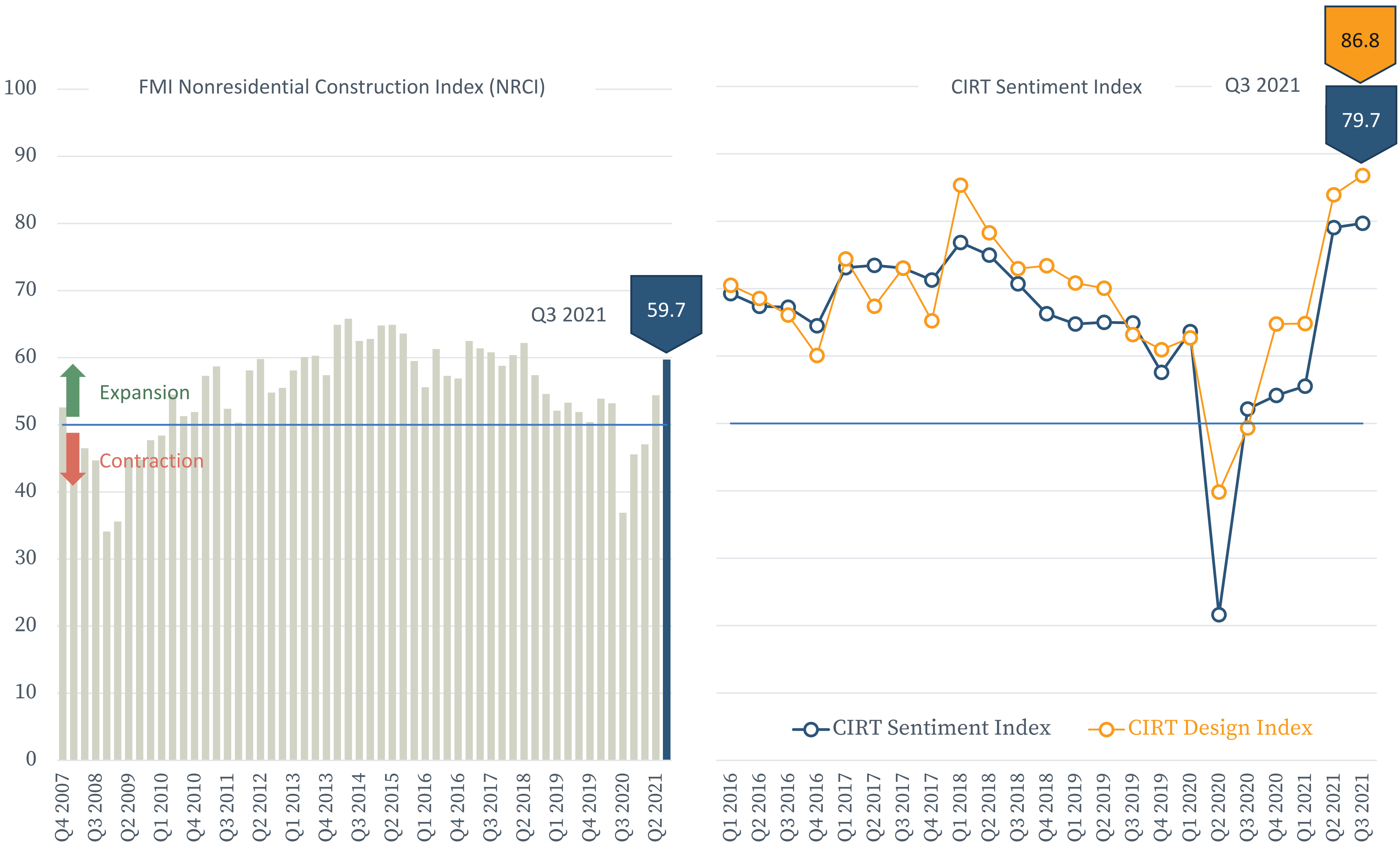


Periods of economic expansion have historically been associated with values of the CFNAI-MA3 above –0.70 and the CFNAI Diffusion Index above –0.35. Conversely, periods of economic contraction have historically been associated with values of the CFNAI-MA3 below –0.70 and the CFNAI Diffusion Index below –0.35.

Federal Reserve Bank of Chicago

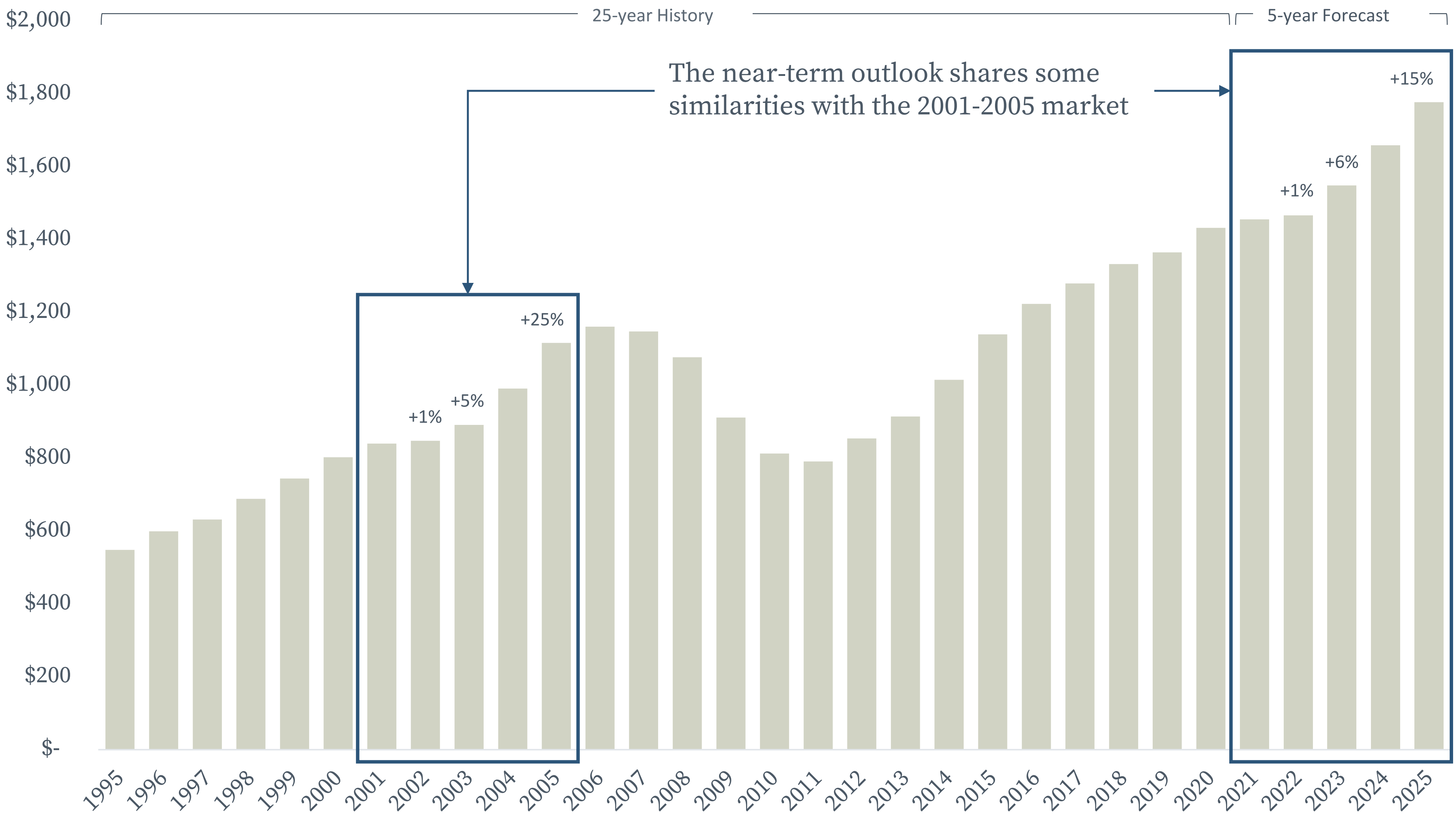
THE INDUSTRY IS BULLISH ON EXPANSION

AEC industry sentiment indices

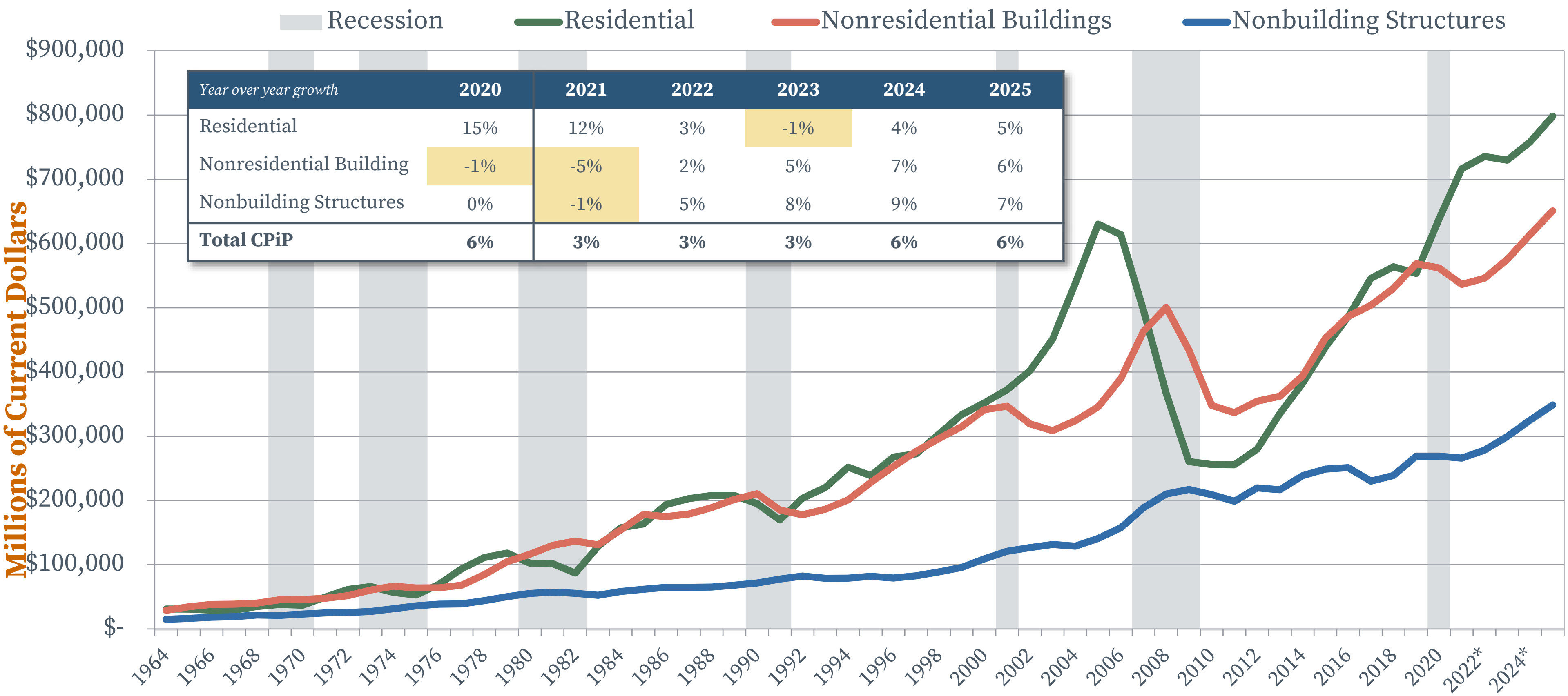


DEMAND IS TEMPERED NEAR TERM BY SUPPLY CONSTRAINTS

Total Construction Spending Put in Place (US)
Billions of current dollars



U.S. Construction Forecast – Q4 2021

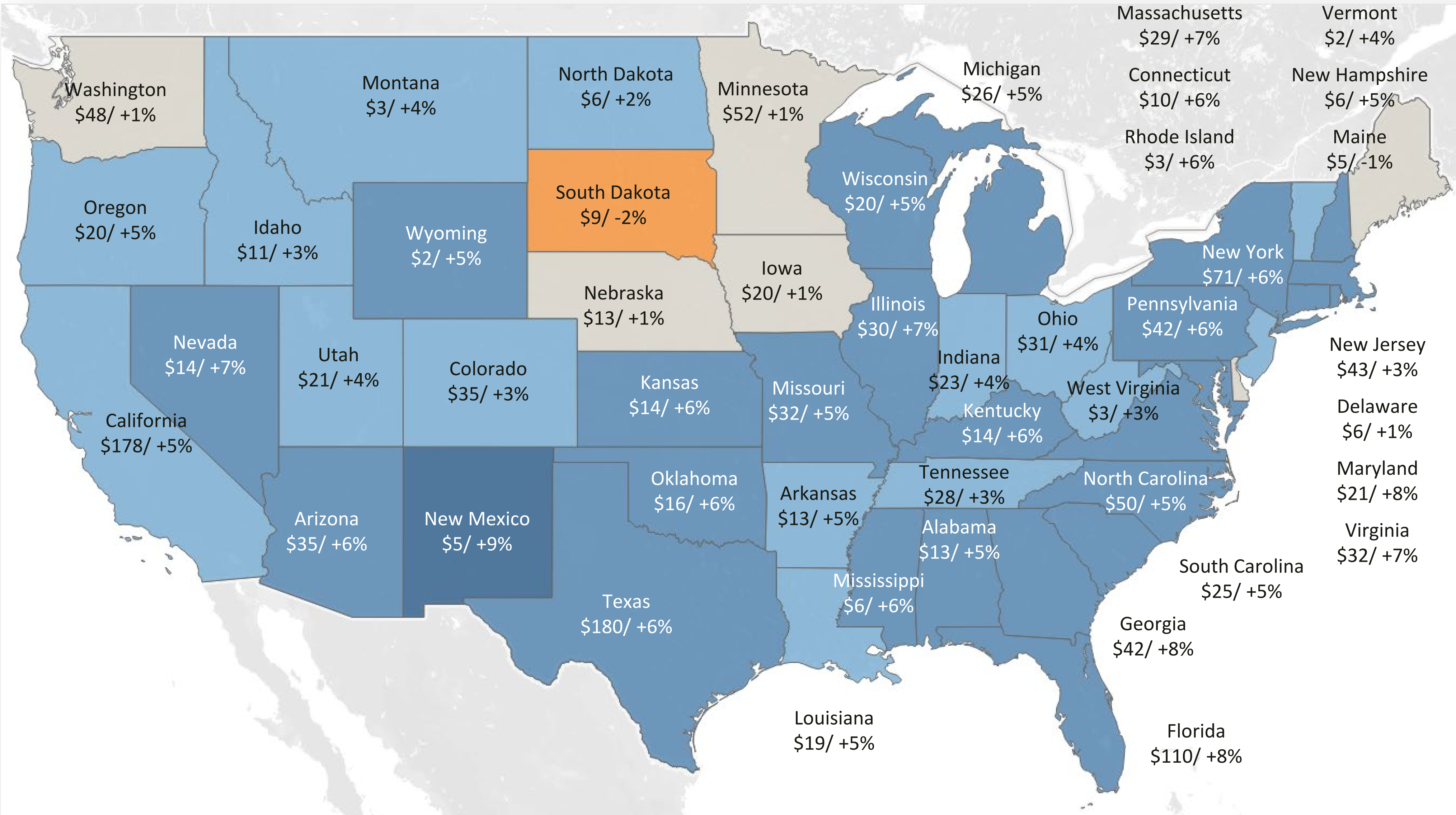


Year over year growth	2020	2021	2022	2023	2024	2025
Residential	15%	12%	3%	-1%	4%	5%
Nonresidential Building	-1%	-5%	2%	5%	7%	6%
Nonbuilding Structures	0%	-1%	5%	8%	9%	7%
Total CPiP	**6%**	**3%**	**3%**	**3%**	**6%**	**6%**

4th Quarter 2021 Forecast, Based on 2nd Quarter 2021 Actuals and 3rd Quarter 2021 Assumptions

MOST STATES WILL EXPERIENCE GROWTH

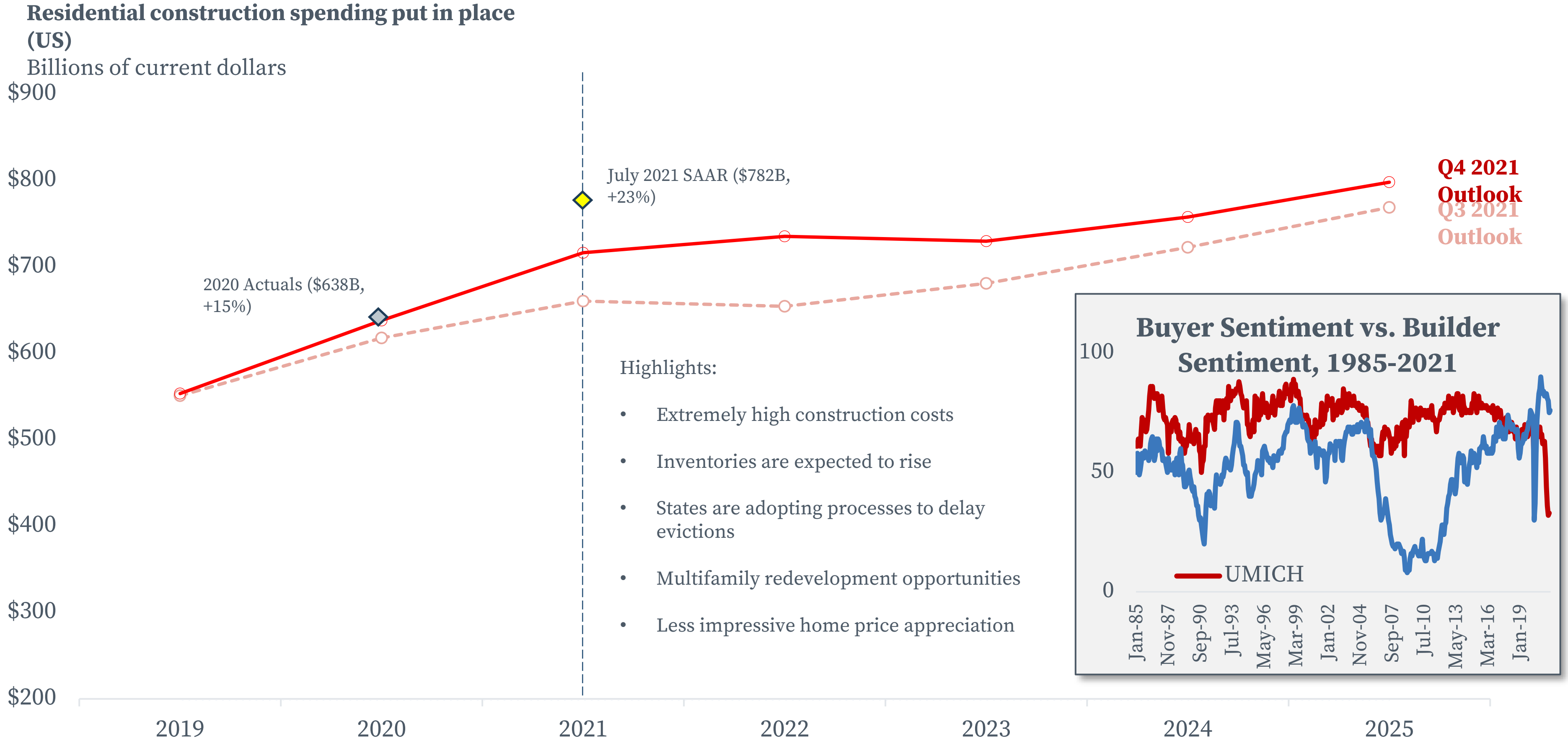
Total Construction Spending Put in Place (2021) and Forecast Growth (2021-2025 CAGR) by State
Billions of current dollars



U.S. 2021 Segment Performance
2021/2020 Comparison

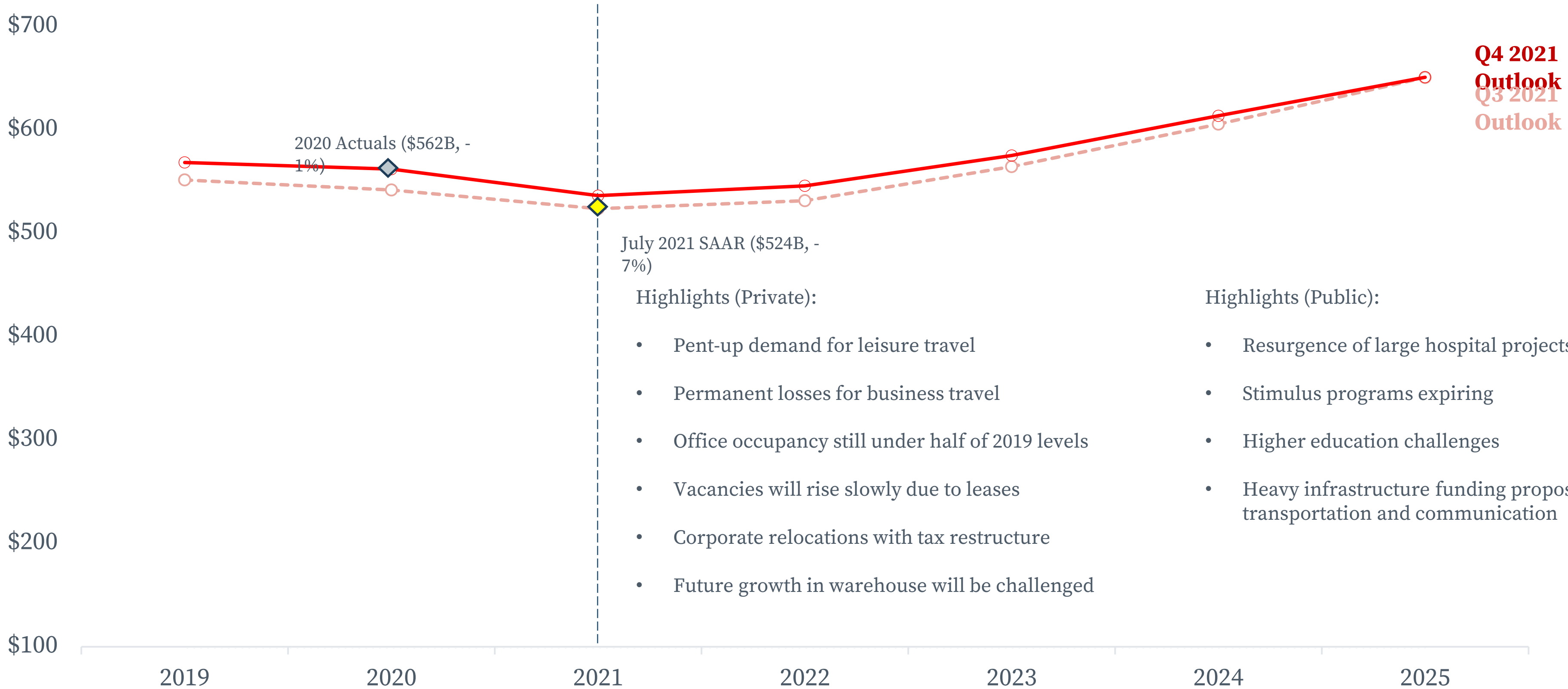
UP 5% or more	STABLE 0% to 4%	DOWN Under 0%
• Single Family • Multifamily • Improvements	• Commercial • Health Care • Manufacturing • Sewage and Waste Disposal • Water Supply	• Lodging • Office • Educational • Religious • Public Safety • Amusement and Recreation • Transportation • Communication • Power • Highway and Street • Conservation and Development

Residential CPiP – Q4 2021



Nonresidential Building CPiP – Q4 2021

Nonresidential building construction spending put in place (US)
Billions of current dollars



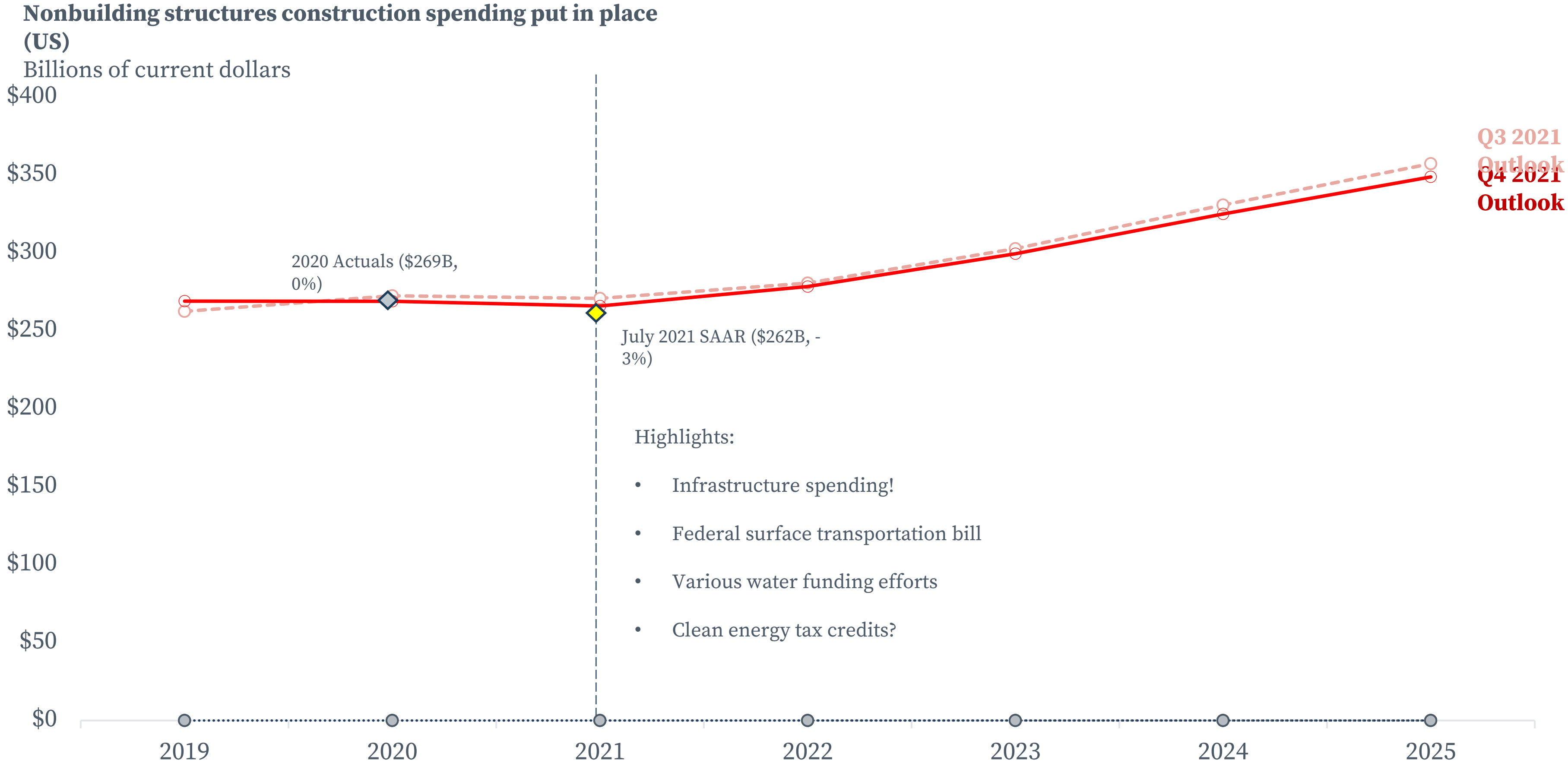
Highlights (Private):

- Pent-up demand for leisure travel
- Permanent losses for business travel
- Office occupancy still under half of 2019 levels
- Vacancies will rise slowly due to leases
- Corporate relocations with tax restructure
- Future growth in warehouse will be challenged

Highlights (Public):

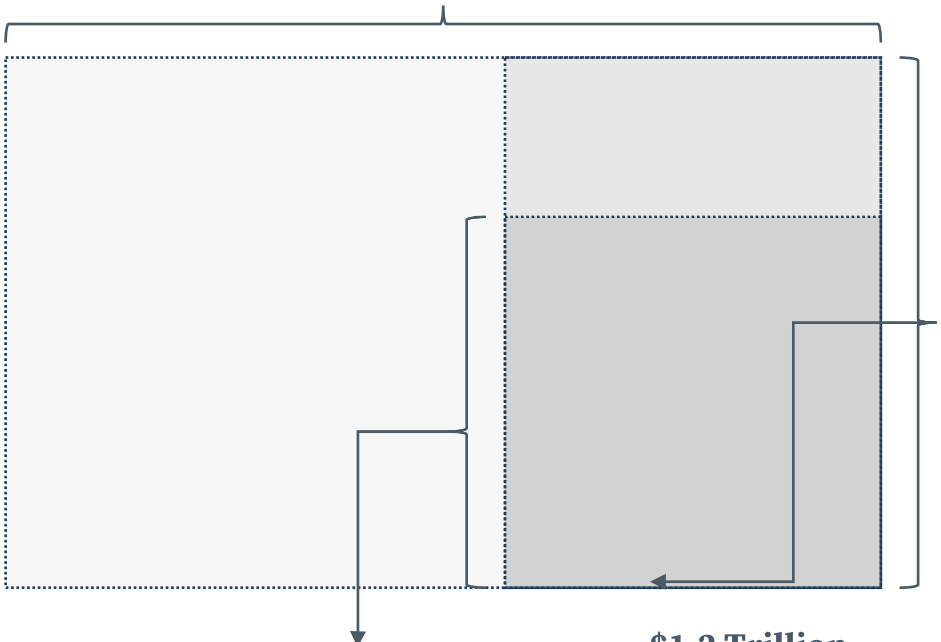
- Resurgence of large hospital projects
- Stimulus programs expiring
- Higher education challenges
- Heavy infrastructure funding proposed in transportation and communication

Nonbuilding Structures CPiP – Q4 2021



Biden's American Jobs Plan (AJP)

$2.7 Trillion over ~10 years
Total Spending

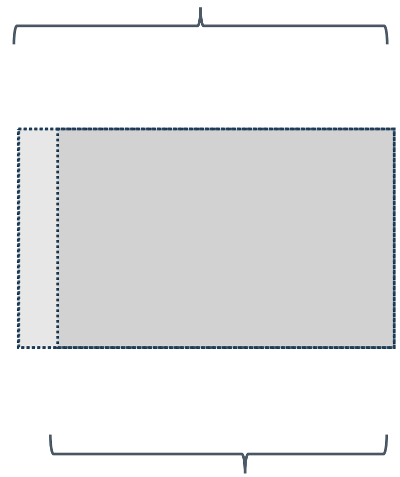


$930 Billion
expected in CPiP
~35% of total
~80% of related

$1.2 Trillion
construction-related fields (43%)

Bipartisan Infrastructure Bill

$580 Billion over ~10 years
Spending 100% in construction-related fields



"The Framework is financed through a combination of closing the tax gap, redirecting unspent emergency relief funds, targeted corporate user fees, and the macro-economic impact of infrastructure investment."

$530 Billion
expected in CPiP
~90% of total

**New spending + baseline (over 5 years) = $973B*
**New spending + baseline (over 8 years) = $1,209B*

Bipartisan Infrastructure Framework – New Infrastructure

51% - Transportation / Roadway

34% - Utilities

Transportation - $171B
- 30% of total
- $16B/y
- 29% increase from 2020 CPiP

Roads and Bridges - $120B
- 21% of total
- $11B/y
- 11% increase from 2020 CPiP

Other - $89B
(resilience, financing, remediation, communities)
- 15% of total
- ~$8B/y

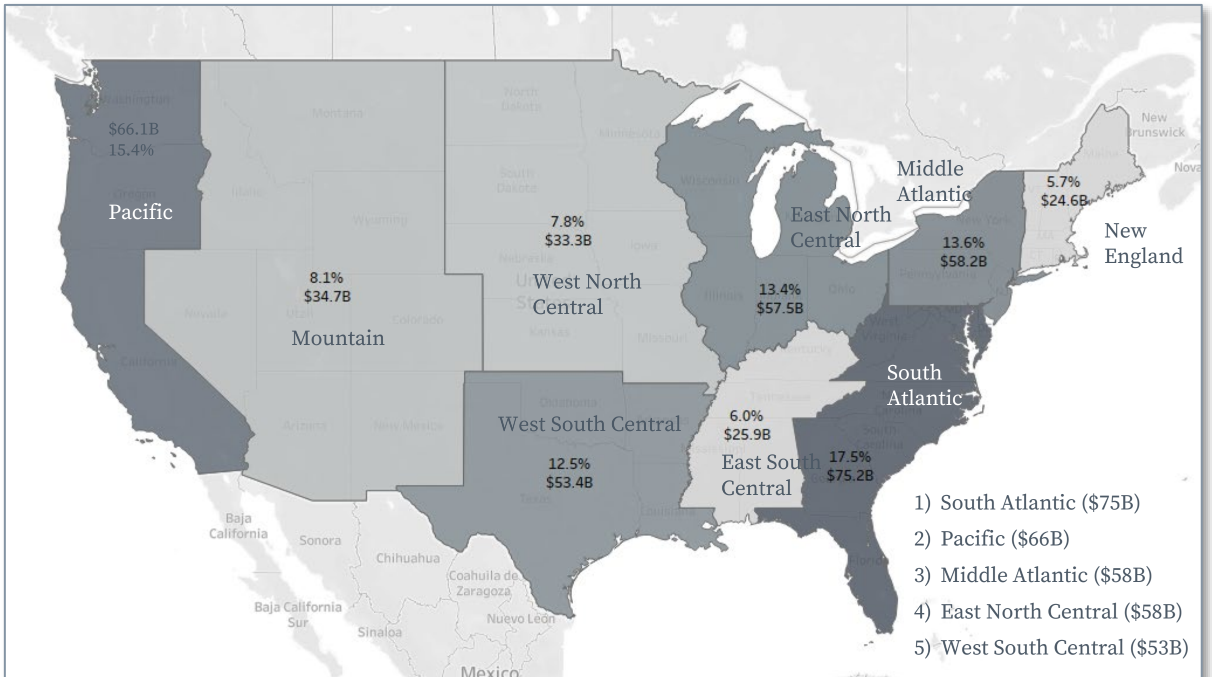
Power - $73B
- 13% of total
- $7B/y
- 6% increase from 2020 CPiP

Communication - $65B
- 11% of total
- $6B/y
- 24% increase from 2020 CPiP

Water/Wastewater - $60B
- 10% of total
- $5B/y
- 11% increase from 2020 CPiP

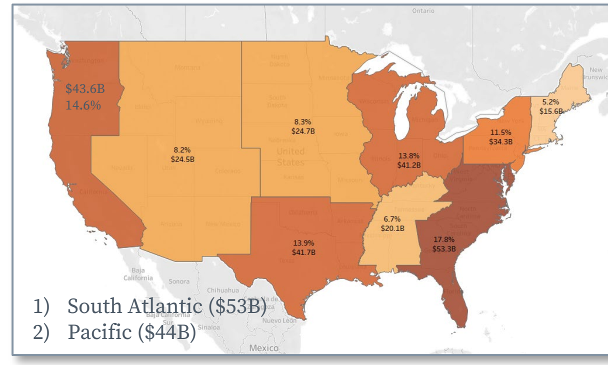
Bipartisan Infrastructure Framework
Geographic Segmentation by Census Division

Total Geographic Distribution ($430B)

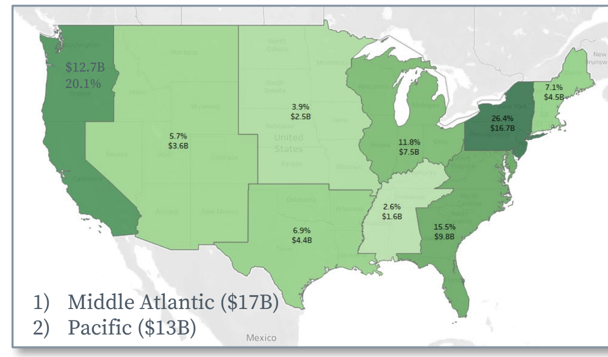


Note: White House estimates are summaries based on allocation of funds in prior legislation and are subject to change.
Source: The White House
Map data: Tilegrams/NPR

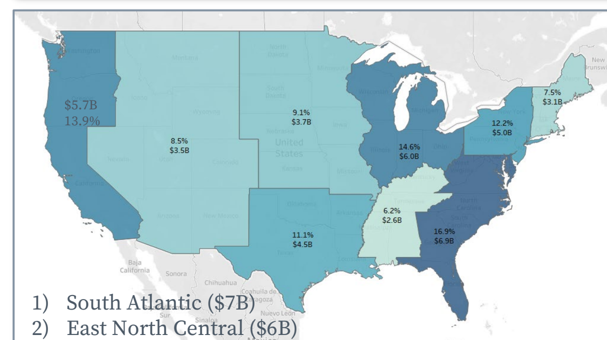
Highway and Bridge ($300B)



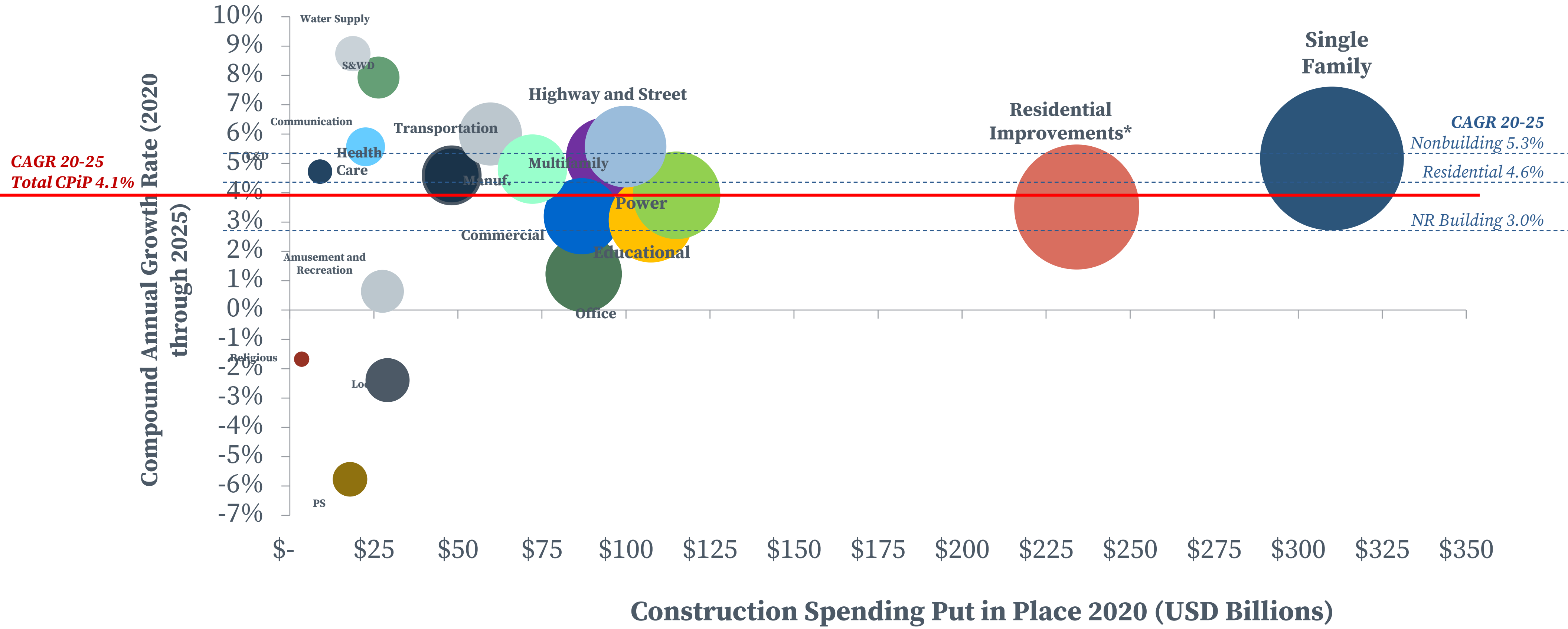
Transportation ($63B)



Water ($41B)



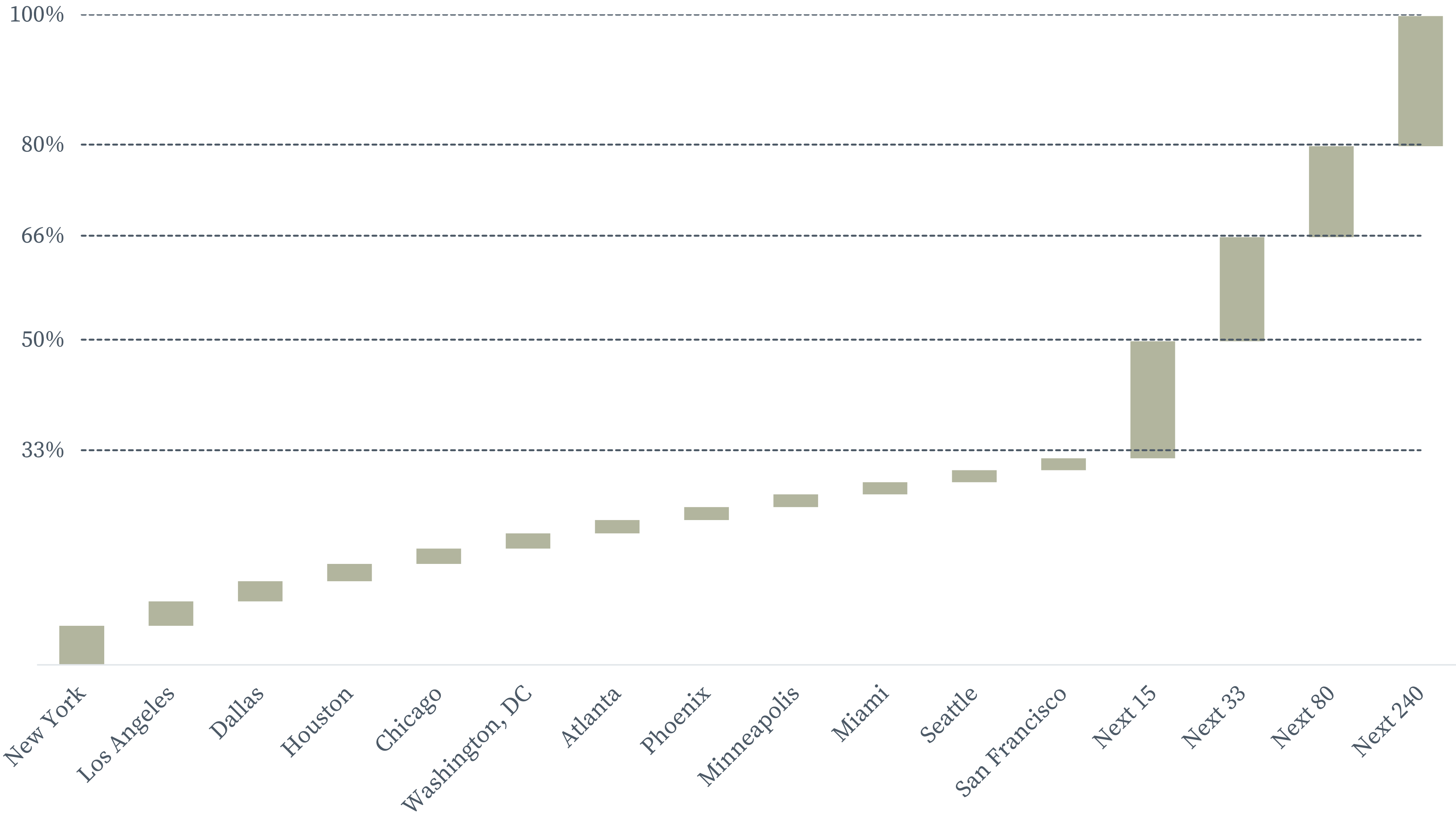
Total U.S. Construction Spending Put in Place 2020 and Forecast Growth (2020-2025) by Construction Segment



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

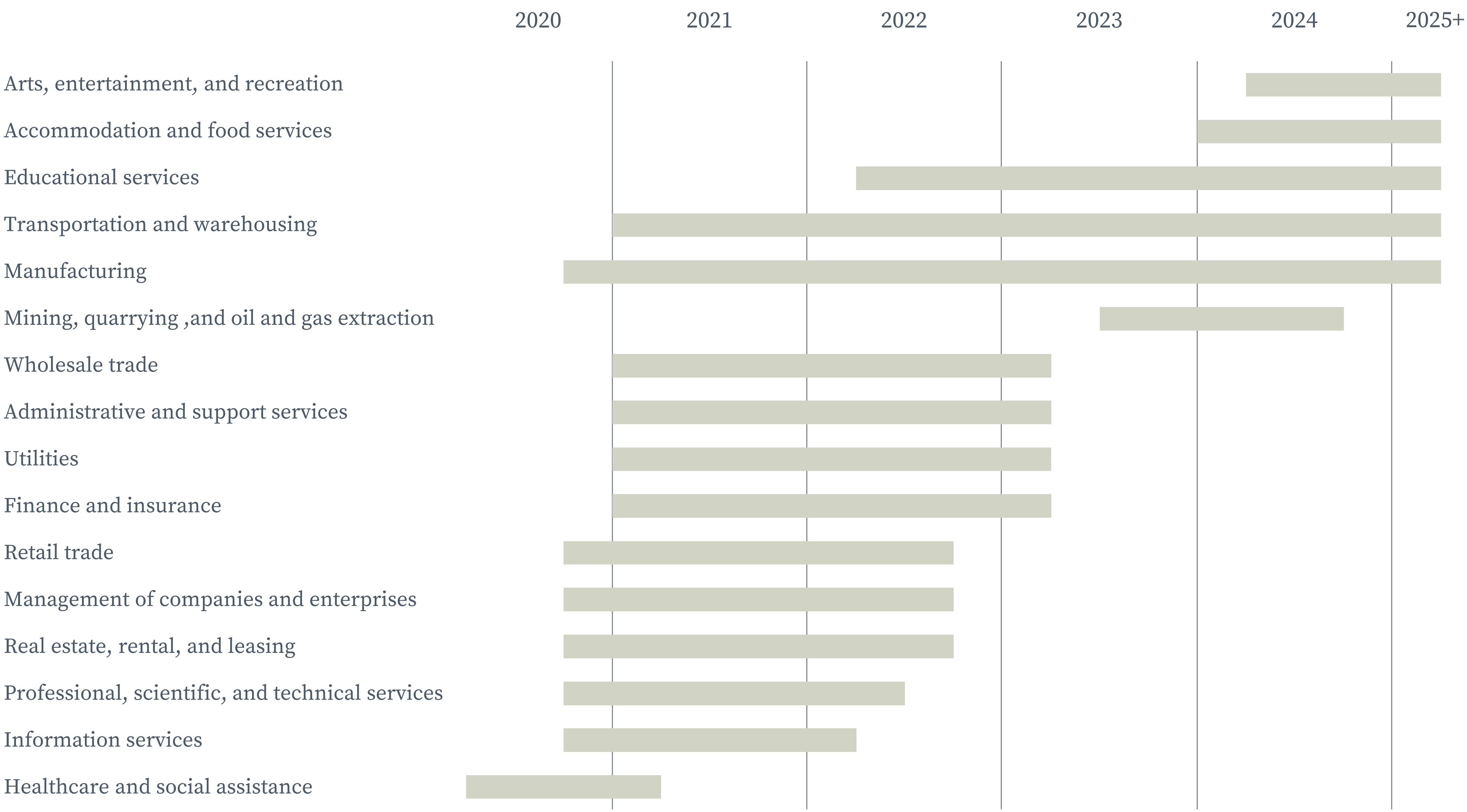
ONE-IN-THREE CONSTRUCTION DOLLARS ARE SPENT IN JUST 12 MARKETS

Total Construction Spending Put in Place by Metropolitan Statistical Area (MSA)
2021-2025 sum



WHO RECOVERS FIRST, SECOND, THIRD...

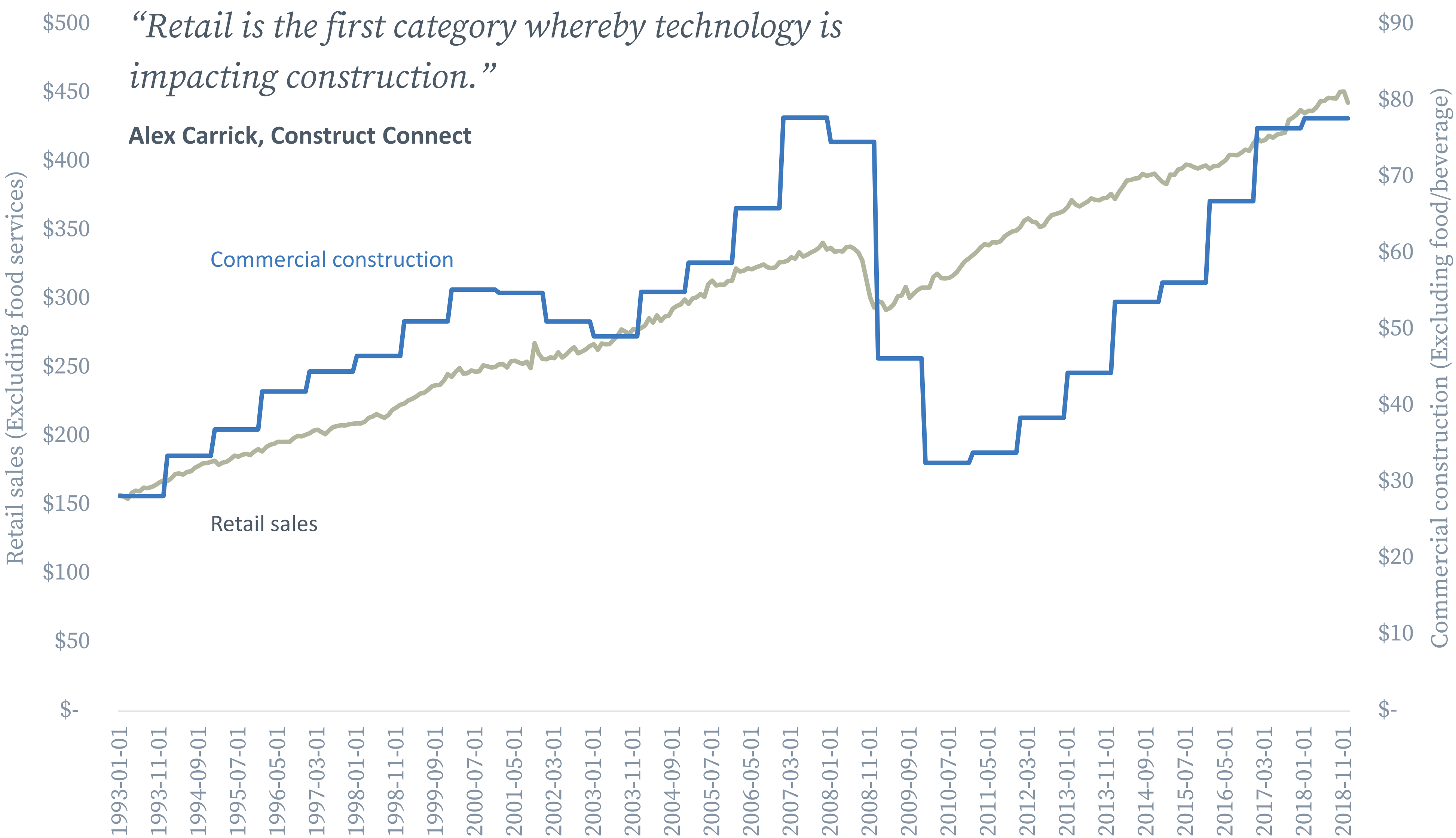
Projected Industry Return to Pre-pandemic Activity Levels Timeline



Oxford Economics, McKinsey

MORE THAN 20% OF RETAIL SALES ARE FORECAST TO BE ON-LINE BY 2025

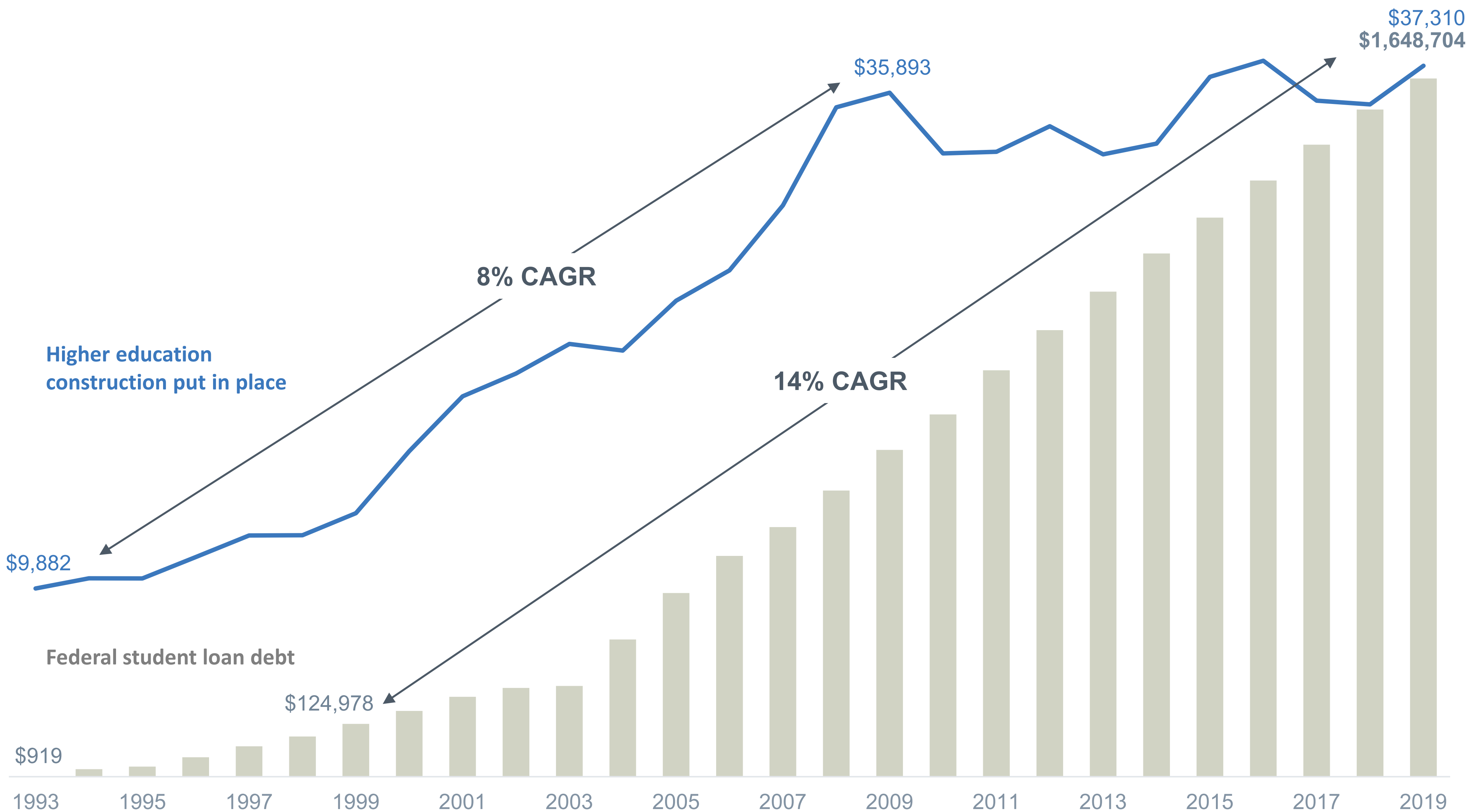
US retail sales vs retail construction spending put in place
Billions of US dollars



Federal Reserve Bank of St. Louis, US Census Bureau

"VIRTUAL" PRESENCE WILL HAVE LASTING IMPACTS ON MANY SEGMENTS

Higher education construction spending put in place and federal student loan debt
US; Millions of current dollars



Census, Board of Governors of the Federal Reserve System

What project characteristics should we expect over the next several years?

Bigger

Megaprojects consume an increasing share of construction spending

- **Annual megaproject CPiP is expected to increase almost 500% over the next five years,** growing from slightly more than $50 billion to just almost $300 billion. Over the next decade, annual megaproject spending is expected to increase nearly 600%, reaching just over $350 billion.
- **Total annual megaproject spend as a percent of total CPiP** is expected to increase from 10% in 2020 to **just over 20% by 2023** and remain stable between 20% and 25% through end of the decade.
- **More than $2.5 trillion in megaprojects are currently in planning or design through 2050**

Faster

Project schedules continue to compress

- **Accelerated schedule and schedule certainty are increasingly influencing contractor selections**. This is particularly true in mission critical and time sensitive industries.
- For nonresidential building projects valued over $25 million, the **average schedule has shortened by over a year** during the past decade.

Better

When alternative delivery becomes normal delivery

- Alternative delivery methods have experienced continued growth since 2015; up 67%.
- It is anticipated that **alternative delivery methods will increase at a compound annual growth rate of 8% CAGR over the next five years**.
- As **legislation has enabled greater use of alternative methods**, and familiarity with these methods has grown, these methods are **anticipated to represent over 60% of spending** over the forecast period.
- Industry stakeholders consistently identify the **ability to deliver a project in an expedited manner as a main driver of alternative delivery method utilization**.

FMI analysis of multiple sources

WHAT ELSE SHOULD WE BE CONSIDERING?

1. The Impact of Minimum Wage Increase
2. The Skilled Labor Shortage
3. Vaccination of Employees and Subcontractors
4. Succession Planning
5. Contractual Risk Shifting by Owners
6. Cryptocurrency and Blockchain
7. Autonomous Vehicles
8. Distributed Energy Resources
9. Stimulus and Other Infrastructure Spending
10. Diversity, Equity and Inclusion

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