CONSTRUCTION WEBINAR

A Blueprint for Growth: M&A Strategies in the Construction and Engineering Market

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Speakers

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Davidson's Infrastructure Services Group is a Highly Active M&A Advisor

Institutional Commitment to Infrastructure Services

Davidson combines advisory and industry relationships with equity research

Industry-leading annual conference with representation from companies with an average market capitalization of $3+ billion

- ~250 conference attendees
- 60+ presenting companies
- 350+ meetings with leadership from companies, including relevant participants in the infrastructure services sector

Brent Thielman

Managing Director,
Senior Research Analyst

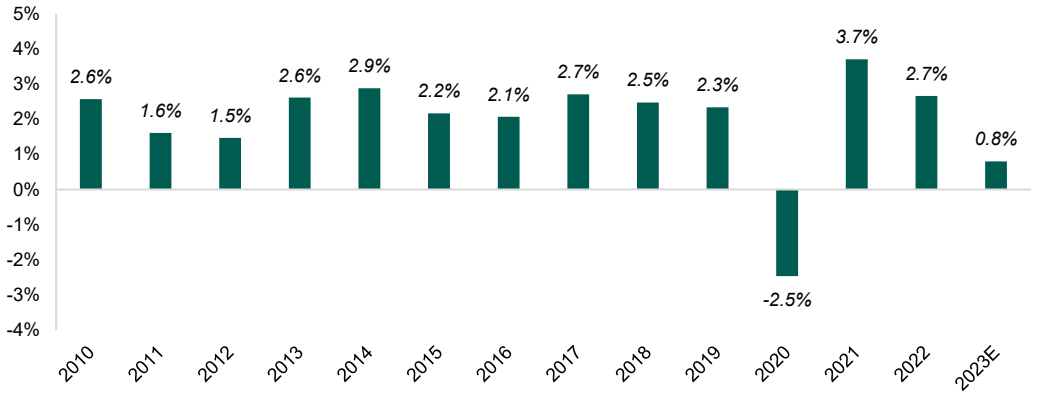
- Focuses on construction, engineering, and construction product companies
- 15+ years of experience in equity research
- Leading equity research on the infrastructure services space

Coverage Universe

AAON · apogee enterprises, inc. · ARCOSA · ATLAS TECHNICAL CONSULTANTS · B&W BABCOCK & WILCOX · Bowman · COMFORT SYSTEMS USA · CONCRETE PUMPING HOLDINGS · CPI · DYCOM · Eagle Materials · EMCOR Build. Power. Service. Protect. · ENCORE WIRE · FLUOR · GRANITE · KBR · Martin Marietta · MasTec Infrastructure that Delivers · MATRIX SERVICE · Mueller Water Products · Northwest Pipe Company · PSC Primoris · QUALTEK · QUANTA SERVICES, INC. · STERLING INNOVATION IN INFRASTRUCTURE · SUMMIT Materials · TECNOGLASS · Tutor Perini CORPORATION · valmont · Vulcan Materials Company · WILLSCOT MOBILE MINI HOLDINGS CORP

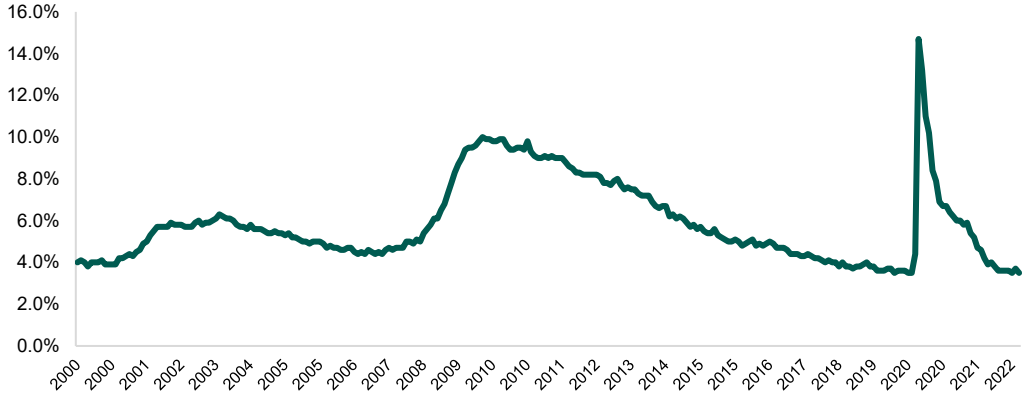
U.S. Economic Overview

GROSS DOMESTIC PRODUCT ANNUAL GROWTH



- The U.S. economy experienced modest growth in 2022
- Economist consensus for 2023 is GDP growth of 0.8%, though high uncertainty remains given the significant uncertainties in play: bank / credit woes, inflation, Ukraine, China's economic re-emergence, and upcoming Federal Reserve policy moves
- A vastly stronger U.S. dollar will provide further "drag" to corporate profits in the quarters ahead

U.S. UNEMPLOYMENT RATE

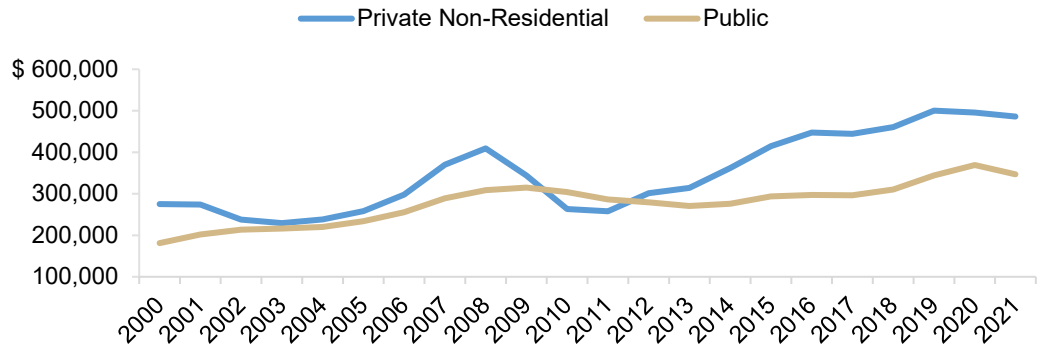


- Post-COVID unemployment levels have recovered to pre-COVID levels; the employment data remains nearly impervious to economic headwinds
- Workforce participation and overall labor availability continue to be the largest issue for employers looking to meet demand for new employees. There are still more than 1.25 open positions for every 1 worker seeking a job

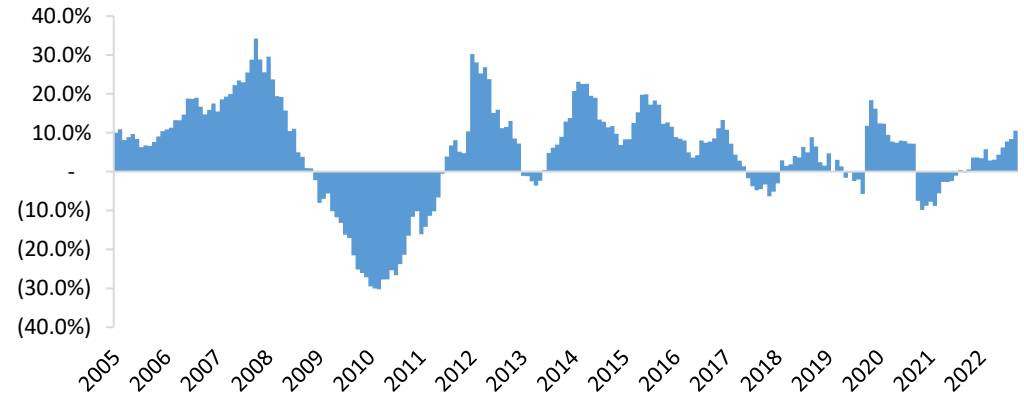
Sources: Organisation for Economic Co-operation and Development and Federal Reserve Economic Data

Infrastructure Services Macro-Economic Overview

HISTORIC U.S. NON-RESIDENTIAL & PUBLIC CONSTRUCTION SPENDING



PERCENT CHANGE IN NON-RESIDENTIAL CONSTRUCTION PUT IN PLACE



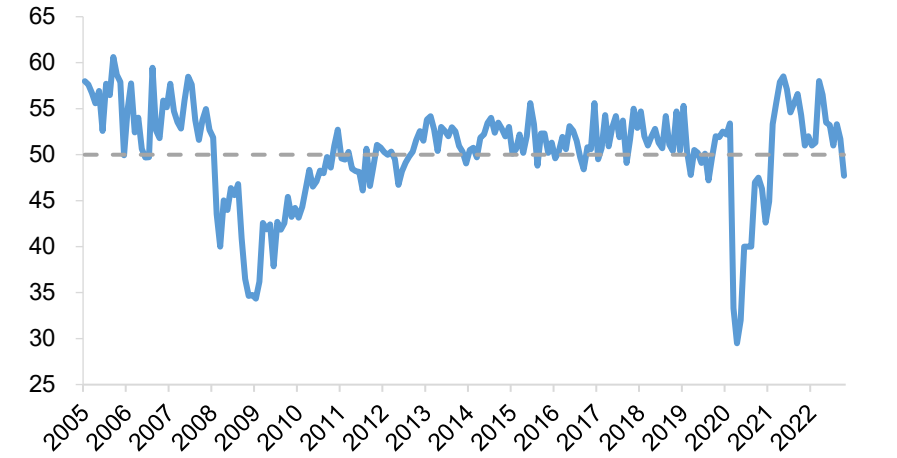
COMMENTARY

- Overall construction growth in 2022 was strong, but slowing in Q1 2023
- Overall wage and material inflation are creating challenges for both owners and contractors and pose a significant threat to activity
- Public construction demand, particularly transportation spending, has been buoyed by the infrastructure bill of 2021 and the Inflation Reduction Act of 2022. Spending has begun to flow from state DOTs and is expected to provide strong support for demand over the next 5 years
- Single-family home building has pulled back substantially in the last three quarters. Mortgage rates, cost inflation, and recessionary threats pose near-term challenges. Longer-term, a significant supply / demand imbalance exists with excellent trends to support continued homebuilding activity

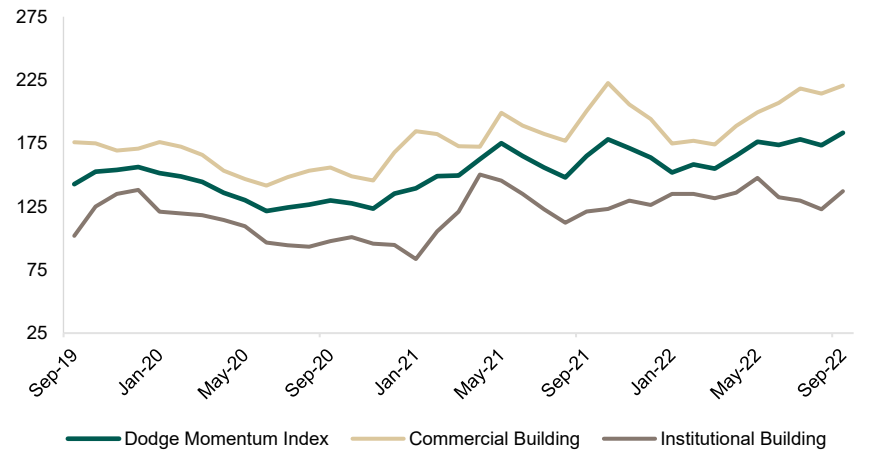
Sources: Capital IQ and Census Bureau

Non-Residential Construction Indicators and Data

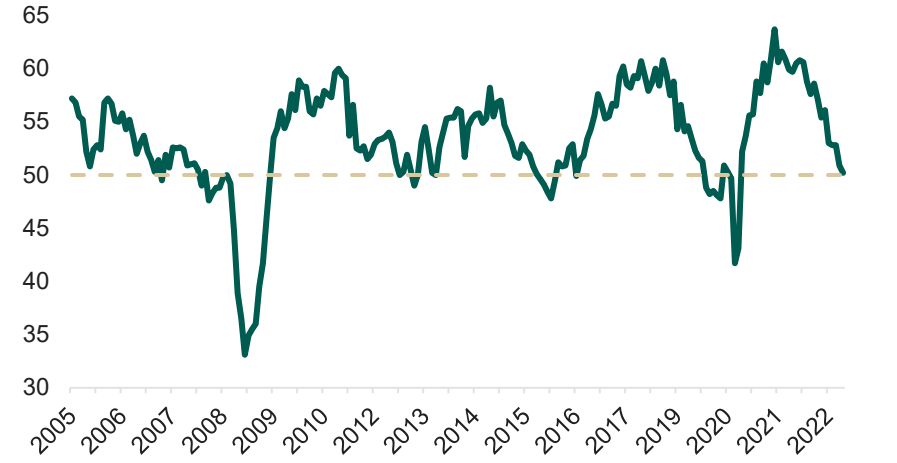
ARCHITECTURAL BILLINGS INDEX



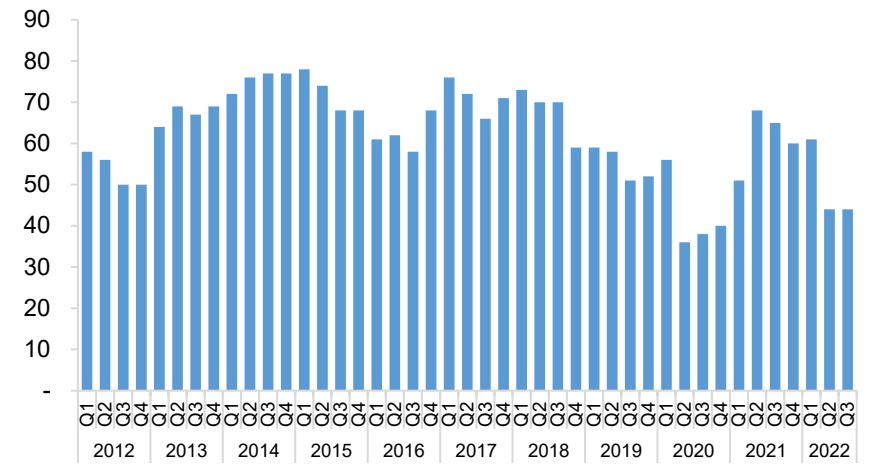
DODGE MOMENTUM INDEX



ISM MANUFACTURING INDEX

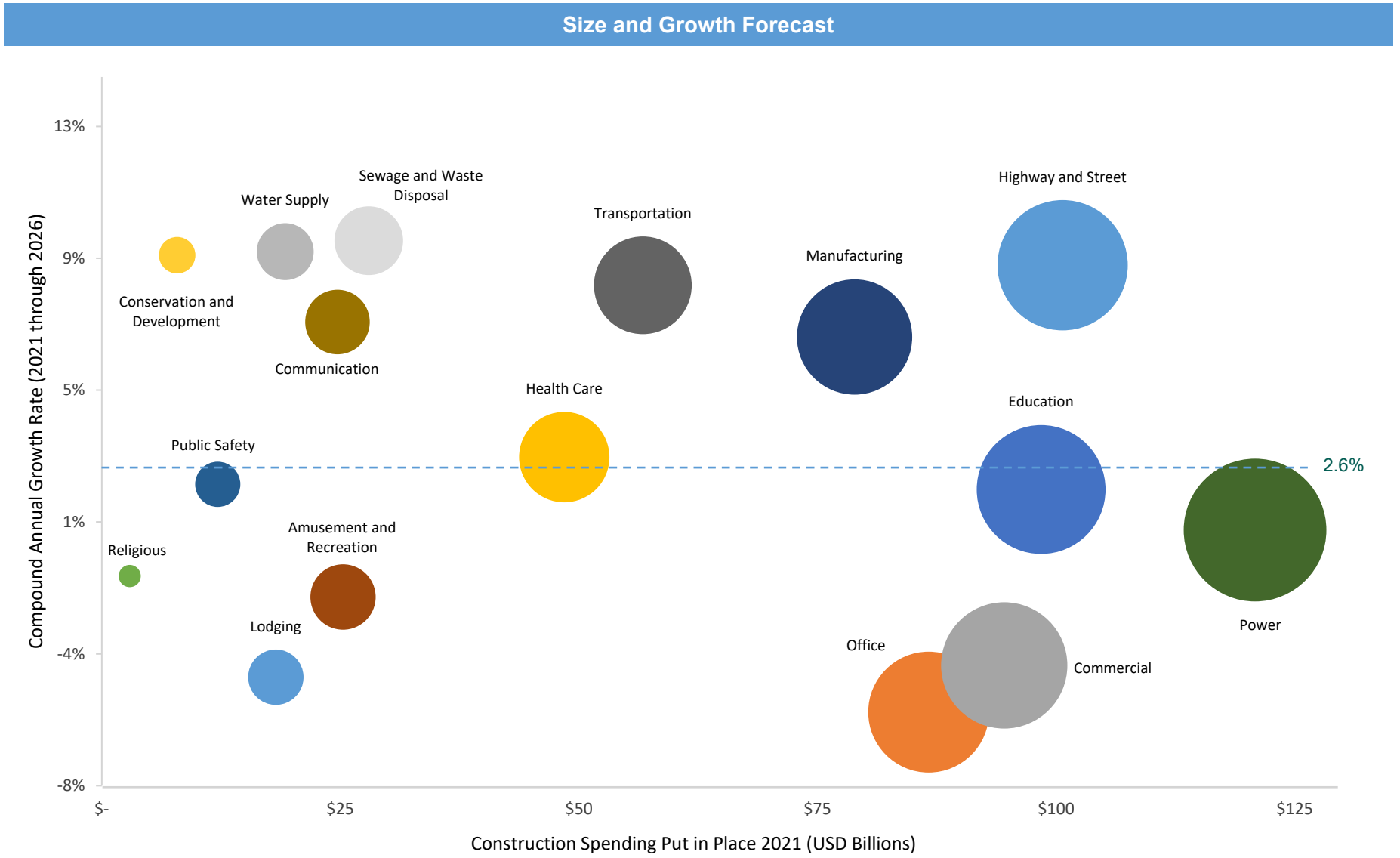


BUILDER CONFIDENCE



Sources: The American Bureau of Architects, McGraw Hill Construction, Institute for Supply Management

Non-Residential Construction Market Perspectives



Source: FMI.

Non-Residential Market Growth Forecast – Drivers & Commentary

STABLE OR EXPANDING

Segment	5 Year Growth Rate	Notes
Health Care	3%	▪ Deferred spending in COVID period now being released ▪ Many major hospital systems have planned upgrades
Manufacturing	6%	▪ International supply chain constraints encouraging on- / near-shoring ▪ Certain oil & gas investments are reflected in this category
Education	2%	▪ Deferred spending in COVID period now being released ▪ K-12 and higher education both expected to contribute to spending increases

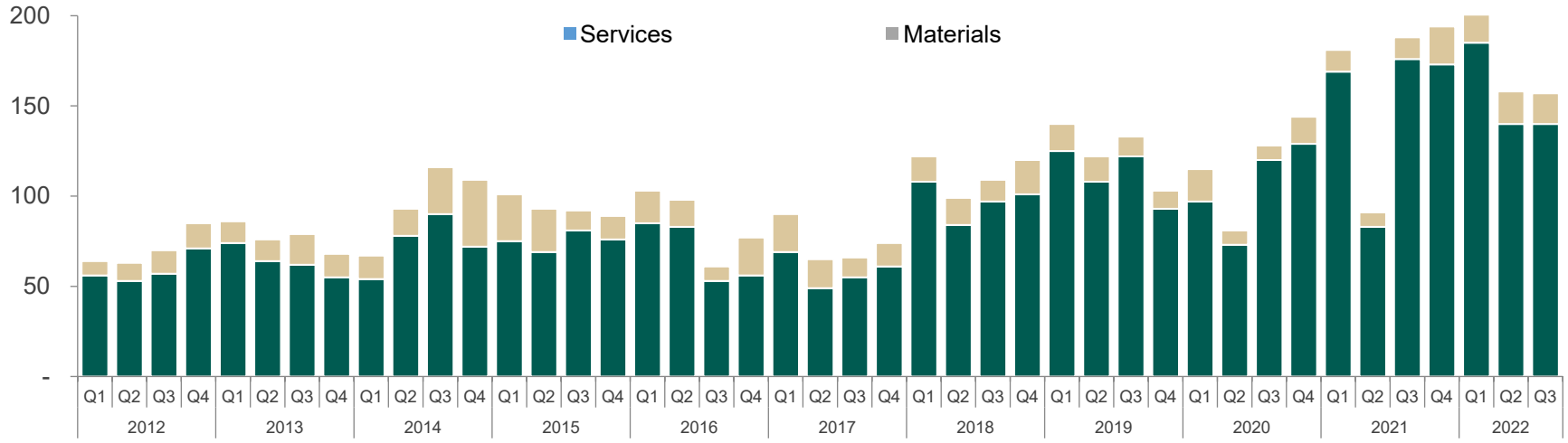
CONTRACTING

Segment	5 Year Growth Rate	Notes
Lodging	-5%	▪ Top geographic markets & CBDs down meaningfully in volume ▪ Expansion plans on hold through 2023 given interest rate environment
Amusement / Recreation	-2%	▪ Inflation has strong negative impacts on consumer discretionary ▪ Business travel reductions also contribute to sector softness
Religious	-1%	▪ Attendance down significantly post – COVID
Office	-6%	▪ Owners need less square feet ▪ Data center holding up sector growth above more dire levels
Commercial	-4%	▪ Retail headed for troubled waters in ’23-”24 ▪ Warehouse growth slowing as online distribution takes pause

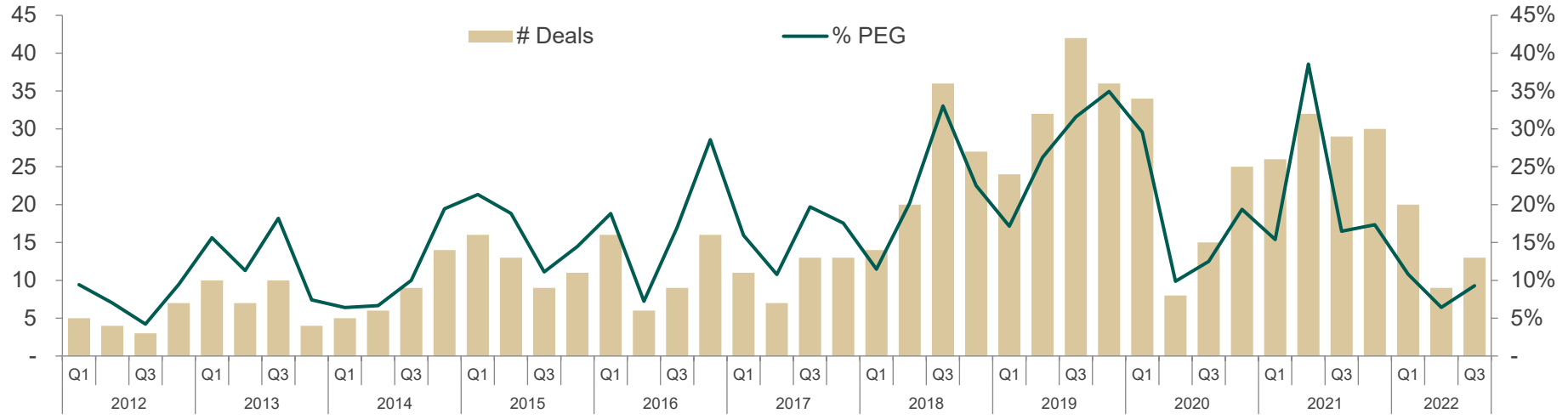
Source: FMI.

Infrastructure Services Transaction Activity

OVERALL INFRASTRUCTURE SERVICES & PRODUCTS TRANSACTION ACTIVITY



INFRASTRUCTURE SERVICES PRIVATE EQUITY ACTIVITY



Source: Capital IQ

Infrastructure Services: Current Market Themes

- Longer-term industry consolidation trends remain underway and will not abate
  - Market fundamentals support consolidation (to a point)
  - Strong demographic need for transition by private business owners remain, regardless of market conditions
- Significant focus by acquirers upon craft labor providers in the skilled trades (i.e., mechanical, electrical, plumbing, and roofing) given labor scarcity, increased fixed costs for technology, and relatively unconsolidated markets
- Market appetite for businesses with exposure to transportation, power & utility, water & wastewater, highway & street, and communications is increasing based on expected levels of elevated spending for the next 3-5 years
- After a significant level of public equity capital markets activity in the last three years resulting in multiple new publicly-traded infrastructure services firms, capital markets activity has paused in 2H 2022 with uncertainty around when the market will re-open for both new and existing issuers
- Private equity investors remain active in infrastructure services acquisition activity
  - Interest is broad across the sector with a general focus on recurring maintenance & repair services, access to above average growth in end markets, and lower risk business models
  - Ample liquidity remains for quality businesses that can demonstrate a recession-resistant model
- Increases in the cost of borrowing combined with lower levels of availability constrain valuations for acquisitions, especially among private equity firms
- As in past business cycles, residential building products manufacturing and distribution have fallen out of favor after elevated levels of acquisition activity in the post-COVID period (mid-2020)

Case Study of Project Elk: Southeastern Commercial Roofer Advised on Majority Sale by D.A. Davidson

Leading and rapidly-growing provider of reoccurring commercial roofing services to a diversified and attractive customer base in a coveted region

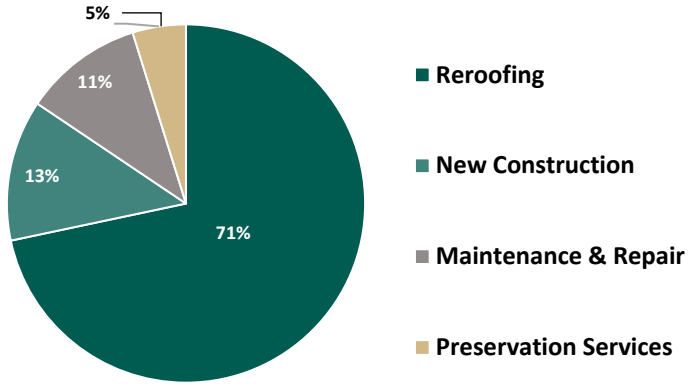
KEY HIGHLIGHTS

- ✓ Leading Commercial Roofing Provider with Established Scale in a Coveted Region
- ✓ Focused on Reoccurring, Non-Discretionary, and Asset-Light Reroofing Services
- ✓ Highly Diversified Across Attractive Customer Base and Desirable End Markets
- ✓ Proven Ability to Establish Thriving New Branches with Additional Growth Strategies
- ✓ Accelerating Performance, Strong Visibility, and Margin Discipline
- ✓ Ideal Platform for Consolidation in a Highly Fragmented Sector
- ✓ Top-Notch Leadership Team and Deep Bench of Managers Drive Winning Culture

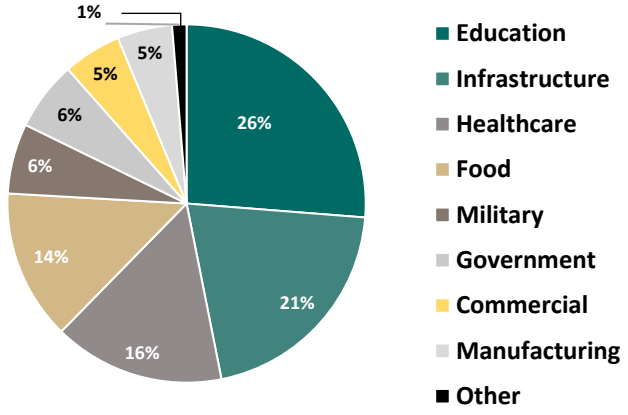
BY THE NUMBERS

$65M FY 2022B Revenue	**Mid-Teens** Adjusted EBITDA Margins	**~26%** 2019 – 2021 Revenue CAGR
~98% FY 2022B CFC(1)	**~$37M** Backlog as of May 2022	**140+** Customers Served
1,595 Total Projects in 2021	**0.63** Experience Modification Rate	**0.0** Lost Workday Case Rate

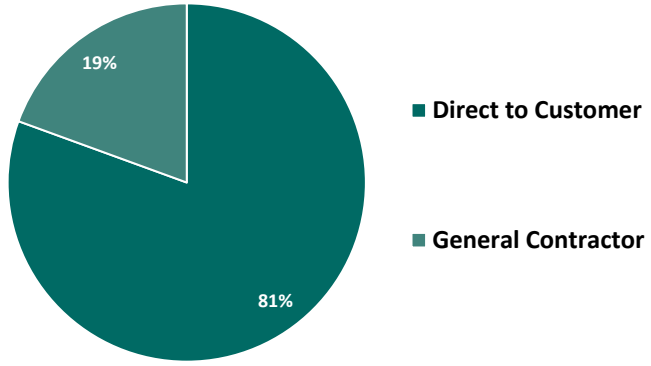
REVENUE BY SERVICE OFFERING



REVENUE BY END MARKET



REVENUE BY CUSTOMER TYPE



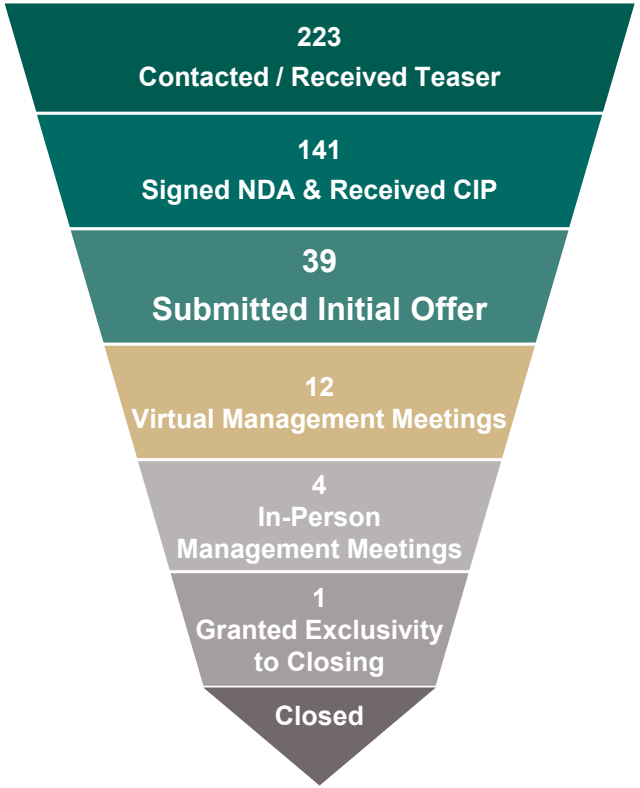
Note: Revenue diversity figures represent 2021 results.
(1) Cash Flow Conversion calculated as (Adj. EBITDA – Maintenance CapEx) / Adj. EBITDA

Case Study of Project Elk: Sale Process Overview

Davidson ran a comprehensive process focused on the private equity community, contacting over 220 parties

SUMMARY OF SALE PROCESS

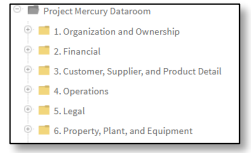
- Beginning in March 2022, D.A. Davidson conducted a broad outreach on behalf of Elk to 223 private equity firms that were expected to have interest
  - Excluded from the outreach were other roofing companies and most private equity firms with pre-existing investments in the commercial roofing space
- Of the 223 parties contacted, 141 executed a nondisclosure agreement ("NDA") and received the Confidential Information Presentation ("CIP")
- Davidson held ~100 introductory conversations with 65 buyers (Mgmt. not involved)
- Management engaged in 5 select virtual meetings to introduce the business and answer preliminary questions
- **Of the 141 parties that signed NDAs, 39 submitted written initial offers**
- Management and Davidson evaluated and vetted the top 21 offers for strategic and personal fit with the Elk team
  - Ultimately, 12 parties were selected for virtual management meetings
- After the virtual management meetings, all 12 parties were asked to refresh offers
- Based on the refreshed offers and "fit", Davidson and Elk Management downselected to 4 parties for in-person management meetings and further diligence
- Those 4 parties submitted LOIs in mid-July
- After final negotiations to maximize value and optimize offers, a private equity firm was selected for exclusivity and confirmatory diligence
- Transaction closed in October 2022



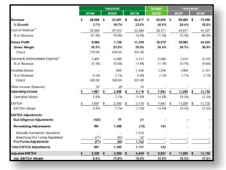
D.A. Davidson's sale process generated the highest lower middle market commercial roofing multiple to date

KEY PROCESS DOCUMENTS

Data Room

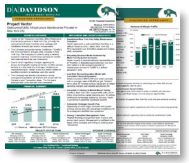


Financial Model



Quality of Earnings Report

Summary Fact Sheet



Confidential Information Memorandum

Buyer Marketing Tracker

Management Presentation

Update Packages

Diligence Trackers

Purchase Agreement & Other Closing Docs

Case Study of Project Elk: Selected Market Feedback

Below are some of the most commonly received positive observations and concerns from potential buyers throughout the marketing process for Elk

ATTRACTIVE INVESTMENT ATTRIBUTES

- ✓ High mix of **non-discretionary** and **reoccurring** services: Reroofing (71% of sales), Maintenance & Repair (11%), and Preservation Services (5%)
- ✓ Longstanding and reoccurring **relationships with desirable customer base**
- ✓ Focused on **attractive end markets** characterized by large and stable capital budgets (healthcare, education, food processing, manufacturing, infrastructure)
- ✓ Strong record of long- and short-term **financial growth and expanding margin profile**; Limited capital expenditures drives **attractive free cash flow** profile
- ✓ Commercial roofing a **highly fragmented sector with significant opportunity for consolidation**
- ✓ Very **strong safety track record**; **Sophisticated internal controls** for project selection and estimation; Best-in-class IT systems in place
- ✓ **Attractive Management/Owner dynamics**, with Management intending to roll a sizable portion of equity into the transaction and to lead the company for years

CONCERNS

- X Significant **performance bonding** requirements (~40% of revenue is bonded)
- X **Project-based nature of work with varying margin profiles** that could leave the business susceptible to volatility
- X Lack of comfort with **larger ticket projects** (preponderance of $300K to $700K jobs) that are on 10-15 year cycles for replacement
- X **Geographic concentration**, with 75% of sales in a single state
- X **Rising materials costs and labor rates** drive concerns over margin pressure; Concern that **materials delays** could result in project delays and retard growth
- X **Gross margins lower than other similar roofing companies** that have been for sale recently
- X Some uninformed buyers still see the sector as **"construction"** and thus either passed or submitted weak offers

What's Hot – Attributes and Areas of Strong Investor Interest in the Construction & Engineering Sector

KEY ATTRIBUTES

- ✓ Reoccurring revenue / Serves the installed base
- ✓ Non-discretionary / Essential services
- ✓ Stable demand / Non-cyclical
- ✓ Customer diversification
- ✓ Attractive and stable end markets
- ✓ Historical and/or projected growth
- ✓ Strong profit margins
- ✓ Lower levels of capital intensity
- ✓ Fragmented sectors with consolidation opportunity
- ✓ Preference for non-union
- ✓ Preference for minimal performance bonding

HOT SECTORS

- ✓ Home services
  - HVAC
  - Plumbing
  - Roofing, Windows, Doors, Gutter
  - Waterproofing / Foundation
- ✓ Facility Services, particularly…
  - Data center
  - Healthcare
  - Multifamily
- ✓ Utility services
  - Electric / Gas
  - Telecommunications
  - Water / wastewater
- ✓ Specialty Trades
  - Electrical
  - Mechanical
  - Roofing
  - Elevator
  - Fire / Life Safety
- ✓ Environmental
  - Engineering
  - Tank cleaning
  - Remediation
  - Restoration
- ✓ Electrification
  - Fuel station services

Speakers

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