



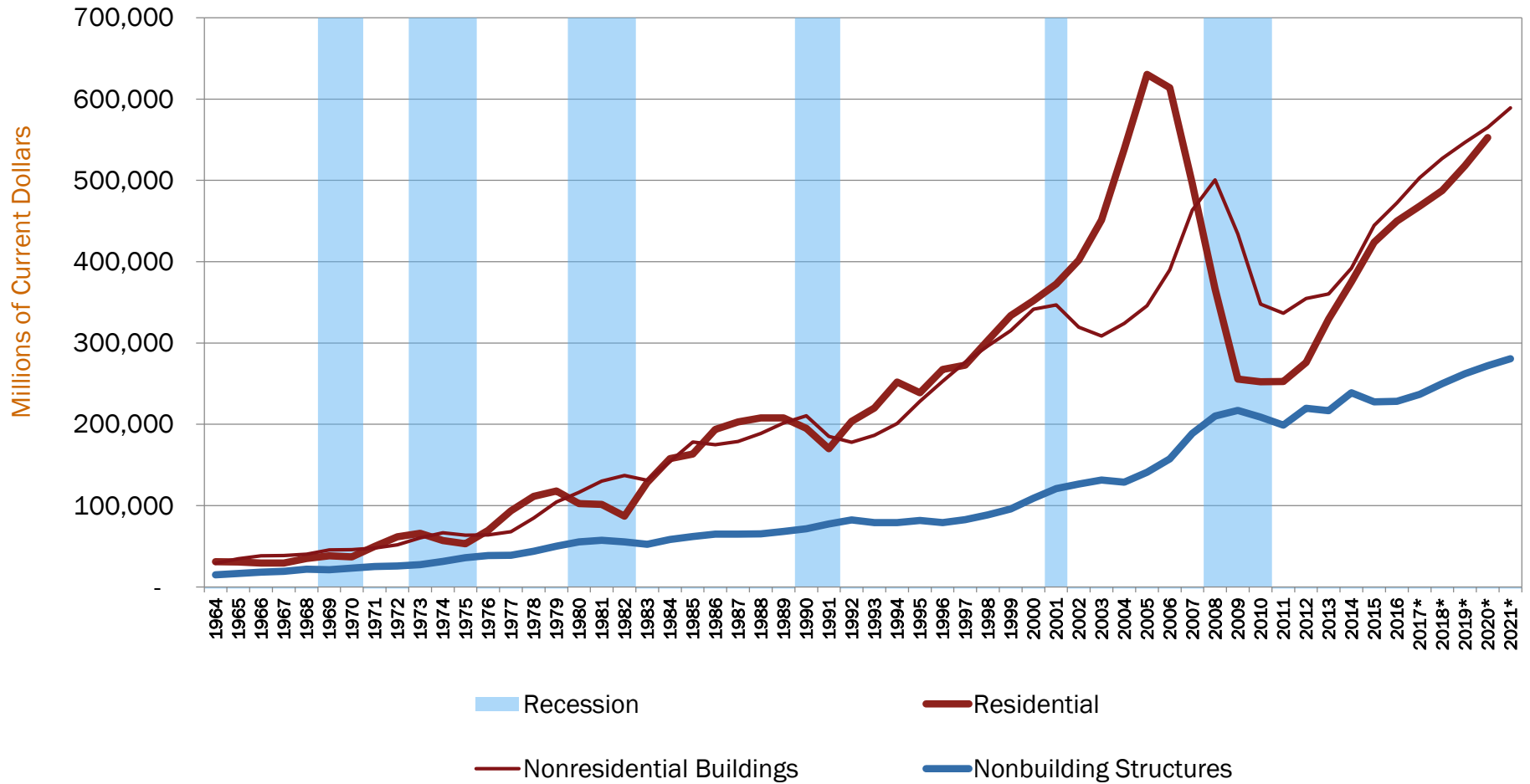
Industry Focus. Powerful Results.™

.....

**Recession Proofing Your Company:
What you need to do Today
to be Ready**

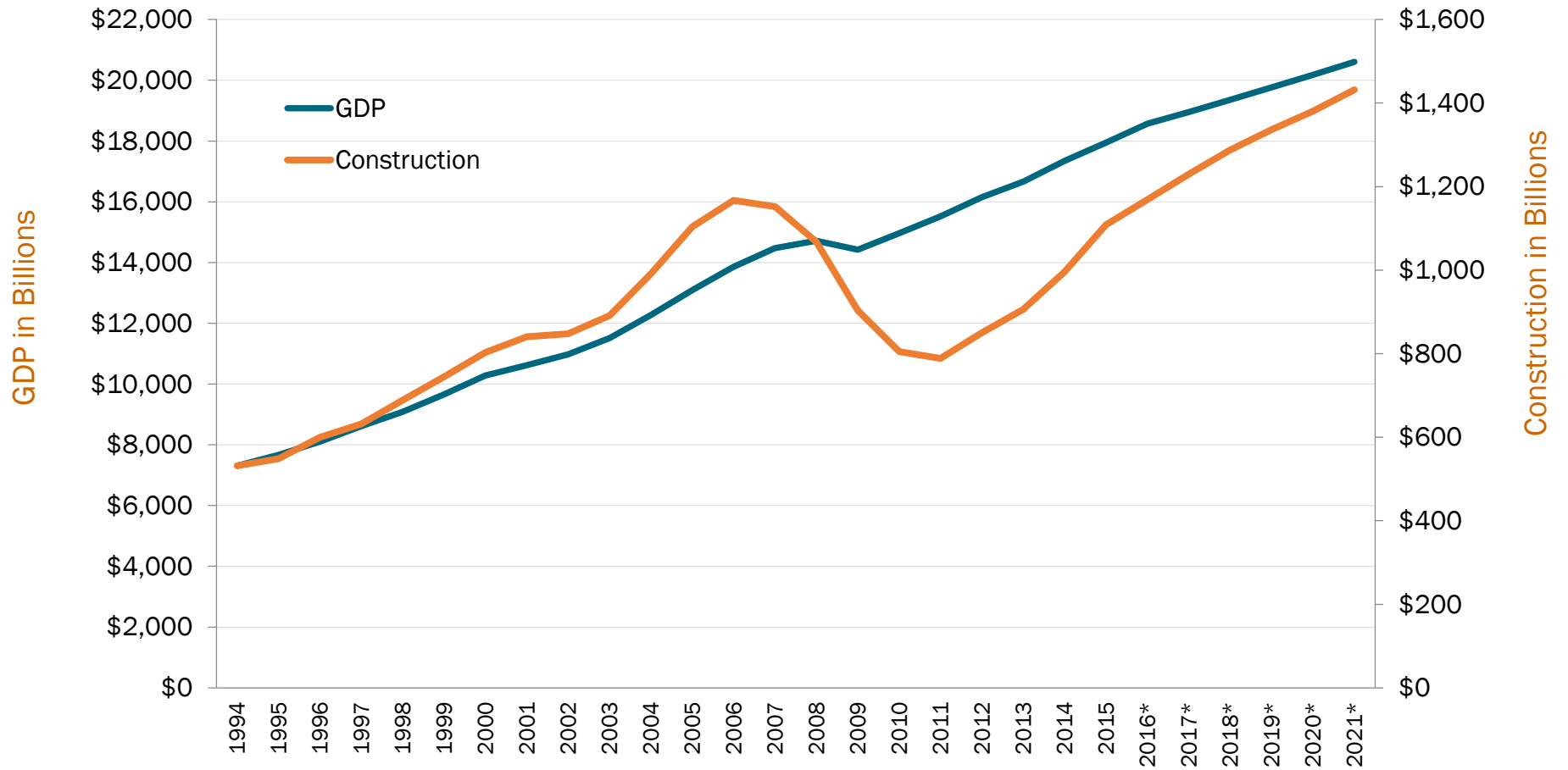
Construction Spending

Construction Put in Place



Construction Spending vs. Gross Domestic Product

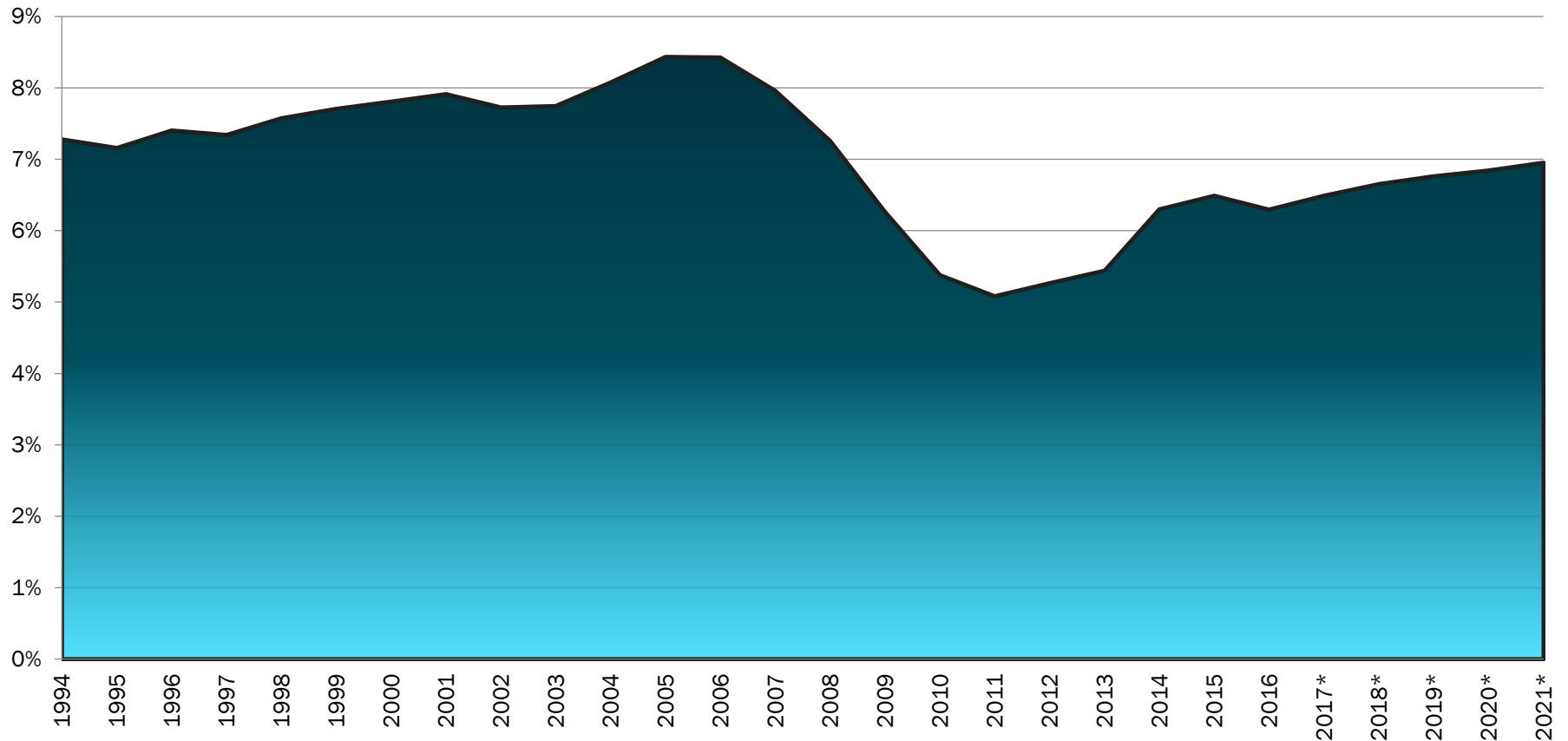
Construction Put in Place and GDP



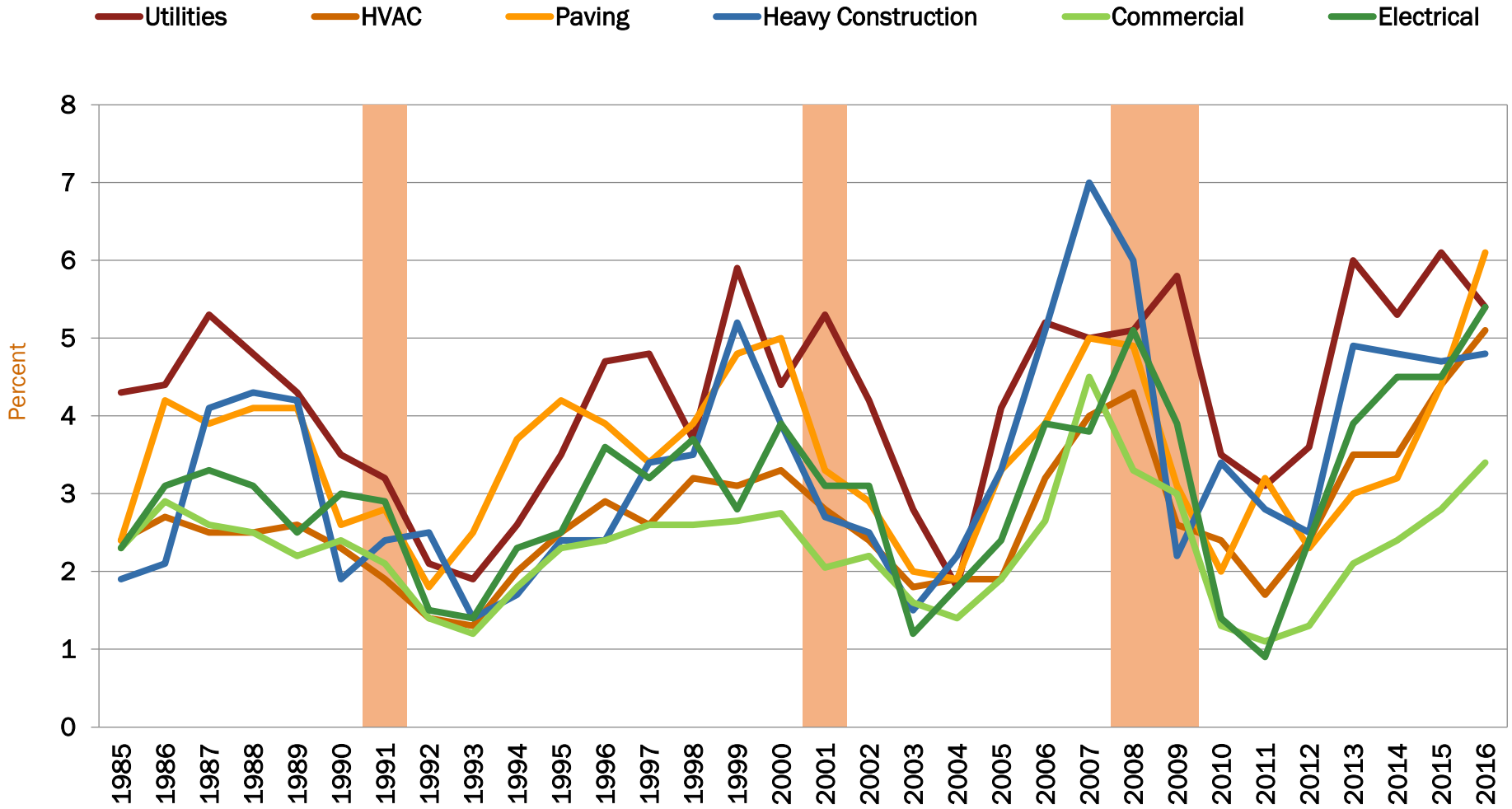
* FMI Forecast

Construction as a Percentage of GDP

Construction Put in Place and GDP



Contractor Profit Before Tax



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

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?

- 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?



What Should You Do?

Basic strategies to hedge demand uncertainty

- “Too big to fail”
 - Build a bigger balance sheet and outlast the competitors
- “Build a better portfolio”
 - Diversify and mitigate single-market dependencies
- “Chips off the table”
 - Time the market, sell at the peak
 - When is that?
- “Eternal optimist”
 - No signs of recession yet, why panic?
 - Head in the sand?

Develop Insights Beyond Your Backlog

- National Bureau of Economic Research
- Engineering News Record
- ABI Index
- FMI – Quarterly Outlook, Nonresidential Construction Index
- Wall Street Journal
- Local Business Journals
- Trade magazines
- AGC, ABC, other trade associations



“Hindsight is 50/50”

- “What would you have done differently if you had known two 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 lessons learned?
- Why would you not use this opportunity to plan ahead?

What You Can Do To Prepare For The Next Recession?

- Plan early
- Don't panic
- 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

Ten Tactics To Plan For Success

Checklist – in your bottom desk drawer

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

Ten Tactics To Plan For Success

Checklist – in your bottom desk drawer

- Incorporate contingency planning into all strategic discussions
 - Best case, worse case, most likely
- Reduce nonessential spending
- Examine your team and strengthen weak positions
- Keep your bank and bonding company informed
- Make swift, informed decisions
- Communicate with your team
- Keep your customers close

Simplified Framework To Assess “Readiness”

Get Work – Basic Truths

- The “way we’ve always done it” may not work
- 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 can improve results

Simplified Framework To Assess “Readiness”

Get Work – Best Practices

- Know your costs, price for profits
- Competitors costs are not the same as yours
- Base price on “value,” not just costs
- Have discipline in business development and bidding - “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
- Standard practices improves efficiency faster than anything else
- Proactive processes trump reactive individuals
- Changing behaviors and habits are the biggest hurdles

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
- Clients will allow you to finance the job if you let them
- 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

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

About FMI

For over 60 years, FMI has been the leading **management consulting and investment banking** firm dedicated exclusively to **engineering and construction, infrastructure and the built environment**.

FMI serves all sectors of 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.

Sector Expertise

- A/E and Environmental
- General Contractors/CM
- Heavy Civil
- Industrial
- Specialty Trades
- Utility T&D
- Cleantech and Energy Services
- Construction Materials
- Building Products
- Oil and Gas
- Private Equity
- Owners