

GENERAL SESSION

Tuesday, November 3, 9:00 a.m.—noon

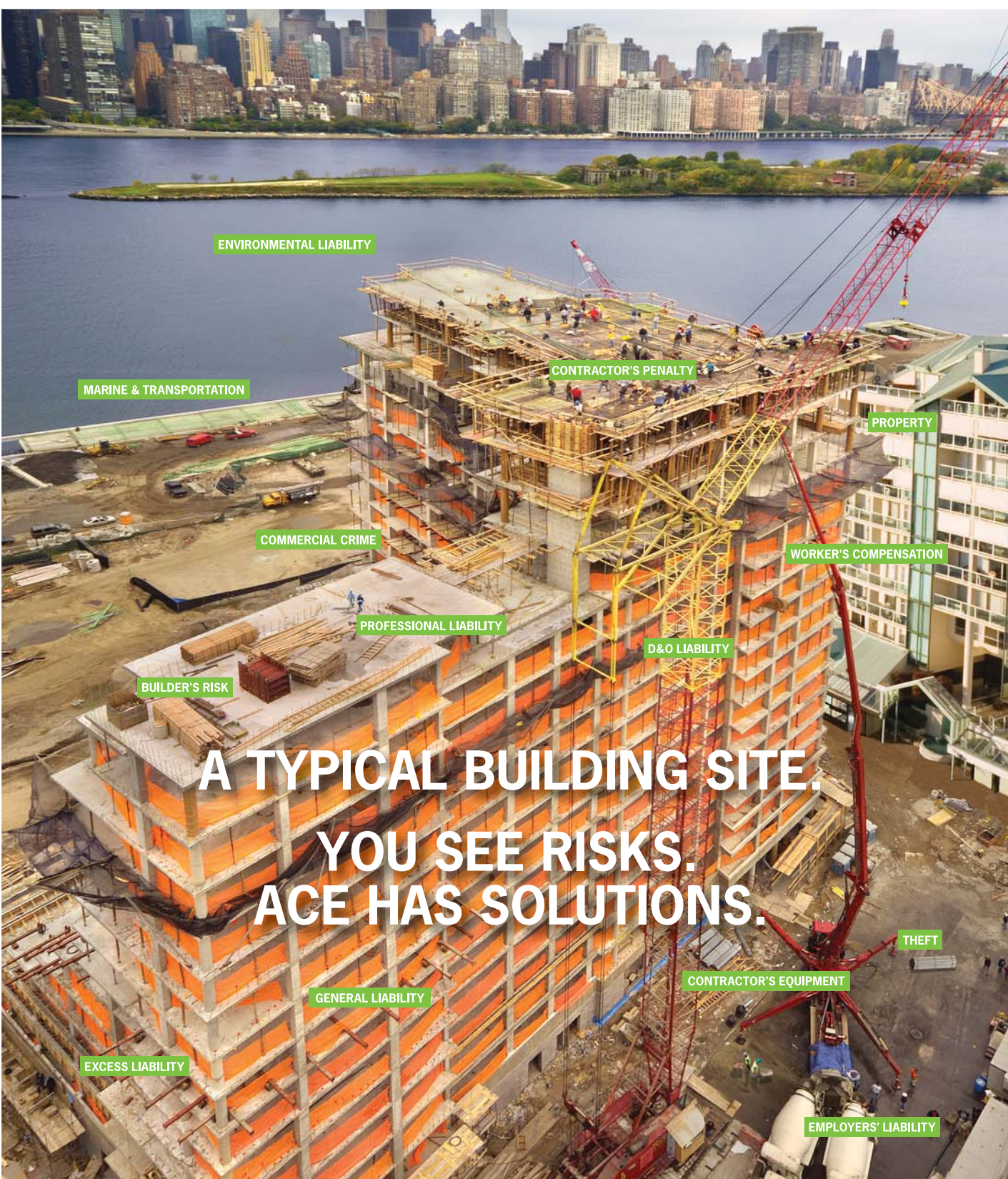
LESSONS LEARNED FOR THE CONSTRUCTION INDUSTRY

Presented by



Hugh L. Rice
Chairman
FMI Corporation

Both the insurance and construction industries have been through challenging times in recent years, and the challenges are not over. Our keynote speakers, executives from the construction and insurance industries, will discuss strategies and tactics companies have employed that affected their ability to weather one of the most severe economic downturns in history or positioned the companies to prosper in the future. By examining both the good and bad decisions construction companies or insurers made, and the impact these decisions had on their ability to respond to challenges, risk and insurance professionals can help position their companies or clients to not only survive, but to thrive, in the future.



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Hugh L. Rice
Chairman
FMI Corporation

Mr. Rice is a keynote speaker for Tuesday's General Session. He joined FMI in 1972 and opened the Denver office in 1979. He created the firm's Mergers & Acquisitions Group, which has completed more than 500 construction industry acquisitions since inception. He served as Chief Executive Officer of the firm until 2003. Mr. Rice's major consulting activities include stock valuations, ownership transition planning, merger/acquisition advice, strategy development, and capital services.

Because of his expertise and experience in dealing with strategy and ownership issues in the construction industry, Mr. Rice is frequently asked to speak before groups of international scope. Over the past 2 decades, he has made presentations to virtually every major construction industry organization in the United States. He is on the board of directors or advisory board of several major construction firms.

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Notes

This file is set up for duplexed printing. Therefore, there are pages that are intentionally left blank. If you print this file, we suggest that you set your printer to duplex.



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for the CONSTRUCTION INDUSTRY

Lessons Learned for the Construction Industry

**The 29th IRMI Construction
Risk Conference
Washington, DC**

**Hugh L. Rice, Chairman
FMI Corporation
Denver, Colorado**

November 3, 2009

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General Session

- **Reality versus perception**
- **Largest volcano**
- **Man on the moon**

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“You can never plan the future by the past”

–Edmund Burke, political philosopher (1729-1797)

**“We learn from history that we learn
nothing from history.”**

–George Bernard Shaw

“A thing long expected takes the form of the unexpected when at last it comes.”

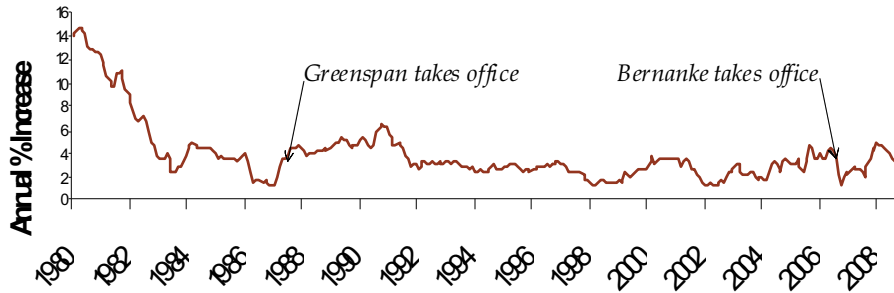
—Mark Twain

“History doesn’t repeat itself, but it rhymes”

—Mark Twain

Inflation Remains Under Control

Rate of Consumer Price Inflation 1978–2009

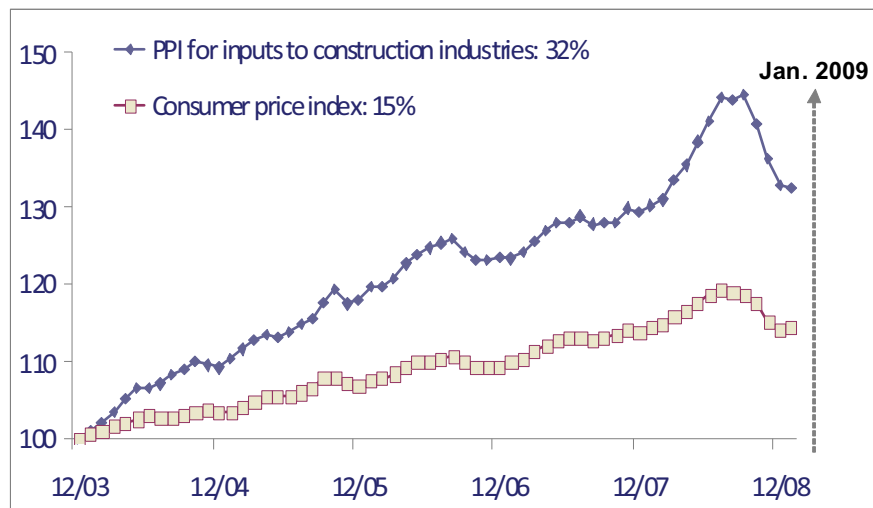


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Source: U.S. Department of Labor

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Change in Producer Prices for Construction versus Consumer Prices, 2003 – 2009 (December 2003 = 100)



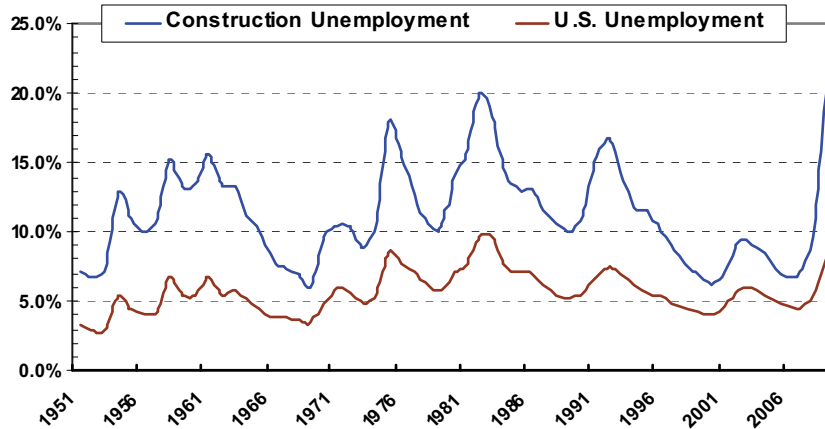
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Source: BLS (CPI, PPI)

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Jobs and Unemployment

Construction Unemployment Rates (1951 – 2009)

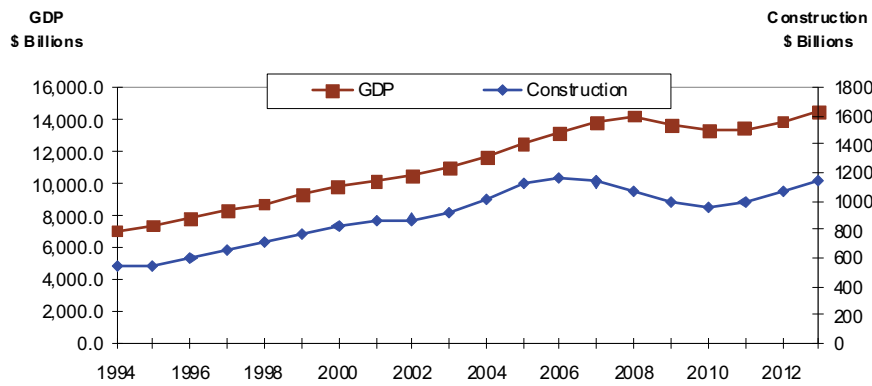


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Source: U.S. Department of Labor

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Construction Put In Place and GDP

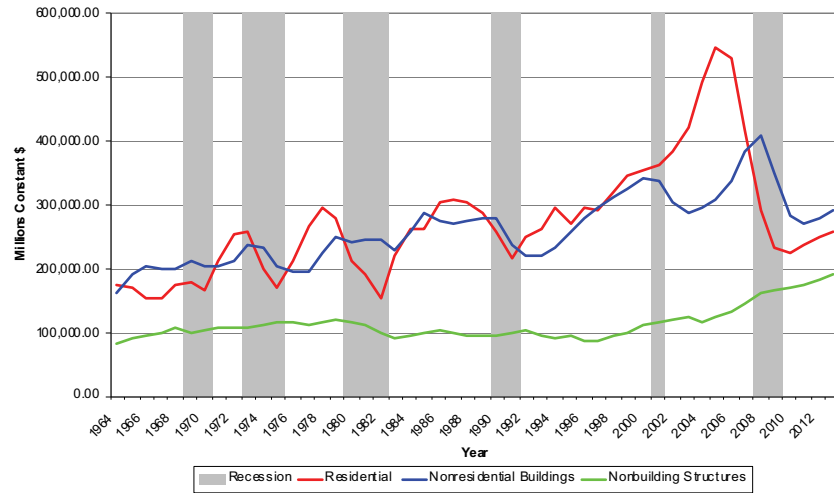


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Years 2008 Through 2013 - FMI Forecast

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Constant \$ Put in Place Construction

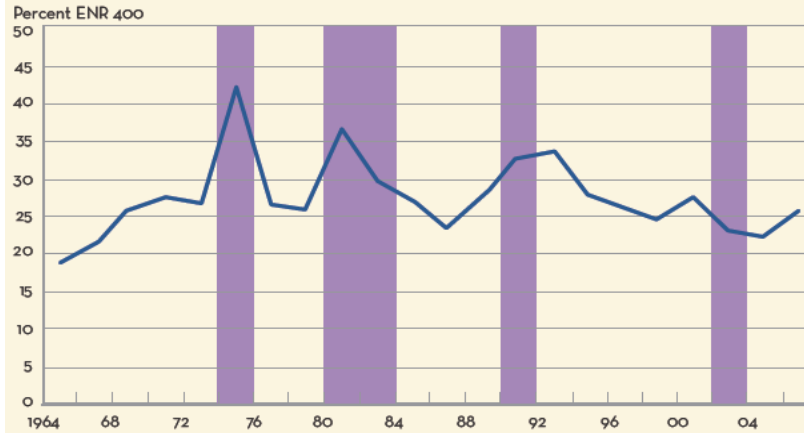


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Exhibit 2
ENR 400 Share of Non-Residential Construction

U.S. economic recession
ENR industry activity



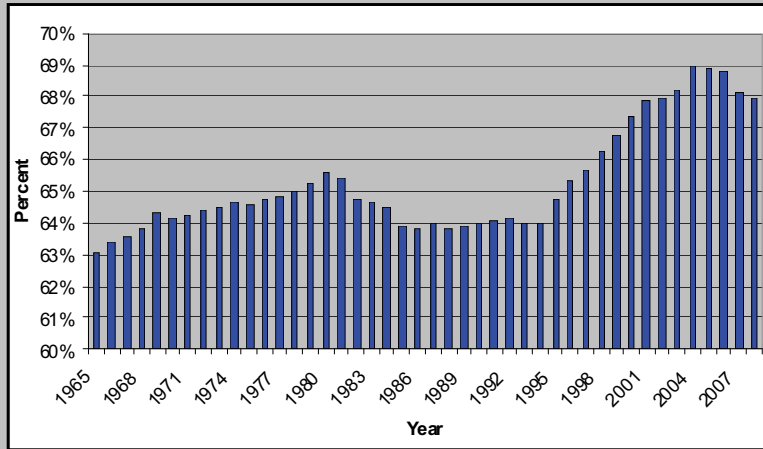
Source: ENR Top 400 Contractors, 1964-2008

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Only a Five Percent Increase in Home Ownership Led to a Housing Market Collapse

Percentage of Households Owning Homes



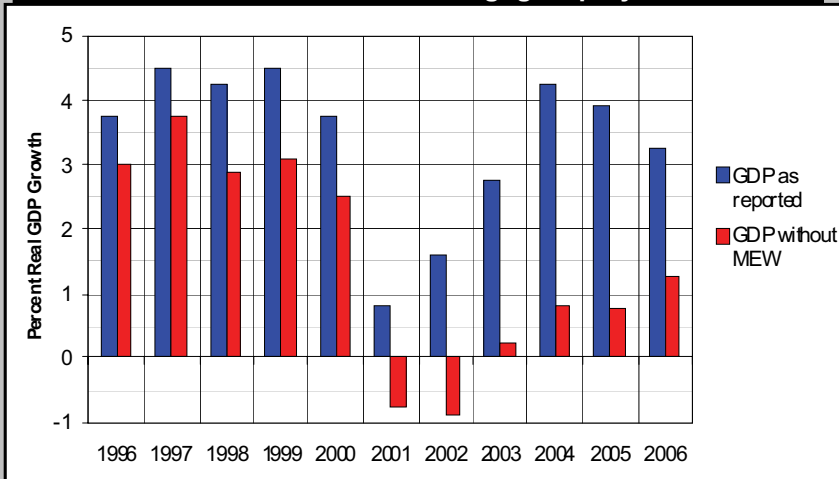
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Source: T2 Partners LLC, Overview of the Housing/Credit Crisis, Census Bureau

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Mortgage Equity Withdrawal's Impact on GDP

GDP Growth: With and Without Mortgage Equity Withdrawal

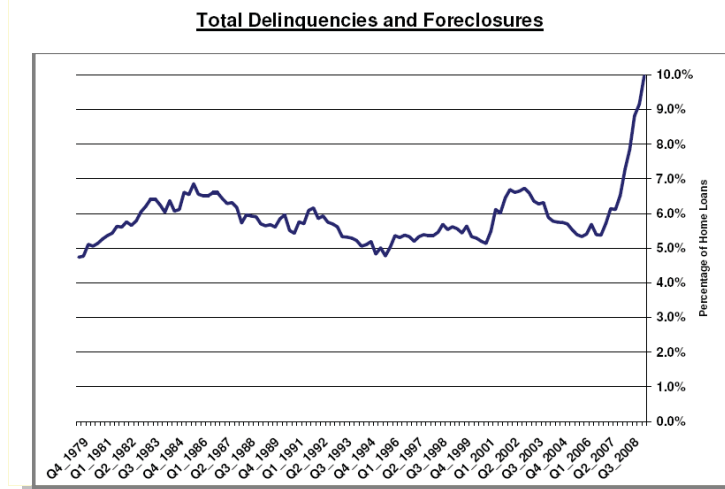


Source: <http://www.calculatedriskblog.com>, MEW's Impact on 2007, January 3, 2007

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Housing Delinquencies and Foreclosures



Source: T2 Partners LLC, *Overview of the Housing/Credit Crisis*, Mortgage Bankers Association

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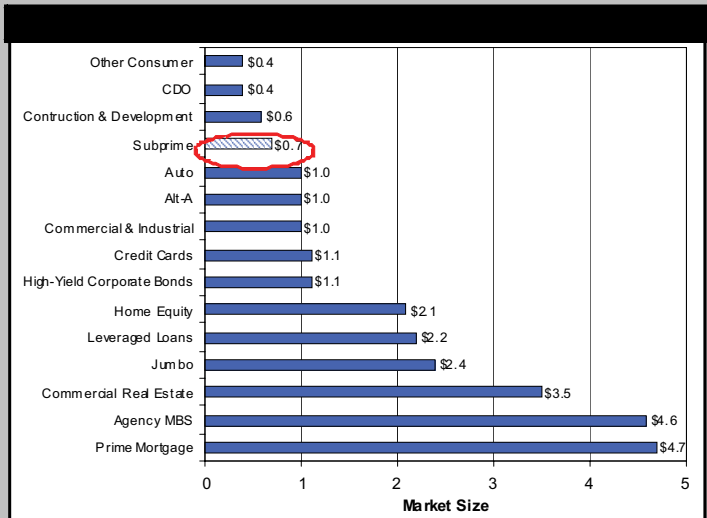
Housing – It's not over

Months Supply	1.9 Months - Sacramento 15.7 Months - Charlotte
Price Change	-31.0% - Las Vegas +2.9% - Boston
% Delinquent or in Foreclosure	27.0% - Miami 7.5% - Portland
Apartment Vacancy	7.8% - Highest in 23 years

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But Subprime Mortgages Are a Tiny Part of the Problem



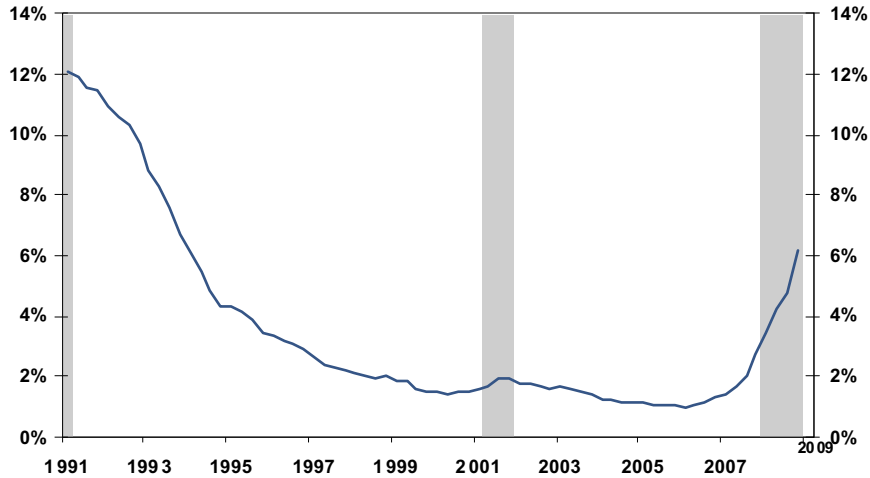
Source: T2 Partners LLC, *Overview of the Housing/Credit Crisis*, Flow of funds data and Paulson estimates

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Commercial Real Estate Delinquency Rates: Q1 @ 6.2

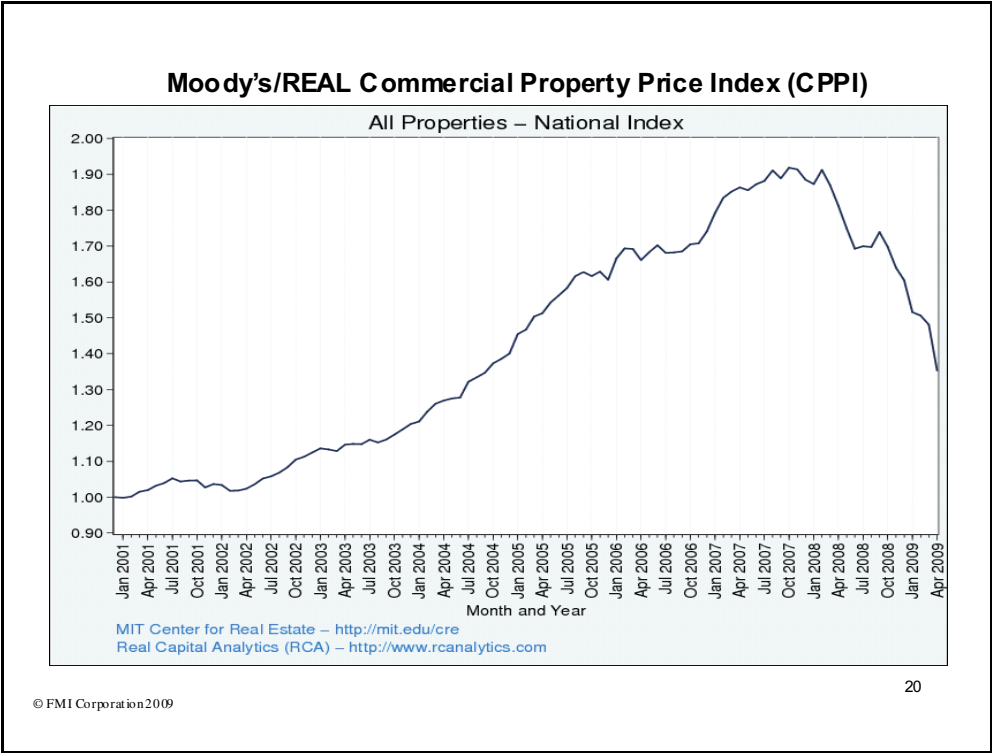
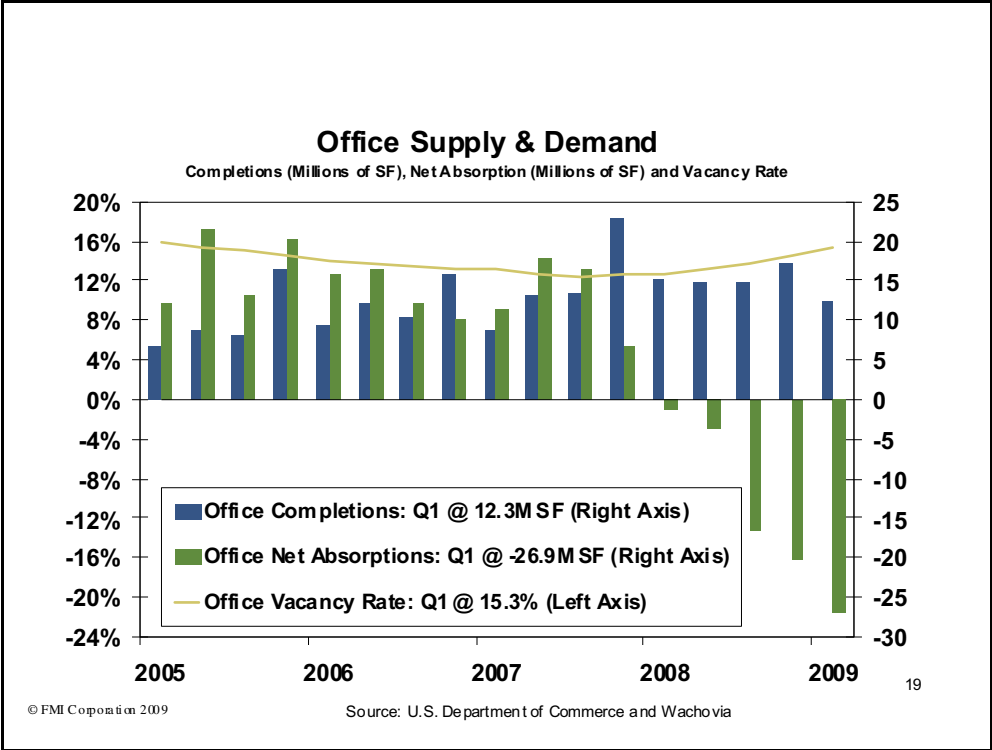
Commercial Real Estate Delinquency Rates
Seasonally Adjusted



Source: U.S. Department of Commerce and Wachovia

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The world has changed – short term!

- Credit/liquidity crisis
- Housing/mortgage depression
- Commodity price increases
- Declining dollar
- Global slow down/decreasing U.S. exports
- Recession how long? How deep?
- Bulging Federal deficit
- Tax increases on the horizon

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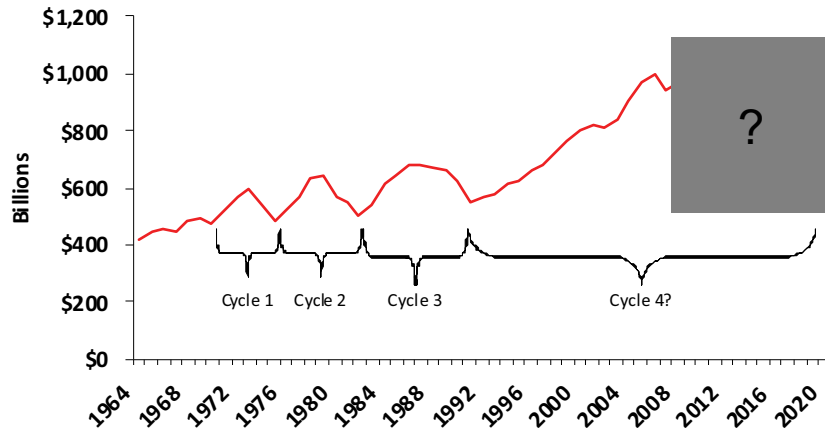
The world has changed – short term!

- Inflation? How much? (41% vs. 19%)
- Rising unemployment. How high?
- Reduced consumer confidence/biggest decline since 1990-1991
- Falling tax receipts/State budget problems
- Record personal debt
- First significant recession in 20 years

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Construction Spending Put in Place* Adjusted for inflation (2000)



*Slide is for illustrative purposes only; this is not a forecast

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Where will you be in 10 years? (1 of 2)

- Encompass Services Group
- Guy F. Atkinson
- IT Group
- JA Jones
- Morrison Knudsen
- Railworks Corporation
- Stone & Webster
- Dillingham Construction

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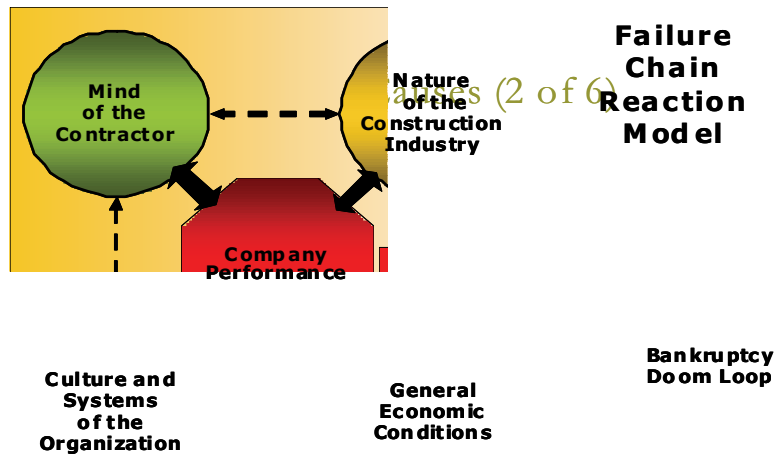
Where will you be in 10 years? (2 of 2)

- JWP Group
- Raymond International
- Modern Continental
- The Austin Company
- Dick Corporation
- Morse Diesel/AMEC
- T.L. James
- Fishbach & Moore

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Contractor Failure Chain

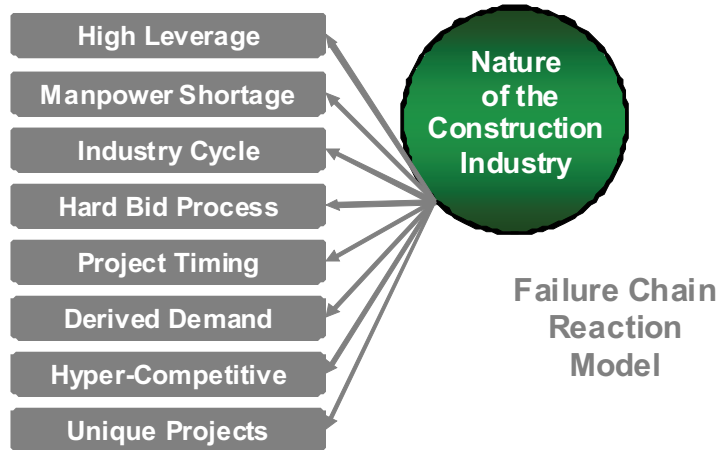


Source: FMI Research on "Why Contractors Fail", FMI Quarterly, Issue 2, 2007, pg 56.

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Nature of the Construction Industry

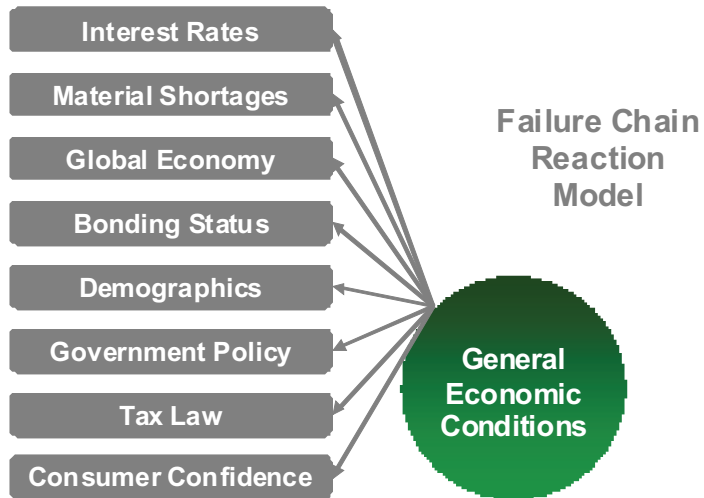


Source: FMI Research on "Why Contractors Fail", FMI Quarterly, Issue 2, 2007, pg 57.

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General Economic Conditions

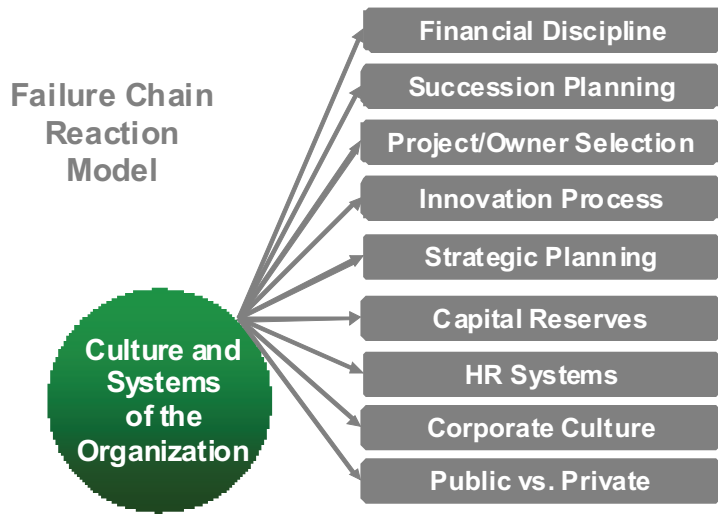


Source: FMI Research on "Why Contractors Fail", FMI Quarterly, Issue 2, 2007, pg 57.

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Culture and Organization Systems

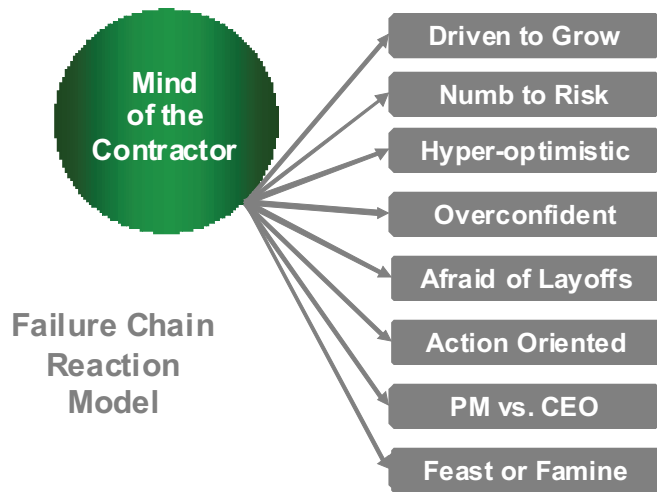


Source: FMI Research on "Why Contractors Fail", FMI Quarterly, Issue 2, 2007, pg 59.

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The Mind of The Contractor



Source: FMI Research on "Why Contractors Fail", FMI Quarterly, Issue 2, 2007, pg 60.

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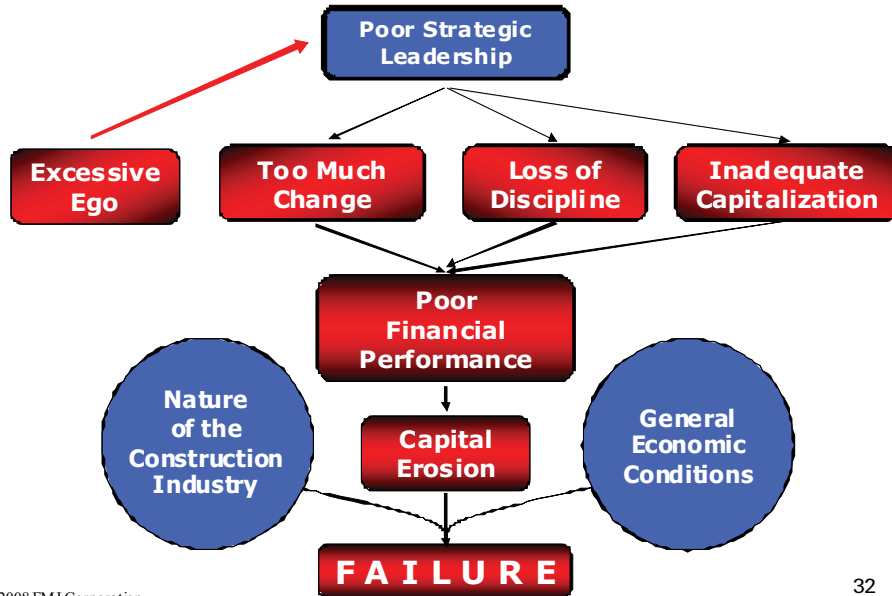
Causes Behind The Causes



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Causes Behind The Causes



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Most-Agreed-To Criteria of Success

Top Checklist Items That Indicate Success

Operating with integrity	(87%)
Customer satisfaction	(77%)
Company's reputation in community and industry	(74%)
Accomplishing the company's mission	(72%)
Employee satisfaction	(70%)
Thriving organizational culture	(66%)
Superior safety record	(64%)
Quality workmanship	(61%)
Survival (being financially solvent; not in bankruptcy)	(52%)
Above-average (or higher) profitability	(50%)

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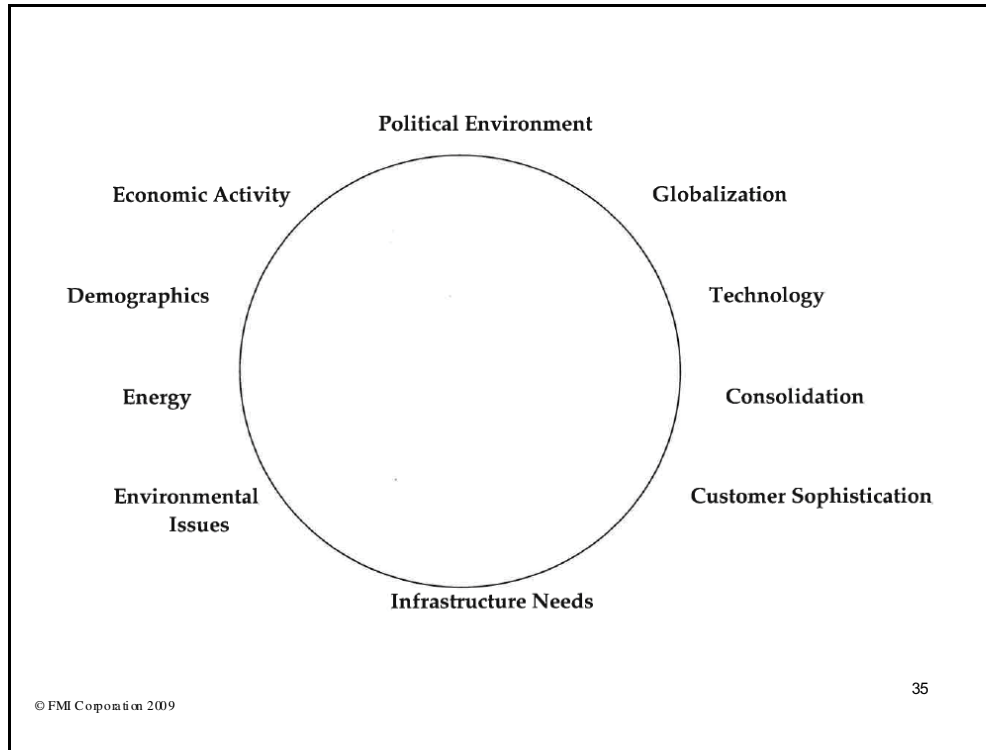
Most Top-of-Mind Success Criteria

Top Self-Generated Items That Indicate Success

Profitability/profit-related	(79%)
Customer satisfaction	(73%)
Employee satisfaction	(65%)
Company's reputation in community and industry	(51%)

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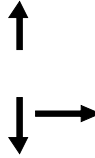


Industry Trends

- **Market forecast**
- **Demographics**
- **Consolidation**
- **Public Private Partnerships**
- **Virtual construction**
- **Productivity**
- **Industry Restructuring**

Market Forecast

- Federal Government
- Other Markets



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Demographics

Immigration

- 35% to 40% of population growth
- Hispanic/Asian

Migration West and South

Aging work force

- Shrinking group age 25 to 35

Depopulation in most of developed countries

Poor technical skills of graduates

Women better educated

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Consolidation

- **Global market place**
- **European, Japanese, Chinese**
- **Acquisitions in all sectors**
 - Building
 - Civil
 - Industrial
 - Materials
 - Specialty

Public Private Partnerships

- **Depletion of Highway Trust Fund**
- **Resistance to tax increases**
- **ROTW doing it**
- **Spanish influence**
- **Political realities in United States**

Virtual Construction

- BIM/technology
- Redefinition of roles
- Engineers → Contractors
- Subcontractors → Generals
- Developers → Generals
- Proliferation of delivery methods
- Modularization
- Manufacturing influence
- Productivity

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The Labor Productivity Opportunity

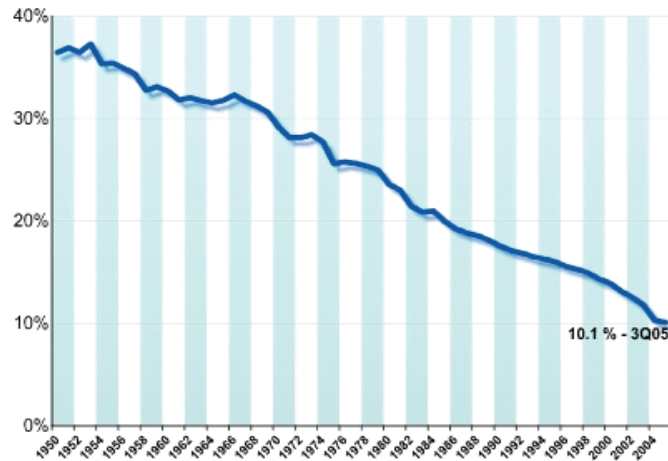
Percent Improvement	8-Hour Day	Percent Increase in Profitability
2%	9.6 minutes	20%
5%	24 minutes	50%
10%	48 minutes	100%

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Global Competition

US Factory Workers
Percent of US Labor Force



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Source: Industrial Info Resources

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“The manufacturing plant of the future will be staffed by a man and a dog. The man is there to feed the dog. The dog is there to keep the man from touching the equipment.”

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Subs – the New Generals?

- Energy consumption going up
- Energy conservation focus
- Technology = energy
- Smart buildings/highway
- Prefab/modular
- Wind/solar/geothermal – energy
- Integrated project delivery
- Mechanical/electrical drive the project.

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Convergence of Design and Construction

- 17 of the top 25 engineering firms are in the contracting business
- Trends at E&C level affect the rest of the industry
- Growth of design/build
- Battle for dominance – designers vs. contractors

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The world has changed – long term!

- China/India/Russia
- Brazil/Middle East
- Global warming (climate change)
- Radical Islamists
- Energy costs/availability
- Capital availability

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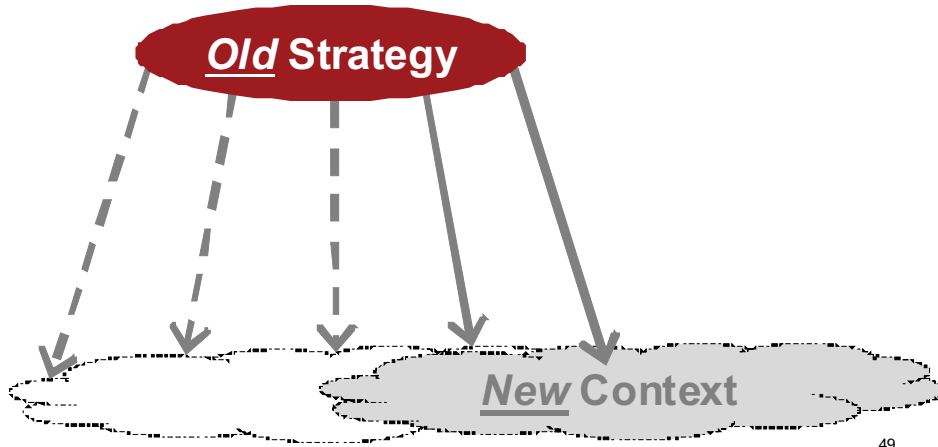
The world has changed – long term!

- Immigration/migration
- Aging population
- Global economy
- The internet

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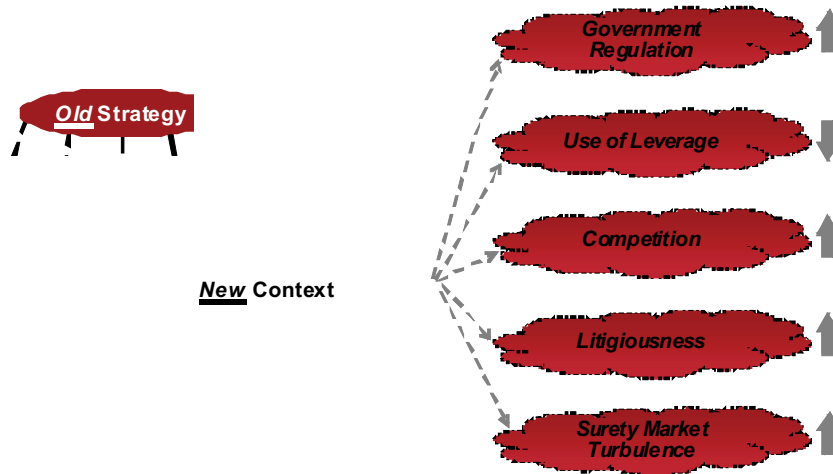
Performance Problems Will Emerge When Context Changes but Strategy Does Not



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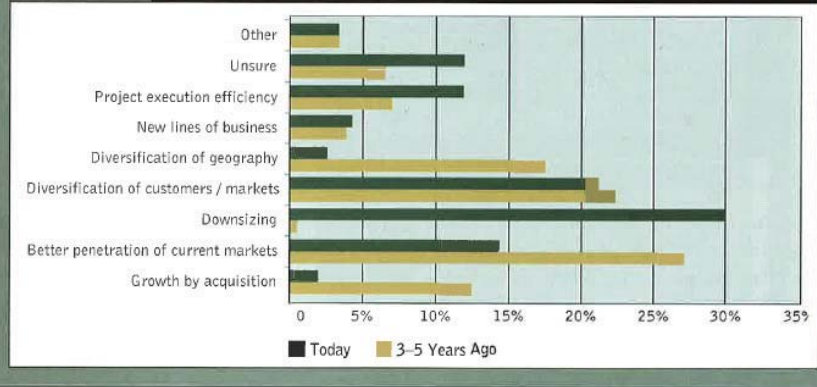
The "New Normal"



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EXHIBIT 15 What do you think is the most-common strategy for contractors?

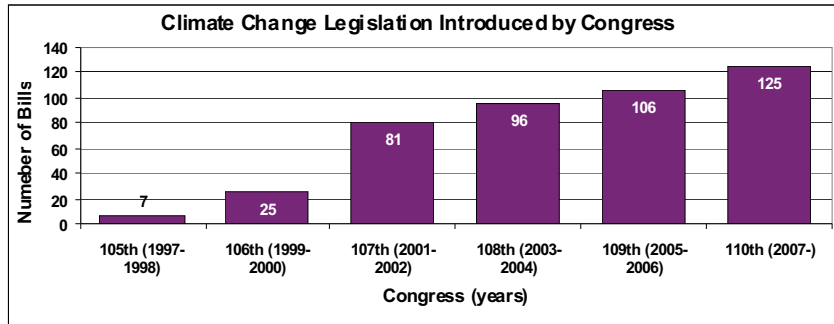


What drives construction?

- Demographics
- Politics/societal demands
- Consumer demand
- Economic growth
- Technology advances
- Infrastructure needs
- Security concerns
- Affluence

Changing Legislative Environment

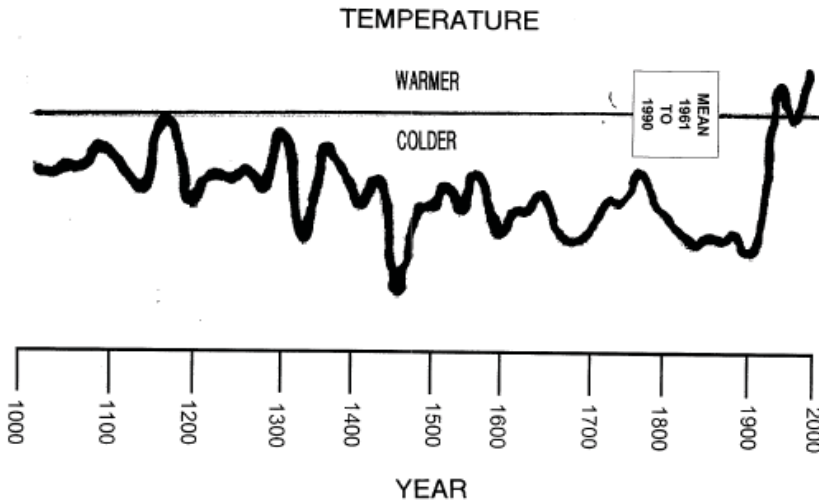
110th Congress (current) is on pace to introduce more than twice as many climate-change related bills as previous session



Source: Pew Center on Global Climate Change. Compiled by FMI.

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Long Term Opportunities

<u>Market</u>	<u>Driver</u>
Power	-Demographics/environmental/infrastructure
Energy	-Politics/environment/economic growth
Water	-Demographics/infrastructure
Environmental	-Politics/environment
Telecommunications	-Technology/consumer demand
Healthcare	-Demographics/consumer demand
Residential	-Demographics/economic growth
Transportation	-Infrastructure/demographics
DOD/Public Safety	-Security/politics
Education	-Demographics/infrastructure

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Keys to Success

- **Strategy**
 - Being in the right markets
- **Execution**
 - Do the right things right
- **Leadership**
 - Have visionary leaders / right culture
- **Pricing / Risk Management**
 - Right fee for the right owner
- **Capital**
 - Live to fight another day

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FMI is the nation's largest provider of ...

Management Consulting and Investment Banking to the worldwide construction industry. Founded in 1953 by Dr. Emol Fails, FMI delivers innovative, customized solutions to contractors; construction materials producers; manufacturers and suppliers of building materials and construction equipment; facility owners, managers, and developers; engineers and architects; surety companies; and industry trade associations.

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ABOUT FMI

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BUSINESS EVALUATIONS

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FMI delivers innovative, customized solutions to contractors; construction materials producers; manufacturers and suppliers of building materials and construction equipment; facility owners, managers and developers; engineers and architects; surety companies; and industry trade associations.

FMI's experienced professionals assist businesses with strategic planning, leader and organizational development, business development, research, mergers and acquisitions, peer groups, private equity placement, project execution, and training

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