CLOSING GENERAL SESSION

Wednesday, November 9
2:00 p.m.–3:15 p.m.

CONSTRUCTION INDUSTRY TRENDS AND CHALLENGES

Presented by

Hank Harris
Chairman
FMI Corporation

Join us for an insightful look into the construction economic outlook, trends that may impact the risks contractors face in their day-to-day operations, and some short- and long-term challenges and opportunities for the industry. Find out how developments in business strategies, technology, and project acquisition and completion could transform the risk profile of a construction company in the coming years.

To print on both sides of the page, set your printer for duplex printing.
Mr. Harris is chairman of FMI, where he is responsible for the management and governance of the firm's board of directors. After being the CEO of FMI for the maximum number of years in the firm's bylaws, Mr. Harris assumed the executive chair role. He now consults for firms in matters of organization, strategic planning, and the execution of strategic plans through mergers and acquisitions. He has consulted to a variety of industry players, and his advice is sought by engineering, contracting, EPC, and related industry firms.

Mr. Harris has a bachelor of science degree with a concentration in marketing from the University of Richmond and a master of business administration degree from Virginia Commonwealth University. He is a certified management consultant and a member of the American Arbitration Association and the Consulting Constructors Council of America. He participates in the Institute of Management Consultants USA and the Association of Management Consulting Firms.
The State of the U.S. Construction Industry
Trends, Challenges, Opportunities
Hank Harris, FMI Corporation

About FMI

Founded in 1953 by Dr. Emol A. Fails, FMI is the leading management consulting, investment banking† and people development firm dedicated exclusively to the engineering and construction industry. FMI professionals serve all sectors of the industry and combine more than 60-plus years of industry context and leading insights to achieve transformational outcomes for our clients. We have subject matter experts in the following practice areas and serve clients throughout the U.S., Canada and internationally:

**Management Consulting**
- Strategy
- Market Research
- Business Development
- Operations and Project Execution
- Risk Management
- Compensation
- Peer Groups
- Performance Management

**Investment Banking†**
- M&A Representation
- Valuations and Fairness Opinions
- Private Capital Placement
- Ownership Transfer Planning

**People Development**
- Organizational Leadership Development
- Leadership Training
- Executive Coaching
- Succession Planning
- Training and Talent Development

† Investment banking services provided by FMI Capital Advisors, Inc., a registered broker-dealer and wholly owned subsidiary of FMI.
Presentation Summary Format

• Construction Industry General Economics
• Select Markets Overview
• Industry Trends
General Economics
Has the Industry Lost its Place in the Broader Economy?

The overall economy has grown by $4 trillion since 2007 while the construction industry has not recovered to 2007 spending.

The E&C industry has declined as a percent of the overall economy. What are the implications of an industry downturn prior to a full recovery?
Construction Spending

Construction Put in Place

Millions of Current Dollars

- 10,000
- 20,000
- 30,000
- 40,000
- 50,000
- 60,000
- 70,000


Recession Residential Nonresidential Buildings Nonbuilding Structures

* FMI Forecast
Architecture Billing Index (ABI)

Source: AIA
FMI Nonresidential Construction Index (NRCI)

NRCI Scores Since Inception — Q4 2010 to Q3 2016
(Scores above 50 indicate expansion, below 50 contraction.)
Jobs and Unemployment

Construction Unemployment vs. National Unemployment

Construction added 219,000 jobs over the past year.

Source: U.S. Department of Labor, AGC of America

U.S. Markets Construction Overview 2016
ENR 400 Share of Total Construction Put in Place
Contractor Profit Before Tax

Recession Periods Are Shaded Red

U.S. Markets Construction Overview 2016
Contractor Pretax Return on Equity

Recession Periods Are Shaded Red

U.S. Markets Construction Overview 2016
Megapolitans

Ten megopolitan areas will have populations of at least 10 million each by 2040.

Source: Metropolitan Institute at Virginia Tech

U.S. Markets Construction Overview 2016
Demographic Forecast Growth—2017

We are seeing a significant number of mid-sized and large self-performing union firms double-breast to pursue work in open-shop markets.

Source: Moody's Analytics

Legend:
- Very high growth
- High growth
- Some growth
- Little growth
- Moderate growth
- Very little growth
Select Markets Overview

2016 Highlights

- High-volume nonresidential segments in 2016
  - Power ($93.9 billion)
  - Highway and Street ($91.3 billion)
  - Education ($86.4 billion)

- Strongest percentage gainers in 2016
  - Lodging (18.0%)
  - Office (16.0%)
  - Amusement and Recreation (8.0%)
  - Power (8.0%)

- Weakest segments in 2016
  - Public Safety (-5.0%)
  - Water Supply (-4.0%)
  - Sewage and Waste Disposal (-3.0%)

### Total Put in Place

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>10</td>
</tr>
<tr>
<td>2015</td>
<td>11</td>
</tr>
<tr>
<td>2016</td>
<td>5</td>
</tr>
</tbody>
</table>
# U.S. Construction Put in Place

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RESIDENTIAL BUILDINGS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single-family</td>
<td></td>
<td>246,945</td>
<td>258,425</td>
<td>267,312</td>
<td>275,029</td>
<td>288,176</td>
</tr>
<tr>
<td>Multifamily</td>
<td></td>
<td>61,715</td>
<td>64,476</td>
<td>65,936</td>
<td>67,583</td>
<td>70,474</td>
</tr>
<tr>
<td>Improvements*</td>
<td></td>
<td>195,130</td>
<td>197,899</td>
<td>196,376</td>
<td>197,446</td>
<td>200,480</td>
</tr>
<tr>
<td><strong>Total Residential</strong></td>
<td></td>
<td>461,790</td>
<td>480,700</td>
<td>494,694</td>
<td>505,058</td>
<td>524,624</td>
</tr>
<tr>
<td><strong>NONRESIDENTIAL BUILDINGS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lodging</td>
<td></td>
<td>25,601</td>
<td>26,971</td>
<td>27,439</td>
<td>27,765</td>
<td>28,107</td>
</tr>
<tr>
<td>Office</td>
<td></td>
<td>63,883</td>
<td>67,032</td>
<td>68,458</td>
<td>70,083</td>
<td>71,776</td>
</tr>
<tr>
<td>Commercial</td>
<td></td>
<td>70,838</td>
<td>73,645</td>
<td>75,037</td>
<td>76,138</td>
<td>77,845</td>
</tr>
<tr>
<td>Health Care</td>
<td></td>
<td>41,045</td>
<td>43,090</td>
<td>43,974</td>
<td>49,271</td>
<td>52,094</td>
</tr>
<tr>
<td>Educational</td>
<td></td>
<td>86,400</td>
<td>90,452</td>
<td>96,273</td>
<td>102,431</td>
<td>107,419</td>
</tr>
<tr>
<td>Religious</td>
<td></td>
<td>3,857</td>
<td>3,919</td>
<td>4,039</td>
<td>4,125</td>
<td>4,211</td>
</tr>
<tr>
<td>Public Safety</td>
<td></td>
<td>6,333</td>
<td>6,337</td>
<td>6,751</td>
<td>9,092</td>
<td>9,496</td>
</tr>
<tr>
<td>Amusement and Recreation</td>
<td></td>
<td>21,458</td>
<td>22,658</td>
<td>23,192</td>
<td>23,680</td>
<td>23,814</td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td>45,936</td>
<td>47,726</td>
<td>50,222</td>
<td>52,235</td>
<td>53,557</td>
</tr>
<tr>
<td>Communication</td>
<td></td>
<td>32,547</td>
<td>32,414</td>
<td>32,486</td>
<td>33,689</td>
<td>34,100</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td>80,057</td>
<td>83,234</td>
<td>85,786</td>
<td>88,135</td>
<td>90,110</td>
</tr>
<tr>
<td><strong>Total Nonresidential</strong></td>
<td></td>
<td>467,993</td>
<td>488,556</td>
<td>508,606</td>
<td>527,214</td>
<td>543,629</td>
</tr>
<tr>
<td><strong>NONBUILDING STRUCTURES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power</td>
<td></td>
<td>89,684</td>
<td>92,902</td>
<td>99,901</td>
<td>108,210</td>
<td>114,530</td>
</tr>
<tr>
<td>Highway and Street</td>
<td></td>
<td>94,779</td>
<td>98,311</td>
<td>100,863</td>
<td>103,412</td>
<td>108,100</td>
</tr>
<tr>
<td>Sewage and Waste Disposal</td>
<td></td>
<td>28,187</td>
<td>27,214</td>
<td>28,436</td>
<td>28,941</td>
<td>31,017</td>
</tr>
<tr>
<td>Water Supply</td>
<td></td>
<td>13,795</td>
<td>14,254</td>
<td>14,661</td>
<td>15,196</td>
<td>15,795</td>
</tr>
<tr>
<td>Conservation and Development</td>
<td></td>
<td>8,420</td>
<td>8,813</td>
<td>9,398</td>
<td>10,077</td>
<td>10,818</td>
</tr>
<tr>
<td><strong>Total Nonbuilding</strong></td>
<td></td>
<td>232,885</td>
<td>241,445</td>
<td>253,181</td>
<td>266,388</td>
<td>277,305</td>
</tr>
<tr>
<td><strong>Total Put in Place</strong></td>
<td></td>
<td>1,162,690</td>
<td>1,217,448</td>
<td>1,267,081</td>
<td>1,318,112</td>
<td>1,363,217</td>
</tr>
</tbody>
</table>

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

Source: Building permits, Construction Put in Place and trade sources. This report is based on multiple sources, prepared and believed accurate by FMI, but accuracy is not guaranteed by FMI nor by its employees.
### Summary of Major Markets (1 of 3)

<table>
<thead>
<tr>
<th>Market</th>
<th>Trend</th>
<th>Issues/Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amusement and Recreation</td>
<td>↑</td>
<td>Slower after recent boom</td>
</tr>
<tr>
<td>Educational</td>
<td>↓</td>
<td>K-12 funding constraints, Societal pressures – Higher Ed</td>
</tr>
<tr>
<td>Office</td>
<td>↑</td>
<td>Steady improvements in vacancy, rents and oversupply</td>
</tr>
<tr>
<td>Public Safety</td>
<td>↓</td>
<td>Decreasing government spending but increasing incarceration rates</td>
</tr>
<tr>
<td>Transportation</td>
<td>↑</td>
<td>Post-Panama – intermodal</td>
</tr>
<tr>
<td>Highway and Street</td>
<td>↑</td>
<td>Highway bill less help than hoped for. Mixed State DOT picture</td>
</tr>
</tbody>
</table>

### Summary of Major Markets (2 of 3)

<table>
<thead>
<tr>
<th>Market</th>
<th>Trend</th>
<th>Issues/Drivers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lodging</td>
<td>↑</td>
<td>Business travel resurgence, Retirement/discretionary spending</td>
</tr>
<tr>
<td>Power</td>
<td>↓</td>
<td>Transmission and Distribution, Oil and Gas</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>↑</td>
<td>Growth slowing to more normal levels after U.S. manufacturing renaissance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Domestic energy supply</td>
</tr>
<tr>
<td>Health Care</td>
<td>↑</td>
<td>Political issues: Capex impacts</td>
</tr>
<tr>
<td>Commercial</td>
<td>↑</td>
<td>Slow, steady improvements, Improving retail climate</td>
</tr>
</tbody>
</table>
## Summary of Major Markets *(3 of 3)*

<table>
<thead>
<tr>
<th>Market</th>
<th>Trend</th>
<th>Issues/Drivers</th>
</tr>
</thead>
</table>
| Religious               | ↓     | Spending at record-low point  
Contrarian societal trends     |
| Water/Wastewater        | ↑     | Funding constraints could be overcome after severe droughts and floods |
| Conservation and Development | ↑   | Slowing O&G/Industrial leads to modest growth – small market |
| Multifamily             | ↑     | Urbanization trends  
Alternative household formation |
| Data Centers            | ↑     | Technology; Power  
20% CAGR                          |
Construction Market Overview

2016A – 2020E Projected Segment Compound Annual Growth Rate

- Health Care: 7.0%
- Conservation and Development: 6.5%
- Power: 6.3%
- Transportation: 5.5%
- Educational: 5.3%
- Communication: 4.6%
- Sewage and Waste Disposal: 4.3%
- Manufacturing: 4.0%
- Public Safety: 3.3%
- Lodging: 3.4%
- Water Supply: 3.4%
- Office: 3.3%
- Highway and Street: 2.6%
- Religious: 2.5%
- Amusement and Recreation: 2.5%
- Commercial: 2.5%
Anticipating the Next U.S. Recession and E&C Downturn

Perhaps some combination of the following

• Presidential and congressional elections
• Major domestic or European terror event
• Rising energy prices and core inflation
• Premature/over action by the Fed on interest rates
• Commercial Real Estate Bubble / Debt
• Another European debt crisis
• Failure to pass TPP

FMI best “guess” is barring an unpredictable event, a general recession followed by a relatively mild E&C industry downturn more than likely within next two years and most likely in second half of 2017 or first half of 2018

Industry Trends
Overarching Trends

• Global interdependence and repositioning of economic power
• Geopolitical uncertainty
• Aging population/mobile workforce
• Growth in middle class – one billion by 2020
• Continued industry consolidation
• Continued urban growth

Foreign Entry Into the U.S. Market -- Examples

• WorleyParsons, Ltd.
• AMEC
• SNC-Lavalin
• Arcadis
• Stantec
• dar al-handasah
• EXP
• Atkins
• Balfour Beatty
• Skanska
• Lend Lease
• Hochtief (ACS)
• Obayashi
• Kajima
• CCA
• Odebrecht
Bifurcation and business reinvention continues

- Large firms are becoming larger and more diversified, smaller firms are becoming more specialized
  - Mid-tier firms are struggling to find a path of sustainable growth
  - Engineering firms are moving into construction
  - Contractors are pursuing opportunities across the facility life cycle
- Implications
  - Vision and aligned strategic priorities never more critical
  - Leaders of mid-tier firms are under pressure to understand marketplace and where and how they will compete and grow in the future
  - Strategic thinking organizations becoming imperative

Diseconomies of scale persist for large firms, leadership issues are magnified....Design firms assuming contract risk with mixed results

Scale Matters

- Access to capital
- Allows diversification
- Large projects = limited competition
- Enables reinvestment
- Global supply chain
- Allows multiple areas of technical expertise
- Enhances competitive position
## Assumed Mega-Project Share | All Construction Projects (U.S.)

% of project counts, calendar year (sample)

<table>
<thead>
<tr>
<th>Calendar Year</th>
<th>Total Project Count</th>
<th>Project Count $\geq 1B$</th>
<th>Share of Total Project Count $\geq 1B$</th>
<th>Project Count $\geq 500M$</th>
<th>Share of Total Project Count $\geq 500M$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>65,737</td>
<td>-</td>
<td>NA</td>
<td>116</td>
<td>0.18%</td>
</tr>
<tr>
<td>2006</td>
<td>124,492</td>
<td>8</td>
<td>0.01%</td>
<td>157</td>
<td>0.13%</td>
</tr>
<tr>
<td>2007</td>
<td>125,745</td>
<td>12</td>
<td>0.01%</td>
<td>190</td>
<td>0.15%</td>
</tr>
<tr>
<td>2008</td>
<td>154,675</td>
<td>14</td>
<td>0.01%</td>
<td>181</td>
<td>0.12%</td>
</tr>
<tr>
<td>2009</td>
<td>177,743</td>
<td>55</td>
<td>0.03%</td>
<td>158</td>
<td>0.09%</td>
</tr>
<tr>
<td>2010</td>
<td>184,423</td>
<td>81</td>
<td>0.05%</td>
<td>277</td>
<td>0.15%</td>
</tr>
<tr>
<td>2011</td>
<td>184,422</td>
<td>103</td>
<td>0.06%</td>
<td>194</td>
<td>0.11%</td>
</tr>
<tr>
<td>2012</td>
<td>187,921</td>
<td>40</td>
<td>0.03%</td>
<td>92</td>
<td>0.07%</td>
</tr>
<tr>
<td>2013</td>
<td>205,269</td>
<td>40</td>
<td>0.02%</td>
<td>74</td>
<td>0.06%</td>
</tr>
<tr>
<td>2014</td>
<td>207,811</td>
<td>55</td>
<td>0.03%</td>
<td>173</td>
<td>0.08%</td>
</tr>
<tr>
<td>2015f*</td>
<td>210,929</td>
<td>58</td>
<td>0.03%</td>
<td>162</td>
<td>0.08%</td>
</tr>
<tr>
<td>2016f*</td>
<td>212,508</td>
<td>60</td>
<td>0.03%</td>
<td>170</td>
<td>0.08%</td>
</tr>
</tbody>
</table>

Source: FMI, based on sources and assumptions deemed accurate, but accuracy not guaranteed.
Optionality will be the most critical characteristic for E&C firms over the next several years.

<table>
<thead>
<tr>
<th>Climate</th>
<th>Customers</th>
<th>Competitors</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>There has been a failure to significantly revive economic growth to pre-2008 levels. The population of the world is rapidly urbanizing.</td>
<td>E&amp;C projects are larger, more complex and with compressed delivery schedules. Public agencies are operating with fewer resources.</td>
<td>Scale creates vastly different growth scenarios.</td>
<td>The industry will further segregate into large E&amp;C firms and small niche service providers.</td>
</tr>
<tr>
<td>Governments are looking to infrastructure investment as the solution to economic malaise</td>
<td>Public-private-partnerships (PPs) are becoming more prevalent</td>
<td>Differentiation and value is increasingly gained among nontraditional E&amp;C services.</td>
<td>Total asset approach will be the most competitively advantageous position.</td>
</tr>
<tr>
<td>Disruptive technologies require new approaches to infrastructure.</td>
<td>Many project owners are unable to stay abreast of new technologies and will increasingly rely on service providers in this area.</td>
<td>Most E&amp;C firms recognize &quot;the shift&quot; but have not prepared for it. New technologies will solve many current issues as well as threaten others.</td>
<td>Accelerated decision-making and investment strategies will be necessary.</td>
</tr>
<tr>
<td>Economic growth will assume a pause, punctuated by brief bursts of significant activity.</td>
<td>Infrastructure projects are evolving with greater complexity.</td>
<td>E&amp;C roles and responsibilities are incorporating more non-traditional forms.</td>
<td></td>
</tr>
</tbody>
</table>

Closing General Session
Competitive advantages (via differentiation) are emerging in the areas of asset performance and nontraditional design and construction services.

<table>
<thead>
<tr>
<th>Development</th>
<th>Engineering/ Design</th>
<th>Construction</th>
<th>Delivery/ Operations &amp; Maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Master/ Capital planning and programming</td>
<td>Preliminary design</td>
<td>Contract administration</td>
<td>Close-out</td>
</tr>
<tr>
<td>Feasibility studies/ Condition assessments</td>
<td>Design development and management</td>
<td>Construction document management</td>
<td>Start-up and commissioning</td>
</tr>
<tr>
<td>Real estate and market analysis</td>
<td>BIM coordination</td>
<td>Construction inspection and status reporting</td>
<td>Software and systems/ Technology</td>
</tr>
<tr>
<td>Site selection and land development</td>
<td>Sustainability assessment and design</td>
<td>Materials management</td>
<td>Documentation</td>
</tr>
<tr>
<td>Traffic planning/ control</td>
<td>Cost estimating</td>
<td>Quality assurance/ control</td>
<td>Training</td>
</tr>
<tr>
<td>Environmental management</td>
<td>Cost and resource scheduling and management</td>
<td>Risk management</td>
<td>Predictive/ Preventive maintenance</td>
</tr>
<tr>
<td>Geotechnical assessment/ engineering</td>
<td>Constructability review/ Value engineering</td>
<td>Safety program and performance monitoring</td>
<td>Equipment support</td>
</tr>
<tr>
<td>Utilities consulting</td>
<td>Bid support/ RFQ-RFP development</td>
<td>Budget management</td>
<td>Warranty</td>
</tr>
<tr>
<td>Community/ Stakeholder communication</td>
<td>Automation/ Controls</td>
<td>Fabrication/ Modularization</td>
<td>Janitorial</td>
</tr>
<tr>
<td>Energy/ Water use auditing</td>
<td>Process design/ Layout</td>
<td>Equipment installation</td>
<td>Metering and verification</td>
</tr>
<tr>
<td>Financing</td>
<td>Equipment procurement</td>
<td>Payment application processing</td>
<td>Activities of increasing importance to project owners</td>
</tr>
<tr>
<td></td>
<td>MEP engineering</td>
<td>Change order management</td>
<td>Potential opportunities for differentiation</td>
</tr>
<tr>
<td></td>
<td>Civil engineering/ Structural engineering</td>
<td>Claims and dispute resolution</td>
<td></td>
</tr>
</tbody>
</table>
Green Building 2.0 - sustainability isn’t going away

- Green building aka Smart Buildings demand remains
  - $3 billion by 2020
  - Consumption of renewable energy growing faster than conventional energy
  - New generation expect energy-efficient, high-performance facilities

- Implications
  - Demand will grow for those who can bring cost-effective materials or methods to construction that:
    - Eliminate waste during building phase or
    - Create greater energy performance efficiencies in the operating phase

Productivity gains will happen through accelerated tech / lean process adoption

- Technological advances in pre-con and construction ops pivotal to maintaining competitive position
  - Building Information and Modeling (BIM) is key to construction scheduling optimization
  - Job-site technologies to work faster, smarter and safer are expanding at an accelerated pace

- Implications
  - Tech-savvy firms becoming more essential and less elective
  - Talent selection and development needs to factor willingness to embrace and capacity to apply new practices
  - Without clarity of long-term direction, every innovation looks important and represents a potential distraction vs. benefit

Adoption of these tools does not necessarily translate to productivity gains or margin expansion
Expect more “building manufacturing” through prefabrication

- Use of prefabricated building components on the rise
  - Higher quality
  - Improved job-site performance
  - Ideal for repetitive sections
  - Architectural style NOT compromised
- Implications
  - Less skilled labor on job sites
  - Changing playing field - Who will be contracting the work?
  - Competencies in manufacturing process required
  - Heightened ability to collaborate across trades

Job-site transparency is driving productivity increases and improving safely

- Embedded GPS and real-time information improves production
  - Merging of GPS and virtual imaging
  - Mobility devices streamlining job-site decision-making
  - Drones and robots in use to avoid costly mistakes in high-risk areas
- Implications
  - Greater daily production expected
  - Job-site communication skills need to improve
  - Staging of work is becoming key to profitable outcomes
  - The more time-sensitive your part of the project, the greater the need for adoption
Disruption through technology accelerating

- Computing power gains are accelerating the creation of disruptive technologies
  - "Exaflops" at the center of change velocity
  - Empowering the way we find and do work
  - Industries will emerge FAST; others will be rendered obsolete

- Implications
  - Finding work, assessing project viability improving, driving smarter decisions
  - Disruptive technologies represent opportunity to gain competitive advantage
  - The disruptors represent future growth and new market opportunities
  - Organizations will need talent that can think strategically to see and apply these disruptors effectively

Technologies’ impact on the E&C industry appears to finally making inroads….but, to what end?

Societal/Cultural Shifts*

- Survey of school children – “I Am a Very Important Person” went from 12% affirmative in 1950 to 80% in 1990
- Median Narcissism scores have increased 30% in last two decades
- “Being Famous” as a goal from almost zero to over 51% in last 40 years
- “Being Rich” went from 42% in 1966 to 74% by 1990
- “Financial Security” went from a middle goal to top of the list
- People who tend to trust vs. distrust – from 60/40 to 40/60 in last 40 years
- “Wanting a meaningful philosophy of life” – 80% of college freshmen in 1966, is now 49%
- Two-thirds of college students cannot describe a moral dilemma
- Adult percentage of “chronically lonely” 20 to 35% in the last decade
- Empathy test scores down 40% in last 40 years

*Source: “The Road to Character,” David Brooks
Diversity \(^{(1 \text{ of } 2)}\)

- Nuclear family from 80% to 50% of households in past half-century
- 86 million adults are single
- 42% of workforce is unmarried
- 30% of homes have only one person
- One in five Americans speaks a language other than English at home

Diversity \(^{(2 \text{ of } 2)}\)

- Women in age bracket 25 to 34 have an average 20 percent higher educational achievement than men at all levels
- Women make up 50 percent of total workforce and 6 percent of construction employment
Leadership succession intensifying, but may be too late for many

Majority of senior leaders will be retiring in the next five to eight years

- Identification of future leaders and owners typically requires more time than planned
- Succession planning requires selection and development with the future in mind

Implications

- Formalizing management succession and building leaders for the future is the No. 1 long-term priority for current leaders
- Lack of bench strength will undermine near-term performance and long-term valuations

How does a 70-year-old boomer transfer ownership of his specialty trade business over 10 years...while passing over his 50-something key managers?