

Wealth Transfer Planning for Construction Contractors

Strategic Transition Planning and Solutions

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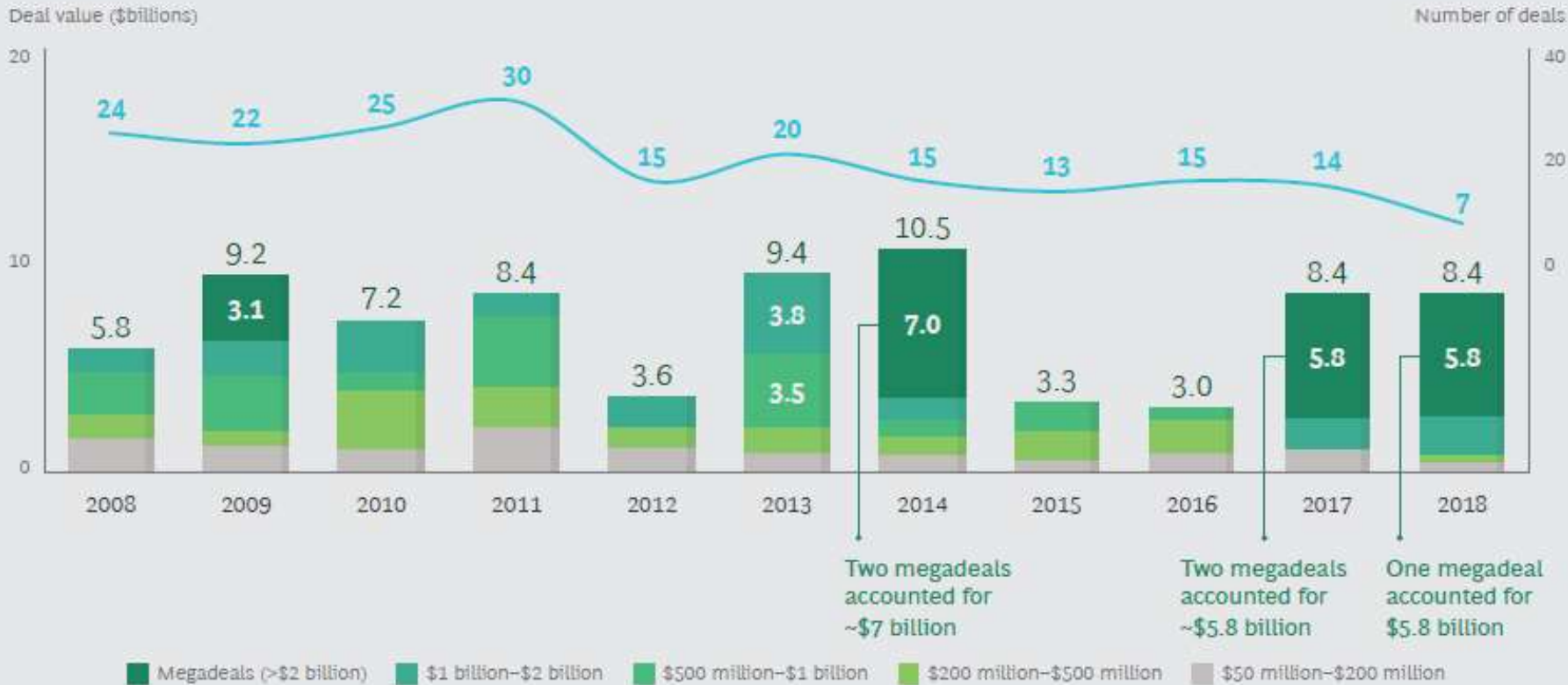
Agenda

- I. Welcome and Opening Comments
- II. Observations on the Construction Industry
- III. Comprehensive Wealth Planning for the Business Owner
 - Business Owner's Choice
 - Foundational Estate Planning
 - Personal Financial Planning
 - Understanding the Value of the Business
- IV. Questions
- V. Closing Comments

Construction Industry M&A: Pre-COVID

Like many industries, the broad construction industry has “marquee” companies that grab the headlines and smaller players that do much of the work. In the ten years leading up to COVID, there was a trend toward “bigger is better” in construction industry mergers and acquisitions.

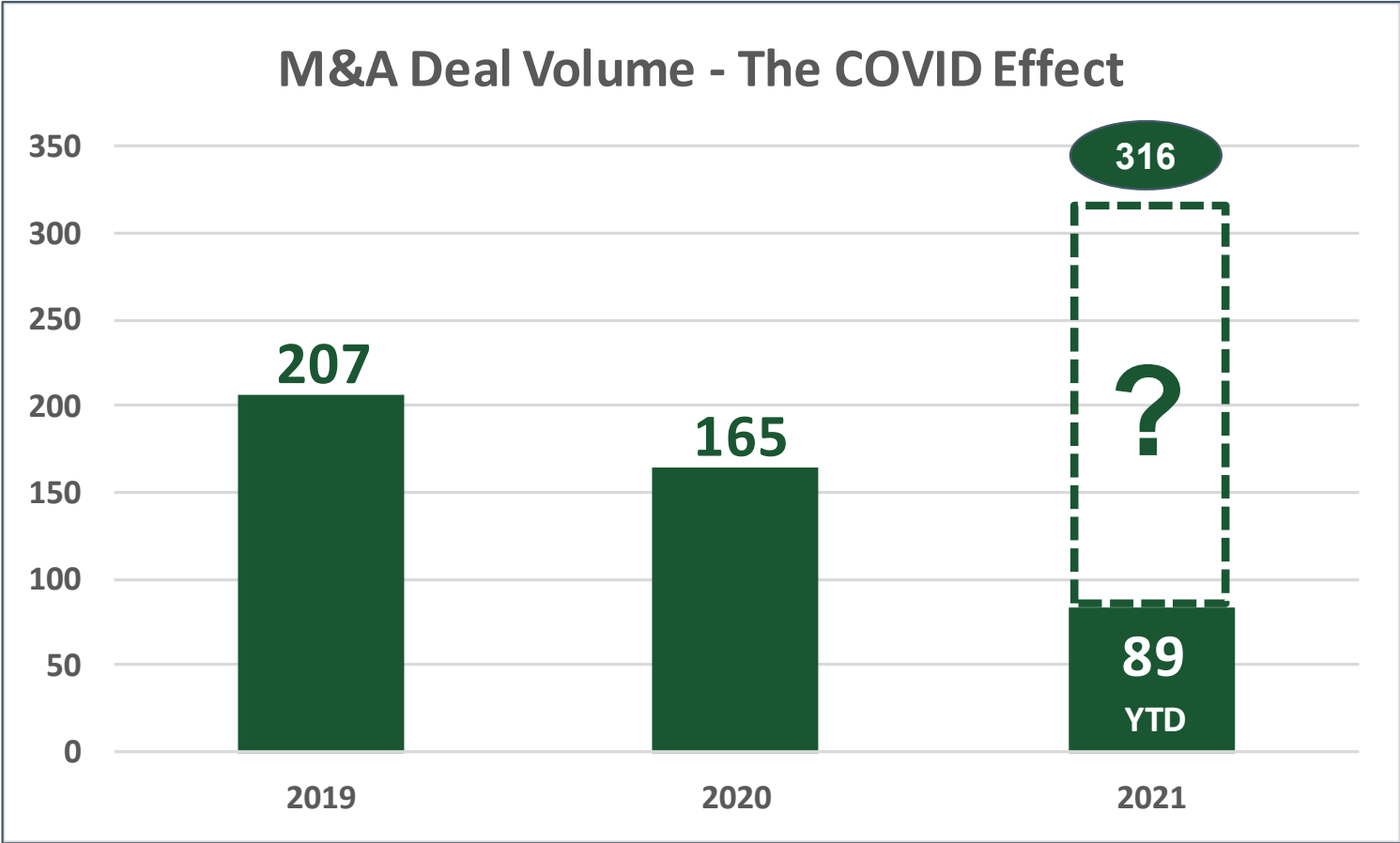
EXHIBIT 1 | A Shift from Midsize Deals to Much Larger Deals



Sources: Thomson One; S&P Capital IQ; BCG analysis.

The COVID Effect...and More

Because the construction industry didn't suffer like other sectors, the M&A contraction in 2020 wasn't as pronounced. Looking to the end of 2021, a strong construction market, uncertainty over taxes, and change in business owner expectations for retirement could drive significant deal volume.



Source: Capital IQ; 2021 results through April

What Do Buyers Want?

While M&A is a quick way to grow a business, it's not without risk – failing to integrate an acquisition properly can be a money-losing proposition. Being perceived as low risk usually means high value so understanding and meeting a buyer's needs is critical.

Financial Considerations

- Grow Sales
- Boost Profits
- Diversify Financial Risk
- Buy vs Build

Strategic Considerations

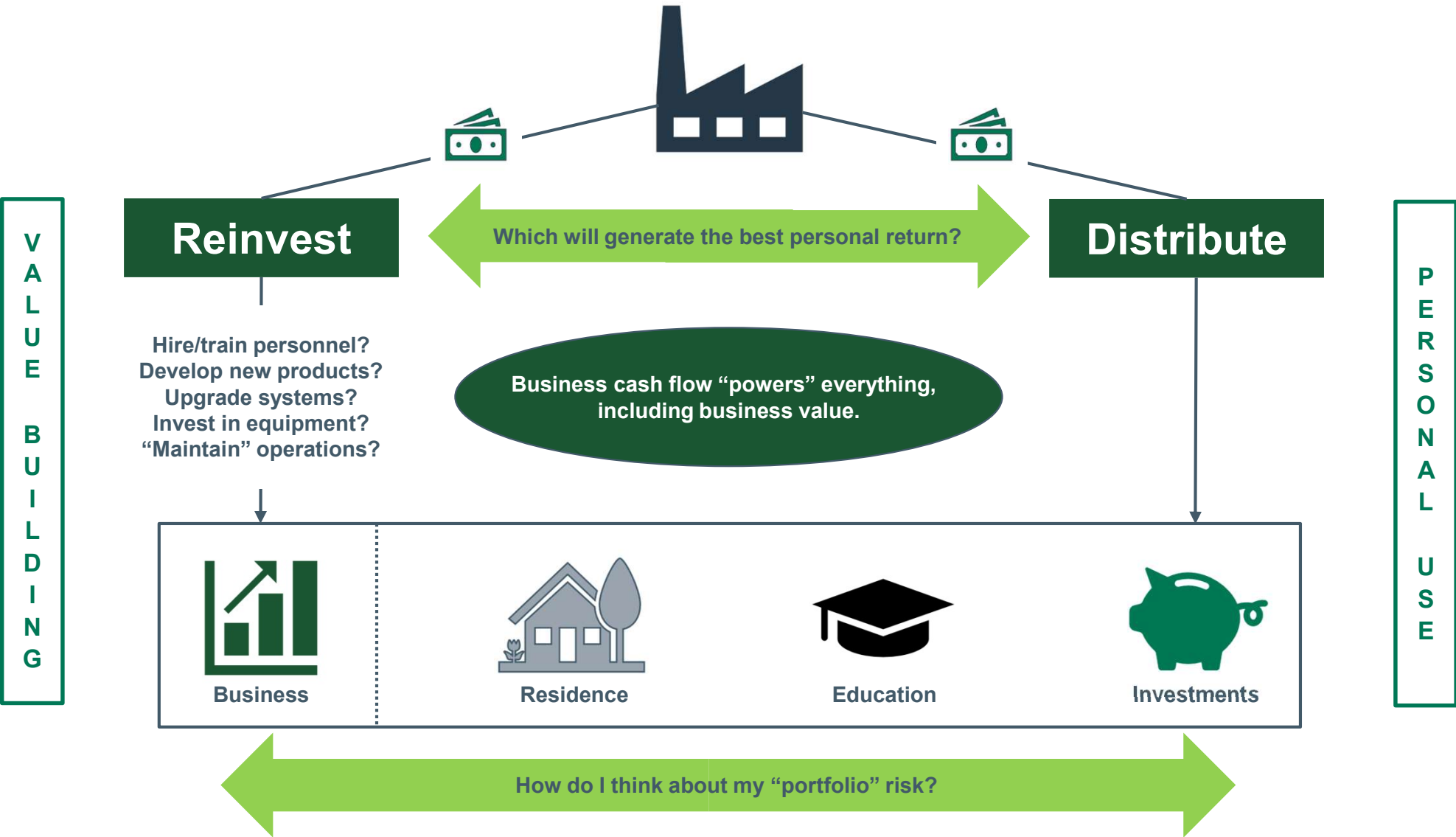
- Tactical Expansion
- Broadening Capabilities
- Segment Consolidation
- Vertical Integration

Valuation Considerations

- Existing Contracts
- Project Pipeline
- Balance Sheet Assets
- Intangible Assets

The Business Owner's Choice

Some business owners like the security of “owning their job” to generate cash for personal use. Others emphasize building business value. Many owners are positioned to do both.



Estate Planning for the Business Owner

A business is typically the most valuable asset in any business owner's portfolio. Like any other valuable asset, a business owner should take the appropriate steps to protect it.

Why have an Estate Plan?

- Helps you maintain control over how wealth is transferred
- May reduce the taxable estate for heirs/potentially defer transfer taxes
- May preserve assets for beneficiaries and helps to maintain privacy by avoiding probate
- Offers a plan that considers family dynamics
- Helps to provide continuity for financial, business, and personal matters
- Manages risk

Core Documents

- Wills
- Revocable trusts
- Power of Attorney
- Living Will
- Advanced Health Care Directive

Additional Concepts

- Beneficiary designations
- Asset titling/ownership

The Value of a Buy-Sell Agreement

Frequently, business owners have partners or fellow shareholders. An agreed-upon understanding that addresses a “parting of the ways” is vital for a host of reasons.

- Governs how ownership of the owner’s interest in the business will change at the occurrence of a “triggering event”
- Helps to protect what possibly is your most valuable asset
- Offers advance planning for the orderly transition of the business:
 - At a voluntary exit
 - At an involuntary exit
 - At a pre-determined price or a methodology to determine price
 - The process to transfer ownership
- A ready market for your interest in the business
- Preserving or restricting the potential ownership interests (“in the family”)
- Implementing a funding process on the occurrence of various events
- May provide resources for your family

Life Insurance – Generally a Must for the Business Owner

When a business is the lifeblood of a family's cash flow, a business owner should work to understand—and potentially take advantage of—various insurance strategies.

- Can provide liquidity/income replacement to the owner's family to help ensure they are not dependent on income from the business
- May be used to fund a buy-sell agreement as the result of death
- May provide capital to the business at the death of a key employee/minimal impact to cash flow
- May provide funds to buy a deceased owner's interest in the business
- Used to hire key employee(s)
- Potential risk mitigation for the owners—cash available to allow the business to continue (forced exit)
- Cash value policies may offer protection from claims of creditors
- Life insurance can be important when borrowing from a third-party lender
- Can form the foundation of a retirement plan

Personal Financial Planning

The process of identifying your “Wealth Gap” and putting you in the best position to reach your financial goals.

- Identifying personal financial goals
- Analyzing cash inflows and outflows
- Quantifying financial resources
 - Investment portfolios
 - Savings
 - Business assets
- Evaluating risk/return
- Optimizing tax efficiency
- Determining the likelihood of reaching your goals with the available resources

Personal Financial Planning for Business Owners

Many business owners tend to focus on business matters at the expense of personal financial planning. The truth is that both matter!

- View your business as an investment in your personal portfolio
 - For many owners, the business is their single greatest financial asset (and risk)
- How will you eventually exit the business?
 - *How, when, and to whom* you sell, plays an important role in how likely you are to reach your personal financial goals
- The earlier you plan, the better
 - Implementing your personal plan takes time, and generally the more time you spend putting a plan into action, the better the outcome
- The future is unknown
 - What if you are suddenly unable to continue operating the business?
 - If someone made you an offer, do you know what amount you need to walk away?

The Business as an Investment

When an owner considers selling their business, it's essential to understand how portfolio cash flow will replace compensation and distributions from the business to determine any "Wealth Gap."

The Wealth Gap Assessment Process

"Will my investment portfolio provide for my long-term goals?"

No

- Retain the business for cash inflow
- Grow value/revenue
- Re-evaluate financial goals

Maybe

- Delay the sale and work longer
- Structure the sale to maximize proceeds
- Re-evaluate financial goals

Yes

- Confidence in pursuing a sale
- Flexibility in structuring a sale
- Optimization strategies to preserve/transfer wealth
 - Asset Protection
 - Tax Efficiency
 - Generational Transfer
- Re-evaluate financial goals

The Pillars—and Bedrock— of Business Value

Strong fundamentals are usually a *result* of consistent corporate stewardship that emphasizes planning and investment over quick profit to build long term value.



Strong team

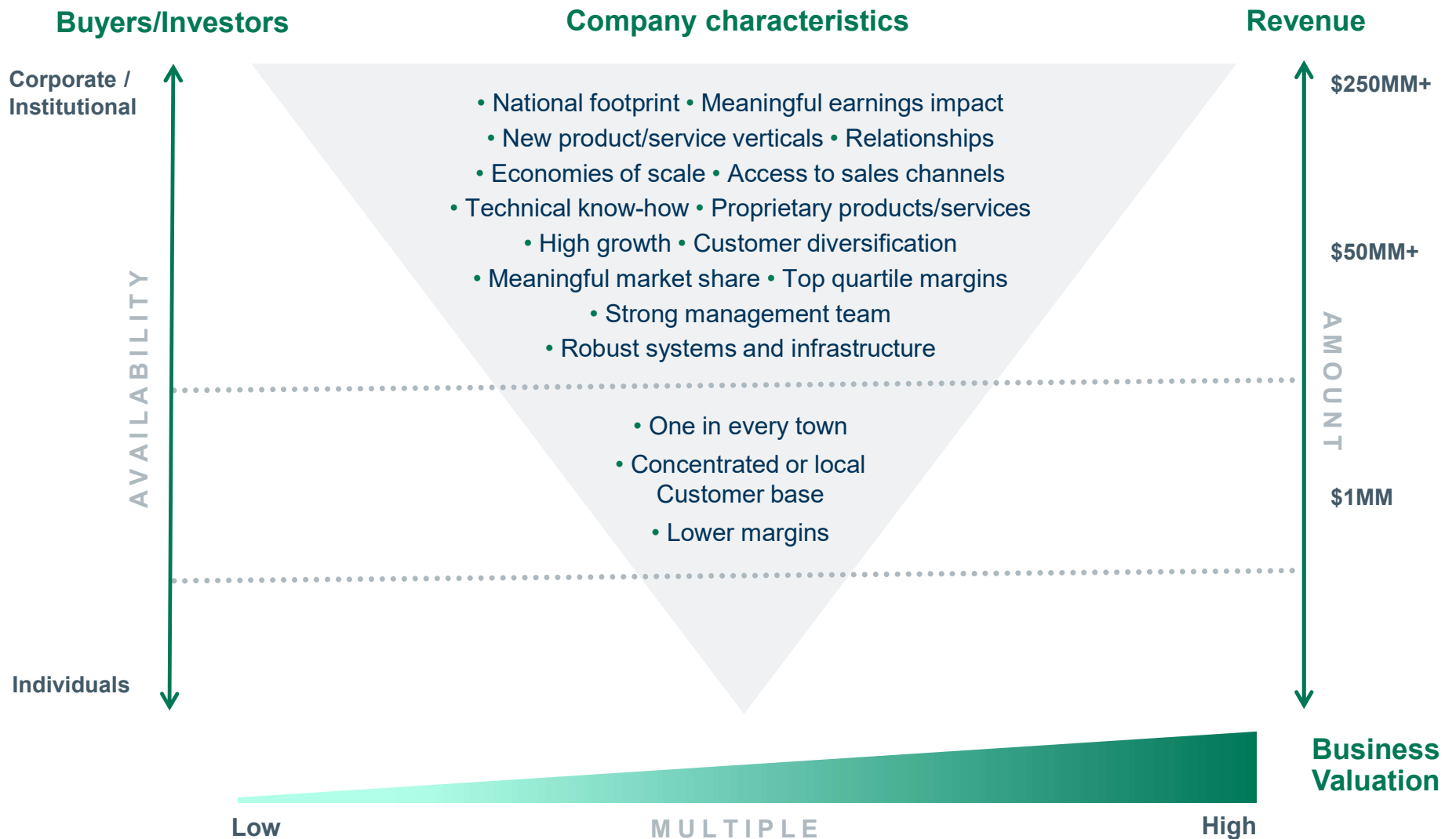
Deep customer relationships

Robust infrastructure

Strong culture

Understanding Market Appetite

Financial performance is only part of the equation—buyers typically want strong fundamentals. In fact, strong fundamentals often boost *both* financial performance *and* company valuation.



Capturing the Value

Selling a business is one part storytelling and one part competitive sport. Strong positioning of the business story can become meaningless if the game is misplayed.

Driving Value

“The Sizzle”

Setting “marketed” EBITDA¹

Platform opportunity

- Core Business Projections
- Organic Expansion Outlook
- Acquisition Opportunities

Market dynamics

- Demographic Trends
- Market Consolidation
- Regulation

Demonstrated value-building mindset

- Past Reinvestment in the Business
- Up-to-Date on Capital Spending
- Scalable Processes/Systems
- “Large Company” Practices

Communicating the vision

- The “Why” of our Strategy
- Executable and Achievable Plan
- Focused Shareholders/Management
- “Skin in the Game”

Mitigating market challenges

- Concentration
- Financial Performance

Realizing Value

“The Steak”

Operating performance

Due diligence

- Quality of Earnings
- HR/Insurance
- Legal

Closing valuation adjustments

- Working Capital Adjustment
- Deferred Capital Expenditures
- Confirming Diligence Findings

Transaction documentation

- Purchase Agreement
- Shareholders Agreement (as applicable)
- Escrow Agreement
- Earnout Agreement (as applicable)

Transaction structure/terms

- Stock Deal vs. Asset Deal
- Form of Consideration
- Type of Security (as applicable)
- Reps & Warranties
- Indemnifications
- Insurance
- Employment Agreements/Non-Competes

¹Earnings Before Interest, Taxes, Depreciation, and Amortization

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