



Ownership Succession in the Construction Industry

January 9, 2024



Houlihan Capital, LLC
houlihancapital.com



I. Houlihan Capital Introduction



*Houlihan
Capital
Introduction*

*Succession &
Exit Planning*

*What do
Investment
Bankers Do?*

*What is a
Company
Worth?*

*M&A Process
Overview*

*Construction
M&A Trends*

Houlihan Capital Overview

Full Suite of Valuation and Investment Banking Services for the Middle Market

Two Offices

- Chicago, IL (HQ)
- Cleveland, OH

Comprehensive Service Offering

- Investment Banking Services
- Valuation Advisory
- Litigation Support

Boutique Service Provider

- 30+ Employees

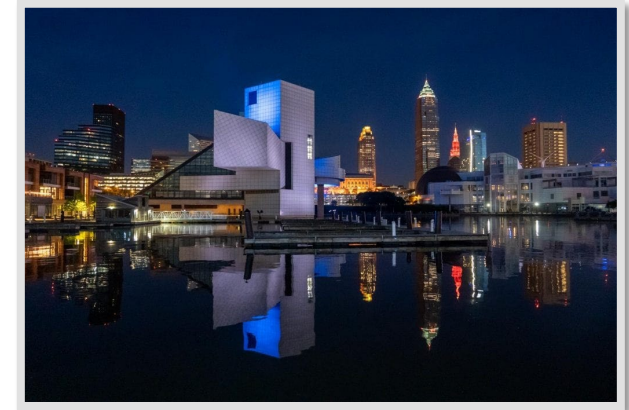
Deep Network of Acquirors and Service Providers

- Private Equity Groups
- Private Investment Funds
- Corporate Acquirors
- CPA Firms
- Family Offices
- Individual Investors
- Law Firms
- Wealth Managers

Houlihan Capital Locations



Chicago, IL



Cleveland, OH

Houlihan Capital – Valuation Advisory

Full-Service Middle Market Valuation Provider

Valuation Advisory Services

- Fairness Opinions
- Solvency Opinions
- Portfolio Valuation (ASC 820)
- Complex & Illiquid Securities (Level 3)
- Enterprise Valuations
- Estate and Gift Valuations
- Purchase Price Allocation (ASC 805)
- Goodwill Impairment Testing (ASC 350)
- Stock-based Compensation
- (ASC 718, IRC 409A)
- ESOP Valuations
- ESOP Feasibility

Industry Expertise

- | | |
|---------------------|----------------------|
| • Business Services | • Financial Services |
| • Consumer | • Cannabis |
| • Crypto Assets | • SPACs |

Houlihan Capital – Investment Banking

Focus on Helping Entrepreneurs Achieve Their Liquidity Goals

Investment Banking Services

- Sell-Side / Buy-Side M&A
- Corporate Financial Advisory
- Capital Raising
- Special Situation Advisory

Mergers and Acquisitions (M&A) Value-Add

Initial Company Evaluation:

- Company Valuation
- Diagnosis of Potential Problems

Tailored Marketing Process:

- Focus on Confidentiality
- Minimal Burden on Ownership

Closing Support:

- Data Room Management
- Due Diligence Support

Industry Expertise

- Construction
- Consumer
- Healthcare
- Hospitality
- Transport & Logistics
- Distribution

Speaker Background – Chuck Fenske

Former Contractor Turned Investment Banker

Role at Houlihan Capital

Mr. Fenske is responsible for leading all day-to-day transaction execution. Prior to joining Houlihan Capital, he worked in the construction management for 20+ years and still considers himself a contractor at heart.

Chuck Fenske Bio



Chuck Fenske

Vice President

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cfenske@houlihancapital.com

Education:

- Case Western Reserve University
 - MBA (Weatherhead School of Management)
- The Ohio State University
 - B.S. Accounting (Fisher College of Business)
 - B.S. Construction Management

Community Involvement:

- Vice Chairman – Associated Builders and Constructors of Ohio (Former)
- National Board Member – Associated Builders and Contractors
- Weatherhead Alumni Advisory Council
- ACG Cleveland – Member

Licenses and Credentials:

- Certified Valuation Analyst (CVA)
- Series 79
- Series 63



II. Succession and Exit Planning



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Why is Succession Planning Important?

Having a Succession Plan is Vital for Business Owners

Benefits of Succession Planning

- Retaining top talent
- Performance clarity
- Organizational clarity
- Emergency avoidance
- Reduced transaction costs
- Minimized business disruption
- Cultural Continuity

Tips for Succession Planning

- Develop clear policies
- Encourage early warning
- Plan for the unexpected
- Prioritize specialized work
- Note your future leaders
- Facilitate a gradual transition

Exit Strategy - Different Options

Avenues of a Successful Exit

Exit Strategies to Consider

Keeping it in the Family:

- Mentoring the next generation
- Keeps equity tied to the family name or trust

Sales or Merger:

- Creates a liquidity event
- Exploring what the market has to offer

Management or Employee Buyout:

- Adds to longer term growth
- Key employees have a great understanding of the industry

ESOP:

- Boost employee morale
- Seller is paid fair market value

Liquidate Your Business:

- Business ceases to exist
- Business assets are sold off



III. What Do Investment Bankers Do?



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What Do Investment Bankers do During a Sale Process?

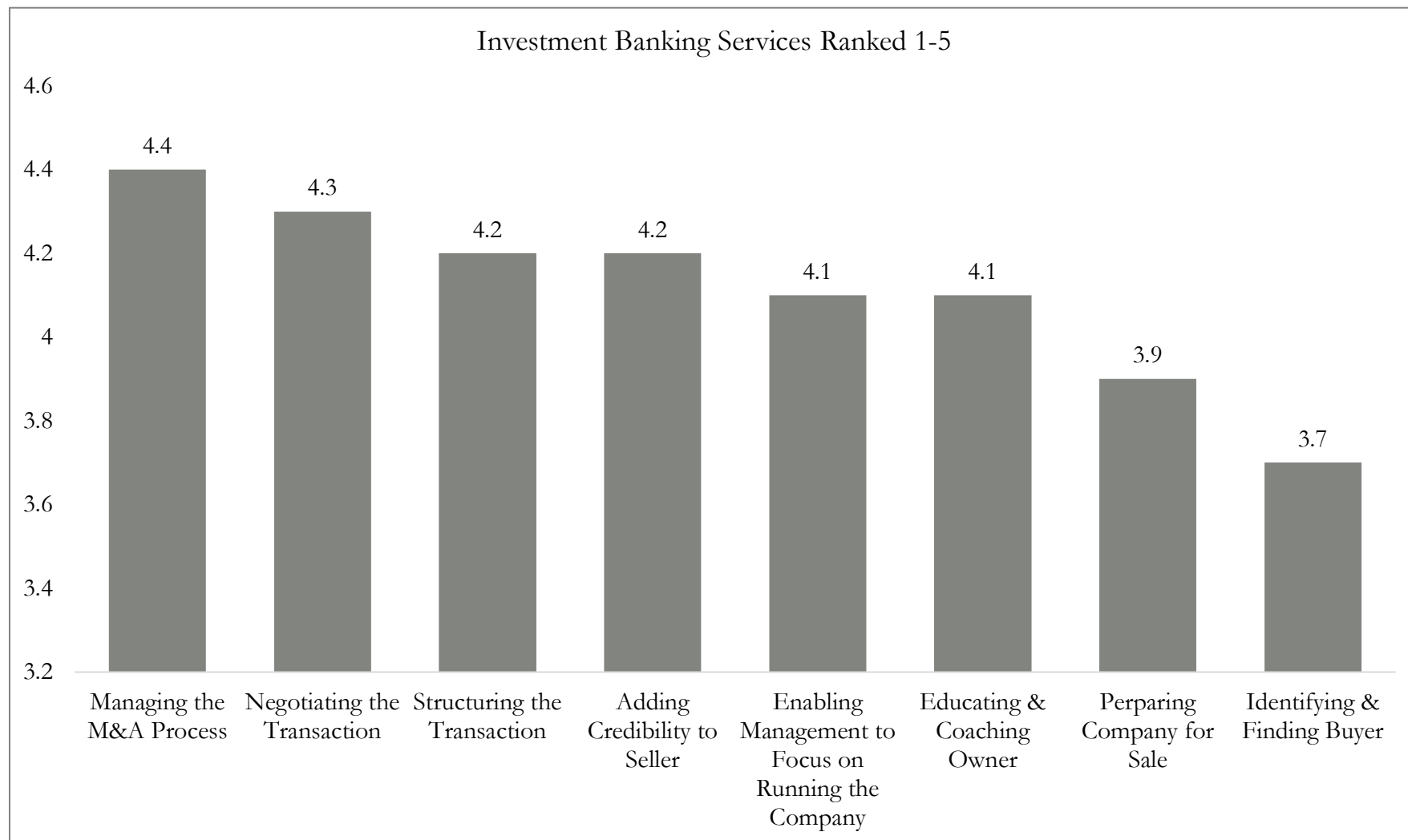
Value of an Investment Banker

Functions of an Investment Banker

- **Preparing the Company For a Sale**
- **Managing the Sale Process**
- **Find Buyers**
- **Adding Credibility to the Seller**
- **Structuring the Transaction**
- **Negotiating the Deal**
- **Enabling Owners to Run the Business**

How Investment Bankers Add Value

“Managing the M&A Process” was Ranked as the Most Important Function of Investment Bankers



Source: 8 Ways Investment Bankers Add Value for Sellers (Axial)

Factors to Consider Before Selling

Investment Bank vs. Business Broker

Do you need an Investment Banker or Business Broker?

Investment Banker

- Works with small-medium sized companies
- Transactions \$5-100+ million
- Typically runs a structured process
- Markets the deal to strategic and financial buyers
- Charges a fee minimum, if over a certain final deal price – becomes 1-5% of deal price
- Series 79 and 63 licensed

Business Broker

- Works with companies with EBITDA under \$1 million
- Transactions \$2-5 million
- Typically lists the business on a website
- Usually selling to individual buyer rather than corporate buyer
- Charges 8-12% of final deal price
- Not licensed



IV. What is a Company Worth?



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How are Cash Flows Valued?

Value is a Function of Risk vs Reward

Risk Profile

- **The type of work**
- **Development of people**
- **Size of the organization**
- **Operational excellence**
- **Systems and processes**
- **Having a niche**

What Determines Cash Flow?

EBITDA is Important for Understanding Operational Efficiency

EBITDA

Earnings
Before
Interest
Taxes
Depreciation
Amortization

How is Cash Flow Normalized?

Common EBITDA Add-Backs

EBITDA Adjustments

- **Extraordinary/Nonrecurring Income and Expenses:**
 - One-time litigation
 - Sale of equipment
- **Owner's Compensation Outside of Fair Market Value:**
 - Owner's salary is too high
 - Owner's salary is too low
 - Compensation for inactive family members
- **Income or Expenses from Nonoperating Assets:**
 - The “company” boat and associated expenses

How are Companies Valued?

Valuation Approaches Summary

Valuation Approaches

There are three accepted approaches for valuing a business:

- **Market**
- **Income**
- **Asset**

Market Approach

- **Common Comps:**
 - Multiples of EBITDA
 - Multiples of Revenue
- Likely the best valuation method IF enough comparable exist

Income Approach

- **Capitalization of Earnings:**
 - For established businesses
- **Discounted Future Cash Flows:**
 - For new businesses or businesses with extreme growth

Asset Approach

- **Book Value:**
 - Assets – Liabilities
- **Adjusted Book Value:**
 - This method is used to value a business based on the *difference between the fair market value of the business assets and its liabilities*. Depending on the particular purpose or circumstances underlying the valuation, this method sometimes uses replacement or liquidation value of the company asset less the liabilities.



V. M&A Process Overview



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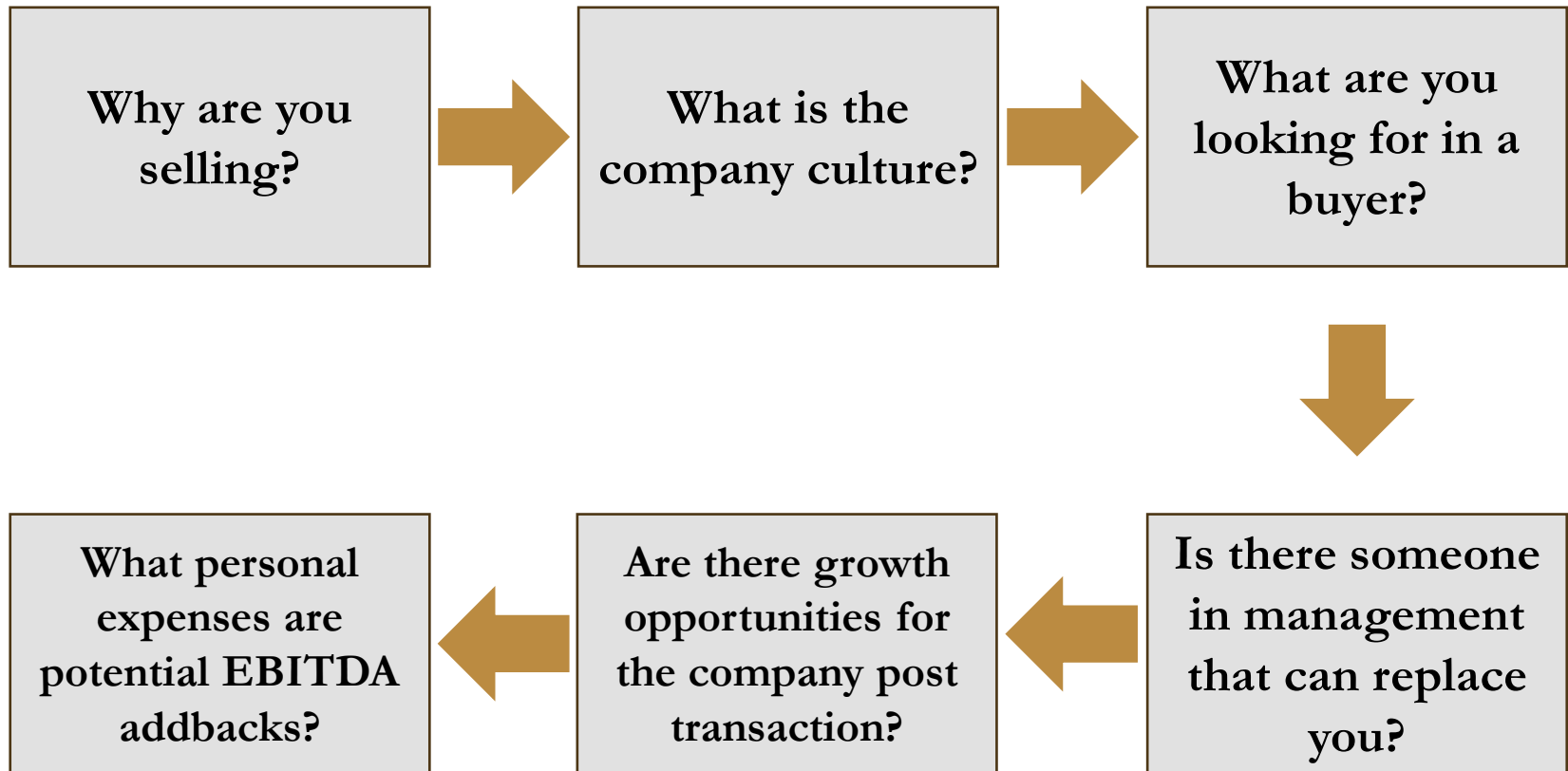
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Factors to Consider Before Selling

Questions for Reflection Before Entering the M&A Process



Key Company Materials

Quick Receipt of Accurate Data is Essential for a Successful Transaction

Financial Information

- Income Statement
- Cash Flow Statement
- Balance Sheet
- Tax Returns

Company Overview

Company History:

- Breakdown of ownership
- List of key milestones since inception of company

Customer & Supplier Information:

- List of sales by customer, sales by product, sales by state, and sales by end-market
- Purchases by supplier/vendor

Real Estate & Equipment:

- Lease agreements & floorplans
- Appraisals of equipment & real estate

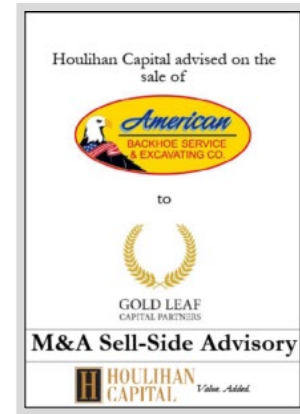
Other Important Information

- Employee Information
- Marketing Information
- IT & Operating Systems
- Industry Information
- Licensing & Compliance
- Reason for Selling

Relevant Recent Transactions



Transaction Closed April, 2023

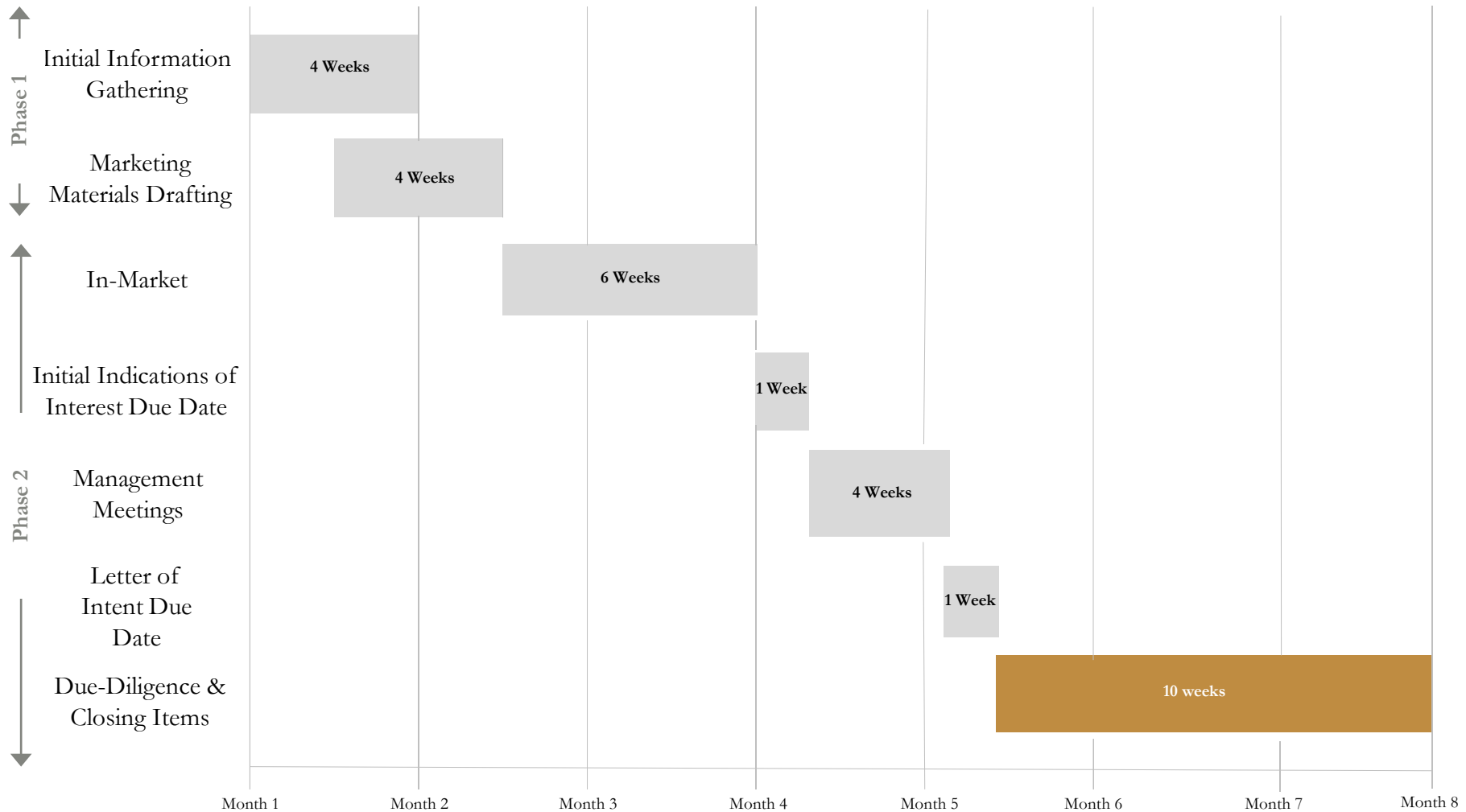


Transaction Closed December, 2022

M&A Process Stages

6–8-Month Two-Step Marketing Process

Sale Process Gantt Chart: Timeline-to-Close



Broad & Targeted Search

Advantages and Disadvantages of Broad vs Targeted Searches

	Broad	Targeted
Advantages	<ul style="list-style-type: none">• Limits buyers leverage• Increases competition among buyers• Likely approached all potential buyers	<ul style="list-style-type: none">• Best chance of preserving confidentiality• Reduces business disruption• Increases the likelihood of finding the “real” buyer
Disadvantages	<ul style="list-style-type: none">• Lack of confidentiality• Likely to disrupt the business• Competitors “kick the tires” to gain information	<ul style="list-style-type: none">• Potentially excludes non-obvious, but credible buyers• Seller may leave “money on the table”• Gives buyers more leverage

Private Equity Interest in the Construction Industry

Growing Private Equity Interest in the Construction Industry

Key Factors

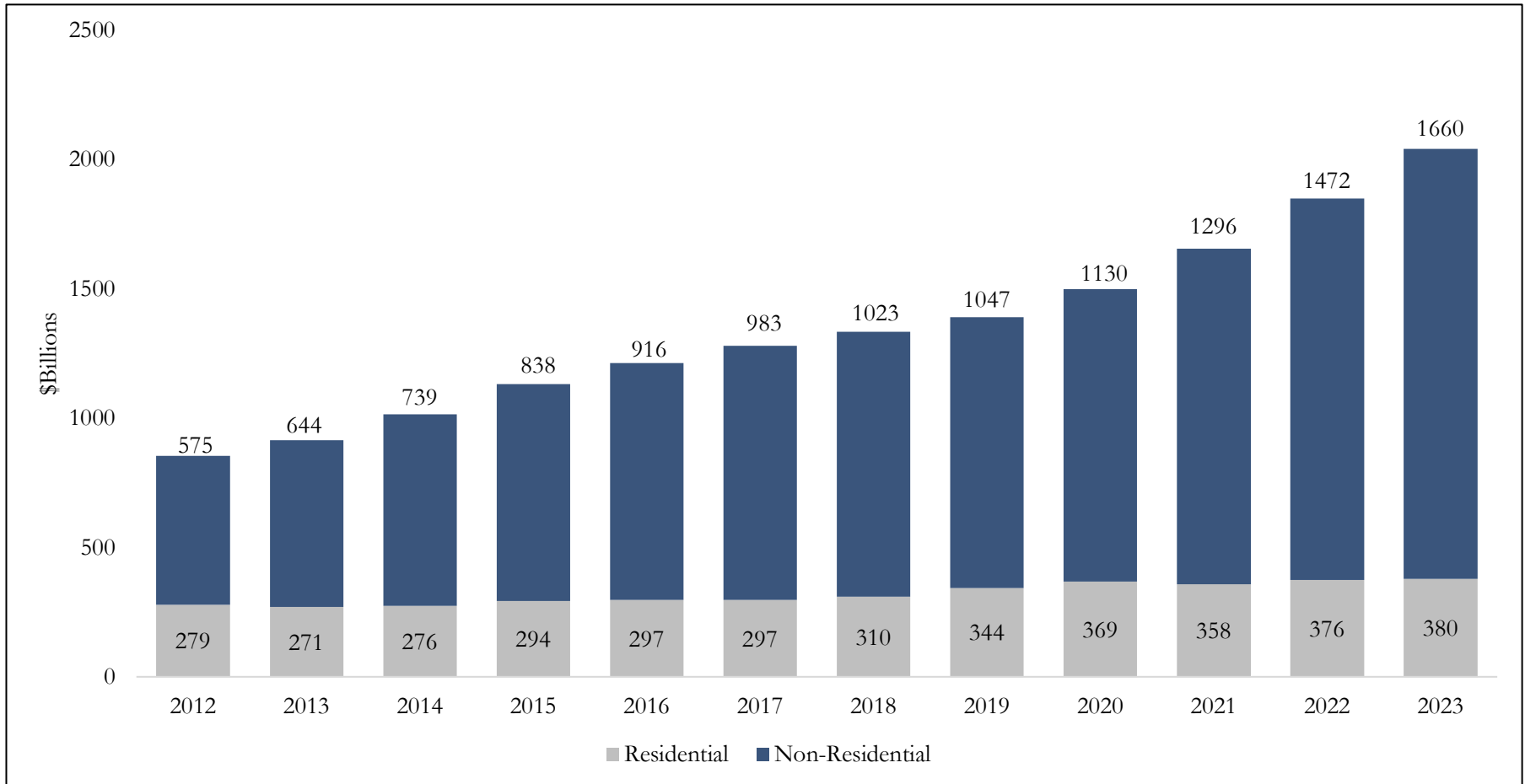
- Population growth
- Urbanization
- Infrastructure investment
- Technological advances
- Government policies & regulations related to building codes
- Environmental standards



Construction Spending in the United States

US Construction Spending Edging Towards \$2 Trillion

Construction Spending in the U.S.

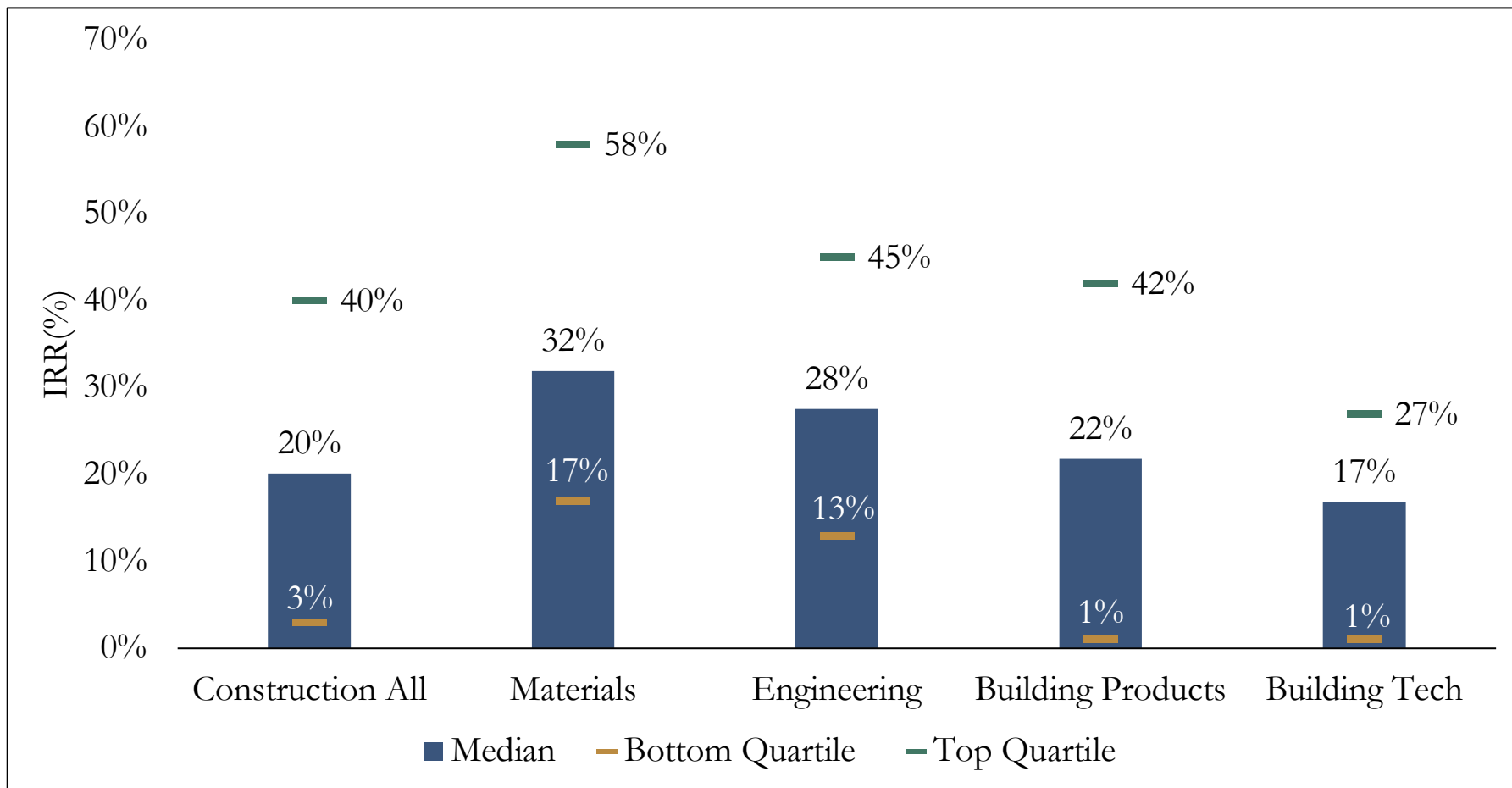


Source: CEPRES

Private Equity Deals in the Construction Industry

North American Construction Deals – IRR by Subsector

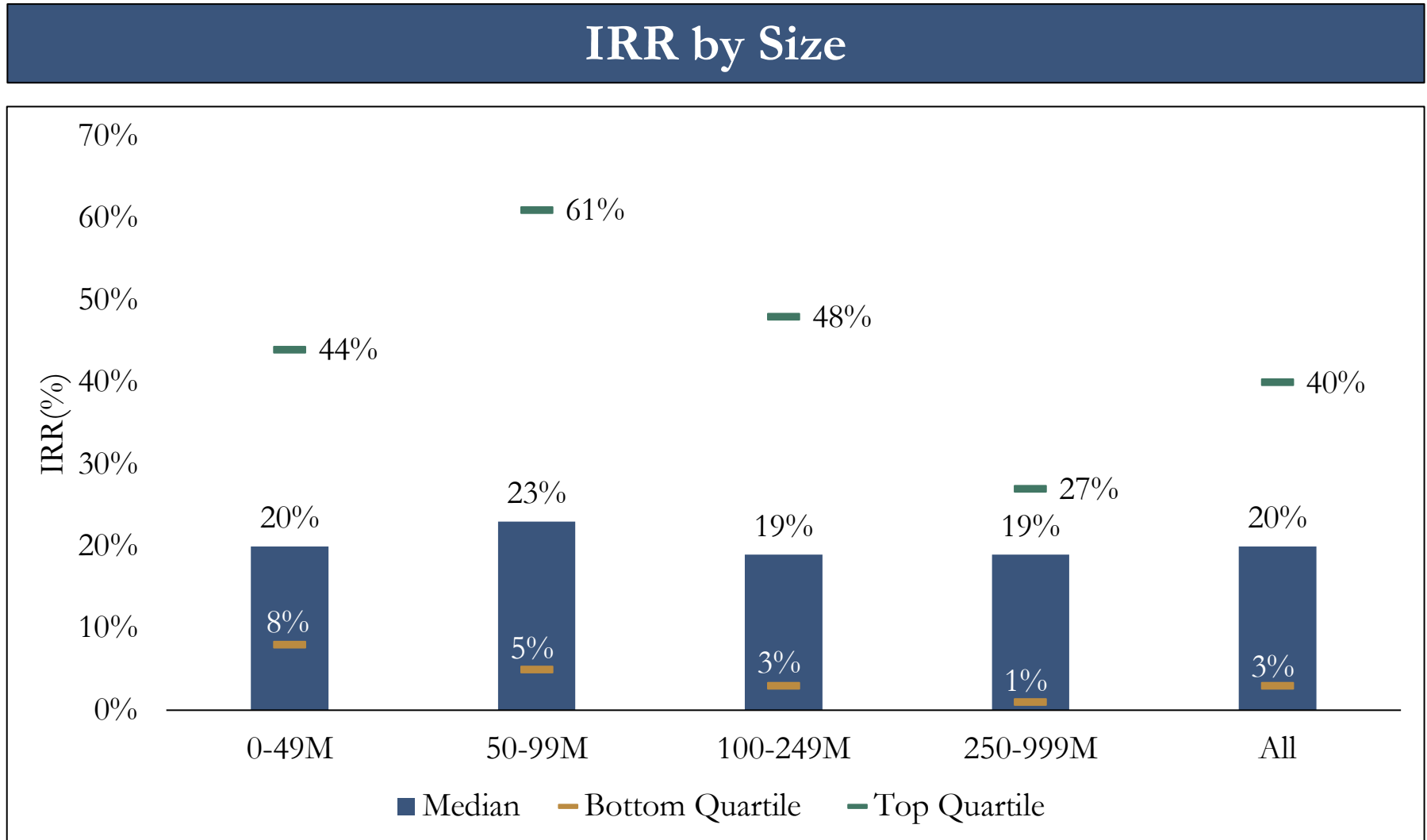
IRR by Subsector



Source: CEPRES

Private Equity Deals in the Construction Industry

North American Construction Deals – IRR by Size



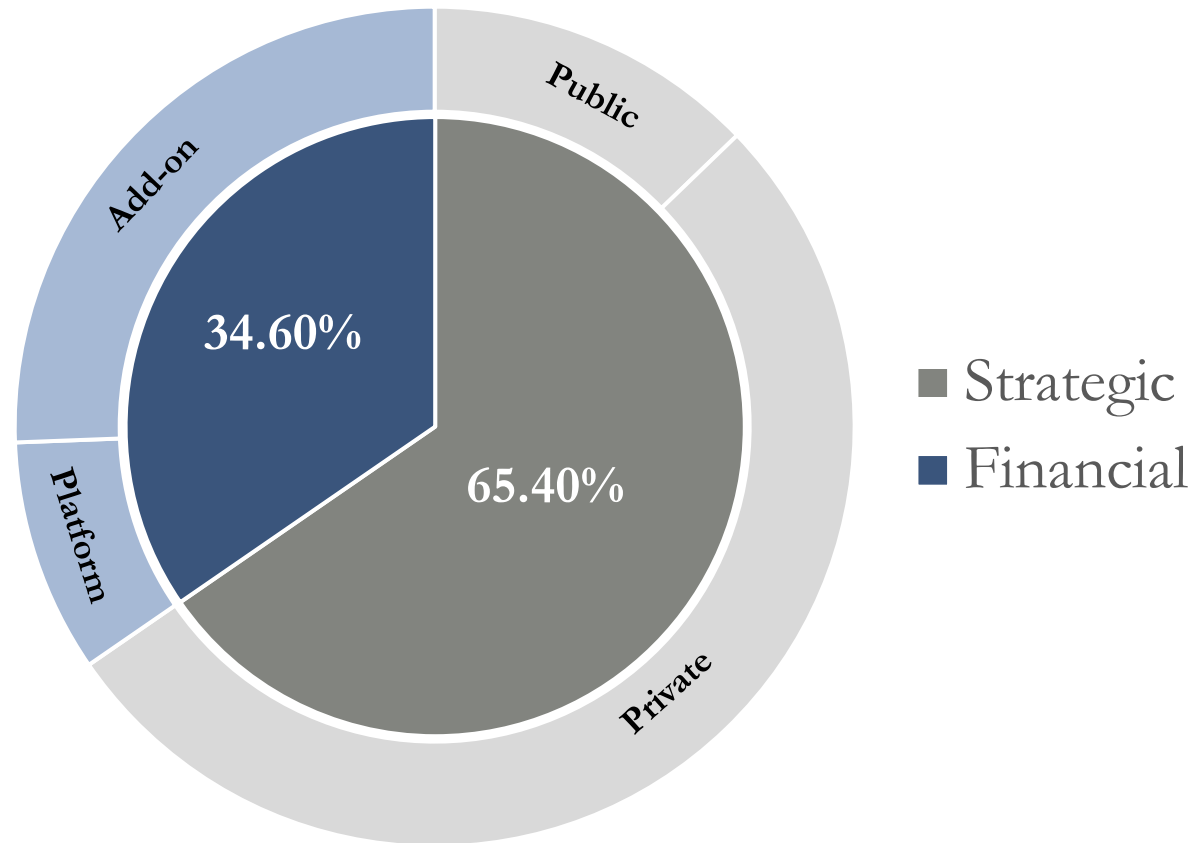
Source: CEPRES

Strategic vs. Financial Buyers Breakdown

Strategic Buyers Represent the Majority of Construction M&A Transactions

Key Insights

- A Strategic buyer usually is willing to pay more due to potential synergies.
- A Financial buyer is more likely to use a leveraged buy-out strategy.



Source: Capstone Partners September 2023

Notable Buyers in the Construction Industry

Private Equity Firms are Finding Value in Construction Acquisitions



Commercial Mechanical, Electrical, Plumbing

Asphalt Materials

Multi-Trade Services



Electrical Contractors

Industrial Contractors

Asphalt Contractors



Asphalt Contractors

Mechanical Contractors

Fire Protection Contractors



Residential HVAC Contractors

Elevator Maintenance Contractors

Fire Protection Contractors

Source: Pitchbook.com

Questions?

Any Questions Can Be Directed To:



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