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# 2015 Engineering & Construction Conference

## Harvesting Your Wealth

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Deloitte Corporate Finance LLC

June 18, 2015

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# Timing is Everything

- A concept in the wealth harvesting process is that the transaction will often be driven more by the **timing** of the transaction than any other single factor.
- Assessing shareholder liquidity typically requires experience, commitment, discipline, and favorable timing to attain favorable results.

Business Cycle Timing

**"The Titanic Saga"**

**MINIMAL:**

**Weak economic conditions and trends**

**Below average industry dynamics**

**Modest company performance**

**Modest company near-term prospects**

Relative Dollar Value



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# Timing is Everything (Cont'd)

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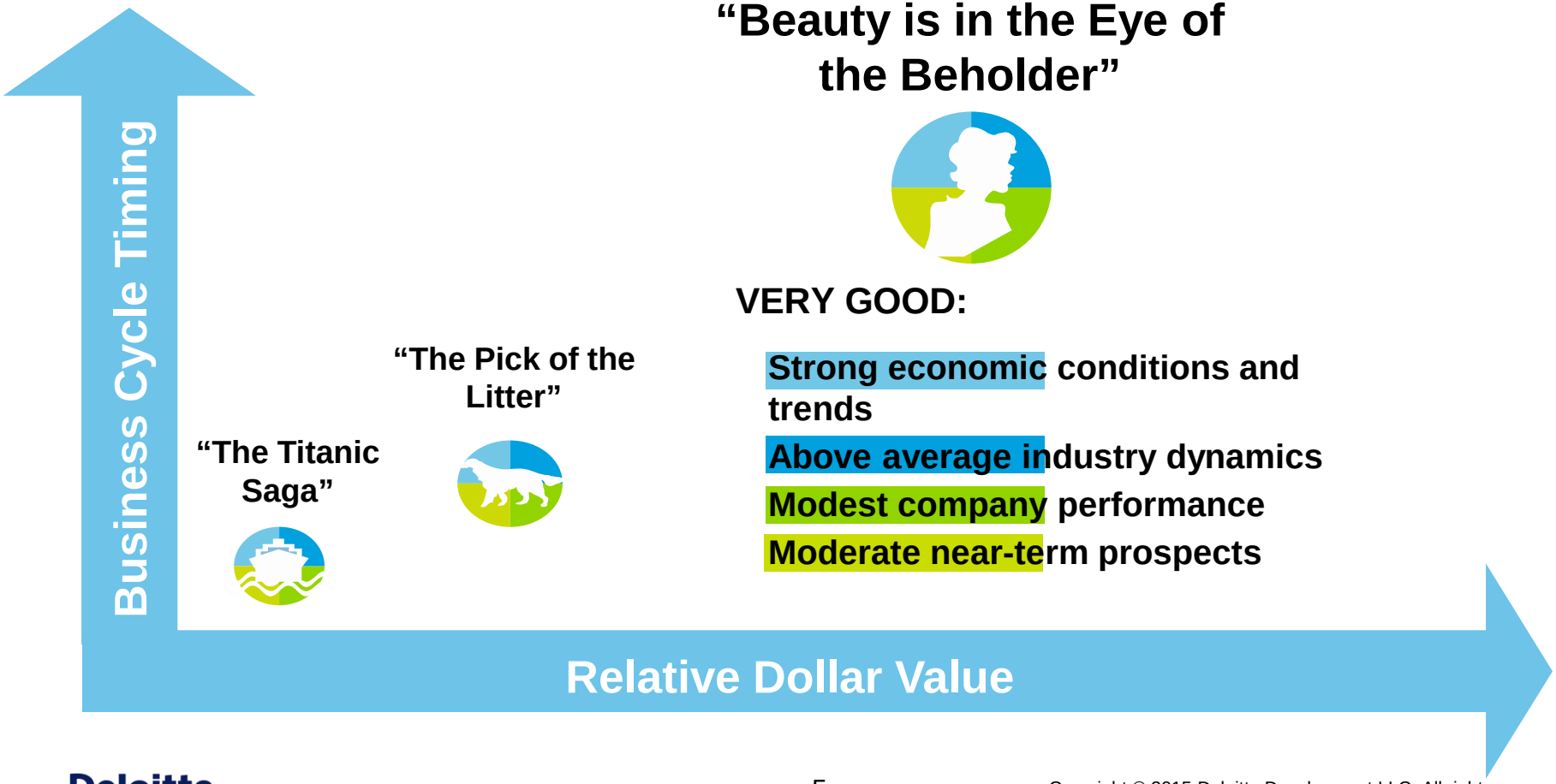



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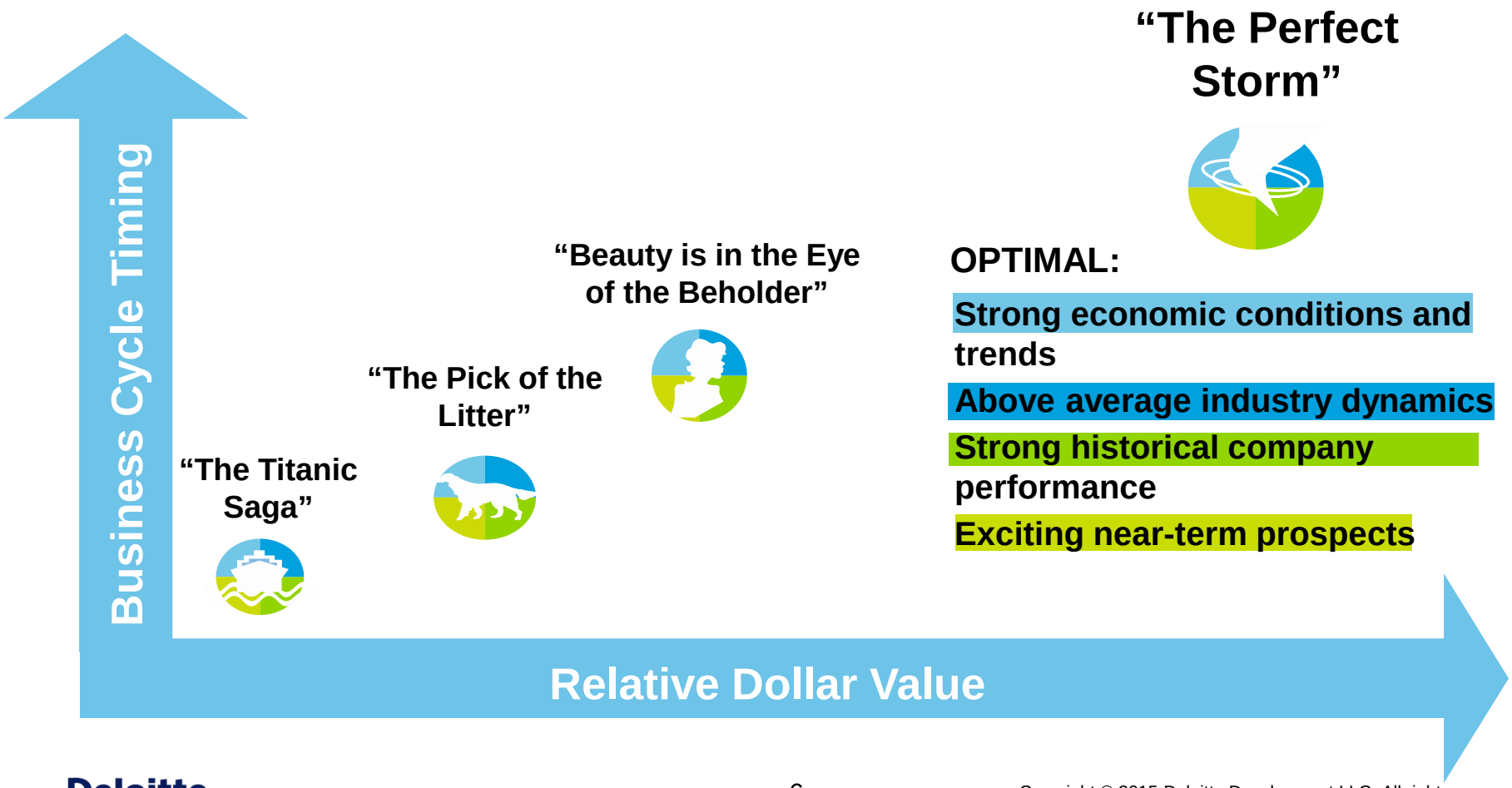



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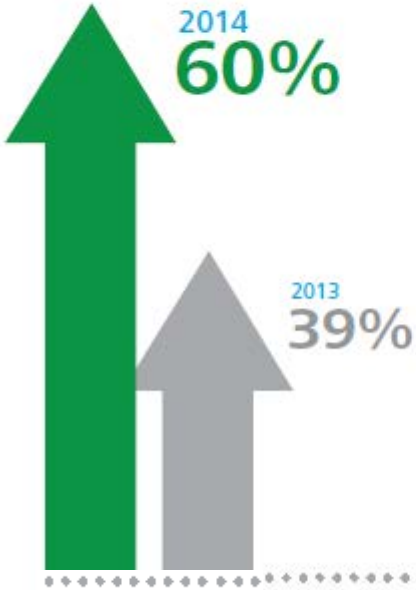
# Current Economic Environment

## 2014 report on America's economic engine

In March 2014, we polled 509 executives at U.S. mid-sized companies about the current economic environment.

**60% of respondents believe the economy will grow more than 2% over the next 12 months, compared to 39% of respondents a year ago**



**2/3** **of companies surveyed generate some revenue from global markets**

**27% have completed a merger or acquisition in the past year.**

Yes: 27%
No: 73%

**Top business strategies for the next year**

**What are the top obstacles to U.S. growth?**

**63%** rising health care costs

**55%** government budget challenges

**45%** high tax rates

**45%** lack of consumer confidence

Source: Deloitte Mid-Market Perspectives.



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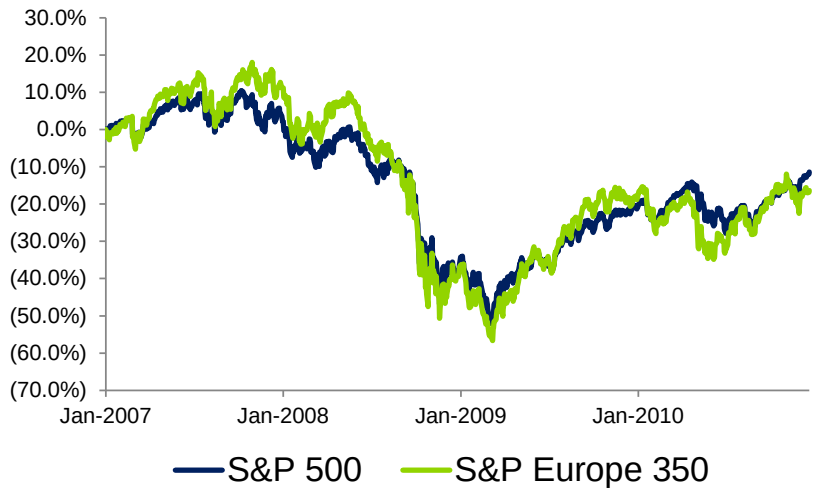
# Transaction Drivers

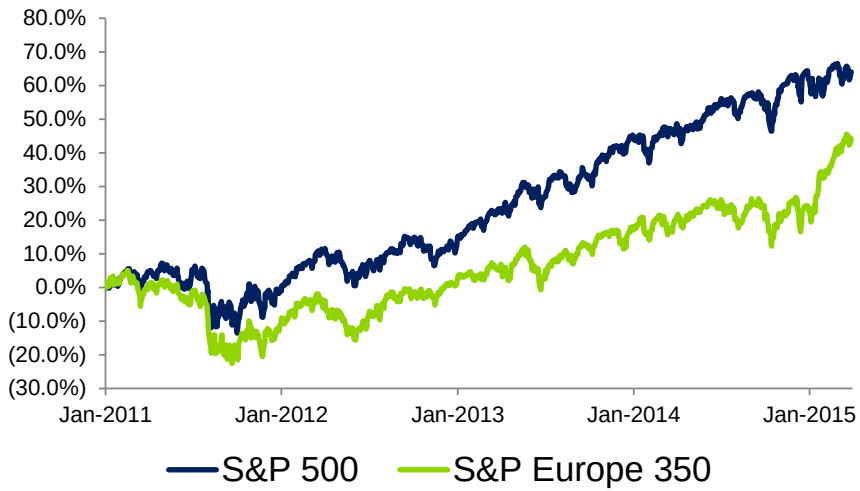
- Macroeconomic conditions and the outlook for the global economy have improved significantly over the past year based on restored growth in developed economies.
- In the United States, strong performance on a corporate level and lower unemployment have yielded significant improvements in the fundamentals of the U.S. economy.

## United States and European Economic Environment

**January 2007 – January 2011**




**January 2011 – March 2015**




Source: CapIQ.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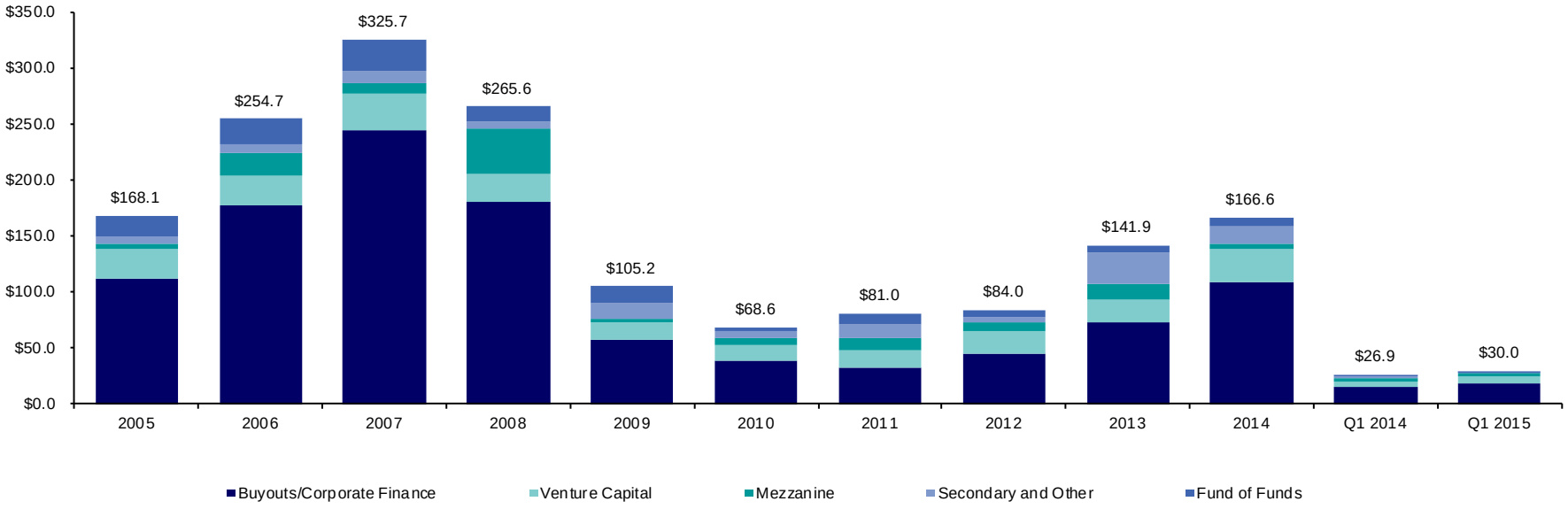
# Private Equity Fundraising

- Financial sponsors continue to raise a significant amount of capital, with $30.0 billion in committed funds raised domestically during 2015, representing a 12.0% increase over the same period in 2014.
- U.S. buyout and corporate finance funds have secured $109.5 billion in 2014, representing a 49.2% increase compared to the same period in 2013.
  - Private equity firms are expected to continue to bid aggressively for transactions with an estimated $1.2 trillion in committed but un-invested capital worldwide and a strong desire to make add-on acquisitions to existing portfolio companies.

**U.S. Financial Sponsor Fundraising**
**($ in Billions)**




Source: Dow Jones *Private Equity Analyst*, *Preqin Research*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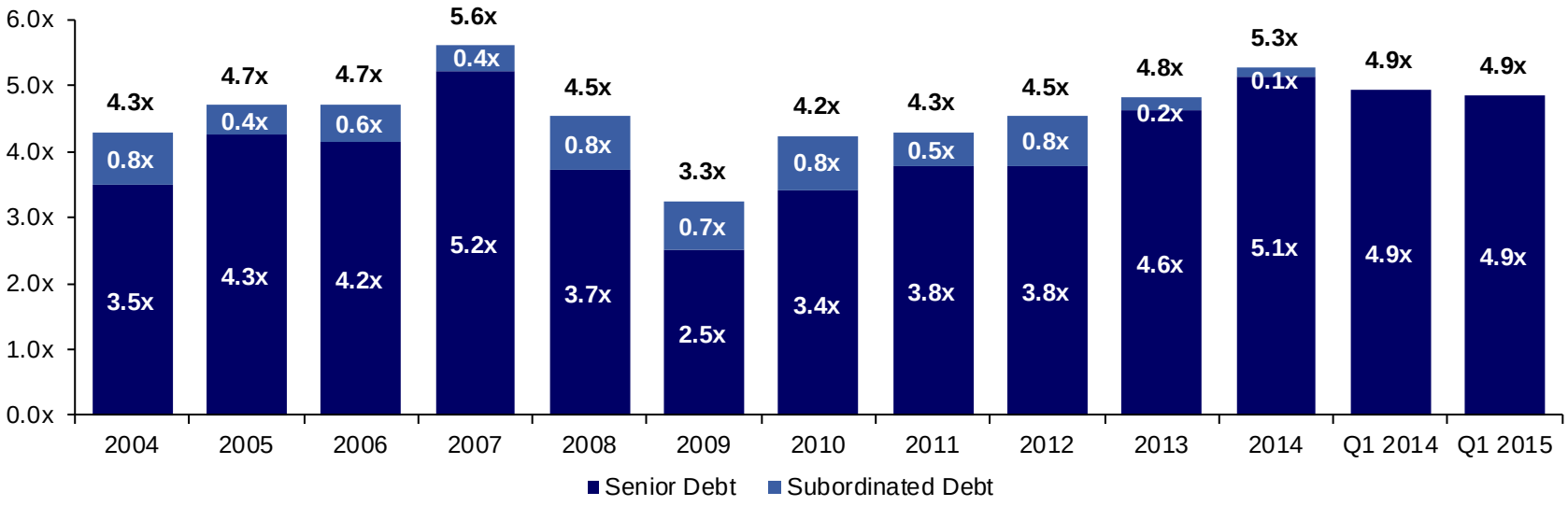
# Leverage Multiples for Leveraged Buyouts

- Strong economic expansion and a perceived decrease in credit risk have led to the greater availability of debt for leveraged buyout transactions since 2009.
- The strength of the debt markets, particularly for first and second lien debt, represent a key development in 2010 that has been sustained through Q1 2015.
  - Senior leverage multiples have increased from 2.5x EBITDA in 2009 to 4.9x EBITDA in 2015.
  - Easy access to senior leverage and a continued environment of favorable rates has led to an increase of senior debt in relation to subordinated debt in leveraged buyout capital structures.

**Leverage Multiples[1]**




**Footnote:**
(1) LBOs for companies with EBITDA of $50 million or less.

Source: Standard & Poor's Leveraged Commentary and Data.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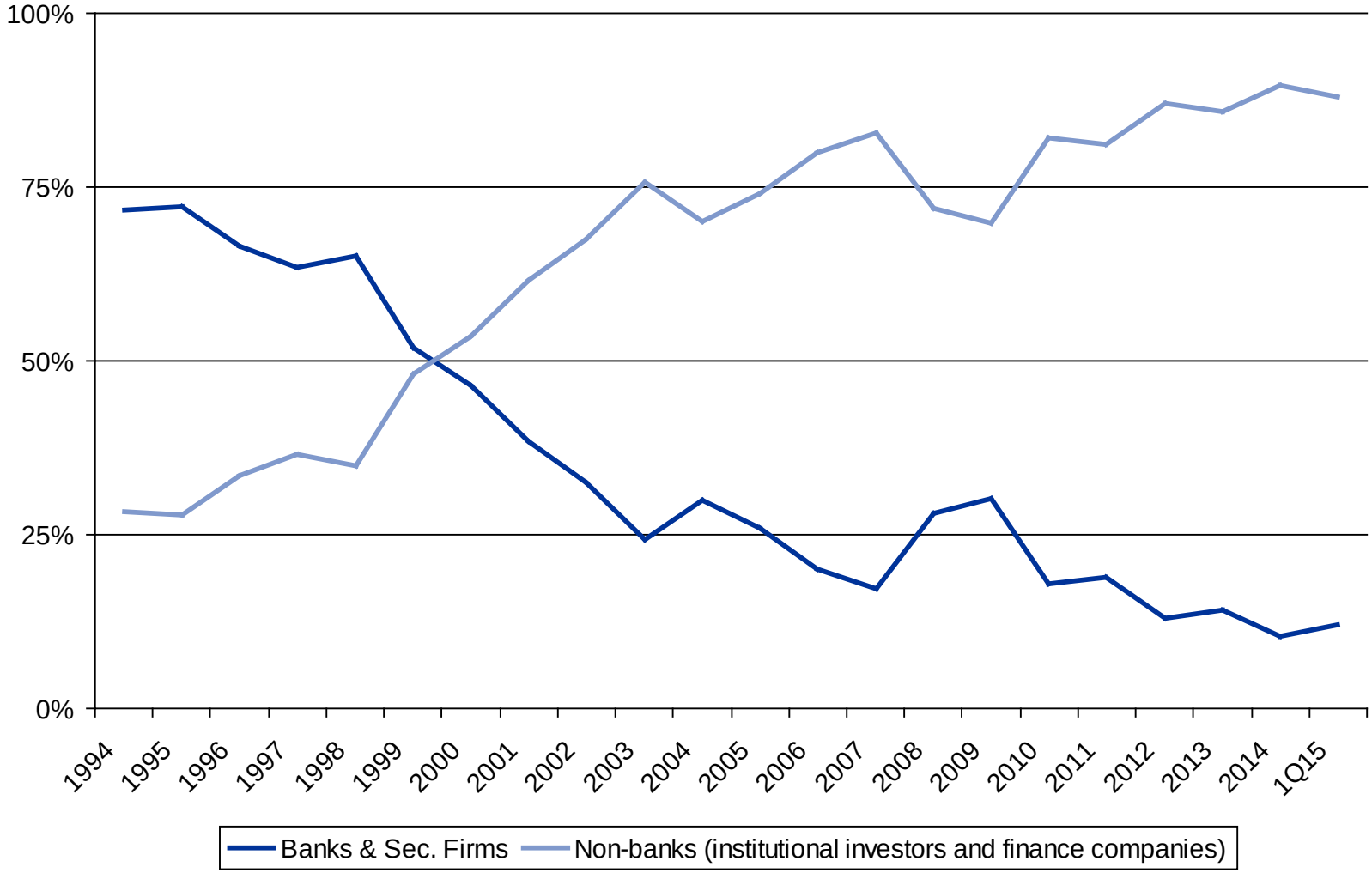
# Composition of Primary Market for Highly Leveraged Loans: Banks vs Non-Banks




**Footnote:**
(1) Excludes left and right agent commitments (including administrative, syndication and documentation agent as well as arranger)
Non-banks include: institutional investors, insurance companies, and finance companies.

Source: Standard & Poor's Leveraged Commentary and Data.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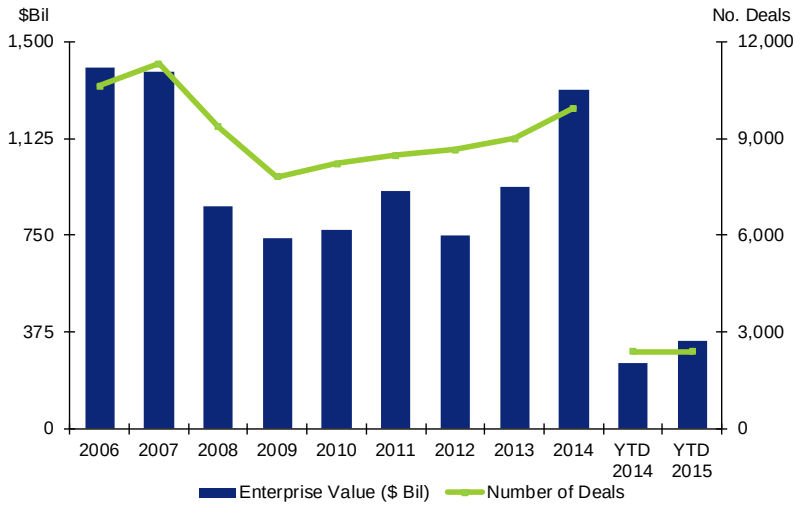
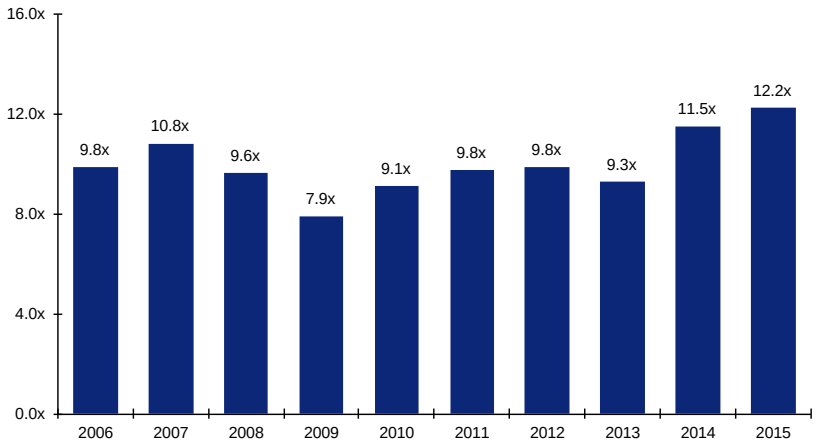
# Capital Market Conditions

- U.S. M&A volume has remained strong during Q1'15, in line with recent trends in the market.
- The number of U.S. deals announced in Q1'15 dipped by 0.3% to approximately 2,396 as compared to the approximately 2,405 transactions in Q1'14.
- The median EBITDA multiple for U.S. deals announced in Q1'15 has increased to 12.2x, a 6.3% increase compared with the median multiple for Q1'14.
  - Total U.S. deal value announced in Q1'15 was approximately $343.2 billion, representing a 33.8% increase from Q1'14.
  - A majority of this increase has been led by mega-deals such as H.J. Heinz's acquisition of Kraft Food Group and OptumRx's acquisition of Catamaran Corp.

**Total U.S. M&A Volume and Value ($ in Billions)**




**Median U.S. Enterprise Value to EBITDA Multiples**




Source: Thomson Financial.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# Capital Markets Conditions (Cont'd)

- Merger and acquisition activity and credit market trends signal favorable transaction conditions.
- There are many key timing considerations when considering a liquidity event, including:
  - Equity values for small-cap companies have experienced significant gains in the past 12 months.
  - Recent M&A activity has remained steady among smaller private companies; and
  - Credit availability and debt costs are currently favorable for privately held middle-market company transactions.

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# Comparison to Select Publicly Traded Companies

**The following Diversified Construction Service Providers and Specialty Contractors are currently trading at 9.2x and 9.7x LTM EBITDA, respectively.**

| | ($ in Millions) | | | | | Last Twelve Months | |
|---|---|---|---|---|---|---|---|
| Company (Ticker) | % of 52 Week High | LTM Revenue | LTM EBITDA | EBITDA Margin | Enterprise Value ("EV")[1] | EV/ Revenue | EV/ EBITDA |
| **Diversified Construction Service Providers** | | | | | | | |
| Actividades de Construcción y Servicios, S.A. (CATS:ACS) | 89.4 % | $35,406.3 | $1,821.1 | 5.1 % | $14,385.0 | 0.4 x | 7.9 x |
| Aecon Group Inc. (TSX:ARE) | 81.0 | 2,653.7 | 107.7 | 4.1 | 1,214.9 | 0.5 | 11.3 |
| ARCADIS NV (ENXTAM:ARCAD) | 81.8 | 2,634.9 | 209.4 | 7.9 | 2,640.5 | 1.0 | 12.6 |
| Balfour Beatty plc (LSE:BBY) | 96.9 | 7,264.0 | (201.0) | NM | 2,159.5 | 0.3 | NM |
| Carillion plc (LSE:CLLN) | 84.9 | 3,493.9 | 186.6 | 5.3 | 1,588.6 | 0.5 | 8.5 |
| Huntington Ingalls Industries, Inc. (NYSE:HII) | 85.5 | 6,933.0 | 926.0 | 13.4 | 6,784.6 | 1.0 | 7.3 |
| Installed Building Products, Inc. (NYSE:IBP) | 88.1 | 542.0 | 43.7 | 8.1 | 738.5 | 1.4 | 16.9 |
| KBR, Inc. (NYSE:KBR) | 69.3 | 6,169.0 | 232.0 | 3.8 | 1,985.5 | 0.3 | 8.6 |
| MYR Group, Inc. (NasdaqGS:MYRG) | 92.6 | 972.5 | 93.2 | 9.6 | 562.7 | 0.6 | 6.0 |
| Obayashi Corporation (TSE:1802) | 95.0 | 1,773,981.0 | 62,782.0 | 3.5 | 818,414.9 | 0.5 | 13.0 |
| Primoris Services Corporation (NasdaqGS:PRIM) | 60.8 | 2,008.9 | 148.7 | 7.4 | 1,090.9 | 0.5 | 7.3 |
| Quanta Services, Inc. (NYSE:PWR) | 80.4 | 7,975.6 | 692.6 | 8.7 | 6,375.4 | 0.8 | 9.2 |
| Shimizu Corp. (TSE:1803) | 98.8 | 1,567,843.0 | 62,923.0 | 4.0 | 860,203.5 | 0.5 | 13.7 |
| WSP Global Inc. (TSX:WSP) | 96.9 | 3,795.0 | 261.9 | 6.9 | 4,835.2 | 1.3 | 18.5 |
| **Median** | **86.8 %** | | | **6.9 %** | | **0.5 x** | **9.2 x** |
| **Mean** | **85.8 %** | | | **6.8 %** | | **0.7 x** | **10.8 x** |
| **Specialty Contractors** | | | | | | | |
| AECOM (NYSE:ACM) | 87.1 % | $13,247.3 | $738.8 | 5.6 % | $9,267.3 | 0.7 x | 12.5 x |
| Chicago Bridge & Iron Company N.V. (NYSE:CBI) | 68.4 | 13,172.5 | 1,254.2 | 9.5 | 8,174.0 | 0.6 | 6.5 |
| Dycom Industries Inc. (NYSE:DY) | 98.1 | 1,925.9 | 221.9 | 11.5 | 2,425.0 | 1.3 | 10.9 |
| Fluor Corporation (NYSE:FLR) | 72.9 | 20,695.6 | 1,390.0 | 6.7 | 7,745.0 | 0.4 | 5.6 |
| Hochtief AG (DB:HOT) | 92.9 | 22,276.5 | 451.1 | 2.0 | 5,453.0 | 0.2 | 12.1 |
| Integrated Electrical Services, Inc. (NasdaqGM:IESC) | 88.4 | 542.1 | 14.6 | 2.7 | 131.0 | 0.2 | 9.0 |
| Jacobs Engineering Group Inc. (NYSE:JEC) | 77.5 | 12,540.6 | 822.3 | 6.6 | 5,856.4 | 0.5 | 7.1 |
| MasTec, Inc. (NYSE:MTZ) | 45.3 | 4,653.2 | 367.6 | 7.9 | 2,530.4 | 0.5 | 6.9 |
| Skanska AB (publ) (OM:SKA B) | 84.8 | 148,910.0 | 6,402.0 | 4.3 | 71,035.3 | 0.5 | 11.1 |
| SNC-Lavalin Group Inc. (TSX:SNC) | 74.4 | 8,775.7 | 579.5 | 6.6 | 5,996.9 | 0.7 | 10.3 |
| **Median** | **81.1 %** | | | **6.6 %** | | **0.5 x** | **9.7 x** |
| **Mean** | **79.0 %** | | | **6.3 %** | | **0.6 x** | **9.2 x** |

**Footnote**:
(1) Enterprise value equals market value of equity plus net debt.

Source: CapIQ.


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# Transactions Involving Relevant Companies

**Related M&A activity has led to median transaction multiples of 0.5x LTM Revenue and 7.7x LTM EBITDA.**

| Target/Acquiror | Close Date | LTM Revenue | LTM EBITDA | EBITDA Margin | Enterprise Value ("EV")[1] | Latest Twelve Months EV/ Revenue | Latest Twelve Months EV/ EBITDA |
|---|---|---|---|---|---|---|---|
| **PFB Corp.**<br>Aeonian Capital Corporation | Dec-14 | $74.0 | $3.9 | 5.2 % | $31.3 | 0.4 x | 8.1 x |
| **Connor Sport Court International, Inc.**<br>Gerflor USA, Inc. | Nov-14 | ~100.0 | N/A | N/A | N/A | N/A | N/A |
| **Parsons Brinckerhoff Group Inc.**<br>WSP Global Inc. | Oct-14 | 2,358.4 | 123.0 | 0.1 | 1,352.5 | 0.6 | 11.0 |
| **URS Corporation**<br>AECOM | Oct-14 | 10,487.7 | 768.0 | 7.3 | 5,584.3 | 0.5 | 7.3 |
| **Schuff International, Inc.**<br>HC2 Holdings, Inc. | Oct-14 | 460.7 | 36.0 | 7.8 | 151.4 | 0.3 | 4.2 |
| **Hunt Construction Group, Inc.**<br>AECOM | Jul-14 | 1,200.0 | N/A | N/A | 313.2 | 0.3 | N/A |
| **Sinclair Knight Merz Management Pty Ltd.**<br>Jacobs Engineering, Inc. | Dec-13 | 1,185.6 | 165.6 | 14.0 | 1,223.3 | 1.0 | 7.4 |
| **Michael Baker Corporation**<br>KS International, LLC; Integrated Mission Solutions | Oct-13 | 576.5 | 32.9 | 5.7 | 313.2 | 0.5 | 9.5 |
| **GreenStar Services Corporation**<br>Tutor Perini Corporation | Jul-11 | 560.0 | N/A | N/A | 248.4 | 0.4 | N/A |
| **Lunda Construction Company**<br>Tutor Perini Corporation | Jul-11 | 356.4 | 84.5 | 23.7 | 184.3 | 0.5 | 2.2 |
| **Fisk Corporation**<br>Tutor Perini Corporation | Jan-11 | 305.0 | N/A | N/A | 120.0 | 0.4 | N/A |
| **Tishman Construction Corporation**<br>AECOM Technical Services, Inc. | Jul-10 | 1,000.0 | N/A | N/A | 233.6 | 0.2 | N/A |
| **Seacliff Construction Corp.**<br>The Churchill Corporation (nka:Stuart Olson Inc.) | Jul-10 | 560.3 | 37.3 | 6.7 | 303.2 | 0.5 | 8.1 |
| **Median** | | | | **7.0 %** | | **0.5 x** | **7.7 x** |
| **Mean** | | | | **8.8 %** | | **0.5 x** | **7.2 x** |

**Footnote**:
(1) Enterprise value equals market value of equity plus net debt.

Source: CapIQ.


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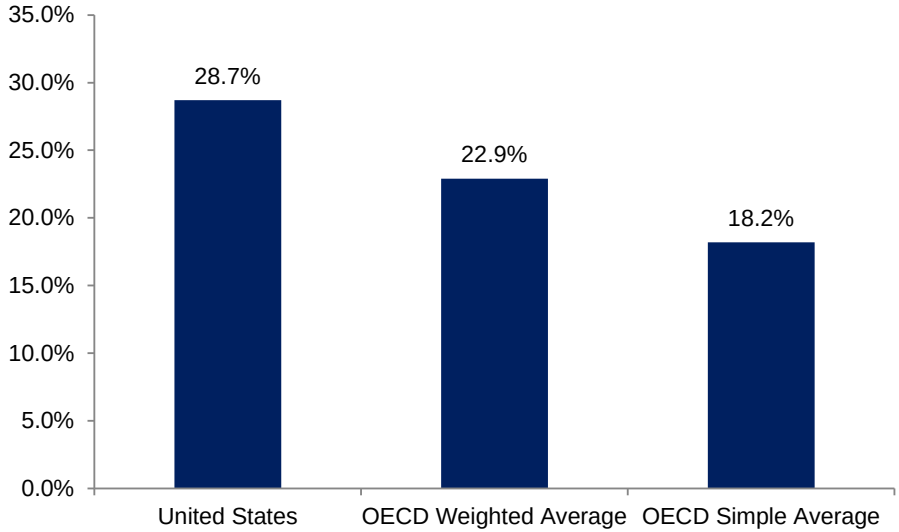
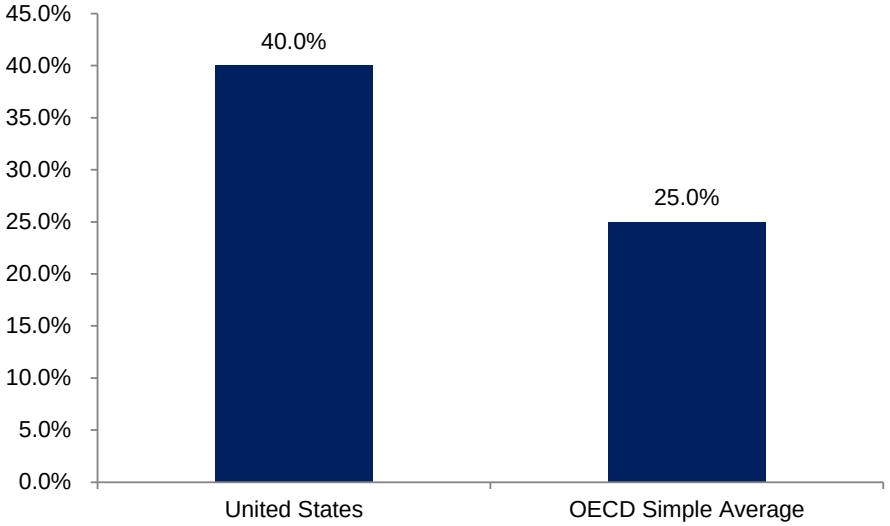
# Legislative and Tax Policy

- Legislative and tax policies play an important role as companies assess strategic liquidity alternatives.
- Although Democrats and Republicans alike conceptually agree that tax reform is necessary, they differ on many fundamental issues.
- Finance Committee Chairman Wyden had advocated for extensive tax reforms including:
  - Lower corporate tax rate
  - Simplified individual tax brackets; and
  - Temporary tax holidays for repatriated foreign income.

**Top Capital Gains Tax Rates, U.S. and OECD[1] Averages, 2014[2]**




**Corporate Tax Rates, U.S. and OECD Average, 2014**




(1): OECD refers to the 34 member countries of the Organization for Economic Co-operation and Development.

(2): Ernst and Young, Deloitte, Tax Foundation, and AEI.



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# Shareholder Liquidity Alternatives

Process of assessing "**strategic alternatives**":

**Stage 1: Prepare.**

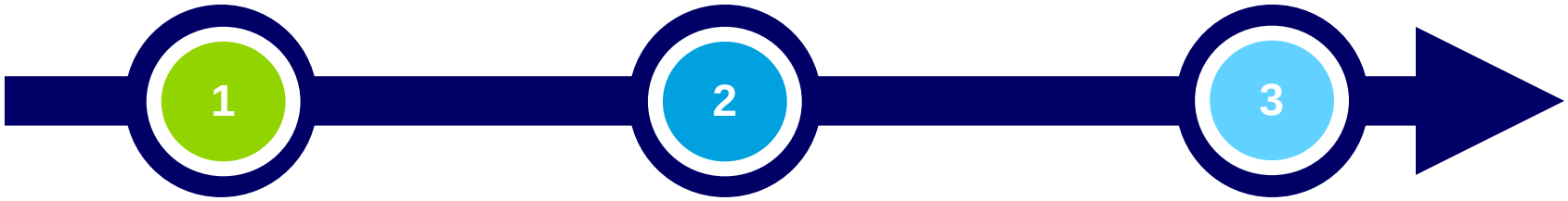
- Examine environment, analyze company performance, and articulate goals and vision for transaction.

**Stage 2: Compare Options.**

- Discern financial benefits and considerations of each alternative.
- Present alternatives on a financial "apples-to-apples" basis in order to reduce decision-making complexity.

**Stage 3: Create a Plan for Action.**

- Corporate finance advisor can help fashion a transaction strategy and execution timeline.



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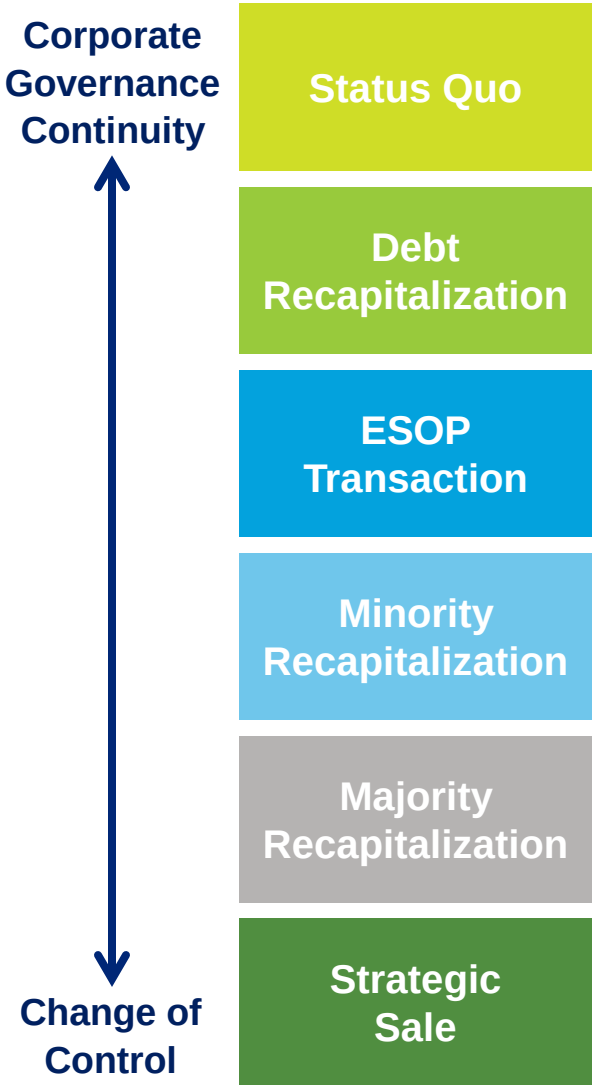
# Array of Liquidity Alternatives




- Preparing long-term for a future liquidity event.
- Taxable dividend distribution to the company's shareholders through the securing of debt.
- Tax-advantaged debt recapitalization.
- Non-change-of-control transaction involving a new financial sponsor.
- Change-of-control transaction involving a new financial sponsor.
- Financial exit from the business.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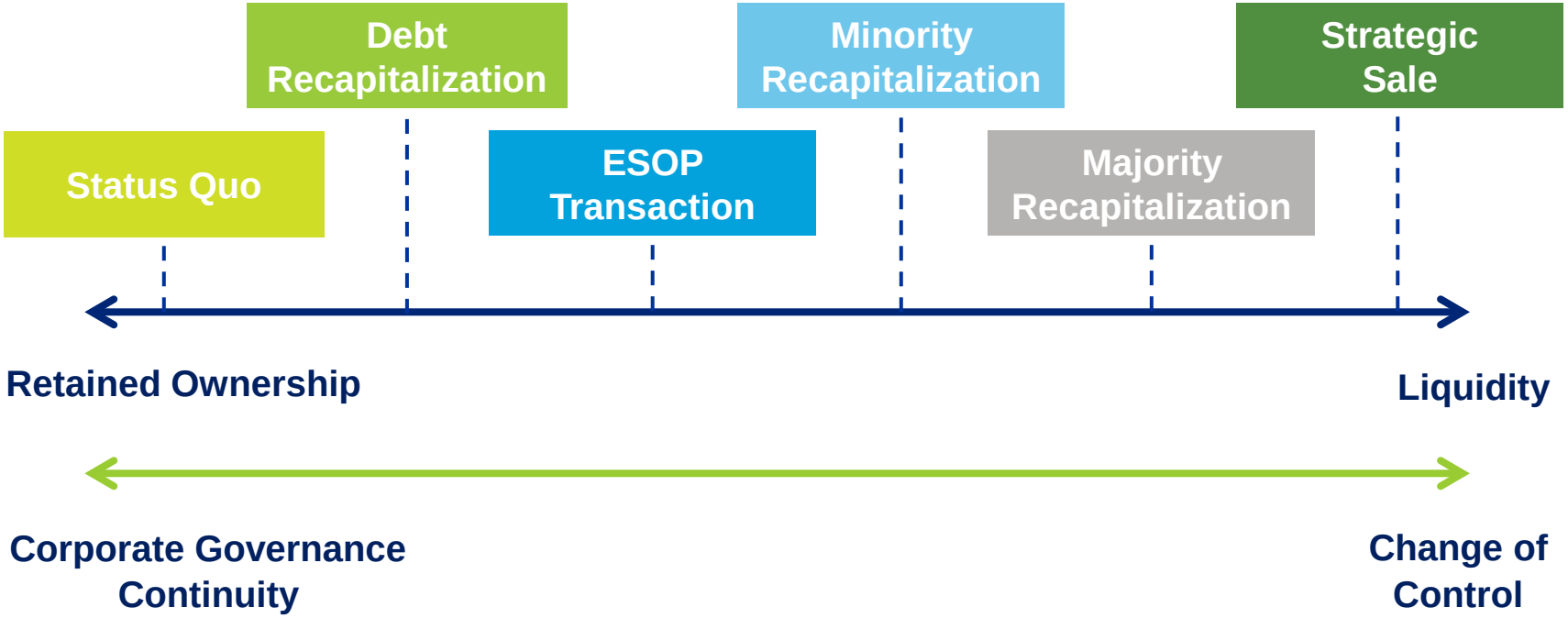
# Benchmarking the Shareholder Liquidity Alternatives

## Control vs. Liquidity

- The appropriate strategic alternative will fit the desired balance between monetizing equity and maintaining control of the company into the future.





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# Shareholder Liquidity Transaction Dynamic

The corporate finance advisor can help create broad interest in the company through structuring of the transaction process.

**Several Key Steps:**

1. Prioritize shareholder financial objectives.
2. Enhance shareholder tax positioning.
3. Identify universe of investors: financial sponsors, strategic acquirors.
4. Develop information memorandum.
5. Conduct “market test” to gauge pricing and terms.
6. Execute the selected transaction.



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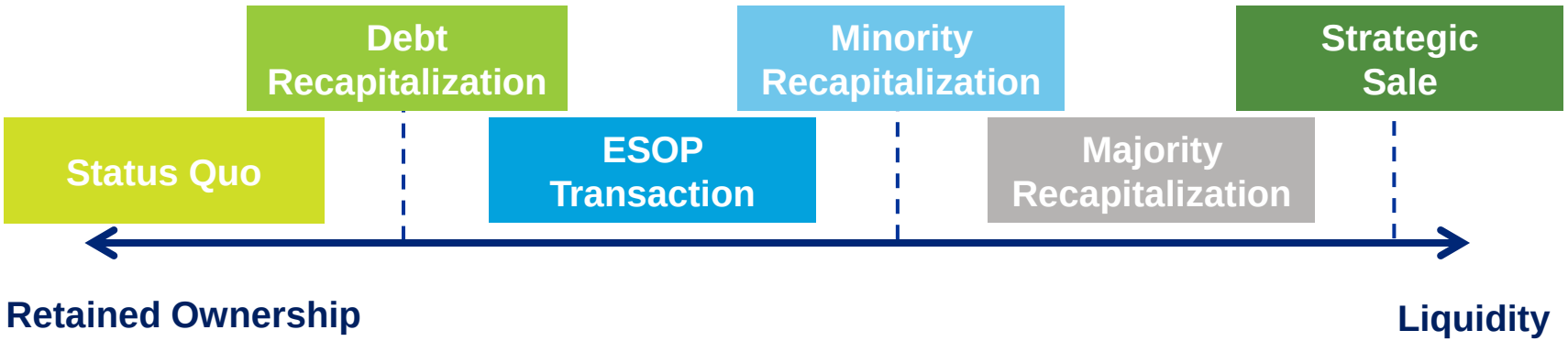
# Comparative Transaction Overview




- Net Proceeds at Close
- Retained Ownership and Corporate Governance
- Future Value
- Qualitative Factors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# Summary Thoughts On Harvesting Your Wealth

| Do | Don't |
| --- | --- |
| Be thoughtful and strategic about management succession. | Try to time the market perfectly. |
| Evaluate your financial controls and budgeting capabilities. | Entertain "one off" buyer/investor interest. |
| Consider comprehensive tax and estate planning before entering the market. | Postpone investments to try to artificially enhance your profitability. |
| Consider retaining legal counsel with transaction experience. | Ignore current business operations and strategy. |
| Assess one-time and non-recurring expenses which could be addbacks. | Underestimate the importance of culture. |



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# Team Biographies

## Lou Paone

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**Education & Certifications**

American University, Kogod School of Business, BS

Fairleigh Dickinson University, MBA

### MANAGING DIRECTOR – DELOITTE CORPORATE FINANCE LLC

**Profile**

Based in Charlotte, Lou Paone is a managing director with Deloitte Corporate Finance LLC (DCF). Prior to joining DCF, Lou served as head of McColl Partners, LLC's Employee Stock Ownership Plan (ESOP) Corporate Finance group. His transaction experience includes structuring change-of-control management buyouts, employee-based leveraged buyouts, and sell-side mergers and acquisitions. Lou has worked in numerous sectors including business services, consumer products, health care, and industrials and building products. Previously, Lou was a managing director at a nationally recognized investment bank where he oversaw the firm's national ESOP market initiatives and the conceptual development of ESOP corporate finance. He was also the director of the Washington, D.C. office of a national financial advisory services firm and a financial advisor with the United States government.

**Experience**

- Advisor to Appleton Papers Acquisition Corp in largest 100% ESOP purchase in U.S.*
- Advisor to Boat America in sale of its retail division to West Marine and subsequent sale of 100% of equity to ESOP.*
- Advisor to Blue Heron Paper in buyout of KPS Equity Fund equity by Blue Heron ESOP.*
- Advisor to Copper Range Company in Management/ESOP buyout of 100% interest held by Louisiana Land and Exploration.*
- Advisor to Alion Corporation ESOP buyout of Illinois Institute of Technology (IITRI) 100% equity ownership interest.*
- Advisor to Heartland Dental in multiple stage ESOP purchases of founder shareholder equity interests.*
- Advisor to Scooter Store Corporation in ESOP recapitalization and capital raise.
- Advisor to Turner Industries in strategic alternatives initiative that raised $400 million of capital for shareholder liquidity purposes.
- Advisor to Aspen Systems Inc. in the Management/ESOP buyout of Wolters Klure of 100% equity ownership stake.*
- Advisor to ARAMARK in recapitalization of employee shareholder and institutional equity interests.*
- Advisor to Muehlstein Corp. in its Management/ESOP buyout of company from Mobil Oil.*
- Advisor to WaWa Corporation in the development and transactional execution of its employee ownership initiative.*
- Advisor to Scitor Corporation in its 100% Management/ESOP buyout of founder equity.*

**Professional Affiliations**

- Member of Chartered Financial Analysts Designation (CFA)
- Member of The National ESOP Association

** References an engagement that was performed by individual prior to his joining DCF.*
*Transactions presented may include transactions for which DCF professionals provided services while employed at McColl Partners LLC.*


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# Team Biographies

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**Education & Certifications**

Miami University, Ohio: BS, Finance

### MANAGING DIRECTOR – DELOITTE CORPORATE FINANCE LLC

**Profile**

Based in Charlotte, John Deering is a managing director with Deloitte Corporate Finance LLC (DCF). John has over 25 years of experience advising clients on their capital structure options and financing needs. Prior to joining DCF, John served as a managing director and partner at McColl Partners, LLC. There he served as the head of the firm's Private Capital Solutions group, which raised over $4.0 billion for its clients during a ten-year period. His transaction experience includes raising senior, mezzanine, and equity linked notes for growth-oriented companies in the retail, consumer products, defense and aerospace, business services, industrial, health care, technology, and transportation industries. Prior to McColl Partners, John worked in the investment banking group at a nationally recognized investment bank.

**Representative Experience**

- Advised The InterTech Group on the take-private acquisition financing of Hudson's Bay Company.
- Advised HealthSCOPE Benefits on its management buyout and mezzanine debt financing.
- Advised Marena Group on its mezzanine debt recapitalization.
- Advised Integrated Healthcare Solutions on its growth capital raise.
- Advised Level Four Orthotics & Prosthetics on its subordinated debt growth recapitalization.
- Advised AirBorn on its senior and subordinated debt recapitalization.
- Advised Key Impact Sales on its minority equity recapitalization.
- Advised Brady Industries on its senior debt refinancing.
- Advised Turner Industries on its senior debt financing.
- Advised HyCite Corporation on its recapitalization.
- Advised The SCOOTER Store on its minority equity recapitalization.
- Advised Triad Isotopes on its recapitalization.
- Advised Harbortouch on its recapitalization.
- Advised Inmark Worldwide on its mezzanine debt raise.


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