



Heavy Civil Construction Index

Fourth Quarter Report

Featuring Detailed Forecasts for Transportation and Highway and Street





EXECUTIVE SUMMARY

INDEX MOVEMENT

		Q3 2020	Q4 2020
Overall U.S. Economy	↑	32.14	55.41
Economy Where We Do Business	↑	28.57	50.32
Our Engineering and Construction Business	↑	32.14	49.68
Engineering and Construction Where We Do Business	↑	21.43	43.63
Backlog	↑	19.23	35.58
Book/Burn Rate	■	--	34.42
Cost of Materials	↓	42.31	28.25
Cost of Labor	↓	34.62	34.42
Productivity	↓	42.31	41.94

The fourth quarter 2020 Heavy Civil Construction Index (HCCI) increased from 34.9 to 43.3, buoyed by a positive outlook on the economy and increasing confidence in the construction industry. Materials, labor and productivity measures all remain depressed. The trends seen in the index are reflective of cautious optimism toward next year, especially when compared to the economic fallout experienced through the first half of this year. Continued relaxing of social distancing requirements, significant government stimulus and growing economic confidence have all contributed to improved expectations. Across heavy civil segments, residential site development and private utilities carry the most optimism for next quarter, contrasted by weak expectations for transit/rail, aviation and commercial site development.

Nearly half (48 percent) of survey respondents are burning backlog faster than it is being replaced on a year-over-year basis. Within the past six months, approximately one-third (34 percent) have found new, nontraditional competitors on bids, and within the past quarter, more than half of respondents have recognized increased competition (53 percent) alongside lower bid prices (56 percent).

As illustrated on pages 8 and 9, this quarter's survey assessed the potential impact, both positive and negative, across a variety of factors affecting U.S. economic and business conditions in 2021. November election results were the most commonly selected **positive** factor, followed by private sector investment,

U.S. federal budget and U.S./world health issues, vaccines or pandemics. Conversely, U.S./world health issues, vaccines or pandemics and the results of the U.S. presidential and congressional elections tied as the most commonly selected **negative** factors expected to affect U.S. economic and business conditions in 2021.

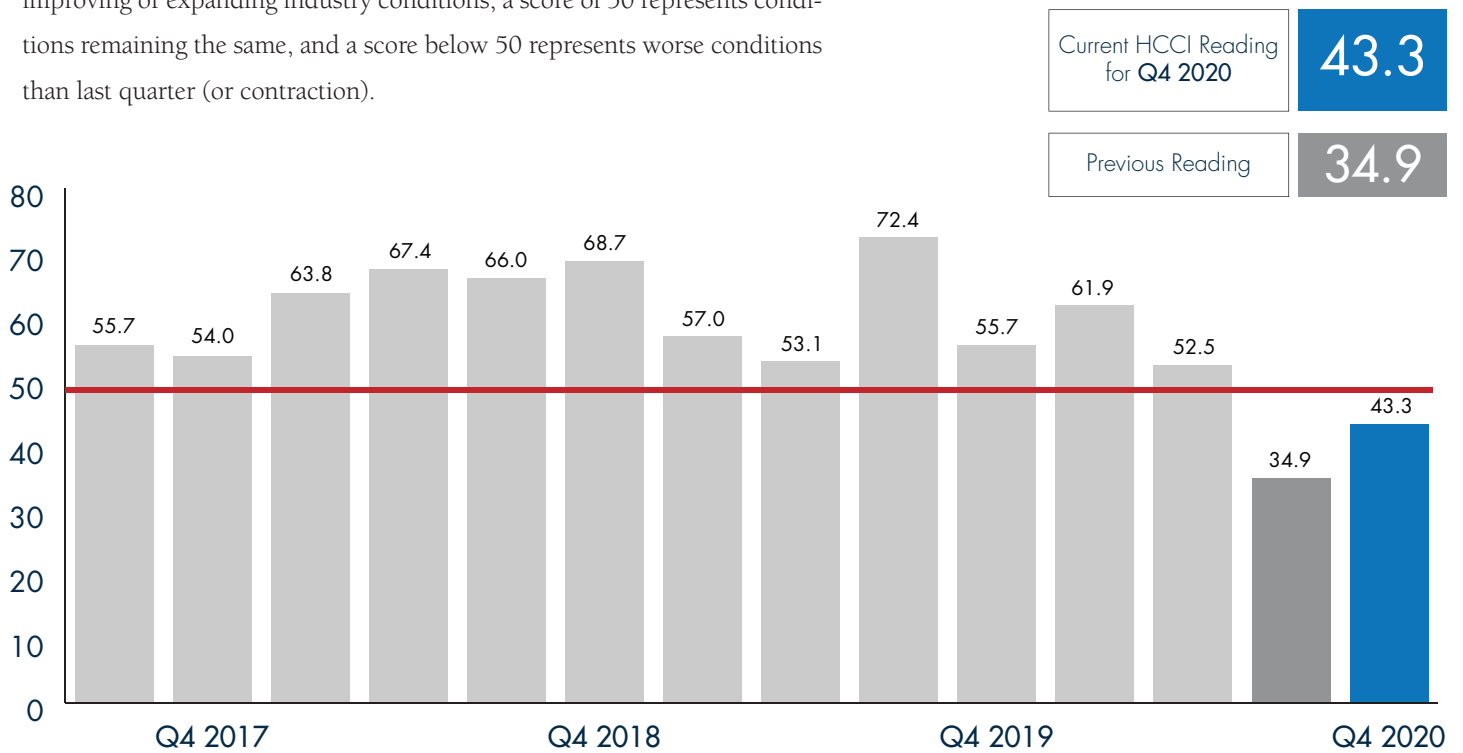
FMI's third quarter 2020 heavy civil forecast for combined transportation and highway and street construction indicates 2020 spending levels 1.4 percent higher than 2019 spending levels. Growth through 2020 will be led by water (16 percent) and bolstered by stability in rail/transit (4 percent) and roadway spending (3 percent). Declines in 2020 are anticipated for air (4.5 percent) and bridge spending (3 percent).



Heavy Civil Construction Index (HCCI) Q3 2017 to Q4 2020

(Scores above 50 indicate expansion; scores below 50 indicate contraction)

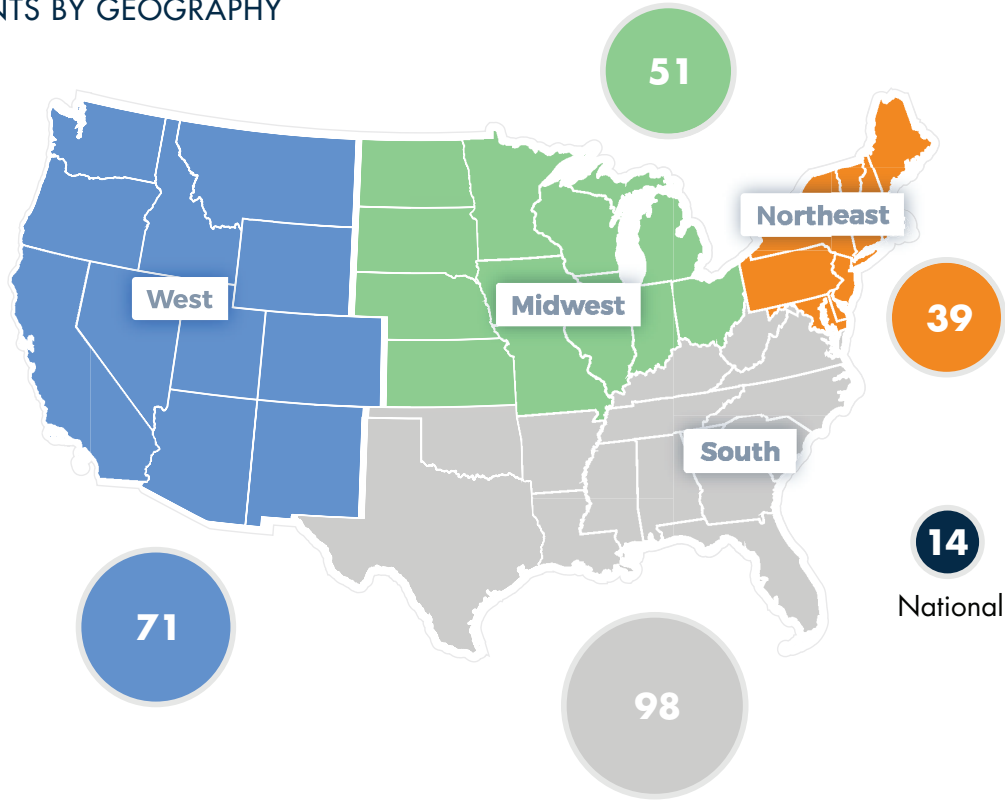
HCCI scores are based on a diffusion index where scores above 50 represent improving or expanding industry conditions, a score of 50 represents conditions remaining the same, and a score below 50 represents worse conditions than last quarter (or contraction).



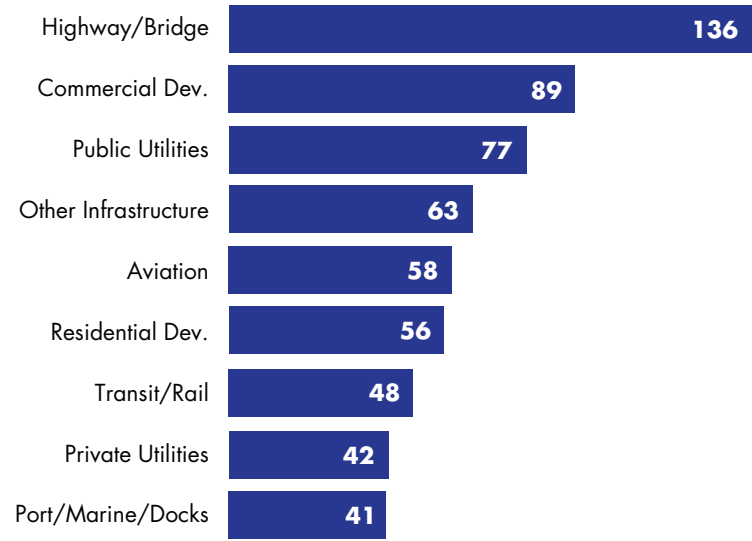
Source: FMI Heavy Civil Construction Index Q4 2020



PARTICIPANTS BY GEOGRAPHY

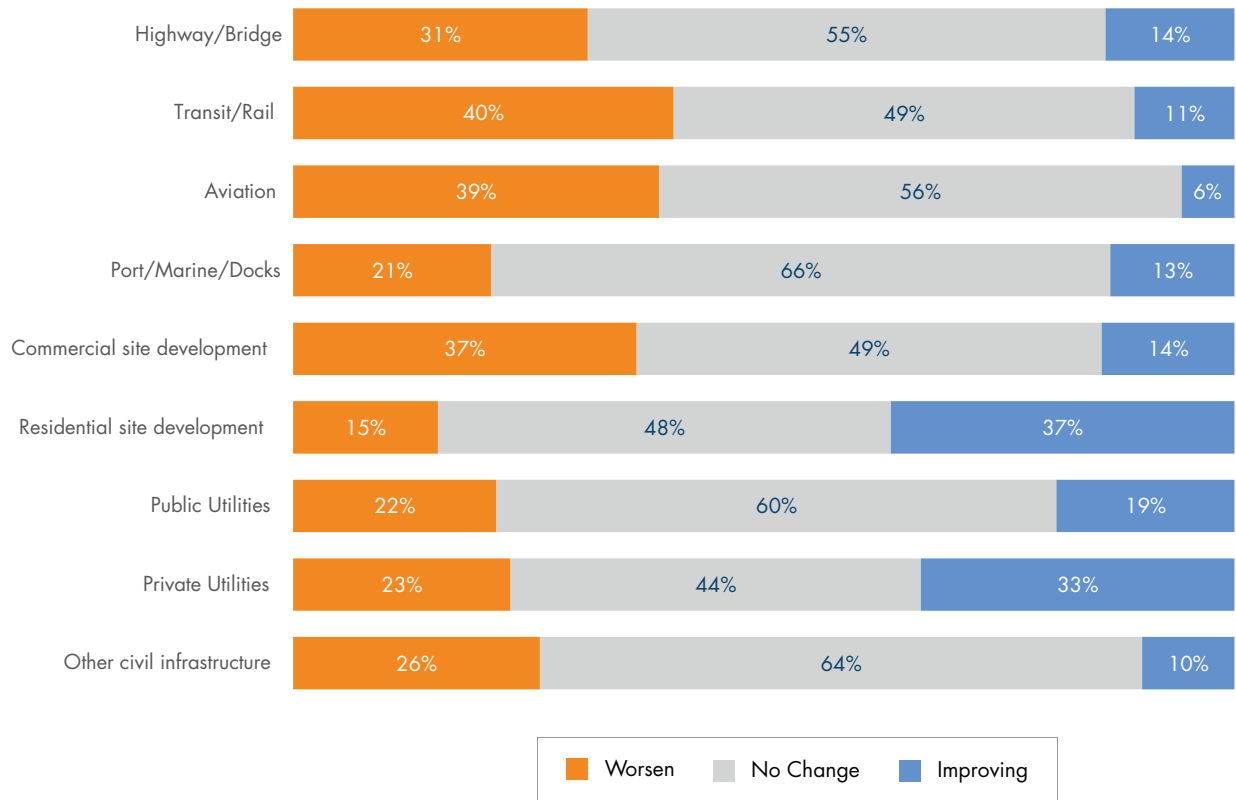


PARTICIPANTS BY DISCIPLINE



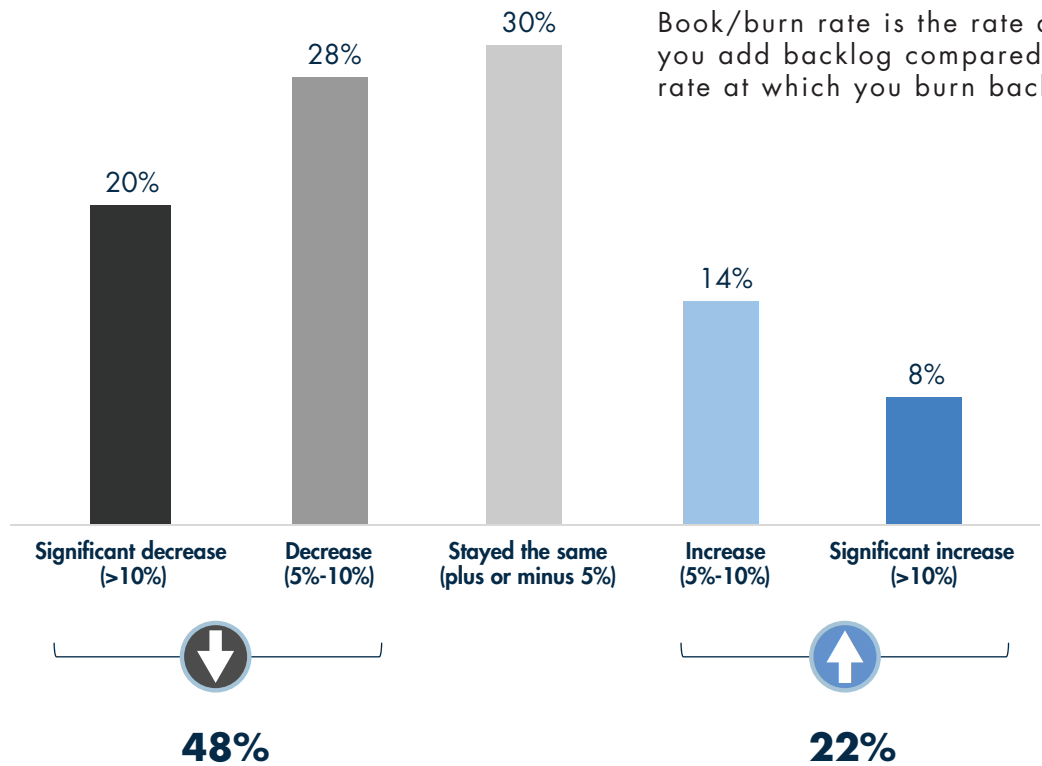


PERCEPTION OF CHANGE FOR NEXT QUARTER





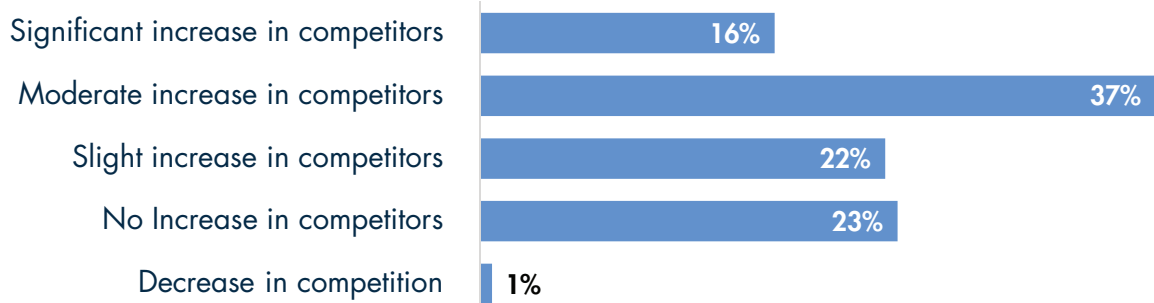
**BACKLOG BOOK/BURN RATE
(YEAR OVER YEAR)**



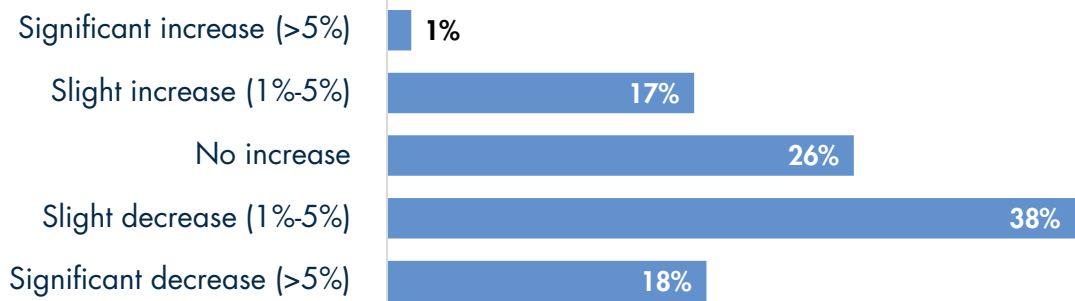
Book/burn rate is the rate at which you add backlog compared to the rate at which you burn backlog.

COMPETITIVE LANDSCAPE

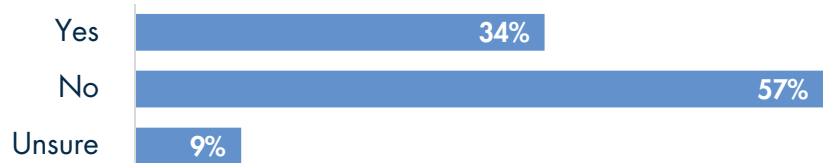
HOW HAS THE COMPETITIVE LANDSCAPE CHANGED IN THE LAST QUARTER?



HOW HAVE BID PRICES BEEN IMPACTED IN THE LAST QUARTER?



IN THE PAST SIX MONTHS, HAVE YOU EXPERIENCED AN INCREASE IN NONTRADITIONAL CIVIL FIRMS (NEW ENTRANTS) ENTERING THE MARKET?

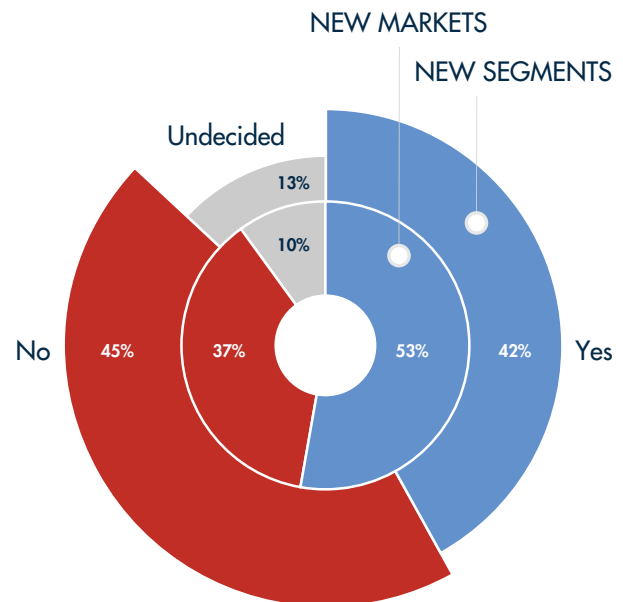




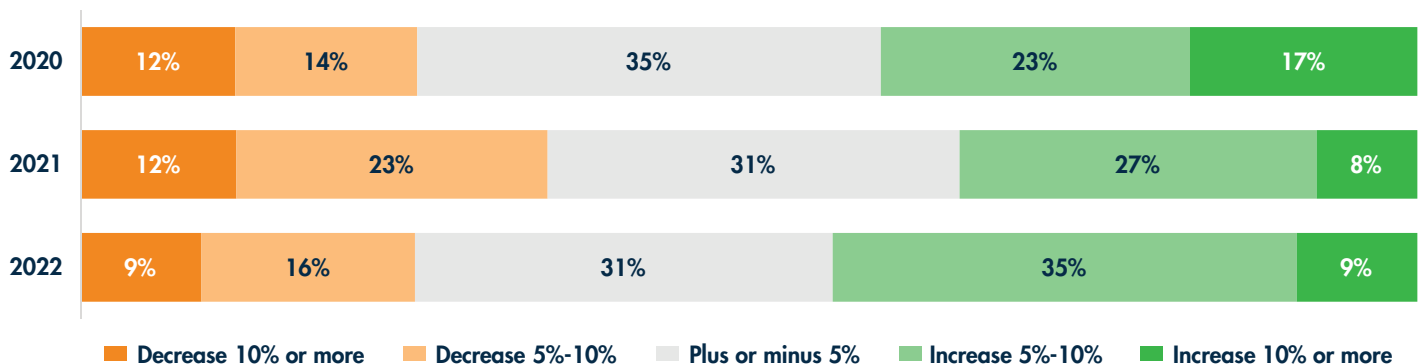
REVENUE EXPECTATIONS AND DIVERSIFICATION

- Over the past six months, more than half (53 percent) of all survey respondents considered expanding into new markets, while over 40 percent considered expanding into new segments.
- Despite declining backlogs and increased competition this year, 40 percent of respondents expect revenue growth exceeding 5 percent in 2020.
- Nearly 35 percent of respondents expect revenues to decline by more than 5 percent in 2021, with some return to optimism for growth in 2022.

OVER THE PAST SIX MONTHS HAVE YOU CONSIDERED DIVERSIFYING INTO:



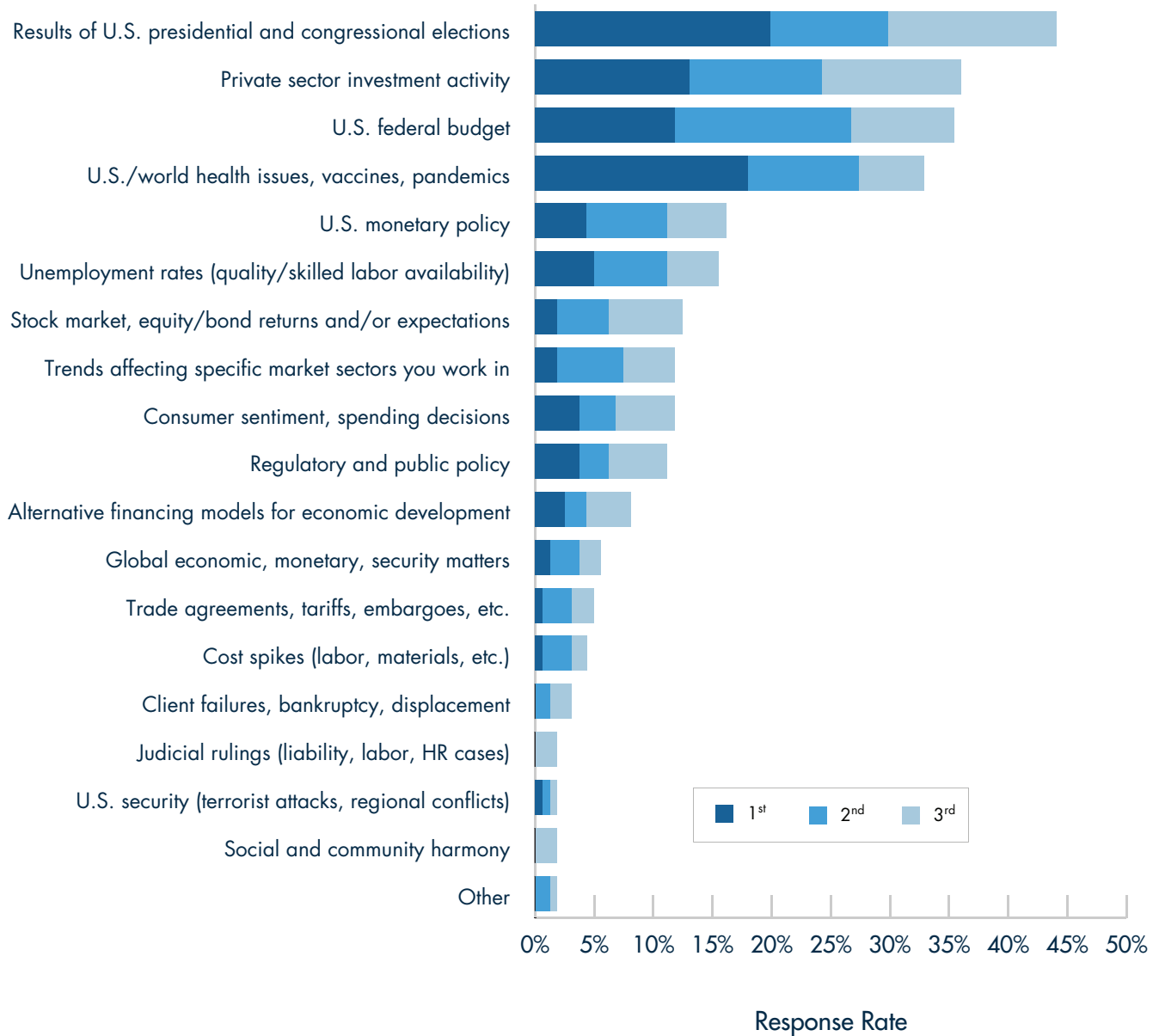
HOW DO YOU ANTICIPATE YOUR ORGANIZATION'S REVENUE TO PERFORM IN EACH OF THE FOLLOWING YEARS?





WHICH OF THE LISTED ITEMS WILL LIKELY HAVE THE GREATEST **POSITIVE** IMPACT ON U.S. ECONOMIC/BUSINESS CONDITIONS IN 2021? (SELECT ONLY THE TOP THREE ITEMS THAT WILL HAVE THE MOST POSITIVE IMPACTS.)

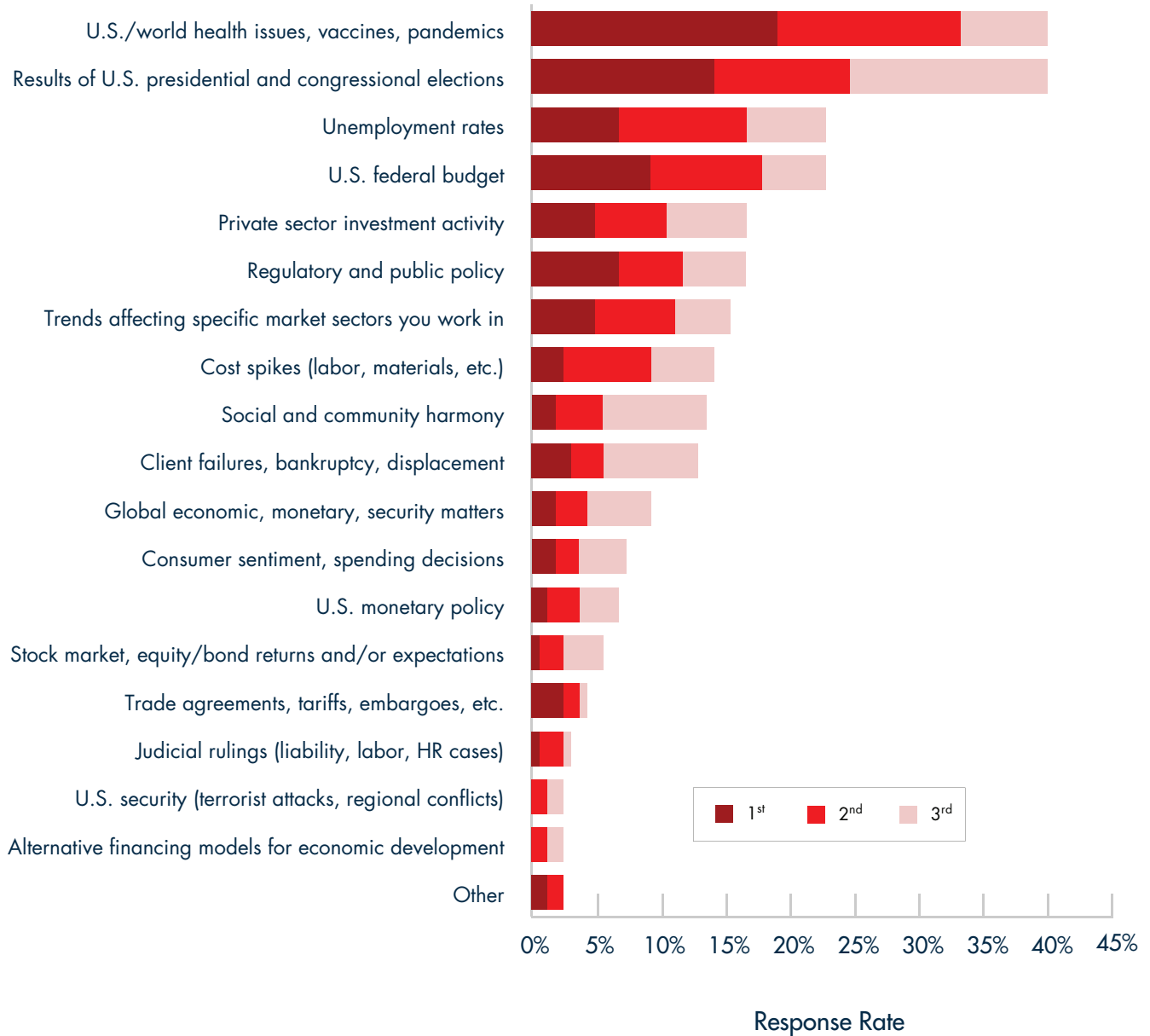
Positive “other” mentions consistently identified the anticipated reauthorization of a federal highway bill.





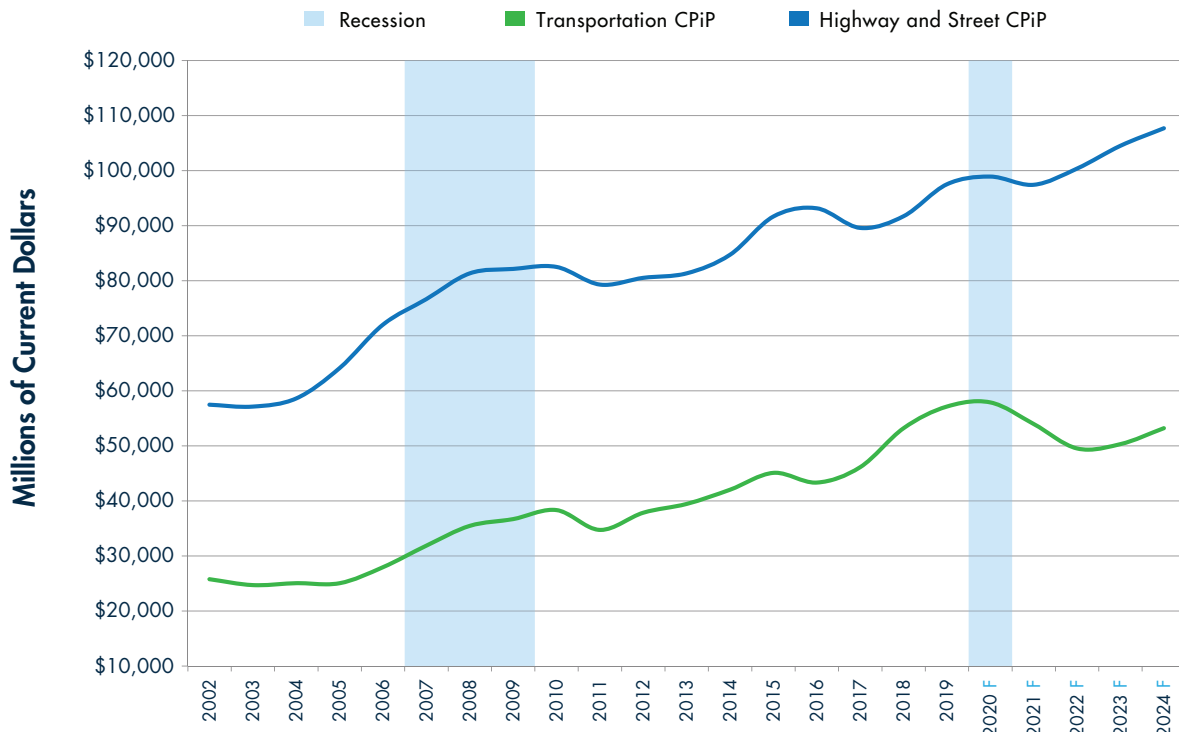
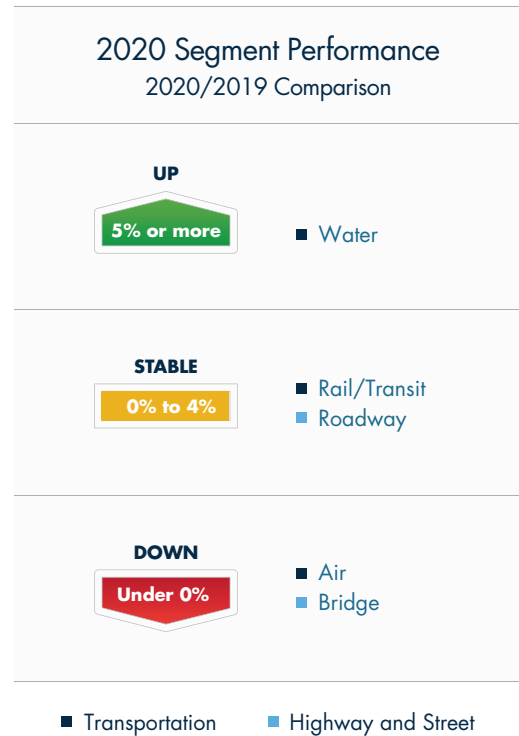
WHICH OF THE LISTED ITEMS WILL LIKELY HAVE THE GREATEST **NEGATIVE** IMPACT ON U.S. ECONOMIC/BUSINESS CONDITIONS IN 2021? (SELECT ONLY THE TOP THREE ITEMS THAT WILL HAVE THE MOST NEGATIVE IMPACTS.)

Negative “other” mentions consistently identified state and local funding disruptions in 2021.



TRANSPORTATION AND HIGHWAY AND STREET CONSTRUCTION PUT IN PLACE

- FMI's third quarter 2020 heavy civil forecast for combined transportation and highway and street construction indicates 2020 spending levels 1.4 percent higher than 2019 spending levels.
- Growth through 2020 will be led by water (16 percent) and bolstered by stability in rail/transit (4 percent) and roadway spending (3 percent).
- Declines in 2020 are anticipated for air (4.5 percent) and bridge spending (3 percent).
- Without an infusion of investment from an increased federal program and/or stimulus, both transportation and highway and street construction face declines in 2021.



Construction Put in Place Estimated for the United States

Million of Current Dollars

3rd Quarter 2020 Forecast (based on Q2 2020 Actuals)

	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
TRANSPORTATION										
Air	13,172	14,232	17,194	22,008	23,873	22,792	20,685	18,397	18,452	19,374
Rail/Transit	29,461	26,794	26,588	28,200	29,287	30,481	28,811	26,803	27,298	28,870
Water	2,472	2,314	2,356	3,010	3,994	4,633	4,482	4,337	4,577	4,977
Total Transportation	45,105	43,340	46,138	53,218	57,154	57,905	53,978	49,537	50,327	53,220
HIGHWAY AND STREET										
Roadway	58,912	60,679	59,188	63,344	71,259	73,549	71,003	71,695	73,491	75,103
Bridge	32,789	32,508	30,432	28,401	26,300	25,404	26,459	28,719	31,067	32,635
Total Highway and Street	91,701	93,187	89,620	91,745	97,559	98,954	97,462	100,414	104,558	107,739
Total Heavy Civil Put in Place	\$136,806	\$136,527	\$135,758	\$144,963	\$154,713	\$156,859	\$151,440	\$149,951	\$154,885	\$160,959

Construction Put in Place Estimated for the United States

Change From Prior Year — Current Dollar Basis

3rd Quarter 2020 Forecast (based on Q2 2020 Actuals)

	2015	2016	2017	2018	2019	2020F	2021F	2022F	2023F	2024F
TRANSPORTATION										
Air	1.0%	8.0%	20.8%	28.0%	8.5%	-4.5%	-9.2%	-11.1%	0.3%	5.0%
Rail/Transit	12.2%	-9.1%	-0.8%	6.1%	3.9%	4.1%	-5.5%	-7.0%	1.8%	5.8%
Water	-10.1%	-6.4%	1.8%	27.8%	32.7%	16.0%	-3.3%	-3.2%	5.5%	8.7%
Total Transportation	7.3%	-3.9%	6.5%	15.3%	7.4%	1.3%	-6.8%	-8.2%	1.6%	5.7%
HIGHWAY AND STREET										
Roadway	8.5%	3.0%	-2.5%	7.0%	12.5%	3.2%	-3.5%	1.0%	2.5%	2.2%
Bridge	7.7%	-0.9%	-6.4%	-6.7%	-7.4%	-3.4%	4.2%	8.5%	8.2%	5.0%
Total Highway and Street	8.2%	1.6%	-3.8%	2.4%	6.3%	1.4%	-1.5%	3.0%	4.1%	3.0%
Total Heavy Civil Put in Place	7.9%	-0.2%	-0.6%	6.8%	6.7%	1.4%	-3.5%	-1.0%	3.3%	3.9%

About the Authors



Brian Moore is a principal and strategy practice leader with FMI. Brian focuses on consulting with contractors on various strategic, organizational and operational issues. Brian works in identifying future construction trends, market conditions and competitive issues that impact strategic decisions. Brian's clients count on him as a thought leader and trusted advisor as they plan the future of their business. Often this involves combining in-depth market and company analysis with judgment and experience to chart the organization's future. He works with clients to help them develop the organizational capabilities that match their chosen strategy so they can achieve desired results. Brian can be reached at bmoore@fminet.com.



Paul Trombitas is a senior consultant with FMI's strategy practice and works with clients across the engineering and construction industry. He is responsible for managing and delivering in-depth market insights focused on the Built Environment. He is actively involved with clients in developing market strategy, focusing on alternative project delivery methods. Paul has been quoted in multiple publications, including ENR, regarding the design-build market and maintains key stakeholder relationships that provide unparalleled industry access. Paul can be reached at ptrombitas@fminet.com.



Brian Strawberry is a senior economist with FMI. Brian's expertise is in economic and statistical modeling. He leads FMI's efforts in market sizing, forecasting, and building product/construction material pricing and consumption trends. Brian's combination of analytical skills and creative problem-solving abilities has proven valuable for many contractors, owners and private equity groups as well as industry associations and internal research initiatives. Brian can be reached at bstrawberry@fminet.com.



Emily Beardall is a senior analyst for FMI's strategy practice. Emily is responsible for creating and developing tools to deliver innovative solutions for our clients. She is committed to utilizing these strategic tools to improve company performance and profitability. Emily can be reached at ebeardall@fminet.com.

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