OWNERSHIP TRANSFER AND MANAGEMENT SUCCESSION

2017 FMI SURVEY



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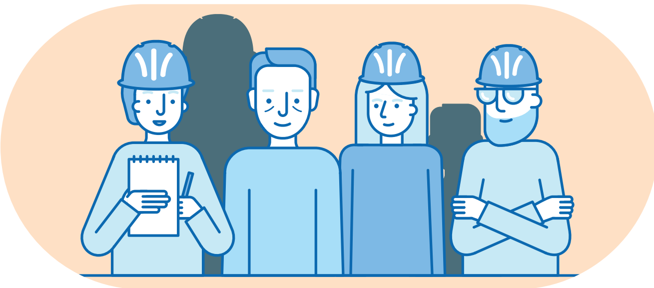
"The **cycle of ownership transitions** happens every **25-30 years** for all businesses. **Every construction firm in America** that's not publicly traded goes through **ownership transitions.** This transition process is currently being fueled by the **high level of baby-boomer retirements.** As a result, more people are trying to figure out **how to exit their companies and leave those entities intact and on a growth path** as company owners move into retirement. This isn't any easy task for firms—**particularly those 95% or so that aren't candidates for sale to a third party.** This can be difficult to accept, particularly for someone who has spent 30 to 40 years of his or her life creating and building the business. **Successfully transitioning the business** from one generation to the next is a **never-ending process.**"

Hugh Rice, senior chairman with FMI (see "Navigating a Clear Path to Successful Ownership and Management Transition" for more details)

CHANGING COMPANY OWNERSHIP DYNAMICS IN CONSTRUCTION



Do you consider your business a family business?

51% YES | 49% NO

Do you prefer that family members ultimately run the business?

32% YES | 68% NO

2017 | **2013**

Fewer family members are active in the business today than in 2013.

2017: 45% | 2013: 73%

Fewer respondents plan to pass the business on to the next generation.

2017: 32% | 2013: 52%

Employee Stock Ownership Plans (ESOPs) are resurging.

2017: 12% | 2013: 4%

Fewer firms want to sell to a third party today than in 2013.

2017: 8% | 2013: 17%

Source: 2017 FMI OTMS Survey

PREPARING CONSTRUCTION'S NEXT GENERATION OF LEADERS

71% of respondents who agree that the future direction and strategic priorities of their firm are clear **have an OTMS plan.**

78% of respondents who have formally identified successors **have an OTMS plan.**

Firms with a formal OTMS plan in place are better-prepared for the future.

47% The number of successors who won't be ready for leadership roles for another three to five years.

Most leaders are not being prepared with adequate learning methodologies.

59% Only 59% of respondents are confident in their successors' ability to lead the business in the future.

EXECUTIVE SUMMARY

For more than a decade, FMI has been surveying the construction industry to gain deep insight into current ownership transfer trends. In this year's study, we also explored questions around leadership succession to assess how companies are identifying and developing their next-generation leaders. Our findings revealed new, emerging ownership trends and mixed results on how companies are developing and preparing their future leaders. Here's a summary of the key findings:

- **Key Finding 1.** Fewer firms have family members active in their businesses today than they did in 2013. Even fewer firms say that the next generation will both own and run the business in the future.
- **Key Finding 2.** ESOPs are resurging, and more firms are recognizing the challenges of the third-party sale.
- **Key Finding 3.** Firms with a clear vision and strategy for the future are more likely to have a formal ownership transfer and succession management plan in place.
- **Key Finding 4.** Succession in our industry will require embracing nontraditional means of development and cultural shifts.

"I am not the owner of this business. Rather, like my uncle and father before me, **I am its steward**—caring for it until it is time for the next generation to step in."

OTMS Study Participant

Since the Great Recession, the industry has bounced back and construction spending remains robust. As a result, many owners who stopped transitioning their businesses during the recession are now too busy or distracted to focus on ownership transition and succession planning. One of the critical data points in this year's survey reveals that many next-generation leaders won't be ready to lead the business for another three to five years. And for baby boomers who have delayed their transition planning, the options are dwindling due to the amount of time needed for effective ownership and leadership transition.

Our findings also show that the industry continues to consolidate, and, as such, larger firms are less likely to be run by family members. Publicly held E&C firms, international firms and private equity firms are growing rapidly, both organically and through acquisition, often displacing or acquiring the family-run firm.

The trend toward more employee stock ownership plans (ESOPs) is another sign that many company leaders recognize that their firms just aren't salable or that they have delayed ownership transfer for too long. In FMI's experience, very few firms expecting to sell to a third party will find buyers ready and willing to purchase the company at an attractive valuation when the owner is ready to sell. An ESOP, on the other hand, is a great way to create a market for a company's stock, particularly with its attendant tax advantages. As a result, we expect this model to proliferate among E&C firms in the coming years.

Finally, our findings reveal a business landscape where companies need to raise the bar when it comes to identifying, assessing and developing leaders across the organization. This must happen early in the potential leader's career, and it requires senior leaders to assume new positions in a way that opens new roles for younger candidates.

KEY FINDINGS

The following key findings highlight various aspects of ownership transfer and succession management in today's construction industry and are part of a long-term effort to identify big-picture trends since FMI began surveying the industry in 2007.

The information in this year's OTMS study is based on more than 100 responses from a broad range of construction firms that collectively generate approximate $30 billion in industry revenue each year (see Appendix for more details on survey demographics). To delve deeper into the key topics identified in the survey, we subsequently conducted more than a dozen interviews with study participants.

> "Owners should have a strong understanding of the salability of their firms as they begin considering transition options. While a minority of construction firms will ultimately sell in the third-party marketplace, the issues that drive successful external transitions are often very similar to those that drive successful internal transitions. The most important of these are the strength and long-term commitment of the next generation management team."
>
> Scott Duncan, Director with FMI Capital Advisors

In this year's survey, we also included new questions around succession management and provided insights on how companies are identifying and preparing their next generation of leaders. Notably, four new findings emerged.

Key Finding 1. Fewer firms have family members active in their businesses today than in 2013. Even fewer firms say that the next generation will both own and run the business in the future.

Family-run firms are particularly vulnerable to ownership transfer and succession management challenges. According to the Family Business Institute, 88% of current family business owners believe their families will control their business in five years, yet actual succession statistics undermine this belief. In fact, just 30% of family businesses survive into the second generation, the Family Business Institute reports; 12% are still viable into the third generation, and only about 3% of all family businesses operate into the fourth generation or beyond.

"There is a disconnect between the optimistic belief of today's family business owners and the reality of the massive failure of family companies to survive through the generations," the Family Business Institute points out. "Research indicates that failures can essentially be traced to one factor: an unfortunate lack of family business succession planning."

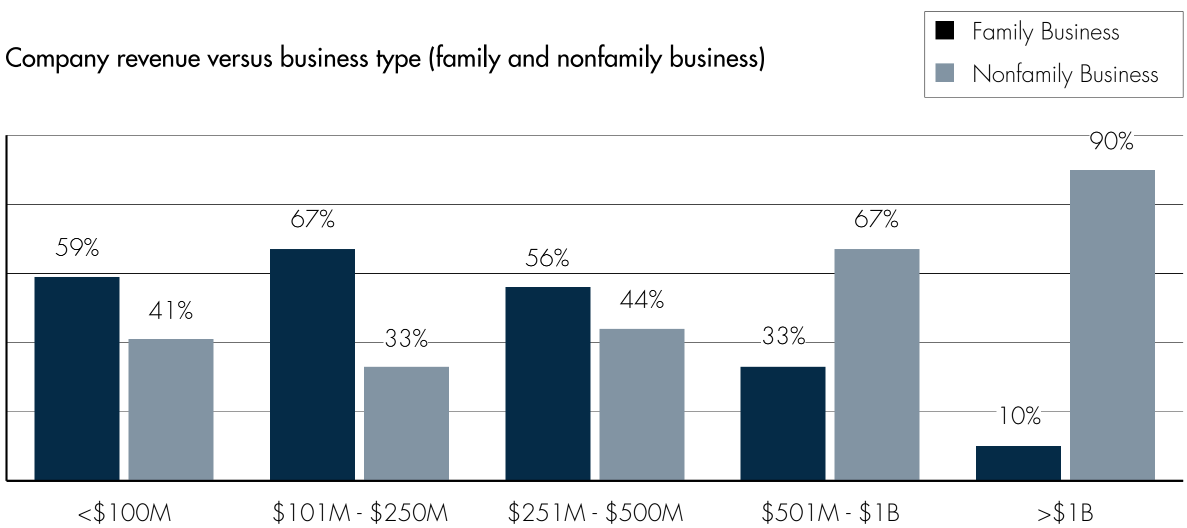
In this year's OTMS survey, a slight majority (51%) of respondents call their companies a "family business" (Exhibit 2). This is a significant decrease from 2013 when approximately 62% of respondents considered their company a family business. Furthermore, fewer respondents have family members active in the business today than in 2013 (45% in 2017 versus 73% in 2013), and even fewer respondents plan to pass the business on to the next generation (32% in 2017 versus 52% in 2013).

Fewer respondents have family members active in the business today than in 2013 **(45% in 2017 versus 73% in 2013)**, and even fewer respondents plan to pass the business on to the next generation **(32% in 2017 versus 52% in 2013).**

Another interesting finding from the current survey is that larger firms are less likely to be family businesses. Looking back to 2013 and prior surveys, the percentage of firms that considered themselves family businesses was consistent across all revenue sizes. In other words, small contractors (with revenues less than $20 million) were as likely as large contractors (those with over $1 billion revenues) to consider themselves family businesses. The current survey shows that this trend is changing, with larger firms (above $500 million in revenue) shifting to nonfamily businesses (Exhibit 1).

EXHIBIT 1

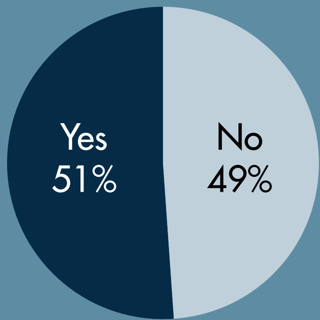
Company revenue versus business type (family and nonfamily business)



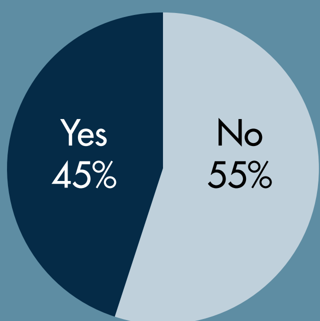
Source: 2017 FMI OTMS Survey

EXHIBIT 2

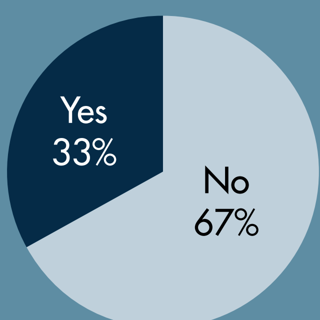
Do you consider your business a family business?



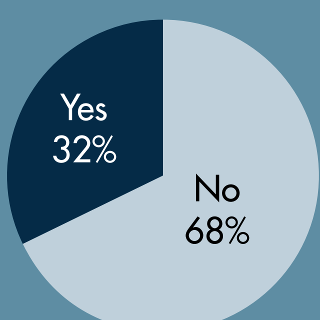
Do you have family members active in the business?



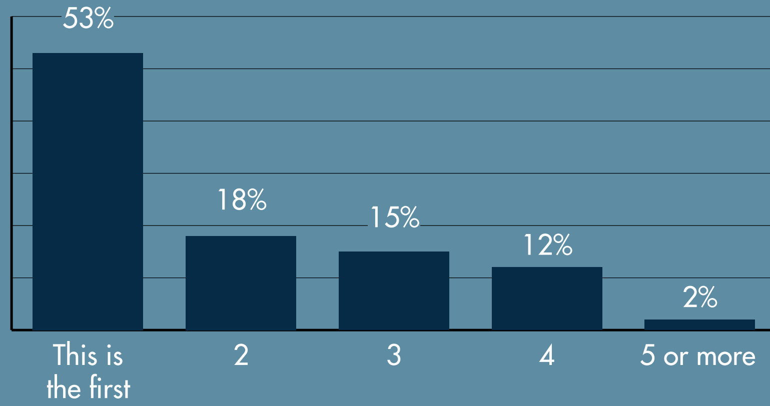
Are family members the recipients of stock in the event of your death?



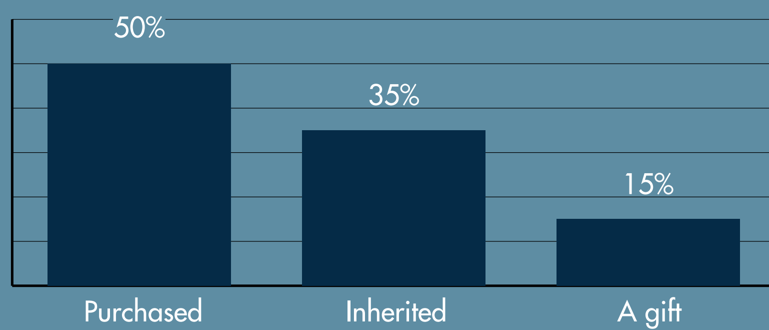
Do you prefer that family members ultimately run the business?



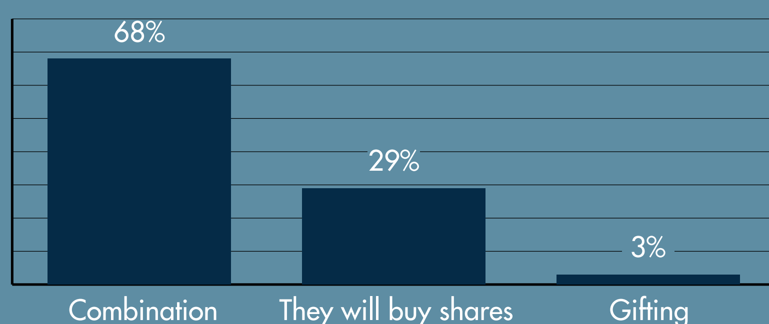
How many generations has the business been in your family?



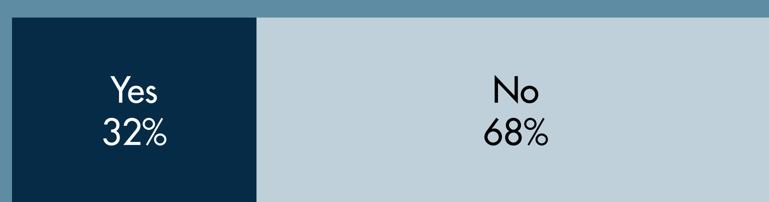
If ownership in the business was the result of a transaction with a family member, it was...



If you intend for family members to run the business, how will they become shareholders?



Do you prefer that family members ultimately own the business?



Source: 2017 FMI OTMS Survey

Specifically, the average percentage of smaller[1] family businesses is 63% of respondents, while the average of larger[2] family businesses is only 33% of respondents. Root causes for this recent divergence include:

- Business models that reinforce meritocracy over familial relationships.
- A continuing trend of broader ownership that dilutes family ownership over time.
- Consolidation among larger E&C firms via acquisitions by international buyers, publicly held companies and private equity firms.

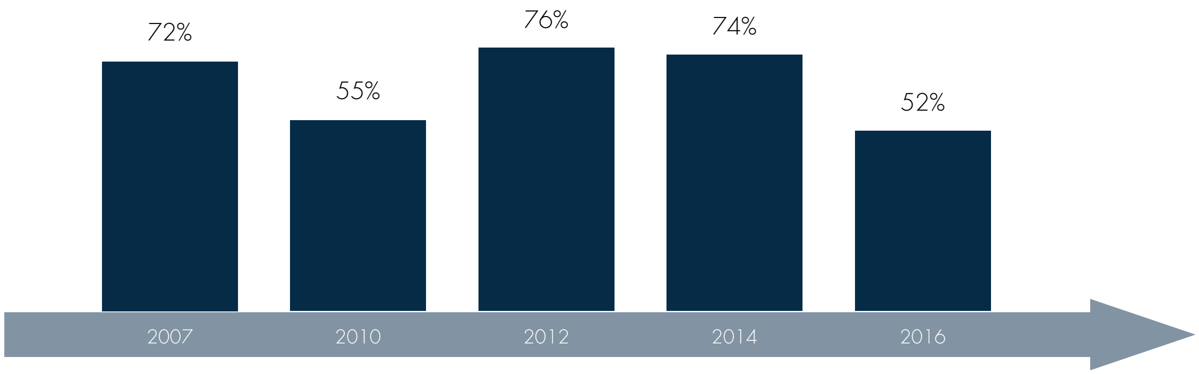
This finding mirrors trends across other industries in which fewer family firms plan to pass the business on to the next generation. According to PwC research, "Just slightly more than half of family firms that plan to change hands in the next five years say they'll keep the business in the family—the lowest number since 2010 and a significant drop from a couple of years ago,"[3] as shown in Exhibit 3.

In the coming years, FMI expects to see more firms bring in experienced, professional nonfamily members to help run the organizations. Faced with this trend, leaders must ask themselves: Does passing the business on within my family limit my organization's potential to compete and succeed in the foreseeable future? Moreover, how will the long-term health of my organization be impacted if I cast a wider net when thinking about my successor(s)?

1 Revenues below $250 million
2 Revenues greater than $250 million
3 "The missing middle: Bridging the strategy gap in US family firms." US family business survey 2016. PwC.

EXHIBIT 3

Trends in passing the ownership baton to the family



Source: PwC US Family Business Survey 2016. Percentages reflect only those family firms that plan to change ownership in the next five years.

While FMI supports leaders' decisions to pass ownership and leadership on to future family members, we also recognize the potential upside of thinking about the future of the business and considering nonfamily talent to own and run the business. Leaders facing this decision should ask themselves the following questions:

1) What competencies do I really need from my business's owners and leaders to ensure the long-term health of my business?
2) Who has the greatest potential to demonstrate these competencies today and tomorrow?
3) Who can help me objectively assess the family members who are interested in joining the business?
4) How should I invest in my future talent (family or nonfamily) to prepare them for the future?
5) How can I leverage a family council or other forms of nonfamily-led governance (e.g., advisory board) to broaden my family members' perspectives and address any competency gaps we may have within our family of leaders?

Attracting Third-Party Interest

For those companies that expect to sell to third parties, the objective can create substantial risk. It is vital to understand that the likelihood of selling to a third party is contingent on many factors. Primarily, timing is critical. In FMI's experience, very few of the 8% of respondents expecting to sell to a third party (Exhibit 4) will find buyers ready and willing to purchase the company at an attractive valuation when the owner is ready to sell. And when this happens, the potential seller who lacks a backup plan can quickly find himself/herself forced to select from less desirable alternatives with little to no preparation.

To prepare your firm for a third-party sale, consider the following company attributes that buyers frequently assess when evaluating target firms:

- **Strength of the Management Team.** The strength, depth and duration (i.e., retirement timelines) of the management team are among the first questions acquirers ask about target companies. If one or two owners/managers are actively managing multiple aspects of the business and are seeking to retire shortly after a transaction, what is the buyer actually acquiring?
- **Project versus Recurring Revenue.** Project-based businesses typically demonstrate greater volatility in revenue than companies with non-project-based revenues. Buyers tend to treat predictable, consistent revenues much more favorably than volatile ones.
- **Bonded versus Unbonded Work.** In some markets, bonding is required to obtain and execute work. For companies in these markets, the buyer pool can be limited to strategic buyers who understand and who are willing to accept this risk. Private equity firms and other financial buyers typically shy away from bonded revenues due to the effect bonding has on the ability to finance transactions primarily with debt.
- **Competitive Hard Bid versus Negotiated T&M.** Companies operating in highly competitive, hard-bid markets are at much greater risk of job losses. Furthermore, they are more easily displaced on bid day than companies that are operating in a negotiated capacity. Buyers understand this risk and react accordingly.
- **Prime versus Sub.** Companies working in a prime capacity for clients drive more value in acquisitions than those who serve as subcontractors. That's because subcontractors depend on GCs or prime contractors for their work and are often selected based on price.
- **Self-Performance.** Self-performance is a growing bottleneck in the construction supply chain. Companies that control the labor pool are inherently less risky than those dependent on the use of subcontractors.
- **Size and Diversity.** Larger, more diversified companies present less risk to a potential buyer than smaller, less diversified firms. This can play a key role in salability, particularly in heavy civil and general contractor markets.
- **Other Factors Influencing Buyer Interest.** Many strategic buyers, for example, are not interested in entering states with high rates of taxation and/or substantial regulatory compliance burdens. Workforce issues can also play a key role on salability, depending on the market.

It's important to note that recent buyer demand for E&C firms has been considerable and is anticipated to continue to increase in 2017 (and beyond). While this makes more firms attractive targets, a third-party sale at a compelling value is likely to remain elusive for most industry firms.

Key Finding 2. ESOPs are resurging, and more firms are recognizing the challenges of a third-party sale.

When FMI conducted its last OTMS survey in 2013, 17% of respondents planned on a third-party sale. In 2017 that number has declined to 8%. Conversely, ESOPs have gained in favor among respondents, increasing from 4% to 12% from 2013 to 2017, respectively.

As the baby-boomer construction owners reach retirement age, they are coming to grips with the fact that a third-party sale of their business is not feasible. When FMI conducted its last OTMS survey in 2013, 17% of respondents planned on a third-party sale. In 2017 that number has declined to 8% (see Exhibit 4). Conversely, ESOPs have gained in favor among respondents, increasing from 4% to 12% from 2013 to 2017, respectively (see Key Statistics at a Glance).

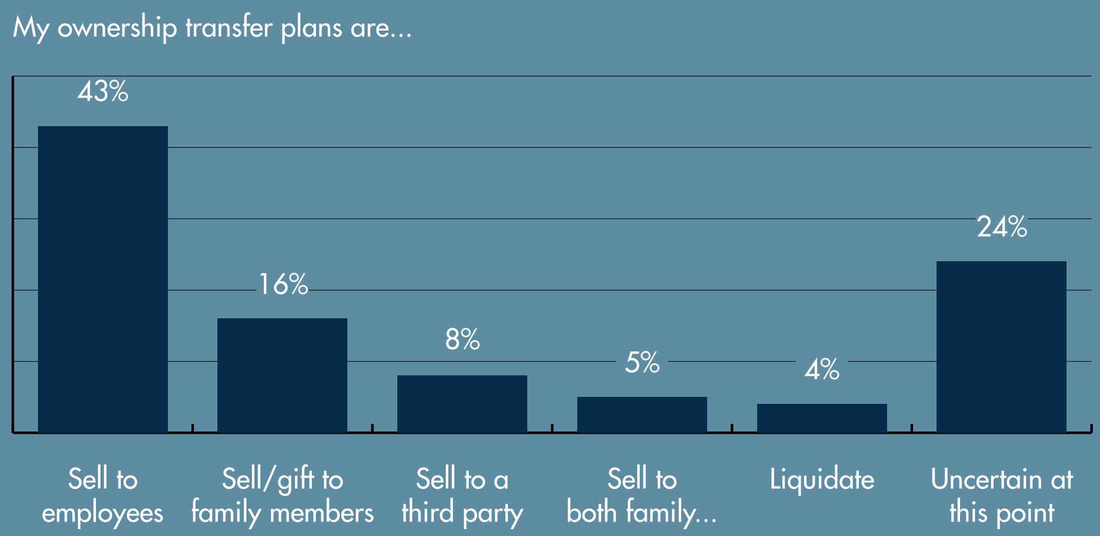
This change in sentiment tells us that the tax-advantaged value creation afforded by the ESOP is too attractive to ignore as more owners evaluate their options. Owners who test the third-party marketplace often find that a valuation of three to five times pretax earnings is attainable, but only if they can find a buyer for their firm—a challenge for many contractors. If an acquirer can be found, the structure of the transaction must be negotiated, which pits the buyer against the seller in negotiating the tax advantages of the transaction.

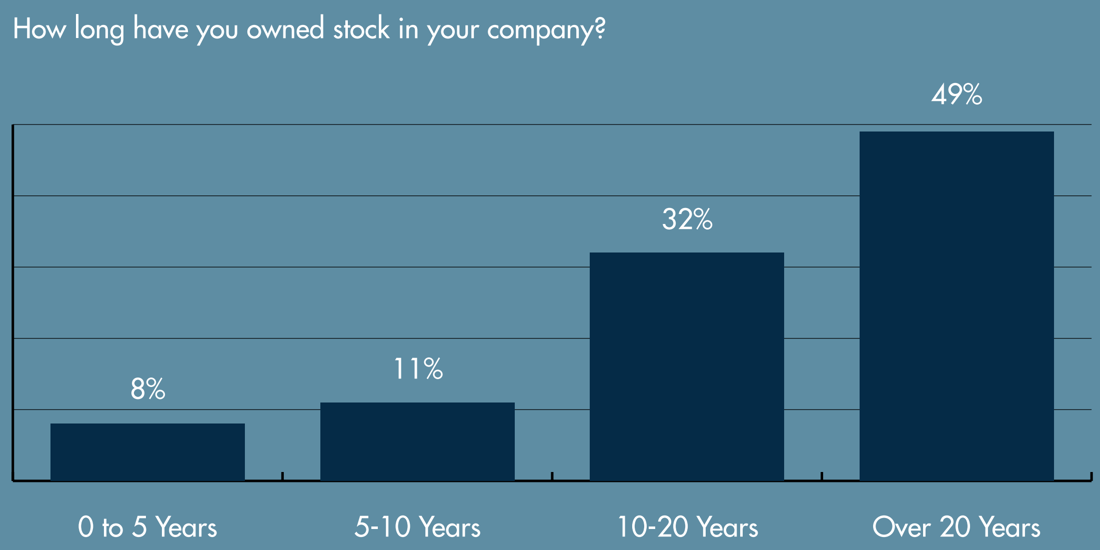
An ESOP, on the other hand, affords owners with both a tax-advantaged transaction structure and much greater control of the transaction process. A company that chooses to become an ESOP has control over the number of shares to be sold to the ESOP, whether debt will be utilized to finance the transaction, and how to compensate key employees/management post-closing, among other factors. In addition, S corporations that choose to become 100% ESOP-owned companies have the unique advantage of being exempt from all federal income taxes, while C corporation owners that sell to an ESOP can defer capital gains taxes.

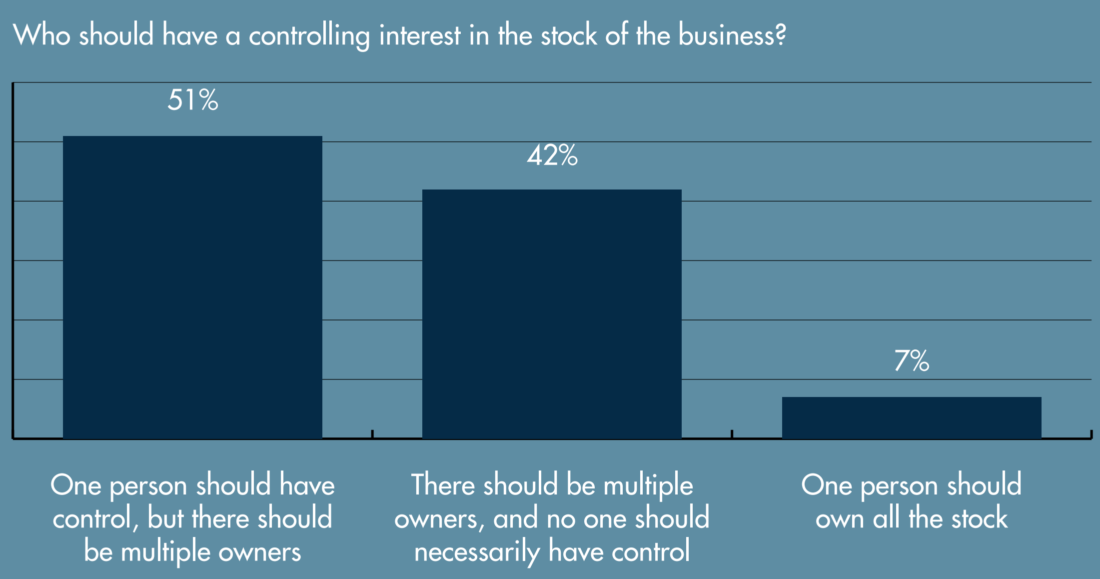
These factors are highly advantageous in markets where liquidity is limited. Buyers of general contractors or heavy civil firms, for example, know that the buyer pool is limited and attempt to employ that leverage in their favor at the negotiating table. Sellers who haven't planned their transitions well, on the other hand, often have little choice but to capitulate to the buyer's transaction objectives. For companies that have the requisite amount of time, an ESOP takes the liquidity factor off the table and provides the selling shareholders with more control over the transaction.

While ESOPs appear to be gaining in popularity, their feasibility and the cultural aspects of broad-based ownership must be evaluated carefully. Some of the defining cultural characteristics of successful ESOPs are a pre-existing culture of shared accountability, transparency, trust in senior leadership and collective focus on results. ESOPs also require managers to be keenly aware of the ESOP's regulatory requirements and how operational decisions affect cash flow obligations to the ESOP. Cash obligations can arise if the company must lay off employees, as is often necessary during market downturns. Sureties also look unfavorably at ESOPs, as project risk is diluted across the entire organization. While ESOPs have both their advantages and disadvantages to construction firms, this year's survey results demonstrate that many are finding the advantages of the ESOP an attractive alternative to the third-party sale option.

EXHIBIT 4

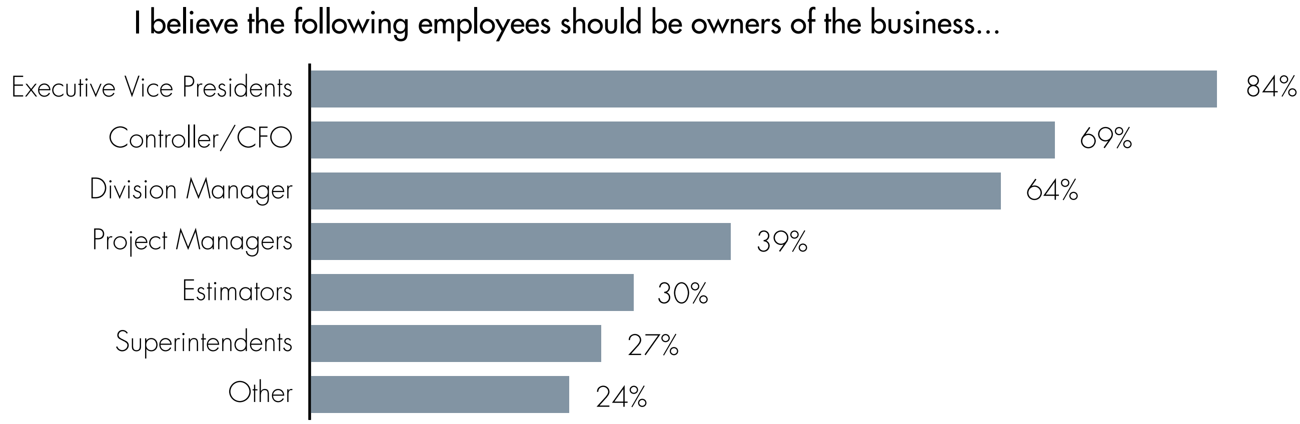


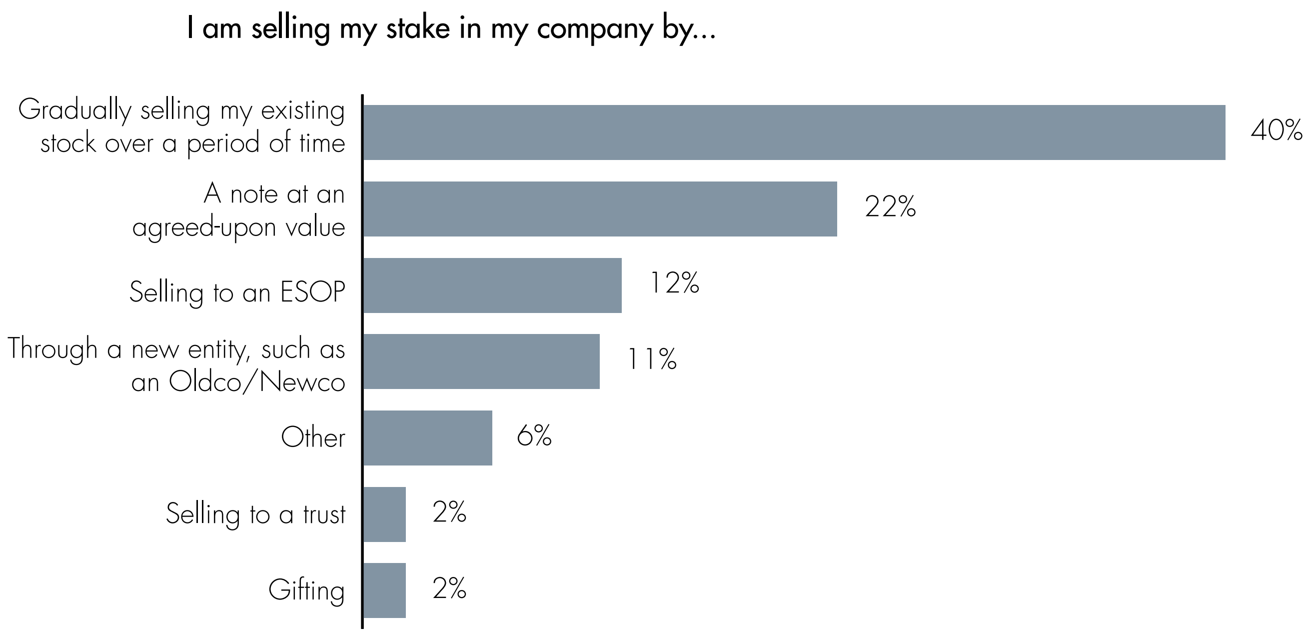


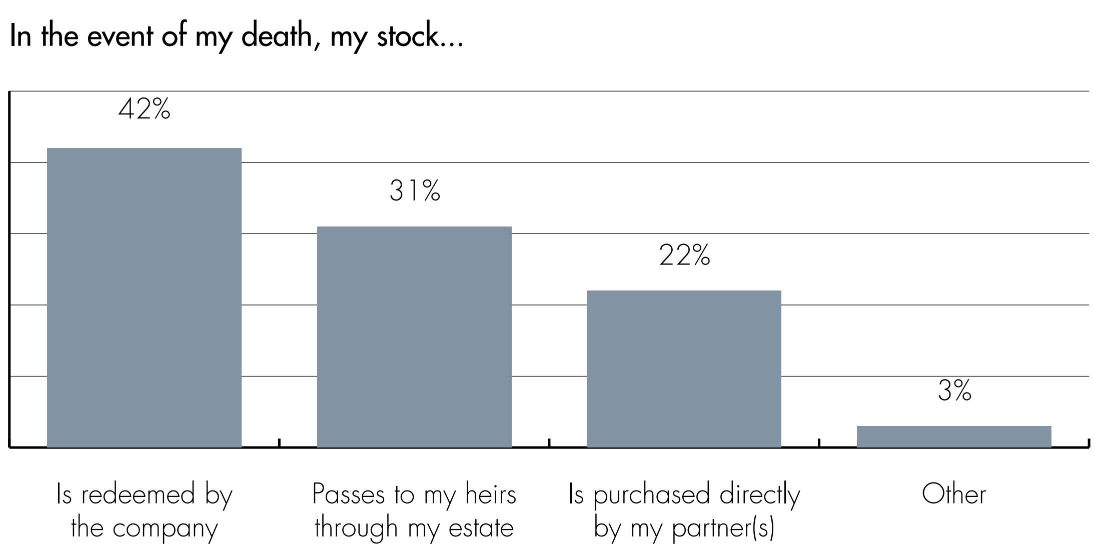


Source: 2017 FMI OTMS Survey

EXHIBIT 4 (cont.)



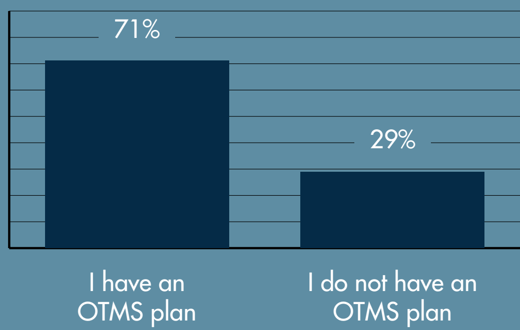




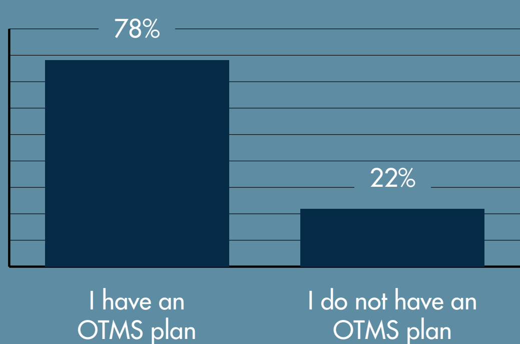
Source: 2017 FMI OTMS Survey

EXHIBIT 5

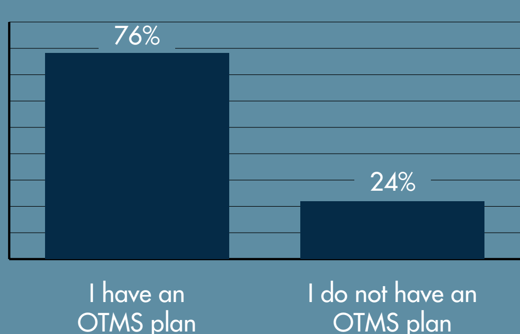
I agree or strongly agree that the future direction and strategic priorities are clear.



I agree or strongly agree that successors have been formally identified.



I agree or strongly agree that the skills and competencies required of future leaders to achieve the business's vision and strategy are clear.



Source: 2017 FMI OTMS Survey

Key Finding 3. Firms with a clear vision and strategy of the future are more likely to have a formal ownership transfer and succession management plan in place.

Our survey confirms the obvious: Firms that have clarity around their future direction and strategic priorities have a formal ownership transfer and succession management (OTMS) plan[4] in place. These firms are also more likely to have identified successors and associated necessary skills and competencies for those leaders (Exhibit 5).

These statistics underscore the importance of linking a good OTMS plan with the broader company vision and strategy. In many cases, making this link helps to ensure a smoother ownership transition and shores up the firm's prospects.

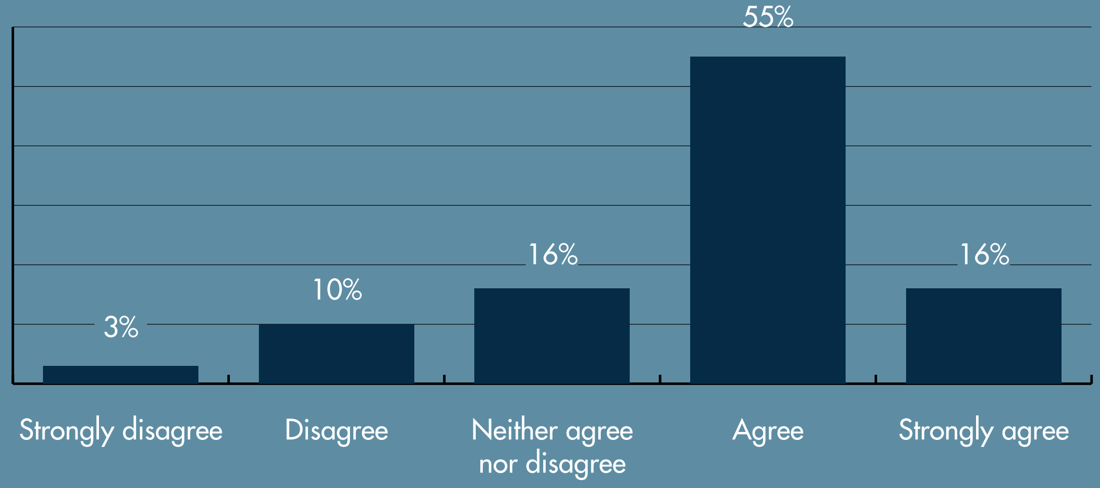
As we've studied construction firms and their ability to perpetuate enduring success from one generation of owners to the next, achieving that goal most often comes down to building and leveraging holistic succession plans that clearly define how and when equity will transfer, delineating who will lead the organization within strategically pivotal roles, and preparing these leaders to succeed in these future roles. These plans also help formalize contingency strategies that identify interim leadership when emergencies and/or unforeseen key role vacancies occur. Finally, they create a clear transitional road map for the leader in the current position, detailing what must be done to exit well and prepare for a life outside of work.

Building and delivering such plans is challenging—and sometimes painful—work, but it's most definitely the signature of high-performance legacy organizations.

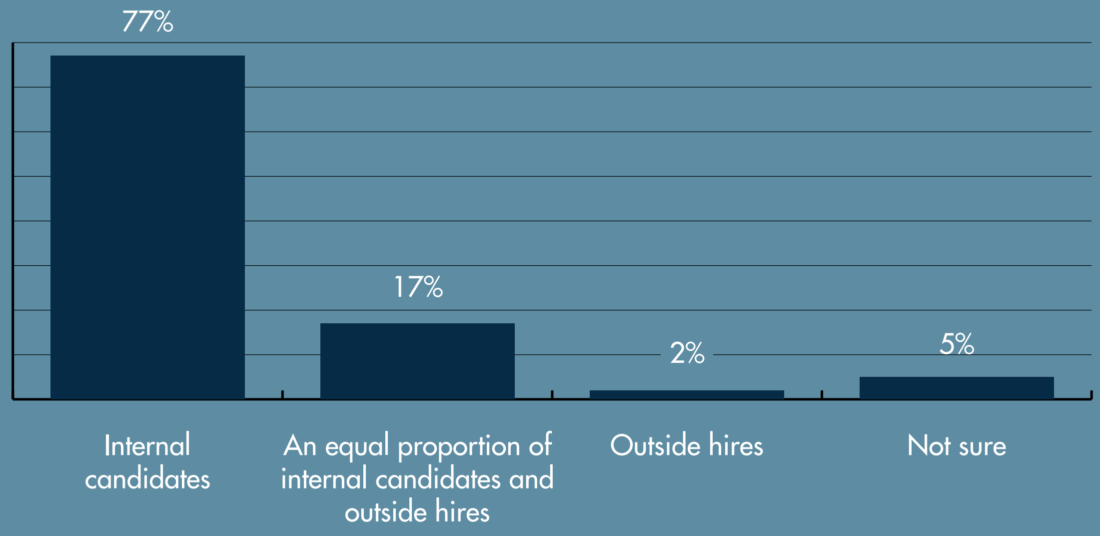
[4] These plans typically comprise a leadership transition plan, equity transfer plan and a contingency (emergency/unexpected events) plan.

EXHIBIT 6

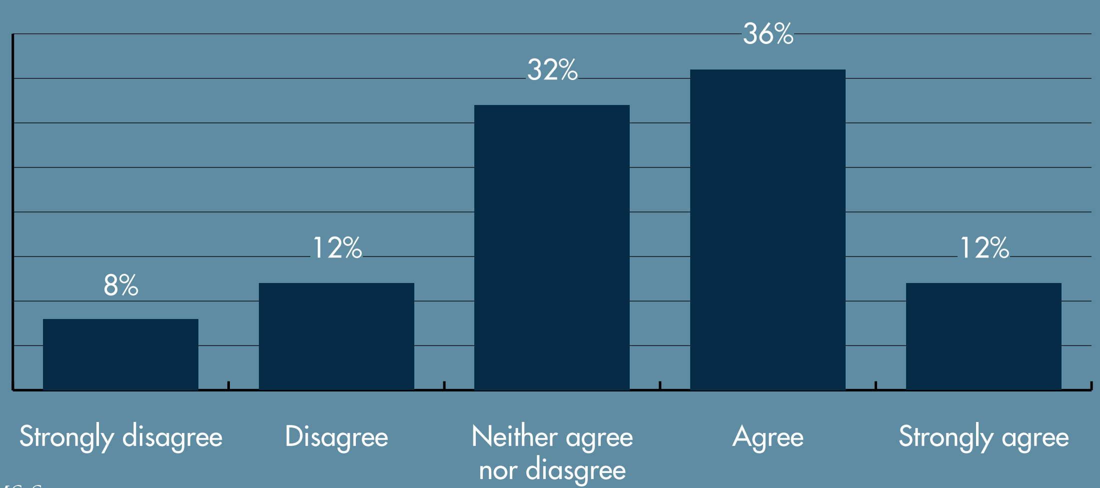
The future direction and strategic priorities of my business are clear.



Where will your successors most likely come from?



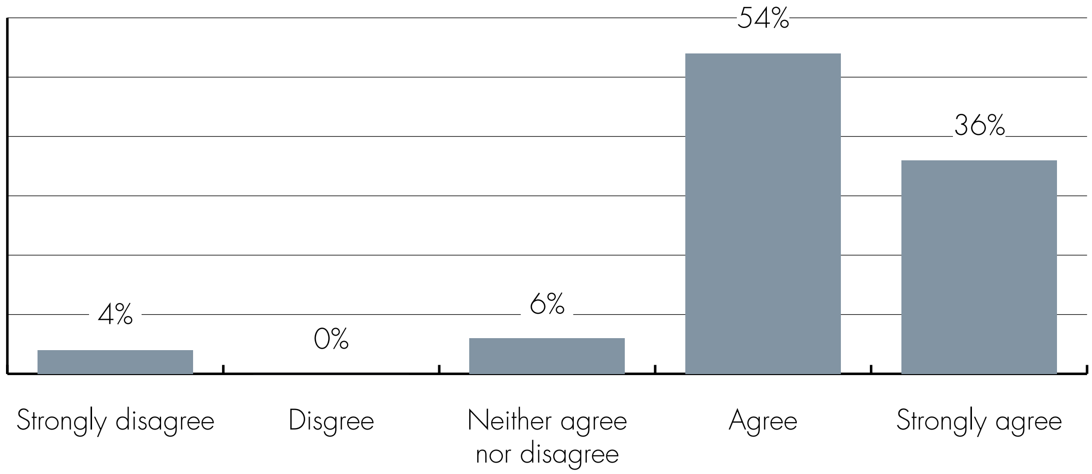
Our succession planning over the past year has focused on senior positions with pending vacancies.



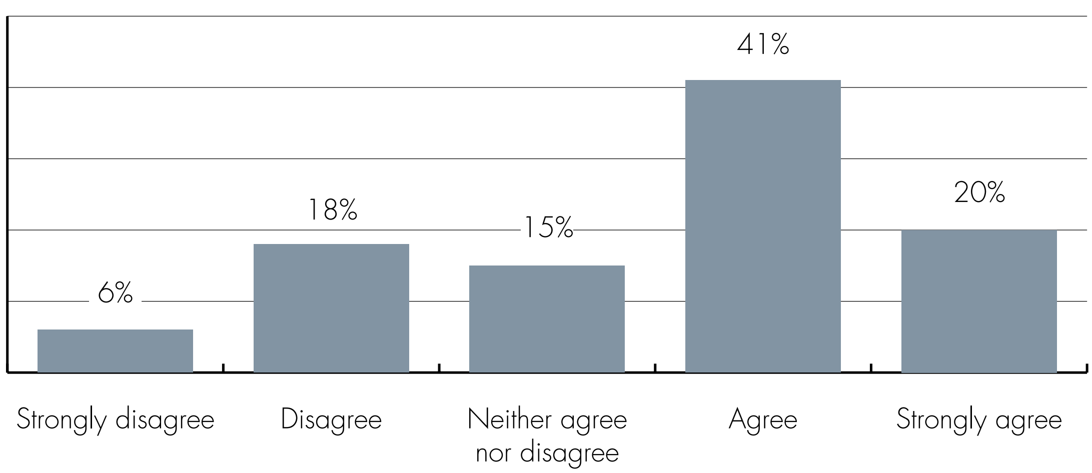
Source: 2017 FMI OTMS Survey

EXHIBIT 6 (cont.)

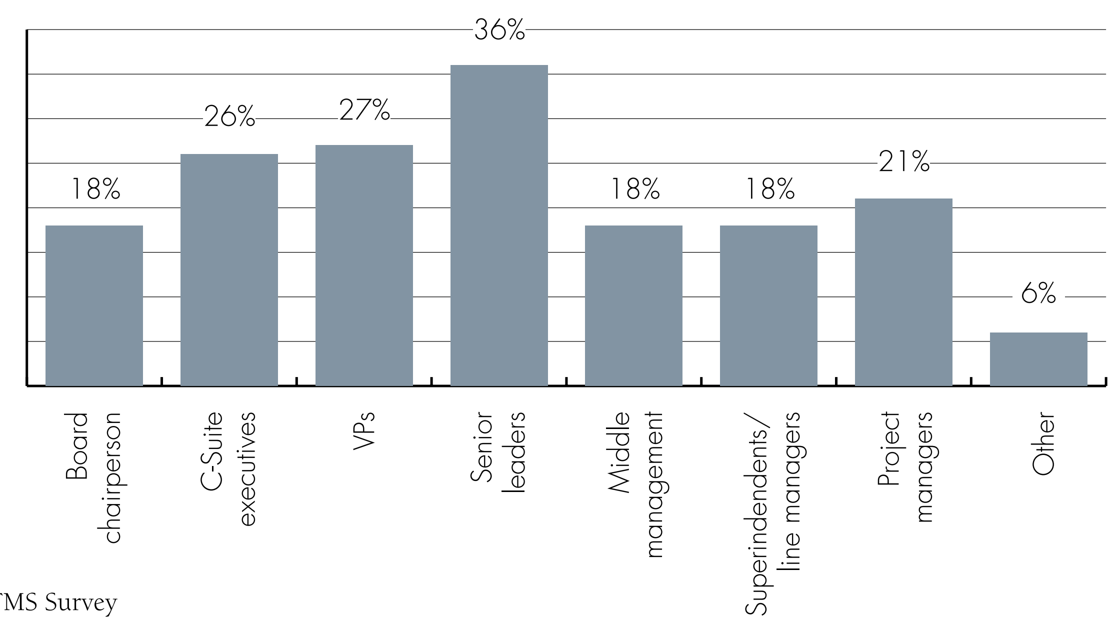
The future profitability of my organization will be directly affected by the firm's succession readiness.



Successors have been formally identified for the most critical positions of my business.



My organization has formal succession plans for...



Source: 2017 FMI OTMS Survey

Despite a growing awareness of the importance of having a formal OTMS plan in place, and its impact on the success of a firm, companies in the E&C industry often view the OTMS process as an effort to just replace one or two key positions (e.g., the CEO or president). The focus tends to be superficial and emphasizes mostly replacement without considering the broader strategic business context.

However, effective succession management goes beyond putting a new leader in place. It also includes the conservation of a company's culture, designing a structure to support leadership transition, and the identification and development of future leaders for all key roles and a smooth ownership transition. This type of succession approach is imperative to a company's success and requires a well-thought-out process to ensure that all the pieces are in sync and tied to the overall company vision and strategy.

Organizations positioned for long-term success focus their attention on strategically important positions and take a holistic and proactive approach that goes beyond the obvious and immediate succession needs. This "continuity mindset" helps to prepare the organization for effective succession management and ownership transfer (for specific recommendations on how to deepen the bench across the organization, see "The Continuity Mindset: Managing Succession for Lasting Organizational Success").

There are several steps that companies can take on the path to good succession planning that incorporate a continuity mindset, focusing on strategic positions and taking a more holistic approach to succession. They include:

1) **Think strategic positions, not high performers.** After establishing a clear vision for where the organization is going (part of essential groundwork), companies dedicated to a more holistic and proactive succession process begin by identifying strategic positions. This allows companies to pinpoint roles that have a major impact on the company's strategy, rather than just looking at those roles facing imminent need for replacement. At this step, taking a continuity mindset means looking at the positions, not the people. Rather than thinking about the present organization, focus shifts to the organization's desired (or envisioned) future state. Thus, when thinking about a business's strategic positions, the primary focus should be on the roles that directly impact strategy and not necessarily on the company's current star players.
2) **Take the time to prepare for strategic positions.** It is critical to take the time to clarify roles, evaluate talent against those roles and prepare potential candidates for select strategic positions. These positions can directly impact a company's strategy, and when carried out effectively, they generate substantial value for an organization. The following steps provide more details.

   - Clarify strategic positions. Once you've identified your firm's strategic positions, you'll want to develop a Peak Profile for each of those roles. These profiles include role requirements (what you do), technical skills (what you need to know) and competencies (how you do it). While creating these profiles might seem intuitive and easily developed by HR functions, E&C leaders tend to overestimate the importance of technical skills and experience, while underestimating the need for managerial, leadership and people skills required in key roles. In truth, both are crucial; technical experts moving into leadership roles rarely transition smoothly in absence of adequately developed people skills. The establishment of a Peak Profile plays a critical role in rigorously assessing and developing the pipeline of potential successors for strategic positions.

- Evaluate an individual's potential for strategic positions. While many company executives use the gut instinct approach for selecting successors, the use of a structured approach is far more valuable for assessing candidates fairly and reliably. Tools such as structured interviews and validated assessment instruments (e.g., The Hogan Battery, Pinsight Leader Simulation) are job-related and more accurate in capturing the level of individual proficiency competencies.

- Ready your successor and a broader bench for "strategic positions." Once individuals have been assessed and their potential for future strategic roles established, provide structured developmental activities that increase successor readiness. Carefully chosen activities equip identified successors for their future roles; they advance individual development and accelerate future leaders.

3) **Consistently track readiness and progress on developmental milestones.** One of the most common missteps when following a succession process is a failure to sustain the objective evaluation and meaningful development of future talent and treating the succession process as a one-time event. Organizations with a holistic succession approach and deep benches develop a consistent rhythm for tracking successor progress. One powerful method is instituting a talent review, a process where leaders report to executives on the state of their leaders. In a Talent Review, a manager might report on each of his or her direct reports and share insights on how individuals have advanced on key developmental milestones such as managing key large accounts or coaching and developing future leaders.

> "Transition planning is, at its core, a deeply personal and complicated process. It involves nearly every challenging issue a leader can face—including questions of legacy, money, family, facing one's own mortality, strategy, making hard people choices and finding a meaningful path after work. Effective planning takes each of these 'hard' and 'soft' issues into account and integrates those choices into a holistic point of view, united by a guiding vision for the transitioning firm."
>
> Jake Appelman, Principal with FMI's Center for Strategic Leadership

Embracing a continuity mindset and engaging in a systematic succession management approach allow organizations to minimize the likelihood of the wrong individual being put in place at the wrong time. With early identification of positions that drive strategy, coupled with clearly defined competencies for achieving success in those roles, the organization is positioned to develop and select the best-suited individuals for the job.

Key Finding 4. Succession in our industry will require embracing nontraditional means of development and cultural shifts.

While industry participants in the survey agree (28%) and strongly agree (31%) that they are confident in their successors' ability to lead the business in the future, a large percentage of successors (47%) will not be ready for another three to five years (Exhibit 8). This finding suggests the need for organizations in the industry to invest in methods to appropriately identify the right successors, develop them with meaningful methods, select the right successors and transition them effectively.

Despite confidence in OTMS plans, leaders in our industry continue to rely on development and selection methods that may lack utility and effectiveness. For example, the vast majority of participants indicated that their organizations are utilizing leadership courses (49%) and technical training (29%) as a means for preparing successors (Exhibit 8). While training can be an excellent method of sharing knowledge and equipping leaders with skills, it often lacks the customization of development plans, action learning, coaching and other methods that may be underutilized—despite potential benefits—in readying successors.

Coupled with a continuity mindset, organizations getting OTMS right are taking a "growth mindset" and moving away from standard training as a means for preparing leaders. When developing leaders, many companies utilize a traditional approach that lacks strategic focus and alignment with personal needs. Leaders have differing personalities, natural abilities, skill sets and underlying competencies as well as varying values, goals and views about how the world works. Positions that make up an organization's structure, similarly, vary in specific requirements of knowledge, experience and capabilities.

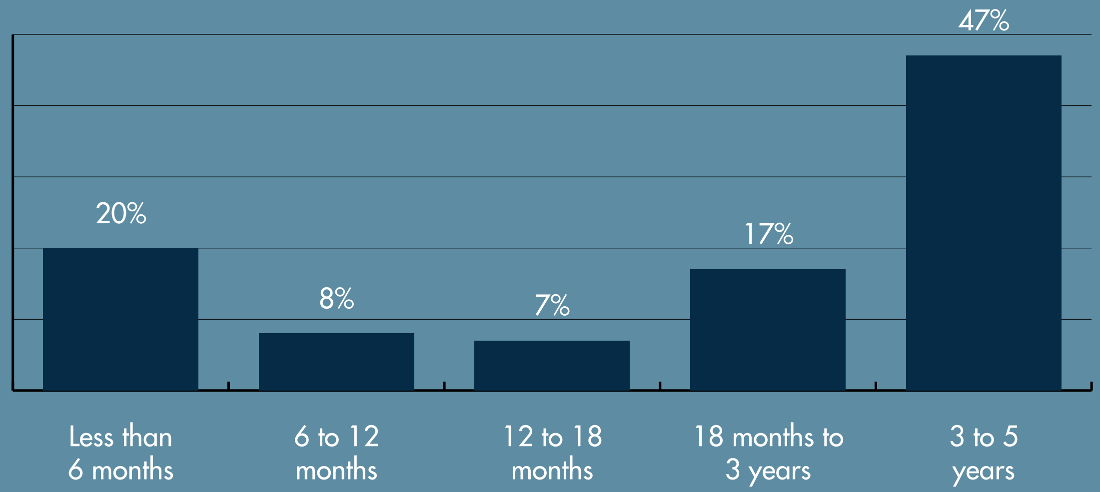
As Melissa Daimler pointed out in Harvard Business Review's "Why Leadership Development Has to Happen on the Job," "Organizational learning has to become less about the kind of learning done in a training session or online tutorial and more about continuous learning on the job. That means creating a work environment that supports and encourages learning, one that's less about individuals learning new skills on their own, and more about using their environment to learn and learning from one another."

Specific tactics for more powerful development in the context of succession are referenced in FMI's Quarterly article, "The Growth Mindset: Developing Your Successors With Intention, Purpose and Personal Focus."

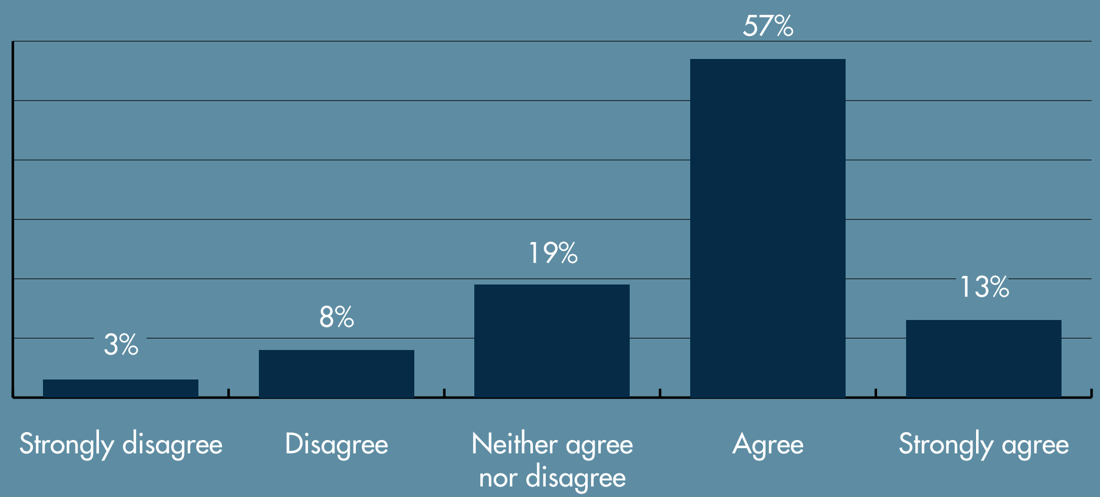
In addition to identifying the most powerful methods for readying successors, current senior leaders must also embrace a continuity and growth mindset. Less than half (44%) of participants indicated that current leaders are held accountable for their own succession (Exhibit 8). From FMI's extensive industry work, we have observed that while the majority of owners care deeply about the likelihood of their successor's success in a new role, few truly take ownership and responsibility of their successor's readiness. To change this mindset, organizations must make a cultural shift whereby the success of a leader is in part measured by his or her ability to ready the next generation.

EXHIBIT 7

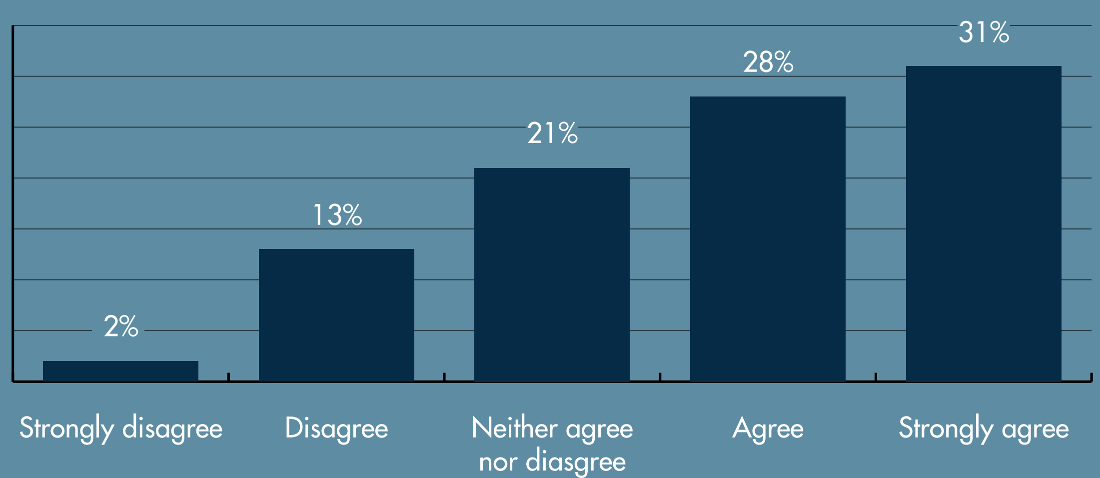
Identified successors will be ready for their future roles in...



The competencies required of future leaders are clear.



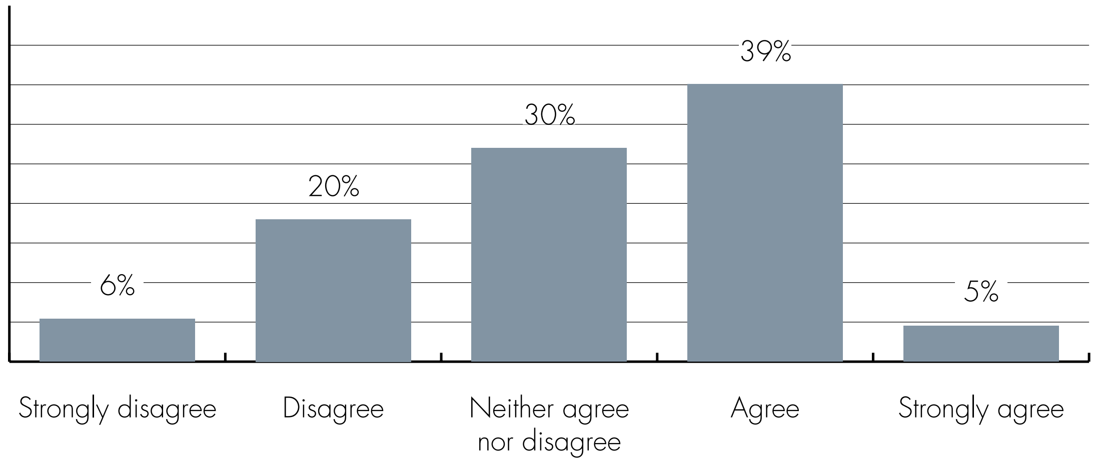
I am confident in my successors' ability to lead the business in the future.



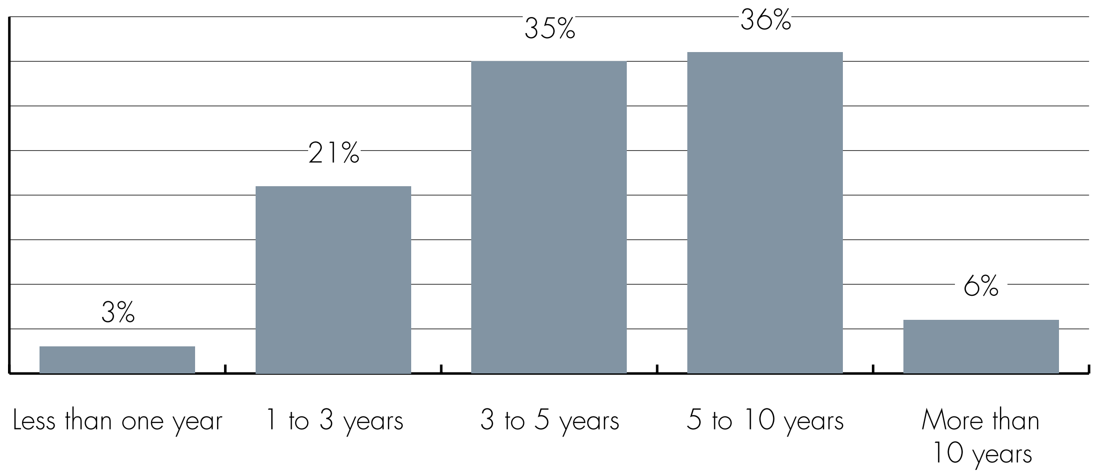
Source: 2017 FMI OTMS Survey

EXHIBIT 7 (cont.)

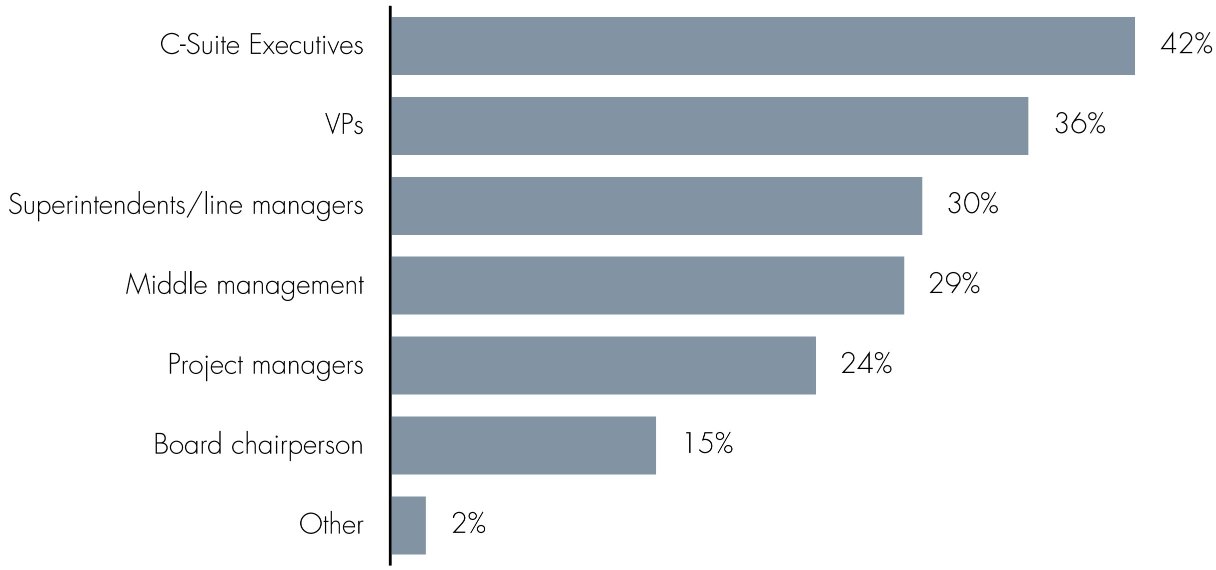
Current leaders are held accountable for their own succession.



My organization will need successors to replace most critical positions in...



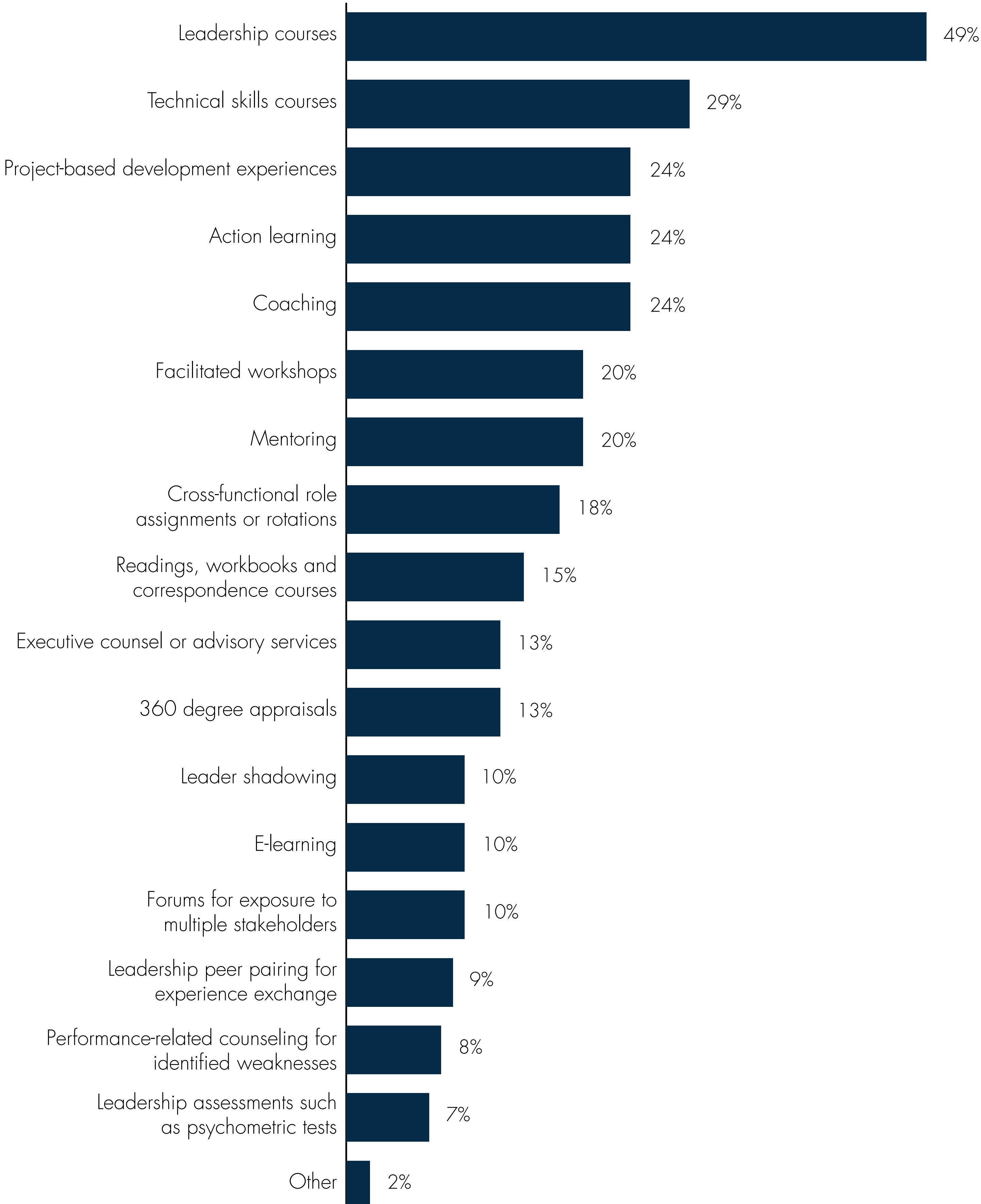
Which positions do you see as needing effective succession in the next five years?



Source: 2017 FMI OTMS Survey

EXHIBIT 7 (cont.)

Methods currently used by my organization for developing successors:



Source: 2017 FMI OTMS Survey

YOUR CHECKLIST FOR TRANSITIONING LEADERS

Transitioning leaders can feel like an uphill battle once those prospects have been identified, developed and selected for new roles. Despite competency and readiness, without adequate transition support, many executives fail to succeed in the first few years of their new role. Coupled with transition coaching for the new executive, the following items should be in place as leaders transition into new executive roles:

New Leader Has Successor Milestones/Road Map in Place

- [ ] Based on competencies, skill gaps and areas for growth and influence, new leader has post-transition growth milestones in place (e.g., for first 100 days, one year, etc.)
- [ ] Has systems or processes for checking in on milestones and points of accountability
- [ ] New mentor or advisor in place to support milestone achievement

Enduring Organization and Strategic Structure in Place

- [ ] Vision in place and reinforced through systems of the organization
- [ ] Organizational structure in place—right for size and future growth of firm, clear reporting relationships and structure supports talent development

General Transition and Communication

- [ ] Key management positions filled (i.e., the management roles have been effectively filled and backfilled)
- [ ] Formal announcement to key internal and external partners (banking, bonding, vendors, key clients, subcontractors)
- [ ] Surety in agreement with new equity plan—supports new size of company and impact on work acquisition

Ownership Transitions

- [ ] Primary owners move to minority equity positions—or clear plan for that eventuality
- [ ] Updated/revised buy-sell agreement in place

Governance and Executive Committees

- [ ] Governance in place in form of formal board of directors (terms clarified) or executive committee
- [ ] New committees and/or boards have been structured effectively and are undertaking processes to become peak performing teams and/or boards
- [ ] Clear job descriptions in place

Business Responsibilities and Key Processes Have Been Transitioned

- [ ] Critical risk management process/personnel in place—financial person or systems, operational discipline (project controls, go/no, etc.)
- [ ] Business disciplines and rhythms in place—budgeting, business planning, strategic planning. Next generation has run through these disciplines and can repeat them without primary owner
- [ ] Transition plan for key relationships developed and executed
- [ ] BD responsibilities spread out—minimize reliance on key individual for ongoing work
- [ ] Primary principal transfers personal obligations—banking, bonding, insurance
- [ ] Talent development system and discipline in place for leaders to ensure effective transitions (e.g., performance reviews, position profiles, methods for evaluating leaders, etc.)
- [ ] Transition plans for authority and decision-making
- [ ] Key person life insurance policies in place
- [ ] Compensation, deferred comp, etc., all agreed upon
- [ ] Agreement on all new titles
- [ ] New emergency succession plan in place
- [ ] Stewardship of banking and bonding relationships transferred to new principals / owners

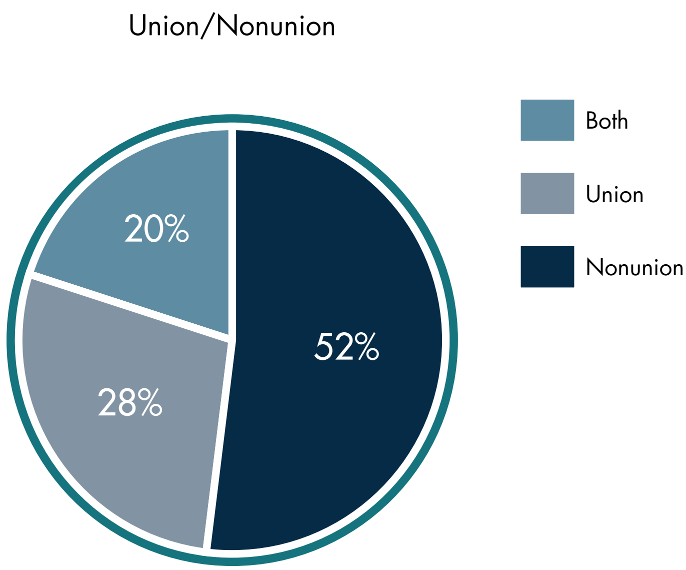
LOOKING AHEAD

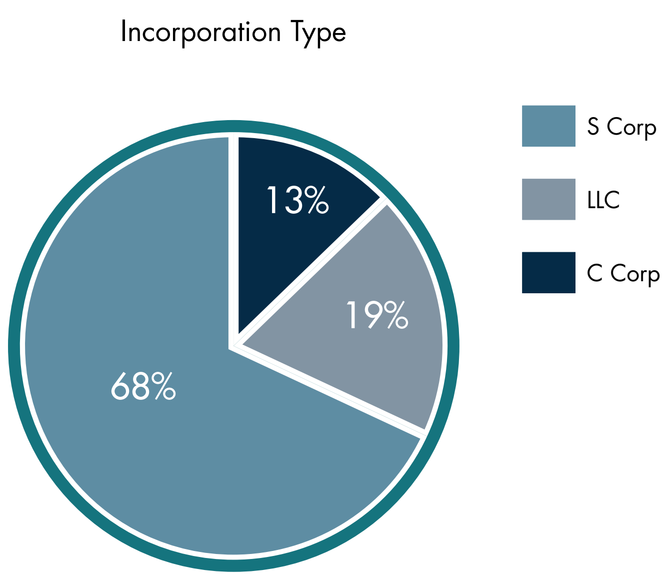
As the U.S. construction industry completes its sixth consecutive year of growth following the Great Recession, it also enters a period of demographic transition. Even when talent is abundant, the challenges of ownership transfer and leadership succession require focus and commitment. With the rampant talent shortages throughout the industry, however, the people issues facing leaders are exacerbated. Today's firms are confronted with the challenge of both acquiring and developing talent while simultaneously transferring ownership to a new generation. Many firms have met this challenge head-on, while others continue to defer the issue into later years. Unfortunately, for those who wait, the complexity and difficulty of ownership transfer and leadership succession only increase with time.

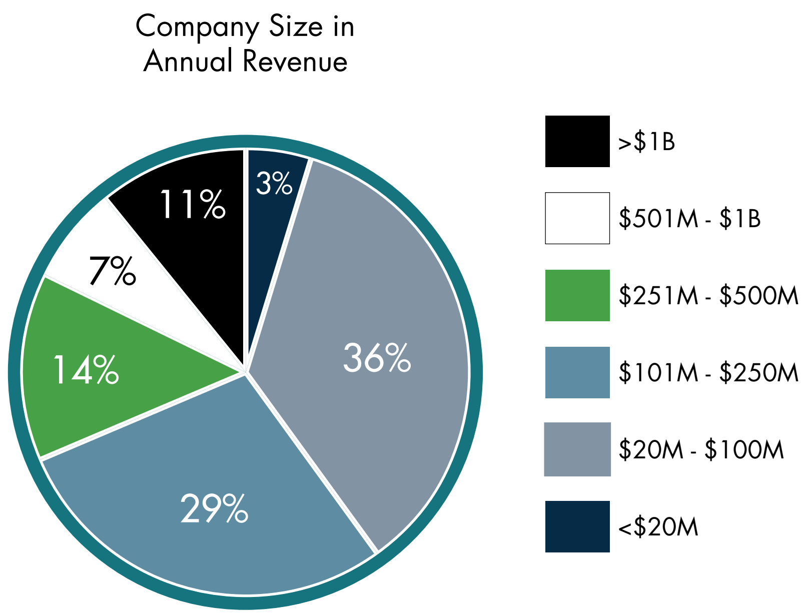
For most owners, there is no simple or concise solution to ownership transfer and leadership succession. In fact, it is much like a game of chess: It involves many moving parts and demands highly focused concentration to navigate successfully. Even the best plans must continually be re-evaluated and adjusted due to changes in the environment. Progressive leaders recognize the immense complexity of the challenge in front of them. It's not simply a financial or tax problem, organizational or family problem, or a bonding and banking problem. It's a combination of all these elements. Each entity is different, and all the puzzle pieces must fit together. The sum of the parts is truly greater than any individual piece. Further, finding the right success combination varies greatly, depending upon the nuances, traits and goals of a given organization's current and future owners.

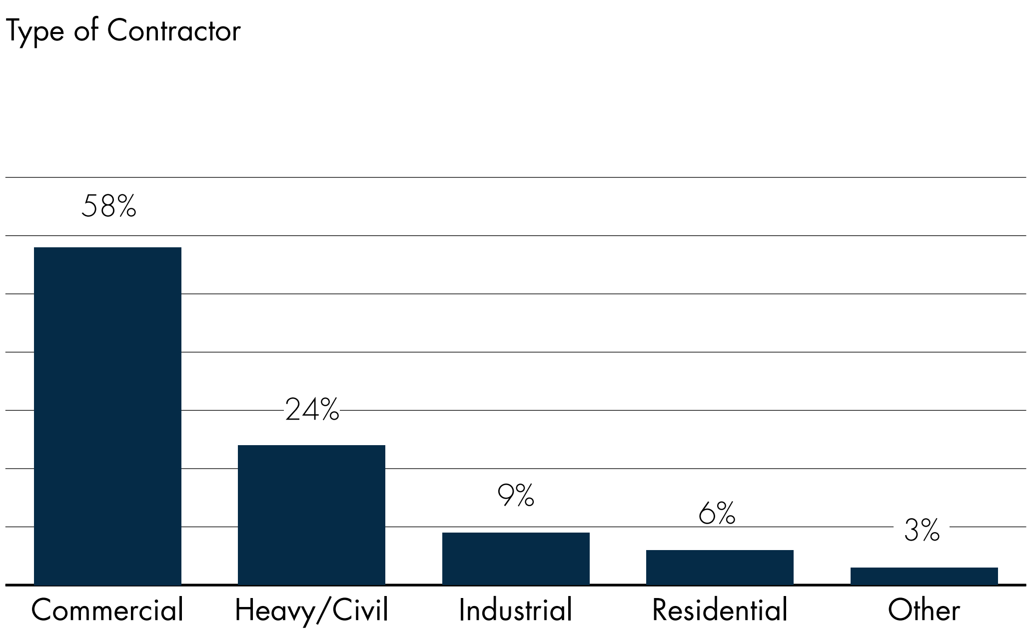
Effective leaders with continuity mindsets understand that for the organization to succeed, they must make hard choices that may be unpopular in the short term. The winning formula for ownership transfer and leadership succession demands courage, humility and a long-term focus. Taking a proactive approach will help ensure that the right people are ready at the right time to both enter leadership roles and become the future owners of the business. Having the best talent in the most strategic positions—and the bench strength to fill those key roles when the time comes—drives enduring organizations.

APPENDIX—SURVEY DEMOGRAPHICS






Company Size in
Annual Revenue
11%
3%
7%
14%
36%
29%
>$1B
$501M - $1B
$251M - $500M
$101M - $250M
$20M - $100M
<$20M


Type of Contractor
58%
24%
9%
6%
3%
Commercial
Heavy/Civil
Industrial
Residential
Other

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