



CURRENT NRCI SUMMARY



● Positive ● Negative

NOTE: Higher cost of materials and labor reduce the NRCI score.

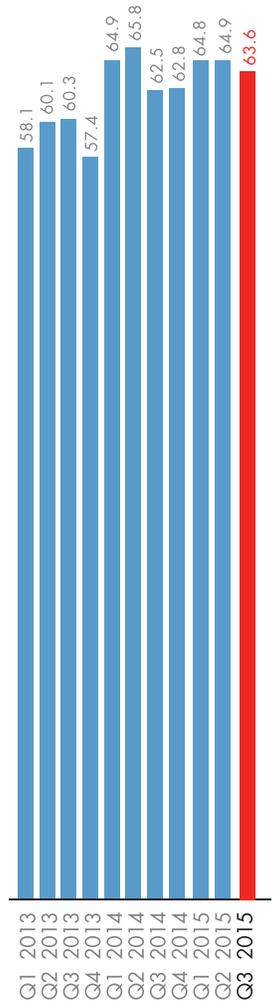
NRCI THIRD QUARTER 2015 EXECUTIVE SUMMARY

SCIENCE IS FUN TO USE AS A THINKING TOOL. IT OPENS THE MIND TO NEW IDEAS.

If there is one thing we know about change, it is that it is as inevitable as time. Change happens. However, change happens at different rates. Time just keeps marching on at the same rate—at least it did until theorists like Einstein came along and complicated things with ideas like time travel and wormholes. In geology and the sciences of evolution and paleontology, there have been long and famous arguments about the rates of change in landscapes and living organisms. Does it happen gradually (gradualism) or rapidly (catastrophism)? Storms and streams gradually shape the landscape. Earthquakes are more impatient in their work. The current thinking is that we have both gradual and cataclysmic change.

So why introduce this summary of the latest Nonresidential Construction Index report with a bit of science? For one thing, science is fun to use as a thinking tool. It opens the mind to new ideas. Another reason is that the current NRCI readings are more on the gradualism scale. Cataclysmic changes make for more interesting headlines like the DOW dropped XX points today, a record-setting typhoon is heading for Taiwan, or “Greece Defaults on Debt—Almost.” Although our introductory list of NRCI components indicates a downward trend—with the exception of labor costs, which are high but no higher than last quarter—the fact is that the Index dropped only 1.3 points to a still positive 63.6 this quarter, 1.1 points ahead of Q3 2014.

THE RECOVERY FOR CONSTRUCTION POST-RECESSION HAS BEEN GRADUAL, BUT THAT GRADUAL CHANGE HAS OPENED UP A RIFT BETWEEN THE NEED FOR WORK AND THE NEED FOR MORE WORKERS.



CURRENT NRCI READING Q3 2015
63.6

EXHIBIT 1

FMI Nonresidential Construction Index (NRCI) Scores From Q1 2013 to Q3 2015

(Scores above 50 indicate expansion, below 50 indicate contraction.)

Executive Summary continued ...

Granted, a 1.3-point drop from a near-record high for the NRCI is little news. Even though many of the components have also dropped a little, there is still something to be learned each time we poll the construction executives who graciously give their time and opinions for this survey each quarter. Construction companies are busy, and they are busier than they were last year at this time. However, there is some slippage in optimism about the economy and specifically the individual markets looking a year out and past the election year. The message is subtle and open to interpretation or other theories, but it appears that a number of forces are at work here. One is that many companies are struggling to take on more work with fewer well-trained employees. The recovery for construction post-recession has been gradual, but that gradual change has opened up a rift between the need for work and the need for more workers. Backlogs have increased for most companies and, for some, to the point of making it more difficult to sell more work. That is a better problem than finding no work, but still a problem.

There are other factors at work in the global economy. Underneath the gradual change, there is the question of how much growth is weighed down by unresolvable debt in a number of countries, Greece being just the canary in the coal mine. We asked panelists about this issue in our “current issues” questions this quarter. The majority response was “no immediate or long-term impact likely.” That’s a relief, for now anyway, but 25% of our panelists aren’t sure how it will eventually play out. Most think it is manageable if, say, only Greece defaults. This response is not much different from when we asked about this issue in the second quarter of 2012—yes, the proverbial can was kicked far enough down the road that it circumnavigated the globe. One panelist commented then that the potential problems had been in the news so long that they were already “built in” to the economic assumptions. Nonetheless, even though most don’t expect any immediate repercussions, there is a sense that a “Black Swan” lurks in the reeds, and that causes uncertainty.

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While most of the information in the data this quarter supports the gradualism theory of change, it wasn’t long ago that the industry and the country experienced something more cataclysmic in the way of the Great Recession. We asked panelists about the changes made during the recession that are benefiting their companies now. A few that we might call the gradualists said they did nothing different during the recession; they were always making changes to improve. The majority said they learned to be more selective of projects and clients, followed closely by those companies increasing the use of technologies to become more productive. While gradualism continues its work, catastrophe can be a strong agent of change; but that is something that most executives would like to avoid in the future.

Thanks to all of the panelists who help make the NRCI a useful gauge of nonresidential construction activity. We value your opinions and appreciate your taking the time to share your experience.

NRCI Third Quarter 2015 Highlights

Overall Economy:

At 70.6, NRCI panelists' view of the overall economy is optimistic; however, it is 6.3 points less optimistic than last quarter and at the lowest point in the past year.

Overall Economy Where Panelists Do Business:

Looking at the economy for the markets in which panelists' companies operate, a score of 73.3 this quarter indicates a strong outlook, although this component slipped 3.4 points from last quarter.

Panelists' Construction Business:

Panelists' view of their own business in the current economy is solidly positive at 75.7, with little change for the last three quarters.

Nonresidential Building Construction Market Where Panelists Do Business:

Although we see some slippage in most index components, a score of 75.0 for this component still registers in the optimistic range, as it has been over 70.0 for the last seven quarters.

Expected Change in Backlog:

The backlog component of the NRCI dropped 3.1 points from last quarter to 68.6. For the third quarter in a row, the mean backlog of all responses is 10 months with a high of 30 months and a low of just three months.

Cost of Construction Materials and Labor:

The cost of labor continues to be higher, but little change from last quarter at 12.5. Materials costs continue to be high, but slightly lower than last quarter. These two major components of construction costs act to hold down the overall NRCI as costs increase.

Productivity:

Improvements in productivity can help to overcome increases in labor and materials costs. However, this component dropped 3.4 points to just 47.6 this quarter. This is the lowest score for productivity we have seen since the NRCI began in 2008. As backlog climbs and skilled labor is in high demand, contractors find themselves in a position of trying to do more work with greener crews.

Current Issues

International Debt Problems:

As we were preparing the survey for the NRCI this quarter, large debt payments were coming due for Greece and other nations like Italy, Spain and Portugal. We added a question about the potential impact of these debt situations on the business of the executives answering our survey. One-third of respondents indicated no immediate or long-term impact was likely for their businesses, 25% were unsure and only a small percentage expected they would have to adjust their strategic plans to deal with the uncertain economy.

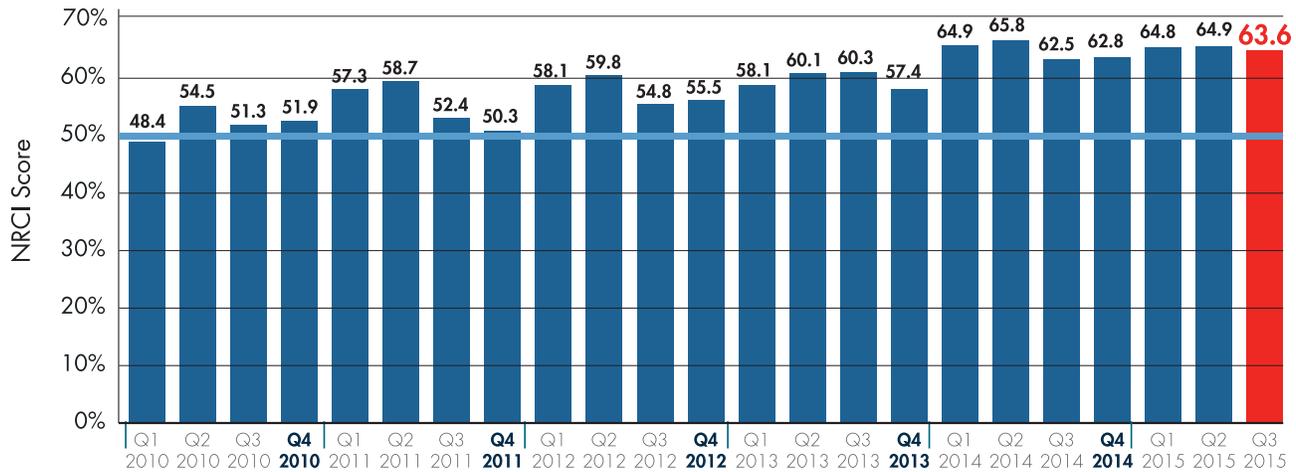
Business Changes Since the Great Recession:

Now that the Great Recession is in the history books, we asked what changes companies made during the recession that are now reaping dividends. Being more selective regarding projects and clients came in on top, followed closely by making greater use of technology to be more productive. Doing a better job of managing risks, being leaner and more productive, and adopting new technologies seem to be the main themes in our responses.

EXHIBIT 2

FMI Nonresidential Construction Index (NRCI)
Scores | Q1 2010 to Q3 2015

The NRCI remains in expansion territory at 63.6.



THIRD QUARTER 2015 63.6

PREVIOUS READING: 64.9

(Scores higher than 50 indicate expansion, below 50 indicate contraction.)

Current Issues

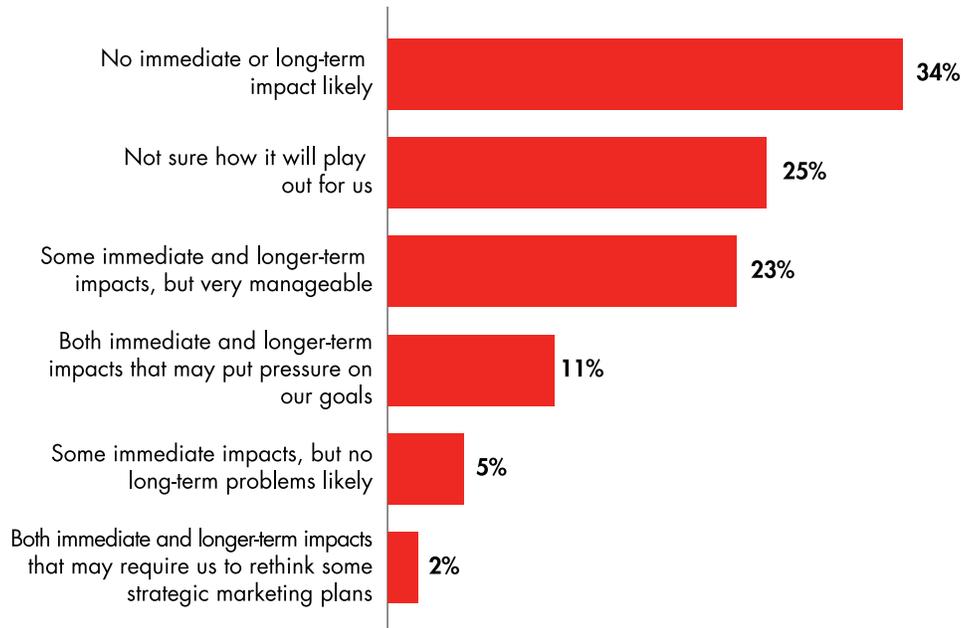
International Debt Problems

Although the U.S. has been enjoying a resurgent economy, European countries like Greece, Italy, Spain and Portugal are struggling. Weighed down by unsustainable debt and declining revenues, the threat of default on these debts continues to loom over the Euro economies. After years of rapid growth, China is also experiencing a slowdown in its economy, threatening the savings and investments made in a more bullish atmosphere in the last few years. For the time being, the Greece debt crisis has once again been averted. Although no longer front-page news, it would be foolish to think these debt problems have been solved. There is no sense of certainty in what long-term results of these problems and many other instances of global unrest will be, but we continue to move forward.

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EXHIBIT 3

At this time, what impact do you think the growing list of economic crises developing in the Eurozone (Greece, Italy, Spain and Portugal) and Puerto Rico and market losses in China will have on your business?



Comments on the potential effects to your business in the light of ongoing economic crises abroad:

- A slowdown in Chinese investment.
- Current financial issues will put pressure on confidence and add cost to municipal bargaining, both of which could cause problems for future projects and overall economic growth.
- [We are a] domestic contractor only, so I would expect little direct impact of the crises. Any impact will occur from changes in oil supply and demand.
- Hard to gauge. Expect slight impact.
- Haven't determined that there is any impact for us.
- I think that greater uncertainty will slow expansion and building in the commercial sectors. It will probably not slow by much, and it may be what we need to catch our breath anyway.
- If overall confidence drops due to increasing volatility in financial markets as a result of overreaction, then eventually it will trickle down to our business.
- Interest rates will increase, leading to higher borrowing costs, both for our company as well as owners, developers, etc.
- Interest rates, China's slowing economic growth, and the destabilized Middle East are all more worrisome than Greece.
- It really depends on how our client base is impacted, as otherwise, we see little direct effect to our construction business.
- Major China failure could have direct impact to Northern and Southern California economies.
- Many companies we work for are global, and impacts elsewhere do affect their thinking regarding spending money.
- More foreign competition entering our market.
- None.
- Our markets are currently stable and should not be significantly affected.
- Primary fundamental concern would be China pulling real estate investment out of the United States and decreasing demand. It may be a blip, but people still need places to work and places to sleep.

- Significant impact if Chinese and Euro markets slow down.
- Spain and Portugal will have a bigger impact on the U.S. economy than Greece and Italy.
- There has not been any immediate impact, but we are concerned about the long term. We feel this could affect funding for future projects not yet in our backlog.
- We do business with a number of domestic companies that have a presence overseas. The economy of overseas areas could cost domestic companies, which could result in less spending on domestic facilities.
- We think it is going to have a major impact on European, Russian and Chinese investments.
- Would seem to affect confidence in the global economy, which could impact domestic decisions about spending or holding onto cash.

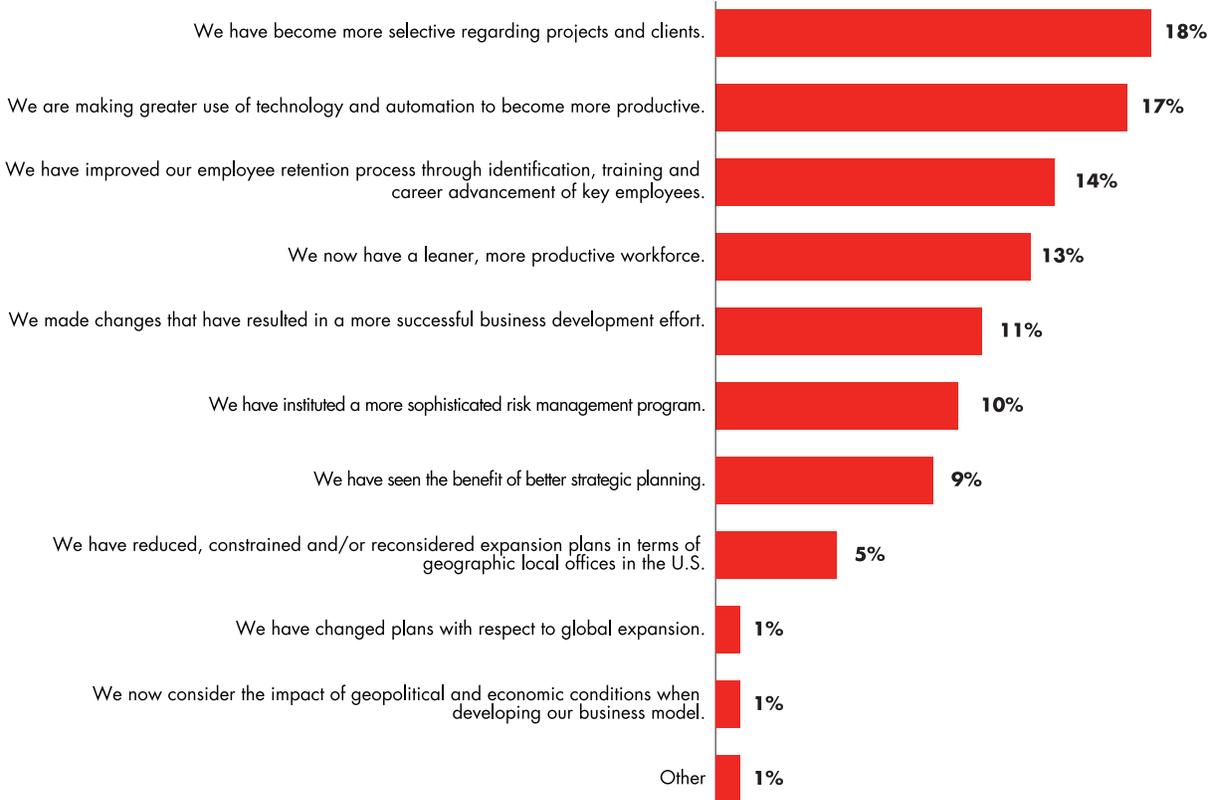
Business Changes Since the Great Recession

Now that the Great Recession is in the history books, we asked what changes companies made during the recession that are now reaping dividends. Being more selective regarding projects and clients came in on top, followed closely by making greater use of technology to be more productive. Doing a better job of managing risks, being leaner and more productive, and adopting new technologies seem to be the main themes in our responses. It is clear that many companies found themselves in a tough position during the recession, having to take jobs for lower prices and less favorable contract terms. That situation pushed some companies out of business. Those that remained took on higher risk for lower profits or lost money. Catastrophic changes force companies to do what most should have been striving to accomplish before the catastrophe. Those companies that have made significant improvements in many areas should now be enjoying improved business, but they should not rest on their accomplishments.

WE IMPLEMENTED A LEAN CONSTRUCTION CULTURE STARTING WITH ONE AREA AT A TIME. WE ARE WORKING TO IMPLEMENT OUR LEAN CULTURE AT ALL GEOGRAPHIC AREAS THAT WE ARE IN.

EXHIBIT 4

What changes did your company make during the recession that are proving to be beneficial for your business now?



Comments on the most successful changes you have made during or since the recession that have improved your business now (or changes that you would NOT make again if/when there is another recession):

- Better employee retention through training.
 - Choosing the right clients is the key factor in success.
 - Cut overhead and unnecessary spending.
 - Emphasis on multifamily.
 - Focus on strategic project acquisition and markets that would be likely to survive the recession (health care, data center or infrastructure rebuild.)
 - [Hired a] full-time risk manager to monitor and prequalify subs and owners.
 - Investing in people and geographic and sector diversification along with technology and company systems platform.
 - Leaner and very organized in terms of staffing and work process. We have strategically limited hiring to a few key positions. This will prevent rapid top-line expansion, but the plan is to improve the bottom line.
 - Paying close attention to our most valued clients and employees was successful.
 - Regional expansion along core product types and expanding self-perform capabilities.
 - Stronger focus on preferred client base with consistent capital budgets to spend.
 - The above items are all things that we strive to do at all times (except for geopolitical conditions), so the recession mainly decreased profitability and increased stress.
 - The greatest changes that we have made are related to focusing on specific market segments. By reducing types of work we will bid/do, we have become much more effective and profitable.
- We focused on training and sensible investment in technology across the company and really focused on career path development for the field to offset the steady stream of forecast retirements. This effort not only made a big difference, but also we ended up attracting a solid workforce that wants to work for strong supervisors.
 - We have decided that the selection process of projects/clients is the most important criterion for our future success. With the demands for quality manpower in the field and office, this requires us to “not fall in love” with a project but make sure it fits strategically. We have instituted the use of Subguard. The discipline it is driving within the company to understand the financial risks associated with some subcontractors has been eye-opening.
 - We implemented a lean construction culture starting with one area at a time. We are working to implement our lean culture at all geographic areas that we are in. We collaborated with some of our long-term customers on project delivery methods, for example, Integrated Project Development (IPD). We continue to grow in the use of BIM, and the result is more business with certain customers and a more satisfied customer when we are able to model its project.

Exhibits 5 through 10: Detailed component results for FMI's Third Quarter NRCI survey.

EXHIBIT 5

FMI Nonresidential Construction Index Detailed Results by Market Sector

	Overall Quarter 2 for 2015				Overall Quarter 3 for 2015			
	Improving over last quarter	Remains the same as last quarter	Worse compared with last quarter	NRCI Q2 2015	Improving over last quarter	Remains the same as last quarter	Worse compared with last quarter	NRCI Q3 2015
<i>Business Outlook/Three Months</i>								
Commercial	47.0%	47.0%	6.0%	70.5	35.8%	59.3%	4.9%	65.4
Education	29.2%	62.9%	7.9%	60.7	25.6%	64.0%	10.5%	57.6
Health care	39.8%	55.7%	4.5%	67.6	44.7%	48.2%	7.1%	68.8
Lodging	49.3%	47.9%	2.8%	73.2	44.8%	47.8%	7.5%	68.7
Manufacturing	37.7%	59.4%	2.9%	67.4	36.4%	51.5%	12.1%	62.1
Office	37.5%	58.0%	4.5%	66.5	35.8%	56.8%	7.4%	64.2
Other	30.0%	70.0%	0.0%	65.0	65.6%	31.3%	3.1%	81.3
<i>Business Outlook/One Year</i>								
Commercial	53.0%	43.4%	3.6%	74.7	40.7%	56.8%	2.5%	69.1
Education	38.2%	57.3%	4.5%	66.9	36.0%	57.0%	7.0%	64.5
Health care	52.3%	42.0%	5.7%	73.3	55.3%	37.6%	7.1%	74.1
Lodging	47.9%	47.9%	4.2%	71.8	34.3%	61.2%	4.5%	64.9
Manufacturing	46.4%	47.8%	5.8%	70.3	44.8%	47.8%	7.5%	68.7
Office	47.1%	48.3%	4.6%	71.3	41.5%	52.4%	6.1%	67.7
Other	35.0%	65.0%	0.0%	67.5	67.7%	32.3%	0.0%	83.9
<i>Business Outlook/Three Years</i>								
Commercial	39.0%	50.0%	11.0%	64.0	30.8%	46.2%	23.1%	53.8
Education	30.7%	59.1%	10.2%	60.2	40.0%	45.9%	14.1%	62.9
Health care	45.9%	45.9%	8.2%	68.8	49.4%	39.8%	10.8%	69.3
Lodging	24.3%	62.9%	12.9%	55.7	25.0%	45.3%	29.7%	47.7
Manufacturing	47.8%	42.0%	10.1%	68.8	35.4%	52.3%	12.3%	61.5
Office	40.2%	48.3%	11.5%	64.4	35.0%	50.0%	15.0%	60.0
Other	35.0%	55.0%	10.0%	62.5	40.6%	46.9%	12.5%	64.1

NRCI Scores

- > 50 indicates growth (better)
- < 50 indicates slowing (worse)

* A note on the use of the diffusion index: Do not interpret diffusion index values in the same manner as averages, because a simple increase or decrease in a diffusion index does not necessarily imply an improving or declining result. For example, if a diffusion index moves from 31 last quarter to 35 this quarter, it does not imply the market has improved. A reading above 50 indicates improving or expansion, 50 indicates remaining the same, and below 50 indicates worse or contracting. Therefore, if a reading goes from 31 to 35, then the result still implies a decline from the previous quarter because 35 is below 50; but the decline is not as great as the previous decline because 35 is above 31. As another example, if the diffusion index changes from 31 to 65, it implies improvement over the previous quarter, not because 65 is above 31, but because 65 is above 50.

EXHIBIT 6

NRCI Component Indexes — Comparisons of Results: Q4 2014 to Q3 2015

	NRCI Q4 2014	NRCI Q1 2015	NRCI Q2 2015	NRCI Q3 2015
The overall economy	72.1	78.8	76.9	70.6
The overall economy where panelists do business	71.8	78.3	76.7	73.3
Panelists' construction businesses	70.6	74.1	76.4	75.7
Nonresidential building construction market where panelists do business	71.2	74.6	76.4	75.0
Cost of construction materials	23.6	22.4	21.4	29.4
Cost of labor	19.7	17.7	12.5	12.6
Productivity	49.0	50.9	51.0	47.6
Expected change in backlog	62.6	68.5	71.7	68.6
	Median	Median	Median	Median
Approximate current signed backlog in months	9.0	10.0	10.0	10.0

Note: NRCI scores and component scores are based on a diffusion index where scores above 50 represent improving or expanding, a score of 50 represents remaining the same, and a score below 50 represents worse than last quarter or contraction.

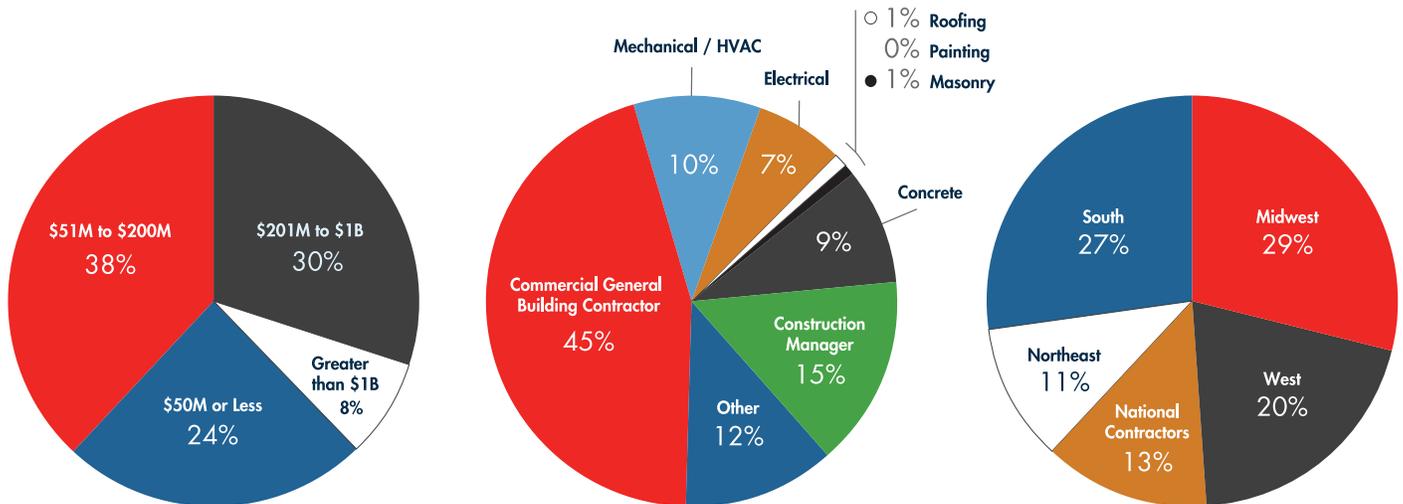


EXHIBIT 7

Size of the Organization in Annual Revenue

EXHIBIT 8

Type of Contracting Business

EXHIBIT 9

Primary Region in Which Panelists Work

EXHIBIT 10

FMI Nonresidential Construction Index (NRCI) Component Results Q2 2015 to Q3 2015

	NRCI Component Results, Quarter 2 for 2015				NRCI Component Results, Quarter 3 for 2015			
	Improving over last quarter	Staying the same as last quarter	Worse compared with last quarter	NRCI Q2 2015	Improving over last quarter	Staying the same as last quarter	Worse compared with last quarter	NRCI Q3 2015
Overall Economy	56.7%	40.4%	2.9%	76.9	43.1%	54.9%	2.0%	70.6
Overall Economy Where Panelists Do Business	56.2%	41.0%	2.9%	76.7	49.5%	47.6%	2.9%	73.3
Panelists' Construction Business	59.4%	34.0%	6.6%	76.4	55.3%	40.8%	3.9%	75.7
Nonresidential Building Construction Market Where Panelists Do Business	58.7%	35.6%	5.8%	76.4	54.9%	40.2%	4.9%	75.0
Backlog in Months	High	Median	Low		High	Median	Low	
Approximate Current Signed Backlog	36.0	10.0	2.0		30.0	10.0	3.0	
	Grow faster than last quarter	Stay about same as last quarter	Shrink compared with last quarter		Grow faster than last quarter	Stay about the same as last quarter	Shrink compared to last quarter	
Expected Change in Backlog	50.9%	41.5%	4.5%	71.7	48.0%	41.2%	10.8%	68.6
	Higher than last quarter	Same as last quarter	Lower than last quarter		Higher than last quarter	Same as last quarter	Lower than last quarter	
Cost of Construction Materials	58.1%	41.0%	1.0%	21.4	46.1%	49.0%	4.9%	29.4
Cost of Labor	75.0%	25.0%	0.0%	12.5	74.8%	25.2%	0.0%	12.6
	Improving over last quarter	Same as last quarter	Declining compared with last quarter		Improving over last quarter	Same as last quarter	Declining compared with last quarter	
Productivity	10.5%	81.0%	8.6%	51.0	4.9%	85.4%	9.7%	47.6

NRCI Scores

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HOW TO BECOME AN NRCI PANELIST

If you are an executive for a construction firm in nonresidential building markets and would like to become a panelist for the “FMI Nonresidential Construction Index,” please send your information or questions about this survey to Phil Warner at pwarner@fminet.com. The survey is sent to panelists quarterly and should take approximately 10 minutes to complete. Panelists will receive the full quarterly report free of charge.

CONFIDENTIALITY

All individual responses to this survey will be confidential and shared outside of FMI only in the aggregate.

All names of individuals responding to this survey will remain confidential to FMI.

ABOUT THIS REPORT

The data in this report is presented as a sampling of construction industry executives voluntarily serving as panelists for this survey. The responses are based on their experience and opinions, and the analysis is based on FMI’s interpretation of the aggregate results. All trends are based on a limited series of data that may or may not represent the larger population. We must caution that major decisions should not be made without additional investigation and research of specific geographic and construction market segments.

About FMI

Founded in 1953 by Dr. Emol A. Fails, FMI is the leading management consulting, investment banking[†] and people development firm dedicated exclusively to the engineering and construction industry. FMI professionals serve all sectors of the industry and combine more than 60-plus years of industry context and leading insights to achieve transformational outcomes for our clients. We have subject matter experts in the following practice areas and serve clients throughout the U.S., Canada and internationally:

Management Consulting

- Strategy
- Market Research
- Business Development
- Operations and Project Execution
- Risk Management
- Compensation
- Peer Groups
- Performance Management

Investment Banking[†]

- M&A Representation
- Valuations and Fairness Opinions
- Private Capital Placement
- Ownership Transfer Planning

People Development

- Organizational Leadership Development
- Leadership Training
- Executive Coaching
- Succession Planning
- Training and Talent Development

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