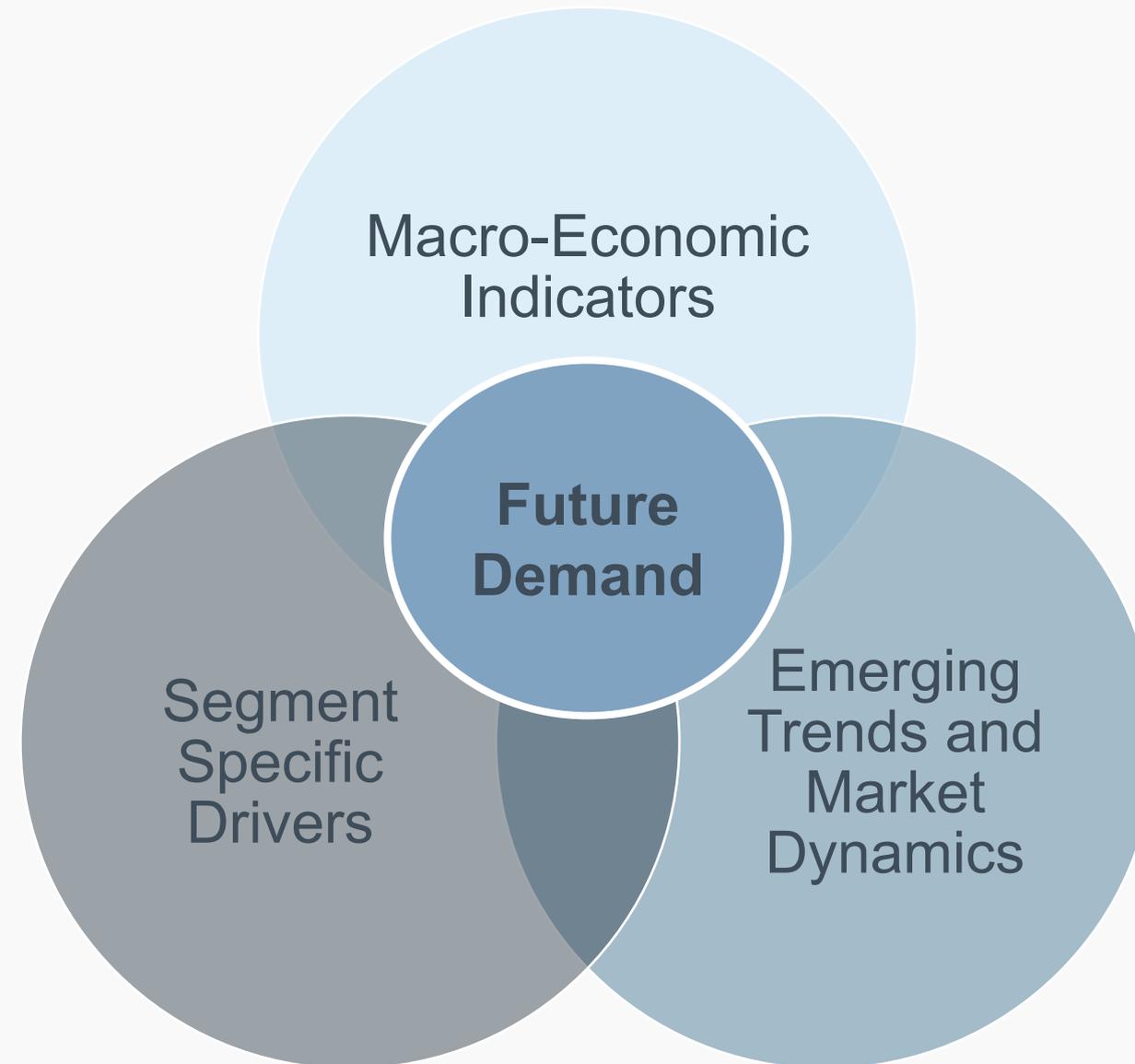




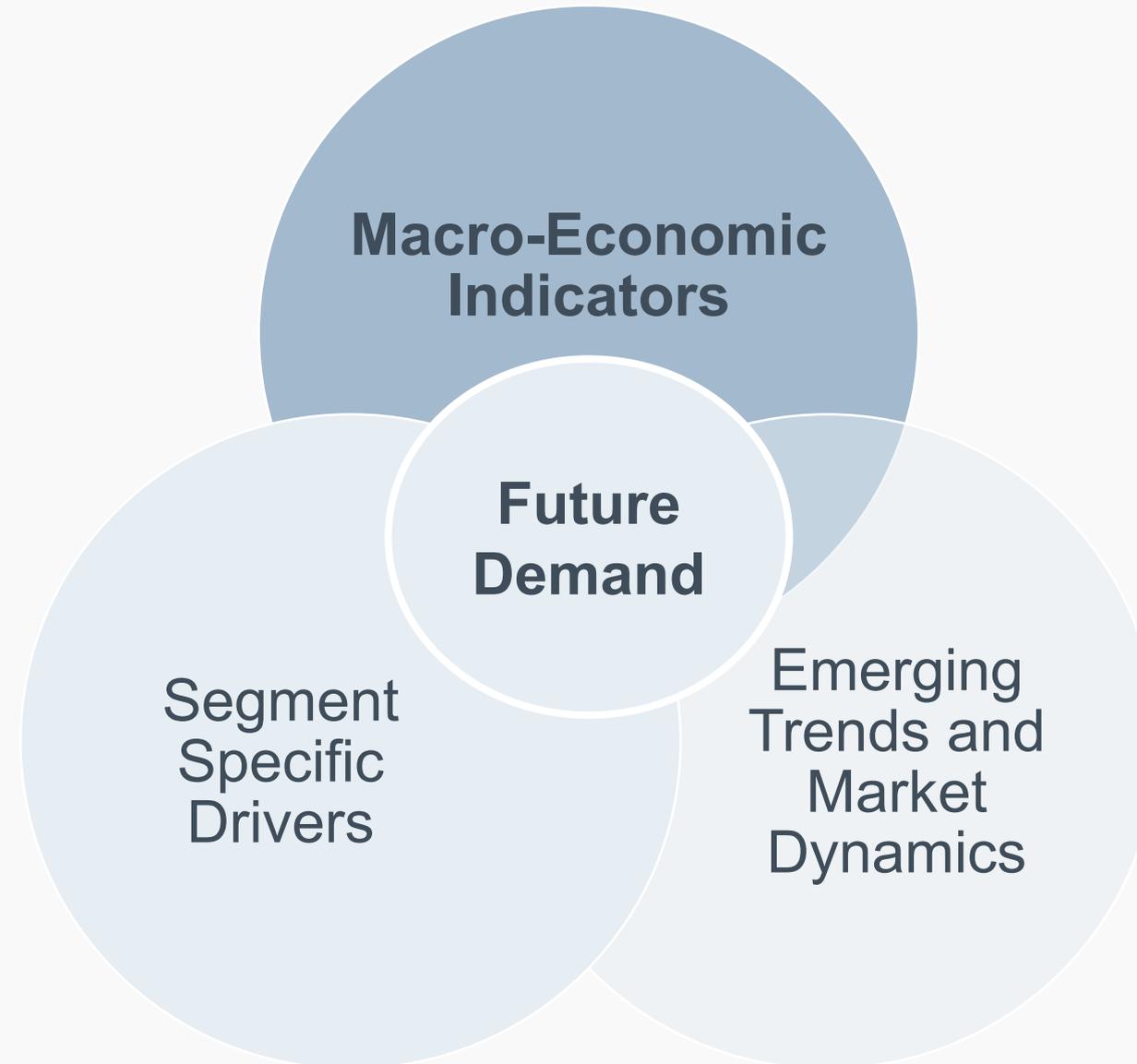
**Construction Economic
Outlook**
Barnes Dennig Luncheon
Q1 2026

Emily Beardall, Principal, FMI

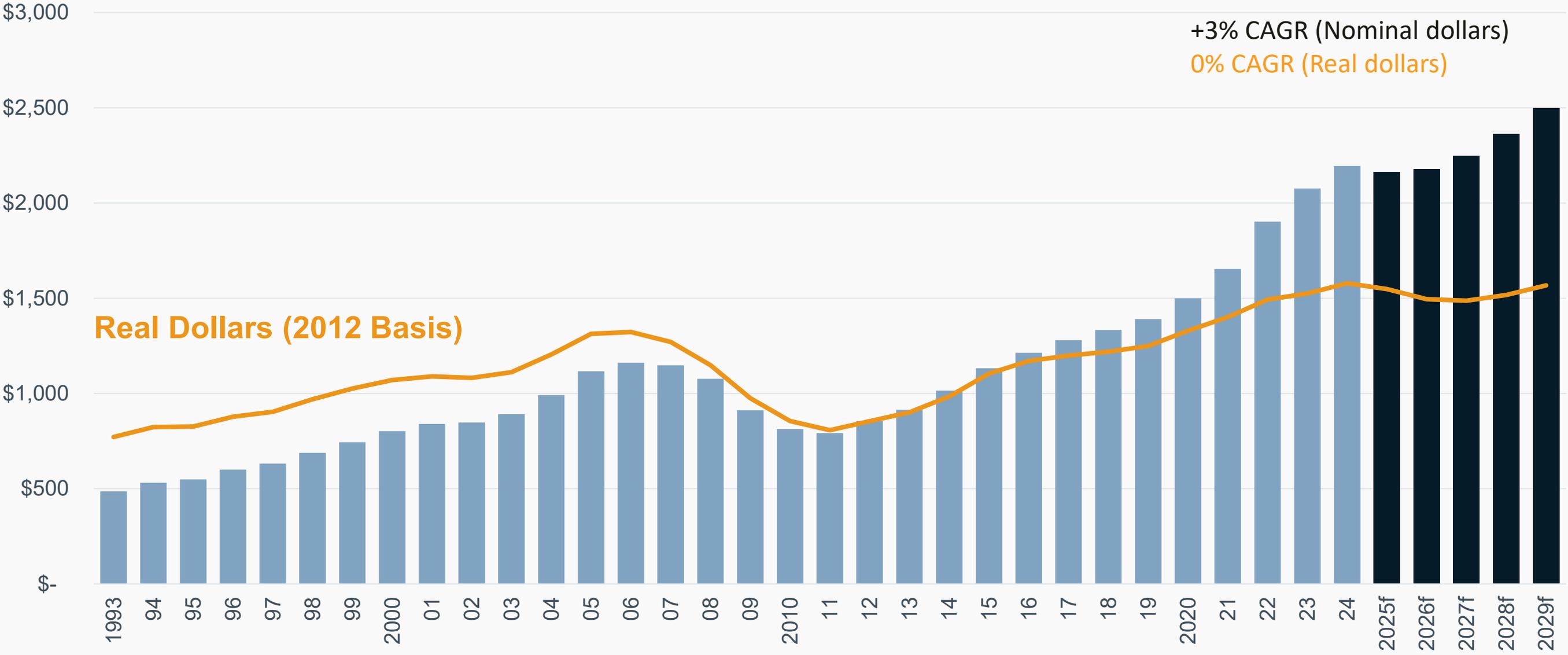
Forecasting Demand: The Power of Convergence



Forecasting Demand: The Power of Convergence

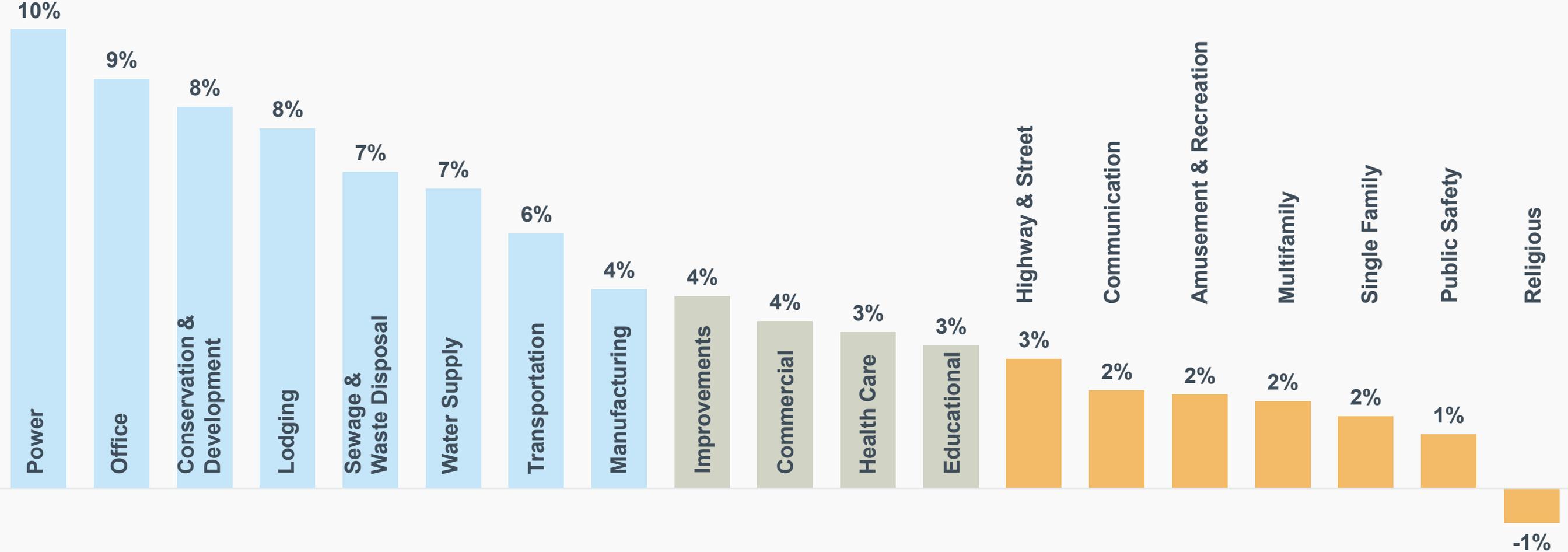


Total Construction Spending (US, \$B)

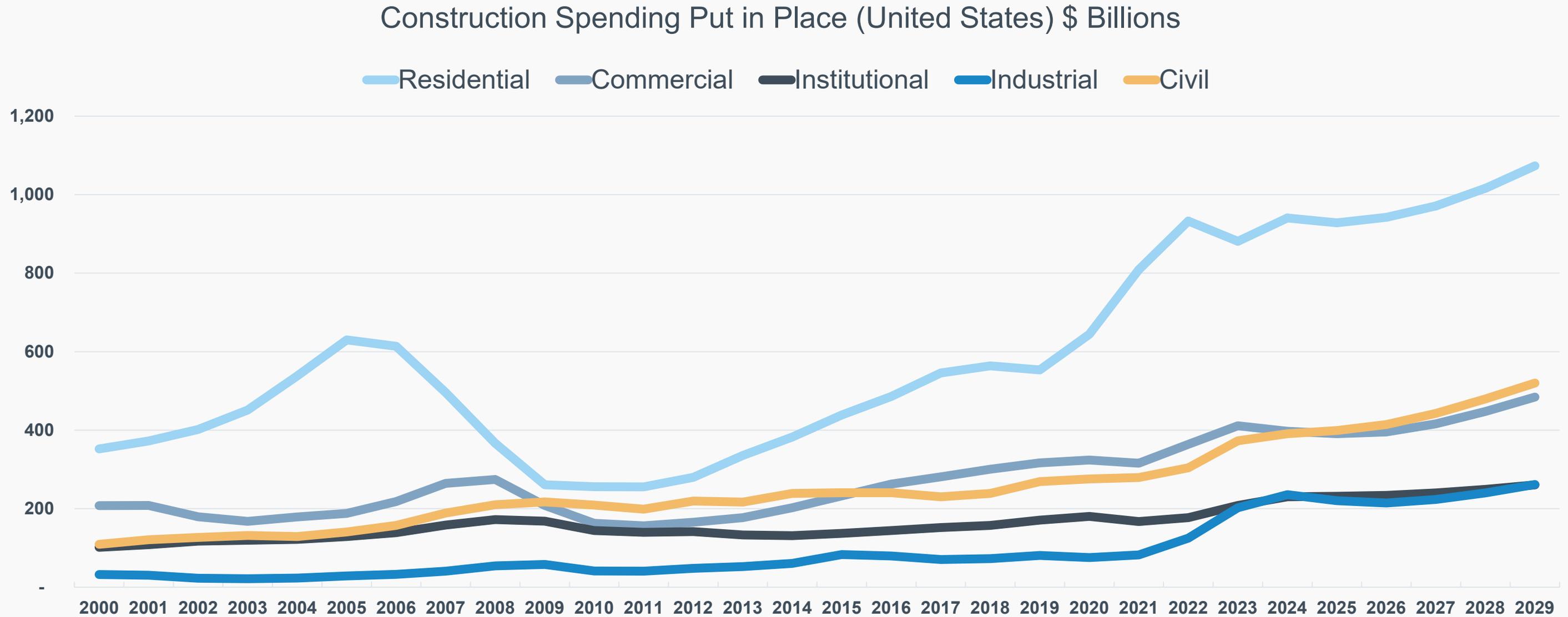


Growth and Contraction Construction Segments

Forecast Compound Annual Growth Rate (CAGR) 2025- 2029

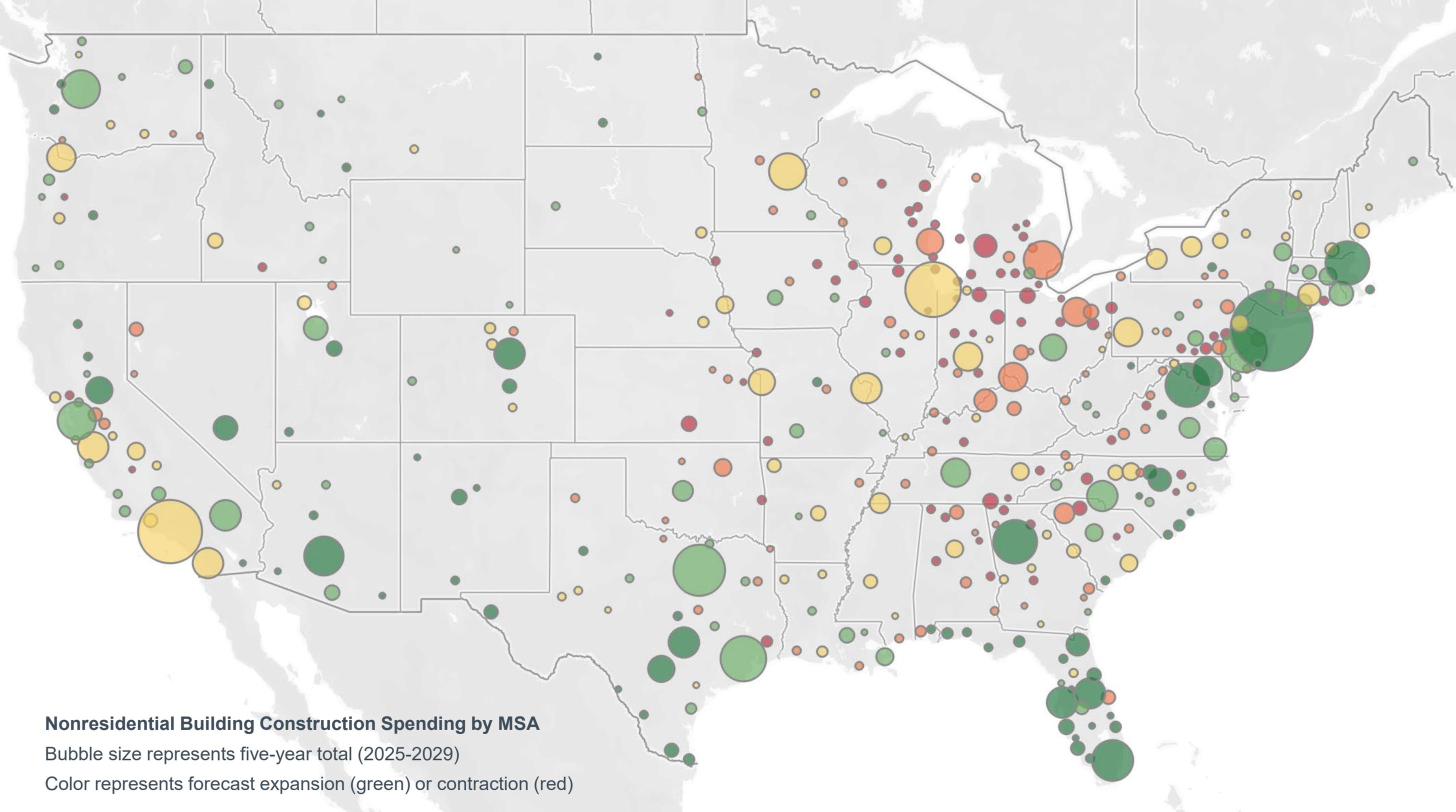


Construction Spending Holds at Historical Highs



Economic Indicators Summary Q4 2025

	Recessions/ Cycles Measured	Correct Predictions	False Positives	Prediction Strength	Warning Timing	Risk Assessment/ Trend
Yield Curve Inversion	6	6	0	100%	<1-3 year	HIGH 
Unemployment Rate	12	11	2	75%	<1-3 year	HIGH 
Residential Construction Employment	4	3	0	75%	<1-2 year	MEDIUM/LOW 
New Home Sales	7	6	1	71%	<1-3 year	MEDIUM/HIGH 
Months Supply of New Homes	8	4	0	50%	<1 year	MEDIUM/HIGH 



Nonresidential Building Construction Spending by MSA

Bubble size represents five-year total (2025-2029)

Color represents forecast expansion (green) or contraction (red)

Sentiment Indices: Gauging Demand and Competition

ABI



NRCI



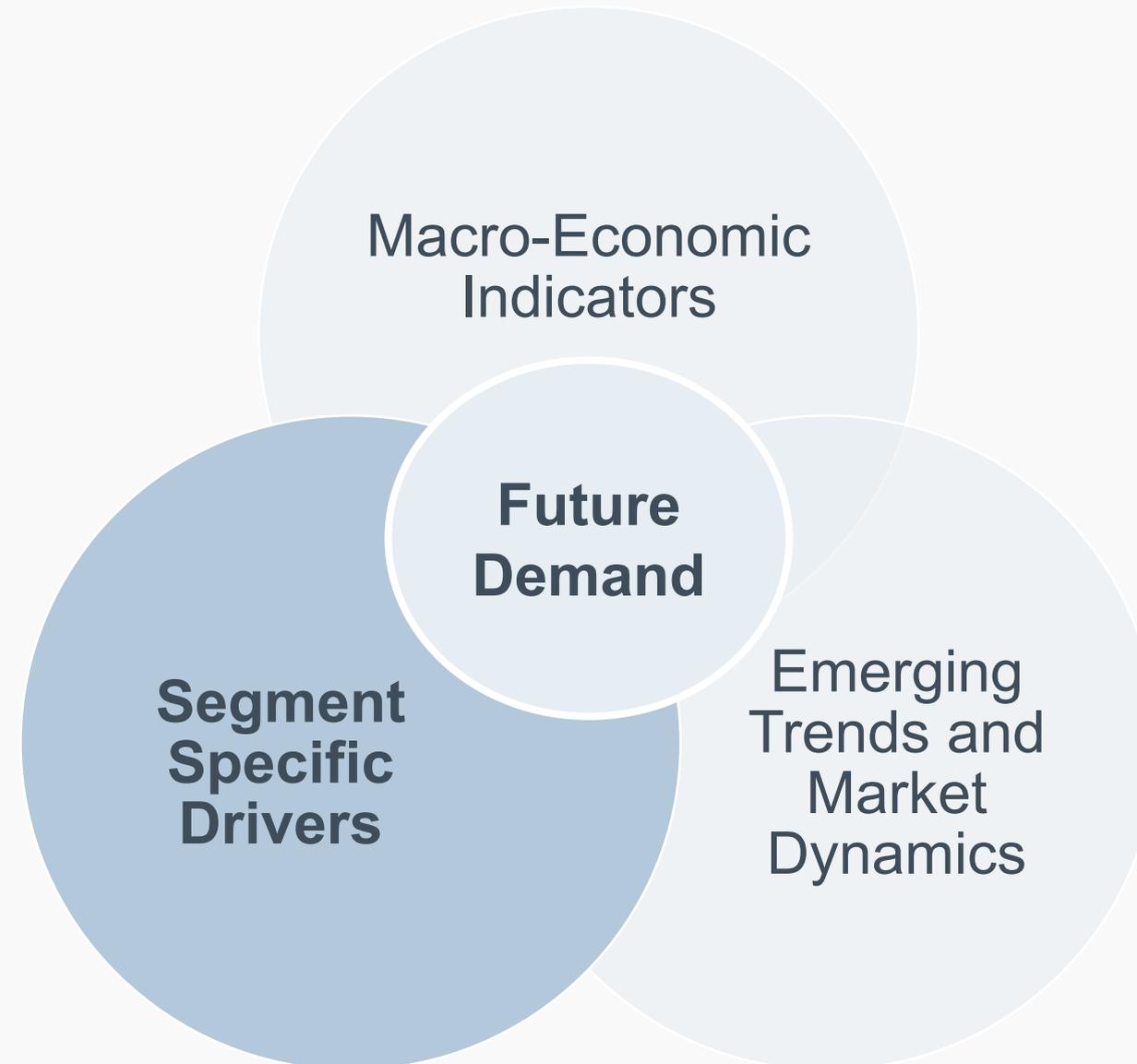
CICI



CIRT



Forecasting Demand: The Power of Convergence



Why We Build



Service

deliver better services

Educational
Health Care
Transportation
Water/Wastewater



Production

increase output & efficiency

Data Centers
Manufacturing
Power
Warehouse

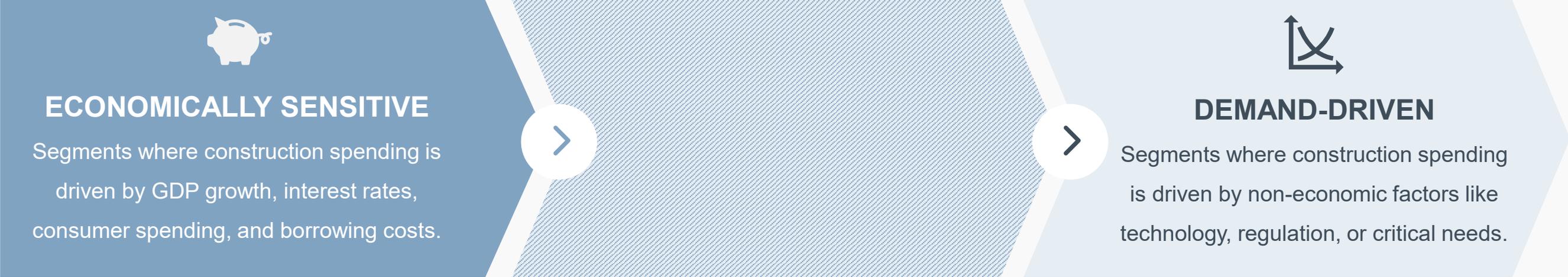


Financial

maximize ROI

Commercial
Highway (Toll)
Multifamily
Office

The Demand Spectrum: Economics vs. External Drivers



**Multifamily
Hospitality**

**Commercial
Office
Amusement &
Recreation**

**Educational
Religious
Manufacturing**

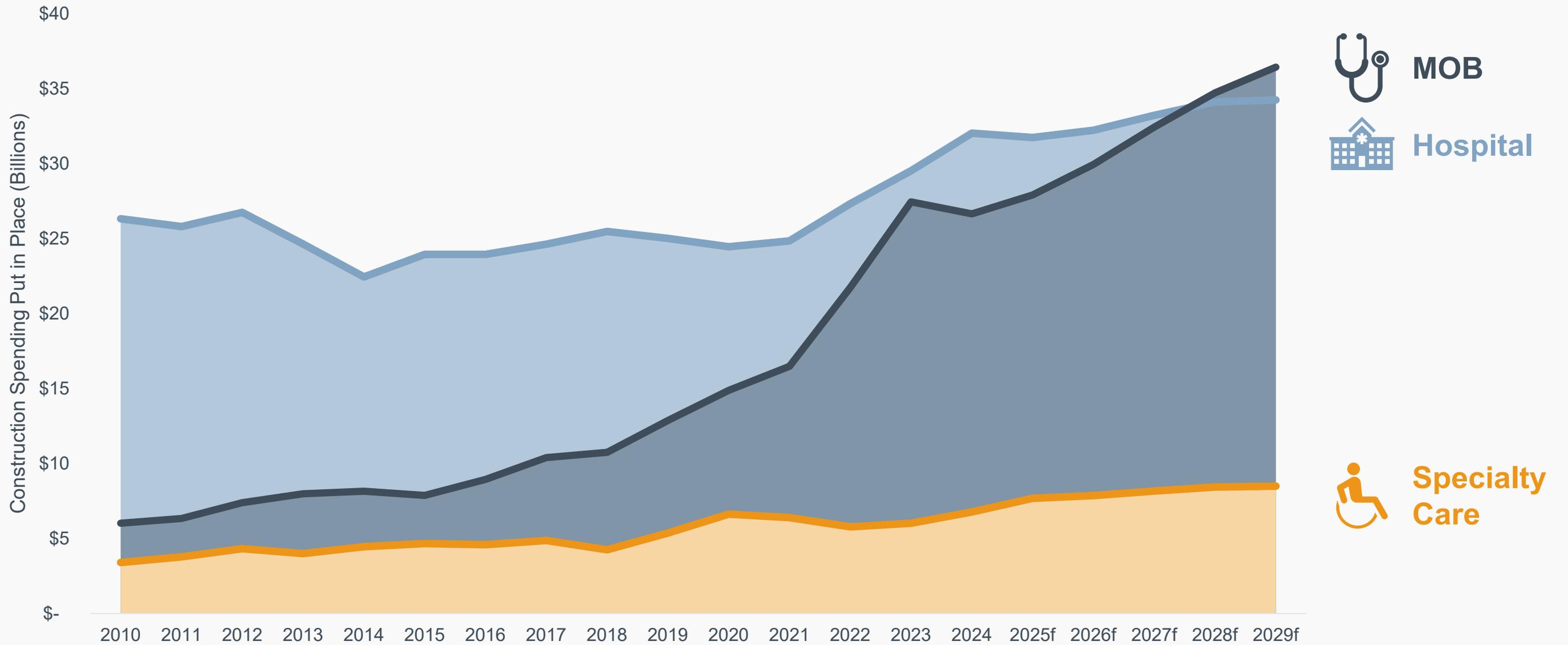
**Health Care
Public Safety
Transportation
Warehouse**

**Communication
Data Centers**

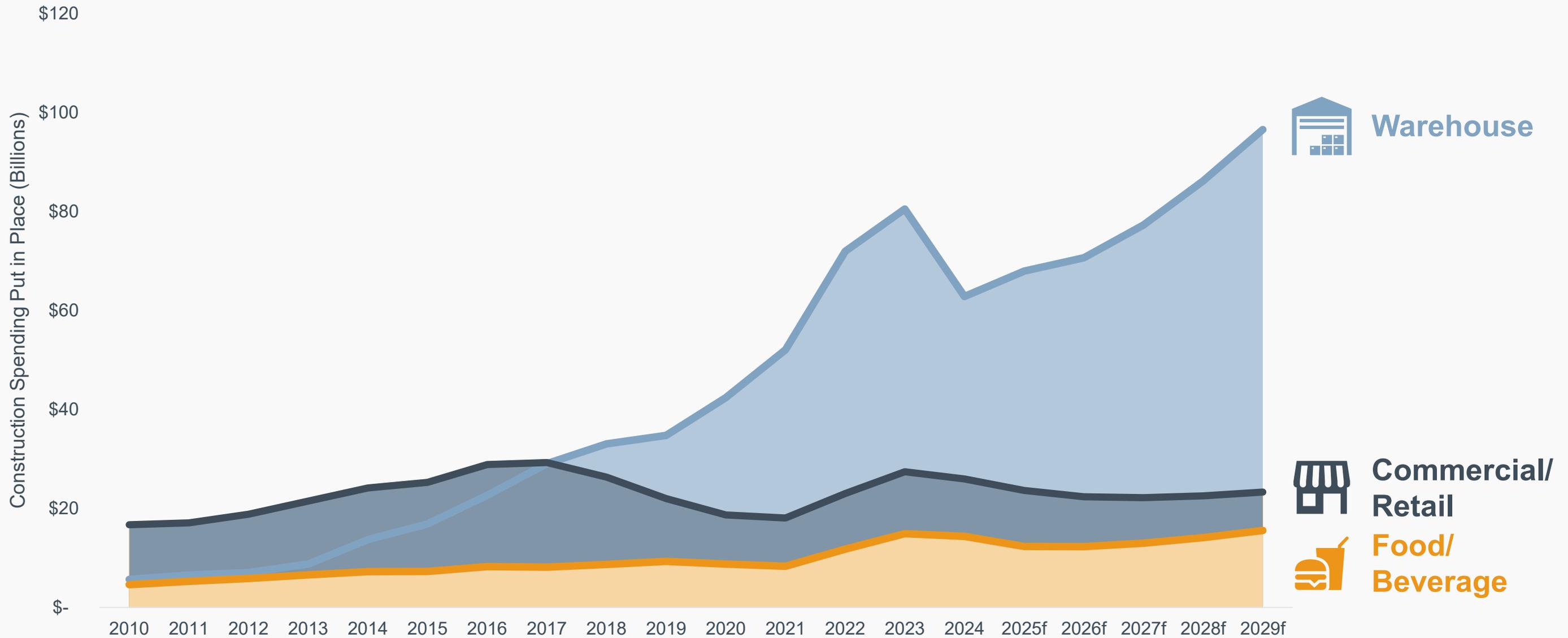
Segment Drivers: The 80/20 Rule of Demand

 <p>Multifamily</p> <ul style="list-style-type: none"> • Vacancy/ Occupancy Rates • Rental Appreciation Rates • Borrowing Costs 	 <p>Hospitality</p> <ul style="list-style-type: none"> • Occupancy Rates • Average Daily Rate • Revenue Per Available Room (RevPAR) 	 <p>Commercial</p> <ul style="list-style-type: none"> • Retail Sales • Retail Vacancy Rates • Consumer Spending • Consumer Confidence Index 	 <p>Office</p> <ul style="list-style-type: none"> • Office Vacancy Rates • Employment in Office-Using Industries • Corporate Profits
 <p>Educational</p> <ul style="list-style-type: none"> • Public Education Budgets (NASBO) • Enrollment Trends (NCES) • Population Growth in School-Age Cohorts • High School Graduation Rates 	 <p>Health Care</p> <ul style="list-style-type: none"> • Health Care Expenditures (as a percent of GDP) • Hospital Occupancy Rates • Population Growth in the 65+ Demographic • Insurance Coverage Expansion 	 <p>Transportation</p> <ul style="list-style-type: none"> • Passenger and Freight Volume (e.g., Enplanements) • Aircraft Operations • Congestion and Commute Times • Cargo Volumes (TEUs) • Vessel Traffic (Ship Calls) 	 <p>Manufacturing</p> <ul style="list-style-type: none"> • Industrial Production Index • Capacity Utilization Rate • CapEx Growth

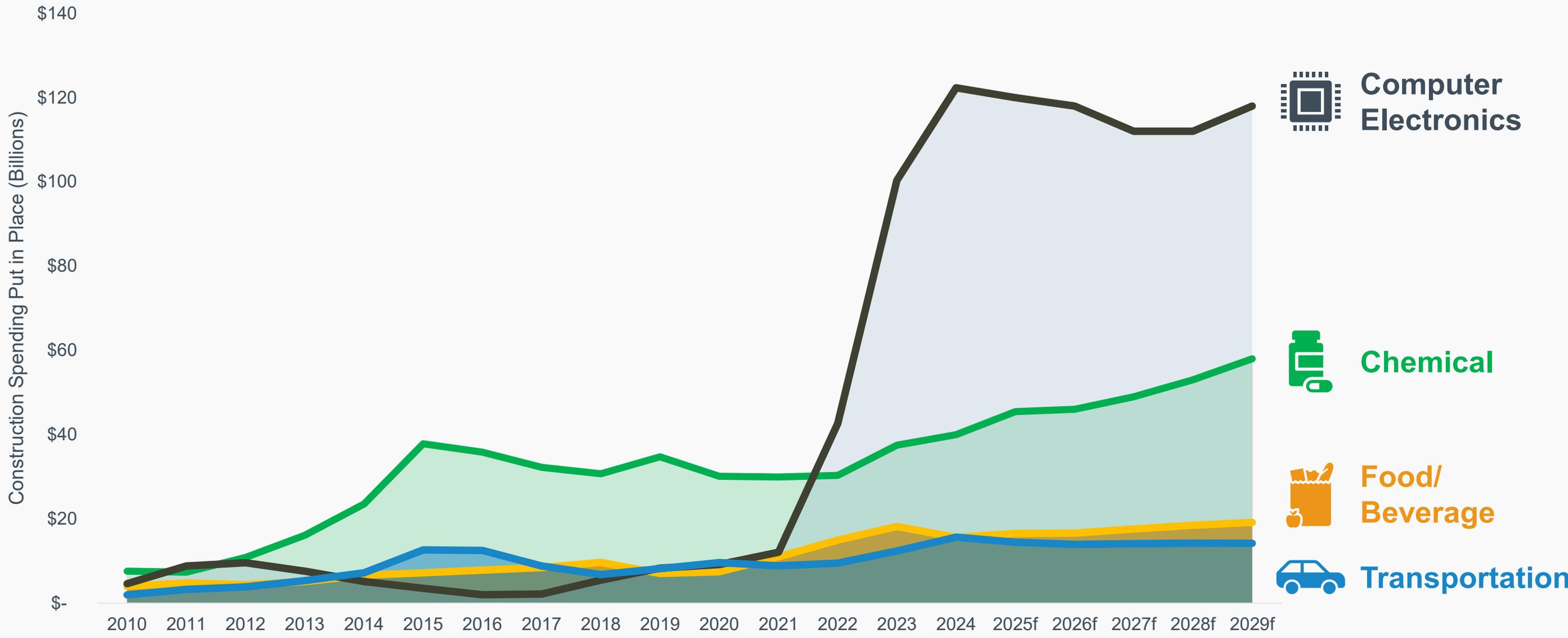
The Evolution of Health Care



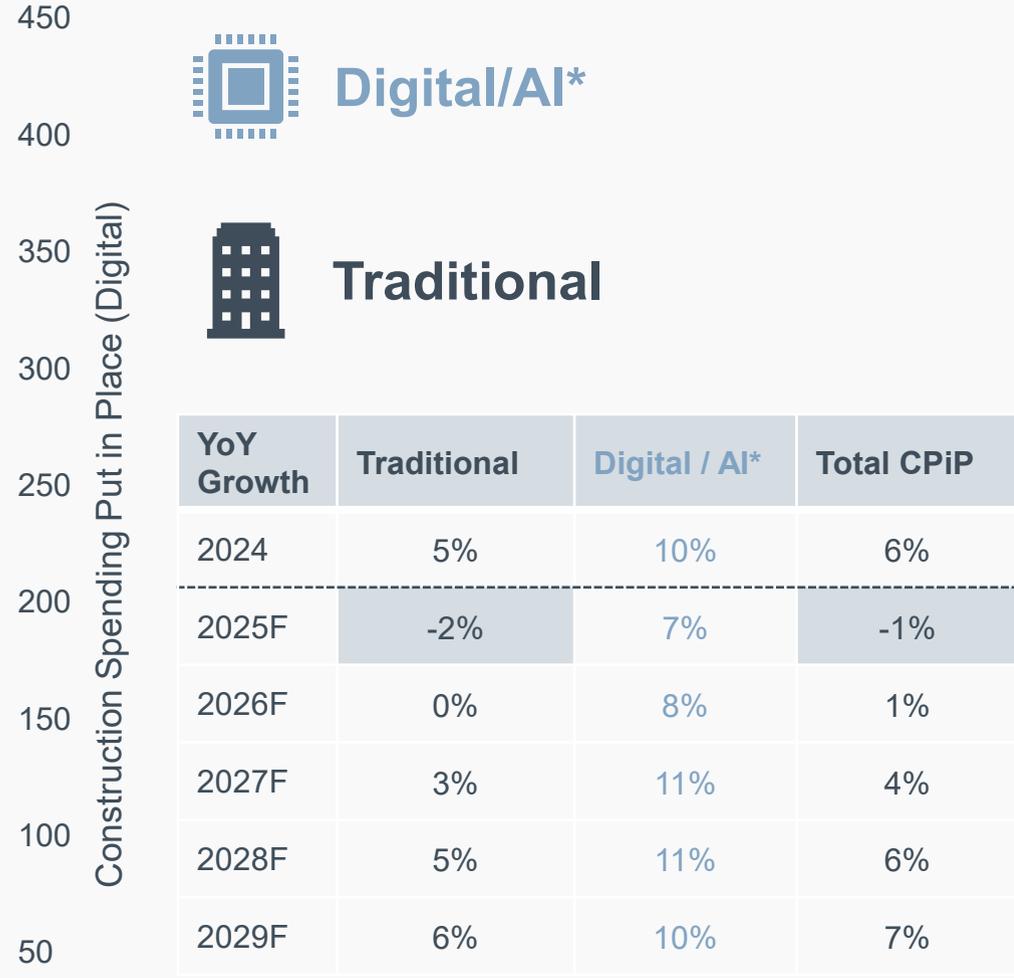
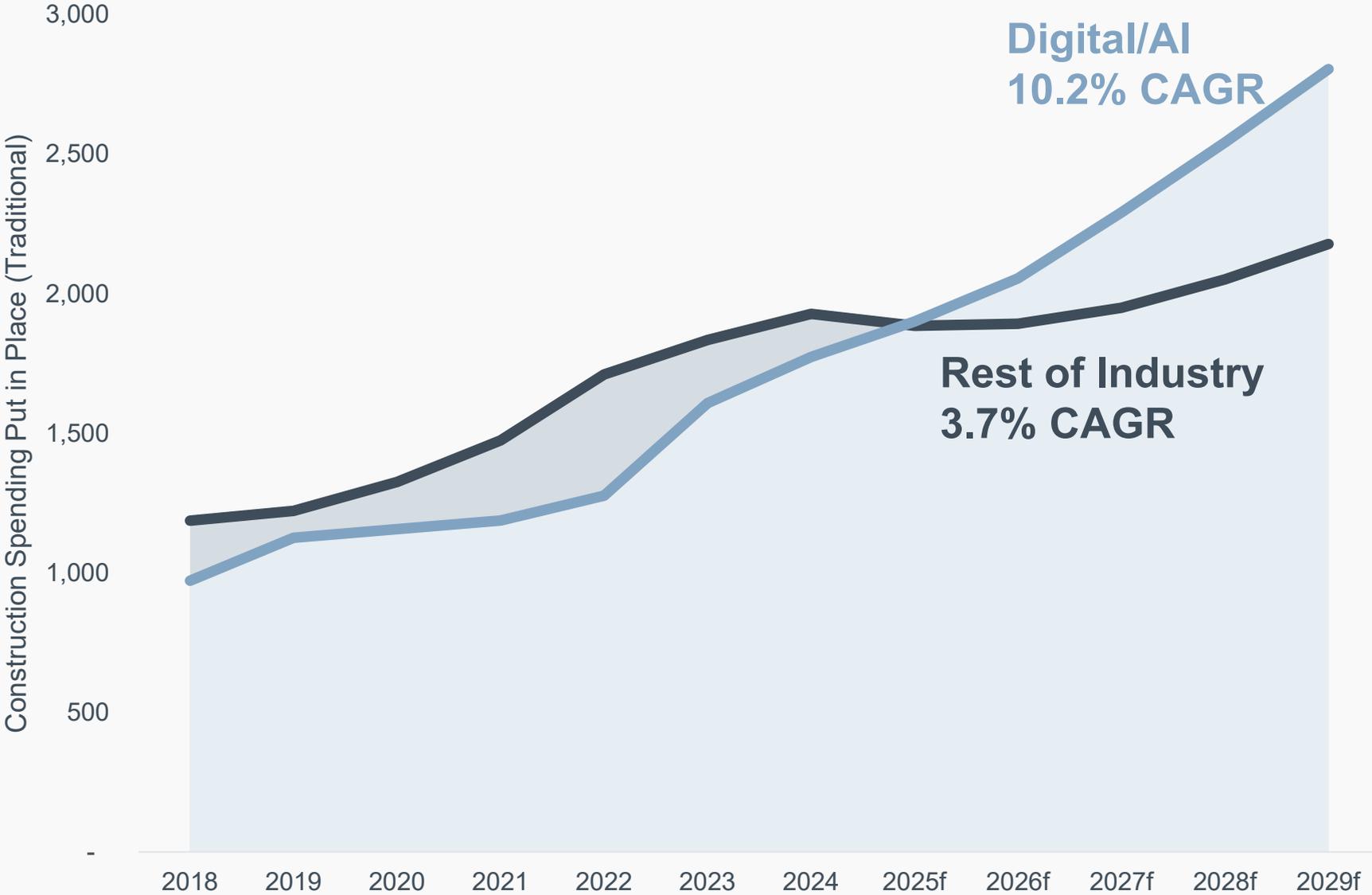
The Evolution of Commercial



The Evolution of Industrial

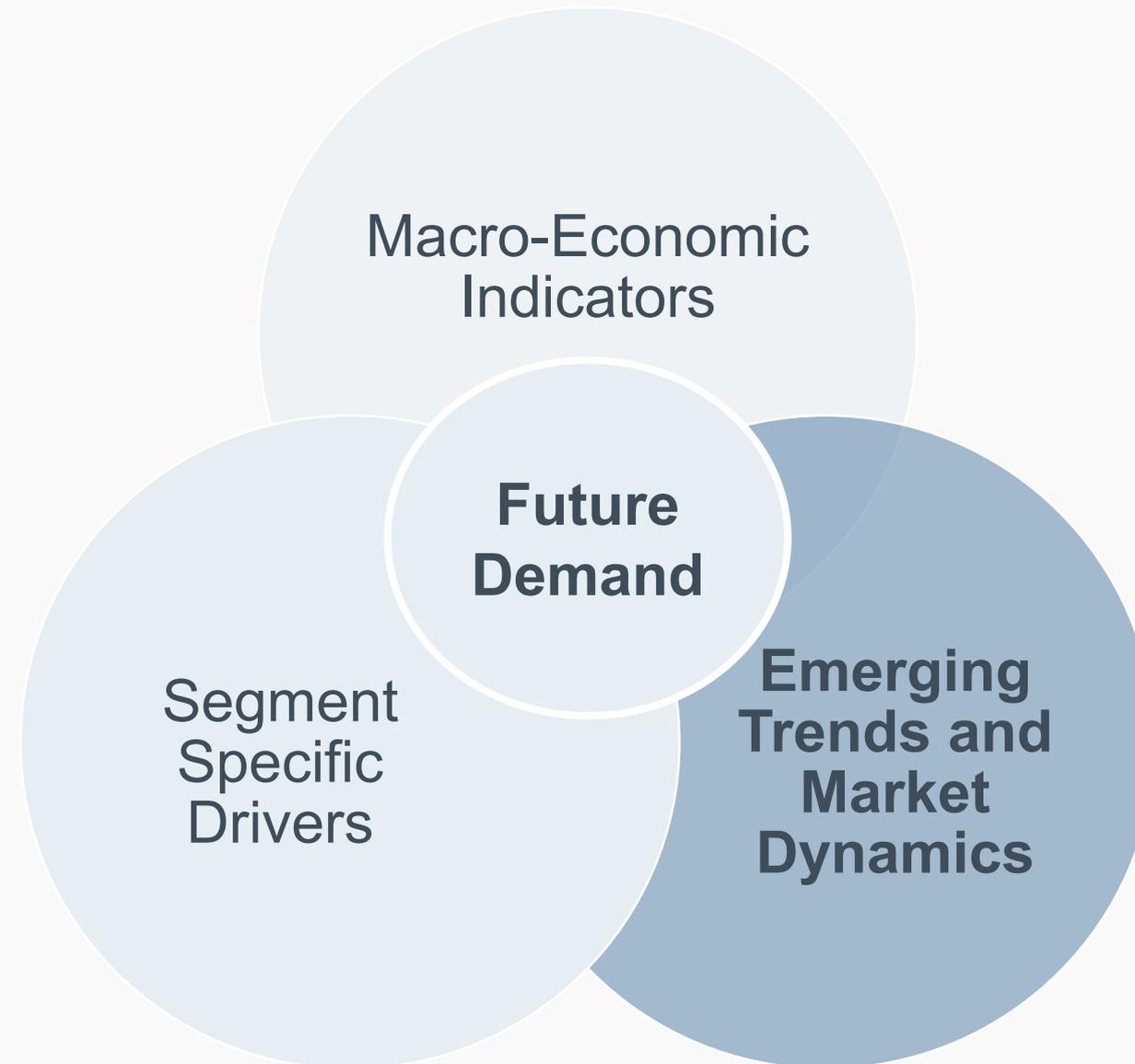


The Emergence of Digital Construction



Note: Digital/AI infrastructure segments include data center, power, water supply, and sewage and waste disposal. Digital/AI segments removed and relocated out of traditional construction for this comparison.

Forecasting Demand: The Power of Convergence



How can you meet your growth goals?



Total Market:
\$9.2B



Addressable Opportunity:
\$2.3B (25%)



Selected Pursuits:
~\$750M (33%)



Win Rate:
40%



Gross Sales:
\$300M



Sales Fall-off:
20%



Secured Work:
\$250M



Backlog Burn Rate:
40%



Annual Revenue Goal:
\$100M

Is the market forecasted to expand or contract?

Do we have the right service mix to maximize our share of the opportunity?

Are we pursuing the best opportunities while minimizing our risk exposure?

Why do we win or lose work, and how do we improve our competitive positioning?

Do we have the right mix of clients, project types, and geographies for sustainable growth?

Are market shifts or client behaviors causing work to slide to the right or get cancelled?

Does our backlog align with our strategic goals and profitability targets?

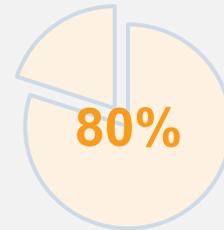
Are we operationally equipped to execute secured work profitably?

Are we effectively billing and managing our books to stay on track of our financial goals?

How can you meet your growth goals?



4% of Construction Put in Place was **lost due to productivity inefficiencies** in 2022

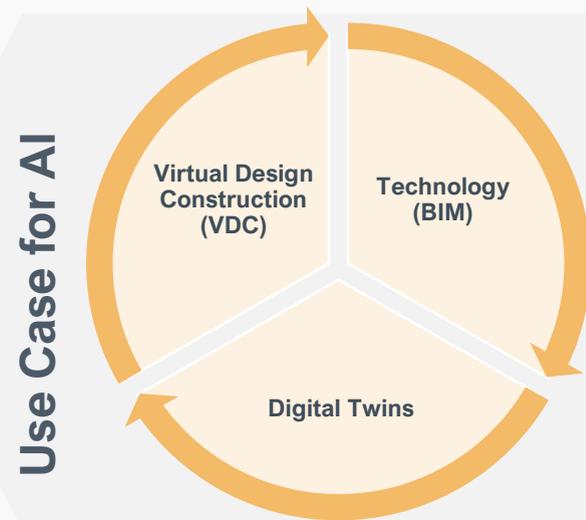


Low-quality design/construction documents are the **highest rated challenge** to construction productivity

Productivity is one of the most influential industry challenges



Engineering Productivity Index
(2015-2023)



3 out 4
Construction industries have productivity growth since 2019

Are Contractors making up for it?



All Private Business Productivity Index
(2015-2023)

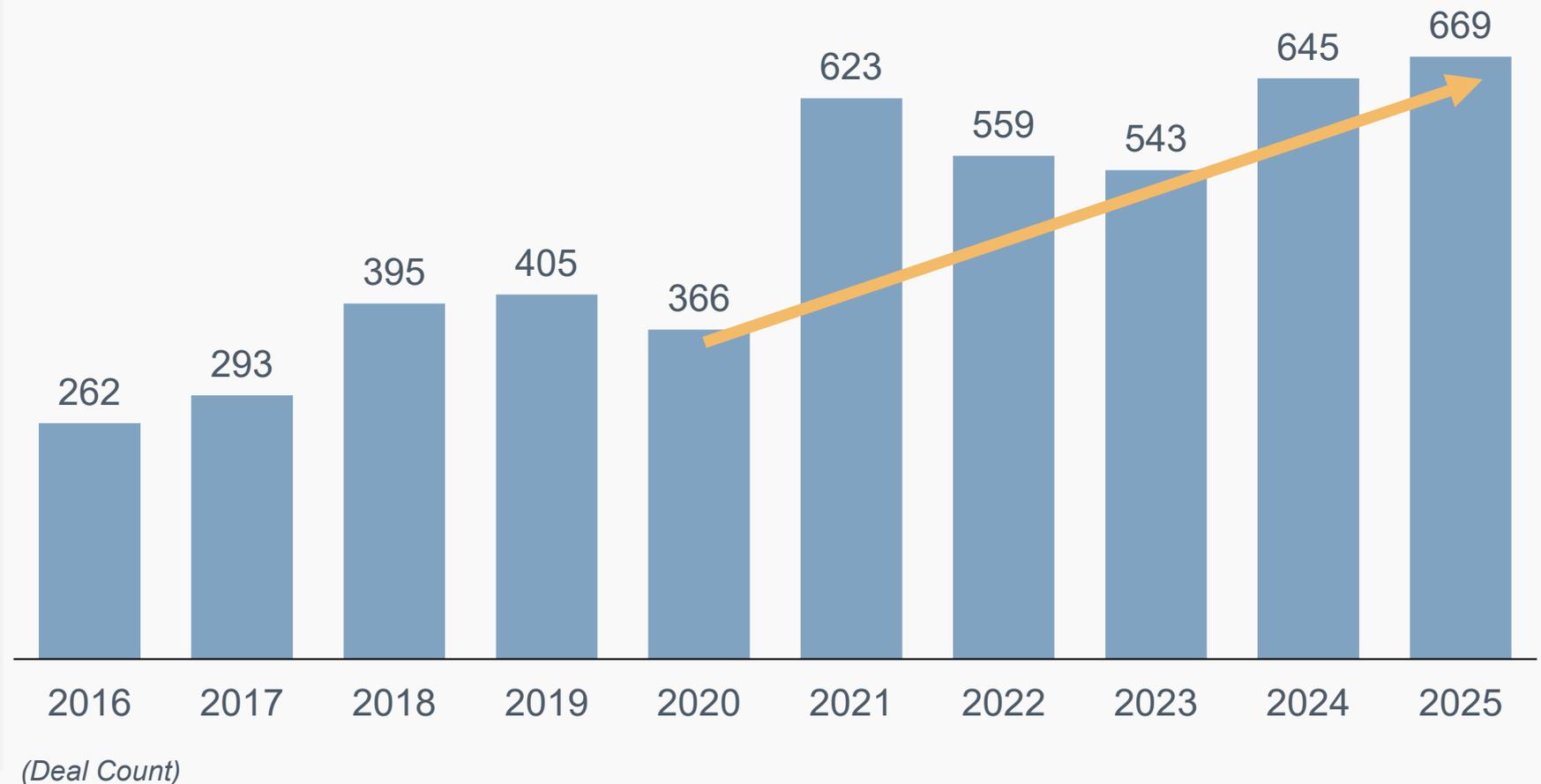
How can you support business continuity?

M&A Market	Internal Options	Employee Stock Ownership Plans
<p>Changing M&A dynamics in construction (buyers, sectors, valuation multiples)</p> <ul style="list-style-type: none"> ▪ Key macro trends drive an increasingly diversified set of buyers <ul style="list-style-type: none"> ▪ Energy transition, infrastructure, AI / data centers, reshoring, etc. ▪ Strategic / financial buyers remain prudent, yet active (specialty contracting, mechanicals / electricals, residential building services, construction materials, and heavy civil) ▪ Increasing buyer activity in GC / CM markets (expansion, self perform capabilities) 	<p>Industry growth and scale pushing valuations higher, creating alternative strategic transaction needs.</p> <ul style="list-style-type: none"> ▪ Increasing “ownership complexity” driven by E&C market expansion, company scale, organizational diversity ▪ Historical ownership largely driven by risk / control – market moving towards broader shareholder basis ▪ Dependent on “ownership philosophy” ▪ Timing challenges given baby boomer demographics vs. lack of adequate leadership capability ▪ Increasing usage of ownership as a “tool” ▪ Growing usage of long-term compensation measures to fund future buy-outs 	<p>Market dynamics driving increased adoption of ESOPs across the E&C landscape</p> <ul style="list-style-type: none"> ▪ Internal option, yet more like a sale / transaction ▪ Able to sell at market value, provides a “buyer”, and immediate liquidity ▪ Strong tax advantages (seller and company) ▪ Provides exit mechanism for family-owned or multi-generational businesses ▪ Improving interest rate environment helping transaction economics ▪ Increasing acceptance and understanding of by bonding community ▪ Increased ability to retain talent

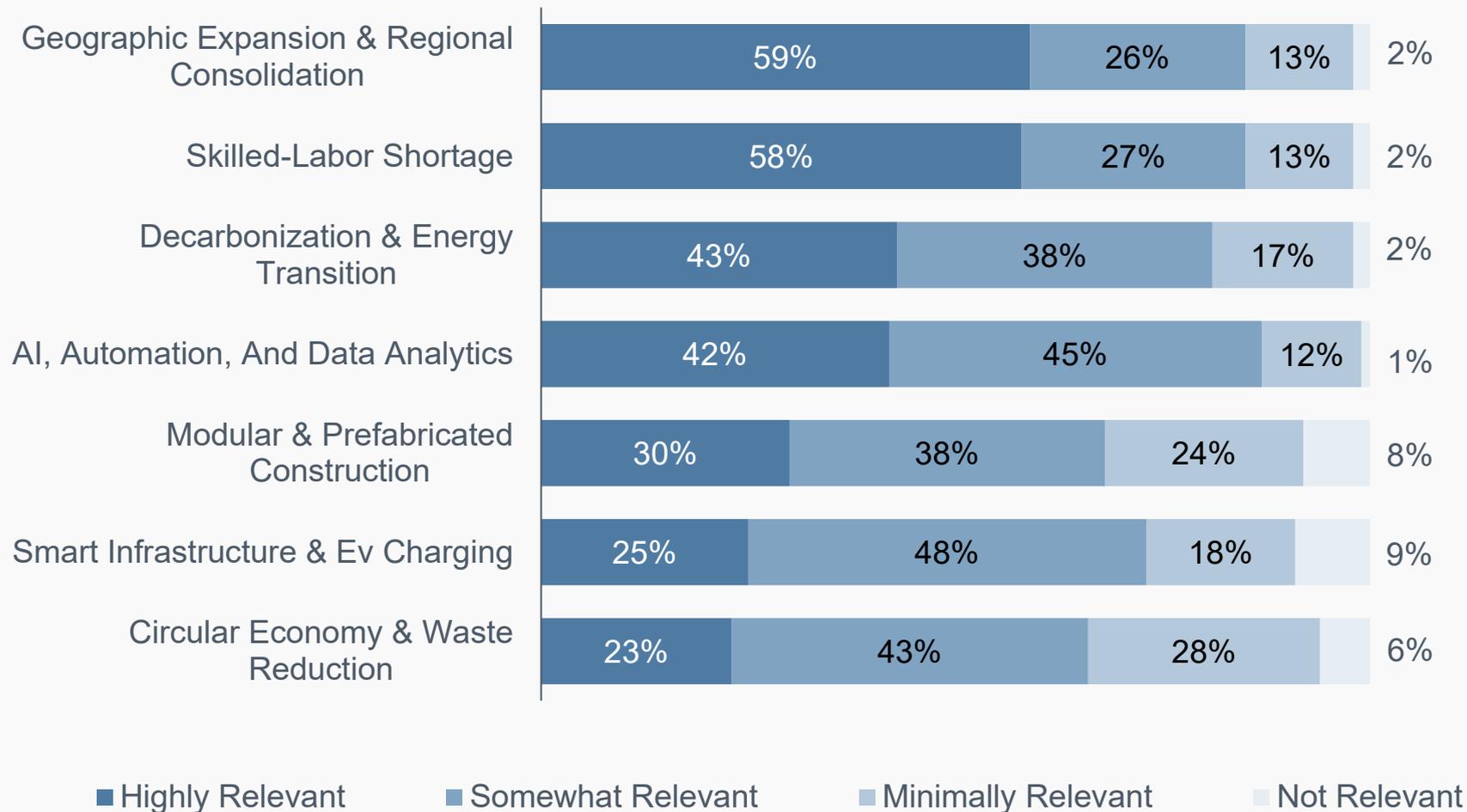
Engineering & Construction M&A Deal Activity

- ▶ 2025 E&C deal activity surpassed 2024 levels, with **669 deals completed, marking the most active market in the last 10 years**
- ▶ The E&C sector **outperformed the overall market in 2025**, with total YoY growth of 28.9%
- ▶ Sector strength has been driven by **large-scale projects, narrowing loan spreads, and a healthy deal pipeline**, despite and macro uncertainty
- ▶ Key Drivers:
 - Infrastructure spending
 - AI / Data centers
 - Trade contractor consolidation
 - GC/CM expansion

**2020 – 2025
83% Increase**



Industry Trends Shaping M&A Over the Next Decade



- ▶ **Geographic expansion (59%) and labor shortages (58%)** will remain the most critical forces driving construction M&A activity over the next decade
- ▶ **Decarbonization (43%) and AI adoption (42%)** are set to become increasingly central to strategic dealmaking as firms adapt to sustainability and technology / data center demands
- ▶ **Megaprojects, housing, and infrastructure growth will sustain long-term M&A momentum**

Survey of 100 C-level executives (CEO, CFO, COO) and senior management (vice president, director) in the engineering and construction industry, focused on M&A strategy and priorities

So What? ... Executive Takeaways

- 1. Position > prediction:** Your market position determines whether the cycle makes the business grow or stagnate
- 2. Chase the asymmetry:** Move toward segments with real tailwinds and away from structural drags
- 3. Build a system that moves early.** The winners aren't lucky—they're simply standing in the right place before everyone else gets there

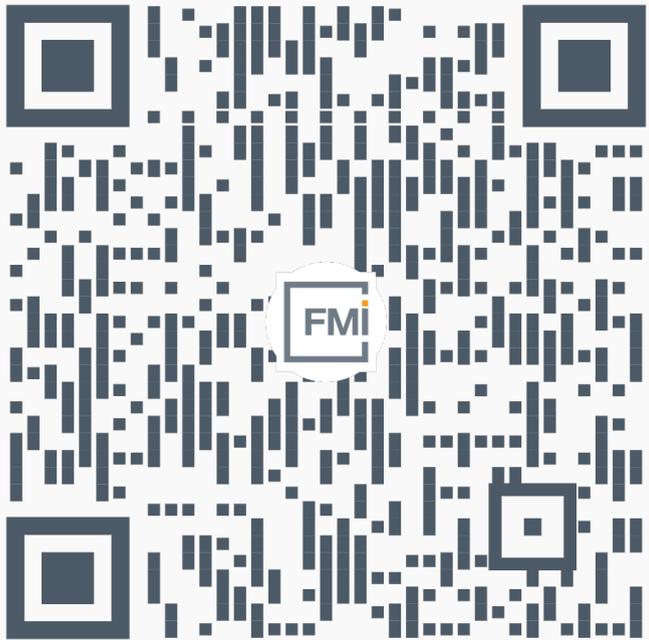
Email me for a copy of the slides:



Emily Beardall

Emily.Beardall@fmicorp.com

984.459.0702





FMI is a leading consulting and investment banking firm dedicated exclusively to the built environment. We serve as the industry's trusted advisor, providing current market insights, deep industry research and key relationships that deliver tangible results for our clients.

Denver

44 Cook Street
Suite 900
Denver, CO 80206
303.377.4740

Houston

1301 McKinney Street
Suite 2000
Houston, TX 77010
713.936.5400

Raleigh (HQ)

223 S. West Street
Suite 1200
Raleigh, NC 27603
919.787.8400

Tampa

4300 W. Cypress Street
Suite 950
Tampa, FL 33607
813.636.1364