Prairie's 2nd Annual Construction Survey

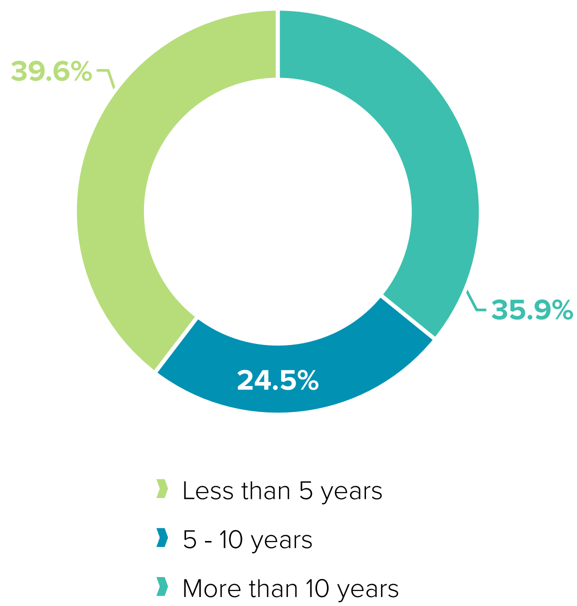
ESOPs: Insights into 2021 and Beyond

Introduction

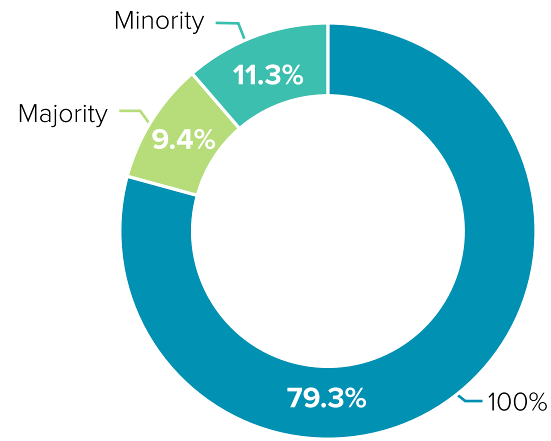
Prairie, a leading advisor on growth and ownership transition strategies, recently surveyed employee-owned construction companies in order to gain insight on recent trends in the construction industry, particularly those affecting firms that have an Employee Stock Ownership Plan ("ESOP"). Prairie is excited to share the results in this *2nd Annual Construction Survey*.

The survey, which was conducted from November 1–19, 2021, found that, overall, employee-owned construction companies experienced growth during 2021, despite the continuation of the COVID-19 pandemic. The survey respondents attributed much of this growth to pent-up demand. At the same time, though, survey respondents indicated that supply chain delays, higher material costs and labor shortages have negatively impacted the industry. Regardless, employee-owned construction firms project that the industry will remain strong in 2022, citing a strong backlog and an infusion of funding from the recent passage of the Infrastructure Investment and Jobs Act ("IIJA") as the main reasons for their optimism. Survey respondents also anticipate that having an ESOP will continue to help drive growth and increase employee retention.

Average Age of ESOP



ESOP Ownership Percentage



Did COVID-19 continue to have an impact on your business in 2021?

77.4% - YES

Is your company an S or C Corp?

92.5% S Corp

Demographics of Survey Respondents

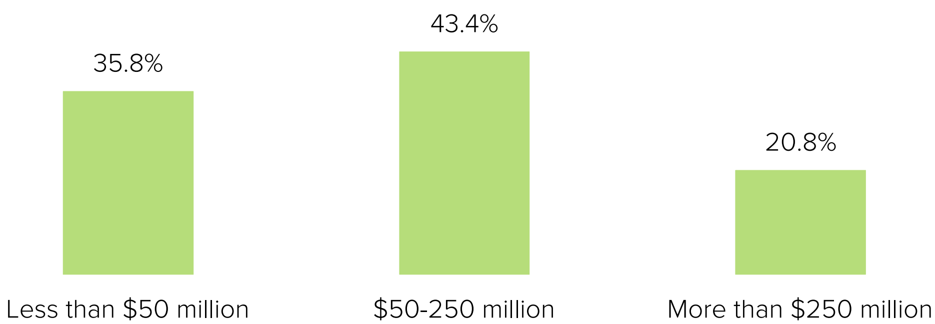
Respondents to Prairie's *2nd Annual Construction Survey* include professionals at employee-owned construction firms of varying demographics, including revenue size, services provided and end markets served.

As previously mentioned, all respondent companies have an ESOP, though the maturity of their ESOP may vary. According to data published by Certified EO on December 2, 2021, there are 854 employee-owned companies in the U.S. construction industry, with 150,514 active ESOP participants. Prairie's survey reflects a representative sample of this larger group. Notably, the construction industry ranks fourth in the list of industries with ESOPs, following manufacturing (1,324 ESOPs); professional, scientific and technical services (1,218); and finance and insurance (894).

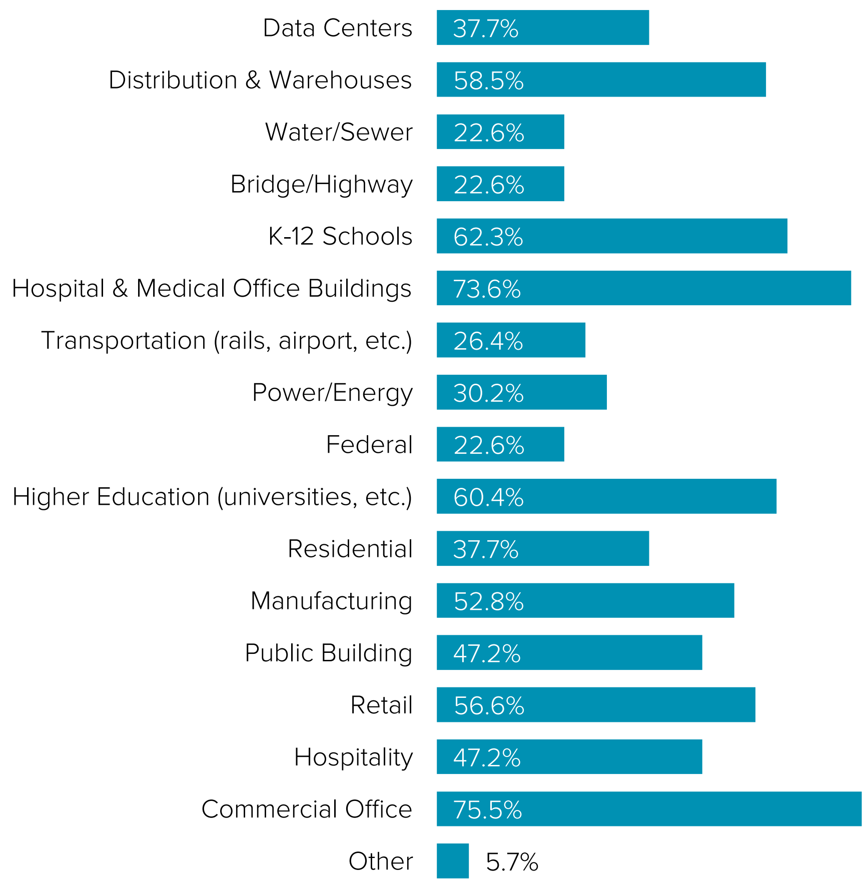
Type of Construction Work

- Building construction (general contractors & operative builders) **32.1%**
- Specialty trade construction **50.9%**
- Heavy construction (other than building construction contractors) **17.0%**

Company Revenue



Which end markets do you serve?



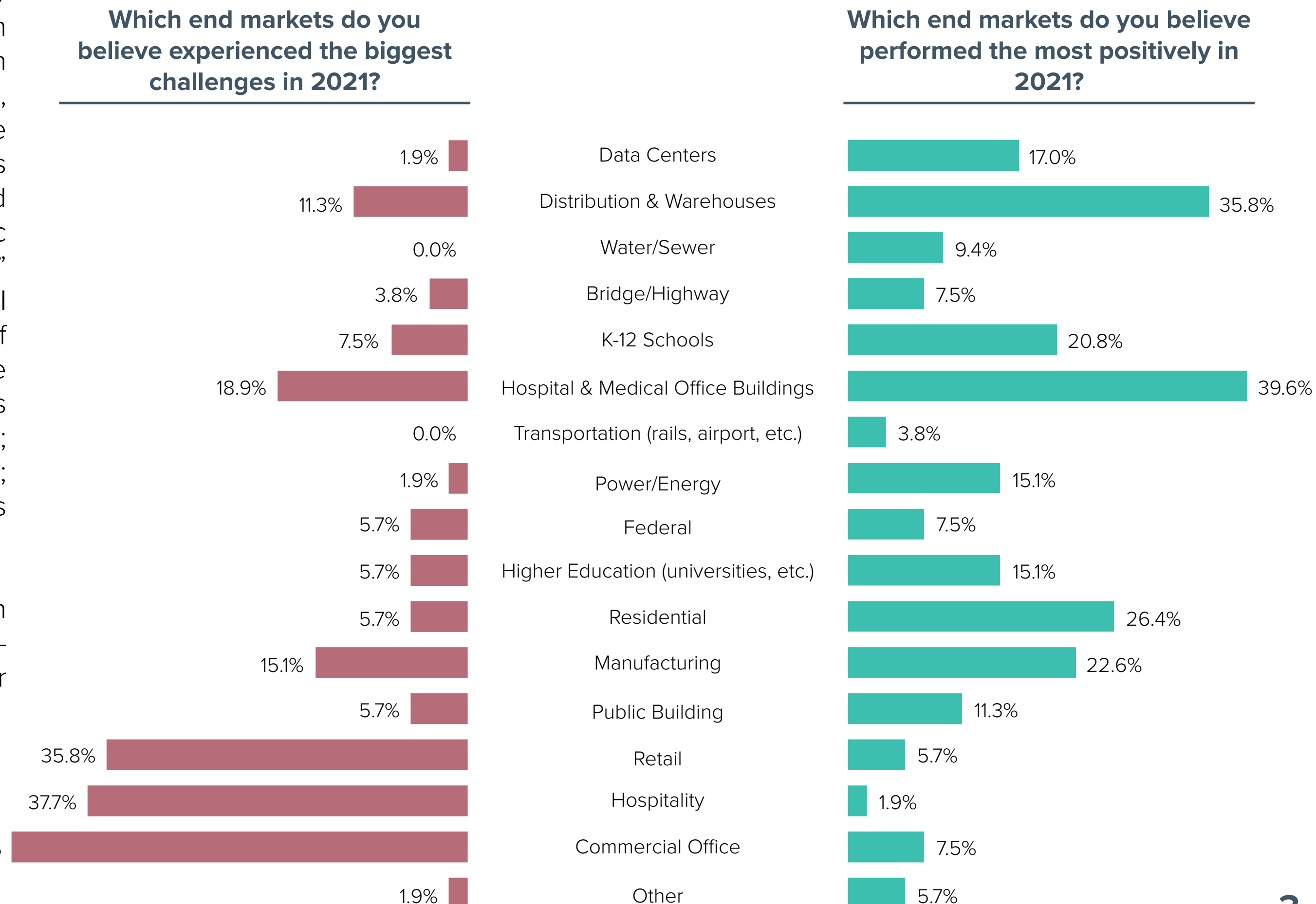
Construction Growth Trends

Prairie's survey respondents indicated that, in general, 2021 was a year of growth for employee-owned construction companies, which is a trend that was seen across the construction sector during the year. According to the most recent information from Dodge Data & Analytics ("Dodge Data"), total construction starts reached a value of $756.4 billion during the first 10 months of 2021, up 13.0% from the first 10 months of 2020, when construction starts totaled $667.4 billion. Much like construction market analysts, respondents to Prairie's survey reported that the end markets that performed the most positively in 2021 include the healthcare, warehouse and residential markets, while the hardest-hit end markets were the office, hospitality and retail markets.

Further, while the Delta variant of the coronavirus hampered growth somewhat during the third quarter of 2021, Dodge Data's Chief Economist Richard Branch reports that economic growth in the construction sector has since resumed. At the same time, though, Branch notes that "significant challenges" face the construction industry, including "high prices, shortages of key materials, and the continued scarcity of skilled labor." Branch says, "While healing from the pandemic continues, there's still a long road back to full recovery." Indeed, a report from the Associated General Contractors of America ("AGC") found that 88.0% of construction firms are experiencing project delays due to a variety of reasons, including longer lead times or shortage of materials (75.0% of construction firms); workforce shortages (61.0%); delivery delays (57.0%); lack of approvals or inspectors (30.0%) and owners halting or redesigning projects (30.0%).

On the following pages, we dive deeper into both positive trends—strong backlog and access to capital—as well as challenges—the supply chain and the labor shortage.

End-Market Performance in 2021



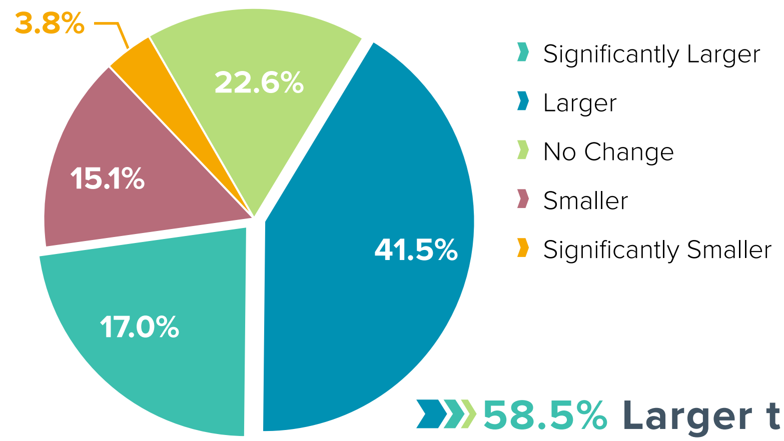
Backlog and Profitability

Prairie's *2nd Annual Construction Survey* found that 58.5% of employee-owned construction companies had a larger backlog in 2021 than they did in 2020. According to Associated Builders and Contractors ("ABC"), the construction backlog has remained above 7.5 months during 2021, reaching a peak of 8.5 months in June and July 2021. While the construction backlog dropped slightly during the late summer and early fall, ABC's November 2021 "Construction Backlog Indicator" was at 8.4 months, up from 8.1 months in October 2021 and 7.2 months in November 2020. The heavy industrial construction segment had the highest backlog, at 9.9 months in November 2021, with the commercial and institutional backlog at 8.7 months and the infrastructure backlog at 8.6 months. Regionally, the South had the highest backlog in November 2021 at 10.2 months, with the Middle States (8.1 months), West (8.0) and Northeast (7.7) regions also seeing high levels.

Meanwhile, Prairie's survey respondents had a mixed response when commenting on profitability. Indeed, 45.3% of respondents said that profitability decreased in 2021 as compared to 2020. Of those who reported a decline, most cited labor and material costs as the main factors. One respondent noted, "Material escalation has really hurt," while another reported that their company was impacted by the "additional hidden costs of health regulations."

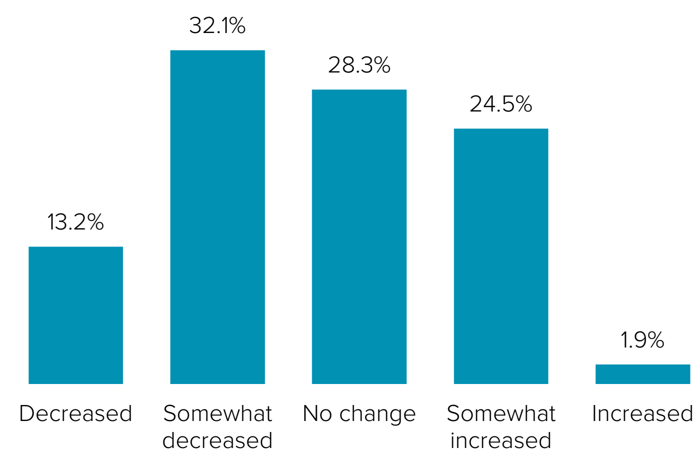
At the same time, other survey respondents indicated that profitability increased for their employee-owned construction firm in 2021. One respondent noted that there is "more work and fewer competitors." Others said that they had increased labor rates during the year, which increased their profitability. Another respondent noted that the Employee Retention Credit aided profit growth in 2021.

How does your backlog compare to your backlog at this time last year?



58.5% Larger than last year

Has your profitability on projects changed in 2021 as compared to 2020?



Capital and Financing in the Construction Industry

The majority of employee-owned construction companies surveyed by Prairie indicated that access to capital was not a major issue in 2021, and they foresee a similar environment for 2022. However, respondents reiterated that both materials costs and commodity prices are starting to impact projects. In addition, one respondent noted that some project owners are having trouble accessing capital, which, in turn, is delaying some projects in the construction pipeline.

One of the major construction funding stories of 2021 involved the federal government's passage of the IIJA, and this funding was top-of-mind for several survey respondents, especially in light of the fact that President Biden signed the IIJA on November 15, 2021, in the midst of the survey. The IIJA will infuse the construction industry with over $1.0 trillion over five years, and ABC's Basu anticipates that the impact of the IIJA will start to be felt during the third and fourth quarters of 2022. In addition to a $303.5 billion five-year surface transportation reauthorization act, the IIJA provides over $215.0 billion in funding for roads, bridges, railways, airports and ports; $73.0 billion to update and expand the power grid; $65.0 billion for broadband infrastructure and $55.0 billion for water infrastructure. As a result, Prairie's survey respondents expressed a positive outlook for infrastructure construction.

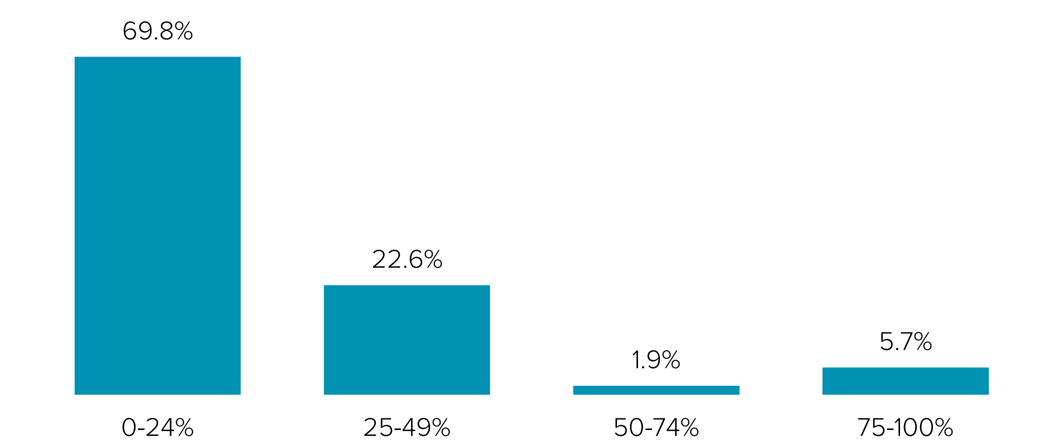
For more information on the IIJA and its potential impacts on the construction industry, see Prairie's recent article "New Federal Infrastructure Funding and Surface Transportation Reauthorization Signed into Law."

84.9% **of respondents did not report an impact on projects due to access to capital**

> **I don't foresee access to capital being a problem at this point.**
> – General Manager of a heavy industrial construction services company

75.5% **of respondents do not believe access to capital will impact their projects in 2022**

What percentage of your projects require bonding?



The Supply Chain and the Construction Industry

Supply chain bottlenecks and surging materials prices presented major challenges for the construction industry in 2021. Indeed, 96.2% of employee-owned construction firms surveyed by Prairie said that their supply chain was impacted in 2021. As a result of the COVID-19 pandemic, construction materials took significantly longer to get to job sites or did not arrive at all. According to the AGC, lead times for bar joists are currently between 11 and 12 months, while lead times for roofing materials range from four to eight months. Moreover, the AGC notes that lead times are “16 weeks to unknown for items as diverse as lockers, glass, structural steel detailing, ductile iron fittings and other pipe material, insulation, aluminum extrusion, signal poles, and airfield lighting.”

Due to supply chain issues and soaring inflation (the November 2021 inflation rate surged 6.8%, the fastest rate since June 1982), materials costs have skyrocketed. The most recent information published by the National Association of Home Builders indicates that building materials prices increased 12.2% during the first 10 months of 2021, compared to 4.5% during the same period in 2020. More specifically, the Producer Price Index for ready-mix concrete increased 4.8% during the first 10 months of the year, with gypsum products up 19.0%, steel products up 116.9% and other building products up 26.3%. Meanwhile, softwood lumber prices reached an all-time high in May 2021 but then dropped more than 30.0% in August 2021. Construction Dive notes that, while lumber prices remain above pre-pandemic levels, they are currently down to “a more manageable level.”

As a result of increasing materials costs, the AGC reports that more than 50.0% of construction firms have had projects canceled, scaled back or postponed. In addition, 93.0% of construction firms surveyed by the association in September 2021 cited rising materials costs as a factor that was undermining their abilities to profit from their work. Moreover, 37.0% of AGC’s respondents said that they have not been successful in passing on those added costs to project owners.

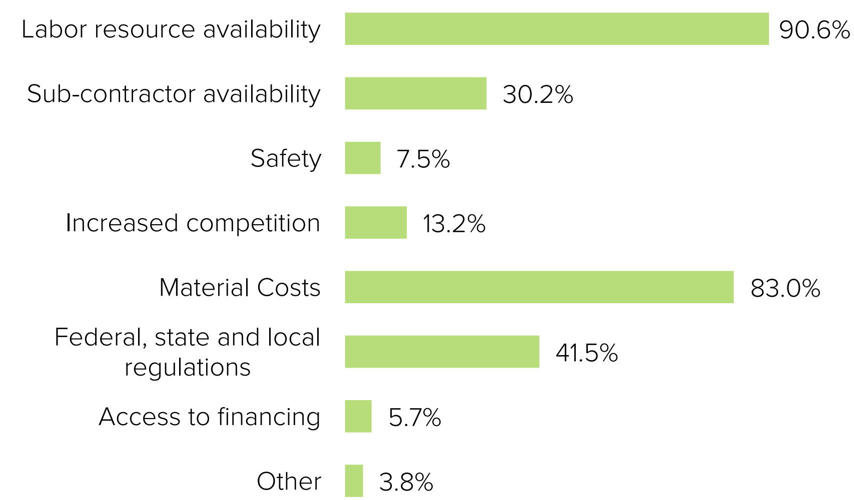
Looking ahead, 83.0% of employee-owned construction firms surveyed by Prairie anticipate that materials costs will be a major operational concern in 2022.

Has your supply chain been impacted in 2021 compared to 2020?

96.2% - YES

> **We are optimistic that 2022 will show stronger growth and profitability assuming the current supply chain issues are resolved.**
>
> – President of a fabricator, distributor and service of construction materials company

What is your biggest operational concern for 2022?



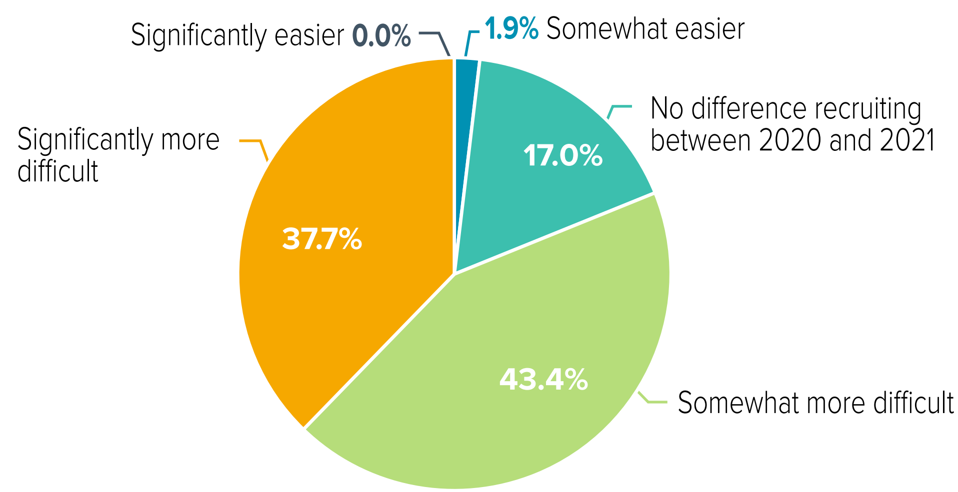
Labor Issues and the Construction Industry

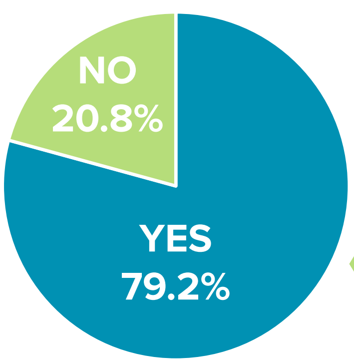
According to the most recent information from the U.S. Bureau of Labor Statistics, the construction industry was still down by approximately 115,000 jobs in November 2021 when compared to before the COVID-19 pandemic in February 2020. Complicating matters during 2021 was the "Great Resignation" trend, whereby workers left their jobs without having another position lined up. The AGC reports that 89.0% of construction firms that are hiring hourly craft positions and 86.0% of firms hiring salaried positions are having difficulties finding people to fill positions.

While the unemployment rate for the construction industry has returned to below 5.0%, ABC's Basu indicates that labor costs will likely continue to increase "at an uncomfortable pace" for the construction industry during 2022.

Looking at employee-owned companies in particular, an overwhelming amount of Prairie's survey respondents indicated that they experienced a labor shortage in 2021 and that the environment for recruiting has been more difficult, particularly for tradespeople and subcontractors. Indeed, 81.1% of employee-owned companies who participated in Prairie's *2nd Annual Construction Survey* reported that it was more challenging to recruit in 2021 than it was in 2020. One major issue has been finding entry-level applicants, and if applicants are found, they want significantly more money than in the past. Going forward, 90.6% of employee-owned construction firms cited labor resource availability as a major operational concern for 2022, and one respondent commented that the labor shortage is "an alarming trend in our industry."

Have you experienced difficulty recruiting skilled labor in 2021 as compared to 2020?





Have you experienced any labor shortages in 2021?

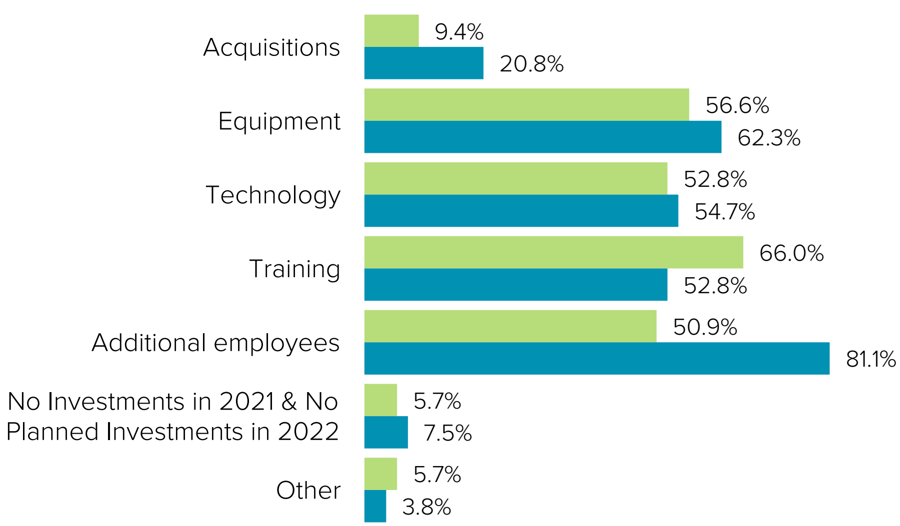
> **"Uncertainty. Vaccination mandates could significantly impact the already challenging availability of labor resources."**
>
> – President of a masonry restoration specialty contracting company

Labor Issues and the Construction Industry, cont.

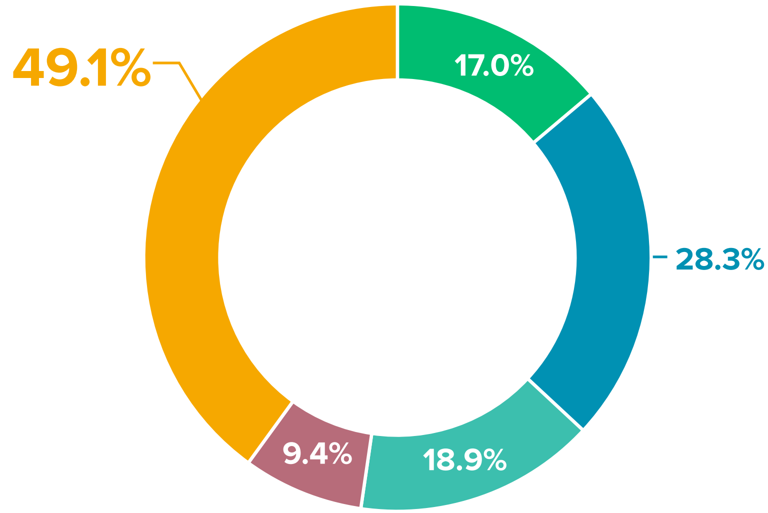
However, Prairie's survey results found that having an ESOP is a positive influence on employee retention in employee-owned construction companies. Several respondents indicated that 2021 was a positive year for their ESOP. One respondent noted that the increase in stock value "sparked people's understanding of the ESOP and what it can mean to them." It comes as no surprise, then, that employee-owned companies are investing in their employees. Indeed, 50.9% of companies surveyed said that they made investments in additional employees during 2021, with 81.1% projecting investments in that area in 2022. Meanwhile, 66.0% of respondents reported investing in training this year, while 52.8% plan to invest in training during 2022.

This trend is reflected in the wider construction industry as well. According to the AGC, 72.0% of construction firms report that candidates for both hourly craft and salaried positions are not qualified for the job. Therefore, approximately one-third of construction firms are increasing spending on professional development and training. In addition, 73.0% have increased pay rates in 2021, and over one-third have provided hiring bonuses or incentives.

What investments did you make in 2021 and are planning to make in 2022?



Areas of ESOP Impacts of 2021



- Clash Flow/Liquidity Concersns
- Culture
- Repurchase Obligation
- Sustainability
- Our ESOP has not been impacted

> **"2021 has been a challenging year but overall positive for our ESOP."**
> – President of an electrical and communications contracting company

> **"The ESOP is helping us get some traction with existing employees and improving retention."**
> – General Manager of a heavy industrial construction services company

Conclusion

Prairie's *2nd Annual Construction Survey* found that the majority of employee-owned construction firms are cautiously optimistic about the industry in 2022. While increasing materials costs and supply chain challenges will continue to be major concerns, and a limited labor force may slow potential growth, most companies stated that they have a strong backlog and positive outlook for the upcoming year.

ABC's Basu notes that the outlook for the construction industry in 2022 is positive, especially in light of the passage of the IIJA. Of course, Basu anticipates that inflation and labor will be major issues facing the industry. Specifically, Basu projects that inflation will remain high during 2022, but the Federal Reserve will likely limit the inflation rate to between 3.0% and 4.0%. If the inflation rate lowers, interest rates rise as expected and the manufacturing and supply chains recover—which many economists anticipate by the second half of 2022—prices on construction materials could fall during the year.

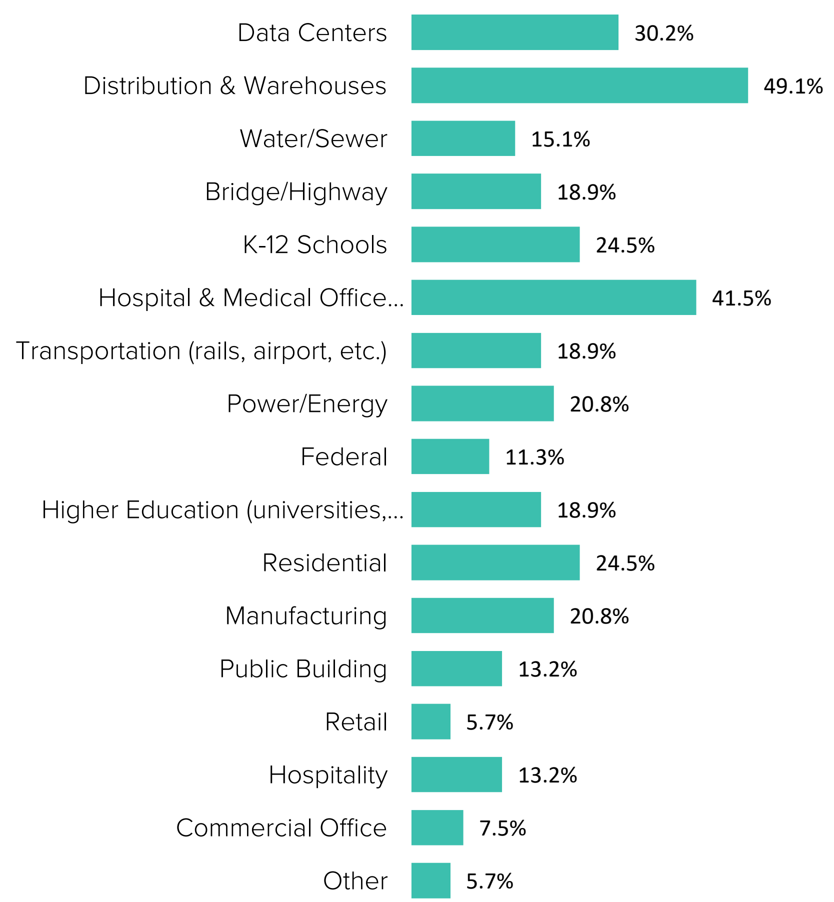
Overall, while the construction industry certainly faces its fair share of challenges, the outlook is positive, especially for firms that have invested in their employees by having an ESOP.

Do you anticipate reducing expenses in 2022?

77.4% - NO

> **We are looking to continue our strong growth. Most of that has been attributed to hiring new leaders to help us reach our maximum potential.**
>
> – CFO of a construction and maintenance of railways and roadways company

Which end markets do you believe have the most positive outlook for 2022?



Survey Data

1 Is your company an S or C Corp?

S Corp	92.5%
C Corp	7.5%

2 ESOP Ownership

100%	79.2%
Majority	9.4%
Minority	11.3%

3 Average Age of ESOP

Less than 5 yrs	39.6%
5 - 10 yrs	24.5%
More than 10 yrs	35.9%

4 Company Revenue

Less than $50mm	35.8%
$50 - 250mm	43.4%
More than $250mm	20.8%

5 Type of Construction Work

Building construction (general contractors & operative builders)	32.1%
Specialty trade construction	50.9%
Heavy construction (other than building construction contractors)	17.0%

6 Did COVID-19 continue to have an impact on your business in 2021?

Yes	77.4%
No	22.6%

7 How does your backlog compare to your backlog at this time last year?

Significantly larger	17.0%
Larger	41.5%
No change	22.6%
Smaller	15.1%
Significantly smaller	3.8%

8 Has access to capital impacted any of your projects this year?

Yes	15.1%
No	84.9%

9 Will access to capital impact any projects in 2022?

Yes	24.5%
No	75.5%

10 Has access to bank financing become more restricted for your company in 2021 as compared to 2020?

Significantly more restricted	1.9%
Somewhat more restricted	13.2%
No change	81.1%
Somewhat less restricted	3.8%
Significantly less restricted	0.0%

11 Have you experienced difficulty recruiting skilled labor in 2021 as compared to 2020?

Significantly easier to recruit in 2021	0.0%
Somewhat easier to recruit in 2021	1.9%
No difference recruiting between 2020 and 2021	17.0%
Somewhat more difficult to recruit in 2021	43.4%
Significantly more difficult to recruit in 2021	37.7%

12 Have you experienced any labor shortages in 2021?

Yes	79.2%
No	20.8%

13 In this time of labor shortages, has your ability to offer employees an ESOP impacted employee retention?

Significant positive impact	7.5%
Somewhat positive impact	56.6%
No change	35.9%
Somewhat negative impact	0.0%
Significant negative impact	0.0%

14 Has your supply chain been impacted in 2021 compared to 2020?

Yes	96.2%
No	3.8%

15 Has your profitability on projects changed in 2021 as compared to 2020?

Increased	1.9%
Somewhat increased	24.5%
No change	28.3%
Somewhat decreased	32.1%
Decreased	13.2%

16 How has your ESOP been impacted in 2021? In the current environment, what areas of your ESOP have been impacted the most? Check all that apply.

Cash Flow/Liquidity Concerns	17.0%
Culture	28.3%
Repurchase Obligation	18.9%
Sustainability	9.4%
Our ESOP has not been impacted	49.1%

17 What % of your projects require bonding?

0 - 24%	69.8%
25 - 49%	22.6%
50 - 74%	1.9%
75 - 100%	5.7%

Survey Data, cont.

18 Which end markets do you serve? Check all that apply.

Data Centers	37.7%
Distribution & Warehouses	58.5%
Water/Sewer	22.6%
Bridge/Highway	22.6%
K-12 Schools	62.3%
Hospital & Medical Office Buildings	73.6%
Transportation (rails, airport, etc.)	26.4%
Power/Energy	30.2%
Federal	22.6%
Higher Education (universities, etc.)	60.4%
Residential	37.7%
Manufacturing	52.8%
Public Building	47.2%
Retail	56.6%
Hospitality	47.2%
Commercial Office	75.5%
Other	5.7%

19 Which end markets do you believe performed the most positively in 2021? Check all that apply.

Data Centers	17.0%
Distribution & Warehouses	35.8%
Water/Sewer	9.4%
Bridge/Highway	7.5%
K-12 Schools	20.8%
Hospital & Medical Office Buildings	39.6%
Transportation (rails, airport, etc.)	3.8%
Power/Energy	15.1%
Federal	7.5%
Higher Education (universities, etc.)	15.1%
Residential	26.4%
Manufacturing	22.6%
Public Building	11.3%
Retail	5.7%
Hospitality	1.9%
Commercial Office	7.5%
Other	5.7%

20 Which end markets do you believe experienced the biggest challenges in 2021? Check all that apply.

Data Centers	1.9%
Distribution & Warehouses	11.3%
Water/Sewer	0.0%
Bridge/Highway	3.8%
K-12 Schools	7.5%
Hospital & Medical Office Buildings	18.9%
Transportation (rails, airport, etc.)	0.0%
Power/Energy	1.9%
Federal	5.7%
Higher Education (universities, etc.)	5.7%
Residential	5.7%
Manufacturing	15.1%
Public Building	5.7%
Retail	35.8%
Hospitality	37.7%
Commercial Office	45.3%
Other	1.9%

21 Which end markets do you believe have the most positive outlook for 2022? Check all that apply.

Data Centers	30.2%
Distribution & Warehouses	49.1%
Water/Sewer	15.1%
Bridge/Highway	18.9%
K-12 Schools	24.5%
Hospital & Medical Office Buildings	41.5%
Transportation (rails, airport, etc.)	18.9%
Power/Energy	20.8%
Federal	11.3%
Higher Education (universities, etc.)	18.9%
Residential	24.5%
Manufacturing	20.8%
Public Building	13.2%
Retail	5.7%
Hospitality	13.2%
Commercial Office	7.5%
Other	5.7%

Survey Data, cont.

22 What is your biggest operational concern for 2022? Choose up to three.

Labor resource availability	90.6%
Sub-contractor availability	30.2%
Safety	7.5%
Increased competition	13.2%
Material costs	83.0%
Federal, state and local regulations	41.5%
Access to financing	5.7%
Other	3.8%

23 What is your company's outlook for 2022? Please explain.

Open-ended question

24 Did you make any investments in 2021? If so, please select areas of investment.

Acquisitions	9.4%
Equipment	56.6%
Technology	52.8%
Training	66.0%
Additional employees	50.9%
We did not make any investments in 2021	5.7%
Other	5.7%

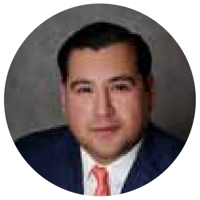
25 Do you plan on making investments in 2022? If so, please select areas of investment.

Acquisitions	20.8%
Equipment	62.3%
Technology	54.7%
Training	52.8%
Additional employees	81.1%
We did not make any investments in 2021	7.5%
Other	3.8%

26 Do you anticipate reducing expenses in 2022?

Yes	22.6%
No	77.4%

Rocky Fiore, Managing Director and COO
630.413.5575
rfiore@prairiecap.com



Franco Silva, Director
312.445.9213
fsilva@prairiecap.com

Prairie Capital Advisors, Inc.

Prairie offers investment banking, ESOP advisory, valuation advisory and financial reporting valuations to support the growth and ownership transition strategies of middle-market companies. Headquartered in Oakbrook Terrace, Illinois, the company is a leading advisor to closely-held companies nationwide.

Securities transactions are effected and offered through Prairie Capital Markets, LLC ("Prairie"), member FINRA/SIPC. PRAIRIE and Prairie Capital Advisors are service marks registered with the U.S. Patent & Trademark Office. This document is prepared by Prairie and is for informational purposes only. It is not intended as an offer or solicitation with respect to the sale or purchase of a security. Prairie shall not be liable for damages resulting from the use of or reliance upon the information presented herein.

DISCLAIMER

Prairie's Annual Construction Survey ("Survey") was produced for our clients for general information purposes only. All information in the Survey is provided in good faith; however, we make no representation or warranty of any kind, express or implied, regarding the accuracy, validity or reliability of any of the information contained in the Survey. Since each individual client's financial situation is unique, the material in the Survey is not intended to constitute specific legal or valuation advice, nor is it intended to be a substitute for specific legal or valuation advice. Unless we provide express prior written consent, no part of this Survey should be reproduced, distributed or communicated to any third party. We do not accept any liability if this Survey is used for an alternative purpose from which it is intended.