

Pacific Northwest Heavy and Civil Construction Market Update November 2011



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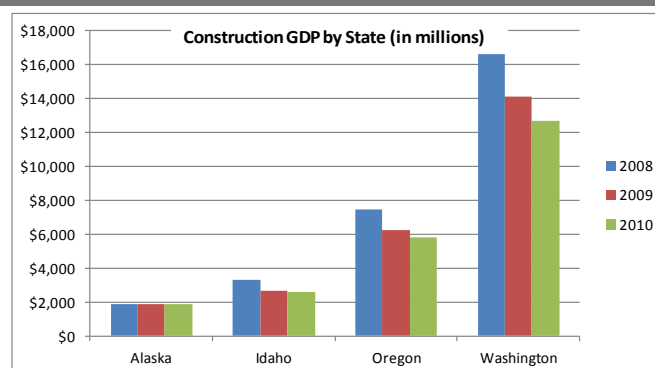
Heavy and Civil Construction Market Update

Contractors today are threatened by unprecedented macroeconomic and industry challenges, including slow recovery from the recession and lower government funding for projects, while executives are under continued pressure to maintain profit margins. This market update is intended to help provide useful information to meet these challenges.

Construction Outlook

The U.S. recession and its slow recovery has hit the domestic construction industry particularly hard, despite fiscal stimulus from the American Recovery and Reinvestment Act of 2009 (ARRA). The poor residential housing market and cautious spending of both corporations and state/local governments have negatively impacted all sectors of the construction industry. For the first eight months of 2011, total construction starts were reported at \$274.8 billion, down 6% from the same period a year ago according to McGraw-Hill Construction. This decrease continues the downward trend of construction spending since 2008 with the industry experiencing declines of 6% and 14% in 2010 and 2009, respectively. Although all construction sectors were affected, nonresidential building led the year-to-date decline at 9%, as office vacancies remain high and lending tight. Surprisingly, the residential sector fell at a rate of 5% year-to-date, even as some analysts called for a sector bottom last year.

In the Pacific Northwest, construction GDP declined 8% from 2009 to 2010—2% more than the overall U.S. market, led by a 10% drop in Washington State. Despite this, there are positive signs of a regional recovery in the multi-family housing market although it is too early to call this a trend. The following chart highlights construction GDP by state for the years 2008, 2009, and 2010, from data provided by the U.S. Bureau of Economic Analysis (BEA).

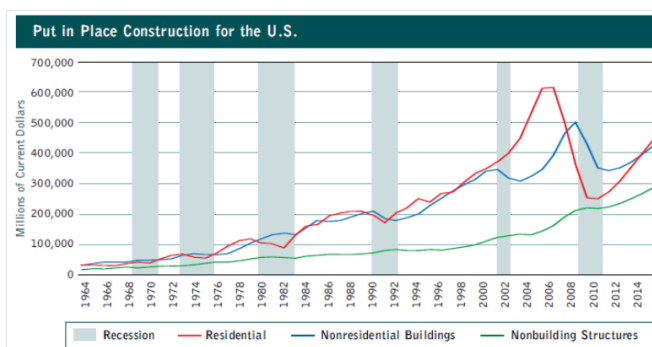


Heavy and Civil Construction Outlook

The heavy and civil construction sector, which consists of infrastructure projects and non-building structures, represents around 35% of the total construction market. Heavy construction is generally the least volatile of the construction sectors due to the steadying influence of year-to-year government spending while the more volatile residential and non-residential construction sectors can be whipsawed by market demands.

According to McGraw-Hill Construction Research, in the year-to-date period ending August 2011, U.S. heavy construction starts were reported at \$94.6 billion, down 4% compared to the same period a year ago. This sector was 2% lower than the overall construction market decline. The result of a 23% retreat in public works projects was offset by a growth of 126% in electric utilities projects. According to FMI's Construction Outlook Report, the U.S. heavy construction segment is expected to grow on average about 6% annually from 2012 to 2014. The chart on the following page highlights the past and estimated construction starts by the three major construction sectors according to FMI's Construction Outlook Report.

Heavy and Civil Construction Market Update



The heavy construction sector is currently impacted by the confluence of contradicting factors of demand and funding. Market demand factors include the growing backlog of mandatory (safety-related) infrastructure projects and increasing government regulations, versus the dependence of these projects on government funding with constrained budgets. Most of the state/local government funding declines have been offset by increases in federal financing, creating a market-neutral government environment. However, given the current federal budget deficit, this neutral trend is unlikely to continue in the short-term unless Congress passes the American Jobs Act (AJA). An example of this challenging government funding environment is the recently passed surface transportation programs (SAFETEA-LU) six month extension. This is the eighth extension of the bill since it first expired in September 2009 and it has been a political fiasco due to a \$12 billion shortfall in spending not supported by the Highway Trust Fund. The inability of politicians to craft a viable solution has resulted in increased uncertainty for contractors serving the transportation market.

Yet the sector's non-public works markets are beginning to see an increase in construction activity. Markets such as electric utilities and oil and gas are being positively impacted by renewable energy projects and shale oil extraction. In addition, most ana-

lysts are bullish on the long term sector outlook assuming the public works markets will recover due to a better public funding environment from either a more robust economy or fiscal stimulus. Some form of fiscal stimulus is expected since the federal government is under pressure to reduce unemployment. The President's recently proposed \$447 billion AJA earmarks \$105 billion for construction spending, with \$50 billion specifically for transportation projects and \$10 billion for financing of public-private partnerships (PPP). The proposed AJA receives 23% of the funds allocated for construction spending compared with just 11% at the time of the ARRA. In theory, this proposed AJA stimulus should have twice the sector impact as the ARRA. If enacted, fiscal stimulus might arrive soon enough to impact both the national and regional heavy construction sectors in 2012.

On a regional basis, infrastructure investment is booming and will dramatically improve the regional heavy construction sector. Regional infrastructure projects that have, or will be awarded contracts include: the \$1.8 billion Brightwater waste treatment project; the \$4.6 billion 520 bridge expansion, where over \$500 million in contracts have already been awarded; the \$4.25 billion Highway 99 corridor project, including \$1.7 billion for the deep-bore tunnel beneath downtown Seattle; and the \$1.9 billion University District light-rail extension.

Heavy and Civil Construction Market Update

Heavy and Civil Construction Diversification Strategies and Trends

Many heavy contractors are successfully navigating challenging market conditions to not only survive but thrive when the markets recover. Sector leaders are striving for predictable financial results by successfully executing diversification strategies either organically or through mergers and acquisitions to achieve balanced growth. Diversification strategies involve one or more of the following business areas: end markets, geographies, services, and/or funding sources.

Heavy construction major end markets can be organized as follows: Transportation (highways, bridges, airports, rail, and transit), Power & Energy (electric, oil, and gas, including renewable sources), Environmental (water, waste water, and remediation), and Telecommunications (wireless, cable, and satellite). Depending on the size and depth of markets served, end market diversification can result in different strategies. For one contractor, a diversification strategy may include entering a new major market through acquisition; to another it might mean organically expanding within a single market but requiring different technical expertise. In order to maintain or improve margins, successful growth strategies must include early identification of target markets to enter either organically or through acquisitions.

Geographical diversification strategies involve expansion from either a regional to national focus or a national to global focus. Most of the global growth has been driven by emerging markets such as the Asian economies of China and India. Whether expanding globally or nationally, geographic diversification should be selected based on key business drivers like future economic growth or population growth and not the distance from headquarters.

Service diversification strategies involve investing in technical skills to move up or down on the project spectrum from design to construction to operate and maintain as well as vertical integration of supply. When executing service diversification it is also important to identify concentration of contract risk between fixed and variable cost contracts as well as establishing recurring revenue through master service agreements. Service diversification strategies often depend on the end markets served by the contractors. For example, vertical integration is common in the transportation end market while master service agreements are most common in the power and energy end markets.

Diversification strategies around funding sources have become much more important given the difficult public funding environment. Today, the most active construction markets are those least dependent on government funding, such as the energy and power markets. Diversifying funding sources can include private versus public mix, federal public versus state/local public mix, or U.S. private versus global private mix. The key to successful funding diversification is creativity and boldness in utilizing the various private-public partnerships (PPP) structures available. Today, PPPs are much more common in foreign markets than in the U.S. However, politicians view increased utilization of these funding structures in the U.S. to be so important that the recently proposed AJA stimulus bill included \$10 billion in financing for such ventures. A good example of funding diversification strategies is the transportation sector, which is heavily dependent on government funding. Today, the sector is using toll financing to fund major portions of transportation projects, including our regional \$4.6 billion 520 bridge expansion and the \$4.25 billion highway 99 corridor project.

Heavy and Civil Construction Market Update

Sector Growth Themes

We anticipate several dominant trends in the heavy civil construction sector:

Business model diversification to achieve balanced growth and stable financial results. We anticipate continued, steady M&A activity in the heavy construction segment as contractors execute diversification strategies to position themselves for significant growth when the economy recovers.

Fiscal stimulus is on the horizon. The pressure on the federal government to decrease unemployment indicates that a fiscal stimulus package will likely be approved in the near future. Based on the AJA proposal, the stimulus should have a positive impact on the heavy construction sector, particularly the transportation and environmental markets. Whether a bill will be approved soon enough to positively impact 2012 remains uncertain.

In the near term, increased construction activity will occur in markets less dependent on government funding. Absent fiscal stimulus, growth markets will be driven by federal regulation and private investment. We anticipate continued growth of construction activity in the electrical generation and transmission markets due to substantial underinvestment in our power grid over the course of the last decade combined with increased demand for renewable energy projects. Currently wind accounts for only 2.4% of America's electric supply, but many experts predict it will generate 20% of the supply by 2030. Renewable energy projects also positively impact transmission construction since the power grids are insufficient to handle this new output, especially in remote areas where the most wind potential is located. In the energy market, domestic shale oil development and Canadian oil

sands production will continue to drive construction activity. These unconventional explorations and productions are in new locations that lack sufficient infrastructure and will drive demand for new pipelines and gathering systems.

Overseas markets, particularly Asia, offer substantial growth opportunities. Emerging markets contribute to over 80% of global economic growth. Asia, specifically China and India, suffers from underdeveloped infrastructure. According to a recent McKinsey Quarterly Report, the Asian region as a whole will need to commit around \$8 trillion to infrastructure projects over the next decade. More than 80% of the demand for infrastructure investment will come from energy and transportation—the sectors most critical to supporting increased economic activity.

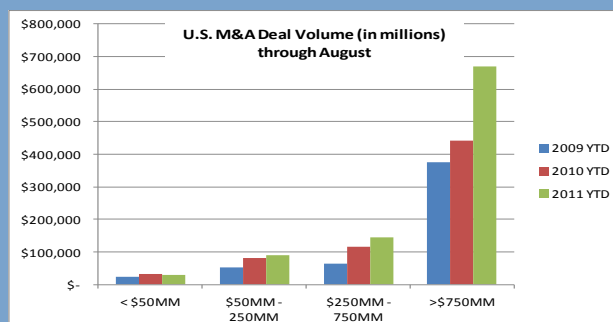
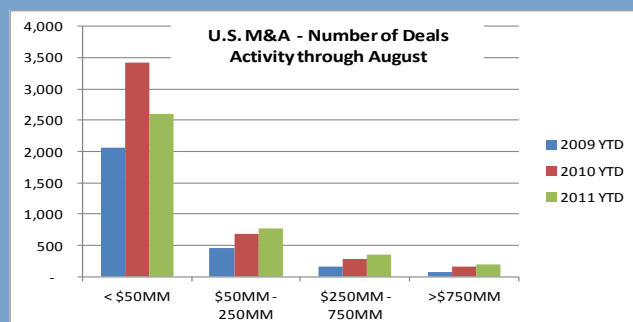
Private Equity

Despite an estimated \$400 billion to \$500 billion in committed, but not yet invested, capital available to private equity groups (PEG's), continued tight credit markets for LBO loans are necessitating historically high equity requirements of around 40% compared with 30% pre-recession. Year-to-date, the number of private equity transactions remained the same as last year but comparable dollar volume increased 30%, reflecting a doubling of transactions taking public companies private. PEG's investment in the construction sector remains unchanged from 2010 representing 2.5% of all PEG deal activity. This low PEG deal activity in the construction sector reflects the challenges of leveraging transactions and industry bonding requirements. Despite these challenges, PEGs have shown increased interest in well-positioned contractors with strong order books and unique barriers to entry in growing markets.

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M&A Highlights—Buy Side Demand

As of August 2011, year-to-date U.S. M&A is up 39% on a dollar volume basis from the prior year comparable period of approximately the same number of transactions, which reflects an increase in larger, billion-dollar plus transactions. Middle-market M&A, defined as transactions of less than \$750 million, is up 16% on a dollar volume basis even though the number of transactions declined by 15%. This increase reflects higher middle-market valuation multiples as measured by Enterprise Value (EV) / EBITDA, which have increased from a recession low of 7.2x in 2008 to 10.9x in 2011. In the middle-market, public companies continue to be aggressive buyers, increasing their share of year-to-date M&A activity to 29%, while private companies declined modestly to 40%, and private equity and foreign buyers remained unchanged at 14% and 17% of M&A activity, respectively. Privately held businesses continue to be the primary targets, representing 63%, with cash as the main source of consideration at 65% of M&A transactions in 2011.



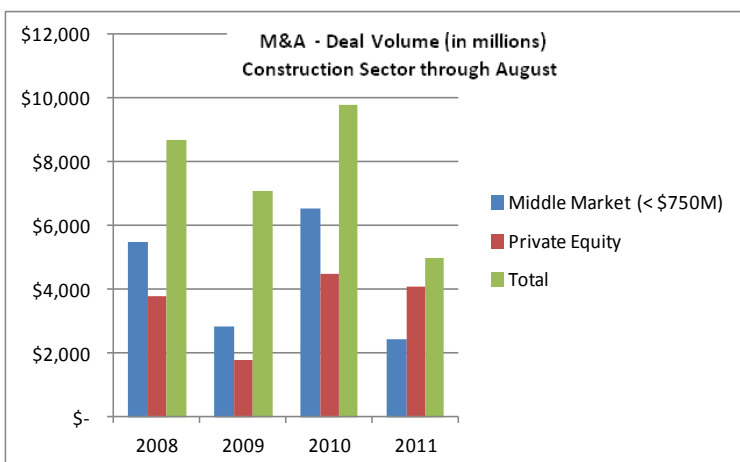
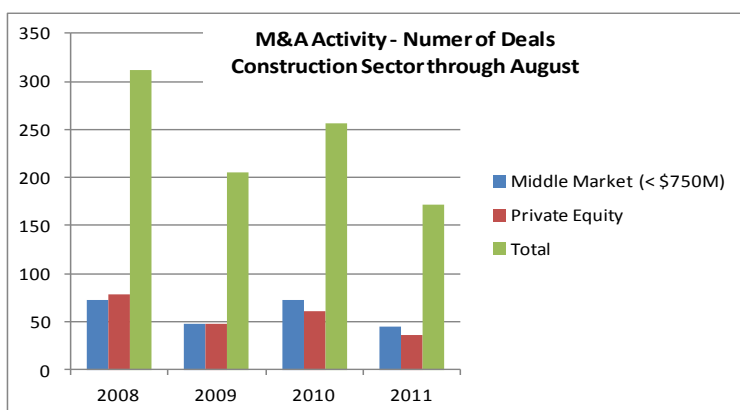
Strategic & International

Although transaction activity appears to be slowing, public companies continue to account for an increased portion of these transactions at 29% year-to-date in 2011, up 4% from 2009 levels, driven by continued strong profits and growing cash on balance sheets. Private company acquirers still account for the majority of transaction activity at 40%, down 5% from 2009 levels. Outbound foreign transactions (U.S. Buyers) versus inbound transactions (foreign buyers) remain constant at 60% to 40%. The top three countries targeted by U.S. buyers were Canada, the U.K., and China.

ticularly for contractors with solid deal books and well-established market positions.

Construction sector M&A activity remains steady as strategic acquirers continue to diversify business risk through geographic and market segment expansion. Although M&A activity is down, dollar volume is up, reflecting increasing valuation multiples par

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Public Valuations—Heavy Construction

The valuation multiples of public heavy contractors reflect the safety of diversified business models and the importance of well-established positions in growing markets. Due to the uncertainty of government funding, contractors in public works markets such as transportation and environmental have lower than average sector valuation multiples despite good revenue growth rates. Valuation multiples will improve for these contractors when the economic recovery, government funding, and fiscal stimulus become more clear. As could be expected, valuation multiples are highest for contractors participating in the energy and power markets where demand and private funding are resulting in strong construction activity. Investors are rewarding contractors with strong deal books, stable margins, and either diversified business models or good positions in growth markets. See the public valuation multiples in the chart on the following page.

KEY REGIONAL M&A TRANSACTIONS

Balfour Beatty

June 30, 2011 - Balfour Beatty (BB) acquired Howard S. Wright Construction (HSW) for \$93 million. The acquisition of HSW enabled BB to fill a geographic gap in the Northern California and Pacific Northwest markets for its General (Nonresidential) Building group. San Francisco, Seattle, and Portland are considered growth markets emerging from the economic downturn.



November 12, 2010 – Primoris Services Corporation acquired Rockford Corporation for \$83 million. Rockford specializes in large diameter natural gas and liquid pipeline projects and related facilities construction. In June 2010 Rockford began work on a cost-plus contract to construct 126 miles of 42-inch natural gas transmissions pipeline for the Ruby Pipeline Project—the first-ever carbon-neutral natural gas pipeline. The acquisition extends Primoris’ specialized underground pipeline capabilities into the Pacific Northwest and adds additional service capabilities for large diameter mainline pipeline construction to its existing markets.



July 1, 2010 – Willbros Group acquired InfrastruX Group for \$879 million. InfrastruX Group is a national provider of electric power and natural gas transmission and distribution infrastructure services. The acquisition gave Willbros an entry into the fast-growing electric transmission market and expanded their position in the natural gas and shale oil developments.

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Public Valuations—Heavy Construction by Primary Market

(in millions)	Enterprise Value	Market Capitalization	Revenue	YTY Growth %	LTM Revenue	LTM EBITDA	EV/ LTM Rev	EV/ LTM EBITDA	Price/ Tangible BV	EV/Unlevered Free Cash Flow	EV/ Forward EBITDA
Diversified EPC											
Fluor (NYSE:FLR)	\$ 5,978.5	\$ 8,090.7	4.3%	\$ 21,870.0	\$ 773.6	0.3x	8.5x	2.5x	8.6x	5.4x	
Jacobs Engineering (NYSE:JEC)	\$ 3,907.4	\$ 4,118.7	(1.2%)	\$ 10,001.4	\$ 648.9	0.4x	6.4x	3.5x	30.1x	6.2x	
AECOM Technology (NYSE:ACM)	\$ 2,980.1	\$ 2,110.7	22.1%	\$ 7,748.0	\$ 457.4	0.4x	6.1x	9.2x	NM	5.1x	
KBR (NYSE:KBR)	\$ 2,904.1	\$ 3,563.1	(14.5%)	\$ 9,429.0	\$ 547.0	0.3x	4.4x	2.8x	17.8x	4.3x	
URS (NYSE:URS)	\$ 2,795.5	\$ 2,361.0	5.8%	\$ 9,400.3	\$ 629.7	0.3x	4.1x	NM	5.7x	4.0x	
Shaw Group (NYSE:SHAW)	\$ 1,501.2	\$ 1,570.6	(13.1%)	\$ 6,195.5	\$ 183.6	0.2x	7.3x	3.5x	NM	4.5x	
Foster Wheeler (Nasdaq:FHLT)	\$ 1,260.9	\$ 2,080.0	(2.2%)	\$ 4,336.8	\$ 256.1	0.3x	4.8x	2.8x	5.7x	3.7x	
Tutor Perini (NYSE:TPC)	\$ 759.6	\$ 543.3	(29.2%)	\$ 2,854.9	\$ 168.4	0.3x	4.6x	1.1x	NM	3.0x	
Mean	\$ 2,760.9	\$ 3,054.8	(3.5%)	\$ 8,979.5	\$ 458.1	0.3x	5.8x	3.6x	13.6x	4.5x	
Power & Energy											
Quanta Services (NYSE:PWR)	\$ 3,613.3	\$ 3,987.8	23.3%	\$ 4,172.3	\$ 338.3	0.9x	10.8x	2.6x	NM	6.7x	
Chicago Bridge & Iron (NYSE:CBI)	\$ 2,557.1	\$ 2,825.3	1.6%	\$ 3,896.9	\$ 380.2	0.7x	6.5x	NM	30.5x	5.2x	
McDermott International (NYSE:MDR)	\$ 2,202.4	\$ 2,525.5	4.1%	\$ 3,020.8	\$ 432.5	0.9x	6.5x	2.0x	NM	5.6x	
MasTec (NYSE:MTZ)	\$ 1,855.0	\$ 1,491.6	48.6%	\$ 2,732.1	\$ 291.3	0.7x	6.9x	NM	13.9x	6.5x	
Layne Christensen (Nasdaq:LAYN)	\$ 478.1	\$ 453.5	18.8%	\$ 1,104.1	\$ 99.1	0.4x	3.8x	1.1x	NM	4.7x	
Primoris Services (Nasdaq:PRIM)	\$ 457.1	\$ 534.1	111.8%	\$ 1,275.2	\$ 112.6	0.4x	4.1x	4.8x	4.6x	4.8x	
Willbros Group (NYSE:WG)	\$ 428.7	\$ 202.6	92.9%	\$ 1,594.3	\$ 42.2	0.3x	10.3x	2.4x	NM	3.3x	
Pike Electric (NYSE:PIKE)	\$ 333.8	\$ 234.8	17.8%	\$ 593.9	\$ 48.3	0.6x	7.0x	2.2x	91.7x	5.1x	
Matrix Service (Nasdaq:MTRX)	\$ 166.5	\$ 225.5	13.8%	\$ 627.1	\$ 42.3	0.3x	4.1x	1.4x	18.1x	3.4x	
Mean	\$ 1,343.6	\$ 1,386.8	37.0%	\$ 2,113.0	\$ 198.5	0.6x	6.7x	2.4x	31.8x	5.0x	
Transportation											
Granite Construction (NYSE:GVA)	\$ 658.1	\$ 725.9	0.0%	\$ 1,829.5	\$ 101.3	0.4x	7.0x	1.1x	9.0x	4.5x	
Great Lakes Dredge & Dock (Nasdaq:GLDD)	\$ 400.6	\$ 239.8	2.1%	\$ 655.7	\$ 89.9	0.7x	4.8x	1.5x	28.6x	4.4x	
Sterling Construction (Nasdaq:STRL)	\$ 140.2	\$ 183.7	28.0%	\$ 484.6	\$ 50.8	0.3x	2.5x	1.2x	NM	2.7x	
Orion Marine Group (NYSE:ORN)	\$ 129.5	\$ 154.2	7.9%	\$ 340.4	\$ 34.7	0.4x	3.8x	0.7x	NM	10.1x	
Michael Baker (AMEX:BKR)	\$ 90.4	\$ 178.4	10.2%	\$ 507.0	\$ 33.2	0.2x	2.8x	1.3x	4.3x	2.2x	
Mean	\$ 283.8	\$ 296.4	9.6%	\$ 763.4	\$ 62.0	0.4x	4.2x	1.2x	14.0x	4.8x	
Environmental											
Tetra Tech (Nasdaq:TTEK)	\$ 1,202.3	\$ 1,170.9	23.5%	\$ 1,737.1	\$ 191.1	0.7x	6.3x	5.4x	17.8x	5.7x	
TRC Companies (NYSE:TRR)	\$ 81.1	\$ 82.9	6.9%	\$ 245.9	\$ 15.6	0.3x	5.3x	20.0x	3.9x	-	
Versar (AMEX:VSR)	\$ 22.3	\$ 26.9	36.6%	\$ 137.6	\$ 8.2	0.2x	2.6x	1.1x	3.7x	-	
Mean	\$ 435.2	\$ 426.9	22.3%	\$ 706.9	\$ 71.6	0.4x	4.7x	8.8x	8.5x	5.7x	
Telecommunications											
Dycom Industries (NYSE:DY)	\$ 655.5	\$ 512.4	4.8%	\$ 1,035.9	\$ 104.7	0.7x	6.5x	4.4x	NM	5.3x	
UniTek Global Services (Nasdaq:UNTK)	\$ 203.3	\$ 80.6	22.9%	\$ 408.4	\$ 28.8	0.5x	6.6x	NM	4.7x	4.1x	
Mean	\$ 429.4	\$ 296.5	13.9%	\$ 722.2	\$ 66.8	0.6x	6.6x	4.4x	4.7x	4.7x	
Heavy Civil Construction											
High	\$ 5,978.5	\$ 8,090.7	111.8%	\$ 21,870.0	\$ 773.6	0.9x	10.8x	20.0x	91.7x	10.1x	
Low	\$ 22.3	\$ 26.9	(29.2%)	\$ 137.6	\$ 8.2	0.2x	2.5x	0.7x	3.7x	2.2x	
Mean	\$ 1,398.6	\$ 1,491.6	16.6%	\$ 3,638.3	\$ 226.3	0.4x	5.7x	3.4x	17.6x	4.8x	
Median	\$ 658.1	\$ 543.3	7.9%	\$ 1,737.1	\$ 112.6	0.4x	5.7x	3.4x	17.6x	4.8x	

Heavy and Civil Construction Market Update

Final Thoughts

The heavy civil construction sector is poised for a substantial growth cycle in the mid-term, with clarity on macroeconomic issues acting as a catalyst for funding a mounting backlog of projects. In order to be well positioned for the next growth cycle, contractors need to transition from defense to offense by actively pursuing growth strategies that diversify business risk.

Large, strategic contractors have growing cash on their balance sheets and are actively looking to grow through acquisition. There is no substitution

for an advisor who has a combination of in-depth industry knowledge and M&A tactics and strategies. If you are considering buying a business as part of your balanced growth strategies or selling your company to take advantage of rising sector valuation multiples, Exvere can provide invaluable insights and would like the opportunity to assist you.

About Exvere Inc.

SERVICES

Exvere represents private companies in major capital transactions (partially listed below). Exvere works closely with clients to target and strategically select qualified financial counterparties, employing time-tested processes to maximize value for clients, throughout the entire transaction process, from the first conversation to a timely and efficient closing.

TRANSACTION TYPES

- Acquisitions
- Business Sales (Stock & Assets)
- Business Unit Divestitures
- Equity Placements
- Management Buy-Outs
- Merger of Equals
- Private Equity Recapitalizations
- Structured Financings

INDUSTRIES SERVED

- Aerospace & Defense
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- Computer Hardware
- Construction
- Consumer Products
- Distribution
- Energy Efficiency
- Food & Agribusiness
- General Business Services
- Healthcare Services & Medical Devices
- Manufacturing
- Telecommunications
- Wine & Beverage

THE EXVERE EDGE

Founded in Seattle, WA in 1991, Exvere has served as advisor in over 100 capital transactions. Exvere has recently completed transactions in engineering and specialty contracting and views this sector as a strategic focus.

Strategic Assessments - Many owners haven't prepared comprehensive, operational, or exit plans for their businesses. Exvere assists with producing near and long-term strategic direction in order to maximize exit values, utilizing their extensive analytical and research capabilities. Exvere also helps business owners assess timing considerations by examining the entire process through the eyes of a potential acquirer or target. The Strategic Assessment identifies company strengths and weaknesses in order to provide third-party insight and direction, which results in a higher valuation at the chosen time of exit.

Valuation Expertise - Exvere's professional staff includes an Accredited Valuation Analyst (AVA), ensuring quality and accuracy in valuations and fairness opinions.

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