

PACIFIC NORTHWEST SPECIALTY CONTRACTING

MARKET UPDATE

MARCH 2010



IN THIS ISSUE:

SPECIALTY CONTRACTING TRENDS

EMERGING GROWTH AREAS -
GREEN BUILDING

BUILDING INFORMATION MODELING

PNW REGIONAL OUTLOOK

M&A TRENDS

EXVERE inc.
PRIVATE INVESTMENT BANKING

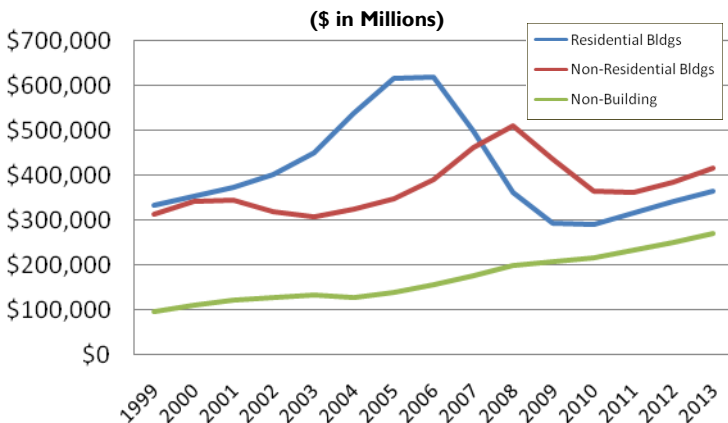
THERE'S A GREAT DEAL AT STAKE!

PACIFIC NORTHWEST SPECIALTY CONTRACTING MARKET UPDATE

SPECIALTY CONTRACTING TRENDS

The construction industry has suffered greatly from this current financial crisis, resulting in declines in residential and nonresidential construction. This has quickly changed the landscape for companies seeking growth and success. The recent struggles for specialty contractors have shown limited signs of turning around any time soon. But fortunately, government stimulus programs and Green Building initiatives have provided ongoing opportunities in this sector, which have heightened demand for mergers and acquisitions activity.

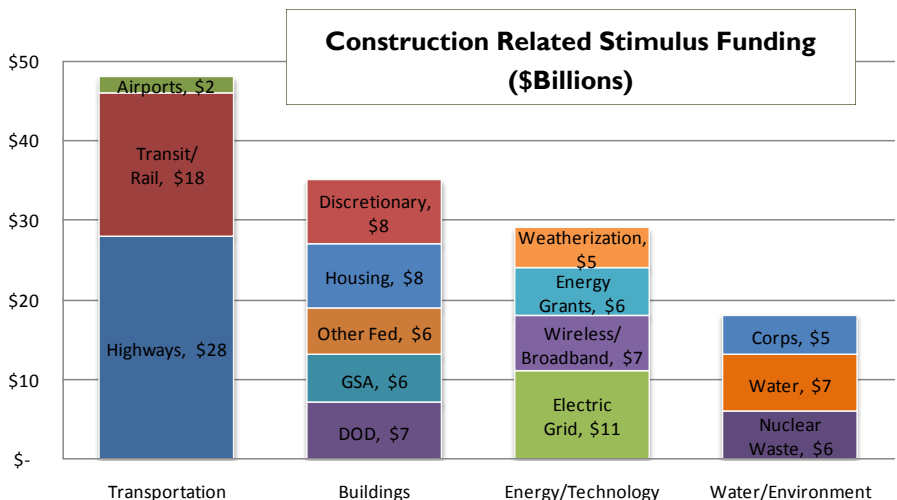
Historical and Projected Construction Spending



The construction industry as a whole is still feeling the impact of the recession. Residential construction is projected to have bottomed out as of the fourth quarter of 2009, with a decline of 19% for the year and a comparatively modest projected loss of 1% for 2010. Nonresidential construction is projected to decline again this year, with losses of 17% expected in 2010 compared with the 14% loss experienced the year prior. Non-building construction is expected to remain the sole bright spot in the industry, having increased 4% in 2009. It also has a projected growth equal in amount to 2010 figures, with a growing emphasis on energy efficiency.

According to FMI's Second Quarter Nonresidential Index, as of mid-year 2009 contractors were still reporting backlogs of nine months. Tight credit conditions continue to increase industry backlogs, causing project cancellations and delays. In fact, project delays are now up 20% and four times the historical rate, while project cancellations are five times the historical rate and currently represent 10% of total projects backlogged.

Meanwhile, single-family residential building experienced an increase in activity in June 2009 for the first time in over 40 months, and has continued to show modest signs of strengthening in the first quarter of 2010. The non-building construction sector has experienced modest growth, which is largely a result of The American Recovery and Reinvestment Act of 2009 (ARRA), a recent federal economic stimulus package. Public-works sectors, such as highway paving, water and wastewater, and conservation and development segments, are all showing signs of strengthening as federal stimulus funding begins to filter down to more projects.



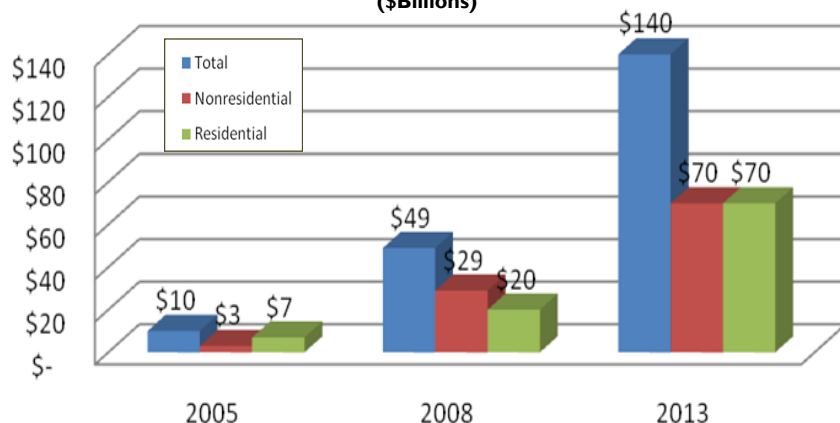
The nonresidential building market has eased from the severe declines of 2008 and early 2009; however, this sector still faces many challenges, such as mounting vacancies, tight bank lending standards, eroding state fiscal health, and the anticipation of prior loan maturities coming due, which could further impact liquidity available for new projects.

EMERGING GROWTH AREAS - GREEN BUILDING

Recent research demonstrates substantial growth in sustainability practices over the past three years, with energy conservation strategies leading the way. One of the major indicators of the shift toward mandating sustainability is the growth and legislation of the Green Building marketplace. In 2009, Green Building legislation and initiatives were expanded to 44 states and 12 federal agencies, with much attention given to the U.S. Green Building Council and its LEED Certification program. This momentum has helped bring the issues of climate change, energy conservation, and carbon emissions to the forefront of policy debate. Furthermore, it has impacted the construction practices of specialty contractors and helped focus energy policy discussions on smart grid development, in which building design can be integrated into energy connectivity and conservation.

As seen in the chart at the right, the Green Building market has increased dramatically from 2005, where overall construction activity was valued at 2% or \$10 billion. Since then, according to MHC Dodge Project Data and Construction Forecasts, the Green Building market size grew to 15%-20% of new construction starts by value in 2008; this equates to a \$49 billion market size by value. This growth is despite the overall downturn in construction: after falling 7% in 2007 and 14% in 2008, total construction starts then fell another 17% in 2009 and are expected to fall an additional 10% in 2010. Despite this continued downward trend, industry consensus projects a sustained increase in construction by 2011.

Nonresidential and Residential Green Building Market Opportunity
(\$Billions)



Driven further by expanded government requirements and an increased awareness of climate change among businesses and consumers, the Green Building market is expected to grow to an estimated \$140 billion by the year 2013. Based on new starts by value, the green commercial and institutional market share of overall growth is predicted to increase from a \$29 billion marketplace (2008 figures) to \$70 billion by 2013. New construction of energy-efficient buildings as well as remodeling existing structures are projected to reduce America's energy use by as much as 22% over the next 20 years; energy use is measured in electricity consumption, usage, carbon dioxide emissions, raw materials use, waste output and water consumption.

Cover photo © Gabe Hanson: *The Terry Thomas* by Weber Thompson, a green building in Seattle, WA. Project goals included development of a LEED designated office building free of mechanical ventilation and air-conditioning while incorporating practical and transferable sustainable design strategies. Energy and material efficiency as well as a place-specific building response guided design decisions. *The Terry Thomas* is a working laboratory of sustainable strategies which respond to our temperate Pacific Northwest climate.

<http://wmig.aiaseattle.org/node/125>

Green Building in particular grew by more than 60% in 2009, and it's expected to continue to grow into 2010 and beyond. This trend, heavily supported by President Obama and the Democratic Party leaders in Washington D.C., will help create a strong focus on green jobs, mainly in energy efficiency, new green technology and renewable energy. The Obama Administration has pledged to invest more than \$150 billion into energy technology over the next decade, and expects this investment to create five million jobs as a result. Along with this government investment is venture capital, which has poured more than \$8 billion into energy-related startups in the U.S. since 2006, far outpacing investments in biotechnology and software.

Continued on following page.

EMERGING GROWTH AREAS - GREEN BUILDING

Continued from previous page.

Green Building initiatives to watch in the coming year include:

- ◆ The focus of Green Building will begin to switch from new construction to the greening of existing structures — the fastest growing LEED rating system is the LEED for Existing Buildings program. With ongoing difficulties in the credit markets continuing to hinder new construction activity, in the coming months there will be heightened emphasis on remodeling and energy efficiency.
- ◆ LEED Platinum-rated projects will become more commonplace as building owners, designers, and construction teams learn how to design for higher levels of LEED achievement on conventional budgets. It will be interesting to watch future acceptance and implementation of alternative Green Building rating systems and their impact on construction financing terms.
- ◆ Awareness will increase for a future global crisis in fresh water supply, leading building designers and managers to take further steps in reducing water consumption in buildings by implementing more conserving fixtures, rain-water recovery systems and innovative new water technologies.
- ◆ Solar power usage in buildings is expected to accelerate with the extension of solar energy tax credits for buildings through 2016, and the prospect of continued focus on renewable power goals for 2015 and 2020.
- ◆ State and local governments are mandating Green Buildings for themselves as well as the private sector. While concern over the economic impact of Green Building mandates will be present, the desire to reduce carbon emissions by going green will lead more government agencies to require minimum LEED requirements and perhaps adopt other sustainable building material systems that utilize steel, forms of concrete, foam and other non-wood based products.
- ◆ Green homes should begin to dominate new home developments as builders increasingly see Green Building as a source of competitive advantage. Discussion over integrating residential community concepts may eventually advance to include adaptive features which benefit a smart grid concept, use of electric vehicles and other innovative technologies.

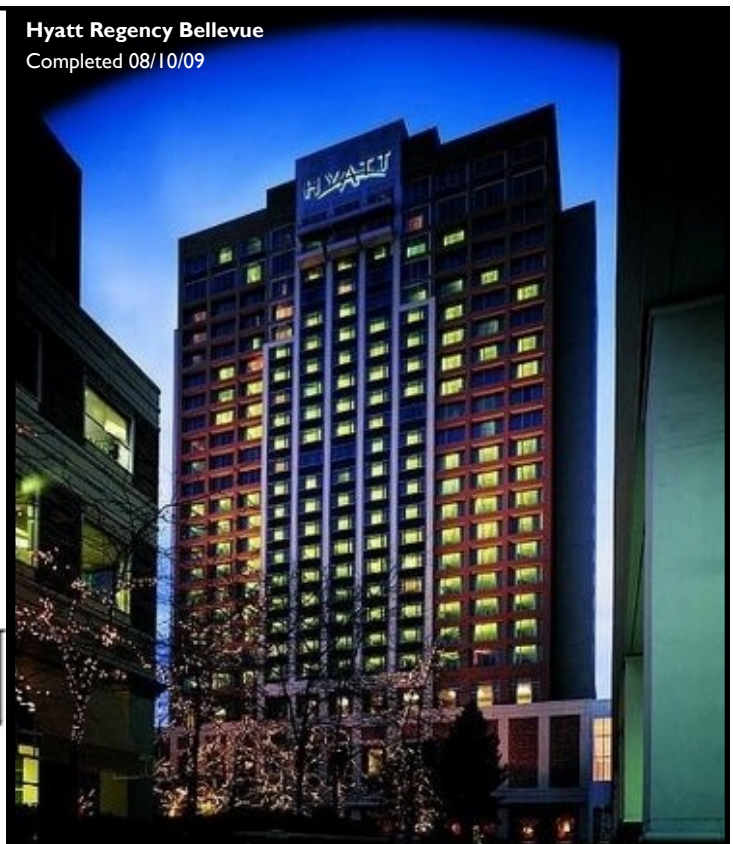


The above photos are of the 505 Broadway View Condominium Project in downtown Tacoma, WA. The project utilized Green Building systems as developed by Innovative Green Building Systems, LLC, a Native American-owned company based in Kent, WA.

PACIFIC NORTHWEST SPECIALTY CONTRACTING MARKET UPDATE

EMERGING GROWTH AREAS - BUILDING INFORMATION MODELING (BIM)

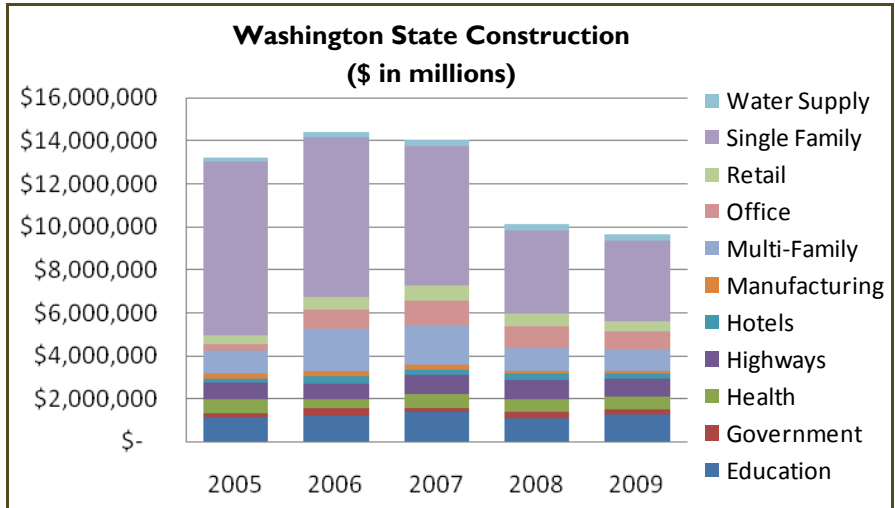
In today's competitive construction market, the majority of proposals on large construction projects require specialty contractors to first execute a virtual design of the project by using Building Information Modeling (BIM). Effective use of BIM has proven to increase design effectiveness, enhance constructability, and accelerate the construction schedule, saving both time and money. When used effectively, BIM can coordinate mechanical, electrical, and plumbing trades; expand prefabrication opportunities; reduce rework; increase productivity; decrease labor costs; and improve the consistency of the overall work product. Successful integration of this technology also provides more accessible design information, such as installation instructions, maintenance information, handling guidelines, life cycle and warranty information. However, successful implementation and use of BIM requires significant investment in technology, staff and training, thereby constraining its current widespread use. Look for further advancement and software applications to evolve in the coming years as more states adopt requirements for using BIM in construction.



Through the use of Building Information Modeling (BIM), structural designers for the new Hyatt Regency tower in Bellevue were able to accurately model the structural performance of the building under a variety of load combinations.

PACIFIC NORTHWEST REGIONAL OUTLOOK

The Pacific Northwest is home to many large and well-established specialty contractors. Revenues for the region's top 10 specialty contractors reached \$1.7 billion in 2008, compared to \$1.2 billion in 2007. The region has been fortunate to have a relatively resilient economy, though the economy softened significantly during 2009 as it had elsewhere around the country. That being said, many Pacific Northwest-based companies will make it through the recession fully intact, while others are forced to adapt and acclimate to this new reality as quickly as they can – usually by cutting staff or even ceasing operations altogether until stalled projects, from home remodels to high-rises, are able to move forward again. The overall consensus amongst industry professionals (architect, construction, and engineering experts) predicts a positive shift to commence for the nonresidential sector by the second half of 2010. While the residential sector may have recently passed its lowest point, industry-wide growth is not expected to take hold until 2011.



Some positive events have occurred for the Pacific Northwest region's construction activity through previously approved bond issues. Some of these projects have benefitted even further from federal stimulus programs under ARRA, such as Build America Bonds. A few school districts in the Portland area are still actively working on projects that



Seattle's Light Rail

were approved for bond financing by voters several years ago, and public works projects, such as Seattle's light rail system and the Brightwater Treatment Plant, provided activity in the latter half of 2008 and throughout 2009.

Construction of green energy systems, such as wind farms, has been on the rise throughout the region, with 1,233 MWs of wind power having been constructed in Washington and Oregon in 2009, ranking them 4th and 6th respectively in the nation for Wind Power Generating Capacity. Specialty contractors in Idaho, Oregon and Washington are constructing 292 additional wind turbines for a total of 522.4 MWs of new power generation. Energy advocates are projecting substantial increases throughout the Pacific Northwest in the coming years for wind farms, solar farms and other clean energy systems.

PACIFIC NORTHWEST SPECIALTY CONTRACTING MARKET UPDATE

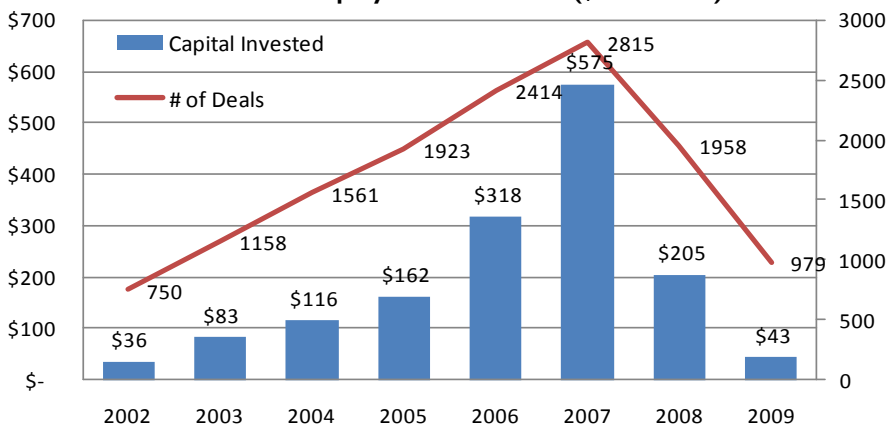
M&A TRENDS IN SPECIALTY CONTRACTING - BUY SIDE INTEREST

PRIVATE EQUITY

The struggling economy and credit crunch have put a temporary hold on private equity's ability to make large-scale acquisitions, specifically over \$1 billion. However, activity still remains high in the middle and lower-middle market, and appears to be picking up as we proceed into 2010. The use of private equity for highly leveraged buyouts, as referenced earlier, are no longer available, and more conservative capital structures are now required. The increased equity demands have led to reduced valuation multiples as Private Equity Groups (PEGs) target a minimum rate-of-

return on their investment. Certain PEGs have the capability to take strategic action by creatively leveraging their existing platform companies within their current portfolios. In these cases, PEGs are able to capitalize on the same synergies that strategic or industry acquirers enjoy, and, as a result, remain competitive when making acquisitions. Specialty contractors are beginning to attract the interest of PEGs as green trends within the industry become more permanent. As a result, PEGs are preparing to stake their claim as the overall market appears to show signs of an economic rebound.

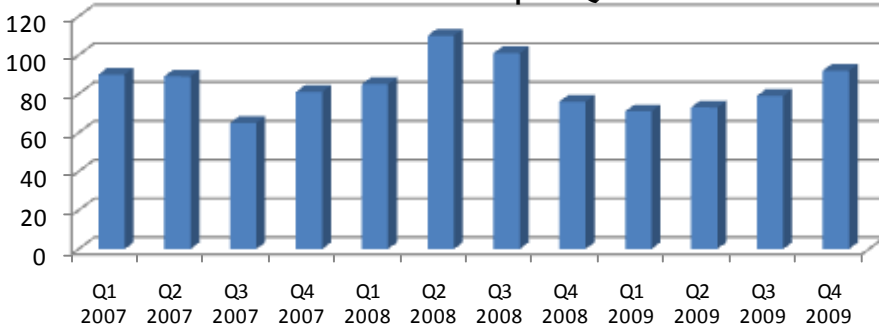
U.S. Private Equity Deal Flow - YR (\$ in Millions)



STRATEGIC & INTERNATIONAL

This year appears to be a year of transition for strategic acquirers, while internationally based buyers will find further opportunities. Coming off a year where strategic acquirers determined that maintaining current revenue levels was far more important than seeking acquisitions to assist in growth, 2010 could see a reversal of that trend. Strategic acquirers are beginning to believe that the worst of the economic crisis is behind them, and now is an opportune time to either seek non-organic growth or perhaps consolidate market share. Well-capitalized domestic buyers, as well as internationally based firms, have a notable advantage over the traditional PEGs' structure. Most strategic buyers have the ability to cut costs through the rationalization of synergies as well as by leveraging their own balance sheet, thereby placing little to no reliance on outside financing sources. These advantages over PEGs, which are far more reliant on outside debt, should create further opportunities in the year ahead for both strategic acquirers and international buyers who continue to benefit from a depressed dollar.

**Pacific Northwest M&A
Total Number of Transactions, January 2007 - December 2009
Source: Capital IQ**



CLOSING OBSERVATION

After modest declines in M&A activity from 2007-2009, the Pacific Northwest is poised to rebound with increased activity in 2010 and beyond. In particular, with what now appears to be a signal of a positive uptick in market conditions for specialty contractors, it would seem to be a good time to consider M&A activity within certain areas of the construction industry. Exvere is beginning to see advantageous valuation multiples for companies that meet certain strategies. For those companies considering to grow, or even exit, it would be prudent to initiate said action without either a Strategic Assessment and/or an advisory engagement to properly plan and ultimately execute a successful outcome.

ABOUT EXVERE INC.

SERVICES

Exvere represents substantial, private companies during major capital transactions (partially listed below). Exvere Directors work closely with their clients to target and strategically select financial counterparties who are qualified to partner in these transactions. Exvere employs time-tested processes to maximize value for their clients, and actively participates 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
- Building Products
- Computer Hardware
- Construction & Real Estate
- Consumer Products
- Distribution
- Food & Agribusiness
- General Business Services
- Healthcare Services
- Manufacturing
- Telecommunications
- Wine & Beverage

THE EXVERE EDGE

Founded in Seattle, WA, in 1992, Exvere has served as adviser in over 100 capital transactions. In 2006, Exvere formed Exvere Securities, LLC, a FINRA broker-dealer, enabling Exvere to expand its range of merger and acquisition, recapitalization, valuation, and financing services it offers to Northwest business owners.

Strategic Assessments - Many owners haven't prepared comprehensive, long-range plans for their businesses. Exvere assists with producing near and long-term strategies to maximize exit values by 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. Exvere addresses company strengths and weaknesses in order to provide third-party insight and direction, resulting in a higher valuation at the chosen time of exit.

Valuation Expertise - Exvere's professional staff includes an Accredited Valuation Analyst (AVA), who has the crucial role of ensuring quality and accuracy in valuations and fairness opinions. His work has been accepted by the Washington State Superior Court.

FINRA Member - Exvere, through its wholly owned subsidiary, Exvere Securities, LLC, is a FINRA broker-dealer. As such, they are subject to rigorous regulatory and financial standards, making them unique among M&A firms. More importantly, this qualification allows Exvere to provide a greater array of options to their clients, such as partnering with international and domestic investment banks, sharing extensive research resources, and providing fairness opinions.

Real Estate Licensed - Exvere has its own real estate broker licensed in Washington state, in order to facilitate their clients' needs related to real estate asset transactions.

For more information, please visit www.exvere.com or call us at (206) 728-1800.