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# Limbach Holdings, Inc. (LMB)

## Business Update Call

# CORPORATE PARTICIPANTS

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# MANAGEMENT DISCUSSION SECTION

## Jeremy Hellman

*Vice President, The Equity Group*

Good afternoon, everyone. Thanks for taking some time out of your day to join us. We hope you'll find this webinar informative. My name is Jeremy Hellman. I'm with the Equity Group, and we serve as Limbach's external investor relations consultants. Our goal here today is to provide an introduction to the company for investors that are less familiar with Limbach. With that in mind, we'll be focusing on higher level concepts such as the nonresidential construction industry where Limbach fits into that ecosystem and how we intend to capitalize on the opportunities that we see.

We'll be using a slide presentation as part of this webinar and a copy of that can also be found in the Investor Relations section of the company's website at www.limbachinc.com. As always, the company encourages everyone to review the forward-looking statement disclosure on slide 2 of the presentation.

Before we get into the presentation, I just want to review a couple procedural items. We'll have everyone muted throughout the event and do our best to continue keeping everyone muted. And after the presentation, we look forward to taking your questions. To do so, please use the chat function and direct your questions to me, Jeremy Hellman. I'll do my best to aggregate similar questions and we'll verbally direct the questions to management. Lastly, if you have a question that we can't get to or which requires further discussion, please don't hesitate to reach out to either myself or Matt Katz. Contact info for both of us is on slide 20 of the presentation.

Joining us today from Limbach are Charlie Bacon, the President and Chief Executive Officer; Jayme Brooks, the company's Chief Financial Officer; and Executive Vice President, Matt Katz. With that, I'll hand it off to Charlie.

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## Charles A. Bacon

*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

Hey. Good afternoon, everyone, and thanks for joining us. First off, today, as Jeremy just touched on, perhaps some people have been following us for a while, perhaps there's some new interested parties, but I'll give you an overview of who we are, what we do, our strategies we're deploying over the next 24 to 36 months, and we look forward to Q&A. But the goal really is to just educate folks to learn more about our company, where we're going, what we're doing. And I think there's some pretty exciting times in front of us.

So, I'm going to provide a bit of an overview on the nonresidential market, how I'm seeing some things. We'll get into our business operations, the strategy, the goals that we're setting up for ourselves, and the longer-term outlook. The thing I do want to reinforce to everybody, we're not going to be providing any additional information on financials today. We provided that information obviously at the end of our second quarter, recently at the LD Micro Conference and at the D.A. Davidson Conference. And, of course, we're wrapping up Q3 and we'll be reporting our results as we need to in the future, very near future.

So, with that said, I'm going to move to our deck and just bear with me a moment. Okay. Here we are. So, by the way, it's interesting. I do these earning calls and we have scripts. Today, I'm not really using a script, although I do have one. I'm really going to just share our company, who we are, and you're just going to get to hear our direction, which is really important.

Now, I'm going to spend a few minutes on this cover slide because I think it's very important to convey to everybody a lot of details about our company. So, first off, our brand. Limbach has been around for approximately 120 years. We're extremely well-known in the industry. So, most people, especially in the general contractor or construction manager front, know us quite well and many, many building owners. We have over 1,100 relationships with building owners throughout the country. What we do is we do mechanical, electrical, and plumbing systems in buildings; and that includes building automation and building controls.

And I'm going to get a little bit into some more details on later slides about the specific services, but there's a couple of words that we have on this cover slide that I think are very important for all of you to understand. Diverse and essential. Let me start with diverse. So, when you look at our sectors, which you see them across the screen there, we're not into one sector very focused where if a sector goes south, it could cause havoc. In fact, Limbach has a very diverse resumé which allows us to deal with an economic downturn in a particular market. We could shift human capital and our resources to other sectors. And in fact, we're seeing that today.

So, when you look at our sectors, health care is doing well along with life sciences, which we include in health care. Basically, if you talk about research and development, and you can imagine what the pharmaceuticals and biotechs are doing right now. So, that's a very busy market for us. Education, while the big capital projects were kind of on the back burner, there's a lot of opportunity for us [audio gap] (00:05:31) to get the buildings back up and running as campuses and local school districts figure out how to get students back into their buildings. Government, there's still spend on – especially at the federal level, and we continue to capture market share there. Mission critical, pretty much data centers. Very busy in that sector. Don't see any let-up, especially with the virtual world we are living in.

And the one that I find interesting is all the way at the right-hand side, industrial manufacturing. While we're engaged in that sector, it's not a major focus for us, but we're watching the anti-China sentiment and the onshoring discussions that are going on. We think that could be a very important play for us in the future.

In terms of essential, the other word I want to reference, what we learned through the whole COVID situation here from March on, we're needed. Humans need what we do: HVAC, water, power, and buildings. I mean, it's a human essential today.

So, we found that while we saw a bit of contraction in the early months of April and May into June in several of our geographies, all of that has opened back up. We didn't realize any cancellations in any of our backlog, and we're continuing on all of our construction sites today. And in terms of our service work that we do where we maintain buildings, that is back to normal at this point. And in fact, during the height of the COVID scare, in the early days, we actually generated quite a bit of emergency work, including converting a convention center into 250 hospital beds in 10 days. So, we're essential, which is terrific for our business.

And just some other comments in terms of market activity, I could get into the pipeline and perhaps during Q&A if anybody like to ask me some questions, we'll do that. I'll respond. But generally, when you look at our sphere of business, the nonresidential [audio gap] (00:07:45) construction business in the United States is about a $525 billion market. And right now, there was some contraction with COVID impacts. We're actually seeing an uptick again in activity where, again, we're essential so we never really stopped, but there's been some concern about our pipeline and what's going to be happening.

But in fact, we're starting to see [indiscernible] (00:08:10) is actually increasing again. It's kind of interesting. It's almost like the stock market. When the stock market's facing that – I guess it's a V-shaped recovery, [audio gap] (00:08:19) in the stock market and perhaps in the economy. But in our industry, we're starting to see a bounce back in a number of sectors.

A key measure for us that we watch closely is the American Institute of Architects Billing Index. And back in March, it dropped to 33. Anything over 50 means they're expanding. Obviously, anything under 50 means contraction. But in March, they hit 33. Their billings went down dramatically. They're bouncing back. July and August, they're back up at 40. And the other telling sign though, the architects also have another key measure design contracts. Meaning, they're starting to see some new work come in, get under contract. And that was down at 27 back in March, which obviously a very low number. That's now bounced back to 46. So, you can see the trend upward for the architects, which means business for us 12 to 19 months down the road, and specifically around the construction segment of our business.

So, I wanted to provide a bit of an overview of Limbach, strong brand, what we do, MEP in buildings, the living breathing systems of buildings, the diversity of our business, how essential we are, and obviously some comments about the market starting to bounce back in terms of post- COVID. I should say post-COVID. I guess now the COVID – the new normal in what we're dealing with.

This is the forward-looking statements. Jeremy Hellman already mentioned this, so I'm not going to get into more of that, but I think everybody's quite clear on our statements here today and what they mean by this statement. But moving on, so a little bit more about what we do. So, when you look at this graphic here, again, our industry is $525 billion here in the United States and you could see all the different components there that make up the industry in terms of how things get designed and built.

So, you have the building owner. Obviously, they're the ones with the capital. They're looking to deploy it, build something, some sort of investment, some sort of asset. They typically go and retain an architect, which may include engineering component with it. But typically, the owner and the architect work together to start defining the need and the design of the facility.

And they'll work closely together. The architect will provide some – hold on one second. Sorry. They'll actually define need and start coming up with the concepts of design along with budgets. Engineers continue what the architect started by designing structural systems. And then you have the building systems: the mechanical, the electrical, the plumbing. And eventually, a general contractor is brought on board. Sometimes they're brought on very early, but typically not. At some point, they're brought on board, and they start doing fine budgeting. And the result of that budgeting typically leads to projects being over-budget. The owners are kind of upset with what's going on. And at that point, a general contractor reaches out to a firm like Woodlock, and we start helping them getting it back into the budget. So, that's where we come into play as a specialty contractor.

And then you have [indiscernible] (00:11:57), like after the building is built, you have the service and maintenance, which we love because that brings the annuity income stream. What you see there in those green boxes to the right, specialty contractors, service and maintenance, that's where Limbach clubs in. What you're going to hear us talk about today [ph] specifically (00:12:13) is, our target is to constantly move to the left to get to that building owner with our services, and we're going to explain how that's a core [ph] part to achieve (00:12:24) going forward, which will create very nice...

[indiscernible] (00:12:26)

Please mute out if you can. Thank you very much.

All right. So, Limbach's business operations, this graphic really... [indiscernible] (00:12:46) Please, I'd ask everybody to mute your phones. Thank you.

So, what you see here is the complete assembly of what we do. In the center -, I'm going to actually start in the center, where you see construction and installation. The fact of the matter is, there are hundreds and thousands of mechanical contractors out there. Limbach happens to be one of the top 10 in the nation. But we go – we build buildings all the time. Now, with the separation of Limbach, what makes us so different is on the left.

So, you see engineering and energy modeling. We have our own in-house engineering group which works very closely with the general contractors and owners to maintain budgets, to maintain the design, and also to be looking at the life cycle costing of a building. And we'll do the 3D modeling and the fancy assembly of drawings, making sure it's all going to fit. Eventually, we'll do some modular construction. And I'm going to touch on modular in a few moments how important that is to our industry in the future. But we'll build – and eventually all the way to the right-hand side is the maintaining of the building, and that creates the annuity income stream, and that's where Limbach typically starts its relationship, a very strong relationship with the building owner.

But what I want to point out to everybody, and this is the differentiating factor for Limbach, owners are getting smarter about the process. When they realize they're over budget, the general contractor calls us in to start getting the project back into budget. Owners are starting to realize, why don't we have Limbach in upfront? Why is it that the MEP systems that cost anywhere from 25% to 50% of the cost of the new building? Why do we bring them in so late, only to lose time, and it costs money to get it back into budget? Why don't we have them come in early, establish the budget, and stay with that budget through the course of the project, not lose time, and not have the extra expense? So we're seeing a lot of owners, the Hospital Corporation of America, Disney, just to name a couple, that bring us in now early upfront to help them with their budgeting and design, so that they don't face that hiccup that happens just about on every project. It's a huge differentiating factor for us.

As far as the diversity of our business, I mentioned the end markets. There's no heavy focus in any particular market, although healthcare and life sciences is a big part of our business. We're excited about how we've positioned our company to deal with the current economic situation and the impacts of the virus. We're well-positioned. But our geography, we operate out of 13 different facilities. We actually service over 24 different major cities out of those facilities. And the thing I want to point out about the map on the US, you can obviously see there's some prime areas of geography that we're looking at as future growth potential, namely the Southeast between the Mid-Atlantic down through Florida, and then also the Greater Texas, midpoint of this – of the country that we see tremendous opportunity for growth.

So we're looking at those markets for future expansion. Our service offering, I just touched on that. And the customer base, again, we work for building owners, and we work for general contractors. We have excellent relationships with all the major, major general contractors in the United States. And of course, building owners, we work with some of the top spenders in the United States. And we're looking to rapidly expand that...

Thank you. I apologize for that. Anyway, please mute your phones. So, the customer base, we have over 1,100 direct-to-owner relationships throughout the US, and we're looking to continue to expand that, as well as leverage those relationships into further market share, market spend.

So our strategic goals, so current year into next year, we're going to be looking at the issue of risk management paradigm. Two years ago, we actually oversold the capacity of the business to deliver on that...

All right, folks. We're going to continue on – if we continue to have a problem, we'll probably going to have to end this. It appears someone's hacked us somehow. I'm not sure how that happened. Anyway, I'll continue. So, in terms of redefining risk management, couple years ago, we oversold the capacity of the business in a couple of our locations that cost us dearly. What we did over two years ago was we set new risk management processes in place. I'm going to touch on that in a moment. From a standpoint of liquidity and cash flow, we're very, very focused on how we generate our cash in setting up our projects. We're going to touch on that.

And finally, you're hearing a theme here how we want to expand our owner-direct services. And we're going to touch on how that's coming together. It's pretty exciting how we're starting to see that evolve. And actually over the past number of years, we've seen some rapid growth with our owner-direct services, and we expect that to continue. So when we turn around and look at risk management, in terms of our project selection, we've put quite a few processes in place over the past couple of years to make sure we're taking on the appropriate projects tied to our resources, and what we're doing today is we're leveraging the great talent that resides here at Limbach. We're only taking on projects tied to the availability of our resources, and we're looking to maximize our returns both in terms of margin, as well as improving cash flow. We've actually set up a risk management review committee over 18 months ago. Any project over $7.5 million has to go through that risk review committee, which is a standing committee every Friday morning, and each of our business units have to present their projects.

Occasionally, we say no to a project now, and also in terms of risk profile, we look at our margin returns – What we're going to be – what we're doing is we're looking at the return on our labor and maximizing that. So we're actually increasing margin on a number of our projects when we're in pursuit, and if we don't win them, that's okay. We're actually going to be very focused on cherry-picking the opportunities for the company.

We're also looking at smaller projects. We see tremendous return both in profit and better cash flow on the shorter-duration, smaller projects, and that's really paid off well. Our portfolio of larger projects is coming down. Now having said that, we are still pursuing larger projects in the markets where we have proven capacity to execute the larger-scale projects with customers we trust. So today, we still continue to do quite well. An example would be up in Michigan, we finished the Detroit Red Wings entertainment complex a couple years ago that was over $130 million of value, and so we're continuing to have an appetite for taking on larger-scale projects. We have a great reputation in the Greater Detroit Area for that, and – but as an example, we're only going to be taking over larger projects where we have the capacity, the competent teams, and also have a very trusting commercial relationship with the general contractor, as well as having a relationship with the building owner.

We're also looking to expand our modular construction. We've had great success throughout, I guess, the past number of years, it'd be almost 10 years now that we started doing multi-trade racks, and I've shared this with our investor pool in the past. But quickly, if you think about building a hospital building, which we built many, if you opened up the corridor ceilings, you would see just the massive pipe, conduit, ductwork, control wiring. And what we're doing today is we're actually manufacturing those assemblies in our fabrication facilities and then shipping them out to the job sites. Typically a corridor would take a couple of months to build. We can now actually build a corridor in the course of a week, actually several days once we get the [ph] reputation (23:15) down on a particular project, saving a great amount of time, great amount of labor, less risk, safer conditions, and that's a way of the future. We actually believe we can get to the potential, where 90% of what we do can be prefabricated and shipped out to job sites and erected. So, we're going to continue to focus on that issue of modular construction.

In terms of maximizing profit and cash flow, our second quarter results are clearly with profit, clearly with cash flow. We're doing a much better job. In terms of risk adjusted pricing, I just mentioned the risk review committee. We had one opportunity presented to us by a team, and it was going out on a certain margin, and when we looked at it, we increased the margin by about 20%. And the business unit manager was a bit concerned he wouldn't be able to secure the deal, but we insisted, you have to. And in fact, we did win that particular project, and that opened up the eyes of that particular manager, we could do much better in that marketplace. So, we continue to look at the risk on our project and make sure we have adequate coverage on the margin, and also where can we, quite frankly, jump the margin up for additional return. So we're having pretty good success there. The working capital, it's a matter of setting up the projects properly and preselling, cash flow. On the claims, the company has reported in our earnings release, we have over $40 million in disputed change orders and claims on certain projects that were delayed, not due to our fault, and we're pursuing financial recovery. Each one of those are being worked aggressively, and we expect to see those resolved over the next 12 to 18 to 24 months. It takes time to get them resolved. But we expect that will lead to a further cash infusion into the company once resolved.

We're rationalizing all of our SG&A. With the COVID crisis, we did reduce head count by approximately 18% in the salaried workforce. Some of those folks have come back now that the company is back 100% operating after some shutdowns. But actually many positions weren't brought back, and in fact they won't be brought back. So, we're operating, I think, with a smarter workforce that's helping us with our bottom line, and again, we're continuing to rationalize all of our SG&A.

And finally consistent execution, couple years ago, we oversold capacity. That's not happening today based on all the risk management processes we have in place. But we also have put in place additional oversight resources to make sure we're executing the Limbach way, and that's working clearly, that's coming through our results.

In terms of the owner-direct expansion, you could see a number of points on the slide there. MEP prime is where we're acting actually as the general contractor. Now, these are heavy mechanical, electrical, plumbing projects. The majority of the work are within those building [ph] traits (26:30). But if there's a little bit of concrete, little bit of steel, some paint, wallpaper, stuff like that, we can include that. In fact, we hire a general contractor to work under our contract to do that, but the bulk of the work is MEP. We're having great success with that, and we're looking to continue the expansion of that service offering.

We've had some interesting success working out of market by providing a construction management service by teaming up with a local mechanical contractor. We did a great hospital project in Toledo, Ohio. It was a terrific outcome for the company. Client was thrilled. And we're looking to repeat that success with that offering, where we actually don't provide any labor, but we're providing a professional management service, either with a local contractor or perhaps it's just more of a program management-type role, helping the owner and the general contractor deliver a hospital in a market where we don't have a presence.

Building controls offering, we actually have a relationship with Johnson Controls nationally. We've always had building controls, but we see a great opportunity to expand that even more. That leads to additional maintenance-type contracts with the owners, so we're rapidly expanding building controls and building automation. The technology offering expansion includes items such as predictive analytics, asset management, basically cataloging all of the equipment in a building, and helping customers understand how to manage their capital for improvements and maintenance. And then you also have the energy components. We're seeing some tremendous opportunities to deploy new technologies, and in fact, they're already happening, but we're investigating other technologies we could deploy going forward.

Now, as far as the traditional relationship, we kind of painted a picture earlier about how it all works. But when you look at where the general contractor lies, the subcontractors that work for the general contractor, our goal here is to really continue the development of our relationship with building owners. I mentioned Disney, HCA. Another major customer of ours is actually in Detroit, Bedrock, which is a development arm of Dan Gilbert's empire coming off of Quicken Loans. He's redeveloping Detroit. We're a big part of that, and we're offering our services directly to Bedrock, as well as through general contractors, to help rebuild. But they're doing what I said earlier, we're helping them with their budgets, their design, keeping things in check, maintaining their budgets, so they can get their buildings built for the numbers that they agree upon upfront, not have problems later.

So, a lot of owners are coming to us to help them with their capital investments, their business assets, and we're actually becoming more of a solution provider, where we're listening to their needs and what they're trying to achieve in their business, and then developing that relationship for the long term, helping them figure out the construction sequencing and eventually the operations of their buildings from an MEP perspective.

The engineering group that you see down at the bottom, that's our hallmark. It's referred to as Limbach Engineering & Design Services, LEDS, a terrific group of people, very knowledgeable. What's interesting, there are plenty engineering firms out there, but there aren't many engineering firms that actually build. So when you combine the knowledge of the builder, the engineer, together, then basically what you could think about is kind of a white-collar knowledge of engineering, then you take the tacit knowledge of being a builder, meaning right in the field, the foreman, you bring that together, it's a very powerful combination that allows a building owner to get an optimum solution for their building MEP systems. And that's what we provide. And we think we have a great opportunity to leverage that into a very, very smart play for the future.

So if you look at our business plan five years out, it really is the further integration with the building owner that we're looking to achieve. Today, our building owner relationships and the services we provide, a lot of it has to do with preventative maintenance, emergency and spot works, small projects. But you can see up in the upper right, the building controls and automation, we see a tremendous opportunity for rapid growth with that. And then down at the bottom, I've touched on this already, but these different services we could provide, we're doing a bit of this here and there, but we see an opportunity to rapidly expand each of these services, and that will be both organic, as well as looking at different acquisition-type opportunities, to get us closer to the owner.

So, I'm not going to get into a deep conversation about our future around acquisitions, but rest assured, as we go forward, it'll be tied to how can we get closer to the owner. It probably will not be looking at acquiring more of a traditional mechanical, electrical, construction company, it's going to be more the frontend services, the commissioning services, the energy-related services, all of those types of components to continue our rapid growth.

The other thing I do want to share with everybody is when we look at our traditional general contractor-construction manager relationship, which represents 80% of our revenue today, we expect that to continue to see modest to slight growth, not rapid growth. That's not our focus. We want to see rapid growth with the owner-direct relationship. That's much better cash flow, much better margins. On the GC and construction manager side, we're going to be cherry-picking what we go after. So we have great relationships, great brand, we have terrific engineering, we have terrific builders in our organization. We're going to leverage the resources that we have and maximize our outcome on the GC-CM side, and we're just going to be very, very selective. But on the owner-direct, or ODS as we refer to it as an acronym, we see rapid growth, and again, that will be both organic, as well as looking at acquisition opportunities to continue that growth.

In terms of our guidance we've given to the marketplace, [ph] and like I mentioned (33:13), I'm not going to get into financials today. We'll be releasing our third quarter earnings in due course. But from a standpoint of guidance, we're looking at between $560 million and $600 million of revenue, and adjusted EBITDA between $22 million and $24 million for this fiscal year.

In terms of our liquidity and debt obligations, this slide just gives you a snapshot of where we were as of July 31. You could see continued improvement on our cash position and overall liquidity. And I might – I'm just going to make a comment here. During the early days of the coronavirus and COVID-19 crisis, we actually looked at backing off our strategic plan a little bit [ph] be very tactical (34:00), and I came up the last week of March with three areas of focus: stay safe, get cash, get work. And we had daily management calls on those three areas of focus.

We absolutely stayed safe. We did extremely well, very few impacts of COVID-19 on our company, meaning our employees, and then get cash, obviously dramatic improvement, so get cash, that's not going away, we're going to keep that front and center. In terms of get work, we had weekly calls every Tuesday afternoon at 4:30 with our complete sales force to constantly think through where were the opportunities that the virus is creating and how to deal with our existing customer base to help them, basic reaching out to the customers and saying, well, that played out through the earnings, and obviously here with liquidity and cash; the get cash part really worked out well and we're not backing off that. I think that's really worked out well. A quick comment on our debt, we have some very expensive debt that we're working our way through. I will share with everybody, we are laser-focused on working our way out of that and getting to a more normalized facility, I can't comment any further, but that is a huge focus of management right now.

In terms of valuation considerations, I think we're clearly discounted to our competitors out there. They are much larger than us in terms of revenue and what they're doing. We think, over the course of sometime, we're going to catch up and do quite well. But I believe, when I look at where we're at as a company, we are undervalued. We're seeing, obviously, some good appreciation in the market over the past couple of weeks. I think people are really taking note of our company. I'll also share with you that through our [ph] form force (35:57), perhaps you've seen that, management has been buying. And I'll leave it at that. But we're obviously investing in our own company. We believe in our future.

And we're going to open this up to Q&A now. And if you have any questions after this presentation and after this period, please reach out to Jeremy or Matt with any questions. They'll be very responsive and help you hopefully with your question and give you an answer, providing we can provide that answer.

So with that, Jeremy, I'd like to open it up to questions.

# QUESTION AND ANSWER SECTION

**Jeremy Hellman**
*Vice President, The Equity Group*

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Okay. Thanks, Charlie. And thanks for everyone's patience there. And let's give everyone a minute to see if we get some questions coming in via chat. And if everyone's feeling shy, no problem, we're certainly happy. Matt and I are going to field your questions offline, if people are happy to do so.

Still no questions coming in, Charlie. Do we want to give another minute or two, or if we want to wrap up, our contact info is there, [ph] or actually hope (37:10) – got a question that just came in, a couple. First one, someone's asking about contracts, are they fixed fee? If you could maybe elaborate a little bit on contract structure would be helpful.

**Charles A. Bacon**
*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

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Sure. Our contracts vary. It depends upon the needs of the customer, and what's the best economic situation for our company. Certain contracts are fixed. Other contracts will provide guaranteed maximum price with a fee. Generally, the fee will go up if the cost of work goes up. A number of our contracts that are lump sum, obviously we're looking to minimize our expense and maximize the fee outcome by minimizing labor or other expenditures on the project to maximize profit. So, it varies depending upon the customer need and what they are looking to do. And we've had great success doing all sorts of forms of contract, including – although not – it's not a regular occurrence, but occasionally we'll sell a cost-plus type contract with a fee markup on top of that.

**Jeremy Hellman**
*Vice President, The Equity Group*

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Okay. Another one asking about your competitors, is anyone else pursuing a similar strategy with respect to the owner-direct model?

**Charles A. Bacon**
*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

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It's kind of interesting. If you look at mechanical contractors in the United States, many of them start evolving to this over the course of time, where they'll really focus in on service and maintenance. What we're looking to do is to go way beyond that. I mentioned the issue of predictive analytics, getting involved with asset management, but more importantly, providing professional services like construction management, program management, where we're actually going in, listening to a customer's needs, and coming up with a really custom-tailored solution to help their business. So it's beyond just providing the preventative maintenance and the typical pull-through you get off of that type of work. This is really going upstream and providing a service.

And by the way, just a bit about my background, I've been here now for 17 years as CEO. But prior to that, I was 21 years with a construction manager. It's now known as Lendlease. We had sold the business. I stuck around for a few years then came over to Limbach. But what we did over there was provide those professional services to owners. And what we see here at Limbach, it's a great opportunity for us to, quite frankly, do what I did at my last company and provide those professional services upfront. I think – excuse me, we know owners are thirsting for predictability, and we believe by providing those professional services upfront, we can do that.

The other part of our professional services we're looking to expand is really the startup of buildings. When a building is completed, a general contractor – one of their toughest tasks is actually getting the building operating and turning it over to the owner. I've had this conversation with many, many CEOs of big construction managers and general contractors, and they are thirsting for a service for us to come in and really help them get those buildings up and running. So even if we didn't build it, it will allow us to help them, the general contractor, basically providing a good solution to their issue. But an important part of that is it provides the introduction of Limbach to the building owner on a building we did not build. So frontend services, commissioning, or backend services will lead to the relationship with the owner. So, again, we're – the constant conversation with management right now is, all right, cherry-pick on the GC-CM side, but it's all about moving to the owner.

**Jeremy Hellman**
*Vice President, The Equity Group*

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Okay. I've got a couple here on M&A for Matt. Question is, what do you want to see in terms of business performance and financial condition before you feel like you're in a good spot to proceed with M&A?

**Samuel Matthew Katz**
*Executive Vice President-Mergers, Acquisitions & Capital Markets, Limbach Holdings, Inc.*

A

I think our prerequisite for engaging more aggressively in the M&A program is feeling confident in the fundamentals of the underlying business and the market generally. We've worked very hard to generate the performance that we have year-to-date and to meaningfully improve the working capital position and the company's liquidity position. We'd certainly like to refinance the senior credit facility at the appropriate time, as Charlie and Jayme and I have mentioned in other forums. And I think giving ourselves the flexibility, from a balance sheet perspective, to complete an M&A transaction without stretching the boundaries of what we feel is an acceptable level of leverage is probably one of the key gating issues. We've talked at various times about being comfortable with leverage that's perhaps somewhere between 2 and 3 on an interim basis, with the opportunity and clear visibility to de-leveraging on the back end of that, so that we can go out and then identify the next opportunity and continue to invest in the business.

So, again, the focus is on continuing to generate solid earnings and feeling like we've got good visibility in our core markets and a good pipeline and good momentum behind the strategic pivot from the business that's largely been heavily weighted towards construction in the recent past but is increasingly moving towards being weighted towards ODS, and really feeling like the M&A opportunities will further support that strategy, to Charlie's earlier comments, and provide us with another asset to put in the portfolio, so to speak. It gives us another driver for earnings and additional diversification from a geographic, customer, and project point of view.

So, I think, again, the focus of all this, we own the balance sheet, and then [indiscernible] (00:43:18) just on finding good opportunities. I think we're eager to get something done for the benefit of the business versus being eager to get something done just because opportunities are out there. So, we've been reasonably disciplined around that. Historically, we pass on many, many opportunities that don't get very far, and we kind of dedicate some scarce resources towards the ones that are interesting and those are out there. But we've also got a base business to run, and we're not going to take our eye off of that.

**Jeremy Hellman**
*Vice President, The Equity Group*

A

Okay. Thanks, Matt. Next question. Talking about the de-risking when it comes to contracting and labor. And the question is, why did you wait till now to do that? Why wasn't that an embedded process already? Why isn't that the industry standard for that matter?

**Charles A. Bacon**
*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

A

Yeah. Great question. Look, in 2016 into 2017, we actually sold work. And now when you look at these larger projects, they take 24, 30 months to build. So, some of the challenging projects we've faced back in 2016, we took them on with an understanding we had proper labor to execute all of that work. But what happened on these projects, we found that they were being delayed not due to us.

One particular project, we were building a stadium known as D.C. United, and the structural steel was six months late. And we can't build anything without the steel being up. And that end date didn't change. That game was going to be played one way or the other, and the stadium had to be finished. So, it just got massively compressed, and we had to work all sorts of hours, all sorts of days with different shifts. And we were compensated for some of that. But when that happens typically, it's usually not a good outcome. And in our case, it wasn't.

So, what we did, and it was – it's over 18 months ago now, we put in place – I guess it's two years now – the risk management processes that we're using today. So, the backlog that we've been selling over the past couple of years has been thoroughly scrutinized, and we've taken on work that we feel really good about as opposed to where we were at back in 2016 and 2017.

One of the other things we did in our company, we have certain risk processes that's been in place for years, but each business unit goes through all of their projects each month. It's called a monthly project review, an MPR, and that rolls up into the monthly branch review or MBR. I attend that, the COO attends that, our CFO attends that, along with several other executives; and the branch has to present where they're at.

One of the key components that we instituted – it's, again, over a year and a half ago, labor management curves. And we now – they have to present to us where they're at with their backlog of work and what they have coming up in sales that they expect to win. And then you can see the projection of their labor needs, as well as project management, and then you can see where the curve drops off, and that's where the new sales are needed. So, we're only selling now the capacity of the company to deliver.

The other thing I might add with the virus hitting, while the industry is still very busy because we were off the backlog, you're starting to see some ease in labor. So, we're not going to take our eye off the ball. But the good news is, it's easing a bit, the boom is off. And that's good, I think, for the industry because the industry was overheated.

So, we put these things in place over the past couple of years, and you're now seeing the economic returns for the business come through. Q4 was good. Q1 was good. Q2 was good. I'm not going to comment any further about the future for us, but we're seeing the fruits of our labors in deploying better risk management.

The last thing, and I'll just admit this humbly, I've been in the business a long time and I'd managed risk for a long time. I did not see the labor shortage hitting the way it did in 2018 and 2019. I'm very proud of my company in terms of how we take care of people. We've never had a problem finding people. But the labor shortage really impacted the whole industry where you saw structural steel showing up late, other contractors not doing their work because they couldn't find people. So, again, I made a mistake in not seeing that. That cost us dearly. But going forward, we've worked our tails off to make sure we have the proper risk management oversight in the business. I'm quite pleased with what we have today, and our COO is doing a tremendous job.

**Jeremy Hellman**
*Vice President, The Equity Group*

A

Okay. Next up is a question about margins. How do your overall profit margins compare to your competitors?

**Charles A. Bacon**
*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

A

I think there's still opportunity for us to do better. I think from the standpoint of where we're selling our margins, our risk review committee is – where we see the opportunity, we're pushing margins up. We also see the opportunity on the owner-direct side. That's a much better margin profile. So, as we continue to rapidly expand that, we'll see better operating results come through on our bottom line.

When you look at the gross profit margins of the two segments, construction generates margins between 8% – and that's a very low number – on up to 15%. Generally, it's a 12% with a blended number. On the owner-direct, we're anywhere from 15% – and, again, that's on the very low end – on up to 40% with a blended rate of about 25%. So, we see opportunity to do a little bit better there. I think we can do better.

The other component, in terms of operating contribution, I mentioned earlier, we're I think doing a much better job of at rationalizing SG&A, [indiscernible] (00:49:19) focused on it, so we can contribute better on our bottom line.

I think there is some work. We still have opportunity there. We see actually within that, there's better purchasing power for us to go out nationally to do certain things, and we're actually working our way through that. That's going to add – excuse me, reduce certain costs in the business, and that will drop to our bottom line, which I think we'll get more [indiscernible] (00:49:46) with the likes of our publicly traded peers. So, we have work to do in front of us, but we see improvement in our future.

**Jeremy Hellman**
*Vice President, The Equity Group*

A

Great. And next one, a similar question around competitors in the marketplace. And that is, as you move to focus on smaller jobs, is that a more competitive market in terms of more contractors bidding for the work?

**Charles A. Bacon**
*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

A

Yeah. Look, we're not a contractor. If someone comes to me and say, I have an opportunity on bidding against six other mechanicals, we just shut that down. We're not interested in getting into the bid game in low price. That's not our company. We're not a low-price provider. We're all about building relationships up with our customer base and negotiating our work. So, when we see an opportunity, we're usually pretty early to the game, whether it's with a general contractor or working with the owner to get to a negotiated stance. They may have a competitor or two that we'll work with, but we're not looking to get involved where there's going to be six other competitive bids. That's not what our company does.

**Jeremy Hellman**
*Vice President, The Equity Group*

A

Okay. Next one is asking about opportunities to work with HVAC technology owners as a way of limiting virus risk in structures. Is that an opportunity for you?

**Charles A. Bacon**
*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

A

What we're seeing right now is there's a lot of filtration opportunities out there with bipolar ionization and UV filtration. We're seeing a lot of opportunity with that, especially in the health care side. But we actually introduced it to schools. It was about two months ago where we put a very concerted effort out there knowing K through 12 was going to be opening back up.

So, we reached out to our school district customers, or even customer [indiscernible] (00:51:42) potential new customers with school districts, make them aware that there's some different ways to create better indoor air quality, apart with commercial office buildings. There's a lot of opportunity for us there, again with the air filtration, different filter media, but also more high-tech-type filtration to get occupants comfortable with coming back to buildings.

So, we're working that very aggressively. We see that as a nice market. We are picking up business with that. That's pretty much with our owner-direct type opportunities. And then with our new construction, our engineering groups are working with different design professionals for the design that we're recommending to put in high-tech filtration just to get the building to the next level of air filtration so people feel better up being occupied in those buildings.

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**Jeremy Hellman**
*Vice President, The Equity Group*

A

Great. Thanks, Charlie. Another one for Matt on the M&A side. Can you give us an example of an acquisition that would support ODS?

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**Charles A. Bacon**
*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

A

You're on mute, Matt.

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**Samuel Matthew Katz**
*Executive Vice President-Mergers, Acquisitions & Capital Markets, Limbach Holdings, Inc.*

A

Thanks, Charlie. We see a variety of opportunities, obviously, but the ones that would support the ODS strategy are somewhat over the map. But to give you an example, this would be a privately owned and operated business in a secondary or tertiary geography. It's a somewhat protected region from a competitive standpoint. The business – [indiscernible] (00:53:14) revenue number for argument's sake. If it's a $50 million business, perhaps two-thirds of the revenue comes from a series of relationships with small-, middle-market industrial companies that may be in food and beverage, specialty chemicals, light manufacturing, perhaps Tier 2 and 3 auto parts.

And in those cases, the contractor is literally inside the chain-link fence 24 hours a day, 7 days a week, working for the owner of that facility on maintenance and small capital projects. And the remaining third of revenue is likely larger dollar construction end market for health care or for higher education, servicing the local or regional hospital chain or the local or regional university system. And so, when there's a larger capital project in one of those end markets, the target company almost certainly gets the work given relationships between the customer and the owner of the business and control of labor in that market.

So, again – but there are no two businesses that are the same, but that's one example of a business that would be very supportive of the ODS strategy given the significant amount of work of a small dollar value in both maintenance and small capital projects, and that's performed for the facility owner or the facility owners.

The other example would be just a small service tuck-in acquisition, perhaps in an existing geography where we see an opportunity to accelerate the growth of our maintenance base. And our pull-through work, again, probably a privately owned and operated company, second- or third-generation, maybe $10 million or $15 million with $2 million or $3 million of maintenance base, and an owner who's in his late [ph] 60s (00:55:04) and he's looking for a transgenerational transition or a liquidity event and who doesn't have children in the business or wants to see his company go to a good home, and who has worked either for Limbach or alongside Limbach for many, many years, knows the company, knows the individuals, and feels very comfortable with us taking that business coming forward.

So, two of many data points, but hopefully representative of things that are in the market that would support the ODS strategy.

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## Jeremy Hellman

*Vice President, The Equity Group*

Great. Thanks, Matt. Well, that gets us to the end of our question queue. So, Charlie, I'll give it back to you for a couple closing comments if you like.

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## Charles A. Bacon

*President, Chief Executive Officer & Director, Limbach Holdings, Inc.*

Yeah. Look, please, if you're interested in our company and you want to learn more, reach out to Matt, reach out to Jeremy, and they'll be very responsive, so we can help educate you a bit more about where we're going, what we're doing.

I want to deeply apologize to everybody. We got hacked somehow, and I don't know how that happened. But I think all of us were hearing about how Zoom calls occasionally being hacked, especially at schools with terrible stuff. So, I heard what I heard; my apologies if you heard the same thing. We're going to be looking into that and make sure that – learn how to prevent that in the future.

Look, we're excited about our future. We had a couple of challenging years. We're back to where we should have been a couple years ago. But I'm very excited about our future. We're – I think we're working all the right levers to properly grow our business and we're taking it in the right direction that will maximize our bottom line.

So, thank you so much for your interest and wish you all the best.