BMSS Presents:

A Construction Update

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CONSTRUCTION INDUSTRY BRIEFING

Construction Risk & Opportunity Update

Tariffs • Form I-9 enforcement • Tax method changes

What construction leaders should review now

IEEPA tariffs
Workforce compliance
Long-term residential contracts tax treatment

BMSS Advisors & CPAs | August 2026

Today's Discussion

Three developments that can affect construction cash flow, compliance, and tax deferral opportunities.

1

Tariffs & IEEPA Refunds Update

Eligibility, documentation, refund timing, and accounting implications.

2

Form I-9 Enforcement Implications

Inspection readiness, substantive-error exposure, and workforce process controls.

3

Residential Contracts

Long-term contract tax method change for Residential Contracts.

Recover what is available. Document what is defensible. Act before a deadline drives the timeline.

IEEPA Tariff Refunds: A Cash-Recovery Opportunity

Refund activity is underway, but eligibility and filing mechanics matter.

Companies that paid certain IEEPA-related tariffs may be eligible for refunds through CBP's CAPE process.

- Determine who was listed as Importer of Record on affected entries.
- Confirm ACE Secure Data Portal access and refund-payment information.
- Compile entry data, duty-payment records, broker details, and liquidation status.

Eligibility starts with importer status

Only the Importer of Record or an authorized customs broker filing on the importer's behalf may submit a CAPE Declaration.

Tariff Refund Readiness: Build the File Before You File

Finance, operations, and customs data should be reconciled before submission.

1

Identify

Map affected imports and verify Importer of Record status.

2

Gather

Collect entry numbers, duty records, liquidation status, broker data, and payment instructions.

3

Submit

Prepare CAPE Declaration CSV files through the ACE Portal.

4

Record

Track refund status and record expected refund receivables.

BMSS notes that valid refunds generally may be issued within 60–90 days after acceptance, although timing can vary and complex entries may take longer.

Form I-9 Enforcement: Construction Is a High-Exposure Environment

Faster response windows and broader error classifications make weak documentation riskier.

Why risk is elevated

High turnover, seasonal hiring, subcontractor relationships, and rapid field onboarding can create inconsistent completion and review practices.

What enforcement looks like

Increased worksite enforcement, expanded treatment of certain errors as substantive violations, and very short response periods after a Notice of Inspection.

What errors can cost

Substantive paperwork violations and knowingly employing unauthorized workers can create material per-form or per-worker penalties, plus operational disruption.

The risk is not only the fine — it is the disruption of pulling records, correcting gaps, and responding while projects are moving.

I-9 Readiness: Four Controls to Strengthen Now

Build a repeatable process that works at headquarters and in the field.

1	**Audit the current population**	Verify every employee has a properly completed form and identify correction needs before an inspection.
2	**Correct errors properly**	Use transparent correction procedures; do not erase or conceal the original entry.
3	**Standardize onboarding**	Assign a trained owner and consistent review steps for every new hire.
4	**Prepare an inspection response plan**	Know where records live, who responds, and how projects continue during an inspection.

Target state: inspection-ready in hours, not days

Construction Tax Method Changes: Residential Contracts

Accounting methods can materially affect when tax is paid on contract income.

Old Rule

- Long-term contracts (spanning over 2+ tax years) were split between Home and Residential
- Home = 4 or fewer dwelling units
- Residential = All other housing construction
- Home –
    - Cash or completed contract methods available regardless of size
    - no AMT implications
- Residential –
    - Cash or completed contract methods available only for “small” contractors
    - AMT assessed on contract book income (i.e. no true deferral)

New Rule

- Long-term contracts (spanning over 2+ tax years) are NO LONGER split between Home and Residential
- Residential are now treated under the same favorable methods as Home contracts:
    - Cash or completed contract methods available regardless of size
    - No AMT implications

New Rule effective for contracts STARTED in tax years beginning after July 4, 2025: 2026 tax year for calendar taxpayers

Residential Contracts: What This Means for You

Three things to align with your CPA now that the AMT prepayment is gone.

1

Identify & Communicate

For every long-term contract, determine whether it qualifies as residential and tell your accountant — don't assume they already know.

2

Tax Is Truly Deferred

AMT no longer applies to residential contracts. The 25–27% AMT prepayment is gone, so tax on that income is now genuinely deferred to a future period.

3

Commercial Contracts Unchanged

No law changes affect long-term commercial contracts. The existing method rules apply exactly as they did before.

Bottom line: early identification captures the deferral benefit — waiting until filing time means it may be missed.

Three actions to take back to your team

Recover	Assign ownership for tariff-refund eligibility, documentation, filing, and cash reconciliation.
Protect	Conduct an internal I-9 audit and standardize onboarding and inspection-response procedures.
Optimize	Assess your long-term contracts for eligible residential contracts.

General informational purposes only; not legal, customs-brokerage, or tax advice for any specific taxpayer.

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CONSTRUCTION M&A UPDATE

Mergers and Acquisitions in Construction

Market conditions, valuation, process, and readiness, from both sides of the table

www.bmss.com (833) CPA-BMSS August 25, 2026

AGENDA

Three parts

01	**The construction M&A market** Slides 4 to 10	Deal volume and value, which trades are consolidating, and what earns a contractor a premium
02	**Transaction readiness** Slides 12 to 16	Why most companies are not market ready, and the work that changes that
03	**Sell-side process and due diligence** Slides 18 to 26	How a sale runs, what a quality of earnings tests, and how the number moves

PART 01

The construction M&A market

Deal activity, valuation, and what earns a contractor a premium.

01

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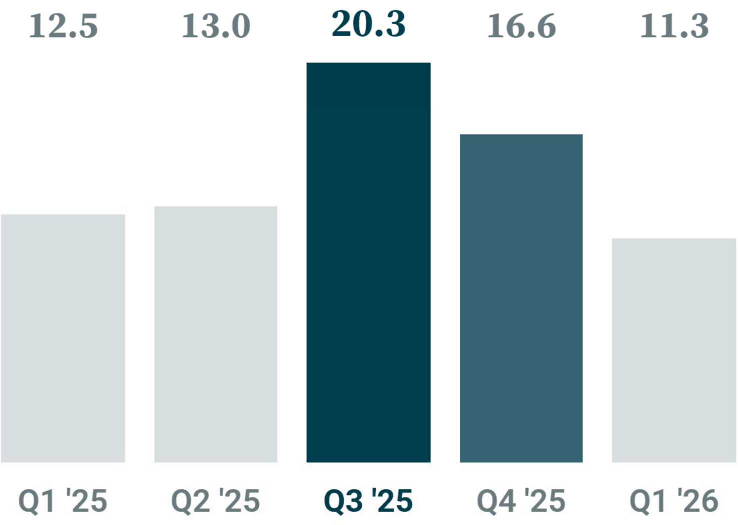
Contractor deal flow is running at a record pace

CONSTRUCTION DEAL VALUE BY QUARTER ($B)



896

Construction deals in 2025

Up 36% from 659 in 2024, worth $58.2B, a 22% increase in value

881

Trailing-twelve-month deal count

Versus 736 a year earlier, up 19.7% through March 2026

Source: PitchBook Q1 2026 Construction & Engineering Report, the most recent available. Construction segment only, excluding engineering and construction technology. Data as of March 31, 2026.

Consolidation comes one trade at a time

Roofing is the clearest example. Private equity deal count, 2019 versus 2025

HOW THOSE 67 DEALS BROKE DOWN

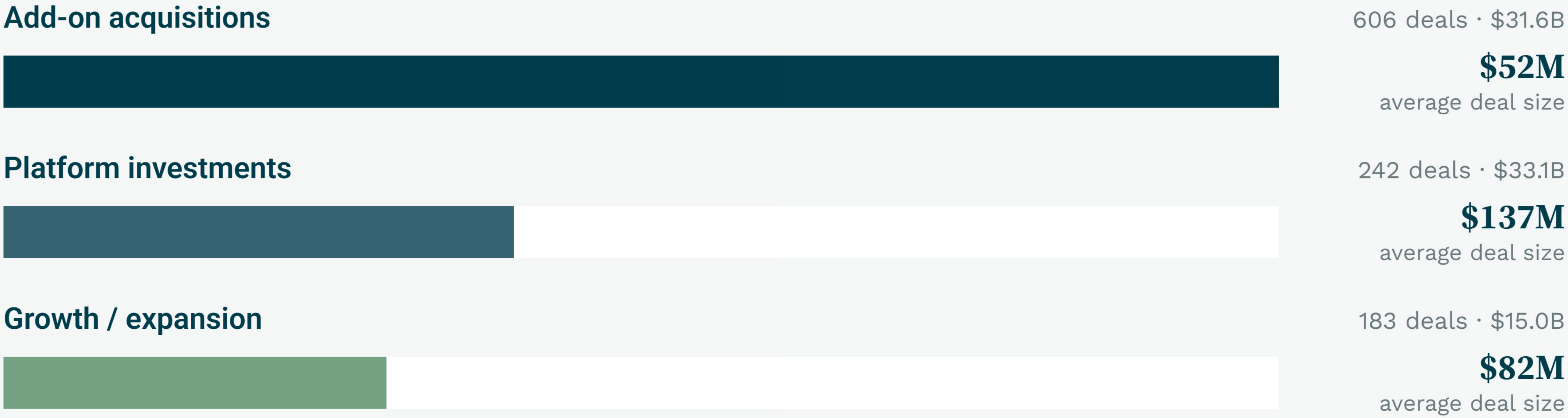
Add-ons to existing platforms	48
New platform formations	10
Growth investments	9

Most roofing contractors are small and owner-operated, and no national player has real scale. That fragmentation is the whole investment case, and it describes plumbing, electrical, concrete, and metals just as well.

Source: PitchBook Q2 2026 analyst note on the roofing sector. US and Europe, as of March 31, 2026.

How capital is being deployed

Deals by type, January through September 2025. Construction and engineering combined, so counts are not comparable to the previous slide.

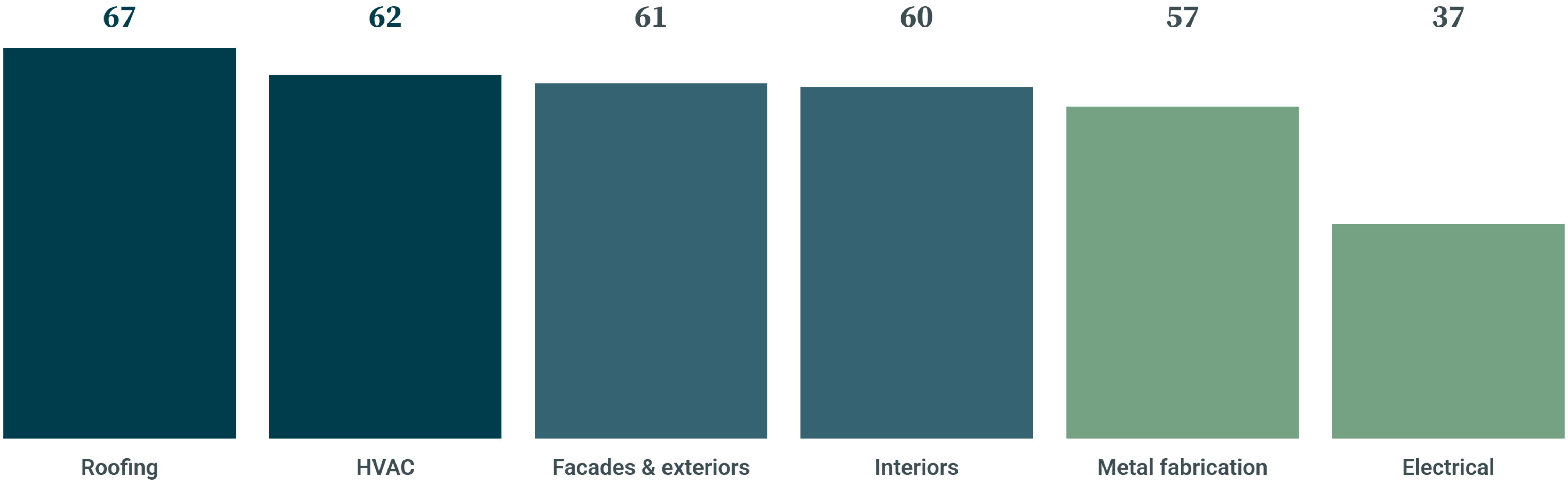


Bar width shows deal count. Most owners selling today are selling into an existing platform, at an average of about $52M. Platform deals run nearly three times larger because the buyer is acquiring the anchor company it will build around.

Source: PitchBook Q3 2025 Construction & Engineering Report, the most recent report breaking deals out by type.

Specialty trades lead consolidation

Number of private equity deals by trade, full year 2025



Specialty trades led every other subcategory in deal count last year. These trades stay fragmented and attractive for roll-ups, though interiors, HVAC, and concrete are showing early signs of slowing as valuations climb.

Source: PitchBook Q1 2026 Construction & Engineering Report. North America and Europe, as of March 31, 2026.

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What earns a contractor a premium

Recurring service & maintenance work

Service-heavy contractors with recurring revenue, high customer retention, and regional density command 10x to 12x EBITDA or more. Hard-bid project work alone does not.

Nondiscretionary demand

Roofs fail and buildings age regardless of the cycle. Reroofing, replacement, and maintenance revenue holds up when new construction slows, and buyers pay a premium for that resilience.

Scale that wins bigger work

Buyers pay for platforms that can bid larger contracts, share back-office cost, and pool purchasing. Those are the levers that turn add-ons directly into EBITDA growth.

Where the runway still is

The strongest forward returns are in plumbing, electrical, roofing, interiors, and metals. HVAC valuations are already elevated enough to compress future returns.

Sources: PitchBook Q4 2025 and Q1 2026 Construction & Engineering Reports; Q2 2025 HVAC analyst note

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What businesses like yours trade for

Median enterprise value as a multiple of EBITDA, by deal size. Reference points, not a quote.

THE SPREAD IS THE POINT Crossing $100M of enterprise value is worth roughly four turns of EBITDA. Within any size band, revenue mix and customer retention move the multiple far more than one good year does.

Sources: PitchBook US PE Middle Market Report, medians by deal size bucket, North America and Europe; PitchBook Q2 2025 HVAC analyst note for the service-heavy range. Deals above $5B clear 16.9x, but they are not a comparable for this audience.

Why buyers remain active

01	**Industry fragmentation**	Most trades are still small, owner-operated businesses with no national player at scale, room for platforms to keep buying.
02	**Reshoring & infrastructure spend**	Domestic factory and warehouse construction, grid expansion, and datacenter build-out are filling backlogs.
03	**Relative insulation from tariffs**	Many large projects were funded before recent volatility, and labor-driven segments carry less tariff exposure.
04	**A technology overlay**	Digital project management, AI-driven scheduling, and safety monitoring add value on top of traditional platforms.

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PART 02

Transaction readiness

The work that sets your multiple happens years before you go to market.

02

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Most companies are not market ready

6% close on their desired price and terms
14,000 companies

12% complete a transaction at all
30,000 companies

20% are deemed market ready
50,000 companies

100% of the 250,000 owners looking to exit
250,000 companies

Closing the gap between the base and the apex is the subject of the rest of this session.

Source: Pepperdine Private Capital Markets Research, lower middle market companies looking to exit by 2030.

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A three-year readiness timeline

The time to prepare for a sale is not during the middle of one. You only sell the company once.

36 MONTHS OUT

- Entity and tax structure review
- Clean up related-party and personal expenses
- Estate and gifting planning while value is low

24 MONTHS OUT

- Upgrade the accounting function and monthly close
- Move to accrual basis with proper cut-off
- Build a second layer of management

12 MONTHS OUT

- Contracts, leases, and licenses assignable
- Address customer concentration and pricing gaps
- Interview bankers and assemble the deal team

6 MONTHS TO CLOSING

- Sell-side quality of earnings
- Working capital analysis and target support
- Data room assembled before launch

OPTIONS AVAILABLE → CLOSED

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The financial infrastructure buyers expect

None of this is exotic. It simply takes longer than the eight weeks you will have once a buyer is engaged.

Basis of accounting

TODAY
Tax or modified cash basis

BUYER EXPECTS
US GAAP, accrual with consistent cut-off

Job cost detail

TODAY
Tracked in the field, reconciled late

BUYER EXPECTS
Job-level cost and margin tied to the ledger

Work in progress

TODAY
Prepared annually for the surety

BUYER EXPECTS
Monthly WIP with over and under billings

Monthly close

TODAY
Closed loosely, adjusted at year end

BUYER EXPECTS
Closed within 15 days, no year-end plug

Assurance level

TODAY
Compilation or internal statements

BUYER EXPECTS
Review or audit for two to three years

Forecasting

TODAY
Annual budget, informally tracked

BUYER EXPECTS
Rolling forecast with variance history

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What moves the multiple

▲ Drivers of a premium

- Recurring service and maintenance revenue
- Diversified customer base with long tenure
- A team that runs the jobs without the owner
- Demonstrated pricing power and stable gross margin
- Clean, timely, GAAP basis financial reporting

Detractors that get priced ▼

- One customer or general contractor above 20% of revenue
- Owner holding the key relationships and the bidding
- Deferred maintenance on fleet and equipment
- Untimely job reports and inaccurate revenue recognition
- Undocumented add-backs and personal expenses

Each of these lowers or raises perceived risk. Risk is what sets the multiple.

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Assembling the deal team

INTERNAL

CFO or controller

Plus the two or three managers who will sit in buyer meetings

FINANCIAL AND TAX

CPA and transaction advisor

Plus the investment banker who runs the process

Owner

You set the goals

LEGAL

M&A attorney

Plus specialty counsel for employment, environmental, or intellectual property

PERSONAL

Wealth manager

Plus an estate attorney, engaged before value steps up

Assemble this team before you need it. The first time these people meet should not be the week a letter of intent lands.

PART 03

The sell-side process and due diligence

03

How a sale actually runs, what gets tested, and how the number moves.

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Three ways to run a sale

	Negotiated sale	Limited auction	Broad auction
Buyers contacted	One to three	**Twenty to sixty, pre-qualified**	One hundred or more
Confidentiality	Highest	**Manageable**	Hardest to control
Price tension	Low	**Strong**	Strong, but noisier
Management burden	Light	**Moderate and scheduled**	Heavy
Timeline	Three to five months	**Five to seven months**	Six to nine months

For most lower middle market contractors the limited auction is the right instrument: enough competition to set a real price, enough control to protect customers and key employees.

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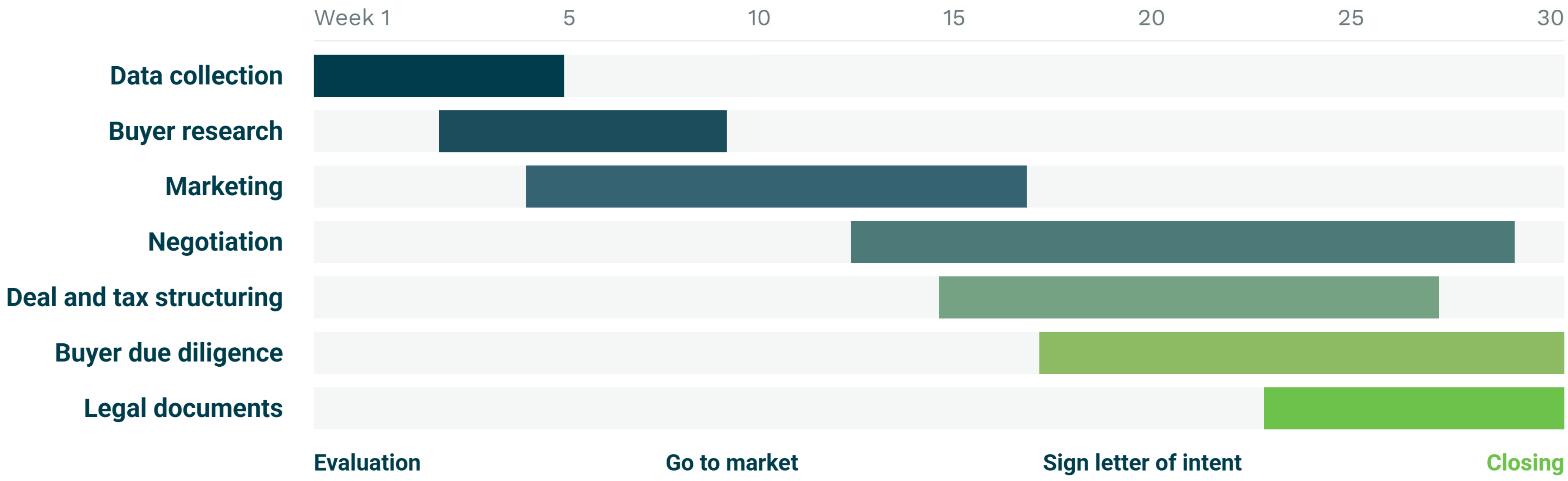
Selling a business takes about 30 weeks

General timeline for a limited auction



Your leverage peaks the day before you grant exclusivity, so everything that matters to you belongs in the letter of intent.

Reading a letter of intent

NON-BINDING

Letter of intent

BINDING EVEN SO

Confidentiality, exclusivity, and diligence expectations bind you from the day you sign.

01 Price
Enterprise value and the adjusted EBITDA it is based on

02 Consideration mix
Cash at closing, escrow, earnout, seller note, rollover equity

03 Working capital
How the target is defined, what it includes, and who computes it

04 Structure and tax
Asset or stock, pre-closing reorganization required or any 338(h)(10) or 336(e) elections

05 People
Your role after closing, key employees, and non-compete scope

06 Exclusivity
Length of the no-shop, closing conditions, financing, and broken-deal costs

Letters of intent keep getting longer, and more of the negotiation now happens here. Compare net cash at closing and risk, not headline enterprise value.

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Quality of earnings versus audit

	Quality of earnings	Audit
Objective	Help buyers and sellers understand historical performance, trends, working capital, and accounting policies	Determine conformity with the applicable financial reporting framework
Area of focus	Income statement and earnings	Balance sheet
Basis of presentation	US GAAP plus adjustments	US GAAP
Period covered	Two or more fiscal years plus the last twelve months	One to two fiscal years
Materiality and scope	Agreed with the client in the engagement letter	Set in audit planning under audit standards
Timing of work	Before the transaction	After fiscal year end

A clean audit does not substitute for a quality of earnings. Audited contractors routinely see meaningful adjustments in diligence.

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What a quality of earnings actually looks at

Adjusted EBITDA
Management adjustments · Pro forma · Run rate · Normalized earnings

Net working capital
Diligence adjustments · Cash-free, debt-free · Normalized levels · Target peg

Revenue
Percentage of completion · Contract mix · Change orders

Cost of goods sold
Job margins · Labor burden · Material inflation · Subcontractor costs

Operating expenses
Trends · Add-backs · Nonrecurring or personal expenses · Payroll

Proof of cash
Cash conversion · Cash management · Revenue support

Receivables
Current versus noncurrent · Collections · Retainage · Bad debts

Payables
Current versus noncurrent · Key vendor payment terms

Customer analysis
Concentration · Profitability · General contractor relationships · Related parties

Vendor analysis
Concentration · Supply chain · Related parties

Fixed assets
Fleet and equipment age · Planned purchases and repairs

Historical period
Two to three years plus year to date · Monthly analysis

Backlog
Signed backlog and gross margin by job · Contract schedules tied to the general ledger

Over and under billings
Overbillings as borrowed cash · Underbillings as unbilled work and margin risk

Every box on this slide is a place a deal can go sideways, and a place we can add value.

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From book income to adjusted EBITDA

LINE	AMOUNT	HOW A BUYER TREATS IT
Reported net income	$2,150,000	Starting point
Interest, taxes, depreciation, amortization	1,480,000	Accepted
Owner compensation above market	640,000	Accepted with a market-comp study
Personal expenses run through the company	185,000	Accepted only where documented
Above-market related-party rent on the yard	120,000	Accepted, requires a market lease at closing
One-time gain on equipment sale	(210,000)	Removed as non-recurring
Understated accrued vacation and bonus	(165,000)	Buyer adjustment on accrual review
Adjusted EBITDA	**$4,200,000**	The number the multiple is applied to

Illustrative. At an 8.0x multiple the two adjustments in red are worth $3.0 million of enterprise value.

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Sell-side and buy-side engagements

PREPARE — LETTER OF INTENT — CLOSING

Sell-side: before launch

You commission it, you see it first

01 Finds the issues while you still control narrative and timing

02 Sets the tone on items subject to interpretation

03 Identifies add-backs that bring value to the seller

04 Shortens diligence and reduces the odds of a re-trade

Buy-side: after the LOI

The buyer commissions it, and reads it first

01 Validates the earnings the buyer is underwriting

02 Supports the debt the lender will advance against

03 Sets the working capital target and flags debt-like items

04 Informs representations, indemnities, and escrow sizing

Both reports ask the same questions. The difference is who is holding the pen when the answers come out.

NEXT STEPS

Where to start this quarter

1

WEEKS 1 TO 2

Know your number

A calculation of adjusted EBITDA and an indicative value range, so every decision has a frame.

2

WEEKS 3 TO 6

Find your gaps

A readiness assessment across financial reporting, tax exposure, contracts, and management depth.

3

THE REST OF THE YEAR

Fix the expensive ones

Sequence the work by what a buyer will price, starting with the items that need the longest runway.

> The best time to do this work is when you are not selling. It is the only time you have leverage over the calendar.

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AI for Construction Companies

What you can use right now, and how to start without betting the farm.

Micah Murphy, CPA

Manager, AI Advisory Lead · BMSS Advisors & CPAs

WHY THIS MATTERS NOW

The problem is capacity, not hype

None of this is about robots running the job site. It's about cutting the hours lost to searching, retyping, and reconstructing what already happened.

92%

of contractors say they're having a hard time filling open positions

45%

say labor shortages are the leading cause of project delays

61%

are already using AI or increasing AI investment this year, up from 44% a year ago

Source: AGC/NCCER 2025 workforce survey (92%, 45%); AGC/Sage 2026 Construction Hiring and Business Outlook (61%).

PLAIN TERMS

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Think of it as a very literal new hire

Two years ago, AI meant a chatbot: one question, one answer, no memory of your business. Today's tools work more like a new hire you brief in writing. You give them a bounded assignment, access to a specific set of approved files, and a few tools. They do the work and hand it back for you to check, and they stop at anything that needs your judgment.

THEN: A CHATBOT

- One question, one answer
- No memory of your files or your firm
- You verify everything yourself

NOW: AN AGENT

- Works from a written assignment
- Uses your approved files and tools
- Shows its sources so you can check it

“Agent” does not mean independent authority. It means bounded, assigned work.

THE BOUNDARY THAT MATTERS MOST

Where AI helps, and where it doesn't

STRONG FIT

- Searching past projects and records
- Comparing documents side by side
- Summarizing long files
- Drafting a first version for review

NEEDS A NAMED PERSON

- Committing to a price
- Changing the schedule
- Anything safety-related
- Any promise made to a customer

AI can support a decision. It should not make one.

ACROSS THE PROJECT LIFECYCLE

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Where it fits across your business

PRECONSTRUCTION & ESTIMATING	PROJECT MANAGEMENT & FIELD	CLOSEOUT & BACK-OFFICE
• Finding comparable past bids • Checking spec sections for exclusions	• Drafting RFI responses • Tracking submittal status	• Assembling closeout binders • Summarizing daily logs

Which box has the most repetitive searching or rework at your firm? That's your pilot candidate.

THE OPERATING MODEL

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A safe way to start

Limit what it can see

Give it a bounded, approved set of files - not your whole server.

Require evidence

Every answer has to point back to a real source you can open.

Name the reviewer

One person owns the final call before anything leaves the building.

As a workflow gets more consequential, add logging, version control, and periodic testing.

For safety-specific work: OSHA expects a person who can both spot the hazard and act on it. That's still a human, never the AI.

THE FIRST STEP

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A practical first pilot

30

DAYS, ONE WORKFLOW

Pick a closed, low-risk workflow you already understand.

- **TIME:** Materially faster than the current method
- **QUALITY:** Accurate enough to review
- **ADOPTION:** Adopted by the person who owns the process
- **CONTROL:** Free of unresolved control issues

Define success before you start, not after.

THREE LIVE DEMOS

Enough slides. Let's open the actual files.

One contractor, one job cost export, three different questions.

1. **A job that looks like your best performer**
   Until you count what never got coded to it.

2. **Six months of cost history, one question**
   Is this month normal, or is something moving?

3. **Profitable on paper. Broke in the bank account.**
   What fade and billing timing do to actual cash.

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Questions?

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