

LAUGHING
WATER
CAPITAL

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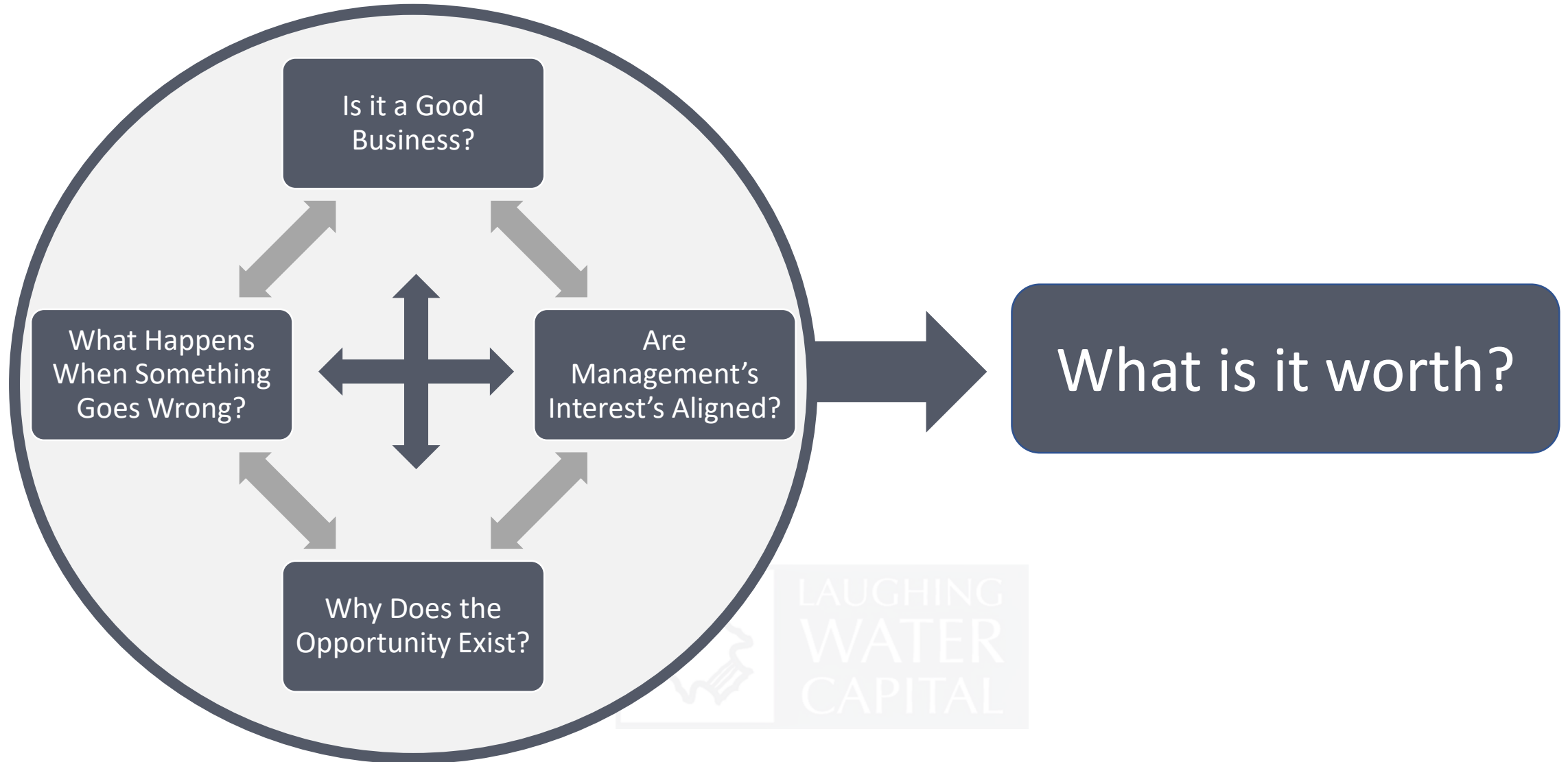
About Laughing Water Capital

- Private partnership formed in 2016
- Concentrated value strategy: typically own 10-20 stocks
- Common sense approach to investing: seek out good businesses that are dealing with structural and/or operational problems that are likely easily solved by an incentivized management team given enough time
- Patience is essential: typically invest with a 3-5+ year view
 - Volatility is not risk

About Matt Sweeney

- 17 years in sales, trading, banking and research roles on the buy and sell side
 - Sales experience covering hedge funds and mutual funds focused on small/mid cap names
 - Learned what not to do: focus on short term, trade frequently, over-diversify
- Additional experience in change management consulting
 - Learned the importance of people and culture, and that turn arounds often don't turn
- Almost my entire net worth is invested in the strategy
- Former Vice Chair, New York Society of Security Analysts (NYSSA) Value Investing Committee
- CFA charter holder

LWC's 5 Part Framework



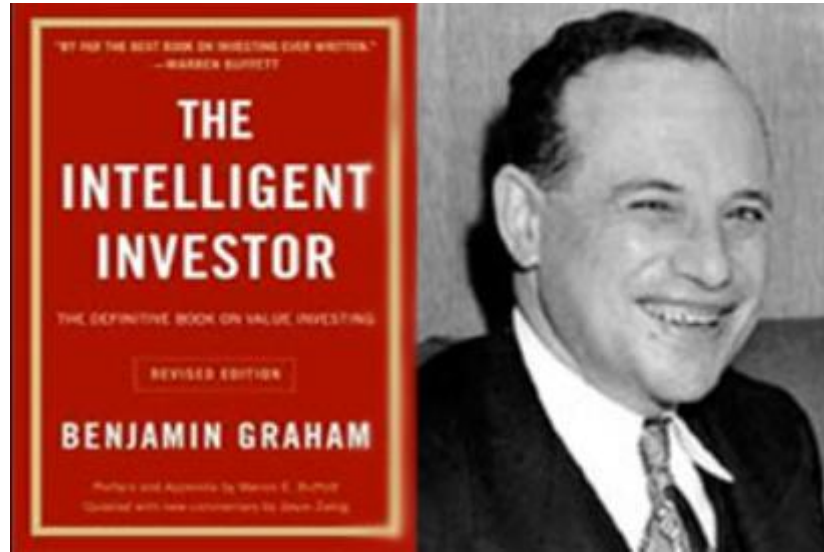


(NYSE: HIL)



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Context



“A stock is not just a ticker symbol or an electronic blip; it is an ownership interest in an actual business, with an underlying value that does not depend on its share price.”

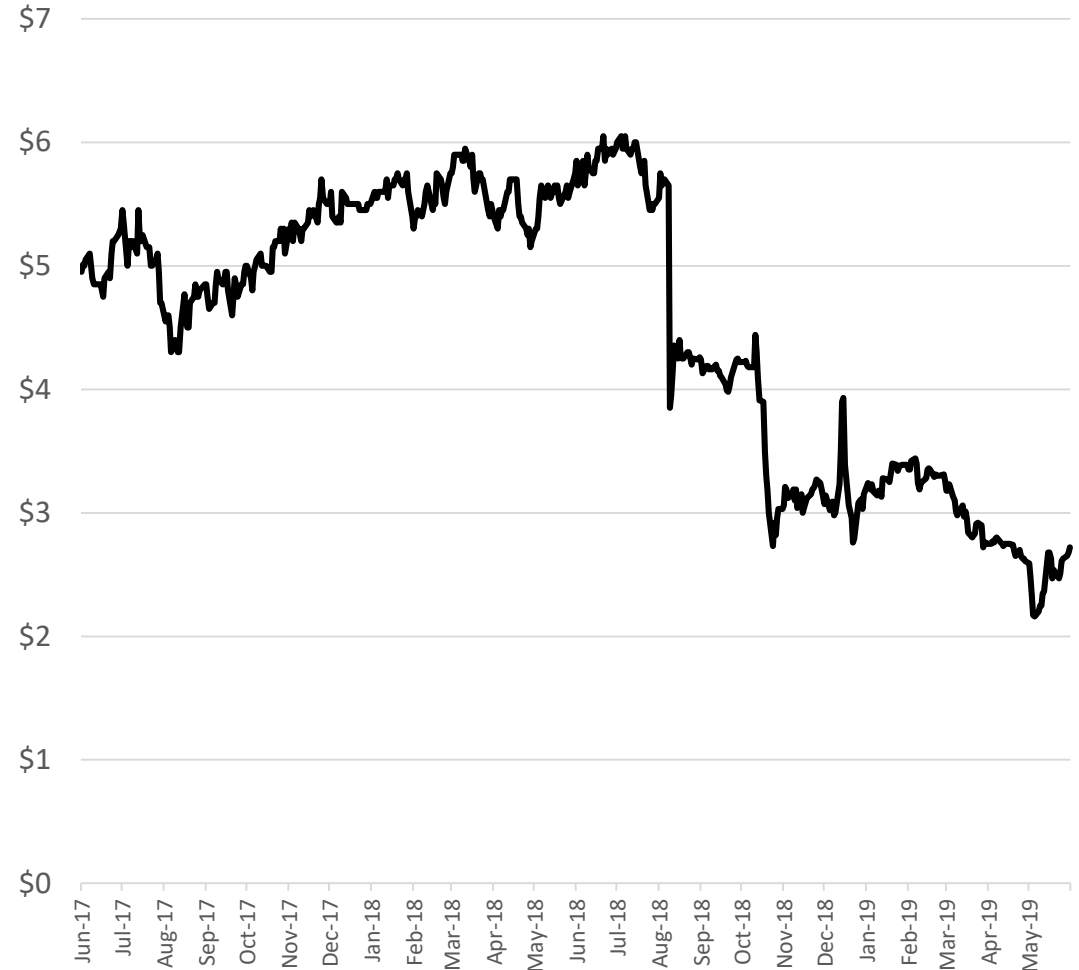
~ **Benjamin Graham**

Investment Basics

- ✓ Easy To Understand
- ✓ High Insider Ownership
- ✓ High Insider Buying
- ✓ Operational improvements underway
- ✓ Non-economic selling
- ✓ Large Margin of Safety

Stock Basics

Stock Symbol	HIL
Stock Price*	\$2.69
Shares Out (000)	55,946
Market Cap	\$150,494
Cash	\$27,787
Debt	\$48,859
Enterprise Value	\$171,567
% Owned By Insiders	~36%
Current Yield	N/A
52 Week Range	\$2.11 - \$6.11

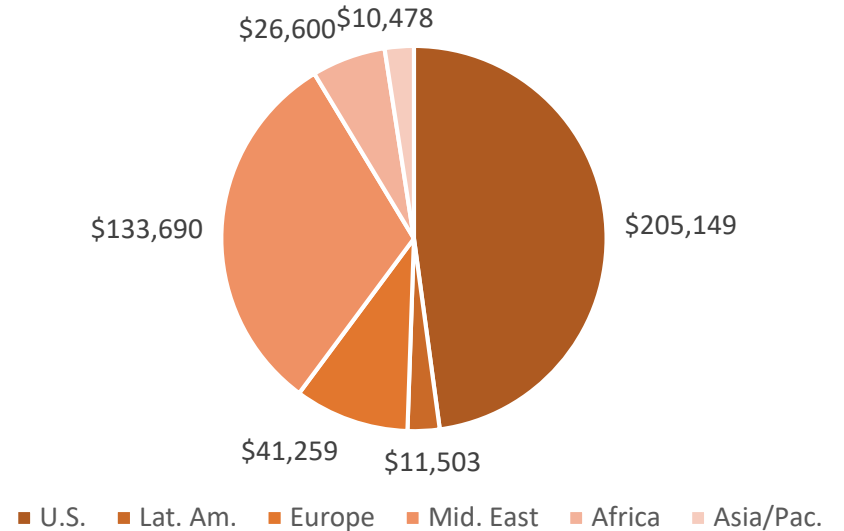


*Share price as of EOD 6/14/2019

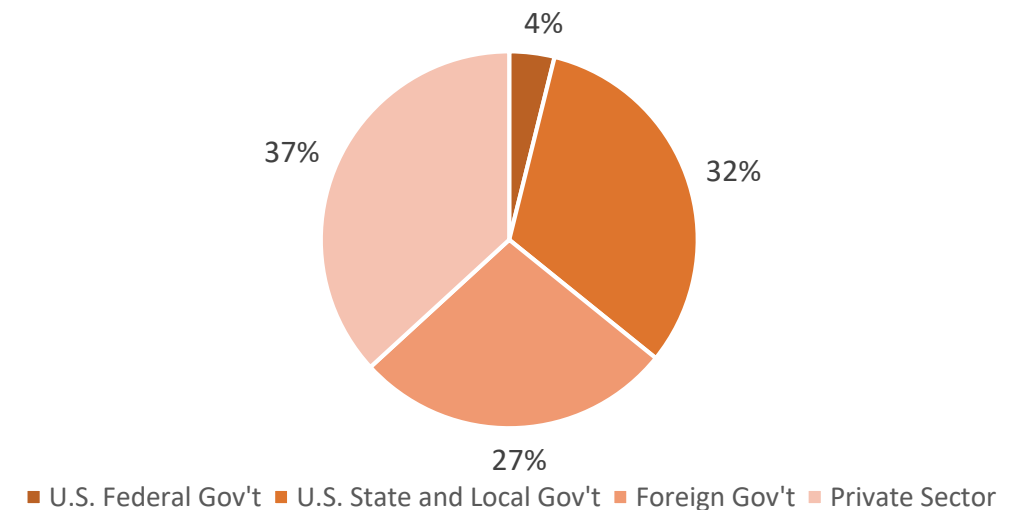
Company Basics

- 8th largest construction management-for-fee firm in the U.S.
 - Asset light advisory model: no construction risk
 - Large scale projects
 - Train stations, airports, hotels, office buildings, etc...
 - > 10,000 successful projects managed, representing > \$500B
- Largest independent project manager
 - 7th largest project manager
- Founded in 1976, came public via SPAC in 2006
- Mismanaged by controlling family
 - Poor cost control
 - Unfocused acquisition strategy
- Embroiled with activists since mid 2015

FY'18 Revenue Mix



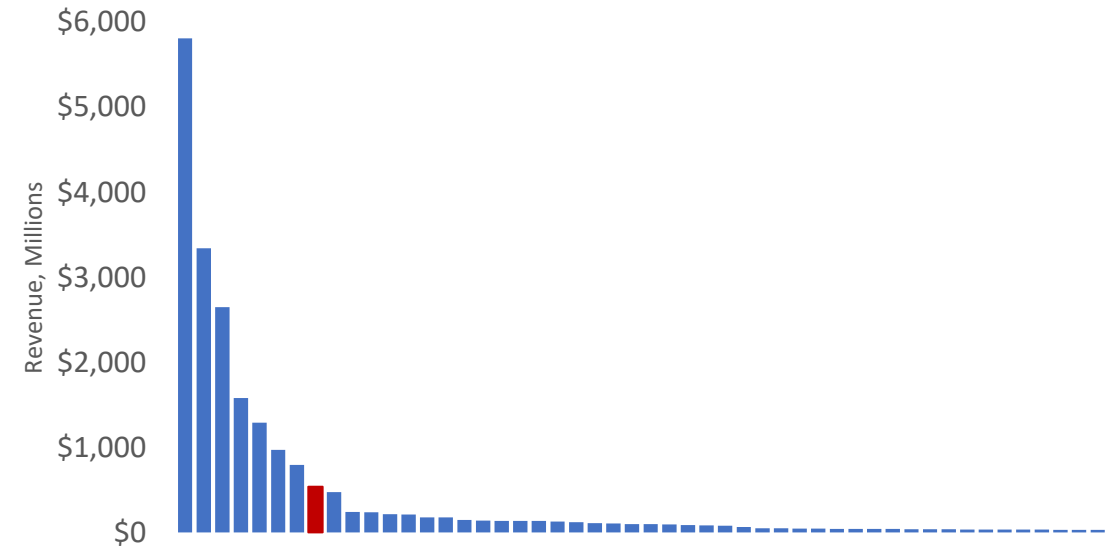
Client Type



Industry Basics

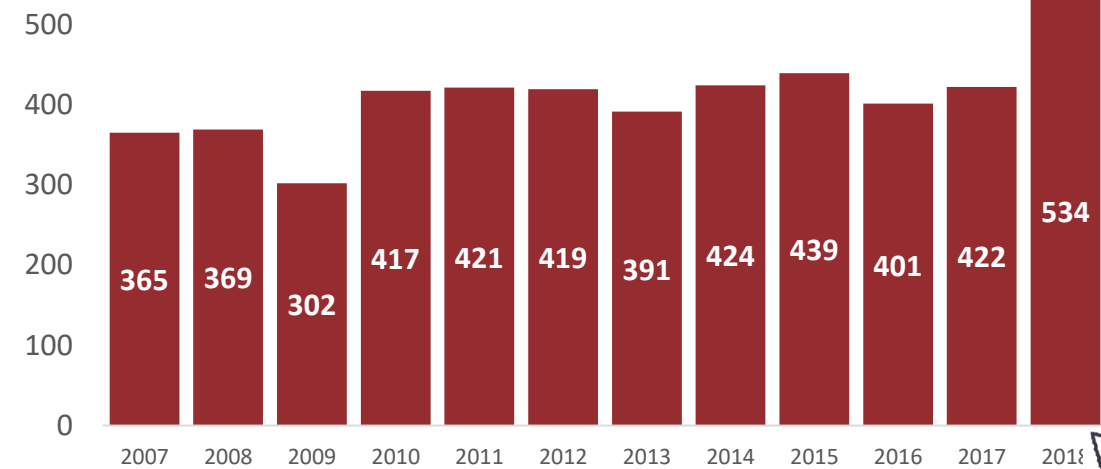
- ~\$11 trillion global construction industry
 - Project management is an asset light subset of global construction
- HIL earns Consulting Fee Revenue (CFR) by representing client interests with contractors etc. when planning and building infrastructure projects
- Industry characterized by a few very large players, a handful of large players, and many many smaller players
- Industry consolidation is rampant, as buyers remove cost, realize benefits of scale, develop regional density, and expand into new verticals

50 Largest U.S. Construction Management Firms



<https://www.enr.com/toplists/2018-Top-100-CM-for-Fee-Firms>

of E&C M&A Transactions



<https://www.fminet.com/reports/fmi-2019-ma-trends/>

Sample Projects

Projects Typically Long Term & Well Financed



San Francisco Airport – 5 year, \$7.3B project



Morumbi Buildings, Sao Paolo



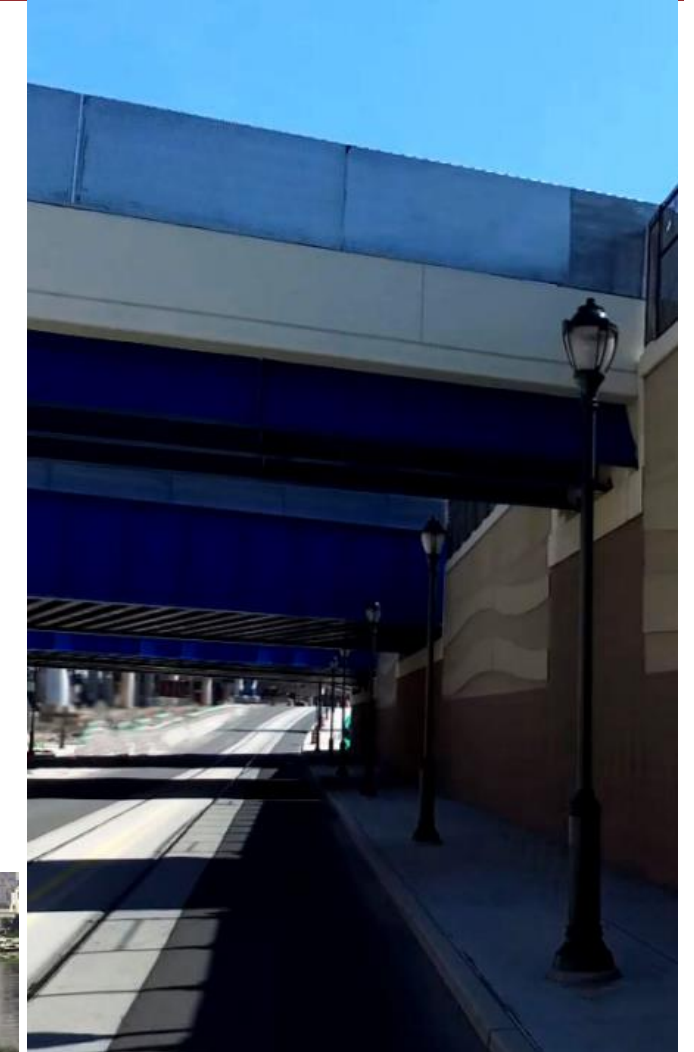
Mumbai Rail, \$4B project



Northeastern University
Science Building



Ritz Carlton Hotel, Cairo



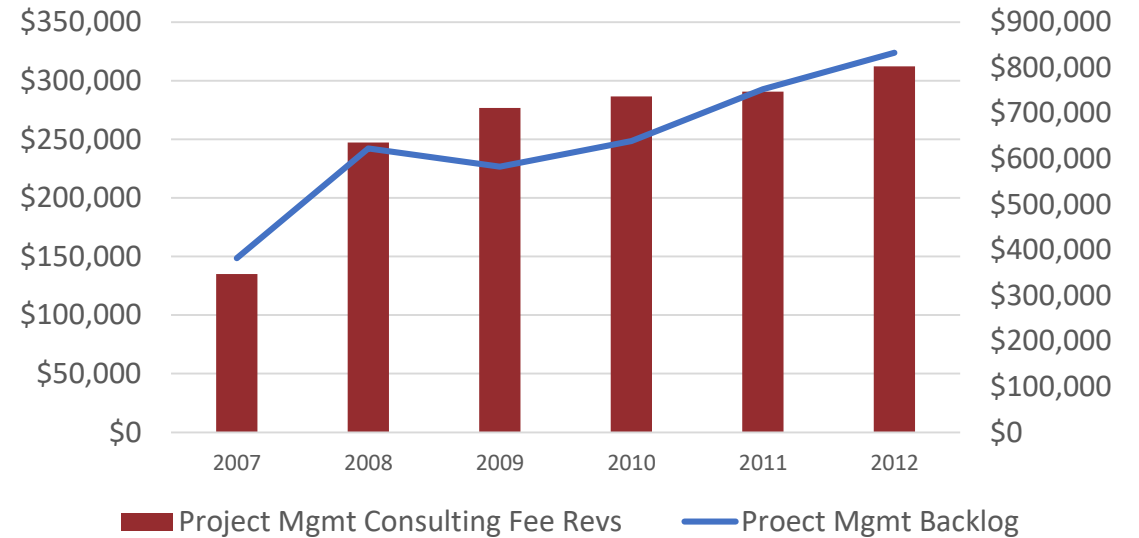
Pennsylvania DOT: 10 year, \$21.7B project

Is it a Good Business:

Positives

- Essentially, HIL works to save the client money: this will never go out of style
- Large scale projects and long term contracts reduce cyclicalty
- Shovels may not go in the ground, but project pre-planning for mega projects is recession proof
- Industry structure allows for growth during cyclical downturns as smaller players get squeezed
- Unlikely to be disrupted
- Low CapEx

Financial Crisis Era Growth



Is it a Good Business:

Negatives

- Cyclical aspects
- Competitive industry – low barriers to entry at the bottom
- Compete on niche expertise, but also price
- People are the assets

Why Does the Opportunity Exist?

Big Picture

Historically Poorly Run

- Founded in 1976, and run like a family business / personal piggy bank by Irv Richter and his son David
- Long history of acquisitions that appear to have been done for growth's sake alone have left a business with a mish-mash of assets across geographies
- Well incentivized activists are now in control

Old Management

- Exorbitant salaries
- Country club memberships
- Allowance for two cars for executives
- Alleged to have made unauthorized investments*
- Alleged to have made unauthorized loans*
- Inefficient operating structure
- Poor margin structure

Why Does the Opportunity Exist?

Big Picture

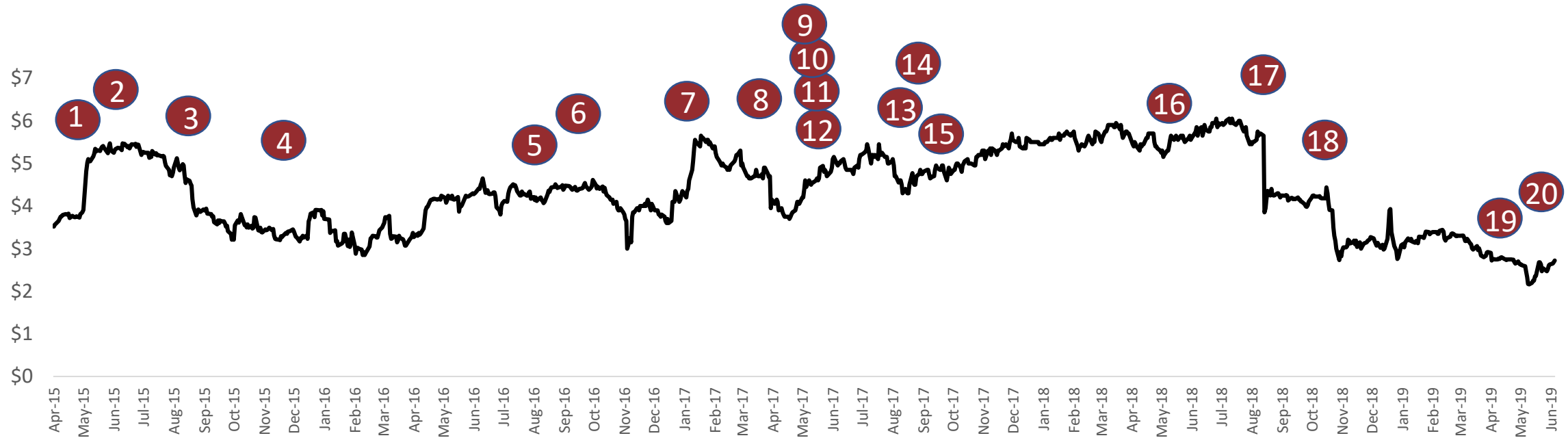
Misleading Consolidated Financials

- Prior management executed an acquisition strategy with little focus on regional density, leaving the company with a number of under-scaled geographies
- An intelligent business person would not put a negative value on these operations, but the market does
- Assuming properly incentivized insiders that will not destroy capital forever, these regions are not worth less than zero.

	Regional EBIT		
	2016	2017	2018
U.S.	\$17,742	\$23,191	\$25,605
Lat. Am.	1,702	-3,190	-3,119
Europe	-8,285	3,221	-6,827
Mid. East	15,992	21,096	-5,609
Africa	-7,083	-752	5,592
Asia/Pac.	1,097	-1,378	3,532
Total EBIT	\$21,165	\$42,188	\$19,174
Ex negative values	\$36,533	\$47,508	\$34,729
% benefit ex negative value	73%	13%	81%

Why Does the Opportunity Exist?

Big Picture



4+ Years of Drama Distracted Management & Employees, and Left Investors Fatigued

1. Hill receives a go private bid at \$5.50
2. The bid is rejected, and Bulldog starts a proxy battle
3. Bulldog loses the proxy vote
4. Hill receives a 2nd go private bid at \$4.75
5. Bulldog runs a 2nd proxy battle
6. Hill settles with Bulldog, and Bulldog adds 2 directors
7. The sale of the Construction Claims Group is announced
8. The sale process uncovers problems with Fx accounting; FY'16 results are delayed
9. Construction Claims Group sale closes – debt is paid down
10. David Richter steps down as CEO
11. Ancora releases letter calling for a sale
12. David Richter calls for a sale
13. Q2'17 earnings and filings are delayed
14. \$40M Profit Improvement Plan announced
15. Announcement that 2014 - 2016 financials will be re-stated due to the Fx issue
16. 2014-2016 Annual Reports re-filed – 2017 still not current
17. Hill suspended from NYSE trading due to non-current filings
18. Hill resumes trading on NYSE
19. It becomes apparent that HIL will not rejoin the R2000
20. Multiple insiders buy stock

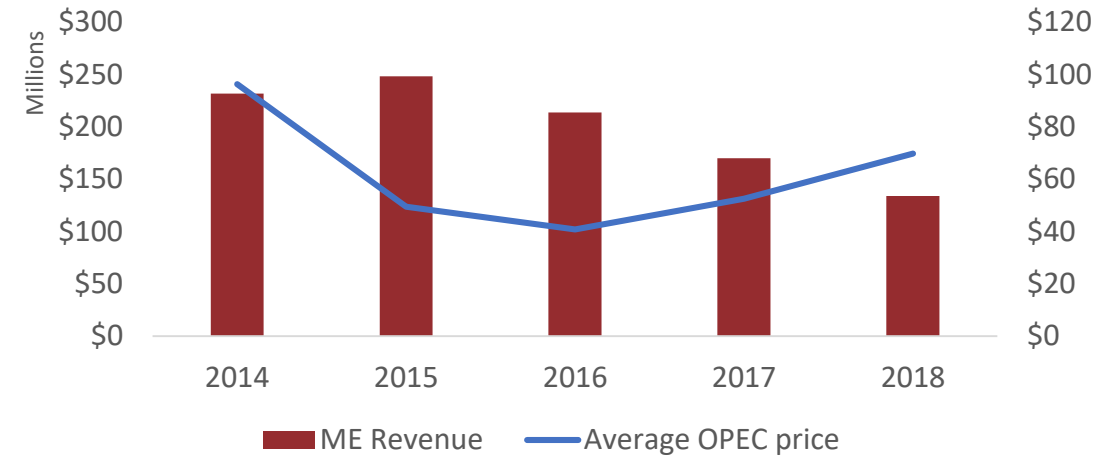
Why Does the Opportunity Exist?

Macro

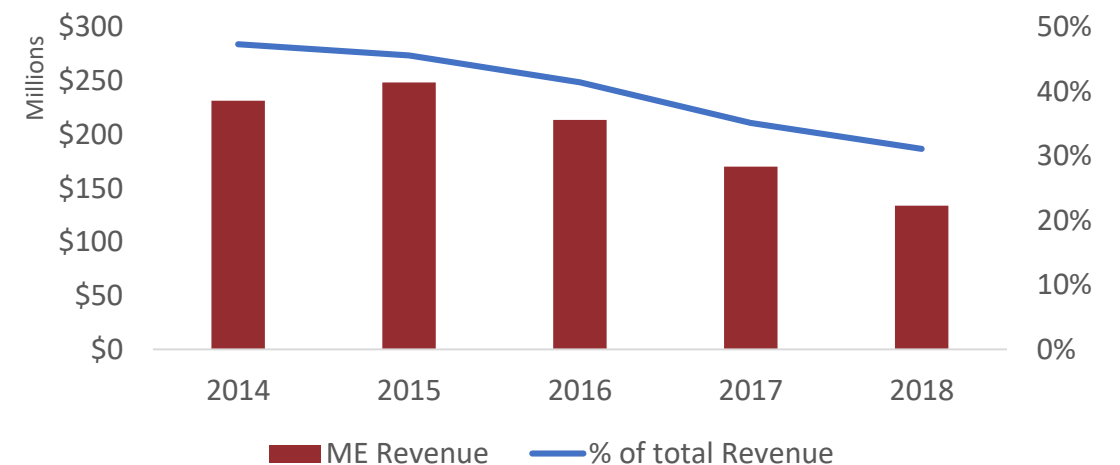
Mid East Region Exposure

- In 2015 ~50% of revenue was tied to the Middle East
- Falling oil prices in recent years led to the curtailment of infrastructure spending in the Middle East

Oil Price Impacts Mid East Revenue



Mid East % of Total Revenue

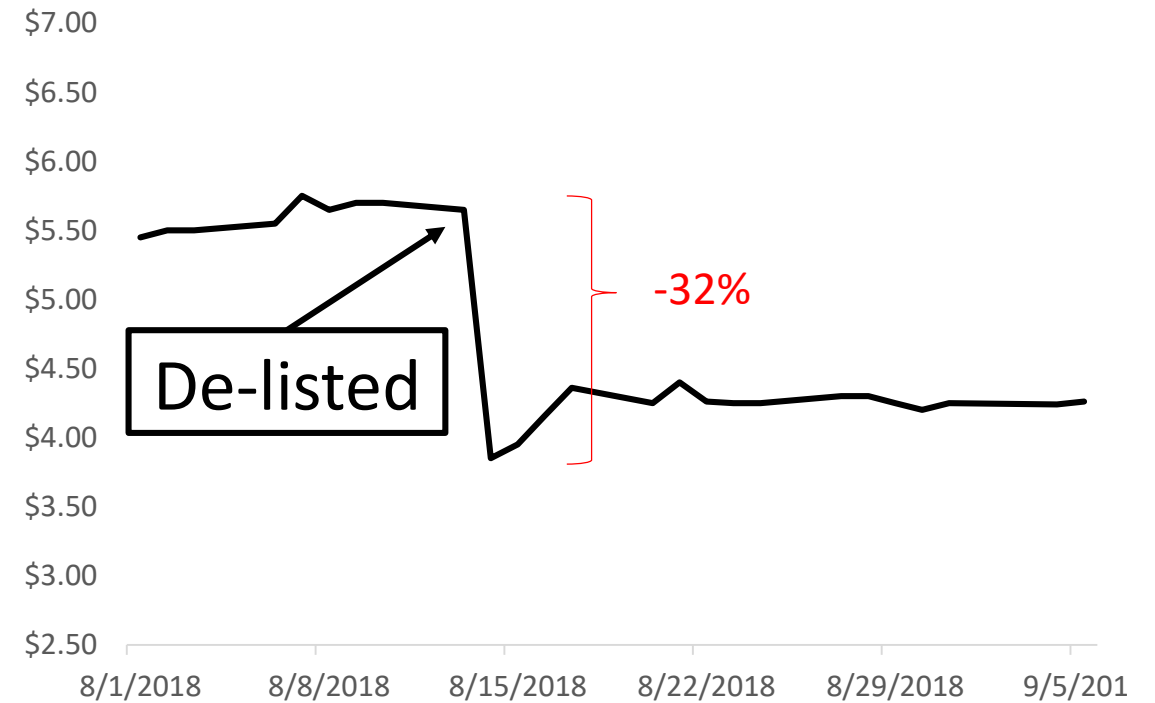


Why Does the Opportunity Exist?

Non-economic Factors

Exchange Delisting

- After uncovering historical problems with Fx adjustments, HIL was forced to re-file several years worth of financials, which led to de-listing from NYSE
 - as benign as accounting problems get
- Indexers and quants were forced to sell due to de-listing
 - LWC estimate: > 40% of the float

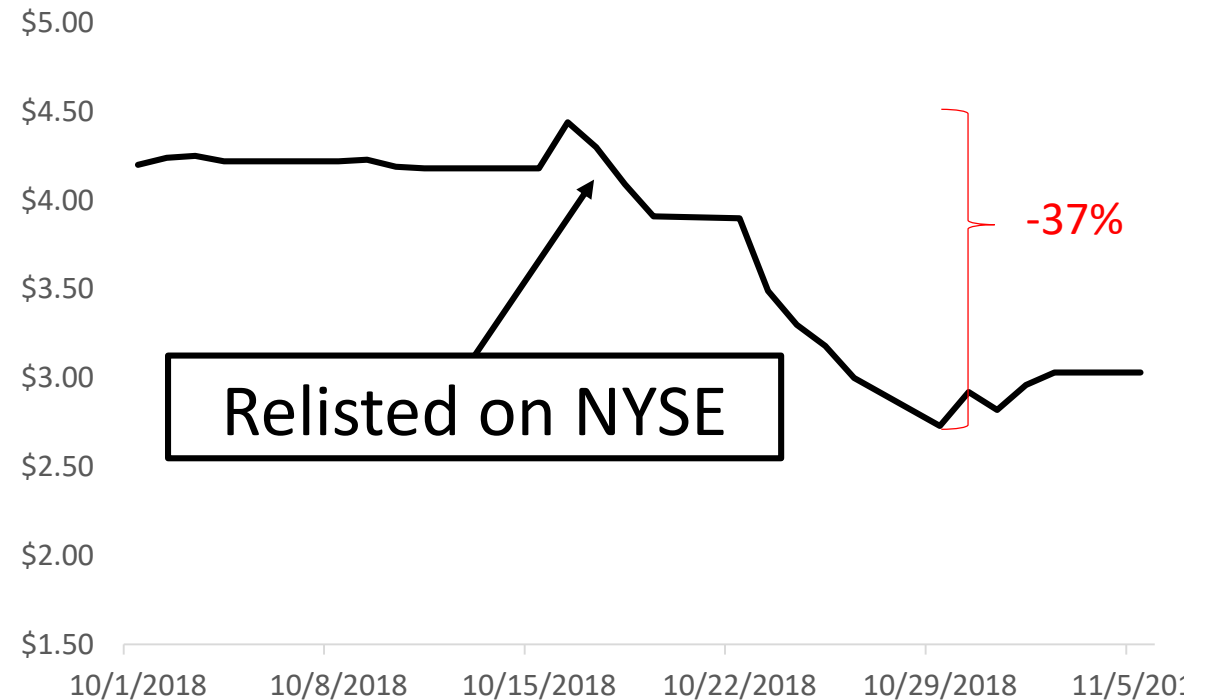


Why Does the Opportunity Exist?

Non-economic Factors

Redemptions & Failed Gaming of Relisting?

- Upon HIL's relisting, a long time vocal holder began dumping shares
- Unconfirmed whispers suggest that this seller has been facing redemption requests from investors, forcing them to reduce the position
- Buyers hoping for a quick pop likely dumped shares when no pop materialized

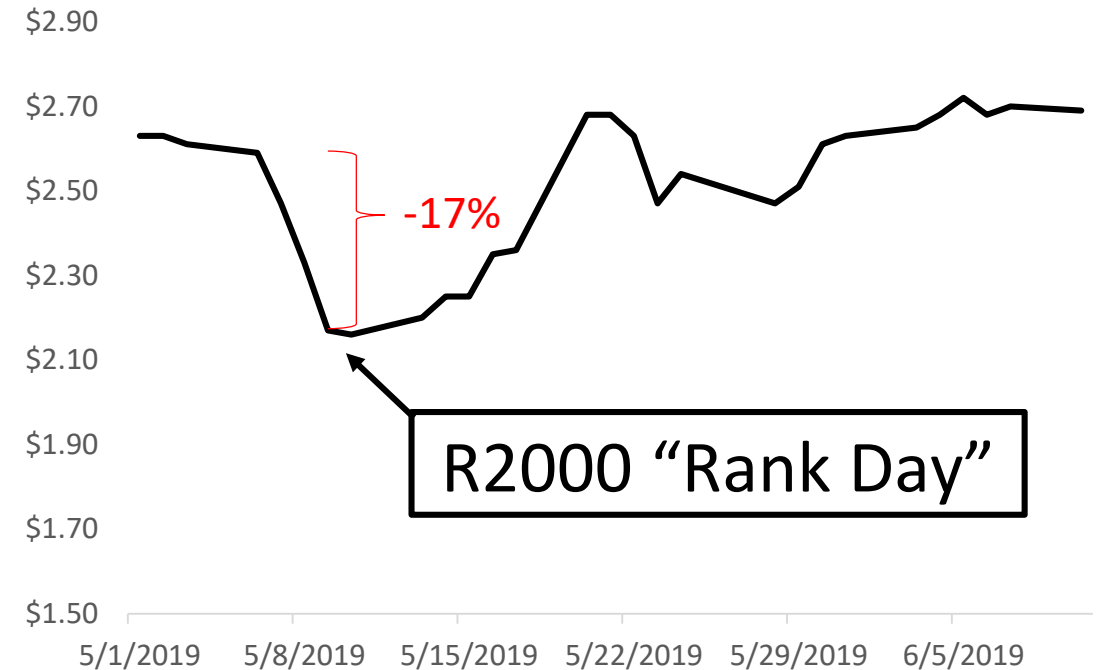


Why Does the Opportunity Exist?

Non-economic Factors

Failed Index Gaming?

- Following the relisting of HIL, we believe that certain HFs and closet indexers bought stock in anticipation of HIL returning to the R2000
- It recently became clear that due to a lower market cap and lower float, HIL would not be added back, leading to more selling
 - Smallest market cap R2000 stock = \$152M
 - Float adjustment hurts HIL



Why Does the Opportunity Exist?

Non-economic Factors

Trading Characteristics

- Microcap stock
- Sub \$5 share price
- Low float
- Limited liquidity
- No sell side analyst coverage
- No forward earnings guidance
- Trailing earnings multiples unattractive (and irrelevant)

Hidden Asset?

Libya Receivable

- As a result of 2011 civil unrest in Libya, the company wrote down a ~\$60M receivable from the Libyan government
- Following recent partial payment through a tax transference, the receivable is now ~\$44M, and management remains hopeful more progress will be made
- We value this receivable at \$0, but note that at ~30% of the market cap, it is a **free option**

Why Now: Operational Improvement

The Corner Has Been Turned

Imminent Operating Leverage

- Multiple one time items tied to restatements rolling off
- A recently completed cost cutting program has greatly improved HIL's cost structure

	SG&A Expense			
	2016	2017	2018	Q4'18 Run rate
Gross Revenue	\$516,012	\$483,736	\$428,679	
SG&A	170,682	151,186	148,038	~120,000
-Profit Improvement Plan Costs			19,800	
Normalized SG&A	170,682	151,186	128,238	~120,000
<i>SG&A % of revenue</i>	33%	31%	35%	28%

“We continue to believe [\$120M] of SG&A is sustainable, and the increases in [consulting fee revenue] and gross profit will mostly fall right through to the bottom line...”

~CFO Todd Weintraub Q1'19

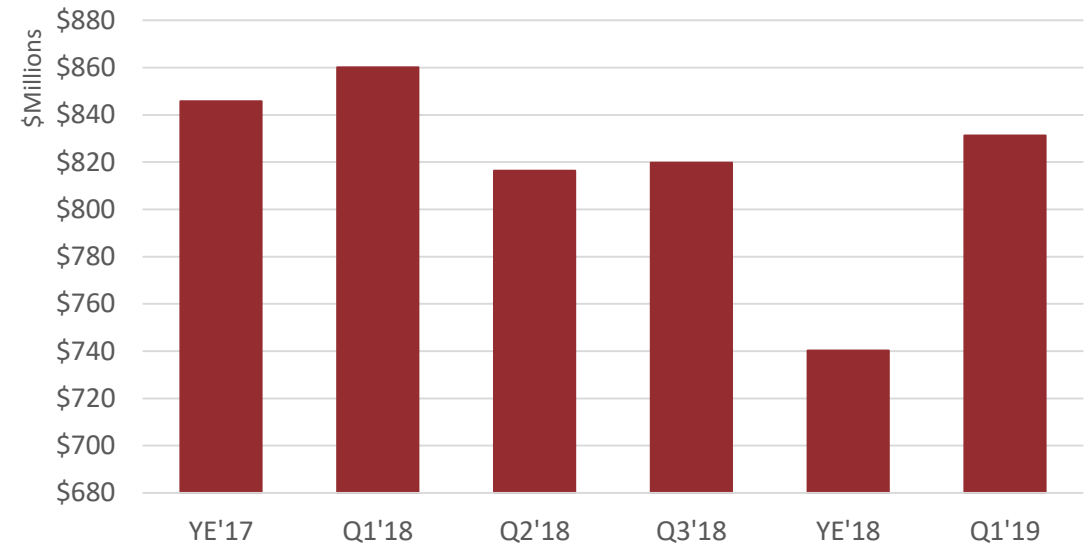
Why Now: Operational Improvement

The Corner Has Been Turned

Refocusing on the Basics

- Activists, financial restatements, and cost cutting surely distracted management, customers, and sales people in recent years
- New management and a simplified business appear to have performance back on track

Total Backlog



Why Now: Intangibles

The Corner Has Been Turned

Improving Awareness

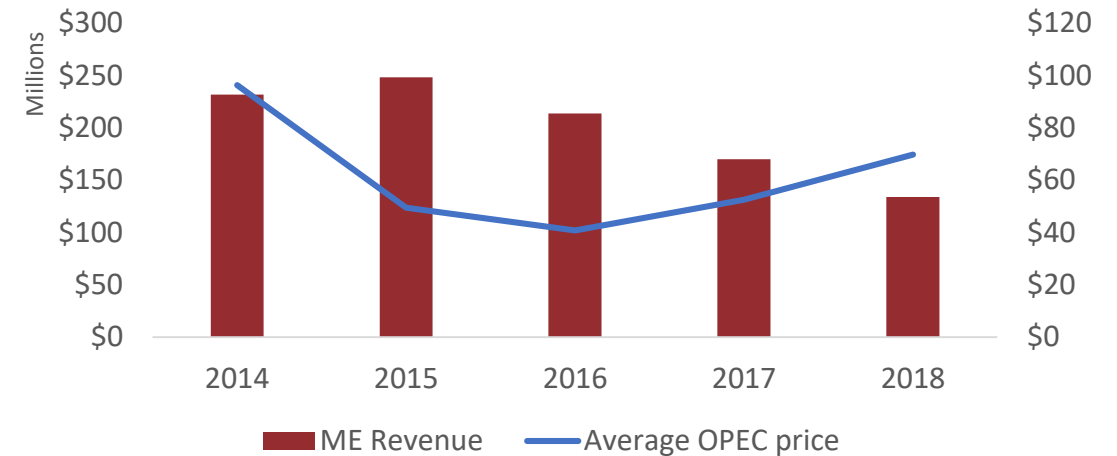
- HIL will now be reporting “clean” financials for the first time in more than a year, which the mechanical screeners will likely notice
 - Growing revenue
 - Widening margins
 - Strengthening balance sheet
- HIL has no sell side analyst coverage, which the company is working to change
- After not attending any investor conferences for years, HIL recently announced they would be proactively marketing to investors

Why Now: Oil

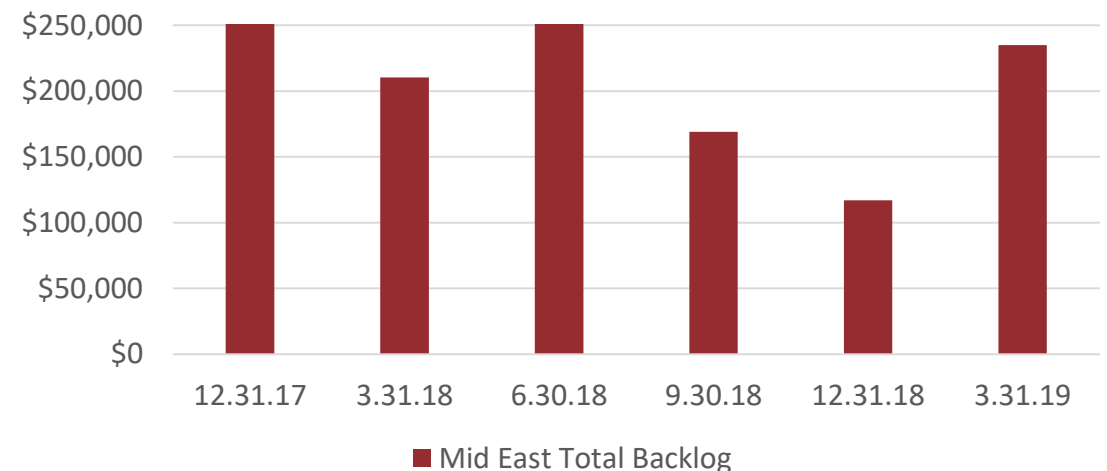
Rebounding Oil

- A roughly 2 year lag on the way down should now theoretically help on the way up
- Average OPEC price per barrel up ~70% since 2016, suggesting an imminent rebound in Mid East construction activity
- Multiple industry sources expect that Mid East region construction growth will be the fastest on the planet over the next decade
 - Demographics
 - Stated goal to diversify away from oil

Oil Price Impacts Mid East Revenue



Mid East Backlog Inflecting?



Source: company filings, Statista

Why Now: Insider Buying

Lots of Reasons to Sell, but Only One Reason to Buy

Alignment of Interests

- In recent months, insiders who already owned more than 30% of the company have bought an additional ~2.3% of shares out
- On some days, insiders appear to have been more than 50% of the daily trading volume

Insider Name	Date	Type	Shares	Price
CHADWICK JAMES M	2019-06-06	buy	73,374	\$2.65
CHADWICK JAMES M	2019-05-31	buy	63,497	\$2.57
CHADWICK JAMES M	2019-05-24	buy	83,966	\$2.56
CHADWICK JAMES M	2019-05-21	buy	7,791	\$2.52
CHADWICK JAMES M	2019-05-16	buy	225,581	\$2.29
DAVID SGRO	2019-05-16	buy	12,500	\$2.31
DAVID SGRO	2019-05-15	buy	63,000	\$2.23
CHADWICK JAMES M	2019-05-14	buy	137,163	\$2.24
TODD E WEINTRAUB	2019-05-13	buy	5,000	\$2.22
DAVID SGRO	2018-12-31	buy	35,176	\$3.00
CHADWICK JAMES M	2018-12-28	buy	12,518	\$2.75
ARNAUD AJDLER	2018-12-27	buy	7,500	\$2.79
ARNAUD AJDLER	2018-12-13	buy	149,594	\$3.04
TODD E WEINTRAUB	2018-12-07	buy	31,800	\$3.17
GREGORY T WOLF	2018-11-29	buy	10,000	\$3.18
ARNAUD AJDLER	2018-11-21	buy	218,271	\$3.05
CHARLES M GILMAN	2018-11-15	buy	32,000	\$3.24
GREGORY T WOLF	2018-11-15	buy	20,000	\$3.21
CHARLES M GILMAN	2018-11-13	buy	67,152	\$3.24
GREGORY T WOLF	2018-11-12	buy	55,000	\$3.18
Total			1,310,883	

Valuation: Fair Price for U.S., Rest for Free?

Misleading GAAP financials

U.S. Segment EV/Sales

2018 U.S. Sales	\$205,149	2018 10K
multiple	1.0x	Transaction analysis
EV	\$205,149	
+Cash	27,787	3.31.19 B/S inc. restricted
- Debt	48,859	3.31.19 B/S
Market Cap	\$184,077	
Shares	55,946	3.31.19 I/S
Per Share	\$3.29	
<i>Upside</i>	22%	

GAAP financials obscure the value of the core U.S. business because under-scaled regions are a drag on consolidated operating profit

Isolating the U.S. assets suggest that by themselves they more than justify the current price, implying that remaining assets are “free”

U.S. Segment EV/EBITDA

2018 U.S. EBIT	\$25,605	2018 10K
+ Est. U.S. D&A	3,000	
Est. 2018 U.S. EBITDA	\$28,605	
Multiple	8.0x	Transaction analysis
EV	\$228,840	
+Cash	27,787	3.31.19 B/S inc. restricted
-Debt	48,859	3.31.19 B/S
Market Cap	\$207,768	
Shares	55,946	3.31.19 I/S
Per Share	\$3.71	
<i>Upside</i>	38%	

“Free” Assets

Segment	2018 Revenue
Middle East	133,690
Europe	41,259
Africa	26,600
Latin America	11,503
Asia/Pacific	10,478
Total	\$223,530
Other	Carrying Value
Libyan Receivable	\$42,758

Valuation: Business as Usual

Revenue Back on Track, Normalized Margin, Normal Multiple

HIL has moved past the distractions of the last few years, and while revenue growth will surely be lumpy, we expect upside to industry growth estimates from a refocused company and salesforce

Assuming only modest revenue success, a failure to meet margin projections, a discount to recent transactions and comps, and no credit for cash accumulation or capable capital allocation reveals substantial upside potential

More aggressive growth, better margins, a less conservative multiple, cash accumulation, and favorable Libyan developments could lead to multi-bagger returns

2021 Baseline Scenario

3 Year CAGR	5%	Industry estimates = 4.5%
2021 Total Revenue	\$496,000	Reference: 2016 rev = \$516M
Consulting Fee Revenue	\$379,440	
CFR % of Total	76.5%	2018: 78.7%
CFR EBITDA margin	9%	Company guidance: 10%
EBITDA	34,149	
Multiple	8.0x	Deals @ 7-12x, comps @ 8-14x
EV	\$273,196	
+ Cash	27,787	3.31.19 B/S inc. restricted
+ Cash Accumulation	0	Conservative
- Debt	48,859	3.31.19 B/S
+ Libya Receivable	0	~\$43M as of YE'18
Equity Value	\$252,125	
Shares	55,946	Flat vs. '18
Per Share	\$4.51	
<i>Upside</i>	67%	
<i>CAGR</i>	19%	

Valuation: Macro Concerns?

Investors may be hesitant to invest in a construction linked business in the later stages of the cycle, but valuations among peers are holding up well, while HIL has been punished. As HIL returns to modest growth and realizes the benefit of recent cost cutting, shares should re-rate higher

In the event of a global growth slow down, HIL's size appears to leave the company well positioned

- Small enough to move the needle with bolt on acquisitions
- Big enough to move the needle for larger players looking for growth

Relative Valuation

Ticker	Mkt Cap	LTM EV/Sales	LTM EV/EBITDA	FY1 EV/EBITDA	LTM EBITDA Margin	18/'17 Rev. Growth
ACM	5,019	0.4x	9.2x	8.7x	3.65%	8%
ARCAD:NA	1,679	0.8x	8.4x	8.2x	4.41%	5%
FIX	1,741	0.8x	8.8x	7.8x	8.61%	22%
JEC	10,285	0.9x	11.3x	12.7x	5.70%	54%
KBR	3,143	0.7x	8.1x	8.6x	10.31%	18%
NVEE	977	2.2x	17.4x	13.7x	16.28%	26%
STN	2,589	1.5x	12.6x	9.2x	11.95%	6%
TTEK	3,710	1.7x	14.5x	14.5x	11.39%	6%
WSP:CN	5,542	1.2x	13.1x	10.4x	8.90%	14%
Average	3,854	1.1x	11.5x	10.4x	9.02%	18%
Median	3,143	0.9x	11.3x	9.2x	8.90%	14%
	Mkt Cap	LTM EV/Sales	EV/ ~Normalized T EBITDA	FY1 EV/~Normalized EBITDA	Normalized EBITDA Margin	18/'17 Rev. Growth
HIL		.4x	~6.0x	~5.0x	8-9%	-11%

Are Management's Interests Aligned?

Insider Ownership

- The boardroom is full of properly incentivized capital allocators
- Given the low float, low trading volume, and historical behavior of these owners, it seems as if ultimately a sale of the company would be the best exit

A Sale Seems Inevitable... Eventually

	Status	Name	Shares	% Out	Source
Activists with track records of selling businesses	Board Member	Engine Capital	5,583,653	10.0%	Form 4
	Board Member	Cresendo Partners	2,797,052	5.0%	DEF14A
	Board Chairman	Jamarant Capital	310,947	0.6%	Form 4
Have issued public calls for the sale of HIL	Board Member	Ancora Advisors	1,572,055	2.8%	Form 4
	Board Observer	David Richter & Richter Capital Mgmt	4,073,467	7.3%	DEF14A
	"Employee"	Irvin Richter	3,905,413	7.0%	DEF14A
	Appointed Evans and Gilman	Bulldog Investors	1,699,691	3.0%	13F
	Board Member	Paul Evans	298,973	0.5%	DEF14A
	Board Member	Chuck Gilman	150,400	0.3%	DEF14A
				36.4%	

Valuation: Past Bidder Down Side

In May of 2015, PE shop D.C. Capital Partners bid \$5.50 per share, or ~\$390M for the enterprise, which at the time included Project Management and Construction Claims

- Note: 2015 “mini recession”

While this bid was at a ~40% premium to market value, at .65x EV/Sales it appears to have been an opening bid with room to the upside upon further diligence

This view is somewhat confirmed by the subsequent sale of the Construction Claims group at ~1x sales

D.C. Capital Partners owns HIL competitor Michael Baker Corp., and could likely realize significant synergies in an acquisition

May, 2015		
D.C. Cap Bid per Share	\$5.50	
Shares	50,373.82	3.31.15 I/S
Market Cap	\$277,056	
-Cash	25,785	3.31.15 B/S
+ Debt	139,950	3.31.15 B/S
EV	\$391,221	
T12M Sales 3.31.15	\$597,372	10K / 10Q
EV/Sales	0.65x	likely opening bid
2018 Sales	\$428,679	2018 10K
EV/Sales	0.65x	
EV	\$280,743	
+ Cash	27,787	3.31.19 B/S inc restricted
- Debt	48,859	3.31.19 B/S
Market Cap	\$259,671	
Shares	55,946	3.31.19 I/S
Per Share	\$4.64	
Upside	72%	

Valuation: Sale Today

With insiders owning ~36% of the company, this is essentially a private investment for them: the only realistic exit is via an eventual sale

Recent transactions show dozens of potential buyers including strategics and financials

For minority shareholders, patience is the key:

- Catch 22: management talking about a sale may spook employees and customers, reducing value
- Given recent history, it makes sense to build up the business a bit before selling

2018 Total Sales	\$428,679		
Multiple	0.65x	0.85x	1.05x
EV	\$278,641	\$364,377	\$450,113
+ Cash	27,787	27,787	27,787
- Debt	48,859	48,859	48,859
+ Libya Receivable	0	0	0
Equity Value	\$257,569	\$343,305	\$429,041
Shares	55,946	55,946	55,946
Per Share	\$4.60	\$6.14	\$7.67
Upside	71%	128%	185%

As Business Continues to Improve, Multiple Expansion Will Take Place

Valuation: Simplified Sale

Possible Event Path

Conversations with industry consolidators suggest that a stripped down business would attract more interest from buyers

The best path to intermediate term per share value maximization may be to sell off the small international assets, while using the proceeds for U.S. bolt on acquisitions or share repurchases before pursuing a sale of the core business

In practice this will be lumpy, but an illustrative example reveals substantial potential upside

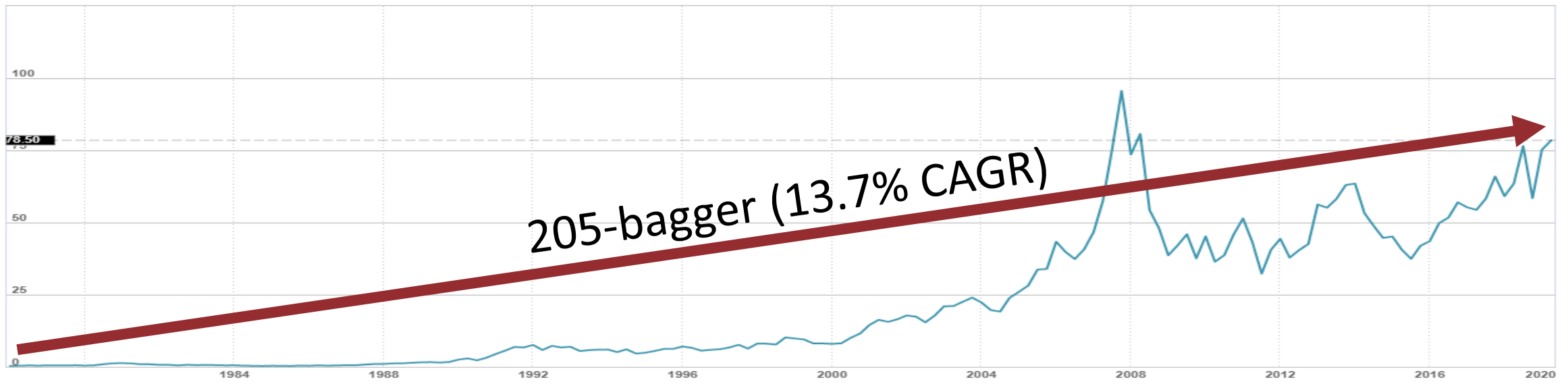
2021 U.S. & M.E. Sales	\$392,000	5% CAGR
Multiple	1.0x	Transaction analysis
EV	\$392,000	
+Cash	27,787	3.31.19 B/S inc. restricted
-Debt	48,859	3.31.19 B/S
+ Cash Accumulation	0	
+ Libya Receivable	0	
+ Small Int'l Segments @ .6x '18 Rev	54,000	Conservative multiple + NOLs
Equity Value	\$425,000	
Shares	55,946	3.31.19 I/S
Per Share	\$7.60	
<i>Upside</i>	182%	
Illustrative Buyback	\$25,000	
Buyback Price	\$3.50	30% premium
Pro Forma Share Count	48,803	
Pro Forma Equity Value	\$400,000	@ 1.0x U.S. & M.E. sales
Per Share	\$8.20	
<i>Upside</i>	205%	

Valuation: Potential Compounder?

A Sale Seems Likely, But is Not Necessary

- Investors tend to forget that companies with cyclical exposure can be compounders
- Long term success depends on:
 - Capable capital allocators ✓
 - Diffuse industry structure ✓
- HIL and other industry players have traded north of 2x sales in the past when they were considered “growthy”

Jacobs Engineering (JEC): 1/1/1978 to Today



Valuation: Potential Compounder?



“Tough periods allow the strong and capable to strengthen. Over time the stock price will gain if you build business value. Carnegie Steel built its business during bad times. Opportunities happen with trouble.”

~Charlie Munger

2009 Berkshire Hathaway annual meeting

What Could Go Wrong?

Risk

- Cyclical slow down
- Oil price declines
- Failure to execute

Mitigant

- Long term projects and ability to purchase weaker competitors during downturns
- Much of the Mid East damage has already been done: demographics and policy suggest modernization cannot be stopped
- Fundamentally this is a simple business, and it seems they have already found the cockroaches

Key Takeaways

- Better, less cyclical business than broad E&C
- Massive un-economic selling
- Operational improvements complete
- Imminent operating leverage
- Recent insider buying
- Properly incentivized insiders
- Severe discount to comps and transactions
- Multiple ways to win



If you are a patient, open minded, accredited investor that is not afraid to stand away from the crowd, we should talk. Please join our mailing list at:

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