CFMA's 2016 Construction Financial Benchmarker Questionnaire Results

CFMA and Industry Insights are pleased to present the Executive Summary from CFMA's 2016 Construction Financial Benchmarker Online Questionnaire.

The questionnaire results fuel the industry's only Financial Benchmarker tool *(www.financialbenchmarker.com)*, where construction companies can compare their financial performance to others in the industry.

General Information

The 2016 Construction Financial Benchmarker Online Questionnaire was distributed to approximately 8,000 potential respondents, including both CFMA General Members and non-members (mostly employed by U.S. and Canadian construction companies).[1]

Responses were received in early 2016; 869 companies submitted data for the Online Questionnaire and provided detailed financial statements and other required information and thus were included in the financial portion of the results. Companies that submitted data for other sections of the Online Questionnaire and general information that enabled us to classify the respondents were included in the results where appropriate.

CFMA's Construction Financial Benchmarker Online Questionnaire is confidential and unique to the industry; all results, accessible through the Financial Benchmarker tool, are presented in composite form, segmented by type of construction work performed, region, revenues, and financial performance.

All Respondents Profile

Thirty-seven percent (37%) of the respondents were Industrial & Nonresidential contractors, 19% were Heavy/Highway contractors, 43% were Specialty Trade contractors, and less than 1% were classified as "Other." This compares fairly evenly to the respondent types of 2014 and 2015.

Of the 798 companies that provided regional information, 27% were headquartered in the Midwest. The Far West was the second-highest represented region, with 24% of respondents. The remaining companies were relatively equally distributed among the other U.S. regions. Canadian and foreign companies accounted for less than 1% of all companies.

S corporations were the legal business entity of 66% of responding organizations. The next most common form of legal business entity was regular C corporations, accounting for 19% of total participating companies.

The typical company reported total annual sales of $39,710,000 for 2015. Those with sales less than $10 million encompassed 16% of responding companies and 8% of respondents reported sales of more than $300 million.

Overall Results

Financial Information

Return on Assets (ROA) was 9% in 2015, which was up from 6.9% in 2014 and 6.2% in 2013. Return on Equity (ROE) was 25.3% in 2015, which increased from 19% in 2014 and 17.3% in 2013.

Average days in A/R jumped to 55.2 in 2015, compared with 53.8 and 51.4 in 2014 and 2013, respectively. Average days in A/P, however, declined to 33.4 in 2015, compared to the reported 35.6 days in 2014.

Gross profits for all companies increased from 13.1% in 2014 to 15% in 2015. Additionally, net income increased from 3.1% in 2014 to 4.4% in 2015.

Take a look at Exhibit 1 on page 50 for a detailed presentation of key ratios for all responding companies and companies by total revenue.

Best in Class Information

The top 25% of contractors based on performance in a composite ranking of five key performance metrics make up the Best in Class. These companies outperformed the typical respondent's performance for essentially all financial metrics.

EXHIBIT 1: **Key Ratios Detail**

	All Companies	All Companies – By Sales Volume					
		Under $10 Million	$10-25 Million	$25-50 Million	$50-100 Million	$100-300 Million	More Than $300 Million
LIQUIDITY RATIOS							
Current Ratio	1.5	2.0	1.7	1.5	1.3	1.4	1.3
Quick Ratio	1.3	1.8	1.4	1.3	1.2	1.2	1.1
Days of Cash	18.1	20.5	17.4	17.5	19.3	18.5	18.5
Working Capital Turnover	10.8	6.2	9.1	10.6	15.9	13.1	14.0
PROFITABILITY RATIOS							
Return on Assets	9.0%	13.6%	9.8%	9.9%	10.6%	6.7%	5.7%
Return on Equity	25.3%	28.4%	23.6%	25.4%	31.1%	23.8%	23.9%
Times Interest Earned	28.5	23.5	15.5	28.7	37.9	33.6	23.4
LEVERAGE RATIOS							
Debt to Equity	1.8	0.8	1.4	1.7	2.2	2.4	3.1
Revenue to Equity	7.7	4.9	7.5	7.3	9.8	10.5	9.6
Asset Turnover	2.8	2.6	2.9	2.8	3.1	2.9	2.7
Fixed Asset Ratio	25.1%	24.0%	27.8%	28.7%	24.0%	23.6%	24.4%
Equity to SG&A Expenses	1.5	1.4	1.3	1.6	1.5	1.7	2.1
Underbillings to Equity	10.3%	4.4%	11.4%	9.5%	10.7%	13.7%	15.6%
Average Backlog to Equity	3.3	0.3	2.1	3.1	5.8	7.1	6.6
EFFICIENCY RATIOS							
Average Backlog to Working Capital	4.4	0.3	2.6	4.4	8.5	9.9	10.8
Average Months in Backlog	5.3	0.2	3.3	5.3	6.9	8.2	9.8
Days in Accounts Receivable	55.2	55.6	57.0	55.8	50.8	55.0	55.8
Days in Inventory	3.6	5.3	5.2	3.3	1.6	2.1	4.4
Days in Accounts Payable	33.4	24.4	30.4	34.6	35.5	34.7	47.0
Operating Cycle	40.5	54.5	48.4	40.6	35.8	35.9	27.2
PRODUCTIVITY RATIOS							
Revenue per FTE Employee	$338,039	$210,919	$260,116	$309,048	$469,283	$475,227	$751,348
Gross Profit per FTE Employee	$46,106	$44,998	$46,292	$41,247	$47,650	$50,292	$49,133
Revenue per Production FTE Employee	$478,427	$278,877	$356,248	$395,910	$656,817	$671,673	$1,000,424
Gross Profit per Production FTE Employee	$64,282	$60,487	$61,421	$56,248	$68,274	$69,382	$71,851

The highest achievers reported a 24% ROA figure and 58.5% ROE, compared against all respondents who reported just 9% and 25.3% rates of ROA and ROE, respectively.

Best in Class companies also reported less debt (1.2 times debt to equity for Best in Class companies vs. 1.8 times for all respondents) and a more stable fixed asset ratio (16.6% for Best in Class companies vs. 25.1% for all respondents).

Interestingly, the typical Best in Class company closely resembled the typical respondent in terms of employee productivity. Best in Class gross profit per employee figures, though, were more pronounced at $59,962 vs. $46,106 for all respondents.

The Best in Class companies particularly excelled in the margins they achieved. All respondents averaged a 15.0% gross profit margin, while the Best in Class companies reached an 18.4% margin. Further, all respondents earned a 4.4% net income before taxes, compared with the Best in Class companies, which averaged an 8.4% net income before taxes.

Industrial & Non-Residential *Profile*

The largest grouping of Industrial & Nonresidential respondents reported sales between $50 million and $100 million (27.8%) followed by the $100 million to $300 million group, which encompasses 20.4% of respondents.

The predominant legal form of business entity for Industrial & Nonresidential companies is a privately held S corporation (67%). The next most common form of legal entity is C corporation (15.0%).

A vast majority (91%) of Industrial & Nonresidential respondents reported private – domestic ownership, followed by 5.6% indicating an employee stock ownership plan.

Nearly 62% of respondents reported general/prime contractor as the primary role of the company. Construction management as a primary role was the second-most selected response among respondents at 34.6%.

Of the Industrial & Nonresidential companies that provided regional information, 26.2% were headquartered in the Midwest. The Far West was the second-most represented region, with 20.9% of respondents. The remaining companies were relatively equally distributed among the rest of the U.S. regions. (Canadian and foreign companies accounted for 1.5% of total companies.)

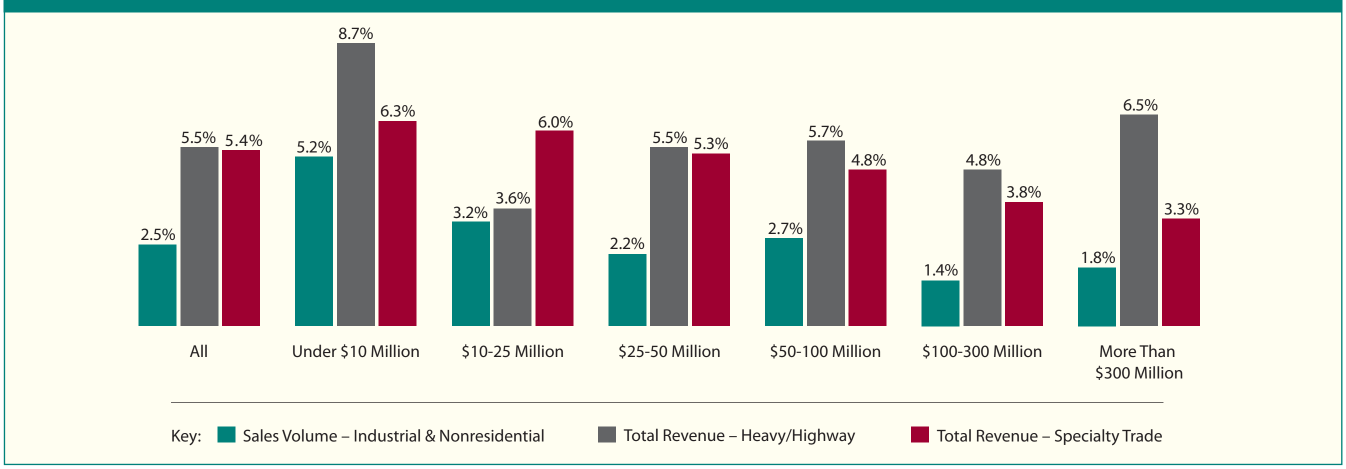
Profit Model Ratios

An analysis of profits reveals that Industrial & Nonresidential companies overall experienced a 2.5% net income before taxes, which increased from 1.8% in 2014, and a 6.5% ROA figure. They used their assets to generate 3.3 times more sales than assets, while maintaining a leverage ratio (total assets/net worth) of 4.3. The typical respondent's ROE was 27.9% in 2015, which increased when compared to the average respondent's rate reported for 2014 (20.5%).

Heavy/Highway *Profile*

The largest grouping of Heavy/Highway respondents reported sales between $25-$50 million (25.2%), followed by the $100-$300 million group, which encompasses 21.0% of respondents.

EXHIBIT 2: **Net Income Before Taxes**



The predominant legal form of business entity for Heavy/Highway companies is a privately held S corporation (64.3%). The next most common form of legal entity is C corporation (20.6%).

A vast majority of Heavy/Highway respondents (84.9%) reported to private – domestic ownership, followed by 8.1% indicating an employee stock ownership plan (ESOP).

Nearly 81% of respondents reported general/prime contractor as the primary role of the company. The subcontractor role was the second-most selected response among respondents at 19.6%.

Of the Heavy/Highway companies that provided regional information, 30.3% were headquartered in the Far West. The Midwest was the second-most represented region, with 23.9% of respondents. The remaining companies were relatively equally distributed among the rest of the U.S. regions. (Canadian and foreign companies accounted for less than 1% of total companies.)

Profit Model Ratios

An analysis of profits reveals that Heavy/Highway companies overall experienced a 5.5% net income before taxes, which increased from 3.5% in 2014, and an 8.9% ROA figure. They used their assets to generate 2.1 times more sales than assets, while maintaining a leverage ratio (total assets/net worth) of 2.3. The typical Heavy/Highway respondent's ROE was 21.2% in 2015, which increased significantly when compared to the average respondent's rate reported for 2014 (13.8%).

Specialty Trade

Profile

The largest grouping of Specialty Trade respondents (25.1%) reported sales between $10-25 million, followed by the under $10 million group, which encompasses 23.2% of respondents.

The predominant legal form of business entity for Specialty Trade companies is a privately held S corporation (64.7%). The next most common form of legal entity is C corporation (22.6%).

A vast majority (89.7%) of Specialty Trade respondents reported to private – domestic ownership, followed by 5.1% indicating an employee stock ownership plan (ESOP).

A majority (88.3%) of Specialty Trade respondents stated that they primarily act as subcontractors. General/prime contracting as a primary role was the second-most selected response among participants at 11.7%.

Of the Specialty Trade companies that provided regional information, 27.6% were headquartered in the Midwest. The Far West was the second-most represented region, with 25.7% of respondents. The remaining companies were relatively equally distributed among the rest of the U.S. regions. (Canadian and foreign companies accounted for less than 1% of total companies.)

Profit Model Ratios

An analysis of profits reveals that Specialty Trade companies overall experienced a 5.4% net income before taxes, which

increased from 4.3% in 2014, and a 12% ROA figure. They used their assets to generate 2.7 times more sales than assets while maintaining a leverage ratio (total assets/net worth) of 2.2. The typical Specialty Trade respondent's ROE was 24.7% in 2015, which represents an increase when compared to the average respondent's rate reported for 2014 (20.5%).

About the Results

The results of CFMA's 2016 Construction Financial Benchmarker Online Questionnaire provide critical benchmarking data and financial information about the construction industry. To remain competitive, contractors should review these results in their entirety, with particular focus on company classification, geographic region, and annual revenue data.

The Construction Financial Benchmarker (*www.financialbenchmarker.com)* allows users to compare their companies' financial performance with the Online Questionnaire results. With flexibility in selecting benchmarks and easy data entry, the financial results include graphic presentations of key financial data. For more information on CFMA's Construction Financial Benchmarker, contact Brian Summers, CFMA's Vice President, Content Strategy & Education (*bsummers@cfma.org* or 609-452-8000).

CFMA's 2016 Construction Financial Benchmarker Online Questionnaire was conducted by CFMA's Financial Survey & Benchmarker Committee, and the results were compiled and analyzed by Industry Insights[2] and the Financial Survey & Benchmarker Committee.

The Committee wishes to thank all respondents and encourages CFMA General Members, CPA firms, and all other construction companies to participate in future Online Questionnaire data collection efforts. ■

Endnotes

1. Results of CFMA's 2016 Construction Financial Benchmarker Online Questionnaire are not intended to be, nor do they provide, a statistically valid representation of the construction industry as a whole. Rather, it's representative of 869 CFMA General Members and non-members who provided detailed financial statements and other required information.

   The level of participant overlap from year to year can impact the financial results. Differences in the financial statements between years are due in part to market influences and individual company performance, as well as to the different participant makeup each year.

2. Industry Insights was not engaged to and did not audit this information, and accordingly, does not express an opinion or any other form of assurance on it.