CFMA Benchmarker 2018 Results and Best Practices

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CFO, Cafco Construction Management

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Today’s Presenter

Joe Burkett, CCIFP
Chief Financial Officer
Cafco Construction Management
Learning Objectives

1) Learn results from the 2018 Financial Survey highlighting the 2017 FYE.

2) The KPIs most relevant to contractors, including those related to liquidity, profitability, leverage, efficiency, and productivity.

3) Methods by which contractors may manage operations in order to improve financial ratios relied on by sureties and lenders.

4) Understand how others are using the CFMA Benchmarker to improve their bottom line.
Importance of Benchmarks

“**Measurement** is the first step that leads to control and eventually to **improvement**. If you can’t measure something, you can’t understand it. If you can’t understand it, you can’t control it. If you can’t control it, you can’t improve it.”

— H. James Harrington
Learning Objectives

• Measure Performance and Productivity
  o Profit Margins
  o Return on Assets
  o Employee Productivity

• Gauge Health
  o Liquidity
  o Leverage (debts)

• Ratios Create a Common Platform for Evaluation
Respondents by Company Type

- Specialty Trade, 46.3%
- Heavy & Highway, 21.7%
- Industrial & Nonresidential, 32.0%

The distribution by company type shown excludes “Other” and “Residential Construction” type classifications.
Respondents’ company type classification is determined by the sum of the estimated percentages of annual construction related revenue derived from specific NAICS codes over 50%.
Respondents by Revenue (Trend)
Respondents by Region (All Respondents)

- West: 7.9%
- Midwest: 26.1%
- Far West: 26.3%
- Southwest: 13.8%
- Southeast: 14.9%
- Northeast: 10.9%
Perhaps the best measure of overall profitability is return on investment. It is essential to understand the components involved in computing your firms ROE to better understand methods of improving your business operations.

It should be noted that Asset Turnover and Financial Leverage were adjusted in the above graphic for visual purposes.
Gross Margin (% of Total Revenue)

- All Responding Firms:
  - FY2013: 14.4%
  - FY2014: 13.1%
  - FY2015: 16.7%
  - FY2016: 17.1%

- Industrial & Nonresidential:
  - FY2013: 10.0%
  - FY2014: 8.6%
  - FY2015: 8.3%
  - FY2016: 10.5%
  - FY2017: 10.4%

- Heavy & Highway:
  - FY2013: 12.4%
  - FY2014: 12.4%
  - FY2015: 15.0%
  - FY2016: 15.8%
  - FY2017: 15.3%

- Specialty Trade:
  - FY2013: 17.3%
  - FY2014: 18.3%
  - FY2015: 20.5%
  - FY2016: 21.6%
  - FY2017: 21.8%
Net Income before Tax (% of Total Revenue)

- All Responding Firms:
  - FY2013: 3.2%
  - FY2014: 3.1%
  - FY2015: 5.2%
  - FY2016: 4.9%
  - FY2017: 4.4%

- Industrial & Nonresidential:
  - FY2013: 2.3%
  - FY2014: 1.8%
  - FY2015: 2.5%
  - FY2016: 3.4%
  - FY2017: 3.0%

- Heavy & Highway:
  - FY2013: 3.8%
  - FY2014: 3.5%
  - FY2015: 5.5%
  - FY2016: 5.8%
  - FY2017: 5.8%

- Specialty Trade:
  - FY2013: 3.3%
  - FY2014: 4.3%
  - FY2015: 5.4%
  - FY2016: 6.2%
  - FY2017: 5.8%
Asset Turnover

<table>
<thead>
<tr>
<th></th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Responding Firms</td>
<td>2.8</td>
<td>2.8</td>
<td>2.8</td>
<td>2.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Industrial &amp; Nonresidential</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Heavy &amp; Highway</td>
<td>2.3</td>
<td>2.2</td>
<td>2.1</td>
<td>2.0</td>
<td>2.0</td>
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<td>Specialty Trade</td>
<td>2.8</td>
<td>2.7</td>
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Return on Assets

<table>
<thead>
<tr>
<th>Category</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Responding Firms</td>
<td>6.2%</td>
<td>6.9%</td>
<td>9.0%</td>
<td>10.1%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Industrial &amp; Nonresidential</td>
<td>5.5%</td>
<td>4.9%</td>
<td>6.5%</td>
<td>8.1%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Heavy &amp; Highway</td>
<td>5.6%</td>
<td>6.9%</td>
<td>8.9%</td>
<td>9.6%</td>
<td>10.7%</td>
</tr>
<tr>
<td>Specialty Trade</td>
<td>7.9%</td>
<td>10.1%</td>
<td>12.0%</td>
<td>13.5%</td>
<td>12.1%</td>
</tr>
</tbody>
</table>
## Debt to Equity

<table>
<thead>
<tr>
<th></th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Responding Firms</td>
<td>1.6</td>
<td>1.9</td>
<td>1.8</td>
<td>1.6</td>
<td>1.4</td>
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<tr>
<td>Industrial &amp; Nonresidential</td>
<td>2.5</td>
<td>2.8</td>
<td>3.3</td>
<td>2.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Heavy &amp; Highway</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Specialty Trade</td>
<td>1.3</td>
<td>1.2</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>
Return on Equity

All Responding Firms
- FY2013: 17.3%
- FY2014: 19.0%
- FY2015: 25.3%
- FY2016: 29.4%
- FY2017: 27.5%

Industrial & Nonresidential
- FY2013: 19.9%
- FY2014: 20.5%
- FY2015: 27.9%
- FY2016: 30.5%
- FY2017: 33.0%

Heavy & Highway
- FY2013: 11.1%
- FY2014: 13.8%
- FY2015: 21.2%
- FY2016: 22.9%
- FY2017: 20.9%

Specialty Trade
- FY2013: 18.5%
- FY2014: 20.5%
- FY2015: 24.7%
- FY2016: 31.5%
- FY2017: 29.5%
Best in Class Criteria

• Comparative analysis of the top 25% of companies based on a composite ranking of 5 key performance metrics
  o Fixed Asset Ratio
  o Return on Assets
  o Return on Equity
  o Debt to Equity
  o Working Capital Turnover
Fixed Asset Ratio

- All Responding Firms: 30.7%, Best in Class: 16.4%
- Industrial & Nonresidential: 16.5%, 10.5%
- Heavy & Highway: 59.4%, 40.3%
- Specialty Trade: 30.3%, 16.7%
Return on Assets

- All Responding Firms: 10.2%, 27.0%
- Industrial & Nonresidential: 7.8%, 17.9%
- Heavy & Highway: 10.7%, 22.6%
- Specialty Trade: 12.1%, 35.1%

The chart compares the return on assets for different categories of construction firms, distinguishing between all responding firms and best-in-class performers.
### Debt to Equity

<table>
<thead>
<tr>
<th>Category</th>
<th>All Responding Firms</th>
<th>Industrial &amp; Nonresidential</th>
<th>Heavy &amp; Highway</th>
<th>Specialty Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Best in Class</td>
<td>1.0</td>
<td>2.5</td>
<td>0.8</td>
<td>0.8</td>
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<tr>
<td>All Responding Firms</td>
<td>1.4</td>
<td>2.6</td>
<td>1.1</td>
<td>1.0</td>
</tr>
</tbody>
</table>

- **All Responding Firms**
- **Industrial & Nonresidential**
- **Heavy & Highway**
- **Specialty Trade**

**Note:** The bar chart compares debt to equity ratios for different categories, indicating lower ratios for the Best in Class category compared to the All Responding Firms category.
Working Capital Turnover

<table>
<thead>
<tr>
<th>Category</th>
<th>All Responding Firms</th>
<th>Best in Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial &amp; Nonresidential</td>
<td>8.9</td>
<td>15.8</td>
</tr>
<tr>
<td>Heavy &amp; Highway</td>
<td>7.4</td>
<td>7.1</td>
</tr>
<tr>
<td>Specialty Trade</td>
<td>7.0</td>
<td>7.2</td>
</tr>
</tbody>
</table>
CFMA Benchmarker Best Practices
Ways to Improve Profits

• Post Job Reviews
• Contractor and Contract Size
• Evaluating Cost in Cost-Plus Contracts
• Change Order Management
• Automation and Integration
• “Right Sizing” Overhead
Ways to Improve Operations

• Review fixed assets to ensure they are in line with volume.

• Understand where bottlenecks exist and allocate resources effectively and efficiently.

• Review internal job costing and billing approval processes to ensure costs incurred are billed timely.

• Understand rationale for unrecovered costs and investigate ways to incorporate changes in the estimating process for future jobs.
Ways to Improve Liquidity

• Sell idle fixed assets.
• Increase focus on collecting customer receivables.
• Retain a larger portion of earnings
• Re-negotiate debt obligations to push out due dates of payments past one year.
• Gain control of overhead expenses.
About CFMA’s Financial Benchmarker
2018 CFMA Benchmarker Products

• Peer Group Comparison Report
• Excel File Results
• Benchmarker PDF Results
• Personalized Company Performance Report (Survey Participants Only)
• Benchmarker Subscription
Peer Group Comparison Report
### 2019 CFMA Financial Benchmark - Excel File Results

**FINANCIAL INFORMATION**

**KEY RATIOS: ALL SHOWN AS MEDIANS кроме INVENTORY DAYS**

<table>
<thead>
<tr>
<th>Metric</th>
<th>All Companies</th>
<th>Under $10 Million</th>
<th>$10-25 Million</th>
<th>$25 - 50 Million</th>
<th>$50 - 100 Million</th>
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</thead>
<tbody>
<tr>
<td>Number of Participants</td>
<td>955</td>
<td>237</td>
<td>260</td>
<td>158</td>
<td>138</td>
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<tr>
<td><strong>LIQUIDITY RATIOS</strong></td>
<td></td>
<td></td>
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<tr>
<td>Current Ratio</td>
<td>1.6</td>
<td>2.1</td>
<td>1.7</td>
<td>1.6</td>
<td>1.1</td>
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<tr>
<td>Quick Ratio</td>
<td>1.4</td>
<td>1.9</td>
<td>1.5</td>
<td>1.4</td>
<td>1.1</td>
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<tr>
<td>Days of Cash</td>
<td>20.0</td>
<td>20.1</td>
<td>19.1</td>
<td>18.1</td>
<td>21.1</td>
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<tr>
<td>Working Capital Turnover</td>
<td>8.8</td>
<td>5.5</td>
<td>8.2</td>
<td>8.8</td>
<td>12.1</td>
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<tr>
<td><strong>PROFITABILITY RATIOS</strong></td>
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<tr>
<td>Return on Assets</td>
<td>10.2%</td>
<td>10.6%</td>
<td>11.5%</td>
<td>10.6%</td>
<td>9.4%</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>27.5%</td>
<td>19.3%</td>
<td>29.1%</td>
<td>28.2%</td>
<td>27.0%</td>
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<tr>
<td>Times Interest Earned</td>
<td>26.0</td>
<td>15.0</td>
<td>22.2</td>
<td>28.3</td>
<td>28.1</td>
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<tr>
<td><strong>LEVERAGE RATIOS</strong></td>
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<tr>
<td>Debt to Equity</td>
<td>1.4</td>
<td>0.8</td>
<td>1.2</td>
<td>1.6</td>
<td>2.1</td>
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<tr>
<td>Revenue to Equity</td>
<td>6.4</td>
<td>4.4</td>
<td>6.0</td>
<td>7.1</td>
<td>8.1</td>
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<tr>
<td>Asset Turnover</td>
<td>2.7</td>
<td>2.5</td>
<td>2.7</td>
<td>2.7</td>
<td>2.1</td>
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<tr>
<td>Fixed Asset Ratio</td>
<td>30.7%</td>
<td>33.8%</td>
<td>37.6%</td>
<td>30.9%</td>
<td>24.7%</td>
</tr>
<tr>
<td>Equity to SG&amp;A Expenses</td>
<td>1.6</td>
<td>1.5</td>
<td>1.5</td>
<td>1.7</td>
<td>1.1</td>
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<tr>
<td>Underbillings to Equity</td>
<td>8.1%</td>
<td>3.4%</td>
<td>7.8%</td>
<td>9.7%</td>
<td>8.8%</td>
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<tr>
<td>Average Ratio to Equity</td>
<td>5.0</td>
<td>9.0</td>
<td>3.2</td>
<td>4.4</td>
<td>5.1</td>
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</tbody>
</table>
Benchmarker PDF Results
Personalized Company Performance Report
Benchmarker Subscription

Interactive Reporting Tools

PDF Report

Excel File
Questionnaire Improvements

- Financial Questions Only — 20 Minutes or Less. Survey open through mid-May.
- Prepopulating Data
- Utilize Current 2018 Data
- More CPA Firm Involvement
- One-Click Submission for Those Using Sage 300 CRE + Event 1 Connector Software

www.financialbenchmarker.com
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Chief Financial Officer
Cafco Construction Management