CFMA's 2022 Construction Financial Benchmarker Executive Summary

General Information

CFMA and Industry Insights are pleased to present the Executive Summary from CFMA's 2022 Construction Financial Benchmarker Online Questionnaire. The survey results fuel the industry's only Financial Benchmarker tool (www.financialbenchmarker.com), whereby construction companies can compare their financial performance to others in the industry.

The 2022 Benchmarker Questionnaire was distributed to approximately 9,000 potential respondents including both CFMA members and non-members as well as Construction Industry CPAs/Consultants Association (CICPAC) member firms that represent both member and non-member construction companies (most of which are based in or have significant employment in the U.S. and Canada).

A total of 1,294 companies submitted data by July 2022. Of those respondents, 1,209 provided detailed and valid financial statements and other required information needed for inclusion in the financial portion of the results.

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

OVERALL RESULTS

Company Profile

Respondents are classified by type based on the reported percentage of annual construction related revenue derived from specific groupings of North American Industry Classification (NAICS) codes. The three major segmentations include Industrial & Nonresidential, Heavy/Highway, and Specialty Trade. Of those that provided NAICS information, 44% of respondents are Specialty Trade, 30% are Industrial & Nonresidential, and 22% are Heavy/Highway.

The Midwest and Far West are the most widely represented United States regions (24% and 21%, respectively). Companies that operated outside of the United States during 2021 accounted for less than 1% of the sample.

General/prime contracting, or contractors that self-perform more than 20% of construction work, is the primary role associated with 43% of total respondents. Subcontractors, or those that perform 50% or more of construction work for another contractor, represent 41% of responding companies. Companies that self-perform less than 20% of construction work accounted for 15% of the sample.

Most respondents (82%) did not qualify to bid public projects under a Disadvantaged Business Enterprise (DBE) category in 2021. Of those qualified, the Small Business Enterprise was the most cited (71%) category followed by Woman-Owned Business Enterprise (29%) and Minority Business Enterprise (22%).

Most companies (76%) are registered as an S Corporation and are privately owned within the United States (89%). The legal classifications and ownership structures of reporting companies is in line with the historical results of the study.

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Financial Information

In 2021, as we were evaluating the results of 2020 and the impact of the pandemic, there continued to be a large list of uncertainties facing the industry, as well as the nation. In response to the economic impacts of the pandemic, the U.S. government provided unprecedented relief funding in the form of Payroll Protection Program (PPP) loans and an Employee Retention Credits (ERCs). These programs allowed companies the flexibility to be able to maintain staff or limit reductions in staffing levels. The results of this study are inclusive of ERCs and PPP loans, which are reported as other income, if forgiven or recognized using the grant approach accounting method.

For many of the reasons described above, the impact of COVID-19 must be considered when evaluating the results of this year’s study and beyond. It is also important to consider the impact of inflationary pressures as labor and supply chain issues continued to mount during 2021, which contributed to inflation reaching highest levels since the 1980's. Although the Fed has implemented rate hikes in efforts to tame inflation, it is anticipated that supply chain issues, a tight labor market, and inflationary pressures will continue to be present for the foreseeable future.

Despite the challenges companies faced, most respondents experienced positive sales growth during 2021. Monitoring sales change is critical as it often drives a company’s performance and ability to achieve profits. Overall, companies experienced a 5% increase in total revenue volume in 2021 over 2020. Note – sales growth figures are calculated solely based on total revenue dollars and are not impacted by PPP loan adjustments.

Profitability measures were strong for most companies during 2021. The return on assets (ROA), which provides an indication of how well assets are utilized to generate profits, grew from 13% in 2020 to 15% in 2021. Perhaps the best measure of a company’s overall performance is its return on equity (ROE). Overall, companies reported a 36.1% ROE which is up 6.5 percentage points from pre-pandemic (2019) levels. Despite a .6 percentage point decline in gross profitability in 2021 from 2020, pre-tax net income grew from 7% in 2020 to 8% in 2021. Loans through the PPP program and that were forgiven or recognized using the grant approach accounting method and Employee Retention Credits received contributed 4% of total revenue to the bottom-line profitability.

The fixed asset ratio (FAR) offers an indication of the level of stockholders' equity invested in net fixed assets. The FAR for the median respondent fell considerably from 27% in 2020 to 22% in 2021, which generally indicates companies are now in a more favorable liquidity position.

From a financial position standpoint, the current ratio provides an indication of short-term liquidity. The typical company reported a current ratio of 1.8. As this is the coverage of current liabilities by current assets, organizations should investigate if this ratio were to fall below 1.0.

The debt to equity ratio is a good indicator of the relationship between creditors and company owners. A low debt to equity ratio typically implies a very stable organization. A debt to equity ratio of 1.0 would indicate that owners and outside creditors/lenders have an equal stake in the company’s assets. Overall, the median debt to equity ratio for respondents improved to 1.2 in 2021 from 1.4 reported in 2020.

The number of days to collect accounts receivable (AR) increased from 53 days in 2020 to 58 days in 2021; the number of days to liquidate trade payables was 33, which represents a 3-day increase from the 2020 results.

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Exhibit 1 below provides a detailed look at key ratios for all responding companies and companies by total revenue.

Key Ratios Detail

	All Companies	Revenue Volume: Under $10 Million	$10 to $25 Million	$25 to $50 Million	$50 to $100 Million	$100 to $300 Million	Over $300 Million
All Shown as Medians except Inventory Days							
LIQUIDITY RATIOS							
Current Ratio	1.8	2.6	2.1	1.8	1.5	1.4	1.3
Quick Ratio	1.5	2.3	1.8	1.5	1.4	1.3	1.2
Days of Cash	28.1	32.8	25.4	28.5	25.2	30.5	28.3
Working Capital Turnover	6.6	4.3	5.4	6.8	9.4	10.6	14.3
PROFITABILITY RATIOS							
Return on Assets	14.7%	14.1%	16.2%	18.7%	14.7%	12.3%	8.4%
Return on Equity	36.1%	30.1%	32.5%	40.1%	40.2%	41.3%	34.3%
Times Interest Earned	50.8	25.4	46.1	59.9	53.6	73.1	69.9
LEVERAGE RATIOS							
Debt to Equity	1.2	0.7	0.9	1.2	1.6	2.2	2.9
Revenue to Equity	5.0	3.8	4.2	5.0	6.8	8.2	11.3
Asset Turnover	2.3	2.1	2.2	2.4	2.5	2.5	2.7
Fixed Asset Ratio	21.9%	24.0%	22.6%	21.1%	22.8%	21.7%	16.9%
Equity to SG&A Expenses	1.9	1.7	1.9	2.1	2.0	2.3	1.7
Underbillings to Equity	8.8%	5.1%	9.2%	8.8%	9.4%	13.3%	10.1%
Average Backlog to Equity	5.0	2.6	2.9	4.3	6.2	6.4	10.9
EFFICIENCY RATIOS							
Backlog to Working Capital	6.3	2.4	2.9	5.9	9.6	8.7	14.3
Months in Backlog	9.2	7.1	7.6	9.5	9.1	9.7	12.8
Days in Accounts Receivable	57.7	57.5	59.2	56.6	55.0	59.2	57.6
Days in Inventory	5.2	6.6	6.2	6.7	2.8	2.8	2.3
Days in Accounts Payable	33.0	22.1	29.9	34.8	37.6	42.8	44.5
Operating Cycle	56.9	70.7	64.8	57.3	45.9	44.8	37.5
SALES PERFORMANCE							
Sales Growth	4.5%	-0.5%	2.9%	4.4%	7.4%	10.4%	10.4%

Best in Class (BIC) Information

The Best in Class aggregation of companies is based on a select grouping of key performance metrics for which the top 25% of companies, based on a composite ranking, are selected. These companies outperformed the typical respondent's performance for essentially all financial metrics.

The Best in Class companies reported a 36% ROA and a 68% ROE, compared to all respondents that reported 15% ROA and 36% ROE. Best in Class companies also reported less debt (0.9 times debt to equity for Best in Class companies vs. 1.2 times for all respondents) and a more stable fixed asset ratio (12% for Best in Class companies vs. 22% for all respondents).

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The top performing companies particularly excelled in the margins they achieved. Best in Class companies achieved a gross profit margin of 20% of total revenue. Further, the Best in Class reported a net income after tax margin of 14%, which is 6 percentage points higher than the average respondent.

INDUSTRIAL & NONRESIDENTIAL

Profile

Nearly 60% responding Industrial & Nonresidential companies indicated they operate as a general/prime contractor (more than 20% of construction work self-performed) and 39% primarily operated in a construction management (20% or less of construction work self-performed) capacity.

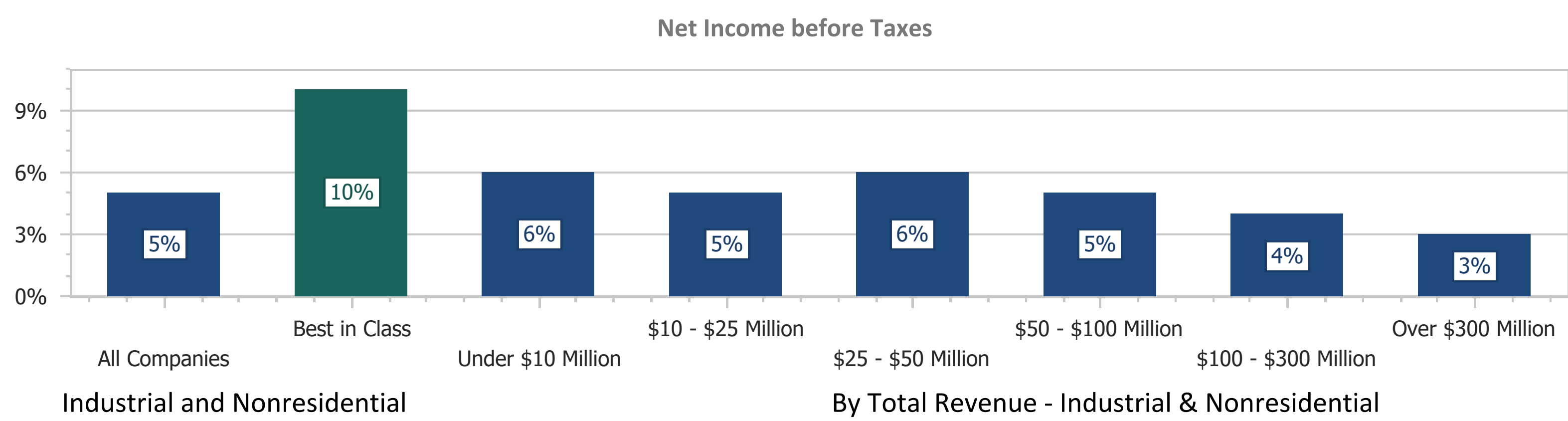
The average Industrial & Nonresidential company estimated that 81% of revenues were derived from NAICS 236220 (Commercial and Institutional Building Construction) followed by 17% from NAICS 236210 (Industrial Building Construction).

An S Corporation is the legal form of entity for 72% of responding companies in the Industrial & Nonresidential segment. More than 90% of companies indicated they operate as a privately owned business within the United States. An Employee Stock Ownership Plan (ESOP) was the second most cited structure at 8% of all respondents.

Of the Industrial & Nonresidential companies that provided regional information, 29% are headquartered in the Far West region of the United States. The Southwest was the next largest represented region, with 21% of respondents. The remaining companies are relatively equally distributed across the remaining U.S. regions.

Financial Information

Industrial & Nonresidential companies, overall, experienced a 5% net income before taxes during 2021. ROA increased to 11% in 2021, up from 10% in 2020. The Industrial & Nonresidential segment utilized assets to generate 2.9 times more sales than assets, maintained a leverage ratio (total assets/net worth) of 3.3, and achieved an ROE of 37%.



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HEAVY & HIGHWAY

Profile

Responding Heavy/Highway companies mostly operated as general/prime contractors during 2021 with 75% indicating this role is primary. The remaining 25% of Heavy/Highway respondents operated as a subcontractor in 2021.

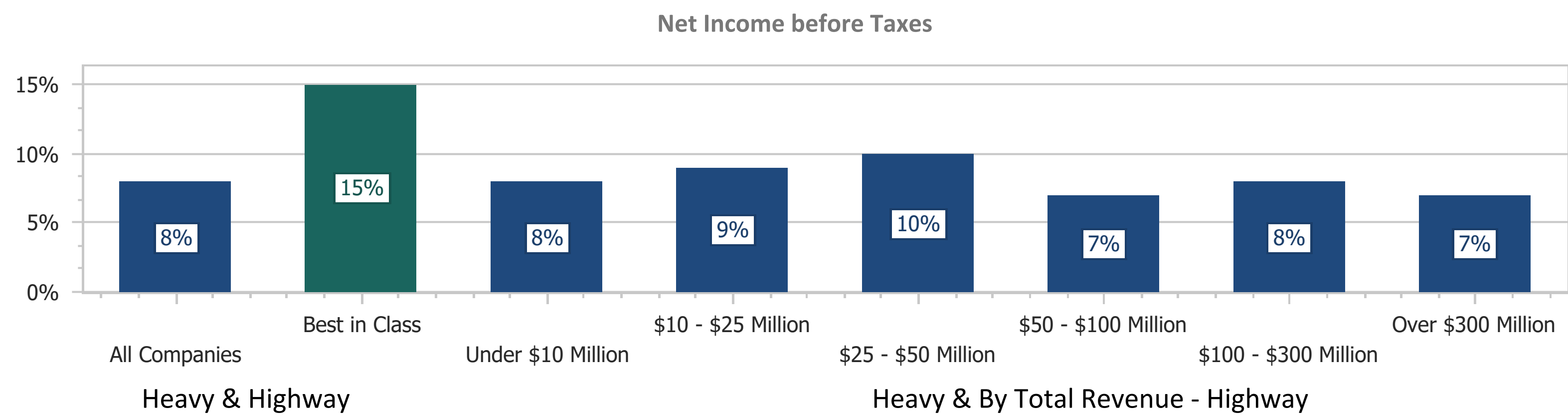
The average Heavy/Highway company reported that 48% of revenues were derived from NAICS 237310 (Highway, Street, and Bridge Construction) followed by 30% of revenues from NAICS 237990 (Other Heavy and Civil Engineering Construction).

An S Corporation is the legal form of entity for 83% of responding companies in the Heavy/Highway segment. Nearly 90% of companies indicated they operate as a privately owned business within the United States. An ESOP was the next most cited structure at 11% of all respondents.

Of the Heavy/Highway companies that provided regional information, 24% are headquartered in the Midwest region of the U.S. Another 21% of respondents are headquartered in the Far West region of the U.S.

Financial Information

Heavy/Highway companies, overall, experienced an 8% net income before taxes during 2021. ROA increased to 15% in 2021, up from 13% in 2020. The Heavy/Highway segment utilized assets to generate 1.9 times more sales than assets, maintained a leverage ratio (total assets/net worth) of 1.9, and achieved an ROE of 29%.



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SPECIALTY TRADE

Profile

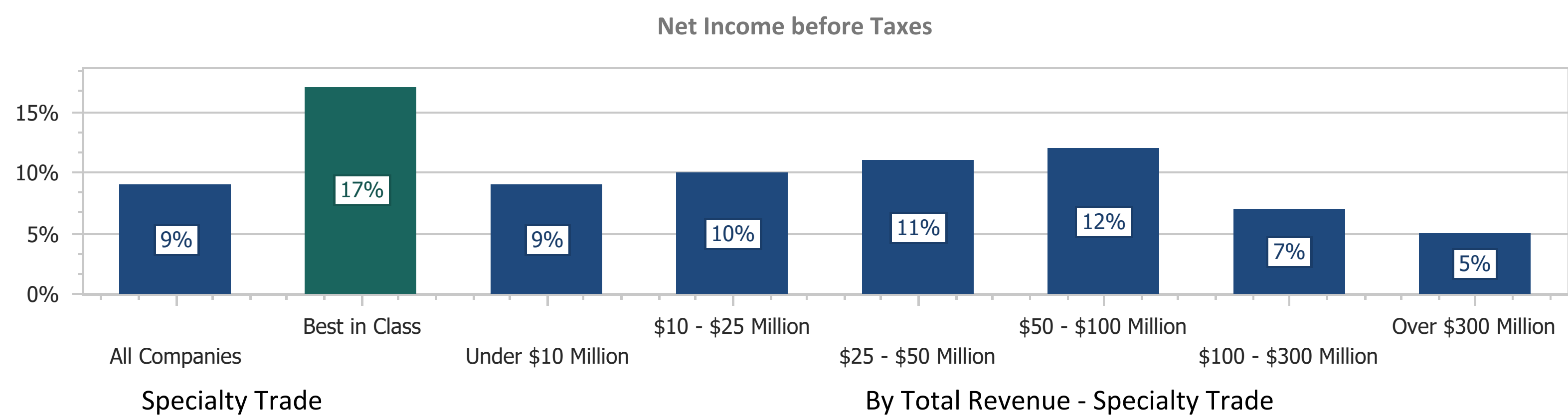
A large majority (89%) of Specialty Trade respondents primarily act in a role of subcontractor. General/prime contracting as a primary role was the next most common response among participants at 10% of all Specialty Trade respondents.

An S Corporation is the legal form of entity for 78% of responding companies in the Specialty Trade segment. Privately-owned businesses were most common among responding Specialty Trade companies (87%). The next most common ownership structure was an ESOP at 12%.

The Midwest region was the best represented among Specialty Trade respondents at 25% of the sample. The Northeast U.S. was the next best represented region, with 22% of respondents.

Financial Information

Specialty Trade companies, overall, experienced an 9% net income before taxes during 2021. ROA increased to 17% in 2021, up slightly from 16% in 2020. The Specialty Trade segment utilized assets to generate 2.2 times more sales than assets, maintained a leverage ratio (total assets/net worth) of 1.9, and achieved an ROE of 38%.



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ABOUT THE RESULTS

The results of CFMA's 2022 Annual Financial Survey 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 at www.financialbenchmarker.com is CFMA's online tool that allows users to compare their companies' financial performance with the Annual Financial Survey Online Questionnaire results. With flexibility in selecting benchmarks and easy data entry, the financial results include graphic presentations of key financial data going back to 2010. For more information on CFMA's Construction Financial Benchmarker tool, contact Mike Elek (melek@cfma.org or 609-452-8000).

CFMA's 2022 Annual Financial Survey Online Questionnaire was conducted and analyzed by Industry Insights and CFMA's 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.

1 Results of CFMA's 2022 Construction Industry Annual Financial Survey 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 1,209 CFMA General Members and Non-Members that provided detailed and valid 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.