

CONSTRUCTION INDUSTRY

# Financial Analysis Report

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2020



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# Introduction

## Strategies to Navigate Uncertainty

As economic conditions shift, construction companies could benefit from applying 2019–2020 gains toward preparing for uncertainty in 2021. While this year’s data shows the industry is still relatively stable, it also points to the importance of taking strategic steps to remain competitive and improve profitability.

Margins, return on equity, and profit data remained strong in 2019–2020 data, while backlogs increased only slightly compared to the prior year. All in all, year-end financial reports show the strength of the balance sheet is fairly stable.

That said, the industry is still facing skilled labor shortages, material pricing fluctuations, and volatile economic conditions. COVID-19 relief initiatives like the Paycheck Protection Program, changes to tax legislation, and revisions to revenue recognition and lease accounting will also affect financials, key ratios, and tax planning over the next several years.

These trends point to the importance of having a strong balance sheet to remain sustainable. They also provide opportunities to plan ahead and address inefficiencies by making infrastructure changes, analyzing key performance indicators, and implementing new cybersecurity protocol.

Finding more efficient, sustainable ways to complete tasks with fewer costs to your business may have a significant impact in coming years. Take a look at the steps on the right-hand side to learn how you can get started.

We hope this report is a valuable tool as you plan for the year ahead. Take the time to examine how your own ratios compare to the data and how the results can guide future improvements to your business. If you have feedback for how we can make this report more valuable to you, I invite you to contact me directly with suggestions.

Here’s to planning your continued success.



### ELAINE ERVIN

National Practice Leader,  
Moss Adams Construction

(206) 302-6399 | [elaine.ervin@mossadams.com](mailto:elaine.ervin@mossadams.com)

## ADAPT TO UPCOMING CHANGES

- ☐ Analyze your accounting, technology, and cybersecurity systems to determine capacity and adapt to upcoming changes—such as Paycheck Protection Program loans, accounting for leases, and revenue recognition. Adopt more efficient systems if necessary.
- ☐ Implement structural changes to increase efficiencies, fill labor gaps, increase tax rate savings, and benefit from new incentives.
- ☐ Analyze your equipment rates and utilization and determine how to cut back on contractor-owned equipment.
- ☐ Incorporate a cybersecurity plan into your corporate strategy for future years to stay ahead of emerging developments.
- ☐ Consult a tax professional to learn how new laws could affect your company.

## GET ENGAGED

- ☐ Collaborate with educational institutions to encourage and promote careers in the construction industry.
- ☐ Implement industry-association education and training programs to narrow the knowledge gap.

## ADDRESS RISK

- ☐ Determine current internal and external risks, including cybersecurity threats and employee fraud.
- ☐ Measure how confident you are in your current cybersecurity plan and take steps to improve internal controls and mitigate future risk.
- ☐ Assign team members who are responsible for implementing changes, analyzing effects, and reporting progress.
- ☐ Develop goals and a timeline for each of the above steps.

# ABOUT THE DATA

## GENERAL INFORMATION

The data from this year's report reflects information from more than 153 contractors, the majority of which are located on the Western United States. Throughout this report, regional figures reflect information from these companies, while the national figures were obtained from the Construction Financial Management Association (CFMA) Annual Financial Survey.

The financial information used in this report isn't selected by any random or statistically reliable method. The financial information is voluntarily submitted with no limitation on company size. Some of the construction categories may include smaller sample sizes, which can increase the chance that some composites don't fully represent the population. An outlier statement can occasionally be present in the sample, causing disproportionate influence on the information reported.

Companies within the same category may differ in their methods of operations, labor markets, geographic location, accounting methods, and more, all of which can affect the composite calculations. For these reasons, we recommend you use the data as a general guideline to supplement other methods of financial analysis and not as an absolute industry norm.

## APPLICABLE DATES OF FINANCIAL INFORMATION

The 2020 information presented in this report is derived from financial statements with a year-end during 2019; and likewise, the 2019 information is from financial statements with a year-end during 2018.

## INFORMATION PRESENTED IN COMMON SIZE

Balance sheet and income statement dollar figures are averaged and rounded to the nearest thousand. Balance sheet and income statement information is also shown in common size format, with each item a percentage of total assets and contract revenue. The common size statements are computed by dividing the average dollar amounts as displayed.

## RATIO CALCULATIONS

The ratios presented are calculated using the composite average dollar figures displayed for each category.