

# Performance Review



Turtle Bay CPA

**Your name here**  
**888-635-8899**

Industry: 23611 - Residential Building Construction  
 Sales Range: All Sales Ranges  
 Location: All Areas  
 Prepared On: 2/17/2021

## INDUSTRY FINANCIAL DATA AND RATIOS

### Average by Year (Number of Financial Statements)

Financial Metric	Last 12 Months (1,838)	2020 (1,856)	2019 (6,266)	Last 5 Years (36,509)	All Years (94,717)
Current Ratio	2.94	2.96	3.01	2.95	2.83
Quick Ratio	1.25	1.26	1.26	1.31	1.28
Gross Profit Margin	30.86%	30.96%	29.65%	29.57%	29.34%
Net Profit Margin	10.24%	10.25%	6.57%	5.45%	3.70%
Inventory Days	155.22	154.72	127.14	124.88	126.78
Accounts Receivable Days	21.65	21.73	15.59	14.36	16.15
Accounts Payable Days	21.53	21.46	18.04	16.39	17.59
Interest Coverage Ratio	14.57	14.60	12.79	12.33	10.42
Debt-to-Equity Ratio	4.51	4.51	5.47	5.81	5.88
Debt Service Coverage Ratio	7.82	7.94	5.71	5.64	4.96
Return on Equity	57.09%	57.09%	51.68%	50.26%	44.63%
Return on Assets	21.09%	21.34%	18.79%	17.43%	15.03%
Gross Fixed Asset Turnover	32.21	32.34	24.99	24.56	22.37
Profit per Employee	\$35,272	\$35,272	\$39,166	\$29,634	\$21,981
Growth Metric	Last 12 Months (381)	2020 (387)	2019 (3,859)	Last 5 Years (21,004)	All Years (49,732)
Sales Growth	10.33%	10.24%	10.88%	10.91%	8.69%
Profit Growth	41.29%	40.91%	23.91%	20.01%	18.55%
Industry-Specific Metric	Last 12 Months	2020	2019	Last 5 Years	All Years
<b>Billings in Excess of Cost to Total Assets</b>	--	--	11.80% (31)	11.70% (163)	9.10% (775)
<b>Costs and Earnings in Excess of Billings to Total</b>	--	--	8.50% (27)	7.70% (158)	6.40% (698)

**Assets**

<b>Months in Backlog</b>	--	--	7.80 (6)	8.07 (27)	5.96 (196)
<b>Direct Labor Ratio</b>	20.10% (41)	19.80% (42)	16.90% (115)	17.60% (542)	16.70% (1309)
<b>Backlog to Working Capital</b>	--	--	6.91 (5)	5.90 (27)	6.53 (161)
<b>Subcontractor Expense to Sales</b>	19.50% (18)	19.50% (18)	25.20% (57)	27.20% (283)	30.00% (1061)
<b>Revenue per Employee</b>	\$444,491 (6)	\$444,491 (6)	\$560,437 (17)	\$532,425 (132)	\$422,851 (3426)

\*This benchmark has been set according to where a healthy business within the industry would perform.

## INDUSTRY DATA COMMON SIZE

### Average by Year (Number of Financial Statements)

<b>Income Statement</b>	<b>Last 12 Months (1,838)</b>	<b>2020 (1,856)</b>	<b>2019 (6,266)</b>	<b>Last 5 Years (36,509)</b>	<b>All Years (94,717)</b>
Sales (Income)	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	69.14%	69.04%	70.35%	70.43%	70.66%
Gross Profit	30.86%	30.96%	29.65%	29.57%	29.34%
Depreciation	0.21%	0.21%	0.57%	0.69%	0.79%
Overhead or S,G,& A Expenses	16.21%	16.28%	16.27%	16.85%	18.18%
Other Operating Income	0.01%	0.01%	0.02%	0.02%	0.02%
Other Operating Expenses	3.17%	3.18%	5.08%	5.49%	5.52%
Operating Profit	11.28%	11.30%	7.75%	6.57%	4.87%
Interest Expense	1.17%	1.18%	1.26%	1.18%	1.23%
Other Income	0.17%	0.17%	0.17%	0.16%	0.17%
Other Expenses	0.04%	0.04%	0.09%	0.11%	0.10%
Net Profit Before Taxes	10.24%	10.25%	6.57%	5.45%	3.70%
Adjusted Owner's Compensation	0.00%	0.00%	0.00%	0.00%	0.00%
Adjusted Net Profit Before Taxes	10.24%	10.25%	6.57%	5.45%	3.70%
EBITDA	11.61%	11.64%	8.40%	7.31%	5.72%
Taxes Paid	2.13%	2.07%	1.77%	1.41%	1.47%
Net Income	8.10%	8.19%	4.80%	4.04%	2.23%
<b>Balance Sheet</b>	<b>Last 12 Months (1,838)</b>	<b>2020 (1,856)</b>	<b>2019 (6,266)</b>	<b>Last 5 Years (36,509)</b>	<b>All Years (94,717)</b>
Cash (Bank Funds)	9.40%	9.40%	7.19%	7.23%	6.83%
Accounts Receivable	6.33%	6.34%	5.13%	4.69%	5.46%
Inventory	31.66%	31.60%	26.73%	26.45%	25.76%
Other Current Assets	3.78%	3.75%	3.24%	3.14%	3.28%
Total Current Assets	81.07%	81.06%	76.84%	76.03%	74.74%
Gross Fixed Assets	23.71%	23.73%	31.32%	32.51%	34.39%
Accumulated Depreciation	10.43%	10.43%	15.73%	16.49%	17.43%
Net Fixed Assets	13.29%	13.30%	15.59%	16.03%	16.95%
Other Assets	5.65%	5.64%	7.57%	7.95%	8.31%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%

Accounts Payable	6.53%	6.53%	6.16%	5.89%	6.54%
Notes Payable / Current Portion of Long Term Debt	6.96%	6.98%	8.15%	8.33%	9.18%
Other Current Liabilities	12.08%	12.03%	11.20%	11.28%	11.46%
Total Current Liabilities	51.37%	51.29%	50.47%	50.95%	52.18%
Total Long Term Liabilities	22.48%	22.52%	28.13%	29.56%	30.21%
Total Liabilities	73.84%	73.81%	78.60%	80.51%	82.39%
Preferred Stock	0.00%	0.00%	0.00%	0.00%	0.00%
Common Stock	0.11%	0.11%	0.20%	0.24%	0.32%
Additional Paid-in Capital	0.38%	0.38%	0.50%	0.54%	0.60%
Other Stock / Equity	1.07%	1.08%	0.41%	0.41%	0.56%
Ending Retained Earnings	22.81%	22.78%	17.62%	15.49%	13.26%
Total Equity	26.16%	26.19%	21.40%	19.49%	17.61%
Total Liabilities + Equity	100.00%	100.00%	100.00%	100.00%	100.00%

## INDUSTRY DATA COMMON SIZE SUB ACCOUNTS

### Average by Year (Number of Financial Statements)

<b>Income Statement</b>	<b>Last 12 Months</b>	<b>2020</b>	<b>2019</b>	<b>Last 5 Years</b>	<b>All Years</b>
Direct Labor	20.10% (41)	19.80% (42)	16.90% (115)	17.60% (542)	16.70% (1309)
Subcontractor Expense	19.50% (18)	19.50% (18)	25.20% (57)	27.20% (283)	30.00% (1061)
Payroll	7.22% (894)	7.17% (904)	6.94% (2955)	7.15% (17284)	7.87% (42622)
Rent	0.63% (710)	0.62% (717)	0.67% (2559)	0.70% (15145)	0.77% (36084)
Advertising	0.43% (728)	0.43% (735)	0.39% (2879)	0.40% (16497)	0.45% (39724)
<b>Balance Sheet</b>	<b>Last 12 Months</b>	<b>2020</b>	<b>2019</b>	<b>Last 5 Years</b>	<b>All Years</b>
Costs and Earnings in Excess of Billings	--	--	8.50%	7.70%	6.40%
Billings in Excess of Costs	--	--	11.80%	11.70%	9.10%

# COMPANY-SPECIFIC / INDUSTRY RECOMMENDATIONS

## LIQUIDITY

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*What are some potential ways to improve the company's ability to meet obligations as they come due?*

- ▶ Set longer terms for paying expenses when possible and allowable by the subcontractor. For example, increase a 30 day payment window to 60 days.
- ▶ Establish contractual agreements that allow as much collection up front as possible for large jobs. This will ensure that the job is being completed with funds provided by the customer instead of the business.
- ▶ Speed up the billing of customers (even three days earlier each month) in order to accelerate the collection process, which can significantly improve the business's cash position.
- ▶ Complete jobs on a timely basis. If completion takes longer than expected, soft costs such as interest and penalties can start to drain the money coming into the business.
- ▶ Keep an accurate payables schedule on a week by week basis. This can help the business know what payments should be made each week in order to avoid late charges or double billings.
- ▶ Discover ways to receive returns on excess cash balances. For example, set up a "sweep" account at the bank so that interest can be earned on any excess funds in the checking account.
- ▶ Eliminate or reduce some overhead or fixed costs to reduce monthly expenses. Small decreases in overhead will typically yield large cash savings over time.
- ▶ Sell any unnecessary or unproductive equipment the business may have to increase cash.
- ▶ Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or bi-weekly basis to help prepare for potential future cash shortfalls.
- ▶ Monitor Accounts Receivable on a weekly basis and charge interest on invoices that are past due.
- ▶ Use trade credit or vendor financing when reasonable and feasible. This is typically free debt and a good source of short-term financing because it does not carry interest.
- ▶ Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship involved. Make sure giving credit will increase revenues/income and be cost effective. Also, if beneficial, provide discounts to customers who pay early.
- ▶ Rent rather than buy equipment and other resources where appropriate.
- ▶ Monitor invoicing procedures to help ensure correctness in order to reduce delayed payments from customers.
- ▶ If necessary, term out some short-term debt by moving some short-term debt down the Balance Sheet to long-term debt. This usually requires refinancing from the bank.
- ▶ If necessary, try to establish a sufficient line of credit from the bank. The business should obtain, but not necessarily use, as much financing as possible from the bank. If external financing is needed, structure it as long-term debt rather than short-term debt in order to decrease monthly payments.

- ▶ Use a monthly or bi-monthly payroll schedule if possible -- so long as morale will not be adversely affected.
- ▶ Monitor the impact that tax payments may have on cash. Keep enough money aside to be able to meet future tax obligations based on earnings.

## **PROFITS & PROFIT MARGIN**

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*What are some things the company might do to develop favorable profitability trends?*

- ▶ Establish bonuses in contracts for work that is completed well and early, and penalties for late work.
- ▶ Consider using a job costing system (software is available) that will enable the business to have an expected profit upon completion value. This will allow for the tracking of profits and costs at any point in the job as well as the amount to bill clients now and in the future.
- ▶ Manage equipment and supplies so that theft and loss is less likely to occur. A good way to do this is to count tools and materials at the beginning and end of each day.
- ▶ Submit bids that not only cover direct labor and material costs, but also include a portion of overhead and account for increases in expenses.
- ▶ Preserve projected profits by providing a hedge against increasing costs. For example, put an escalator clause in contracts. Keep clients informed of extra costs.
- ▶ Forecast equipment requirements and keep equipment utilized. If there is too much equipment, it will be sitting idle while still being paid for. If there is not enough equipment, jobs will be harder to complete on time.
- ▶ Find low cost, reliable suppliers that provide quality tools, materials, and volume discounts, if applicable. Work out a way to have vendors deliver right to the job site when needed, therefore reducing storage costs.
- ▶ Conduct a gain/fade analysis to review performance. Trends in gain/fade can indicate areas of concern regarding bidding and job management as well as track whether the business is on target to meet projected profit goals.
- ▶ Review capital expenditure decisions fully before making a purchase. It is often cheaper to rent equipment as opposed to buying. If it becomes an ideal situation to buy, shop around for high-quality used equipment.
- ▶ Review the project manager's ability to effectively coordinate the simultaneous arrival of supplies with the scheduling of labor for jobs.
- ▶ Lock in prices for materials in advance if future price increases are anticipated.
- ▶ Invest in activities that can yield positive returns, such as special employee training or building seminars.
- ▶ Be aware of the site's accessibility when preparing an estimate. Ease of transportation, availability of power sources, drainage, and other factors can add unexpected costs that might cut into profits.
- ▶ Implement a "neighborhood watch" program to reduce theft of tools, materials, and equipment on construction sites. Talk with nearby residents and businesses and provide them with a contact number in the event that they notice a disturbance. This also gives the company exposure, which may lead to



additional business.

- ▶ Consider regional and seasonal trends, such as cold weather, when estimating up-charges to cover unexpected expenses.
- ▶ Make sure to get detailed estimates from subcontractors. This will allow the business to better plan the total project cost.
- ▶ Track the effectiveness of advertising by the additional jobs generated from the campaign. Send surveys to customers to determine where to find new business and then focus advertising efforts there.
- ▶ Create good monthly budgets with cost reduction goals, broken down by account, that are put right into an accounting system (chart of accounts) allowing management to have the ability to pull "variance reports".
- ▶ Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. This will help ensure the usefulness of the data for examination purposes.
- ▶ Monitor the costs going into all office supplies. With more important costs being monitored closely, the business may forget to look at this smaller cost, and often allow it to be higher than necessary.
- ▶ Reduce payroll costs, including any overtime expenses, by maintaining an ideal number of employees and monitoring the number of hours that each employee works.
- ▶ Monitor the amount of money that is being used for activities unrelated to the business. An example could be money taken out of the business on draws to principals.

## **SALES**

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*What are some things the company can consider to encourage sales growth?*

- ▶ Have an attractive web presence. This could increase revenue by providing an extra forum for the business to feature its services, past projects, testimonials, and awards won.
- ▶ Produce the proper financial information that can maintain and enhance the bonding capacity of the business. The company's ability to bid on work has a lot to do with its bonding capacity.
- ▶ Keep open communication with customers and work to consistently meet the needs and design specifications of customers to help ensure quality service. Many customers will return to a business that takes the time to answer questions promptly and knowledgeably.
- ▶ Compare the business to other local construction businesses and work to meet and exceed industry standards. This can help improve the business's competitive position and retain customers who might be seeking alternative contractors.
- ▶ Gather feedback from customers regarding the quality of work performed. Consider contacting customers three to six months after projects are completed since small failures don't always show up immediately.
- ▶ Build a network by working closely with building contractors and developing relationships with the suppliers that provide building/construction equipment. This is a good way to secure work on new construction projects and can be a source for receiving new business referrals.
- ▶ Examine residential building construction industry trade journals and other media sources for valuable information. Credible sources can often provide details on managing key elements (such as labor and

materials/supplies) more effectively.

- ▶ If applicable, try to customize houses without having to add a great deal of extra overhead costs to the project.
- ▶ Diversify the types of construction projects accepted by the business in order to increase the potential customer base.
- ▶ Create a clear image in the minds of customers. Position the business as being inexpensive and fast, or as high quality and thorough.
- ▶ Showcase past work to catch the attention of potential customers. For example, create a DVD that could be sent to potential clients illustrating some of the past projects that the business has completed. Post signs outside of job sites and advertise awards won in trade magazines to help attract potential customers.
- ▶ Establish a unique selling feature for the construction company that will make the customer remember the builder/company. By doing so, the business can generate increased demand and possibly decrease marketing and sales costs/efforts.
- ▶ If work is seasonal, consider expanding to new markets that the business can focus on during the off-season.
- ▶ Ensure that marketing materials (including signs) are consistent throughout the business by looking across all materials at one time. Layouts in materials should be the same and main themes should be presented. Build an image and a brand so that people will recognize the business and be attracted to it.
- ▶ Make it known to customers that their business is appreciated. For example, thanking customers for their business after the completion of a job is often a simple act that can help make customers feel valued.