

sageworks[®] Industry Data and Analysis

Industry: 236115 - New Single-Family Housing Construction (Except Operative Builders)
Sales Range: All Sales Ranges
Data Source: Private Companies
Location: All Areas
Prepared On: 2/15/2010

INDUSTRY FINANCIAL DATA AND RATIOS

Average by Year (Number of Financial Statements)

Financial Metric	Recent 12 Months (119)	2009 (123)	2008 (328)	All Years (3428)
Current Ratio	2.06	2.04	2.04	1.96
Quick Ratio	0.95	0.94	0.68	0.72
Gross Profit Margin	31.51%	30.77%	25.76%	24.27%
Net Profit Margin	2.80%	2.79%	2.18%	4.25%
Inventory Days	15.74	15.82	19.55	26.27
Accounts Receivable Days	15.61	15.82	12.53	12.52
Accounts Payable Days	24.01	24.03	19.53	19.13
Interest Coverage Ratio	5.30	5.30	4.80	8.15
Debt-to-Equity Ratio	3.31	3.29	4.16	3.78
Return on Equity	11.60%	11.69%	8.56%	16.63%
Return on Assets	4.59%	4.71%	2.93%	6.77%
Fixed Asset Turnover	12.08	12.12	12.84	17.55
Sales per Employee	\$437,552	\$420,504	\$337,455	\$356,033
Profit per Employee	(\$3,938)	(\$1,243)	\$21,392	\$18,721
Debt Service Coverage Ratio	2.07	2.07	1.57	1.26
Growth Metric	Recent 12 Months (24)	2009 (27)	2008 (89)	All Years (1016)
Profit Growth	-0.60%	3.16%	-3.99%	1.91%
Sales Growth	-21.66%	-16.26%	-6.33%	4.58%

INDUSTRY DATA COMMON SIZE

Average by Year (Number of Financial Statements)

Income Statement	Recent 12 Months (119)	2009 (123)	2008 (328)	All Years (3428)
Sales (Income)	100.00%	100.00%	100.00%	100.00%
Cost of Sales (COGS)	68.49%	69.23%	74.24%	75.73%
Gross Profit	31.51%	30.77%	25.76%	24.27%
Depreciation	0.81%	0.81%	1.26%	1.22%
Overhead or S,G,& A Expense	22.24%	21.61%	14.66%	14.16%
Other Operating Income	0.25%	0.25%	0.36%	0.18%
Other Operating Expenses	4.60%	4.57%	7.01%	4.37%
Operating Profit	4.08%	4.00%	3.18%	4.69%
Interest Expense	1.34%	1.28%	2.01%	1.38%
Other Income	0.65%	0.64%	0.53%	0.40%
Other Expenses	0.19%	0.18%	0.24%	0.17%
Net Profit before Taxes	3.21%	3.18%	1.46%	3.54%
Adjusted Net Profit before Taxes	3.29%	3.26%	1.59%	3.84%
EBITDA	5.27%	5.19%	4.92%	6.35%
Taxes Paid	-0.04%	-0.04%	0.10%	0.11%
Net Income	3.17%	3.14%	1.56%	3.65%
Balance Sheet	Recent 12 Months (119)	2009 (123)	2008 (328)	All Years (3428)
Cash (Bank Funds)	9.99%	9.94%	8.48%	8.95%
Accounts Receivable	11.69%	11.49%	9.46%	9.62%
Inventory	10.87%	11.09%	11.37%	12.80%
Other Current Assets	5.19%	5.27%	5.33%	5.78%
Total Current Assets	80.60%	80.75%	80.13%	80.62%
Gross Fixed Assets	32.25%	31.91%	35.77%	30.38%
Accumulated Depreciation	16.62%	16.43%	20.22%	14.32%
Net Fixed Assets	15.63%	15.48%	15.55%	16.06%
Other Assets	3.78%	3.77%	4.32%	3.32%
Total Assets	100.00%	100.00%	100.00%	100.00%
Accounts Payable	10.31%	10.62%	9.96%	11.43%
Current Portion of Long Term Debt	9.07%	9.07%	15.77%	13.01%
Other Current Liabilities	15.18%	15.85%	29.05%	29.49%
Total Current Liabilities	56.23%	56.18%	73.33%	58.49%
Long Term Liabilities	23.32%	22.92%	33.11%	25.93%
Total Liabilities	79.55%	79.10%	106.44%	84.42%
Ending Retained Earnings	6.27%	6.26%	-0.64%	5.03%
Total Equity	20.45%	20.90%	-6.44%	15.58%

COMPANY-SPECIFIC / INDUSTRY RECOMMENDATIONS**LIQUIDITY*****What are some potential ways to improve the company's ability to meet obligations as they come due?***

- ▶ Set longer terms for Accounts Payable when possible and allowable by the vendor. For example, increase a 30-day payment window to 60 days.
- ▶ Set up contracts 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.
- ▶ Complete jobs on a timely basis. If completion takes longer than expected, soft costs such as interest and penalties can start to drain cash from the business.
- ▶ Bill customers slightly earlier to accelerate the collection process, which can significantly improve the cash position. Consider billing based on progress toward completing the house. Generally, receiving payments at the rate that services are performed is ideal.
- ▶ Keep an accurate payables schedule on a week-by-week basis. This can help to determine what payments need to be made each week in order to avoid late charges and double billings.
- ▶ Look for ways to receive returns on excess cash balances. For example, set up a "sweep" account (which allows fund transfer overnight into a higher-yield account) at the bank so that interest can be earned on any excess funds in the checking account.
- ▶ Eliminate or reduce unnecessary overhead or fixed costs. Small decreases in overhead will typically yield large cash savings over time, especially if those fixed costs which tend to stay the same over time can be lessened.
- ▶ Sell any unnecessary/unproductive assets the business may have. These are assets that are not contributing sufficiently to the generation of income and cash flow.
- ▶ Prepare yearly forecasts that show cash flow levels at various points in time. Consider updating these forecasts on a monthly or even bi-weekly basis to help predict/prepare for potential future cash shortfalls.
- ▶ Monitor accounts receivable on a weekly basis, and charge interest or late fees on past-due invoices.
- ▶ Use as much trade credit or vendor financing as is reasonable/possible. Trade credit occurs when one business receives a service from a supplier under an agreement to pay later. This is a good form of short-term financing which does not carry interest.
- ▶ Consider providing different credit terms to different customers based upon credit-worthiness (risk) and the overall relationship. Make sure giving credit will increase revenue and is cost effective. Also, if beneficial, provide discounts to customers who pay early.
- ▶ Rent (rather than buy) equipment and other resources, when appropriate. In the long term, this can help balance obligations relative to liquid assets.
- ▶ Monitor invoices for accuracy. Nothing will delay payment from a customer more than sending out an incorrect invoice.

- ▶ Term out some short-term debt (if possible) by moving short-term debt down the Balance Sheet to long-term debt, if the business is having difficulty meeting obligations. This usually requires refinancing from the bank.
- ▶ Establish a sufficient line of credit from the bank. The business should obtain, but not necessarily use, as much financing as possible. Structure external financing as long-term rather than short-term to keep monthly payments lower.
- ▶ Use a monthly or bi-monthly payroll schedule if possible, allowing funds to stay in the business longer -- so long as morale will not be adversely affected.
- ▶ Monitor the impact tax payments may have on cash. Set enough money aside to be able to meet future tax obligations based on earnings.
- ▶ Monitor the amount of cash that is being used for activities unrelated to the business. An example could be money taken out of the business on draws to principals.

PROFITS & PROFIT MARGIN

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

- ▶ Submit bids that cover direct labor and material costs, but that also include a portion of overhead. Bids should account for increases in expenses and unforeseen expenses.
- ▶ Build an escalator clause into contracts to preserve projected profits by hedging against increasing costs. Keep clients informed of any extra costs so that they can approve them.
- ▶ Forecast construction equipment requirements and keep equipment busy. If there is too much equipment, it will be sitting idle while still being paid for. If there is not enough equipment, jobs will take longer to complete.
- ▶ Find low-cost, reliable suppliers who provide quality tools, materials, and even volume discounts. By searching multiple qualified suppliers, the business is more likely to get the best prices.
- ▶ 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.
- ▶ Make capital expenditure decisions carefully. It is often cheaper to rent equipment than it is to buy it. If buying equipment is ideal, shop around for high-quality used equipment.
- ▶ Use resources and employees at their maximum capacity. For example, project managers can often manage 4-6 homes at a time. Employees should not be idle for long periods of time.
- ▶ Monitor all aspects of a job. There is typically a 90-day time frame in house construction and small items can make a big difference in meeting the deadline. For example, something as simple as putting clear plastic wrap on windows before painting can save in the long run on clean up.
- ▶ Review the project manager's ability to effectively coordinate the simultaneous arrival of supplies and labor force for jobs.
- ▶ Obtain approval before work actually takes place if changes in orders must be made with suppliers.
- ▶ Lock in prices for materials in advance when anticipating future price increases.

- ▶ Invest in activities that can yield positive returns for the business, such as offering special employee training or attending home building seminars.
- ▶ Write contracts with bonuses for work that is done well and done early, and penalties for work that is late. With these, however, accurate estimation of job length is crucial.
- ▶ Consider using a job costing software that will calculate for the business an expected profit upon completion. 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 materials and supplies so that theft and loss are less likely to happen. A simple way to do this is to take an inventory of tools and materials at the beginning and end of each day.
- ▶ Be aware of the site's accessibility when preparing an estimate. Ease of transportation, availability of power sources, drainage, and other factors can all 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.
- ▶ Be sure to get detailed estimates from subcontractors. This will allow for better planning of the total project cost.
- ▶ Create good monthly budgets with cost reduction goals that are broken down by account and put right into the accounting system. This gives management the ability to pull "variance reports".
- ▶ Examine the purchasing of materials and determine whether buying larger quantities will be cost effective. This may be especially helpful if material costs are expected to rise or if quantity discounts are available.
- ▶ Generate accurate financial reports on a timely basis -- within 40 days of the end of the financial period. Good financial reports are the backbone of management decisions.
- ▶ Track the effectiveness of advertising by the additional jobs generated from the ads. Send surveys to customers to determine where to find new business and then focus advertising efforts there.
- ▶ Monitor spending on office supplies. With more significant costs being watched closely, many businesses forget to look at this smaller cost, allowing it to be higher than necessary.
- ▶ Enroll the business in an insurance program that provides appropriate coverage at a good cost. Meet with insurance agents to determine ways to reduce costs by evaluating coverage and deductibles.

SALES

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

- ▶ Diversify the types of housing projects accepted by the business in order to increase the size of 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 (even if slower), but be careful to not send mixed messages to different customers.

- ▶ Showcase past work to catch the attention of potential customers. For example, create a DVD that could be sent to prospects illustrating past projects. Post signs outside of job sites and advertise awards won in trade magazines.
- ▶ Establish uniqueness in the business's product and service offerings. This can generate increased demand for the business.
- ▶ Produce the needed financial information to maintain and enhance the bonding capacity of the business. The company's ability to bid work has a lot to do with its bonding capacities.
- ▶ Subscribe to and READ housing construction trade journals. There is no greater source of good operational information than a trade journal, and they provide many ideas that can help managers increase sales and keep customers.
- ▶ Compare the business to others in the area and work to meet and exceed industry standards. This can help improve the business's competitive position and maintain customers who might be considering a different contractor.
- ▶ Have systems in place to 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.
- ▶ Try to customize houses without having to add a great deal of extra overhead costs to the project.
- ▶ Stay up-to-date on the most popular areas of family housing in the region, and target marketing to those areas. Repeat exposure to those areas with the highest potential for new customers.
- ▶ Maintain good relationships with realtors, agents and brokers to help generate new business. Consider sending greeting cards for birthdays and gift baskets for referrals as a way to foster good working relationships.
- ▶ Participate in community events that will spread the business's name and build goodwill among current and potential customers. Consider sponsoring youth sports teams or a hole in a charity golf tournament.
- ▶ Provide high-quality customer service to gain more repeat business. Work to meet the specific needs of customers. Answer questions promptly, knowledgeably, and politely during the job and send thank-you notes after the completion of the job.
- ▶ 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. Online payment ability or job progress updates might also be helpful features for customers to have.
- ▶ Develop relationships with suppliers and other service providers. This can help in getting referrals for new business.
- ▶ Get on the standing offer list with the government housing department, to establish the business as a credible service provider.
- ▶ Contact personally the individuals who decide which contractor to give a job to. Establishing personal contact shows interest in the job and also allows one more opportunity to portray the business positively.

- ▶ Bid on jobs that are visible in the community, when applicable. For instance, try to get projects in busy parts of town or new housing developments. This will give the business a great deal of free publicity and potentially attract media attention.
 - ▶ Consider expanding to another job class, particularly if work is seasonal and an additional class can be focused 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. The goal is to build an image and a brand so that people will recognize the business and be attracted to it.
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