

TRBA Emerging Leaders 2024

10-Best Financial Practices for Heavy Highway Contractors

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Robert A. Davidson CPA and Expert “Ranter”

Ranting Expertise is based on 48-years of experience!

- Provided audit, tax, and consulting services to over 500 contractors since 1976
 - Lucky to be assigned to a contractor audit my first day of work – Wright Brothers
 - Best clients & “teachers” a CPA could ever have – Summers Taylor, Blalock, TN Asphalt, Wright Brothers, Simpson, Highways, Bell, Dement, Lehman Roberts, CFW, Brown Bros., Maymead, Lehman Roberts
 - James Wright, Ray Bell, Don Dean, Sid Blalock, Billy Bob Carter, Claude Simpson
 - Johnny Fred Coleman, Robert Wright, Sonny Dement, Rab Summers
- Participated in over 300 heavy highway, asphalt paving, ready-mix, aggregate acquisition or sale transactions - representing buyers & sellers **Buyer’s hire me if they want to finish 2nd!**
- Represented Travelers, Zurich, Liberty, Hanover, USF&G, Philadelphia, and CNA with surety default and contractor claims – 15 in the last 6-years
- Performed as an expert witness in over 100 construction litigation engagements
- Taught construction accounting and tax topics at over 400 conferences and seminars in all 50 states
- Davidson Consulting mission statement “Talk More – Work Less”

TRBA Emerging Leaders 2024

CONSTRUCTION INDUSTRY OVERVIEW

Construction Industry Trends & Developments

1. Construction industry is the 2nd riskiest business in America.
 - a) According to the Small Business Administration:
 - 74.3% of new start-up contractors survive 1-year
 - 33.2% survive 5-years
 - 24.8% survive 10-years
2. The construction industry reported record net income for 2015-2023. Most niches and geographic areas recovered from the “Great Recession” – increased profits for 10-year period since 2013. Profits have more than doubled for most contractors.
 - a) Profits dropped some in 2022 due to supply chain and inflation.
 - b) Profits in 2023 were back up for most contractors – it was a record year.

CFMA Benchmarker Survey 2022										
Net income pre-tax % of Revenue										
Industrial and Non-Residential Contractors										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
All Industrial & non-residential	1.9%	2.3%	1.8%	2.5%	3.4%	3.0%	3.0%	3.4%	4.7%	3.3%
Revenues < \$10 million	3.5%	2.6%	1.3%	5.2%	5.3%	5.3%	3.2%	5.3%	5.0%	5.5%
Revenues \$10 - \$25 million	2.3%	3.9%	2.2%	3.2%	3.9%	3.2%	3.6%	3.9%	8.0%	5.0%
Revenues \$25 - \$50 million	1.8%	1.6%	1.9%	2.2%	3.5%	2.7%	3.0%	3.1%	5.0%	2.8%
Revenues \$50 - \$100 million	1.5%	2.4%	1.4%	2.7%	2.7%	2.6%	2.9%	3.1%	3.2%	2.4%
Revenues \$100 - \$300 million	1.1%	1.8%	2.3%	1.4%	2.4%	2.3%	2.7%	3.3%	4.0%	2.6%
Revenues over \$300 million	1.7%	2.0%	1.2%	1.8%	1.8%	1.9%	2.0%	2.2%	2.2%	2.8%

CFMA Benchmarker Survey 2022										
Net income pre-tax % of Revenue										
Heavy Highway Contractors										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
All Heavy Highway Contractors	3.0%	3.8%	3.5%	5.5%	5.8%	5.8%	5.6%	5.9%	8.1%	5.3%
Revenues < \$10 million	1.3%	7.1%	4.8%	8.7%	6.9%	6.1%	5.1%	4.4%	7.0%	5.4%
Revenues \$10 - \$25 million	2.8%	2.4%	3.3%	3.6%	5.5%	4.5%	6.4%	6.1%	10.2%	6.0%
Revenues \$25 - \$50 million	2.6%	5.5%	4.9%	5.5%	5.1%	5.8%	5.1%	7.4%	8.9%	5.4%
Revenues \$50 - \$100 million	2.8%	1.8%	2.8%	5.7%	7.4%	6.2%	5.9%	5.9%	7.1%	5.0%
Revenues \$100 - \$200 million	2.2%	3.4%	2.4%	5.2%	5.0%	7.7%	5.3%	6.5%	8.1%	4.1%
Revenues over \$200 million	5.0%	3.9%	4.2%	5.5%	4.5%	7.1%	5.3%	4.8%	4.6%	5.8%

3. Construction backlog has remained steady, but indication of a construction slow-down were developing in some areas and sectors before the pandemic.

a) Retail, religious/charity, and office construction work has declined

- Amazon and on-line shopping damaged retail construction – pandemic accelerated the trends
- Remote working technology was reducing office space demands

b) Healthcare, education, warehousing and manufacturing remain very strong

c) Multi-family residential is strong in most markets.

d) Heavy / highway / infrastructure are still strong with new Federal infrastructure spending

- Major Federal infrastructure program will increase spending 40%+ over next 7-years
- **Look for “New” bidders in heavy/highway from private construction and start-ups**

e) Home building remains good for now, but home prices have dramatically outpaced earnings

- Home price average growth has exceeded wage growth for 6 consecutive years – not good
- A residential price correction is expected – (happened 8 times since 1945 – last in 2008)

f) “Nervous” optimism for whole construction industry 2024-2025 –

Road building is “not as nervous” optimism

State	Avg. Funding/Yr.		
	2021 Funding	2022-2026	% Increase
Alabama	\$930.5	\$1,107.1	19.0%
Alaska	\$548.9	\$761.5	38.7%
Arizona	\$801.0	\$1,069.2	33.5%
Arkansas	\$566.8	\$780.5	37.7%
California	\$4,018.0	\$5,991.6	49.1%
Colorado	\$592.1	\$802.1	35.5%
Connecticut	\$549.8	\$815.4	48.3%
Delaware	\$185.2	\$281.9	52.2%
Florida	\$2,074.1	\$2,701.6	30.3%
Georgia	\$1,413.5	\$1,853.3	31.1%
Hawaii	\$185.2	\$304.6	64.5%
Idaho	\$313.1	\$445.4	42.2%
Illinois	\$1,556.4	\$2,266.2	45.6%
Indiana	\$1,043.1	\$1,413.9	35.5%
Iowa	\$538.0	\$774.3	43.9%
Kansas	\$413.7	\$574.0	38.7%
Kentucky	\$727.4	\$1,018.1	40.0%
Louisiana	\$768.3	\$1,187.3	54.5%
Maine	\$202.1	\$304.3	50.6%
Maryland	\$657.9	\$923.1	40.3%
Massachusetts	\$664.9	\$1,077.1	62.0%
Michigan	\$1,152.6	\$1,588.1	37.8%
Minnesota	\$713.9	\$974.4	36.5%
Mississippi	\$529.5	\$722.0	36.4%
Missouri	\$1,036.4	\$1,422.0	37.2%

State	Avg. Funding/Yr.		
	2021 Funding	2022-2026	% Increase
Montana	\$449.2	\$619.3	37.9%
Nebraska	\$316.4	\$449.6	42.1%
Nevada	\$397.5	\$553.3	39.2%
New Hampshire	\$180.9	\$276.3	52.7%
New Jersey	\$1,093.0	\$1,631.9	49.3%
New Mexico	\$402.0	\$559.0	39.1%
New York	\$1,837.6	\$2,731.8	48.7%
North Carolina	\$1,141.7	\$1,552.6	36.0%
North Dakota	\$271.8	\$392.5	44.4%
Ohio	\$1,467.4	\$1,973.1	34.5%
Oklahoma	\$694.2	\$941.1	35.6%
Oregon	\$547.2	\$753.8	37.8%
Pennsylvania	\$1,796.2	\$2,623.7	46.1%
Rhode Island	\$239.4	\$354.8	48.2%
South Carolina	\$733.1	\$992.3	35.4%
South Dakota	\$308.7	\$439.8	42.4%
Tennessee	\$925.1	\$1,243.4	34.4%
Texas	\$4,270.4	\$5,570.9	30.5%
Utah	\$380.1	\$531.1	39.7%
Vermont	\$222.2	\$329.1	48.1%
Virginia	\$1,114.0	\$1,533.4	37.6%
Washington	\$742.1	\$1,088.7	46.7%
West Virginia	\$478.4	\$713.0	49.0%
Wisconsin	\$823.7	\$1,098.7	33.4%
Wyoming	\$280.5	\$403.6	43.9%

4. Some economic uncertainty exists, but look for these trends and developments
- a) *Recruiting and retaining people is #1 issue* – wage escalation continues
 - Incentive bonus compensation, additional benefits, and workplace improvements are important
 - b) Possible reductions in private construction in 2024-25 due to:
 - Oversupply of retail and office space
 - **Labor shortage, wage escalation, supply chain and interest rates = higher cost = slowdown**
 - c) More merger and acquisition transactions – the industry continues to consolidate
 - M&A transactions were up significantly in 2022; **2023 was a record year** and more expected in 2024
 - Driven by people issues, aging owners with no successors, pandemic, costs, fatigue
 - Diversification trend for more self-performed work
 - **In Tennessee – Lehman Roberts, Blue Water, Volunteer, Wright Paving, Greenstar, others**
 - d) Some increase in contractor failures and surety claims is expected (not road builders)
 - e) **Is the construction industry overdue for a recession?** 12-years since last recession ended
 - f) Good contractors will survive and will take advantage of opportunities

Heavy Highway Construction Industry				RAD	3/20/2024							
Publicly Traded Companies - Stock Analysis												(in millions)
March 20, 2024				Pre-Covid	48-mos.	48-mos.	P/E	Enterprise				Levered
		52-Week	Close	Close	Increase	Change	Price to	Value to		Dividend	Debt to	Free TTM
Company	Symbol	High	3/20/2024	3/10/2020	(Decrease)	%	Earnings	EBITDA*	EPS	Yield	Equity %	Cash Flow
Granite Construction	GVA	\$ 55.33	\$ 54.36	\$ 17.50	\$ 36.86	210.6%	56.04	14.57	\$ 0.97	0.96%	71.58%	\$ (6.970)
Summit Materials	SUM	\$ 44.42	\$ 42.62	\$ 17.81	\$ 24.81	139.3%	17.83	12.67	\$ 2.39	0.00%	101.34%	\$ (664.150)
Construction Partners - CPI	ROAD	\$ 53.09	\$ 53.03	\$ 17.27	\$ 35.76	207.1%	47.77	17.93	\$ 1.11	0.00%	88.46%	\$ 64.810
Knife River (spin-off 2023)	KNF	\$ 78.24	\$ 77.62	\$ 36.48	\$ 41.14	112.8%	24.03	11.20	\$ 3.23	0.00%	57.37%	\$ 172.370
Sterling Infrastructure, Inc.	STRL	\$ 116.36	\$ 109.69	\$ 9.76	\$ 99.93	1023.9%	24.70	11.83	\$ 4.44	0.00%	63.94%	\$ 397.230
Martin Marietta	MLM	\$ 617.08	\$ 603.64	\$ 238.75	\$ 364.89	152.8%	31.23	18.74	\$ 19.33	0.49%	61.29%	\$ 703.430
Vulcan	VMC	\$ 272.73	\$ 271.74	\$ 127.44	\$ 144.30	113.2%	38.54	19.09	\$ 7.05	0.68%	59.48%	\$ 642.920
Oldcastle	CRH	\$ 86.20	\$ 86.07	\$ 34.31	\$ 51.76	150.9%	19.88	10.81	\$ 4.33	3.19%	60.23%	\$ 2,444.000
MasTec, Inc.	MTZ	\$ 123.33	\$ 86.48	\$ 28.50	\$ 57.98	203.4%	-	12.96	\$ (0.64)	0.00%	128.47%	\$ 730.510
					\$ 857.43	257.1%	28.89	14.42				
Caterpillar	CAT	\$ 358.18	\$ 356.45	\$ 121.41	\$ 235.04	193.6%	17.70	13.22	\$ 20.14	1.47%	197.16%	\$ 8,490.000
Astec	ASTE	\$ 56.33	\$ 41.40	\$ 36.32	\$ 5.08	14.0%	28.16	12.18	\$ 1.47	1.28%	14.06%	\$ 44.500

* "Value to EBITDA" formula: [(Total market capitalization + debt - excess cash) ÷ EBITDA]

Heavy Highway Construction Industry						
Publicly Traded Companies - Purchase EBITDA Multiple Advantage Analysis - MARCH 2024						
EBITDA less capex (free cash flow)	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000			
Valuation multiple	6	7	8			
Valuation amount - earnings capitalization	\$ 60,000,000	\$ 70,000,000	\$ 80,000,000			
	CPI	Summit	Oldcastle	Vulcan	Martin Marietta	Granite
EBITDA	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000	\$ 10,000,000
EBITDA to Enterprise value multiple	17.93	12.67	10.81	19.09	18.74	14.57
Market capitalization - stock price increase	\$ 179,300,000	\$ 126,700,000	\$ 108,100,000	\$ 190,900,000	\$ 187,400,000	\$ 145,700,000
Adjusted after-tax earnings	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000			
Valuation multiple	8	9	10			
Valuation amount - earnings capitalization	\$ 56,000,000	\$ 63,000,000	\$ 70,000,000			
	CPI	Summit	Oldcastle	Vulcan	Martin Marietta	Granite
Adjusted earnings	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000
P/E ratio	47.77	17.83	19.88	38.54	31.23	56.04
Market capitalization - stock price increase	\$ 334,390,000	\$ 124,810,000	\$ 139,160,000	\$ 269,780,000	\$ 218,610,000	\$ 392,280,000



On November 30, 2023 (“acquisition date”), we completed the acquisition of Lehman-Roberts Company and Memphis Stone & Gravel Company (collectively, "LRC/MSG") for \$278.0 million, subject to customary closing adjustments, plus an estimated amount related to tax make-whole agreements with the seller.



Raleigh, N.C. (February 12, 2024) – Martin Marietta Materials, Inc. (NYSE: MLM) (Martin Marietta or the Company) today announced that on February 11, 2024, it entered into a definitive agreement to acquire 20 active aggregates operations in Alabama, South Carolina, South Florida, Tennessee, and Virginia from affiliates of Blue Water Industries LLC (BWI Southeast) for \$2.05 billion in cash.

Ten Most Common Causes of Contractor Failure

CFMA Article written in 1986 by Robert Davidson and Danny Parrish

1. Poor bidding and estimating – not knowing “true job cost”
2. Growing too fast
3. Catastrophic job loss – excessive single job risk
4. Obtaining new contracts outside of your experience, expertise or region
5. High employee turnover and inexperienced workforce
6. Inadequate capitalization and poor cash flow (not a job loss, just ran out of money – “can’t make payroll”)
7. Excessive litigation, claims, or legal issues (including safety issues)
8. Poor accounting system and job costing – bad score keeping!
9. Subcontractor (non bonded) or supplier failure (price/supply)
10. Buying dumb stuff



CONTRACTOR FAILURE TRENDS

REVIEW OF TRAVELERS CONSTRUCTION SURETY CLAIMS

FAILURE HAS MANY DIFFERENT CAUSES



58% DUE TO A CATASTROPHIC PROJECT:*

PROBLEM ON A LARGE JOB
POOR ESTIMATE/LARGE BID SPREAD
NEW JOB TYPE/LOCATION



49% DUE TO INTERNAL COST SYSTEM FAILURES:*

INABILITY TO IDENTIFY ISSUES
LACK OF COMMUNICATION/COHESION
BETWEEN FIELD AND MAIN OFFICE



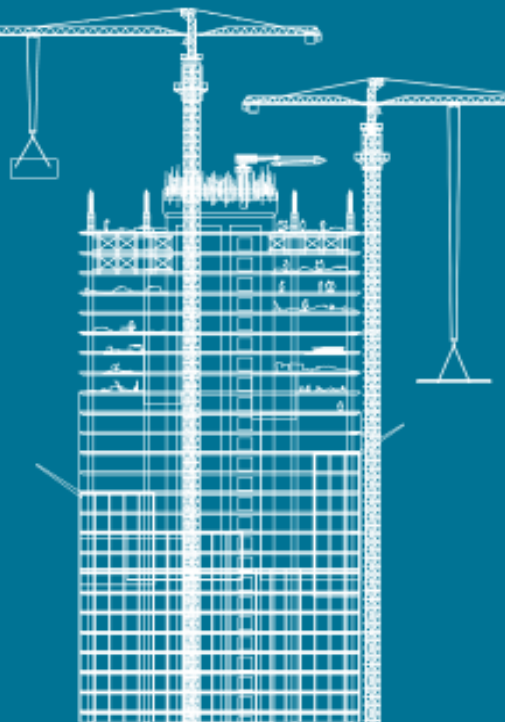
37% DUE TO OVEREXTENSION:*

MULTIPLE LARGE JOBS/LARGER BACKLOG
STRAIN ON WORKFORCE/FINANCIAL RESOURCES



24% DUE TO EXCESSIVE DEBT:*

FIXED AND LONG-TERM DEBT NEGATIVELY
IMPACT CASH FLOW



DIFFICULT PROJECT + WEAK INTERNAL CONTROLS = CATASTROPHIC SITUATION*

We understand the complexities involved in the construction industry and have solutions to help you build a better business.

AT TRAVELERS, WE'RE IN THE BUSINESS OF HELPING CONTRACTORS SUCCEED.

For more information,
contact your agent.

*Information based on an internal review of Travelers' largest construction surety claims over the last 11 years (2009-2019). In many cases, multiple factors were identified as contributing to the failure of the construction company.

The Surety & Fidelity Association of America

Top 100 Writers of Surety Bonds United States & Territories, Canada & Aggregate Other Alien Calendar Year 2022 (Preliminary)

GROUP/COMPANY	Direct Premium Written	Market Share	Direct Premium Earned	Direct Losses Incurred *	Direct Loss Ratio	DCCE	DCCE Ratio	Loss+DCCE Ratio	Net Premiums Earned	Net Losses Incurred	Net Loss Ratio
1 TRAVELERS BOND	1,132,726,233	13.2%	988,827,312	88,635,201	9.0%	12,752,573	1.3%	10.3%	936,972,379	79,197,766	8.5%
2 LIBERTY MUTUAL GROUP	1,098,207,991	12.8%	997,882,584	64,132,304	6.4%	34,273,043	3.4%	9.9%	1,164,557,837	112,703,267	9.7%
3 ZURICH INSURANCE GROUP	579,651,798	6.7%	546,583,491	(34,825,279)	-6.4%	(14,886,025)	-2.7%	-9.1%	257,527,342	(4,767,347)	-1.9%
4 CNA SURETY GROUP	577,753,335	6.7%	532,265,443	59,802,643	11.2%	17,897,423	3.4%	14.6%	521,267,717	53,831,098	10.3%
5 CHUBB LTD	438,668,417	5.1%	398,318,695	65,057,932	16.3%	(2,803,379)	-0.7%	15.6%	382,130,201	59,570,206	15.6%
6 HARTFORD FIRE & CAS GROUP	258,029,160	3.0%	243,641,249	38,720,145	15.9%	5,047,116	2.1%	18.0%	287,469,418	43,134,789	15.0%
7 INTACT INSURANCE SPECIALTY SOLUTIONS	255,791,629	3.0%	225,339,465	49,187,492	21.8%	5,096,979	2.3%	24.1%	209,289,424	33,932,764	16.2%
8 ARGONAUT GROUP	197,210,577	2.3%	190,737,095	23,914,822	12.5%	(1,983,861)	-1.0%	11.5%	152,810,700	17,213,326	11.3%
9 BERKSHIRE HATHAWAY GROUP	190,598,025	2.2%	165,805,608	51,285,062	30.9%	7,816,496	4.7%	35.6%	205,803,857	72,441,479	35.2%
10 SOMPO GROUP	190,002,716	2.2%	186,031,054	45,753,295	24.6%	5,743,199	3.1%	27.7%	173,510,159	32,616,438	18.8%
11 ARCH INSURANCE GROUP	189,028,388	2.2%	168,082,083	54,796,284	32.6%	1,527,721	0.9%	33.5%	156,323,118	48,889,089	31.3%
12 MERCHANTS BONDING CO GROUP	186,961,837	2.2%	173,832,992	54,572,239	31.4%	1,741,305	1.0%	32.4%	160,864,938	12,353,756	7.7%
13 CRUM & FORSTER GROUP	171,572,952	2.0%	161,097,663	53,601,041	33.3%	1,919,690	1.2%	34.5%	169,469,903	36,489,859	21.5%
14 HCC SURETY GROUP	167,683,847	2.0%	156,082,148	(9,989,867)	-6.4%	9,568,736	6.1%	-0.3%	166,029,348	1,195,367	0.7%
15 MARKEL SURETY	164,077,916	1.9%	147,847,056	17,305,923	11.7%	4,348,531	2.9%	14.6%	132,910,745	11,413,893	8.6%
16 PHILADELPHIA CONSOLIDATED HOLDING GROUP	163,613,112	1.9%	160,643,414	35,609,684	22.2%	4,156,473	2.6%	24.8%	149,877,434	24,920,000	16.6%
17 SWISS RE CORPORATE SOLUTIONS	150,817,003	1.8%	148,894,511	47,212,549	31.7%	10,450,405	7.0%	38.7%	14,436,094	(41,235,002)	-285.6%
18 GREAT AMERICAN INSURANCE COMPANIES	141,095,164	1.6%	128,577,184	44,824,614	34.9%	4,601,490	3.6%	38.4%	115,537,170	15,780,951	13.7%
19 RLI INSURANCE GROUP	135,674,088	1.6%	128,359,207	9,134,027	7.1%	1,917,995	1.5%	8.6%	121,452,558	6,403,596	5.3%
20 NATIONWIDE CORP GROUP	134,323,555	1.6%	108,528,104	20,605,418	19.0%	5,955,838	5.5%	24.5%	99,691,780	16,898,679	17.0%
21 IAT SURETY	131,982,647	1.5%	125,387,455	5,588,331	4.5%	(612,396)	-0.5%	4.0%	113,185,329	5,139,682	4.5%
22 WR BERKLEY CORP GROUP	120,592,112	1.4%	109,125,597	36,381,845	33.3%	6,441,229	5.9%	39.2%	119,212,704	4,778,746	4.0%
23 OLD REPUBLIC GROUP	105,592,003	1.2%	99,536,475	14,226,990	14.3%	4,332,799	4.4%	18.6%	93,555,870	12,928,622	13.8%
24 WESTFIELD GROUP	91,902,741	1.1%	83,426,741	10,057,203	12.1%	1,474,629	1.8%	13.8%	77,534,456	4,446,865	5.7%
25 THE HANOVER INSURANCE GROUP	79,906,482	0.9%	73,630,350	7,730,165	10.5%	(332,162)	-0.5%	10.0%	64,564,693	1,746,718	2.7%

The Surety & Fidelity Association of America

Quarterly Countrywide Surety Top 100 Writers United States & Territories, Canada & Aggregate Other Alien Calendar Year 2023 3rd Quarter

(Year-to-Date Totals as of 9/30/2023)

Group Name	Direct Premium Written	Direct Premium Earned	Direct Losses Incurred *	Direct Loss Ratio
1 TRAVELERS BOND	922,465,221	828,923,062	78,597,568	9.5%
2 LIBERTY MUTUAL GROUP	903,589,188	820,467,701	160,789,053	19.6%
3 CNA SURETY GROUP	496,667,284	439,320,384	111,154,864	25.3%
4 ZURICH INSURANCE GROUP	464,959,730	440,467,206	90,581,007	20.6%
5 CHUBB LTD	362,937,786	326,421,308	(9,434,370)	-2.9%
6 INTACT INSURANCE SPECIALTY SOLUTIONS	229,197,680	206,471,201	46,770,879	22.7%
7 HARTFORD FIRE & CAS GROUP	209,902,649	192,416,960	53,915,449	28.0%
8 MERCHANTS BONDING CO GROUP	183,190,744	165,892,182	18,956,192	11.4%
9 ARCH INSURANCE GROUP	159,174,001	143,601,138	51,901,676	36.1%
10 HCC SURETY GROUP	152,955,729	136,253,277	2,096,489	1.5%
11 SOMPO GROUP	138,577,522	141,289,438	35,207,370	24.9%
12 PHILADELPHIA CONSOLIDATED HOLDING GROUP	138,424,856	129,379,575	59,008,668	45.6%
13 CRUM & FORSTER GROUP	132,438,225	122,952,768	47,277,648	38.5%
14 MARKEL SURETY	132,331,049	118,514,901	18,030,438	15.2%
15 BERKSHIRE HATHAWAY GROUP	121,984,807	100,186,003	53,596,602	53.5%
16 GREAT AMERICAN INSURANCE COMPANIES	120,580,464	111,191,638	14,484,562	13.0%
17 ARGONAUT GROUP	119,704,355	139,731,453	52,332,682	37.5%
18 SWISS RE CORPORATE SOLUTIONS	115,949,999	125,486,417	(778,824)	-0.6%
19 NATIONWIDE CORP GROUP	115,878,875	103,179,235	18,425,189	17.9%
20 IAT SURETY	110,834,070	103,210,376	2,716,318	2.6%

TRBA Emerging Leaders 2024

10 BEST FINANCIAL PRACTICES FOR ROAD BUILDERS

10 Best Practices for Road Builders

1. **Stay focused on the financial health of the Company - set conservative benchmarks and balance sheet goals and use conservative financial reporting practices**
 - a) Cash 5% - 10% of annual revenue (non-borrowed available cash)
 - Too little cash is deadly
 - Too much cash won't kill you, but too much idle cash can be bad “optics”
 - b) Tangible equity between 15% and 20% of annual revenue
 - Deduct the junk – bad receivables, investments, old inventories, under-billings
 - Deduct intangible assets and goodwill
 - Deduct off balance sheet current and deferred tax liabilities

10 Best Practices

- c) Tangible working capital of at least 10% of annual revenue (or backlog)
 - Deduct any asset that “won’t convert to cash in a 12-month cycle”
 - Reduce WC by contract under billings and non collectible receivables
 - Deduct non-turning inventories (old RAP piles)
 - Deduct off balance sheet tax liabilities – current distributions
 - Net “self-performed” revenue (net of subcontracted work)
 - Labor intensive “3rd tier” subs should have 15% working capital goal

- d) Under billings are bad
 - Generally, underbilling is a loss or profit job fade 70% of the time (Surety analytic)
 - Bad cash flow – until billed, it won’t be paid –
 - if A/R is 30-days, under-billing collection is at least 60-days
 - High risk – early red flag that something is wrong
 - Under billings are referred to as the “dumb or dishonest” asset
 - It is TAXABLE (requires contractors to send IRS 30% of money they don’t have)

10 Best Practices

e) Overbillings are good

- Minimum overbilling should be about 2% of revenue for most contractors
- Best of class heavy highway contractors average 4% to 5%
- Front-end loading is free cash loan – the surety calls it “Job Borrow”
- Reserve for completion costs and punch list; warranty expense, profit fade
- Reserve for “Collectability issues” – ASC 606 (instead of bad debt reserve)
- Conservative job reporting
- Tax Deductible - good tax planning

f) Debt is a contractor killer

- Interest bearing debt should never exceed 50% of equity
 - Acquisition or expansion debt exception
- Debt payoff is the best investment for idle cash

10 Best Practices

2. Know your true job costs

- a) #1 Problem in the construction industry
- b) “Full absorption” job costing – every cost except home office G&A is job cost
 - Job cost should include all costs -- more likely to be included in bid.
 - Commonly “unallocated” job costs include
 - Project management and other indirect labor
 - HR and labor burden
 - Bidding, estimating and pre-con costs
 - Equipment, shop, warehousing, purchasing, and transportation
 - Winter shut-down equipment costs
 - Technology – project management, GPS, field reporting, security
 - Critical to know actual plant mix costs for per-ton job cost transfer
 - Supports the cost of claims and change orders for arbitration/litigation
 - Excessive G&A is an indication of misclassified job costs

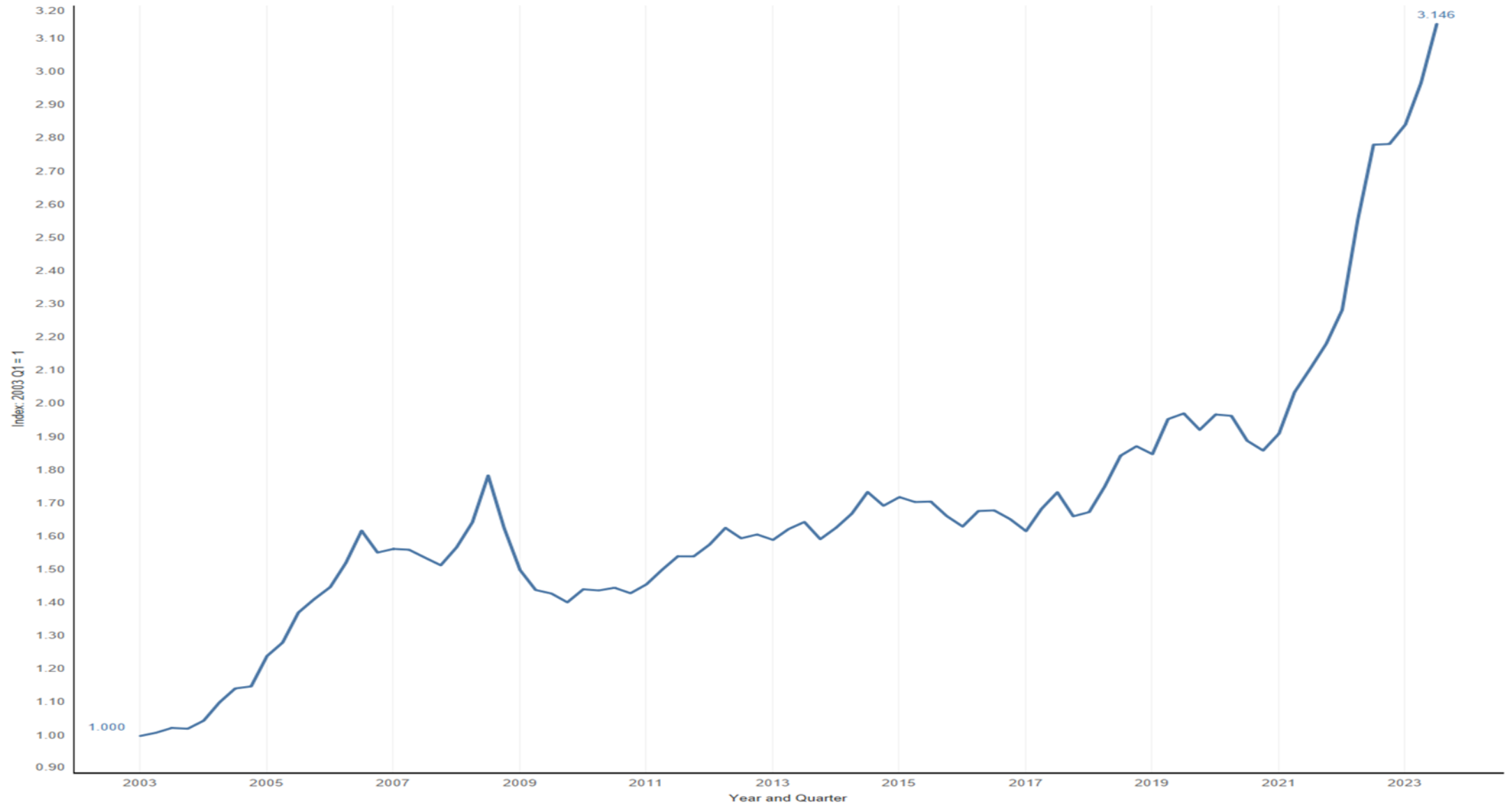


U.S. Department of Transportation
Federal Highway Administration

National Highway Construction Cost Index (NHCCI)

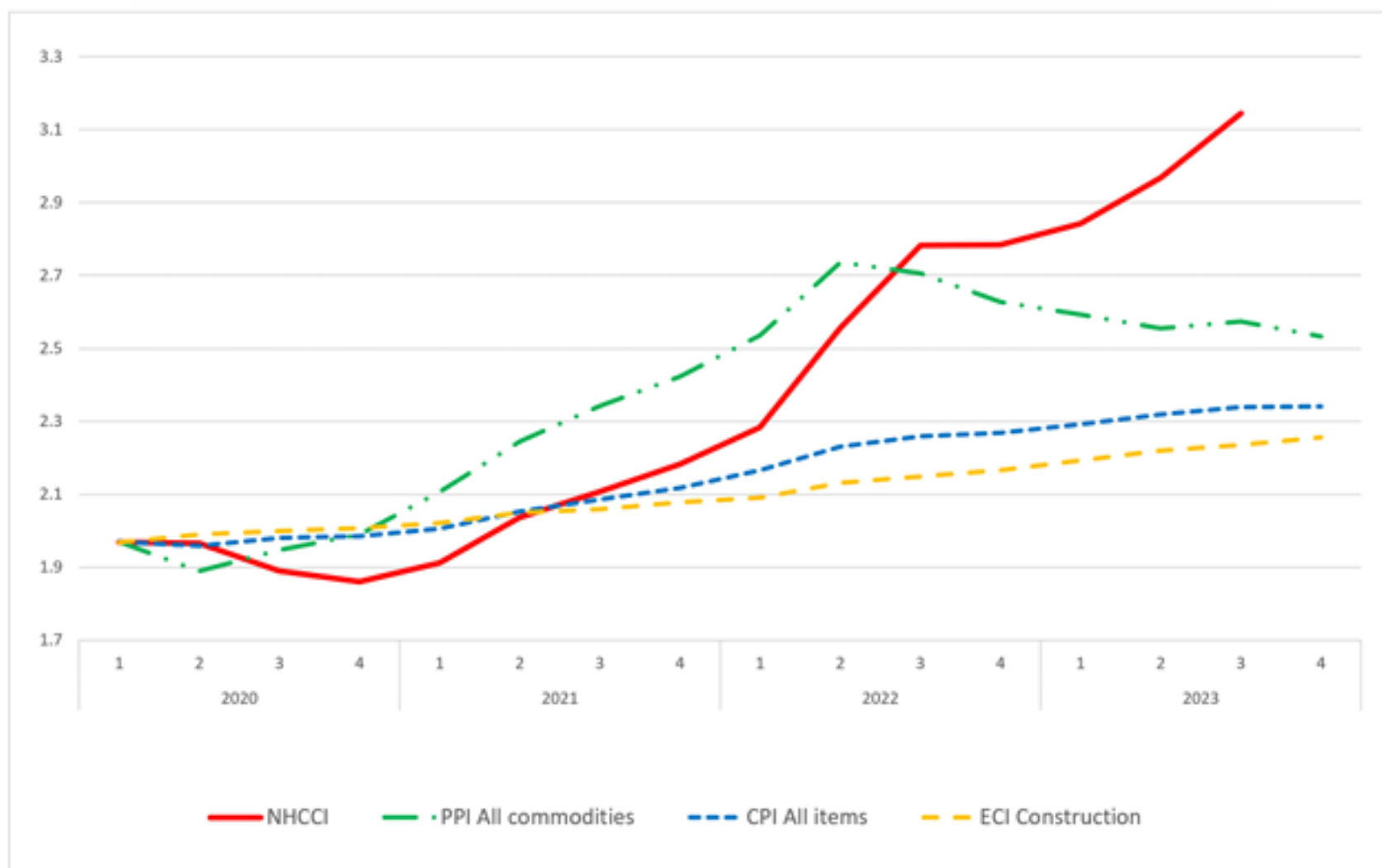
Select Year and Quarter:
2003 Q1 to 2023 Q3
and Null values

Select Series:
 NHCCI
 Seasonally Adjusted NHCCI



2023 Q2 index is preliminary.
2022 Q4 and 2023 Q1 indexes are revised.

Figure 1. Comparison of NHCCI with PPI, CPI, and ECI (rebased to NHCCI 2020 Q1)



Source: FHWA and BLS Data

Construction Job Costing & Indirect Job Cost Allocations		
Internal Control Procedures and Best Practices		
Direct Job Costs	Control Procedure / Method	Frequency
Labor		Daily
Field Labor	Daily time report	Daily
Supervisory Labor - jobsite	Daily time report	Daily
Labor Burden (FICA, SUTA, FUTA, WC)	Payroll system	Daily
Materials	Purchase order, invoice	Daily
Transportation and hauling (external)	Invoice, hauling ticket	Daily
Subcontractors	Subcontract agreement, pay app	Monthly
Equipment (external)	Rental invoice	Monthly
Supplies	Invoice	Monthly
General Conditions & Mobilization		Monthly
Pre-contract costs (engineering, design, inspection, etc.)	Time sheets, invoices, expense report	Monthly
Job trailer (external)	Purchase order, invoice	Monthly
Surety bond	Invoice	One time
Subcontractor default insurance	Indirect allocation (see below)	Monthly
Builder's risk insurance	Purchase order, invoice	One time
Technology (directly related to job)	Purchase order, invoice	Monthly
Other	Purchase order, invoice	Monthly

Construction Job Costing & Indirect Job Cost Allocations		
Internal Control Procedures and Best Practices		
Indirect Job Costs	Control Procedure / Method	Frequency
Project Management		
Project manager	Time sheet or stipulated rate	Daily
Superintendent	Time sheet or stipulated rate	Daily
Subcontractor administrator	Time sheet	Daily
Indirect Labor & HR		
Idle, training, safety, vacation, sick, etc.	Labor burden percentage	Hourly
WC Insurance (if not included in payroll)	Labor burden percentage	Hourly
Warehouse and transportation labor	Labor burden percentage	Hourly
HR department, recruiting, etc.	Labor burden percentage	Hourly
Field payroll processing and accounting	Labor burden percentage	Hourly
Insurance		
General liability insurance	Labor or revenue percentage - per policy	Monthly
Umbrella insurance	Labor or revenue percentage - per policy	Monthly

Construction Job Costing & Indirect Job Cost Allocations		
Internal Control Procedures and Best Practices		
Indirect Job Costs (Continued)	Control Procedure / Method	Frequency
Bidding and Estimating Department		
Estimator labor & burden	Job cost percentage	Monthly
Technology - bidding software	Job cost percentage	Monthly
Technology		
Job management software (B2W, Procore, CPM,etc.)	Job cost percentage	Monthly
Cameras, I-pads, field reporting, etc.	Job cost percentage	Monthly
Subcontractor Management		
Subcontractor default insurance	Subcontractor percentage	Monthly
Subcontractor administrator (prequal, pay app, liens)	Subcontractor percentage	Monthly
Equipment (internal - contractor owned)		
Equipment depreciation	Hourly rental rate - standard cost	Hourly
Repairs and maintenance	Hourly rental rate - standard cost	Hourly
Shop and parts expenses	Hourly rental rate - standard cost	Hourly
Mechanic labor	Hourly rental rate - standard cost	Hourly
Equipment hauling	Hauling ticket	Daily
Fuel and lubrication	Fuel system - or hourly "wet" rate	Daily/Hourly

10 Best Practices

3. Implement and Utilize Good Internal Control Systems

a) Labor

- #1 area of waste and fraud - over-reporting job site hours
- Daily time sheets are mandatory – use field reporting technology
- Eliminate the 10-10-10 phenomenon and improve accuracy of costing by phase code to match bid budget

b) Equipment Utilization (my go-to RANT)

- Utilization rates above 90% (actual hours used ÷ budgeted annual hours)
- Tennessee – 1200 hours is standard budget (lower for certain pieces)
- What is the effect of 50-60% utilization average?
 - Unallocated job cost – real cost are ignored
 - Overstated job profits
 - Bid spreads caused by using low rental rates
- Identify situations where short-term rental is smarter than ownership
- Avoid “Yellow” fever (or green or orange)

10 Best Practices

c) Equipment Management (continued)

- Recalculate hourly rates annually (adjust for fuel rates as required)
- Compare equipment costs to labor costs on completed job to detect under/over
- Re-allocated under/over internal rental variance to job costs
- Use shop work orders to track (control) equip. repair costs and mechanic hours
- Report “P&L” on each major piece of equipment – internal rent less costs
 - Scrutinize “loss” equipment pieces – keep or sell?
- Use conservative useful life for financial depreciation (tax is 100%)
 - Tonnages for plants and pavers instead of years?
- Capitalize repairs only if work “extends the useful life” beyond normal
- Develop equipment replacement policies and criteria
 - Be alert for yellow fever syndrome
 - Leasing (long-term) is rarely better than buying (maybe never)

10 Best Practices

d) Manage subcontractors

- Run credit report annually on all subcontractors
- Bond major subcontractors without exception
 - Verify validity of bonds with agent to prevent “fake bonds”
 - Be on the lookout for bogus certificates of insurance
 - SDI for road builders?
 - PLI – Travelers is selling a project loss insurance policy
- If bond is waived, obtain audited or reviewed financial statement
- Scrutinize subcontractor quotes that are significantly low before using in bid
- ***Be concerned about subcontractors’ exposure to price increases***
- Set up monthly email verification system with sub suppliers to verify payment
 - offer to joint check for past due amounts
- Review DBE compliance procedures and communicate policies to all personnel annually

10 Best Practices

4. **Manage Contract WIP Reporting – The WIP schedule is the #1 Financial Report**
 - a) The completed contract and contract WIP schedules are the most important financial reports – period
 - b) Project managers and superintendents should review schedule of bid values and design phase codes and budgets to facilitate field reporting and job costing
 - c) Project management should understand and review contract WIP schedules monthly
 - Formal meeting with job cost accounting personnel
 - Cost to cost percentage of completion method - understand the math
 - Yellow flags: under-billings, claims, gross losses, phase code over-runs, low under-billing deferral
 - Review front-end loading (mob, general conditions) to determine that over billing deferral is adequate

10 Best Practices

- d) Implement controls to improve early change order recognition and related cost code set-up - avoid legal process to collect claims
- e) Contract WIP analytics must include:
 - 5-year report of gross profit sorted by
 - Plant, region or division
 - Private, municipal, DOT
 - Asphalt paving, grading, bridge, etc.
 - Project manager
 - 5-year contract profit fade/gain report – bid profit compared to completed profit
 - IRS “lookback” calculation

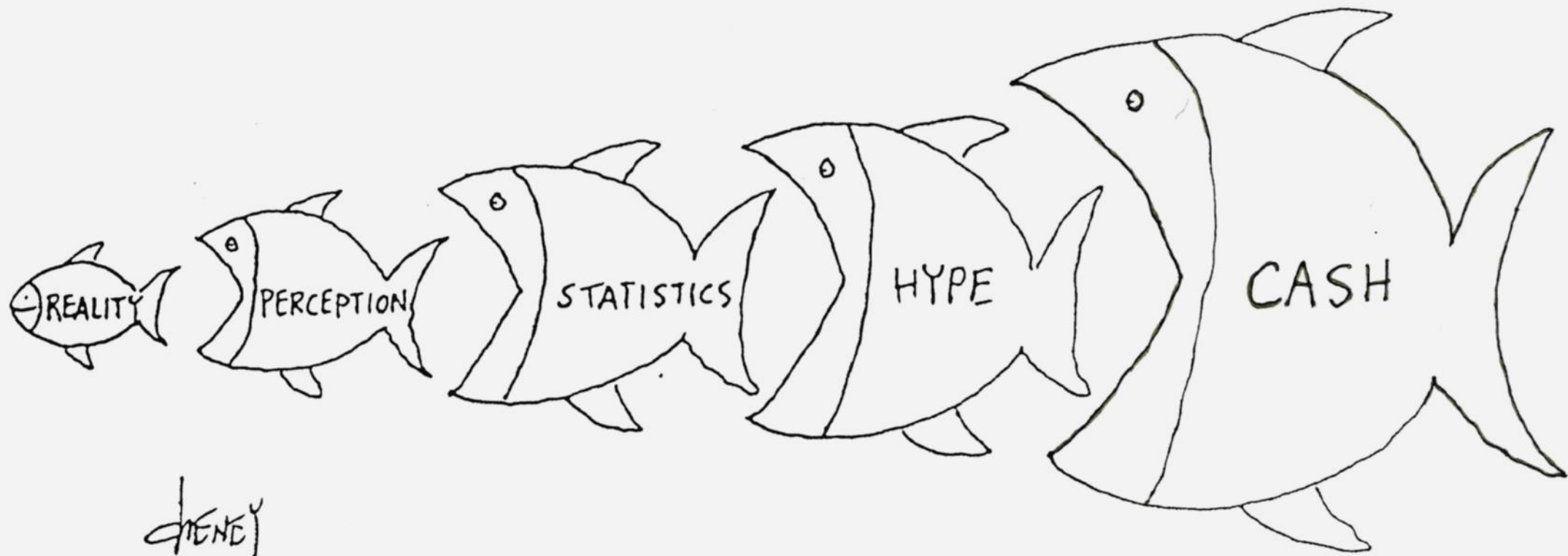
Construction Company, Inc.						
5-Year Trend Analysis - Historical Gross Profit %						
Sorted by Division and Work Type / Contract Owner						
Bridge and Concrete Division						Average
	2017	2018	2019	2020	2021	Mean
Private	5.21%	5.56%	8.20%	9.00%	9.25%	7.44%
Municipal	8.30%	6.90%	10.30%	10.60%	11.00%	9.42%
DOT Prime	8.00%	9.50%	11.20%	12.35%	12.44%	10.70%
DOT Sub	7.60%	8.90%	9.00%	9.90%	10.22%	9.12%
All jobs	7.28%	7.72%	9.68%	10.46%	10.73%	9.17%
Grading Division						Average
	2017	2018	2019	2020	2021	Mean
Private site work	9.80%	10.00%	12.90%	11.40%	13.22%	11.46%
Utility pipe work	7.10%	7.90%	8.00%	6.70%	7.20%	7.38%
DOT	8.00%	8.30%	9.10%	8.90%	10.20%	8.90%
Municipal	6.50%	7.40%	6.00%	7.20%	3.22%	6.06%
All jobs	7.85%	8.40%	9.00%	8.55%	8.46%	8.45%
Asphalt Paving Division						Average
	2017	2018	2019	2020	2021	Mean
Private	14.00%	13.80%	13.93%	14.30%	13.75%	13.96%
Municipal	9.80%	7.26%	10.60%	7.60%	6.90%	8.43%
DOT Prime	11.20%	12.60%	15.35%	12.90%	11.78%	12.77%
DOT Sub	9.30%	10.22%	11.30%	9.80%	9.72%	10.07%
All jobs	11.08%	10.97%	12.80%	11.15%	10.54%	11.31%

Davidson Construction Company, Inc.		Contract WIP Illustration														
Uncompleted Contract WIP		1	2	3	4	5	6	7	8	9	10	11	12	13	14	
For the Period Ended 12/31/2023				(1 - 2)	(3/1)		(1 x 12)			(6 - 7 - 8)	(6 - 5)	(5 - 6)	(8 / 2)	(2 - 8)	(3 - 9)	
		Adjusted			Estimated								Cost to Cost	Estimated		
		Contract	Total Estimated	Estimated	Gross Profit	Billings	Revenue	Accrued	Cost	Gross Profit			Percentage	Cost to	Backlog WIP	
Job #	Description / Type / Location / Owner	Amount	Cost	Gross Profit	Percentage	to Date	Recognized	Loss	to Date	to Date	Underbilling	Overbilling	Completion	Complete	Gross Profit	
Bridge & Concrete Division																
2201	Cumberland River Bridge I-65 Nashville, TN - TDOT	20,000,000	18,000,000	2,000,000	10.00%	11,000,000	10,000,000	0	9,000,000	1,000,000	0	1,000,000	50.00%	9,000,000	1,000,000	
2202	Vanderbilt Stadium Parkway Nashville, TN; Vanderbilt University	10,000,000	8,400,000	1,600,000	16.00%	4,500,000	5,000,000	0	4,200,000	800,000	500,000	0	50.00%	4,200,000	800,000	
2203	Natchez Trace culverts Leipers Fork, TN - FHWA	5,000,000	5,600,000	(600,000)	-12.00%	4,200,000	3,600,000	600,000	4,200,000	(600,000)	0	0	75.00%	1,400,000	0	
8010	Taylor Swift Parkway TDOT - Hendersonville, TN	50,000,000	44,000,000	6,000,000	12.00%	0	500,000	0	440,000	60,000	500,000	0	1.00%	43,560,000	5,940,000	
		85,000,000	76,000,000	9,000,000	10.59%	19,700,000	19,100,000	600,000	17,840,000	1,260,000	1,000,000	1,000,000		58,160,000	7,740,000	

10 Best Practices

5. Focus on Cash Flow

- a) Under-billing is un-American!
- b) Front end load jobs - get ahead and avoid getting burned
- c) Manage accounts receivable for private work and FOB sales
 - File liens and bond claims timely
 - Notify prime contractors and customers about cut-off policies
 - Include prompt pay provisions and penalties in contracts and POs
- d) Avoid paying subcontractors ahead of work performed
- e) Consider stored materials clauses
- f) Negotiate retainage reduction benchmarks in private contracts
- g) Convert contract WIP schedule to cash method
 - Report will show positive or negative cash flow on job for the period
 - Consider capital employed interest bonus for positive cash flow
 - Negative cash flow should be considered in PM bonus calculation



CHENEY

Davidson Construction Company													
Contract Cash Flow Analysis		1	2	3	4	5	6	7	8	9	10	11	12
For the Year Ended December 31, 2021				(1 - 2)			(4 - 5)			(7 - 8)	(6 - 9)	(10 / 1)	(10 / 3)
		Contract	Total Estimated	Estimated	Billings	Contract	Cash	Cost	Accounts	Cash	Net	Cash Flow	Cash Flow
Job #	Description	Amount	Cost	Gross Profit	to Date	Receivables & Retainage	Collected	to Date	Payable	Paid	Cash Flow Position	to Contract	to Gross Profit
												Percentage	Percentage
Project Manager: Jack Daniels													
99001	Nashville I-40 Bridge	6,645,588	6,233,275	412,313	3,758,900	830,514	2,928,386	3,643,874	458,659	3,185,215	(256,829)	-3.86%	-62.29%
99002	Memphis Airport	750,000	712,000	38,000	709,000	183,000	526,000	599,000	66,500	532,500	(6,500)	-0.87%	-17.11%
99005	Lynchburg - Jack Daniels	1,800,000	1,550,000	250,000	150,000	150,000	0	130,000	65,000	65,000	(65,000)	-3.61%	-26.00%
99006	Carthage - Al Gore Home	450,000	410,000	40,000	0	0	0	36,000	12,000	24,000	(24,000)	-5.33%	-60.00%
	Subtotal	9,645,588	8,905,275	740,313	4,617,900	1,163,514	3,454,386	4,408,874	602,159	3,806,715	(352,329)	-3.65%	-47.59%
Project Manager: Elvis Presley													
99-12	Heartbreak Hotel	350,000	225,000	125,000	350,000	35,000	315,000	218,000	45,000	173,000	142,000	40.57%	113.60%
99-02	Dr. Nick Hospital	750,000	745,000	5,000	719,000	225,000	494,000	722,000	166,000	556,000	(62,000)	-8.27%	-1240.00%
99-04	Graceland Road	2,500,000	2,300,000	200,000	650,000	380,000	270,000	640,000	285,000	355,000	(85,000)	-3.40%	-42.50%
99-08	Cadillac Factory	80,000	75,000	5,000	0	0	0	10,000	8,000	2,000	(2,000)	-2.50%	-40.00%
	Subtotal	3,680,000	3,345,000	335,000	1,719,000	640,000	1,079,000	1,590,000	504,000	1,086,000	(7,000)	-0.19%	-2.09%
Project Manager: Dolly Parton													
99-09	Porter Waggoner Home	780,000	727,000	53,000	780,000	78,000	702,000	720,000	95,000	625,000	77,000	9.87%	145.28%
99-13	Country Music Hall of Fame	1,650,000	1,480,000	170,000	1,100,000	185,000	915,000	988,000	225,000	763,000	152,000	9.21%	89.41%
99-14	Dollywood	1,100,000	910,000	190,000	380,000	166,000	214,000	100,000	25,000	75,000	139,000	12.64%	73.16%
	Subtotal	3,530,000	3,117,000	413,000	2,260,000	429,000	1,831,000	1,808,000	345,000	1,463,000	368,000	10.42%	89.10%
	Company Totals	16,855,588	15,367,275	1,488,313	8,596,900	2,232,514	6,364,386	7,806,874	1,451,159	6,355,715	8,671	0.05%	0.58%

Illustration A - Good Cash-Flow Job														
Contract amount	12,000,000													
Mobilization - front end	600,000	5.00%												
Estimated costs	10,800,000	90.00%												
Gross profit	1,200,000	10.00%												
Cost of capital rate	7.00%													
Estimated average days per month	20													
	1/31/2021	2/28/2021	3/31/2021	4/30/2021	5/31/2021	6/30/2021	7/31/2021	8/31/2021	9/30/2021	10/31/2021	11/30/2021	12/31/2021	Totals	
Cash receipts	-	1,000,000	1,000,000	1,000,000	1,000,000	2,000,000	2,000,000	1,000,000	1,000,000	1,000,000	600,000	400,000	12,000,000	
Cash expenditures	(100,000)	(300,000)	(800,000)	(900,000)	(1,100,000)	(1,900,000)	(1,700,000)	(1,200,000)	(900,000)	(900,000)	(900,000)	(100,000)	(10,800,000)	
Monthly cash flow	(100,000)	700,000	200,000	100,000	(100,000)	100,000	300,000	(200,000)	100,000	100,000	(300,000)	300,000	1,200,000	
Cash receipts - job to date	-	1,000,000	2,000,000	3,000,000	4,000,000	6,000,000	8,000,000	9,000,000	10,000,000	11,000,000	11,600,000	12,000,000		
Cash expenditures - job to date	(100,000)	(400,000)	(1,200,000)	(2,100,000)	(3,200,000)	(5,100,000)	(6,800,000)	(8,000,000)	(8,900,000)	(9,800,000)	(10,700,000)	(10,800,000)		
Net capital provided (employed)	(100,000)	600,000	800,000	900,000	800,000	900,000	1,200,000	1,000,000	1,100,000	1,200,000	900,000	1,200,000		
Cost of capital rate	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%		
Average days (___ ÷ 365)	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548		
Adjustment to job costs	384	(2,301)	(3,068)	(3,452)	(3,068)	(3,452)	(4,603)	(3,836)	(4,219)	(4,603)	(3,452)	(4,603)	(40,274)	

Illustration B - Bad Cash-Flow Job														
Contract amount	12,000,000													
Mobilization - front end	-	0.00%												
Estimated costs	11,400,000	95.00%												
Gross profit	600,000	5.00%												
Cost of capital rate	7.00%													
Estimated average days per month	20													
	1/31/2021	2/28/2021	3/31/2021	4/30/2021	5/31/2021	6/30/2021	7/31/2021	8/31/2021	9/30/2021	10/31/2021	11/30/2021	12/31/2021	Totals	
Cash receipts	-	200,000	500,000	900,000	1,000,000	2,000,000	1,800,000	1,300,000	1,200,000	1,600,000	900,000	600,000	12,000,000	
Cash expenditures	(200,000)	(600,000)	(800,000)	(900,000)	(1,100,000)	(1,900,000)	(1,700,000)	(1,200,000)	(900,000)	(1,300,000)	(800,000)	(100,000)	(11,500,000)	
Monthly cash flow	(200,000)	(400,000)	(300,000)	-	(100,000)	100,000	100,000	100,000	300,000	300,000	100,000	500,000	500,000	
Cash receipts - job to date	-	200,000	700,000	1,600,000	2,600,000	4,600,000	6,400,000	7,700,000	8,900,000	10,500,000	11,400,000	12,000,000		
Cash expenditures - job to date	(200,000)	(800,000)	(1,600,000)	(2,500,000)	(3,600,000)	(5,500,000)	(7,200,000)	(8,400,000)	(9,300,000)	(10,600,000)	(11,400,000)	(11,500,000)		
Net capital provided (employed)	(200,000)	(600,000)	(900,000)	(900,000)	(1,000,000)	(900,000)	(800,000)	(700,000)	(400,000)	(100,000)	-	500,000		
Cost of capital rate	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%		
Average days (____ ÷ 365)	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548	0.0548		
Adjustment to job costs	767	2,301	3,452	3,452	3,836	3,452	3,068	2,685	1,534	384	-	(1,918)	23,014	

6. Stay on Top of Bidding and Estimating Process

- a) Consider job risk template “too many news” prior to bid
 - Avoid catastrophic job loss
 - *Concentration of Risk Assessment*
 - *What is 10% of the contract amount? Can you survive a 10% loss?*
- b) Review internal controls over estimators
 - Are three quotes obtained and documented?
 - Can subcontractor bond the job? Determined before using them?
 - Can supplier honor price quote?
 - Be skeptical of estimator/supplier relationships - scrutinize perks
 - Approval process for using non-low quote
 - Approval process of using too-low quote
 - Fade gain analytics

Contract Bidding & Estimating			
Bid Risk Calculator	Risk		
Too Many "News" Assessment	Contingency	Additional	Bid Cost
	.25% to 1.0%	Contingency	& Margin
Total estimated costs - per bid software			\$ 10,000,000
Contingencies for "New" risk factors:			
New first-time owner	0.50%	\$ 50,000	
New state or new work region	0.50%	\$ 50,000	
New project manager or superintendent	1.00%	\$ 100,000	
New job revenue size (> 20% of normal)	0.50%	\$ 50,000	
New type of work - unique work item	1.00%	\$ 100,000	
New subcontractors (critical path)	0.50%	\$ 50,000	
New material suppliers (major item)	0.50%	\$ 50,000	
New contract type (i.e. lump sum)	0.25%	\$ 25,000	
"New" contingency subtotal			\$ 475,000
Contingencies for other contract risks			
Working day/hours limitations	0.00%	\$ -	
Night work	1.00%	\$ 100,000	
Short completion date (significant LDs)	1.00%	\$ 100,000	
Other contingencies subtotal			\$ 200,000
Total estimated costs with contingencies			\$ 10,675,000
G&A overhead margin	3.50%		\$ 373,625
Profit margin	8.00%		\$ 854,000
Bid amount			\$ 11,902,625

10 Best Practices

- c) Bid spread analytics and review
- d) Implement “war room” bidding process and mentality
 - Senior management (or owners) should review bids on large contracts
 - CFO/controller should review overhead and rate assumptions
 - Independent 2nd person should review bid for math and “smell test”
 - Limitation on email and cell phone usage prior to submission
- e) Recalculate standard unit price assumptions regularly (per ton, cubic yard)
- f) Recalculate equipment rates periodically (especially wet rates)
- g) Recalculate labor burden rates as necessary
- h) Escalator / index clauses on private work
- i) Proof of financing (funds) on private work

10 Best Practices

7. Take Care of your People

- a) Avoid ranting at them too much!
- b) Turnover is more expensive than giving a little “extra”
 - Compensation is #1
- c) Benefits seem to matter more than ever
 - Communicate value of benefits better (truck, insurance, 401k)
 - Family leave, PTO, sabbatical were rarely good at most contractors
- d) Utilize simple and fair incentive bonus programs – with objective criteria
- e) Set a good example – don’t ask employees to sacrifice more than you do
 - Bad visual – delay truck replacement, but purchase new jet
- f) Ownership opportunity is a mega trend – especially with millennials
 - Virtual (“phantom”) stock is the most popular ownership plan
 - Newco for acquisitions or diversification opportunities
 - Partial ESOPs (I’m not a big fan for road builder ESOPs)

Salary & Benefit Review Form		12/31/2020	
Johnny Cash		Date hired: 6/1/80	
Compensation:			
Base salary (or hours @ hourly rate)		\$ 75,000	
Overtime compensation (hours @ rate)		-	
Annual holiday bonus		1,000	
Safety bonus		500	
Labor budget / early completion bonuses		5,000	
Annual incentive bonus (formula & discretionary)		44,000	
Total W-2 Compensation			\$ 125,500
Fringe benefits:			
Health insurance (100% single coverage)		\$ 5,400	
Health insurance (50% family coverage)		2,800	
Life insurance		150	
Retirement plan (3% matching contribution)		2,123	
Retirement plan (profit sharing)		2,000	
Vehicle (12,000 personal miles @ \$.75)		9,000	
Company fishing trip		425	
Total value of fringe benefits			\$ 21,898
Labor burden:			
Social security (6.2% on \$118,500 max)		\$ 7,347	
Medicare tax (1.45%)		1,820	
Unemployment tax (0.8% Fed + 3.2% state on \$7,000)		280	
Workers compensation insurance		522	
Total labor burden			\$ 9,969
Total Annual Investment			\$ 157,366

10 Best Practices

8. Consider Independent Board of Directors and Peer Group Participation

- a) Technically any non-owner board member is “advisory” – they always serve at the pleasure of the stockholders/owners
- b) Board of Directors for closely held contractor is generally 5-7 members with 2-3 outsider Board members
- c) Consider non-owner key employee representation on Board
- d) Formal quarterly Board meetings with agenda, preparation, and structure
- e) Owners should have tough skin and encourage honest critique and advice
- f) Include key advisory “partners” at certain Board Meetings - banker, surety, insurance agent, CPA, attorney, former stockholders, employee benefit consultants
- g) Peer Groups members are the “experienced” experts – more valuable than old CPAs!

10 Best Practices

9. Stay Alert for Acquisition Opportunities

- a) Many competitors and subcontractors were damaged during Covid and are having severe supply and people issues
- b) Be proactive about acquisition opportunities
 - Reach out to competitors and subcontractors
 - Talk to surety and bank
- c) Who is your best competitor?
 - Financial condition? Bonding issues?
 - Aging ownership without next generation continuity
 - Synergies and contract pricing bump?
 - Do they bring a new expertise to the Company?

10 Best Practices

- d) Who is your best subcontractor?
 - Is their specialty a diversification opportunity?
 - Financial condition? Bonding issues?
 - Ownership and exit strategy
- e) Valuation Calculation and Purchase Strategies
 - Be realistic about EBITDA less capex
 - Consider partial purchase initially
 - Consider earnout
 - Newco opportunity (new entity with minority ownership by key employee of new division)
- f) Weigh intangible goodwill cost of acquisition with start-up cost and signing bonuses to recruit management personnel

10 Best Practices

10. Avoid Dumb Mistakes (Avoid “turnovers”)

a) Don't buy DUMB STUFF

- Stick with the construction business - no restaurants, marinas, gold mines...
- Do you really need a helicopter?

b) Avoid high risk stock market and cash investments with working capital

- Higher interest rates = higher risk

c) Honesty and integrity are critical

- Cheating on your taxes is stealing
- Bid rigging, DBE fraud, illegal hiring practices, etc. are not worth it
- *Slow payment or beating up Subs and Suppliers is bad business*

d) Be patient

- Don't bid below cost just to maintain revenues – “Profit thrills, volume kills”
- Some acquisition opportunities are simply not worth the price

11. Bonus Best Practice

Be Positive and Enthusiastic

“If you act enthusiastic, you’ll be enthusiastic and so will the people around you.”

– Dale Carnegie

“We cannot absolutely prove that those are in error who tell us that society has reached a turning point, that we have seen our best days...

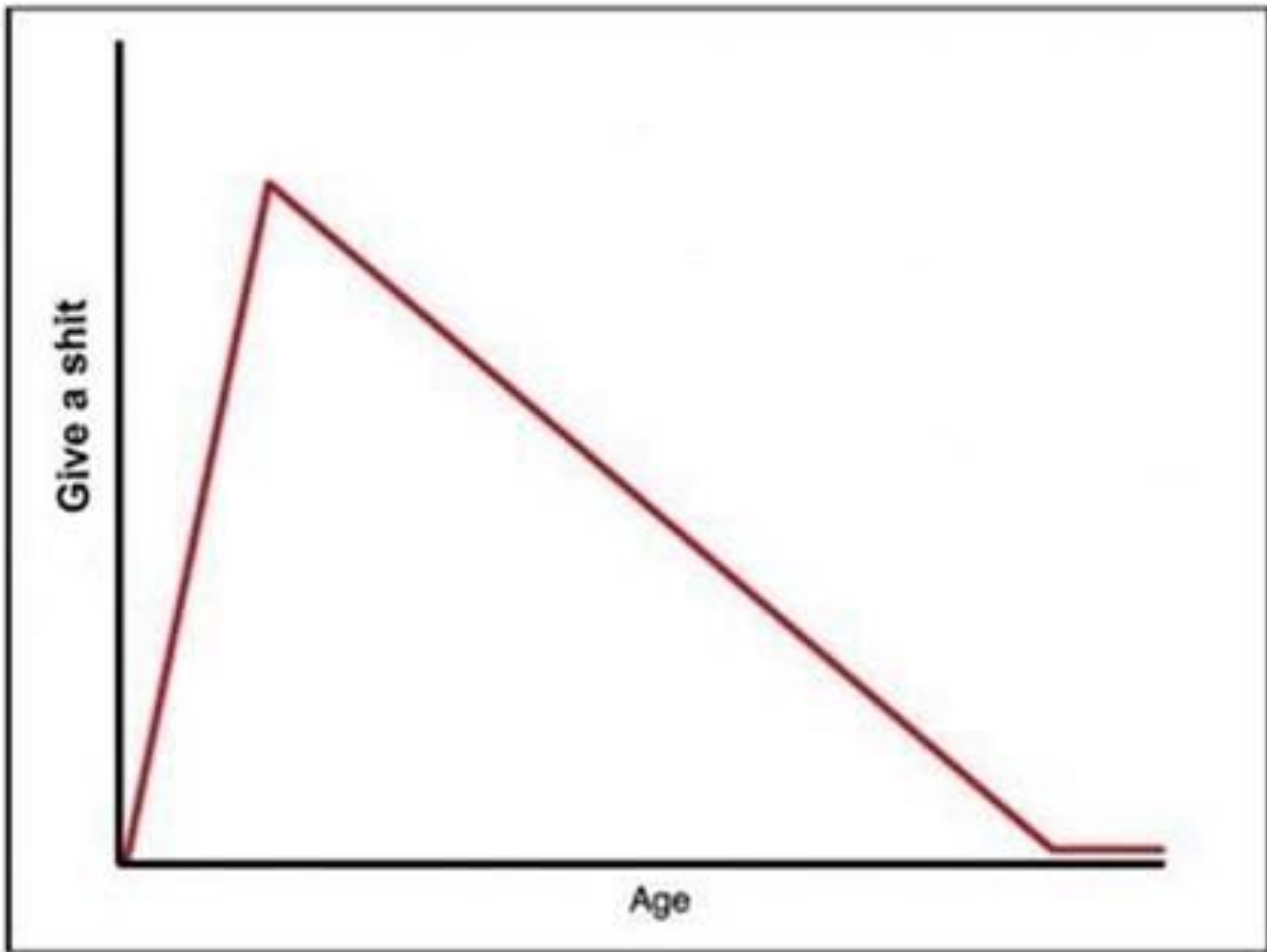
But so said all before us, and with just as much apparent reason... on what principle is it that, when we see nothing but improvement behind us, we are to expect nothing but deterioration before us?”

*A quote from the British politician in 1830
Thomas Babington Macaulay*

“Damn, Davidson, if I did everything you recommended, I would be as poor as you are.”

“You know what your job is? Make my financial statement pretty, my tax return ugly, and then get the hell out of here.”

Quotes from James D. Wright to Robert Davidson – circa 1977



Thanks!



ACCOUNTANTS JUST WANT
TO HAVE FUN.....

Geo
Collum