

# Specialty Contractors

8.18.2020

NAICS CODES: 238

SIC CODES: 17

## Industry Overview

Companies in this industry contract to perform construction work in a wide variety of trades, including site preparation, concrete, electrical, HVAC, plumbing, and painting. Major companies include API Group, Comfort Systems USA, EMCOR, Performance Contracting, and Quanta Services (all based in the US), as well as Bilfinger (Germany) and Skanska (Sweden).

Global revenue for construction work, including specialty contracting, exceeds \$7 trillion per year and is expected to reach \$15 trillion by 2030, according to PricewaterhouseCoopers. The largest construction growth markets are the US, China, the UK, and India. Emerging markets such as Mexico and Indonesia are experiencing growth as increased urbanization and the growing middle class population influence demand for infrastructure and housing. Most specialty contractors focus on a single local or regional market, but some large companies operate internationally.

The US specialty contracting industry includes about 450,000 establishments (single-location firms and units of multi-location firms) with combined annual revenue of about \$750 billion.

## Competitive Landscape

Demand is driven by new residential and nonresidential construction activity, as well as corporate profits and local government budgets. The profitability of individual companies depends on accurate **project bids** and efficient operations. Most specialty contractors earn revenues from **fixed price contracts**, and companies must estimate total costs for projects. If actual material prices or labor costs differ from the estimates and cannot be recovered through **change orders**, profitability could be reduced. Large companies have advantages in being able to offer a variety of services over a geographically diverse market at competitive prices. Small companies can compete effectively by offering niche services or by building relationships with customers in individual markets.

About 90% of specialty contractors have fewer than 20 employees. The industry is highly competitive, and a single project may attract bids from many contractors.

## Products, Operations & Technology

Electrical power installation and service contracting accounts for 14% of US industry revenue, HVAC contracting for 11%, plumbing contracting for 6%, and concrete contracting for 5%. Services provided by specialty contractors include the design, construction, installation, repair, and maintenance of a wide variety of systems and structures.

Specialty contractors serve a broad range of commercial, industrial, utility, government, and institutional customers. Contractors often work on specific aspects of construction and are not responsible for the entire building project. Work is usually **subcontracted** by general contractors or builders. Work also is performed directly for homeowners or owners of commercial properties or industrial sites. Most work is performed onsite, however, some specialty contractors maintain facilities for prefabrication or other tasks.

Equipment and materials required varies by contractor type. For example, concrete and masonry contractors use portland cement, sand, gravel and water to create concrete. HVAC and plumbing contractors install bathroom and kitchen fixtures, pipes, furnaces, coolers, and air-conditioners. Smaller contractors buy materials from hardware stores, home improvement centers, or mass merchandisers. Larger firms buy directly from distributors. In addition to materials and equipment, labor is a major cost. Workers have varying degrees of skills and training. Some sectors, such as plumbing and electrical work, require employees to complete specific training and service



programs before they can perform certain tasks. **Apprenticeship programs** also are used to train workers in the industry.

## Technology

Construction contractors also utilize enterprise resource planning (ERP) software that supports project management and automates functions such as finance and accounting, customer relationship management (CRM), and supply orders. Software is used to make project bids, schedule projects, and invoice for work completed.

Larger firms may use mobile devices to help manage projects remotely. Contractors increasingly use mobile technology to access such software and communicate with clients and coworkers. Mobile devices also allow contractors to order equipment and materials and estimate costs from the field.

## Sales & Marketing

Typical customers are general contractors, builders, and residential and commercial property owners, as well as industrial, utility, and governmental clients. Large firms typically maintain a national sales force. Smaller companies rely on building long-term relationships with customers.

Major types of marketing include direct mail, print advertisements, and online ads or directory listings. Some companies are **preferred vendors** to many clients. They also establish strategic relationships with property owners, architects or builders that can result in future opportunities or long-term **maintenance agreements**.

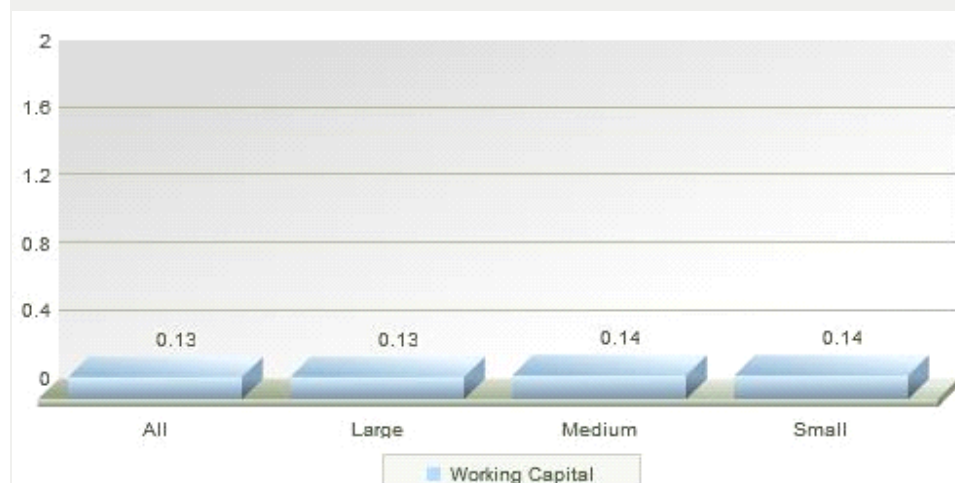
Contract values vary widely, from hundreds of dollars for a home repair to millions for a larger-scale project at an industrial plant. Specialty contractors determine bids by estimating the cost of labor and materials needed for a project. Prices for materials such as lumber, paint, and steel can fluctuate and as a result, impact the cost of a project. In addition to competing with each other, specialty contractors also face competition from the in-house service organizations of customers who sometimes employ personnel that perform services similar to those that contractors provide.

## Finance & Regulation

Specialty contracting can be a **seasonal business**, depending on the type of work, climate, and customer segment served. Adverse weather conditions, customer budgeting cycles, bidding seasons, and project timing all can impact construction activity. **Cash flow** typically is influenced by demand for services, operating margins, and the type of services companies provide. Uncollected receivables can negatively impact cash flow, especially for smaller companies. For the industry in the US, accounts receivables average about 60 days' sales.

### Working Capital Turnover by Company Size

The working capital turnover ratio, also known as working capital to sales, is a measure of how efficiently a company uses its capital to generate sales. Companies should be compared to others in their industry.





## Regulation

The construction industry is not directly regulated by government, but companies must comply with **environmental, safety**, and hiring standards. For example, some specialty contractors must follow **Environmental Protection Agency (EPA)** rules regarding the handling and disposal of asbestos and other hazardous waste. Construction projects also must meet local building codes. Worksite conditions and safety are monitored by the **Occupational Safety & Health Administration (OSHA)**. Any violation of laws and regulations can result in fines, lawsuits, or project delays.

## International Insights

Global revenue for construction work, including specialty contracting, exceeds \$7 trillion per year and is expected to reach \$15 trillion by 2030, according to PricewaterhouseCoopers. Major specialty contractors based outside the US include Bilfinger Berger (Germany) and Skanska (Sweden). Most specialty contractors focus on a single local or regional market, but some large companies operate internationally.

Most specialty contractors focus on a single local or regional market, but some large companies operate internationally. Most cross-border operations involve contracts with governments or multinational corporations. Companies with a large scope and scale of services see opportunities for growth internationally.

The largest construction growth markets are the US, China, the UK, and India. Emerging markets such as Mexico and Indonesia are experiencing growth as increased urbanization and growing middle class populations influence demand for infrastructure and housing. Growth has been slower in developed markets such as Western Europe, especially as government spending on infrastructure has been constrained because of budget deficits.

## Regional Highlights

In the US, specialty contractors are in highest demand in states with the most overall construction activity. States with the most specialty contractors, such as [California](#), [Florida](#), [New York](#), [Texas](#), and [Illinois](#), typically have the most high-value projects.

Demand for housing varies from region to region. Southern states accounted for about half of housing permits issued in 2018. Western states represented about 25%.

Services offered by specialty contractors also can vary depending on the region. For example, snow removal services are typically only needed in northern states. Meanwhile, demand for air-conditioning services tends to be higher in warmer climates.

## Human Resources

Specialty contractors have varying levels of training and skills. Plumbers and electricians, for example, typically undergo special training and apprenticeship programs. Fewer skills are required for basic construction laborers. Average hourly pay for specialty contractors overall is **moderately higher** than the national average.

Construction workers often perform physically demanding jobs at large facilities or work sites where system failures can cause injury or death. Injury rates for specialty contractors in the US are about 20% higher than the national average. The leading causes of construction worker deaths are falls, electrocutions, being struck by heavy objects, and being caught in or between objects. Companies often carry workers' compensation insurance and general liability insurance to cover bodily injuries.





### Average Hourly Earnings & Annual Wage Increase Bureau of Labor Statistics



## Industry Growth Rating



Demand: depends on construction activity  
Need: accurate project bids and efficient operations  
Risk: price competition

## Quarterly Industry Update

8.18.2020

**Opportunity: White House Streamlines Infrastructure Project Approval Process** - With the final ruling of the National Environmental Policy Act (NEPA), White House is aiming at allowing infrastructure projects to be built in a timely, efficient, and affordable manner. Stephen E. Sanherr, CEO of the Associated General Contractors of America, who came out in support of the final rule also stressed that the updated review process will make it easier to rebuild aging infrastructure, attract private investment, support efforts to reinvigorate the US economy and continue to provide strict protections for the environment. This move is expected to help the industry to jump back to its regular operations by putting more people back to work as the economy recovers from the coronavirus pandemic, and the completed projects would strengthen American energy dominance.

**Industry Impact** - Specialty contractors are looking forward to jumping back to their regular operations as White



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## 8.17.2020

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**Industry Impact** - Specialty contractors are looking forward to jumping back to their regular operations as White House aims to streamline the infrastructure project approval process.

## 4.13.2020

**Challenge: COVID-19 Outbreak Upends Construction Projects** - Specialty contractors are seeing fewer construction projects move forward during the coronavirus outbreak, as government regulations shut down some projects and companies cancel or delay projects due to financial concerns. Contractors experiencing financial challenges due to COVID-19 may consider applying for relief under the government stimulus package, which allows small business owners to obtain loans to pay basic expenses such as payroll, rent, and utilities. Deemed an "essential business" allowed stay open in many cities, specialty contractors are taking additional precautions during the outbreak such as following social distancing guidelines, practicing proper hygiene, and wearing protection including masks and gloves during customer visits. Some contractors are able to use digital tools and virtual meet-ups with customers to diagnose and fix issues without entering the building. Some plumbing contractors have noticed an uptick in business during the crisis, as additional stresses have been put on plumbing from families sheltering in place.

**Industry Impact** - Specialty contractors may need to plan for fewer construction jobs during the ongoing coronavirus outbreak and use digital tools and additional protective measures to continue to safely interact with clients.

## 7.29.2019

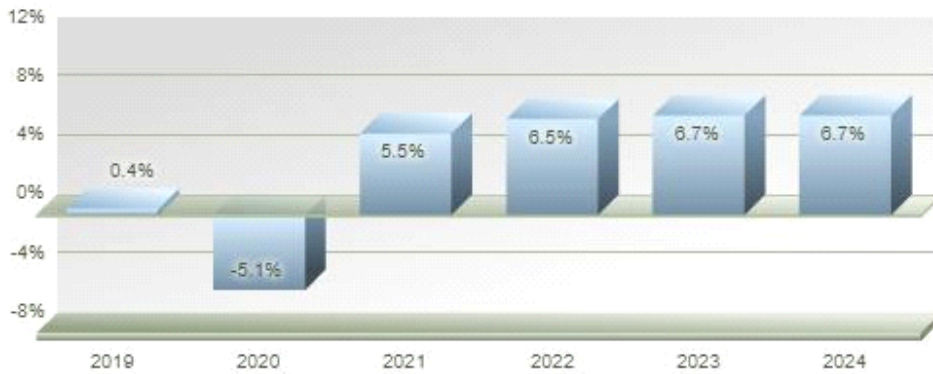
**Opportunity: California Leads Construction Activity in US** - US construction growth, a demand driver for specialty contractors, is largely concentrated in a small number of states, according to a recent report. California leads the US in terms of the number of construction projects (1,302) and the greatest value of projects (\$524 billion), according to a recent report by GlobalData titled "Construction in Key US States." The report examined more than 11,200 construction projects in the US valued at \$2.7 trillion in both the public and private sectors. California is one of 10 states that account for nearly 60% of the total US construction market, averaging about 6% per state. The state in second place in terms of project value is Texas with \$425 billion in value. The other top states for construction projects in order of project value are New York, Florida, Washington, Illinois, Pennsylvania, Georgia, Ohio, and North Carolina. The remaining 40 states account for 40% of the market. States with the fastest construction growth states, according to the report, are Florida, Georgia, and Washington, with annual average growth rates in the past five years of 9.9%, 8.7%, and 6% respectively.

**Industry Impact** - Specialty contractors looking for growth may want to consider expanding into one of the high activity construction states.

## Industry Forecast

The value of US new public and private construction spending, a major indicator for specialty contractor demand, is forecast to grow at an annual compounded rate of 4% between 2020 and 2024. Data Published: July 2020





First Research forecasts are based on INFORUM forecasts that are licensed from the Interindustry Economic Research Fund, Inc. (IERF) in College Park, MD. INFORUM's "interindustry-macro" approach to modeling the economy captures the links between industries and the aggregate economy. [Forecast FAQs](#)

## Industry Drivers

Changes in the economic environment that may positively or negatively affect industry growth.

Data provided by First Research analysts and reviewed annually



**Interest Rates** Change in prime and related interest rates



**Construction Spending** Change in the overall level of commercial and residential construction spending



**Consumer Spending** Change in overall level of consumer spending on goods and services

## Critical Issues

**Revenue Depends on Construction Activity** - Residential and nonresidential construction levels can vary sharply from year to year. Nonresidential construction depends on capital spending by businesses and government agencies. Demand for residential construction is sensitive to changes in economic conditions such as unemployment rates, household formations, consumer income, consumer confidence, availability of credit, and interest rates. Although construction activity has improved since the late-2000s recession, some clients have not fully recovered. Some businesses struggle to obtain debt or equity financing needed for major projects and governments have scaled back investments in construction due to a slowdown in funding for institutional projects.

**Competition** - Specialty contractors operate in highly competitive markets, and many projects require substantial resources and capital investment in equipment, technology and skilled personnel. Competition creates pricing pressures and as a result, lower profit margins for projects. Competitors on a bid will have the advantage if they have prior experience, technical capability, and financial strength. For many trades, there are few barriers to entry, which can lead to more price competition.



## Business Challenges

**Customer Concentration** - Both large and small contractors may heavily rely on one or a few customers for a significant portion of their revenue. While contractors work to establish long-standing relationships with their significant customers, any loss could hurt profitability. Reliance on just a few customers increases the risk of uneven cash flow and default.

**High Insurance Costs** - Most contractors usually pay higher-than-average insurance premiums due to the risky nature of the business. Types of insurance include workers' compensation, general liability, and surety bonding. Construction defects, safety, and poor bookkeeping are major insurance issues.

**Dependence on Skilled Personnel** - Companies often have difficulty hiring and retaining enough skilled workers, supervisors, and foremen for large projects. Because of the cyclical nature of demand, many companies can't afford to keep a full-time workforce and must hire new workers for each major project. Any labor shortages create competitive hiring markets, which can result in increased labor expenses or project delays.

## Business Trends

**Mobile Technology** - More construction companies and contractors are using mobile technology and cloud-based applications to help track assets, manage fleets, and improve communications with workers and clients. Construction technology platforms provide real-time data to on-the-go contractors. These technologies can help speed up communications with workers in the field and help improve business efficiency and productivity.

**Design-Build** - Although specialty contractors are typically not responsible for entire large projects, many larger companies have in-house engineering teams capable of project design. On most projects specialty systems are either led by an integrated design-builder, a specialty contractor-led team, or an architect/engineer-led team with specialty contractors in a design assist role. Some specialty contractors prefer to be involved in design-build projects, which can take less time since the design and installation processes are integrated from the beginning.

**Solar Energy Use** - Demand for contracting work associated with solar energy installations is increasing. Employment in the US solar industry rose by 159% from 2010 to 2018, according to The Solar Foundation. As costs associated with traditional energy sources rise and the cost of photovoltaic (PV) systems decreases, more Americans are installing solar at their homes and businesses. California, North Carolina, Arizona, Nevada, New Jersey, and Massachusetts are among the top states for solar panel installations. As the solar industry grows, more electrical contractors will receive special training to become certified installers of PV systems.

**Narrowing Wage Gap** - Wages for women in construction are inching upward in certain segments and are closer to parity with those of men than they are in many US industries. Women working in repair, maintenance, and installation out-earned their male counterparts during the second quarter of 2016, according to Bureau of Labor Statistics (BLS) data reported by Builder Online. Overall, female construction workers earn about 96 cents for every \$1 men make, according to 2016 BLS data reported by Catalyst. Specialty contractors may see an uptick in the number of female applicants as wages for women rise and, in some segments, eclipse those of men.

## Industry Opportunities

**Energy Efficiency** - Builders and home improvement contractors have benefited from a growing demand for energy-efficient homes and buildings. Insulation and air sealing companies, as well as HVAC and electrical contractors, have the opportunity to sell more services and install high-performance technology that better manages energy use and creates environmentally friendly buildings and homes.

**Acquisitions** - Large specialty contracting companies can easily expand their geographic reach and service capabilities by acquiring smaller firms. Companies often make acquisitions that expand their reach into new markets, including other countries, such as Canada and the UK. While funding for acquisitions can at times be tight, such deals are typically a major part of a company's growth strategy.

**Remodeling Market** - US consumers spend about \$400 billion a year on home remodeling and repairs, according to a study by the Joint Center of Housing Studies at Harvard University. This segment is almost entirely in the hands of small builders and specialty contractors who are often called on to remodel kitchens or make energy efficiency updates to homes. Although individual projects are smaller, the volume of such construction is much steadier than new home construction, and less financially risky.

**Increased Automation** - Advancements in machinery manufacturing and computer control software may enable



robots and drones to perform some construction work, according to Engineering News-Record. Robots adapted to construction sites could help reduce labor costs, make up for any labor shortages, and possibly improve safety and streamline production and quality. While fully autonomous job sites with dozens of robots working independently on various tasks is likely far in the future, some robots programed to do repetitive or dangerous work, such as brick laying or demolition, could be just around the corner. The growing use of prefabricated components in construction also could create more opportunities for robots to perform repetitive tasks inside a factory environment.

## Financial Information

### COMPANY BENCHMARK TRENDS

#### Quick Ratio by Company Size

The quick ratio, also known as the acid test ratio, measures a company's ability to meet short-term obligations with liquid assets. The higher the ratio, the better; a number below 1 signals financial distress. Use the quick ratio to determine if companies in an industry are typically able to pay off their current liabilities.

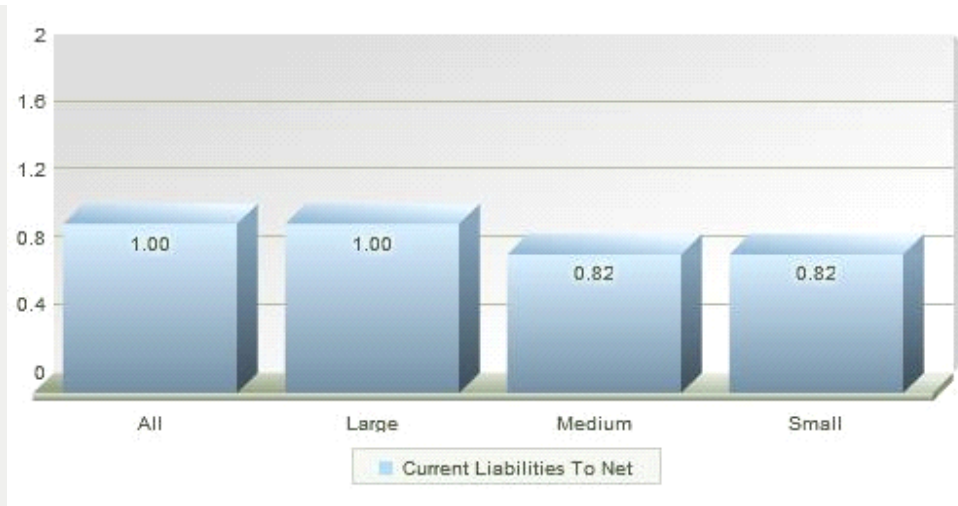


Financial industry data provided by MicroBilt Corporation collected from 32 different data sources and represents financial performance of over 4.5 million privately held businesses and detailed industry financial benchmarks of companies in over 900 industries (SIC and NAICS). More data available at [www.microbilt.com](http://www.microbilt.com).

#### Current Liabilities to Net Worth by Company Size

The ratio of current liabilities to net worth, also called current liabilities to equity, indicates the amount due creditors within a year as a percentage of stockholders' equity in a company. A high ratio (above 80 percent) can indicate trouble.





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## COMPANY BENCHMARK INFORMATION

NAICS: 238

Data Period: 2018

Last Update February 2020

Table Data Format

Mean

Company Size	All	Large	Medium	Small
Size by Revenue		Over \$50M	\$5M - \$50M	Under \$5M
Company Count	357065	178	7821	349066

### Income Statement

Net Sales	100%	100%	100%	100%
Gross Margin	25.9%	21.9%	24.1%	27.0%
Officer Compensation	3.6%	2.8%	3.0%	4.0%
Advertising & Sales	0.2%	0.2%	0.2%	0.3%
Other Operating Expenses	20.2%	17.4%	19.0%	20.9%
Operating Expenses	24.0%	20.4%	22.2%	25.2%
Operating Income	1.9%	1.5%	1.9%	1.8%
Net Income	1.0%	0.8%	1.0%	1.0%

### Balance Sheet

Cash	16.0%	15.7%	15.6%	16.1%
Accounts Receivable	41.3%	43.3%	44.3%	39.8%
Inventory	5.4%	4.6%	4.9%	5.7%



<b>Total Current Assets</b>	72.4%	74.1%	74.8%	71.3%
<b>Property, Plant &amp; Equipment</b>	17.0%	16.2%	15.2%	17.9%
<b>Other Non-Current Assets</b>	10.5%	9.8%	10.0%	10.8%
<b>Total Assets</b>	100.0%	100.0%	100.0%	100.0%
<b>Accounts Payable</b>	16.4%	15.1%	17.1%	16.2%
<b>Total Current Liabilities</b>	40.6%	38.7%	41.6%	40.3%
<b>Total Long Term Liabilities</b>	19.2%	12.7%	17.1%	20.6%
<b>Net Worth</b>	40.3%	48.6%	41.3%	39.1%

#### Financial Ratios

(Click on any ratio for comprehensive definitions)

<b>Quick Ratio</b>	1.43	1.54	1.46	1.41
<b>Current Ratio</b>	1.78	1.91	1.80	1.77
<b>Current Liabilities to Net Worth</b>	100.8%	79.7%	100.6%	103.2%
<b>Current Liabilities to Inventory</b>	x7.46	x8.49	x8.47	x7.03
<b>Total Debt to Net Worth</b>	x1.48	x1.06	x1.42	x1.56
<b>Fixed Assets to Net Worth</b>	x0.42	x0.33	x0.37	x0.46
<b>Days Accounts Receivable</b>	58	62	64	56
<b>Inventory Turnover</b>	x35.17	x43.40	x39.38	x33.05
<b>Total Assets to Sales</b>	39.7%	40.5%	40.3%	39.4%
<b>Working Capital to Sales</b>	12.6%	14.3%	13.4%	12.2%
<b>Accounts Payable to Sales</b>	6.4%	6.0%	6.8%	6.3%
<b>Pre-Tax Return on Sales</b>	1.6%	1.3%	1.7%	1.6%
<b>Pre-Tax Return on Assets</b>	4.0%	3.2%	4.1%	4.0%
<b>Pre-Tax Return on Net Worth</b>	9.9%	6.5%	9.9%	10.1%
<b>Interest Coverage</b>	x4.02	x3.92	x4.50	x3.76
<b>EBITDA to Sales</b>	3.4%	2.8%	3.3%	3.5%
<b>Capital Expenditures to Sales</b>	2.0%	1.7%	1.8%	2.2%

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## ECONOMIC STATISTICS AND INFORMATION

Annual Construction put into place - Census Bureau





## VALUATION MULTIPLES

### Specialty Contractors

Acquisition multiples below are calculated medians using at least 3 US private industry transactions completed between 1/2008 and 12/2019 and are based on middle-market transactions where the market value of invested capital (the selling price) was less than \$1B. Data updated annually. Last updated: December 2019.

Valuation Multiple	MVIC/Net Sales	MVIC/Gross Profit	MVIC/EBIT	MVIC/EBITDA
Median Value	0.4	0.9	3.1	1.9

**MVIC (Market Value of Invested Capital)** = Also known as the selling price, the MVIC is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer.

**Net Sales** = Annual Gross Sales, net of returns and discounts allowed, if any.

**Gross Profit** = Net Sales - Cost of Goods Sold

**EBIT** = Operating Profit

**EBITDA** = Operating Profit + Noncash Charges



SOURCE: DealStats (formerly Pratt's Stats), 2019 (Portland, OR: Business Valuation Resources, LLC). Used with permission. DealStats is available at <https://www.bvresources.com/learn/dealstats>

## Industry Websites

### American Subcontractors Association

News, issues, and operational advice.

### Associated Builders and Contractors, Inc.

Information about legislative issues, news.

### Builder Online

News and industry statistics.

### Canadian Construction Association

Canadian construction trends and issues.

### Electrical Contractor Magazine

News and trends.



**Engineering News-Record**

News, analysis, commentary, and data on construction industry.

**National Association of the Remodeling Industry**

Remodeling news and links.

**The Specialty Contractors Council**

Resources for contractors.

## Glossary of Acronyms

**EPA** - Environmental Protection Agency

**ERP** - enterprise resource planning

**HVAC** - Heating, ventilation, and air-conditioning

**OSHA** - Occupational Safety and Health Administration