



Improving Cash Flow & Inequitable Payment Practices

April 2, 2025



Maxim Consulting Group



Management Consulting

- Strategic Planning
- Operational Excellence
- Technology Integration
- Training & Development



Lean Transformations

- Supply Chain Management
- Design Standards
- Enterprise Scheduling
- Process Standardization



Peer Groups

- Electrical
- Mechanical
- Fire Protection
- General Contractor
- Heavy Civil
- Utility



Corporate Finance Advisory

- Mergers & Acquisitions Advisory
- Equity & Debt Financing
- Ownership Transition
- Management Succession
- Captive Insurance

Agenda

Do you have a cash flow problem?

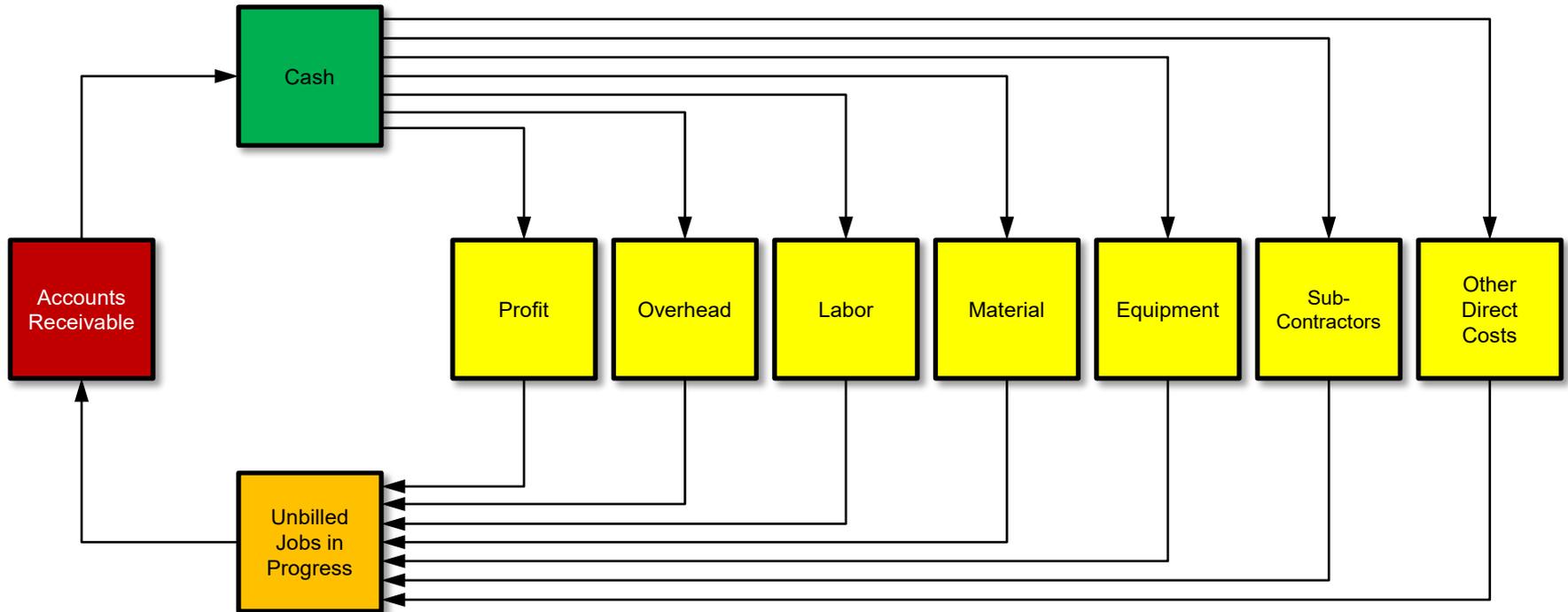
Best practices that improve cash flow

Cash Demand

Cash Flow and SGR

Inequitable Payment Practices

The Cash Flow Cycle



Cash Flow equals cash receipts minus cash payments over a given period of time

Do you have a cash flow problem?

- ▶ Working capital: 7-12% of revenue
 - Why the scale?
- ▶ Current ratio: 1.5 to 1
- ▶ Quick ratio: 1.0 to 1
- ▶ Working capital turns: 8-12x
- ▶ Overbilling: Net 10%
- ▶ Project Cash Flow: Cash positive at 25% complete
- ▶ Debt to equity ratio: 2.5 to 1 or less
- ▶ Borrowing base: Beware of bonded AR
- ▶ Net line utilization: Monitor, capacity at 10% of revenue

The Irony

- ▶ More contractors go bankrupt due to cash flow than profitability!!!!
 - Most firms publish financials (BS & IS) monthly or quarterly
 - Very few firms regularly produce a statement of cash flows based on the current financials
 - Even fewer produce forward looking cash projections
 - Fewer still produce project level cash projections



Best Practices to Improve Cash Flow

Schedule of Values

Billings and Collections

Leveraging Trade Credit

Cash Demand

Sustainable Growth Rate (SGR)

Schedule of Values

- ▶ Effective SOV preparation is the single largest impact a Project Manager can have on cash flow.
- ▶ Goal should be to get paid for overhead/profit as quickly as possible.
- ▶ Do not unbalance labor activities as this may have negative impact during dispute or claim.



Schedule of Values

Advantages

- Owner can plan for cash outlays
- Provides a format for which the GC can verify progress
- Confirms value of work upfront one time
- Gives an easy format to bill against
- Greatly increases your ability to over bill

Disadvantages

- If done incorrectly can cause cash flow problems throughout the project
- Gives information about the project budget to the GC and owner
- Takes time and creativity to do it right

Building Effective SOV's

- ▶ Identify phases of work to break out separately for billing categories
 - No lump sum bills
 - Mobilization, submittals, detailing and etc to be included
- ▶ Review estimate for estimated costs in each phase of work
- ▶ Review schedule for sequencing of phases
- ▶ Place as much costs in the early phases of the project in order to front load the values
- ▶ Break out systems and material packages for separate billing categories

SOV Worksheet

Job Name:		Example Project			Job #:		123456					
Phase Description	Extra	Roll Up	Labor Hrs	Labor \$\$	Material \$\$	Quotes \$\$	DJE \$\$	Total w/ MU	Adjustment	SOV Amounts	Loading	
Prefabrication			220	\$ 7,700				\$ 9,317	\$ 78,018	\$ 87,335	4.5%	
Engineering				\$ -			\$ 53,450	\$ 64,675	\$ 15,000	\$ 79,675	0.9%	
Detailing			344	\$ 12,040				\$ 14,568	\$ 20,000	\$ 34,568	1.2%	
Site Underground			320	\$ 11,200	\$ 12,205		\$ 31,329	\$ 67,373	\$ 40,000	\$ 107,373	2.3%	
Site Lighting			122	\$ 4,270	\$ 109,129	\$ 22,500		\$ 176,781		\$ 176,781		
Rough			1190	\$ 41,650	\$ 495,566	\$ 87,000		\$ 809,932	\$ 20,000	\$ 829,932	1.2%	
Trim			470	\$ 16,450	\$ 195,728	\$ 8,500	\$ 5,200	\$ 292,464	\$ (120,000)	\$ 172,464	-6.9%	
Fire Alarm				\$ -				\$ -		\$ -		
Electrical		x	187	\$ 6,545	\$ 35,000			\$ 53,552	\$ (15,000)	\$ 38,552	-0.9%	
xyz - 97	97	x		\$ -			\$ 41,045	\$ 49,664	\$ (8,619)	\$ 41,045	-0.5%	
Intercom/ CCTV/ Ethernet				\$ -				\$ -		\$ -		
Electrical		x	389	\$ 13,615	\$ 12,550			\$ 32,837		\$ 32,837		
Telecom - 99	99	x		\$ -			\$ 120,437	\$ 145,729	\$ (25,292)	\$ 120,437	-1.5%	
xyz - 97	97	x		\$ -			\$ 5,271	\$ 6,378	\$ (1,107)	\$ 5,271	-0.1%	
Temporary Power			122	\$ 4,270			\$ 4,500	\$ 10,612	\$ (3,000)	\$ 7,612	-0.2%	
				\$ -				\$ -		\$ -		
				\$ -				\$ -		\$ -		
				\$ -				\$ -		\$ -		
Totals:			3364	\$ 117,740	\$ 860,178	\$ 118,000	\$ 261,232	\$ 1,733,880	\$ -	\$ 1,733,882	10.1%	
Labor Rate:			\$ 35.00									
Markup Rate:			21%									
										Contract Amount (=Electrical+RMI+Telecom)	\$ 1,733,882	

SOV Worksheet

Job Name: Example Project

Job #: 123456

<u>Phase Description</u>	<u>SOV Amounts</u>
Prefabrication	\$ 87,335
Engineering	\$ 79,675
Detailing	\$ 34,568
Site Underground	\$ 107,373
Site Lighting	\$ 176,781
Rough	\$ 829,932
Trim	\$ 172,464
Fire Alarm	\$ 79,597
Intercom/ CCTV/ Ethernet	\$ 158,545
Temporary Power	\$ 7,612
Totals:	<u>\$ 1,733,882</u>

SOV Defined Standards

- ▶ Standard preconstruction items
 - Preconstruction Planning
 - Contract review/revise/execution
 - Budgeting/SOV Preparation
 - Layout
 - Detailing
 - Engineering
 - Material Procurement
 - Subcontractor Procurement
 - Submittal preparation
 - Fabrication
 - Kitting



Why choose these types of items?

SOV Minimum Frontloading Percentage

- ▶ Obstacles to overcome
 - Retainage
 - Payment terms (actual, not contractual)



SOV Advantages

When done well, the SOV:

- ▶ Allows for large billings up front
- ▶ Drives cash flow sooner
- ▶ Removes the need to “lie” or overinflate billings on field labor items (verifiable items)



Billings

▶ How to effectively Bill a project

Review existing costs
for labor material and
DJE

Identify additional
costs of each through
end of month

Evaluate % complete
of budget

Mark up
corresponding Billing
item with %

Follow above steps
(a-d) for each line item
on bill.

Verify total billing
amount meets or
exceeds "Billing
calculator" amount
(See Calculator)

Call client, review the bill
and get verbal approval

Walk large jobs with
client/owner/ owner's rep if
req'd

Minimum Billing Amount

Minimum billing amount = Earned Revenue + 20% CTD

Total contract amount \$1,000,000

Cost to Date \$ 500,000

Cost to Complete \$ 300,000

Financial Calculations You MUST Know

$$\% \text{ Complete} = \frac{\text{Cost to Date}}{\text{Cost to Date} + \text{Cost to Complete}}$$

Total contract amount	\$1,000,000
Cost to Date	\$ 500,000
Cost to Complete	\$ 300,000

$$\% \text{ Complete} = \frac{\$500,000}{\$500,000 + \$300,000} = 62.5\%$$

Financial Calculation You MUST Know

Earned Revenue = % complete x contract \$

Total contract amount \$1,000,000

Cost to Date \$ 500,000

Cost to Complete \$ 300,000

Earned Revenue = 62.5% x \$1,000,000 = \$625,000

Financial Calculation You MUST Know

Minimum billing = Earned Revenue + 20% Cost to Date

Earned Revenue \$ 625,000

Cost to Date \$ 500,000

Minimum billing = \$625,000 + \$100,000 = \$725,000

Financial Talent



The difference between a project manager and a project witness is their ability to effectively manage the \$



What % of your staff could do the above calculations without the formulas or assistance?



There is a tremendous lack of financial training in our industry

Collections

▶ Collections are the PM's responsibility, not Accounting!

■ Payments are usually with held due to:

- Billings requiring revision
- No lien releases
- Lack of documentation as required
- Late bills
- Close out documentation
 - As-builts, O & M's etc



Financial Impact



Cash Collections and Profit (1 of 5)

Job Budget and Cash Flow Analysis

Direct Job Costs

Labor	\$375,227	
Material	\$345,081	
Equipment	\$167,464	
Subcontracts	\$101,100	
Other direct costs	<u>\$43,860</u>	
Total Direct Costs	\$1,032,732	
Overhead 14%		<u>\$144,582</u>
Total Cost		\$1,177,314
Profit 6%		<u>\$70,639</u>
Total Sell		<u>\$1,247,953</u>

Cash Collections and Profit (2 of 5)

Cash Flow - 30 Day Payment Terms

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Total
Billing Amount	\$35,009	\$107,297	\$130,312	\$220,607	\$338,540	\$272,548	\$143,640				\$1,247,953
10% Retainage	<u>(\$3,501)</u>	<u>(\$10,730)</u>	<u>(\$13,031)</u>	<u>(\$22,061)</u>	<u>(\$33,854)</u>	<u>(\$27,255)</u>	<u>(\$14,364)</u>				<u>(\$124,795)</u>
Retainage Billed							<u>\$124,795</u>				<u>\$1,123,158</u>
Net Billing Amount	\$31,508	\$96,568	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071				\$1,247,953
Funds Received:		\$31,508	\$96,568	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071			\$1,247,953
Total Direct Job Costs	\$11,172	\$76,889	\$97,811	\$179,898	\$287,110	\$227,117	\$137,000	<u>\$15,735</u>			\$1,032,732
Overhead	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,658</u>				<u>\$144,582</u>
Total Expenses Out	\$31,826	\$97,543	\$118,465	\$200,552	\$307,764	\$247,771	\$157,658	\$15,735			\$1,177,314
Net Cash Flow	(\$31,826)	(\$66,035)	(\$21,897)	(\$83,272)	(\$109,218)	\$56,915	\$87,635	\$238,336			\$70,639
Cumulative Cash Flow	(\$31,826)	(\$97,861)	(\$119,759)	(\$203,030)	(\$312,248)	(\$255,333)	(\$167,697)	\$70,639			

Cash Flow - 30 Day Payment Terms

	Month of Project					Total
	4	5	6	7	8	
Billing Amount	\$220,607	\$338,540	\$272,548	\$143,640		\$1,247,953
10% Retainage	<u>(\$22,061)</u>	<u>(\$33,854)</u>	<u>(\$27,255)</u>	<u>(\$14,364)</u>		<u>(\$124,795)</u>
Retainage Billed				<u>\$124,795</u>		<u>\$1,123,158</u>
Net Billing Amount	\$198,546	\$304,686	\$245,293	\$254,071		\$1,247,953
Funds Received:	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071	\$1,247,953
Total Direct Job Costs	\$179,898	\$287,110	\$227,117	\$137,000	\$15,735	\$1,032,732
Overhead	\$20,654	\$20,654	\$20,654	\$20,658		\$144,582
Total Expenses Out	\$200,552	\$307,764	\$247,771	\$157,658	\$15,735	\$1,177,314
Net Cash Flow	(\$83,272)	(\$109,218)	\$56,915	\$87,635	\$238,336	\$70,639
Cumulative Cash Flow	(\$203,030)	(\$312,248)	(\$255,333)	(\$167,697)	\$70,639	

Cash Collections and Profit (3 of 5)

Cash Flow - 60 Day Payment Terms

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Total
Billing Amount	\$35,009	\$107,297	\$130,312	\$220,607	\$338,540	\$272,548	\$143,640				\$1,247,953
10% Retainage	<u>(\$3,501)</u>	<u>(\$10,730)</u>	<u>(\$13,031)</u>	<u>(\$22,061)</u>	<u>(\$33,854)</u>	<u>(\$27,255)</u>	<u>(\$14,364)</u>				<u>(\$124,795)</u>
Retainage Billed							<u>\$124,795</u>				<u>\$1,123,158</u>
Net Billing Amount	\$31,508	\$96,568	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071				\$1,247,953
Funds Received:		\$0	\$31,508	\$96,568	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071		\$1,247,953
Total Direct Job Costs	\$11,172	\$76,889	\$97,811	\$179,898	\$287,110	\$227,117	\$137,000	\$15,735			\$1,032,732
Overhead	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,658</u>				<u>\$144,582</u>
Total Expenses Out	\$31,826	\$97,543	\$118,465	\$200,552	\$307,764	\$247,771	\$157,658	\$15,735			\$1,177,314
Net Cash Flow	(\$31,826)	(\$97,543)	(\$86,957)	(\$103,984)	(\$190,484)	(\$49,225)	\$147,028	\$229,558	\$254,071		\$70,639
Cumulative Cash Flow	(\$31,826)	(\$129,369)	(\$216,326)	(\$320,311)	(\$510,794)	(\$560,019)	(\$412,991)	(\$183,432)	\$70,639		

Cash Flow - 60 Day Payment Terms

	Month of Project					Total
	5	6	7	8	9	
Billing Amount	\$338,540	\$272,548	\$143,640			\$1,247,953
10% Retainage	<u>(\$33,854)</u>	<u>(\$27,255)</u>	<u>(\$14,364)</u>			<u>(\$124,795)</u>
Retainage Billed			<u>\$124,795</u>			<u>\$1,123,158</u>
Net Billing Amount	\$304,686	\$245,293	\$254,071			\$1,247,953
Funds Received:	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071	\$1,247,953
Total Direct Job Costs	\$287,110	\$227,117	\$137,000	\$15,735		\$1,032,732
Overhead	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,658</u>			<u>\$144,582</u>
Total Expenses Out	\$307,764	\$247,771	\$157,658	\$15,735		\$1,177,314
Net Cash Flow	(\$190,484)	(\$49,225)	\$147,028	\$229,558	\$254,071	\$70,639
Cumulative Cash Flow	(\$510,794)	(\$560,019)	(\$412,991)	(\$183,432)	\$70,639	

Cash Collections and Profit (4 of 5)

Cash Flow - 90 Day Payment Terms

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Total
Billing Amount	\$35,009	\$107,297	\$130,312	\$220,607	\$338,540	\$272,548	\$143,640				\$1,247,953
10% Retainage	<u>(\$3,501)</u>	<u>(\$10,730)</u>	<u>(\$13,031)</u>	<u>(\$22,061)</u>	<u>(\$33,854)</u>	<u>(\$27,255)</u>	<u>(\$14,364)</u>				<u>(\$124,795)</u>
Retainage Billed							<u>\$124,795</u>				<u>\$1,123,158</u>
Net Billing Amount	\$31,508	\$96,568	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071				\$1,247,953
Funds Received:		\$0	\$0	\$31,508	\$96,568	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071	\$1,247,953
Total Direct Job Costs	\$11,172	\$76,889	\$97,811	\$179,898	\$287,110	\$227,117	\$137,000	\$15,735			\$1,032,732
Overhead	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,654</u>	<u>\$20,658</u>				<u>\$144,582</u>
Total Expenses Out	\$31,826	\$97,543	\$118,465	\$200,552	\$307,764	\$247,771	\$157,658	\$15,735			\$1,177,314
Net Cash Flow	(\$31,826)	(\$97,543)	(\$118,465)	(\$169,044)	(\$211,196)	(\$130,491)	\$40,888	\$288,951	\$245,293	\$254,071	\$70,639
Cumulative Cash Flow	(\$31,826)	(\$129,369)	(\$247,834)	(\$416,878)	(\$628,075)	(\$758,565)	(\$717,677)	(\$428,726)	(\$183,432)	\$70,639	

Cash Flow - 90 Day Payment Terms

	Month of Project					Total
	6	7	8	9	10	
Billing Amount	\$272,548	\$143,640				\$1,247,953
10% Retainage	<u>(\$27,255)</u>	<u>(\$14,364)</u>				<u>(\$124,795)</u>
Retainage Billed		<u>\$124,795</u>				<u>\$1,123,158</u>
Net Billing Amount	\$245,293	\$254,071				\$1,247,953
Funds Received:	\$117,280	\$198,546	\$304,686	\$245,293	\$254,071	\$1,247,953
Total Direct Job Costs	\$227,117	\$137,000	\$15,735			\$1,032,732
Overhead	<u>\$20,654</u>	<u>\$20,658</u>				<u>\$144,582</u>
Total Expenses Out	\$247,771	\$157,658	\$15,735			\$1,177,314
Net Cash Flow	(\$130,491)	\$40,888	\$288,951	\$245,293	\$254,071	\$70,639
Cumulative Cash Flow	(\$758,565)	(\$717,677)	(\$428,726)	(\$183,432)	\$70,639	

Cash Collections and Profit (5 of 5)

Cost of Capital – Assuming 12% Alternative Investment Return

	Monthly Cost of Capital										Total
	1	2	3	4	5	6	7	8	9	10	
30 Day Term	(\$318)	(\$979)	(\$1,198)	(\$2,030)	(\$3,122)	(\$2,553)	(\$1,677)	\$0	\$0	\$0	(\$11,878)
60 Day Term	(\$318)	(\$1,294)	(\$2,163)	(\$3,203)	(\$5,108)	(\$5,600)	(\$4,130)	(\$1,834)	\$0	\$0	(\$23,651)
90 Day Term	(\$318)	(\$1,294)	(\$2,478)	(\$4,169)	(\$6,281)	(\$7,586)	(\$7,177)	(\$4,287)	(\$1,834)	\$0	(\$35,424)

Illustration Actual Client Data

	Client 1	Client 2	Client 3	Client 4	Client 5	Client 6	Client 7	Client 8
Revenue	\$ 42,452,969	\$ 27,592,283	\$ 65,114,799	\$ 99,390,105	\$ 52,734,576	\$ 45,167,460	\$ 77,000,000	\$ 100,873,209
AR Balance	\$ 9,392,553	\$ 7,141,304	\$ 19,554,585	\$ 26,319,080	\$ 11,735,082	\$ 11,993,447	\$ 12,000,000	\$ 20,427,350
DSOs	80	93	108	95	80	96	56	73
	Client 9	Client 10	Client 11	Client 12	Client 13	Client 14	Client 15	Client 16
Revenue	\$ 36,605,929	\$ 49,000,000	\$ 37,331,111	\$ 62,676,000	\$ 72,401,703	\$ 100,000,000	\$ 71,827,000	\$ 42,583,461
AR Balance	\$ 7,461,684	\$ 10,200,000	\$ 5,291,373	\$ 10,114,000	\$ 16,318,128	\$ 24,400,000	\$ 9,454,000	\$ 7,664,658
DSOs	73	75	51	58	81	88	47	65
	Client 17	Client 18	Client 19	Client 20	Client 21	Client 22	Client 23	Client 24
Revenue	\$ 54,539,720	\$ 22,697,300	\$ 80,226,406	\$ 58,488,090	\$ 37,268,522	\$ 118,331,000	\$ 23,359,257	\$ 24,609,875
AR Balance	\$ 9,807,769	\$ 10,306,310	\$ 15,508,346	\$ 17,185,972	\$ 7,062,281	\$ 32,601,000	\$ 4,887,370	\$ 4,912,700
DSOs	65	163	70	106	68	99	79	73

Collection Strategies

 01 *Implement formal internal escalation process*

 04 *Include DSO as performance metric for Project Managers*

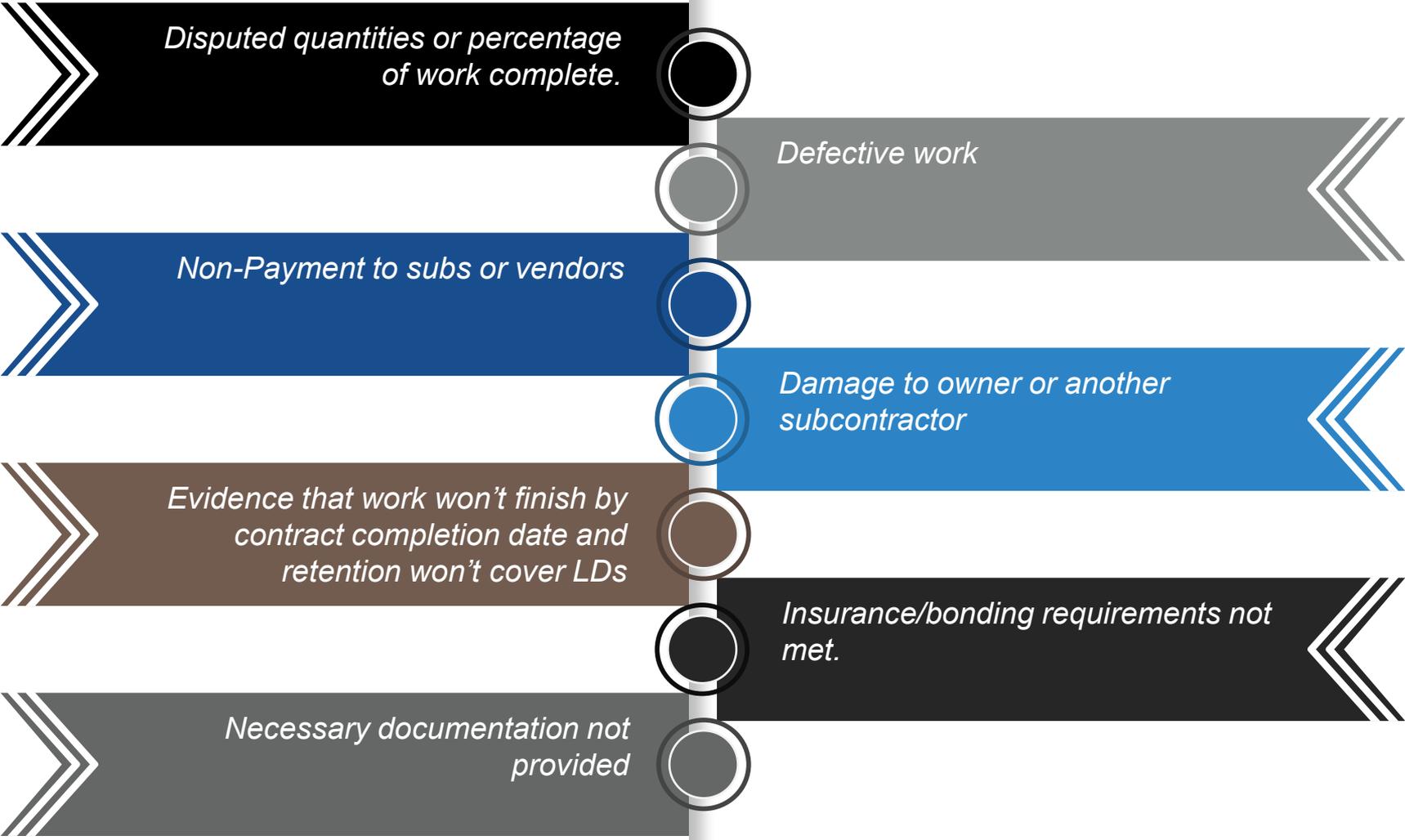
 02 *Communicate non-payment and obtain customer commitment to pay*

 05 *Charge PM's interest on negative cash position*

 03 *Appoint an internal "bird dog" (\$3M in 30-days)*

 06 *Automate using report runner, notifier function, my assistant, SSRS, etc.*

Why Invoices are Held Up



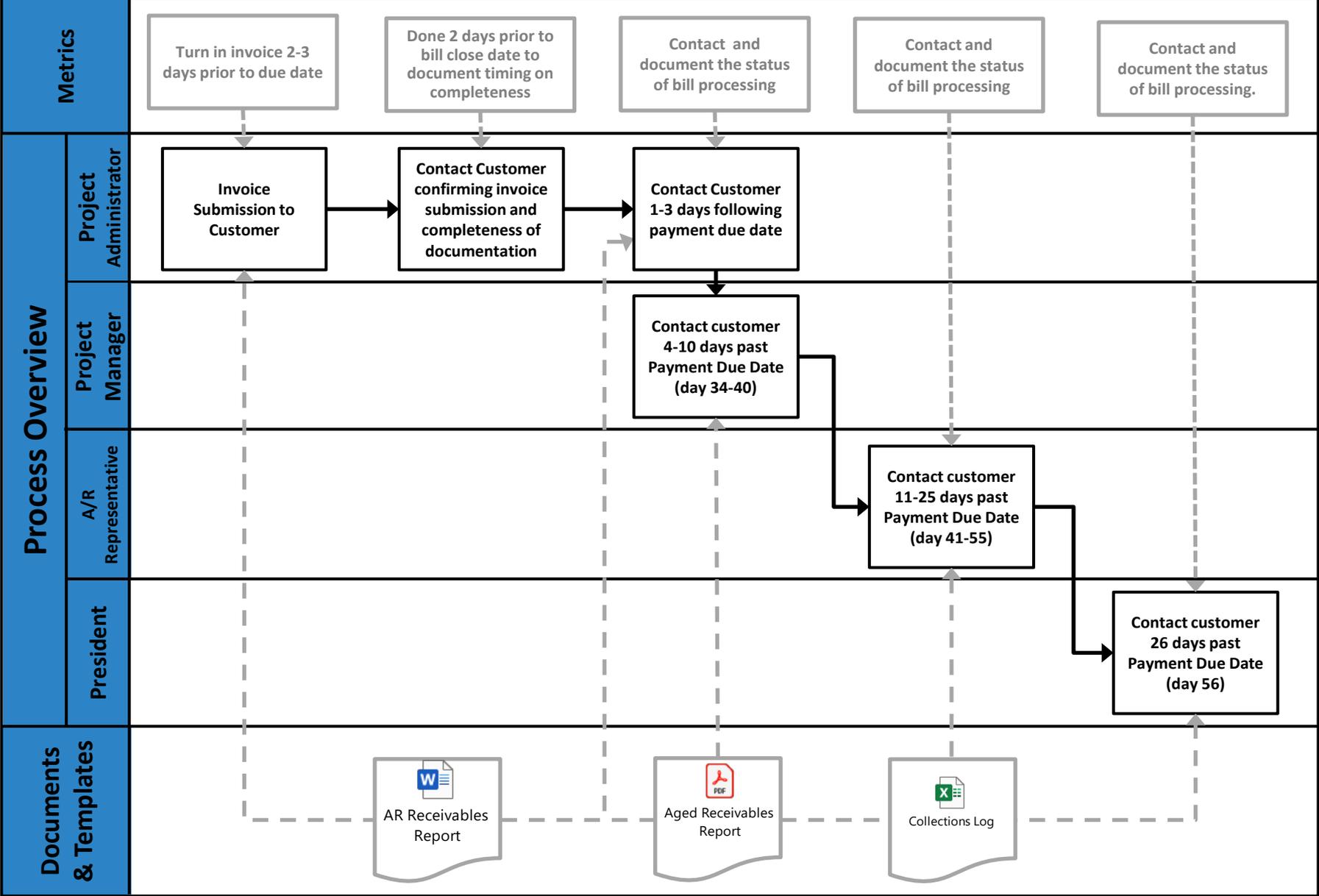
Collection Strategies

Aged Receivables Report

Print Date: 08/29/2024

<u>Job</u>	<u>Job Name</u>	<u>Div</u>	<u>Balance</u>	<u>Current</u>	<u>PC</u> <u>31 to 33</u>	<u>PM</u> <u>34 to 40</u>	<u>A/R Rep</u> <u>41 to 55</u>	<u>DM/VP</u> <u>> 56</u>	<u>Retainage</u>
0222	Example 1	10	17,819.75	0.00	0.00	0.00	0.00	17,819.75	0.00
0236	Example 2	10	62,458.57	0.00	0.00	0.00	0.00	62,458.57	0.00
0244	Example 3	10	40,550.64	0.00	0.00	0.00	0.00	40,550.64	66,270.29
0245	Example 4	10	73,499.99	0.00	0.00	0.00	0.00	73,499.99	62,829.67
0249	Example 5	10	338,179.60	0.00	0.00	0.00	0.00	338,179.60	161,199.26
0253	Example 6	10	107,439.66	0.00	0.00	27,920.88	0.00	79,518.78	0.00
0254	Example 7	10	3,705.00	0.00	0.00	0.00	0.00	3,705.00	111,973.06
0256	Example 8	10	56,008.09	0.00	0.00	0.00	0.00	56,008.09	76,687.94
0261	Example 9	10	488,034.15	0.00	488,034.15	0.00	0.00	0.00	0.00
0263	Example 10	10	193,320.73	0.00	0.00	0.00	0.00	193,320.73	0.00
0265	Example 11	10	101,228.65	101,228.65	0.00	0.00	0.00	0.00	16,140.09
0268	Example 12	10	1,104.84	1,104.84	0.00	0.00	0.00	0.00	0.00
Total for Division		10	1,483,349.67	102,333.49	488,034.15	27,920.88	0.00	865,061.15	495,100.31

AR Escalation Process Example



Recovery of Past Due Receivables

<u>Days Past Due</u>	<u>Percent Recovered</u>
30 Days	97%
90 Days	90%
120 Days	80%
180 Days	67%
1 Years	45%
2 Years	23%
3 Years	12%

Remember: Old receivables get older!!!

Leveraging Trade Credit

Material

- Verify receipt/condition of material prior to payment
- Negotiate favorable terms with vendors/suppliers
- Be wary of contractor discounts for prompt payment
- Pay with credit card when possible

Subcontractors

- Ask for schedule of values broken out by work activity
- Review payment/draw schedule prior to commencement of work
- Time subcontractor invoicing so it can be submitted immediately with monthly invoice to GC/owner
- Utilize pay when paid provisions
- Hold retention if appropriate

Sustainable Growth Rate (SGR)

- ▶ SGR is the annual percentage increase in sales, which is consistent with a stable debt and capital structure
 - i.e. where total debt / net worth ratios do not change significantly or materially from year to year
- ▶ SGR is a single number, which, if a company's sales expand at a rate greater than, will result in an out-of-equilibrium situation
 - The company's debt / net worth ratio will rise
 - When this happens, the firm approaches an over-leverage position, which raises the possible problems of liquidity and debt repayment

What Does it Mean?

- ▶ What rate of growth can the company sustain?
- ▶ How efficient are operations?
- ▶ What affects the profit margins have on growth rate?
- ▶ How to identify product lines and customer segments with growth potential?
- ▶ What determines business attractiveness for investment prospects?



SGR Calculation

$$\text{SGR} = p(1-d)(1+L) / t - [p(1-d)(1-L)]$$

$$p = \text{net income} / \text{total sales} = 6,734,092 / 69,419,170 = 0.097$$

$$d = (\text{cash dividends} + \text{stock dividends}) / \text{net income} = (0 + 6,078,217) / 6,734,092 = 0.9026$$

$$L = \text{total Liabilities} / (\text{net worth} - \text{intangibles}) = 21,259,7750 / (13,718,927 - 0) = 1.5497$$

$$t = \text{total assets} / \text{total sales} = 34,978,677 / 69,419,170 = 0.5039$$

$$\text{SGR} = 0.097(1-0.9026)(1+1.5497) / 0.5039 - [0.097(1-0.9026)(1-1.5497)]$$

$$\text{SGR} = 0.0473$$

Three Strategies to Improve SGR

- ▶ Speeding cash flow
- ▶ Reducing costs
- ▶ Raising prices



Other Cash Flow Considerations

- ▶ Best 98% Contractor in town?
- ▶ Punch list strategies (internal, interim, final)
- ▶ Lease vs. Purchase Decisions
- ▶ Secondary Banking Relationships (WF Departure?)
- ▶ Understand your WACC and incorporate into changes and claims
- ▶ Modified depreciation methods
- ▶ Maximize section 179D deductions
- ▶ Credit Memo in Lieu of Retention, retention reduction, bond in lieu of retainage
- ▶ Chubb R-Score Factor

“Final” Billing Strategy

- ▶ Put the money in the last regular progress billing.
- ▶ Keep the final billing amount small.
- ▶ Delay “final” billing if substantial progress is made and collection may be difficult. Make it a progress billing.
- ▶ Set up separate contract or PO for last minute changes
- ▶ Ask for approval of the final billing in advance.
- ▶ Use waiver of lien rights as leverage.



What if You Don't Get Paid?

- ▶ Work stoppage or slowdown
- ▶ Use lien rights
- ▶ The payment bond
- ▶ Notice requirements
- ▶ Negotiate a settlement
- ▶ Arbitrate
- ▶ Litigate





Inequitable Payment Practices



Survey Findings

▶ The results are based on over 450 respondents representing



Owners



General Contractors



Subcontractors



Architects



Engineers

Key Findings

1. Payment Practices are Changing
2. Owners are Pushing Out Contractual Payment Timeframes
3. Contract Terms are Getting Worse for the Subcontractor
4. Both General Contractors and Subcontractors Believe They Have Limited Scope to Negotiate Contract Terms and Conditions
5. Complex, Hierarchical Approval Processes with Extensive Documentation Slow the Payment Process

Key Findings *(Cont.)*

6. General Contractors Exacerbate the Payment Problem
7. Management Practices Around Payments Vary Widely Across Subcontractors
8. Owners are Paying More as Subcontractors Price in Expectations of Slow Pay
9. Current Payment Practices Create Risk for the Whole Industry; Subcontractors Feel it the Most

Impact on Ability to Acquire Additional Work

- ▶ Slow paying jobs hinder a contractor's ability to
 - Take on additional projects
 - Hire additional people
 - Continue to grow the business

More companies go out of business due to cash flow than they do because of profitability

Contractors Increasing Bid Markups to Carry Jobs Longer

- ▶ It is also known that faster paying general contractors and owners get favorable treatment and pricing from subcontractors.
- ▶ What may be less widely advertised is the contingency or “slush fund” that subcontractors put on projects where they expect slow payment.

Owners should recognize slow payment is resulting in much higher pricing of their projects.



Mitigation Strategies



Bidding

- ▶ Select Projects and Structure Bids to Drive Profitability
 - Selectively Bid
 - Incorporate the Financing Costs into the Bid

Negotiate Contracts

- ▶ Proactively Negotiate Contract Terms and Conditions
 1. Specify Timeframes on “Pay When Paid” Clauses
 2. Require GC Notification of Payment by Owner
 3. Accelerate the Retainage Release
 4. Preserve the Right to Stop Work if not Paid
 5. Retain your Mechanic’s Lien Rights
 6. Avoid Contingent Payment Clauses
 7. Ensure that GCs Have to Pay You for Change Orders
 8. Use a Cost-Loaded Schedule
 9. Establish Protocol for Billing Change Orders
 10. Consider Incentivizing the General Contractor by Offering Discounts

Managing Billings & Collections

- ▶ Implement “Best Practices” Across the Payment Cycle
 1. Review the Owner/General Contractor Contract and Understand Their Payment Cycle
 2. Develop Customer Specific Strategy Around Billings and Collections
 3. Establish Relationships with the General Contractors and Owners Throughout the Organizational Hierarchy
 4. Standardize on the Schedule of Values
 5. Improve the Billing Process
 6. Establish an Accounts Receivable Escalation Process
 7. Project Managers Need to be Part of the Solution



Questions





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