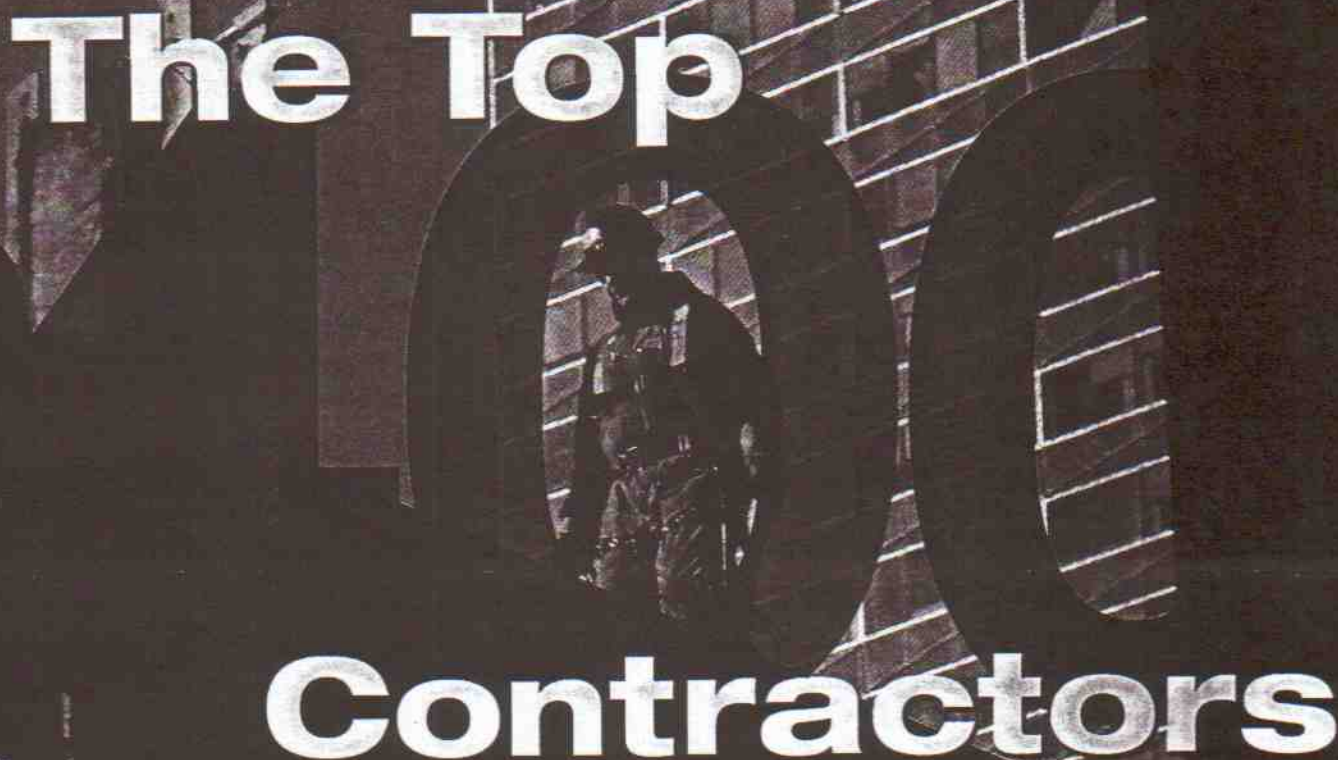


By Gary J. Tulacz



The Top Contractors

Prosperity Allows Firms To Be Selective

The construction market for U.S. contractors is hot, and smart contractors now are enjoying a business environment that they hope for, but rarely experience. There is enough work to go around to satisfy contractors in most markets, and there is enough security for them to focus on good business practices.

The size of the boom can be seen in the revenue figures from ENR's Top 400 Contractors. The group, as a whole, generated \$262.76 billion in revenue in 2006, up 11.55% from 2005. But this level of increase actually is misleading. Atlanta-based paving giant APAC, which reported \$1.96 billion in revenue last year, was acquired by Oldcastle Materials and did not participate in this year's survey. And Centex, which reported total company construction revenue of \$12.98 billion last year, reported only the revenue from

its commercial building group this year: \$2.09 billion. If APAC and Centex were omitted from the year-to-year calculations, the remaining Top 400 firms enjoyed an average increase of 18.15% from 2005 to 2006.

No firm is enjoying the hot market more than McDermott International. For several years, it had struggled to stay afloat in the face of asbestos litigation against its Babcock & Wilcox subsidiary. "The conventional wisdom was that we would lose B&W to the Asbestos Trust,"

says Bruce W. Wilkinson, McDermott's CEO. In addition, its J. Ray McDermott unit suffered losses from damaged offshore platform projects. "We ended up reducing headcount, cutting expenses and selling assets," Wilkinson says.

Eventually, McDermott was able to settle with the Asbestos Trust, effectively buying B&W back from Chapter 11 status. And, on Dec. 28, 2006, McDermott reintegrated B&W into the company. "We managed to turn ourselves around just in time for the construction boom," Wilkinson says. On May 7, the firm reported first quarter earnings of \$158.1 million on revenue of \$1.36 billion. Its share price, which was trading below \$5 in 2003, hit \$70 a share on May 11. "I joined the company in 2000," Wilkinson says. "The first five-and-a-half years were pretty miserable, but the past 18 months have been pretty rosy," he says.

The current market "is almost like a repeat of last year, very busy," says Mike Bolen, CEO of McCarthy. He believes all signs point to a continuing strength in the market. "The designers are working near capacity, and this projects out to at least another eight to 16 months of activity," he says. "The economy feels solid over the next five or six years," says Robert Hunt, CEO of Hunt Construction Group. "It's not like the boom of the late 1990s, where the levels of work were unrealistically high. I expect this market to stay strong for a while."

Some local areas are booming. "The New York City area is an unbelievably strong market," says Johan Karlstrom, executive vice president of Skanska AB. He notes that three major stadiums are to be built, along with two major subway lines, lower Manhattan redevelopment, and major office work in midtown Manhat-

tan. "There's a risk with all this work, from potential labor shortages to materials price escalation," says Karlstrom. But Skanska is pooling resources from its building and civil groups to keep work is fully staffed, he says.

Boston is another boomtown. "In Boston, vacancy rates that were in the 16 to 18% range a few years ago have dropped to single digits," says John Fish, CEO of Suffolk Construction. Further, prime office space has gone from \$25 to \$35 sq ft to \$60, he says. "There's over 25 million sq ft of space in the pipeline," Fish notes.

A rising tide may lift all boats, but it does not help the ones with holes in their hulls. "Of the 25 largest contractors in Boston five years ago, 8 are out of business," says Fish. Earlier this year, 103-year-old George B. H. Macomber Co., Boston, closed its doors and, on March

16, Payton Construction, Boston, filed for reorganization under Chapter 11.

Bottom Line Thinking

The very hot market has many contractors rethinking their strategies. "The past couple years, we have been talking about curbing our appetite," says Nicholas Makes, senior vice president and portfolio director for Turner Construction. He says that the firm is focusing more on projects in its "sweet spot," where it has expertise, where the owners are reliable, and it can expect a reasonable return.

Turner is not the only contractor being more selective. "Margins used to be 4% and nothing less, but that drifted down," says Hunt. However, he sees that margins are on the rise again. "There are fewer fly-by-night contractors that will try to lowball you," he says.

The volume of work also is giving

The 2007 Top 400 at a Glance

Volume

| | DOMESTIC | | INTERNATIONAL | | TOTAL | |
|---------------|----------|--------|---------------|--------|---------|--------|
| | \$ BIL. | % CHG. | \$ BIL. | % CHG. | \$ BIL. | % CHG. |
| REVENUE | 223.4 | +11.7 | 39.3 | +10.6 | 262.8 | +11.5 |
| NEW CONTRACTS | 257.5 | +11.9 | 44.1 | +13.1 | 301.7 | +12.1 |

Profitability

| | NUMBER OF FIRMS REPORTING | | AVERAGE % OF | |
|---------------|---------------------------|------|--------------|------|
| | PROFIT | LOSS | PROFIT | LOSS |
| DOMESTIC | 332 | 14 | 4.1 | NA |
| INTERNATIONAL | 55 | 27 | 7.8 | NA |

Professional Staff

| | NUMBER OF FIRMS REPORTING | | AVERAGE % OF | |
|----------|---------------------------|-------|--------------|-------|
| | DOMESTIC | INTL. | DOMESTIC | INTL. |
| INCREASE | 251 | 33 | 13.6 | 40.7 |
| DECREASE | 16 | 5 | 13.8 | 17.9 |
| SAME | 99 | 59 | NA | NA |

Backlog

| | NUMBER OF FIRMS REPORTING | AVERAGE % |
|--------|---------------------------|-----------|
| HIGHER | 260 | 36.5 |
| LOWER | 62 | 19.3 |
| SAME | 48 | NA |

Market Analysis

| TYPE OF WORK | REVENUE \$ MIL. | PERCENT OF TOTAL |
|--------------------|-----------------|------------------|
| BUILDING | 141,817.0 | 54.0 |
| MANUFACTURING | 6,315.3 | 2.4 |
| INDUSTRIAL | 14,843.0 | 5.6 |
| PETROLEUM | 25,072.3 | 9.5 |
| WATER | 4,644.9 | 1.8 |
| SEWER WASTE | 4,716.1 | 1.8 |
| TRANSPORTATION | 31,902.7 | 12.1 |
| HAZARDOUS WASTE | 6,067.1 | 2.3 |
| POWER | 14,360.7 | 5.5 |
| TELECOMMUNICATIONS | 3,175.1 | 1.2 |
| OTHER | 9,845.4 | 3.7 |

International Regions

| | NUMBER OF FIRMS | REVENUE \$ MIL. | PERCENT OF TOTAL |
|-------------------|-----------------|-----------------|------------------|
| CANADA | 39 | 6,455.7 | 16.4 |
| LATIN AMERICA | 31 | 2,199.4 | 5.6 |
| CARRIBEAN ISLANDS | 31 | 1,488.9 | 3.8 |
| EUROPE | 28 | 9,901.4 | 25.2 |
| MIDDLE EAST | 24 | 12,402.3 | 31.5 |
| ASIA/AUSTRALIA | 24 | 4,842.1 | 12.3 |
| AFRICA | 14 | 2,018.7 | 5.1 |
| ANTARCTIC/ARCTIC | 2 | 38.2 | 0.1 |

