

## Top Specialty Contractors 2010

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By *Greg Aragon*

Specialty contractors are as different as their niches, but most agree the market has to get a lot better before they're healthy again.



ASAC President Santo Pernicano's firm, Area-West Fence, is working on the San Vicente Dam project in Lakeside with Kiewit Pacific.



No. 32 Clark Pacific supplied the concrete work on Mineta San Jose Airport's car rental facility.

"One might argue that this is one of the steepest [construction] declines in my generation," says Tony Guzzi, CEO of Norwalk, Conn.-based EMCOR Group, Inc.

Guzzi, whose global company specializes in mechanical and electrical construction, energy infrastructure and facilities services, says that with unemployment for skilled trade labor between 25% to 35% nationally, specialty contractors have to be creative to survive.

"We spend a lot of time thinking about innovation and solutions for our customers, whether it is an [industrial] plant, a university, a convention center or you name it," says Guzzi, whose company saw an estimated 2009 base revenues of about \$5.5 billion.

On a local level, Santo Pernicano, current president of the Sacramento-based American Subcontractors Association of California, says the state's construction unemployment of between 20% and 25% feels more like a depression than a recession.

"There is too much competition for the work that is out there," says Pernicano, who is also the president of Lakeside, Calif.-based Area-West Fence Co. "Bid opportunities are there, but because of competition, prices are extremely low and people are starting to get a bit desperate."

Guenter Meiburg, former ASAC president (2006) and president and owner of Santa Rosa-based Dynamic Pre-Cast Co. Inc., says if firms do get work, "there is so much competition you have to reduce your margin significantly and that contributes to the negative picture."

"As a specialty contractor there is generally a limited field of bidders, but today some might go a little farther for a project. For example, an out-of-state contractor that's in the same business might bid where in other times he wouldn't."

Ziggy Muhlhauser, co-owner and vice president of Bloomington, Calif.-based Muhlhauser Steel Inc., calls the pricing "stupid low and not sustainable for some firms that are getting the jobs. And I'm surprised more specialty subs have not gone under because of this."

Muhlhauser's company deals in heavy structural steel work, including remodeling, pharmaceutical and expansion projects.

He says the philosophy of some subs is to just "get the work to keep the cash flow going," but the problem is that a lot of the projects that low bidders are taking are public works projects, where "subs are lucky to get paid within 90 days on their progress payments, and then they have a 10% retention taken out. We are finding jobs going for less than our cost, so sooner or later it's going to collapse for the guys taking the jobs too cheap."

Muhlhauser says he understands some general contractors are in a bind to work with reckless low-bidders in order to get the job themselves.

"But if they are smart they won't be taking low bids from the same specialty subs for a lot of their projects," he says. "I think they need to spread the work around a little bit to protect themselves."

While "irrational" behavior may be true for some contractors, most have remained conservative during the downturn, Guzzi says.

"I think if you look at what has happened in the last 18 months, I think we have all been fairly tough-minded about the removal of cost, and as a result we've lowered our break-even point fairly substantially," he says. "Not all, but we've done it at EMCOR."

Meiburg says his company, which makes and installs precast concrete fencing, sound walls, retaining walls and architectural precast, is riding the storm by maintaining a strong sales effort and cutting production staff to match workload.

Pernicano, whose fence company concentrates on commercial and public works infrastructure projects such as metal guard rail and right-of-way fences, says to stay competitive Area-West is reducing overhead, cutting costs and trying not to bid so much quantity. Instead, he says his firm is working on building client relationships more and increasing the personal face-to-face touch.

"When times were good we tended to get everything online with technology," he says. "But people still do business with people and not just numbers."

He says that out in the field, the company is focusing on military and federal projects because "that's where the money is."

For Irvine-based Southland Industries, the money is in education and healthcare, says Joseph G. Cvetas, the company's regional president.

In Northern California, Southland is doing the HVAC and plumbing on the 1.2-million-sq-ft California Pacific Medical Center Cathedral Hill Hospital project in San Francisco. Designed to be LEED silver, the 555-bed hospital is scheduled for completion in 2015.

And in Southern California, the company is working on the HVAC and plumbing on the 450,000-sq-ft Kaiser Fontana Hospital, which is under construction and headed for a 2012 completion. The 312-bed, seven-story hospital will replace the existing hospital on the medical center's campus and meet new, more rigorous California seismic safety standards.

Cvetas says that thanks to projects like these Southland is more worried about "the portability" of its people than competition from other specialty contractors.

"We have four offices and as the [work] volume shifts in those markets, we work hard to relocate key people from one area to another," he adds. "We put a lot of energy into training and the development of our people, so it's critical to move them as markets shift."

Guzzi says EMCOR is looking at California and focusing its energy on healthcare, the institutional market and energy retrofits.

"We think energy retrofit was a great market prior to November 2008 and we think it will be a great market again," he says.



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