PRIVATE EQUITY AND HOME SERVICES

HVAC, Plumbing, and Electric

Cambridge International Advisory Group

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WHY IS PRIVATE EQUITY INTERESTED IN HOME SERVICES

Fragmented Market	The industry is comprised of many small (>\$2.5 million) and medium sized (>\$7.5 million) businesses that operate across the country and service their local communities. There is no clear market leader with the largest single owner of market share owning less than 1.5% of the market.
Recession-Resistant	Regardless of economic conditions, homeowners will prioritize the HVAC, Plumbing, and Electrical components of their home above all else. It is an essential service focused on maintaining, servicing, and replacing the equipment and systems that provide people with comfortable, safe, and healthy homes.
Growth Tailwinds	Efficiency standards and regulations are driving demand for new installations. Repairs are not always an option if someone has outdated equipment. The average lifespan of an HVAC system is now 13 years, 40% lower than a decade ago.

Potential Net Profit of 20%

Average net profit target is 20% for a PE owned home services company. This is very attractive to investors looking for opportunities to generate return significantly higher than in public markets.



WHAT ARE CONSOLIDATORS LOOKING FOR WHEN CONSIDERING AN ACQUISITION

Residential Companies

Residentially focused companies benefit from a higher degree of urgency from their customer base and are not interested in too much price shopping. The customers want something done NOW. The customer's of residential companies are being incentivized to purchase new systems by government rebates and tax credits (Inflation Reduction Act).

- Single family home owners consider health, safety, and comfort over the cheapest options
- Recurring revenue through long term maintenance programs
- Most residential companies are owned by a single person which makes the acquisition process straight forward

Loyal Labor Force

Consolidators will consider how long a company has been in business, how it is structured, and the strength of the company culture. Skilled tradesmen are in high demand right now because of a lack of new workers entering the labor force over the past 20 years.

- Strong company culture with a proven track record of low turnover
- Framework and/or focus on training and developing new talent

Geography

Geographic considerations are becoming more relevant as competition amongst consolidators picks up. Anchor companies (\$8-\$12 million) are sought after in a variety of regions and are not always possible to acquire. The ability to purchase an anchor company will also dictate where a consolidator will grow.

- Suburban areas of the Midwest and Texas are in high demand
- Areas experiencing significant population growth



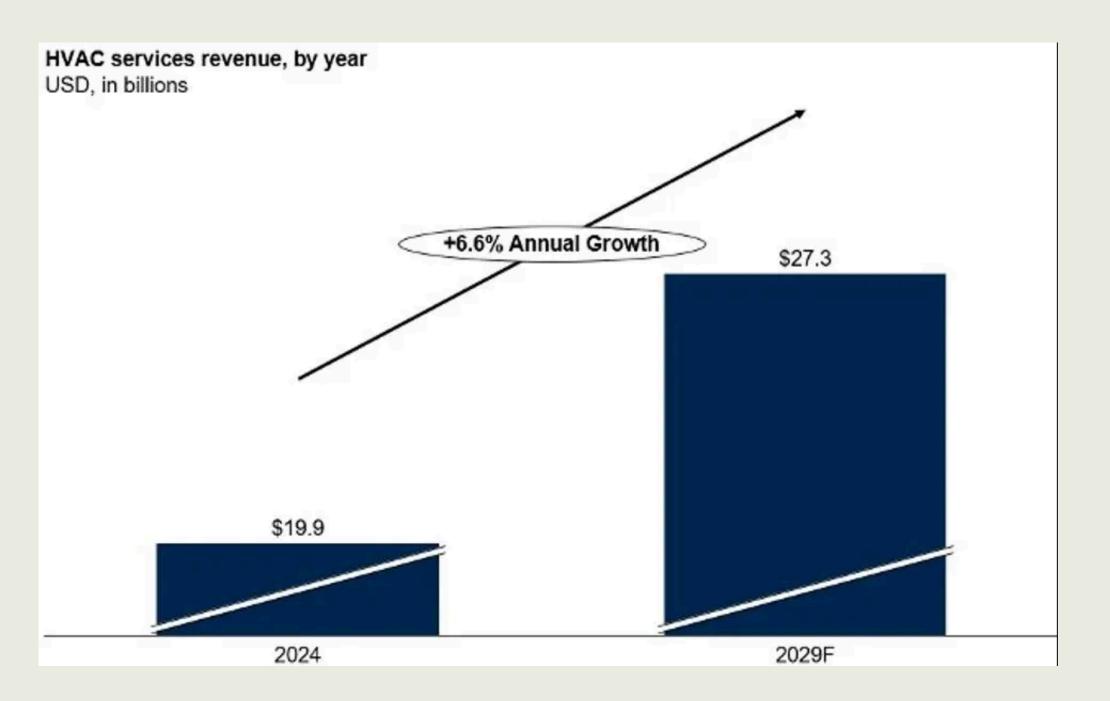
RECENT SURGE OF INVESTMENT INTO HOME SERVICES

COVID-19 Catalyzed Growth

COVID-19 drove a significant increase in demand during the late part of 2020 and into 2021. People were in their homes for a significant period of time. Heavy usage and home improvement projects resulted in large demand spikes from the public.

Technological Advancements

Recent advances in technology have provided consolidators with more tools to successfully grow businesses after acquisition. Field services softwares, applications on smartphones, newly developed financing platforms driven by fintech growth, artificial intelligence, etc.





PLATFORM APPROACH

Seed Investment

The first step in the development of a platform company is for the founders and seed investor(s) to align on the long-term vision of the organization. Build out framework for strategic hiring and an initial growth model.

Executive leadership team and initial acquisition

Hire key personnel to drive
the acquisition of an anchor
company. It is critical to
identify the right leaders who
are willing to get in the
trenches and commit to a
significant workload on the
front-end. After identifying
and purchasing an anchor
company, the platform is
officially formed and the focus
goes to scalability.

Building out a
team is critical
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Develop local leadership

Building out a local leadership team is critical. Driving growth with a strong culture, consistent returns, and a model that can be scaled is essential for success. Local leadership must be grown from the employees of the purchased company or individuals outside of the organization.

Fundraise and bolton acquisitions

Leverage the financial performance of anchor company/companies to raise capital from institutional investors. Strong financials and multiple acquisition targets under LOI (Letter of Intent) provide an attractive investment opportunity.

Repeat in new areas

Refine processes and apply to all platform companies.
Scalability is an essential when considering the ultimate goal of a consolidator is to be a nationally recognized brand with near uniform processes permating the organization.



LESSONS FROM HISTORY

- Private equity investment into home services during the 1990s resulted in widespread failure
 - Frenzied approach to buying as competition heated up
 - Lack of focus on company culture and retention of skilled tradesmen
 - Failure to recognize the frustrations shared by customers and technicians no attempt to bridge public perception gap
- Lessons from the past are being applied to avoid a similar outcome
 - Leveraging technology to increase efficiency and ability to share best practices amongst companies under a platform model
 - Focus on culture, retention, and career growth for employees
 - Recognition that the customer experience has been broken for a long time
 - This is the second most complained about industry in America behind auto sales



CIAG CONSULTING SERVICES

The private equity-owned home services industry relies on a wide array of consulting services. A few areas in which CIAG consultants help with:

- Product and Technology
- Al, programming, integrations
- Marketing
- Accounting
- FP&A
- Human Resources



Questions?

