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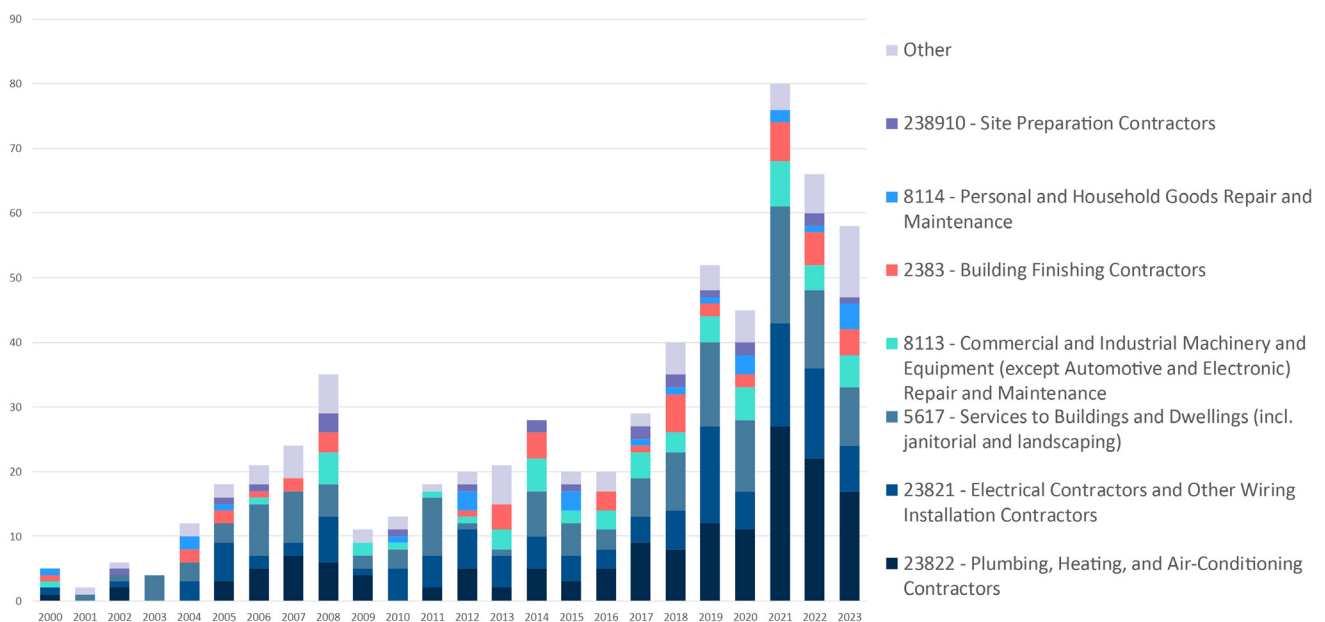
GLOBAL CONSULTING, STRATEGY AND M&A SERVICES

Private Equity's Growing Appetite for Residential and Commercial Services in 2024



Private Equity's Interest

Private Equity investment in residential and commercial services has nearly doubled in the last 5 years to ~210 business compared to ~110 the five years prior (2014-18)



Plumbing, heating, and air-conditioning contractors have seen the most activity (~30% of the last 5 years' transactions), followed by electrical contractors (~20%).

Drivers of PE interest in the space can be attributed to price inflation contributing to improved margins, labor supply constraints leading to robust backlogs, and the availability of bolt-on mom-and-pop acquisitions for continued growth. Moreover, these businesses require low capital expenditure given the limited need to invest heavily in equipment. Finally, many of these small service-based businesses can significantly benefit from basic operational improvements (professional talent management, IT systems, centralized marketing, etc.).



Risks of Investment

Overpaying for Immature Businesses: Many scaled (\$5M+ EBITDA) residential and commercial services businesses are trading for record-high multiples (15–18x). Some investors have been over-eager to break into these attractive markets and have paid these high multiples for businesses that lack the infrastructure to support continued growth. Experienced investors will ensure the asset has some of the basic infrastructure necessary to succeed:

- True financial systems (pricing, KPI measurements, profitability per job, etc.)
- Professional and scalable hiring, training, and onboarding systems
- Marketing systems to truly measure ROI
- Scalable procurement and ERP systems

Service Quality Deterioration: Maintaining service quality can be a challenge for these organizations as they scale. Especially as the organization scales through M&A, management teams must stay focused on excellent quality service and in identifying markets for high growth. Region-by-region diligence and management are required to ensure high service quality across locations. In multiple recent engagements, Ducker Carlisle found significant variance in service provider NPS ratings when speaking with customers across geographies. To mitigate the risk, private equity investors often establish clear performance expectations, invest heavily in bolt-on acquisition due diligence, and develop infrastructure for seamless integration.

Overextension: Some owners may be overly ambitious in their growth strategy by combining services or products that are either too distantly related or added too quickly. While customer relationships are sticky in these markets, trade professionals are often highly skilled in targeted services, so finding, training, and maintaining quality across services can be difficult. These industries heavily rely on reputation and Google/Yelp reviews, so poor service in adjacency can significantly hurt the overall brand. Experts suggest a slow and thoughtful approach can help mitigate this risk.



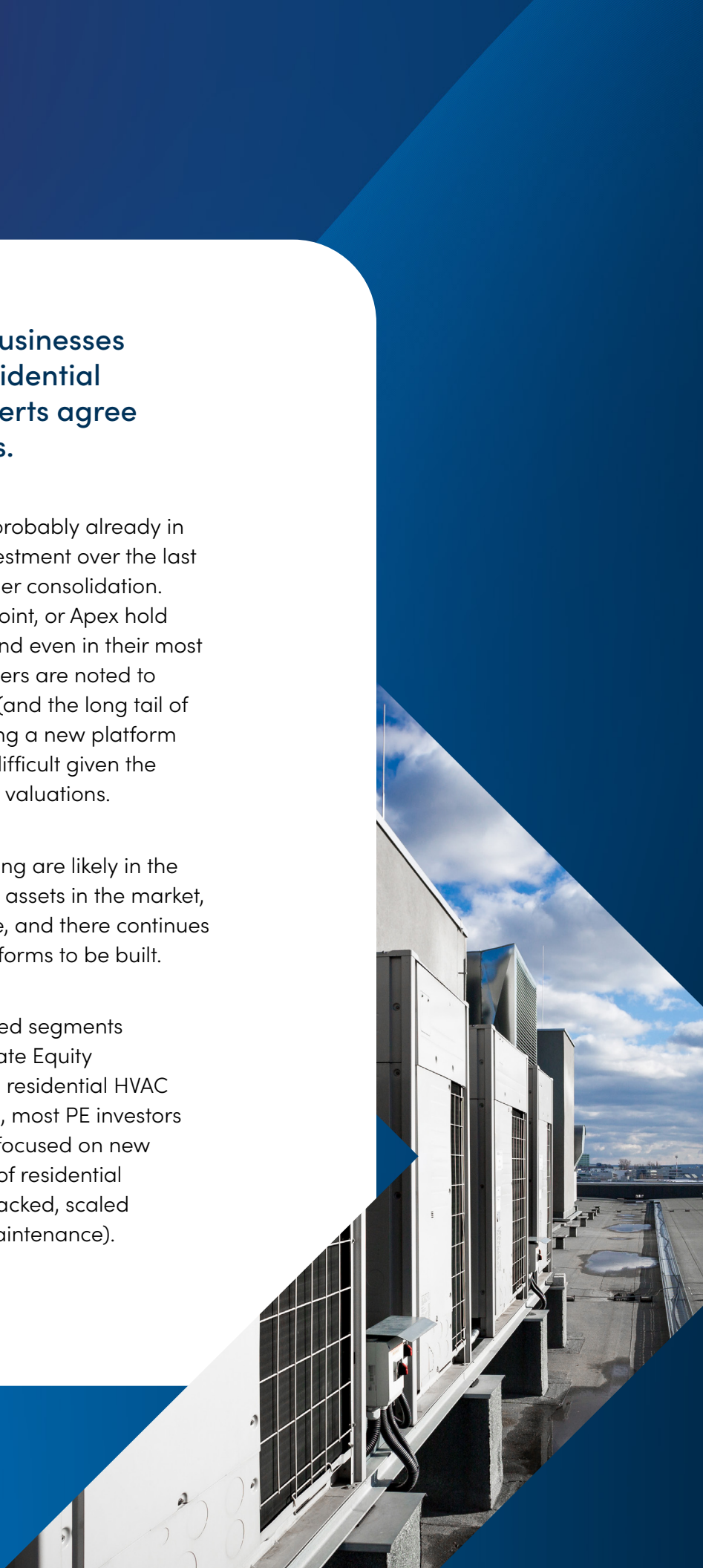
The Next Chapter

While multiple billion-dollar businesses have already been built in residential and commercial services, experts agree we are still in the early innings.

Even residential HVAC services, which is probably already in the 5th or 6th inning given significant investment over the last couple decades, still has runway for further consolidation. Market leaders like Wrench Group, Turnpoint, or Apex hold less than ~10% market share nationally. And even in their most consolidated markets, none of these players are noted to hold more than ~20% share. While these (and the long tail of others) will continue to gain share, building a new platform in residential HVAC would be especially difficult given the competitive bids on every asset and high valuations.

In contrast, segments like residential roofing are likely in the 2nd or 3rd inning. There are some scaled assets in the market, but the market isn't yet highly competitive, and there continues to be significant opportunity for new platforms to be built.

Additionally, there continue to be untapped segments of the market that don't have scaled Private Equity competition for deals. For example, while residential HVAC maintenance companies are competitive, most PE investors have stayed away from service vendors focused on new builds. Similarly, there are some pockets of residential and commercial services where no PE-backed, scaled assets have emerged (e.g., restaurant maintenance).



How Ducker Carlisle Can Support

Ducker Carlisle has supported dozens of transactions in these markets with targeted commercial due diligence and strategy & operations engagements. We have multiple VoC-only add-on focused programs going on in these spaces today, and constantly run market studies across many of the most attractive segments, including:

- HVAC services
- Roofing services
- Energy efficiency services
- Event structure installation and management services
- Generator services
- Dock and door installation and maintenance
- Industrial cleaning and maintenance
- Pool and spa services
- Lawn care / landscaping
- Plumbing
- Electrician services
- Garage door services
- Pest control services
- Electrical testing
- Engineering services, testing, and calibration

Sources: S&P CapIQ, PreQin, interviews with investors and operators in residential and commercial services

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