

Available for Acquisition

HVAC RETAIL & SERVICE DIVISION DIVESTITURE

**Serving the
Residential Replacement & Service
Markets in the Mid-Atlantic
Region**



FYE October 2023 Revenue: \$8.7MM

Mid-Atlantic Region

FYE 2023 EBIT: \$1.8MM

Overview: The Owners of a leading regional company and one of the largest providers of HVAC, plumbing and electrical services to the new construction markets in its service area (the “Parent Company”), have decided to divest their retail replacement and service divisions (the “Divisions”). This is being done to unlock the “hidden value” of these Divisions that are currently consolidated into the larger Parent Company. The Divisions operate very independently from the Parent Company whose sole focus is new construction for the residential and commercial markets. The Divisions are each led by seasoned General Managers and possess all the technical knowledge, capabilities, and experience to continue operating successfully once carved out from the Parent Company. In fact, the Owners believe that the prospects for the Divisions will be enhanced once they are operating independently from the Parent Company. The Owners have not always been supportive of the growth opportunities available to these Divisions. There is a significant opportunity for the Divisions to more aggressively market the large installed base of thousands of former new construction customers of the Parent Company. Under new ownership, the Divisions will benefit from being a part of an organization that shares their retail and service focus and culture.

The Retail Division: The Retail Division was started in 1988 with the goal of building a residential replacement business for the Parent Company’s HVAC service capabilities and more recently, beginning in 2005, the installation of whole-home standby power generators. Presently, the Retail Division has 14 full-time, non-union employees and maintains a fleet of 14 vehicles. The Division also employs 4 outside salesmen. During the fiscal year ending October 31, 2023, the Retail Division installed 672 HVAC replacement systems at an average dollar sale of \$6,735 and, sold 54 whole-home generators at an average dollar sale of \$13,017. In addition to its residential replacement business, the Retail Division sold 105 commercial replacement units during fiscal year 2023 at an average dollar sale of \$8,003. Management views the commercial replacement business to be an area of potential significant growth that could be aggressively marketed with little additional manpower required. For the period, the Retail Division had a total of \$6.126 million in total revenues. Gross margins on these sales are strong and average about 35%. A significant percentage of the Retail Division’s business is repeat business with existing retail customers (estimated to be about 51%) as well as referral business from existing customers (estimated to be about 21%).

The Service Division: The Service Division began selling service contracts in 1979 in conjunction with an aggressive marketing campaign by the Parent Company for replacement business. The Service Division maintains a fleet of 17 specially equipped service trucks and teams of service employees ready to respond to customers’ calls. In addition, the Service Division maintains a warehouse of stock parts and equipment to expedite emergency service requirements. Presently, the Service

Division has 18 full-time, non-union employees. For the fiscal year ending October 31, 2023, revenues generated from homeowner service were \$2.6 million. Revenues were split between contract repair revenues of \$1.5 million and service contract revenues of \$1.1 million. Presently, the Service Division has approximately 3,650 service contracts generating an average dollar sale amount of \$275 per year. Gross margins on the division's service business are strong and average about 45%.

Combined Financial Recap:

<i>Fiscal Year Ending October 31st**</i>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Revenues	\$9,401,492	\$9,296,180	\$8,720,697
Direct Cost of Revenues	(\$5,908,160)	(\$5,717,626)	(\$5,254,723)
Gross Profit from Operations	\$3,493,332	\$3,578,554	\$3,456,974
Gross Profit Margin	37.2%	38.5%	39.7%
Indirect Costs & Operating Expenses	(\$2,811,335)	(\$2,739,406)	(\$2,828,514)
Income from Operations	\$681,997	\$839,148	\$637,460
Corporate Overhead Addback	\$759,746	\$1,259,857	\$1,405,983
Adjusted Income from Operations	\$1,441,743	\$2,099,005	\$2,043,443
Estimate Standalone Costs:			
Rent Adjustment	(\$40,000)	(\$40,000)	(\$40,000)
Support Staff Adjustment	(\$75,000)	(\$75,000)	(\$75,000)
Benefits	(\$100,000)	(\$100,000)	(\$100,000)
Total Standalone Costs	(\$215,000)	(\$215,000)	(\$215,000)
Standalone Income from Operations	\$1,226,743	\$1,844,005	\$1,828,443
	13.0%	20.3%	21.0%

***Compiled from the Company's Reviewed consolidating financial statements*

Shared Services: The Service Division provides start-up services to the Parent Company's new construction customers. Historically, the amount of revenue derived from these start-up services has averaged about \$10,000 - \$15,000 per month and is a monthly intercompany transfer. In addition, the Service Division provides the Parent Company with one-year warranty services on all new construction. Historically, the Service Division has not received any intercompany transfer for these services. After the one-year warranty expires, the Service Division is free to target the homeowner to sell its extended service plan. It is estimated that for the last fiscal year ending October 31, 2023, the amount of revenue attributed to providing warranty services was \$197,000. Going forward, it is envisioned there will be a Shared Services Agreement between the Divisions and the Parent Company giving the Divisions a right of first refusal on all start-up and warranty service business, for a predetermined and mutually agreed fixed payment. In addition, there are certain corporate services provided by the Parent Company (i.e. accounts receivable, billing and collection, accounts payable, purchasing, payroll). The Owners are flexible to work with new owners to ensure that there is a continuity of Parent Company service support for the Divisions that is based on a mutually agreed plan.

**For more information, on Client #22303CO please
Sign & Return a Confidentiality Agreement**

eMerge M&A

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