ROOFING SERVICE INDUSTRY:
2023 MARKET OVERVIEW

The roofing service provider market is poised to benefit from several growth factors making it an increasingly attractive investment opportunity for private equity partners. FMI's consulting and investment banking teams have a long history of providing value-added advisory services and market intelligence to participants in the roofing services sector.

KEY TAKEAWAYS

Demand for reroofing service, which is 74% of total roofing service spending, is largely nondiscretionary and driven primarily by leaks, deterioration and weather damage.

The roofing industry is resilient to economic downturns. Often service and maintenance spending increases during these times, creating additional opportunities that tend to have higher gross margins.

A large portion of the installed base of both residential and nonresidential buildings, including large warehouse and distribution facilities, is expected to be nearing or at the point of replacement over the next decade.

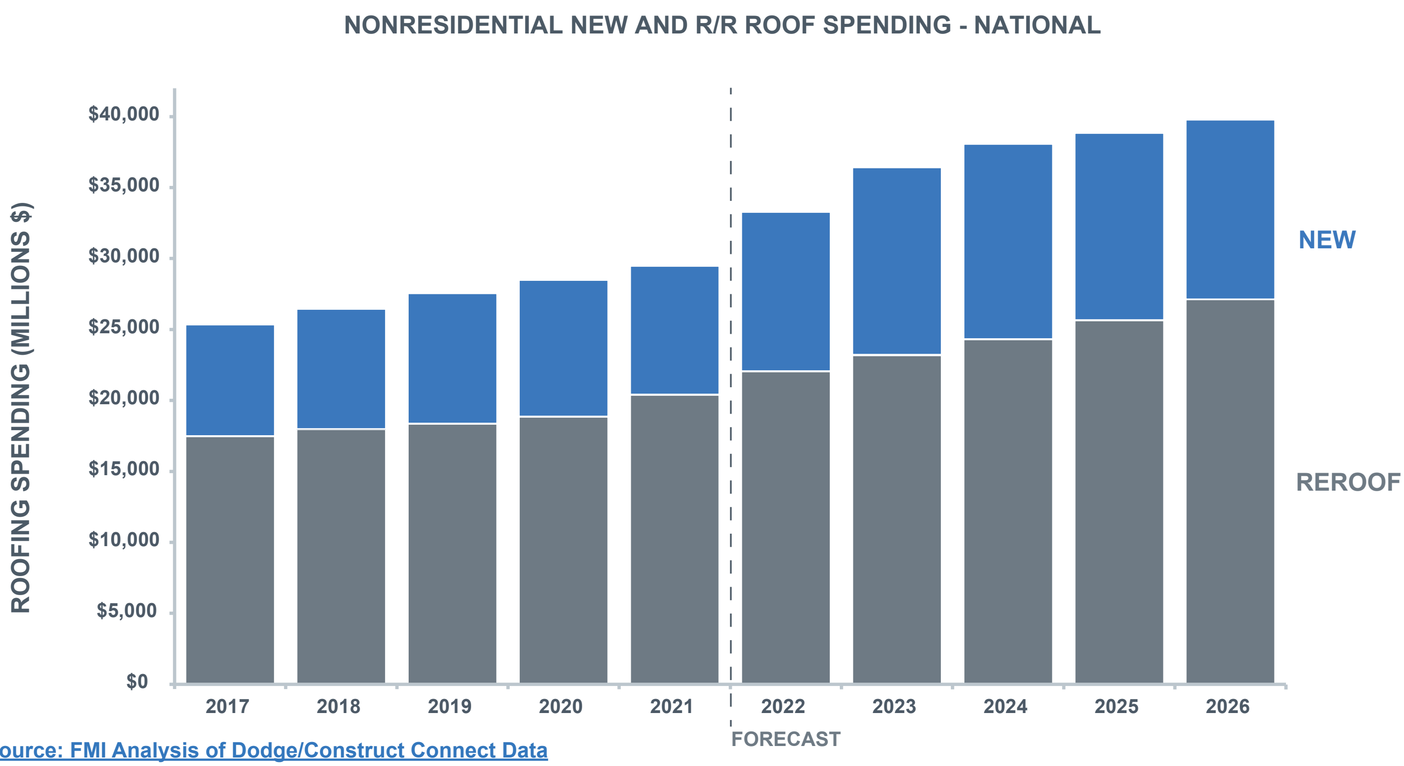
The competitive landscape for service providers is highly fragmented and ripe with opportunity for consolidation and creation of value through professionalization, service line expansion and scale.

Strong platforms allow for both geographic expansion as well as growth into ancillary services that leverage an existing customer base.

NONRESIDENTIAL MARKET OVERVIEW

MARKET OPPORTUNITY

Nonresidential roofing spend is primarily driven by reroofing services, which accounted for roughly 74% of the total $28.4 billion spent in 2021. Total roof spending is forecast to grow at a compound annual growth rate (CAGR) of 5.1% through 2026, above the 4.1% CAGR from 2017 to 2021. This is primarily driven by a growing number of institutional facilities nationwide and the increasing size of nonresidential buildings.



Source: FMI Analysis of Dodge/Construct Connect Data

Demand for nonresidential roofing services demonstrates resilience through different economic cycles. Nonresidential roofing spending remained stable throughout the Great Recession in 2008. Despite a slight decrease in new roof spending, the annual spending in repair, renovation and service increased in 2008 and each of the following five years. This underscores the importance of roofing needs and the degree to which demand for roofing services was insulated from economic challenges.

Nonresidential roofs have rigorous safety and compliance standards and are expected to see an increase in demand despite recessionary concerns. Property owners typically are unlikely to delay roofing maintenance, but ultimately elect to address underlying issues to prevent more costly damage in the future. This creates a favorable environment for roofing service providers to service a repair and renovation market that operates against the grain of new construction cyclicality.

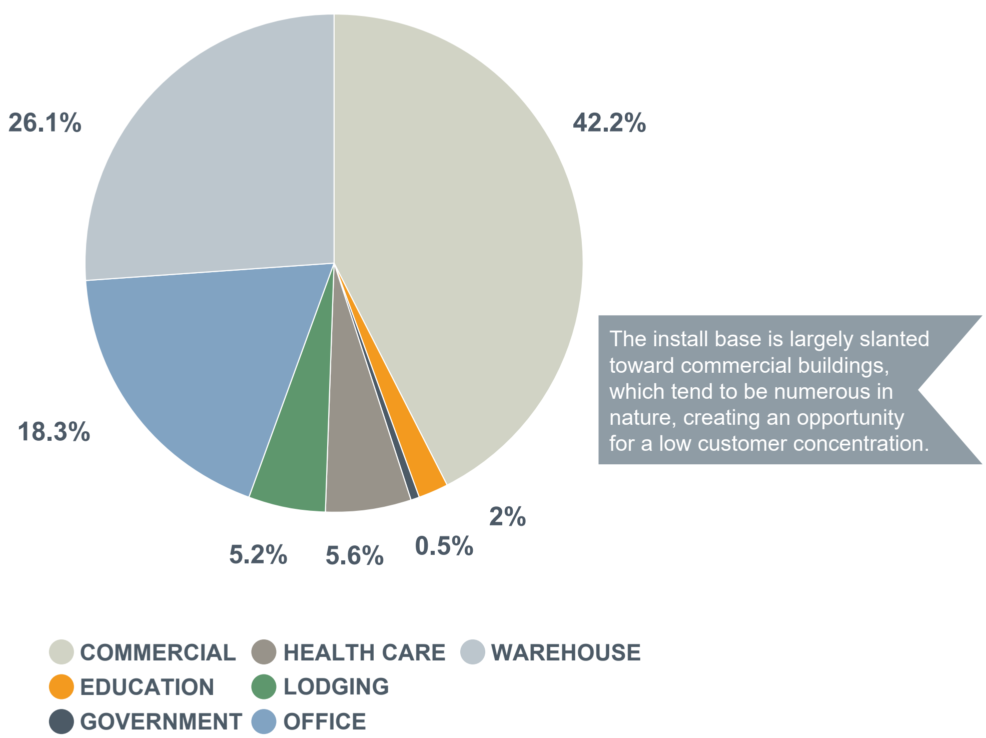
There are additional certifications unique to the nonresidential market that service providers obtain in order to offer warranty plans, which are a driver of loyalty among customers. These certifications provide warranties to customers as well as opportunities for ongoing maintenance from service firms. This dynamic is particularly evident in owner-occupied segments where owners are making purchasing decisions based on both the roofing system and the reliability and reputation of the service provider, as seen in the institutional segments.

AGING INSTALL BASE

FMI estimates that nearly 50% of the total U.S. nonresidential roofing square footage was constructed in the last 20 years. This represents the rapid growth of nonresidential building space and therefore the addressable market opportunity for roofing service providers. There was 5.9 billion square feet of space constructed between 2000 and 2009, the largest of any decade and comprising 28% of all existing space.

Commercial spaces constitute the largest portion of existing roofing area, roughly 42% of current square footage. The next largest end segment is warehouses, comprising 26%. The growth in warehouse and distribution facilitites is driving opportunities for investors.

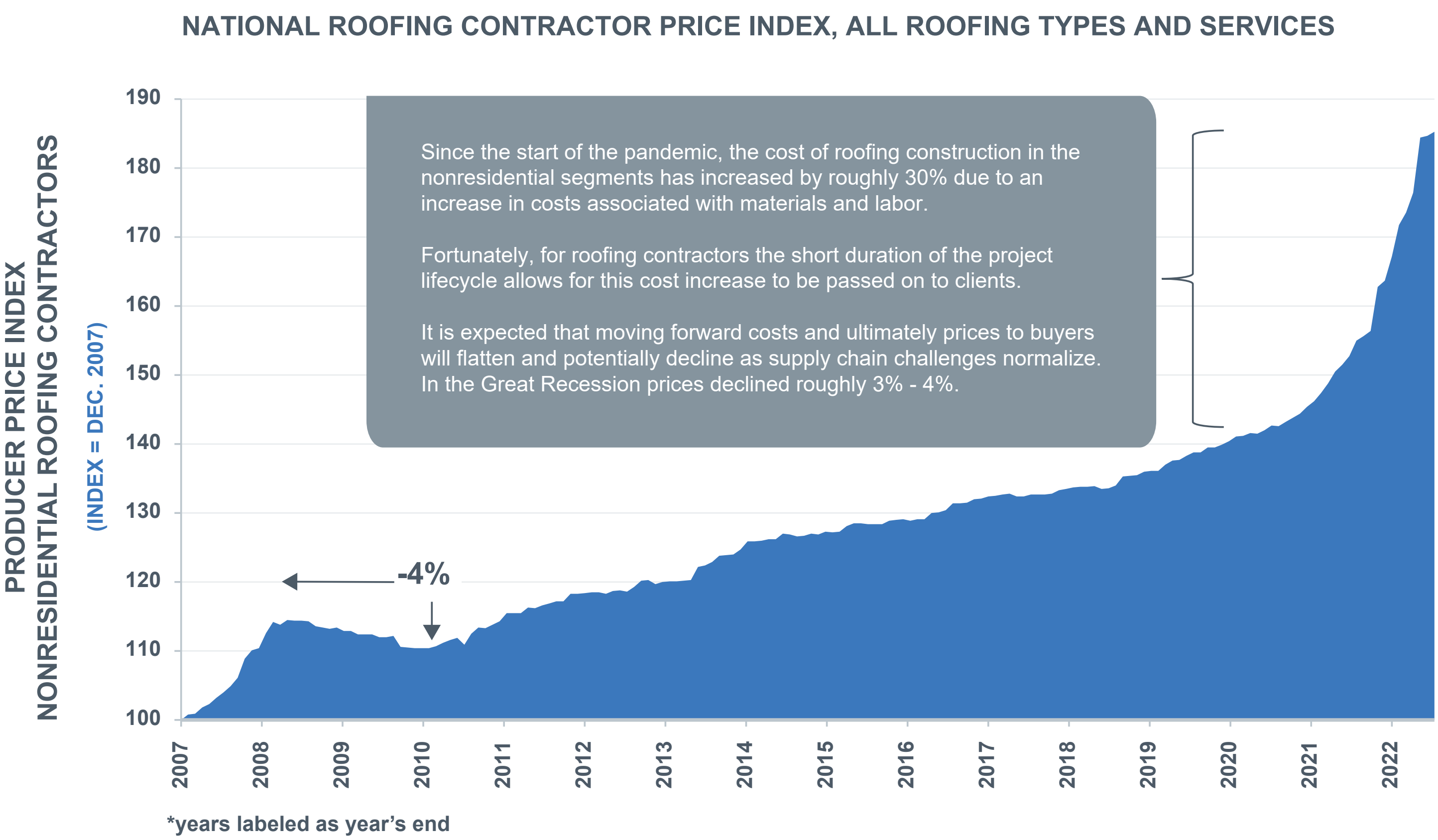
AVAILABLE NONRESIDENTIAL ROOFING AREA – TOTAL UNITED STATES



[Source: Commercial Building Inventory, NREL.]

This is particularly prevalent across the southeastern U.S., which has attracted considerable investment in industries that utilize low-slope commercial roofs, including distribution facilities, electric vehicle plants, data centers and advance manufacturing facilities for products such as semiconductor chips. Roughly 40% of all available nonresidential roofing space is in the South. Legislative environments that foster favorable tax environments for land and labor usage are incentivizing investment in large-scale properties going forward.

ROOFING SERVICE PROVIDER SNAPSHOT



Source: St. Louis Fed.

Supply chain issues stemming from the pandemic resulted in material shortages, pushing up the prices of raw materials needed for repair and renovation jobs. In addition, a tight labor market created a complex environment for business owners to navigate. The producer price index for roofing service providers skyrocketed to a peak in October 2022, 34.8% higher than in January 2020 before the onset of the pandemic closures.

Many roofing service providers passed on price increases to customers but maintained a high job pipeline and backlogs. As of 2021, roofing service provider profit increased to 33.4%, which is the highest in nearly two decades. This is 2.6% higher than the 2020 profit and 3.5% higher than in 2019.

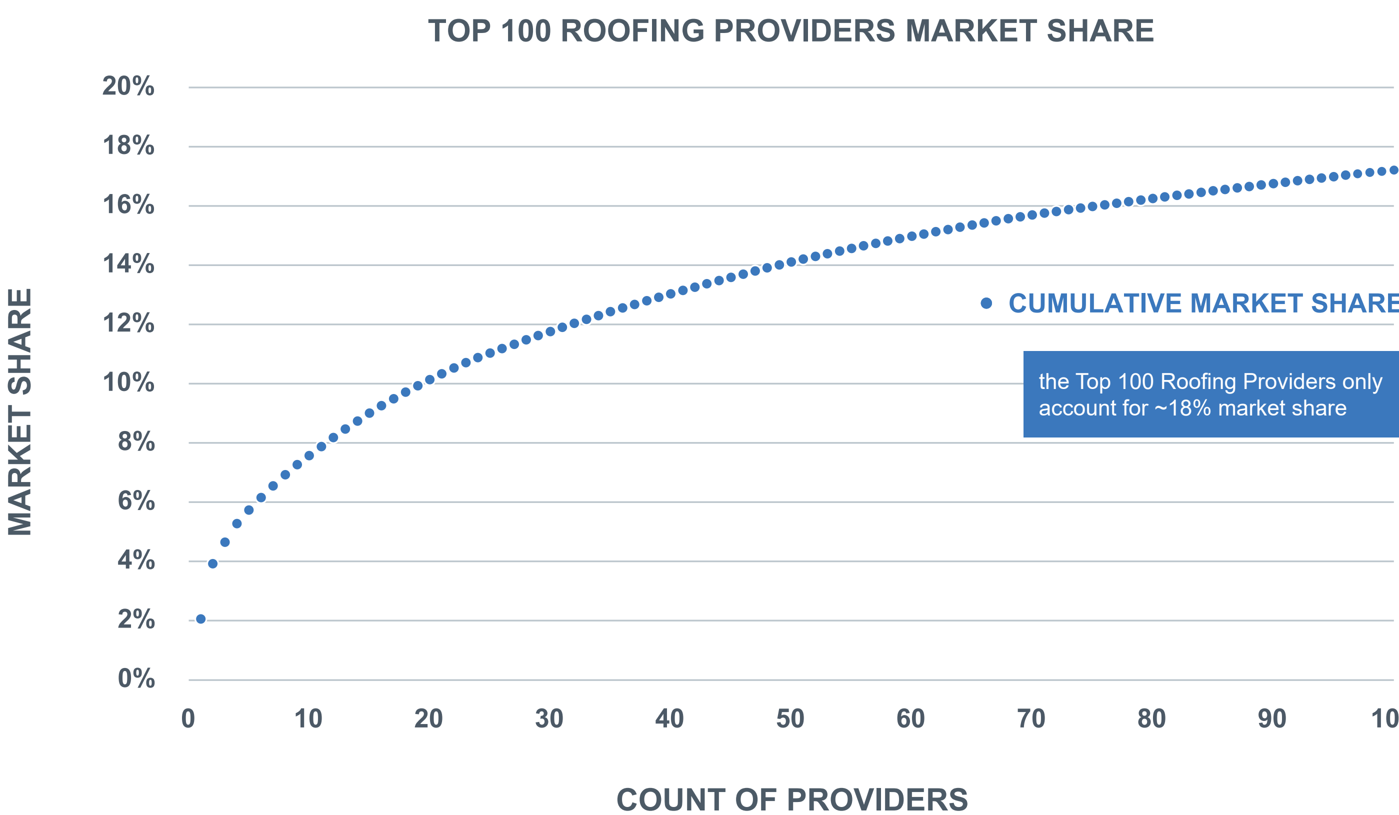
FRAGMENTATION OF NONRESIDENTIAL SERVICE PROVIDERS

The nonresidential roofing service provider market is highly localized, resulting in extreme fragmentation and competition. Large nonresidential roofing service providers strike long-term agreements with property managers to be the sole repair and maintenance provider on their portfolio of properties, typically referred to as an asset management plan. This provides recurring revenue and strong relationships for geographic growth. This allows larger players to leverage their resources to compete with the vast number of local firms that tend to have deep-rooted relationships, giving them an advantage in their markets.

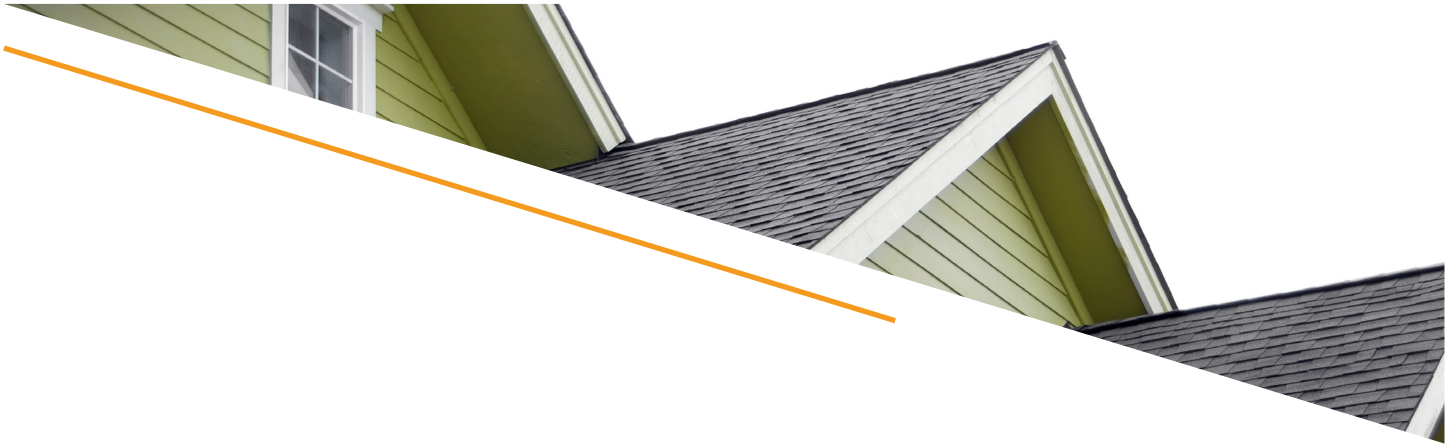
The National Roofing Service Contractors Association (NRCA) represents roofing service providers, manufacturers and distributors, and it estimates that there are roughly 100,000 roofing companies in the U.S. The top 100 service providers by revenue are estimated to comprise roughly 17% of the total spend for both repair and renovation as well as new roofing. This illustrates the low concentration of market share for any one group of providers.

There is further segmentation between local and national service providers by roofing service. Large national service providers tend to focus on new roofing opportunities, given the scale and value of large nonresidential projects.

Local nonresidential service providers more commonly prioritize ongoing maintenance and repair services. The repair and renovation markets are highly fragmented at the regional level where service providers develop relationships with nonresidential property owners to provide services on an ongoing basis. The opportunity for roofing service providers to develop recurring revenue streams through ongoing maintenance plans with leading property managers is attractive from an investment standpoint.



Source: FMI Analysis

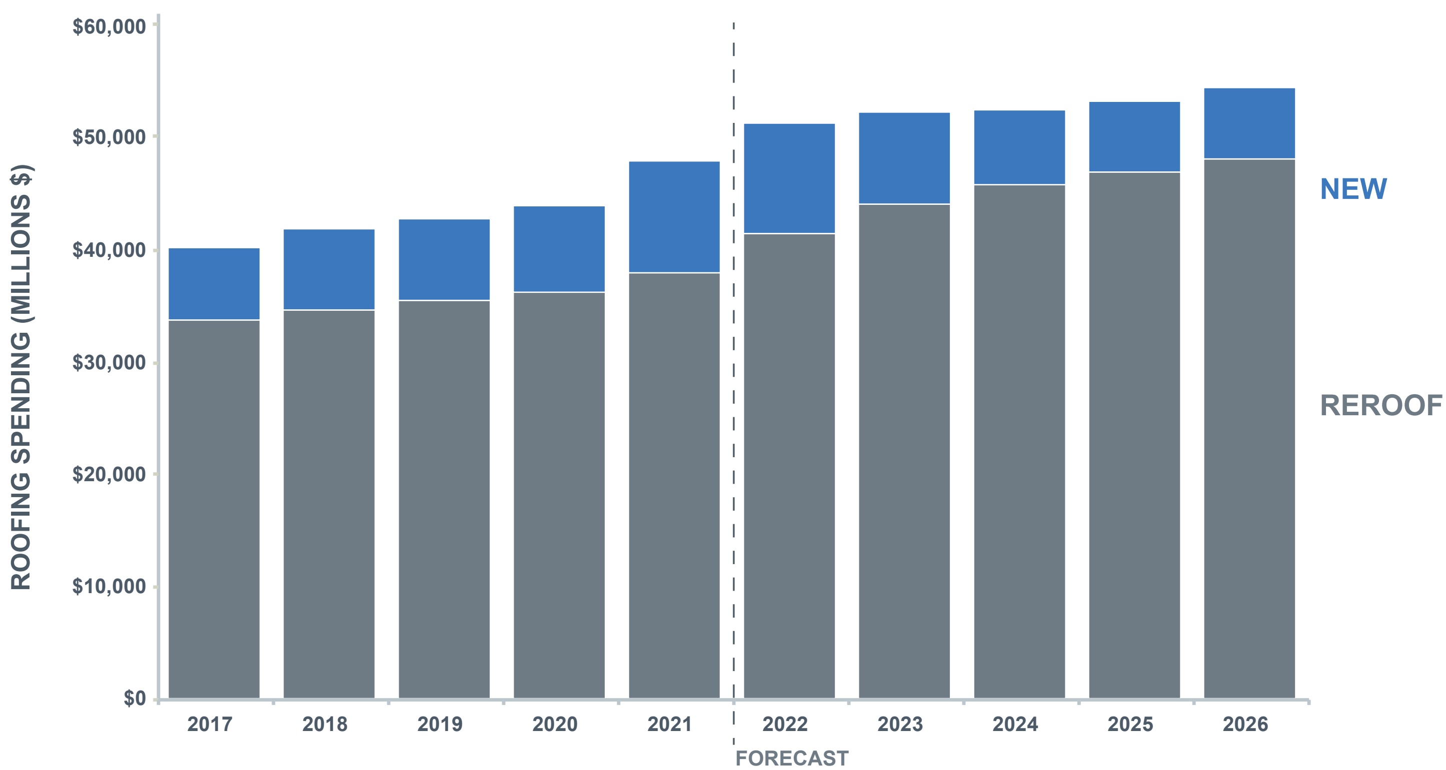


RESIDENTIAL MARKET OVERVIEW

MARKET OPPORTUNITY

Residential roofing spend is primarily driven by reroofing services, which accounted for nearly 70% of the total $34.9 billion spent in 2021. This is attributed to a large and aging install base of homes and representative of the high cost of repairs for roofs. Total roof spending is forecast to grow at a CAGR of 3% through 2026, slightly below the 7% CAGR from 2017 to 2021. The moderate decline in roof spending aligns with an anticipated slowdown of new housing starts over the short to intermediate term.

RESIDENTIAL NEW AND R/R ROOF SPENDING - NATIONAL



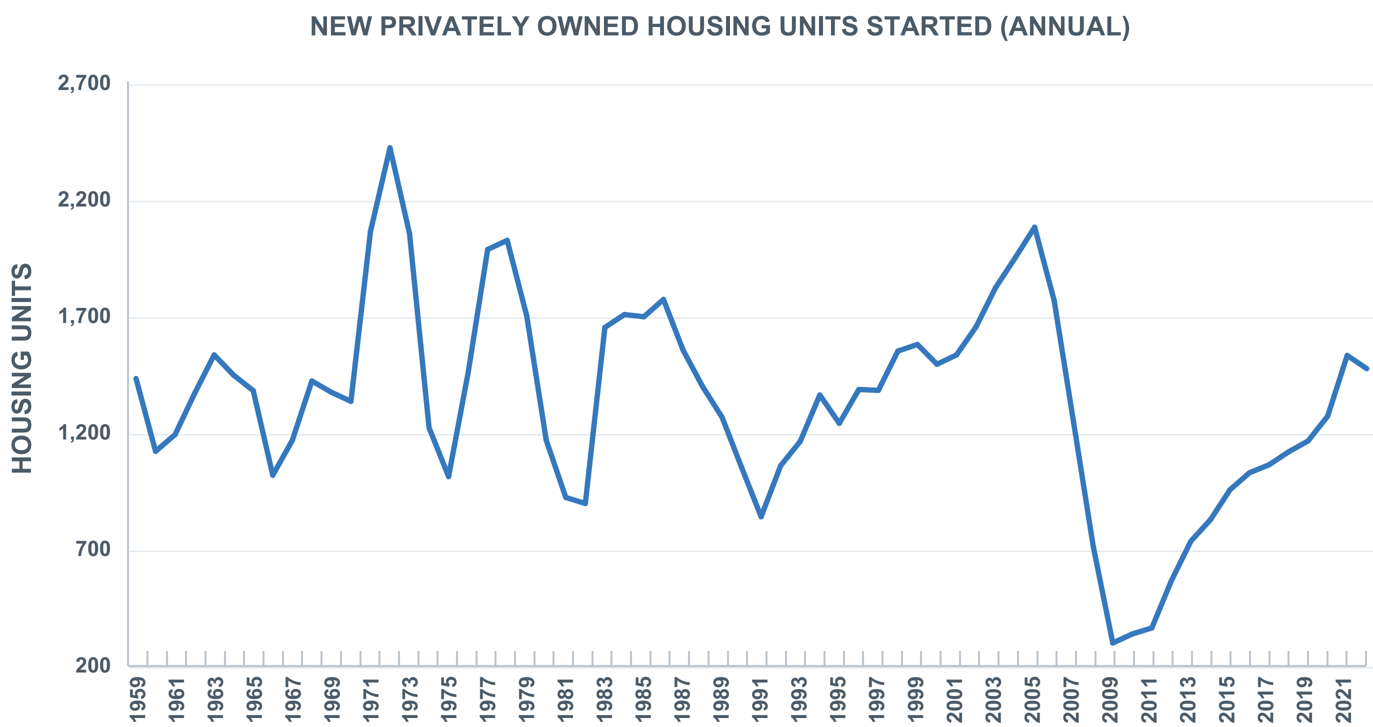
Source: FMI Analysis of Dodge/Construct Connect Data

RESIDENTIAL INSTALL BASE IS GROWING AND AGING

The market for U.S. residential roofing service providers is primarily driven by reroofing services. Growth of new housing starts increases the serviceable base of homes across the country. As the installation base increases and continues to age, a favorable environment for service providers develops. New residential and multifamily construction is included in total new housing starts that have fluctuated over the last several decades.

According to the U.S. Census Bureau, the number of new housing starts peaked in 1971 at 2.4 million homes. That number dipped to a low of 554,000 in 2009 after the collapse of the housing market. Since then, housing starts have been steadily increasing to 1.55 million in 2020.

While the number of new homes on the market has declined from highs, the size of new home builds is growing. From 1978 to 2021, the median size of single-family houses increased 37% to 2,273 square feet from 1,655 square feet. The median size of a home increased from 2,057 square feet to 2,273 square feet from 2000 to 2020 alone.

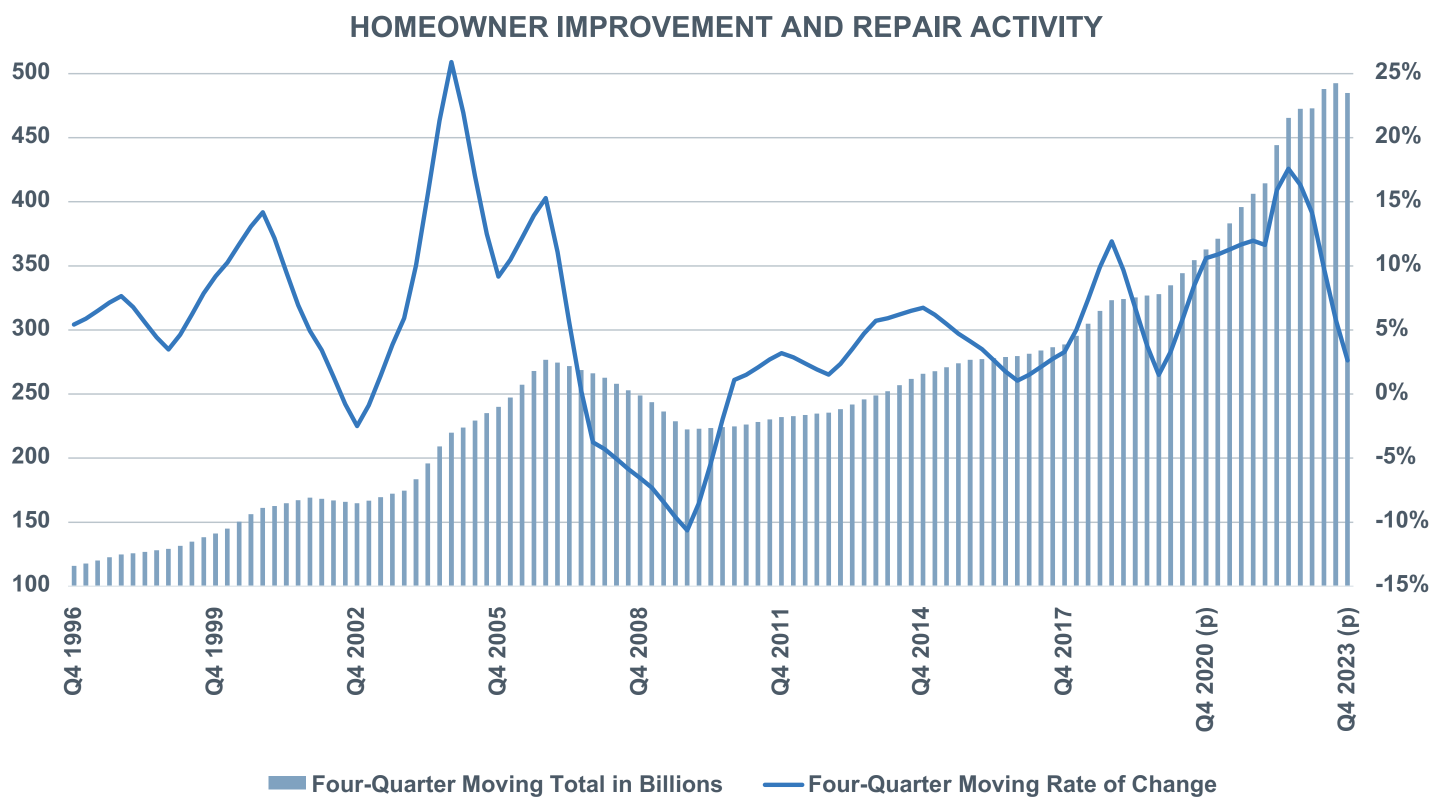


Source: US Census

RESIDENTIAL REPLACEMENT IS NON-DISCRETIONARY

Data from the American Housing Survey indicates that homeowner improvement and repair activities have nearly doubled since 2019 and increased 44% since the onset of the COVID-19 pandemic in the first quarter of 2020. Homeowners are increasingly investing in improvement and repair activities as these assets age and require more maintenance.

Residential roofing maintenance and repair represents an attractive market from a resiliency standpoint due to the critical nature of a home's roof. Owners may delay roofing repair in the near term due to cost but ultimately need to address the underlying issue, particularly if it is damaged or leaking. Any deferment that occurs in the next several years will create a backlog of demand in the next two to three years. According to a 2021 American Housing Survey, nearly 7.6 million respondents reported a roofing project. The median cost was $8,000 while the mean was slightly higher at $9,714.



Source: FMI Analysis

Notes: Historical data through 2021 are JCHS estimates based on American Housing Survey data. Historical estimates since 2021 are produced using the Leading Indicator of Remodeling Activity model until new AHS benchmark data becomes available. Projections (p) are produced by the LIRA model.

In addition to the aging housing stock, increasing consumer interest in energy-efficient and eco-friendly roofing solutions is driving demand for roofing services. According to a survey conducted by the Metal Roofing Alliance, 90% of homeowners believe that energy efficiency is essential when considering a new roof.

This trend has led to growing demand for roofing materials such as solar panels, green roofs and reflective roofing materials. Sustainable building practices often involve the use of energy-efficient roofing materials and the installation of green roofs, which require specialized expertise. As more builders and property owners seek to reduce their environmental impact, roofing service providers that specialize in sustainable roofing solutions will be in high demand.

INCREASING WEATHER-RELATED REPLACEMENT

Unexpected damages from weather or other natural disasters are another driver of demand for roofing maintenance. Natural disasters such as hurricanes, tornadoes, floods and wildfires can cause extensive damage to residential and nonresidential properties, particularly to their roofs. According to a report by the National Oceanic and Atmospheric Administration (NOAA), the U.S. experienced 22 separate weather and climate disasters in 2020, each with losses exceeding $1 billion.

The impact of insurance claims on the roofing service provider market can vary depending on several factors. For example, if insurance companies increase deductibles or limit coverage for roof damage, property owners may opt to postpone or forego repairs. In some cases, there may be a shortage of service providers available to handle the volume of repair and restoration work needed. This can result in higher prices for roofing services and longer wait times for property owners seeking repairs.

Insurance claims related to such disasters can significantly impact the demand for roof repair and maintenance services. In 2020 insurance companies paid out more than $20 billion in claims related to natural disasters, according to the Insurance Information Institute, many of which included coverage for roof damage. Insurance companies often work with preferred service providers and vendors to complete repairs. Service providers that specialize in storm damage repair and have experience working with insurance companies may have a competitive advantage over those that do not and often receive a steady stream of business from insurance companies.

FRAGMENTATION OF RESIDENTIAL SERVICE PROVIDERS

The residential service provider market is even more fragmented and competitive than the nonresidential market, particularly for maintenance and repair. A significant number of local firms address most of the reroofing service demand for houses. As a result, competition is high, and service providers need to differentiate their brands and service capabilities.

Marketing is a critical component at the local level where reputation and referrals are the biggest drivers of business. Local service providers typically rely heavily on search engine optimization (SEO) strategies and attractive branding to differentiate themselves. Evolving firms are also learning to adopt technology to be differentiated in their project management and operations as well as how they interact with clients.

Technology is also creating value in terms of speed to bid projects and greater operational efficiency in this process. The ability to adopt these differentiating characteristics provides advantages to larger firms and an attractive platform to offer additional exterior home services. Customers place high value on service providers using convenient technology that gives more transparency throughout the construction process. Examples include progress dashboards and site pictures.

EMERGING PRIVATE EQUITY INTEREST IN ROOFING SERVICES

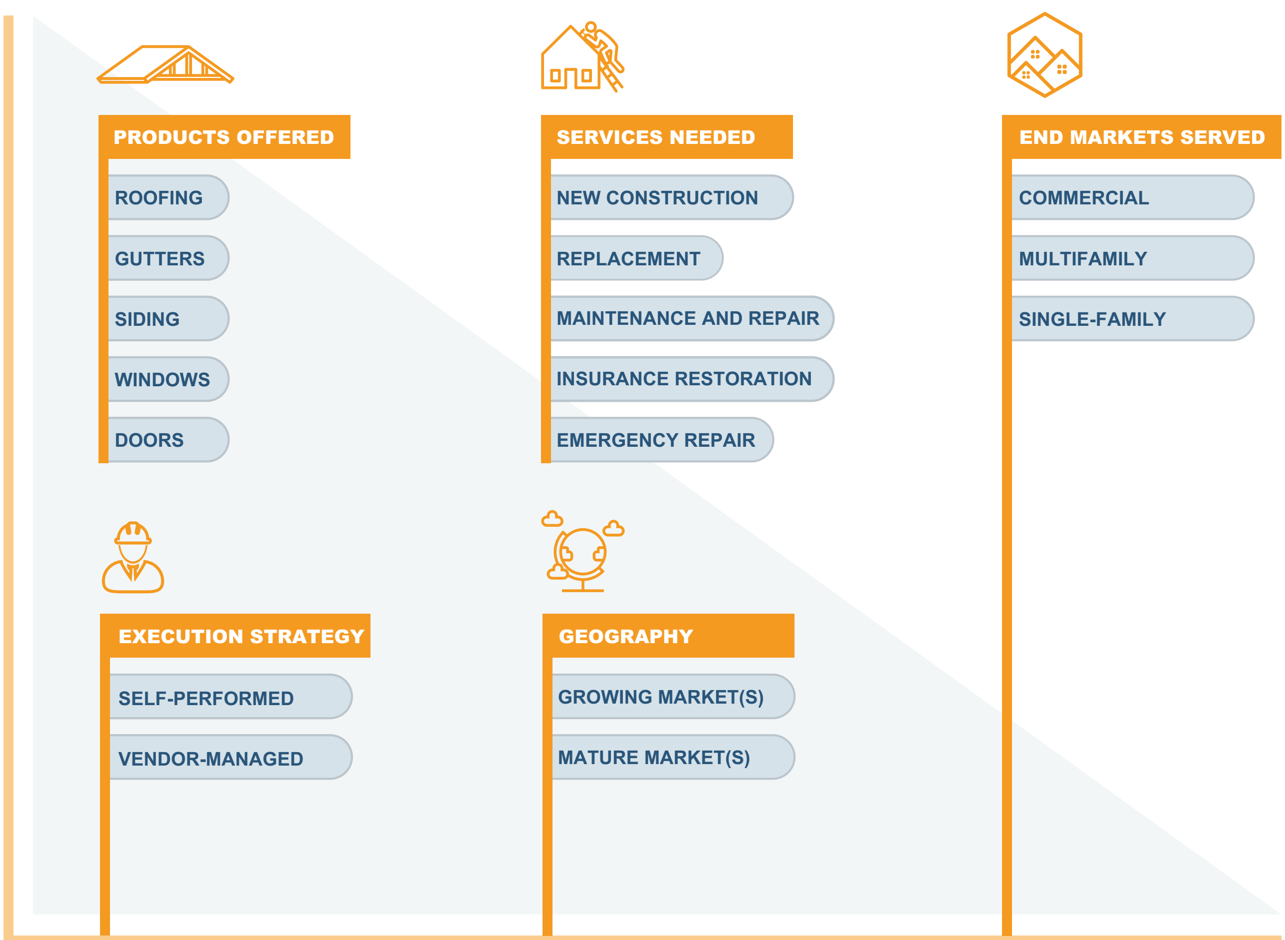
Private equity investing in roofing services has accelerated in recent years. Investors are seeking to capitalize on the fragmentation of the industry and on the highly nondiscretionary demand characteristics of both nonresidential and residential maintenance and reroofing services.

In addition, the roofing services industry is an analog to other nonresidential and residential services areas such as heating, ventilation and air conditioning services (HVAC), plumbing and landscaping, which have seen numerous highly successful private equity investments over the past two decades. Thus, PE investors have increasingly looked to successes in these adjacent areas and concluded that they offer a well-defined and replicable playbook for success in roofing services.

While initial PE platforms in the sector were broad in their strategies, PE buyers have increasingly focused on growing within specific capabilities.

These include:

- Residential (predominantly steep-slope) versus Nonresidential (predominantly low-slope)
- Insurance (i.e., storm work) versus Retail (i.e., noninsurance, non-storm-related replacement and repair)
- In-house labor versus subcontracted labor (i.e., vendor-managed, asset-light)
- Roof only versus other exterior products (more common in residential)



GENERAL VALUE-CREATION OPPORTUNITIES IDENTIFIED BY PE BUYERS HAVE BEEN:

- Enhancing purchasing economies through scale.
- Leveraging scale to win national accounts work from both property owners and property managers.
- Professionalizing operations, including:
  - Implementing SEO strategy.
  - Building the brand.
  - Leveraging technology to enhance bidding and execution.
- Growing revenue by capturing additional exterior product spend as well as ancillary service revenue.

KEY RECENT PE TRANSACTIONS INCLUDED:

- Infinity Home Services/LightBay Capital and Freeman Spogli
- Ashco Exteriors/Undisclosed PE buyer
- Highland Roofing/HCI Equity Partners
- Patuxent Roofing/New State Capital Partners
- Eskola Roofing/Eagle Merchant Partners
- Stronghouse (fka Capital Construction)/O2 Investment Partners
- Legacy Restoration/Bessemer Investors
- Progressive Roofing/Bow River Capital
- Premier Roofing/Aurora Capital Partners
- Apple Roofing/Gauge Capital
- Northpoint Roofing Systems/Halmos Capital
- Morgan Stanley Capital Partners/Allstar Services

SUMMARY

The outlook for nonresidential and residential roofing service providers is positive, given multiple underlying demand drivers such as the aging install base and growth in new building starts. Roofing service providers operate in a fragmented market that varies by geography. As a result, several important questions may be posed by investors:

- How resilient is demand for roofing services?
- Is our target competitively positioned in the marketplace?
- What are the outlook and local market dynamics related to the target?
- What drives stickiness or loyalty among customers?
- What are the available opportunities for growth specific to an asset?
- What is the runway for additional and additive value of a combined platform?

Navigating the roofing service provider landscape can be challenging. Learn more about how FMI can provide strategic insight into acquisitions in the roofing space to equip investors with tools to make an informed decision and create value.

ABOUT THE AUTHORS

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Paul Giovannoni's focus at FMI is partnering with private equity firms to assist in developing strategic insights into businesses and market opportunities within the built environment. Paul concentrates on providing commercial diligence studies to support transactions in the industrial sector as well as post-close value creation activities by leveraging FMI's deep relationships in the industry and a nuanced understanding of how businesses in the sector operate and win. He can be reached at ***paul.giovannoni@fmicorp.com***

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FMI is a leading consulting and investment banking firm dedicated to serving companies working within the built environment. Our professionals are industry insiders who understand your operating environment, challenges and opportunities. FMI's sector expertise and broad range of solutions help our clients discover value drivers, build resilient teams, streamline operations, grow with confidence and sell with optimal results.

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