

COMPANY DEEP-DIVE

Owner of Regional Foundation & Crawlspace Repair Sees Strong Management and Customer Understanding as Keys to Growth

DATE PUBLISHED	INTERVIEW DATE	EXPERT PERSPECTIVE	ANALYST PERSPECTIVE
10 Jul 2024	11 Apr 2024	Consultant	Investor-Led (Buy-Side)

PRIMARY COMPANY

TOTAL BASEMENT FINISHING

Summary

The conversation between the client and the Owner of Regional Foundation & Crawlspace Repair provided insight into the company's growth, services, and unique business model, emphasizing the importance of a strong management team for future expansion. The discussion highlighted regional variations in foundation repair work, with piercing being a permanent solution and waterproofing being a critical component for ongoing revenue. The conversation also focused on the ongoing service component of waterproofing work, revenue distribution between initial work and ongoing service, industry challenges and opportunities, the impact of financing on the industry, and customer motivations for seeking foundation repair services, with the Owner emphasizing the importance of understanding customer needs and addressing foundation issues promptly.

TABLE OF CONTENTS

Company Overview And Recent Performance

Business Model And Service Approach

Foundation Repair Processes And Techniques

Waterproofing Services And Revenue Streams

Market Trends And Economic Impact

EXPERT BIO

INTERVIEW TRANSCRIPT

Client ▶ 00:00:00

Thank you for taking the time to speak with us today about the foundation repair space. To start off, I would love to hear a little bit more about the company you're at. I believe it's Regional Foundation. I would love to just hear a little bit more about what you guys do.

Expert ▶ 00:00:16

Got you. Regional, we're second generation. Started the company in the mid-80s. By 2020 we were a \$2 million firm, probably 14 employees. We did grow. We're \$10 million. Last year, we're about 55 employees. Our service area, it's probably two million in population.

Our big drivers are, we're 50% foundation repair, we're 10% concrete repair and 40% basement and crawl space waterproofing. Services the reoccurring revenue that you can receive on this business did very poorly last year. But we have a lot of optimism and some numbers pointing that this year, we should see 25% pop.

We should be on track to close around the \$13 million range this year. And for us, our 10-year outlook is being able to incorporate two additional locations and the trend that we see we should be looking at a \$67 million mark and 2028, 2029 is the time period we wanted to see that come out.

Client ▶ 00:01:15

Right. And it sounds like you guys are doing well, and I appreciate that background. And curious, you said last year was a bad year. Was that like a bad year for the industry? Or was that more company specific?

Expert ▶ 00:01:27

It was a bad year in service. For us, it was on paper a record year, highest revenue, most profitable we've been. But we're drilling in on so many different KPIs, not at a KPI overload, but you become aware of the loss of financial opportunity. And it's honestly because of bandwidth and resources.

And I just didn't have the manpower and the resources, honestly, just past few years has just been grow, grow, grow. And it's nice to start it with a large award, if you will. We have to take well for a year or two and just being able to put profit back in the tank because, now I'm still a very young operator.

I've been in the business 20 years, but not as the net ownership and so it's different lessons to learn when you're used to \$40,000 a week in revenue and you start seeing \$250,000, \$300,000 a week, there's lessons to learn. And now that we see it, we see the cost of what it would take for us to grow.

All right, we'll have to taper off, get really, sharp and get really efficient and spend more time in developing the manager level. So that's just probably more my limitations as a leader. But now we're focused on just building out the roster, developing people who can step into management so that our chassis will be built to be able to scale the \$25 million, \$30 million.

And now we know when you get around that point, we're going to have to rebuild the chassis to be able to scale it again, but the good part is we are acutely aware of our profit centers and where we're missing it, but also seeing the opportunity where it's not pie in the sky and just saying, "Oh, we want to do \$100 million because it sounds great like what are the weekly steps to get there."

And so that probably jaded my answer just because I'm beating myself over the head because I realize we're missing out on a lot of money right now that's there. So, from a consulting standpoint, I probably should have adjusted my answer, but I can be a little emotional about this thing sometimes.

Client ▶ 00:03:32

Got you. And just maybe if we could talk about the different segments, starting with the foundation repair, is that all residential? Or is that residential and commercial?

Expert ▶ 00:03:41

No. You can build and you can scale and there'll be a lot more stable residential repairs, but you're going to have commercial opportunities. I don't know how realistically, you don't end up doing commercial on a certain level because the process is the same. You can dictate how heavy of a percentage you want to be in on it.

But you're going to be involved with commercial, if you do a good job at residential because of the process and for the most part, the oversight codes in engineering and products are the same. And on the repair side, you can negotiate residential cash flow payments as well. So, you're going to do some commercial.

But we are primarily a residential service company versus being a foundation repair contractor. And that's probably the biggest mindset shift that we had to make when I bought it that we're not contractors necessarily, we are a service company.

It is just as a service company, unlike most other service companies, the way we get revenue is completely opposite of your normal service companies that you see one million platforms going

on right now. If you take HVAC, for instance, HVAC, you're marketing the service and the maintenance.

And then you get those customers in as maintenance and then you get capital projects, you get larger sales as a result of servicing those clients when it's found to make replacements. In our business, you got to sell the replacement first. We have more in common with a car dealership model than we do a service company.

And I've been approached, I've talked to every platform in this market. And those who currently own companies, honestly, that's what I've seen them just absolutely hit the wall on is they use their information from other home service rollouts platforms, and it did not translate.

And now everyone has taken a year or two in trying to reassess why is this not going the way it did when we did a 40-company platform with plumbing or HVAC services. So, you're going to have to be more comfortable with the car dealer model, if you think about how to build this business more than other home service companies.

Client ▶ 00:05:47

What do you mean by that?

Expert ▶ 00:05:48

Auto dealer, they're selling their biggest price objects upfront that gets you in the door, you need to purchase the car. And then the reoccurring model of that customer for life comes in when you bring your car in for service, for maintenance. Sometimes you pay for it when you buy a car, you may buy a maintenance package.

But the recurring money, the profit center, a lot is going to be financing, which is not a profit center for us. It's a car. But also, the service and the auto body shop, that's the big money generators for the dealership, not new car sales, but you need a new car sale first to get people in the door.

So, they're marketing, not necessarily their service department, they market the sale first. If I have an HVAC company, if you watch commercials and advertising, they're marketing you their service departments.

Get your unit service, here's our springs, they are advertising the specialists because the service department is what gets them in the door. For the car dealers, it's the car itself that gets customers through the door. And then you keep them coming back because of the service. So we have to sell the product itself first, not the service first. Does that make sense?

Client ▶ 00:07:00

Yes, and it would be helpful if you could just help me understand translating that analogy to foundation, the foundation space, what is the car sale and what's the service?

Expert ▶ 00:07:11

The service in the foundation waterproofing business is the ongoing maintenance of the equipment that you install. You install dehumidifiers, you install drainage systems, you install sump pumps, those are mechanical items that you just cannot sell and walk away from. Anything mechanical that's keeping the system working is going to need routine service.

That's where your reoccurring revenue comes in there. But people don't call us because they already have a sump pump and they want it fixed or they want to just make sure that is still working. They're calling because they have a problem. So, in this case, the car is the actual installation itself.

That's the car that will get people through the door. So, if I'm a Toyota dealer, I'm running specials for people to buy Toyota Camrys. I'm spending my advertising dollars and I'm building the front of the house to sell people Toyota Camrys.

Whereas in home services, you're selling the service, hire us to come and service your existing equipment, and then we make money by selling you upfits or replacement of your existing equipment if we can. The product is, the foundation repair is the waterproofing first, and then there's ongoing maintenance there.

So, here's how it translates to why it feels differently is because our insatiable needs for new homeowner leads is unlike other home service companies unless you're talking roofing because once you do a roof that's pretty much it for 20 years. And so roofing companies have an insatiable need and so do foundation companies, more than an HVAC plumbing or tech company.

Client ▶ 00:08:44

Got it. It would be helpful for me to just maybe take a step back even further. Can you just walk me through the process from that initial installation through the ongoing services? Just to help me understand how those fit together.

Expert ▶ 00:08:57

Sure. So, you have a basement. You noticed tracks in that basement or you noticed the basement wall is starting to move inward where you're concerned about the integrity of the foundation. That then prompts us a phone call or an Internet search or however, most folks get two or three companies that come out and give an estimate and then based on that estimate, then they'll select someone to do the work.

And then once they select one wants to do the work, obviously, it's been scheduled, permitted, engineered, the crew installs the job, the whole nut and then down the road and there's mechanical features that need adjusting or maintenance, then the service department schedules annual routine maintenance to keep those products in a serviceable condition so that the customer still benefits from the solution for 20 years.

Client ▶ 00:09:48

And just to double click a little bit. On the step you mentioned, permitting, engineering, installation of the piers, is that like a one-day process? How long does that take? And then what's like an average drill size?

Expert ▶ 00:10:01

It varies dramatically. I can tell you, when you're talking foundation repair, waterproofing companies, there is really four different types of foundation repair companies. If you're in the Midwest and Northeast, that's a basement market.

The solutions, the repairs, the type of work that goes on there, that's different than Southeastern dealers or companies, our work scope is completely different normally. You have Southwest, Texas West, that's a whole different game, and then you got West Coast, we're going to have seismic activity. That's a whole other level.

For instance, I have a close colleague of my who's in Seattle, Washington. His engineering and permitting process takes 10 months. And the engineering alone may be \$10,000 to \$11,000 to the customer. And his average-sized job is \$28,000 to \$45,000. In North Carolina, your engineer is going to run you \$1,500. We typically get permits within two to four weeks, and our average size job runs \$12,000.

So, it really does depend on the region that you're at, not even a state but the region because that makes all the difference in the world is companies that come out of like the Midwest, for instance, have their ideology of what they're good at, what they do. They go into the Southeast United States or the South Southwest, they absolutely fall on their face.

They do terrible. And we've seen it, we've seen it. So, it really does vary. I would say, a safe number, if you want to average out all regions, you're probably looking at an average size job of \$15,000, I would say probably \$15,000. That should put you in between a little bit of everybody.

Client ▶ 00:11:43

Got it. And so come out and they do the work, put the piers in. And then the piers are just there permanently?

Expert ▶ 00:11:49

Yes. If you're doing piering, yes, it's permanent. That's not the only foundation repair. But if you're doing piering, that's permanent. Piering is I say, foundation repair wise, that is our probably second or third largest product being I'm a Southeast United States dealer. But the piers themselves normally don't need service.

You might have warranty calls, but they don't need mechanical service. But if you're doing wall retention, basement walls, the retaining walls, keeping things from leaning over or collapsing inward, then those do require ongoing adjustments.

Client ▶ 00:12:23

All retention, what kind of tools do you use to fix that?

Expert ▶ 00:12:26

So, you have still beings on the wall that have adjustable pieces to them. There's anchors that you drive through the wall that anchor the basement wall out into the middle of virgin soil in the yard. Those are two of your primary ways that you're going to stabilize retaining base wells.

It is carbon fiber, but carbon fiber doesn't restore anything, doesn't need maintenance stuff, but anchoring and wall bracing with adjustable braces, those are your two top preferred methods folks have for the most part.

Client ▶ 00:12:57

And does the wall retention work, does that require ongoing service?

Expert ▶ 00:13:01

Anchoring and bracing, yes.

Client ▶ 00:13:02

Got it. And you said, is that like any wall in the house? Or is that mostly like basement wall?

Expert ▶ 00:13:08

It's going to be the foundation walls themselves. So normally, it's basements, but you can have retaining walls or you can have crawl space walls that are also compromised. That's going to be 9% basement stuff.

Client ▶ 00:13:19

So, is that comment in the Southeast or Southwest?

Expert ▶ 00:13:22

Southeast, no, unless you're in the mountains. Alabama, Atlanta, Georgia, the mountains of the Carolinas, you're going to struggle with that.

Client ▶ 00:13:31

As we're thinking about the types of foundation work, there's like foundational care work and then there's the wall retention work. Is that the right way to think about it? I just asking for like the foundation repair work, are the two main subsegments? Is it pier work and then wall retention work?

Expert ▶ 00:13:47

So, here's the three big drivers. You're going to have piercing, wall retention and floor sagging, the interior floors of a home from the main level, those are the big three. So as a Southeastern dealer, my primary foundation repair is sure enough sagging floors by far, not even close. And then I'm a foundation repair, piercing, and then walls would be our third biggest mover.

Client ▶ 00:14:10

How do you fix the floor sagging?

Expert ▶ 00:14:12

You normally are going to be installing steel support columns. Adding additional support, additional bracing under the floors that give you the opportunity to try to stabilize and then restore the floors to level as much as possible.

Client ▶ 00:14:26

Got it. And just to clarify, does this fall under the foundation repair segment or the basement crawl space waterproofing?

Expert ▶ 00:14:34

For us, we classify this as foundation repair, but other companies they may categorize the sagging floors in their crawl space waterproofing, but for us, if it is steel, then it is foundation. And so that keeps it simple for us. So stabilizing sagging floors, stabilizing sinking foundations and stabilizing baseline walls or foundation walls, that's how we just categorize the three main services to foundation repair.

Client ▶ 00:14:59

Got it. So running through those three segments, foundation, piercing, that's kind of onetime installer, you don't need ongoing service, wall retention, you have the install and then there's some ongoing depending on the method and then the floor sagging, is there any ongoing work there?

Expert ▶ 00:15:17

They are adjustable, but there's normally going to be a reactive service versus a proactive service like wall retention. So not really. I guess, honestly, somebody who is sharper, they could turn it into a proactive revenue stream, but I would venture to say nobody really is that sharp to capture that yet.

Client ▶ 00:15:35

When you're talking about like the car dealership model, you make the initial car sale and you have the ongoing work. What is the ongoing work component?

Expert ▶ 00:15:45

That's going to be the service, but you're virtually never going to find any real foundation repair company that does not also do waterproofing and waterproofing was going to trigger the majority of your service revenue.

Client ▶ 00:15:58

Got you. So it's the waterproofing that has more?

Expert ▶ 00:16:01

Yes. If the sump pump doesn't work, then nothing that you've done is going to work for you. So, it's critical on the water proofing side.

Client ▶ 00:16:09

So, there's no real recurring or ongoing revenue to foundation repair?

Expert ▶ 00:16:13

Yes. In the South, if you had to rely on recurring revenues for wall retention, you don't have a business. If I'm, so for instance, contracted on in Connecticut does \$16 million in service along a year. But they're all basement. There's not a single job they've done that does not have at least two or three sump pumps. So that's where that regional shift in how your revenue is composed. That's where that comes in. The Midwest, you can have that. In Texas, you will have tech. So it's just a different game.

Client ▶ 00:16:44

And walk me through the waterproofing service, what does the typical waterproofing job look like?

Expert ▶ 00:16:49

So, it's just a basement, you're normally doing some type of drainage inside the basement under the slab, you're normally putting a liner on the walls, on the inside walls that drains the wall water down into the drainage system, just like your shirt tucks into your pants and then those feed into a sump pump and it kicks out.

That's pretty much 90% of all the baseline waterproofing that you're going to see. Some guys do some exterior work as well. We do, but that's just because of the background of the company. We have that tribal knowledge, is pretty straightforward, and we are in the process of documenting it.

Some companies do that. Some have no experience with exterior solutions. They just stay away from it, which is fine. And people either do four perimeter systems in the basement or they'll do parts, parcel systems in their baseband. So instead of all four walls, they may only get two walls. So that's the basement side.

Crawl space is a whole different game. Crawl space, you're going to be doing a lot of encapsulations, which is moisture protection systems that filling a crawl space up like pool line or dehumidification and that crawl space suffers from groundwater and moisture issues, then you're going to do drainage systems in that crawl space through a sump pump.

And then if you have severe deterioration of the wood as a result of the mold damage, then you're going to be rebuilding to frame of the flooring system. When I say the flooring system, I'm talking the structural elements, not the hardwood floors. So, the joints, the girders, things like that, the low burn elements.

And now that is a beautiful business. Let me tell you. That is a wonderful feature to have in a crawl space business. Crawl space margins are very strong, probably the strongest. Outside of concrete repairs, it's probably the most profitable thing that is in this whole freaking business.

Client ▶ 00:18:43

What's the margin?

Expert ▶ 00:18:44

Depending on how you pay your people. I'll say this. So, I pay my labor 14%, whether they've done it in hours or not, just to give a guy some incentive to get the jobs done and earn a good living. We pay 9% commission. And our material cost for encapsulations are typically 18%. So, you can very easily run 55% to 60% depending on how your labor rates go and margin, gross profit.

Client ▶ 00:19:09

What's the gross margin on foundation work?

Expert ▶ 00:19:11

Jacks are good. The steel columns and crawl space, you're going to be 55% margin. Wall systems, you're probably going to be 50%, piercing you're going to eat that a little bit. Piercing, we're going to be, honestly, we're going to be probably 40% margin in piercing.

Client ▶ 00:19:28

You said piercing 40%, wall retention, 50% and floor sagging, what was that?

Expert ▶ 00:19:33

You're probably going to be 55% gross profit.

Client ▶ 00:19:36

All right. And for the water proofing work, how does the ongoing component fit in here? Is this not just onetime work? Or how do you create a longer-lasting revenue stream?

Expert ▶ 00:19:46

Yes. The service on that and crawl space, you have dehumidification, you have sump pumps, you're checking them all, you're checking the moisture levels as well. Based on waterproofing, you're going to be doing a ton of sump pumps.

And if people have ground water or water intrusion issues, if the mechanicals, if the sump pump isn't working, it doesn't matter, anything else you've done is going to fail. If they have crawl space encapsulation, if the dehumidification system or the encapsulation has been compromised in some form or fashion, it is going to fail.

And they will either have water intrusion again or they're going to be dealing with mold growth again. So, in order to continue to deliver the outcome people are paying for, the mechanicals have to run. No question about it.

Client ▶ 00:20:33

When you do the work, is the sump pumps then dehumidify? Or is that just in the customers house permanently? Or is it only while the work is being done?

Expert ▶ 00:20:42

It's permanent.

Client ▶ 00:20:43

They're not just buying it? Are they like renting it from you?

Expert ▶ 00:20:46

No, they're purchasing it. And then we will sell the maintenance plan with it.

Client ▶ 00:20:51

Are they purchasing it from you?

Expert ▶ 00:20:53

Yes. So, either upfront or we'll get them to sign on to some type of customer care clip, where for a monthly fee or annual fee, we'll extend the warranties and guarantee and no additional service costs, just guarantees opportunities to get back into the home. And then we are training and

building our service department as a secondary sales team where we track their average dollar per stock the whole month.

And we know the more opportunities we get to go into the home, then now we're looking that and we're functioning like a HVAC or a plumbing company where you're coming in on the service work and you're making additional sales from there.

Client  00:21:33

Got it. Just ballpark for companies doing waterproofing and just talking waterproofing, not the foundation, what percent of the revenues are coming from the initial work versus the ongoing service work?

Expert  00:21:45

Usually going to be 5% to 20%. If you average it out, if they're serious about service, you should see probably 10% if that's what's in their market. So, if you're in up north, if you're in the Midwest, it's growing here in the Southeast, then you should be able to, like we're behind, we should be at 8% to 10%, honestly, in our service, and we fell apart last year, didn't do well on that.

But our goal is for 2025 that we should be able to catch up at 8%. So, if we do 13%, even math, we do \$10 million, then we're anticipating doing \$1 million of service. That will be someone who has their service department humming and running really strong.

Client  00:22:27

I see. And next question, just on the margin question. The gross margin granularity is helpful and then just taking out a step down the income statement. What is like the operating income or EBITDA margins look like, operating margins or EBITDA margins?

Expert  00:22:41

Honestly, it totally depends on the company. But I would say you're going to average probably 12%. for most functioning, seasoned companies that are just doing their thing, there's going to be probably 12 companies that are really performing very strong, are healthy.

They're going to be 15%. And then you're going to find some outliers with some guys who are just killing it, and they're going to be running 20%. And then how fast are we growing? For me we're basically breaking even at 3% or 4%, but we've also been doubling pretty much every year.

So, the leveling off is like, okay, I think last six months, we were able to put another 11 points to the bottom line just by not buying trucks and forcing so much hiring in the recruitment and training, and it was bad. So, we've leveled it off, you're able to get a lot of that back. But I'd say 12%.

Client ▶ 00:23:35

Yes. What does the overall market growth look like over the next five to 10 years you think?

Expert ▶ 00:23:41

The market has changed like dramatically in five years with the consolidation that's going on. And so, I will say customer awareness of these problems is at an all-time high. You don't really have to explain as much as you used to what it is that you do because there is some larger players in your major areas that are investing very heavily, and customers are becoming aware of the problem.

Client ▶ 00:24:05

They're investing heavily in marketing and education?

Expert ▶ 00:24:08

Sure. When you have your Rosendos and you have your Groundworks and like all of these folks, it's easy for people to push the button spend on marketing. And it does create a larger market. But it does require better skills now to grow a company than it did before, which I'm sure is the case anytime a market goes through consolidation.

Here's the other thing. Your customer density is nowhere close to other traditional home services. This is my point I was making beforehand. With an HVAC company, customers are calling you to service a product they already have or to fix them, they already have. When people call you for foundation and waterproofing services, they're asking you to fix a problem with something that does not exist.

And so, in my area, where it's two million in population, there's probably four or five HVAC contractors just in that local service area that are doing \$2 million of revenue. You would not be able to support \$4 million, \$5 million, \$10 million companies as easily that do foundation repair because every homeowner is not a customer yet. But everyone is a customer plumbing, electrical and HVAC, everybody. And stuff has to go wrong for people to call us.

So that's kind of a deal. Everyone at some point in time is going to have to replace their roof, no matter what. Not everyone is going to have to require a foundation repair. So that's a huge shift. So, because of that, companies are finding out how intensive you have to be at generating leads and traditional light door knocking stuff is not an option.

Because something has to have gone wrong for people to even care. Security systems, you already know you need it. So, it's tougher for sure, to operate, but the reward is much higher, but it is a much tougher road to slit than it would have been five, six, seven years ago. That is for sure.

Client ▶ 00:26:00

I'm curious since you were in the industry in the '08, '09 time frame, curious to get your perspective, how did this industry perform through a pretty tough economic recession?

Expert ▶ 00:26:12

You probably heard me refer to our company history with exterior solutions, and we viewed ourselves as a contractor. And that's because until then, we were primarily a subcontractor for general contractors where we did new construction waterproofing, which is a completely different industry, completely.

We were critically, almost terminally exposed to the fallout in new home construction. However, the foundation repair, in particular, the crawlspace and basement waterproof and repair services that we've been talking about, that's the repair side. Had it not been for that, we wouldn't have made it.

While every business feels the pullback when people do not have disposable income, like we're feeling a little bit of that now, to be honest with you, people will continue to protect their home. And had it not been for that fact, my family business would have tanked. Coming out of the recession, we were more focused on home services.

And in order for us to grow, I had to completely untether us from that contractor background. And then they just unleashes. So, it does good, but you still feel it. But as I forgot whoever say this, that you never waste a good recession.

10 years back, then you really can make up ground where everyone is still complaining because there's still customer demand, even 10% unemployment still leaves 90% fully employed. And with the one thing that was a bigger threat in '08 that we haven't felt since is in '08 consumer finance credit completely went away for about a year.

Now that was tough. That was a bigger threat than just the recession. So as long as there is third-party financing available to people, I think you can do good. If you have a great market and people who know what they're doing and folks are focused on their KPIs and the right things, you can do great. But it is not a walk in the park, for sure.

I bought Foundation Repair and seriously when I bought the company, we're probably going \$3 million now, \$4 million in waterproofing. The rest of the revenue came from concrete and foundation repair. That's how we grew so fast because you can scale with foundation repair way faster than waterproofing, way faster.

Client ▶ 00:28:25

So, for the waterproofing piece, during the '08, '09 time period, did that grow? Was it flat? Did it contract?

Expert ▶ 00:28:33

It was flat. At the time, we shrunk down to maybe 11 employees, but it was flat. But all the new construction was gone. Everybody who supported that no longer had a place, but we had enough residual repair work coming in to keep the doors open. But we absolutely if my father has more growth mindset, oh my gosh, he could have took the football and ran with it. But it's like 2020.

Client 🎧 00:28:56

Yes. I know you guys weren't in the residential foundation repair space during that period. But did you ever like talk to other people in the industry or like hear about how that specific performed?

Expert 🎧 00:29:07

Yes. Those who focused, killed it. And our industry is only so big. And I'm second generation, predecessor was in it from the very beginning. So, this was the HVAC world. There's no way I have this type of knowledge.

But because the market is just so big, there's only so many people in this business. But I could tell you, as I'm talking to you, I can think of three guys who from '08 to 2011 tripled their business. And it was sustained.

And those three guys that I'm talking about have all been acquired for massive amounts of money. It was like a head start, and they just never gave up the lead. They just turned into Max Verstappen on Lewis Hamilton when he had a decent car. And once you get out in front, you're fighting for second.

Client 🎧 00:29:52

Got it. And is that like an anomaly? Or did the average company do well during that time period?

Expert 🎧 00:29:57

Not the average, it was those who worked it. There's only so many companies and most guys are going to be still full-time operator size. Do you know what I'm saying? But no, those who ran it as a professional business, who saw the opportunity. I mean we're in these like guys are dramatically impacted by the news media cycle.

And for those who believe the sky was falling, and we didn't realize that it already fell and we were dealing with the worst case scenario at the time. They were used to how easy it was. It was very common for guys in this business to be doing new construction and repair work at the time. And those who had the maturity to decouple themselves away and just say we're going to be a service provider and forget, call it, sales contractors.

Right. The anomaly was the mindset of those folks. It was a rising tide and all boats floated because guys were struggling. People were struggling and it was not all service companies. But those who invested in advertising who kept the pedal to the metal because the first thing is an experienced small time guys. Nowadays we hear things are tough, we take our gas off with quick investment in marketing because we think we got to hold on site.

And inevitably, those actions create the very outcome we're trying to avoid. And then you had those who said this is our opportunity. And they were rewarded with sustainable growth and they were able to learn the lessons without the weight of heavy competition because so many guys had backed off or they started diversifying and going into other industries.

Client ▶ 00:31:33

And how much of the work is financed?

Expert ▶ 00:31:35

Your average company, to be honest, is going to be 1/3 cash, 1/3 financed through some third-party company and credit card and third-party finance is all about 1/3. If you got strong sales team, you're going to be probably 20% pay with cash and everyone else is financing.

Because you have a better sales team and people are buying products without certain financial security themselves, they were still willing to purchase. You want to know you've got a strong sales team and you'll see what's the percentage of the work is financed.

The more they finance, the better the sales team. Not that you want to, it's just that more customers are paying when they don't have the money versus waiting and only selling those who got the money in abundance. With an average sales price of \$15,000 most people don't have the money.

Client ▶ 00:32:26

So split again, 1/3 cash, 1/3 third-party finance. What was that last piece?

Expert ▶ 00:32:31

Yes. Credit card, third-party finance and then cash well, check, that same thing.

Client ▶ 00:32:36

And how is the industry doing right now just given that interest rates are way up?

Expert ▶ 00:32:42

You feel it. Most have felt too. I talked to one of the third-party finance guys last week. And guys are having the time, they're able to sustain, but there's a lot of frustration about not being able to grow, but they are working hard to sustain.

And when the tide went out, you got to see who's been skinny dipping as and I'm sure if you are inundated with so many leads, you don't care about your appointment conversions. But when it gets a lease out of premium, those conversions are everything.

So, for some, I could tell you in my local market, I've had probably three of my main longtime competitors just fold up shop. I bought one of the assets of this company. He was a seven-digit guy. I bought the assets of this company for \$7,000. He was sick and tired because of how tough the business was.

And that's kind of getting back to what I was saying, five, six years ago, this was a different

industry. It is really tough, it is really a fight. But if you can win, you're no longer planning to earn \$0.5 million in profit. If you can win and you can scale, you'll be talking \$5 million in EBITDA. The stakes are higher, but you don't have to scale.

Client ▶ 00:33:51

It sounds like your company is doing well. But how is that not having a more impact that 2/3 of the business comes from some sort of financing or interest exposed financing? I would have thought that would have a bigger impact.

Expert ▶ 00:34:04

If it has an impact, it's going to be on the lead generation. But at the end of the day, I'm going to go a little bit into the sales training I had. Before I bought the company, my last year in sales when I went into management, I was the #6 sales guy in this industry back when most companies use one software.

That's all done away with now. But back in the day. I can tell you from the sales side, let's go back to the car dealership. They will advertise a car payment. I'll go on to a lot, the sales rep will say, okay, hey, what's your monthly payment budget? If you say \$500, we're not talking about the price of the car, you want to some because you're going to afford \$500.

If they can get you into a car at a decently a moderate to high moderate interest rate where they can collect some money on the back end, but it stays at that monthly payment than they expect for you to do the deal. If people need financing is because they don't have the money, but they have a problem. The affordability does not always have to do with them being interest rate shoppers.

What do we do to adjust it? We took most of our financing options from an 84-month plan to a 120-month plan. If you go to a 120-month plan, the monthly payment is affordable for them because they're buying a payment. Yes, we do offer same as cash financing. But if somebody has the ability to pay \$15,000 six months, there's a strong chance they already got the \$15,000.

They just don't want to get to it. It really is just cash flow it out of whatever they make a month, that the reality. Credit card, they're probably paying us but they got points. But finance customers, you have to help them see through, but that's where the culture of your sales comes in. If you have a strong culture of sales, I'm not just saying this in general.

But if you're looking at something, looking at analytics of the sales, simple thing is how much of the work is financing, that will tell you what the culture is at sales. Now if you got a strong sales culture, your ride through a recession will be dramatically different than one that is installation, if the company is heavy in installations, but not a strong sales force.

Client ▶ 00:36:17

Interest rates are way up, the costs are way up, maybe you can offset it with longer payment periods. But I mean, why wouldn't customers just like defer this for another year or two? I mean is this deferrable on the foundation repair side? I understand like the basement waterproof and you probably have to do that right away but for the foundation repair can you defer that?

Expert ▶ 00:36:40

Some have, it's just depends. And that's where you got to understand why do people call. People call for three reasons. They call because they're engaged with the real estate transaction, and they want to protect as much money as they can. So, they want to fix the house to make the deal happen. Or they got plans.

So, let's say they want to finish the basement, turn it into a man cave. Well, you're not going to do that if your basement foundation wall is on two walls pushed in three inches or maybe you want to make it the kids room. Well, you aren't going to feel good about that.

If you're not sure if the wall is going to fail on the on average, and this is also a big difference, a misunderstanding I have had with other companies, where they assume that there is a high level of urgencies with our business, we are not restoration. Our average customer has had the problem for seven years according to our data, seven years.

That meant they've tried to ignore it, that meant they start going back to church. They start trying to pray that this would go away because the last thing they ever wanted to do is spend \$15,000 for some steel poles to be driven 20 feet in the ground they can't even show their neighbors.

But it does get to a point where either it worries them, the peace of mind. It is preventing them from doing something that they really want to do, might finish at the basement or let's say, is crawlspace moisture, but they want to put new hardwood floors down, but the hardwood floors cannot acclimate if you have high moisture.

They're going to curl. And sort of hardwood guy is going to go, you got to fix your moisture problem. And then we can put these drain floors that you want it flown in from Brazil. Yes. That's just how it works. Those are the only three reasons people call us.

Client ▶ 00:38:29

What I'm having trouble squaring in my mind is that at your point this work is driven by real estate transactions or like renovation work. But if you look at the current environment, transactions are down significantly, renovation spending has really slowed.

And on top of that, you've had interest rates go way up. It would sound on the surface to be like a really adverse environment for foundation repair companies, but it sounds like a lot of companies are still doing really well. I'm having trouble squaring those two opposing forces. And I'm not sure if you thought.

Expert ▶ 00:39:01

Yes, it's three reasons. We talked about two of them. But while real estate transactions may be down, most real estate transactions don't need foundation repair. So, if they're in a situation where they need to sell the home now, it's probably because they need to have issues anyway.

Since it is a tougher market to sell in a home, making sure that the home is in sellable condition or which is a shift from the past from the COVID era, now they have to make concessions. When I bought my home two years ago, I could not submit an offer with contingencies because nobody was doing contingencies two years ago because so many people were in the market.

But to your point, it has cooled. Now we're back in a more normal market state. Guess what comes with normal market conditions, negotiations and concessions. This is what it looks like. Now to be fair, those real estate type deals are probably going to account for 15% of the business.

The majority of the businesses are going to come from people wanting peace of mind. They know they have a problem. They try to ignore this problem. If the problem continues to be there or worsen, and it has gotten to the point where they feel they have to do something, that's the reality. That's the number one driver.

Second, there's something else that they want to do, and this is holding them up. They wanted to finish painting the walls inside the house or maybe they wanted to put a gun safe in a room, but they know they put a gun safe in a room, it's going to drop through the floor. I'm being dramatic, but to be honest. Those are your primary two. The smallest driving portion of our business is real estate transaction.

The biggest is peace of mind. That is the number one reason. They have a problem, there's continuing to be a problem, they tried everything, they tried crane, they've tried their uncle, they've tried doing it themselves, they tried everything. And it keeps coming back to where they go, I have to do something or this is going to be worse.

Client ▶ 00:41:01

And I know we're running over here. If you need to hop, it's fine. But I'm just worried if we hit a recession in the next year, can people just put this off another year or two and you have like a real big impact. Is that valid? Is that a valid concern? Or do you think people will continue to spend through a recession?

Expert ▶ 00:41:20

Depending on where you live, you may have already felt the recession. But I can tell you this, it is tougher. You're absolutely right, it is tougher. Will the business in the down economic market just skyrocket?

I can tell you what I saw in '08, but that was also there was nobody servicing these customers. I can tell you right now, in an economic pullback, may not be a recession, but we all feel that there is a slowdown. We feel it. Our people are still doing business.

My average dollar per appointment is still higher than it ever was in COVID. My average dollar per

sale is still higher than it ever was in COVID. That's just the deal, we're going to be closing next week on a \$135,000 residential just normal Mr. and Mrs. Smith job.

And it was because they knew they had something wrong in the basement, but they couldn't tell until we pull some sheet rock off and there are two of their walls were almost completely collapsing. They just couldn't see it because of a sheet rock. Now here's the emotional thing outside of the, oh, my god, my house is about to fall in.

They had just moved their teenage boys into the basement to make room for the other two. So, they have gone through a refinancing of the home because we gave them an option for \$50,000 that would keep it safe for now, like for just one or two walls, but they're still going to have water issues and all kinds of stuff.

And in this environment because they finally were able to put their arms around the full system is or full issue is they're saying, we're going to have to go \$50,000 into that, then we might as well get it all done now rather than being at \$50,000, knowing there's still work to be done. I rather go and did \$100,000 and at least that we got everything fixed. And while the number is exaggerated, I can tell you that's very real.

Client  00:43:13

Got it. Awesome. Thank you again for taking the time to speak with us today. This was very helpful. Enjoy the rest of your day.