

COMPANY DEEP-DIVE

Former Director at Tecta America Sees Growth Opportunities in Roofing Amid Labor Challenges and Market Expansion

DATE PUBLISHED	INTERVIEW DATE	EXPERT PERSPECTIVE	ANALYST PERSPECTIVE
31 Oct 2024	02 Aug 2024	Former	Investor-Led (Buy-Side)

PRIMARY COMPANY

TECTA AMERICA

Summary

The conversation between the client and the Former Director of Service at Tecta America provided insights into the commercial roofing industry, highlighting the importance of longevity and consistency in roofing companies, challenges faced by the industry such as labor shortages and the increasing use of subcontractors, the breakdown of bid work versus negotiated work, the potential impact of a severe recession on service work, and the opportunities for growth in adjacent markets like building envelope, waterproofing, and solar. The Former Director emphasized the significance of relationships, service departments, and the Hispanic community in the market, as well as the profitability and potential growth in various areas of the industry.

TABLE OF CONTENTS

- Expert Background And Industry Overview
- Industry Fragmentation And Labor Dynamics
- Market Segmentation And Revenue Streams
- Bid Work Versus Negotiated Work
- Financial Considerations And Economic Resilience
- Adjacent Markets And Expansion Opportunities

EXPERT BIO

INTERVIEW TRANSCRIPT

Client ▶ 00:00:00

Thank you for taking the time to speak with us today about the commercial roofing space. Can we first start by you providing a bit of background on yourself and on Tecta?

Expert ▶ 00:00:10

Sure. I started in the trades working in 1976. I started in sheet metal, from sheet metal I went into packaging where I learned about plastics from packaging, I became a plant manager actually expanded polystyrene for roofing, insulation, walling cavity, flotation packaging.

From plant management, I actually went into roofing. I went to work for one of our largest customers. I became just a roofer really because of my sheet metal background, they put me within the sheet metal department.

Later I went into the roofing, went the roofing side actual application of single-ply EPDM roofing and then later within six months, I became superintendent. I was a superintendent roofing for about eight, nine years. We had a mini recession and I end up working for a consulting firm, PSI, one of the largest consulting firms in the United States. I used to call them the Kmart of consulting. They owned Pittsburgh testing laboratories as one of the options anyways.

From PSI, I went back into roofing as a superintendent, bounced around a few different companies' superintendent service. And in 2004, I went to General Roofing, Roofer Zinc in Baltimore, which was owned at that time by General Roofing, which is the first roll-up in the industry, and I became their service manager.

And I had a partner in the head who came with me from Wagner Roofing. And then around 2006, Tecta bought General Roofing. When I went to General Roofing they were in Chapter 11 reconstruction or remodeling or whatever that is when you restructure your debt.

And they emerged from that. And then certainly after that Tecta came in and looked around, liked what they saw and bought us. Several of the Tecta to members at that time were Magco, Raintree. Tecta was not traditional roll-up like General Roofing was. General Roofing was top down.

Tecta was the bottom up there. Structure was based on all the different elements, all the different roofing contractors across the United States that were a member, and they had a very small centralized administration, so to speak. So most of the money stayed within the companies. And their goal was to get purchased. And in 2006, 2007, 2008 they got purchased a platform company.

Problem was, I think the economy was roaring and the structure of the loan was impossible to keep when the toxic mortgages hit. So by 2010, they couldn't pay the interest back as I understand it. And I left in 2012 and in 2013, '14, they were purchased for a lot less money than they were worth, pennies on the dollars. I understand it by a company called Oakmont or Oak Crest or Oak something.

And they reemerged, they're doing well, and they're back in it. When I worked for Tecta, I guess in back 2008, 2009, we went to Canada and talked to Doug Flynn of Flynn. He's a proprietorship. So it's his baby. They're the largest roofing contractor in Canada, and they're now here in America as well.

When I left Tecta, I went to work for IronShore, a minority roofing contractor in Baltimore that actually performed their own work, which is rare for minority roofing contractors, they're mostly figureheads and sub everything out. So how is that for a brief summary?

There aren't too many jobs I haven't done in roofing. So I understand it from the top end. And I'm currently retired, but I'm actually doing freelance consulting work. I have one customer, a nonprofit, rather large one here in Maryland. And I'm enjoying myself with that. It's somebody I've worked with for years and it's just been a great relationship.

Client ▶ 00:03:44

I see. We looked at this industry the past year. I would like to understand if it has changed a lot. We have seen from all the different private equity platforms out there that they have all been doing a ton of acquisition. So, first of all, I would like to ask is, do you still think this is a highly fragmented industry? Or is the most of the attractive targets have already been skipped out by the larger firms?

Expert ▶ 00:04:10

There's plenty of opportunity out there with firms that are out there that are doing well, that have been around, some aren't looking to be purchased, but you never know, but there's a tremendous amount of rock solid roofing companies in the Mid-Atlantic region that have not been scooped up by private equity firms.

That's number one. And there's plenty of presidents out there that would entertain the idea of either being part of something or are actually actively working on acquiring other entities and growing themselves. So that's happening. The commercial roofing industry works in this way. You need to look at the longevity of the companies you're interested in, how long have they been around? What's their dollar volume, how consistent are they okay?

And there are several that have been around for 100 years in this area, and there's plenty that are

very consistent, know what their role model, their game plan is and do it every year, they achieve their numbers every year. And that's public knowledge, you can look all that up. The issue is, as far as the manufacturer is concerned, the manufacturers only require that you'd be authorized by them to install their product.

They really don't care. They don't really deal directly or they really don't deal directly with the roofing contractors. They work through manufacturers' representatives, private businesses that rep the manufacturers that then bring on the roofers to buy the product.

It's the roofers who buy the product, even though the reps help get it specified or at least in the specifications so that the particular manufacturer's product is one of the listed manufacturers for the roofing membrane.

And the big name players in the industry currently are Carlisle, Elevate bought Firestone which is Holcim. I don't know how you want to pronounce it, but they're global. And then there's John Manville, who's been around for basically forever and GAF. These are four of the big major manufacturers.

Carlisle actually owns Versico, which used to be Goodyear. So they make their membrane, even though they market as a separate entity player. They also bought Henry, who is an old manufacturer of fluid applied asphalt products and asphalt type products and waterproofing and so on below-grade.

And they own them now. Carlisle is a great one to look at. If you want to look at a company that's been making acquisitions as a manufacturer and look at what they've done and how they're growing, it's a very interesting story there.

They've grown by leaps and bounds. Carlisle also makes all the products marketed by Mule-Hide. So they're actually making and manufacturing all the products for two other companies besides themselves in the single-ply industry. They're also in the asphalt industry and the metal business because it bought a bunch of sheet metal suppliers. And now they're looking into the HVAC. And that as manufacturers go. As roofers go, here's the issue.

Longevity is one thing, consistency is another. Most major good-sized roofing companies if they don't have a consistent service department, they should, okay, because service is the gasoline, the oil, the maintenance, the everyday stuff that comes in year round, that's not cyclical. The industry runs, as you know, from January to December 31. So the first quarter, January, February and March is when most roofers bills come due, especially insurance, okay, the work comp, the liabilities, all the insurance bills come due so they can conduct business for the year.

So also two other things slow the market down in the first quarter, and that's corporate taxes and personal taxes. For some reason, you can clock this, the industry slows down. Money doesn't move as quickly in the first quarter because it just seems to open up after April 15 when your personal taxes you do, at March 15, it starts to begin with corporate taxes going and April 15, it sort of opens back up again and the weather sometimes has an effect on that.

But right now, the way the weather has been going in the Mid-Atlantic region, we have milder and milder winters. So people are working all year round. So I do think service departments because

that's what I ran for almost the last 20 years of my work tenure at two different locations.

I know that Service department, that's the cash cow. That's the lucrative cash cow of any business. The profit margin in service is fantastic. And there's two role models for that. There's what I'd like to call the Chick-fil-A role model, where you call it, you get in line and you get your chicken sandwich, you know exactly what you're getting.

And then there's the food truck or the concierge service. We were more geared to the concierge service because most of our customers wanted to talk to the people that brought them on board that they knew that they trusted because of the relationships and communication was key and then following up on that communication, what help get you paid.

And there's a ton of software programs out there that help communicate with your customer, deliver invoices and photographs and documentation and all the stuff that gets you paid. So in the last piece of the puzzle is labor. Labor is the key. There's a labor shortage, I'm sure you've heard it from other people, but the labor shortage in the United States and especially in the trades, it's a problem.

It's a real problem. Training, as I said. One of the first things I did when I retired is I joined forces with a local nonprofit called Civic Works at Baltimore, and we created together a Pre-Apprenticeship roofing program that continues on to this moment every three months or so, bringing entry-level and well-onboarded applicants to the market where there are signatory roofers that gobble them up right away and retainage is running about 50%, which is about 5x higher than what's normal.

What's happening is the Hispanic community, okay, which is the immigration community that we all know about. They are the ones coming into the roofing industry. So as they cycle through the roofing industry and become legal, they get their green cards, they go into business. And as they go into business, they draw from that community harder than the roofers that have been in business.

What happens is most of the commercial roofing companies, they have a service department, they run. Those people are employed by that company. They also have the production side or the contracting side that does the bigger jobs.

And a lot of that is subcontracted out to these Hispanic roofers because they can't compete labor-wise with the Hispanic roofers. The market is changing in the sense that the big companies are having more and more trouble keeping labor, keeping enough work on hand to keep that labor force busy.

What happens is subcontracting has become a big part of every roofers business, including Tecta, including Flynn and all the big ones are using subcontracts because you can't get to people.

You can sell the work because you have the name and lots of respects and you have the sales force, but you can't get it done. Not with your people, you have to hire. You have got a subcontract that, which is a great idea. It's nothing new. It's just that it's becoming bigger and bigger and bigger. And as the Hispanic community grows and develops more relationships, the market is going to get tougher and tougher for the existing contractors, in my opinion.

Client ▶ 00:11:32

And I would imagine that a lot of this different Hispanic companies will be hiring illegal or undocumented people?

Expert ▶ 00:11:39

Maryland is a sanctuary state, so undocumented people are a fact of life. Here's something you may not know. You can be undocumented and get a federal ID number and go into business, Check it out. Without a social security number, you can go into business, you can pay your taxes, you pay your social security. You can get your taxes back. You might not ever get your social security back, but you can get your taxes back.

In 2015 in Maryland, the MVA, the Motor Vehicle Administrators, started putting on undocumented drivers licenses that this piece of identification was not valid on federal installations, meaning we have a lot of military bases here in Maryland.

You couldn't use your driver's license as a document to get on base. In 2015, they started doing that. There's a lot of hypocrisy going on legally in the country regarding undocumented aliens. I think the main reason is the smart money knows that our economy can't survive without the Hispanics because there's no one else that's going to do this work. I'll get off my soapbox now.

Client ▶ 00:12:43

Do you think that will evolve into generating frictions with unionized labor and I don't know, developing into offer conditions for the Hispanic community?

Expert ▶ 00:12:53

In the Mid-Atlantic region, the roofing union is basically nonexistent. You don't hit roofing union strength until you get to Philly and the five boroughs in New York, So you stay out of the five boroughs and you stay out of Philly and some of the closed regions to the five boroughs and you're fine.

There aren't too many industries businesses. What we have in Mid-Atlantic because we're so close to DC is we have Davis-Bacon which is prevailing rate. So what happens is if you want to bid government work and you have the people that have the documentation that can get on to military bases and government facilities, then you have to pay prevailing rates, which puts your payroll up a little higher, which makes the unions more competitive in this respect.

And I think it's any job over \$500,000 with the military or with the government, with the United States government, the federal government is Davis-Bacon, but don't quote me with \$500,000, it might be a little less. The problem is, if you're not documented, you're not working on the military base. So that market is close to you. And it's very lucrative and a very large market here in the Mid-Atlantic region.

And there's a lot of setup to work for the military. There's some things that you need to do. There's

some people you need to employ and there's some documentation that you have to be ready to do and you have to have what's called a competent person employed by you.

You can either sub that out or you can train your people and get it done yourself, but it's something you need to do. And every military division has different specifications. There's no one size fits all with the Air Force, the Navy, the Coast Guard, the army, the marines, everything is different.

Every base is different. Everybody does something different. So it's a big lucrative market, paced very well, but it's a lot of overhead for the roofer. And you really have to know what you're doing. You have to have the set group that this is the group that does military contracts. This is who does this. It's not easy, but it can be lucrative, very lucrative.

Client ▶ 00:15:01

How would you break down the market? How much would you say of the, let's call it, I don't know, \$30 billion industry or whatever you think the right number is? And how much do you think it comes from the government, how much do you think it comes from, I don't know, industrial properties like commercial?

Expert ▶ 00:15:20

The industry is huge. The overall roofing market is over \$1 billion, way over \$1 billion. I'm not really certain. I used to know, I haven't logged up to that. I haven't double checked that figure in a long time.

Client ▶ 00:15:33

We have guestimate from our side that it's between \$25 billion and \$45 billion.

Expert ▶ 00:15:39

That makes more sense because when we were at Tecta, we were a \$500 million company, and Flynn was as well, and that was back in 2007, 2008. And there's another proprietorship called CentiMark that's been around forever as well.

It's a one owner. I guess name is Dunlap. He's passed I think the son's got it. But anyways, there's x amount of square footage of roofing that's going to be done in a Mid-Atlantic region every year. And these are numbers that you can find.

It used to be five million square feet, something like that, maybe more. I don't really recall this, is a long time ago. One of the sales reps for, at that time, it was Firestone, last call it, now it's Elevate. And anyways, we talked about the market, no matter what happens in the Mid-Atlantic region, they're going to do x amount of square feet of roofing every year. The question is how many much square feet are you going to get?

Service is completely different from that. In terms of service is all the time. You're always doing

service range and there's emergency service work and you have the contracts for this that you bid with the big property management firms and so on and so forth. The market divides up into government, municipal stuff like that, airports, military bases, state office buildings. These are all bid documents. This is all big work, you have to comply with certain things.

You have to become eligible. You have to fill out paperwork so you can actually bid the work and prove that you have the longevity, the experience, everything that they're looking for before you're even give in a request for quotation, the right to propose a job. So you have to jump through a bunch of hoops to do that. So you have government, every government. Then you have private, private being schools, not as in private schools, colleges, stuff like that.

You have hospitals, big industry, hospitals are recession-proof. Most schools are recession-proof, but hospitals are recession-proof. A lot of the big contractors like Whiting-Turner learned about 20, 30, 40 years ago that hospitals were the way to go.

And here in Mary, we have some major, major players in Hopkins, University of Maryland, and that's another industry that's gobbling up that's consolidating. This one's buying that one, that one's buying this one. And so there's less and less owners, there's more and more hospitals that are run under one umbrella. But they're recession-proof.

Client ▶ 00:18:03

Sorry to interrupt. Are there companies that just focus on any of these particular markets, they only do roofing for schools or only roofing for hospitals?

Expert ▶ 00:18:13

You can. It's nice to say I think that there's too much competition, give you an example. Let's say you do a job. You have to look and see how big Whiting-Turner is, okay. Whiting-Turner is a national concern, one of the 10 largest general contractors in the United States.

So they manage a project. So what happens is, and they work like this. You have a three-man crew at Whiting-Turner that gets work. They get work and they work with certain subcontractors that they know we're going to meet their schedules and make them money.

It's all about time. It's all about how fast you get the building done and that you get it done on schedule and then meet everybody's obligations, it makes the banks happy. So if my roofing company ABC works for Whiting-Turner in a particular group that's a project manager, a superintendent and a project engineer, and they like what we've done, we will bid all the work that they did.

And if they're successful, we can be successful. If we're competitive, we don't necessarily have to be the low bid. We have to be in the middle of the pack because they know we're going to perform. And that's as important as being the cheapest in terms of general contracting, whether they're doing a hospital, a school or a private concern. Bid work is always portion of some. Some contractors do more bid work than anything else.

Then you have negotiated work, which is where everybody wants to be, which typically the longer

you've been in business. If you've been in business 100 years, your phone is ringing just by your name. So if you know how to work the phone and you know how to work those leads that come in, you know how to make money and negotiate work, and you will continue for the rest of your life as long as you perform because it's all about performance and communication.

People call because they know you can do the job. The question is, if you don't communicate it and show it in photos whatever in a professional manner, it never happened, just like the tree falling in the woods.

So it's all about communication and communicating clearly. And now with the fact that we can communicate with photos and GPS and PINs and Google Earth shots and photos of where we did the work and exactly what we found and exactly what we fixed in a heartbeat, communication is instantaneous.

And if I'm a property manager like somebody with CBRE and I have a \$1 billion to \$2 billion portfolio of 11 buildings. I want to know right away that you solved my tenant's problem or I want to know what's wrong with my roof.

So most property management firms will contract with service departments for one to two years for emergency time and material service work and inspections and repairs. So every year, the service department will go, probably twice a year, remove debris from the roof, organic debris.

Typically, the end of spring and pretty much the end of fall, six months apart or so, they will inspect the roof. They will provide photographic documentation, clean out the debris and make a couple of minor repairs for typically a flat fee of x amount of dollars, whatever works.

And then they have a T&M rate that's carved into a contract that says, if you're called out for emergency leak call, we know what it will cost us in regular hours. We know what it will cost us over time, and we know what it cost us on holidays, weekends. You're basically, what's called the own call service provider. These are service entities. And so basically, you have bid work and you have negotiated work. And that's pretty much how you grow your business.

Client  00:21:46

Is this bid work versus negotiated work, what you were mentioning before with the Chick-fil-A versus food truck model?

Expert  00:21:54

That's a delivery system. For instance. Now you're the service department. And I'm customer. And I call into your service department, and I get the receptionist and services. And he says, yes, how are you, you're a customer ABC right? What's your problem. I see we have an opening on such and such date, and we will send someone on such and such date, and they will be out there.

This is no expert, this is no roofing person. This is just somebody that answers the phone and we'll get you scheduled. So basically, you get in line and you order your Chick-fil-A sandwich, and you know it's coming. Concierge or what I call concierge services, you call and you get me, you're my customer, you get on your service manager, you get me. So we have three service managers. So if

you call it up, you got your service manager.

You got the person you knew face-to-face. You know who I am. You know who I am. You know I've been on your buildings and you know I'm familiar with your situation. So you're talking directly to the person that's going to solve your problem, see it through to the end and gets you the communication that shows you it was done along with the invoice at the end of this.

So you know we now have a relationship. You don't have a relationship with Chick-fil-A. The only thing you have with Chick-fil-A is you know you're going to get the same Chick-fil-A sandwich wherever you go, whenever you go, which some people in certain instances, that's fine, okay, because they're buying price.

They're buying that level of service. Most people are not. Most people are not going to pay \$95, \$120 an hour per man portal to portal to go out and service something unless they know that they're talking to the right person, and they have that feeling that, hey, I'm special, I'm important.

I've got the managers here. That's who's servicing me. So that was the service department I ran. That's the difference, what I call between the Chick-fil-A or the fast food role model where you go in and you program it and it is what it is and you're willing to accept that or you want the concierge service, where you call up your doctor and your doctor answer the phone and says, okay, what's wrong , oh yes, we talked about this before.

Yes. I got it. Yes, no problem. We can see you when do you need to be seen, not we can come when we want to, when do you need to be seen? How soon do you need this done? So it's customer service, it's relationships.

There's 100 roofing companies out there or just like 100 restaurants, depending upon what you want. If you want to be treated like family, if you want to be treated like you are somebody, you're going to go back to the restaurant that makes you feel special like family, every time you go in there, whenever you go in there. But if you're in the mood for Chick-fil-A and you might be sometimes, you might want a McDonald's burger or Chick-fil-A or Burger King, you know exactly what you're getting 90% of the time.

You're still relying on a human being to cook it, deliver it and bring it up, but we all have that same problem. Human beings are human beings. That is always going to be the wild card in any equation.

Client  00:25:01

Can you help me understand the size of the different, however, the market is sized, you mentioned government schools, hospitals. Not sure if we're missing something.

Expert  00:25:11

In the service department, which is a microcosm of contracting. There was no residential. I want to make it clear, that there was no residential for me ever because we didn't have in Maryland. You have to have what's called a Maryland home improvement contractors license to work on single-family homes. So our commercial business was strictly commercial.

I would say in terms of dollar volume, we were lucky if we had 20% in government. We had a nice contract. We were the on-call service provider for years for the airport, for the BWI Airport and what was called Martin State Airport.

Those two for MAA, Maryland Aviation Authority. We were the on-call service provider for Maryland Aviation Authority. It was basically a T&M contract because we've been doing it for over 15 years now.

And I left them with that when I left, we were successful low bid for three years with another option for two. It was basically a T&M contract. There was other things they could do, but it was worked out best for them to do things mostly on T&M. And it was a consistent probably 15% to 20% of the business.

Then we had the private stuff, schools, the negotiated work, schools, banks, other property management firms, which weren't as rigid, smaller property management firms. We didn't have to have a signed contract to be their on-call service provider.

If government was 15% to 20% and total private like banks and schools, private schools, colleges that weren't bid work, probably another 20% to 30%. And then we did have some hospitals and that was in that mix. It was probably closer to 40%. So you got 20% in government which is bid work, 40% in total private that's really not bid, it's basically all relationships.

And then the last 40% is going to go into property management firms and everything else that falls into small stuff, few people, the one-and-done and a few of these things and some smaller firms, but basically property management.

There's probably 5% drop back instead of the final. We had 64%, let's say 35% is in property that you're going to do another 5% with small contractors. Because for every building that falls under your purview through a property management firm, you're going to do what's called tenant fit-out work because of your contract with that property manager and the buildings that they manage.

So if a tenant moves out and a tenant moves in, it needs a penetration service work, you're the guy that's going to do it, and you're going to get that work from the contractor that has to do the work because they have to use you.

It'll say right in the clause. You must use the property managers' roofer for this property. So that's another maybe five-plus percentage points of work that's going to come in throughout the year. It is interesting because they pay slower.

The more hands they touch the money, the slower you get it. You want to work for the owners. You want to work for the people that they get the bill, they pay it. you don't really want to work for people that they get the bill, they submit it, and then you're trapped for another 30 to 60 days.

Whiting-Turner is famous for paying in 60 to 90 days. The first bill, you're lucky if you see your money in 90 days. And you don't want a whole lot of that work out there. I mean you don't want to be beholden to anybody that's paying you in 90 days. You want your money as fast as you can get it. And your negotiated work is going to pay you sometimes immediately or in two weeks, 15 to 30

days, which is what you want. The more people that handle your money, your payment, the slower you receive it.

Client ▶ 00:28:51

Can you explain again how that 5% small contractors work?

Expert ▶ 00:28:54

You are now under contract with CB Richard Ellis, and you have 11 buildings with this particular property manager, asset manager's portfolio. You have 11 addresses. And these addresses could be 100,000 square feet. They could be 40,000 square feet. They can be 25,000 square feet. And you have 11 buildings that you are the on-call service provider when it rains and there's a problem. You're the guy that goes out there for a legal T&M, time and material.

Twice a year, you go out, you inspect the building, you write an inspection report. You do some very minor stuff. You write a proposal for other work that needs to be done. It's categorized as A, B and C as in, oh my god, it's leaking, you need to fix this right away. Usually, you'll at least temp that or fix it permanently, it's a small amount. B is, this could be a problem in six months to a year. C is just general maintenance, clean it, paint it, caulk it. So you're going to write a report to that effect.

You went back about twice a year for that. So now building, one of your addresses comes up and there's a tenant moving out and there's a new tenant moving in, and this new tenant is whatever. And they have exhaust fan they want to put in, and they have bathrooms they want to put in, and they have penetrations that are going to go through the roof that need to be flashed, that require materials and labor.

You become the contractor of choice because you are servicing that building for the property manager, and they control the roofing because there's a few things that the tenant is not responsible for, and the roof is one of them. So if you, the tenant who's moving in, wants a new air conditioning unit or a new curve on a roof and it need penetration, then the property manager wants their roofer to do it because they have the most control.

Because if it leaks, then you're going to be calling the property manager, hey, my roof's leaking, fix it. But if the tenant had their contractor put the stuff in, then it's a gray area. This way, if I'm doing it, and I'm the one servicing the building, I know the condition of the roof, I know what it looked like before we started. I know what it looked like during and after. So the property manager has more confidence and more leverage and more history with me than with somebody else.

Client ▶ 00:31:16

And then just to understand the different ways that we can slice the market, how much would you say comes from bid work versus negotiated work?

Expert ▶ 00:31:25

It depends on how long you've been in the industry. There's bid work all the time. I mean depending upon what you want to do, there's what we call box stores. There's people that specialize in box stores. There's a contractor in Maryland, who's a phenomenal big-box store roofer. There's two of them. One is Rosedale, which is a smaller, it's one size here in Baltimore. And then there's another one that's been in business forever called Orndorff & Spaid, we call them O&S, okay.

Orndorff & Spaid has been in business as long as I can remember. They do x amount of \$1 million a year every year. When you see a mall go up, okay, and you see all these big anchor stores in that mall, that's their thing. Now there's sometimes there's some private stores like Costco or here locally, we have Giant Food and they bring in the roof to measure stuff. And that's the niche for that particular roofing contractor.

This is what they do. This is what they do well. They go in, they have all the equipment, all the materials, they buy well and they can compete on these big, big commercial projects, these retail projects. That's what they do. You have others that specialize in the military. Again, that's all bid work and you have others that probably specialize like we were talking in hospitals.

But in bid work, probably is 50% to 80% of the market because it's always out there. But anywhere from 50% to 20% of the market could be negotiated private work, depending upon your relationship with the person that pulls the trigger, be it the owner, the property manager who's ever controlling the monetary pressure, the key is on the relationship that you've built and your longevity is your phone ringing, who's calling you.

Trust me, people that have been in business for 100 years, their phones are ringing every day. People that just started up not so much. So they're relying more on bid work than negotiated work because they just don't have the opportunity. They got to build those relationships.

Client ▶ 00:33:23

If an investor were looking on acquiring already established companies, they wouldn't have to worry too much about that starting part of it?

Expert ▶ 00:33:32

They'll know. And that's a question you would look into with that company, how long you been in business? What's your breakdown of work? How much is negotiated? How much is bid? There's two things you look at, how much is negotiated and how fast do they turn their money? How fast is the money coming in? If the majority of their money is coming in 15 to 30 to 60 days, let's say 80% is coming in 15 to 30 days, another 10%, 15% is coming in within 60 days.

And then there's another what, maybe 10% to 5% hanging out there that's coming in 90 to 120. These people know what they're doing and then their bad debt number at the end of the year is 0.001 or 0.003 is what they're writing off. This is what you want to look at, how fast do they turn in their money and, of course, their mix of business, how much is service? How much is bid, how much is negotiated, end of story.

And the bigger the company, the longer they've been in business, they know what they got. That's one of the biggest things they track in their software. Anybody can pull up how fast you're getting paid, who's paying the money, that's the other thing. Well, who's paying me in 15 to 30 days, who's paying me late and that's when you start looking at divorcing companies, divorcing customers at the end of the year. Got a guy who's paying me 120 to 150 days.

We're doing \$10,000 worth of business a year, if I had to borrow to pay that money. This is not somebody I want to do business with. So these are things that you look at, at the end of the year when you analyze your business when you look at what you're doing, which is exactly what you and I are talking about, what's the mix of business?

Client ▶ 00:35:17

And now help me understand the payer mix. Does most of the work comes from insurance and you need to work with the insurance to get paid? Or how does that works?

Expert ▶ 00:35:27

No. You don't want insurance company. Some people do specialize in it. Most of the work comes from, again, bid or negotiated through relationships, okay. For instance, you are the roofer for a private college. They have a budget. They're going to put solar in a bunch of their rooms. And they call you up, they say, I need you to inspect all my rooms to see if they're solar-ready.

If I can just go ahead and put solar panels in these rooms and you come back and say, okay, roof A is repairable, and it should last 25 years with repairs, and we can definitely do that. And here's the budget for that. Roof B is trash. It's got water in it and you got to tear it off, you got to put a new roof on it, you get a 20-year warranty and go with that. But you're getting paid directly by the owner. There is insurance work out there there are companies I'm sure that specialize in that.

But the big companies that do the, what's it, the hurricane damage, the fire damage, all that stuff, the nationwide company, Service Pro. And here now, we've got one called the Davis Group. They're shopping roofers right and left because they want the best price because they want to control everything. And then you have that intermediary that's controlling your money.

So if I'm bidding work, then the entity I am bidding to, be it the state, the military people, the base I am on, these are the people that are paying me. If I'm going through a general contractor then the general contractor is billing the owner, every 30 days, we're putting in a requisition usually by the 25th of the month, based on AIA document and a portion of that AIA document, which is called a schedule of values.

And this is all contract work. This is all bid work that involves a contract, and the contract spells out exactly how you bill, how you get paid, all this stuff. So you send to bill a general contract. The general contractor puts the bill, send it into the owner. It's already 30 days behind schedule. So you already there backed up 30 days before they want to look at it. And if you're lucky, you get paid in 60.

Typically, the first bill gets paid in 90. But all your bills are due because you bought all the material to do the roof, maybe \$1 million, maybe \$100,000. So hopefully, you've negotiated some good

terms with your supplier that they're going to give you net 60. So you have time to pay because they know the contractors don't pay in 30 days when bills normally come due.

Client ▶ 00:37:56

Just for me to write down the number for me to have my notes. How much would you say comes from insurance, although it doesn't sound like that's the work we will want to get, but just to note.

Expert ▶ 00:38:08

We didn't have any real insurance customers. I never did, not in service. We tried to work with Davis a couple of times here locally. It just never worked out, we just could be cheap enough, we couldn't be competitive.

In this industry you want to look for customers, you will look for people that have this well-established service department, they've been doing this for 10, 15, 20, 25 years. They have a service department that has been around for 25 years, and you want to look at the volume that they're doing over this course of the history, over their history, and you will look at the dollar volume and the gross profit, for the service department.

Because the service department becomes the rock, the base. That money comes in, that's not cyclical. That money you can count on every month. Don't get me wrong, some months are way better than others because that's just the nature of the weather and the economy. But you're almost guaranteed that service is going to do x amount of dollars every month. If it goes with the minimum, other months are going to do better. And they track this, they have all this.

So this is stuff you can look at when you look at the overall dollars that a company is doing every year. So you look at the size of the company, how many millions of dollars are you looking at? How much of it is service, 15% to 20%, maybe 25%, 75% is everything else. Payment is good. They're getting their money. They're collecting it rather quickly, and their gross profit is 40% and up.

You don't want anything that's not generating a gross profit less than 40% because then you're trading dollars. 40% is when you start really making money. I mean, that was CentiMark's goal back when I worked in the '90s was 40%. If you weren't making 40%, you weren't doing squat, general gross profit.

Client ▶ 00:39:59

We have that commercial as a whole over the great financial crisis. It went down somewhere between 20% and 30%, including all that decline in new construction and some smaller declines in reroofing. With the right strategy, how much do you think it would have come down if we are focusing only on most of the work coming from service?

Expert ▶ 00:40:20

At the Mid-Atlantic. Break the Mid-Atlantic half. Just break out Maryland, Delaware, Virginia, D.C. Just look at those four. Look at those four against your national. You got to remember, they print the money 50 miles from Baltimore. There's always work here. Remember I said at the beginning, x amount of square foot of roofing is going to get done every year in this area, no matter what, it's going to be a portion now, but it's x amount.

It might be x minus a little bit, not much different. New construction is almost always bid work unless you're in tight with the owner. And because you must have to go through a general contractor and you have a document, you have an AIA document, and that's just the way it is. But renovation and reconstruction and reroofing, that is an open market. It could be bid like the federal government bids, the military bases been reroofing all the time, municipalities, state office buildings, all that stuff and property management.

So occupancy of buildings drives property management roofing. If they don't have occupancy, they aren't reroofing it. They might keep it from leak and so they can show it with no stains in the ceiling tiles, but until they get a tenant, they aren't investing any money into anything. So occupancy is the big thing you need to look at in the area that you're moving into. Are the property managers, are they 80%, 90%, 95%, 97% occupied, the building is occupied.

That drives the property management market. The buildings aren't occupied, they aren't doing squat to them. So how is that? Next is the recession-proof industries, like hospitals, how many hospitals are, how big are they or how many you're building?

And then private concerns like banks and how big are the banks going how fast they're changing and who are the player. And schools, private schools, private colleges that drive their own train. I mean these are somewhat recession-proof markets for roofers. So you can look in the region you plan to invest in.

Client ▶ 00:42:20

And so, if we were to hit another severe recession, do you think some of the service work can be postponed? You can just take them off just a couple of months or a year if the situation was that?

Expert ▶ 00:42:32

Most property management firms because of the people that they're representing are required by the insurance companies to do two inspections a year and maintenance. They have to. It's part of the portfolio requirements. Especially the bigger ones. The owners of some of the that are managed by CBRE are huge, huge banking firms and huge investment firms.

These are standard requirements. You have to do these inspections because okay, every year, every building is worth x amount of dollars. And one of the most major drawbacks to that pool of money is the roof. If you tell a bank or an insurance company, that the roof is shot, guess what, they're going to set aside the money to do that roof and you're not going to have it as investment capital.

So it is a requirement every year for these two inspections, and most of them have this issue because you have this pool of money that's set aside for you to play with. So if the roof is shot, you're not getting that money, they're setting aside \$2 million or however much money it needs until you get the roof done.

And then over the 20-year warranty, they work that might add money back in your budget to borrow, to build, to do whatever you want to do with. So some of these things aren't going away no matter what the economy does. But again, occupancy will affect that. Certain things will always be done, but occupancy will affect whether the repairs are actually carried out, where the roof is replaced.

Client ▶ 00:43:59

And now just a final question since we thought this would be a more cyclical industry than what it sounds now. We were trying to come up with adjacent market to reducing offerings to make this more resilient and to maybe expand the market size.

Expert ▶ 00:44:14

You got roofing. You have roofing, the building envelope and waterproofing. The building envelope is the heading. Under that, you have roofing, the facade and waterproofing. You have three different markets, and then you have solar. You have solar. So, if you look at most roofing companies right now, most roofing companies, the big ones, the ones that are innovating, that are growing. They have the roofing. They have a panel division or rain screen or a façade.

The exterior of the building you're making and providing certain things or they're manufacturing metal roofing. But they're manufacturing metal components for the building envelope. Some people are roofers and waterproofers, below grade. Waterproofing is a whole another, it uses a lot of the same products, but it's a little bit different application. And it's more of the Wild West, but it's a lot harder sometimes gauge the profitability only because of the weather.

We are here in the Mid-Atlantic, we get a ton a rain and that's a technical term. Anyways, we get a lot of rain per year, which is something you need to know and need to look at how much precipitation we get because we do a lot of roofing and a lot of waterproofing and a lot of below grade. And then the metal panels. And then the big companies have all gone into solar, whether they make the panels themselves or just install it or both.

And even one guy went into the energy business, not only did they do solar, but he's become an energy company where he'll, let's say, you are Northrop Grumman. And you want to get into solar, but you really don't want to make the investment yourself. So I come in and I say, okay, I'll put a solar farm out there for you, I'll build it, I'll put it on the ground.

I'll point at the sun, and you buy the energy from me for 25 years. So I'm an energy company now. And there's guys that are doing that, some are independent of the roofing company that started them and some aren't, but roofing and sheet metal are common. Roofing, sheet metal, waterproofing.

Waterproofing is a whole separate division, especially below grade. The more important

waterproofing is from the outside in. Once we have a leak through the building, that's bad news, very bad. And the lower you go, the greater the pressure, for instance, the water is being pushed against that wall a lot harder, 100 feet down than it is 10 feet down.

What they do is blow grade, you have waterproofing and you have all kind of products, but bituminous products, you have wall clay, you have all kind of things. But waterproofing is a very interesting business. The problem is, in the old days, the waterproofing contractor would write out the preparation, for instance, if I'm working 100 feet down in a pit, I'm going to write out the clean and dry because every time it rains, that pit is going to fill with water, it's got to be pumped out, it's going to fill with dirt.

So the day it's ready, and I go out and I clean it up initially and I'm ready to go and it rains again, and it dumps a bunch of dirt in there, it's a mess because now I got to clean it again and again and again at prep and dry to do it before I can apply the waterproofing. That and safety, the deeper you go, the more unsafe it is, you got to shore the walls, you've got to do a lot. It's a very lucrative industry. Basically, warranties aren't worth the paper they're written on because every warranty will exclude the excavation.

You got a leak 100 foot down in your building, well, they are excavating to expose that, it's not my headache. And 90% of the time, the damage will be done either doing the excavation or doing the backfill. Typically, waterproofing is compromised doing the backfill once they put the dirt back in or whatever the substrate, whatever the stuff is that's going in against the building or if they go to expose it to find it, they're going to damage it because that's just the nature of the beast.

Waterproofing is a whole another ball game. The building envelope is more fun. If you want to look into something, look into rain screens, just Google, rain screen. And look at what comes up in terms of facades and waterproofing or weather proofing that goes behind the building, which is now is going hand-in-hand with roofing. So, you've got a guy that's got a roofing company. He does sheet metal, and he's got some big machines that make stuff.

Now he wants to get into rain screens. He wants to put the weatherproofing membrane behind the rain screen and put the rain screen because he is manufacturing. It is great, great profitable work or you get into solar. Not only do you do the roof, but you build the solar panel and then you put it on there and you might even own the energy company or let them do whatever they want because the government is providing.

I mean, there are so many, let's say, underwritten things and grants and rebates from the government for solar, depending upon what state you are. Sometimes it's state and Fed, sometimes it is Fed, sometimes it is state, but there's stuff out there. And sometimes the energy companies provide incentives. I'll give you an example.

I just put in a new air-conditioning unit, a heat pump and hot water heater and got rebates back from my energy provider, my local energy provider, which I'm sure they got them from the state or possibly the Feds, but I got \$2,500 upfront in rebates. And now every bill, I get a discount because of the high efficiency of the stuff I purchased.

Client ▶ 00:49:43

And while on the subject of the building envelope, would something like insulation also be a fit here?

Expert ▶ 00:49:50

Insulation is a major component of the roofing. That's part of the roof assembly. But as far as the building envelope, usually insulations going on before the rain screen and it's usually not a component of the roofer or the rain screen provider. It's already there, and the vapor barrier is over the insulation. I mean it's something that you could down the road look into.

You could control the insulation, you could control the vapor barrier, you could control the weatherproofing and then you control the screen, the facade. The only issue is the more you control, the more liability you run into, if you know what you're doing, that's fine. Again, just remember, though, you got to have the people to do the work. It takes a lot less to manufacture the panels than it does to install.

So a lot of times, you just want to look at somebody that's not only a roofer, but is making the products, making the panels. And usually, they are two separate entities. I mean they're one building or one guy, one owner, but they have two different names, they might have one name for the roofing company and another name for the metal manufacturing company that they're running.

Client ▶ 00:50:59

So, the most interesting adjacent market would be that waterproofing for me to look?

Expert ▶ 00:51:04

Waterproofing is, I did it early on, and I shied away from it because it's too hard. The weather and the labor, it's very difficult to gauge that and to control it because there's too many factors out of your hands. There's too many people in front of you. There's too many people around you. That's why as a service manager, I controlled the narrative.

I controlled what I was going to do, I controlled the price, I knew exactly how I was going to do it. What I was going to do and if you wanted it, you march to my tune because you trusted that I was going to give you the best product for the money you were spending. I didn't have to dance to anybody else's tune. It was my tune. It was my control. The more control you have as the contractor, the faster you're going to get paid, the less hands it's going to work, pass through and the more money you're going to make.

And which basically pulls back down the relationships. Give you an example of companies that have spun off and done well. One of the largest roofing companies in Baltimore for over 100 years is Cole Roofing. They are also Gordian Solar or Gordian Energy, okay, same owner, same everything, and they have spun off a solar business that they spun off years ago. And this is what the roofers do in terms of what you were asking, what's the next step?

Or they buy sheet metal equipment, and they can manufacture metal roofing, metal rain screens, metal panels, composite panels, facades. They don't have to do the work themselves. They can

just sell it and ship it because the machinery does most of the work and the computer does most of the rest, and you need a guy to start to roll and a guy to take it off.

It's not very labor intensive, okay, to make metal, to fabricate metal today. It's a great business, and that's usually one of the spin-off business that most roofing contractors go into, one of the first things is roofing and sheet metal. The unions here, the unions in Philly, the roofing unions, Mary roofing and waterproofing have for years. So if you're a union contractor, you're schooled in waterproofing.

If you look at the union contractor, most union contractors are required to do roofing and waterproofing. But their employees aren't really theirs. They come out of the hall. They try and typically employ the same people year round, if they can. Unions can be a real difficult thing in terms of control. Imagine you're out there getting to work. And in a lot of ways, it's kind of like subcontract.

The only difference is the unions have a lot more say than subcontractor. Subcontractor signs a contract that says he's going to do x amount of work for x amount of dollars. And automatically, you have a fixed rate on your labor and you know exactly what's going to cost you. There's no variables. You know exactly how much money you're going to make on labor all of a sudden. It's not a crapshoot.

It's not a roll the dice. Well, we could make this much, we could make that but we know automatically before the job starts. It's, well, we're going to make 35% on labor because we've got \$100,000 in the job and these guys are going to do it for \$65,000, end of story. Unions are tougher to control. What you want to do, very simple, you look at commercial waterproofing or start with the building envelope.

When you start with those words, we are building envelope, you're going to get roofing, you're going to get to facade or rain screens. You're going to see something called thru-wall membrane flashings, which will kill anybody, which I could take never. That's a whole another small section of the building envelope, which is probably the most important, if done incorrectly. Basically, what you need to know is that masonry leaks.

Mortar leaks, mortar will via capillary action draw water into and behind the facade. That's why they call them rain screens, not rain waterproofing. They know the water is going to come in. So now they've got to weep it back up before it goes into the building. Therefore, that's why you have what's called concealed membrane flashings, which is all part of the building envelope, the building façade.

And then you have the below-grade waterproofing, and there's all kind of components into that. There's expansion joints and below-grade expansion. There's product out there that cost over \$300 a foot to buy, not to install just to purchase. And that's more concrete expansion, it's below grade. You've got an expansion joint where two pieces of concrete meet and you have to have an expansion joint or control joint.

Concrete doesn't leak in and of itself. And it cures forever. But once you stop a pour and you do a pour the next day, that joint there, that is different material because concrete does not seal the concrete. If I poured x amount of square feet on Thursday, and I go to pour another x amount of

square on a Friday, that joint were those two meet, that's now a controlled joint or an expansion joint, how it's designed.

Because they don't join and they don't keep water. So that becomes a waterproofing issue, concrete against concrete. New concrete against old concrete. They just don't seal. And they've been fighting that battle forever. Water is fun. Roofing and waterproofing are the most litigated industries in the market because that's where everybody steals money. Waterproofing is not pretty, nobody sees it, and neither is roofing. It's up top.

You might see a metal edge, but I want my marble steps, and I want my teak interior wood paddling. That's where we'll make money, if I'm building a building enough, especially if I'm building a Casino, that's where they take the money. And the weather, the thing about the Mid-Atlantic region is we get a lot of rain every year, no matter what, we're going to get x amount of inches rain. If we don't get it in the first half of the year, we're going to get it in the second half, but we're going to get it. If it says we get x amount of inches, we're going to get it.

So that's something you can count on. So it's wet here. So roofing is very important. And we've got a lot of government here. We've got a lot of facilities here. We're pretty densely populated. And we have got some major airports, and you've got major players here with the military, people always want to do business with the military. We've got Northrop. We got Lockheed Martin, we got some major players, we have got Johns Hopkins.

We got Raytheon. We've got so many different things in this area. The market is good. And we are more recession-proof being located just where we're located than most other portions of the United States. When you do your democratic demographic look sees, shrink it down to Maryland, Delaware, Virginia and D.C. Shrink your market to those things and see if the numbers don't go up a little, a little better. There's not a little more, there's less volatility. There's less recession.

For instance, Fargo and South Dakota, just stop working altogether because of the 1991 recession, but in Maryland, they had a recession. Occupancy went down, this went down, but still, most everybody survived. A few people went out that were small and just starting, but most of the companies survived and were stronger for it. So just you want to look at what their volume of business is, how much is negotiated?

How much is bid, you want to look at their accounts receivable, how fast do they turn in their money? How fast do they getting it? How long have they been in business? Another thing to look at is age. I know that's crazy, but a lot of people are aging out in this industry, especially good service mechanics and good roofing mechanics. And so you got to look at, do they have a training program.

Are they involved in training their people all the time? How are they bringing people up? How are they maintaining their labor force in their labor pool. And these are big things to look at because labor is the major thing that's going to affect every trade throughout America as things go, unless something changes, unless something changes to increase the labor pool. It's just not there. Everybody is trying to teach and everybody is trying to train, but you've got a tremendous amount of trades that want people.

I'm going to give you one free thing to think about. This is something that as a retired person that

I've been thinking about, because of my knowledge in the industry, I am trying to create a cradle-to-grave industry of roofing. Whereas as a consultant or the service manager or whatever you want to call it, but I'm going to call it a consultant.

You're my customer, you come to me and say, "I got a major problem with this roof". And I go, okay, let me go check it out. And I go out, you hire me to check out the problem, research the problem, tell you what's wrong. I tell you what's wrong. I tell you what needs to be done, and then I find somebody to do it at a great price. I supervise them. They do the work. They provide the warranty. And you enter a service contract with them. So now your roof, your building is protected for life.

And I want to do this cradle-to-grave, and I want to do it with the Hispanic roofers. And right now, I'm starting off very slow because I only have one customer, and I have one Hispanic roofer that I've known forever, that I've worked with forever. And I am beginning to put that model into place very soon.

Client  01:00:12

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.