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|| iEXPERT REPORT OD6064

Tree Trimming Services

May 2019

Snapshot

Total Revenue
2019



\$24.3bn

Profit Margin
2019



8.1%

Annual Growth
2014-2019



6.4%

Wages as a share of Revenue
2019



27.9%

Annual Growth
2019-2024



1.1%

Number of Businesses
2014-2019



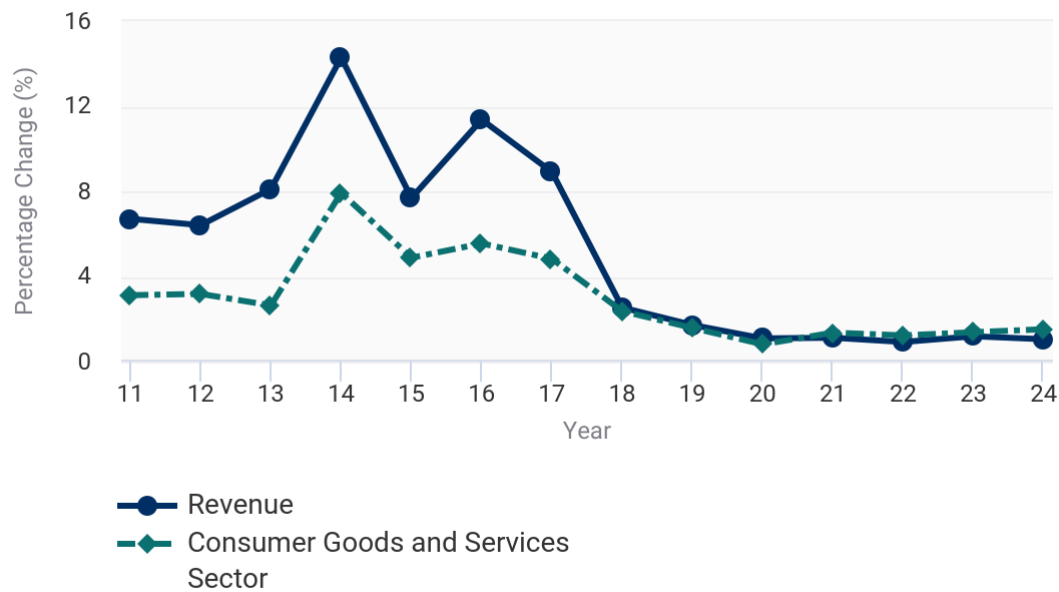
1.4%

Industry Structure

	Level	Trend		Level	Trend
Life Cycle	Mature ☹		Regulation Level	Medium ☹	Increasing
Revenue Volatility	Medium ☹		Technology Change	Low ☑	
Capital Intensity	Low ☑		Barriers to Entry	Low ▲	Increasing
Industry Assistance	Low ▲	Steady	Industry Globalization	Low ☑	Steady
Concentration Level	Low ☑		Competition Level	High ▲	Steady

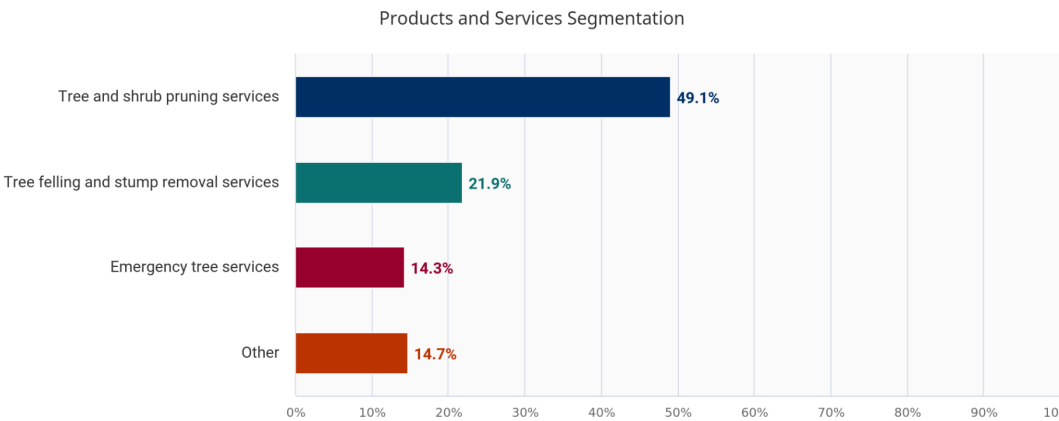
Key Industry Data

Industry Outlook 2011-2024



Tree Trimming Services
Source: IBISWorld

Products & Services Segmentation



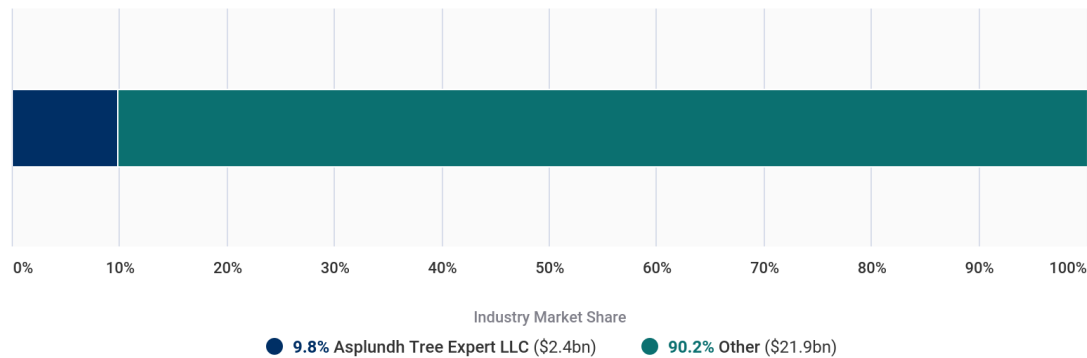
2019 INDUSTRY REVENUE

\$24.3bn

Tree Trimming Services
Source: IBISWorld

Major Players

Major Player Market Share



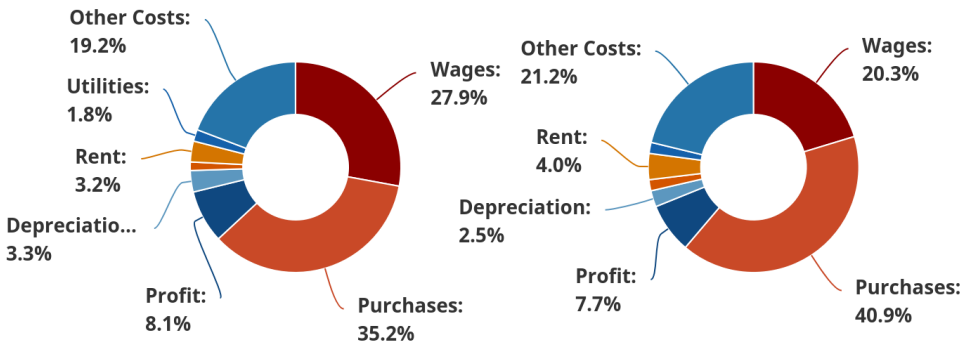
2019 INDUSTRY REVENUE

\$24.3bn

Tree Trimming Services
Source: IBISWorld

Cost Structure

Sector vs. Industry Costs



Industry Performance

Performance Summary

The Tree Trimming Services industry provides arboricultural services to residential, commercial and public-sector clients.

These services include cutting and pruning branches, removing dead or excess trees and stump grinding and removal; operators may also provide transplanting, insect control and other services. Demand for industry services is dependent on seasonal factors, residential and commercial construction, as well as levels of government spending dedicated to parks, forestry and development. Over the five years to 2019, favorable macroeconomic trends and higher levels of construction activity have precipitated industry growth. Industry revenue is expected to grow at an annualized rate of 6.4% to \$24.3 billion during the five-year period, including a 1.7% increase in 2019 alone.

The industry is highly fragmented, characterized by a large number of nonemployers and small businesses. Although some operators cover large geographic areas, most companies service narrow, local markets. Employees typically attain certification in a specific area or practice. Growth in residential and commercial construction has led to higher demand for a range of landscaping services. The housing market is exhibiting positive trends, with the number of housing starts expected to grow at an annualized rate of 4.9% over the five years to 2019. As the number of housing starts increases in line with a rise in the value of residential construction, industry operators will exhibit an uptick in demand for industry services. Meanwhile, increasing state and local government spending along with rising levels of amusement and recreation construction, which includes parks, have also supported industry revenue growth during the five-year period. Industry profit margins have also increased over the past five years.

Over the five years to 2024, industry revenue growth is expected to decelerate, rising an annualized 1.1% to \$25.7 billion. This slowdown is expected to occur as a result of an expected decline in state and local government investment activity, as well as a deceleration in the number of housing starts and in private spending on home improvements. Moreover, average wage growth is expected to slow down as well, which will limit demand growth for industry operators. Overall, the industry is expected to perform in a similar manner over the next five years though key drivers of industry activity will be more subdued, causing an expected deceleration the industry revenue growth.

Industry Issues

Threat

The national average minimum wage measures national wage costs. As wage costs increase, industry operators will be required to raise prices to maintain the same level of profitability, which will push industry revenue up, but may limit demand and profitability growth. However, if too large of a price increase is passed on to customers, this may limit demand and harm industry revenue. The national average minimum wage is expected to increase in 2019, posing a potential threat to the industry.

Opportunity

Government spending on the maintenance of parks, schools, hospitals, community centers and other public areas drives demand for tree trimming services. As a result, demand from the industry's government clients is dependent on local and municipal budgets. Local and state government investment is expected to increase in 2019, presenting the industry with a potential opportunity.

Call Preparation Questions

Role Specific Questions

Sales & Marketing

Do your company's sales depend on the overall health of the US economy?

Demand for tree trimming is seasonal and will follow the general business cycle.

When per capita disposable income is higher, consumers will likely make more nondiscretionary purchases.

Is your company exposed to revenue volatility?

Contractors that can enter into long-term contracts will have more stable revenue.

Contractors that enter into supply contracts with input suppliers will have reduced purchase costs and higher profitability.

Strategy & Operations

Is your company located in proximity to key end markets?

Contractors located in proximity to end markets will exhibit reduced transportation costs and higher profitability.

Contractors not in proximity to end markets may become uncompetitive.

Does your company contract a single service or an array of services?

Diversified contractors will exhibit less revenue volatility.

Nondiversified contractors may have a proven reputation and a competitive edge, boosting sales.

Technology

How is your company leveraging the latest technologies?

Contractors employing the latest technologies will exhibit higher operating efficiencies and higher profitability.

Contractors that do not adopt may become uncompetitive.

Has your company been able to reduce wage costs via the adoption of technology?

Industry labor costs are reflective of the skilled, hands-on nature of industry employees.

By adopting the newest technologies, labor resources can be redirected to more efficient use.

Compliance

How does your company ensure that all health and safety standards are upheld?

Compliant contractors will exhibit lower insurance costs and premiums, boosting profitability.

Noncompliant contractors may be subject to insurance cost increases, harming profitability.

Is your company prepared to adapt to shifting environmental standards?

Compliant contractors may be favored by the public, boosting sales opportunities.

Noncompliant contractors will be subject to fines and penalties.

Finance

How does your company's profit margin compare to those of your competitors?

Contractors that adopt the latest technologies will exhibit higher operating efficiencies and higher profitability.

Contractors that enter into long-term supply agreements with input providers will exhibit lower purchase costs and greater profitability.

Does your company have difficulty financing current operations?

Contractors that enter into long-term contracts will have stable revenue, despite the seasonal effects on the industry.

Contractors that operate across locales will be able to better handle seasonal cash flows.

External Impacts Questions

Impact: National average minimum wage

How much of your revenue do you allocate to wages? How will your cost structure change should the minimum wage in your area increase?

As wage costs increase, industry revenue will increase at the expense of profitability. If too large of a price increase is passed on to customers, this may limit demand and harm industry revenue.

Impact: Value of utilities construction

What percentage of your demand comes from utilities construction? Do you offer storm response and debris management?

Utilities demand industry services such as pruning, cabling, bracing, storm response and debris management.

Impact: Local and state government investment

How much do you work with government clients? How can you leverage your previous work to help you win government contracts?

Government spending on the maintenance of parks, schools, hospitals, community centers and other public areas drives demand for tree trimming services.

**Internal Issues
Questions****Issue: Providing services to groups with high disposable income**

What proportion of your revenue comes from high-income families? How did the recession affect these customers' patronage of your company's services?

Within the residential segment, operators should target geographic areas with a concentration of high-income households, since these households are more likely to purchase professional tree and shrub care services.

Issue: Access to a multiskilled and flexible workforce

Are there channels for promotion and career development within your company? How do you reward staff who perform well?

Due to highly seasonal demand, operators must have access to a large pool of available workers who can be trained and quickly placed onto a project.

Issue: Ability to expand and curtail operations in line with market demand

How do you keep track of company expenditures? What costs can you cut back on?

Due to the highly seasonal nature of industry services, operators must be able to grow or shrink their workforce in line with rising or falling demand.



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