

A Work Project, presented as part of the requirements for the Award of a Master's degree in Economics / Finance / Management from the Nova School of Business and Economics.

HOMESERVE - REDEFINING HOME MAINTENANCE

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Abstract

The purpose of the underlying work 'HomeServe – Redefining Home Maintenance' is to present HomeServe, a home maintenance services provider, as a valuable investment opportunity. Simultaneously, potential risks involved in the transaction are being analyzed to provide an objective recommendation. Being composed of a common and individual part, the common part presents HomeServe as a financially solid company with a sound business model, operating in a growing market. The individual part is particularly focused on the expected returns, value creation, and exit options. A performed sensitivity analysis is implying strong returns on a fund level even in worse scenarios.

Keywords

HomeServe, Home Maintenance, Investment Thesis, Private Equity, Leveraged Buyout, Value Creation, HVAC Market, Market Place, Investment Opportunity

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Table of Contents

1	Group Part	<u>p. 3</u>
2	Individual Part Returns & Value Creation Exit & Options Due Diligence Individual Essay	<u>p. 20</u>
3	Appendix	<u>p. 31</u>
4	Bibliography	<u>p. 38</u>



1

Group Part



Company Profile

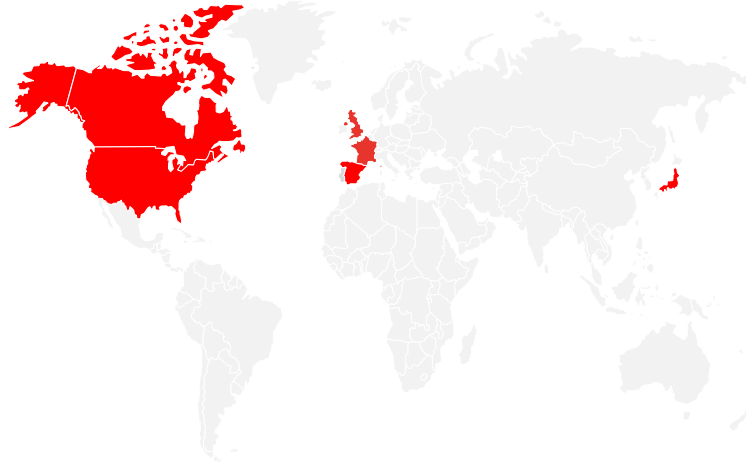
HomeServe's vision is to become the world most trusted provider of home improvements and repairs

About HomeServe

- HomeServe PLC (LSE: HSV) is a **home maintenance** services provider, which offers emergency services and insured repair solutions to households.
- **Founded in 1853** as The South Staffordshire Waterworks Company, it currently has **7.201 employees**.
- The company has its **headquarters in Walsall (GB)**.
- HomeServe sells its services either directly to homeowners or indirectly through tradespeople and insurance companies.



Geographies



North America | UK | France | Spain | Japan

Financial Results

In (£ m)	FY15	FY16	FY17	FY18	FY19	FY20
Revenues	584	633	785	899	1,003	1,132
COGS	(332)	(356)	(428)	(475)	(525)	(589)
EBITDA	111	123	154	197	227	270
Net Profit	56	61	74	95	108	105
NWC	11.4	9.9	1.6	11.5	49.3	92.7
Capex	(52.8)	(63.9)	(58.5)	(125.3)	(108.1)	(82.5)
Net Debt	63.5	168.6	260.8	237.3	304.7	509

Management



Richard Harpin (55)
Chief Executive

27
Years



David Bower (48)
CFO

15
Years



Tom Rusin (51)
CEO, Membership

9
Years

Partnerships



- HomeServe's strategy is based on long-term relationships with partners whose brands are related to its products (e.g. utilities and insurance companies)
- Network of 1,000 Affinity partners (utilities company, underwriters, heating manufacturers)
- Key partners' benefits include earned commissions and reliable service for clients

Global Business Lines

HomeServe reaches homeowners through two global business lines

	Membership	HVAC	Home Expert																		
Description	<ul style="list-style-type: none"> HomeServe sells contracts and insurance policies to homeowners to cover a range of home emergencies via subscription-based Membership services, acting as an intermediary HomeServe does not take any material insurance risk 	<ul style="list-style-type: none"> HomeServe offers solutions for the installation, maintenance, repair, and replacement of heating, ventilation, and air conditioning Complementary to the Membership business Gives HomeServe new opportunities to sell Membership policies 	<ul style="list-style-type: none"> Online marketplace to find checked and reviewed local tradespeople for a broad range of home repairs and improvements HomeServe matches tradespeople with consumers in their local area via the company's owned platforms Checkatrade (UK), Habitissimo (Spain), and eLocal (North America) 																		
Revenue Stream ²⁾ & Contracted Customers	<table border="1"> <thead> <tr> <th>Revenue Stream</th> <th>Contracted Customers</th> </tr> </thead> <tbody> <tr> <td>Intermediary commissions</td> <td>Underwriter</td> </tr> <tr> <td>Repair income</td> <td>Underwriters and B2B contracted parties</td> </tr> <tr> <td>Home Assistance</td> <td>End consumer (Homeowner)</td> </tr> </tbody> </table>	Revenue Stream	Contracted Customers	Intermediary commissions	Underwriter	Repair income	Underwriters and B2B contracted parties	Home Assistance	End consumer (Homeowner)	<table border="1"> <thead> <tr> <th>Revenue Stream</th> <th>Contracted Customers</th> </tr> </thead> <tbody> <tr> <td>Provision of installation services</td> <td>End consumer (Homeowner)</td> </tr> </tbody> </table>	Revenue Stream	Contracted Customers	Provision of installation services	End consumer (Homeowner)	<table border="1"> <thead> <tr> <th>Revenue Stream</th> <th>Contracted Customers</th> </tr> </thead> <tbody> <tr> <td>Website subscriptions</td> <td rowspan="3">Tradespeople</td> </tr> <tr> <td>Directory advertising fees</td> </tr> <tr> <td>Lead generation</td> </tr> </tbody> </table>	Revenue Stream	Contracted Customers	Website subscriptions	Tradespeople	Directory advertising fees	Lead generation
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Website subscriptions	Tradespeople																				
Directory advertising fees																					
Lead generation																					
End Consumer	Homeowners	Homeowners	Homeowners																		
Who decides what to do?	<ul style="list-style-type: none"> Insurance Company: decides what is insured (e.g. pipelines, switches etc.) and the claims limit (number of claims and amount covered) HomeServe: HomeServe decides, what service or repair is needed 	<ul style="list-style-type: none"> HomeServe: The company decides on how to install, repair, maintain, or replace a device 	<ul style="list-style-type: none"> Tradespeople: Tradespeople decide on how to repair or maintain a device in the homeowner's house 																		

Notes: ¹⁾ HomeServe refers to Membership and HVAC as one business line; ²⁾ More details on each revenue stream in Appendix I
 Nova School of Business and Economics | HomeServe - Redefining Home Maintenance | Hannah Bötow | January 2021

Historical Financials

HomeServe's buy-and-build strategy and synergies between business areas improved margins

1

Membership & HVAC

Since FY18, HomeServe considered revenue from Membership and HVAC as two separate business lines. Up to FY17 they were accounted under a common caption because HVAC wasn't considered a main growth driver for revenue.

2

HVAC & Home Expert

FY19 and FY20 were significantly important for HVAC and Home Expert businesses. Pursuing the buy-and-build strategy, both business areas had an outstanding growth (81% and 78%, respectively).

3

Revenue Growth

The end of the partnership with Endesa in May 2018 had a significant impact on the business lowering revenue growth. Additionally, HomeServe had been slow in acquiring new companies during the year (2018), causing an impact by -2% on revenues.

4

Adjusted EBITDA

Compared to Adjusted EBITDA, the Net Profit growth is slower than expected due to the company income tax rate in the overseas countries which are higher than UK tax rate of 19%. Pursuing growth in North America, this effect will become more relevant in the future. EBITDA growth is not representative as part of it comes from the application of the new IFRS 16. According to the new legislation, operating leases charges that were previously shown within operating costs are now part of depreciation and interest charges.

New Business Lines Segmentation

Income Statement ¹⁾ (in£m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Membership	549.8	566.2	597.2	753.7	840.2	910.6	972.9
HVAC	0	0	0	0	32.2	44.8	80.9
Home Expert	0	0	0	0	18.6	40.4	71.8
Other ²⁾	23.9	24.2	42.2	38.5	16.6	15.1	14.5
Inter Segment	(5.4)	(6.2)	(6.2)	(7.2)	(7.9)	(7.3)	(7.8)
Revenues	568.3	584.2	633.2	785.0	899.7	1,003.6	1,132.3
<i>Growth</i>		3%	8%	24%	15%	12%	13%
COGS	(298.1)	(332.5)	(356.1)	(428.0)	(475.4)	(525.5)	(589.1)
Gross Profit	270.2	251.7	277.1	357.0	424.3	478.1	543.2
<i>Gross margin</i>	48%	43%	44%	45%	47%	48%	48%
Adjusted EBITDA	106.9	109.4	122.7	154.2	197.6	221.9	275.3
<i>Adj. EBITDA margin</i>	19%	19%	19%	20%	22%	22%	24%
Net Income	10.0	56.1	61.6	74.4	95.9	108.3	105.8
<i>Profit margin</i>	2%	10%	10%	9%	11%	11%	9%

Notes: ¹⁾ Detailed Income Statement in Appendix II; ²⁾ For simplicity, the caption New Market is accounted in Other Revenue until 2017 since this caption appeared for the first time in 2018 on the income statement

Historical Financials

HomeServe showed great ability taking decision to maintain profitability during the pandemic

1

Net Debt

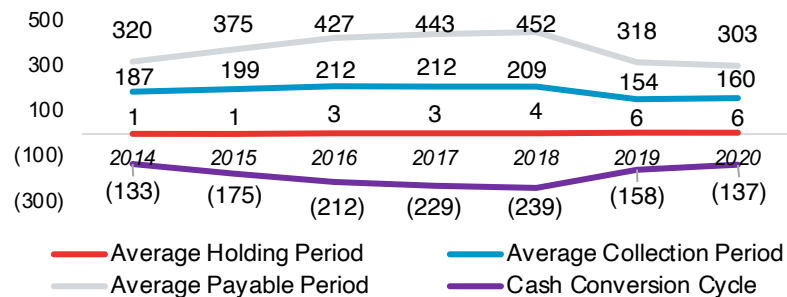
HomeServe's Net Debt have increased over the period from £41.8m in FY14 to £509m in FY20. However, Net Debt/EBITDA stays in the range targeted by the company (1-2x).

The increase of debt is partially offset by the increase of cash, needed mainly to exploit possible M&A activities which could arise. The only decrease of Net Debt/EBITDA in FY18 is due to a significant debt repayment of £ 226.5m.

2

NWC (excl. Cash) & Cash Conversion Cycle

Inventories are low due to the nature of the business. NWC is mainly composed by the difference between payables and receivables. It has been increasing along all the years (except for FY17) due to a greater increase of receivables over payables, mainly between FY19 and FY20 (further details in Appendix VII). Further, the Average Payable Period experienced a decrease in the last three years (552 days (FY17) to 303 (FY20)). If this process continues in the future, it could affect HomeServe's profitability in the long run.








New Business Lines Segmentation

Balance Sheet ¹⁾ (in £m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Cash and cash equivalents	96.2	74.7	54.2	46.2	57.8	72.6	131.2
as % of revenues	17%	13%	9%	6%	6%	7%	12%
NWC excl. Cash	(5.9)	11.4	9.9	1.6	11.5	49.3	92.7
Total Debt	138	138.2	222.8	307	295.1	377.3	640.2
Net Debt	41.8	63.5	168.6	260.8	237.3	304.7	509
Net Debt/EBITDA	0.39x	0.58x	1.37x	1.69x	1.20x	1.37x	1.85x
Cash Flow Statement ²⁾ (in £m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Adjusted EBITDA	106.9	109.4	122.7	154.2	197.6	221.9	275.3
Income Tax	(14.4)	(20.6)	(21)	(23.9)	(27.4)	(31.2)	(32.1)
Change in NWC Excl. Cash		(17.3)	1.5	8.3	(9.9)	(37.8)	(43.4)
Adj. Norm. Operating Cash Flow	92.5	71.5	103.2	138.6	160.3	152.9	199.8
as % of revenues	16%	12%	16%	18%	18%	15%	18%
CAPEX	(33.6)	(52.8)	(63.9)	(58.5)	(125.3)	(108.1)	(82.5)
as % of revenues	(6%)	(9%)	(10%)	(7%)	(14%)	(11%)	(7%)
Net acquisition of subsidiaries	(2.4)	(1.1)	(5.3)	(75.9)	(50.3)	(37.5)	(140.6)
Cash Flow from Investing	(35.5)	(58.4)	(69.2)	(158.8)	(174.5)	(158.4)	(217.6)
Bank and other loans ¹	13.1	3.4	82.7	73.5	(8.6)	73.7	181.8
Cash Flow from Financing	(22.9)	(30)	(53)	33.1	59.8	10.3	85.3

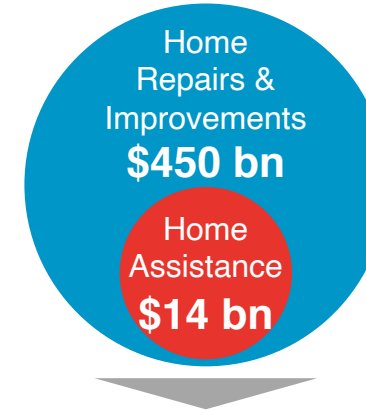
Notes: ¹⁾ Detailed Balance Sheet in Appendix III; ²⁾ Detailed Cash Flow Statement in Appendix IV

Geographical Overview, Market Size, and Growth Drivers

The different markets HomeServe operates in are growing at sound CAGRs, depicting huge opportunities for the future

Geographical Overview		
Geography	Description	Markets
 North America	<ul style="list-style-type: none"> Highest growth potential HomeServe's most established HVAC business Market leader in NA 	Home Repairs & Impr. 2020-2025 CAGR 5.5% HVAC 2020-2025 CAGR 6.7%
 United Kingdom	<ul style="list-style-type: none"> Most mature membership business Only market with a bigger competitor (British Gas) 	Home Repairs & Impr. 2020-2025 CAGR 3.5% ¹⁾ HVAC 2020-2025 CAGR 6.0% ²⁾
 Spain	<ul style="list-style-type: none"> Market-leading claims business Few competitors in the plumbing & electric sectors 	Home Repairs & Impr. 2020-2025 CAGR 3.5% ¹⁾ HVAC 2020-2025 CAGR 6.0% ²⁾
 France	<ul style="list-style-type: none"> Well established Membership business with highest customer retention rates Few direct competitors 	Home Repairs & Impr. 2020-2025 CAGR 3.5% ¹⁾ HVAC 2020-2025 CAGR 6.0% ²⁾
 Japan	<ul style="list-style-type: none"> New Market & business development with innovation activities incl. a joint venture with Mitsubishi Corp 	Home Repairs & Impr. 2020-2025 CAGR > 4.5% ³⁾ HVAC 2020-2025 CAGR >6.0% ³⁾

Market Size ⁴⁾



Home repairs and improvements

- Broader market, covering trades like plumbing or kitchen fitting
- Expanding market since an increasing number of services are invented to satisfy the needs of modern homeowners

Home Assistance

- Stable market in the geographies HomeServe is operating in
- Focus on plumbing, heating and electrics
- Key to market growth is to expand into new regions with high quality housing stock

Growth & Cost Drivers

Growth Drivers

- Rise in the adoption of Smartphones
- Increase in number of Households
- Consumer Convenience for Home Services Needs
- Increasing popularity of Market Places
- Utilities and Manufacturers as Affinity Partners
- Adoption of Membership Subscriptions

Cost Drivers

- Labor costs
- Acquisition of new customers
- Platform maintenance expenses
- Price of supplies

Notes: ¹⁾ CAGR refers to European CAGR; ²⁾ Reflects adjusted global CAGR of 4.5%; ³⁾ Figures reflect APAC Market growth; ⁴⁾ Market size estimates incorporate the UK, US, France and Spain
 Sources: HomeServe, Global Market Insights, Business Wire, Prescient & Strategic Intelligence

Competitive Market

Highly competitive market with few well-established players

Porter's 5 forces

Threat of new Entrants

- High threat of new entrants in the marketplace sector
However, establishing an equal market presence and reputation is a challenge for new entrants in the Home Maintenance sector

Impact



Power of Suppliers

- As there are several available suppliers, they have relatively low power



Power of Buyers

- Buyers intend to pay the lowest price possible for the best offering available
- This pressure might grow when comparing trades online



Substitute Services

- Relatively few substitute services available
- High switching costs for customers as they do not know the quality of the substitute service yet



Competition in the Industry

- HomeServe's industry is composed of few well-established players with strong competition
- Low switching costs to competitors due to similar services
- However, HomeServe's approach to form partnerships with utility companies is unique



● Low ● Medium ● High

Sources: Company Websites, Verified Market Research, Capital IQ

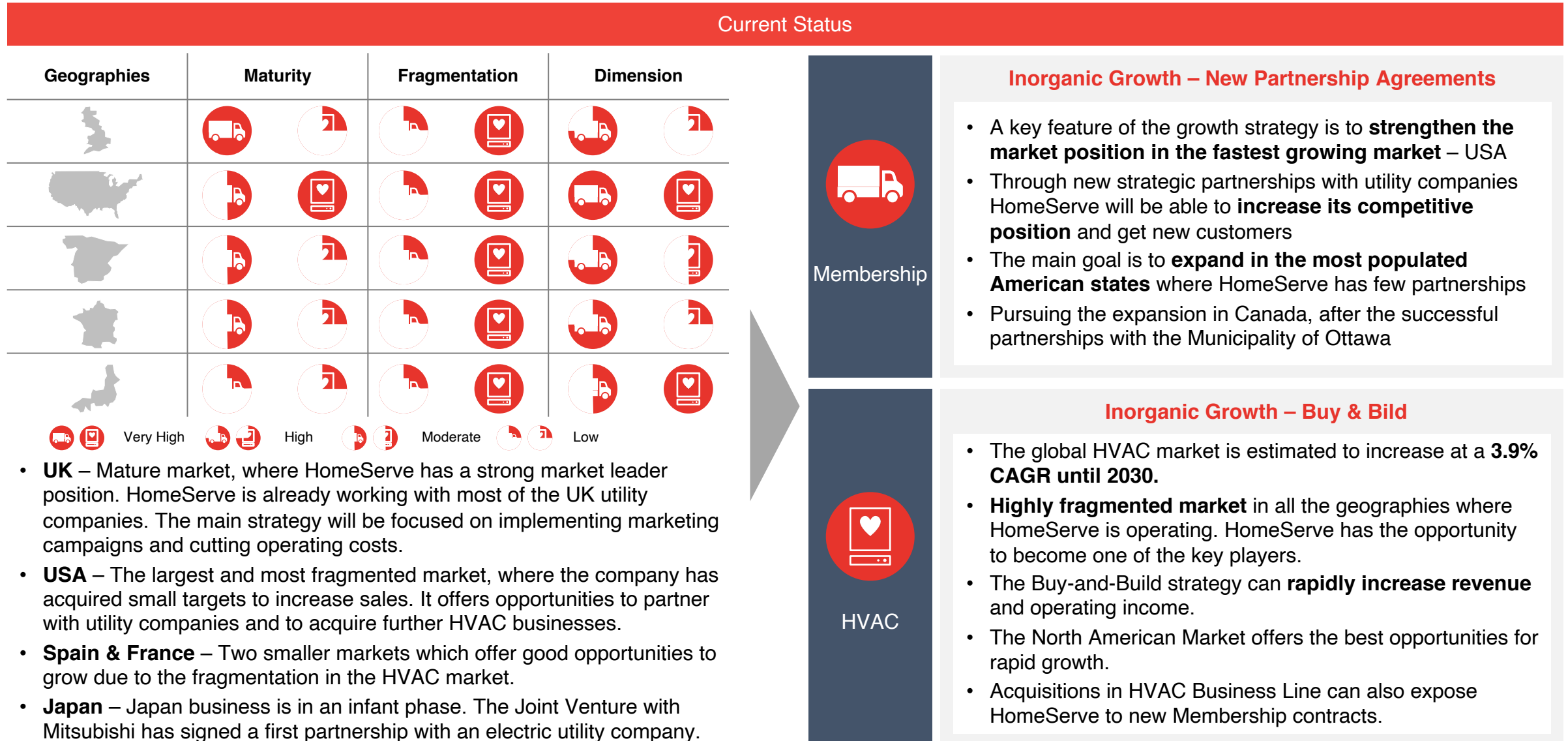
Competitors Analysis

Company	LFY Sales	Geographies	Marketplace	Membership	Brands
ANGI HOME SERVICES	\$ 1,397.6m	US, Canada, Germany, The Netherlands	✓	✓	myBuilder.com Angie's list fiXd e travaux Pour les artisans exigeants HomeStars MyHammer Werkspot handy
amazon	\$ 321,782m	US, UK, UAE*	✓	✗	amazon home services
British Gas	£ 8,741.8m	UK	✓	✓	Local Heroes A British Gas Innovation
frontdoor	\$ 1,418.0m	US	✓	✓	American Home Shield HSA HOME WARRANTY OneGuard HOME WARRANTY + SERVICE PLANS LANDMARK HOME WARRANTY Candu
AMERICAN WATER	\$ 3,690.0m	US	✗	✓	
enercare	\$ 1,310.5m	Canada, US	✗	✓	
ARS RESCUE ROOTER	\$ 1,903.0m	US	✗	✗	
JBR JAPAN BEST RESCUE SYSTEM	\$ 112.16m	Japan	✗	✓	

* Refers to Amazon Home Services

Expanding into existing markets via new partnerships and acquiring businesses

Strong focus on large and promising markets such as North America and Japan



Strategy to enter new markets

Entering the new geographies through a Joint Venture and signing collaboration agreements with existing and new partners will generate strong revenue

Joint Ventures & Partnerships

Overall Strategy and Execution

- **Joint Ventures:** A proven way to enter new markets is by forming a Joint venture structure such as that employed with Japan. It diversifies risk, minimizes investment, and reduces costs by 50%.
- After a successful formation of a Joint Venture and having set foot in the new market, HomeServe can find further **companies to partner with**.
- The expansion of the **HVAC business** will be carried out through subcontracting HVAC businesses.
- Close collaboration with the already existing **International development team** of HomeServe.
- **Benefits for partners** include: Commissions for every policy HomeServe secures through them and enhanced service for their customers.
- Expanding the **Home Experts platform** in these countries

How can HomeServe access their customer base?

HomeServe uses the partners to **contact customers**:

- Partners offer HomeServe’s services in their **call centers** or **affiliate links** on their webpages
- Direct **mail campaigns**
- Transferring **prospect sales calls** to HomeServe

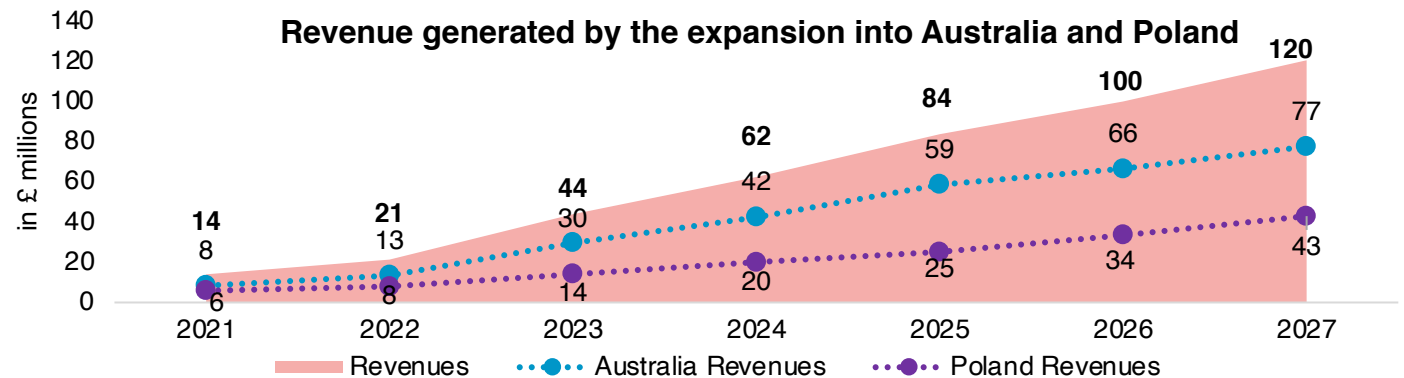
Strategy Rationale

- **Australia** and **Poland** show a high diversity of companies that HomeServe is already in a partnership in other countries.
- Thus, pursuing the strategy of entering a new market by forming a joint venture and partnerships, Australia and Poland seem to be a **good fit**.



Expected Results

- **Revenue growth** by £ 120m and **increasing household base** by 785k by 2027
- More **diversified revenue split** reducing UK’s and North America’s share of 33% and 38%, respectively
- **Broader geographic reach**
- Increased **global presence and reputation**



Unification and Consolidation of Home Experts Platforms

The consolidation of HomeServe's three platforms will result in higher brand awareness and cost cutting

Current Status

Currently, HomeServe owns 3 platforms operating under 2 different business models, the subscription-based model and the lead generation model.

- **Checktrade:** subscription-based business in the UK, meaning that tradespeople pay a monthly fee to be displayed on the platform. Homeowners choose from a directory of checked trades. This model has proven to be ideal for substantial home improvement projects.
- **Habitissimo:** lead generation-based business in Spain, Italy, Portugal, and LATAM. Homeowners post their job listing and up to 4 tradesmen can bid for the lead. Tradespeople pay for each lead.
- **eLocal:** lead generation-based model in the US. eLocal generates leads mainly via calls from consumers with HomeServe call center workers matching the consumers to professionals.

Strategy Rationale

The consolidation of the 3 platforms will help to:

- **cut infrastructure and operational costs**
- **enhance HomeServe's brand awareness** on a global view is perceived, attracting customers
- **optimize marketing strategy**, enable **data-rich marketing** as well as eventually lower both **marketing payback period** (currently at 9-18 months) and marketing costs as % of revenue
- **deliver exceptional customer service** by focusing on value-adding projects
- **optimize** human resources and reduce HR related costs
- **implement** a more **effective distribution strategy**



Execution & Objectives

- **Achieve a stronger foothold in existing markets** by consolidating the three platforms.
- **Entering new markets** after the completion of a successful beta-phase (~3-4 months)
- Moving towards a subscription model that **combines the Directory and Lead Generations model** with the Directory model taking the majority: Homeowners can choose from a directory of trades for substantial home improvement projects. The lead generation model will mainly be used for smaller jobs. → This combination gives HomeServe **more certainty** as membership fees are recognized evenly over the term of contract.
- The call assistance model (eLocal model) will eventually be **replaced by a direct listing** done by the homeowner in the platform.

Expected Results

- **Increased Gross Margin** in Home Experts business line from currently 25.4% to 39.6% by reducing **infrastructure, maintenance, and operational costs by approx. 20%**. The impact on the overall Adjusted EBITDA amounts to 1.%, from 24.5% to 25.5%
- Once HomeServe operates the consolidated platform, it is **easier to launch the platform in other countries**
- HomeServe will be able to create a platform with a **more attractive user interface** thanks to more resources and investments available for one single platform

Digitalization of Call Centers

Investments in Call Center digitalization will increase profitability margins

Current Status

- HomeServe has **local call centers** in each country to handle claims and inquiries. This requires a diverse **international workforce**, around 2k contact center agents.
- Estimates confirm that the real cost of a contact center agent to operate is around £ 25/hr – including key figures like salary, equipment, and space.
- This involves huge costs to keep the high-quality service provided by HomeServe– £100 m spent to run contact centers.
- HomeServe has recently implemented a CRM system (Pegasystem), which helped to increase the quality and the income per customer as well as increasing the service quality.

£ 25/hr
Agent Costs

c. £ 100m
Call Center
Costs

Rationale

- Service providers can reduce contact center costs by up to 40% and increase customer satisfaction by fully implementing 4.0 technologies.
- The time per call can be **reduced up to 35%** while **increasing efficiency and effectiveness**.
- Moreover, deeper use of data analytics can **increase product customization**, exploit cross-selling opportunities, and match the “individual” customer character with the “individual” agent character, strengthening rapport and increasing customer satisfaction.

-25%
Call Center
Cost

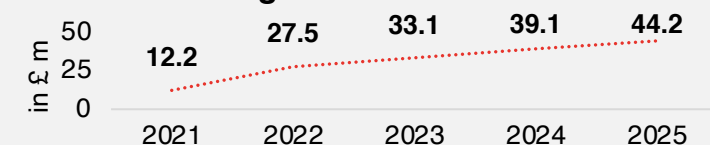
5-10%
Customer
Satisfaction

5-10%
Revenue per
Customer

Strategy

- A key role will be played by virtual assistants (e.g. Alexa, Google Now, or Siri) and by virtual agents who can care about follow-up work, so that the human agent is available for the next call. There will be fewer agents, but with higher qualifications and focus on more important tasks.
- Introducing chat bots and robotic process automation (e.g. monitor/supervise and optimize agent performance so that coaching agents can spend more time on coaching activities), which will have a relatively low price and will **reduce the time per call by 30-60s**.
- **Investing in data analytics for marketing** and contact center operations from the first year on, attracting new customers and maintaining higher profits.
- In 2022, HomeServe is expected to save 19% of its COGS.

Cost savings from Call Centers ¹⁾



Note: ¹⁾ Depicts the savings per year in comparison to call center staff costs without the digitization strategy.

Sources: BCG, McKinsey

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Financials Forecast

Adjusted EBITDA Margin is mainly increasing due to the consolidation of Home Experts platforms and the digitization of call centers, resulting in a sound Free Cash Flow

Business Line	FY18	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	CAGR 20-25
Membership	840	911	973	1,085	1,190	1,345	1,525	1,690	1,891	2,134	11.7%
HVAC	32	45	81	173	269	378	484	592	616	640	48.9%
Home Expert	19	40	72	108	162	226	294	323	356	391	35.1%
Other & Intersegment	9	8	7	7	7	7	8	8	8	8	3.0%
Total Revenue	900	1,004	1,132	1,373	1,628	1,957	2,310	2,614	2,871	3,173	18.2%
Gross Profit	424	478	543	663	793	951	1,122	1,272	1,397	1,545	18.5%
<i>Gross Margin</i>	<i>47.2%</i>	<i>47.6%</i>	<i>48.0%</i>	<i>48.3%</i>	<i>48.7%</i>	<i>48.6%</i>	<i>48.6%</i>	<i>48.6%</i>	<i>48.7%</i>	<i>48.7%</i>	
SG&A	(228)	(251)	(273)	(388)	(376)	(452)	(534)	(604)	(663)	(733)	17.2%
EBITDA	197	227	270	275	417	499	588	667	734	812	19.9%
Exceptional items	-	5	(8)	(65)	-	-	-	-	-	-	
Adjusted EBITDA	197	222	277	340	417	499	588	667	734	812	19.2%
<i>Adjusted EBITDA Margin</i>	<i>21.9%</i>	<i>22.1%</i>	<i>24.5%</i>	<i>24.7%</i>	<i>25.6%</i>	<i>25.5%</i>	<i>25.5%</i>	<i>25.5%</i>	<i>25.6%</i>	<i>25.6%</i>	
Change in NWC	(10)	(38)	(43)	(7)	(44)	(52)	(62)	(65)	(32)	(38)	
Tax	(29)	(34)	(36)	(25)	(34)	(42)	(50)	(56)	(59)	(56)	
Maintenance Capex	(71)	(60)	(21)	(70)	(83)	(99)	(117)	(133)	(146)	(161)	
Expansion Capex	(54)	(48)	(61)	(75)	(114)	(136)	(160)	(182)	(200)	(222)	
FCF to Firm	32	43	115	163	143	170	198	231	297	335	15.0%

Drivers

Revenue Drivers

- **Membership:** Revenue is mainly driven inorganically due to entering new markets (Australia & Poland) and a plan of new strategic agreements with utilities in areas where HomeServe has a low penetration.
- **HVAC:** HVAC revenue is driven by increasing demand and new regulation combined with the acquisitions of HVAC businesses, especially in the US.
- **Home Experts:** Home Experts revenue growth is mainly driven by organic growth as the demand for on-demand home services is increasing at a ~50% CAGR until 2022.

EBITDA Drivers

- **COGS:** Gross Margin Improvement is mainly driven by a slight improvement of 0.4% in the Gross Margin of the Membership & HVAC business and the strong Home Experts Gross Margin improvement from 25.4% (FY20) to 36.9% (FY25) due to platform consolidation.
- **SG&A and Exceptional Items:** Digitization of call centers is expected to reduce staff costs by 19%. SG&A costs are further decreasing due to cost synergies evolving from HVAC acquisitions. Exceptional items in 2021 include two non-recurring costs, the consolidation cost of Home Experts platforms and the cost of the call center digitization.

Capital Structure | Sources and Uses

The final capital structure consists in 6.8x Equity and 4.5x Senior Secured Debt taken in different currencies to hedge FX risk

Total Sources	£ m	xEBITDA	% Total	Total Uses	£ m	% Total
Loan EUR	311	1.1x		EBITDA 2020	277	
Loan USD	502	1.8x		Multiple	10.5x	
Loan GBP	436	1.6x		Enterprise Value	2,918.1	93.0%
Total debt	1,248.3	4.5x	40.0%			
FRI	1,653.2	6.0x	52.9%			
Fund	1,552.2			Fees:		
Richard Harpin	101.0			1) DD	3%	87.5
Ordinary Equity	220.9	0.8x	7.1%	2) Financial	2%	58.4
Fund	176.3			3) Others	2%	58.4
Richard Harpin	11.5			Fees	204.3	7.0%
Sweet Equity	33.1					
Total Equity	1,874.1	6.8x	60.0%			
Total Sources	3,122.4	11.3x	100.00%	Total Uses	3,122.4	

Uses of Funds

- **Total Uses amounts to £ 3,122.4m.** Uses amount is supposed to be paid in cash. 93% of total uses is attributable to the EV plus 7% of fees.
- The **EV** is based on a 10.5x EBITDA multiple, amounting to **£ 2,918.1m.**
- **Earn-out:** if the company is able to increase EBITDA Margin by 1% before 2025, the fund is obliged to give further £ 106,25 m to the sellers.

Debt Characteristics

Type of Debt

- 1.1x EBITDA senior secured debt in EUR
- 7 years term at +4.00% over 3Y EUR swap rate
- 1.8x EBITDA senior secured debt in USD
- 7 years term at +4.50% over 3Y USD swap rate
- 1.6x EBITDA senior secured debt in GBP
- 7 years term at +4.25% over 3Y GBP swap rate
- CAPEX Facility with a commitment fee of 1.7% at +4.25% over 3Y GBP swap rate
- It will cover 50% of CAPEX needs during the first 3 years, amounting to £ 325m

Repayment

- Bullet debt repaid at the end of the 7th year
- Bullet debt repaid at the end of the 7th year
- Bullet debt repaid at the end of the 7th year
- 3 years drawdown period and 3 years repayment period

Equity Characteristics

Fund

92%

- FRI at 6x EBITDA (= £ 1.7bn), 94% owned by institutional investors
- PIK Element settled at 10%
- Ordinary shares at 0.8x EBITDA (= £ 221m), 80% owned by the Fund

Harpin

6%

- 6% of FRI at 10% PIK Element
- 6% of ordinary shares (See next slide)

Management

2%

- Sweet Equity at 0.12x EBITDA, (= £ 33m), will account for 15% of ordinary shares

Capital Structure | Equity Structure

Equity roll-over for Richard Harpin, founder and one of the major shareholders of the company, is required. Harpin and Management are subjected to vesting rules.

Equity Structure

Instrument	Structure 1		Structure 2		Structure 3	
	£ m	% Total	£ m	% Total	£ m	% Total
Institutional Strip	1,840.97	98%	1,728.53	92%	1,728.53	92%
Richard Harpin	0	0%	112.45	6%	112.45	6%
Ordinary Shares			11.47		112.45	
FRI			100.98			
Sweet Equity	33.14	2%	33.14	2%	33.14	2%
Total Equity	1,874.11	100%	1,874.11	100%	1,874.11	100%

Name	Annual Salary	Sweet Equity	Price
Richard Harpin	4.03	3.7%	8.17
David Bower	1.57	1.6%	3.53
Tom Rusin	3.24	2.7%	5.96
C-Level	7.73	7%	15.46
Total	16.57	15%	33.14

Vesting Rules (stake)	2021	2022	2023	2024	2025	2026	2027
% of vested Sweet Equity	0%	25%	44%	58%	100%	100%	100%
<i>As % of Ordinary Equity</i>	<i>0%</i>	<i>4%</i>	<i>7%</i>	<i>9%</i>	<i>15%</i>	<i>15%</i>	<i>15%</i>
% of vested equity Harpin	25%	50%	75%	100%	100%	100%	100%
<i>As % of Ordinary Equity</i>	<i>1%</i>	<i>3%</i>	<i>4%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>	<i>5%</i>

- 1** **Structure 1:** Does not consider a roll-over for R. Harpin (CEO) who owns 14% of the shares. In this case, Harpin will own 3.7% of the sweet equity.
Structure 2: This solution considers a **partial roll-over of Harpin's equity**. To better align Harpin's interests with those of the fund, a co-investment has been projected. Harpin will keep 6% of the total equity.
Structure 3: Does consider a roll over for Harpin. However, **it does not consider a proportion into FRI**. Harpin might not accept this structure since he will be paid only after the fund has been paid. Agency risk might arise.

- 2** Management participation in Sweet Equity amounts to £ 33.14m. The shares price corresponds to **2x the value of management annual salaries**. This investment is projected to return **a MM between 18.4x – 21.5x**. Sweet Equity is split between the management in the following way:
- **8% held by Tier 1 management** for a total value of £ 17.67m, with returns at exit expected to amount to £ 323.83m.
 - **7% held by Tier 2 management** for a total value of £ 15.46m with returns at exit is expected to amount to £ 287.17m.

- 3** **Sweet Equity and Harpin's Equity** are both subject to a Vesting Period with different vesting horizons:
- **Harpin's Equity** is being vested on a four years horizon starting in 2021. Each year, 25% of the founder's equity will be vested.
 - **Sweet Equity** vesting schedule is based on a three-year timetable with a 1-year "cliff". After one year, the equity vested will amount to 25% of the total, in the following years equity will be vested at a rate of 1/48 the value of the remaining amount per month (1/4 per year). In year 5, the equity is considered 100% vested.

Returns at Exit & Value Creation

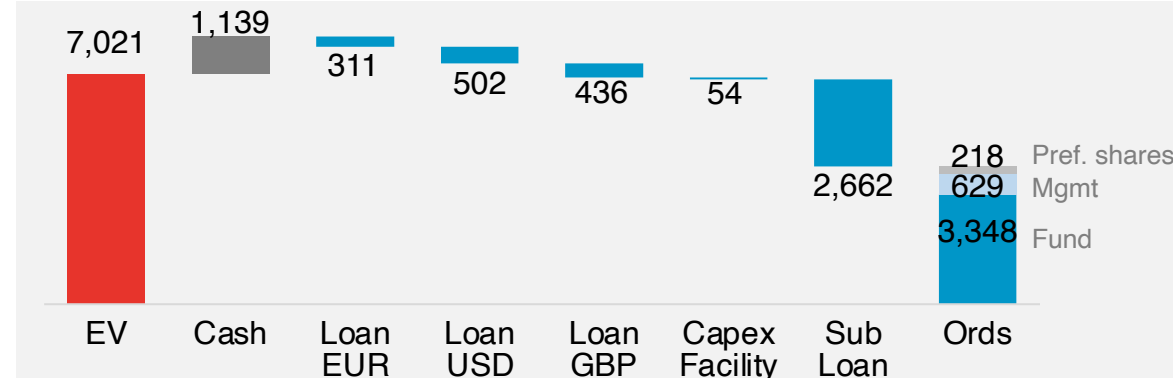
Exiting in 2025, the capital structure & business model predict an IRR of 27.6% and a Money Multiple of 3.4x for the fund, corresponding to a value creation of £ 5,188m

Returns

Returns (£ m) – Exit year	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Management Returns	3.4x	6.8x	10.8x	15.2x	19.0x	22.1x	11.2x
IRR Management	238%	161%	121%	97%	80%	68%	41%
Institutional Returns	1.3x	1.8x	2.3x	2.9x	3.4x	3.8x	2.9x
IRR Institutional	33%	33%	32%	30%	28%	25%	16%
Harpin Returns	1.3x	1.8x	2.3x	2.9x	3.4x	3.8x	2.9x
IRR Harpin	33%	33%	32%	30%	28%	25%	16%

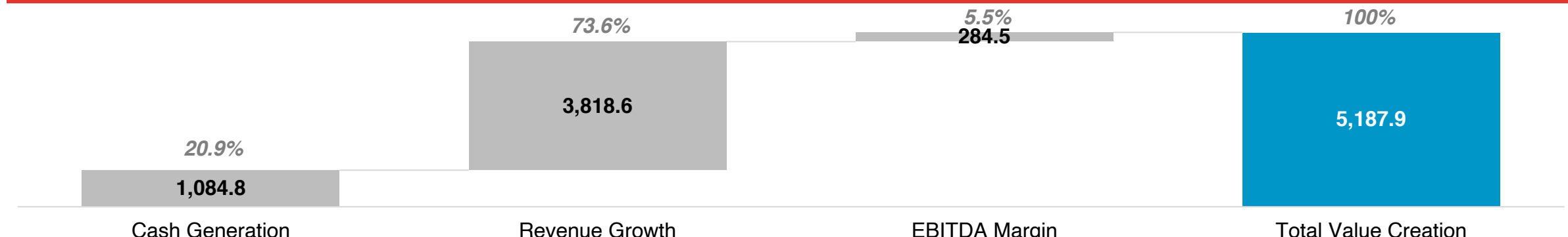
- At exit in 2025, a **3.4x MoM** and an **IRR of 27.6%** is expected for the fund.
- The **management** yields a **MoM of 19.0x** and an **IRR of 80%**, with vesting rules already been applied. **Harpin** yields a **MoM of 3.4x** and an **IRR of 28%**.

Exit Waterfall





- **Entry:** HomeServe is expected to be acquired at an EV of £ 2,918.1m. With 7% fees, **total uses** for this transaction amount to **£ 3,122.4m**.
- **Exit:** An expected exit in 2025 and an **Adj. EBITDA of £ 667.4m** will lead to an **EV of £7,021 m**, no multiple arbitrage assumed.

Return Breakdown (in £ m)



Exit Options Overview

Selling the company in parts appears to be a highly attractive exit strategy

	Trade Sale	Secondary Sale	Multiple partial sales	IPO
Pros	<ul style="list-style-type: none"> • Able to buy HomeServe at a premium due to potential synergies and strategic fit • Sponsor gets clean break from investment • Higher control over sale process than IPO • Faster execution than IPO 	<ul style="list-style-type: none"> • Record high dry powder levels will facilitate big size deals • Management members will keep their positions (management retention plan) • Clean break from investment • Higher process control than in IPO • Fastest execution 	<ul style="list-style-type: none"> • HomeServe's different business units might attract different buyers, being more likely to pay a higher price • Isolated valuation is likely to lead to a higher valuation of each business units, resulting in multiple arbitrage 	<ul style="list-style-type: none"> • Gives access to a greater market • With proper market conditions and a well-planned exit, an IPO is likely to generate the highest returns • HomeServe depicts an attractive target for investors due to great corporate governance and strong financials after the PE operations
Cons	<ul style="list-style-type: none"> • Limited number of strategic acquirers able to pay in cash • Resistance from management if buyer chooses to replace them • Risk of competitors entering the bidding process only to access confidential information • Slower execution than Secondary Sale 	<ul style="list-style-type: none"> • Limited number of partners for a transaction of this size (£7bn) that might further require a consortium investment • Normally pay lower purchase prices, since synergies between portfolio companies are difficult to achieve 	<ul style="list-style-type: none"> • Time consuming process to find the right buyers for the different business units • Possible synergies between HomeServe's business units are at risk to disappear in case of a partial sale 	<ul style="list-style-type: none"> • Market volatility might impact window of IPO • An IPO is typically an expensive and time consuming process • Probability of a lock-up agreement, preventing financial sponsors from selling shares following an IPO and a clean exit • Market uncertainty implies risk of returns
Illustrative candidates				

Sources: Marketwatch, Golding Capital Partners, Thomson Reuters

2

Individual Part

Returns & Value Creation

Exit & Options

Due Diligence



Returns at Exit

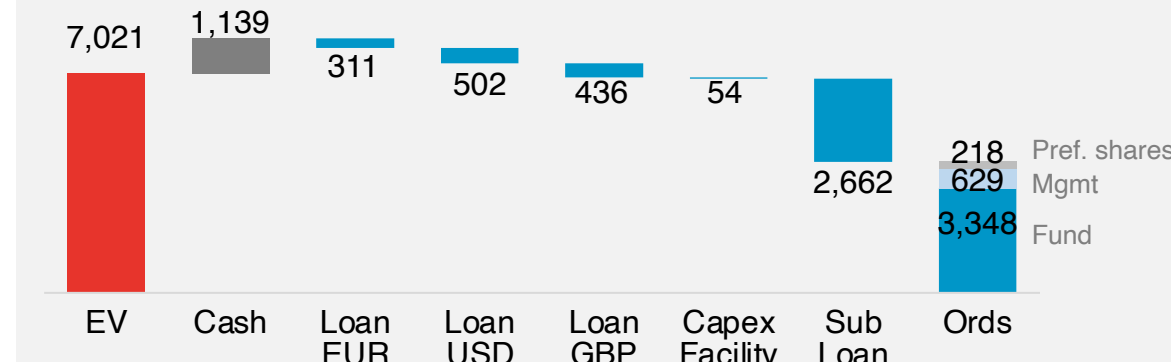
Exiting in 2025, the capital structure and business model predict an IRR of 27.6% and a Money Multiple of 3.4x for the fund

Returns

Returns (in £ m) – Exit year	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Management Exit Proceeds	112.2	225.5	357.8	503.5	629.3	732.9	369.8
Management Returns	3.4x	6.8x	10.8x	15.2x	19.0x	22.1x	11.2x
IRR Management	238%	161%	121%	97%	80%	68%	41%
Returns Institutional Investor	2,304.1	3,077.8	3,969.5	4,951.6	5,848.0	6,649.3	4,992.2
Institutional Returns	1.3x	1.8x	2.3x	2.9x	3.4x	3.8x	2.9x
IRR Institutional	33%	33%	32%	30%	28%	25%	16%
Return Harpin	149.9	200.2	258.2	322.1	380.4	432.6	324.8
Harpin Returns	1.3x	1.8x	2.3x	2.9x	3.4x	3.8x	2.9x
IRR Harpin	33%	33%	32%	30%	28%	25%	16%

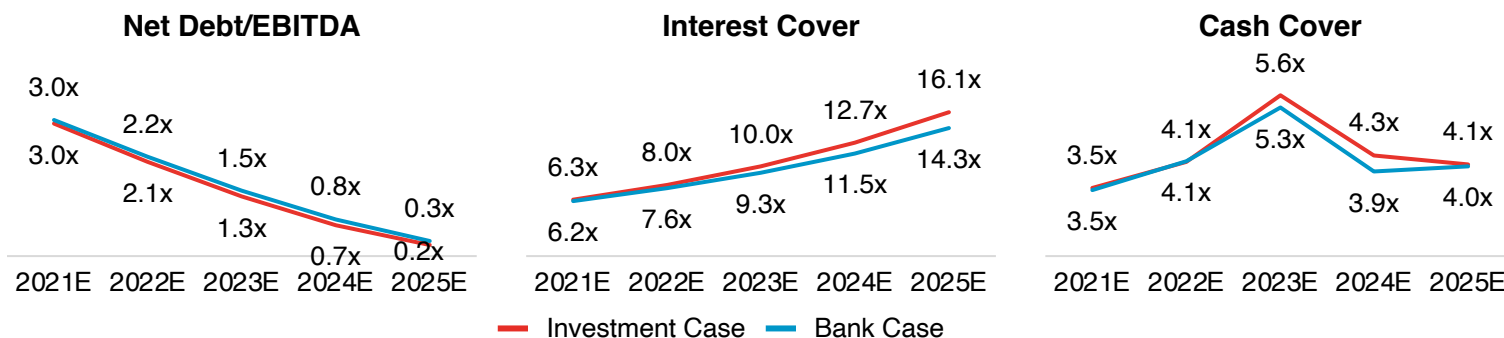
- At exit in 2025, an **Equity Value of £ 6,857.7 m** is expected to be reached, corresponding to a **3.4x MM** and an **IRR of 27.6%** for the fund.
- Receiving proceeds of £ 629.3m, the **management** yields a **MM of 19.0x** and an **IRR of 80%**, with vesting rules already been applied. **Harpin** is expected to yield a **MM of 3.4x** and an **IRR of 28%**.

Exit Waterfall



- **Entry:** With an Adj. EBITDA of £ 277.4 in 2020 and a 10.5x EBITDA entry multiple, HomeServe is expected to be acquired at an EV of £ 2,918.1m. With 7% fees being added, **total uses** for this transaction amount to **£ 3,122.4 m**.
- **Exit:** An expected exit in 2025 and an **Adj. EBITDA of £ 667.4m** will lead to an **EV of £7,021 m**, no multiple arbitrage assumed.

Credit Stats



- **Net Debt/EBITDA** is decreasing due to the repayment structure and an increasing EBITDA while Net Debt is decreasing
- **Interest Cover** is strongly increasing until exit in 2025, mainly driven by the strong EBITDA growth
- **Cash Cover** remains safe, peaking in 2023 due to the Capex facility drawdown

Sensitivity Analysis on Fund Returns

A sensitivity analysis considering different multiples and exit years shows strong returns

Investment Case

		MoM				
		Exit Year				
		2023	2024	2025	2026	2027
Exit Multiple	9.5x	2.1x	2.6x	3.1x	3.5x	2.5x
	10.0x	2.2x	2.7x	3.2x	3.7x	2.7x
	10.5x	2.3x	2.9x	3.4x	3.8x	2.9x
	11.0x	2.4x	3.0x	3.5x	4.0x	3.1x
	11.5x	2.5x	3.1x	3.7x	4.2x	3.3x

IRR

		Exit Year				
		2023	2024	2025	2026	2027
Exit Multiple	9.5x	27.3%	26.8%	25.1%	23.2%	14.0%
	10.0x	29.6%	28.5%	26.4%	24.2%	15.2%
	10.5x	31.9%	30.1%	27.6%	25.2%	16.4%
	11.0x	34.0%	31.6%	28.7%	26.0%	17.4%
	11.5x	36.1%	33.0%	29.8%	26.9%	18.4%

IRR with different entry and exit multiples (exit year 2025)

		Exit Multiple				
		9.5x	10.0x	10.5x	11.0x	11.5x
Entry Multiple	9.5x	29.4%	30.7%	31.9%	33.1%	34.3%
	10.0x	27.2%	28.4%	29.7%	30.8%	31.9%
	10.5x	25.1%	26.4%	27.6%	28.7%	29.8%
	11.0x	23.4%	24.7%	25.9%	26.9%	28.0%
	11.5x	21.8%	23.0%	24.2%	25.3%	26.3%

Base Case

		MoM				
		Exit Year				
		2023	2024	2025	2026	2027
Exit Multiple	9.5x	2.0x	2.5x	2.9x	3.3x	2.3x
	10.0x	2.1x	2.6x	3.0x	3.5x	2.5x
	10.5x	2.2x	2.7x	3.2x	3.6x	2.6x
	11.0x	2.3x	2.8x	3.3x	3.8x	2.8x
	11.5x	2.4x	3.0x	3.5x	4.0x	3.0x

IRR

		Exit Year				
		2023	2024	2025	2026	2027
Exit Multiple	9.5x	25.3%	25.2%	23.7%	22.1%	12.5%
	10.0x	27.6%	26.8%	24.9%	23.1%	13.7%
	10.5x	29.9%	28.4%	26.1%	24.0%	14.9%
	11.0x	32.0%	29.8%	27.2%	24.9%	15.9%
	11.5x	34.1%	31.3%	28.3%	25.8%	16.9%

IRR with different entry and exit multiples (exit year 2025)

		Exit Multiple				
		9.5x	10.0x	10.5x	11.0x	11.5x
Entry Multiple	9.5x	27.8%	29.1%	30.4%	31.5%	32.7%
	10.0x	25.7%	26.9%	28.2%	29.3%	30.4%
	10.5x	23.7%	24.9%	26.1%	27.2%	28.3%
	11.0x	22.0%	23.2%	24.4%	25.5%	26.5%
	11.5x	20.4%	21.6%	22.8%	23.8%	24.9%

Bank Case

		MoM				
		Exit Year				
		2023	2024	2025	2026	2027
Exit Multiple	9.5x	1.9x	2.3x	2.8x	3.2x	2.1x
	10.0x	2.0x	2.5x	2.9x	3.3x	2.3x
	10.5x	2.1x	2.6x	3.0x	3.5x	2.4x
	11.0x	2.2x	2.7x	3.2x	3.6x	2.6x
	11.5x	2.3x	2.8x	3.3x	3.8x	2.8x

IRR

		Exit Year				
		2023	2024	2025	2026	2027
Exit Multiple	9.5x	23.9%	23.7%	22.5%	21.2%	11.1%
	10.0x	26.2%	25.3%	23.7%	22.2%	12.4%
	10.5x	28.5%	26.9%	24.9%	23.1%	13.6%
	11.0x	30.6%	28.4%	26.0%	24.0%	14.6%
	11.5x	32.6%	29.8%	27.1%	24.8%	15.7%

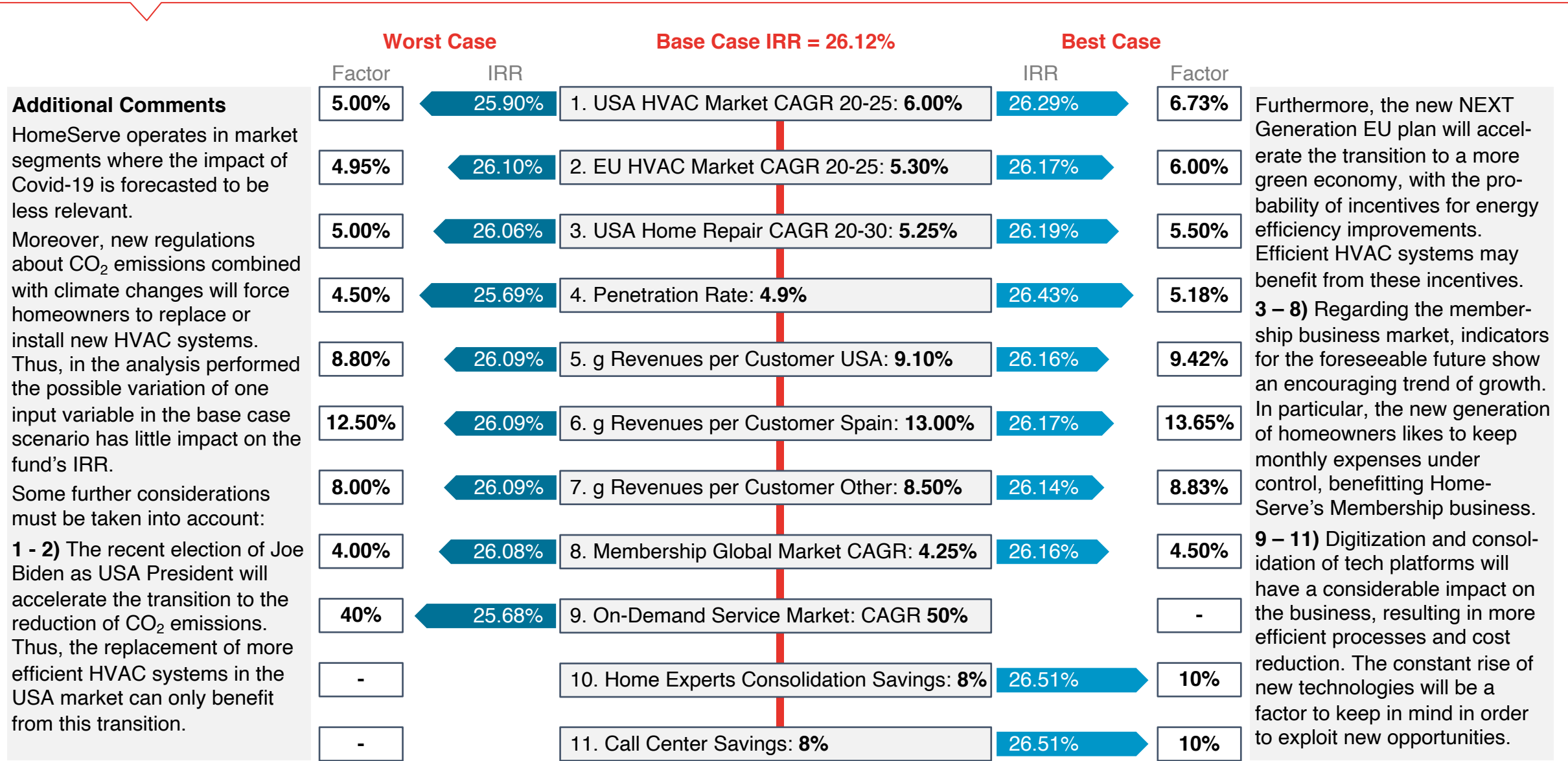
IRR with different entry and exit multiples (exit year 2025)

		Exit Multiple				
		9.5x	10.0x	10.5x	11.0x	11.5x
Entry Multiple	9.5x	26.6%	27.8%	29.1%	30.2%	31.4%
	10.0x	24.5%	25.7%	26.9%	28.0%	29.1%
	10.5x	22.5%	23.7%	24.9%	26.0%	27.1%
	11.0x	20.8%	22.0%	23.2%	24.3%	25.3%
	11.5x	19.3%	20.4%	21.6%	22.6%	23.7%

Even in worse scenarios, the sensitivity analysis implies **strong returns** on a fund level, with an **IRR ranging from 24.9%** in the bank case **to 27.6%** in the investment case, considering exiting in 2025 and an entry and exit multiple of 10.5x. Returns are the most sensitive to the exit year, with a sharp drop of returns if exiting in 2027.

Risk Assessment of Returns

IRR is most sensitive to changes in Call Center and HE cost savings, overall penetration rate and US HVAC market growth



Additional Comments

HomeServe operates in market segments where the impact of Covid-19 is forecasted to be less relevant.

Moreover, new regulations about CO₂ emissions combined with climate changes will force homeowners to replace or install new HVAC systems. Thus, in the analysis performed the possible variation of one input variable in the base case scenario has little impact on the fund's IRR.

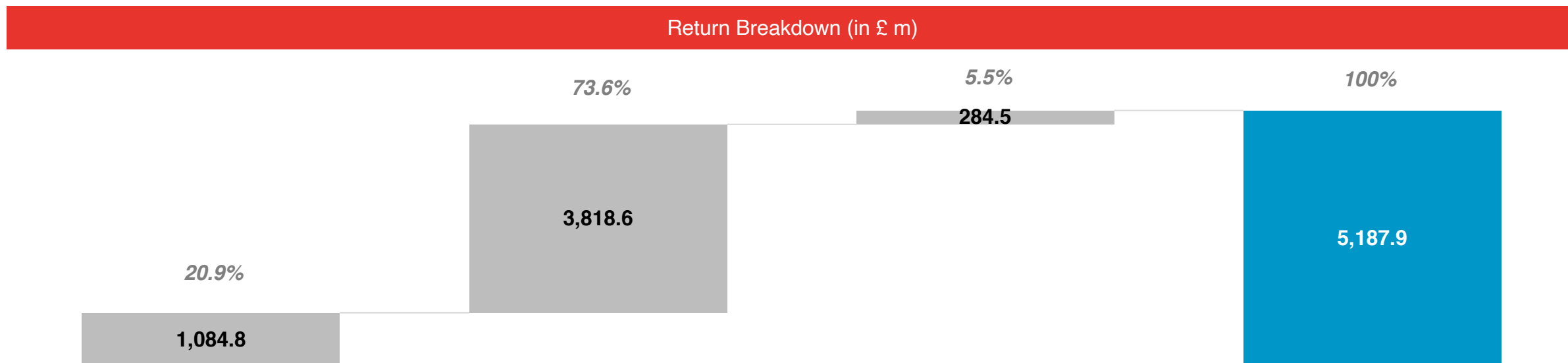
Some further considerations must be taken into account:

1 - 2) The recent election of Joe Biden as USA President will accelerate the transition to the reduction of CO₂ emissions. Thus, the replacement of more efficient HVAC systems in the USA market can only benefit from this transition.

Furthermore, the new NEXT Generation EU plan will accelerate the transition to a more green economy, with the probability of incentives for energy efficiency improvements. Efficient HVAC systems may benefit from these incentives. **3 – 8)** Regarding the membership business market, indicators for the foreseeable future show an encouraging trend of growth. In particular, the new generation of homeowners likes to keep monthly expenses under control, benefitting HomeServe's Membership business. **9 – 11)** Digitization and consolidation of tech platforms will have a considerable impact on the business, resulting in more efficient processes and cost reduction. The constant rise of new technologies will be a factor to keep in mind in order to exploit new opportunities.

Value Creation Breakdown

Value creation is mainly driven by revenue growth, which is estimated to generate £ 3,818.6m, corresponding to 73.6% of the total value creation



Cash Generation

- **Cash Generation** is expected to account for **20.9% (£ 1,084.8 m)** of the total value creation.
- The value creation results from debt repayments during the investment period by using cashflows generated by the operations.
- As a result, entry net debt is expected to decline from £ 1,248.3m to £ 163.5m throughout the investment period.

Revenue Growth

- With 73.6%, revenue growth is expected to represent the largest driver of value creation, creating **£ 3,818.6 m**.
- Revenues are anticipated to grow from **£ 1,132 at entry to £ 2,614m at exit** in 2025 (of which £ 1,597m accounts to organic revenue and £ 1,017m to inorganic revenue).

EBITDA Margin





- **EBITDA margin** is expected to increase from **24.5% at entry to 25.5% at exit** throughout the 5-year investment period
- This change is expected to create **£ 284.5m**, representing 5.5% of the value creation.

Total Value Creation

- It is expected, that during the investment period a total value amounting to **£ 5,187.9m** is being created, corresponding to an exit equity value of £ 6,857.7m.

Exit Options Overview

Selling the company in parts appears to be a highly attractive exit strategy

	Trade Sale	Secondary Sale	Multiple partial sales	IPO
Pros	<ul style="list-style-type: none"> • Able to buy HomeServe at a premium due to potential synergies and strategic fit • Sponsor gets clean break from investment • Higher control over sale process than IPO • Faster execution than IPO 	<ul style="list-style-type: none"> • Record high dry powder levels will facilitate big size deals ¹⁾ • Management members will keep their positions (management retention plan) • Clean break from investment • Higher process control than in IPO • Fastest execution 	<ul style="list-style-type: none"> • HomeServe's different business units might attract different buyers, being more likely to pay a higher price • Isolated valuation is likely to lead to a higher valuation of each business units, resulting in multiple arbitrage 	<ul style="list-style-type: none"> • Gives access to a greater market • With proper market conditions and a well-planned exit, an IPO is likely to generate the highest returns • HomeServe depicts an attractive target for investors due to great corporate governance and strong financials after the PE operations
Cons	<ul style="list-style-type: none"> • Due to size of the transaction, limited number of strategic acquirers able to pay in cash • Resistance from management if buyer chooses to replace them • Risk of competitors entering the bidding process only to access confidential information • Slower execution than Secondary Sale 	<ul style="list-style-type: none"> • Limited number of partners for a transaction of this size (£7bn) that might require a consortium investment • Usually lower purchase prices as synergies between portfolio companies are difficult to achieve • Some LPs might also be LPs in the acquiring PE, leaving them unsatisfied with the (for them) unrealized exit 	<ul style="list-style-type: none"> • Time consuming process to find the right buyers for the different business units • Possible synergies between HomeServe's business units are at risk to disappear in case of a partial sale 	<ul style="list-style-type: none"> • Market volatility might impact window of IPO • An IPO is typically an expensive and time consuming process • Probability of a lock-up agreement, preventing financial sponsors from selling shares following an IPO and a clean exit • Market uncertainty implies risk of returns
Illustrative candidates				



Note: ¹⁾ Given that current market conditions responsible for dry powder sums will remain at exit: The FED has disclosed that it will keep interest rates around zero until at least 2023.

Sources: Marketwatch, Golding Capital Partners, Thomson Reuters

Nova School of Business and Economics | HomeServe - Redefining Home Maintenance | Hannah Bötow | January 2021

Multiple partial sale – Target Buyers for Home Experts

A combination of a Trade Sale of the Membership & HVAC business line and a Trade Sale of Home Experts is the favored exit strategy

Target Buyers	Description	Deal Rationale
	<ul style="list-style-type: none"> • IAC is a NYC based company and operates as a holding company and provides media and Internet services through its subsidiaries. The company's market capitalization amounts to \$11.96bn (Dec. 2020) with 2019 revenues of \$4,757m. • Currently, the company is comprised of >150 brands & products and sees its mission in building and growing strong companies. IAC operates Vimeo, Dotdash, and Care.com, among many others, and owns a majority of ANGI Homeservices, incl. HomeAdvisor, Angie's List, and Handy. <p>Relevant transactions:</p> <ul style="list-style-type: none"> • Jul. 2020: IAC completed the full spin-off of Match Group • Feb. 2020: IAC closed the acquisition of Care.com with a transaction value of of \$ 500m • Oct. 2017: Merger of IAC's HomeAdvisor and Angie's List, renamed to ANGI Homeservices • Mar. 2017: IAC's HomeAdvisor acquires MyBuilder, a UK home services marketplace • Feb. 2017: IAC's HomeAdvisor acquires HomeStars, a Canadian home services platform • Oct. 2016: IAC's HomeAdvisor acquires MyHammer, a German home services marketplace 	<ul style="list-style-type: none"> • IAC has pursued an intensive acquisition strategy to grow its portfolio of online platforms • We believe that Home Experts would perfectly fit into IAC's pursued strategy and that is additionally an interesting target to further grow
	<ul style="list-style-type: none"> • Amazon Home Services, launched in 2015 in the US and in 2018 in the UK, is Amazon's network of service providers fulfilling services sold by Amazon • The company created pre-packaged services based on common customer requests for products purchased in the Amazon store. Examples include assembly service, home theater services, and appliance Installation services 	<ul style="list-style-type: none"> • As Amazon is constantly entering new segments, HomeServe's Home Experts platform depicts an interesting target for Amazon Home Services to further grow and expand its offered network of services in existing and new geographies
<p>Considerations</p>	<ul style="list-style-type: none"> • A sale of Home Experts would fully exploit Home Experts stand-alone value, resulting in a multiple arbitrage in the best case. • An M&A is likely to be the best option considering a fast and clean exit. • However, with bullish market conditions, an IPO for the Home Experts business unit is to be considered as it might be priced at a higher premium than with a trade sale. 	

Multiple partial sale – Target Buyers for Membership & HVAC

A combination of a Trade Sale of the Membership & HVAC business line and a Trade Sale of Home Experts is the favored exit strategy

Target Buyers	Description	Deal Rationale
	<ul style="list-style-type: none"> • Home Depot is a home improvement retail operator operating in US, Canada, and Mexico with a market capitalization of \$ 284.81bn (Dec. 2020) and 2019 revenues of \$ 110.20bn • The company targets professionals, DIY and DIFM (Do It For Me). For the Professionals and DIY customers, it offers building materials, home improvement products, and lawn and garden products. Additionally, for the DIFM customers, the company provides home improvement installation services, such as flooring, cabinets, and central air systems. 	<ul style="list-style-type: none"> • Home Depot is targeting DIFM customers as they think this segment will grow in the future and will drive higher product sales. • Acquiring the Membership & HVAC part could allow it to have a 360° view of the home business and obtain revenue synergies by also offering repair services and accessing new geographies.
	<ul style="list-style-type: none"> • Lowe's is a home improvement retail company operating in the US and Canada with a market capitalization of \$ 115.64bn (Dec. 2020) 2019 revenues of \$ 72.10bn • The company provides Professionals, DIY, and DIFM customers with home improvement and repair products, as well as installation services through independent contractors and protection plans and repair services for a range of products within the Appliances, Kitchen Plumbing & Electrical and Outdoor Living categories. 	<ul style="list-style-type: none"> • Lowe's is already offering installation and repair services as well as optional protection plans for products and appliances sold by the brand. • It could benefit from cost synergies by using HomeServe's infrastructure (reduction of call centers), acquire know-how and diversify by expanding its repair services geographically.
	<ul style="list-style-type: none"> • British Gas, HomeServe's direct competitor, is UK's largest energy & home services provider • Its parent company Centrica has a market capitalization of £ 2.59bn (Dec. 2020) with 2019 revenues of £ 22.7bn. British Gas' revenues in 2019 amounts to c. £ 8.74bn. • The company commercializes energy, provides home services covers for HVAC, plumbing or electrics, and offers Smart Home devices and installation. 	<ul style="list-style-type: none"> • British Gas could leverage HomeServe's geographical expertise and expand to Europe, the US, and Australia. Also, the company would strengthen its core business and gain market share, consolidating its leadership position, and benefit from cost synergies.
	<ul style="list-style-type: none"> • American Water is the largest water & wastewater utility company in the US. Through its Homeowner Service Group, it also provides repair membership programs and other related home services. Currently, it is a direct competitor of HomeServe in the US. • Its market capitalization amounts to \$ 26.88bn (Dec. 2020) with 2019 revenues of \$ 3.69bn. 	<ul style="list-style-type: none"> • American Water would reinforce its home services activities with the acquisition, gain market share in the US, expand geographically, and benefit from cost synergies derived from common infrastructure

Commercial and Operational Due Diligence

Market trends and feasibility of the Buy-&-Build strategy are key aspects to consider

	Areas	Key Aspects to Analyze	Possible Red Flags	Importance	Length
Commercial	Market Analysis	<ul style="list-style-type: none"> Assess the impact of possible new macroeconomic conditions on each market growth and analyze future market trends in the maintenance services for each geographies Confirm analysis about new markets 	<ul style="list-style-type: none"> Lower market growth Lower number of homeowners willing to sign cover polices, resulting in lower penetration rates 		70 DAYS
	Customer relationships	<ul style="list-style-type: none"> Deep inspection of customers' satisfaction understanding what they demand and what are HomeServe's strengths Confirm retention rates in each geography provided by the company and maintain those levels 	<ul style="list-style-type: none"> Decrease in reputation among customers Lower KPIs than the past (e.g. retention rate, income per customer or number of trades) Increase in number of unsatisfied clients 		
	M&A Strategy	<ul style="list-style-type: none"> Full DD on each target selected for the Buy-&-Build strategy Feasibility of acquiring the identified targets Integrations and synergies effectiveness Valuation of targets 	<ul style="list-style-type: none"> Slower integration Inability to follow the B&B strategy Slower process of acquisition Over- or underestimation of synergies 		
	Competition	<ul style="list-style-type: none"> Broader investigation of competitors per each business line and geography Better understanding of their cost structure and pricing strategy 	<ul style="list-style-type: none"> Losing market share against key competitors More expensive services compared to competitors 		
	Business Model	<ul style="list-style-type: none"> Further analysis of the company business units that combine more than one service Deeper analysis of revenues of each business unit and synergies between the existing ones 	<ul style="list-style-type: none"> Higher revenues dependence between business units than expected 		
Operational	IT	<ul style="list-style-type: none"> Assess the current status of IT platform, better define the best digital components to be implemented, and related costs. Deeper analysis of Checktrade, Habitissimo, and eLocal to find the best hybrid model between those platforms 	<ul style="list-style-type: none"> Inability of automatic processes to fit customer needs Low use of digital platform implemented Inability to find optimal hybrid business model 		45 DAYS
	Insurance	<ul style="list-style-type: none"> Assess insurance risk in contracts with underwriters Find out risk mitigation procedures that the company has in place 	<ul style="list-style-type: none"> Insurance costs above the market Exposure of the company, e.g. FX Risk Unexpected costs arising from covers selling 		

Financial, Regulatory, and HR Due Diligence

Legal and financial Due Diligence are crucial areas to cover besides examining the employees' willingness to proceed with the transactions

	Areas	Key Aspects to Analyze	Possible Red Flags	Importance	Length
Financial	Accounting	<ul style="list-style-type: none"> • Deeper analysis of financials and accounting policies • Further investigation regarding the cost structure • Confirm Cash Conversion Cycle and Cash Management policies 	<ul style="list-style-type: none"> • Errors in accounting policies or frauds • High operating costs in specific areas • Delays in cash conversions and poor cash management procedures 		60 DAYS
	Assets Management	<ul style="list-style-type: none"> • Conduct an analysis regarding rental and owned facilities • Confirm suitability of the current level of Maintenance CapEx and future level of Expansion CapEx 	<ul style="list-style-type: none"> • High fixed costs and inability to modify the cost structure • Necessity to adjust CapEx level 		
Regulatory	Legal	<ul style="list-style-type: none"> • Evaluate possible impact of BREXIT on company businesses • Analyze the impact of foreseeable implementation of minimal wages in all the geographies • Assess court litigations history and reasons behind those • Further evaluation of existing pension plans • Asses possible restrictions of online marketplaces in new geographies 	<ul style="list-style-type: none"> • Unexpected increases in cost of workforce • High level of litigations over contractual terms • Unexpected losses from pension plans • Inability to launch Home Experts platform in some geographies 		45 DAYS
	Tax	<ul style="list-style-type: none"> • Tax Compliance 	<ul style="list-style-type: none"> • Unexpected tax due to national and international governments 		
Human Resources	Management	<ul style="list-style-type: none"> • Interview all the C-Level managers to assess their expertise and motivation for the job • Evaluate the possibility of hiring new managers if needed • Further analysis of the current corporate governance 	<ul style="list-style-type: none"> • Unalignment of top managers with the company vision • Wrong governance frameworks • Inability to find valid alternative managers 		60 DAYS
	Workforce	<ul style="list-style-type: none"> • Evaluate knowledge of company work culture and modus operandi • Evaluate current employees' suitability for their current jobs • Assess the impact of smart working on their results • Analyze collective agreement and hiring policies 	<ul style="list-style-type: none"> • Lack of alignment with company modus operandi • Unexpected costs due to renegotiation of collective agreements 		
Full Due Diligence				£ 87.5m	75 days

How Covid-19 is creating new opportunities for the Private Equity Secondary Market

Secondaries are creating significant opportunities for liquidity-constrained investors during coronavirus-induced economic downturn

The global lockdowns in the first half of 2020 as a consequence of the Covid-19 pandemic hindered the realization of market opportunities for the General Partners. They were facing losses in portfolio companies, postponement of fundraisings, and more difficult exit opportunities. Meanwhile, however, the M&A market is gaining pace again: Many companies will soon no longer be in the position to hope for government support or further loans. This is the point where Private Equity companies can help with their equity capital. Nonetheless, as Private Equity is considered an illiquid asset class, growing investment opportunities come alongside liquidity bottlenecks. Many PE companies need to sell investments to secure liquidity. However, also Limited Partners might face liquidity demands as capital calls accelerate and distributions are being reduced as GPs are trying to raise cash. Here, the secondary market offers both GPs and LPs favorable opportunities to boost liquidity or to add capital.

Secondaries imply the purchasing and selling of pre-existing commitments in PE funds. As a stake in a PE fund is typically bought in a stage where the fund is further advanced in its investment cycle, investors have a good chance to gain a higher IRR. Moreover, it significantly shortens the investor's capital commitment period and creates the possibility to obtain distributions right away. The coronavirus-induced market volatility might additionally lead to decreasing prices in the secondary market, enabling investors to purchase stakes at greater discounts. On the other side, distressed sellers or sellers with liquidity constraints are seeking to exit their positions, willing to sell at a discount (Rosenthal, Thorp and Mierzwa 2020). Unlike during the Financial Crisis, however, 'fire sale' secondary trades are not observable, despite approaching allocation limits and reduced distributions. Instead, many LPs consider it crucial to ensure sufficient capital available to give full allocations to younger vintages, so as not to miss out on high promising vintages like some after the financial crisis (Abecassis 2020).

It further cannot be ruled out that investors will now begin to take greater account of structural risks and that factors such as pandemics and climate change will play a major role in asset allocation. Relatively low risk of secondaries combined with historically interesting returns are turning secondaries into an attractive alternative investment.

3

Appendix



Appendix I | Revenue Streams

Membership

Intermediary Commissions

Includes commissions paid by the insurance underwriters for the obligation to sell policies, handle claims and provide administration services.



HomeServe acts as an intermediary between customers and underwriters. The company collects the cash from the membership monthly fees and keeps a percentage as a commission for selling the insurance policy.



HomeServe also receives a fee for the claims handling and administration services from the underwriters

Home Assistance



Includes all the home assistance services (e.g. repair network access, emergency assistance) provided by HomeServe to the insured customer. The cost of the repair is covered by the insurance.

Repair Income



HomeServe offers repair services that might go beyond the scope of the insurance coverage and are subject to separate contractual arrangements. Consequently, they are recognised as a different revenue stream.

HVAC

Installation Services



Includes Heating, Ventilation and Air Conditioning installations. HomeServe offers customers the opportunity to replace HVAC units as well as repair and service them.

Home Expert

Lead Generation



Tradespeople pay a fee to acquire a potential lead. (i.e. on Habitissimo platform, up to 4 tradespeople can bid for a lead). Habitissimo and eLocal platforms are currently using this business model.

Web and directory



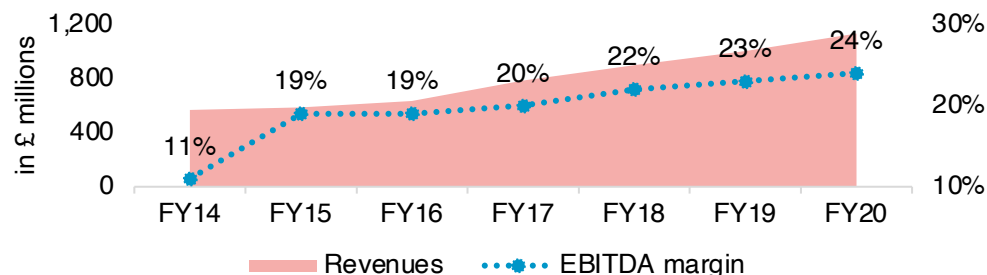
Tradespeople pay membership fees to be displayed on HomeServe's marketplaces and for directory advertising. Checktrade platform is currently using this business model.

Appendix II | Income Statement

1

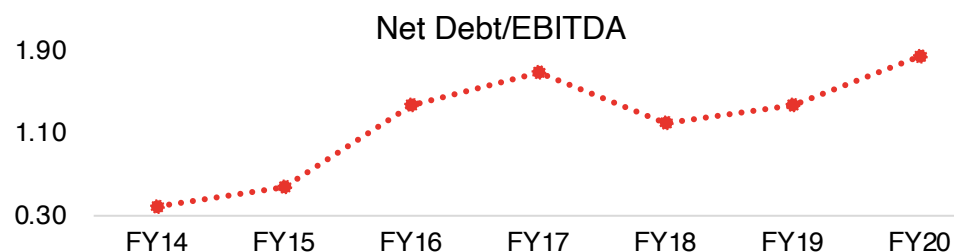
Revenue

Increasing the income per customer and entering in new markets were the two key pillars pursued by HomeServe to increase revenues along years. This strategy mixed with the ability to lower operating expenses (as % over revenues) from 60% in FY14 to 44% in FY20 determined an increase of the EBITDA Margin by 5% from FY15 onward.



Net Debt/EBITDA

Net Debt/EBITDA increases along years maintaining HomeServe's target between 1-2x adjusted EBITDA. The decrease in 2018 is due to a significant debt repayment of £226.5 m.



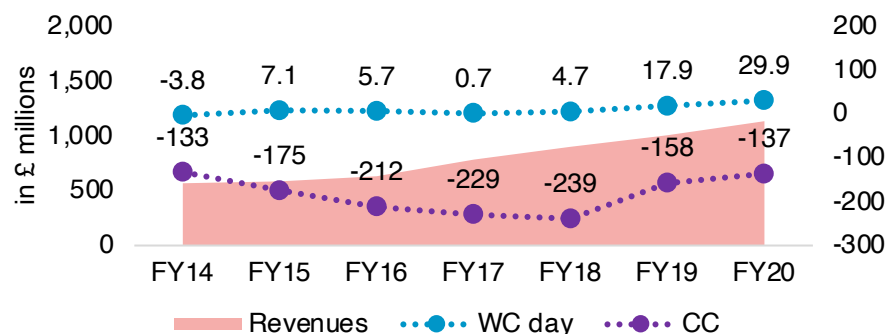
Income Statement (in £ m)	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20
Membership	549.8	566.2	597.2	753.7	840.2	910.6	972.9
HVAC	0	0	0	0	32.2	44.8	80.9
Home Expert	0	0	0	0	18.6	40.4	71.8
Other	23.9	24.2	42.2	38.5	16.6	15.1	14.5
Inter Segment	(5.4)	(6.2)	(6.2)	(7.2)	(7.9)	(7.3)	(7.8)
Revenues	568.30	584.20	633.20	785.00	899.70	1,003.60	1,132.30
<i>Revenues Growth</i>		3%	8%	24%	15%	12%	13%
COGS	(298.1)	(332.5)	(356.1)	(428.0)	(475.4)	(525.5)	(589.1)
Gross Profit	270.2	251.7	277.1	357.0	424.3	478.1	543.2
<i>Gross margin</i>	48%	43%	44%	45%	47%	48%	48%
SG&A	(210.0)	(140.6)	(154.4)	(203.0)	(227.7)	(251.3)	(273.4)
Share of results of equity accounted investments	-	-	-	0.2	1.0	(0.3)	(2.1)
EBITDA	60.20	111.10	122.70	154.20	197.60	226.50	267.70
<i>EBITDA margin</i>	11%	19%	19%	20%	22%	23%	24%
Depreciation	(4.9)	(4.6)	(5.4)	(6.9)	(8)	(9.1)	(23.5)
Amortisation	(28.1)	(27.4)	(30.4)	(42.6)	(54.6)	(64.8)	(85.6)
EBIT	27.20	79.10	86.90	104.70	135.00	152.60	158.60
<i>EBIT margin</i>	5%	14%	14%	13%	15%	15%	14%
Investment income	0.5	0.2	0.3	0.3	0.1	0.2	0.5
Finance costs	(3.3)	(2.6)	(4.6)	(6.7)	(11.8)	(13.3)	(21.2)
Profit Before Tax	24.40	76.70	82.60	98.30	123.30	139.50	137.90
Tax	(14.4)	(20.6)	(21)	(23.9)	(27.4)	(31.2)	(32.1)
Net Income	10.00	56.10	61.60	74.40	95.90	108.30	105.80
<i>Profit margin</i>	2%	10%	10%	9%	11%	11%	9%

Appendix III | Balance Sheet

1

Day Working Capital & Cash Conversion Cycle

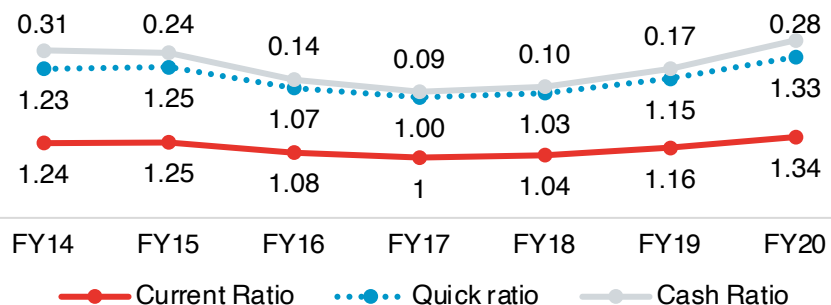
The rise in Receivables – not offset by an increase in Payables – has increased the HomeServe WC days and Cash Conversion Cycle. Despite this increase HomeServe is still able to convert quickly its working capital in revenue.



2

Liquidity Analysis

HomeServe liquidity position is currently good. Current Ratio and Quick Ratio are above 1 and improving. HomeServe should not have problem to meet its short term obligations in the near future.



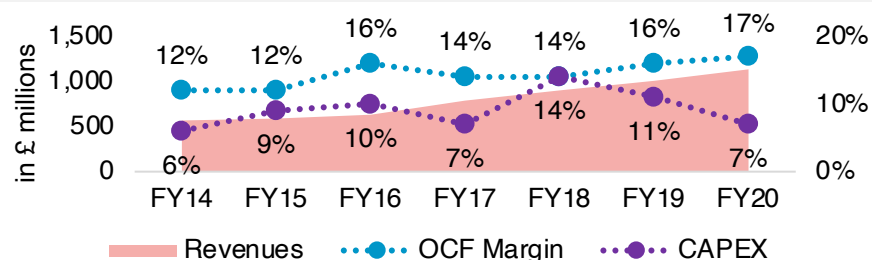
Balance Sheet (in £ M)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Goodwill	246.3	236.6	247.7	301.9	386.6	407.9	509.9
Other intangible assets	156.9	166.5	210	288.6	384.8	418.6	497.1
Contract costs	0	0	0	0	0	27.5	16.8
Right-of-use assets	0	0	0	0	0	0	56.8
Property, plant and equipment	30	31.3	34.9	37	39.9	42.8	42
Equity accounted investments	0	0	0	32.1	5.5	10.6	4
Other investments	0	4.4	7.8	8.5	8.7	9.2	5.6
Deferred tax assets	7.2	9.5	6.8	7.6	6.8	7.4	6
Retirement benefit assets	1.2	0.1	2.1	0.7	4.7	6.4	10.3
Non-current assets:	441.6	448.4	509.3	676.4	837	930.4	1148.5
Inventories	0.7	0.8	2.9	2.7	4.3	7	7.9
Trade and other receivables	290.6	318.8	367.7	455.1	515.7	424.6	495.4
Cash and cash equivalents	196.2	74.7	54.2	46.2	57.8	72.6	131.2
Current assets:	387.5	394.3	424.8	504	577.8	504.2	634.5
Total assets	829.1	842.7	934.1	1,180.4	1414.8	1,434.6	1,783
Trade and other payables	(297)	(308)	(361)	(456)	(509)	(382)	(411)
Bank and other loans	0	0	(25)	(36)	(38)	(40)	(40)
Current tax liabilities	(8)	(7)	(7)	(9)	(10)	(6)	(5)
Lease liabilities	0	0	0	0	0	(1)	(14)
Obligations under finance leases	(1)	(1)	0	0	0	0	0
Provisions	(8)	0	(1)	(1)	(1)	(6)	(2)
Current liabilities:	(313)	(316)	(394)	(502)	(557)	(434)	(472)
Net current assets	74	78	31	2	20	70	162
Bank and other loans	(137)	(138)	(197)	(270)	(257)	(336)	(541)
Other financial liabilities	(3)	(2)	(6)	(14)	(23)	(23)	(52)
Deferred tax liabilities	(22)	(18)	(21)	(23)	(26)	(26)	(26)
Lease liabilities	(1)	(1)	(1)	(1)	(0)	(1)	(45)
Non-current liabilities	(163)	(158)	(224)	(309)	(306)	(387)	(664)
Total liabilities	(476)	(474)	(618)	(810)	(863)	(821)	(1,137)
Net assets	352.9	368.5	316.6	370	551.4	613.6	646.3
Equity							
Share capital	8.3	8.3	8.3	8.4	8.9	9	9
Share premium account	38.6	40.5	41.1	45.7	171.8	180.7	189.3
Share incentive reserve	14.4	15.7	16	18.3	22.1	23.3	21.9
Currency translation reserve	2.3	(9.3)	5.5	26.3	16.1	22.9	37
Investment revaluation reserve	0	0	1.8	1.8	1.8	2.3	(0.6)
Other reserves	56.3	61.1	72.1	72.2	82.2	82.2	79.2
Retained earnings	233	252.2	171.8	196.5	248.1	293	299.9
Attributable to equity holders of the parent	352.9	368.5	316.6	369.2	551	613.4	635.7
Non-controlling interests	0	0	0	0.8	0.4	0.2	10.6
Total equity	352.9	368.5	316.6	370	551.4	613.6	646.3

Appendix IV | Cash Flow Statement

1

OCF Margin

Cash Flow from Operating Activities remained stable over the analysed period. Despite a drop of 2% in 2014, HomeServe has been able to increase the OCF Margin. This performance is reflected on the increased profitability and income per customer over the past few years.



2

Acquisition of subsidiaries & Cash from Investing Activ.

Strong impact depends on the buy-and build strategy pursued by the company:

- FY17: Acquisition of 70% Habitissimo, 40% of Checkatrade, 100% of USP and several small acquisitions in HVAC business unit.
- FY18 & FY19: HomeServe completed the acquisition of Checkatrade and acquired several HVAC businesses (e.g. Help-Link, Metcalfe, Gregg Mechanical and Geisel).
- FY20: HomeServe acquired 79% of eLocal and 15 new HVAC businesses.

Following the large number M&A deals that HomeServe closed and the investments made in software and book of customers, cash flows from investments activities are constantly negative.

Cash Flow Statement (in £ m)	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Operating cash flows before movements in working capital	66.4	115.5	127.8	161.0	206.6	232.6	284.5
Change in NWC	25.5	(20.9)	(6.1)	(21.1)	(42.4)	(30.4)	(44.1)
Cash generated by operations	91.9	94.6	121.7	139.9	164.2	202.2	240.4
Income taxes paid	(21.6)	(22.8)	(17.3)	(20.0)	(27.2)	(31.7)	(30.2)
Interest paid (inclusive of payments on lease liabilities)	(3.3)	(4.4)	(3.3)	(6.7)	(7.5)	(8.5)	(18.2)
Net cash inflow from operating activities	67.0	67.4	101.1	113.2	129.5	162.0	192.0
Investing activities							
Interest received	0.5	0.3	0.3	0.3	0.1	0.2	0.5
Proceeds on disposal of fixed assets	-	-	0.2	-	0.6	0.3	0.5
Disposal of subsidiary	-	-	-	(1.7)	-	-	-
Purchases of intangible assets	(30.2)	(46.9)	(56.8)	(50.9)	(114.3)	(99.1)	(74.3)
Contract costs	-	-	-	-	-	(7.9)	(3.9)
Purchases of property, plant and equipment	(3.4)	(5.9)	(7.1)	(7.6)	(11.0)	(9.0)	(8.2)
Acquisition of investment in associate	-	-	-	(24.7)	-	-	-
Disposal of equity accounted investments	-	-	-	-	0.4	-	8.4
Acquisition of available for sale investments	-	(4.8)	(0.5)	-	-	-	-
Acquisition of equity accounted investments	-	-	-	-	-	(5.4)	-
Acquisition of subsidiaries	(2.4)	(1.1)	(5.3)	(74.2)	(50.3)	(37.5)	(140.6)
Net cash used in investing activities	(35.5)	(58.4)	(69.2)	(158.8)	(174.5)	(158.4)	(217.6)
Financing activities							
Dividends paid	(36.7)	(36.9)	(137.0)	(40.3)	(50.4)	(65.0)	(73.5)
Repayment of lease principal	(0.4)	(0.3)	(0.5)	(1.0)	(0.6)	(0.6)	(12.4)
Acquisition of non-controlling interests	-	-	-	-	(3.9)	-	(7.7)
Issue of shares from the employee benefit trust	0.7	1.9	1.2	0.1	-	-	-
Purchase of own shares	-	-	-	-	-	-	(3.0)
Proceeds on issue of share capital	0.4	1.9	0.6	0.8	124.1	2.2	0.1
Costs associated with issue of share capital	-	-	-	-	(0.8)	-	-
New bank and other loans raised	-	-	75.0	103.3	221.0	174.2	-
Costs associated with new bank and other loans raised	-	-	-	-	(3.1)	(1.6)	(0.8)
Movement in bank and other loans	13.1	3.4	7.7	(29.8)	(226.5)	(98.9)	182.6
Net cash generated by financing activities	(22.9)	(30.0)	(53.0)	33.1	59.8	10.3	85.3
Net increase in cash and cash equivalents	8.6	(21.0)	(21.1)	(12.5)	14.8	13.9	59.7
Cash and cash equivalents at beginning of year	88.6	96.2	74.7	54.2	46.2	57.8	72.6
Impact of foreign exchange rate changes	(1.0)	(0.5)	0.6	4.5	(3.2)	0.9	(1.1)
Cash and cash equivalents at end of year	96.2	74.7	54.2	46.2	57.8	72.6	131.2

Appendix V | Bank Case Key Figures and Returns

Shortcuts		Returns Highlights							
Operating Case	Bank	Key Figures	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Exit Year	2025	Institutional Returns	1.3x	1.7x	2.2x	2.7x	3.2x	3.6x	2.6x
Entry Multiple	9.9x	IRR Institutional	31%	31%	30%	28%	26%	24%	15%
Exit Multiple	9.9x	Management Returns	3.0x	5.7x	8.9x	12.3x	15.2x	18.1x	8.0x
MM	3.2x	IRR Management	196%	138%	107%	87%	72%	62%	35%
IRR	26%	Richard Harpin Returns	1.3x	1.7x	2.2x	2.7x	3.2x	3.6x	2.6x
		Richard Harpin IRR	31%	31%	30%	28%	26%	24%	15%

Key Financial Data

Key Figures	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Revenues	899.7	1,003.6	1,132.3	1,351.1	1,573.6	1,852.4	2,136.9	2,385.8	2,642.4	2,899.7
% growth	15%	12%	13%	19%	16%	18%	15%	12%	11%	10%
Adjusted EBITDA	196.6	222.2	277.4	331.3	395.3	464.5	536.0	599.9	665.5	731.0
Expansion Capex	(54.1)	(47.8)	(61.3)	(72.8)	(107.9)	(126.8)	(146.3)	(163.8)	(181.7)	(199.6)
Maintenance Capex	(71.2)	(60.3)	(21.2)	(68.6)	(79.8)	(94.0)	(108.4)	(121.0)	(134.1)	(147.1)
Total NWC	69.3	121.9	223.9	372.1	587.0	897.3	1,139.9	1,366.0	1,576.8	(2,245.1)
Unlevered FCF				161.0	147.2	159.0	181.7	233.8	259.0	286.5

Appendix VII Base Case Key Figures and Returns

Shortcuts		Returns Highlights							
Operating Case	Base	Key Figures	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Exit Year	2025	Institutional Returns	1.3x	1.7x	2.2x	2.7x	3.2x	3.6x	2.6x
Entry Multiple	9.9x	IRR Institutional	30%	31%	30%	28%	26%	24%	15%
Exit Multiple	9.9x	Management Returns	3.1x	6.1x	9.8x	13.7x	17.1x	20.1x	8.7x
MM	3.2x	IRR Management	210%	147%	114%	93%	76%	65%	36%
IRR	26%	Richard Harpin Returns	1.3x	1.7x	2.2x	2.7x	3.2x	3.6x	2.6x
		Richard Harpin IRR	31%	31%	30%	28%	26%	24%	15%

Key Financial Data

Key Figures	FY18A	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E
Revenues	899.7	1,003.6	1,132.3	1,366.4	1,612.6	1,929.0	2,264.8	2,547.1	2,805.6	3,090.6
% growth	15%	12%	13%	21%	18%	20%	17%	12%	10%	10%
Adjusted EBITDA	196.6	222.2	277.4	334.0	403.0	479.3	560.4	632.2	697.2	769.0
Expansion Capex	(54.1)	(47.8)	(61.3)	(73.5)	(110.0)	(130.8)	(153.0)	(172.6)	(190.3)	(209.9)
Maintenance Capex	(71.2)	(60.3)	(21.2)	(69.3)	(81.8)	(97.9)	(114.9)	(129.2)	(142.3)	(156.8)
Total NWC	69.3	121.9	223.9	373.5	592.6	911.4	1,163.5	1,401.2	1,622.7	(2,561.5)
Unlevered FCF				161.7	138.8	162.6	188.4	218.4	279.4	317.0

4

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