TRADESWORN®

BUYER-SIDE COMMERCIAL DILIGENCE · COMMERCIAL HVACR

WHAT QOE DOESN'T ANSWER IN COMMERCIAL HVAC ACQUISITIONS

A buyer-side brief on the commercial questions that sit beside QoE: whether the revenue, customer relationships, labor capacity, and growth case remain durable after close.

> **QoE helps assess whether historical earnings are supportable. Commercial diligence tests whether the customer, labor, and market assumptions supporting those earnings can hold after close.**

THE BUYER'S CORE QUESTION

Can this business keep producing after close, with the same customers, technicians, routes, margins, and market position, once the seller is no longer carrying the story?

Commercial HVACR, refrigeration & mechanical services

Typical target revenue: $3M–$30M

investors@tradesworn.com

tradesworn.com/diligence

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THE COMMERCIAL DILIGENCE GAP

Commercial HVACR deals rarely lose conviction over one isolated issue. They lose it when the revenue, customer, labor, and market assumptions stop connecting. QoE helps assess the historical earnings base. The buyer still has to determine whether the commercial system producing those earnings can hold after close.

A clean QoE may support the historical earnings base. It does not, by itself, establish that:

- customers transfer after close;
- PMAs deserve full recurring-revenue credit;
- technician capacity supports the forecast;
- local density supports expansion;
- pricing power is demonstrated;
- the business can deliver the growth case being underwritten.

That does not make the target a bad acquisition. It means the buyer is still underwriting assumptions on the questions most likely to affect conviction, structure, and the post-close plan.

WHAT CLEAN PROCESS LANGUAGE CAN LEAVE UNTESTED

SALE-PROCESS LANGUAGE	WHAT THE BUYER STILL HAS TO TEST
Recurring revenue	Contracted, repeat, emergency, project, or owner-dependent
Sticky customers	Loyal to the company, or loyal to the seller
Strong PMA base	Assignable, renewing, profitable, and transferable
Strong technician base	Capacity to deliver the forecast
Large service territory	Dense routes, or scattered accounts
Platform opportunity	Scalable system, or strong local shop

> **Can this business keep producing after close, with the same customers, technicians, routes, margins, and market position, once the seller is no longer carrying the story?**

WHAT QOE ANSWERS VS. WHAT COMMERCIAL DILIGENCE TESTS

Both workstreams can run on the same deal, often with the same underlying data. They answer different questions, for different parts of the buyer's conviction, and neither substitutes for the other.

BUYER QUESTION	QOE / FDD TYPICALLY HELPS ANSWER	COMMERCIAL DILIGENCE PRESSURE-TESTS
Historical earnings. Are reported earnings supportable and appropriately normalized?	Assesses add-backs, normalization adjustments, working capital, and the supportability of reported EBITDA.	Whether the customer, labor, and market conditions supporting that earnings level can persist after close.
Recurring revenue. How much of revenue is truly contracted and durable?	Reviews how revenue is recorded, recognized, and reflected in the historical financials.	Whether service-heavy revenue is genuinely recurring, or repeat-but-uncommitted work.
PMA value. Do maintenance agreements represent durable recurring value?	Reviews the reported revenue and margin contribution of PMAs where the financial data permits.	Renewal behavior, assignability, and whether PMAs transfer at a change of ownership.
Customer concentration. Does the percentage capture the transferability risk?	Quantifies concentration as a percentage of revenue.	Whether concentrated relationships sit with the business or with the seller personally.
Growth capacity. Can the business actually grow as modeled?	May inform historical trends and financial capacity, but does not normally test the operating assumptions behind future growth.	Technician capacity, hiring plans, and local density behind the growth case.
Forecast credibility. Does the forecast reflect the business being acquired?	Assesses historical trends and the financial basis of the forecast; it does not independently test the commercial assumptions behind future performance.	Whether management's forecast traces to historical mix, capacity, and market reality.

The distinction can affect price, structure, lender confidence, diligence scope, post-close priorities, and whether the buyer should proceed.

THE SIX COMMERCIAL QUESTIONS

01

Is the revenue durable, or just familiar?

Repeat behavior can be valuable without being contractually committed. A long-tenured account can still depend entirely on the seller's presence, and that dependency rarely shows up in a revenue summary.

Evidence to review: contract terms, service-agreement coverage, tenure and payment history by account.

Service-oriented does not automatically mean contracted recurring.

02

Are PMAs commercial assets, or just maintenance activity?

A signed PMA list looks recurring on a summary page. Whether it behaves that way depends on renewal terms, escalators, and whether the agreement assigns cleanly to a new owner.

Evidence to review: renewal history, assignability language, escalator clauses, attrition by cohort.

A PMA list is not the same as transferable recurring revenue.

03

Is customer concentration a percentage problem, or a transferability problem?

A concentration percentage does not say whether those accounts are loyal to the business, or to the owner who has called on them personally for a decade.

Evidence to review: relationship owner by account, tenure, contact history, transition precedent.

The buyer may be underwriting a personal relationship rather than a business relationship.

04

Can technician capacity support the forecast?

A growth case assumes the labor to deliver it. Capacity that depends on hires not yet made, in a market the business has not yet tested, is a plan rather than a supported base case.

Evidence to review: current utilization, open requisitions, hiring lead times, local labor conditions.

Growth that depends on technicians who are not yet on payroll is not a supported base case.

05

Does local market density support the thesis?

Territory on a map is not route density. A broad footprint with thin coverage can cost more to serve than it returns, especially once drive time is priced into the labor model.

Evidence to review: route density, drive-time analysis, job clustering, competitive presence by sub-market.

A wide map is not the same as a dense market position.

06

Does the growth case connect to the business being acquired?

A large addressable market is easy to cite and difficult to capture. It says nothing about whether this specific crew, with this reputation, in this market, is the one that will capture it.

Evidence to review: historical vs. projected growth rate, prior expansion precedent, management's track record.

Market size does not establish target-specific growth capacity.

HOW THE WORK GETS BUILT

EVIDENCE STANDARD

Target-specific
Drawn from this target's own data, not sector benchmarks alone.

Evidence-linked
Every finding traces to a specific document, data cut, or interview.

Confidence-explicit
States how strong the underlying evidence is, not only the conclusion reached.

Risk vs. uncertainty
Weak evidence lowers confidence. It does not automatically raise risk.

Decision-useful
Built around the questions the IC actually has to answer before voting.

SELECTED EVIDENCE HIERARCHY

WORKSTREAM	STRONGER EVIDENCE	WEAKER EVIDENCE	COMMERCIAL INTERPRETATION
Revenue mix	Invoice- or job-level detail by customer, work type, date, revenue, and margin	Management estimates or broad category totals	Sets how much revenue can be underwritten as contracted, repeat, emergency, project, or one-time
PMA durability	Signed agreements, renewal history, assignment language, pricing escalators, PMA-level revenue and margin	PMA count or customer list without agreement, renewal, or margin support	Sets whether PMA revenue gets full, partial, or no recurring credit
Customer transferability	Multi-year customer history, relationship-owner map, contract status, decision-maker coverage, transition precedent	Management's general impression of loyalty	Flags accounts at risk of walking with the seller
Technician capacity	Roster, tenure, billable hours, unapplied time, overtime, callbacks, skill mix, open roles, recruiting pipeline	Headcount summary or management's stated intent to hire	Tests whether the forecast has the labor to be delivered

10-BUSINESS-DAY WORKFLOW

DAYS 0–2
Scope, data-quality gate, segmentation

DAYS 3–6
Revenue, PMA, customer, labor, and density analysis

DAYS 7–8
Management clarification and evidence reconciliation

DAYS 9–10
IC memo, risk and confidence summary, buyer readout

The base 10-business-day memo includes authorized management interviews. Independent customer or expert research is separately scoped. Full commercial due diligence includes independently sourced primary research.

ILLUSTRATIVE IC OUTPUT

Illustrative only. Not a real transaction. A generic project code and “TargetCo” convention are used to avoid overlap with any real company.

PROJECT LATTICE · TARGETCO MECHANICAL SERVICES

UNDER LOI

GEOGRAPHY	REVENUE / EBITDA	TECHNICIANS	PMA CUSTOMERS
Regional U.S. market	$18.4M / $2.6M	31 field technicians	214

EXECUTIVE RISK AND CONFIDENCE SUMMARY

WORKSTREAM	RISK	CONFIDENCE	SUMMARY
Revenue mix and durability	MEDIUM	MED-HIGH	Service-heavy positioning is supported, but repeat non-contracted revenue is being described as recurring.
PMA durability	MEDIUM	MEDIUM	The PMA base exists, but assignment, pricing, renewal, and margin evidence are uneven.
Customer transferability	HIGH	HIGH	Top-five concentration is manageable by percentage, but the largest account remains seller-dependent.
Technician capacity	HIGH	MED-HIGH	The forecast assumes service growth beyond demonstrated labor capacity.
Local market density	MEDIUM	MEDIUM	Core-market density is supported; the regional expansion case is not yet established.
Growth-case credibility	HIGH	MEDIUM	The base case may be supportable with targeted investment; the upside case remains under-evidenced.

IC VIEW

TargetCo appears to be a credible commercial HVAC platform candidate in its core market, but the buyer should not underwrite the full management case without adjustments.

Recommended buyer position: proceed with caution, revise the forecast, tier PMA revenue, require seller transition support for key accounts, stage growth around technician capacity, and separate core-market performance from expansion assumptions.

05A · ILLUSTRATIVE FINDING DETAIL

FROM EVIDENCE TO BUYER ACTION

Two illustrative findings show how TradeSworn moves from management narrative to evidence, IC implication, and a specific buyer response.

FINDING 1 · CUSTOMER TRANSFERABILITY

RISK **HIGH** CONFIDENCE **HIGH**

MANAGEMENT CLAIM

Top-account concentration is manageable because the relationships are long-tenured and recurring.

EVIDENCE REVIEWED

Three years of customer revenue, account contact map, contract status, customer tenure, management interviews, and seller-involvement notes.

FINDING

Top-five concentration is manageable at 32%, but the largest customer represents 14% of revenue and remains primarily owned by the seller. Pricing, renewal, and escalation discussions have historically run through the seller despite multiple facility contacts.

IC IMPLICATION

The primary risk is relationship transfer, not the concentration percentage alone.

BUYER ACTION

Require a documented seller-transition plan, establish secondary contacts at key accounts, and model a downside case for partial loss of the largest customer.

ADVISER HANDOFF QoE provider to align downside revenue and margin treatment. Counsel to review contract and transition provisions.

FINDING 2 · TECHNICIAN CAPACITY VS. FORECAST

RISK **HIGH** CONFIDENCE **MEDIUM-HIGH**

MANAGEMENT CLAIM

Service revenue can grow materially through additional PMAs, replacement pull-through, and broader branch coverage.

EVIDENCE REVIEWED

Technician roster, tenure, skill mix, billable and unapplied time, overtime, callback trends, open roles, recruiting pipeline, and forecasted service growth.

FINDING

The target appears close to current service capacity. The top six technicians support most complex work, peak-period overtime is elevated, and the forecast assumes five incremental technicians within 12 months while service revenue grows faster than field capacity.

IC IMPLICATION

The growth case is labor-constrained before it is demand-constrained.

BUYER ACTION

Stage the forecast around demonstrated hiring and retention, protect the highest-value technicians, and keep branch expansion out of the base case until core capacity stabilizes.

ADVISER HANDOFF QoE provider to align revenue and margin sensitivities. Buyer operating team to validate hiring lead times, compensation, and supervisory capacity.

FROM FINDINGS TO UNDERWRITING

ILLUSTRATIVE CDD-TO-MODEL BRIDGE

MANAGEMENT ASSUMPTION	EVIDENCE VIEW	TREATMENT	MODEL IMPLICATION
All PMA revenue is recurring	Agreement and renewal evidence varies	Gated	Tier recurring-revenue credit
Five technicians hired in 12 months	Recruiting support is limited	Downside-sensitive	Delay service growth
New branch opens in Year 2	Density not established	Upside only	Remove from base case
Price increase adds 150 bps	Retention evidence is incomplete	Directional	Exclude from base margin

WHAT THE FINDINGS CAN CHANGE

FORECAST
Revenue and growth assumptions are tiered by evidence strength rather than accepted uniformly.

PRICE CONFIDENCE
Findings clarify which elements of the commercial case support price, and which remain conditional.

STRUCTURE
Earnouts, holdbacks, transition obligations, and retention protections can address identified risks.

LENDER NARRATIVE
A defensible commercial view explains which revenue is durable, and how the buyer plans to manage what remains at risk.

FIRST 100 DAYS
Findings translate into early priorities: customer transition, PMA tiering, technician retention, pricing discipline, capacity sequencing.

SCOPE DISCIPLINE

TRADESWORN CAN HELP ANSWER

+ Is the revenue base commercially durable?
+ Are PMAs transferable and valuable?
+ Are customer relationships transferable?
+ Can labor and density support the forecast?
+ Is the target a platform, add-on, or strong local business?
+ What should IC discuss?

TRADESWORN DOES NOT PERFORM

– FDD or QoE
– Accounting or audit
– Legal or tax review
– Technical or equipment inspection
– Compliance certification
– Valuation opinions

HAVE A LIVE HVACR TARGET?

Send the target profile, deal stage, geography, revenue / EBITDA range, and the two or three commercial questions your IC needs answered.

SCHEDULE A CALL

EMAIL THE TEAM

Engagement scope can range from a desk-based pre-LOI screen to full commercial due diligence. See tradesworn.com/diligence for current engagement paths.