



Acquisition Update

The recent NPMA conference has been a hub of discussion and revelation. It's clear that the winds of change are blowing strongly, and many of our peers are feeling the gusts of private equity firms more than ever before.

One particular comment that resonated with us came from a business owner who quipped that he's stopped picking up his phone — not due to the typical sales calls about insurance for a new truck, but because of the

relentless outreach from private equity firms eager to build their deal pipeline. It's a sentiment that's been echoed across the conference floors.

Kemp, a veteran with thirty years of experience in our industry, shared his insights. Having worked for a private equity firm in the pest control realm, he expressed astonishment at the current surge of activity from financial buyers. This heightened interest is unprecedented in his experience.

Yet, while new players are making their presence felt, the

stalwarts of our industry - Orkin, Rentokil-Terminix, and Anticimex - remain undeterred and continue their active pursuits in acquiring potential targets. It's a testament to the resilience and adaptability of our sector.

Despite the uncertainties in the broader macroeconomic landscape, we are proud to report that we currently serve over 20 clients, many of whom are still fetching record multiples for their businesses. The market may be evolving, but opportunities abound for those who know where to look.



Focus on the Industry: **Inflation and Cost of Goods Sold**

By Grant Sinnott

As prices continue to rise, there are three core areas operators can focus on to protect their profit and loss statements. Fleet, labor and chemicals are the three main cost of goods solds, or COGS, in a pest control company. There are several ways to manage those expenses in a high-rate and high-inflation environment.

Our current economic environment is probably affecting your profit and loss, or P&L, and COGS in particular. There are real steps we can take to actively manage these expenses that will help keep your profits in line during these challenging times.

FLEET

Starting with the fleet, the price of new vehicles has continued to climb. During 2021 and 2022, the global supply chain was disrupted with semiconductor shortages and factory shutdowns coinciding with rising prices to create a bottleneck at

dealerships. While economists had hoped that rising rates would contribute to a decrease in prices, borrowers have not been deterred.

As you think about your fleet today, it is important to check your interest rate on your loans. If you have a low, fixed rate, it probably makes sense to continue to use that relatively cheap money the bank gave you for that vehicle. If, however, you financed a vehicle with a floating rate or if you purchased a truck with a higher fixed interest rate from a dealership, it may make sense to use cash from the business to pay down those loans. While that money could earn you money in the market, paying off high rate loans is a guaranteed way to save a cost. If the cost of the loan (interest expense) is greater than your return on your money in the market then it is beneficial to pay off the loan early if you can.

It is more important now than ever to maintain the trucks you have on the road. A simple spreadsheet that tracks

service dates can go a long way to increasing the life of your fleet. Change your oil often. If you have a team safety meeting, consider having a mechanic change the oil on the company vehicles during that time. This will help prevent engine damage and extend the lifespan of the vehicles, reducing the need for expensive repairs or premature replacements.

Don't be afraid to keep vehicles longer than normal in this economic environment as long as you keep them maintained, safe and looking good.

LABOR

Labor costs are another significant factor to consider in the pest control industry. With inflation on the rise, wages and benefits are increasing, and attracting and retaining skilled technicians can become more challenging.

To mitigate the impact of rising labor costs, it's important to focus on

employee productivity and efficiency. Implementing technology solutions such as route optimization software can help streamline operations and maximize the number of jobs completed in a day. This not only increases revenue but also ensures that technicians are utilizing their time and skills effectively.

Route density (stops per day or miles driven per day per truck) is a critical operational focus in this environment. If you are already utilizing route optimization software, you can review all recurring and active accounts on a map. Are there any major outliers? If so, consider increasing their rate due to an increased cost to service. Or refer them to another company that has more density in that area.

“Canceling” a customer may sound counterintuitive when we often preach retention, but, as example, a customer that’s 30 minutes out of your way could be a huge drain to productivity.

Additionally, investing in training and development programs for employees can have long-term benefits. By providing ongoing education and opportunities for career growth, you can enhance employee satisfaction and loyalty, reducing turnover and associated recruitment costs. Consider partnering with industry associations or offering certifications to further enhance the skills of your workforce.

CHEMICALS

The third major cost component in the pest control industry is chemical cost. As inflation impacts the prices of raw materials and manufacturing, it’s important to optimize your chemical usage. Conduct a thorough review of your pest control procedures to identify any areas where you may be using excessive amounts of chemicals. Implement integrated pest management (IPM) techniques that focus on prevention, monitoring, and targeted treatment.

Another consideration is the use of generic products to help save money. Just make sure you are comparing apples to apples with the products’ active ingredients that you are considering. This approach can help minimize the need for excessive chemical application, resulting in cost savings and reduced environmental impact. Consider normal chemical costs to be below 5% for pest control, below 10% for termite services, and below 15% for lawn-related services. Of course, there is an endless number of service lines to keep an eye on as it relates to chemical cost management, but these are the “big three” in most companies.

Furthermore, consider building relationships with suppliers to negotiate better pricing, or explore alternative suppliers that offer competitive rates without compromising on quality. Take

advantage of bulk purchasing opportunities, and keep a close eye on market trends to make informed decisions about when to lock in prices or adjust your purchasing strategy. Stay strategic and nimble when managing costs, especially around commodities like chemical and fleet expenses.

In conclusion, as prices continue to rise in the pest control industry, focusing on fleet management, labor optimization, and chemical usage can help protect your profit and loss statements. Paying attention to interest rates on vehicle loans and implementing regular maintenance schedules for your fleet can save costs in the long run. Investing in employee productivity and development can mitigate the impact of rising labor costs. Finally, optimizing chemical usage through integrated pest management techniques and strategic supplier relationships can help control expenses. By proactively managing these core areas, pest control operators can navigate the challenges posed by inflation and maintain a profitable business in a competitive market.

Despite economic challenges, pest control M&A activity remains robust. ***Our industry is desirable because of continual customer demand, high margins, and recurring revenue.***

– Kemp Anderson, President
Kemp Anderson Consulting



Call for a **free** consultation today!



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