PHCC

Insta-Intel

Keeping You Ahead of Your Competition!

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***Mission**: Favorably position PHCC members and affiliates to achieve the highest level of market awareness, professionalism, leadership, and business profitability in the emerging and ever-changing built environment.*

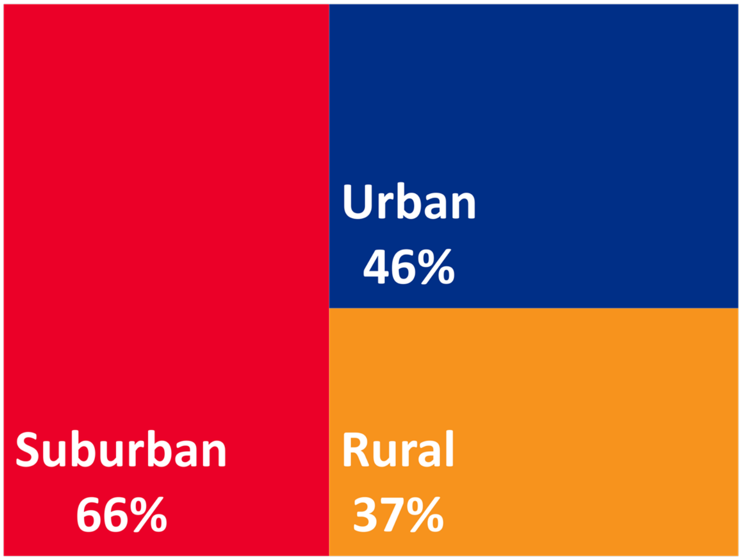
July 2024

In This Month's Insta-Intel:

- We share the findings from the recent *PHCC Market Pulse Survey*. Key takeaways include:
  - Sales performance and profitability of respondent businesses in 2024 is generally on pace with 2023, though a trend toward weakening performance is visible.
  - Respondent sentiment is mixed when comparing the last 6 months of business to the previous year, but most respondents have a positive outlook for the next 6 months.
  - When purchasing equipment, many consumers are interested in finding the most efficient unit but are not actively asking for rebates.
  - 61% of respondents have been approached by private equity firms interested in buying their business, while 39% have not.
  - Limited availability of quality, skilled labor remains a major pain-point for PHCC member companies.

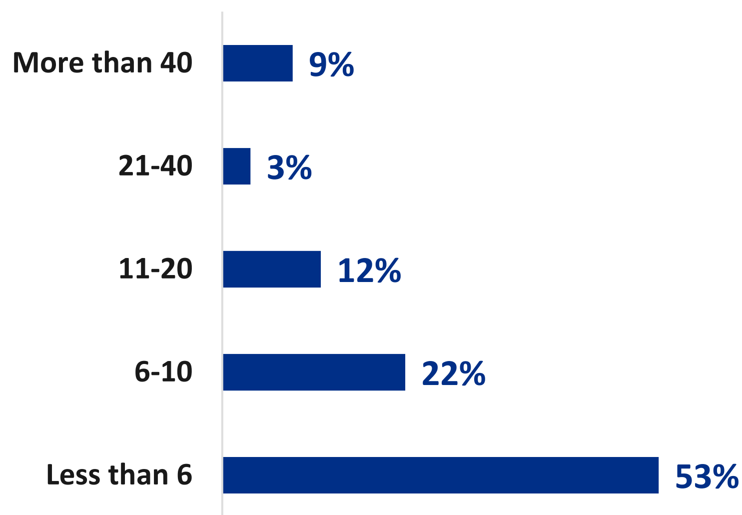
Survey Results: Key Respondent Demographics

Where Does Your Business Operate?

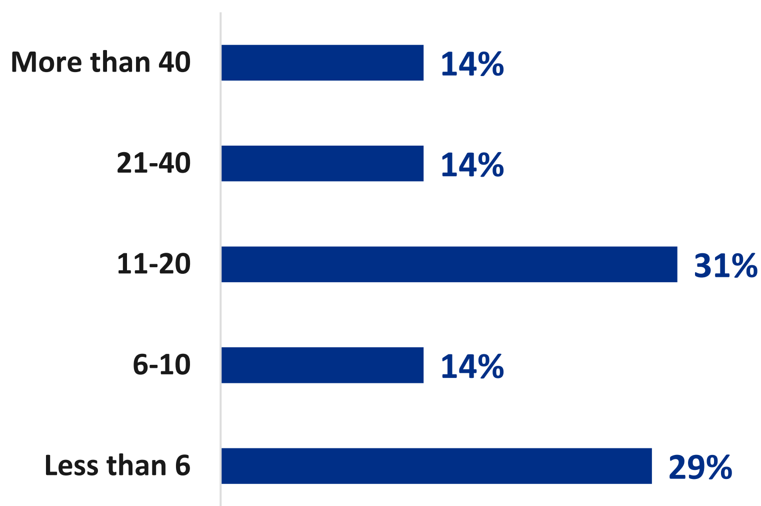


What Type of Shop is Your Business?

How Many Employees Work in Office Management or Admin Roles?



How Many Field Technicians/Installers Do You Have?

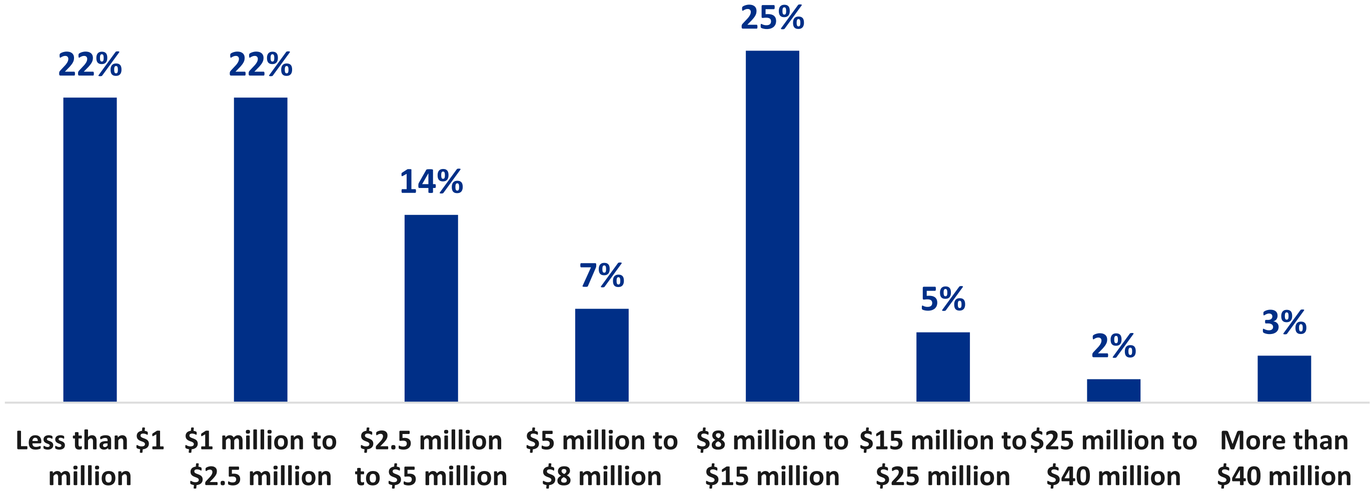


When asked where their business operates, 66% of respondents to the *Market Pulse Survey* indicate that their business serves suburban areas. 46% of respondents indicate that their business serves exclusively urban areas, whereas 37% of respondent businesses exclusively serve rural areas. The overwhelming majority of respondents, 86%, indicate that their businesses operate as open shops. Respondents working for union-signatory shops comprise 10% of the responses, and dual shops account for the remaining 3%.

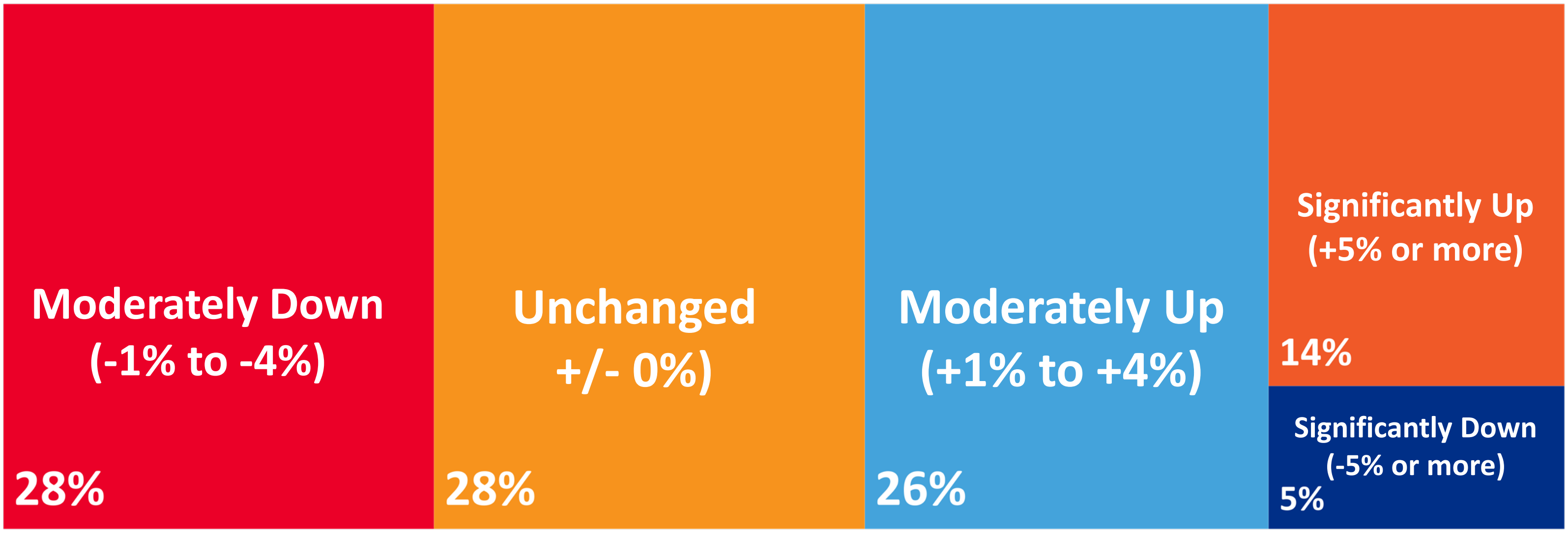
53% of respondents report working at businesses with fewer than 6 employees in office, management, or admin roles, with 6-10 admin-employee businesses making up the next largest group (22%). The response spread among survey participants is more balanced on the question of how many field technicians/installers are employed, with 31% of respondents reporting that 11-20 field techs/installers are employed and 29% stating that fewer than 6 field-techs/installers work for their businesses.

Survey Results: Business Size & Profitability

What Is Your Business' Annual Sales Volume?



How Does Your Business' Profitability in 2024 Compare to 2023?

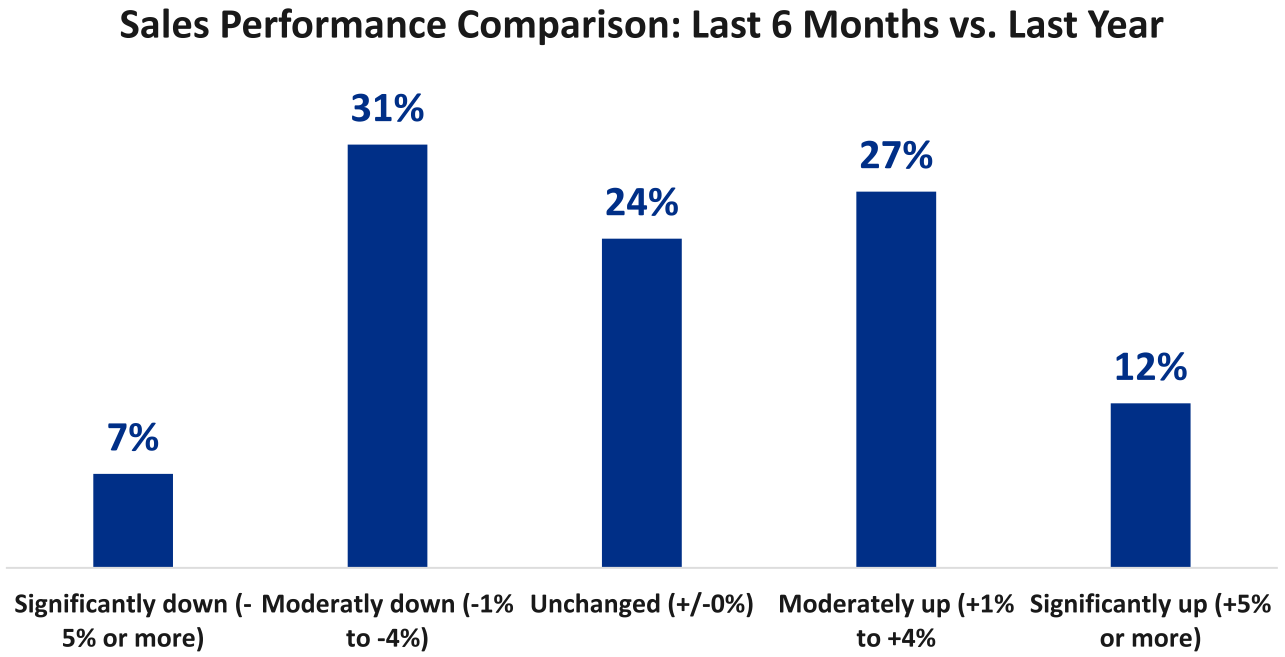


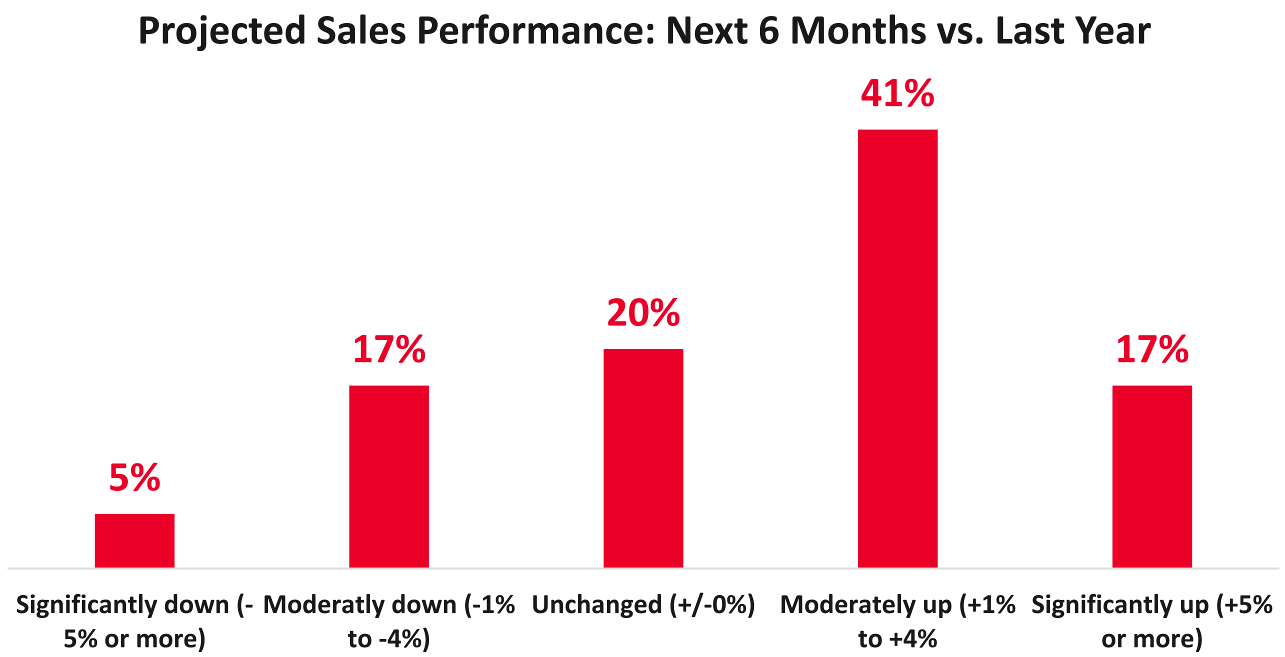
Survey results indicate a varied range of annual sales volumes among respondents to this *Market Pulse Survey*. The largest group, at 25% of the total, reports sales totals of $8-15 million. Respondents with less than $2.5 million in annual revenues comprise 44% of survey responses, but that total is evenly split between businesses generating less than $1 million in annual revenues and those making $1-2.5 million.

The split between small and large business respondents largely explains the variation in the number of field techs/installers employed (see previous page), with 100% of $8-15 million businesses employing more than 11 field techs, and 88% of businesses under $2.5 million in annual revenues employing less than 6 field techs.

Survey respondents broadly indicate that business profitability in 2024 looks a lot like 2023, with just 19% of respondents indicating that their profitability had changed by more than 5% (in either direction). The majority of respondents fall somewhere between having no change in business profitability from 2023 to 2024, or to seeing slight declines.

Survey Results: Business Performance & Expectations



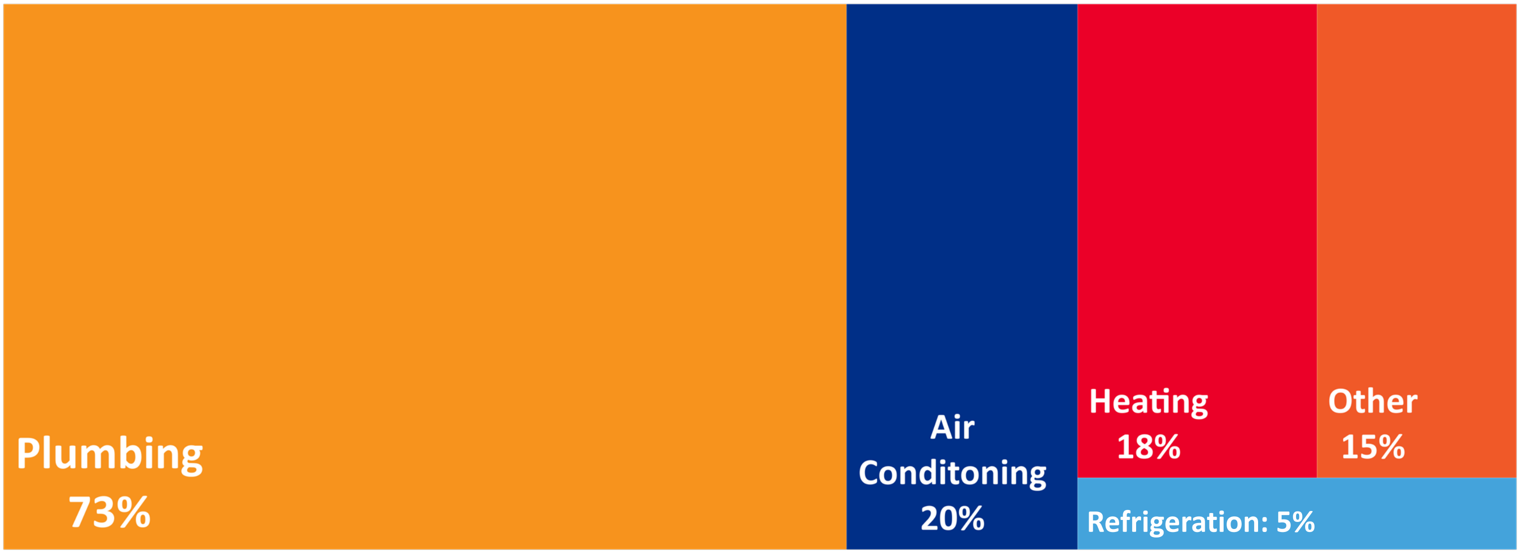


As with profitability, most respondents indicate that their 2024 sales performance is generally comparable to 2023. Fewer than 20% of PHCC members report sales growth or declines of greater than 5%. However, more respondents (30%) reported moderate declines in sales performance (of -1 to -4%) in 2024 than did those reporting moderate increases (27%).

Encouragingly, most respondents have a positive outlook for the future. 58% of respondents anticipate their next 6 months to be stronger than the same time last year, with 41% expecting moderate increases (1-4%) in sales, and 17% expecting significant gains (5% or more). 20% predict no change in sales relative to ‘23, and 17% foresee moderate declines (1-4%). Only 5% expect significant declines.

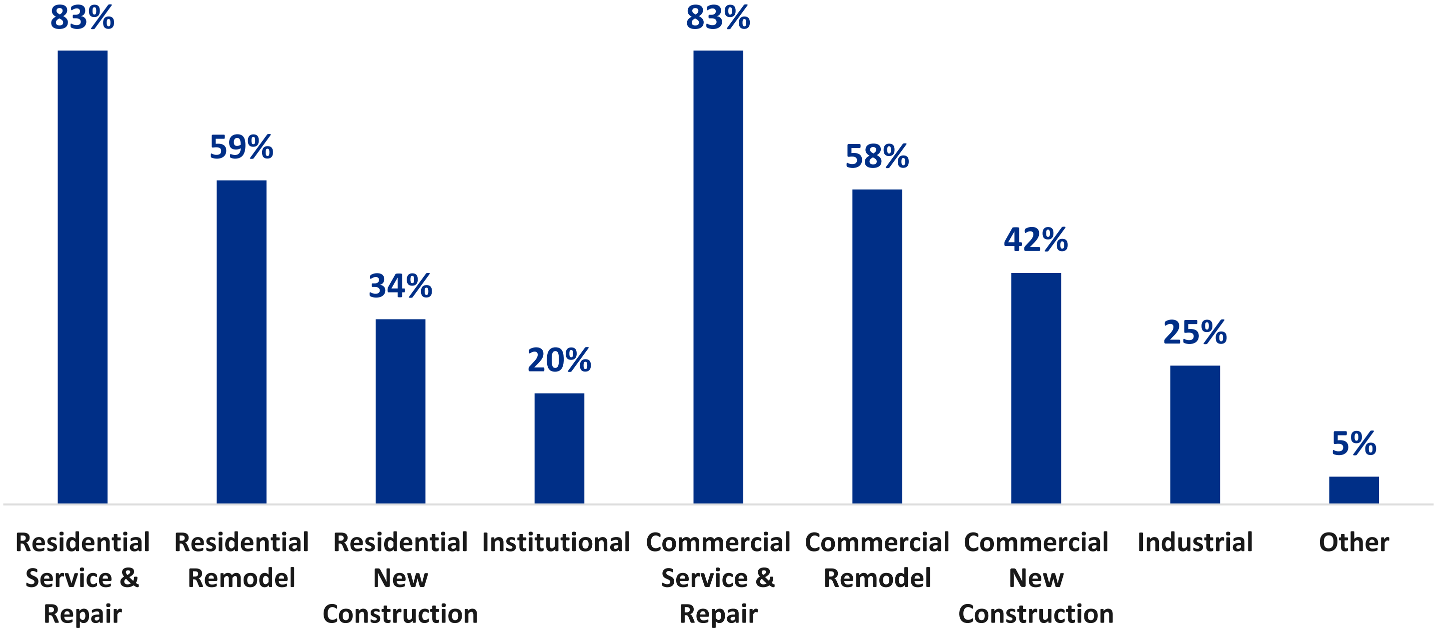
Survey Results: Business Segments & Markets Served

Distribution of Annual Sales, by Product Segment



Note: Percentages do not add to 100% due to rounding.

Business Services Offered, by Market Segment

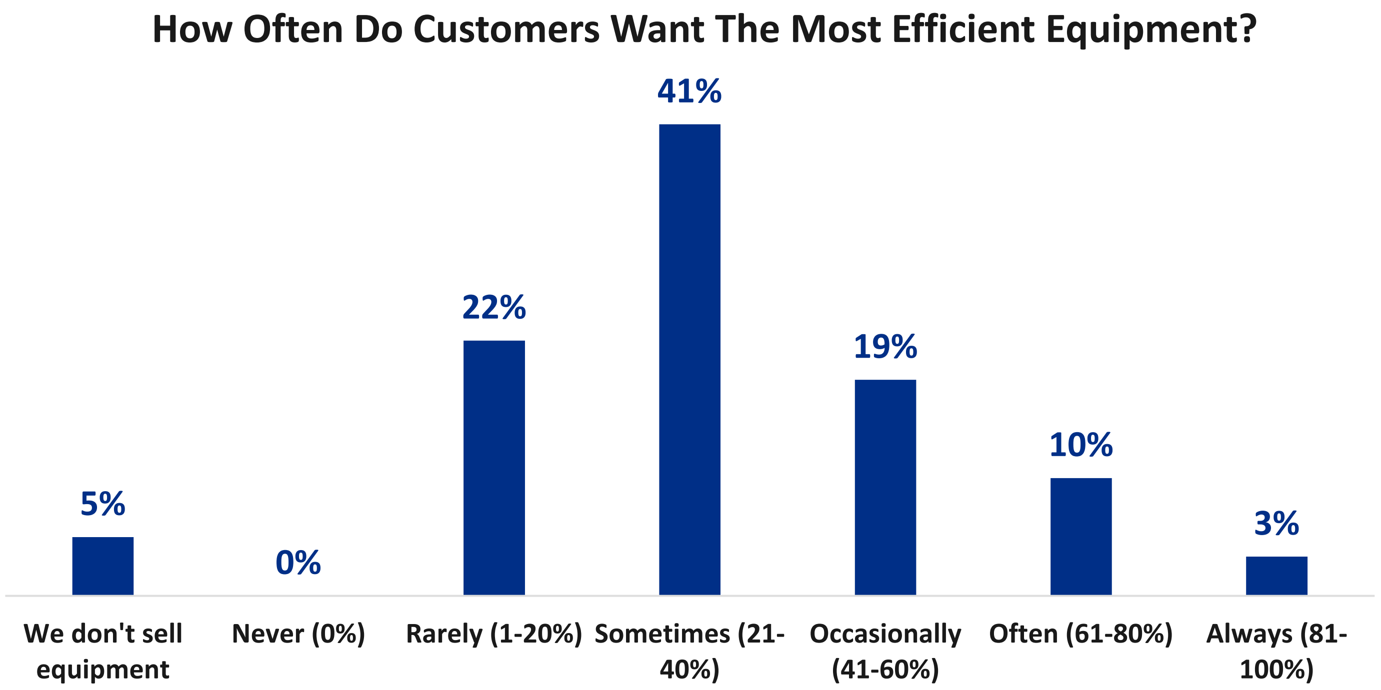


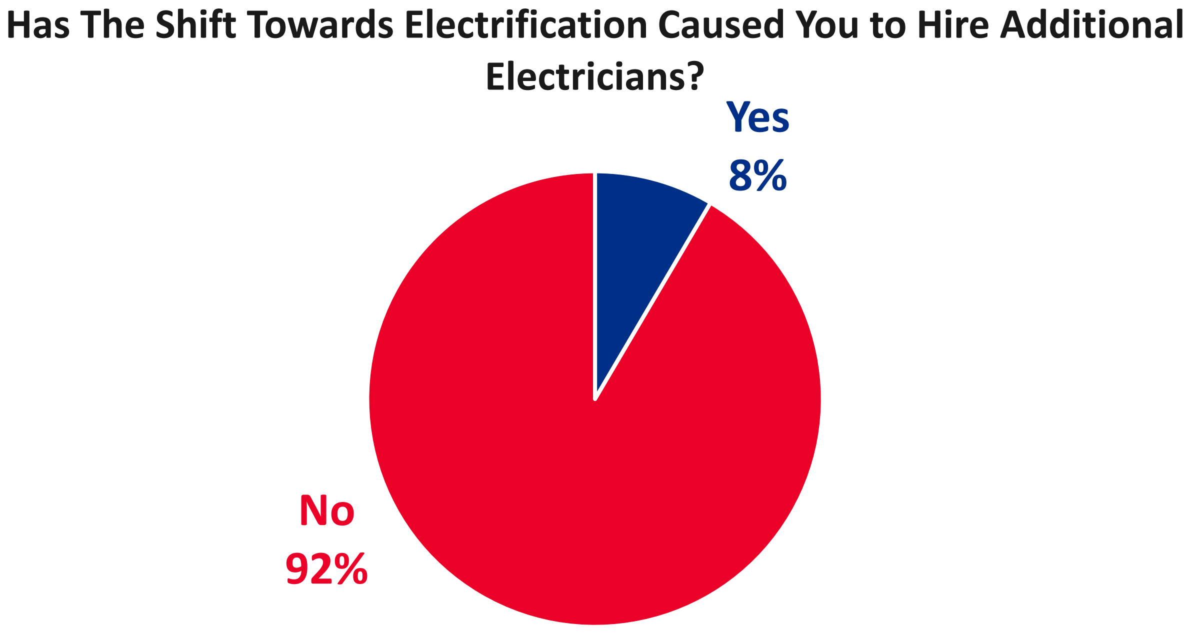
Note: Respondents asked to select all business services offered, and, consequently, totals do not add to 100%.

Unsurprisingly, survey respondents indicate that 73% of their annual sales come via the plumbing sector. AC sales are the source of 20% of annual respondent revenues, with heating-related sales close behind (18%). Refrigeration and other categories make up the remaining 20% (5% and 15%, respectively).

In terms of business services offered, *Market Pulse Survey* responses suggest that there's little difference between PHCC members' approach to residential and commercial sectors. Service and repair solutions are offered with equal frequency (83%) to residential and commercial customers, while remodeling services are close behind (59% resi and 58% commercial). That trend deviates slightly in new construction, though this is likely a function of a weak housing sector and strong commercial performance.

Survey Results: Equipment Efficiencies & Electrification

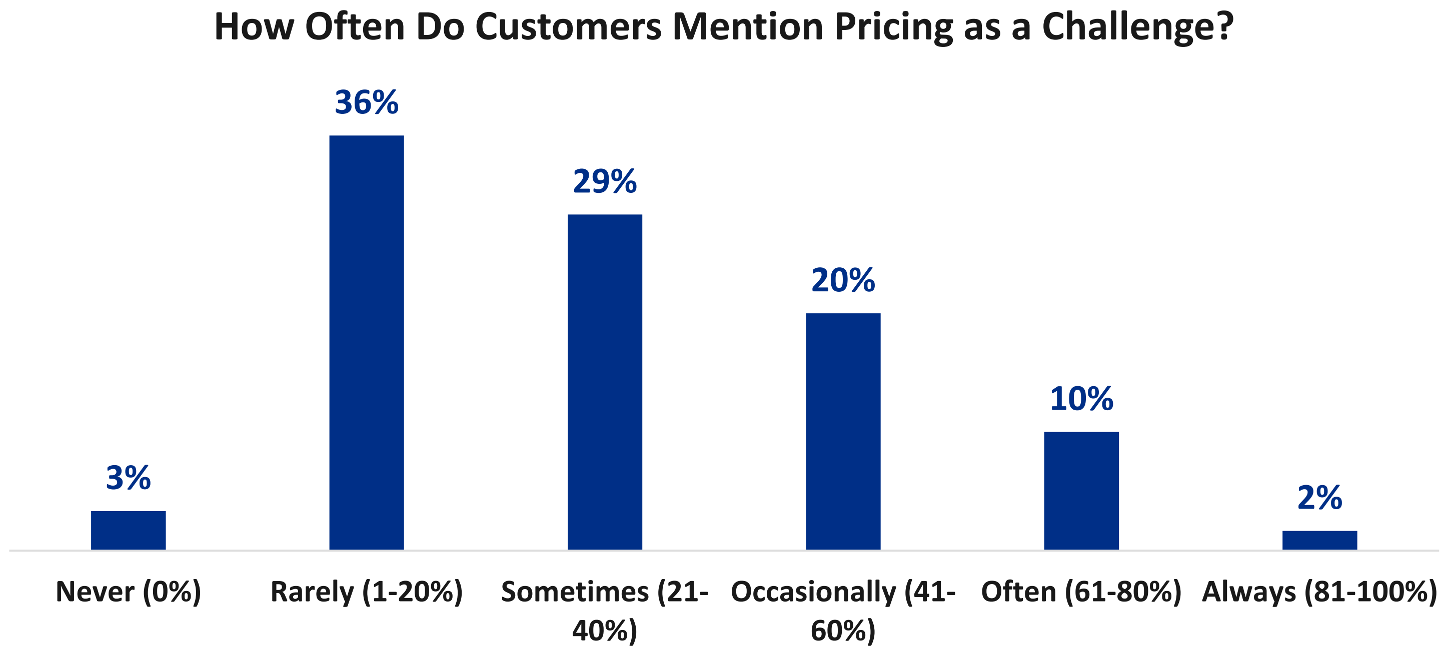


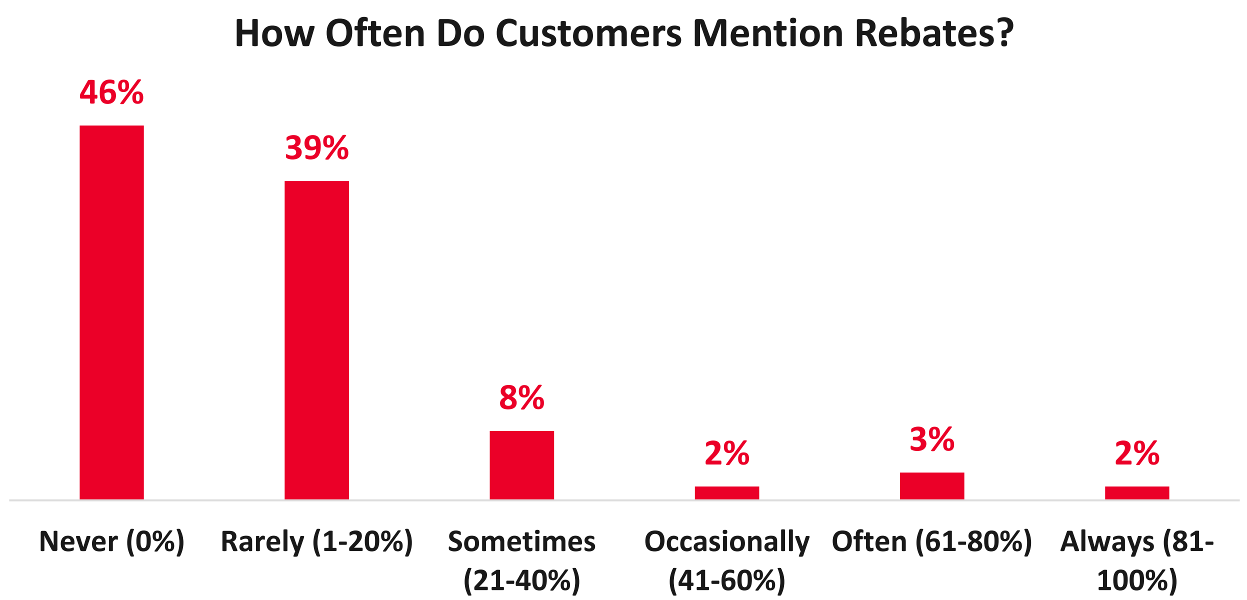


Consumer interest in efficient products is evident from the survey results. 73% of respondents indicate that consumers want the most efficient equipment available at least 21% of the time. 41% of respondents indicated that this happens 21-40% of the time, and 32% of respondents report that consumers request the most efficient equipment at least 41% of the time.

Despite the nationwide push toward electrification and growing consumer preference for more efficient products, few respondents report needing to hire additional electricians to meet a shifting consumer landscape. Just 8 percent of respondents reported that they have hired additional electricians.

Survey Results: Perceived Consumer Sentiments Toward Price & Rebates

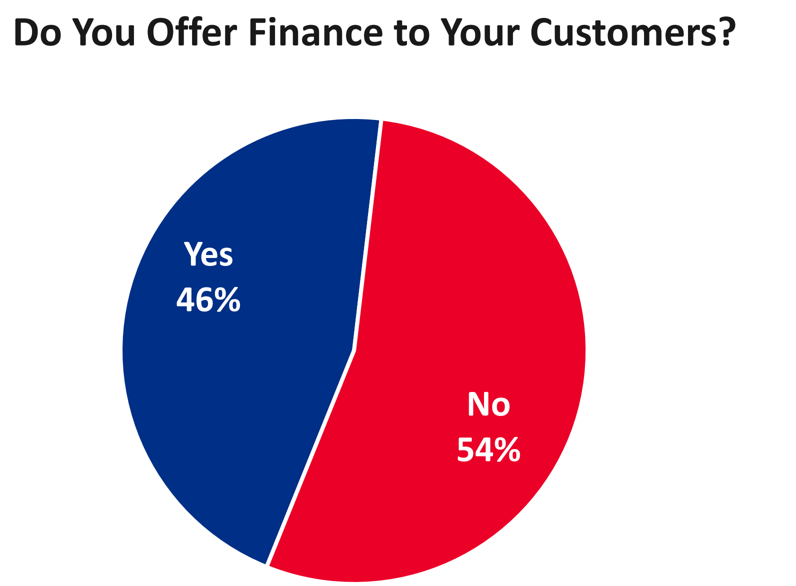


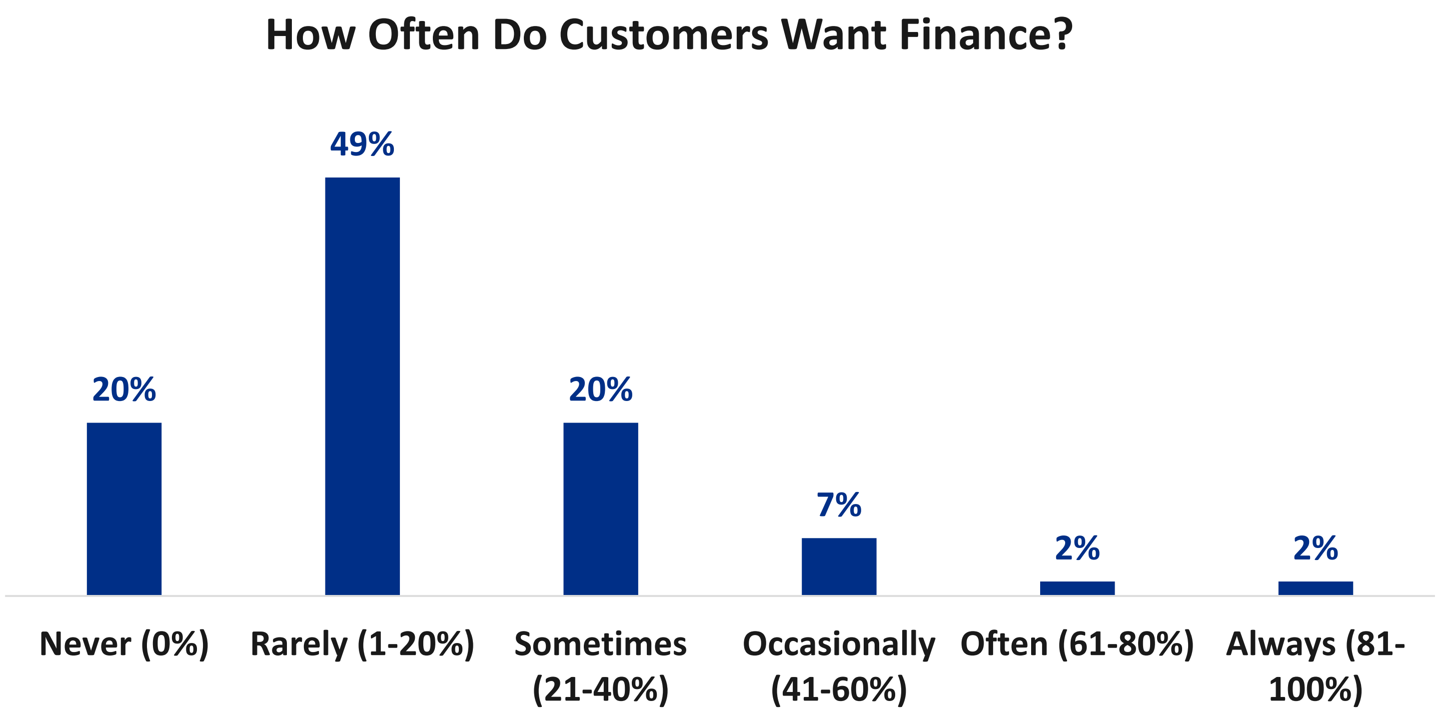


The survey shows a wide range of responses regarding customer challenges with pricing. 36% of respondents indicate that customers rarely mention pricing as a challenge, while 25% said it is sometimes mentioned. Another 20% reported that pricing is occasionally a challenge, and 10% noted that it is often a concern.

Most respondents (46%) indicate that customers never ask about rebates, and 39% report that it is rarely mentioned. Despite growing consumer interest in higher efficiency products, and the growth in prices in recent years, only a small percentage of customers (less than 10%) inquire about rebates more than 41% of the time. This suggests that consumers are generally uninformed about rebates, highlighting a potential opportunity for contractors to educate their customers on this issue.

Survey Results: The Role of Finance



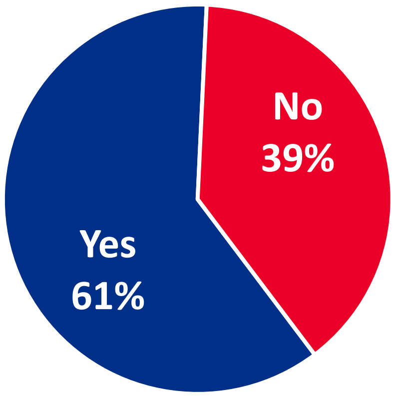


The results show that 54% of respondents do not offer financing options to their customers, while 46% do. When it comes to customer demand for financing, 49% of respondents report that customers rarely request financing, while 20% say it is sometimes requested. Another 20% indicate that financing is never mentioned, and only a small percentage note that customers occasionally (7%), often (2%), or always (2%) seek financing options.

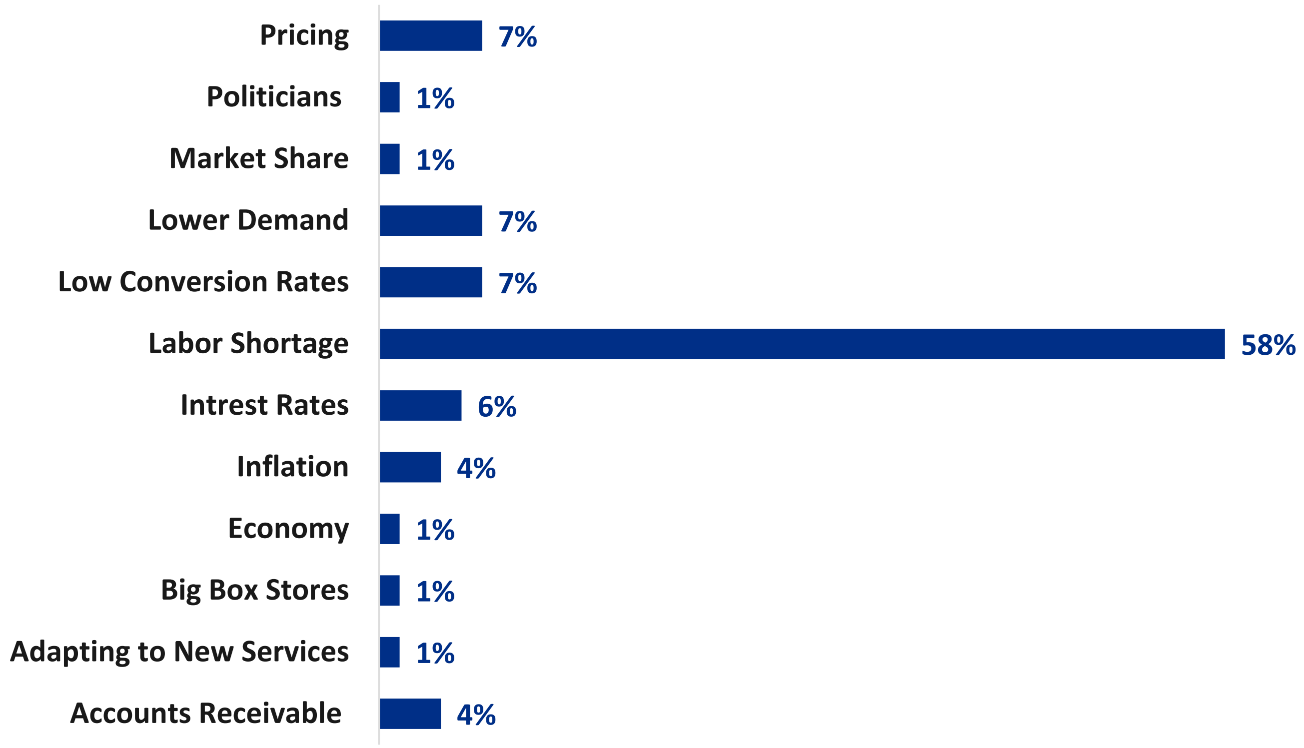
Despite the split on whether to offer financing, respondents generally agree that consumers rarely want to finance. While it seems rare that consumers seek financing, some respondents still find value in offering finance as an option to cater to this small portion of customers.

Survey Results: Business Acquisitions & Major Challenges

Have you been approached by a private equity firm interested in buying your business?



What are the biggest challenges your business is facing?



61% of respondents have been approached by private equity firms interested in buying their business, while 39% have not. This keeps in line with the industry trend that private equity firms are looking for businesses to buy and suggests that the wave of consolidation has not yet crested for the industry.

When asked about the biggest challenges confronting their businesses, nearly 60% of respondents revealed that the shortage of skilled, quality laborers remains a significant pain-point. Pricing/Inflation is jointly reported as the next greatest concern (shown separately on the graph above). Other challenges, such as lower demand and interest rates, are noted but are less significant compared to the labor shortage.