PINECREST PARTNERS

# Investment Committee Memo — Falcon Services, LLC

Prepared for: IC Meeting May 8, 2024 | Sponsor: Pinecrest Partners | Sector: Tech-enabled field services

## Recommendation

**Approve.** The deal team recommends the IC approve a $280M acquisition of Falcon Services from existing founder ownership, financed with a $90M Term Loan A, $90M Term Loan B (Tranche B), $5M drawn on a $65M Revolving Credit Facility, and $95M of common and preferred equity from Pinecrest Partners.

## Transaction summary

Falcon Services is a tech-enabled field-services platform serving logistics, energy, and industrial customers across the Southeast and Texas. The company operates from twelve service hubs and supports approximately 180 customer relationships under multi-year master services agreements. The deal team has spent four months on diligence including operational, commercial, financial, legal, and IT/security workstreams.

## Investment thesis (page 2 of 16)

**1. Stable, contracted revenue base.** 84% of LTM revenue is recurring under multi-year master services agreements with average remaining term of 38 months. Customer churn over the past three years has averaged 5.4% by revenue.

**2. Operating leverage on hub footprint.** Existing twelve hubs operate at approximately 78% utilization. Sponsor's operating plan calls for two new hubs in 2025-2026, sized to capture additional contracted volume in the Charlotte and Phoenix markets without proportional fixed-cost build.

**3. Technology-led margin path.** The deal team has validated a route-density and dispatch-optimization roadmap with the company's CTO that supports a 200-300bp margin expansion path over the hold period.

**4. Sector tailwinds.** Field-services outsourcing penetration is growing in the target verticals, and the competitive set is fragmented with limited national-scale operators.

## Sector overview (page 3 of 16)

The U.S. tech-enabled field-services market for logistics, energy, and industrial verticals is estimated at approximately $86B in addressable spend, growing 5-7% per annum. Outsourcing penetration in these verticals is approximately 38%, lower than adjacent verticals such as transportation and warehousing.

## Competitive landscape (page 4 of 16)

Falcon Services competes against (i) regional incumbents such as Sentinel Industrial Services and Highland Field Operations, (ii) national diversified providers such as Eastward Industrial Group's field-services line, and (iii) in-house operations. Win rates against regional competitors have averaged 64% in head-to-head competitive RFPs over the past two years.

## Operations diligence (page 5 of 16)

The operational diligence team conducted on-site reviews at six of twelve hubs and confirmed the company's reported labor productivity, fleet utilization, and safety metrics. Two hubs (Tampa and Memphis) require fleet refresh capex over the next 18 months totaling approximately $2.4M.

## Commercial diligence (page 6 of 16)

The commercial diligence team interviewed twenty-two customers including all top-10. Customer satisfaction was uniformly strong; the most common complaint was scheduling responsiveness on non-contracted incremental work, which the operating plan addresses.

## Financial diligence (page 7 of 16)

Q of E confirmed the company's reported FY 2023 Adjusted EBITDA at $42.1M after $1.4M of normalizations; FY 2023 Adjusted EBITDA quality is rated High by the financial diligence team. The Adjusted EBITDA bridge to the Credit Agreement definition is in the supporting workpapers.

## Legal diligence (page 8 of 16)

Legal diligence identified no material litigation, no environmental liabilities, no IP encumbrances, and clean change-of-control provisions in all top-20 customer MSAs. Two MSAs (Customer F and Customer J) require customer consent on transfer; both have been pre-cleared with Customer counsel.

## IT and security (page 9 of 16)

IT diligence confirmed the company's dispatch and field-management platform is on-premises with documented disaster-recovery runbooks and quarterly DR testing. SOC 2 Type II is in scope to be obtained within 24 months post-close at a cost of approximately $400K.

## Insurance and risk (page 10 of 16)

Insurance diligence confirmed adequate property, liability, and cyber coverage. Workers' compensation experience modifier is favorable at 0.84. No material gaps identified.

## Tax and structuring (page 11 of 16)

Acquisition will be structured as a 338(h)(10) election to obtain step-up basis. Sponsor will hold preferred equity with an 8% PIK coupon and common equity with full upside participation. Management rollover of approximately 12% of equity is contemplated.

### Capital structure and pricing (page 12 of 16)

Term Loan A pricing of S+475 reflects a leverage of 1.99x (TLA) at close. Term Loan B (Tranche B) pricing of S+575 with an April 2026 reset reflects an additional 1.99x of leverage. Total senior leverage at close is 3.99x. Total leverage including any future earnouts is capped at 4.10x.

## Sponsor returns (page 13 of 16)

The sponsor base case returns approximately 2.6x MOIC and 22% IRR over a five-year hold, assuming FY 2028 exit at 9.0x EBITDA. Downside case returns approximately 1.5x MOIC and 9% IRR; upside case returns approximately 3.4x MOIC and 28% IRR.

## Customer concentration (page 14 of 16)

Customer concentration is moderate and has been declining over the past three years as the platform has added scale. As of the LTM period ended March 31, 2024, the top three customers represented approximately **31% of revenue** (Customer A 13%, Customer B 10%, Customer C 8%); the top ten represented approximately 62% of revenue.

Customer A is the largest customer at approximately 13% of revenue, with a master services agreement dated November 30, 2022 that runs through November 30, 2027. The agreement contains volume commitments at the covered locations and an annual CPI escalator capped at 3.5%. Renewal is by mutual written agreement and is not automatic; the deal team views the renewal in late 2027 as a key event in the hold period.

The deal team views customer concentration as monitorable rather than determinative. Concentration has trended down through organic growth in mid-tail customers; however, the operating plan does contemplate continued expansion of scope at Customer A, which could increase concentration over the hold period if mid-tail growth does not keep pace.

**Customer concentration matrix**

| Rank | Customer | % Revenue (LTM Mar 2024) | Notes |
|---|---|---|---|
| 1 | Customer A | 13% | MSA expires Nov 2027; volume commitment in place |
| 2 | Customer B | 10% | MSA expires Apr 2027; renewed Aug 2023 |
| 3 | Customer C | 8% | MSA expires Sep 2026 |
| | Top 3 total | 31% | |
| 4-10 | Customers D-J | 31% | Mid-tail accounts, no >5% individual share |
| | Top 10 total | 62% | |

## Key risks (page 15 of 16)

**1. Customer renewal risk.** The Customer A MSA does not auto-renew. A failure to renew, or a material concession on price or volume terms at renewal, would meaningfully affect FY 2028 EBITDA and exit valuation.

**2. Hub expansion execution.** The two new hubs in the operating plan represent approximately 12% of total fixed cost on a run-rate basis. Pre-opening expense and ramp delays would compress EBITDA in the year of opening.

**3. Tranche B reset.** Tranche B pricing resets in April 2026; the deal team's downside case assumes a 150bp pricing increase.

**4. Working capital.** The operating plan assumes DSO at 48 days, consistent with historical. Working capital expansion would absorb cash and reduce FCCR cushion.

## Approvals (page 16 of 16)

Approved by Investment Committee — May 8, 2024.

Sponsor: Pinecrest Partners

Sample disclosure: synthetic IC memo prepared for public demonstration. Not derived from any actual sponsor, borrower, or transaction.