



Application to the  
Representative Policy Board  
For Approval to Purchase the Assets of a  
***Confidential*** Plumbing Company



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South Central Connecticut Regional Water Authority  
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New Haven, CT 06511

Table of Contents

Statement of Application and Executive Summary ..... 5

    (i) Need for Proposed Action ..... 5

    (ii) Analysis of Alternatives ..... 5

    (iii) Statement of Costs ..... 5

    (iv) Statement of Facts ..... 5

    (v) Unusual Circumstances ..... 5

**1** Need for Proposed Action ..... 6

**2** Analysis of Alternatives ..... 6

**3** General Background ..... 7

    3.1 Type of Business .....7

    3.2 Products and Services Offered .....7

    3.3 Business Location (Existing and Planned).....7

    3.4 Real-estate Owned and Leased .....8

    3.5 Annual Revenue for Prior Three Years .....8

    3.6 Number of Employees .....8

    3.7 Form of Organization .....8

    3.8 Subsidiaries and Company Affiliations .....8

    3.9 State & Federal Legislative Drivers ..... 8

**4** History of Company ..... 9

    4.1 Development Timeline ..... 9

    4.2 Ownership and Control ..... 9

    4.3 Key Individuals..... 9

    4.4 Why for Sale..... 9

**5** Management and Employees..... 9

    5.1 Leadership Team Overview..... 9

    5.2 Key Employees ..... 9

    5.3 Employee Matters ..... 10

    5.4 Employee Benefits ..... 10

    5.5 Authority Employee Interaction ..... 10

**6** Financial Records ..... 11

    6.1 Financial Summary ..... 11

    6.2 Financial Records & Tax Returns ..... 11

    6.3 Significant Contracts ..... 12

    6.4 Financial Condition of the Authority ..... 12

    6.5 Financial Condition of the Acquisition Company..... 12

    6.6 Financial Condition of the Authority Post Acquisition..... 12

**7** Regulatory ..... 12

    7.1 Environmental and Legal Issues ..... 12

    7.2 Current or Threatened Litigation ..... 12

    7.3 Undisclosed Liabilities ..... 12

    7.4 Contractual Obligations ..... 12

**8** Sales and Marketing ..... 13

    8.1 Sales & Marketing of Products and Services ..... 13

    8.2 Sales Compensation ..... 13

    8.3 Customer Transition ..... 13

    8.4 Product and Services Pricing..... 13

    8.5 Market ..... 14

    8.6 Market Growth ..... 14

**9** Customer Diversification ..... 14

**10** Competition ..... 14

    10.1 Description of Competitive Market ..... 14

10.2 Primary Competitors.....	14
10.3 Barriers to Entry .....	14
11 Industry Trends .....	15
12 Transaction Document(s) .....	15
13 Five-year Forecast.....	15
14 Conflicts of Interest .....	15
15 Valuation .....	16
16 Statement of Costs.....	16
17 Risks .....	16
18 Explanation of Unusual Circumstances.....	17
19 Statement of Facts .....	18
20 Conclusion.....	19

**Confidential Exhibits (APPENDICES)**

Exhibit A:	Statement of Costs
Exhibit B:	Statement of Facts
Exhibit C:	General Background of Company
Exhibit D:	Business Location
Exhibit E:	State and Federal Legislative Drivers
Exhibit F:	Development of Timeline
Exhibit G:	Ownership and Control
Exhibit H:	Management and Employee Details
Exhibit I:	Financial Records and Tax Returns
Exhibit J:	Sales and Marketing
Exhibit K:	Product and Pricing
Exhibit L:	Target Market
Exhibit M:	Summary of Transaction Documents
Exhibit N:	Five-Year Forecast
Exhibit O:	Valuation

## Statement of Application and Executive Summary

In accordance with Section 19 of Special Act 77-98, as amended, the South Central Connecticut Regional Water Authority (RWA) is pleased to present this application to the Representative Policy Board (RPB) for review and approval of the acquisition of all physical and intangible assets of a Plumbing and Well Services Company in Connecticut. Section 19 of Special Act 77-98, as amended, requires RPB approval before the RWA acquires or makes a subsequent investment in any non-core business in an amount more than \$1 million. Due to the confidential nature of negotiations, the proposed asset purchase cost is confidential, however, the proposed asset purchase includes the purchase of all physical and intangible assets of Target Two is in a range of \$1.5 million to \$2.0 million. Exhibit A.

With the objective of mitigating water rate increases, the RWA worked with local and state elected officials, environmental groups and community organizations to make changes to our enabling legislation that governs what we can do as an organization. In 2017, Special Act 17-5 amended our enabling legislation allowing the RWA to conduct and invest in non-core business activities defined as including water related, environment, agriculture, and certain renewable energy sources. This allows the RWA to enhance its revenue sources, especially with a mature service territory and an approximately 1% year over-year decline in water consumption

After working with bond and legal counsel regarding the structure for these non-core initiatives and building on this strategic approach, the RWA entered into the well services market with the acquisition of two smaller well service companies, Roach Plumbing in 2021 and Water System Specialties in 2022, both operating under RWA Well Services, LLC. The RPB is currently considering the approval of Target One, a similarly situated plumbing company serving an adjacent footprint. In addition, the RWA has launched the WellSafe product – a protection plan solution offering maintenance and repair services to well owners throughout the state. The initial acquisitions, also structured as an asset purchase, have exceeded their valuation earning's targets and are cash flow positive.

The proposed asset purchase acquisition will build on this earlier work and expand the RWA's Well Services footprint and market share as well as support the proliferation of our WellSafe protection plan product. This action further supports the RWA's mission to provide customers with high quality water and services at a reasonable cost by expanding commercial revenue sources to invest in the utility infrastructure and mitigate water rate increases by transferring monies into the Construction Fund, to help fund the RWA's capital program and reduce debt leverage. Due to the confidential nature of negotiations, the name of the company has been protected and is herein referred to as Target Two.

The proposed purchase will be executed through an asset transaction – not a stock transaction – thus resulting in the RWA not retaining any liabilities of the target company, called Target Two. The legal purchasing entity would be RWA Well Services, LLC, further protecting the RWA and its customers from risk. Associated with this proposed transaction, the RWA plans on entering into an employment agreement with the current principal and employing the balance of the current staff as “employees at will.” These individuals would become employees of RWA Well Services.

Target Two has a strong service reputation with a strong leader who is committed to joining the Well Services team and is uniquely positioned to compliment RWA Well Services' prior and proposed plumbing acquisitions from a geographic expansion perspective.

This application will provide a description of the investment, an explanation of why it is favorable, a discussion of the alternatives considered, and the estimated cost. The accuracy and completeness of this document are critical to the RPB's ability to make an informed decision on behalf of the RWA's customers and member communities. To that end, the RWA worked with Murtha Cullina LLP attorneys at law and Cohn Reznick, an advisory, accounting assurance and tax firm, on various legal and financial considerations of the proposed asset purchase.

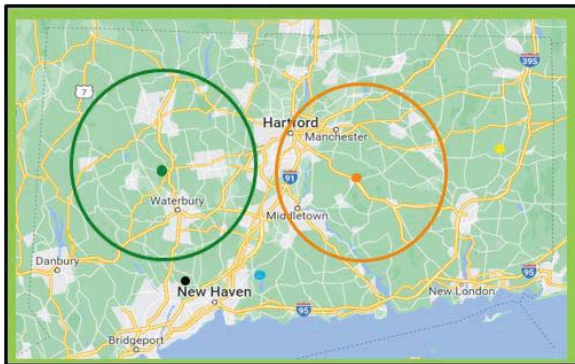
The RWA's Commercial Enterprises (non-core) mission is to expand commercial revenue sources to mitigate prospective water rate increases. The Target Two acquisition furthers that mission and the RWA's goal to expand into water and environmental-related services.

## 1. Need for Proposed Action

Strategically, the RWA has entered into the Well Services market with the acquisition of two smaller well service companies, Roach Plumbing in 2021 and Water System Specialties in 2022, along with the potential approval of the acquisition of Target One. The initial two investments have exceeded their earning targets and have resulted in positive cash flow. In addition, the RWA has launched the WellSafe product – a protection plan product offering maintenance and repair services to well owners.

The proposed acquisition will expand the RWA’s Well Services footprint and market share, and support the proliferation of its growing WellSafe products and services. – **Figure 1.1.0**

**Figure 1.1.0 RWA Well Services Current Service Footprint**



The asset purchases of this target will benefit the RWA and its customers. Commercial Enterprises’ (non-core) mission is to expand commercial revenue sources to mitigate rate increases through transfers into the Construction Fund to help fund the utility capital program and reduce debt leverage. This acquisition is consistent with that mission and the RWA’s goal to expand into water and environmental-related services.

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## 2. Analysis of Alternatives

The alternative action is to not pursue the proposed acquisition – No Action Alternative – or to grow organically by expanding the existing well service operations. – **Figure 2.1.0 Analysis of Alternatives.**

**Figure 2.1.0 Analysis of Alternatives – Comparative Analytics**

	No Action	Organic Growth	Asset Purchase
Growth Rate	(-)	(0)	(+)
Returns	(-)	(0)	(+)
Market Share	(-)	(0)	(+)
Labor Risk	(-)	(+)	(0)
Execution Risk	(+)	(-)	(0)

The asset purchase is preferred:

1. Captures immediate market share and critical labor resources compared to the organic growth option. This option does not preclude organic expansion of our existing commercial offers.
2. Secures a sustainable cash flow and expands the RWA customer base compared to the no action or organic growth alternative.
3. Structuring the acquisition as an asset purchase mitigates the risk as no liabilities are acquired under this structure. Risk is also mitigated by RWA Well Services, LLC, being the legal entity executing the transaction. In addition, management has successfully acquired and integrated two similar entities. See Section 14 Risks and the associated mitigations.

Alternatively, in theory, these funds could be redistributed from the Growth Fund into the Construction Fund directly. While this action would result in mitigating debt financing for our capital program in a future rate application, there would not be a continuing cash flow and earnings growth potential available to be transferred into the Construction Fund. In addition, the annual debt service savings is less than the expected annual cash flow.

## 3. General Background of Target Two

Target Two is a first generation family-owned plumbing and well services company that is located in Connecticut and has been serving the region for many years. The company consists of six employees including the owner; one office associate; three licensed plumbers; and an apprentice. The revenues of the last three years are as follows:

- 2020 - \$0.8M
- 2021 - \$1.2M
- 2022 - \$1.3M

There are no other subsidiaries, however, there is a small affiliated drain business that is owned by employees of Target Two. Associated with the proposed asset purchase of the business, management will seek approval from the Authority to purchase of the Assets of this associated business.

(**Exhibit C** contains the confidential proprietary Target Two background information)

### 3.1 Type of Business

Target Two offers plumbing, repair, installation, and upgrade services to residential, and light commercial customers including water pumps, tanks, water treatment, water heaters and steam radiant heating.

### 3.2 Products and Services Offered

- Well pump installation and repairs, water filtration systems, jet pumps, submersible pumps, water storage tanks and sump pumps
- Steam heating system repair and replacement, including water heaters, condensing systems, high efficient boilers and on-demand water heaters

### 3.3 Business Location

Target Two currently operates in the state of Connecticut.

(*Exhibit D* contains the specific confidential location)

### 3.4 Real-estate Owned and Leased

Target Two currently leases a ~3,300-square-foot facility at its current location. The RWA plans to continue to lease the space at the current lease rate and operate the business out of the current location, similarly to what was done in past transactions.

### 3.5 Annual Revenue for Prior Four Years

The RWA retained Cohn Reznick, an advisory, assurance and tax firm, to conduct financial due diligence. This included reviewing Target Two's QuickBooks accounting records. The revenues of the last four years are as follows:

- 2019 - \$0.8M
- 2020 - \$0.8M
- 2021 - \$1.2M
- 2022 - \$1.3M

### 3.6 Number of Employees

The Company currently has six employees:

- 1 – Principal and owner (Licensed Plumber)
- 1 – Office Staff
- 3 – Licensed Plumbers
- 1 – Apprentices

### 3.7 Form of Organization

Target Two is a Limited Liability Company registered in the State of Connecticut. A limited liability company (LLC) is a business structure in the U.S. that protects its owners from personal responsibility for its debts or liabilities. Limited liability companies are hybrid entities that combine the characteristics of a corporation with those of a partnership or sole proprietorship. However, this is not relevant to the transaction since the RWA is not purchasing the company; it is acquiring the assets of the business.

### 3.8 Subsidiaries and Company Affiliations

The Company has no known subsidiaries, however, there is a small affiliated entity, Confidential Drain Company. The RWA intends to pursue a proposed purchase of the Confidential Drain Company assets.

This will be a separate but parallel transaction from what is contemplated with this application.

### 3.9 State & Federal Legislative Drivers

Target Two holds and maintains all the necessary state licensing and filing requirements to conduct plumbing services to customers in the state of Connecticut.

(**Exhibit E** contains the confidential proprietary summary of licensure)

## 4. History of Company

### 4.1 Development Time Line

The current owner founded Target Two in the 2000s. He has been the owner-operator ever since. The RWA started initial conversations with Target Two in mid-2022 and entered into a non-binding term sheet in January 2023.

(**Exhibit F** contains the confidential proprietary key dates and full history of the Company)

This purchase opportunity came about as a result of the RWA targeting strategic entities for potential acquisition to support its commercial growth goals.

### 4.2 Ownership and Control

The Company is an LLC with the current owner, principal and president having majority ownership.

(**Exhibit G** contains the confidential proprietary ownership and control details)



### 4.3 Key Individuals

- Principal & President – Owner

### 4.4 Why the Business is For Sale

This purchase opportunity came about as a result of the RWA targeting strategic entities for potential acquisition to support its commercial growth goals. After discovery and review, there was mutual interest between the target's and the RWA. The RWA believes the current principal would be a strong addition to the Well Services management team. As part of the transaction, the principal has agreed to stay with RWA Well Services for a period of three years via a contract arrangement and has expressed a continued interest in staying past this initial timeframe with an at-will arrangement.

## 5. Management and Employees

### 5.1 Leadership Team Overview

The Management Team consists primarily of the current owner. The owner essentially runs the business; front office, back office, field service operations, bid and quote, pricing, managing the field crews and HR. In addition, he manages vendor relationships, work order review and the sub-contractors. Supporting this effort is an office manager. The office manager oversees all aspects of the back office including accounts payable, accounts receivables, invoicing, insurance and payroll.

### 5.2 Key Employees

Target Two employs three additional licensed journeymen responsible for customer repair and installations.

As outlined in the asset purchase agreement, the business intent is to retain the owner under three-year employment agreement. This will allow ample time for knowledge transfer or the continuation of employment. All other personnel will be employees at will.

*(Exhibit H* contains the confidential management and key employee details)

### 5.3 Employee Matters

- **Non-competes** – There are no known non-competes currently in place, however, if approved, the asset purchase agreement contains a non-compete for the principal.
- **Union / Non-Union** – Target Two personnel would be employed by RWA Well Services, LLC, as non-union employees.
- **Planned Management Changes** – There are no planned changes in management or the number of employee's in the near term.

### 5.4 Employee Benefits

Currently Target Two does not currently offer any medical and has limited retirement benefits. It is the intent to have all employees be eligible for RWA Well Services, LLC benefits. Variances in costs and entitlements have been identified and accounted for in both the valuation and projections.

## 5.5 RWA Employee Interaction & Qualifications

The Target Two entity will be a part of RWA Well Services LLC. RWA Well Services LLC is a wholly owned entity of RWA Commercial Services LLC. RWA Commercial Services LLC is a wholly owned entity of the RWA subject to all the controls, limitations and approvals therein, including the governance by the Authority Board and RPB. Larry Bingaman, RWA President & CEO, and Rochelle Kowalski, Vice President & Chief Financial Officer are the current managers of RWA Well Services, LLC. Dennis Donovan, Head of Commercial Enterprises, runs the day-to-day activities of RWA Well Services LLC.

Qualifications for Dennis Donovan: Dennis has over 25 years of progressive experience in Consumer Services. For 13 years, Dennis worked at Nicor Gas, in their deregulated energy and home services division serving in several management roles culminating as a Vice President of Retail Operations. In 2012, Dennis took a leadership role at Direct Energy with their Home Services Division, serving in different business development and operations roles from 2012-2017. In 2017, Dennis helped found Home Experience LLC and joined the management team as Co-Founder and Vice President, buying and running several plumbing companies. Through a graduate fellowship, Dennis earned a MS in economics from Illinois State University. Currently, Dennis is a member of the RWA Leadership Team serving as Head of Commercial Enterprises since 2021.

In addition, the core people and accounting functions will be administered by the RWA, including Human Resources, Payroll, Banking Activity, Accounts Payable, Procurement, and Information Technology. This will result in both scale efficiencies and a tight control structure. RWA Well Services LLC will incur any costs incurred for these functions.

## 6. Financial Records

### 6.1 Financial Summary

As stated in Section 1.5, the RWA retained the firm CohnReznick, an advisory, assurance, and tax firm, to conduct a financial due diligence. Figure 6.1.1 summarizes the normalized financial metrics from their accounting review report.

**Figure 6.1 .1 Target Two's Prior 3-Year Normalized Financial Summary**

<b>Adjusted results of operations summary</b>				
<b>US\$ in thousands</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>TTM Mar-23</b>
Revenue	802	1,196	1,279	1,331
Operating income	(5)	81	201	262
EBITDA	52	147	210	270
<b>Key metrics</b>				
Revenue growth	NQ	49.2%	6.9%	4.1%
Operating profit margin	(0.7%)	6.8%	15.7%	19.7%
EBITDA margin	6.5%	12.3%	16.4%	20.3%
<b>Key balance sheet metrics</b>				
Adjusted net working capital	140	165	148	102
Average adjusted NWC as a % of revenue	7.7%	7.0%	6.8%	6.4%
Free cash flow	(82)	66	224	221

**Notes and adjustments include:**

1. Normalizing events include property taxes and normalizing purchases
2. Pro forma adjustments include, benefits and salaries

## 6.2 Financial Records and Tax Returns

(*Exhibit I* financial records and tax returns)

## 6.3 Significant Contracts

Target Two has several standard vendor relationships that will be transitioned to RWA Well Services, LLC, as with the previous acquisitions. The majority of the customer jobs are on-demand repair or replacement events. Therefore, it is anticipated that there will be no material vendor or customer contracts as a part of the acquisition.

There is one additional buy-side contract in addition to the Asset Purchase Agreement:

1. Three-year employment agreement with the current principal

### **33-A Acquisition Special Financial Components**

## 6.4 Financial Condition of the RWA

The financial condition of the RWA is stable and improving as well positioned for growth. The source of the funding for the proposed asset purchase is the Growth Fund.

## 6.5 Financial Condition of Target Two

The financial condition of Target Two is well balanced with a stable revenue stream and positive cash flow.

## 6.6 Financial Condition of the RWA Post Acquisition

The financial condition of the RWA post acquisition remains stable and well positioned. While financial results of RWA Well Services are tracking separately, RWA's audited financials are reported on a consolidated basis.

## 7. Regulatory

### 7.1 Legal Issues

The RWA retained the firm of Murtha Cullina LLP, attorneys at law, to perform legal diligence. Target Two is in good standing as there are no known legal issues.

### 7.2 Current or Threatened Litigation

The RWA retained the firm of Murtha Cullina LLP, attorneys at law, to perform legal diligence. The review did not identify any current or threatened litigation against Target Two.

### 7.3 Undisclosed Liabilities

The proposed transaction is an asset-based purchase and, as such, the RWA will not assume any liabilities. In addition, operational and legal due diligence activity have not identified any undisclosed Target Two liabilities.

### 7.4 Contractual Obligations

The proposed transaction is an asset-based purchase and, as such, other than the potential lease arrangement, the RWA will not assume any contractual obligations. In addition, operational and legal due diligence activity have not identified any Target Two contractual obligations.

In addition, the proposed transaction is an asset purchase whereas the transaction contemplates only the purchase of the physical and intangible assets of the Target Two. The liabilities remain with the previous entity. The Asset Purchase Agreement is clear in this construct and contains customary disclosures, representations and warranties.

The purchasing entity is RWA Well Services LLC, a separate legal entity, providing additional insulation for the RWA and its customers from any environmental and legal matters.

## 8. Sales and Marketing

Target Two compliments its strong referral based business with a digital approach to the market including, a web presence, social media pages and strategic utilization of search engine optimization tools.

*(Exhibit J* contains the confidential and proprietary elements of sales and marketing)

### 8.1 Sales and Marketing of Products and Services

Sales of residential products and services are primarily referral related, which are rooted in Target Two's many years in the community. The RWA, as a part of the transaction, will retain the use of the Target Two brand in combination with the RWA.

### 8.2 Sales Compensation

There are currently no commission or salaried sales representatives in the organization.

### 8.3 Customer Transition

Target Two serves the community principally with a break fix, on-demand model. With the retention of the principal and the Target Two brand, the RWA anticipates little to no risk with customer transitions.

### 8.4 Product and Services Pricing

Target Two's product and service pricing approach is based on time and material. Actual material and labor cost are generally a known element at the time of customer quotes.

*(Exhibit K* contains the confidential and proprietary product and pricing)

## 8.5 Target Two's Market

Target Two currently has an addressable market of approximately \$25M annually.

(**Exhibit L** contains the confidential property elements of the Target Two's market)

## 8.6 Market Growth

See Confidential **Exhibit L**

## 9. Customer Diversification

On average, Target Two has a customer mix of approximately 75% residential work and 25% commercial work.

Target Two does not have a revenue concentration in its top 10 customers as no single customer contributes >10% of the reported revenues.

Plumbing and well services is a supply-constrained market, as such, demand regularly outpaces supply resulting in a dissipation of residential work.

Management is confident that Target Two's current capacity will be utilized to the fullest.

Ongoing customer acquisition and diversification efforts include:

- 1.) Demand generation activity through traditional marketing.
- 2.) Leveraging the RWA's full-time commercial marketing manager.
- 3.) Earn out structure. The principal will be financially incentivized to maximize earning potential, as there is a results -based element to the deal structure.

(**Exhibit K** contains the confidential and proprietary elements of the customer diversification)

## 10. Competition

### 10.1 Description of Competitive Market

The plumbing and well services space – nationally, regionally and locally – is highly fragmented. One of the key competitive landscape realities is the space is labor constrained. Specifically, fewer people are entering the skilled labor trades today and much of the current work force is aging. Successful entities will need to compete for talent.

(**Exhibit L** contains the confidential and proprietary elements of the competitive market)

The RWA is uniquely positioned, regionally, to differentiate from the competition. The RWA has longevity and stability as an advantage in the recruiting arena. To ensure long-term career-path success, it will be imperative to continue to work with local trade schools and high schools to form a systemic and repeatable labor pool.

### 10.2 Primary Competitors

See Confidential **Exhibit L**

### 10.3 Barriers to Entry

The most significant barrier to entry is the training and licensing requirements to be a Connecticut registered and licensed plumber and general contractor. There are several different classifications with each requiring distinctive levels of training and regulating scope. **Figure 10.3.1** provides an overview.

**Figure 10.3.1 Plumbing Licenses and Scope of Work**

#### **J-1 LIMITED CONTRACTOR**

The holder of this license may perform only work limited to domestic water pumps and water conditioning. The requirements to qualify for this license examination shall be two (2) years as a journeyman or equivalent experience and training.

#### **J-2 LIMITED WELL PUMPS AND PIPING JOURNEYPERSON**

The holder of this license may perform only work limited to domestic water pumps and water conditioning and only while in the employ of a contractor licensed for such work. The requirements to qualify for this license examination shall be the completion of a registered apprenticeship program or equivalent experience and training.

#### **P-1 UNLIMITED PLUMBING CONTRACTOR**

The holder of this license may do all plumbing and piping work as defined in section 20-330 of the Connecticut General Statutes. The requirements to qualify for this license examination shall be two (2) years as an unlimited licensed journeyman or equivalent experience and training.

#### **P-2 UNLIMITED JOURNEYPERSON PLUMBER**

The holder of this license may do all plumbing and piping work as so defined and only while in the employ of a contractor licensed for such work. The requirements to qualify for this license examination shall be the completion of a registered apprenticeship program or equivalent experience and training.

#### **P-6 LIMITED SEWER, STORM, AND WATER JOURNEYPERSON**

The requirements for examination for this license shall be the completion of a registered one-year apprenticeship program or equivalent experience and training. This license permits the installation, repair, replacement, alteration or maintenance of piping limited to water, sewer and storm lines from the point of utility responsibility to a point immediately inside a structure and only while in the employ of a contractor licensed for such work.

#### **P-7 LIMITED SEWER, STORM, AND WATER CONTRACTOR**

The requirements for examination for this license shall be two (2) years as a journeyman or equivalent experience and training. This license permits the installation, repair, replacement, alteration or maintenance of piping limited to water, sewer and storm lines from the point of utility responsibility to a point immediately inside a structure.

### 11. Industry Trends (Smart Technology / Increased Service Expectations / Digital Transformation / Constrained Labor Pool)

The plumbing industry remains fractured with no one provider having any material commanding market share. There are several consolidators and franchise entities attempting to scale including American Residential Services; Service Experts; Mr. Rooter; Roto-Rooter and Sears Home Services to name a few. Four industry trends will shape the future of the

plumbing industry: 1) smart technology; 2) increased service expectations; 3) the digital transformation; and 4) the constrained labor pool.

- **Smart Technology** Consumers today use technology to control everything from their smartphone, from regulating their home's indoor air temperature to creating a grocery list based on their smart refrigerator's notifications. Today's homebuyers are extremely tech savvy. They want to work with service providers who use high-tech solutions, such as water leak detection, smart devices and smart pipes to prevent unexpected water damage.
- **Increased Service Expectation** Increased expectations will result in service expansion opportunities. We are moving from a service economy to an experience economy. Consumers will continue to compare the experience with their plumbers with their other service providers including Amazon, Google and Uber to name a few. Gone are four-hour service windows, paper invoices and phone conversations. Consumers are demanding on line scheduling, real time technician tracking and price transparency, for example.
- **Digital Transformation** This transformation will be felt by both the supply side, as well as the demand side. On the demand side, consumers will continue to insist on engaging with plumbers via their smart phone. Digital marketing, SEO, SEM and social media activity will play an increasing role in reaching customers. Digital reputation will soon outweigh consumer referrals for new leads. On the supply side, more and more digital tools will be introduced to technicians including mobile diagnosis, on line schematics and help tools, while digital debriefs and electronic work orders will replace paper transactions.
- **Constrained Labor Pool** Approximately 75 percent of tradespeople are expected to retire in the next 10 years, and younger workers seem less interested in skilled trades, so retirees won't be easily replaced. Successful plumbing companies will need to focus on having a competitive total rewards package, create advancement opportunities and offer a work environment of continuous improvement and a workplace culture of engagement and work-life balance.

## 12. Transaction Document(s)

**Confidential Exhibit M** contains the proposed acquisition transaction documents. The confidential transaction documents are separately available for RPB review. These include:

- The Asset Purchase Agreement
- The Principal Employment Agreement

## 13. Five-Year Forecast

See Confidential **Exhibit N**

## 14. Conflicts of Interest

Currently there are no known conflicts of interest that impact the RWA's existing operation. In addition, a 'no conflict of interest' certification is being used in association with this application.

## 15. Valuation

The methodology for the Target Two valuation was a Discounted Cash Flow model. A discounted cash flow (DCF) is a valuation method that estimates the value of an investment using its expected future cash flows. DCF analysis determines the value of an investment today, based on projections of how much money that investment will generate in the future.



(*Exhibit O* contains the confidential and proprietary elements of the valuation)

## 16. Statement of Costs

The proposed asset purchase includes the purchase of all physical and intangible assets of Target Two as well as the purchase of the assets of the small associated drain business. The proposed project cost is a range of \$1.5 million to \$2.0 million.

The source of funding for this investment is the RWA's Growth Fund. In fiscal 2016, the RWA established the General Fund Corporate Development and in fiscal 2018, the balance was transferred to the newly created Growth Fund, established to support non-core activities.

The available cash flow generated from Target Two's operations will subsequently be deposited into the Construction Fund, help fund the capital program, mitigate water rates and reduce leverage.

(*Exhibit A* contains the confidential and proprietary elements of the statement of costs)

## 17. Risks

The RWA retained the accounting firm Cohn Reznick to perform financial due diligence and the law firm Murtha Cullina LLP to perform legal due diligence. Therefore, the scope of risk includes the associated integration and achieving targeted growth rates. Specifically:

1. **Execution Risk** – There is risk related to on boarding and integrating the Target Two Company into the RWA environment. This risk is mitigated as a result of successfully performing these functions for two prior acquisitions.
2. **Employee Risk** – There is risk associated with converting employees to employees of RWA Well Services. This risk is mitigated with the employment contract for the principal. In addition, the RWA will only close on the transaction after verification that the other employees have accepted their contingent employment offers.
3. **Competitive Risk** – There is risk associated with industry competition as plumbing and well service customers have a choice in who they select as a provider. This risk will be managed by leveraging our competitive advantages, including scale and scope advantages, buying power, recruiting advantages and penetrating the market with the WellSafe product.
4. **Market & Growth Risk** – There is risk associated with a market downturn or challenging economic factors. This risk is somewhat mitigated by the nominal growth required to achieve the desired returns. In addition, the product portfolio includes a significant portion of plumbing repair work. This service tends to be more recession resistant, as residential water delivery systems are a basic need. Furthermore, a portion of the purchase price is contingent on achieving growth targets.

## 18. Explanation of Unusual Circumstances

The proposed transaction is an asset purchase, whereas the transaction contemplates only the purchase of the physical and intangible assets of Target Two. The liabilities remain with the previous entity. The Asset Purchase Agreement is clear in this construct and contains customary representations and warranties. Target Two will keep all associated liabilities, cash, AP and AR.



The purchasing entity is RWA Well Services LLC, a separate legal entity, providing additional insulation for the RWA and its customers.

The source of funding for this investment is the RWA's Growth Fund.

The available cash flow generated from Target Two's operations will subsequently be deposited into the Construction Fund, help fund the capital program, mitigate water rates and reduce leverage.

## 19. Statement of Facts on Which the Board is Expected to Rely in Granting the Authorization Sought

- In 2017, Special Act 17-5 amended our enabling legislation allowing the RWA to conduct and invest in non-core business activities defined as including water related, environment, agriculture, and certain renewable energy sources.
- In fiscal 2018, the establishment of the Growth Fund was created as a means to reserve funds intended for non-core investments.
- The RWA's 2020-2025 Strategic Plan, which serves as a road map for achieving our vision to be an innovative water utility, outlines a non-core strategy to invest in environmental and water-related businesses to achieve commercial service net revenue of \$9.2 million by May 2025.
- The RWA has bought and integrated two similar smaller plumbing and well services entities and have applied to close a third. These two purchased entities are over performing their investment targets.
- Target Two represents a solid strategic and economic fit with two decades of experience serving communities in south central eastern Connecticut. Target Two has a strong service reputation and a stable, healthy earnings profile.
- The available cash flow generated from the operations of Target Two will result in transferring monies into the Construction Fund, to help fund RWA's capital program and reduce debt leverage.
- The asset-based deal structure and purchase price result in a favorable return on investment, while mitigating both liability and execution risk.
- The funding source is the previously established Growth Fund and the purchasing entity is RWA Well Services, LLC.
- RWA Well Services LLC is a wholly-owned entity of RWA Commercial Enterprises, LLC, a wholly owned entity of the RWA, which is subject to the controls, limitations and approvals therein, including the governance by the Authority Board and the RPB.

**(Exhibit B** contains the confidential and proprietary elements of the statement of facts)

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## 20. Conclusion

The annual declining trend in billed water consumption and replacement of aging infrastructure continues to have a financial impact on RWA customers as highlighted in the Ten-Year financial model. Consequently, the RWA places continuous emphasis on growing Commercial Enterprise (non-core) revenues to help mitigate future water rate increases, accomplished through transferring available cash flow into the Construction Fund to help fund the utility capital program and reduce debt leverage. These events drive the RWA's continuous emphasis on growing its Commercial Enterprises portfolio. As part of that focus, in December 2020, the RWA outlined a strategic road map with a multi-pronged approach for stimulating revenue growth from the RWA's non-core businesses by way of new product development, investments and acquisitions.

This application is in direct alignment with that strategy and will help grow the portfolio and market share of the RWA's commercial activities.

Moreover, the proposed acquisition of Target Two will expand our well services footprint, bolster our market share, support the proliferation of our new WellSafe product and services, and provide positive cash flow to the Construction Fund.

In summary, the purchase of the Target Two assets will benefit the mission, vision and strategic goals of the RWA as well as its current and future customers.