

CAXTON, ROYAL BUY HVAC FIRM

BY KELLY HOLMAN

Caxton-Iseman Capital Inc. and **Royal Palm Capital Partners Inc.** said Tuesday they acquired **American Residential Services LLC**, a heating, ventilation and air-conditioning business, from **ServiceMaster Co.** in a deal valued at \$100 million.

The buyers tapped **Marathon Asset Management LLC** for senior financing and **BlackRock Kelso Capital Corp.** for mezzanine financing. **Orix USA Corp.** served as administrative agent.

Memphis, Tenn.-based American Residential conducts its business under the ARS Service Express and Rescue Rooter brand names. It provides HVAC and plumbing services from 57 locations in 24 states.

Thomas Ritchie, a vice president at New York private equity firm Caxton-Iseman, said the target offered attractive investment characteristics, such as being a service-oriented business in a fragmented industry with stable market dynamics that is ripe for further consolidation.

"The growth aspect of HVAC and plumbing in the U.S. is tremendous," added Jack Ruff, a partner at Royal Palm who served on the firm's deal team with fellow partner Robert Farenhem. Royal Palm is based in Boca Raton, Fla.

Ritchie and managing partner Frederick Iseman served on the Caxton-Iseman deal team.

American Residential generated more than \$500 million in sales in 2005. Ritchie and Ruff declined to comment on the company's cash flow figure.

As part of the transaction, Royal Palm operating partners Donald Karnes and David Slott, both former executives at ServiceMaster unit TruGreen Cos., were appointed ARS' chief executive and president, respectively.

ServiceMaster plans to use proceeds to pay down debt and fund future acquisitions. As of June 30, the Downers Grove, Ill.-based company was carrying \$783 million of long-term debt, according to its latest quarterly regulatory filing.

The sale capped an auction run by **William Blair & Co.** Britt Trukenbrod and Kelley Drake, Blair principals, managed the process.

ServiceMaster officials did not immediately return calls for comment.

However, ServiceMaster announced Tuesday that in a separate deal its Terminix business unit acquired the assets of **Safeguard Pest Control**, a business that generates \$23 million in revenue by supplying pest control services in 16 markets across the U.S.

ServiceMaster's stock edged down in midday trading Tuesday to \$11.36 per share from its close the previous day of \$11.42.

Although acquisitions will be a part of American Residential's growth strategy, Ritchie said the company is at bottom an operationally based business.

"We think the business will benefit from improving its top line and bottom line performance," he said.

The acquirers took legal advice from **Paul, Weiss, Rifkind, Wharton & Garrison LLP's** Carl Reisner, Eric Goodison, O. Denny Kwon, Emily Malone and Bhavna Thakur, and from **Akerman Senterfitt LLP's** Steve Roddenberry, Ed Kutter, Bruce Platt, Ed Ristanio, Rick Fucci, William Arnolds and Dan Jacobson.

Caxton-Iseman and Royal Palm aren't the only buyout firms to bank on HVAC services in recent years. New York's **Wellspring Capital Management LLC** sold Dayton, Ohio-based **Residential Services Group** to Direct Energy, a Stamford, Conn.-based subsidiary of U.K. natural gas supplier **Centrica plc**, for \$150 million in October 2004.

But while Residential Services' growth during Wellspring's ownership period came primarily from national homebuilders like **Centex Corp.** and **Pulte Homes Inc.**, American's business is aimed primarily at residential customers who need emergency fixes, although it also services commercial customers.

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