

TOP 100 PRIVATE COMPANIES

ARS executives embrace growth plans with extensive acquisition strategy

BY CHRISTOPHER SHEFFIELD

Two years ago, two former senior executives for The ServiceMaster Co., backed by two private equity groups, bought the HVAC and plumbing repair business American Residential

American Residential Services LLC
HVAC and plumbing services

President/COO:

David Slott

CEO:

Donald Karnes

Employees:

101

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Services LLC from ServiceMaster for \$100 million.

Since then, the company's financial performance has been almost meteoric. Profits doubled in the first year although sales have remained relatively flat.

Under the new leadership, profitability was strong enough for the company within the first year to repay the equity investors — CI Capital Partners LLC and Royal Palm Capital Partners, Inc. — their portion of the \$100 million deal and secure a significant line of credit, says CEO Don Karnes.

Now in its second year with several acquisitions completed, sales in 2008 are projected to grow almost 20% to \$600 million, with profits up 50%-75% year-over-year, Karnes says.

"We're very pleased with where we're tracking in this economy," Karnes says.

In 2008, a third of the financial performance improvement is coming from reorganization benefits and two-thirds from bringing in regional players through acquisitions, says Dave Slott, ARS president and COO.



COURTESY ARS

ARS has 5,500 employees across the country and 125 in its local corporate office.



Karnes



Slott

"We are re-engineering the profitability of the company," Slott says.

The equity partners are more than pleased with the performance of the company under the direction of Karnes and Slott, says Tom Ritchie, principal at New York-based CI Capital, the majority investor in ARS. The two ServiceMaster veterans grew revenues at under \$5 million in the early 1980s to more than \$1 billion when leaving in 2004. Karnes and Slott are both operating partners with Royal Palm.

"Don and Dave have reinvigorated the spirit at headquarters from what I've seen," Ritchie says. "There's more energy, more excitement, a great sense of opportunity than there was previously."

The company currently has 60 branches,

up from 52 two years ago, and that's after closing a few unprofitable branches, Slott says. The number of employees in the field has grown from 4,500 to 5,500, while the Memphis corporate office is up from 100 to 125 in 2008.

As a new private entity, ARS makes its first appearance on Memphis Business Journal's Top 100 Private Companies List this year, coming in at No. 13.

Karnes and Slott say they have no doubt the future growth of the company will propel them higher up the list in the coming years. It's not unreasonable to expect the company to double in size in the next three years, Karnes says.

What will drive much of that growth is an aggressive acquisition strategy as the company looks to grab more of the \$40 billion HVAC/plumbing service and repair business, Karnes says.

"We're the only company that's acquisitive right now," Slott says. "We feel like two kids in a candy store here."

Already the company has made acquisitions in major metropolitan areas like Phoenix, Atlanta and Las Vegas.

Next on the list are cities like Little Rock, Ark.; Birmingham, Ala.; Jackson, Miss.; parts of Florida; San Antonio; Boston; and even Memphis, where the company has no presence outside the company headquarters.

That should change in the next 12-24 months, Slott says, thanks to a likely acquisition. The company expects to spend up to \$100 million a year on that strategy.

"We're back in the market looking for another big (round) of financing," he says. "We've gotten positive feedback and in 90-120 days expect to be back out in the market."