

CASE STUDY · PRIVATE EQUITY · DUE DILIGENCE · WATER TREATMENT SERVICES · INDEPENDENT · NO CHEMISTRY SOLD

The financials said "buy." The service routes said "reprice."

A private equity firm was evaluating a water treatment service company with $9M in revenue, 400 accounts, and 25 field staff. The quality of earnings report looked clean. IWA was asked to look past it, at the accounts, the routes, the contracts, and the people. What we found changed the price, the deal terms, and the first year after close.

TARGET	ASKING PRICE	MULTIPLE	PRICE	TOTAL VALUE
$9M, 400 accounts	**$8.91M (9x EBIT)**	**9x → 7x EBIT**	**−$1.98M**	**~$6.2M, year one**

Challenge — What the Buyer Needed to Know

On paper, the business looked healthy: **62% gross margin** and **$0.99M in EBIT**, at an asking price of **$8.91M**, or 9x EBIT.

The question was simple: **is this revenue durable, and can the team grow it?** A quality of earnings report confirms revenue was billed. It can't tell you whether the program is working, whether the customer is about to leave, or whether a few people are holding the top accounts together.

Intervention — What We Did

- **Top 25 accounts**: 15 site visits, contract reviews, 8 customer interviews
- **Revenue durability scoring** for every account
- **Segment economics**: revenue per head, drive time, EBIT per head
- **Team assessment** of all 25 field staff and remaining leadership
- **90-day plan** for after close, including a detailed S&OP

What We Found

Revenue Quality

- Price increases of **~7% a year** were hiding account losses of **~9% a year**
- **67% of revenue** was "ship and bill," with no long-term contract
- **Top 10 accounts = 35% of revenue**, serviced by 5 people
- At **20 accounts**, service reports didn't match actual performance

Economics & People

- Commercial accounts targeted a **65% margin**, with **42% drive time**
- Industrial accounts earned **~2.6x the EBIT per head** of commercial
- **5 of 8 technical people** planned to retire within 12–18 months
- They carried most of the knowledge behind the key accounts

KEY FINDING

Stable revenue, shrinking business. Price was doing the work retention should have done. With two-thirds of revenue uncontracted, the top accounts concentrated in a few people, and most of the technical bench about to retire, the revenue was far less durable than the P&L suggested. None of it showed up in the financials; all of it would have shown up after close.

RESULTS DELIVERED

~$6.2M in total value, year one

$1.98M off the price (9x to 7x EBIT) + $0.61M/yr of new EBIT, worth ~$4.26M at the 7x entry multiple

LOWER PRICE	ACCOUNTS KEPT / YR	REVENUE	EBIT
$1.98M	**~24 (~$540K)**	**$9.0M → ~$10.0M**	**$0.99M → ~$1.60M**

AT THE DEAL

- Multiple moved from **9x to 7x EBIT**
- **$1.5M earnout** tied to keeping the top 10 accounts for 18 months
- **Retention agreements** for 5 technical people, at least 2 years

FIRST YEAR AFTER CLOSE

- **60% of accounts** on contracts within 6 months
- Attrition cut to **under 3%**: ~24 more accounts, ~$540K revenue kept a year
- **11% growth**; EBIT margin **11% → 16%** (+$0.61M/yr)

A water treatment business is its accounts, its routes, and its people. The P&L tells you what they produced last year. Independent due diligence tells you whether they'll still be there next year.

Price basis: $0.99M EBIT at 9x = $8.91M; at 7x = $6.93M. Total value = $1.98M price reduction + $0.61M EBIT gain × 7. Retained accounts ($22.5K average) are part of the growth, not added again; the $1.5M earnout is risk protection, not counted. Details generalized to protect client confidentiality. © Industrial Water Advisory — Independent, vendor-neutral cooling, boiler & process water consulting. jim.green@industrialwateradvisory.com · 445-456-1640