BC PARTNERS

SUB-SECTOR DEEP DIVE SERIES / NO. 01

Sub-Sector Deep Dive: Route-Based Services

Perspective from BC Partners' Services Team

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Introducing the Sub-Sector Deep Dive Series

In this new series we take an in-depth look at the sub-sectors that underpin BC Partners' four focus areas: TMT, Services & Industrials, Healthcare, and Food. These sub-sectors represent core verticals in each sector that align with our defensive growth strategy and where we have developed, over four decades, the expertise, network, and track record to succeed.

We kick off the series by taking a closer look at 'Route-Based Services', one of our key sub-sectors under Services & Industrials. As a firm we've been investing in the wider sector for four decades, having invested more than €7 billion across 19 businesses and consistently delivering strong returns to investors from this space. Services is a huge market representing over $5 trillion of revenue in the US alone. To earn a real right to win in a market of this size, BC Partners takes a targeted approach that allows us to focus only on the areas where we have conviction, differentiation, access, and a value creation angle.

Route based services is one such focal point, where we've completed four investments since 2018: GFL, GardaWorld, GES and, most recently, Fortidia. Below, we take a deep dive into what route-based services are, our investment thesis and the defensive fundamentals and growth drivers shaping it, the playbooks that underpin our approach, and the relevance of the AI question to the industry.

01 What are Route-Based Services?

Route-based services is a business model built around local operating branches serving customers within defined geographic catchment areas. Put plainly, a local branch functions as a hub for a fleet of drivers, technicians, and so on. Each driver operates a route, visiting the same customers on a predictable schedule. Waste collection is an easy example to think of, with the same lorries following the same route every week, servicing the same set of houses or clients.

When executed well, this model forms a virtuous cycle: customer growth improves route density, greater density expands margins, and stronger margins reduce the cost of serving and acquiring customers. The result is a flywheel that becomes progressively harder for a competitor to replicate the longer an incumbent has been operating it.

The model can show up in different forms across verticals and service types, spanning a wide range of industries, including environmental services, logistics and critical equipment maintenance. Successful businesses typically share several important features:

01 **Essential, recurring services delivered on a scheduled basis**	02 **Contracted, predictable revenue streams**	05 **Fragmented markets with significant consolidation opportunities**
03 **Attractive margins and cash generation**	04 **Strong local competitive positions**	

Combined, these qualities create resilient businesses with compelling long-term growth prospects, amounting to a $700 billion investment opportunity in the US alone by our estimates. It's therefore a large enough market to generate a wealth of targets but small enough to allow us to build real focus, expertise and reputation – crucial factors in having a right to win in this niche.

02 Our investment thesis

DEFENSIVE FUNDAMENTALS

Every BC Partners investment thesis is viewed through the lens of our defensive growth strategy: where we focus on growth, but never at the expense of taking on too much risk.

We achieve this by first looking at the right combination of defensive fundamentals. We consider characteristics like recession resilience, market leadership, revenue visibility, and strong cash flow generations.

Route-based services exhibit a number of defensive characteristics that fit this framework well, including:

- Attractive revenue dynamics with contracted and recurring customer base. Fortidia for example consistently delivers 92% gross retention.
- Limited risk through diversification of customers, markets and local operating units. For GES for example the top 10 customers make up only 13% of revenue.
- High barriers to entry from local density, increasingly complex regulatory requirements, technical labour and compliance standards. For instance, at GES we hold over 500 scarce permits to handle different types of waste, which creates a regulatory advantage that would be extremely difficult to recreate organically.
- Stable demand drivers arising from the fact that route-based services are often mission critical and are driven by regulation. This was particularly evident during the COVID-19 pandemic, when many route-based businesses continued operating as essential service providers.

STRUCTURAL GROWTH DRIVERS

Defensive characteristics on their own do not create a compelling investment thesis so a second crucial step is to always look for growth opportunities and the playbook we can apply to capture them. Route-based models often benefit from a variety of long-term structural tailwinds, including;

- Continued outsourcing of specialist services driven by labour scarcity, increasing customer focus on collaboration and advancing technological sophistication.
- Increasing regulation whereby tighter requirements require more frequent and complex service needs
- Ongoing physical infrastructure needs arising from maintenance and refurbishment demands from a number of services that heavily rely on physical infrastructure.
- Pricing dynamics driven by attractive contract structures, specialised labour scarcity and rising technical complexity.

OUR VALUE CREATION PLAYBOOK

While many investors understand certain common value creation levers, such as M&A, very few players have the niche sub-sector experience and expertise to know what good looks like, what questions to ask, and how to develop and execute a clear strategy for a route-based services business.

Our active ownership approach and focus on the vertical has enabled us to develop a structured and repeatable value creation playbook that can be deployed across investments and become the preferred partner of choice for business in this area. Our value creation playbook for building better businesses in route-based services – refined across multiple successful investments - centres predominantly on M&A, which can drive significant value in this vertical given the significant fragmentation and opportunity for consolidation. It also looks at elements such as pricing and procurement optimisation as well as operational excellence.

M&A

Route-based services can encompass very large and fragmented markets, given the local nature of the business model. M&A in these markets can deliver true strategic value by helping businesses expand their geographical reach, their service capabilities, grow market share, and densify operating footprints. Although we've seen many rolls ups by private equity in this wider space in the past few decades, there is still significant runway and fragmentation in a number of niche markets that fall under the route-based services vertical and those are the ones that we look at more closely. For GFL for example, in our ownership period we delivered 7 transformative deals and over 200 tuck-ins – and the company continues to be able to consistently acquire approximately 100 million of EBITDA per year through these types of transactions, illustrating the scale of the opportunity and the significant scope for further consolidation.

Building a platform also unlocks synergies and drives professionalisation. Synergies are a consistent, reliable source of value, whether through back-office consolidation procurement savings, route optimization or system standardisation. At GardaWorld, for example, we realised more than C$150 million of M&A synergies during our investment, while the professionalisation that accompanies the scale that M&A brings accelerated organic growth from 5% at entry to 8% at exit. Similarly, while at GES, a single acquisition generated approximately €20 million of synergies through network optimisation.

What has been crucial across the portfolio is not just our ability to recognise the M&A opportunity but also to be able to deliver it. Our clear and repeatable value creation playbook and in-depth sub sector expertise have been a big part of our historical success in this segment to date.

Procurement and Pricing optimisation

Another value creation level that we leverage time and time again in the sub sector is the opportunity to centralise procurement in historically regionalised operating models and to drive pricing uplifts through standardization, contract management, surcharge introduction and stronger central oversight. Introducing measures such as standardised annual prices increases, surcharges and discount management can have an immediate impact for these types of businesses. GFL is a great example here again, where we've been able to support the business in consistently delivering 4-5% of pricing growth since 2018, when pricing growth was historically approximately 2%, by implementing these strategies. We are currently rolling out a similar pricing strategy in our most recent investment, Fortidia, to enhance discipline as the market continues to mature.

On the procurement side, you can see our repeatable playbook in action across our portfolio companies. At GFL, we built a procurement team to leverage the firm's scale and drive efficiencies, resulting in over C$60m cumulative savings. At GES, we are doing the same, rolling out a programme where we expect to unlock significant savings.

Talent, organisational and operational upgrades

Finally, in the majority of route-based services we see significant opportunities to create value by investing and building out under-invested areas – think sales or finance – and delivering operational improvements such as upgrading systems, data, talent and organisational capabilities. These can take many forms; from installing turnover tracking at GFL and hiring a new CEO and CFO at GES, to standardising KPI reporting at GardaWorld, our focus is always on working with management teams to implement initiatives that help us run leaner, smarter, more capable businesses.

CASE STUDY

The GFL playbook

GFL is the 4th largest diversified environmental services company in North America known for its market-leading track record of value creation and deep commitment to sustainability, offering services in solid waste management, liquid waste management and infrastructure development.

Since investing in GFL in 2018, we have applied the above value creation playbook to the business with significant success. Key example initiatives have included:

- M&A consolidation through 7 transformative deals and over 200 tuck-ins to enhance route-density, and notably facilitating the business' entry into the U.S. market.
- Procurement & Value Creation roadmap that included the building of a procurement team to leverage scale, consolidate suppliers and enhance visibility with over C$60m of cumulative savings from procurement and other VCR initiatives.
- Improved pricing via tools upgrading and introduction of standardised processes
- Strategic Divestitures of infrastructure environmental services and 3 non-core solid waste divisions, delivering margin uplift, de-leveraging and capital for share repurchases

03 The AI dimension

Today, every investment process must evaluate the risk of AI disruption and identify where the opportunities lie. In our view, route-based services businesses represent a particularly compelling vertical for the AI era as they provide both insulation from AI disruption risk and a real opportunity for companies to take advantage of AI to drive growth.

INSULATING FACTORS

Physical nature.	Regional density.	Regulatory and technical nature of these services.
Services are performed in person, on site, and without a central technological or white-collar process that can be disrupted.	Physical proximity to a roster of customers is one of the core modes for route-based businesses and is not something AI can replace.	Whether it is government permits, technical certification, or specialised licences, route-based businesses are built on core elements that AI cannot replicate or simply bypass.

OPPORTUNITIES

In terms of opportunities, we are we are developing a playbook for our portfolio companies across two axes: cost and growth. AI is helping us streamline operations and simplify back-office tasks, whilst enabling us to invest more in growth. Emerging examples we are seeing in our portfolio include CRM enhancements, pricing engines, and M&A outreach and triage.

Given the considerable opportunities to drive better operating performance, we're confident that AI represents a compelling tailwind rather than a structural risk to the underlying route-based services model.

CASE STUDY

Fortidia

Our most recent route-based services investment, Fortidia, offers a useful illustration of our playbook in practice.

Originally established under the Mail Boxes Etc. licence in Italy, Fortidia is a first-mile logistics business providing parcel fulfilment services to small and medium-sized enterprises across a franchised network of more than 3,000 local centres.

The transaction followed several years of monitoring the sector and nearly a year of exclusive, bilateral negotiation with founder-CEO Paolo Fiorelli, the kind of patient, relationship-led sourcing that tends to be most effective in Europe, which is still dominated by entrepreneurs and family owners, unlike the competitive auction processes typical of the US.

To date, our value creation plan has focused on network expansion, cost discipline, and a disciplined M&A programme. Although the investment remains at an early stage, organic revenue and EBITDA are already growing at 7% and 14% respectively year-to-date, representing a promising start to what we expect to be a multi-year value creation programme.