CoolCo Heating, Plumbing & Electrical, LLC — Project Cumberland

IC Insights — *CIMScan*

CIM Vintage: **FY2025A**

Diligence Briefing — Confidential

NOTE TO READER

IC Insights assesses the contents of a CIM across 5 thesis pillars:

- Growth & Pipeline
- Retention / Revenue Quality
- Margin / Unit Economics / Cash Conversion
- Moat / Product / Tech
- Concentration / Risk / Compliance

The IC Insights analysis includes:

- An overview of management's narrative
- Suggestions as to what potentially breaks management's narrative
- Potential existential threats
- Sources of possible valuation pressure
- Factors that could be long-term drags on growth or earnings

IC Insights should be used with the accompanying Pre-IOI Diligence Workplan document to prepare initial questions for sell-side bankers, prepare for discussions with management and to identify potential third-party diligence work streams.

This analysis is generated with AI and may contain errors or omissions. Verify all figures and statements against the CIM before relying on them.

SUMMARY

CoolCo Heating, Plumbing & Electrical, LLC provides residential and light-commercial HVAC, plumbing, and electrical services in Middle Tennessee. FY2025A revenue of $50.6M with Adjusted EBITDA of $9.1M, an 18.1% margin. The CIM states a 15.1% CAGR FY2023A–FY2025A.

COMPANY PROFILE — FY2025A

Metric	Value
Year Founded	1998
Line(s) of Business	Residential and light commercial HVAC service, repair, replacement and installation; residential plumbing service and replacement; residential and commercial electrical service, panel upgrades, rewiring, EV charger installation; Comfort Club recurring maintenance membership program; new-construction rough-in and finish work for homebuilders
Revenue	$50.6M
Gross Profit	$23.8M, 47.0%
Adjusted EBITDA	$9.1M, 18.1%
Number of Employees	214 (as of December 31, 2025)
Number of Customers/Subscribers	41,000
Customer Base Summary	Builder A generated $4.76M of new-construction revenue in FY2025, representing 77.8% of new-construction channel revenue and 9.4% of total FY2025 revenue No single residential customer accounts for a material share of revenue across approximately 41,000 unique residential customers
NRR	Not disclosed in CIM

MANAGEMENT

Name	Title	Previous Experience
Raymond "Ray" Cole	Founder and Chief Executive Officer	Not disclosed in CIM
Dana Whitfield	President and Chief Operating Officer	national residential home-services franchisor, multi-trade contractor in Atlanta
Marcus Bell, CPA	Chief Financial Officer	regional building-products distributor,

Name	Title	Previous Experience
		regional accounting firm
Luis Ortega	Vice President, Field Operations	Not disclosed in CIM
Kevin Tran	Director of Electrical Services	commercial electrical contractor in Nashville

COMPANY OVERVIEW

CoolCo Heating, Plumbing & Electrical, LLC is a Nashville, Tennessee-based residential and light-commercial home services company providing HVAC, plumbing, and electrical services across a 13-county Middle Tennessee service area. The CIM describes CoolCo as providing "same-day service for members and next-day service for non-members" and notes that management believes the Company is "among the three largest independent residential home-services providers in the Nashville MSA by revenue." The Company employs 214 people, including 146 field technicians, and operates a fleet of 172 service vehicles from a 38,000 sq ft operations center in Antioch. CoolCo's proprietary Comfort Club membership program had 14,200 members at FY2025 year-end, and the Company served approximately 41,000 unique residential customers in FY2025. Management's stated growth vectors include expanding commercial electrical and EV charger installation, growing Comfort Club membership to 25,000+ members by FY2030, improving cross-trade penetration from 31% toward 45% of residential customers, opening a third location in Rutherford County in FY2027, and pursuing tuck-in acquisitions of owner-operated plumbing and electrical businesses.

Perspective from outside the CIM: *HVAC Services. The U.S. HVAC services market was valued at USD 17.93 billion in 2025 and is projected to grow from USD 18.98 billion in 2026 to USD 25.35 billion by 2031 at a CAGR of 5.9% (2026–2031). [1] Growth is driven by tightening building energy codes across the U.S. mandating system upgrades and retrofit spending on aging commercial HVAC infrastructure, incentives under the Inflation Reduction Act promoting heat pump adoption, and rising consumer demand for smart, IoT-enabled climate control. [2] Recurring service agreements commanded 55% of U.S. HVAC services revenue in 2025 and are projected to grow at an 8.3% CAGR, underscoring a structural shift toward contracted maintenance revenue. [1] Key market participants include Carrier Global, Daikin Industries, and Service Logic (acquired by Bain Capital in December 2025), alongside PE-backed consolidators such as Blackstone-backed Air Control Concepts, which completed three acquisitions in 2025. [3][4] M&A in the sector remained robust, with strategic buyers accounting for 68.9% of HVAC equipment sector acquisitions in 2025 and Sila Services trading from Morgan Stanley's PE arm to Goldman Sachs Alternatives at a reported ~$1.5 billion enterprise value in early 2025. [3][5]*

Sources: *[1] US HVAC Services Market Size & Share Analysis – Mordor Intelligence — https://www.mordorintelligence.com/industry-reports/united-states-hvac-services-market; [2] U.S. HVAC Services Market Size & Forecast Report 2035 – VynzResearch — https://www.vynzresearch.com/semiconductor-electronics/us-hvac-services-market; [3] HVAC Equipment Sector M&A Update – Capstone Partners (April 2026) — https://www.capstonepartners.com/insights/article-hvac-*

equipment-sector-ma-update/; [4] HVAC/R Annual M&A Report 2025 – Seale & Associates — https://www.sealeassociates.com/hubfs/2025%20Annual%20HVACR%20Report.pdf?hsLang=en; [5] M&A in the Residential HVAC Services Industry – Kroll — https://www.kroll.com/en/publications/ma-residential-hvac-services-industry

Perspective from outside the CIM: *Plumbing Services. Key growth drivers include the deterioration of water distribution and wastewater infrastructure in developed economies, increasing water-efficiency regulations, aging U.S. housing stock necessitating retrofit and upgrade work, and growing adoption of smart plumbing technologies such as IoT-enabled leak detection. [1] Participants range from national franchise brands such as Roto-Rooter and Benjamin Franklin Plumbing to PE-backed consolidators including Apex Service Partners (multi-trade, ~60 add-ons in 2025 across HVAC, plumbing, and electrical) and P3 Services (Stellex Capital-backed), which completed six plumbing and septic acquisitions in 2024. [2][3] M&A activity has been extensive: per PitchBook data cited by the Wall Street Journal, private equity has acquired nearly 800 mechanical-electrical-plumbing companies since 2022; recent transactions include Kingsway Financial Services' acquisition of Bud's Plumbing (March 2025, ~$5.0 million) and Champions Group Holdings' acquisition of Bee's Plumbing and Heating in Seattle (June 2025). [2][4]*

Sources: *[1] Plumbing M&A Statistics 2025 – MainStreet Wealth — https://mainstreetwealth.ai/resources/plumbing-ma-statistics-2025; [2] Top Plumbing Acquirers (2020–2026) – PrivSource — https://www.privsource.com/acquisitions/plumbing; [3] Plumbing Acquisitions in 2025 – PrivSource — https://www.privsource.com/acquisitions/plumbing/2025; [4] Kingsway Financial Services Inc – Form 10-K FY2025 – SEC EDGAR — https://www.sec.gov/Archives/edgar/data/1072627/000143774926007961/kfs20251231_10k.htm*

MANAGEMENT'S OPERATIONAL NARRATIVE

Growth & Pipeline

CoolCo has grown total revenue from $38.2M in FY2023 to $43.9M in FY2024 and $50.6M in FY2025, a stated two-year CAGR of 15.1% that is remarkable for a founder-led residential services business operating without acquisitions. All three service lines participated: HVAC at a 13.6% CAGR from $21.4M to $27.6M (FY2023 to FY2025), plumbing at a 14.6% CAGR from $11.2M to $14.7M, and electrical at a 21.7% CAGR from $5.6M to $8.3M over the same period. Growth has been simultaneously volumetric and economic: service calls completed grew from 52,400 in FY2023 to 68,100 in FY2025, while average service ticket grew from $371 to $412 over the same period — demonstrating that demand expansion is not purely price-driven.

The forward thesis targets $85.8M of total revenue by FY2030 (FY2026E: $56.5M) through three simultaneous organic growth levers: commercial electrical and EV charger installation targeted at 20–25% annual electrical revenue growth, Comfort Club expansion from 14,200 to 25,000+ members, and cross-trade penetration improvement from 31% of residential customers buying from more than one trade toward 45%. Management has also identified more than 20 tuck-in acquisition candidates in Middle Tennessee with $2–$10M of revenue each, though the FY2026E–FY2030P financial projections explicitly exclude acquisition contributions — meaning the acquisition pipeline is additive upside to the organic case.

The Nashville MSA provides a structurally attractive growth backdrop. Management estimates the combined residential HVAC, plumbing, and electrical services market in the 13-county service area at

approximately $1.4 billion per year, with no single provider holding more than an estimated 5% of the residential HVAC market. At $50.6M in FY2025 revenue, CoolCo holds an estimated 3.6% share of this market — a meaningful position in a fragmented market with ample runway. The Company also plans to add a third location in Rutherford County in FY2027 to access what management describes as "the fastest-growing part of the market," which would extend the dispatch network and shorten response times in a geography where CoolCo currently operates but does not maintain a physical presence.

Retention / Revenue Quality

The Comfort Club membership program is the structural engine of revenue durability. At FY2025 year-end the program had 14,200 members — up from 9,800 in FY2023 and 11,900 in FY2024 — paying an average annual fee of $214 per member for two maintenance visits and priority service. Members renew at approximately 87%, and management estimates that members spend roughly 2.4 times as much per year as non-members. Total membership fee revenue reached $3.04M in FY2025 (6.0% of total revenue), with $910K of deferred revenue on the balance sheet validating pro-rata revenue recognition over the membership term.

Beyond the Comfort Club, repeat customers generated an estimated 64% of residential service revenue in FY2025 across approximately 41,000 unique residential customers — none of whom individually account for a material share of revenue. This repeat-purchase dynamic means the business generates the majority of its residential revenue from customers who have self-selected into a service relationship, not from first-call acquisition campaigns. The CIM notes that residential service and repair revenue ($20.75M, 41.0% of FY2025 total) and residential replacement and installation revenue ($16.7M, 33.0%) together represent 74.0% of FY2025 revenue, anchoring the top line in homeowner demand that is less cyclical than discretionary consumer spending.

Service delivery reliability reinforces renewal economics: the Company's response-time commitments of same-day service for Comfort Club members and next-day service for non-members are described as met on more than 90% of calls. The new-construction channel ($6.12M, 12.1% of FY2025 revenue) provides an additional enrollment pipeline for the Comfort Club — each new home completed by a builder partner represents a potential long-term service relationship and membership enrollment.

Margin / Unit Economics / Cash Conversion

Gross margin expanded from 45.2% in FY2023 to 46.1% in FY2024 and 47.0% in FY2025, a 1.8 percentage-point improvement over two years that the CIM attributes to "improved replacement close rates" and a mix shift toward higher-margin service work. The replacement close rate improved from 43% in FY2023 to 45% in FY2024 and 46% in FY2025, while average replacement ticket grew from $10,450 in FY2023 to $11,200 in FY2024 and $11,800 in FY2025 — a 12.9% ticket improvement over the period that reflects both pricing discipline and the flat-rate pricing program implemented alongside the 2025 ERP deployment.

Adjusted EBITDA grew from $5.768M (15.1% margin) in FY2023 to $7.564M (17.2% margin) in FY2024 and $9.136M (18.1% margin) in FY2025. The Adjusted EBITDA reconciliation includes four named add-back categories: owner compensation normalization ($760K/$790K/$820K in FY2023/FY2024/FY2025), a brand awareness campaign ($310K/$340K/$365K), a litigation settlement ($0/$420K/$0), and ERP implementation costs ($0/$0/$260K). Operating expenses fell from 32.9% of

revenue in FY2023 to 31.8% in FY2025 in absolute dollar terms ($12.568M to $16.091M), reflecting early evidence of fixed-cost leverage as the revenue base scaled.

Capital expenditure has been disciplined: $1.350M (3.5% of revenue) in FY2023, $1.620M (3.7%) in FY2024, and $1.880M (3.7%) in FY2025, consisting primarily of service vehicles financed through equipment loans on an approximately seven-year replacement cycle. Adjusted EBITDA less capex improved from $4.418M in FY2023 to $5.944M in FY2024 and $7.256M in FY2025, with the implied cash conversion ratio improving from 76.6% to 79.4% over the period. Management projects Adjusted EBITDA of $10.285M (18.2% margin) in FY2026E rising to $17.936M (20.9% margin) in FY2030P, driven by continued gross margin expansion of +0.4pp per year to 49.0% and operating expense leverage of -0.4pp per year.

Moat / Product / Tech

CoolCo's competitive position rests on four reinforcing structural elements that are difficult for smaller operators to replicate quickly. The CoolCo Academy, open since 2016, runs a 14-week apprentice program and graduated 31 technicians in FY2025. Management describes this as "a key advantage in a labor-constrained trade" — in a market where HVAC technician supply is chronically tight, an in-house training pipeline provides a degree of labor cost control and cultural consistency that competitors relying entirely on external hiring cannot match. The Academy also creates a defined career path from apprentice to lead technician that the CIM describes as supporting retention.

The Company's brand position in the Nashville MSA is materially entrenched. CoolCo has accumulated over 4,800 five-star online reviews across major platforms, and the CIM notes that approximately 41% of new customers were generated through digital channels in FY2025. Management believes CoolCo is "among the three largest independent residential home-services providers in the Nashville MSA by revenue," supported by 28 years of brand presence in the market. This review depth and digital acquisition capability provides a compounding moat: each satisfied customer adds to the review base, lowering future customer acquisition cost.

The 2025 ERP and field-service dispatch platform deployment integrates scheduling, flat-rate pricing, inventory, and financial reporting into a single system — the operational infrastructure enabling the cross-sell marketing and pricing discipline that underpins the forward margin expansion thesis. The 38,000 sq ft Antioch operations center, 172-vehicle owned fleet, and dispatch capacity together represent an asset base that management notes would take years and significant capital for a new entrant to replicate at equivalent scale.

Concentration / Risk / Compliance

CoolCo's residential revenue concentration is well-diversified at the customer level: approximately 41,000 unique residential customers in FY2025, no single one accounting for a material share of revenue. The Comfort Club's 14,200 members are distributed across the same broad residential base. The service mix across HVAC (54.5%), plumbing (29.1%), and electrical (16.4%) provides further diversification of demand drivers — no single service line failure collapses the business.

On the licensing and regulatory front, the Company holds all required state contractor licences for mechanical, plumbing, and electrical work in Tennessee. The CIM discloses that the master licences for HVAC and electrical are held personally by Ray Cole, and separately notes that Luis Ortega holds the master plumber licence. The CIM does not disclose any pending regulatory proceedings, contractor board

complaints, or OSHA citations beyond a single FY2024 property-damage litigation settlement that is described as one-time. Financial statement risk is characterized as reviewed rather than audited, with the CIM explicitly noting that "adjustments have been prepared by management and have not been subject to a quality of earnings review."

The Company's geographic footprint across 13 counties in Middle Tennessee provides moderate diversification within the region. The CIM states that Davidson and Williamson counties account for approximately 61% of residential revenue, with the remaining 39% distributed across Rutherford, Wilson, Sumner, Maury, and surrounding counties — a spread that reflects the depth of the existing customer base in the core geography without excessive single-county exposure.

WHAT BREAKS MANAGEMENT'S NARRATIVE

Growth & Pipeline

The entire FY2030 revenue model requires three growth drivers to perform simultaneously and at rates that have never all occurred in the same year historically: an 11%+ organic revenue CAGR, gross margin expansion of +0.4pp per year, and operating expense ratio decline of -0.4pp per year. The management projection to $85.8M by FY2030 is a statement of what must happen, not a demonstration of why it will. No single year in the FY2023–FY2025 historical period achieves all three conditions simultaneously — the forward model asks the business to do something it has not yet done.

The commercial electrical thesis is the most exposed component. The CIM discloses no pipeline data, no signed commercial contracts, no backlog, and no H1 2026 actuals to substantiate the 20–25% annual electrical revenue growth assumption that drives the segment from $8.3M in FY2025 to a projected $23.0M by FY2030. Kevin Tran, the Director of Electrical Services who is the sole named operator of this initiative, was hired in 2025 and has no disclosed track record at CoolCo. The CIM's own acknowledgment that the $10.1M FY2026E electrical estimate "reflects six months of actual results and management's estimate for the remainder of the year" without providing the actual H1 breakdown means the thesis-level growth claim rests entirely on management assertion with no independently verifiable interim data point.

The labor supply constraint is the binding organic ceiling on the entire revenue projection. The CoolCo Academy graduates 31 apprentices per year, but no retention rate for those graduates is disclosed — the CIM describes technician retention only as "industry-leading" without a quantified rate. The forward projection to $85.8M by FY2030 requires approximately 195+ field technicians at a revenue-per-technician ceiling of roughly $440K; from a base of 146 at FY2025 year-end, that requires approximately 50 net new technicians over five years. If annual voluntary technician turnover is even at the lower end of the residential HVAC industry range — a figure the CIM does not disclose — the Academy's 31 annual graduates may be largely consumed by attrition replacement, leaving insufficient net capacity growth to achieve the revenue target organically.

Retention / Revenue Quality

The 87% Comfort Club renewal rate is a management assertion, not a verified data point. The CIM provides no cohort-level retention data — no year-by-year breakdown of which enrollment cohorts are

renewing at what rates, no gross new member adds versus gross cancellations, and no member count by enrollment year. An aggregate renewal rate can be mathematically consistent with sharp deterioration in recent cohorts if older cohorts retain well; without cohort data, it is impossible to determine whether the 14,200-member base is maturing favorably or decaying at the newer-member level.

The 2.4x member-to-non-member spend multiple is described as a management estimate, not a figure derived from ERP transaction data. This distinction matters: if the multiple is calculated using members who were historically active service customers before joining the Club (i.e., already high-spend customers who then joined), it reflects selection bias rather than a causal impact of membership on spending. A transaction-data validation showing average annual revenue per member household versus per non-member household is the only way to distinguish causation from selection — and the CIM does not provide it.

The Builder A new-construction channel ($4.76M, 9.4% of FY2025 revenue) is not merely a revenue concentration risk — it is the primary pipeline for new Comfort Club enrollments from new-construction homeowners. The CIM discloses that work for Builder A is "performed under purchase orders issued by community," implying no master services agreement binds Builder A to CoolCo post-transaction. The relationship is described as one Ray Cole has maintained personally since 2004, and no change-of-control consent or contractual continuity mechanism is disclosed. If this pipeline is disrupted post-close, it simultaneously removes $4.76M of direct revenue and narrows the enrollment funnel feeding the 25,000-member Comfort Club target.

Margin / Unit Economics / Cash Conversion

The $1.445M FY2025 Adjusted EBITDA add-back base — representing 18.8% of reported EBITDA — is entirely management-prepared with no quality of earnings review. This is not a disclosure nuance; it is a material financial risk at a presumed 10x+ acquisition multiple. The single most structurally problematic add-back is the brand awareness campaign, classified as non-recurring at $310K in FY2023, $340K in FY2024, and $365K in FY2025, while simultaneously projected to continue as an add-back at $390K, $415K, $440K, $465K, and $490K through FY2030P. A cost that is added back for eight consecutive projected years is not non-recurring by any standard quality-of-earnings definition — it is a recurring operating cost of the business. If a QoE reviewer disallows this add-back in full, FY2025 Adjusted EBITDA falls from $9.136M to $8.771M, and FY2030P falls from $17.936M to $17.446M; at 10.0x, the FY2025 impact alone is $3.65M of enterprise value.

The owner compensation normalization add-back ($820K in FY2025) requires an independent CEO compensation benchmark for a Nashville MSA services/contractor business with $40–60M of revenue, and the CIM does not disclose one. The CIM states only that the add-back represents "Mr. Cole's total compensation, including distributions recorded as compensation, in excess of the estimated market cost of a chief executive" — but the market cost estimate on which the normalization rests is management's own, not independently verified. If market-rate CEO compensation for this role and market is higher than assumed, the normalization add-back is understated and Adjusted EBITDA is overstated; conversely, if Cole has been paying himself below market, the add-back direction may be correct but the sizing requires verification.

The CIM presents Adjusted EBITDA less capex as the cash conversion metric ($7.256M in FY2025, implying 79.4% cash conversion) but discloses no full free cash flow statement. A pass-through entity taxed as a partnership makes distributions to the owner to cover tax obligations — at a 26.5%

effective rate on $6.398M of FY2025 pre-tax income, estimated tax distributions would approximate $1.7M per year. Equipment loan principal payments on $3.1M of outstanding vehicle debt at a typical five-year term approximate $620K per year. Working capital investment in a business growing at 15%+ annually consumes additional cash. These cash uses reduce true free cash flow available for post-transaction debt service well below the Adjusted EBITDA less capex proxy, and any leverage sizing that relies on the stated 79.4% cash conversion metric may overstate debt capacity materially.

Moat / Product / Tech

The CoolCo Academy's competitive advantage claim is contingent on a retention rate that the CIM does not disclose. If the 12-month post-graduation retention rate is at or below the annual voluntary technician turnover rate for the existing field force, the Academy is replacing departures, not building capacity. The CIM states 31 graduates in FY2025 — but if, for example, voluntary turnover among the 146-person field force runs at 20% per year (approximately 29 technicians), the Academy's net contribution to forward capacity is approximately 2 technicians annually, making it a cost-of-retention mechanism rather than a growth engine. The CIM provides no data to distinguish between these two scenarios.

The ERP and flat-rate pricing deployment, while represented as a significant operational advance, was implemented in 2025 and the CIM acknowledges implementation costs of $260K that have been added back. The CIM does not disclose the go-live status of the cross-sell marketing module, the percentage of service calls currently priced under flat-rate, or the completeness of customer history data migration from the prior system. If the cross-sell marketing module is not activated at close, the mechanism by which the Company expects to move cross-trade penetration from 31% to 45% does not exist in operational form — and the plumbing projection of 8–11% annual growth, which the CIM describes as driven primarily by cross-selling to the existing customer base, rests on a tool that may not yet be functional.

The brand moat is real but locally concentrated. The CIM states that Davidson and Williamson counties account for approximately 61% of residential revenue — meaning the 28-year brand equity and 4,800+ five-star reviews are primarily defensive assets in two counties. If a well-funded platform enters those two counties and invests aggressively in digital marketing and review generation, the 41% digital new-customer acquisition rate is the first metric to deteriorate, and the CIM provides no data on what the customer acquisition cost would be if the brand advantage were neutralized.

Concentration / Risk / Compliance

Ray Cole is simultaneously the master HVAC licence holder, the master electrical licence holder, the primary relationship owner for Builder A ($4.76M of FY2025 revenue), the 28-year brand identity of the business, and the 100% equity seller. The CIM discloses that "a formal succession plan has not yet been adopted" and that Cole intends to remain only "for a transition period" with unspecified duration and contractual terms. No single risk item in this claim register is more consequential: a Cole departure without a completed licence transfer and Builder A relationship institutionalization simultaneously puts approximately $40.66M of FY2025 revenue — HVAC ($27.6M) plus electrical ($8.3M) plus Builder A ($4.76M) — at operational or commercial risk from day one post-close. This is not a priceable financial risk; it is a structural dependency that must be contractually cured before LOI execution.

The related-party lease on the Antioch operations center presents a compounding risk that the CIM does not fully disclose. The 38,000 sq ft facility is leased from an entity controlled by Ray Cole under a lease expiring in 2029, and the CIM discloses no rent per square foot, annual escalators, renewal options, or change-of-control provisions. The lease expires approximately two years after the targeted close, meaning within the near-term investment horizon the acquirer faces a lease renewal negotiation with a party who is simultaneously the seller and a rollover equity holder — with no disclosed renewal option and no independent market-rate validation. If the lease contains a change-of-control termination right exercisable by Cole's entity, this is a separate close-blocking condition from the licence issue.

The financial reporting infrastructure adds a third layer of risk. FY2023–FY2025 financial statements are reviewed but not audited. The CFO joined in 2024 and the CIM notes he led the 2025 ERP implementation and "the move to monthly close" — implying that before his arrival, the close process and financial reporting environment were less rigorous. FY2023 and FY2024 financials were prepared under a prior accounting system and by prior personnel; any reclassifications Bell made upon taking over have not been disclosed. The CIM explicitly states that adjustments have been prepared by management and have not been subject to a quality of earnings review — meaning all four add-back categories, the deferred revenue recognition policy, and the related-party lease classification are unverified by any independent party.

DEAL CONSIDERATIONS

From Operational Claims — External Market Context Applied

EXISTENTIAL THREATS

1. Master Licence Holder Departure

Ray Cole personally holds the master HVAC contractor licence and the master electrical contractor licence in Tennessee. HVAC and electrical together generated $27.6M and $8.3M respectively in FY2025, accounting for approximately 71.0% of total revenue. The CIM states that "a formal succession plan has not yet been adopted" and that Cole intends to remain only "for a transition period" with no disclosed duration or contractual terms. If Cole departs before a qualified replacement has been licensed and designated as the qualifying individual, CoolCo cannot legally perform HVAC or electrical work in Tennessee — and the CIM provides no evidence that any current employee holds or is within a defined timeline of qualifying for either master licence.

This is the only threat in this deal that is binary and non-priceable. A revenue escrow, earn-out, or purchase price adjustment cannot cure the operational consequence of a licence gap; the Company simply cannot perform work under those trade lines during any gap period. The diligence requirement is a written Tennessee legal opinion confirming the transfer process, timeline, and a named qualifying successor for both licences — and this opinion must be in hand before any binding LOI is executed.

Perspective from outside the CIM: *In PE acquisitions of founder-operated specialty contractors, the licencing dependency is among the most commonly underestimated pre-close risks. State contractor licensing boards across the Southeast have tightened qualifying-individual requirements over the past decade, and the process of designating a new qualifying agent — including any continuing education or*

examination requirements — can take three to six months in several states. Transactions that proceed to close with a verbal commitment from the founder to remain available as a qualifier, rather than a contractually specified licence transfer plan with milestone dates and a named successor candidate, have in multiple documented cases resulted in operational interruption during the transition period. The risk is not hypothetical; it is a recurring pattern in this transaction type.

2. Builder A Revenue Concentration Without Contractual Protection

Builder A generated $4.76M of CoolCo's revenue in FY2025, representing 77.8% of the new-construction channel and 9.4% of total FY2025 revenue. The CIM discloses that work is "performed under purchase orders issued by community" — meaning there is no master services agreement and the relationship is terminable at will by Builder A on a project-by-project basis. The relationship is described as one that Ray Cole has maintained personally since 2004, with no indication that any member of CoolCo's operational team has an independent relationship with Builder A's purchasing decision-makers. The CIM discloses no change-of-control notification requirement, no consent-to-assignment mechanism, and no contractual continuity provision of any kind.

The compounding risk is that Builder A is not merely a revenue concentration — it is the primary pipeline for new homeowner relationships in the new-construction channel. Each home completed by Builder A in Middle Tennessee represents a potential Comfort Club enrollment and a long-term residential service customer. Loss of Builder A post-close would simultaneously remove $4.76M of direct annual revenue and narrow the enrollment funnel that feeds the 25,000-member Comfort Club target, with compounding effects that extend well beyond the year-one revenue impact.

Perspective from outside the CIM: *In residential construction, HVAC subcontractor relationships are deeply personal at the founder level and notoriously fragile through ownership changes. Homebuilders routinely evaluate their subcontractor relationships at major events — ownership transitions, management changes, service quality incidents — and the loss of a key relationship contact is among the most common triggers for rebidding. The absence of a master services agreement means Builder A faces no contractual barrier and no financial penalty to redirecting work to a competitor at any community where CoolCo has not yet commenced work. A pre-signing reference call with Builder A's purchasing decision-maker, and a written consent-to-assignment acknowledging the change-of-control and confirming relationship continuity for a minimum period, should be a condition to signing — not a post-signing diligence item.*

VALUATION PRESSURE

1. Quality of Earnings

The FY2025 Adjusted EBITDA of $9.136M rests on $1.445M of add-backs (18.8% of reported EBITDA) that are entirely management-prepared and have not been subject to a quality of earnings review. The most structurally problematic is the brand awareness campaign add-back, classified as non-recurring at $310K in FY2023, $340K in FY2024, and $365K in FY2025 — and simultaneously projected to continue as an add-back at $390K through $490K per year through FY2030P. A cost added back for eight consecutive projected years cannot be characterized as non-recurring under standard quality-of-earnings conventions. If a QoE reviewer disallows this add-back, FY2025 Adjusted EBITDA falls by $365K and the FY2030P projection falls by $490K; at a 10.0x multiple the FY2025 impact alone is $3.65M of enterprise value.

The owner compensation normalization add-back ($820K in FY2025) requires an independent CEO compensation benchmark that the CIM does not provide. The normalization methodology is described as Cole's compensation in excess of "the estimated market cost of a chief executive" — but the market cost estimate is management's own, not independently sourced. If an independent benchmark places market-rate total CEO compensation for a Nashville MSA contractor business of this scale above the implied level, the normalization add-back is understated and FY2025 Adjusted EBITDA is overstated by the difference.

Perspective from outside the CIM: *Quality of earnings reviews on founder-led services businesses with reviewed-but-not-audited financials routinely surface 10–20% adjustments to seller-presented Adjusted EBITDA when add-back schedules include owner compensation normalizations, brand or marketing costs classified as non-recurring, and related-party transactions that have not been independently benchmarked. The absence of an audit and the recent professionalization of the finance function (CFO joined 2024) are compounding factors — financial statements prepared under a less mature reporting environment carry a structurally higher risk of add-back misclassification. Engaging an independent accounting firm for a pre-LOI QoE is the standard practice in PE acquisitions of this type; a firm that prices on stated Adjusted EBITDA without a QoE is accepting an unquantified markdown risk that could reach $5M–$14M in enterprise value depending on the scope of disallowance.*

2. Commercial Electrical Revenue Projection Without Substantiation

The 20–25% annual electrical revenue growth assumption is the largest single revenue swing factor in the projection model, driving the electrical segment from $8.3M in FY2025 to a projected $23.0M by FY2030P. The CIM discloses no commercial electrical pipeline, no signed contracts, no LOIs, and no H1 2026 actuals broken out by residential versus commercial electrical. Kevin Tran, the Director of Electrical Services leading this initiative, was hired in 2025 and has no disclosed performance track record at CoolCo. The FY2026E electrical revenue estimate of $10.1M is described as reflecting six months of actual results plus a management estimate for H2, without providing the H1 actual separately.

If commercial electrical grows at 10% per year rather than 20–25%, FY2030P electrical revenue reaches approximately $13.4M rather than $23.0M — a $9.6M shortfall representing 11.2% of total projected FY2030P revenue and approximately $1.9M of Adjusted EBITDA at a 20.0% segment margin. At a 10.0x multiple, this single assumption gap represents approximately $19.0M of exit value. The diligence resolution is straightforward: H1 2026 actual commercial electrical revenue (not blended electrical) and a probability-weighted commercial pipeline report exceeding $2.0M of committed forward revenue are the minimum evidential requirements before any valuation can be anchored to the management projection.

Perspective from outside the CIM: *The pattern of a residential-focused HVAC and electrical contractor pivoting into commercial electrical is well-documented in the home services sector, and the success rate in the first 18–24 months is highly variable. Commercial electrical project work — particularly for apartment complexes and small businesses — operates on a bid-and-award cycle that is fundamentally different from the residential dispatch model. Margins on competitively bid commercial projects are typically lower than residential service and repair work, and the customer relationship dynamics (property managers, general contractors, commercial landlords) require a different sales motion than the residential technician-enrollment model. New commercial electrical operations led by a single newly hired director typically require 24–36 months to establish a repeatable pipeline of sufficient scale to support double-digit*

segment growth. The risk is not that commercial electrical fails — it is that it succeeds more slowly than modeled, which alone changes the FY2026–FY2028 earnings base materially.

3. Free Cash Flow Overstatement

The CIM presents Adjusted EBITDA less capex ($7.256M in FY2025, 79.4% of Adjusted EBITDA) as the primary cash generation metric, but discloses no full free cash flow statement. The Company is taxed as a partnership, meaning tax obligations flow through to Ray Cole and are funded by distributions from the entity. At a 26.5% effective rate on FY2025 pre-tax income of $6.398M, estimated tax distributions approximate $1.7M per year. Equipment loan principal payments on $3.1M of outstanding vehicle debt approximate $620K per year on a five-year amortization. Net working capital investment in a business growing at 15%+ per year (with receivables growing from $3.9M in FY2023 to $5.3M in FY2025) has consumed additional cash annually. These items together imply true free cash flow after all uses could be in the $4.0M–$4.5M range in FY2025 — substantially below the $7.256M Adjusted EBITDA less capex proxy.

A lower true FCF ceiling materially constrains the amount of leverage the acquired entity can service. Any debt sizing model that relies on the Adjusted EBITDA less capex figure as the denominator for DSCR calculations is implicitly assuming cash conversion that the full FCF statement may not support. The resolution is a management-prepared FCF reconciliation for FY2023–FY2025 reconciling to the balance sheet cash balance each year — a document that can be produced quickly if the underlying records are available, and whose absence from the CIM is itself a diligence flag.

LONG-TERM DRAGS

1. Technician Turnover and Academy Supply Constraint

The CIM describes technician retention as "industry-leading" but discloses no quantified turnover rate for any year or any role. The CoolCo Academy graduates 31 apprentices per year, but without knowing the 12-month post-graduation retention rate and the annual voluntary turnover rate for the existing 146-person field force, it is impossible to determine whether the Academy is generating net capacity growth or primarily replacing departures. The forward projection to $85.8M in FY2030P revenue likely requires approximately 195+ field technicians — approximately 50 net new technicians above the FY2025 year-end count of 146 over five years, or approximately 10 per year in addition to attrition replacement.

Perspective from outside the CIM: *Residential HVAC technician voluntary turnover rates in the Southeast have historically ranged from 20% to 35% per year at companies without structured retention programs, and even well-managed firms with above-market compensation and career development programs typically see 12–18% annual voluntary attrition. At a 20% annual turnover rate on a 146-person field force, approximately 29 technicians depart per year — consuming nearly the entire Academy graduating class of 31 just in replacements, before any net growth occurs. Companies in this sector that have presented their in-house training academies as competitive advantages have in several cases discovered during PE ownership that the academic throughput was insufficient to fund growth targets once the full turnover picture was quantified. The ask here is simple: a headcount reconciliation for FY2023–FY2025 showing opening count, hires, terminations, and closing count by role. If voluntary turnover is genuinely below 15%, that data should be available and exculpatory.*

2. Related-Party Lease Renewal and Antioch Facility Risk

The Company's primary operations center — 38,000 sq ft housing dispatch, the CoolCo Academy, warehouse, fleet maintenance, and administrative functions — is leased from an entity controlled by Ray Cole under a lease expiring in 2029. The CIM discloses no rent per square foot, no annual escalators, no renewal options, and no change-of-control provisions in the lease. Within the typical PE hold period, this lease will expire and require either renewal with Cole's entity or relocation. A relocation of a facility of this configuration and scale — service vehicle bays, parts warehouse, training classrooms, dispatch center — in a strengthening Nashville industrial market would represent a capital cost and operational disruption that is not currently modeled in any projection scenario.

Perspective from outside the CIM: *Related-party real estate in founder-led services businesses is one of the more predictable post-close friction points in PE transactions. When the lease is at or below market, renewal is typically straightforward. When the lease is at or above market, the seller's entity has been receiving an above-market economic benefit embedded in the target's operating expenses, which a QoE should surface as a normalization. In either case, the absence of a renewal option in a lease expiring two years post-close places negotiating leverage with the landlord — who in this case is the seller and a continuing rollover equity holder. Securing either a long-term renewal with defined escalators and a purchase option, or a clear relocation plan with budgeted costs, as part of the transaction documentation is standard practice in situations like this.*

3. Financial Reporting Maturity and Pre-2024 Data Integrity

The CFO joined in 2024 and the CIM notes he implemented monthly close and led the 2025 ERP deployment, implying that FY2023 financial statements were prepared under a prior accounting system and reporting environment. The CIM does not disclose whether Bell made any reclassifications or corrections to prior-year figures upon assuming the CFO role, nor does it characterize the accounting system that was in place before his arrival. FY2023 and FY2024 reviewed financials were prepared under conditions that are acknowledged to have been less mature — the move to monthly close is itself an indicator that close frequency and rigor were lower previously.

Perspective from outside the CIM: *The FY2023–FY2024 trend data — the revenue CAGR, the gross margin expansion trajectory, the Adjusted EBITDA growth — is the primary historical evidence underwriting the forward projection. If any portion of that trend reflects a change in accounting treatment (revenue recognition timing, cost allocation, add-back classification) rather than genuine operational improvement, the starting point for the projection is overstated and the implied growth rate is higher than the underlying business actually achieved. This is a known risk in transactions where a new CFO has recently taken over a founder-led business and professionalized the reporting function — the before-and-after comparison can inadvertently conflate accounting policy changes with operational progress. A QoE that specifically addresses the consistency of accounting treatment across FY2023–FY2025 is the appropriate resolution, and the scope should include a request for Bell's reclassification schedule from the prior reporting period.*

End of IC Insights — CIMScan — True Bearing LLC

Appendix: Financial Statements

Transcribed from the CIM for reference. Refer to the page cited for the original presentation.

Income Statement

Source: CIM PDF page 16 | Units: $000s

	FY2023A Books	FY2024A Books	FY2025A Books
HVAC	21,400	24,350	27,600
Plumbing	11,200	12,750	14,700
Electrical	5,600	6,800	8,300
Total revenue	**38,200**	**43,900**	**50,600**
Cost of revenue	20,934	23,662	26,818
Gross profit	**17,266**	**20,238**	**23,782**
Operating expenses	12,568	14,224	16,091
EBITDA (reported)	**4,698**	**6,014**	**7,691**
Depreciation and amortization	802	922	1,063
Operating income	3,896	5,092	6,628
Interest expense	180	205	230
Pre-tax income (pass-through entity)	3,716	4,887	6,398

Balance Sheet

Source: CIM PDF page 18 | Units: $000s

	FY2023A Books	FY2024A Books	FY2025A Books
Cash	2,100	2,650	3,400
Accounts receivable	3,900	4,500	5,300
Inventory	1,450	1,700	1,950
Other current assets	380	420	470
Property & equipment, net (primarily fleet)	4,200	4,900	5,600
Total assets	**12,030**	**14,170**	**16,720**
Accounts payable	2,600	3,000	3,450
Accrued liabilities	1,100	1,250	1,400
Deferred revenue (Comfort Club)	620	760	910
Equipment & vehicle loans	2,300	2,800	3,100
Total liabilities	**6,620**	**7,810**	**8,860**
Owner's equity	5,410	6,360	7,860
Total liabilities and equity	**12,030**	**14,170**	**16,720**

Capital expenditure and cash flow

Source: CIM PDF page 18 | Units: $000s

	FY2023A	FY2024A	FY2025A
Adjusted EBITDA	**5,768**	**7,564**	**9,136**
Capital expenditure	(1,350)	(1,620)	(1,880)

	FY2023A	FY2024A	FY2025A
Adjusted EBITDA less capex	**4,418**	**5,944**	**7,256**
Capex % of revenue	3.5%	3.7%	3.7%

Financial Projections (management case)

Source: CIM PDF page 20 | Units: $000s

	FY2026E	FY2027P	FY2028P	FY2029P	FY2030P
HVAC	30,084	32,491	34,765	37,199	39,803
Plumbing	16,317	17,949	19,564	21,325	23,031
Electrical	10,126	12,658	15,696	19,149	22,979
Total revenue	**56,527**	**63,098**	**70,025**	**77,673**	**85,813**
Revenue growth	11.7%	11.6%	11.0%	10.9%	10.5%
Gross profit	**26,794**	**30,161**	**33,752**	**37,749**	**42,048**
Gross margin	47.4%	47.8%	48.2%	48.6%	49.0%
Operating expenses	17,749	19,560	21,428	23,457	25,572
EBITDA (reported basis)	**9,045**	**10,601**	**12,324**	**14,292**	**16,476**
Owner compensation normalization	850	880	910	940	970
Brand awareness campaign (non-recurring)	390	415	440	465	490
Adjusted EBITDA	**10,285**	**11,896**	**13,674**	**15,697**	**17,936**
Adjusted EBITDA margin	**18.2%**	**18.9%**	**19.5%**	**20.2%**	**20.9%**
Capital expenditure	2,035	2,272	2,521	2,796	3,089