

InStar charts growth path

Acquisition in Calif. is first of 3 new deals

BY SHERRI WELCH
CRAIN'S DETROIT BUSINESS

Troy-based **InStar Services Group LP** has acquired a majority of the stock of **Oakwood Construction and Restoration Services Inc.** in California, marking the first of at least three acquisitions it has in the works this year.

InStar President and CEO Mark Davis projects that company revenue will increase about 20 percent this year to \$120 million.

With financial and merger and acquisition expertise backing from its owner, the private equity firm **BlackEagle Partners LLC** in Bloomfield Hills, InStar is pursuing an aggressive growth plan, Davis said.

It's looking at companies in the Midwest, New England and mid-Atlantic Coast—from Philadelphia to Charlotte, he said.

Oakwood Construction and Restoration, which adds about 71 employees to InStar's 300 and about \$20 million in revenue, also will be a strong platform for additional acquisitions in the West, said Davis. Terms of the deal were not released.

The industry "has always been highly fragmented and still is," Davis said.

Because of the fragmentation and the tendency of banks to shy away from smaller companies that are unable to collect receivables for about 100 days, on average, the restoration services market has few well-capitalized players, Davis said.

"It's an immature industry with extreme fragmentation. That's why there's such massive growth opportunity," he said.

Restoration service companies provide disaster response, insurance restoration and reconstruc-



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President and CEO Mark Davis says InStar Services Group LP, based in Troy, is pursuing an aggressive growth plan.

tion services in response to fires, floods, water-line breaks or storm damage.

Companies in the industry are looking for ways to expand across the U.S. to meet the demands of customers and insurers looking for restoration service companies with a broad national reach.

InStar's strategy for expansion is through acquisition. It plans to merge its California operations into Oakwood Construction and

Restoration, which will continue to operate under the same name and under the management of founder and President Todd Benson.

A family-owned business based in Brea, Calif., Oakwood provides disaster restoration and reconstruction services to the residential and commercial markets in Southern California.

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Since joining the company in 2009 after a non-compete agreement with his former company, **Belfor USA Group Inc.**, ended, Davis has led InStar in the acquisition of disaster services companies in New York, Colorado and California, moved its headquarters to Troy from Texas and opened additional service branches in Seattle and Phoenix to take the company into five or six new markets. InStar recently opened a second office in metro Detroit after signing a five-year lease for about 2,500 square feet in the Talon Building, with an option to lease another 10,000 square feet. And it named former **Taubman Co.** manager Rod Blake to head it, Davis said.

Initially, three employees will operate from the Detroit office. InStar already employs about 50 people in Michigan, including 20 branch office employees and about 30 corporate, in Troy.

With its latest acquisition, InStar now operates from about 20 locations around the U.S.

That, and revenue of roughly \$100 million last year, made InStar the second-largest non-franchised or privately owned restoration business in the U.S., behind Belfor, which is also based in Southeast Michigan and whose CEO, Sheldon Yellen, was featured in January on the **CBS** show "Undercover Boss."

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Belfor came to Michigan from Denver in 2001 after acquiring **Masco Corp.**'s Birmingham-based **Inrecon LLC**, reportedly one of the largest property restoration businesses in the world at that time, and moving Belfor USA's headquarters here.

The company had established its U.S. platform only a couple of years earlier through the acquisition of the majority share of **Rocky Mountain Catastrophe** from InStar's Davis and his partner.

"Revenues were \$35 million when I founded it in 1999," Davis told *Crain's* last year.

"When I sold it in 2004 to Belfor, revenues were in excess of \$400 million annually."

Like InStar, Belfor USA has also been on the acquisition trail and also has the backing of a strong parent company in **Belfor Holdings Inc.**, which was expected to post over \$1 billion in revenue last year.

In November, Belfor purchased Ypsilanti-based **Coach's Catastrophe Cleaning & Restoration Services** for an undisclosed amount, bringing it a commercial and residential customer base for water mitigation and environmental cleaning services with five locations across the state, allowing it to expand into areas like Lansing without having to start operations from scratch.

Belfor, which projected 2010 revenue of \$691 million, up from 2009 revenue of \$627 million, did not respond to requests for comment.

Another large player in the restoration services market, **The ServiceMaster Co.**, has taken a different road to expansion.

The 60-year-old Memphis, Tenn.-based company sold InStar in 2008 when it was struggling and continued on its franchising path.

Today, it has 1,518 ServiceMaster Clean restoration service franchisees across the U.S., which allows it to cultivate local relationships and give it a vast geographical reach, said Bobby Lewis, vice president of commercial disaster restoration operations.

The company also has 11 ServiceMaster Recovery Management franchises in major cities, focusing on large loss contracts worth \$500,000 or more, he said.

"Within ServiceMaster, we're

growing our disaster restoration business through the conversion of independent disaster restoration businesses to franchisees, in order to (further) increase our coverage and response time for our customers," Lewis said.

A national footprint and comprehensive services are also attractive to many large insurance companies, said Patricia Harman, director of standards and communications at the Columbia, Md.-based **Restoration Industry Association**.

That and efforts to grab more market share are fueling not only acquisition activity at large companies like InStar and Belfor, but also increased collaboration among local niche restoration service companies around the country either through private arrangements, national networks or new franchise growth, she said.

The restoration services market is about 40 years old, and the ownership of companies in the industry is just starting to shift to the next generation, Harman said.

"There are still a lot of opportunities to increase market share and to expand the types of services provided ... especially (for) those that are professional, provide education for their employees and excellent customer service."

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