




*State of the Tree
Care Industry:*
2020

Executive Summary

As was the case with many sectors in the economy, the tree care industry suffered a significant blow in 2020.

Due to economic fallout of COVID-19, experts anticipated that annual revenue in the industry would fall 5.4% to approximately \$25.9 billion, compared to \$27.3 billion in 2019. This decrease can be attributed to a reduction in demand for both residential and nonresidential construction, as well as limited disposable income and lower corporate profits.

Analysts expect the industry to slowly recover in the following five years, while not achieving the same level of growth observed over the previous five years, which was an impressive annualized growth rate of 7.7%. By contrast, between now and 2025, as construction rates are expected to resume their trajectory, forecasters anticipate more modest investment from state and local government, resulting in a projected annual growth rate of 2.5%. In addition, changes to the minimum wage could affect revenue and profitability.

A graphic consisting of two slanted parallel bars, one light green and one dark green, used as a quote marker.

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Additionally, NIP Group's internal data from 2020 provides insights that can help tree service companies avoid costly damages that could impact their overall profit margins during the upcoming period of reduced growth. Specifically, as demand spikes due to seasonal concerns like spring and summer storms, tree service companies have to be prepared to meet the increased demand safely or risk being negatively impacted by preventable losses.

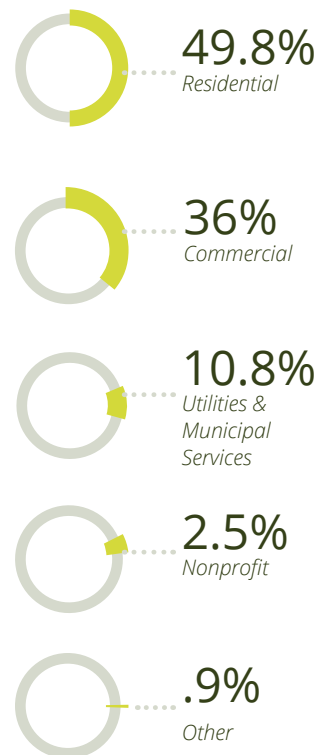
In addition, while on-the-job safety is paramount for completing potentially hazardous tree work, we've seen that auto-related accidents have critically impacted tree service companies. We urge tree service enterprises to preserve their safe standing and profitability by working proactively to prevent auto accidents. Partnering with an insurer that is committed to safety that offers expert training to the tree service industry can have a positive impact that enhances safety, reduces claims and supports overall growth.

The Tree Care Industry Today

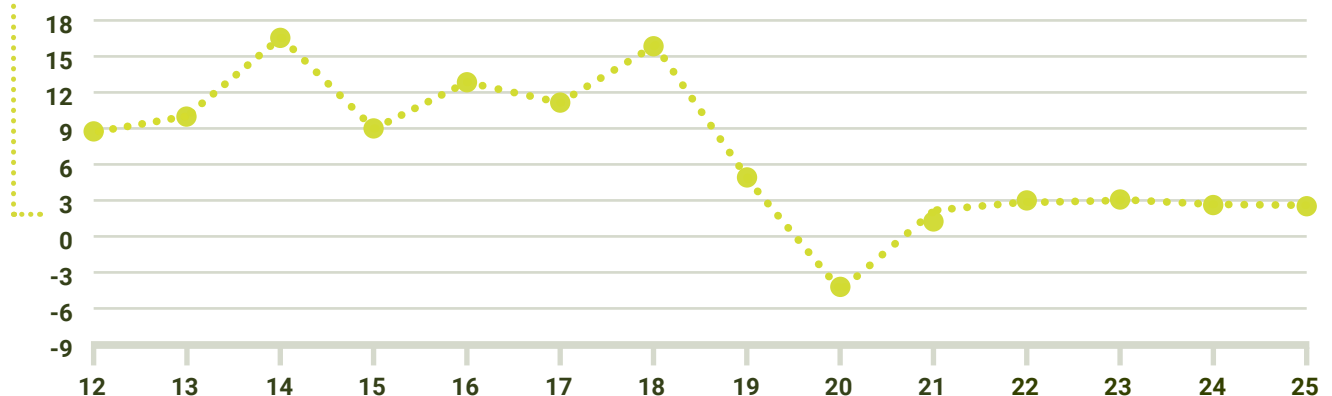
The tree care industry is largely dependent on trends in the different market sectors that make up its client base. Smaller businesses tend to support residential properties on an individual basis, while more sizable entities may provide a range of services for large-scale commercial organizations.

Given that residential and nonresidential construction took a hit in 2020, revenues declined 5.4% across the industry this year.

Segmentation of the tree care industry by market type:



Key External Drivers 2012-2025



Seasonally adjusted housing starts plunged in April, creating a sizable deficit, though some ground was recovered by the fall.

By September, the gap between residential and nonresidential construction had widened, with nonresidential construction continuing to slide while residential construction improved.

While nonresidential construction may require a longer recovery, improvements in residential construction may foreshadow a rebound for the tree service industry, since residential properties comprise nearly half of the industry's market base.

*In September 2020, nonresidential spending was **1.6%** lower than in August and **4.4%** lower than at the same time the previous year.*

September 2019-
September 2020

4.4%



August 2020-
September 2020

1.6%



Projections for the Tree Care Industry

While the annual growth rate for revenue between 2015 and 2020 stood at 7.7%, the industry absorbed a decrease in revenue during 2020. As residential and nonresidential construction accelerates, growth is expected to return to the industry.

However, that progress may be somewhat subdued due to an anticipated slowdown in spending from state and local governments. Robust growth in the tree service sector would be expected to include accelerating investment from state and local governments.

*Investment from state and local governments is expected to continue to rise **0.3%** annually through 2025, similar to the rate over the previous five years.*

Annual growth 2015-2020



Still, buoyed by residential and nonresidential construction between now and 2025, it's projected that:



- Revenue growth for the tree care industry will proceed at an annualized rate of **2.5%.**

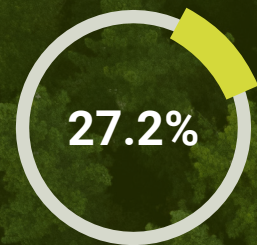


- The number of enterprises in the industry will accelerate to a **1.9%** growth rate.



- Employment in the sector will rise to a **2.3%** growth rate.

While profit margins in the industry are expected to grow somewhat over the coming years, the extent of that growth may be contingent on the overall rate of revenue growth in the industry as a whole, as well as on wage developments.



of revenue in the tree care industry goes to wages.

*Wages are expected to experience an annual growth rate of **2.3%** over the next five years.*

Annual Growth 2015-2025

Annual Growth
2015-2020
6.9%

Annual Growth
2020-2025
2.3%

In addition to immigration-related regulatory changes, as the national average for the minimum wage continues to rise, tree service companies may be forced to raise their rates or absorb a reduction in profitability. If customer rates grow too drastically, however, experts anticipate that this could lead to a reduction in demand.

*The national average for the minimum wage experienced 2% annualized growth from **2015-2020***

Additional increases passed at the local, state or federal levels could raise the minimum wage further in the foreseeable future. Experts expect to see the national average minimum wage continue to rise between now and 2025.

Regulations related to immigration could influence wages over the coming years. Some of the most pressing concerns in the industry, relative to immigration, are:

- Guidelines for calculating wages owed to noncitizen seasonal H-2B workers.
- Continued regulation around and adoption of the E-Verify program.

Safety in the Tree Care Industry

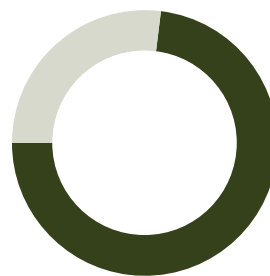
There are numerous hazards at play in the tree care industry but increasing the frequency of crew inspections and training can reduce accidents, a survey from the Tree Care Industry Association reported this year.

*Compared to companies that do not visit their crews, those that did reduced their accident rates by more than **50%**.*

Our internal claims data reveals that seasonal factors could contribute to rising rates of injury, liability, and property damage. In May and July, we observed our largest spikes in insurance claim filings, with the highest number of individual incidents occurring in July. Given the number of general liability claims filed due to property damage resulting from operations, we attribute this spike to an increase in seasonal demand.

Such results illuminate the importance of paying special attention to safety concerns as seasonal demand spikes due to storms, cleanup, and emergency services. To preserve their safety record and head off losses, tree service companies must proactively anticipate potential issues and execute mitigations as the hazardous work season approaches.

These observations should be routine for tree service companies. Nevertheless, they bear repeating. What may come as a surprise to businesses in the tree service industry is the importance of auto safety, as revealed by our claims data.



Auto liability and auto physical damage claims accounted for **72.65%** of all claims filed with Tree Pro as of September.

Several auto claims have resulted in fatalities in 2020, while no general liability claims have led to catastrophic injuries.

The average cost for a bodily injury claim filed through general liability coverage was
\$8,818.75

The average cost for a bodily injury claim filed through auto liability coverage was
\$7,436.99

4x

There were almost 4x as many bodily injury claims filed through auto liability coverage as through general liability.

It is important to note when reviewing these numbers that reporting can lag for bodily injury claims filed through general liability up to the statute of limitations. Auto claims, on the other hand, tend to be filed more quickly.

Nevertheless, there is clear and compelling evidence that auto accidents represent a significant risk for tree service companies. Given that profitability could be in flux for the industry over the coming years — and the fact that revenue growth is expected to return to the industry, though in a more limited fashion — forward-thinking tree service companies will take initiative to limit their exposure to auto risk.



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