

## HVAC Industry Performance

The installation of heating and air conditioning (HVAC) units relies heavily on trends within the broader construction industry, whether that be through commercial, industrial or residential subsectors. However, the repair and maintenance of HVAC units offers a more steady stream of industry revenue regardless of demand for new construction.

Market-specific dynamics also influence demand for many services provided within the industry, but more recently, residential construction boomed with record low-interest rates and exponential government aid — causing demand for HVAC installations to spike.

Nonresidential construction struggled during the pandemic and inflated interest rates from the Fed have resulted in steady market decline for new construction and repair for nonresidential and residential markets — severely threatening industry prosperity.

HVAC businesses will face challenges in the near future due to higher interest rates, but steady economic growth will contribute to a revived nonresidential market. Additionally, the residential market is forecast to rebound steadily from the pandemic decline as homeowners look to install new systems that help prevent the spread of viruses and cut down on carbon emissions.<sup>1</sup>

### Key Success Factors<sup>1</sup>

Revenue for heating and air-conditioning services has increased at a CAGR of 0.4% to \$123.2 billion in 2023, though rates will not remain that high. Before the year is over, revenue is forecast to decline 5.8%. Key industry factors will dictate the efficiency and proficiency of sustaining long-term revenue streams in a declining market.



Heating and air-conditioning will remain a necessity during recessions or expansions. HVAC businesses with strong customer retention rates will continue to sustain revenue and avoid large negative disruptions.



Government aid and higher interest rates have significantly impacted the purchase rate of new nonresidential and residential spaces. HVAC businesses that were once eligible for PPP loans are now garnering demand from nonresidential building owners partaking in QIP tax write-offs.



COVID disruptions to some markets have left consumers spending less. Not only was HVAC installation, maintenance and repair declining, but the purchase of many non-essential household appliances diminished revenues entering the subsector.

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Together, the HVAC systems and services markets are projected to reach \$230 billion in the United States by 2030 (growing at a CAGR of 5.0% — up from \$207 billion in 2021), and with that growth, sufficient consolidation is to be expected.<sup>2</sup> The demand for companies with energy-efficient solutions from both residential and commercial users will benefit VRF systems businesses and those with a focus on Internet of Things in HVAC; these technologies can offer a more cost-effective installation with greater flexibility — a higher price point and appeal to environmental conscious consumers.<sup>2</sup>

Like many historically fragmented industries, HVAC services and related maintenance, systems and installation providers have seen a persistent uptick in M&A activity stemming from 2021. Both Financial and Strategic investors are particularly interested in acquiring businesses with consistent revenue, rather than those that may be tied to new construction.<sup>3</sup> Additionally, there is an increasing appetite to couple services businesses that share end markets, i.e., Legacy Service Partners partnership with John Henry's Plumbing, Heating & Air.<sup>3</sup>

## ***Plumbing, Air-Conditioning and Heating Industry Multiples<sup>4</sup>***

Year	TEV \$	Revenues \$	TTM Rev Growth %	EBITDA Margin %	TEV/Revs	TEV / EBITDA
2006-2007	\$ 24.8	\$ 47.2	21.8%	15.9%	0.7x	4.5x
2009-2015	\$ 33.9	\$ 20.5	4.1%	34.3%	1.8x	5.4x
2017	\$ 46.5	\$ 75.6	33.5%	12.8%	0.7x	5.7x
2018	\$ 52.5	\$ 51.1	23.1%	16.3%	1.6x	8.2x
2019	\$ 75.3	\$ 58.6	21.0%	15.8%	1.1x	7.3x
2020	\$ 70.7	\$ 81.2	7.2%	18.0%	1.2x	6.9x
2021	\$ 20.9	\$ 16.5	16.5%	22.0%	1.4x	6.5x
2022	\$ 25.6	\$ 26.4	21.0%	18.5%	1.2x	6.9x
Total	\$ 41.0	\$ 44.2	19.6%	18.9%	1.2x	6.5x

## ***Commercial & Industrial Machinery and Equipment Repair and Maintenance Industry Multiples<sup>4</sup>***

Year	TEV \$	Revenues \$	TTM Rev Growth %	EBITDA Margin %	TEV/Revs	TEV / EBITDA
2007-2008	\$ 29.3	\$ 32.2	23.5%	20.9%	1.3x	6.0x
2013	\$ 24.1	\$ 27.8	14.4%	14.0%	0.9x	6.5x
2015	\$ 32.2	\$ 40.0	37.5%	16.6%	0.9x	5.5x
2016-2018	\$ 10.1	\$ 13.4	2.6%	14.8%	0.8x	5.4x
2019	\$ 18.1	\$ 14.5	13.7%	23.1%	1.4x	7.1x
2020	\$ 27.5	\$ 45.7	35.8%	11.1%	0.6x	5.4x
2021	\$ 58.5	\$ 58.4	4.9%	13.3%	0.9x	7.0x
2022	\$ 57.8	\$ 20.8	8.4%	22.4%	2.3x	10.1x
Total	\$ 34.0	\$ 33.5	16.3%	16.9%	1.1x	6.7x

## ***Ventilation, Heating, Air-Conditioning and Commercial Refrigeration Manufacturing Industry Multiples<sup>4</sup>***

TEV Range	TEV \$	Revenues \$	TTM Rev Growth %	EBITDA Margin %	TEV/Revs	TEV / EBITDA
10 - 25	\$ 17.7	\$ 17.1	18.7%	20.4%	1.3x	6.3x
25 - 50	\$ 34.6	\$ 29.7	17.3%	20.2%	1.2x	6.1x
50 - 250	\$ 97.1	\$ 73.9	29.6%	19.7%	1.7x	8.3x
Total	\$ 46.0	\$ 37.5	21.2%	20.1%	1.4x	6.8x

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## HVAC M&A Activity<sup>5</sup>

Date	Company	Description	M&A	Deal Size
1/6/2023	Aire Rite	The company offers building automation, cooking equipment, ice machines and refrigeration services, enabling clients with reduced energy consumption and subsidize costs.	CMS Mechanical Services	Undisclosed
12/28/2022	Resolute Industrial	Provider of specialized temporary heating, ventilation, air conditioning and refrigeration ("HVAC&R"), compressor remanufacturing and refrigerant storage solutions for mission-critical applications across North America.	Aggreko	\$440m
11/11/2022	Verne & Ellsworth Hann	The company offers services including air conditioning repair, installation and maintenance, boiler repair, furnace installation, plumbing and generator installation services, helping customers upgrade, repair and maintain their heating, ventilation and air conditioning (HVAC) systems at affordable prices.	Heartland Home Services	\$33.3m
8/29/2022	SUPCO	The company engages in the design, manufacturing and distribution of parts, components, test instruments and tools including relays, capacitors, motor protection, timers and cold controls, thereby enabling clients to get a value-driven price for products.	NSI Industries	Undisclosed
6/30/2022	R Brooks Mechanical Heating & Air Conditioning	The company's services include the repair and installation of air conditioners, heaters and humidifiers, commercial plumbing and ductless and geothermal repair, thereby providing the clients with repair services in the comfort of their homes.	Flow Service Partners	\$22.5m
5/3/2022	General & Mechanical Services	The company offers design, repair, retrofit and maintenance services for properties, thereby helping clients with cost-effective as well as prompt services.	Crete Mechanical Group	Undisclosed
5/2/2022	CCOM Group, Inc.	The company primarily serves contractors, consumers, builders, and the commercial and industrial sectors. It derives most of the revenue from a shipment of products to the final customer of various sectors.	Goodman Global Group, a subsidiary of Daikin Industries (TKS: 6367)	Undisclosed
12/22/2021	The Arcticom Group	The company offers installation, preventative maintenance, repair, renovation and energy optimization services, enabling clients to ensure the functionality of their critical systems.	A&M Capital, Ares Management and Ares Capital Corporation BDC	Undisclosed
11/9/2020	Legence	The company's full-service design-build specialty mechanical contractor services leverage the company's construction expertise, enabling its customers to access operations and maintenance, facilities services and specialty project services.	Blackstone	Undisclosed
3/21/2019	Coolsys	The company covers all aspects of mission-critical systems, including engineering, design, installation, maintenance and energy optimization as well as a legal process, ensuring customers receive standard refrigeration services.	Ares Management	Undisclosed

## CM&Co Case Study



CM&Co acted as the exclusive financial advisor to Service-Tech Corporation ("STC") in the Company's sale to Pittsburgh, Pennsylvania-based GT Entrepreneurs ("GTE"). Founded in 1960, STC specializes in complete heating ventilation and air-conditioning (HVAC) cleaning and industrial cleaning. The STC team serves a variety of industries and facilities throughout the region, with its corporate headquarters in Cleveland and a regional office in Columbus. GTE is a private investment firm that works with entrepreneurial Operators-in-Residence looking to individually acquire, operate, and grow privately held

businesses. In the purchase of STC, GTE's Operator-in-Residence moved to Cleveland and assumed the role of President with support of the previous owner for the short-term. GTE hired all existing employees, planning to provide the same services and products to customers. The acquisition price was not disclosed.


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## Select Recent CM&Co Transaction Experience



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The undersigned provided exclusive financial advisory services to Premier Hydraulics, LLC

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REMARKABLE IN EVERY WAY

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The undersigned provided exclusive financial advisory services to Insight Services, Inc. (dba TestOil)

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has been acquired by



The undersigned provided exclusive financial advisory services in coordination with KeyBanc Asset Recovery Group to Western Reserve Water Systems.

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has been acquired by



The undersigned provided exclusive financial advisory services to Precision Component Industries, LLC

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### FIRM OVERVIEW:

Carleton McKenna & Co is an independent investment banking firm providing M&A and Capital Raising advisory services. We work with middle-market closely-held family businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in Specialty Manufacturing & Chemicals, Consumer Products, Industrials, and B2B Services.

Our Team is made up of finance and accounting experts, entrepreneurs and operators, C-Suite and Board professionals, lawyers, consultants and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate to maximize life changing transactions.

### Interested in Learning More?

Contact Emily for additional information or any questions you may have about this report or CM&Co's services.



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