

US HVAC Industry Update – Fall 2024

By Alberto Sinesi, Director and Robert Murphy, Senior Managing Director

The Heating, Ventilation and Air Conditioning (HVAC) sector has recorded steady M&A activity year-to-date. This was driven by strategic acquirers – primarily, publicly listed corporations and sponsor-backed entities – expanding their service offering and geographic footprint and private equity investors expanding their industry presence. Overall, the broader HVAC market continues to be bolstered by innovation and technological advancement of HVAC ecosystems, the need to update legacy infrastructure, the acceleration of energy consumption and the increased focus on sustainability. These secular tailwinds have created opportunities for consolidation from strategic and financial acquirers who are eager to unlock synergistic value and generate healthy investment returns.

The industry update herein will primarily focus on the manufacturing and distribution segments of the U.S. HVAC market.

HVAC Sector Overview and Select Key Drivers

- The sector comprises a wide range of participants – manufacturers, distributors and service providers – that deliver generalist and specialist offerings to commercial, residential and industrial end users.
- Performance-wise, the sector has fared well in recent years as a function of large order backlogs and pent-up demand following the pandemic and construction growth globally.
- Looking ahead, growth prospects are anticipated to remain steady; labor shortages, wage inflation and input pricing pressure, however, may have a tapering effect on the sector’s expansion going forward.

Select major industry drivers encompass the following:

- **Environmental Regulations** – Government regulations, tax benefits and cost savings from upgrading to energy-efficient systems have boosted end user demand for the latest replacement equipment. Further, impending bans on hydrochlorofluorocarbons (HCFCs) are pushing the market toward more advanced HVAC products.
- **Eco-Friendly Demand and Innovations** – A growing consumer awareness regarding environmental issues is increasing demand for energy-efficient systems, necessitating that market players remain competitive with cost-effective, green solutions. As a result, the HVAC industry is moving toward more eco-friendly practices and materials such as:
 - Renewable Energy Integration – Growing use of solar thermal and geothermal heat pumps for heating and cooling with minimal electricity usage
 - Low GWP Refrigerants – Transition to eco-friendly refrigerants, replacing high-Global Warming Potential (GWP) refrigerants, thus reducing greenhouse gas impact
 - Advanced Environmental Control Technologies – Increasing adoption of variable speed drives and smart controls to precisely manage temperature and humidity
 - Heat Recovery Ventilation (HRV) – Focus on maximizing heat transfer, thereby reducing heating and cooling loads

- **Zoning and Variable Speed Compressors** – Widespread use of zoning and variable speed compressors allowing homeowners to tailor HVAC solutions to their specific home layouts, climate conditions and lifestyle requirements
- **Advancements in Indoor Air Quality (IAQ)** – IAQ has taken center stage in the HVAC sector reflecting mounting concerns regarding the health implications of indoor pollution. Solutions to address IAQ issues include advanced filtration (i.e., filters and ultraviolet germicidal lights deactivating airborne viruses, bacteria and mold), bipolar ionization (i.e., treating indoor air by generating charged ions to neutralize harmful particles) and moisture control and ventilation (i.e., moisture control and demand-controlled ventilation enhancing air quality).
- **Automation of Industrial Activities** – The increasing automation of industrial activities is fostering the need for sophisticated HVAC equipment that manages operating temperatures and lowers the risk of product and system failure.
- **Redefining HVAC Services** – HVAC as a Service (HVACaaS) is an emerging business model in the sector and is predicated on a subscription-based service stream (as opposed to a series of one-time transactions) whereby end users typically pay for ongoing maintenance, repairs and upgrades.

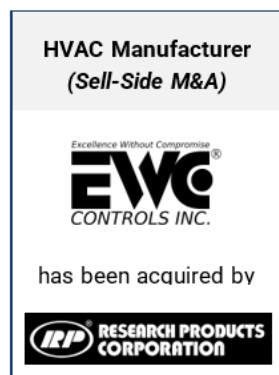
Observations on M&A Activity

Considerations regarding M&A activity in the HVAC sector command a distinction between manufacturing and distribution segments given the diverse nature of the underlying business models and offerings.

- **Manufacturing** – Strategic buyers (both public and private) have largely dominated the M&A arena in the manufacturing segment seeking to deploy capital to spur inorganic growth initiatives. Sponsor-backed acquirers have been particularly active in pursuing add-on transactions to generate incremental value to their existing holdings. Overall, valuations have remained robust, especially for those acquisition targets that have a track record of defensible growth and possess a differentiated technology.
- **Distribution** – M&A activity and valuations in this segment have held steady in more recent periods as supply chain issues affecting HVAC distributors have gradually normalized. Strategic acquirers are expected to continue to battle over additional scale, new product offerings and target markets while the private equity universe continues to eye this fragmented market as the lending environment recovers.

PKF Investment Banking – Recently Closed HVAC M&A Transaction

In July 2024, PKF Investment Banking acted as the exclusive financial advisor to EWC Controls Inc. (EWC) in the sale of the business to Research Products Corporation (RPC).



TARGET DESCRIPTION – Headquartered in NJ, EWC is a family-owned business and a leader in HVAC zone control design and solutions for the residential market.

ACQUIRER DESCRIPTION – Headquartered in WI, RPC specializes in residential and commercial indoor air quality and is the parent company of AprilAire.

DEAL RATIONALE – The acquisition will allow RPC to further grow its position in the broader premium indoor air quality market – and more specifically, take the No. 1 position in zoning.

Recent HVAC M&A Mega Deals

Target	Acquirer	Details
PURMO GROUP (HLSE:PURMO)	APOLLO GLOBAL MANAGEMENT (NYSE:APO)	Private equity investor Apollo and Rettig Group announced the acquisition of Purmo Group. Announcement Date: August 2024 Deal Size: \$658 million (0.9x revenue and 7.4x EBITDA) (April) Rationale: Deal aims to enhance Purmo's capabilities in sustainable indoor climate solutions and accelerate its growth strategy through additional resources and strategic support.
JOHNSON CONTROLS (NYSE:JCI) HITACHI (TSE:6501) A/C (JCH) JOINT VENTURE	ROBERT BOSCH	Robert Bosch announced its acquisition of the global HVAC solutions business for residential and light commercial buildings including the Johnson Controls – Hitachi Air Conditioning joint venture. Announcement Date: July 2024 Deal Size: \$8.0 billion Rationale: Bosch intends to integrate the acquired businesses into its Home Comfort Group.
COPELAND JOINT VENTURE	BLACKSTONE (NYSE:BX)	Emerson Electric sold its remaining 40 percent interest in the Copeland joint venture to Blackstone Private Equity. Deal Date: June 2024 Deal Size: \$3.5 billion Rationale: Deal aims to capitalize on the growing demand for energy-efficient HVAC solutions driven by stringent regulations and incentives for reducing global energy consumption and greenhouse gas emissions.

Select Other HVAC M&A Transactions

Deal Date	Target	Acquirer	Target Description
Manufacturing			
Jul-24	Aboveair Technologies	AirX Climate Solutions (Gryphon Investors)	Manufacturer of indoor HVAC products intended for commercial and industrial applications.
May-24	Check Corporation	Innovative Motion T.(Cathay Capital)	Manufacturer of flexible heating systems intended to serve the automotive, aviation, food services and healthcare industries.
Mar-24	Scott Springfield Mfg.	Modine Manufacturing (NYS: MOD)	Manufacturer of custom air handlers.
Feb-24	Ingénia Technologies	SPX Technologies (NYSE:SPXC)	Manufactures enhanced quality air handling units intended to serve the technology industry.

Deal Date	Target	Acquirer	Target Description
Manufacturing			
Jan-24	Air Filter Supply	Rensa Filtration (Audax Private Equity)	Manufacturer of heating and air conditioning filters.
Nov-23	Industrial Air	Limbach Holdings (NAS:LMB)	Designer and manufacturer of air conditioning and filtration systems intended for industrial applications.
Distribution			
Apr-24	R.F. Fager Company	Tenex Capital	Distributor of plumbing, heating, and cooling products intended for commercial and residential projects.
Jan-24	Grove Supply	Ferguson (NYS: FERG)	Distributor of plumbing and HVAC products serving residential trade, builder and remodel markets.
Jan-24	Plimpton & Hills	Grove Mountain / other financial investors	Supplier of plumbing, heating and cooling products intended for residential and commercial applications.
Dec-23	Webb Supply	Beijer Ref (STO: BEIJ B)	Distributor of HVAC equipment and parts intended to serve contractors across North-East Ohio.

Source: PitchBook and PKF Investment Banking

Public Company Data as of September 30, 2024

Company	Market Cap (\$M)	Enterprise Value (\$M)	LTM Revenue (\$M)	LTM EBITDA (\$M)	EV / LTM Revenue	EV / LTM EBITDA
Manufacturing						
A. O. Smith	\$13,101	\$13,033	\$3,929	\$829	3.3x	15.3x
AAON	8,736	8,839	1,194	305	7.4x	29.0x
Carrier Global	72,663	83,878	23,704	3,043	3.5x	24.4x
Daikin Industries	41,024	41,710	30,551	4,132	1.3x	9.7x
Global Industrial	1,298	1,347	1,346	102	1.0x	11.7x
Honeywell	134,294	154,087	37,334	9,048	4.1x	16.4x
Ingersoll Rand	39,606	43,405	7,036	1,831	6.2x	23.3x

Company	Market Cap (\$M)	Enterprise Value (\$M)	LTM Revenue (\$M)	LTM EBITDA (\$M)	EV / LTM Revenue	EV / LTM EBITDA
Manufacturing						
Johnson Controls	51,845	63,784	26,930	3,814	2.4x	13.8x
Lennox International	21,533	23,045	5,019	999	4.6x	20.6x
Modine Manufact.	6,960	7,424	2,447	325	3.0x	21.2x
SPX Technologies	7,382	8,090	1,885	368	4.3x	21.1x
Trane Technologies	87,725	91,687	18,830	3,527	4.9x	24.5x
Watsco	18,513	18,933	7,434	768	2.5 x	20.4 x
Distribution						
Beijer Ref	\$8,344	\$9,346	\$3,150	\$340	2.8x	23.0x
CSW Industrials	6,092	6,271	816	210	7.7x	28.4x
Ferguson	39,861	44,807	29,635	2,987	1.5x	12.6x

Source: Ca[p]Q

Note: Dollars in U.S. millions; EV = Enterprise Value; LTM = Last Twelve Months

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