

US HVAC Industry Update – November 2024

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

The Heating, Ventilation and Air Conditioning (HVAC) Services sector continues to witness sustained demand spurred by increased construction activity, indoor air quality concerns and the ongoing need to replace legacy infrastructure. Stricter environmental regulations and government subsidies for installing energy-efficient HVAC equipment further drive growth. However, the industry faces a shortage of qualified technicians as baby boomers retire and outpace the number of younger professionals entering the trade.

Observations on M&A Trends

M&A volume in the HVAC Services sector has remained healthy year-to-date with both public and private strategic acquirers exhibiting strong deal appetite. Private equity firms are active via add-on acquisitions to existing platforms and brand-new platform acquisitions. Public companies have demonstrated an appetite for M&A, leveraging strong cash positions on balance sheets to make acquisitions.

So, what is driving this M&A wave?

Fragmentation: First, the HVAC Services sector is a **characteristically fragmented arena**. It encompasses a broad universe of participants with different scale – from sole proprietorships to large, diversified corporations. There are generalist and specialist offerings for commercial, residential and industrial end users on local, regional or national levels. This dynamic has enabled service businesses with critical mass to roll up competitors and execute accretive tuck-in acquisitions of smaller privately held businesses.

Growing Demand for Service, Maintenance and Repair: Further, technologically advanced commercial and industrial applications for HVAC parts and systems have boomed across the sector, fueling the need for continued service, preventive maintenance and repair. This, in turn, ensures more predictable future revenue streams, highly coveted by market participants.

Appeal to Strategic Acquirers: As an integral part of their growth plans, strategic acquirers have diligently pursued bolt-on and expansion acquisitions of companies with compatible and scalable business models. Select examples of M&A criteria include the following:

- *Scale and Efficiency:* Larger companies are acquiring smaller operations to achieve economies of scale and expand their market reach.
- *Innovation:* The need to incorporate advanced technologies like energy-efficient solutions as well as modern refrigeration techniques is driving acquisitions.
- *Geographic Expansion:* M&A is being used as a conduit to penetrate new markets or strengthen/complement existing footprints in high-growth geographical areas.
- *Service Diversification:* Market players are expanding the scope of their service offering through M&A to provide more comprehensive solutions and attract customers in new end markets.

Attractiveness to Private Equity Investors: The HVAC Services sector remains particularly attractive for private equity investors given its fundamental resilience, predictable cash flow model and underlying defensible demand – even during periods of economic softness. Transactions in this sector are also easier to underwrite. Moreover, given the elevated private equity interest in this sector, entrepreneurs have been open to rolling over a portion of their proceeds into the acquiring entity and thus generating additional upside from selling their businesses.

Insight on Consolidation Cycles: Residential Versus Commercial

Looking ahead, the broader sentiment is that the **residential HVAC services segment** is now midway through its consolidation cycle, whereas M&A activity in the **commercial HVAC services segment** is still in its early stages.

Sponsor-backed residential HVAC platforms are expected to continue executing their roll-up strategies to enhance scale and geographic footprint, while private equity interest is likely to gradually shift toward commercial service businesses. This is expected particularly with commercial businesses that have a more diversified, yet durable, customer base in less cyclical end markets (e.g., health care, semiconductors, digital infrastructure, etc.) and those that have a large portion of their business stemming from direct-to-owner relationships.

Overall, investor consensus is that transaction multiples for high-revenue visibility, high-margin businesses with a large service component will remain robust (i.e., north of 10x EBITDA). This makes sense given the current M&A environment, which is characterized by a persisting shortage of A-quality assets and third-party financing constraints.

Key Company Attributes Influencing Valuation in the HVAC Services Sector

Several critical business attributes affect buyer appetite and valuation considerations in the industry. Aside from the target's track record of sustainable profitable growth and margin profile, market participants in the commercial and industrial HVAC Services sector have put emphasis on the following aspects:

- **Direct-to-Owner (DTO) Versus General Contractor (GC) Relationships:** DTO reflects a direct relationship between the service business and the end customer, whereas GC projects are typically procured via a competitive bid process. DTO work includes recurring revenue from repair and maintenance contracts as well as replacement projects and is thus less susceptible to macroeconomic trends. Also, DTO work typically generates higher gross margins and comprises shorter project cycles and an increased number of smaller transactions vis-à-vis GC work, which tends to be centered around larger construction projects with elongated lead times (at times well over 12 months).
- **Customer Reoccurrence:** Customer stickiness denotes the likelihood of a customer reengaging a service business for repeat project work with regular cadence.
- **Service and Maintenance as a Percentage of Revenue:** Business models relying primarily on continued upgrades, maintenance, repairs and replacements (as opposed to more lumpy project work) guarantee a more predictable flow of business.
- **Renovation Versus New Construction as Percentage of Revenue:** In general, renovation jobs are perceived as less risky than new construction activity given that the latter is typically tied to macroeconomic cycles.
- **Diversification:** The notion of "diversification" indicates the degree of dependency of the business on end customers, GC relationships, suppliers, sector of reference (i.e., residential, commercial and industrial or a mix thereof), as well as specific projects.
- **End-Market Exposure:** The nature of the end markets where service businesses operate also affects value. Service businesses with an established footprint in more stable sectors like education, healthcare, pharma, government, warehouse, offices and data centers are expected to trade at healthy multiples.
- **Project Size:** Smaller projects (in dollar terms) are usually seen more favorably than larger projects with the latter, carrying an inherent concentration risk associated with cash conversion

cycle, human capital allocation and overall project slippage. A business mix over-indexing smaller projects is much more likely to achieve a stronger valuation.

- **Service Differentiation:** Businesses having access to mission-critical technologies and differentiated capabilities are likely to boast a strong financial profile, making them compelling M&A targets.
- **Employee Retention:** Amid an industry-wide shortage of skilled workforce, a history of consistent employee retention over several years of operations provides insights into the health of an organization. Depending on geography, the presence of unionized labor may play a role in buyer preferences.

Prominent Recent HVAC Services M&A Transactions

Target	Acquirer	Transaction Details
Sila Heating & Air Conditioning	Goldman Sachs Alternatives	<ul style="list-style-type: none"> ▪ Morgan Stanley Capital Partners has agreed to sell King of Prussia, PA-based Sila Heating & Air Conditioning, to Goldman Sachs Alternatives. ▪ Sila is a leading provider of residential HVAC, plumbing and electrical services operating across the Northeast, Midwest and Mid-Atlantic regions. ▪ Transaction announced in November 2024. Financial terms undisclosed.
Airtron Heating & Air Conditioning	Gamut Capital	<ul style="list-style-type: none"> ▪ Gamut Capital Management, a NY-based middle-market private-equity firm, acquired Airtron Heating & Air Conditioning from NRG Energy (NYSE:NRG) for \$500 million, equivalent to 8.6x EBITDA. ▪ Airtron is one of the largest residential designer, installer and maintenance providers for HVAC systems in the U.S. ▪ Transaction closed in August 2024.

Noteworthy HVAC Services Consolidators

- **Crete United:** Crete United, a provider of HVAC, electrical, plumbing and building automation services, has continued to execute on its inorganic growth plan since Ridgemont Equity Partners acquired the business in June 2022. The company's M&A strategy has prompted the acquisition of 18 add-on assets (four this year).
- **FirstCall Mechanical:** FirstCall Mechanical, a leading commercial services company offering HVAC, refrigeration, electric and plumbing services primarily to distribution centers, universities, industrial facilities and government facilities, has made 15 acquisitions since private equity firm SkyKnight took control of the business in January 2022. The company's M&A strategy revolves around the expansion of the existing footprint in the high-growth Southeast region.
- **Orion Group:** Orion Group has made over 35 acquisitions since Alpine Investors formed this commercial facility services platform via Jackson Mechanical Service in November 2020. Since then, Orion Group has been pursuing a consolidation strategy centered around family-owned service providers with a focus on HVAC/R, plumbing and DTO business.
- **Sila Heating & Air Conditioning:** Residential service provider and aggregator Sila has made 28 acquisitions since receiving an investment from Morgan Stanley Capital Partners in May 2021. The company announced three acquisitions in April 2024, followed by five between May and September 2024.

Other Recent HVAC Services M&A Transactions

Deal Date	Target	Acquirer	Target Description	Acquirer Type
Nov-24	Bell Plumbing Services	Pinnacle MEP (Blue Point CP)	Commercial plumbing solutions	PE Add-On
Oct-24	Comfortrol	FirstCall Mechanical (SkyKnight Capital)	Commercial HVAC solutions	PE Add-On
Oct-24	Pinnacle MEP	Blue Point CP	Mechanical and plumbing services	PE Platform
Sep-24	Kent Island Mechanical	Limbach Holdings (NAS: LMB)	Mechanical construction and HVAC services	Public Strategic
Sep-24	Woodstock Heating & Cooling	LightBay Capital	HVAC services (metal sheet fabrication)	PE Platform
Sep-24	American Residential	Del-Air Heating & AC (Astara Capital)	HVAC and plumbing services	PE Add-On
Sep-24	Sun Plumbing	Cascade Services (LP First Capital)	Plumbing services for various commercial, industrial and residential clients	PE Add-On
Sep-24	Smith & Keene	Cascade Services (LP First Capital)	Heating and cooling, electrical and plumbing service	PE Add-On
Aug-24	Capital City Mechanical	FirstCall Mechanical (SkyKnight Capital)	HVAC and plumbing services	PE Add-On
Aug-24	Allied Experts	Sila Heating & AC (Morgan Stanley CP)	HVAC maintenance and plumbing services	PE Add-On
Aug-24	Valor Mechanical Services	FirstCall Mechanical (SkyKnight Capital)	HVAC services for education and commercial end customers	PE Add-On
Aug-24	HVAC Services	Green Mechanical Construction	Commercial refrigeration, indoor air quality, and energy efficiency	Private Strategic
Aug-24	Leo Facilities Maintenance/RSM	Orion Group (Alpine Investors)	Plumbing, electrical, HVAC, door locks and landscaping services	PE Add-On
Aug-24	Advanced Cooling and Heating	Seacoast Service (White Wolf Capital)	Cooling and heating service provider	PE Add-On
Jul-24	AMA Group USA	Legence (Blackstone PE)	Engineering and mechanical services	PE Add-On
Jun-24	TriplePoint MEP	Stellex Capital	Commercial HVAC/R contracting services	PE Platform
Jun-24	Legacy Mechanical Services	Crete United (Ridgemont EP)	HVAC and plumbing services	PE Add-On
Jun-24	SI Mechanical	PremiStar (Partners Group)	HVAC and plumbing services	PE Add-On
May-24	Cardinal Heating & AC	SE Capital Partners	Plumbing, electrical and indoor solutions	PE Platform
May-24	Air Mechanix	Profit Rocket Group	HVAC installation and repair services	Private Strategic
May-24	Kennedy Mechanical	NexCore (Trinity Hunt)	HVAC mechanical contractor	PE Add-On
May-24	Ryan Plumbing & Heating	NexCore (Trinity Hunt)	Plumbing, HVAC and fire protection services	PE Add-On
Apr-24	Titan Mechanical Solutions	Orion Group (Alpine Investors)	HVAC mechanical services, plumbing and pipe fitting	PE Add-On
Feb-24	J & S Mechanical Contractors	Comfort Systems (NYS: FIX)	Mechanical construction services	Public Strategic
Feb-24	Summit Industrial Construction	Comfort Systems (NYS: FIX)	Specialty industrial mechanical contractor	Public Strategic

Source: PitchBook and PKF Investment Banking

Select Public Company Data as of November 8, 2024

Company	Market Cap (\$M)	Enterprise Value (\$M)	LTM Revenue (\$M)	LTM EBITDA (\$M)	EV / LTM Revenue	EV / LTM EBITDA
APi Group Corporation	\$9,070	\$12,782	\$6,874	\$707	1.7x	13.5x
Comfort Systems USA	\$13,882	\$16,446	\$6,083	\$696	2.3x	17.4x
EMCOR Group	\$20,087	\$23,263	\$13,746	\$1,244	1.4x	12.3x
IES Holdings	\$3,988	\$5,899	\$2,758	\$317	1.5x	11.8x
Limbach Holdings	\$854	\$1,058	\$512	\$46	1.6x	16.4x
Tutor Perini Corporation	\$1,423	\$2,076	\$4,259	\$108	0.4x	10.8x

Source: CapIQ

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

Contact Us

The [PKF Investment Banking](#) team is available to help you better understand the current dynamics of the HVAC Services industry and determine which opportunities may exist for you. Please contact your client service team or:

[Alberto Sinesi](#)

Director

PKF Investment Banking

asinesi@pkfib.com | 203.273.5024

[Robert Murphy](#)

Senior Managing Director

PKF Investment Banking

rmurphy@pkfib.com | 201.788.6844

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