



HVAC industry boosted by growing demand for energy-efficient systems

SPOT ON | HVAC | FEBRUARY 2023

“While macroeconomic challenges are expected to continue in the near term, growth in the HVAC industry is projected to remain strong, driven by increased demand for energy-efficient, ‘smart’ HVAC systems.

We explore key market trends followed by an analysis of the current M&A outlook.”

PHILIP BARKER
HVAC SPECIALIST, OAKLINS

MARKET OBSERVATIONS

Looking forward

The future seems bright for the HVAC sector as a result of growing global action on the climate and energy efficiency, which is also having a positive effect on innovation and technology within the industry.

02

M&A OVERVIEW

Time of opportunities

A fragmented market and the impact of current economic and environmental trends mean many HVAC businesses are using growth strategies involving M&A to strengthen their position.

04

CASE STUDIES

Success stories

An exploration of two recent transactions involving HVAC companies where Oaklins provided exclusive advisory services to help seal the deal.

07





Market observations

MARKET TRENDS

The global heating, ventilation and air conditioning (HVAC) systems market was valued at US\$136.3 billion in 2021, and is projected to expand at a compound annual growth rate (CAGR) of 6.3% from 2022 to 2030¹, reaching US\$234.9 billion by 2030.

Growth is anticipated despite the backdrop of current macroeconomic headwinds, which include record inflation, increasing interest rates and ongoing supply chain issues. In fact, rising costs related to these challenges have actually boosted the focus on innovation in the industry as users look for ever-increasing energy savings in their HVAC systems.

Climate concerns and rising energy costs as well as the need to maintain high indoor air quality (IAQ) in the wake of the COVID-19 pandemic are all key factors driving HVAC demand in the current market. Alongside this, rapid technology advances, including smart software and automation, are contributing to growth in the industry. The HVAC sector is also highly dependent on installation demand from the construction markets. As such, with a booming real estate sector and increased spending on infrastructure,

there are great opportunities for HVAC in both the residential and commercial sectors.

We explore these major trends in greater detail below, together with an overview of recent M&A activity.

ENVIRONMENTAL CONCERNS AND GOVERNMENT REGULATIONS

Mounting environmental concerns together with government sustainability targets across the world continue to drive upgrade, installation and retrofit demand in the HVAC sector.

Global warming and increasingly frequent heatwaves have added to ongoing pressures facing HVAC companies to effectively manage both sustainability and air quality issues.

Six years on from the Paris Agreement, the Sharm el-Sheikh Climate Change Conference (COP 27) last November saw additional significant promises made to drastically reduce greenhouse gas emissions with the aim of cutting them by 45% by 2030, and achieving a climate-neutral world by 2050².

Many governments have looked to the HVAC sector to support these ambitions as HVAC systems are energy-intensive and most rely on power derived from fossil fuels, making them some of the largest contributors to carbon emissions.

One widely discussed solution is to mandate the sale of hydrogen-ready boilers that can run on both natural gas and a hydrogen blend, with the aim of eventually phasing out gas boilers entirely. Electrification, which is part of the broader global strategy to decarbonize economies around the world, has resulted in a raft of “clean tech” startups and other research groups looking for ways to reduce carbon and refrigerant emissions using new cooling technologies. This has led to several promising innovations that could bring important changes to the HVAC industry.

Another regulatory trend that will have a notable impact on the HVAC industry in the coming years is the implementation of the American Innovation and Manufacturing (AIM) Act to phasedown the production and consumption of hydrofluorocarbons (HFCs) in the USA by 85% by 2035.

¹ HVAC Systems Market Size, Share & Trends Analysis Report By Product (Heating, Ventilation, Cooling), By End Use (Residential, Commercial, Industrial), By Region, and Segment Forecasts, 2022-2030 — Grand View Research

² COP 27: FDM's Pledge to the Planet — FDM Group

ADVANCES IN TECHNOLOGY

As with other industrial sectors, new technologies are reshaping the HVAC industry and are, without doubt, a major contributor to the sector’s growth. Internet of Things (IoT) devices enable the more efficient operation of HVAC equipment, and offer opportunities for companies to provide smart energy capabilities, usage monitoring, data capture and analytical services.

As discussed in detail in a previous Oaklins publication (posted in May 2022), smart homes with intelligent meters, sensors and thermostats help increase energy savings and reduce costs. Energy efficiencies are increasingly at the forefront of consumer

considerations given the backdrop of the current energy crisis.

INCREASED SPENDING IN THE CONSTRUCTION SECTOR

The global construction sector is expected to grow steadily and to more than double in size between 2020 and 2030, from c. US\$6.4 trillion to c. US\$14.4 trillion in 2030³. Increased spending in the construction sector, in particular due to heightened activity in residential, healthcare and clean energy projects, will have a significant knock-on effect on the HVAC sector. Construction projects that had been halted during the pandemic are also now being restarted. All new buildings require HVAC

systems and as government policies look to increase sustainability and reduce emissions, a significant portion of spending will be allocated to new “green” HVAC systems. On average, 40% of an office building’s energy costs can be attributed to the cooling, heating and ventilation of space⁴, so HVAC optimization will generate substantial energy savings over older, less efficient systems.

This offers a compelling need for HVAC companies to accelerate new energy-efficient product innovation.



³ Global construction market size 2020-2030 — Statista

⁴ Building occupancy diversity and HVAC (heating, ventilation, and air conditioning) system energy efficiency — ScienceDirect



M&A overview

Due to the market trends discussed above, there is growing demand for increasingly efficient and smart HVAC systems. With a projected CAGR of 6.3% through 2030, there are significant M&A opportunities within the industry globally.

The HVAC sector is highly fragmented, resulting in important levels of competition and players deploying organic and inorganic growth strategies to strengthen their market position.

We see three major opportunities for both buyers and sellers:

- **Original equipment manufacturers (OEMs)** — Large brands, like Daikin and Mitsubishi Electric, dominate the market and much of the M&A activity at this level involves OEMs acquiring distributors as well as adjacent technology providers.
- **Distributors** — There is a lot of room for consolidation at the distributor level. OEMs are buying distributors to gain greater control of the supply chain, while larger distributors are acquiring regional players to expand market share and territory.
- **Installation and service providers** — The industry is still highly fragmented at the service provider level, with more small local players than large national ones. This, in the opinion of Oaklins, is likely the area with the most potential for M&A activity going forward.

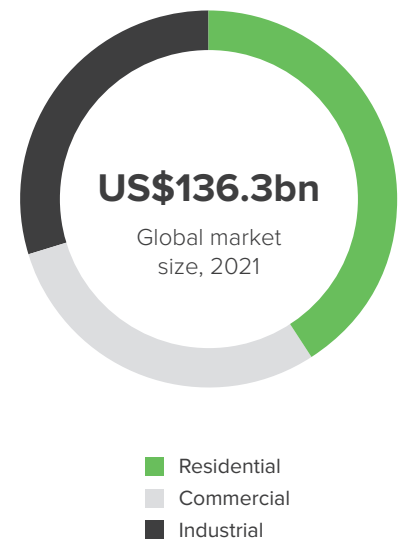
While leading players with greater resources to invest in R&D and technology are expected to capture a large portion of the growth and compound their market dominance, smaller, privately owned businesses with innovative offerings will also attract demand and present compelling consolidation opportunities, thereby garnering premium valuations.

Strategic or PE-funded bolt-on acquisitions have dominated recent M&A deals by number of transactions, as incumbent players look to add scale or complementary product offerings to existing operations. Financial acquisitions, while lower in volume, are still popular as PE institutions seek to build platforms in defensible sectors with strong growth potential.

HVAC deal volumes reduced in 2020, with the COVID-19 outbreak creating unfavorable market conditions as governments imposed lockdowns that resulted in the shutting of factories, suspension of construction activities, shortages of labor and supply chain bottlenecks.

However, M&A activity returned to pre-pandemic levels in H1 2021⁵ and maintained pace in 2022. There were 162 HVAC deals completed between the start of 2022 and the end of November compared with 184 deals in 2021 for the same period⁶.

Global HVAC systems market share by end use, 2021 (%)



Source: grandviewresearch.com



















⁵ Guest Post: HVACR Strategic Update Q3 2021 | Heating, Air-Conditioning Refrigeration Distributors International — hardinet.org

⁶ Source: MergerMarket

Recent M&A activity

A selection of recent M&A deals are highlighted in the table below (Oaklins deals are shown in green):

Date	Target	Bidder	Country	Target description	Valuation		
					EV (US\$m)	EV/Rev	EV/EBITDA
Dec-22	 VENSTAR [®]	 DAIKIN		Provider of controls and energy management systems whose technology and indoor comfort solutions are used in residences and light commercial applications	N/A	N/A	N/A
Nov-22	 BellSimons COMPANIES HVAC • REFRIGERATION • PLUMBING <small>Serving the Industry since 1980</small>	 MUNCH'S SUPPLY <small>EST. 1958</small> WE MAKE IT EASY [®]		A leading, value-added distributor of HVAC, hydronic heating, refrigeration and plumbing parts and systems	N/A	N/A	N/A
Nov-22	 DEL-AIR <small>HEATING • AIR CONDITIONING • APPLIANCES</small>	 ASTARA CAPITAL PARTNERS		Provider of air conditioning, heating and appliance services	N/A	N/A	N/A
Nov-22	 ARTIPLASTIC <small>LAVORAZIONE MATERIE PLASTICHE</small>	 DIVERSITECH [®]		DiversiTech Europe formed via a merger with Artiplastic, Castel Engineering and Rodigas, along with the existing DiversiTech/Pump House business in the UK	N/A	N/A	N/A
Oct-22	 EnergyGo <small>Ensemble, rendons l'écologie rentable</small>	 HomeServe [®]		An expert in the energy renovation of residential homes, including insulation, heating, hot water systems, ventilation and electricity supply systems	N/A	N/A	N/A
Oct-22	 EasyAir CONDITIONING	 BEIJER REF Refrigerants		Supplier of AC and heat recovery system solutions, mainly for commercial buildings	N/A	N/A	N/A
Sep-22	 Vulcanic	 spirax sarco		A European industrial electric heating group that is one of the continent's largest suppliers of bespoke industrial electric heating solutions	256.7	2.9x	14.7x
Aug-22	 RENSA FILTRATION	 Audax Group		Designer and manufacturer of air filtration products and services	217.2	N/A	N/A
Aug-22	 AL-KO QUALITY FOR LIFE	 TRANE TECHNOLOGIES [®]		Designs, manufactures, sells and services sustainable air handling units and extraction systems for a broad range of applications in diverse markets, including pharmaceutical, healthcare, industrial, retail and commercial buildings	N/A	N/A	N/A
Jul-22	 AERECO	 aldes		Developer of ventilation solutions for residential and office buildings	145.7	N/A	N/A

Date	Target	Bidder	Country	Target description	Valuation		
					EV (US\$m)	EV/Rev	EV/EBITDA
May-22				A leading international supplier with extensive experience in filtration and air distribution	32.4	0.9x	8.4x
Mar-22				Distributor of HVAC equipment, climate control systems and accessories in the USA	24.8	0.3x	5.2x
Feb-22				Manufacturer and distributor of heat recovery ventilation systems that are marketed under the established Lifebreath brand	N/A	N/A	N/A
Feb-22				A controls manufacturer serving the industrial refrigeration market with controls for wineries, cold storage warehouses, distribution centers and processing plants	N/A	N/A	N/A
Dec-21				Manufacturer of custom, high-performance cooling solutions for the rapidly growing hyperscale data center market	180	2.6x	18.0x
Nov-21				Manufacturer of sheet metal accessories and equipment for the HVAC industry	N/A	N/A	N/A



Case studies


DURO DYNE NATIONAL CORP. HAS BEEN ACQUIRED BY NSI INDUSTRIES

Oaklins TM Capital advised the founder of Duro Dyne National Corp. (Duro Dyne), a leading manufacturer and distributor of mission-critical HVAC sheet metal components and accessories, on its sale to NSi Industries, a portfolio company of Odyssey Investment Partners.


Founded in 1952 and headquartered in Bay Shore, New York, Duro Dyne is a third-generation, family-owned supplier of HVAC accessories whose expansive, one-stop product offering, leading

customer service capabilities, and highly scalable hybrid manufacturing and distribution operating model have created superior brand equity, and enabled it to become a trusted partner for HVAC distributors, installers and sheet metal contractors across North America.

NSi Industries is a leading manufacturer and distributor of a wide variety of electrical products, serving electrical distributors and contractors in the North American commercial and industrial markets. The acquisition of Duro Dyne represents NSi's entry into the HVAC industry where it can leverage its existing national distribution infrastructure and extensive customer roster to rapidly promote cross-selling and growth.



has been acquired by



M&A SELL-SIDE

Construction & Engineering Services/Other Industries/Private Equity


ENERGYGO HAS BEEN ACQUIRED BY HOMESERVE

The Oaklins' team in France acted as sell-side advisor on the sale of EnergyGo to HomeServe.


EnergyGo is an expert in the energy renovation of individual homes, with more than 25,000 projects completed since its creation in 2010. A firm believer in the benefits of comprehensive and efficient renovation, EnergyGo has developed the necessary expertise to help its clients improve their home insulation, heating and hot water systems, ventilation and electricity supply through self-consumption of solar energy. With more than 140 employees, EnergyGo offers a single point of contact, providing a turnkey solution to its customers. This includes a thermal and technical study of their home to guide them towards the most effective solutions, administrative support for all

the procedures required to complete their projects, and financial support to optimize their remaining costs and thus provide them with better access to the renovation of their home. EnergyGo has teamed up with RGE-certified technical partners who are experts in their sectors.

HomeServe is an international home repairs and improvements business that matches customers with traders to generate recurring income. HomeServe was founded in the UK in 1993, expanded into France in 2001, to North America in 2003, Spain in 2007 and Japan in 2019. In the last year, HomeServe has started to build its footprint in Belgium, Portugal and Germany. HomeServe is listed on the London Stock Exchange, with a market capitalization of US\$4.4 billion, and is itself the subject of an offer from Canada's Brookfield Infrastructure Funds.



has been acquired by















M&A SELL-SIDE

Energy

"From day one Oaklins has demonstrated a solid understanding of our business, and has guided and advised us during a focused process aimed at renowned industry players and selected private equity sponsors. With Oaklins' support, we are confident that we have found the right long-term home for EnergyGo" says Raphaël Assouline, the CEO of EnergyGo.

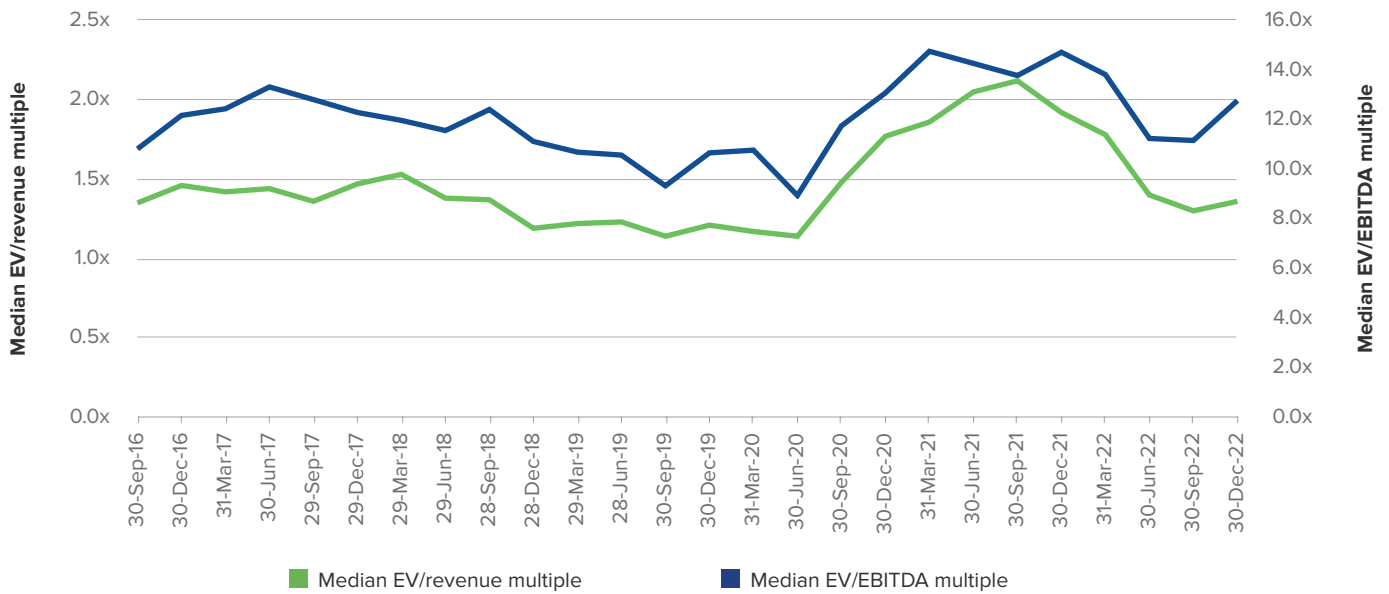
Selected public company valuations

Manufacturers	Head office location	Enterprise value (US\$m)	Enterprise value				
			LTM sales	NTM sales	LTM EBITDA	NTM EBITDA	
A. O. Smith Corporation		9,075	2.2x	2.3x	11.4x	11.1x	
AAON, Inc.		4,169	5.2x	4.0x	33.6x	19.4x	
Daikin Industries, Ltd.		48,173	1.9x	1.7x	13.2x	12.0x	
De'Longhi S.p.A.		4,128	1.0x	1.0x	8.9x	8.6x	
Gree Electric Appliances, Inc. of Zhuhai		19,888	0.6x	0.5x	3.7x	3.3x	
Johnson Controls International plc		55,868	2.0x	1.9x	12.2x	12.5x	
Modine Manufacturing Company		1,529	0.6x	0.6x	6.8x	6.2x	
NIBE Industrier AB (publ)		21,418	5.7x	4.8x	33.4x	27.1x	
Sinko Industries Ltd.		183	0.6x	0x	3.8x	0x	
SPX Technologies, Inc.		3,283	2.2x	2.0x	22.3x	12.8x	
Systemair AB (publ)		1,840	1.6x	1.4x	13.3x	11.7x	
Zehnder Group AG		787	0.8x	0.8x	7.0x	6.3x	
			Median	1.8x	1.6x	11.8x	11.4x
			Average	2.0x	1.8x	14.1x	10.9x

Source: Capital IQ

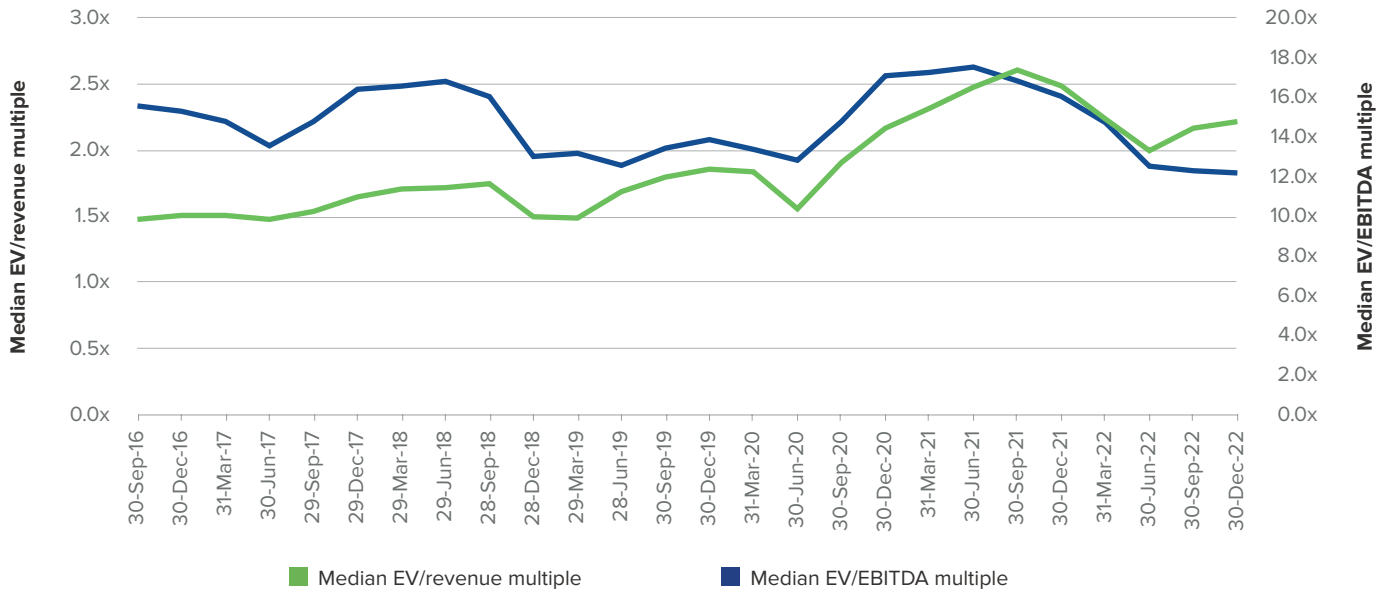
Selected public company valuation trends

EMEA HISTORICAL MULTIPLES



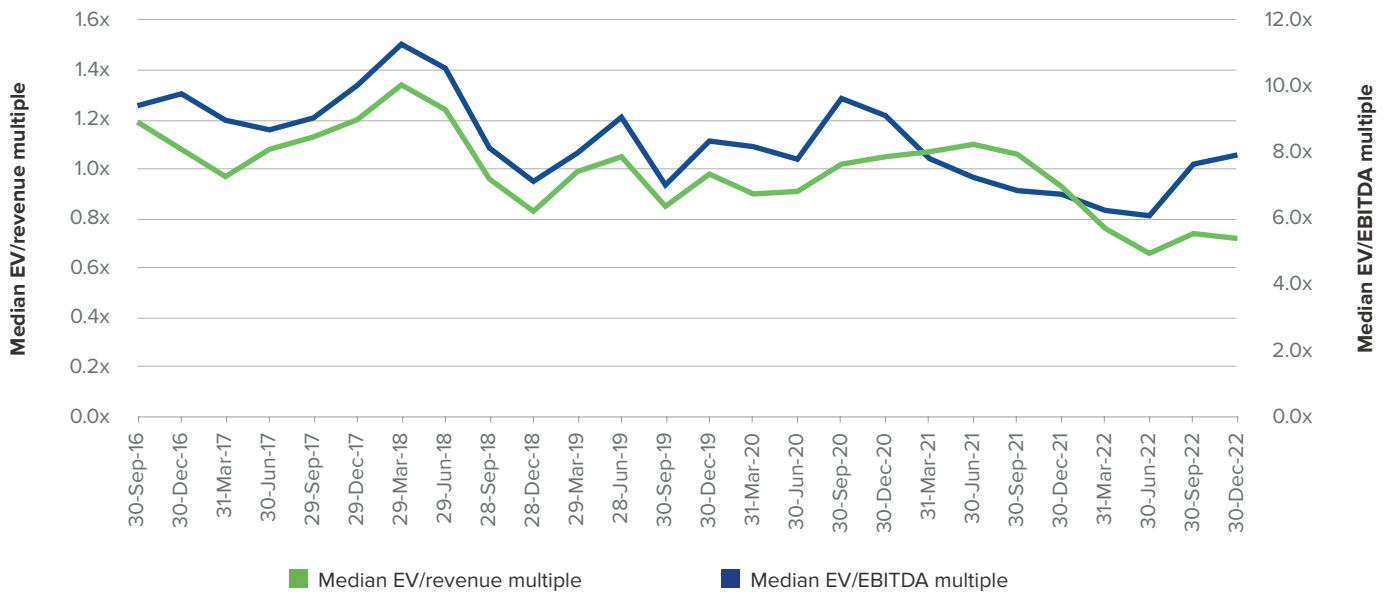
Source: Capital IQ

AMERICAS HISTORICAL MULTIPLES



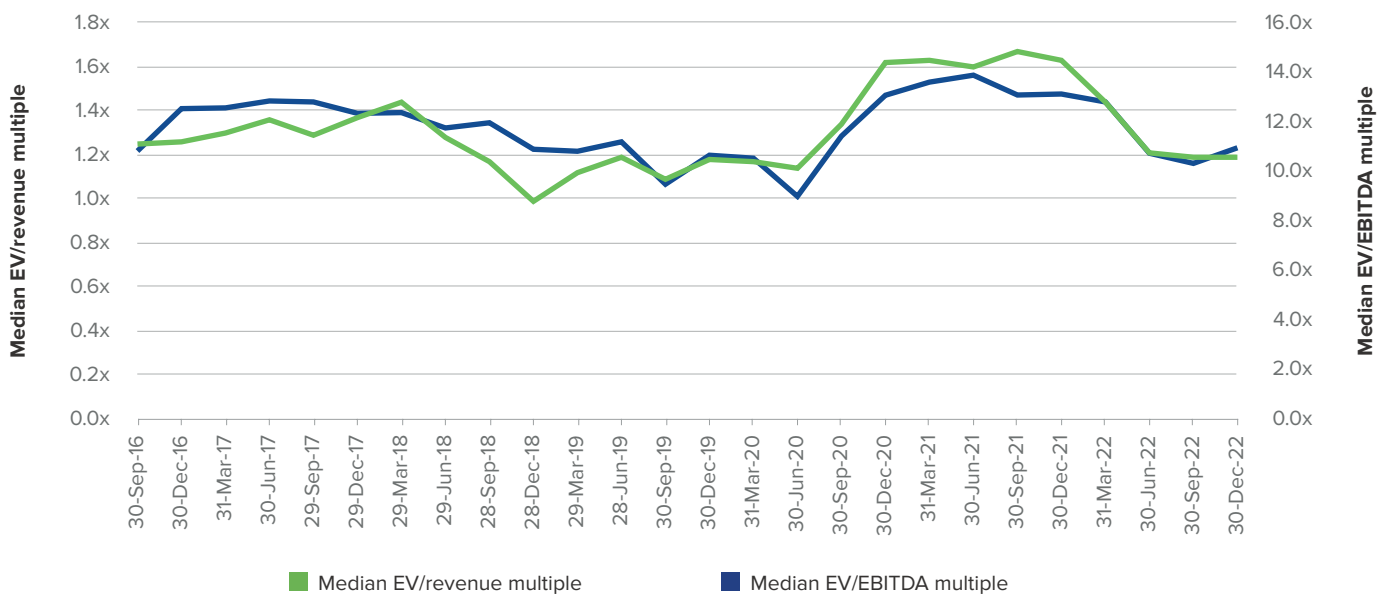
Source: Capital IQ

ASIA-PACIFIC HISTORICAL MULTIPLES



Source: Capital IQ

GLOBAL HISTORICAL MULTIPLES



Source: Capital IQ

Deep local roots, global commitment

Oaklins brings you opportunities from across the world and we meet you with our expertise wherever you are

OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy- and sell-side)
- Growth equity and equity capital markets advisory
- Debt advisory
- Corporate finance services

HVAC is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the HVAC sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for HVAC companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

✉ PHILIP BARKER

HVAC Specialist
London, United Kingdom
T: +44 20 7131 8682

Philip leads Oaklins' HVAC team and is a director of mergers & acquisitions and head of industrials at Oaklins Evelyn Partners, one of Oaklins' member firms in the UK. Previously, he spent 20 years as head of industrials at Oaklins Cavendish. Philip has completed over 15 sales in the HVAC sector, including assisting Oaklins Sweden on the sale of VoltAir Systems, air handling units for heat recovery in buildings, to Volution; the sale of Energy Technique, fan coils and commercial heating products, to Volution; the sale of Greenwood Air Management, ventilation and extractor fans, to Zehnder; the sale of Levolut, solar shading screens, to Alumasc; working with Oaklins Denmark to sell York Novenco, HVAC+R systems for marine and offshore, to Dania Capital; and the sale of Nuaire, fans and ventilation systems, to ECI Private Equity.



United by a strong belief that we can achieve the extraordinary. Oaklins is a global team of 850+ financial advisory professionals in 45 countries providing M&A, growth equity, ECM, debt advisory and corporate finance services to support entrepreneurs, corporates and investors in reaching their goals.

Oaklins disclaimer

This report is provided for information purposes only. Oaklins and its member firms make no guarantee, representation or warranty of any kind regarding the timeliness, accuracy or completeness of its content. This report is not intended to convey investment advice or solicit investments of any kind whatsoever. No investment decisions should be taken based on the contents and views expressed herein. Oaklins and its member firms shall not be responsible for any loss sustained by any person who relies on this publication.

© 2023 Oaklins. All rights reserved.

Oaklins is the collective trade name of independent member firms affiliated with Oaklins International Inc. For details of the nature of affiliation, please refer to www.oaklins.com/legal.