

## HVAC Industry: Strong and Resilient

U.S. heating, ventilation, and air conditioning (“HVAC”) companies have continued to show strong performance in this unprecedented environment. Continued buyer interest and economic resilience within the industry will support the same valuation trends seen prior to COVID-19.

### Market Highlights

#### Highly Fragmented & Competitive

No single company currently controls more than 5% of the HVAC services market.<sup>1</sup>

#### Smart, Sustainable HVAC Trend

Technological advancements in IoT-enabled HVAC systems continue to drive market growth.

#### Recession-Resistant Characteristics

Customers frequently opt to repair existing systems during recessionary contractions.

#### Weather-Driven Seasonality

Exposure to seasonality has encouraged companies to provide subscription maintenance services.

#### HVAC Equipment Retrofitting

Commercial property owners are willing to trade upfront capital costs for future energy savings.<sup>2</sup>

#### Diverse End Markets

Universal demand characteristics results in end markets diversified across residential and commercial sectors.

*Increasing urbanization and steady population growth have continued to drive growth across all home services and HVAC company sizes.*

*Full-service home services companies rely on availability of skilled labor to meet demand and frequently provide supplementary employee training programs to help ensure an available labor supply.*

*HVAC industry revenues are split among commercial customers (~66%) and residential customers (~34%).<sup>3</sup>*

### M&A Update

Recent transaction multiples have ranged from ~9.7x to ~11.2x TTM EBITDA (generally for companies with revenues greater than ~\$25mm)<sup>2</sup>. Pinecrest anticipates transaction volume to increase significantly in the next 12 months.

No.	Transaction Month	Target Company	Acquirer
1	Jan-20	Walker Heating and Air Conditioning	Coltala Holdings
2	Nov-19	Horizon Group Holdings	Sun Capital Partners
3	Jul-19	Clockwork, Inc.	Apax Partners
4	May-19	Service Champions	Center Oak Partners
5	Apr-19	Wrench Group, LLC	Leonard Green
6	Mar-19	CoolSys	Ares Management
7	Feb-19	Reedy Industries, Inc.	Audax Group
8	Jan-19	Stan's Heating and Cooling	Treaty Oak Equity

### Industry Insights

1 HVAC services providers recognize little strategic value in competing on price as competition is largely driven by relationships & quality of service.

2 ~97% of the approximately 75,000 HVAC services providers in the U.S. each generate under \$5mm of annual revenue.<sup>3</sup>

3 Across the broader HVAC industry, ~59% of sector revenues come from new construction or installation services and ~28% come from repairs/maintenance services.<sup>3</sup>

Pinecrest has had recent conversations with over 100 strategic and financial buyers focused on the HVAC industry and is currently in discussions with several family and founder-owned HVAC services companies. If you own or have a strong relationship with an HVAC services company, please let us know if we can help provide insight into the various transaction opportunities available in the industry today.

Sources: <sup>1</sup>IBISWorld; <sup>2</sup>Metronome Partners; <sup>3</sup>eMerge M&A

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