



HARDI Ascend Conference Recap – Phoenix, AZ

HVAC wholesale distributors and the wider HVAC community of HARDI members gathered in early December to discuss the current landscape and future outlook for the industry.

HARDI welcomed more than 1,900 attendees to its 2023 Annual Conference, ***Ascend***, in Phoenix Arizona, including 180 distributors and almost 350 other members (CMG is also a proud member of HARDI). This year's conference boasted a record number of attendees to date, reaffirming the continued momentum and enthusiasm in the HVAC industry.

Over the course of four days, the HARDI program focused on a wide array of topics ranging from big picture global supply chains and economic outlooks, to more specific topics such as technology, the evolving regulatory environment, working effectively with the contractor / service base, and region-specific economic forecasts for 2024.

CMG's Key Takeaways from HARDI Ascend:

2023 Recap: A Year of Moderation for Distributors

- Following unprecedented profit opportunities largely resulting from OEM price increases in 2021-2022, distributors experienced a year of moderation in 2023, with margins having returned to levels more in-line with historical norms.
- Sales for most distributors, though still positive year-over-year, moderated from the double-digit highs of the previous years. Pricing and inflation remained pivotal for revenue growth, compensating for a nearly 10% decrease in unit shipments.
- According to a conference poll of distributors, approximately 65% reported FY23 financial results that were trending below their early year forecasts, signaling a shift from FY22 peaks.

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CMG's Key Takeaways from HARDI Ascend:

2024 Outlook: The Word of the Day is "Normalization"

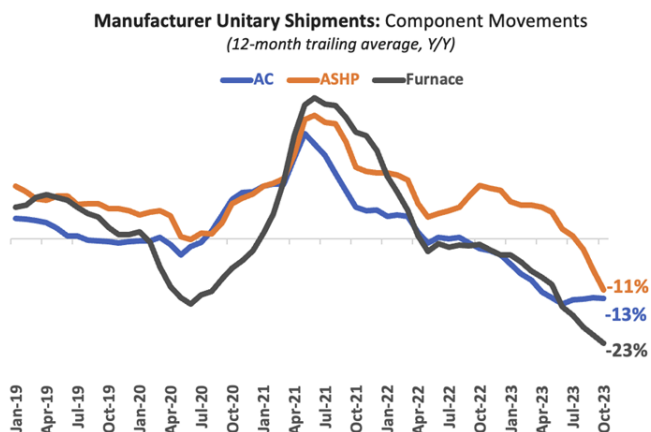
While supply chains continue working toward a return to pre-COVID levels of efficiency, distributors feel a bit more comfortable moderating from a "just-in-case" inventory strategy of stockpiling products that caused peak levels of inventory in 2022 and returning to 'normalized' levels of working capital. On the manufacturer front, backlogs are lowering as production picks up and new orders are showing signs of strength. Overall, the industry is moving back to "normalization," with moderate growth expected, while margins and profitability continuing to move back toward historical (pre-2021) levels.



M&A Outlook

A key highlight for CMG at Ascend was an M&A panel consisting of multi-generational family business owners and distributor executives, many with recent merger-and-acquisition experience, who provided several insights into the current M&A landscape.

- *Find the Right Partner:* Panelists emphasized the importance of aligning with a buyer or investor who share a similar vision and values as the company. Owners should focus beyond the highest dollar amount in a transaction and rather prioritize a partner that values the company's legacy and is enthusiastic to support its future growth.
- *Engage Trusted Advisors:* Acknowledging the increasing complexity of M&A deals, owners were advised to enlist trusted advisors. Advisors can play a crucial role in positioning the company effectively, navigating a process involving multiple buyers, and managing due diligence, which in turn allows owners and their teams to concentrate on delivering strong operating results—a key aspect in safeguarding value during an M&A process.
- *2024 Outlook:* There was consensus among panelists that 2024 will be a favorable year for M&A in the HVAC distribution sector. The combination of strong balance sheets of corporate (strategic) buyers, normalizing economic and operating conditions, moderating interest rates, and growing confidence in the near-term business outlook for the overall sector creates a healthy environment for M&A in the current market.



Source: HARDI December 2023 Newsletter

HVAC Services: Mixed Outlook for 2024 in Contractor End Markets

In the residential sector, housing affordability concerns persist, leading to cautious consumer behavior. Residential new construction markets are expected to remain flat to slightly up through 2024. Conversely, the commercial contractor space shows positivity, with both growing demand and significant backlogs. Factors driving commercial strength are continued investments in manufacturing facilities and robust demand in the retail sector, although office space remains a laggard. While residential HVAC services have been the focal point for M&A consolidation in recent years, we view commercial service markets as an area of potential increased M&A activity, given the attractive growth profiles for investors.

Up Next: AHR Expo 2024 Is Around the Corner



CMG is excited to once again attend the AHR Expo, which is quickly approaching in late January. The 2024 AHR Expo kicks off on January 22 in Chicago and is poised to again be the key event for HVAC manufacturing, showcasing the latest advancements in air conditioning, heating, and refrigeration technologies. Last year's event boasted a diverse array of over 1,900 exhibitors and 60,000 industry attendees, and we expect an even stronger showing this year. Here's a short preview into a few key themes that are top of mind as we navigate this year's Expo and meet with industry leaders and HVAC business owners and entrepreneurs:

1. M&A Dominates Strategic Agendas for Manufacturers and Investors:

Independent manufacturers, particularly those offering unique products and/or catering to diverse customer bases, should be aware that the HVAC manufacturing M&A landscape remains robust. Although private equity activity had been tempered by increased borrowing costs and economic uncertainties in 2023, cash-rich public-market manufacturers exhibit sustained interest in inorganic growth for long-term expansion, emerging as resilient acquirers in recent M&A markets. As expectations for interest rate declines in 2024 loom, numerous PE investors have expressed to us an enthusiasm for a renewed push to acquire and grow independent (family & founder-owned) HVAC manufacturing platforms this year.

2. Innovative Technologies, Sustainability and Strategic Growth:

At the heart of the Expo lies a focus on innovative technologies that promise to reshape the HVAC landscape. From advancements in energy efficiency to smart controls, AHR will showcase solutions that cater to the evolving needs of the industry. Sustainability remains a central theme, with a spotlight on eco-friendly, energy-efficient products, including breakthroughs in green technologies, renewable energy integration, and solutions aimed at reducing environmental impact. Not surprisingly, independent companies offering cutting-edge technology and sustainable solutions will emerge as "top of the wish list" targets for M&A acquirers.

3. Training and Education: Staying Ahead of Regulatory Shifts:

The AHR Expo is not just an exhibition of products; it is also a valuable resource for industry knowledge. We eagerly anticipate educational sessions, workshops, and seminars covering the latest trends, best practices, and regulatory updates in the HVAC sector. In particular, we recognize the pivotal role regulatory changes serve in propelling growth within the HVAC sector, acting as a catalyst for innovation and sustained investment interest as HVAC remains a sector of high M&A interest and activity.

Let's Connect in Chicago:

We're enthusiastic to meet with business owners of innovative companies operating in the HVAC industry and are happy to share insights on how our experience advising founder and multi-generational family businesses can assist you in achieving your business's strategic initiatives. If you are a business owner attending this year's AHR Expo and would like to schedule a meeting, please don't hesitate to reach out to our team, and we will set up time to connect at the Expo.



Q3 2023 M&A Summary:

For the overall M&A markets, the third quarter of 2023 signaled a potential rebound in mid-market private-equity-backed M&A, with average purchase price multiples bouncing back nearly a full turn from Q2 2023 levels, aligning with early year figures. Valuations on completed deals averaged 7.5x Trailing Twelve Months (TTM) adjusted EBITDA, a 0.9x increase from Q2.

Despite the uptick in average purchase prices, deal volume remains low, relative to the 2021-2022 timeframe, with 2023 estimated to have closed ~270 transactions. While indicative of a still-disjointed market, the increased purchase prices suggest that strong companies can still attract investment in a high-interest rate environment.

HVAC Sector M&A:

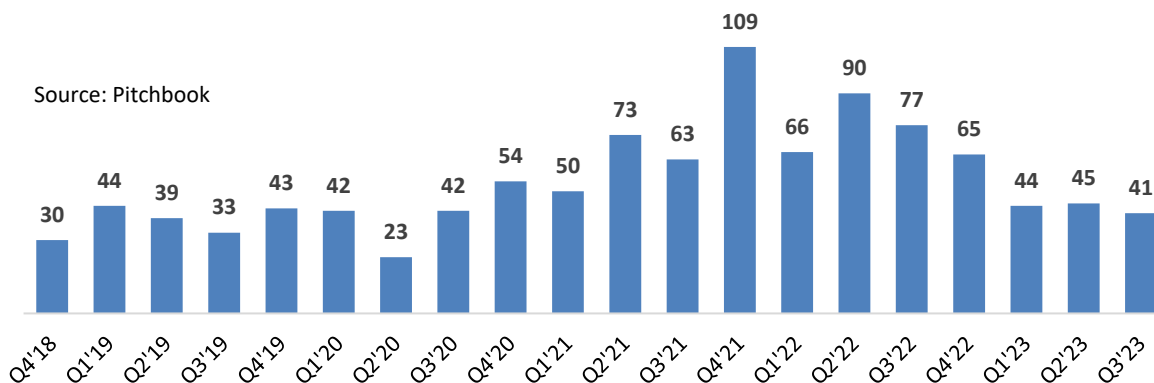
The M&A landscape within the HVAC sector closely mirrored the broader market trends, sustaining a pattern of modest deal volumes when compared to recent years. Nevertheless, amid this backdrop, strategic buyers and private equity firms remain optimistic, buoyed by significant industry tailwinds. Their enthusiasm is evident as they continue to invest in line with the record setting valuations set in the 2021-2022 period, particularly for emerging platforms. A count of closed deals in the sector (41) is the lowest quarterly figure since Q2 2020, and, on a trailing twelve-month basis, signaled a deal volume decline of 43%.

Despite the downturn in deal volume, Q3 2023 witnessed a surge in average M&A purchase prices across most transaction size tiers, underscoring a critical trend in the market. Notably, transactions exceeding \$50 million saw increased average purchase prices, emphasizing the heightened demand for well-prepared, “A-rated” companies. This demand surge appears to stem from a scarcity of supply in the market, making companies with meticulous preparation stand out as coveted assets. Conversely, companies categorized as “B-rated and below” faced delays in entering the market, as they chose to address structural deficiencies before seeking to approach potential acquirers.

Preparation is Key:

The above trend concerning “A-rated” companies underscores a compelling narrative – preparation is not just advantageous; it is the defining factor that positions companies as sought-after entities in an M&A market that demands meticulously-positioned opportunities. In an environment where the most well-prepared companies command the highest degree of acquirer attention, this reinforces the importance for businesses to be thoroughly prepared for an M&A process, ensuring they not only attract but also maximize their value to potential buyers.

US HVAC M&A Deal Count by Quarter (Q4 2018 to Q3 2023)



NOTEWORTHY RECENT HVAC M&A TRANSACTIONS

FERGUSON*acquires*

- Ferguson, a North American distributor, acquired Bruce Supply Corp, a distributor of HVAC equipment, parts and supplies in New York.
- The acquisition allows Ferguson to further serve dual-trade plumbing and HVAC professionals in the New England region.
- Transaction closed in July 2023.

*acquires*

- Private equity-backed Crete Mechanical Group acquired both Versatile Refrigeration and C&C Service.
- These additions continue its rapid growth through M&A, these transaction expand Crete's presence across the United States
- Transactions closed October 2023 and November 2023, respectively.

BEIJER REF*acquires*

- Beijer Ref, a Sweden based Company with investments in North American HVAC distribution, acquired AMSCO Supply, a distributor of HVAC equipment for contractors
- The acquisition bolsters Beijer Ref's North American presence, that began in earnest with the acquisition of Wittichen Supply in early 2023.
- Transaction closed in September 2023.

*acquires*

- Private equity-backed HomeTown Services acquired Comfort Control, a provider of HVAC services to both residential and commercial customers.
- The acquisition continues the buy-and-build strategy set by CenterOak for HomeTown.
- Transaction closed in November 2023.

SELECT HVAC M&A TRANSACTIONS

Date	Acquirer	Target	Target Description
<i>Distribution Deals</i>			
Nov-23	Grove Mountain Partners	Plimpton & Hills	Supplier of plumbing, heating and cooling products
Oct-23	Gilden Holdings	Diamond Ice Systems	Wholesaler of commercial HVAC-R equipment catering to retailers, contractors and service providers
Sep-23	Watsco	Gateway Supply	Distributor of plumbing and HVAC products
Sep-23	Beijer Ref	AMSCO Supply	Distributor of HVAC equipment for contractors
Jul-23	Ferguson	Bruce Supply	Wholesaler of heating supply and plumbing material equipment
<i>Manufacturing Deals</i>			
Oct-23	Limbach Holdings	Industrial Air	Designer and manufacturer of air conditioning and filtration systems
Jul-23	Solheim Investment Partners	American Event Services	Manufacturer of customer temperature control equipment
<i>HVAC Service Deals</i>			
Nov-23	Crete Mechanical	C&C Service	Provides HVAC services for both commercial and residential sectors
Nov-23	HomeTown Service (CenterOak Partners)	Kennon Heating & Air Conditioning	Provider of HVAC services serving North Metro Atlanta to North Georgia
Oct-23	Hometown Services (CenterOak Partners)	Comfort Control	Provider of HVAC services to residential and commercial customers
Oct-23	Crete Mechanical	Versatile Refrigeration	Provides commercial, industrial and residential HVAC & refrigeration services
Oct-23	JPB Partners	Bowman's plumbing, Heating, Air Conditioning & Electrical	Provides plumbing, HVAC and electrical services in Northern Virginia
Oct-23	Hometown Services (CenterOak Partners)	Air Experts (Bossier)	Provider of HVAC services to both commercial and residential customers
Sep-23	Legence Holdings	A.O. Reed & Company	Operates mechanical heating, ventilating, and air conditioning services
Sep-23	Swiss Life (Greencoat Capital)	Heating and Cooling networks of Equans	Provides heating and cooling networks in the U.K.

SELECT PUBLIC COMPANY DATA

(As of 1/15/2024)

Company	Market Information		LTM Financials		Operating Metrics		TEV to LTM	
	\$ / Share	TEV	Revenue	EBITDA	Growth	EBITDA%	Revenue	EBITDA
Manufacturers								
Honeywell International Inc.	\$201.10	\$146,493	\$36,408	\$8,713	4.2%	23.9%	4.02x	16.21x
Johnson Controls International plc	\$56.34	\$48,893	\$26,793	\$3,678	5.9%	13.7%	1.82x	10.88x
Daikin Industries, Ltd.	\$168.59	\$50,734	\$28,032	\$3,949	17.3%	14.1%	1.75x	12.40x
Trane Technologies plc	\$246.15	\$59,896	\$17,327	\$3,033	11.9%	17.5%	3.46x	18.48x
Carrier Global Corporation	\$56.14	\$56,090	\$22,101	\$3,168	8.1%	14.3%	2.54x	16.08x
Ingersoll Rand Inc.	\$77.42	\$32,973	\$6,678	\$1,615	16.9%	24.2%	4.94x	19.80x
Lennox International Inc.	\$430.73	\$16,872	\$4,921	\$873	7.2%	17.7%	3.43x	17.10x
A. O. Smith Corporation	\$81.11	\$11,886	\$3,801	\$808	(0.3%)	21.3%	3.13x	14.33x
AAON, Inc.	\$70.82	\$5,845	\$1,116	\$262	44.9%	23.5%	5.23x	n/a
SPX Technologies, Inc.	\$99.85	\$5,121	\$1,701	\$290	23.1%	17.0%	3.01x	16.77x
Modine Manufacturing Company	\$64.22	\$3,644	\$2,421	\$276	10.2%	11.4%	1.51x	12.21x
Mean	\$141.13	\$39,859	\$13,755	\$2,424	13.6%	18.1%	3.17x	15.43x
Median	\$81.11	\$32,973	\$6,678	\$1,615	10.2%	17.5%	3.13x	16.15x
Services								
APi Group Corporation	\$31.51	\$10,860	\$6,872	\$738	15.2%	10.7%	1.58x	11.69x
EMCOR Group, Inc.	\$218.98	\$10,214	\$12,093	\$882	12.3%	7.3%	0.84x	8.68x
Comfort Systems USA, Inc.	\$203.33	\$7,365	\$4,966	\$449	28.0%	9.0%	1.48x	14.10x
Tutor Perini Corporation	\$8.83	\$1,130	\$3,765	-\$145	(4.0%)	-3.9%	0.30x	n/a
IES Holdings, Inc.	\$79.35	\$1,652	\$2,377	\$179	9.7%	7.5%	0.69x	8.17x
Taikisha Ltd.	\$29.49	\$611	\$1,737	\$116	28.0%	6.7%	0.34x	5.07x
Sanki Engineering Co., Ltd.	\$12.87	\$500	\$1,385	\$64	13.2%	4.6%	0.35x	7.52x
Limbach Holdings, Inc.	\$39.58	\$417	\$517	\$38	7.7%	7.3%	0.81x	10.10x
Nippon Air conditioning Services Co., Ltd.	\$5.72	\$151	\$369	\$25	10.0%	6.7%	0.40x	5.94x
Mean	\$69.96	\$3,655	\$3,787	\$261	13.4%	6.2%	0.75x	8.91x
Median	\$31.51	\$1,130	\$2,377	\$116	12.3%	7.3%	0.69x	8.43x
Distributors								
Ferguson plc	\$187.17	\$42,557	\$29,511	\$3,012	(0.6%)	10.2%	1.44x	12.07x
Watsco, Inc.	\$407.66	\$15,787	\$7,262	\$835	0.8%	11.5%	2.17x	16.07x
Reece Limited	\$14.85	\$10,662	\$5,883	\$550	15.5%	9.3%	1.80x	16.55x
Beijer Ref AB (publ)	\$12.31	\$7,154	\$2,784	\$312	43.9%	11.2%	2.42x	19.36x
Global Industrial Company	\$38.28	\$1,521	\$1,215	\$98	4.0%	8.1%	1.25x	13.34x
Mean	\$132.05	\$15,536	\$9,331	\$961	12.7%	10.1%	1.82x	15.48x
Median	\$38.28	\$10,662	\$5,883	\$550	4.0%	10.2%	1.80x	16.07x
Mean - All	\$113.70	\$21,961	\$9,281	\$1,353	13.3%	12.2%	2.03x	13.17x
Median - All	\$70.82	\$10,214	\$4,921	\$550	10.2%	11.2%	1.75x	13.34x

TEV = Total Enterprise Value; LTM = Last Twelve Months

\$ in millions, except per share data

Source: Capital IQ

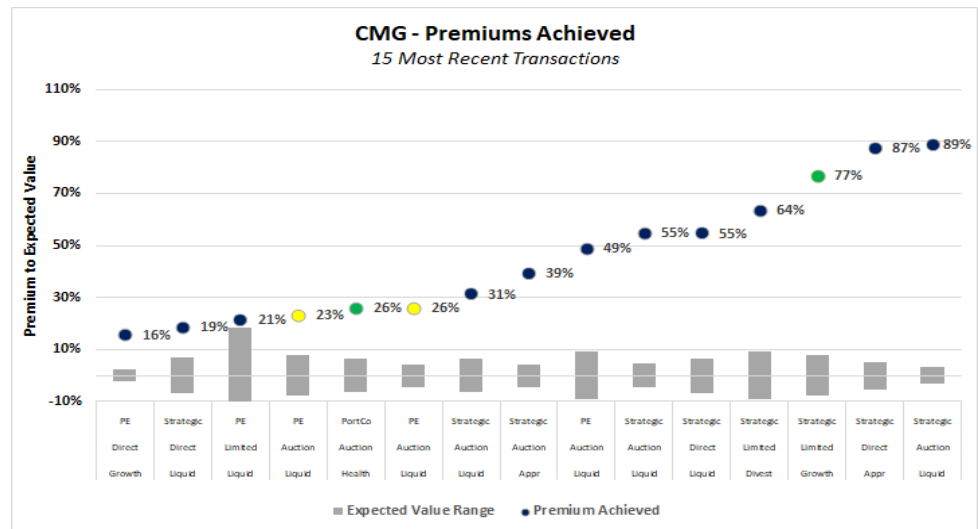
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Recent Industry Awards

 2023 Winner Industrials International Deal of the Year over (\$100m)	 2023 Boutique Investment Bank of the Year	 2023 Private Equity Deal of the Year	 2022 Winner Industrial Tech Deal of the Year	 2022 Winner International Strategic Deal of the Year (Over \$100 million)
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- Proud of our record of careful analysis, thoughtful positioning to investors and attentive management of a disciplined transaction process
- Dedicated to helping clients Maximize Shareholder Value, and regularly exceed client expectations



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Deals Closed	Member Firms	Countries	Offices	Professionals	Continents

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