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Packaging

High Level of Technological Integration in the HVAC Industry Makes Some Companies More Attractive for Acquisition



Acquisitions in the HVAC industry are growing steadily despite the current macroeconomic headwinds such as record high inflation, increasing interest rates and increasing energy prices. The rising costs related to these challenges have boosted the focus on innovation in the industry as consumers and corporates look for energy savings in their HVAC systems.

The major drivers behind the growth of the HVAC industry include increasing climate concerns, increases in energy costs, the increasing need to maintain high indoor air quality (IAQ) in the wake of the COVID-19 pandemic, and rapid technological advancements, including automation and smart software. The HVAC industry in the US is moving toward smart technologies including a high level of IoT integrations. In addition, the booming real estate sector and increased spending on infrastructure are leading factors for growth in HVAC industry in both residential and commercial sectors. Mounting environmental concerns, combined with government sustainability targets, continue to drive upgrade, installation, and retrofit demand in the HVAC sector.

Throughout the COVID-19 pandemic, HVAC equipment manufacturers faced challenges including labor force constraints, supply shortages and rising costs of raw materials and semiconductors, and bottlenecks in shipping and air freight. These difficulties in turn affected HVAC contractors who rely on equipment sales as a part of their revenues. The global supply chain pressure has improved significantly, with the Global Supply Chain Pressure Index falling to ~10% in December 2022 as compared with ~40% in December 2021, according to the Federal Reserve Bank of New York.

Global attention to climate change is also helping the HVAC industry. Six years after the Paris Agreement, COP 27 in November 2022 saw 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 2050. 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. For instance, furnaces in the Northern US must have a 90% efficiency rating and 80% efficiency rating in the Southern US.



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OEMs are focusing on acquiring distributors and adjacent technology providers. While they are buying distributors to gain greater control over the supply chain, larger distributors are acquiring regional players to expand their market share and territory.

These drivers are proving beneficial to the industry as a whole, but also make it difficult for small and midsize HVAC service providers to compete. Additional capital required to develop new capabilities may not be available to these providers. This is especially true for expensive investments in technology that are required to compete in certain markets.

For investors, there is continued focus on consolidation in the highly fragmented HVAC sector, resulting in increased competition and adoption of organic and inorganic growth strategies by players to strengthen their market position. This retrofit and upgrade tailwind is driving the M&A activity amid economic volatility. The industry's recurring revenues and resistance to market volatility attract investments from both strategic and financial investors.

Financial investors are particularly interested in acquisitions of mechanical, electrical, and plumbing (MEP) contractors. Private Equity firms have targeted players that align with environmental, social, and governance (ESG) goals.

In addition, these investors have demonstrated interest in consolidation of HVAC with other adjacent businesses. Through consolidation, HVAC companies can leverage each component's strengths to provide a more comprehensive range of services to customers, with the potential to reduce costs and improve profitability.

Consolidation is not new to the market, which has seen combinations of HVAC services with plumbing, electric, landscaping service providers. New to the strategy is the integration of solar services companies with traditional HVAC systems. This integration can involve using solar panels to generate services to power the HVAC system, using solar thermal collectors to provide hot water for heating or cooling, or using solar air heating to provide preheated or precooled air to the HVAC system. The goal of this alignment is to reduce traditional energy consumption and greenhouse gas emissions associated with HVAC systems.

As acquisition strategies evolve to include new and existing combinations of adjacent businesses, expect to see continued activity in the HVAC industry.

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H2 2022 HVAC SERVICES DEAL ACTIVITY

Date	Target	Buyer	Classification
28-Dec	Resolute Industrial, LLC	Aggreko, LLC	Commercial
22-Dec	Refrigeration Anytime, LLC	EEC Acquisition LLC	Res / Comm
15-Dec	Wittichen Supply Company Inc.	Beijer Ref AB (OM:BEIJ B)	Res / Comm
15-Dec	CMI Legacy, L.L.C.	CMS Mechanical Services, LLC	Commercial
15-Dec	Mid-Fla Heating And Air, Inc.	Cascade Services	Res / Comm
2-Dec	Airefco, Inc.	Ferguson plc (NYSE:FERG)	Res / Comm
30-Nov	Mountain Air Conditioning & Heating, Inc.	Wrench Group, LLC	Res / Comm
22-Nov	Lyerla Heating & Air	Paschal Heating and Air Conditioning Co., Inc.	Res / Comm
4-Nov	Del-Air Heating, Air Conditioning & Refrigeration, Inc.	Astara Capital Partners	Residential
2-Nov	M.E. Flow, Inc.	Southern HVAC Corporation	Residential
31-Oct	Climate Technologies Business of Emerson	Blackstone Inc. (NYSE:BX); GIC Private Limited; Abu Dhabi Investment Authority	Res / Comm
31-Oct	SOS Mechanical LLC	CPS HVAC Partners, Inc.	Res / Comm
26-Oct	Dave's Heating & Air Conditioning	CPS HVAC Partners, Inc.	Res / Comm
19-Oct	Efficient Air Heating and Air Conditioning Limited Liability Company	User Friendly Home Services, LLC	Res / Comm
14-Oct	Total Comfort Heating & Air Conditioning, LLC	CPS HVAC Partners, Inc.	Residential
16-Sep	Kagel's Heating & AC, Inc.	Strikepoint Group Holdings, Inc.	Residential
16-Sep	SABRS Home Comfort, LLC	Strikepoint Group Holdings, Inc.	Residential
15-Aug	McWilliams & Son, Inc.	Percheron Investment Management, LP	Res / Comm
12-Aug	Pat's Heating & Air Conditioning, Inc.	Heartland Home Services, Inc.	Residential
12-Aug	Mechanical Services, Inc.	PremiStar, LLC	Commercial
10-Aug	Metro Tech Holdings, LLC	CMS Mechanical Services, LLC	Commercial
4-Aug	Mechanical Group Inc.	Heartland Home Services, Inc.	Commercial
29-Jul	RoboVent, Inc.	Nederman Holding AB	Commercial
8-Jul	CM3 Building Solutions, Inc.	Daikin Applied Americas Inc.	Res / Comm

Source(s): S&P Capital IQ, Mordor Intelligence, Federal Reserve Bank of New York