

 KEY
CAPITAL

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HVAC Sector Report

January 2024

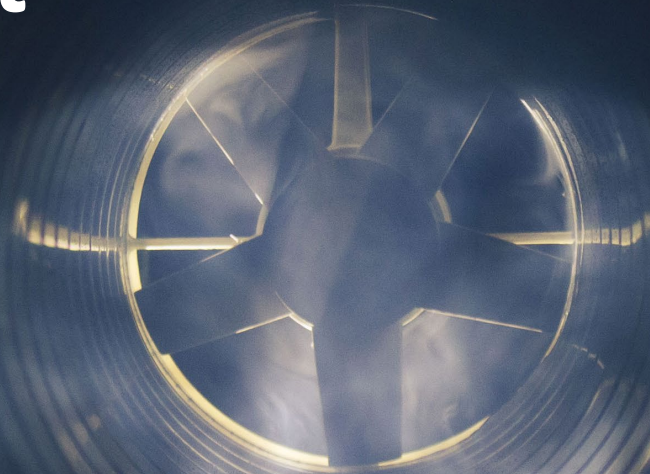


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Executive Summary

The global HVAC sector is a diverse and highly fragmented space that is benefitting from general economic and industry-specific tailwinds.

The positive outlook across the sector has generated a strong appetite from both strategic and financial buyers which has resulted in consistently high levels of M&A activity.

Valuations across the sector vary depending on the business model, as median EBITDA multiples ranged between 8.5x and 13.0x, with upside existing for operators with a strong offering, customer base, reach and financial profile.

The large universe of buyers and sellers, along with increasing levels of competition and high levels of deployable capital, is likely to fuel further consolidation.

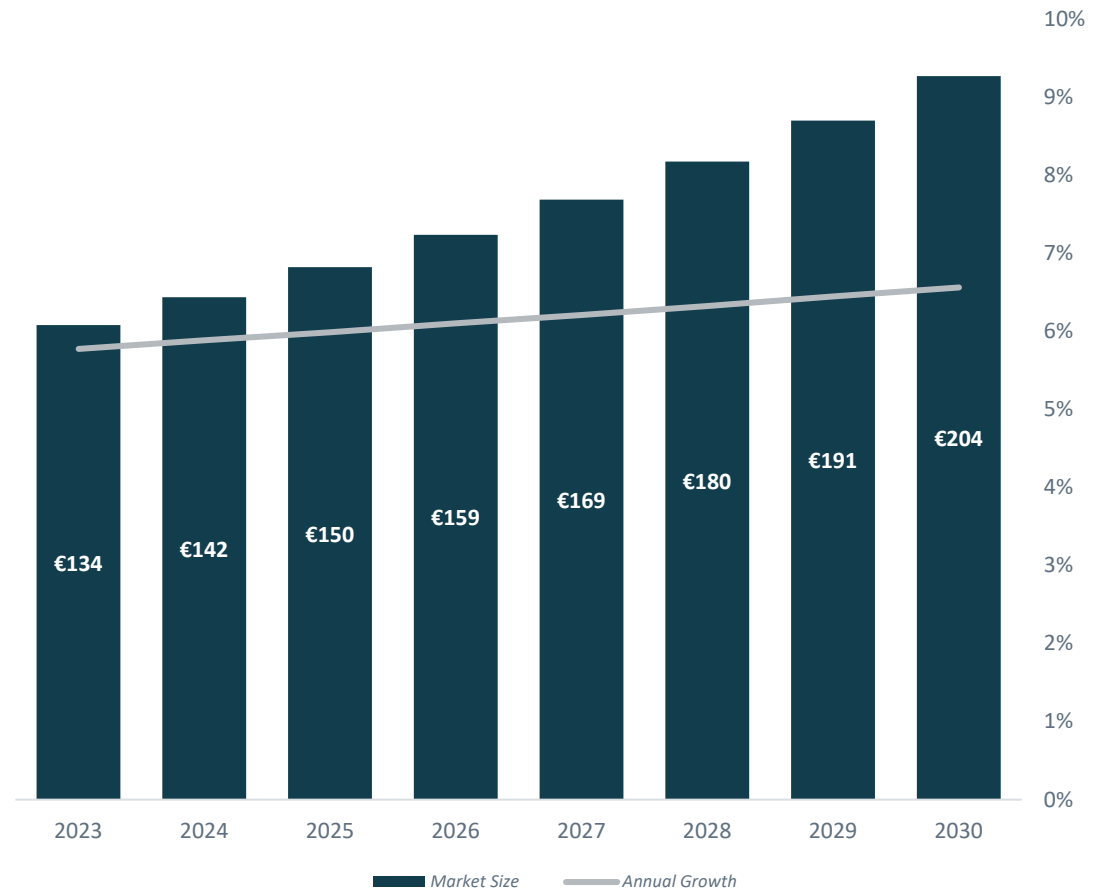
HVAC Sector Overview

The global HVAC sector is diverse, fragmented and competitive, and on a strong growth trajectory due to a several sector-specific drivers

- The Heating, Ventilation and Air Conditioning (HVAC) sector is focused on the management of the temperature, humidity and air quality in enclosed spaces
- The sector consists of a broad universe of participants, including manufacturers, distributors and service providers that provide generalist and specialist offerings to commercial, residential and industrial end users
- The competitive nature of the sector is also fuelled by differences in standards and regulations at a regional level, with local firms leveraging market-specific knowledge to win market share
- The sector has performed well in recent years, buoyed by large backlogs following the pandemic and construction growth globally
 - › Growth is expected to continue a steady trajectory due to these drivers
 - › However, labour shortages, wage inflation and input material pricing pressure may impact growth
- Key trends include the innovation and technological advancement of HVAC ecosystems, the need to update legacy infrastructure, the acceleration of energy consumption and the increasing focus on sustainability
- These factors have created opportunities for consolidation from strategic and financial buyers who see opportunities to generate synergies and strong investment returns

Forecast Growth in the Global HVAC Sector (€bn)

- › The global HVAC equipment sector is forecast to grow at a CAGR of 6% between 2023 and 2030 to reach over €200bn in revenue

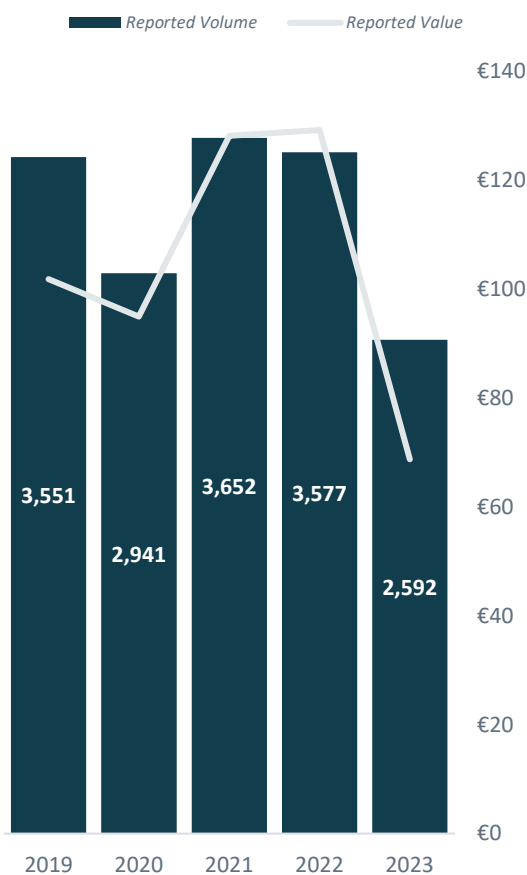


Industrial Sector M&A Activity Overview

The broader industrials sector has seen consistently high levels of M&A activity which has been driven in part by activity in the HVAC segment

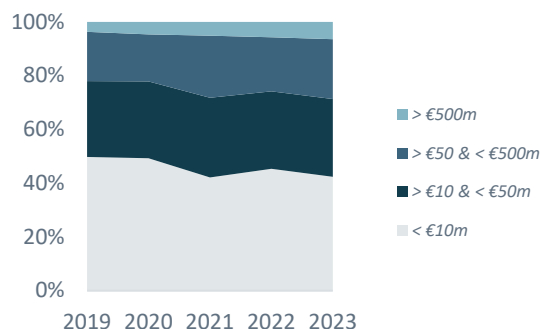
M&A Volume and Value (€bn)

- › M&A activity in the trailing 5-year period totalled over 16,300 completed deals and amounted to over €520bn in combined reported transaction value



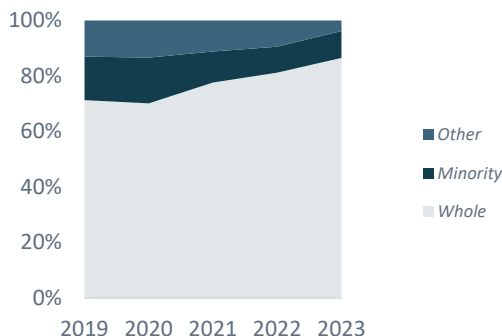
M&A Volume Mix by Transaction Size

- › Activity was primarily concentrated in the lower mid-market; <€10m (46%), >€10m and <€50m (29%), >€50m and <€500m (20%) and >€500m (5%)



M&A Volume Mix by Transaction Type

- › Majority transactions (77%) have accounted for most of the deal flow, with minority, asset purchases and spinoff deals (23%) making up the remainder



- M&A activity across the broader industrial sector has been consistent throughout the trailing 5-year period
- 2023 volumes are down 28% and 29% compared to 2022 and 2021 respectively, however they are broadly in line with 2020 levels (down 2%)
- Deal flow has been concentrated at the lower end of the mid-market with transaction values up to €50m representing 75% of volumes, which is further illustrated by a median transaction value of €12m across the same period
- Despite this, transactions are still prevalent at the middle and higher end of the mid-market, with deals between €50 and €500m accounting for 20% of deal flow, whilst larger transactions in excess of €500m accounted for 5% of total transaction volumes
- Completed deals typically see buyers acquire majority stakes (77%) from sellers, however the proportion of minority deals, asset purchases and spinoff transactions (23%) has been relatively stable between 2019 and 2023

Source: Cap IQ

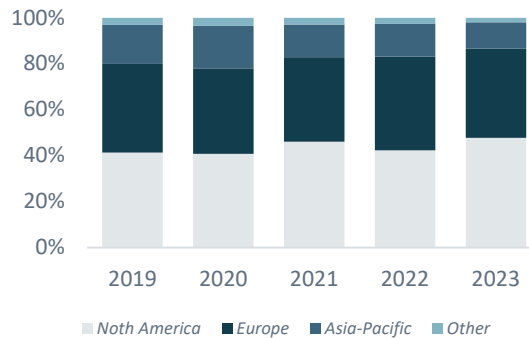
Industrial Sector M&A Activity by Geographical Market

North America and Europe saw the highest level of M&A activity, with the US and UK ranking as the top markets in terms of deal flow

- North America and Europe combined to account for most of the M&A activity from a regional perspective (82%) between 2019 and 2023
 - Asia-Pacific, Latin America, Africa and the Middle East made up the remaining percentage (18%) of transactions
 - The mix of deal flow by region has remained relatively stable
- Volumes across these M&A markets have decreased when compared to 2022 levels; North America (19%), Europe (28%), Asia-Pacific (38%), Latin America (53%), Africa (19%) and the Middle East (29%)
- Deal flow has primarily involved buyers and sellers from the same country, however the sector has seen consistent levels of cross border activity
- With regards to specific countries, the US had the highest concentration of deals between 2019 and 2023, with the UK, China, France and Germany accounting for 63% of total transaction volumes through the same period
- Activity levels across these top 5 markets has declined by 30% on average when compared to 2022

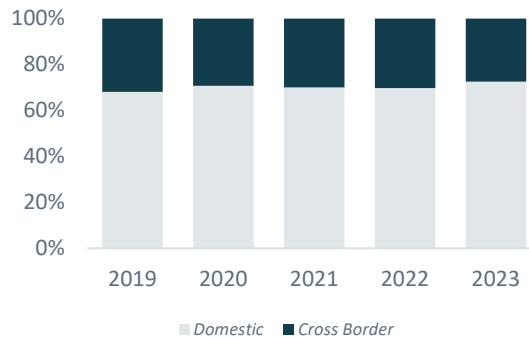
M&A Volume Mix by Region

- North America (43%), Europe (39%) and Asia-Pacific (15%) accounted for most of the reported transaction volumes across the sector



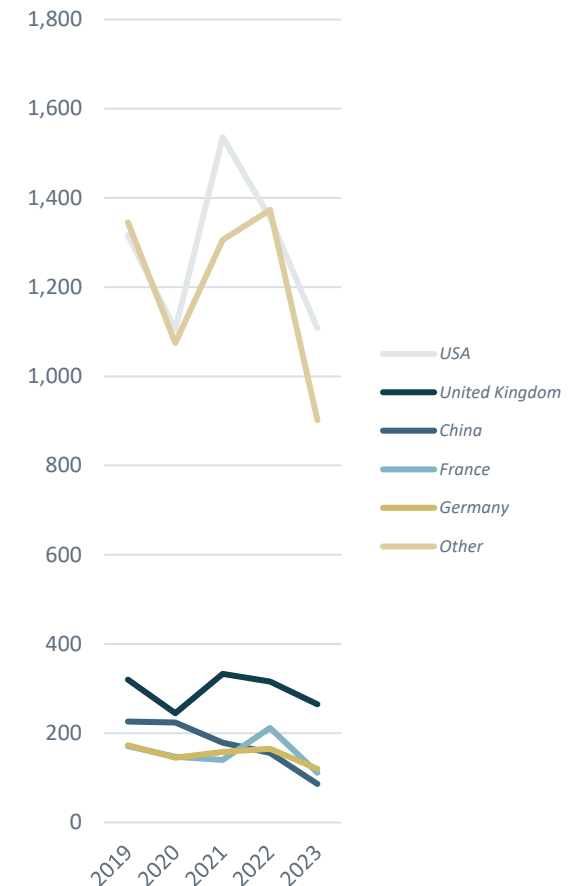
M&A Volume Mix by Transaction Type

- Activity has primarily been domestic (70%) in nature; however cross-border (30%) activity has been a consistent theme across the sector



Top 5 Markets by M&A Volume

- The US (39%) had the highest concentration of deal flow by country, followed by the UK (9%), China (5%), France (5%) and Germany (5%)

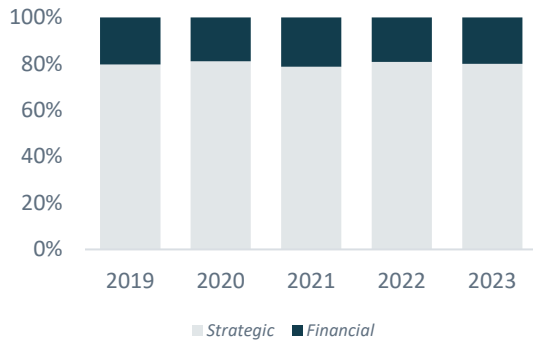


Industrial Sector M&A Activity by Buyer Type

Strategic buyers have been the most prominent acquirers in the sector, however financial buyers have demonstrated a consistent appetite

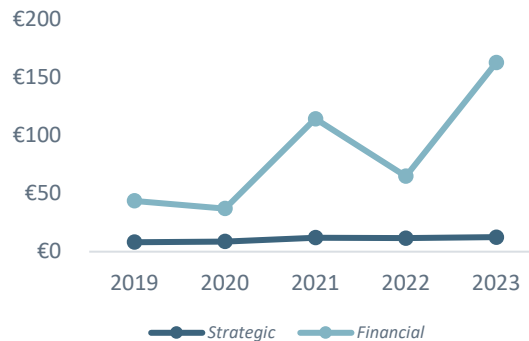
M&A Volume by Buyer Type

- Strategic buyers (80%) have been the most active acquirers in the sector, however financial buyers have maintained a consistent appetite (20%)



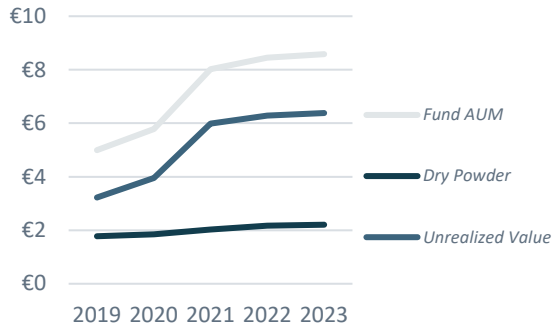
Median Deal Size by Buyer Type (€m)

- Financial buyers (€65m) have historically focused on larger assets while strategic buyers (€10m) have been more active at the lower end of the market



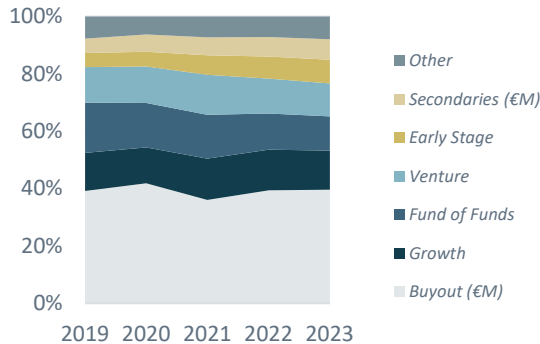
PE Capital by Deployment Status (€tn)

- Across the global PE sector, assets under management (€8.5tn) and deployable dry powder (€2.4tn) are both at an all-time highs



PE Capital by Deployment Strategy

- Buyout funds, which are intended to be deployed for the acquisition of established and mature assets, represent the largest strategy for PE investors



- Strategic buyers have been the most active acquirers across the industrials space, however financial buyers have maintained a consistent appetite in the sector
- The mix of activity between groups is expected to remain consistent, however activity from both groups is expected to increase in absolute terms in the coming years
 - Activity from strategic buyers is expected to grow as they seek to capitalise on a positive underlying tailwinds and acquire market share through strategic consolidation
 - Record levels of deployable dry powder and a strong proportion of funds being allocated to buyout strategies is likely to fuel an uptick in deal making from private equity buyers
- Analysis highlights that strategic buyers have been more active at the lower end of the mid-market while financial buyers typically seek out larger opportunities
 - Despite this, completed deals show interest from both parties at all levels of the market

Illustrative Valuations for Private Companies in the HVAC Sector

Our analysis of the HVAC valuations highlights that manufacturers receive the highest multiple, followed by distributors and service providers

- The HVAC sector encompasses a wide range of business models, differing in terms of market, offering and customer base, which has resulted in a wide spread of valuation multiples
- Identifying a market level valuation for manufacturers, distributors and service providers involves isolating a sub-sample of public comparables (24) and precedent transactions (25) across each category
- The 1st quartile (low), median and 3rd quartile (high) of valuation multiples are computed across each sub-sample to triangulate a valuation multiple
 - › Public comparables are discounted by 15% to account for size and liquidity premia
 - › Precedent transactions are sourced from the period between 2018 and 2023 to ensure relevance to the current market
- The analysis indicates median EBITDA multiples of 13.0x, 11.0x and 8.5x across manufacturing, distribution and services respectively with revenue multiples following a similar trend; 2.3x, 1.4x and 0.7x
- These valuation insights are illustrative only, with outcomes dependant on several factors; buyer appetite, synergy opportunities, quality and breadth of offerings, extent of geographical reach, quality of customer base, underlying financial performance and margin profile
 - › The key insight from this analysis is that different business models across the HVAC sector command different valuation multiples

Median Transaction Multiple by Buyer Type

- › Across the full sample, EBITDA valuation multiples range from a low of 4.7x to a high of 17.1x, which can be further broken down across manufacturing (9.9x to 16.0x), distribution (6.1x to 14.6x) and services (5.5x to 13.6x). Revenue multiples across the full sample range from a low of 0.2x to 3.3x, which can also be broken down further across manufacturing (0.2x to 5.6x), distribution (0.3x to 2.6x) and services (0.4x to 1.7x)



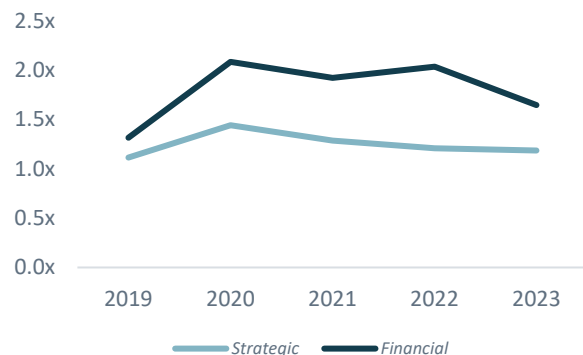
Source: Cap IQ

HVAC Private Company Valuation Analysis

Analysis of multiples across samples of public comparables and precedent transactions lends support to the valuation range identified on slide 7

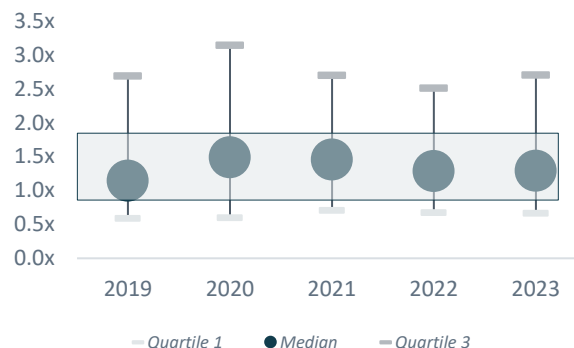
M&A Transactions: EV/Revenue by Buyer Type

- Revenue and EBITDA valuation multiples paid by strategic and financial buyers have been broadly stable YoY and consistent between both groups



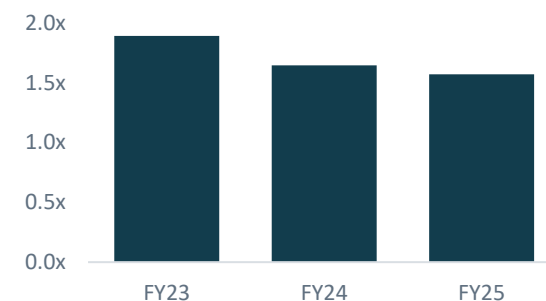
M&A Transactions: Median EV/Revenue

- Median revenue multiples from a sample of M&A transactions remained stable between 2019 and 2023, falling between a low of 1.1x and a high of 1.4x



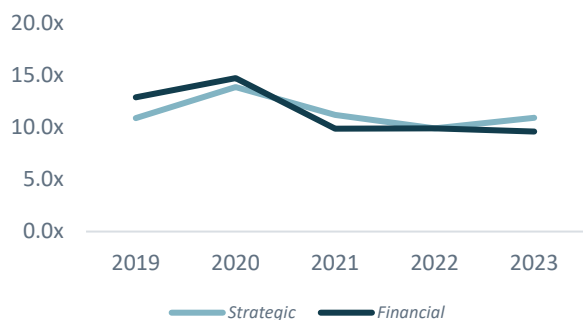
Public Comparables: Median EV/Revenue

- Median LTM and forward-looking revenue multiples from a sample of public comparables ranged from a low of 1.6x to a high of 1.9x



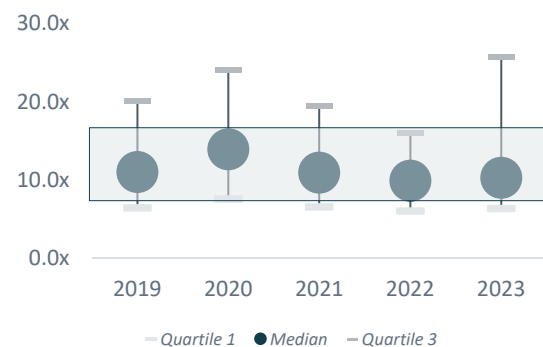
M&A Transactions: EV/EBITDA by Buyer Type

- Revenue and EBITDA valuation multiples paid by strategic and financial buyers have been broadly stable YoY and consistent between both groups



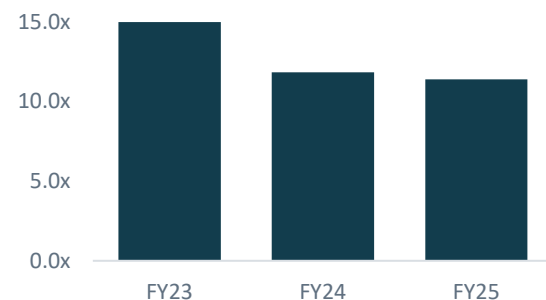
M&A Transactions: Median EV/EBITDA

- Median EBITDA multiples from a sample of M&A transactions remained relatively stable between 2019 and 2023, ranging between 9.6x and 13.9x



Public Comparables: Median EV/EBITDA

- Median LTM and forward-looking EBITDA multiples from a sample of public comparables ranged from a low of 11.4x to a high of 15.0x



Source: Cap IQ

HVAC Transactions Overview by Sub-Sector

Analysis of recent transactions in the HVAC sector lends support to our valuation analysis on slide 7

Notable Transactions

Ferguson plc acquired Bruce Supply Corp (August 2023)

- The UK headquartered distributor of industrial supplies bolsters its suite of HVAC offerings and its presence in the US through the acquisition of the US based specialist distributor, deal consideration was not disclosed

Distribution Solutions Group, Inc. acquired HISCO, Inc. (June 2023)

- The US based distributor of mission-critical materials expands its presence in the industrial technology space through its c.€260m acquisition of the niche equipment distributor, valuing the business at 9.7x EBITDA

SPX Technologies, Inc. acquired ASPEQ Heating Group LLC (May 2023)

- The all-US transaction sees the leading supplier of HVAC technologies strengthen its electrical heating division and improve margins with a c.€390m acquisition that values the target at 3.5x revenue

Cap 10 Partners acquired Sureserve Group plc (April 2023)

- The specialist pan-European private equity firm based in London has taken the air conditioning services group private at a valuation of c.€250m which values the business at 8.6x EBITDA

nVent Electric plc acquired ECM Industries LLC (April 2023)

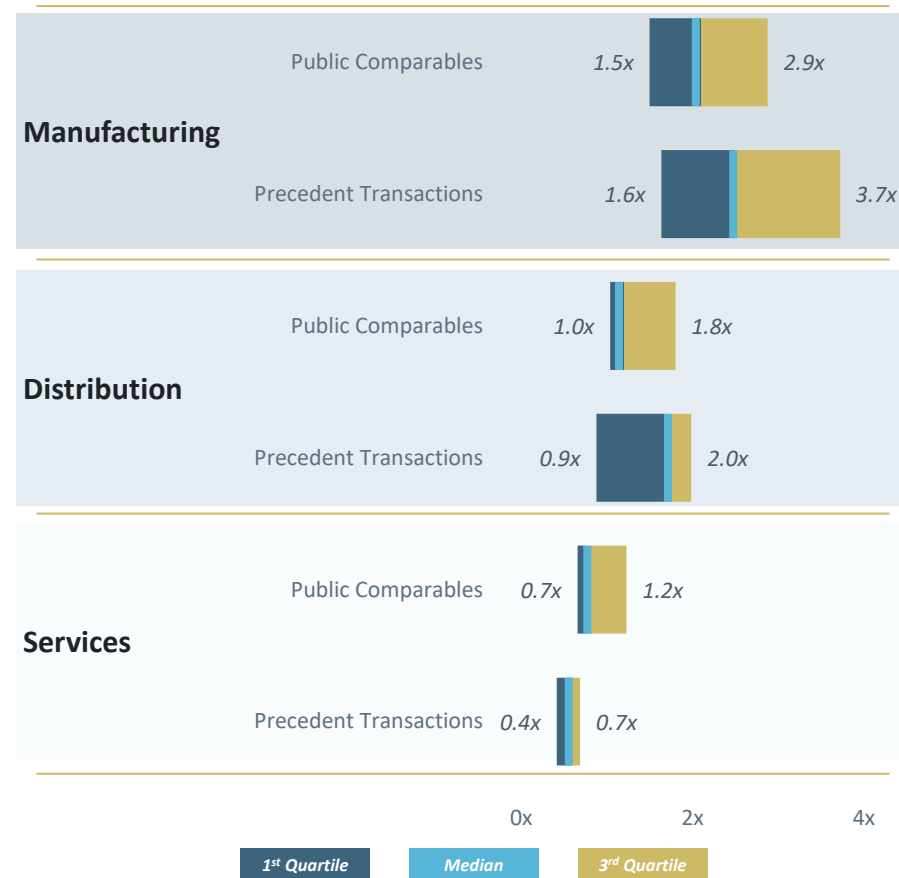
- Leading UK based diversified electrical solutions group strengthens its product portfolio with its acquisition of the US based provider of electrical supplies, valuing the target at over €1bn or 10.6x EBITDA

Olympic Steel acquired Metal Fab, Inc. (March 2023)

- The US-based steel processing and metal fabricator acquired the specialist manufacturer of vent systems for residential, commercial and industrial applications for c.€120m or at 7.6x EBITDA

Precedent Transactions: Median EV/Revenue

- Following the same methodology as the illustrative desktop valuation on the slide 7, the below graph highlights the outcome of valuation by sub-segment for EV/Revenue multiples – the analysis implies median valuation multiples of 2.5x, 1.7x and 0.7x across manufacturing, distribution and services



Source: Cap IQ

Appendix: Public Comparables

Sample of public comparables used to inform our illustrative desktop valuation

| Precedent Transactions | | | | | |
|---|----------------|------------|-----------------|-------------|-----------|
| Company | Country | Date | Market Cap (€m) | EV/ Revenue | EV/EBITDA |
| Arbonia AG (SWX:ARBN) | Switzerland | 15/01/2024 | €668 | 0.8x | 9.6x |
| Beijer Ref AB (publ) (OM:BEIJ B) | Sweden | 15/01/2024 | €5,728 | 2.4x | 21.8x |
| BELIMO Holding AG (SWX:BEAN) | Switzerland | 15/01/2024 | €5,910 | 6.5x | 31.0x |
| Carel Industries S.p.A. (BIT:CRL) | Italy | 15/01/2024 | €2,599 | 4.5x | 23.4x |
| Carrier Global Corporation (NYSE:CARR) | USA | 15/01/2024 | €45,977 | 2.5x | 17.2x |
| Chart Industries, Inc. (NYSE:GTLS) | USA | 15/01/2024 | €5,092 | 3.4x | 18.1x |
| Comfort Systems USA, Inc. (NYSE:FIX) | USA | 15/01/2024 | €6,602 | 1.4x | 16.0x |
| CSW Industrials, Inc. (NASDAQGS:CSWI) | USA | 15/01/2024 | €3,033 | 4.5x | 18.5x |
| Daikin Industries,Ltd. (TSE:6367) | Japan | 15/01/2024 | €49,509 | 1.8x | 12.7x |
| Eneraqua Technologies plc (AIM:ETP) | United Kingdom | 15/01/2024 | €16 | 0.3x | 2.0x |
| Genuit Group plc (LSE:GEN) | United Kingdom | 15/01/2024 | €1,120 | 1.9x | 9.5x |
| Global Industrial Company (NYSE:GIC) | USA | 15/01/2024 | €1,329 | 1.2x | 15.0x |
| GVS S.p.A. (BIT:GVS) | Italy | 15/01/2024 | €987 | 3.0x | 14.4x |
| Johnson Controls International plc (NYSE:JCI) | Ireland | 15/01/2024 | €34,967 | 1.8x | 12.9x |
| Limbach Holdings, Inc. (NASDAQCM:LMB) | USA | 15/01/2024 | €397 | 0.8x | 10.8x |
| Sitowise Group Oyj (HLSE:SITOWS) | Finland | 15/01/2024 | €102 | 0.9x | 9.4x |
| SPIE SA (ENXTPA:SPIE) | France | 15/01/2024 | €4,845 | 0.8x | 11.3x |
| SPX Technologies, Inc. (NYSE:SPXC) | USA | 15/01/2024 | €4,156 | 2.9x | 17.2x |
| Sweco AB (publ) (OM:SWEC B) | Sweden | 15/01/2024 | €4,162 | 2.0x | 17.5x |
| Systemair AB (publ) (OM:SYSR) | Sweden | 15/01/2024 | €1,465 | 1.4x | 10.9x |
| Trane Technologies plc (NYSE:TT) | Ireland | 15/01/2024 | €51,073 | 3.4x | 19.2x |
| Vaisala Oyj (HLSE:VAIAS) | Finland | 15/01/2024 | €1,359 | 2.5x | 16.1x |
| Vestum AB (publ) (OM:VESTUM) | Sweden | 15/01/2024 | €274 | 0.8x | 7.2x |
| Ferguson plc (NYSE:FERG) | United Kingdom | 15/01/2024 | €34,682 | 1.4x | 13.8x |
| Watsco, Inc. (NYSE:WSO) | USA | 15/01/2024 | €13,705 | 2.1x | 18.4x |
| Max | | | | 6.5x | 31.0x |
| Average | | | | 2.2x | 14.9x |
| Median | | | | 1.9x | 15.0x |
| Min | | | | 0.3x | 2.0x |

Source: Cap IQ

Appendix: Precedent Transactions

Sample of precedent transactions used to inform our illustrative desktop valuation

| Precedent Transactions | | | | | |
|--|--|----------------|------------|-------------|-----------|
| Target | Buyer | Country | Date | EV/ Revenue | EV/EBITDA |
| ASPEQ Heating Group LLC | SPX Technologies, Inc. (NYSE:SPXC) | USA | 01/05/2023 | 3.5x | NA |
| Sureserve Group plc | Cap10 Partners LLP | United Kingdom | 21/04/2023 | 0.7x | 8.6x |
| ECM Industries, LLC | nVent Electric plc (NYSE:NVT) | USA | 03/04/2023 | 2.6x | 10.6x |
| T. A. Morrison & Co. Inc. | SPX Technologies, Inc. (NYSE:SPXC) | Canada | 03/04/2023 | 2.5x | NA |
| HISCO, Inc. | Distribution Solutions Group, Inc. (NASDAQGS:DSGR) | USA | 31/03/2023 | 0.7x | 9.7x |
| S.M.I.T. S.R.L. | Lindbergh S.p.A. (BIT:LDB) | Italy | 03/02/2023 | 0.4x | 6.1x |
| Caverion Oyj | Triton; Triton Fund V L.P. | Finland | 10/01/2023 | 0.6x | 10.2x |
| Heritage Distribution Holdings | Beijer Ref AB (publ) (OM:BEIJ B) | USA | 15/12/2022 | 2.0x | 13.4x |
| Cirelius, S.A. | Arbonia AG (SWX:ARBN) | Portugal | 05/12/2022 | NA | 6.0x |
| Howden Group Limited | Chart Industries, Inc. (NYSE:GTLS) | United Kingdom | 09/11/2022 | 2.5x | 12.9x |
| Sauber S.r.l. | Carel Industries S.p.A. (BIT:CRL) | Italy | 13/06/2022 | 0.6x | 5.4x |
| HomeServe plc | Brookfield Infrastructure Partners L.P. (NYSE:BIP) | United Kingdom | 19/05/2022 | 3.3x | 17.1x |
| SagiCofim S.p.A. | Systemair AB (publ) (OM:SYSR) | Italy | 07/04/2022 | 0.9x | 8.4x |
| CCOM Group, Inc. | Goodman Distribution, Inc. | USA | 18/03/2022 | 0.3x | 5.2x |
| Tecnair LV S.p.A. | Systemair AB (publ) (OM:SYSR) | Italy | 31/01/2022 | 1.3x | 12.5x |
| EZ-FLO International, Inc. | Reliance Worldwide Corporation Limited (ASX:RWC) | USA | 26/10/2021 | 1.9x | 12.0x |
| Termovent Komerc d.o.o. | Arbonia AG (SWX:ARBN) | Serbia | 30/04/2021 | 1.3x | 7.0x |
| Aggreko Plc | I Squared Capital Advisors, LLC; TDR Capital LLP | United Kingdom | 05/03/2021 | 2.0x | 6.1x |
| Adey Innovation LLP | Genuit Group plc (LSE:GEN) | United Kingdom | 10/02/2021 | 4.1x | 11.7x |
| Nu-Heat UK Ltd. | Genuit Group plc (LSE:GEN) | United Kingdom | 02/02/2021 | 1.7x | 8.7x |
| Astepa Oy | Viafin Service Oyj (HLSE:VIAFIN) | Finland | 07/12/2020 | 0.4x | 4.7x |
| Beijer Ref AB (publ) | EQT Partners AB; EQT IX | Sweden | 07/12/2020 | 24.0x | NM |
| Ahlsell AB | CVC Capital Partners Limited | Sweden | 11/12/2018 | 1.0x | 11.6x |
| Hygromatik GmbH | Carel Industries S.p.A. (BIT:CRL) | Germany | 30/11/2018 | 3.9x | 12.5x |
| Carrier Commercial Refrigeration, Inc. | Middleby Marshall Inc. | USA | 18/05/2018 | 3.2x | 15.4x |
| Max | | | | 24.0x | 17.1x |
| Average | | | | 2.7x | 9.8x |
| Median | | | | 1.8x | 10.0x |
| Min | | | | 0.3x | 4.7x |

Source: Cap IQ



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