

MS Capital Market News:
Outlining Trends in the HVAC Industry



Summer 2019

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Heating and Air-Conditioning Contractors in the US

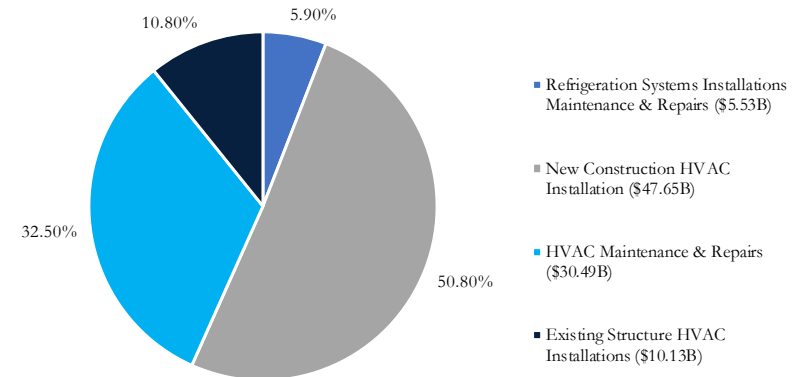
Heating & Air Conditioning Contractors Highlights

- 2018 revenue: \$93.8 billion
- 2018 profit: \$5.3 billion
- Annual growth 2013 – 2018: 3.1%
- Annual growth projected 2018 – 2023: 2.2%
- Key industry drivers: housing starts, value of private nonresidential construction, per capita disposable income, private spending on home improvements, 30-year conventional mortgage rate, value of residential construction.

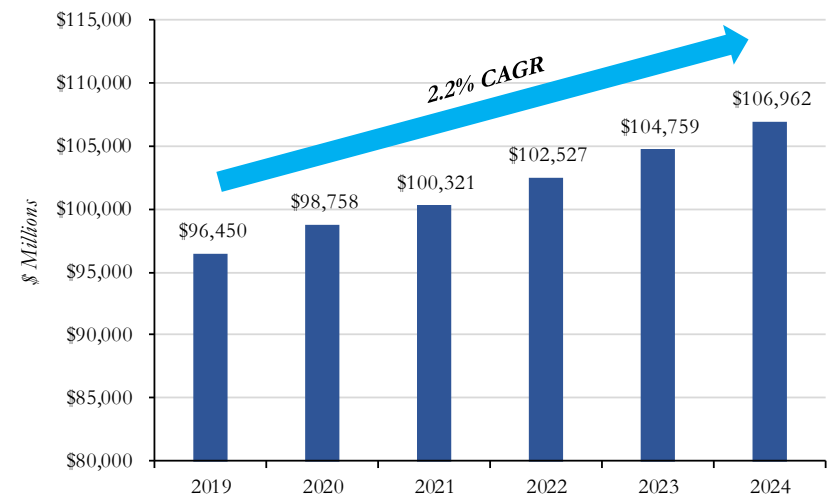
Heating & Air Conditioning Contractors Observations & Outlook

- Over the five years to 2019, the Heating and Air-Conditioning Contractors industry has expanded alongside broad construction trends.
- Demand for Heating and Air-Conditioning Contractors industry services is projected to warm up over the five years to 2024. Accelerating construction markets in both residential and nonresidential markets is forecast to continue boosting demand for new HVAC installations,
- Expanding per capita disposable income, as well as the growing popularity of energy-efficient systems, which also lower operating costs for businesses and households, is expected to drive demand for installations in existing structures.

Products & Services Segmentation



Heating & Air Conditioning Contractor Expected Revenue Growth



Heating and Air-Conditioning Contractors in the US

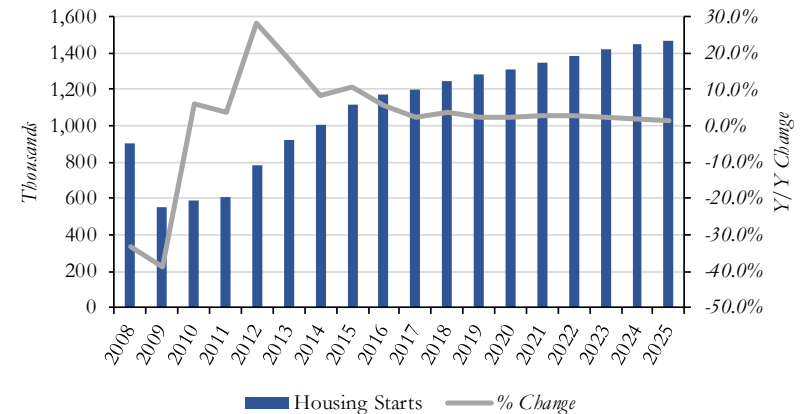
Housing Starts

- This driver measures the number of new, privately owned housing units started in a given year. This includes both single-unit and multiunit developments.
- Growth in the new housing construction market is expected to continue over the five years to 2024, albeit at a more-moderate pace. Housing starts are expected to increase at an annualized rate of 2.5%.
- With unemployment at or below the natural rate of unemployment, developers and individuals alike have been more willing to invest in new units.

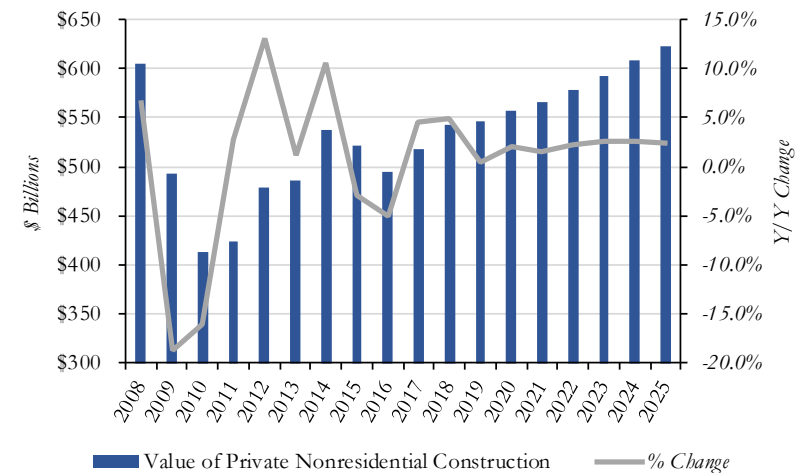
Value of Private Nonresidential Construction

- The value of private nonresidential construction refers to investment in office buildings, hospitals, factories, power plants, mining shafts, communication lines, farms, railroads, schools, brokers' commissions and net purchases of used structures. The data for this report is presented in chained 2012 dollars.
- Private investment is expected to continue expanding over the coming years to foster growth in private nonresidential construction. The translation of increased corporate profit to new spending typically has a lag. Over the next few years, significant spending growth is expected to materialize as nonresidential structures are produced to match shifting manufacturing activity.

Housing Starts



Value of Private Nonresidential Construction



Heating and Air-Conditioning Contractors in the US

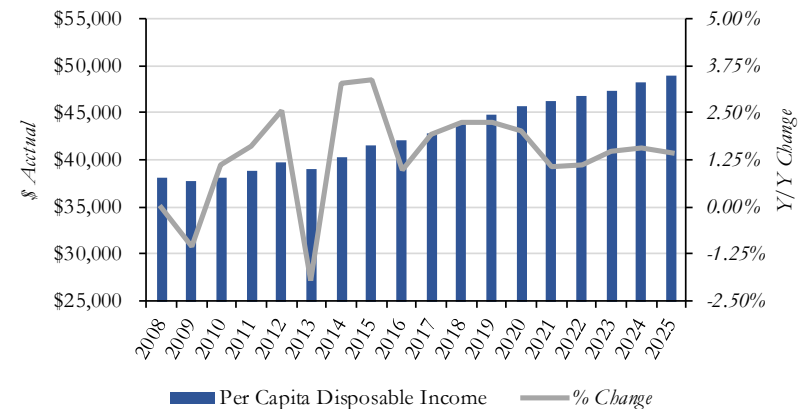
Per Capita Disposable Income

- Per capita disposable income determines an individual's ability to purchase goods or services. It is calculated by taking income earned from all sources (wages, government transfers, rental income etc.) minus taxes, savings and some non-tax payments (e.g. fines, forfeitures and donations) and dividing by the total US population. The data for this report is presented in chained 2012 dollars.
- Continued job gains and a labor market hovering near full employment combined with improved housing and stock values will increase income levels. Based on the newest tax plan, the tax burden is expected to be reduced in the next few years, which should support higher income.

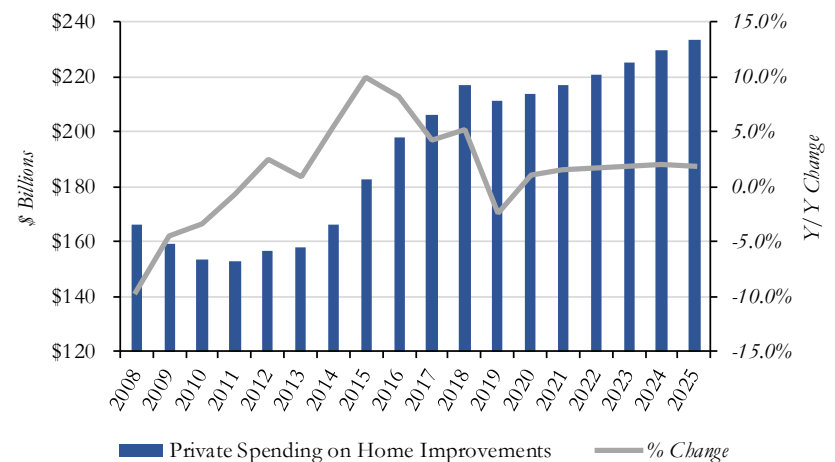
Private Spending on Home Improvements

- This driver measures private spending on home improvements, upgrades and repairs. This type of spending is a component of the value of residential construction, more formally known as private investment in residential structures. The data for this driver is presented in chained 2012 dollars.
- Steady activity in the housing construction market is expected to continue over the five years to 2024. Rising disposable incomes and relatively low unemployment are expected to continue to place money back in homeowners' pockets and drive stronger investment in homes. Furthermore, rising home prices and greater sales of existing homes are expected to support demand for renovations just as they magnified the downturn.

Per Capita Disposable Income



Private Spending on Home Improvements



Heating and Air-Conditioning Contractors in the US

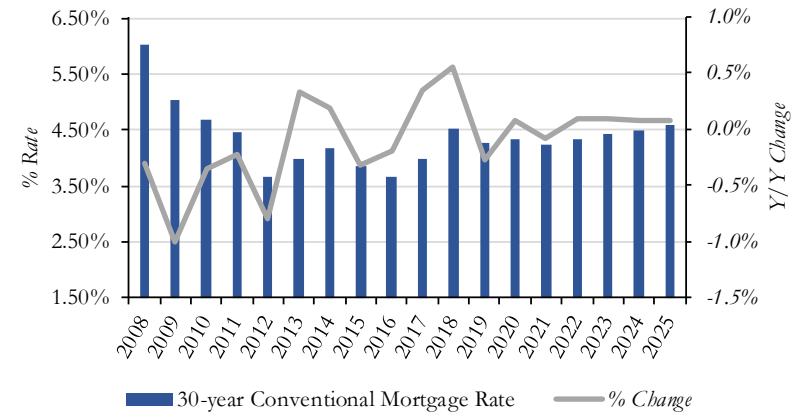
30-year Conventional Mortgage Rate

- The 30-year fixed rate mortgage is the most-common type of loan for home purchases in the United States. The values presented in this report are annual figures, derived from equally weighted monthly averages.
- Mortgage rates declined for the sixth consecutive year in 2012, falling 0.80 percentage points to 3.66%. During the year, the mortgage rate eased to a historic low as growth in the economy fell short of market projections.

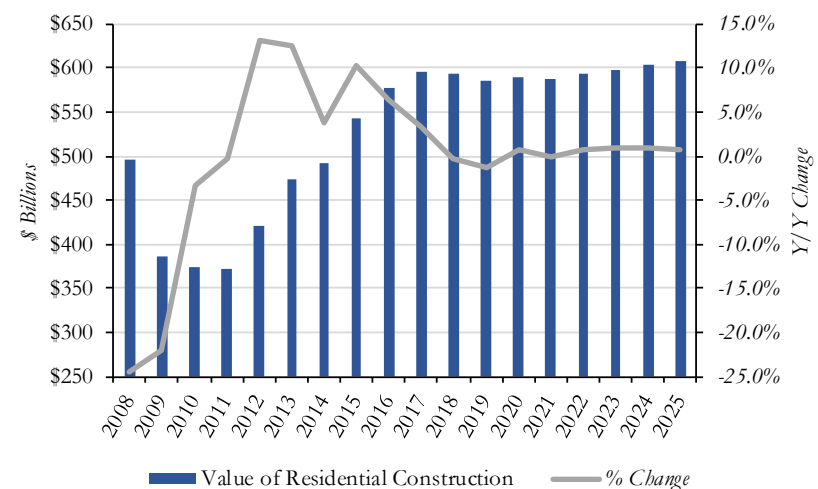
Value of Residential Construction

- This driver, formally known as real private residential investment in structures, measures spending by individuals and businesses on residential construction. This includes expenditure on single-family and multi-family structures, manufactured homes, dormitories, improvements on existing locations, brokers' commissions and net purchases of used structures. The data for is presented in chained 2012 dollars.
- Growth in the value of residential construction is forecast to continue over the five years to 2024, albeit at a much slower pace. A sign of the country's murky economic outlook, the Federal Reserve has indicated that interest rate hikes be halted in the short-term.

30-year Conventional Mortgage Rate



Value of Residential Construction



Sources: IBISWorld, Bureau of Economic Analysis, Freddie Mac's Primary Mortgage Market Survey

Select Comparable Transactions within the HVAC Contractor Sector

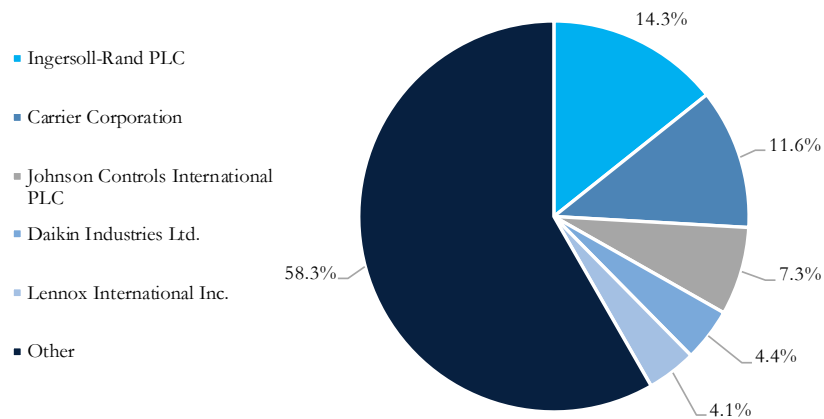
Date	Target	Buyer(s)	Target Business Description
5/21/19	The Barton Boys Heating & Air Conditioning	The SEER Group LLC	The Barton Boys Heating & Air Conditioning operates as HVAC service contractor. Its products include furnaces, air conditioners, heat pumps, controls, air quality, and ductless mini splits. The company was founded by Phil Freeland and is headquartered in Spokane Valley, WA.
4/17/19	Allied Cooling & Heating LLC	Badger Bob's Services, Inc.	Allied Cooling & Heating LLC provides HVAC services and products. It offers air conditioning installation, repairing, replacement, ductless mini split system installation, heat pump installation, heating system installation, repairing, replacement and heating system Service. The company is headquartered in Venice, FL.
4/9/19	The Pace Companies of New York, Inc.	Aterian Investment Management LP	The Pace Companies of New York, Inc. provides plumbing and fire protection services. The firm specializes in HVAC, design, installation and value engineering. The company was founded by Harold Block in 1968 and is headquartered in Brooklyn, NY.
4/4/19	MSD Research, Inc.	CSW Industrials, Inc.	S & D Ventures, Inc. engages in the provision of condensate management products for HVAC systems. It offers a/c float switches and drain line cleanouts; and installation services. The company is headquartered in Boca Raton, FL.
3/4/19	ABC Refrigeration & A/C, Inc.	Audax Private Equity; CoolSys, Inc.	ABC Refrigeration & A/C, Inc. provides air conditioning and refrigeration services. The firm specializes in commercial air conditioning and refrigeration services including HVAC installation and fabrication, commercial registration, service, and maintenance. The company was founded in 1950 and is headquartered in the United Kingdom.
2/25/19	Integrated Mechanical Systems, Inc.	Therma Corp.; Gemspring Capital Management LLC	Integrated Mechanical Systems, Inc. provides mechanical design, fabrication, construction and maintenance services. It offers engineering, installation and maintenance for HVAC, plumbing, and piping systems for commercial, institutional, retail and light industrial facilities. The company is headquartered in Irwindale, CA.
1/31/19	Fixd Repair LLC	ANGI Homeservices, Inc.	Fixd Repair LLC provides home warranty and service. The firm's services include HVAC, plumbing, appliances, electrical, pool & spa, garage door, smart home and locksmith. The company was founded by Evan Myers and Brandon Bohannan in 2015 and is headquartered in Dallas, TX.
1/29/19	Newgaard Mechanical, Inc.	Huron Capital Partners LLC; Pueblo Mechanical & Controls LLC	Newgaard Mechanical, Inc. provides construction and HVAC services. The company was founded by Dave Newgaard, Steve Dyal and Jeri Newgaard in 1999 and is headquartered in Chandler, AZ.
1/2/19	Commercial Air, Inc. (Arizona)	Huron Capital Partners LLC; Pueblo Mechanical & Controls LLC	Commercial Air, Inc. provides HVAC services and products. It designs, installs and maintains air conditioning, refrigeration and heating systems. The company was founded in 1996 and is headquartered in Phoenix, AZ.
9/17/18	Ron's Refrigeration & HVAC LLC	CoolSys, Inc.	Ron's Refrigeration & HVAC LLC provides refrigeration and HVAC engineering and installation services. The company was founded by Ronald F. Mancl and Bonnie L. Mancl in 1973 and is headquartered in Wisconsin Rapids, WI.
8/2/18	Donnelly Mechanical Corp.	ENGIE North America, Inc.	Donnelly Mechanical Corp. provides mechanical, heating, ventilation and air conditioning services. It offers commercial HVAC repair service, HVAC preventive maintenance, HVAC commissioning, emergency HVAC repair service, indoor air quality testing, commercial air duct cleaning, and building services. The company was founded by Daniel T. Donnelly in 1989 and is headquartered in New York, NY.
3/5/18	Midway Services LLC	Service Experts LLC; EnerCare Solutions, Inc.	Midway Services LLC provides HVAC, electrical, remodeling and plumbing services. It offers repair, drain cleaning, leak detection, repiping, water heater work, surge protection, rewiring, lighting installation, washer/dryer hookups, electrical dock wiring, duct cleaning, indoor air quality, duct sealing, and free on-site consultation. The company was founded by John Wolf in 1957 and is headquartered in Clearwater, FL.
3/2/18	Gentry Heating, Inc.	Service Logic LLC	Gentry Heating, Inc. provides air cooling and heating repairs and installations. It offers air conditioning, heating, HVAC, indoor air quality, ductless, generators, commercial, and maintenance services. The company was founded in 1963 and is headquartered in Swannanoa, NC.
7/18/17	Wood Air Conditioning, Inc.	1847 Wood, Inc.	Wood Air Conditioning, Inc. provides air conditioning and heating contracting services. The firm offers heating, ventilation, and air conditioning (HVAC) repair, HVAC installation, maintenance agreements, duct cleaning, and home performance evaluations. The company was founded in 1957 and is headquartered in Mount Pleasant, TX.
6/22/17	Therma Corp.	Gemspring Capital Management LLC	Therma Corp. operates as a mechanical contractor, which focuses on heating, ventilation, and air conditioning (HVAC); process piping; and process controls for cleanrooms, laboratories, and manufacturing facilities. It also offers plumbing system services, pre-construction, fabrication, construction, process systems and control, and building automation systems. The company was founded by Joseph Parisi and Nicki Parisi in 1967 and is headquartered in San Jose, CA.

HVAC Equipment Manufacturing Public Comparable Companies

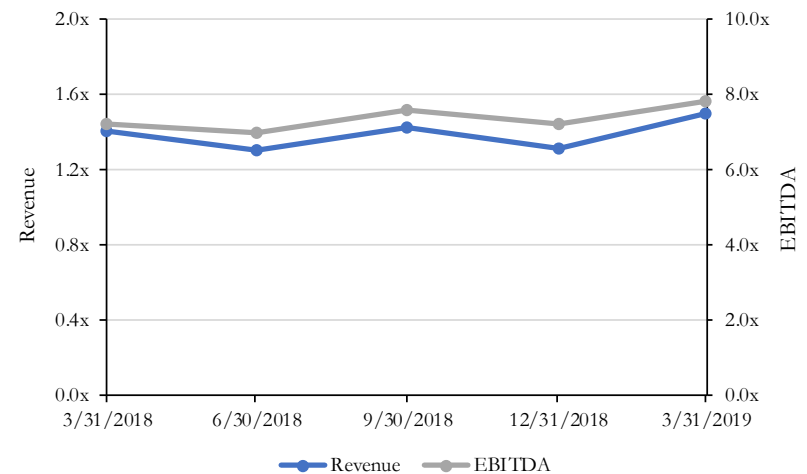
Guideline Public Companies in the HVAC Equipment Manufacturing Industry

Company Name	Stock Price	Market Capitalization	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Revenue Multiple	LTM EBITDA Multiple	LTM Revenue Multiple - Adjusted	LTM EBITDA Multiple - Adjusted
<i>Data as of 3/31/19</i>									
INGERSOLL-RAND PLC	\$ 107.95	\$ 26,469	\$ 30,200	\$ 15,860	\$ 2,417	1.9x	12.5x	1.1x	6.9x
UNITED TECHNOLOGIES CORP	\$ 128.89	\$ 110,936	\$ 152,199	\$ 69,639	\$ 10,168	2.2x	15.0x	1.0x	6.7x
JOHNSON CTLS INTL PLC	\$ 36.94	\$ 33,464	\$ 46,870	\$ 27,733	\$ 3,603	1.7x	13.0x	0.9x	6.8x
DAIKIN INDUSTRIES	\$ 117.18	\$ 34,295	\$ 36,525	\$ 22,374	\$ 3,387	1.6x	10.8x	0.9x	5.7x
LENNOX INTL INC	\$ 264.40	\$ 10,602	\$ 11,867	\$ 3,839	\$ 559	3.1x	21.2x	2.0x	13.5x
MESTEK INC	\$ 28.23	\$ 214	\$ 186	\$ 354	\$ 26	0.5x	7.2x	0.5x	7.2x
AAON INC	\$ 46.18	\$ 2,418	\$ 2,411	\$ 449	\$ 85	5.4x	28.4x	4.2x	NM
Average								1.5x	7.8x
Median								1.0x	6.9x

Market Share - HVAC Equipment Manufacturing in the US



Latest Twelve Months Average Multiples Trend

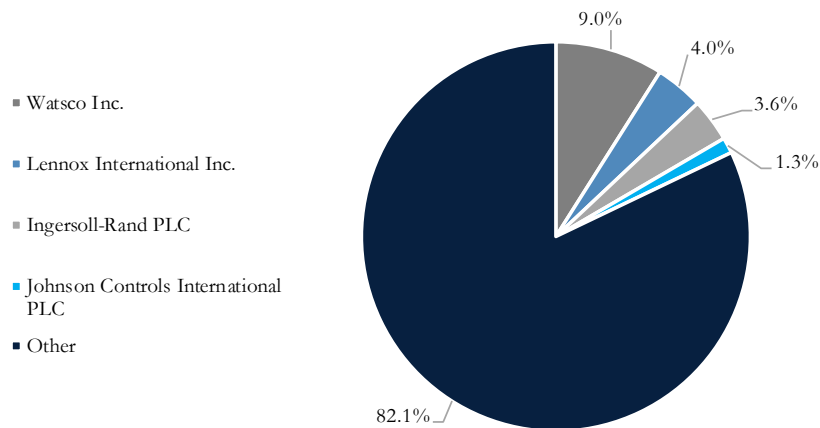


HVAC Wholesaling & Maintenance Public Comparable Companies

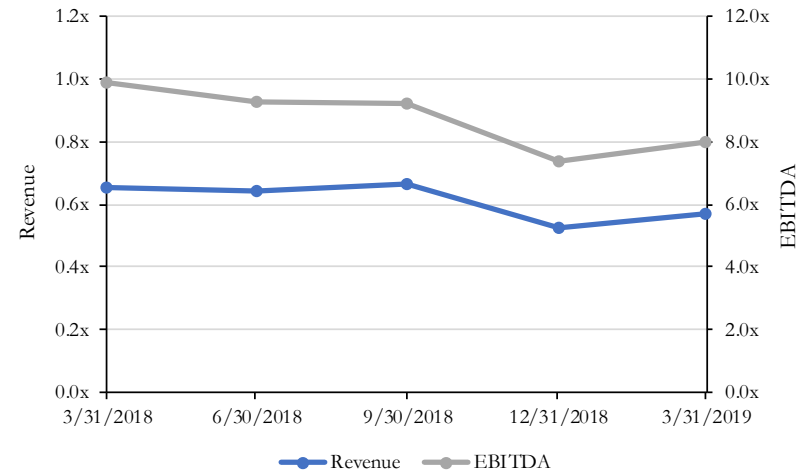
Guideline Public Companies in the HVAC Wholesaling & Maintenance Industry

Company Name	Stock Price	Market Capitalization	Enterprise Value	LTM Revenue	LTM EBITDA	LTM Revenue Multiple	LTM EBITDA Multiple	LTM Revenue Multiple - Adjusted	LTM EBITDA Multiple - Adjusted
<i>Data as of 3/31/19</i>									
WATSCO INC	\$ 143.21	\$ 4,927	\$ 5,314	\$ 4,551	\$ 385	1.2x	13.8x	0.8x	9.8x
COMFORT SYS USA INC	\$ 52.39	\$ 1,951	\$ 1,999	\$ 2,256	\$ 202	0.9x	9.9x	0.7x	7.9x
EMCOR GROUP INC	\$ 73.08	\$ 4,123	\$ 4,169	\$ 8,389	\$ 519	0.5x	8.0x	0.4x	5.8x
ABM INDS INC	\$ 36.35	\$ 2,425	\$ 3,382	\$ 6,462	\$ 301	0.5x	11.2x	0.4x	8.4x
Average								0.6x	8.0x
Median								0.5x	8.2x

Market Share – HVAC Wholesaling in the US



Latest Twelve Months Average Multiples Trend



Select Comparable Transactions within the HVAC Manufacturing and Distribution Sector

Date	Target	Buyer(s)	Target Business Description
6/12/19	Tri-State Distributors, Inc.	Blevins, Inc.	Tri-State Distributors, Inc. distributes LPG and hardware products. It has office locations in Gainesville, Augusta, and Athens, Georgia; Greenville, South Carolina; Ocala, Florida; Montgomery, Alabama; and Collins, and Mississippi. The firm's products include gas, manufactured housing, and HVAC. The company was founded in 1983 and is headquartered in Royston, GA.
6/11/19	Silvercote LLC	Advent International Corp.; Distribution International, Inc.	Guardian Laminated Building Products, Inc. provide innovative custom insulation solutions and systems. It is a value-added distributor of insulation-related specialty fabricated products, HVAC products, and safety supplies in North America. The company was founded in 1986 and is headquartered in Greer, SC.
4/11/19	Munch's Supply LLC	Ridgemont Partners Management LLC; Munch's Supply LLC /Private Group/	Munch's Supply LLC engages in the sale and distribution of heating, ventilation, and air conditioning (HVAC) equipment to the residential and commercial sectors. Its products include heat pumps, air handlers, furnaces, coils, air conditioners, and comfort controls. The company was founded by Willard Munch in 1956 and is headquartered in New Lenox, IL.
3/12/19	Comfort Air Distributing, Inc.	Rotunda Capital Partners LLC; Munch's Supply LLC	Comfort Air Distributing, Inc. distributes and supplies heating and air conditioning equipment. The firm's products include air distribution, components, compressors, controls, electrical, heating equipment, HVAC equipment, HVAC equipment accessories, indoor air quality and filters, and installation and maintenance supplies. The company was founded by James Anthony O'Mara and Jerry O'Mara in 1987 and is headquartered in Denver, CO.
3/8/19	Resolute Industrial LLC	AE Industrial Partners LLC	Resolute Industrial LLC provides water and air cooled chiller rental services, compressor remanufacturing, and other custom HVAC services in North America. Its products and services include comprehensive HVAC rental services, remanufacturing of compressors, custom manufacturing of refrigerant storage and recovery units, and custom modifications to chiller and air conditioning equipment. The company was founded in October 2015 and is headquartered in New York, NY.
12/11/18	Blackman Plumbing Supply Co., Inc.	Wolseley Ltd.; Ferguson Enterprises, Inc.	Blackman Plumbing Supply Co., Inc. supplies plumbing equipment. It also offers heating, HVAC, waterworks, VF, tools, lighting, tile and stone products. The company was founded by Sam Blackman in 1921 and is headquartered in Bayport, NY.
12/3/18	Titan Metal Service, Inc.	Majestic Steel USA, Inc.	TMS Group Holdings, Inc. engages in the provision of HVAC and building steel products to the metal manufacturing industry. The company was founded on February 28, 2008 and is headquartered in Tampa, FL.
10/2/18	Specified Air Solutions	Madison Industries	Specified Air Solutions LLC engages in the manufacture of HVAC equipment. It focuses on semi-custom, energy efficient solutions for indoor air quality, cooling, heating, and dehumidification needs. The company was founded in 2014 and is headquartered in Grand Rapids, MI.
10/1/18	Screw Products, Inc. (Texas)	Lawson Products, Inc.	Screw Products, Inc. engages in the distribution and sale of fasteners, hardware, and related products. Its product portfolio includes abrasives, chemicals and paints, cutting tools and metalworking, electrical, fasteners, hardware, HVAC, hydraulics and pneumatics, janitorial, lifting and rigging, lighting, material handling, office products and furniture, plumbing, power transmission and motors, raw materials, safety, tools and equipment, and welding. The company was founded on November 21, 1963 and is headquartered in Dallas, TX.
8/27/18	Ott Distributors, Inc.	MORSCO, Inc.; MORSCO HVAC Supply Co. LLC	Ott Distributors, Inc., a subsidiary of Reece Ltd., is a company headquartered in the United States that distributes plumbing, heating, ventilation, air conditioning and valves. It was acquired by MORSCO HVAC Supply Co. LLC on 27 Aug 18.
8/8/18	Brock-McVey Co.	Wolseley Ltd.; Ferguson Enterprises, Inc.	A.Y. McDonald BMC, Inc. offers plumbing and lighting products. It serves electrical, plumbing and HVAC/R contractors. The company was founded by Dan Brock and Frank McVey in 1935 and is headquartered in Lexington, KY.
7/24/18	Yale Mechanical LLC	Service Logic LLC	Yale Mechanical LLC engages in the provision of HVAC, piping, sheet metal, plumbing, and millwright industrial services. The firm serves the data centers, grocery stores, industrial plants, manufacturing, and warehouses. The company was founded in 1939 and is headquartered in Minneapolis, MN.
7/31/17	Magic Mobile Homes, Inc.	Style Crest, Inc.	Magic Mobile Homes, Inc. provides house manufacturing services. It offers HVAC parts, plumbing, electrical, water heater parts, interior, and exterior solutions. The company was founded by Manuel Ulibarri and Margaret Ulibarri in 1969 and is headquartered in Albuquerque, NM.

Median EBITDA Multiples Trend

Average Number of Months to Close Deals

2017	2018
8.7	9.3

Breakdown of Cash at Close

	2017		2018	
	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
Cash*	82%	86%	78%	85%
Seller Financing	10%	17%	10%	11%
Earn Out	0%	4%	1%	3%
Retained Equity	0%	4%	0%	4%

* Combination of buyers equity and senior debt

Advisor, Investor, and Executive Surveys

- 79% expect increased average number of deals in 2019 (up from 70% a year ago)
- 83% expect strong market to expire within the next 24 months (33% say its within 12)
- 19% of transactions valued below \$2M were business services – highest proportion
- 27% of transactions valued above \$2M were in manufacturing – highest proportion
- 66% of investors/buyers use adjusted EBITDA multiple when valuing privately-held businesses
- Top 3 reasons deals didn't close were valuation gap (36%), unreasonable seller/buyer demand (20%) and no market for business (11%)

EBITDA	Manufacturing	Construction & Engineering	Consumer Goods & Services	Wholesale & Distribution	Business Services	Basic Materials & Energy	Healthcare & Biotech	Information Technology	Financial Services	Media & Entertainment	Average
< \$1M	5.0x	3.5x	4.3x	5.5x	3.0x	5.0x	4.3x	7.0x	5.5x	4.0x	4.7x
\$1M - \$5M	5.5x	4.5x	5.5x	5.5x	4.8x	5.5x	5.5x	7.5x	6.0x	5.5x	5.6x
\$5M - \$10M	6.5x	5.0x	5.8x	5.8x	5.3x	6.0x	7.3x	8.0x	7.5x	6.0x	6.3x
\$10M - \$25M	7.5x	6.5x	6.5x	7.5x	6.0x	6.0x	7.5x	8.5x	7.8x	6.5x	7.0x

Sources: Pepperdine Private Capital Markets Report, PitchBook Data, GF Data M&A Report November 2018, Market Pulse