

# ROBUST DEMAND FOR POWER AND ENERGY TRANSITION DRIVES HVAC EQUIPMENT MARKET

HVAC EQUIPMENT SECTOR UPDATE | SEPTEMBER 2024



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# HVAC Equipment

## Robust Demand for Power and Energy Transition Drives HVAC Equipment Market

### KEY SECTOR TAKEAWAYS

Capstone Partners' [Industrials Group](#) is pleased to share its Heating, Ventilation, and Air Conditioning (HVAC) Equipment sector report. The current tectonic shift in technologies and market conditions in the HVAC Equipment market has unlocked opportunities for supplying innovative and energy-efficient solutions. Several key takeaways are outlined below, followed by an in-depth overview of sector dynamics and notable transactions on the following pages.

1. Merger and acquisition (M&A) volume has continued at a tepid pace through year-to-date (YTD) 2024 with a large portion of the initial transaction inventory in 2024 being driven by the emergence of new end market applications and energy efficient systems.
2. Public strategics have invested billions of dollars into HVAC Equipment sector verticals, such as Applied Materials' (Nasdaq:AMAT) Silicon Valley-based Equipment and Process Innovation and Commercialization (EPIC) Center facility for collaborative semiconductor process technology and manufacturing equipment research and development (R&D). As capital commitments continue to flow in to sector verticals, demand for equipment is forecasted to materialize downstream.
3. The growing automation of industrial activities and its reliance on technology requiring higher levels of computational power is both increasing demand for electricity and for equipment that can help manage the increased heat it creates. These needs are increasing demand for highly engineered systems that manage operating temperatures and lower the risk of product failure.
4. Environmentally controlled units (ECUs) have garnered significant acquirer interest as advanced technologies such as variable speed drives, smart controls, and eco-friendly refrigerants have been needed to maintain market demand for precise temperature and humidity levels in key end markets.
5. The reshaping of the energy grid, with the share of renewables in electricity generation forecasted to continue rising at the highest growth rates, is spurring increased interest in energy efficiency to help ensure the reliability of supply.

Capstone Partners has developed a full suite of corporate finance solutions, including, financial advisory services, merger and acquisition advisory, debt advisory, and equity capital financing to help privately owned businesses and private equity firms navigate through each stage of a company's lifecycle.

To learn more about Capstone's wide range of advisory services and HVAC Equipment sector knowledge, please [contact us](#).

## RECORD ENERGY CONSUMPTION NECESSITATES EFFICIENT SYSTEMS

The current tectonic shift in technologies and market conditions in the HVAC Equipment sector has unlocked opportunities for supplying innovative, energy-efficient, and climate-conscious solutions and the move to alternative energy. HVAC technology is not reliant on just fossil fuels such as oil and gas and increasingly can support space and water heating using solar, wind or even geothermal technologies. Notably, the share of renewables' power generation year-over-year (YOY) is projected to rise from 30% in 2023 to 37% in 2026.<sup>1</sup> This is significant given that power generation is growing and reached a record 29,925 terra watts per hour (TWh).<sup>2</sup> Public strategics have recognized the shift in energy consumption and have committed to significant investments.



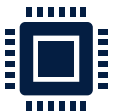
**Ted Polk,**  
Managing Director

*"The HVAC market supports much more than just needs related to climate comfort and demand for applications related to Industrial Equipment are poised for strong growth."*

Of note, Applied Materials announced its latest investment in an EPIC Center facility designed to accelerate the collaborative development and commercialization of semiconductor processes and manufacturing equipment computing technologies in the sector (May 2023). The company has invested more than \$20 billion in R&D in the past 10 years and has projected future investments to total \$3 billion per year, according to its Q2 2024 earnings call.<sup>3</sup> Large, transformational capital commitments to advanced facilities and operations are forecasted to materialize downstream, bolstering demand for HVAC equipment. "This investment presents a golden opportunity to re-engineer the way the global industry collaborates to deliver the foundational semiconductor process and manufacturing technologies needed to sustain rapid improvements in energy-efficient, high-performance computing," Gary Dickerson, President and CEO of Applied Materials, stated in the investment launch press release.<sup>4</sup>

Infrastructure used for manufacturing semiconductors and computing, like that of Applied Materials, requires maintaining precise temperature and humidity levels to meet stringent standards. These ECUs have been increasingly incorporating advanced technologies such as variable speed drives, smart controls, and eco-friendly refrigerants to reduce energy consumption and emissions. As the industry has progressed towards more sustainable practices, the integration of energy-efficient ECUs has become pivotal in balancing operational excellence with environmental responsibility. HVAC equipment that proves complementary to Semiconductor, Healthcare, Aerospace, and Data Center end markets is expected to garner significant buyer appetite, draw premium valuations, and drive energy consumption, which is anticipated to bolster M&A activity through 2024 and 2025.

### Key Environmentally Controlled Units Applications



**Semiconductors:** Production takes place in cleanrooms, where even minor variations in temperature, humidity, or particulate levels can significantly impact the quality and yield of the end products.



**Healthcare:** ECUs are a vital component of cleanrooms to control and monitor variables to ensure they meet the parameters specified for laboratories and pharmaceutical production.



**Aerospace:** Record funding levels and private rocket launches stand to drive explosive growth in the Space industry. U.S. agencies and companies launched 2,233 objects into space in 2023; an increase of 15.2% YOY, according to the Office for Outer Space Affairs.<sup>5</sup>

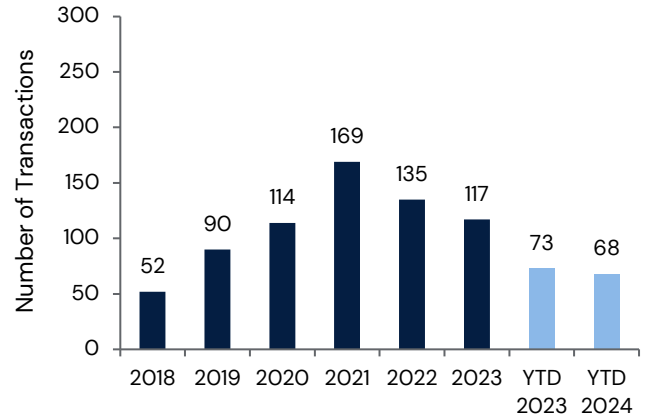


**Data Centers:** ECUs help maintain optimal temperature and humidity levels in data centers, ensuring that the servers operate within their safe thermal limits. They generate significant heat, which, if not properly managed, can lead to equipment failure and reduced performance.

## ADVANCED SYSTEM PROVIDERS PIQUE HEIGHTENED ACQUIRER INTEREST

Consistent with overall market norms, M&A volume has continued at a tepid pace with 68 deals announced or completed YTD, a 6.8% decrease YOY. A large portion of the initial transaction inventory in 2024 has been fueled by the emergence of new end market applications and energy efficient systems. Strategic buyers have maintained their dominant market presence with 76.5% of transactions YTD. Public strategics have enjoyed robust share price appreciation (see next page) and have deployed capital for inorganic growth initiatives. Private strategic buyers have comprised a significant percentage of acquisitions (41.2%) with many manufacturers seeking to add robust design capabilities to their portfolio offerings. Private equity buyers (23.5%) have actively targeted the sector YTD, utilizing add-ons to drive incremental value for existing holdings.

**HVAC Equipment M&A Paces Prior Year Activity Through Year-to-Date**



Year-to-date (YTD) ended July 19  
 Source: Capital IQ, FactSet, PitchBook, and Capstone Partners

The median enterprise value of sector acquisitions YTD has registered at \$109.7 million, demonstrating an appetite for middle market participants. Multiples in the HVAC Equipment space have eased, averaging 2.1x EV/Revenue YTD, meanwhile EBITDA multiples have averaged 8.3x. Comparatively, sector multiples from 2020–2023 averaged 1.8x EV/Revenue and 13.3x EV/EBITDA. HVAC equipment providers’ expansive client bases in high growth end markets, technical competence and expertise, and recurring revenue driven by repeat customers are poised to attract strong buyer appetite through year end and into 2025.

### TRANSACTION HIGHLIGHT

		<p><b>Announced Date:</b> June 2024  <b>Enterprise Value:</b> \$8.5 Billion</p>
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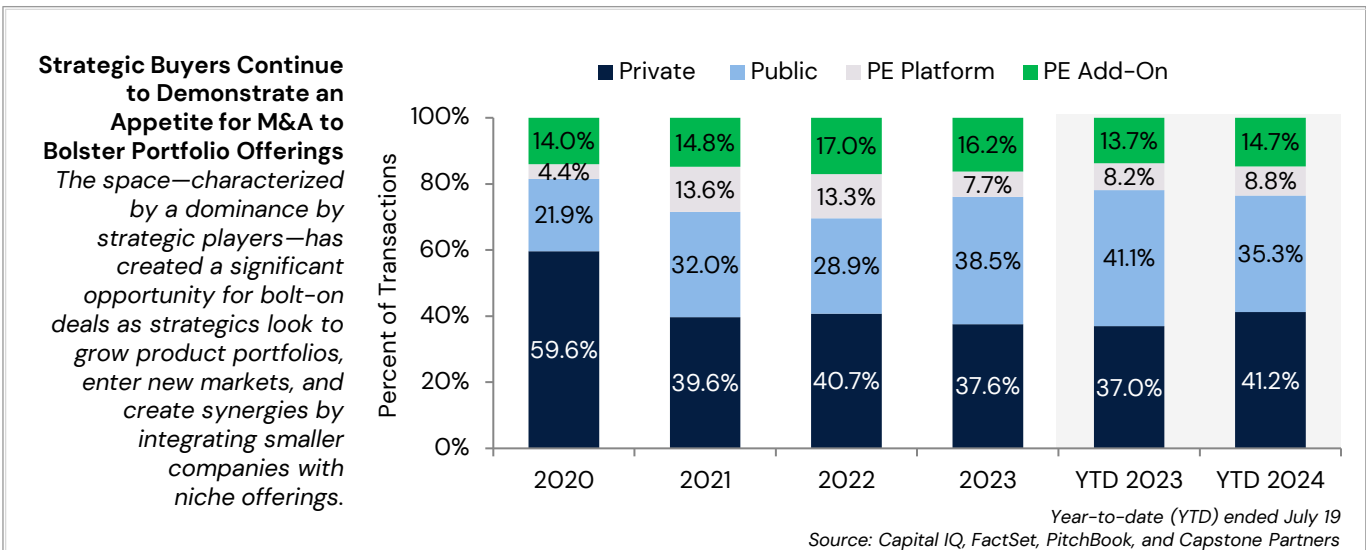
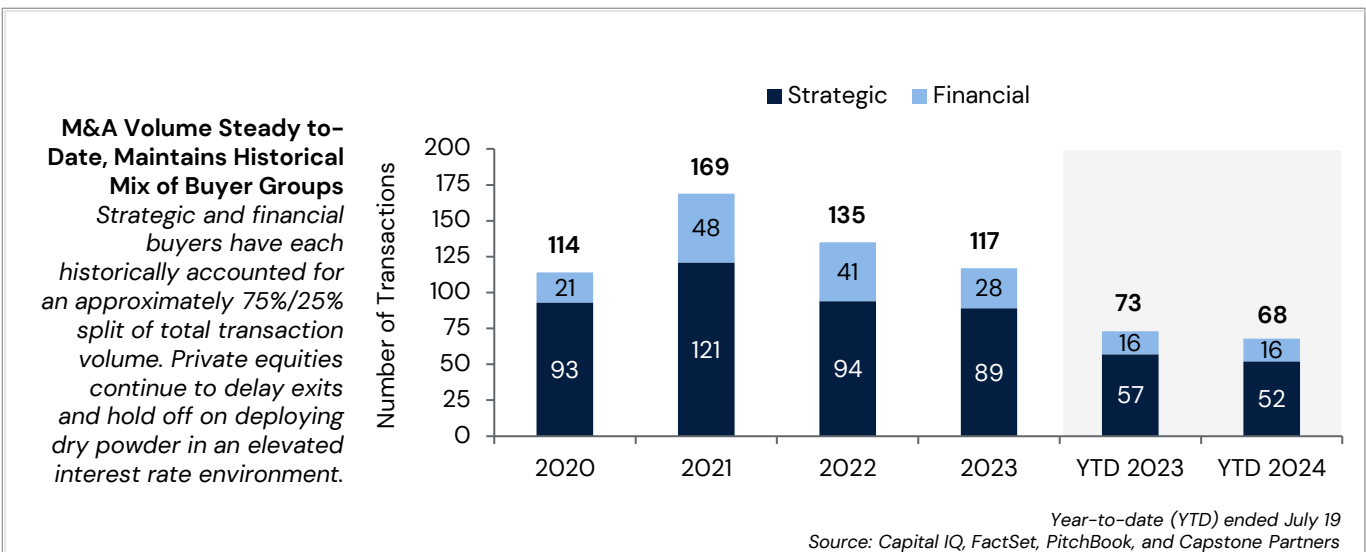
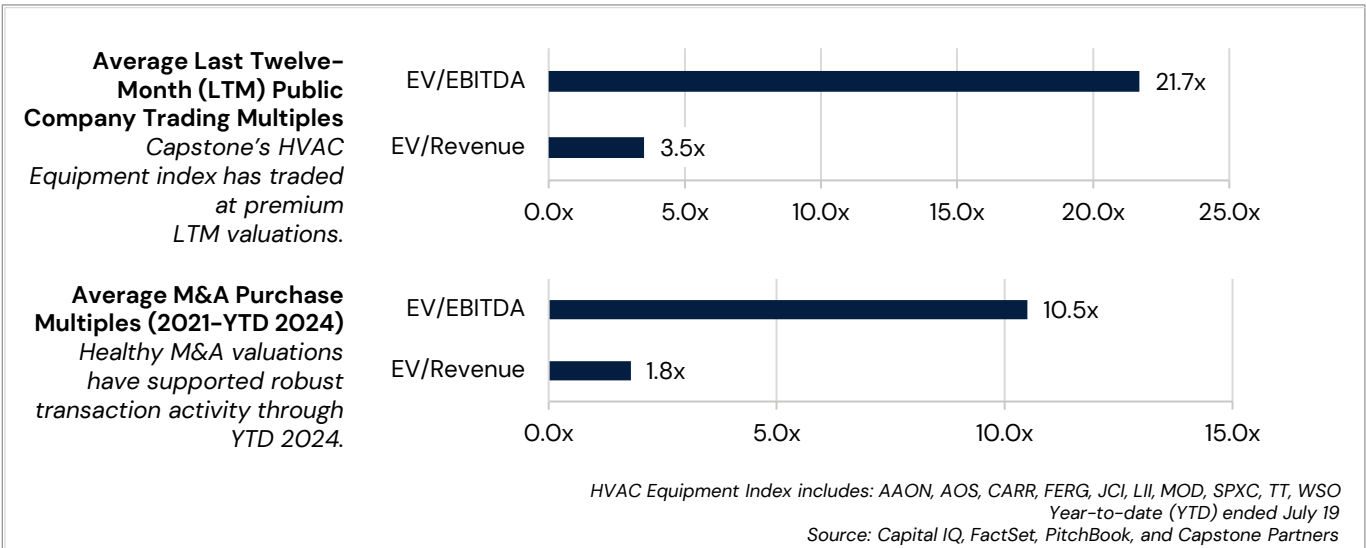
#### Transaction Overview

The world’s largest asset management firm, Blackstone (NYSE:BX), has announced the acquisition of Emerson Electric’s (NYSE:EMR) remaining interests (40%) in Copeland (June, \$8.5 billion). Copeland, previously Emerson Climate Technologies, is a leading HVAC manufacturer of compressors, controls, thermostats, valves, software, and monitoring solutions. Blackstone acquired 60% of Copeland in October 2022 for an enterprise value of \$14 billion, equivalent to 2.8x EV/Revenue and 12.7x EV/EBITDA. Blackstone raised financing for the acquisition directly from banks and lenders, pulling together the cost from more than 30 parties, according to a deal insights report.<sup>6</sup>

#### Sector Implications

Approximately 80% of Copeland’s business is focused on replacing or upgrading existing units. New residential home air conditioning (AC) systems installed in the U.S. are typically about 15% more efficient than a 10–15-year-old system being replaced, according to the report. Residential and commercial buildings are responsible for approximately 40% of global energy consumption and 33% of greenhouse gas emissions. Consequently, the U.S. has implemented regulations mandating improved energy standards for commercial ACs and heat pumps in addition to substantial funding and tax credits to incentivize new equipment installations. Europe has also enacted fossil fuel heating regulations that will result in an estimated 30 million of new heat pump installations by 2030. As a result, Copeland’s portfolio is expected to be at the forefront of these innovations and new standards, which Blackstone and its investors plan to leverage to fuel sector innovation.

## VALUATIONS AND BUYER BREAKDOWN MEET HISTORICAL AVERAGES



## MEGA DEALS MATERIALIZE AS PRIVATE EQUITY REMAINS ACTIVE



Robert Bosch, a supplier of technology and services, has announced its acquisition of the global HVAC solutions business for residential and light commercial buildings from the Johnson Controls (NYSE:JCI)–Hitachi (TSE:6501) Air Conditioning (JCH) joint venture (July, \$4.6 billion, 1.0x EV/Revenue). The transaction includes 16 manufacturing sites and 12 engineering locations in more than 30 countries. The transaction is subject to approvals from antitrust authorities and is expected to be closed in approximately 12 months.

The product portfolio covers the entire spectrum of HVAC solutions for residential and light commercial buildings and includes well-known brands such as York and Coleman in the U.S. and Hitachi in Asia. Bosch intends to integrate the acquired businesses into its Home Comfort Group, which generated \$4.5 billion in revenue in 2023 and is well-positioned in the Heating, Heat-Pump, and Heat Pump-Hybrid Solutions markets, according to a press release.<sup>7</sup> In the U.S. and Europe, Bosch has forecasted more than 50% and 30% growth by the end of the decade, respectively. Overall, Bosch expects the global HVAC market to grow 40% by 2030, driven by technological progress, sustainability-driven shifts, and adapting to expanding regulation.

“As the biggest acquisition in Bosch history, this is an important milestone in the systematic implementation of our strategy for 2030. We are dynamically pushing ahead with the strong development of Bosch and will achieve a globally leading position in the promising HVAC market with this acquisition. In taking this step, moreover, we will strengthen our presence in the U.S. and Asia and achieve a better balance among our business sectors. This is also part of our strategy. In this way, we will open up further growth opportunities and put the company as a whole on a firmer footing.”

– **Stefan Hartung**, Robert Bosch Chairman of the Board, Bosch Press Release<sup>7</sup>

In July, Gryphon Investors-backed AirX Climate Solutions (ACS), acquired AboveAir Technologies, a leading specialty HVAC player focused on the Data Center market (undisclosed). Maryland-based AboveAir will become a new division within ACS, adding another brand to the independent platform for commercial and industrial HVAC solutions. Through the transaction, ACS has expanded its footprint into the Mid-Atlantic region, where ACS will invest in manufacturing capacity at AboveAir's new 100,000-square-foot facility. The acquisition marks ACS's third transaction as it pursues M&A opportunities that address precision cooling, heat management, and other specialty HVAC needs for various mission-critical applications.

"Adding AboveAir to our portfolio of companies will make us all stronger as we continue to focus on delivering cooling solutions for mission-critical equipment," said ACS CEO, Rick Aldridge, according to a press release.<sup>8</sup>



Apollo Global Management (NYSE:APO) and Rettig Group announced their acquisition of Purmo Group (HLSE:PURMO), an indoor climate comfort solutions provider, for an enterprise value of \$658.4 million equivalent to 0.9x EV/Revenue and 7.4x EV/EBITDA (April). Apollo, a global asset manager, offered to acquire a majority stake in Purmo Group, with Rettig as a minority owner. Upon close, Purmo Group would delist from the Helsinki Stock Exchange and become privately owned in Q3 2024.

"The team at Purmo Group has built an impressive business that we believe can play an important role in the clean transition and reach its full potential under a period of private ownership and strategic sponsorship. Apollo, together with Rettig, believes Purmo Group can become one of Europe's leading providers of sustainable indoor climate solutions," commented John Peter Leesi, Purmo Group CEO, according to a press release.<sup>9</sup>





## SELECT M&A TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
07/23/24	R&LC HVAC Business	Robert Bosch	Comprises Johnson Controls (NYSE:JCI) and Hitachi's (TSE:6501) Residential and Light Commercial HVAC business.	\$4,600.0	1.0x	-
07/08/24	Aboveair Technologies	AirX Climate Solutions	Develops heating, ventilation, and air conditioning equipment.	-	-	-
06/06/24	Copeland	Blackstone (NYSE:BX)	Designs HVAC and refrigeration solutions for residential, industrial, and commercial applications.	\$8,500.0	~1.7x	-
05/06/24	Check Corporation	Innovative Motion Technologies	Manufactures flexible heating elements, control systems, and related components.	-	-	-
05/03/24	Hanon Systems (KOSE:A018880)	Hankook (KOSE:A161390)	Provides thermal and energy management solutions to the Automotive market.	\$6,615.0	0.9x	10.1x
04/26/24	Purmo Group (HLSE:PURMO)	Apollo (NYSE:APO); Rettig Group	Offers indoor climate comfort solutions worldwide.	\$658.4	0.9x	7.4x
04/04/24	Delta-Temp	Atlas Copco (OM:ATCO A)	Operates as a distributor of hardware, plumbing, and heating equipment and supplies.	-	-	-
03/21/24	CanFab/BRD	Vibration Mountings & Controls	Manufactures HVAC accessories and noise and vibration solutions.	-	-	-
03/05/24	EMA Indutec	Park-Ohio (Nasdaq:PKOH)	Develops induction heating equipment and converters.	\$14.0	~0.5x	-
03/01/24	Newber's Refrigeration	Blanchard Refrigeration	Supplies residential wine cooling systems.	-	-	-
02/29/24	Quality Air Equipment	Beijer Ref (OM:BEIJ B)	Manufactures HVAC components and accessories.	-	-	-
02/26/24	Scott Springfield	Modine (NYSE:MOD)	Produces custom air handlers.	\$190.1	~1.9x	-
02/07/24	Ingénia Technologies	SPX Technologies (NYSE:SPXC)	Manufactures enhanced quality air handling units intended to serve the Technology industry.	\$300.7	~3.0x	-
02/06/24	Dust Free	CSW Industrials (Nasdaq:CSWI)	Offers a comprehensive line of patented indoor air quality products for residential and commercial HVAC applications.	\$27.4	-	7.5x
02/01/24	Friulair	Ingersoll Rand (NYSE:IR)	Manufactures dryers, filters, aftercoolers, and accessories for the treatment of compressed air.	\$146.5	2.1x	-
02/01/24	Innova	Panasonic (TSE:6752)	Produces hydronics systems, air quality, and air conditioning equipment.	-	-	-
02/01/24	AB Snaige (NSEL:SNGIL)	UAB EDS Invest 3	Manufactures refrigerators and related equipment.	\$16.1	0.8x	NM
01/09/24	Yorkwest Plumbing Supply	Ferguson (NYSE:FERG)	Distributes plumbing, municipal, hydronics, institutional, HVAC, and industrial products.	-	-	-
01/04/24	Electro Industries	Laars Heating Systems	Manufactures electric heating equipment.	-	-	-
01/02/24	Vapor Power	Thermon Group (NYSE:THR)	Offers boilers, steam generators, thermal fluid heaters, liquid phase heaters, super heaters, and electric boilers.	\$100.5	2.0x	-
01/02/24	TMGcore	Modine (NYSE:MOD)	Comprises liquid immersion cooling technology for data centers.	\$12.0	-	-

Mean	\$2,056.7	1.5x	8.3x
Median	\$168.3	1.8x	7.5x

Source: Capital IQ, PitchBook, FactSet, and Capstone Partners

## PUBLIC COMPANY DATA: HVAC EQUIPMENT

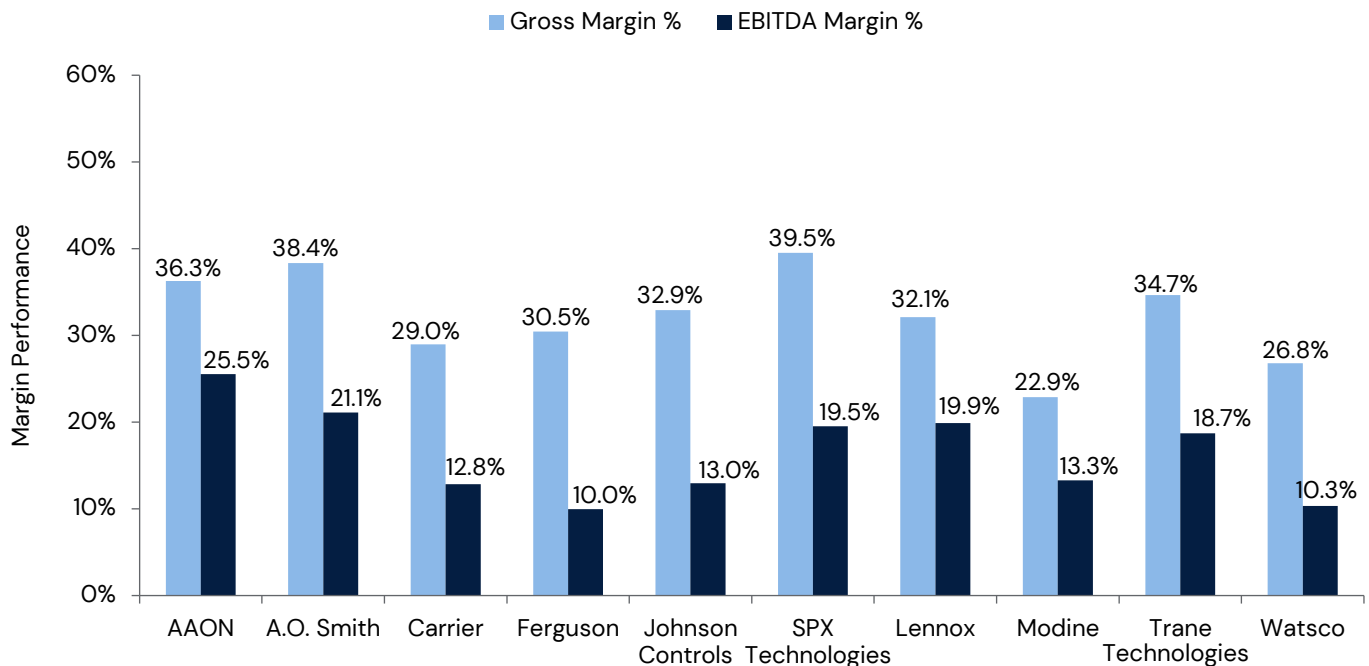
Company	Price 07/19/24	% 52 Wk High	Market Cap	Enterprise Value	LTM			EV / LTM	
					Revenue	EBITDA	Margin	Revenue	EBITDA
AAON, Inc.	\$86.94	90.2%	\$7,029.6	\$7,038.4	\$1,194.3	\$304.9	25.5%	5.9x	23.1x
A. O. Smith Corporation	\$87.99	95.2%	\$12,905.5	\$12,748.5	\$3,928.7	\$828.9	21.1%	3.2x	15.4x
Carrier Global Corporation	\$66.24	94.5%	\$59,683.1	\$76,115.1	\$23,704.0	\$3,043.0	12.8%	3.2x	25.0x
Ferguson plc	\$207.37	92.2%	\$41,776.7	\$46,290.7	\$29,527.0	\$2,947.0	10.0%	1.6x	15.7x
Johnson Controls International plc	\$68.95	92.9%	\$46,449.9	\$58,868.9	\$26,930.0	\$3,493.0	13.0%	2.2x	16.9x
SPX Technologies, Inc.	\$145.07	88.0%	\$6,709.8	\$7,457.9	\$1,884.6	\$368.0	19.5%	4.0x	20.3x
Lennox International Inc.	\$555.76	95.3%	\$19,798.6	\$21,398.2	\$5,019.4	\$998.6	19.9%	4.3x	21.4x
Modine Manufacturing Company	\$107.17	91.6%	\$5,615.1	\$6,071.9	\$2,446.9	\$325.1	13.3%	2.5x	18.7x
Trane Technologies plc	\$330.14	95.1%	\$74,728.0	\$78,780.0	\$18,830.0	\$3,526.9	18.7%	4.2x	22.3x
Watsco, Inc.	\$494.38	95.0%	\$18,297.2	\$18,628.7	\$7,434.4	\$768.4	10.3%	2.5x	24.2x

<b>Mean</b>	<b>16.4%</b>	<b>3.3x</b>	<b>20.3x</b>
<b>Median</b>	<b>16.0%</b>	<b>3.2x</b>	<b>20.8x</b>
<b>Harmonic Mean</b>	<b>15.0%</b>	<b>2.9x</b>	<b>19.7x</b>

EV = enterprise value; LTM = last twelve months  
 \$ in millions, except per share data  
 NM = Not Meaningful

### Public Strategics Demonstrate Elevated Last Twelve-Month Margin Performance



Source: Capital IQ and Capstone Partners as of July 19, 2024

## BUYER UNIVERSE

Capstone has built relationships with and tracked buyers that have been highly acquisitive in the HVAC sector, particularly those that have completed notable transactions in the Equipment subsector. Capstone’s sector experience and vast network provide unique insights into this buyer universe and growth drivers for companies operating in the space.

### Leading Strategic Buyers



### Leading Financial Buyers



Source: Capstone Partners

## HVAC EQUIPMENT REPORT CONTRIBUTORS



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Ted is a Managing Director at Capstone Partners. Prior to joining Capstone in 2010, Ted ran the corporate finance practice in the Central region for Morgan Stanley Smith Barney’s Capital Strategies Group and its predecessor, Citi Capital Strategies. He has over 25 years of experience working with businesses across a variety of industrial and tech-enabled markets and has focused interest in working with HVAC and energy management related businesses. Early in his career, Mr. Polk also provided valuation advisory services for an entity now owned by Duff & Phelps and was a lender to the Utility industry in the Corporate Banking Group at The Bank of New York and its predecessor Irving Trust Company.

Ted is an active public speaker on the topic of business exits and recapitalizations of privately owned businesses and is a frequent recipient of industry awards for his advisory services. Ted was recognized by the Global M&A Network for his participation in both the Canadian Deal of the Year in 2022 and the Aerospace and Defense Deals of the Year in 2024 and 2021. He was similarly recognized in 2018 for his involvement in the USA Recapitalization Deal of the Year, in 2017 for his participation in the U.S. Corporate M&A Deal of the Year and in 2015 for USA Recapitalization Deal of The Year. Previously, he was also recognized by the M&A Advisor in 2016 for his role on the Professional Services Deal of the year and was also previously recognized by this organization for his role on transactions awarded the Middle-Market M&A Deal of the Year, the Middle-Market M&A Financing Deal of the Year, and the Cross-Border Middle-Market Deal of the Year.



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Neve serves as a Market Intelligence Analyst at Capstone Partners covering the Industrials industry. Prior to joining the firm’s Market Intelligence Team, Neve was an intern at the Bank of New York Mellon and Gray Private Wealth. Neve graduated with a Bachelor’s of Science degree in Finance from Bentley University.



## FIRM TRACK RECORD

Capstone Partners has represented a diversified group of HVAC and infrastructure-related companies that serve both Residential and Commercial marketplaces. Our Industrials Group has an active market presence in the HVAC sector, allowing Capstone to provide HVAC companies with experienced, up-to-date market data and access to key decision makers among the sector's most active acquirers and investors.

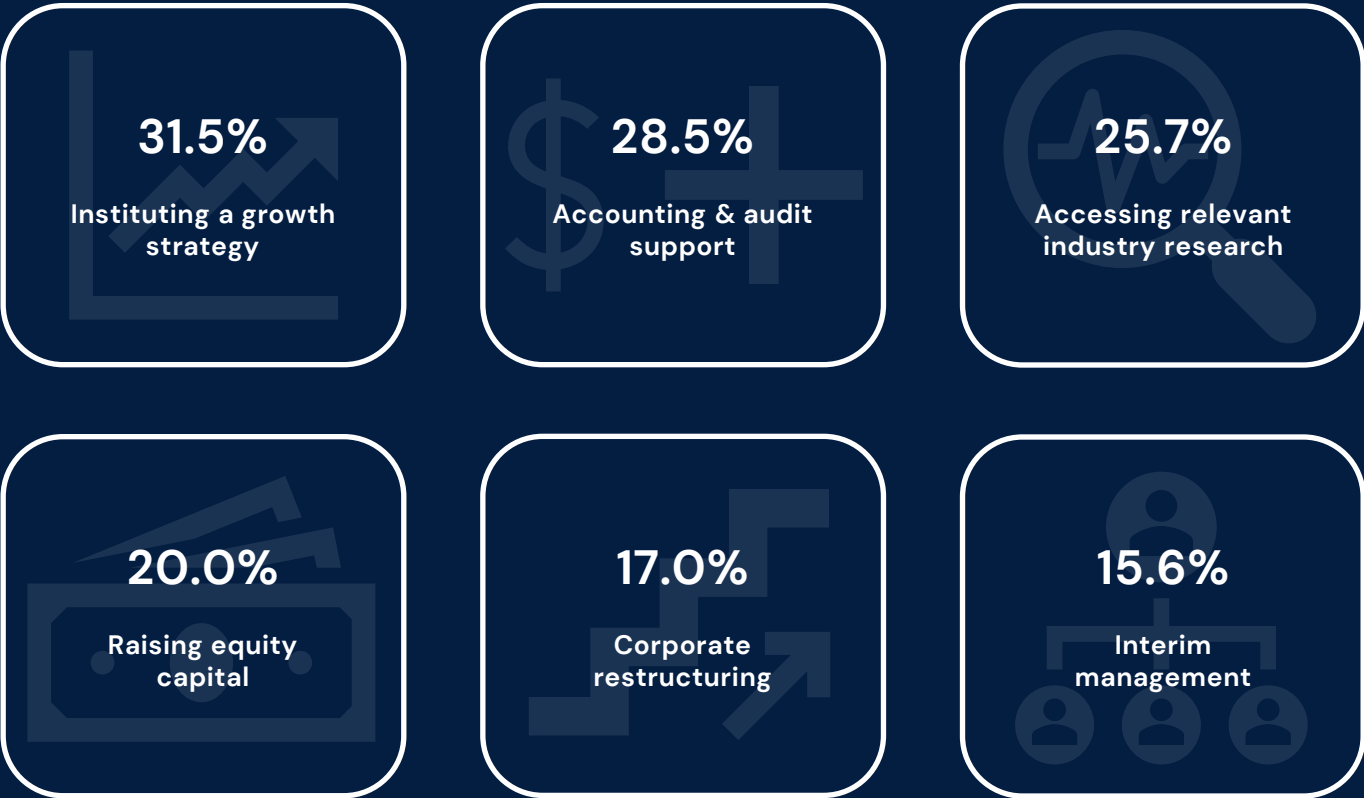
<p><b>CONFIDENTIAL</b></p> <p>IN CLOSING</p> <p>MANUFACTURER OF ENVIRONMENTAL CONTROL SYSTEMS</p>	<p> Eaglestone</p> <p>HAS RECEIVED DEBT FINANCING FROM</p> <p></p>	<p></p> <p>HAS DIVESTED</p> <p></p>	<p></p> <p>HAS BEEN ACQUIRED BY</p> <p></p> <p>EAGLESTONE, LLC A PORTFOLIO COMPANY OF </p>
<p> <b>SCFS</b> Mechanical - Electrical - Plumbing</p> <p>HAS BEEN ACQUIRED BY</p> <p> <b>ServiceLogic</b> Building Efficiency and Sustainability A PORTFOLIO COMPANY OF </p>	<p></p> <p>HAS BEEN ACQUIRED BY</p> <p><b>RADIUS MECHANICAL</b></p>	<p></p> <p>HAS BEEN ACQUIRED BY</p> <p></p>	<p> <b>POWRMATIC</b> A portfolio of </p> <p>HAS BEEN ACQUIRED BY</p> <p></p>
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## CAPSTONE’S PROPRIETARY RESEARCH REVEALS TOP SERVICES IN DEMAND

The current stage and initiatives of a business often dictates which financial services are in demand. As the majority of CEOs polled in Capstone’s 2023 Middle Market Business Owners Survey indicated growth strategies are a priority for 2024, the lion’s share (31.5%) of owners anticipate a need for growth strategy support services. Similarly, 28.5% of owners require accounting and audit support to shore-up cash flows and establish financial stability. In addition, more than one-fourth of CEOs demonstrated an interest in accessing relevant industry research to keep up with emerging industry trends, complete competitor analyses, and track capital markets activity in their space.

Capstone has developed a full suite of [corporate finance solutions](#) to help privately owned businesses and private equity firms through each stage of the company’s lifecycle, ranging from growth to an ultimate exit transaction. In addition, we developed a specialty consulting practice to provide financial advisory services to companies experiencing distress or performance challenges. All of these capabilities are supported by 16 industry groups, an active sponsor coverage group, and a dedicated market intelligence team.

### Top Financial Services Required by Business Owners in 2024



Question: Have you ever had, or do you anticipate having, a need for any of the following services?  
 Source: Capstone Partners’ Middle Market Business Owner Survey, Total Sample Size (N): 435



## ENDNOTES

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### Disclosure

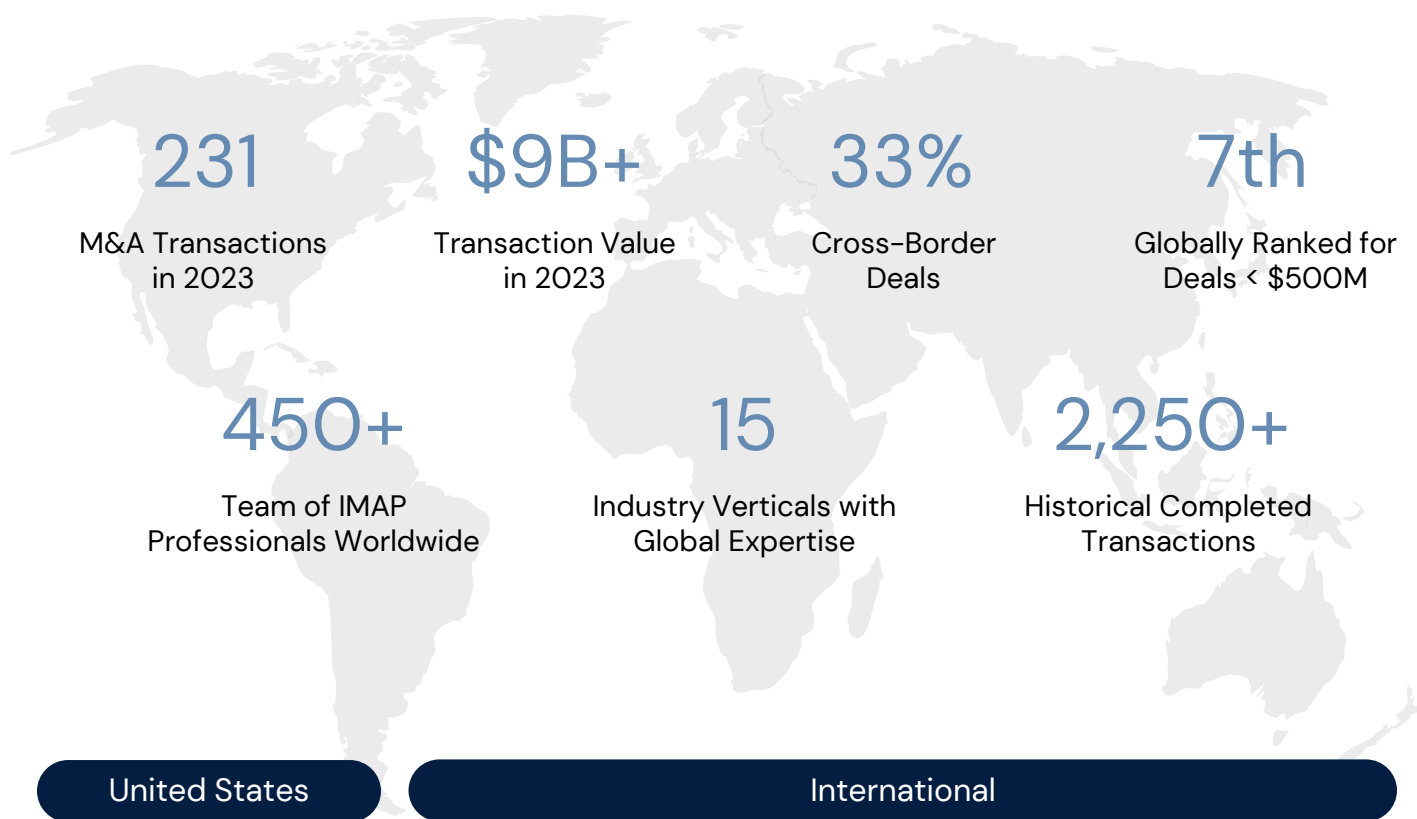
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