

M&A SPOTLIGHT ON HVAC



Notable HVAC M&A Activity

- On March 21st, **Air Pros Residential and Commercial Air Conditioning Services** (“Air Pros”) announced the acquisition of **Summer’s Heating and Cooling**, based in Fort Lauderdale, Florida
 - On January 23rd, **Air Pros** also announced the acquisition of **Climate Solutions LLC**, an HVAC service company based in Colorado Springs, Colorado
- On March 11th, **The Wrench Group**, recently acquired by private equity firm **Leonard Green and Partners**, announced the acquisition of Jacksonville-based **Donovan Heat and Air Inc.**
 - On March 2nd, **The Wrench Group** also acquired **Florida Cool Inc.**, continuing its expansion into the Southwest Florida market
- On March 9th, **Comfort Systems USA** announced it had entered into an agreement to acquire **TAS Energy Inc** (“TAS”), a leading provider of modular construction systems based in Houston Texas. TAS is expected to contribute ~US\$180 million in revenue and ~US\$16 million in EBITDA per year
 - On February 10th, **Comfort Systems USA** announced the acquisition of **Starr Electric Company** (“Starr”) headquartered in Greensboro, North Carolina. Starr is expected to contribute ~US\$95 million in revenue and ~US\$5 million in EBITDA per year
- On January 14th, **Cerebrus LLC**, a global private equity firm, announced a C\$75 million investment over the next three years in **XNRGY Climate Systems**, a newly formed HVAC engineering and manufacturing company based in Montreal and focused on sustainable solutions
- On November 13th, **SPX Corporation**, an engineering products supplier and manufacturer, acquired **Patterson-Kelly**, a manufacturer and distributor of commercial boilers and water heaters based in East Stroudsburg, Pennsylvania for US\$60 million

HVAC M&A news continued on the next page...

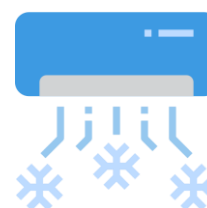
HVAC M&A Activity (*continued*)

Thus far, 2020 has seen considerable M&A activity, as consolidators and financial buyers have acquired a number of leading local businesses



- On March 9th, **PMC Capital Partners**, a private equity firm based in Los Angeles, acquired the Chino branch of **The AMS Group**, one of the largest service providers in commercial / industrial HVAC
- On March 4th, **Right Time Heating and Air Conditioning Canada**, backed by private equity firm **Clairvest Group**, expanded into London, Ontario with the acquisition of **M&K Climate Care**
- On March 2nd, **Trane Technologies plc**, formerly known as **Ingersoll-Rand plc**, announced that it successfully completed a transaction with **Gardner Denver Holdings, Inc.** wherein the Industrial segment of the former Ingersoll-Rand plc was separated and combined with Gardner Denver to form **Ingersoll Rand Inc**, while the Climate segment now operates as Trane Technologies
- On March 2nd, **TurnPoint Services Group** announced the acquisition of **Ellington A/C & Heat Inc.** based in Rockledge, Florida
 - On January 7th, **TurnPoint Services Group** also acquired **Sunny Service Heating and Air Conditioning** based in Hurst, Texas
- On February 19th, **The SEER Group LLC**, an HVAC business aggregator, announced the acquisition of **Coffman & Company** based in Denver, Colorado, marking SEER's twelfth acquisition in the HVAC space
- On December 19th, **CoolSys**, the parent company of several HVAC service companies across the U.S., announced the acquisition of **BRR Refrigeration**, a commercial refrigeration and HVAC services company based in Virginia Beach, Virginia
 - On December 16th, **CoolSys** acquired **Tech Mechanical**, a leading provider of commercial and industrial HVAC services in Southeast Michigan
 - On October 9th, **CoolSys** purchased **Building Air Services**, a provider of commercial HVAC services
 - In addition to the recent acquisitions, **CoolSys** announced that it will be rebranding all of its operating businesses under the CoolSys name over the next 12-18 months
- On November 18th, **Pueblo Mechanical & Controls**, a commercial HVAC services company owned by private equity firm **Huron Capital**, announced the acquisition of **Niemeyer Brothers Plumbing Inc.**, a commercial plumbing services provider based in Phoenix, Arizona
- On October 4th, **EMCOR Group, Inc.** announced the acquisition of **Batchelor & Kimball Inc ("BKI")**, a provider of mechanical construction and maintenance services for US\$220 million. BKI is expected to generate revenues of ~US\$400 million in 2020
- On October 2nd, **Conditioned Air**, a residential and commercial HVAC service company based in Naples, Florida, acquired **Honest Air Conditioning**, which is based in Venice, Florida

Acquisitions have included manufacturers, distributors, commercial service and design/build, with a particular emphasis on home services and install

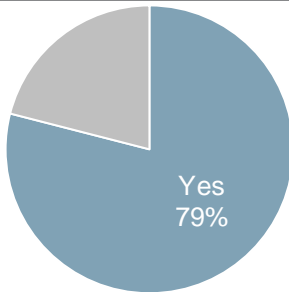


Key factors for acquirors include size, growth, local reputation, and the strength of the market served

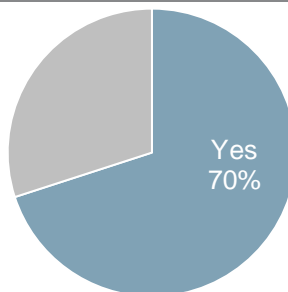
Industry Outlook: What The Experts Are Saying

According to the AHR Expo 2020 Outlook Survey:

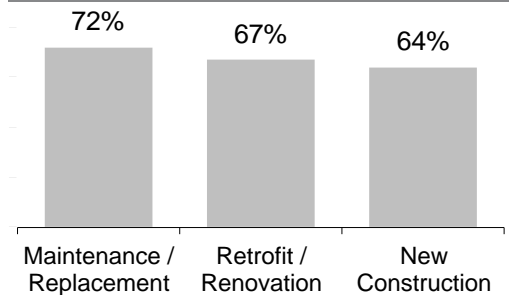
Expecting Positive Prospects for 2020



Reported +10% Growth in 2019



Segments with the Best Prospects in 2020



COVID-19 Recommendations from ASHRAE

In response to the global COVID-19 pandemic, the American Society of Heating, Refrigeration and Air-Conditioning Engineers (“**ASHRAE**”) has made the following recommendations to optimize HVAC systems to attempt to limit the spread of the virus:



Systems

- Improve central air filtration on the minimum efficiency reporting value scale and seal edges on the filters to limit air bypass
- Add portable room air cleaners with high efficiency particulate air filters
- Implement ultraviolet germicidal irradiation (“**UVGI**”) to eliminate airborne particles that can act as carriers of the virus, especially in high traffic areas such as waiting rooms and shelters



Operations

- Increase outdoor ventilation, as with a lower population in the building, this increases the effective dilution ventilation per person
- Disable demand-controlled ventilation to keep systems from adjusting to a lower ventilation rate due to lower occupancy
- Open minimum outdoor air dampers, as high as 100%, thus eliminating air recirculation within buildings
- Keep systems running longer hours, if possible 24/7 to enhance ventilation and airflow

While essential services such as HVAC repair and maintenance are of utmost important during times like these, it is important to stress a safety first approach to combat the spread of the virus. Keeping employees and customers safe is the top priority for leading HVAC firms in such challenging times

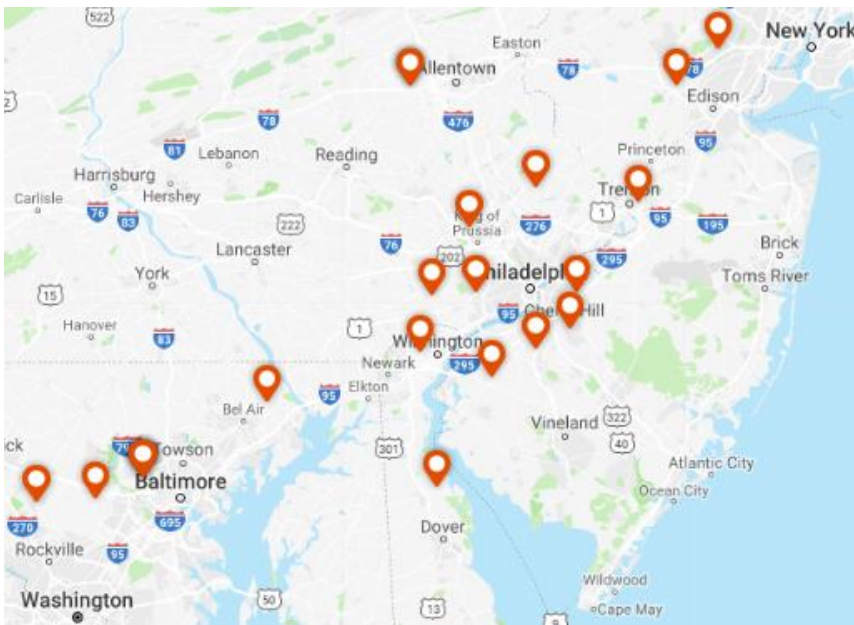


HVAC M&A Case Study: Sale of Horizon Services



- In November 2019, **Horizon Services** (“Horizon”) was acquired by private equity firm **New Mountain Capital** (“New Mountain”) from the previous owner, **Sun Capital Partners** (“Sun Capital”) for an undisclosed sum
- Founded in 1987 and headquartered in Newark, Delaware, Horizon is a leading heating, air conditioning, and plumbing service provider with operations focused on the North Eastern region of the U.S.
- Horizon has more than 1,400 employees and 900 service trucks that serve customers through ~20 locations across the eastern U.S.
- Sun Capital acquired Horizon in 2017, and completed 10 acquisitions during its hold period, greatly expanding Horizon’s operating footprint

Map of Horizon’s Service Area



NEW MOUNTAIN CAPITAL LLC

- New Mountain is a New York-based investment firm with US\$20 billion in assets under management
- The private equity group has a generalist focus and seeks to acquire five companies per year in the US\$100-1,000 million enterprise value range

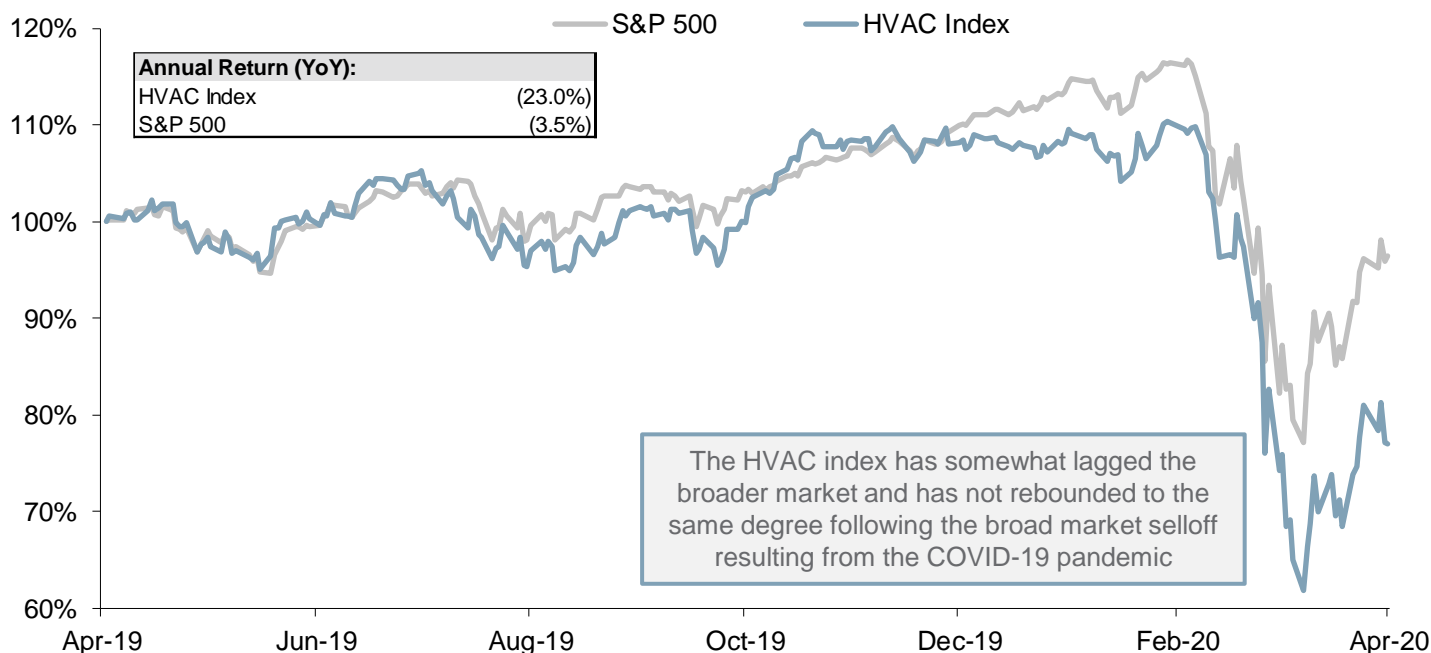


SUN CAPITAL

- Sun Capital is a global private equity firm that has invested in more than 375 companies worldwide with revenues exceeding US\$50 billion across a broad range of industries and transaction structures

Following shortly after the sale of the Wrench Group to Leonard Green and Partners, the acquisition of Horizon Services by New Mountain Capital highlights the increasing interest in the HVAC industry by private equity investors. This marks the second major sale of a national platform in just a few months, with Wrench and Horizon having served as early movers in the consolidation of the HVAC market

HVAC Index Performance



Key HVAC Comparables

(All figures in USD millions unless indicated)

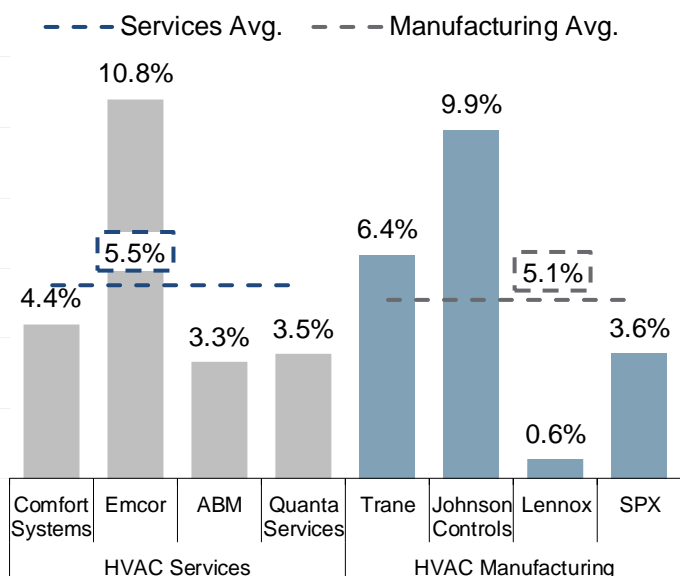
	Market Cap	Enterprise Value (TEV)	TEV / EBITDA		Price / Earnings		1 Year Return
			2020E	2021E	2020E	2021E	
HVAC Service Comps:							
Quanta Services, Inc.	4,654	6,149	5.8x	5.3x	8.8x	7.9x	(18.6)%
EMCOR Group, Inc.	3,325	3,537	6.8x	6.4x	10.9x	10.2x	(23.2)%
ABM Industries Incorporated	2,102	3,097	10.7x	na	20.2x	na	(14.5)%
Comfort Systems USA, Inc.	1,152	1,414	6.0x	5.7x	9.4x	8.6x	(45.3)%
HVAC Service Average			7.3x	5.8x	12.3x	8.9x	(25.4)%
HVAC Manufacturing Comps:							
Johnson Controls International plc	21,739	28,210	10.1x	8.7x	14.5x	10.9x	(22.1)%
Trane Technologies plc	20,448	25,329	14.0x	12.6x	21.3x	17.6x	(24.0)%
Lennox International Inc.	7,218	8,494	14.1x	12.6x	19.6x	16.5x	(30.4)%
SPX Corporation	1,535	1,899	9.2x	8.8x	12.8x	11.7x	(6.0)%
HVAC Manufacturing Average			12.7x	11.3x	18.5x	15.0x	(25.5)%
Total HVAC Average			9.6x	8.6x	14.7x	11.9x	(23.0)%

Note: HVAC Index is composed of equally weighted market prices for those seen on the list of comparable companies
Source: Capital IQ

Industry Liquidity Landscape

Cash Position

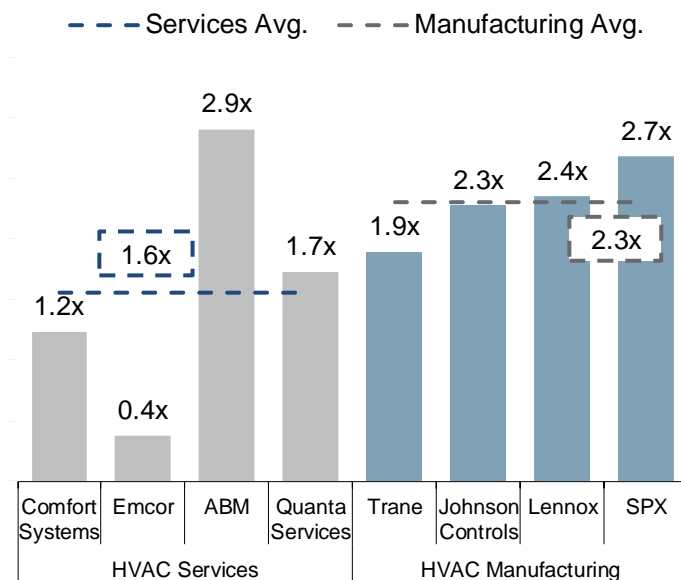
Cash % of Market Cap



Several publicly traded companies in the sector have amassed significant cash positions

Leverage Profile

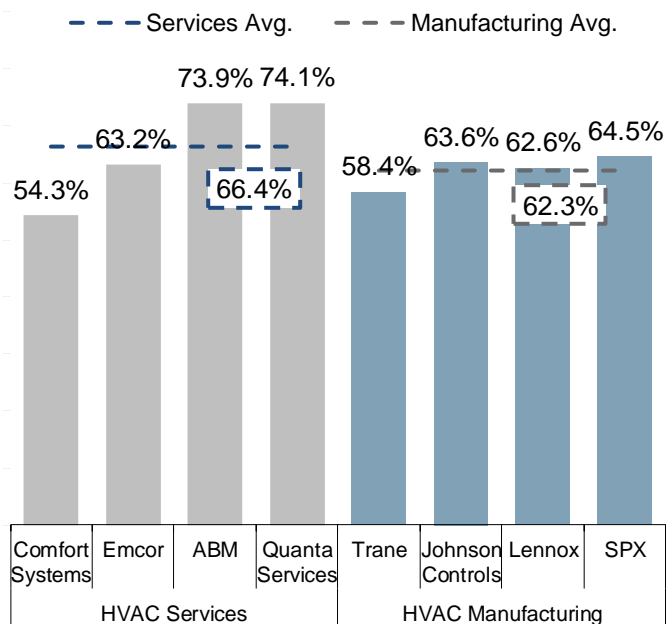
Net Debt / LTM EBITDA



While most of the sector leaders have fairly modest leverage levels

Market Performance

Current Price / 52-Week High



Nonetheless, share price performance has suffered, with public companies trading at an average of 64% of their 52 week highs

Outlook – Analyst Estimate Revisions

(In US\$ millions)

Company	Current 2020E EBITDA Est.	January 2020E EBITDA Est.	% Change
HVAC Service			
Comfort Systems	237.5	224.3	5.9%
Emcor	519.9	583.4	(10.9%)
ABM	289.6	333.9	(13.3%)
Quanta Services	1,068.8	1,102.2	(3.0%)
Average:			(5.3%)
HVAC Manufacturing			
Trane	1,814.5	2,834.5	(36.0%)
Johnson Controls	2,784.0	3,636.1	(23.4%)
Lennox	600.3	686.9	(12.6%)
SPX	205.6	219.4	(6.3%)
Average:			(19.6%)

Analysts have sharply reduced their 2020E estimates, with manufacturers expected to bear the brunt of the ongoing market disruption

About Origin Merchant Partners

Origin Merchant Partners is a leading independent investment bank providing acquisition and divestiture services across North America. For additional information on the matters contained herein please contact any member of our team below



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