

FACILITY & RESIDENTIAL SERVICES

HVAC SERVICES 4th Quarter 2024 M&A Outlook



Commercial Facility Services Catch Up

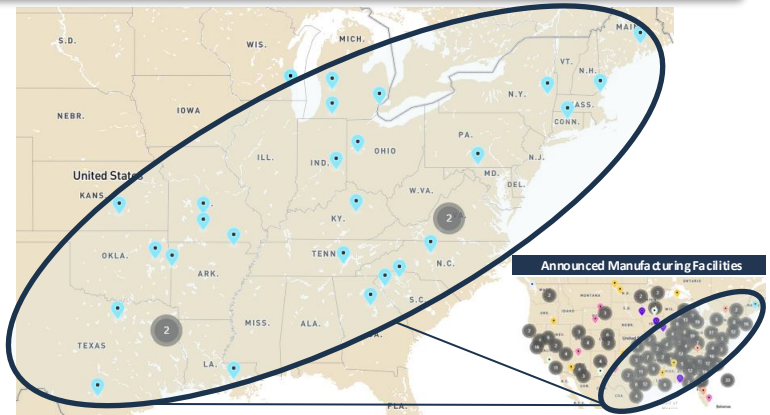
Surprising trends in industrial manufacturing and construction provide Commercial Facility Services the predictable, recurring revenue that Residential Services have historically enjoyed

- 762 Manufacturing Facilities announced since the passage of the Inflation Reduction Act.
- 39 of these facilities are "Clean HVAC or Heat Pump" manufacturing facilities, with industrial production centered in the Eastern Region of the United States.
- Clean Manufacturing facilities are accompanied by additional reshoring activities, significant private investment in data centers, and a broader growth in levels of construction throughout the economy, which together with a growing backlog of high margin commercial projects developing alongside the US commercial/industrial facility base, provides predictable recurring revenue for contractors in the industry.

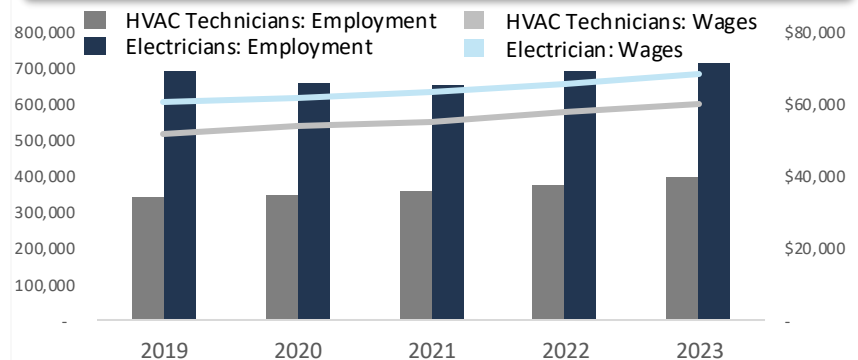
Relationship between wage growth and employment levels show easing of labor-related headwinds, a persistent dampener to growth in the industry

- As demand for Electrical and HVAC Services across commercial, industrial and residential end-markets continues to grow, finding enough skilled technicians to service the high levels of demand has posed a challenge for business owners.
- HVAC wage growth and employment levels have grown at a 3.8% CAGR since 2019. Likewise, HVAC has consistently seen high levels of valuation and growth over that period.
- Electrician mean annual wage growth saw low levels of growth 2019-2021, leading to decreased employment levels. This trend has rebounded since 2021 with employment growing at a 4.7% CAGR and wages growing at a 3.5% CAGR since 2021. Growth in the electrician labor market alongside significant growth in demand from the commercial and industrial sectors likewise positions the electrical subsector of commercial facility services for high levels of valuation and growth.
- A significant and rapidly growing portion of electrical technicians are multi-skilled across other construction related industries such as HVAC, leading to an easier labor market and positioning commercial facility services company to cross-sell high-margin, high recurring electrical and mechanical services.

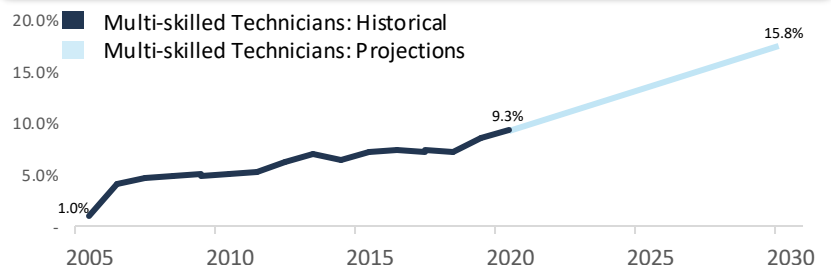
Clean HVAC Manufacturing Facilities ⁽¹⁾



Employment Statistics | HVAC & Electricians ⁽²⁾



Multi-skilled Technicians (% of workers) ⁽³⁾



1) US Department of Energy

2) US Census Bureau

3) National Center for Construction Education and Research

Construction Growth Driving Spending Across the Economy

Construction Spending At Record Level of Sustained Activity

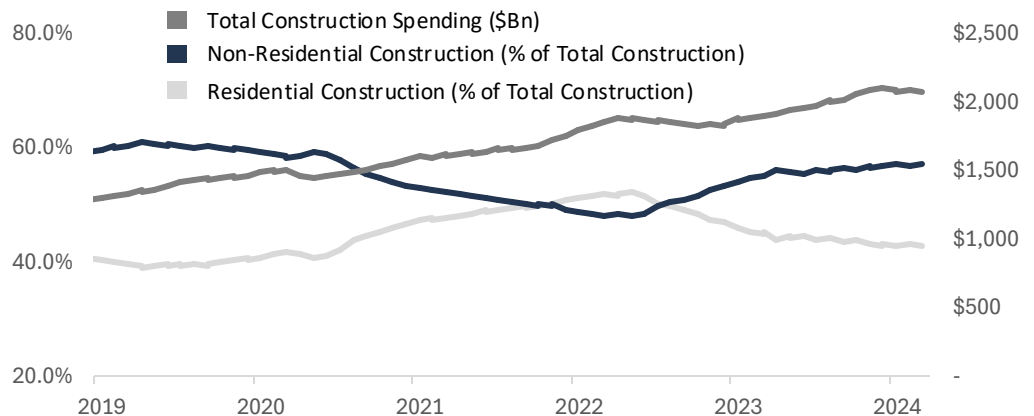
Non-Residential outpaces Residential Construction

Manufacturing Construction Greatly Increases

Industrial Production at Stables Levels Despite Spending Growth

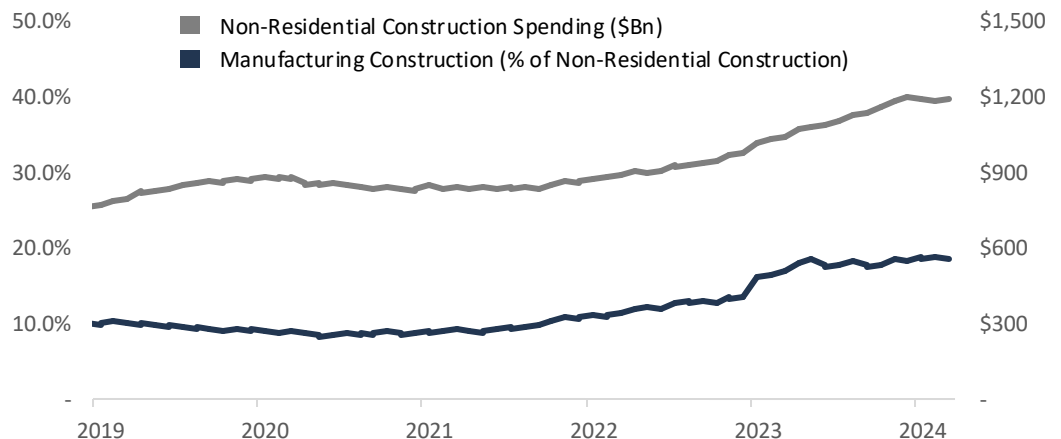
Non-Residential Construction Once Again Outpaces Residential Construction

- Total Construction Spending has continued to grow at a rapid pace since 2019.
- Demand for HVAC/Mechanical and Electrical Services span both Residential and Non-Residential Construction, with the latter related to Commercial Services



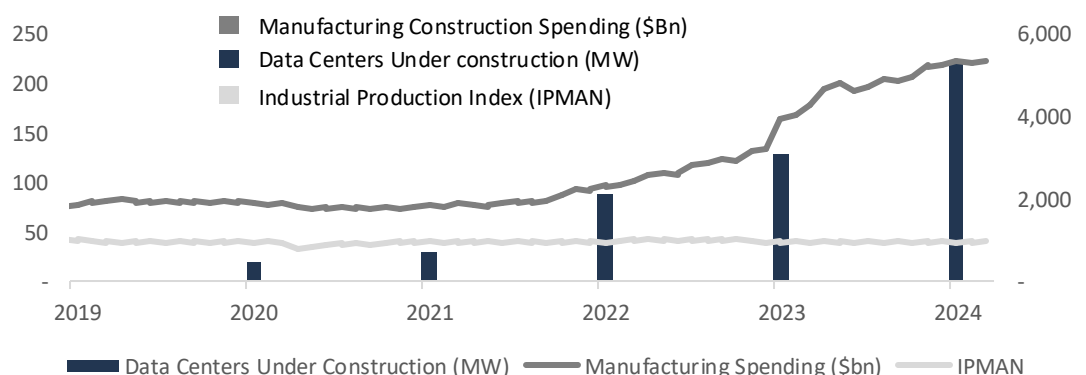
Manufacturing Construction Spend more than Doubles in last 5 years

- Manufacturing Construction now comprises ~20% of all non-residential Construction, up from ~10% in 2020, during a period when total non-residential construction spend nearly doubles itself.
- Reshoring of HVAC and semi-conductor manufacturing increase demand significantly



Industrial Production Levels Remain Stable Amid Explosive Manufacturing Construction Growth

- Flat Industrial Production levels coupled with high manufacturing spend indicate high levels of future demand for electrical/mechanical services from new facilities
- Data Centers with high demand for electrical and mechanical services fueling growth



Outsized Demand for FRS Platforms



Attractive Industry Dynamics Fuel Surge of M&A Demand

Outsized Demand for Private Equity to Establish FRS Platforms

Fundamental Demand for Services	<ul style="list-style-type: none"> ▪ Commercial Services End-Market Demand: The demand for commercial services is inherently steady and consistent relative to other industries, fueled by regulatory requirements such as building codes and insurance mandates. This structurally recurring demand is compounded by an aging inventory of commercial properties. As buildings continue to age and require more maintenance, the need for services like HVACR and Electrical work expected to remain robust. 	<ul style="list-style-type: none"> ▪ Residential Services End-Market Demand: The demand for residential services is buoyed by the expanding and aging \$50 trillion real estate asset base in the United States, continuously generating maintenance and recurring service opportunities. Platforms that can leverage this market segment stand to benefit significantly from the steady need for upkeep and enhancements.
Outsourcing Trend	<ul style="list-style-type: none"> ▪ Cost management and financial flexibility alongside the rising quality of 3rd-party maintenance providers are driving the shift towards outsourcing services. This trend allows businesses to focus on core activities while leveraging external expertise for high-quality and efficient facility management. 	<ul style="list-style-type: none"> ▪ Advanced technology and digital monitoring, alongside cost management strategies are spearheading the shift towards outsourcing within residential services.
Fragmentation & Consolidation	<ul style="list-style-type: none"> ▪ Rollup strategies provide integrated, one-stop solutions for internal managers of commercial facilities. ▪ Outsourcing increases demand for services, attracting new market entrants. 	<ul style="list-style-type: none"> ▪ Significant consolidation opportunities across fastest growing geographies, alongside platform exits by most competitive private equity investors, preparing wave of new M&A activity.

Attractive Residential & Facility Service Company Attributes

Recession Resistant Demand

Long Customer Life

Regulatory Support

Recurring Revenue

High Density Service Areas

Asset Light

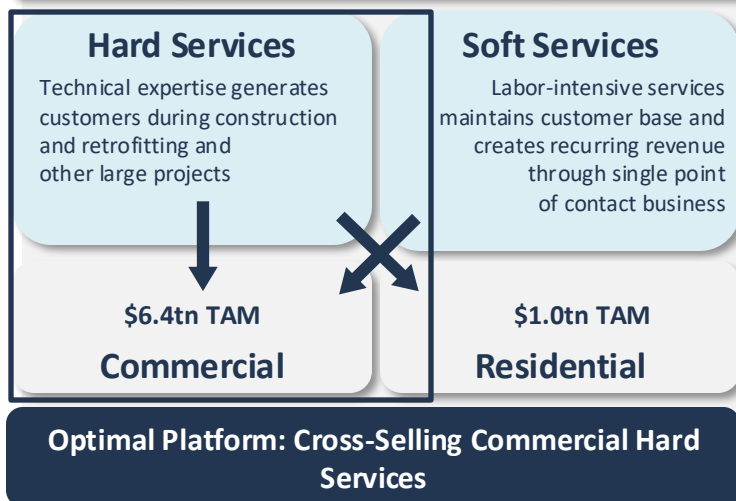
Cross-Selling Provides for Low Cost of Customer Acquisition and High Recurring Revenue

The industry contains two complementary categories; Hard and Soft Services, which both reach the Commercial and Residential End-Markets

Hard Services are characterized by a high degree of technical, skilled labor which requires robust regulatory support. This segment has exposure to the construction and development of facilities, providing a spearhead for selling future recurring maintenance related services, which are often soft services. The technical complexity and regulatory adherence required in hard services underscore their critical nature and resultant high margins.

Soft Services are characterized by low technical skills and high labor intensiveness. Activity in this sector tends to service maintenance and repairs, resulting in recurring revenue. The relationship between the two is strategic; hard services establish the initial connection with clients, which is then leveraged to introduce ongoing maintenance service agreements.

Integrated/Diversified Facilities Management



Strength of Cross Selling Opportunity Based on Platform Investment

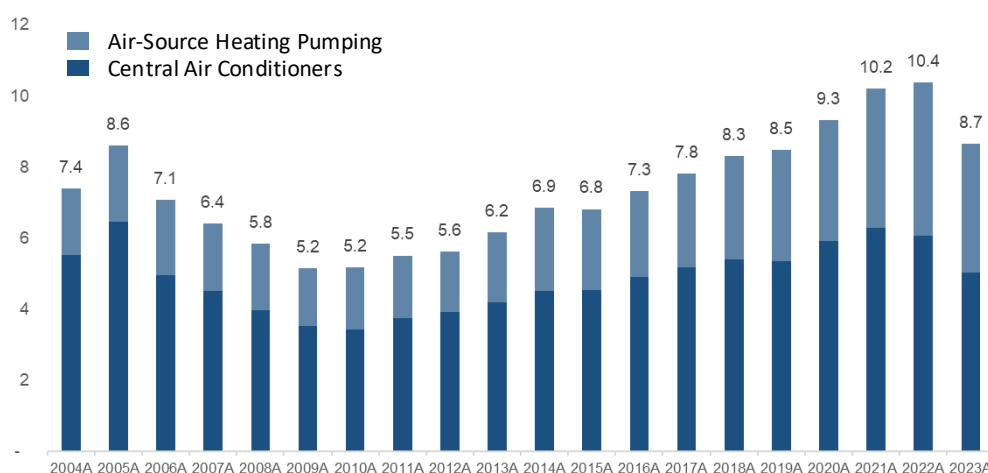


Sector Overview ⁽¹⁾⁽²⁾

Despite recessionary and inflationary headwinds, US Real GDP continues to increase. Q4 2023 marked a shift from Q3 2023, when inflation dampened disposable income, curtailing spending on HVAC systems and creating significant backlogs in the commercial end-market. For example, Comfort Systems (NYSE:FIX), reported a 26% increase in construction backlog and a 2.4% rise in their Service Maintenance Base year-over-year in 2023, proving out the thesis that despite economic headwinds, HVAC maintenance and repair services continue to grow.⁽²⁾ 2024 YTD revenue growth across the sector demonstrates the reliability of these commercial revenues.

Legislative developments continue to limit the functionality of outdated HVAC equipment, requiring upgrades with best-in-class technology, while tax credits have driven the demand for upgrades as well. API Group's (NYSE:APG) 'inspection first model' has responded by performing inspection work to cross-sell other services, boasting \$3-\$4 of recurring maintenance related work for every \$1 of core inspection work performed.⁽²⁾ Few enterprises with economies of scale exist which are capable of curtailing smaller participants to bid for larger commercial contracts. While many middle market players focus on providing niche services to specialized end markets, the competition at scale is soft, allowing platform consolidators to compete effectively at the higher end of the market. Together, these factors provide the opportunity for middle market businesses in the fragmented sector to profitably utilize M&A to geographically expand and add offerings while they pursue the path to scale.

Air Conditioners and Heating Pump Shipments (millions of units) ⁽³⁾



Key Facts & Figures⁽³⁾⁽⁴⁾

- **Highest** valuation range on average amongst the FRS sector with transactions consistently attaining double-digit multiples.
- **60%+** of all energy consumption in buildings come from HVACR systems, underscoring the value in energy efficiency initiatives and technology.
- **>145,000** businesses across the United States
- **2023** reported as 'hottest summer ever' at a time that populations continue to move towards the Sun-Belt and Southern regions of the United States
- **8.7mm** Air Conditioners and Heating Pump shipments in 2023, demonstrating a base level of demand higher than that of the peak of the housing boom in 2005.

M&A Driver Considerations & Positioning

Considerations

- Private equity continues to deploy capital in the HVACR Services sector, the long-time darling of FRS investors given the key financial profile of recurring revenue, to critical infrastructure assets.
- Recent M&A activity has trended towards enhancing platform holdings through add-on acquisitions and leveraging M&A to break into new geographies, add technologies or capabilities, capitalize on operational synergies, while bolstering scale.
- Recessionary resilience, recurring revenues, and strong tailwinds including energy efficiency and indoor air quality continue to attract private equity buyers to the space.
- **Early indicators in 2024 have shown that EBITDA multiples in M&A transactions are trending towards their historically high levels in the low-mid teens multiple range, despite a dip in some deals in 2023 in the high single-digit multiple range.**

Positioning

- Owners considering an M&A transaction can make their business more attractive to investors by:
 - Capitalizing on recent legislative efforts to provide technological upgrades and inspection services to their service portfolio
 - Documenting increased frequency of upgrade and modernization cycles within customer base
 - Demonstrating a strong contracted backlog, and a high conversion from projects to maintenance/recurring revenue
 - Securing growth in business related to new trends such as indoor air quality initiatives, and demographic shifts to the south and sunbelt regions of the US
 - Maintaining robust back-end accounting, reporting and scheduling frameworks that can be integrated with other businesses post-close

1) US Bureau of Economic Analysis

2) Company Reports

3) AHSI

4) US EPA



Date	Acquirer	Target	Description
Sep-24	 		Best Choice Supply Co. , a Lexington, KY-based distributor of heating, ventilation, and air conditioning products across Lexington and Somerset, Kentucky, has been acquired by Team Air Distributing , a portfolio company of Kian Capital , a Charlotte, NC-based private equity firm. Team Air is a distributor of HVAC, plumbing and electrical equipment intended for residential and commercial contractors.
Sep-24			Woodstock Heating & Cooling , a Woodstock, IL-based provider of heating, ventilation, and air conditioning (HVAC) services intended for residential and light commercial properties, has been acquired by Light Bay Capital , a Los Angeles, CA-based private equity firm with existing investments in service providers of HVAC, plumbing and electrical services for residential customers.
Aug-24			FirstCall Mechanical Group , an Austin, TX-based leading commercial services company backed by SkyKnight Capital , a San Francisco, CA-based private equity firm, has acquired Valor Mechanical Services , a commercial HVAC services company based in Austin, TX. The acquisition expands the company's presence in the Austin market.
Aug-24			Mako Industries , a Sugar Land, TX-based provider of HVAC, electrical, piping and specialty fabrication services intended to serve the energy, commercial, industrial and public sector markets, has acquired Spears Refrigeration , an Arlington, TX-based provider of HVAC services for residential and commercial clients.
Aug-24			Nationwide Coils , a Somers, NY-based distributor of custom heating, ventilation, and air conditioning ("HVAC") replacement coils and heat exchangers for commercial and industrial facilities, has been acquired by The Edgewater Funds , a Chicago, IL-based private equity firm
Jul-24	 		NorthWinds Services Group , a platform company of TruArc Partners , a New York, NY-based private equity firm, has acquired Tyler Heating & Air Conditioning , a Stratford, CT-based provider of heating, ventilation and air conditioning (HVAC) services intended to serve residential and commercial customers.
Jun-24			PremiStar , Deerfield, IL-based leader in commercial and industrial HVAC, plumbing, and building automation services, backed by Partners Group , a private equity firm based in Zug, Switzerland, has acquired SI Mechanical, LLC , a full-service HVAC and plumbing contractor based in Creedmoor, TX, a suburb of Austin. With this acquisition, PremiStar expands its footprint in central Texas, serving the education, health care, commercial/industrial, and datacenter segments.

ROMANCHUK & CO. FIRM CAPABILITIES



Romanchuk & Co. is a boutique investment banking firm providing strategic advisory services to our clients across the middle-market, including sourcing, initiating, structuring and negotiating mergers and acquisitions, raising capital, as well as providing valuation and restructuring services. Our team of licensed investment banking professionals specializes in advising owners and

investors of privately-held businesses, private equity firms and corporations on the preparation and sale of their company, facilitating mergers and acquisitions, guiding companies through capital raises, and assisting in identifying and executing upon strategic opportunities. For more information, please visit our website at www.romanchukco.com.

INDUSTRY EXPERTISE

Our most recently closed deals showcase our firm's unique ability to execute transactions across the industrial services sector while maximizing value for our clients in the middle-market. Drawing on our collective industry experience, Romanchuk & Co. is focused on providing creative, impactful M&A strategies to our clients across the diversified industrials sector.



FIRM RECOGNITION



Romanchuk & Co.'s recent transaction "Front Line Power Construction Acquired by Orbital Infrastructure Group" was selected as the 2022 Utility, Power & Infrastructure Deal of the Year by the Houston Chapter of the Association for Corporate Growth. The transaction was also selected as the winner of the Houston Impact Award, which recognizes the transaction that drives the most middle-market growth in the Houston region.

Contact Us



Brad Romanchuk
Managing Director
(281) 719-9285
brad@romanchukco.com



John Reader
Vice President
(281) 719-9332
john@romanchukco.com

Houston, Texas | Phoenix, Arizona | www.romanchukco.com

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