

EQUIPMENT PROVIDERS EXPAND OFFERINGS TO CAPITALIZE ON SHIFTING CONSUMER PREFERENCES

HVACR EQUIPMENT SECTOR UPDATE | APRIL 2022



**CAPSTONE
PARTNERS**

TABLE OF CONTENTS

Key Sector Takeaways	4
Supply and Demand Imbalance Materializes in Rising Backlogs	5
Energy Efficiency Focus Drives Retrofit and Upgrade Demand	6
Equipment Manufacturers Add IAQ Offerings to Meet Demand	7
Deal Activity Remains Healthy Following Record Year	8
Q&A with Vapor Power	9
Notable Transactions	11
Select Transactions	12
Capstone Case Study	14
Report Contributors	15
Firm Track Record	16
Endnotes	17



CONTACT OUR HVACR SECTOR EXPERT



Ted Polk
Managing Director
708-921-8961
tpolk@capstonepartners.com

Capstone Partners is one of the largest and most active independently-owned investment banking firms in the United States. Over the past 20 years, thousands of business owners, investors, and creditors have trusted us to help guide their strategic decisions and maximize financial outcomes at every stage of the corporate lifecycle.

MIDDLE
MARKET
FOCUS

FULL
SERVICE
CAPABILITIES

SUPERIOR
CLIENT
RESULTS

TOP
RANKED
PERFORMANCE

ESTABLISHED
BRAND
REPUTATION

A DIFFERENT KIND OF FIRM. BUILT FOR THE MIDDLE MARKET.

Mergers & Acquisitions

- Sell-side Advisory
- Buy-side Advisory
- Recapitalizations
- Mergers & Joint Ventures

Capital Advisory

- Equity Advisory
- Debt Advisory
- Infrastructure Finance

Financial Advisory

- Transaction Advisory
- Interim Management
- Performance Improvement
- Valuation Advisory
- Litigation Support

Special Situations & Restructuring

- Special Situations
- Turnaround
- Restructuring
- Bankruptcy
- Insolvency

Sign Up for Sector Insights.

Delivering timely, sector-specific intelligence to your inbox

One of our core capabilities is to deliver sector-specific intelligence designed specifically for sector leaders, private equity firms and their advisors. Our sector reports and featured articles deliver real-time access to key sector data including:

- Emerging sector trends
- Acquirer and investor appetites
- Mergers & acquisitions market analysis
- Notable transactions
- Public company data

Receive email updates with our proprietary data, reports, and insights as they're published for the sectors that matter to you most.

Subscribe ▶



capstonepartners.com



HVACR Equipment Sector

Equipment Providers Expand Offerings to Capitalize on Shifting Consumer Preferences

KEY SECTOR TAKEAWAYS

Capstone Partners' [Industrials Group](#) is pleased to share its Heating, Ventilation, Air Conditioning, and Refrigeration (HVACR) Equipment report. Consumer preferences continue to shift towards energy efficient equipment and products that improve indoor air quality (IAQ), driving upgrade, installation, and retrofit demand in the HVACR Equipment sector. Several key takeaways are outlined below, followed by an analysis of major trends, an overview of merger and acquisition (M&A) activity, and an exclusive interview with Marc Dupuis, Vice President of Engineering & Product Management at Vapor Power International.

1. Macroeconomic headwinds, including record inflation and ongoing supply chain issues, are expected to challenge sector participants.
2. While macroeconomic challenges are expected to continue in the near term, demand is projected to remain strong sustaining robust backlogs for equipment providers.
3. HVACR equipment providers have invested significant resources into the development of energy efficient and IAQ-focused products to meet the rising demand.
4. Despite declining modestly from a robust Q1 2021, M&A activity has continued at a healthy pace in Q1 2022 matching Q1 2020 levels.
5. Strategic and private equity (PE)-backed acquirers have remained highly acquisitive, utilizing inorganic growth to add scale or complementary product offerings to existing operations.
6. Like in many other industrial sectors, Internet of Things (IoT) devices enable more efficient operation of HVACR equipment and offer opportunities in this sector for companies to provide data capture and analytical services.
7. Privately owned businesses with innovative technology-enabled equipment, IAQ products, and energy efficiency solutions are expected to garner premium valuations in the M&A market.

Capstone Partners has developed a full suite of corporate finance solutions, including M&A advisory, debt advisory, financial advisory, and equity capital financing 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.

To learn more about Capstone's wide range of advisory services and HVACR Equipment sector expertise, please contact Capstone Managing Director [Ted Polk](#).

SUPPLY AND DEMAND IMBALANCE MATERIALIZES IN RISING BACKLOGS

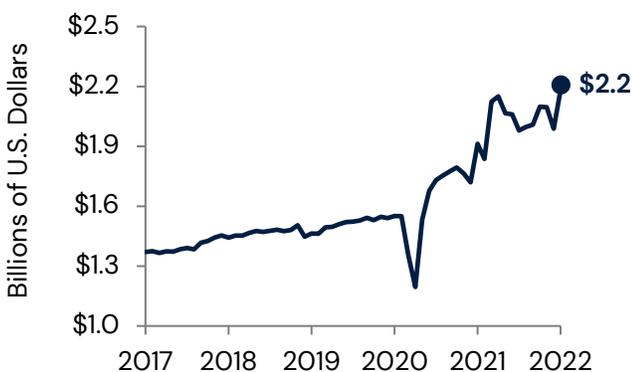
Mounting IAQ and environmental concerns have continued to drive upgrade, installation, and retrofit demand in the HVACR Equipment sector, and have benefitted equipment providers offering efficient, cost-cutting solutions. However, macroeconomic headwinds, including record inflation with the Consumer Price Index reaching a 40-year high at 8.5% in March (U.S. Bureau of Labor Statistics),¹ and ongoing supply chain issues are expected to challenge sector participants. Notably, leading public HVACR equipment companies Trane Technologies (NYSE:TT), Carrier Global (NYSE:CARR), Johnson Controls (NYSE:JCI), and Lennox International (NYSE:LII) have reported rising backlogs due to low inventory levels and strong demand in each of their most recent earnings calls. Lennox International indicated that emergency replacements were down 40% in Q4 2021 compared to the same period in 2020 due to low inventory levels in its Q4 earnings call.²

While sector participants continue to grapple with low inventory and materials availability, the presence of healthy backlogs points to a continued environment of elevated demand that is outpacing supply. Of note, the Consumer Confidence Index[®] which measures citizens' general confidence about the U.S. economy, increased slightly to 107.2 (1985 = 100) in March supported by employment growth, after declining to 105.7 in February, according to The Conference Board.³ Although a decline in consumer spending could hinder HVACR retrofit and upgrade demand, strong consumer confidence readings and personal consumption expenditures provide optimism for the near term sector outlook.

In addition to retrofit and upgrade demand, performance in the HVACR Equipment sector is highly dependent on installation demand from Construction markets as nearly all new buildings require HVACR appliances. Despite citing difficulty with labor and materials availability and costs, the Associated Builders and Contractors (ABC) Construction Confidence Index readings for sales, staffing levels, and profit margins indicate growth over the next six months, supporting installation demand, according to ABC.⁴ "Despite sky-high materials prices, surging compensation costs, and attendant impacts on bids, many project owners continue to move forward with projects because they recognize construction costs could rise even further," said ABC Chief Economist Anirban Basu, in the ABC News Release.

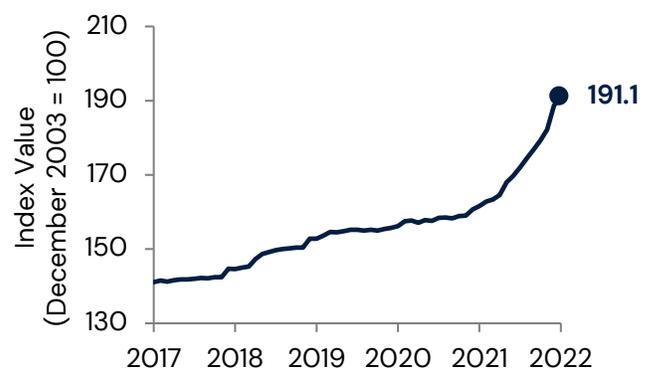
Driven by strong underlying demand, Trane Technologies, Carrier Global, Johnson Controls, and Lennox International reported strong revenue growth in Q4 2021 despite supply chain issues. Trane Technologies, Carrier Global, and Johnson Controls identified IAQ and energy efficiency as segments with strong growth potential. While leading players are expected to capture a large portion of sector growth as they have more resources to invest in technology, smaller, privately owned businesses with innovative offerings will also attract demand and present compelling consolidation opportunities. Notably, Zehnder Group (SWX:ZEHN) acquired Airia Brands, which provides healthy, energy efficient residential and commercial IAQ products under the Lifebreath brand in February (undisclosed).

Personal Consumption Expenditures (Durable Goods) Remain Elevated



Source: U.S. Bureau of Labor Statistics

HVAC and Commercial Refrigeration Equipment Producer Price Index

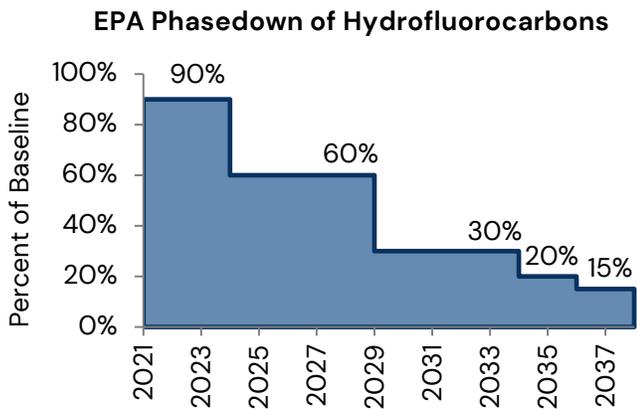


Source: U.S. Bureau of Labor Statistics

ENERGY EFFICIENCY FOCUS DRIVES RETROFIT AND UPGRADE DEMAND

In recent years, energy efficiency has become a primary driver of retrofit and upgrade demand in the HVACR Equipment sector as consumers and building owners demonstrate a strong preference for sustainable systems amid mounting environmental concerns. In addition, equipment with a higher Seasonal Energy Efficiency Ratio (SEER) rating, which is more environmentally friendly, deliver cost savings and benefit from government incentives. For example, consumers that have purchased split-system heat pumps above 14 SEER are eligible to receive tax credits of 30% of the cost, or up to \$1,500, according to the U.S. Department of Energy.⁵ Federal agencies are expected to continue to incentivize green purchasing habits, driving demand for efficient HVACR Equipment. Read more about SEER ratings and cost savings in our [August 2021 HVACR Equipment Article](#).

In September 2021, the U.S. Environmental Protection Agency (EPA) issued a final rule to phase down the production and consumption of hydrofluorocarbons (HFCs), an ozone depleting substance primarily used for cooling and refrigeration, in the U.S. by 85% over the next 14 years, according to the EPA.⁶



Source: U.S. Environmental Protection Agency

Similarly, new rules proposed by the Energy Department in March 2022, aim to set new requirements for manufacturers of room air conditioners, according to *The Wall Street Journal*.⁷ Consumers would need to pay a projected ~\$8.5 per unit more for the smallest air conditioning units, mostly in higher purchase costs, and will end up saving roughly \$63 in lower energy bills and other costs over the appliances nine-year lifetime. Agency officials also announced that they plan to

increase energy code requirements for federal buildings. Retrofit and upgrade demand is expected to continue to rise as environmental regulations become more stringent.

HVACR equipment providers have invested significant resources into the development of energy efficient products to meet rising demand. In addition to organic development, large HVACR players have consolidated companies to bring differentiated capabilities in-house. This has presented opportunities for smaller manufacturers with technology-enabled systems. This is exemplified by Investment AB Latour’s acquisition of Greystone Energy Systems through its wholly-owned subsidiary, Bemsiq, in September 2021 (undisclosed). Greystone Energy Systems provides HVAC sensors and transmitters to ensure optimal performance and efficiency of building systems. Manufacturers offering equipment that monitors and minimizes the energy use of HVACR systems, including controls and sensors, are expected to capture elevated demand and acquirer interest.

Critical Sensor Applications



Pressure Sensors

Monitors pressure levels within specific zones and measures pressure drop across filters and other devices, alerting the system when maintenance or repair is required.



Temperature Sensors

Measures and adjusts air and water temperature to raise or lower temperature based on the programmed setpoint. Temperature sensors’ data can be used to analyze air flow and quality.



Indoor Air Quality Sensors

Measures indoor air quality for occupant comfort, health, and safety, while maximizing efficiency. Indoor air quality sensors are also capable of slowing the transmission of viruses.



Occupancy Sensors

Measures motion and light in spaces to optimize energy efficiency. Occupancy sensors are particularly effective when integrated with building management systems.



Room Sensors

Monitors motion and shares data on occupancy activity patterns and environmental changes in temperature, humidity, and CO2.

Source: Belimo

EQUIPMENT MANUFACTURERS ADD IAQ OFFERINGS TO MEET DEMAND

In addition to a heightened focus placed on energy efficiency, consumers now possess a renewed interest in IAQ as a result of the pandemic. Improved IAQ can reduce the aerosol transmission of COVID-19, acting as effectively as a population that is 50-60% vaccinated, according to *Nature*.⁸ People are more inquisitive of the contents of the air that they are breathing from all aspects, not just the risk of virus transmission. With the pandemic bringing attention to antiquated systems, home and building owners continue to look for products that improve air quality for occupants. HVAC equipment providers are responding to this shift in demand with greater IAQ transparency, as evidenced by the offerings outlined below.

Workers Increasingly Curious About Air Quality



Source: Vaisala Industrial Measurements

As employers look to execute return to work plans, IAQ will be a critical factor to ensure occupants' comfort, health, and safety. In addition, improved air quality can enhance employee productivity. "When people spend too long in a poorly ventilated space their exhaled breath causes carbon dioxide (CO₂) levels to rise. Higher levels of CO₂ impact people's well-being, health, and performance, but importantly, monitoring CO₂ levels can highlight when the risk of COVID-19 transmission is high and better ventilation is required. By monitoring CO₂ levels in indoor spaces, organizations can therefore provide the reassurance that the survey respondents need," said Anu Kätkä, Global Product Management at Vaisala Industrial Measurements, in a press release.⁹

Sector Participants Address Growing Demand for Improved Air Quality



In January 2022, Johnson Controls unveiled its OpenBlue Indoor Air Quality-as-a-Service Solution, which aims to help customers cut building costs and raise productivity. Johnson Controls will exploit new revenue opportunities and deliver on its sustainability goals through the new offering which includes: IAQ assessments, solution application, remote monitoring & advisory, annual IAQ reassessments, and financing. "Now more than ever, enhancing indoor air quality is a critical business need as employers return to their workplaces and students return to their schools. Our industry-leading OpenBlue Indoor Air Quality-as-a-Service offering not only enables organizations to keep building occupants safe and healthy indoors in the face of evolving health and compliance regulations, but also empowers organizations to commit to more environmentally sustainable projects by delivering a solution that will also reduce energy use," said Tyler Smith, Executive Directory of Healthy Buildings at Johnson Controls, in a news release.¹⁰



A CSW Industrials Company

and



In March 2022, RectorSeal, a subsidiary of CSW Industrials (Nasdaq:CWS), and Dust Free announced the release of a joint IAQ³ product line. Dust Free offers active filtration products including a proprietary 100% ozone-free, UV light and ionization technology to prevent dust, pollen, mold, and other air pollutants such as odors, volatile organic compounds (VOC), formaldehyde, and inactive bacteria from passing through a ducted, forced-air HVAC system, according to a press release.¹¹ The IAQ³ product line integrates three levels of IAQ products to enhance the air quality of indoor spaces: filtration, purification, and ultraviolet inactivation. This air quality management offering provides a complete and customized IAQ solution tailored to specific customer needs. "The IAQ³ strategy allows RectorSeal customers access to some of the most advanced indoor air quality components and systems. Indoor air quality is a growing concern for both residential and commercial customers," said Stephanie Welda, Director of Product Marketing, at RectorSeal in the press release.

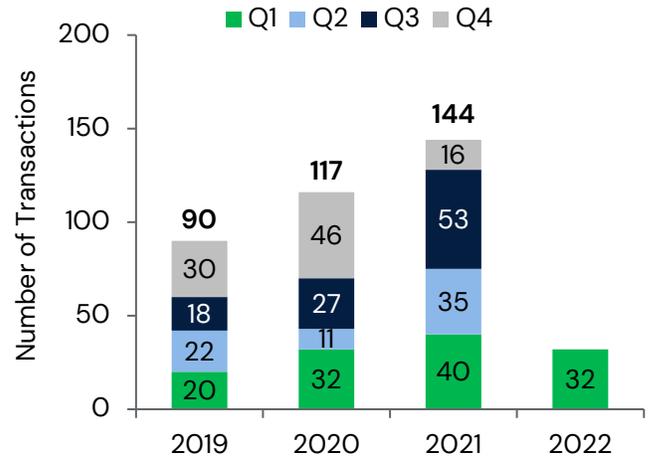
DEAL ACTIVITY REMAINS HEALTHY FOLLOWING RECORD YEAR

M&A volume in the HVACR Equipment sector was exuberant in 2021, with 144 deals announced or completed, outpacing 2020 by 23.1%. Deal activity has continued at a healthy pace in Q1 2022, reaching 32 transactions declining modestly from the robust levels recorded in Q1 2021. While the Heating and Air Conditioning Equipment Manufacturing segment is dominated by Trane Technologies, Carrier Global Corporation, Johnson Controls, and Lennox International, which were projected to account for more than 50% of segment revenue in 2021 (IBISWorld),¹² the concentration is offset by the quantity of smaller companies in the sector which present unique consolidation opportunities for strategics and PE-backed companies. Privately owned businesses with innovative technology-enabled equipment, IAQ, and energy efficiency solutions are expected to attract acquirer appetite and garner premium valuations in the M&A market.

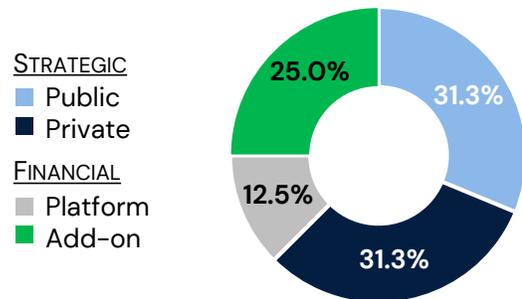
Strategics have comprised the lion’s share of deal activity (62.6%) through Q1 2022, with private and public strategic buyers each comprising 10 deals. Both strategic and private equity (PE)-backed buyers (PE add-on deals comprised 25% of M&A) have targeted businesses that add scale or complementary product offerings to existing operations. This is demonstrated by M&M Refrigeration’s acquisition of Logix, a provider of refrigeration controls (February 2022, undisclosed). Through the deal, M&M has gained Logix offerings and expanded its footprint to the West Coast. Financial acquisitions, including both direct and add-on acquisitions, represent 37.5% of deal flow Q1 2022 as sponsors have sought to build out platforms in defensible sectors with strong growth potential.

Transaction Volume Remains Strong in Q1

Following a record year of transaction activity in 2021, deal flow has continued at a strong pace in Q1 2022, matching Q1 2020 levels



Strategic Buyers Continue to Comprise the Largest Share of Deals



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



Ted Polk, Managing Director

“Despite the record level of deal activity we witnessed in 2021, our engagement with business owners contemplating a near term liquidity event remains high, and our expectation is that 2022 will be another strong year for sector M&A.”

Q&A WITH VAPOR POWER



Marc Dupuis, Vice President of Engineering & Product Management at Vapor Power

Capstone spoke with Marc Dupuis, Vice President of Engineering & Product Management at Vapor Power International, to discuss the Boiler market's evolution and electrification. Mr. Dupuis began his career at Vapor Power over 24 years ago after receiving a BS in Chemical Engineering from the University of Illinois Urbana-Champaign.

Vapor Power manufactures boilers, steam generators, thermal fluid heaters, and electric boilers for use in industrial, commercial, marine, and military boiler applications around the globe. The company's assets were purchased in a management buyout from Wabtec Corporation in 2001 and the management team successfully gave new life to "orphaned" product lines that had a rich history and utilized strong, proven technology. Over time, management built Vapor Power into a successful standalone company that has developed a reputation as a premier manufacturer of boilers, steam generators, and liquid phase heaters. It occupies unique market niches and offers high quality and technologically superior products that are fast, efficient, and economical. Capstone advised Vapor Power on its [recapitalization](#) by Stone Pointe, LLC in 2014 and its [partnership](#) with TAG Equity in 2007.

To learn more about Vapor Power visit www.vaporpower.com.

What makes Vapor Power unique? We have over a hundred years of history, beginning in 1903. We have an extremely wide breadth of unmatched product offerings with differential features and benefits. For example, our coil tube steam generator offers a very compact physical footprint, saving customers building space when they're planning a boiler room. By changing to our coil tube steam generator, a customer also reduces their fuel consumption and overall emissions profile. Most of our products are offered with customized solutions; we start with that standard product and then build off that core with options that suit the customer's exact specifications. We're one of the few manufacturers that offers both fossil fuel fired equipment and electric equipment for hot water and steam production. This allows us to find a solution that's truly best for each customer's needs. In addition, we have a seasoned inside application engineering team that knows how to tailor a solution to a customer specification.

Could you speak about how the company has changed over the course of your career?

Technically, it was Westinghouse Air Brake when I joined and then Westinghouse Air Brake merged with MotivePower to become Wabtec in 1999. When I first started, the Boiler division was a small group within the organization, and it wasn't a core product for the Wabtec corporate ownership. They recognized that, and they worked on separating the Boiler division from the Transportation division and allowed us to see how good the performance could be. In 2001, they gave those of us that were

managers in the Boiler division the first opportunity to buy the business, and for that I'm thankful. The product had been stagnant and wasn't receiving a lot of attention, and we as owners and managers were able to give it the focus that it really needed to take off and grow.

How have you seen product technology change throughout your career?

Controls development has been very impactful. This technology used to be behind other machinery within the same plant. With touch screens, PLC controls, and communications capabilities, this segment has changed a lot in recent years. The ability to log in from our office and check on a boiler at a customer's location used to be a dream. In addition, emissions restrictions and combustion technology have changed a lot in my time, primarily regarding nitrogen oxide (NOx) emissions. California has been a leader in reducing NOx emissions, and we've seen that flow into other markets and regions. The latest technology shift is the electrification push, decarbonization, and sustainability. The shift from fossil fuel fired equipment to electric boilers will continue to grow, on an exponential basis, over the next few years.

What is your near term outlook for the Boiler market?

We expect that the market will continue to grow. Due to an aging population, there is an old fleet of equipment out there that will require replacement. As long as there is economic growth and an aging fleet, demand will be sustained.

Q&A WITH VAPOR POWER (CONTINUED)

What is your typical lifecycle with a customer?

The typical lifecycle is really the lifetime of the boiler. We're dealing with a product that generally lasts 30-40 years. Different manufacturers have different strategies, but aftermarket support has always been an important part of our business. We pride ourselves on the support that we offer to our customers, whether that's when we're first providing a quotation, going through the sales process, the manufacturing process, or providing services for the maintenance of the equipment afterward. We might deal with the customer for six months to a year before we have an order in hand, but then they're living with our equipment for the next 30-40. Aftermarket support services are crucial to our customers.

This also leads to repeat sale opportunities. When we're at a customer's facility providing aftermarket support on the existing equipment, we get the first crack when that customer expands a current facility or needs new equipment at a different facility. Facilities communicate with one another, and when our equipment is operating well at an existing site, that increases future opportunities and lowers the cost of customer acquisition.

How important are emissions-related offerings to your typical customer?

We're seeing huge growth in our low emissions products. Vapor Power has added dual fuel, ultra-low NOx products in recent years. Beyond low emissions, there is a growing transition to zero emissions. In North America, this movement is in its infancy. This is partially due to the low cost of natural gas relative to electricity; however, the cost advantage will continue to dwindle. When considering a carbon neutral strategy at a manufacturing facility, the boiler room is one of the largest consumers of fossil fuel. The biggest bang for your buck can come from replacing a fossil fuel fired boiler with an electric boiler. Larger corporations, many headquartered in Europe where fossil fuel is more expensive, are leading the charge and have accelerated their decarbonization goals.

How has PE backing impacted the company's growth strategy?

Without PE backing we wouldn't have been able to acquire Precision Boilers in 2015. It's allowed us to be more forward-thinking with investment opportunities. Rather than just plateauing and running as lean as possible, having PE backing has allowed us to invest in the future, expand our staff, and accelerate growth.

Could you speak about the acquisition of Precision Boilers?

It was part of our overall growth strategy to get into more boiler rooms and add products that we didn't already offer. It also allowed us to implement our growth plan for our electrode boiler products and consolidate the Electrode Boiler market. Electrode boilers are our higher capacity electric boiler product line. This equipment runs on a higher voltage, and I think will become a key to electrification efforts. The acquisition also helped us increase the size of our external sales force. We go to market through independent sales representatives and by adding another brand and maintaining our representation networks, we essentially doubled our independent representative footprint in the marketplace.

What do you see as the key trends that will impact the sector in the future?

Fossil fuel prices, whether that's natural gas or oil, the availability of renewables, and upgrading electrical infrastructure are going to impact how quickly electrification takes hold. In addition to social responsibility, there are several corporations that are accelerating their decarbonization efforts to reduce reliance on fossil fuel because there is more variability in pricing. A prolonged spike in prices would further accelerate electrification.

What customers are really going to need is an expert on electric boilers to tell them what their facility will require to transition from fossil fuel to electric. Vapor Power is in a unique position to support those clients because we know both types of boilers. We have 75 years of experience with electric boilers, and with that kind of expertise, a customer can come to us and say, "alright, this is what I have, and this is what I want," and we can provide guidance on how to reach that goal. That's something that puts Vapor Power in a favorable position compared to others in the marketplace who are probably scrambling to figure out how they are going to adapt their business to survive electrification.

Is there anything else that you would like to add?

Having been at Vapor Power for nearly a quarter-century, I've experienced a lot of change and growth, and I'm looking forward to sharing the knowledge that I've accumulated with others. This has become my life's work and I'm excited to provide leadership for the next generation over the next 25 years.

NOTABLE TRANSACTIONS

In March 2022, an affiliate of One Rock Capital Partners agreed to acquire Therm-O-Disc from Emerson Electric (NYSE:EMR). Therm-O-Disc is a global technology and engineering company serving the Industrial, Commercial, and Residential markets. Headquartered in Mansfield, Ohio, Therm-O-Disc is a manufacturer of safety-critical sensors, thermal cutoffs, and sealed connecting components primarily used in HVAC, Appliance, Water Heater, Industrial, Aerospace & Defense, and Transportation markets. Completion of the transaction is expected to occur in the first half of 2022.



To Acquire



“Them-O-Disc is well-positioned as a leading global manufacturer of branded, essential sensor and safety products. We are excited to collaborate with management to drive innovation, enhance strong operational capabilities and serve Therm-O-Disc’s customers, building on the long history as an industry leader,” said R. Scott Spielvogel, Managing Partner of One Rock in a transaction press release.¹³

In February 2022, Swiss indoor climate systems manufacturer Zehnder Group (SEX:ZEHN) entered into an agreement to acquire Airia Brands. Based in London, Canada, Airia Brands manufactures ventilation and indoor air quality products for Residential, Commercial, and Industrial markets. Airia’s products are marketed across Canada and the U.S. under the established Lifebreath brand. The Lifebreath brand and its employees will be retained upon completion of the deal. Notably, Airia Brands generated ~\$44 million of revenue in 2021, according to a press release.¹⁴



To Acquire



Zehnder’s Ventilation business comprises roughly one-third of its sales in North America and has recorded significant growth over the last three years, benefitting from a focus on energy efficiency in the Construction market. The acquisition will benefit Zehnder Group’s Buffalo, New York site, allowing it to expand its production capabilities and better serve local needs.

“The Lifebreath brand stands for healthy, energy-efficient and environmentally friendly indoor climate solutions, just like the Zehnder brand. With the acquisition of Airia, we are significantly expanding our market position in North America, and we intend to grow even further in the future,” said Matthias Huenerwadel, CEO and Chairman of the Group Executive Committee at Zehnder Group in the press release.

In January 2022, Mann+Hummel acquired all remaining shares of Pamlico Air, resulting in 100% ownership of the company. Since March 2021, Mann+Hummel has been holding a majority share of the company. Pamlico Air is a manufacturer of indoor air filtration products primarily serving the Retail and Wholesale markets. Through the transaction, Mann+Hummel has added to its existing air filtration portfolio of Tri-Dim and Tri-Dim Hardy which serves the Commercial and Industrial Air Filtration Aftermarket.



Acquires remaining shares of



“With the vision to enable cleaner mobility, air, and water, Mann+Hummel has been actively expanding through both, acquisitions and organic growth, in the air filtration market. With the acquisition of Tri-Dim in 2018, Hardy Filtration in 2019, and now with the full acquisition of Pamlico Air in 2022, we have essentially created a North American powerhouse in air filtration, covering retail, wholesale and the commercial aftermarket in the region,” said Fua Nipah, President & General Manager of Life Sciences & Environment at Mann+Hummel, in a press release.¹⁵

SELECT TRANSACTIONS

Date	Target	Acquirer	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
03/18/22	CCOM Group (OTCPK:CCOM)	Goodman Distribution	Distributes HVAC equipment in the U.S.	\$34.5	0.3x	5.2x
03/14/22	Heckeroth Plumbing & Heating	Sila Heating & Air Conditioning	Provides services for all heating, air conditioning, plumbing, electric, and water treatment needs.	-	-	-
03/11/22	Rocky Mountain Portable Cooling	Resolute Industrial	Operates a rental fleet of portable cooling, heating, dehumidification and power generation equipment.	-	-	-
03/03/22	Business assets of THERM-O-DISC	One Rock Capital Partners	Comprises Sensing and Protection Technologies businesses.	-	-	-
02/22/22	Systèmes LMP	EVAPCO	Manufactures transcritical CO2 refrigeration and heat recovery systems.	-	-	-
02/18/22	Airia	Zehnder Group (SWX:ZEHN)	Provides ventilation and IAQ products for residential, commercial, and industrial applications.	-	-	-
02/17/22	National Filter Media Corporation	Micronics	Manufactures air pollution control and liquid filtration products.	-	-	-
02/17/22	Logix	M&M Refrigeration	Provides controls for wineries, cold storage warehouses, distribution centers, and processing plants.	-	-	-
02/15/22	Benoist Brothers Supply Company	Wittichen Supply Company	Operates as a wholesale distributor of HVACR supplies, including Ruud brand products.	-	-	-
02/01/22	Refrigeration Design & Service	The Kelvin Group	Manufactures industrial refrigeration systems.	-	-	-
01/28/22	Pamlico Air	Mann+Hummel Corporate Ventures	Manufactures air filters, air filtration products, and equipment for Commercial and Industrial markets.	-	-	-
01/20/22	Transom	Mestek Canada	Manufactures heat pumps, chillers, and air units for commercial and industrial applications.	-	-	-
01/18/22	Perfect Comfort	Heartland Home Services	Provides residential and commercial heating and cooling equipment in the U.S.	-	-	-
01/12/22	ThermalNetics /TriState HVAC	Daikin Applied Americas	Provides HVAC equipment in the Philadelphia and surrounding tri-state area.	-	-	-
01/11/22	Munch's Supply	Mar-Cone Appliance Parts Center	Supplies HVAC and plumbing replacement parts and equipment.	-	-	-
01/06/22	Production Power & Air	CES Power	Offers power and climate control equipment rental services.	-	-	-
01/04/22	Blake Group Holdings	Headwater Companies	Operates as a distributor and manufacturers' representative for district heating systems.	\$27.1	0.4x	-
12/20/21	TML Supply Company	Munch's Supply	Distributes residential and commercial HVACR products and equipment.	-	-	-
12/17/21	Precision Metal Fab	CGI Automated Manufacturing	Fabricates sheet metal components for HVAC, Construction, Appliance, and other markets.	-	-	-
12/15/21	Duro Dyne	NSi Industries	Manufactures sheet metal accessories and equipment for the HVAC sector.	-	-	-
12/14/21	IEE Interstate HVAC Control	BC Solutions	Provides full-service building automation systems based in Boston, Massachusetts.	-	-	-
12/07/21	Braeburn Systems	HVAC Controls Limited	Distributes plumbing supplies and HVAC parts including thermostats.	\$10.1	-	-
12/02/21	BasX	AAON (Nasdaq:AAON)	Manufactures custom engineered products, such as modular systems and air handling products.	\$180.0	2.2x	18.0x

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

SELECT TRANSACTIONS (CONTINUED)

Date	Target	Acquirer	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
11/18/21	Air Reps	Daikin North America	Offers air movement and distribution, and chiller systems.	-	-	-
11/18/21	Magnum Innovations	SportsQuest (OTCPK:SPQS)	Manufactures energy management solutions for both commercial and residential applications.	-	-	-
10/26/21	EZ-FLO International	Reliance Worldwide (ASX:RWC)	Manufactures plumbing and HVAC products.	\$325.0	1.9x	12.0x
10/13/21	Control Devices	HBM Holding	Manufactures valves and control needs of the Compressed Air sector.	-	-	-
10/12/21	J.J. White	Clough North America Holding	Provides multi-trade engineering and contracting services.	\$28.3	-	-
10/11/21	Dynamic Controls	Daikin Applied Americas	Distributes building automation, access control, video surveillance, building security, and energy solutions.	\$180.0	-	-
10/08/21	Caladair International	Zehnder Group (SWX:ZEHN)	Manufactures products for the applications of ventilation, air treatment, and climate comfort.	-	-	-
10/05/21	Hart & Cooley	DuraVent	Manufactures HVAC products for residential and commercial markets in the U.S.	-	-	-
09/29/21	Greystone Energy Systems	Bemsiq	Manufactures HVAC sensors and transducers for building automation management systems.	-	-	-
09/28/21	Lanair Products	WILsquare Capital	Manufactures and sells air comfort solutions in Wisconsin.	-	-	-
09/22/21	Protect Plus Air Holdings	Freudenberg Filtration Tech.	Manufactures and markets air filters and related products for home HVAC systems	\$28.3	-	-
09/13/21	Assets of Farrar Scientific	Trane Technologies (NYSE:TT)	Comprises Refrigeration Equipment Manufacturing business.	-	-	-
09/01/21	RV Group of Airxcel	Thor Industries (NYSE:THO)	Comprises HVAC and related appliances manufacturing business units.	-	-	-
08/20/21	ECR International	TerraVest Industries (TSX:TVK)	Manufactures heating and cooling products.	-	-	-
08/11/21	GreenTech Environmental	City Capital Ventures	Provides air purification systems, zone heaters, and energy management solutions in the U.S.	-	-	-
08/02/21	Wittichen Supply Company	Gryphon Investors	Distributes HVACR parts, equipment, and supplies to contractors in the Southeastern U.S.	-	-	-
07/26/21	CS3	Reedy Industries	Provides mechanical, HVAC and building controls services serving the Building Automation marketplace.	-	-	-
07/22/21	Friedrich Air Conditioning	Rheem Manufacturing	Designs, develops, manufactures, distributes, and installs air conditioners for residential and commercial markets.	\$365.0	-	-
07/05/21	LASCO Fittings	North American Pipe	Designs, engineers, manufacturers, and sells injected-molded PVC fittings to customers.	\$252.5	1.7x	-
07/02/21	Lathrop-Trotter	Koch Air	Distributes HVAC products in Ohio, Indiana, Kentucky, Idaho, Montana, North Dakota, and Wyoming.	-	-	-
04/19/21	Business assets of Nortek	Madison Industries US Holdings	Comprises air management, thermal, and HVAC solutions manufacturing segments.	-	-	-
04/09/21	Silent-Aire	Johnson Controls (NYSE:JCI)	Manufactures customized HVAC solutions and data centers.	\$870.0	-	-
04/08/21	Zone Mechanical	Wind Point Advisors	Supplies, installs, and maintains refrigeration, energy management, food service, and HVAC systems.	-	-	-

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

CAPSTONE CASE STUDY

In March 2022, Capstone Partners advised National Grid Energy Management on its divestiture of VAMCO—a natural gas water heater rental company serving the Rhode Island area. Terms of the transaction were not disclosed.

National Grid Energy Management is an electricity, natural gas, and clean energy delivery company serving more than 20 million people through New York, Massachusetts, and Rhode Island. The company is a subsidiary of National Grid PLC, an electricity and gas utility company headquartered in London, England that is one of the world's largest investor-owned utility companies.

Founded in 1970, VAMCO is a domestic appliance rental company serving the Rhode Island area. It offers affordable natural gas water heater rentals to both homeowners and renters and offers 24-hour service support.

The expert investment banking professionals on the Capstone Partners' Industrials team work with leading middle-market companies operating in the HVACR market to advise with their strategic decision-making in order to maximize financial outcomes at every stage of the business lifecycle. To learn more about this transaction, or about the benefits of starting a relationship with our Industrials Banking Team, click [here](#) to contact us.



Ted Polk, Managing Director

"VAMCO plays an important role in offering affordable Water Heater options throughout Rhode Island. We wish the team at Ross Emergent LLC well as they seek to grow the business."

HVACR EQUIPMENT REPORT CONTRIBUTORS



Ted Polk
 Managing Director
 tpolk@capstonepartners.com | 708-921-8961

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. In 2020, Ted was recognized by the Global M&A Network for his participation in both the Canadian Deal of the Year and the Aerospace and Defense Deal of the Year. 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.



Lucas LaCroce
 Research Analyst
 llacroce@capstonepartners.com | 617-619-3331

Luke serves as a Research Analyst at Capstone Partners primarily focusing on the Industrials and Business Services industries. Prior to joining the firm’s corporate Research Team, Luke was an intern at DLG Wealth Management, Valpey Financial Services, and VIGILANT Capital Management where he performed financial analysis on equities, evaluated exchange traded funds and mutual funds, and determined the impact of proposed legislation on financial planning strategies.



FIRM TRACK RECORD

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

 <p>HAS RECEIVED DEBT FINANCING FROM</p> 	 <p>HAS DIVESTED</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p>  <p>A PORTFOLIO COMPANY OF</p> 
 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS DIVESTED</p> <p>Metro Energy</p> <p>TO</p> 
 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS BEEN ACQUIRED BY</p> 
 <p>HAS ACQUIRED</p> 	 <p>HAS BEEN ACQUIRED BY</p> 	 <p>HAS RECAPITALIZED WITH</p> 	 <p>HAS BEEN ACQUIRED BY</p> 

ENDNOTES

1. U.S. Bureau of Labor Statistics, "Consumer Price Index," <https://www.bls.gov/cpi/>, accessed April 5, 2022.
2. Seeking Alpha, "Lennox International Inc. (LII) CEO Todd Bluedorn on Q4 2021 Results – Earnings Call Transcript," <https://seekingalpha.com/article/4483270-lennox-international-inc-lii-ceo-todd-bluedorn-on-q4-2021-results-earnings-call-transcript>, accessed April 5, 2022.
3. The Conference Board, "Consumers' View of the Present Situation Brightens-but Expectations Continue to Grow More Pessimistic," <https://www.conference-board.org/topics/consumer-confidence>, accessed April 6, 2022.
4. Associate Builders and Contactors, "ABC Construction Backlog Indicator Unchanged in February; Contractors Remain Confident," <https://www.abc.org/News-Media/News-Releases/entryid/19290/abc-construction-backlog-indicator-unchanged-in-february-contractors-remain-confident>, accessed April 6, 2022.
5. U.S. Department of Energy, "CAC Brochure," <https://www.energy.gov/sites/prod/files/2015/11/f27/CAC%20Brochure.pdf>, accessed April 6, 2022.
6. United States Environmental Protection Agency, "Final Rule – Phasedown of Hydrofluorocarbons: Establishing the Allowance Allocation and Trading Program under the AIM Act," <https://www.epa.gov/climate-hfcs-reduction/final-rule-phasedown-hydrofluorocarbons-establishing-allowance-allocation>, accessed April 8, 2022.
7. The Wall Street Journal, "Tougher Energy Standards for Pools and Air Conditioners Proposed," <https://www.wsj.com/articles/tougher-energy-standards-proposed-for-pools-and-air-conditioners-11648652781>, accessed April 8, 2022.
8. Nature, "COVID-19 Collection," <https://www.nature.com/collections/jjghbagfjg>, accessed April 9, 2022.
9. Vaisala, "Most people worry about indoor air quality amidst the COVID-19 pandemic," <https://www.vaisala.com/en/press-releases/2021-08/most-people-worry-about-indoor-air-quality-amidst-covid-19-pandemic>, accessed April 8, 2022.
10. Johnson Controls, "Johnson Controls Unveils Industry-First OpenBlue Indoor Air Quality as a Service Solution to Help Organizations Keep Occupants Safe and Healthy," https://www.johnsoncontrols.com/en_hk/media-center/news/press-releases/2022/01/18/johnson-controls-unveils-industryfirst-openblue-indoor-air-quality-as-a-service-solution-to-help-org, accessed April 9, 2022.
11. RectorSeal, "Introducing Dust Free IAQ3 Strategy for Healthier Residential and Commercial Environments," <https://rectorseal.com/blog/rectorseal-and-dust-free-introduce-iaq3-strategy-for-healthier-residential-and-commercial-environments>, accessed April 9, 2022.
12. IBIS World, "Heating & Air Conditioning Equipment Manufacturing in the US," <https://my.ibisworld.com/us/en/industry/33341/about>, accessed April 9, 2022.
13. Cision, "One Rock Capital Partners to Acquire Therm-O-Disc From Emerson," <https://www.prnewswire.com/news-releases/one-rock-capital-partners-to-acquire-therm-o-disc-from-emerson-301494979.html>, accessed April 9, 2022.
14. Bloomberg, "Zehnder Group acquires ventilation company Airia Brands Inc. in Canada," <https://www.bloomberg.com/press-releases/2022-02-18/zehnder-group-acquires-ventilation-company-airia-brands-inc-in-canada>, accessed April 9, 2022.
15. Mann+Hummel, "MANN+HUMMEL Solidifies North American Presence with Full Acquisition of Pamlico Air," <https://www.mann-hummel.com/en/company/news-press/2022/mann-hummel-solidifies-north-american-presence.html>, accessed April 9, 2022.



CAPSTONE PARTNERS

Common Goals. Uncommon Results.

Disclosure

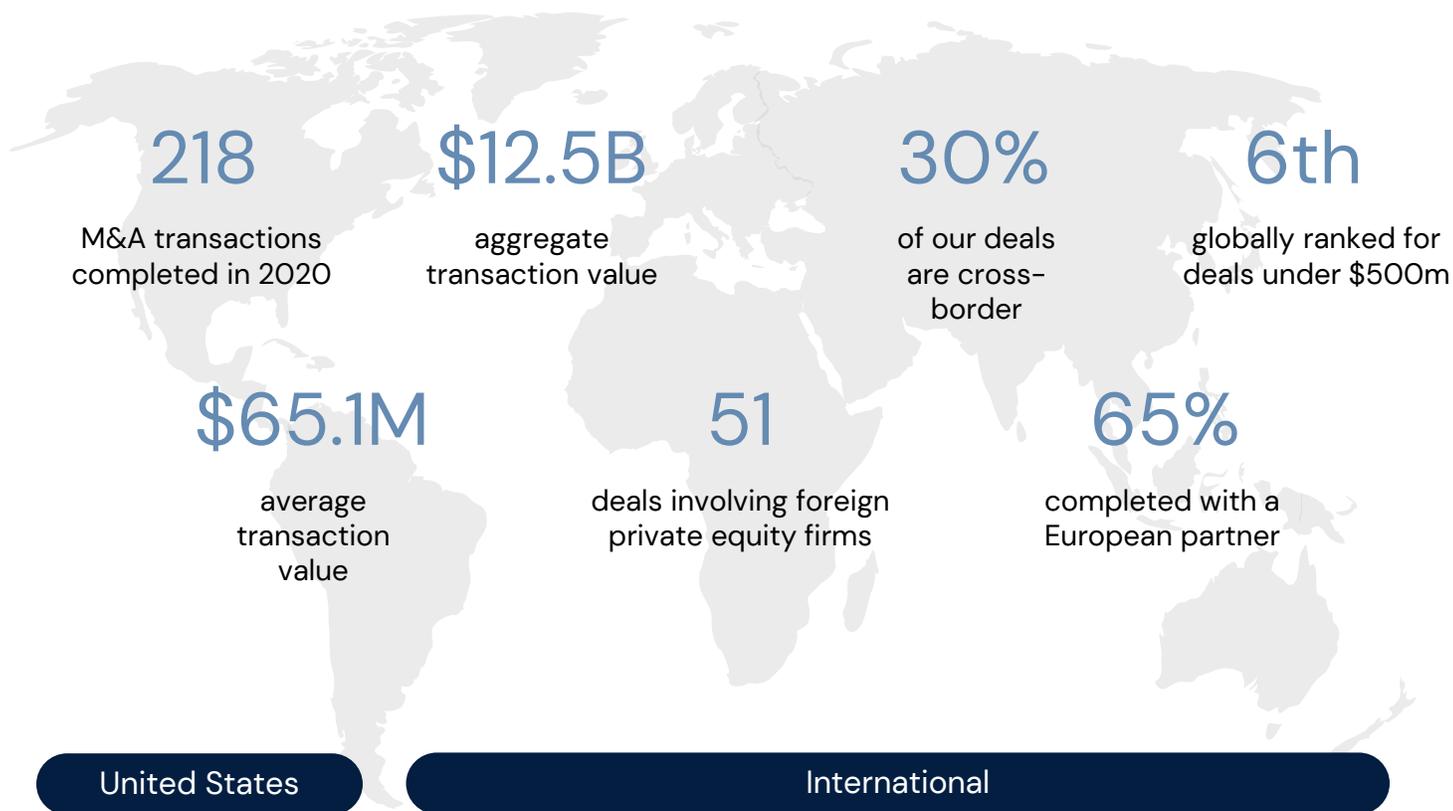
This report is a periodic compilation of certain economic and corporate information, as well as completed and announced merger and acquisition activity. Information contained in this report should not be construed as a recommendation to sell or buy any security. Any reference to or omission of any reference to any company in this report should not be construed as a recommendation to buy, sell or take any other action with respect to any security of any such company. We are not soliciting any action with respect to any security or company based on this report. The report is published solely for the general information of clients and friends of Capstone Partners. It does not take into account the particular investment objectives, financial situation or needs of individual recipients. Certain transactions, including those involving early-stage companies, give rise to substantial risk and are not suitable for all investors. This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Prediction of future events is inherently subject to both known and unknown risks and other factors that may cause actual results to vary materially. We are under no obligation to update the information contained in this report. Opinions expressed are our present opinions only and are subject to change without notice. Additional information is available upon request. The companies mentioned in this report may be clients of Capstone Partners. The decisions to include any company in this report is unrelated in all respects to any service that Capstone Partners may provide to such company. This report may not be copied or reproduced in any form or redistributed without the prior written consent of Capstone Partners. The information contained herein should not be construed as legal advice.



CAPSTONE PARTNERS

Market Presence

With a long-established U.S. footprint, together with an international partner platform, we provide clients with broad expertise and access to key market relationships on a global basis. Our presence is backed by ~200 professionals in the U.S. with 450+ professionals across 43 countries.



170+ professionals
12 offices

Boston · Chicago · Dallas ·
Denver · Detroit · Los Angeles ·
New York · Orange County ·
Philadelphia · Richmond · San
Diego · Tampa

450+ professionals
60+ offices in 43 countries

Asia: China · India · Japan · Thailand
Africa: Congo · Egypt · Ghana · Ivory Coast · Mauritius · Morocco · Nigeria · Senegal · South Africa
Americas: Toronto · Vancouver · Argentina · Brazil · Chile · Colombia · Mexico · Panama & Central
America · Peru
Europe: Belgium · Bosnia & Herzegovina · Croatia · Czech Republic · Finland · France · Germany ·
Hungary · Ireland
Italy · Netherlands · Poland · Portugal · Russia · Serbia · Slovakia · Slovenia · Spain · Sweden ·
United Kingdom