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# M&A SPOTLIGHT ON HVAC



**Shaun Quennell**

Director, Investment Banking  
HVAC Team Lead

## A Roll-Up Playbook

Welcome to Origin's M&A Spotlight on HVAC. We continue to see plenty of appetite for deals across the spectrum of the sector, encompassing everything from small single location HVAC businesses joining with larger players, to the sale of large platforms like Southern HVAC (p.4). In the following pages, we illustrate different HVAC acquisition or "roll-up" strategies with specific case studies.

In the wake of this heightened activity, many business owners have come to understand the advantages of joining with a larger platform to achieve strategic benefits and have been open to partnering with the right buyer. Knowledgeable buyers tend to focus on key operating characteristics such as the strength and depth of the team, service mix, local reputation and brand awareness when analyzing potential acquisitions.

Business owners in any sector are often concerned about preserving their legacy on a sale. In the HVAC space, the seller's legacy is also significant to the buyer, as preservation of the local brand and location is critical for customer retention. In addition, there is usually the opportunity for a seller to retain an ownership stake in his or her company while realizing the benefits of being part of a larger platform.

We believe that the momentum in the space will continue for some time, as new players are continuing to look for acquisitions, significant capital is available for strong businesses and the resiliency of the HVAC market itself continues to draw interest from both existing providers and new entrants to the market. **Current business owners are extremely well positioned in the current climate, and those with strong operations should have no shortage of options when considering a potential transition for their companies.**

We are happy to share further insights in a conversation. Please reach out directly to Shaun Quennell, Director and HVAC team lead, at [shaun.quennell@originmerchant.com](mailto:shaun.quennell@originmerchant.com).

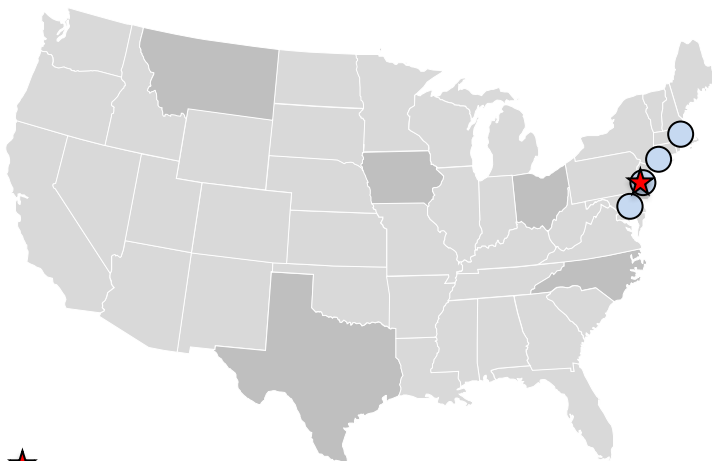
## United States HVAC Buy &amp; Build Strategy

- Traditionally, private equity and other capital providers have sought large transactions, with an opportunity to deploy significant capital
- More recently, many private equity firms, increasingly drawn to the attractive characteristics of the HVAC market, have pursued non-traditional strategies, including the acquisition of a small platform, with the goal of growing the acquired business through ongoing M&A activities, the provision of growth capital and operational support

## Case Study: Astar Heating &amp; Air Purchase of Sila Heating &amp; AC



- Sila offers a wide range of services for HVAC, plumbing, indoor air quality, and electrical systems
- The company serves the Northeastern and Mid-Atlantic United States, servicing customers from New Hampshire to Virginia
- Astar is a leading provider of HVAC replacement, maintenance, and plumbing solutions to residential homeowners in the lower Hudson Valley region of New York
- Dublin Clark ("DC") is a private equity firm that specializes in middle market acquisitions and buyouts
- Its focus is on investing in companies with unique business models and strong growth trajectories, sales of between USD \$10 - \$100 million, and adjusted EBITDA of 10% or greater
- Targets generally have minimal customer concentration, and are located within North America



- ★ The Wrench Group HQ
- Service Coverage Area

- On September 2, 2020, DC announced the completion of the acquisition of Sila Heating & Air Conditioning ("Sila") through its HVAC platform Astar
- Astar originally operated out of a single location in Middletown, New York, however; through the acquisition increased its service coverage to include the Northeastern / Mid-Atlantic US
- After the acquisition, the combined company was rebranded as Sila Heating & Air, and with the support of DC, two further acquisitions were announced on May 7, 2021
- Throughout the holding period, DC provided operational experience to support the business' growth strategy, and invested additional capital to grow the business
- The partnership provided additional capital to the business, with the management team retaining autonomy over business decisions. DC was only active at the board level
- In May 2021, DC sold Sila to Morgan Stanley Capital Partners

Date	Target	Acquirer	Target Description	Area Coverage
10/02/2020	Sila Heating & Air	Astar	Residential HVAC services	Northeastern & Mid Atlantic United States
05/07/2021	JSP Plumbing and Heating, Inc	Sila	Residential HVAC & Plumbing services	Kingston, New York
05/07/2021	N.E.T.R. Inc	Sila	Residential HVAC Installation service	North Andover, Massachusetts

*The Buy & Build acquisition strategy allowed Astar to go from a small, one location HVAC service provider to a company with service coverage of the Northeastern United States. Other companies executing on the Buy & Build Strategy include:*



## United States National Add-on Strategy

- The most traditional roll-up strategy, in HVAC and other markets, consists of establishing a significant presence through the acquisition of a large platform business, and then adding to the acquired company's operations via further acquisitions
- US HVAC companies adopt this strategy in order to expand their national presence and operational outreach. This provides an opportunity to access a larger customer pool, create economies of scale and geographic diversification, and increase overall market influence, thereby improving overall financial results
- To execute on this strategy, the buyer primarily targets market leaders that have a strong presence in their respective regions across the country
- Targets that are acquired typically retain their branding to facilitate the retention of their consumer base post-acquisition, and maintain the benefit from their reputation within the region, while gaining new access to cost cutting initiatives and increased selling power derived from the acquirer's larger operational network

### Case Study: Purchase of The Wrench Group

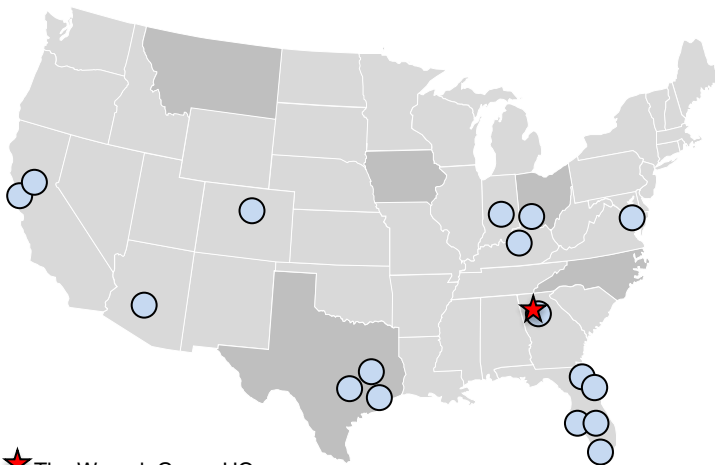


**Wrench Group**

**LGP**

**LEONARD GREEN  
& PARTNERS**

- Wrench Group is a national leader in home repair, replacement, and maintenance services, specializing in HVAC, plumbing, water, and electrical services
- Currently services over 1.1 million customers through 22 consumer-facing brands
- Leonard Green & Partners ("LGP") is a private equity firm focused primarily on North American companies that provide consumer/business services, healthcare, and retail/distribution services
- Typically invests between USD \$100 to \$500 million in cash flow positive businesses that have the potential to grow by at least 50% over a five-year period



★ The Wrench Group HQ  
○ Service Coverage Area

- On April 8, 2019, the Wrench Group ("Wrench") was sold by Investcorp to LGP
- As an Investcorp portfolio company, Wrench had increased operational revenue, expanded its service offerings into adjacent home services, and completed 4 acquisitions
- The acquisitions increased Wrench's presence in various states, and extended operations to California, Indiana, Kentucky, Maryland, and Ohio
- After the sale by Investcorp to LGP, LGP continued to support the growth of the business by providing industry expertise, and capital injections for 9 additional HVAC acquisitions to date
- Each HVAC provider acquired by Wrench was able to reduce their operating costs by implementing Wrench's technology and operational support
- The LGP fueled add-on acquisitions have increased Wrench's customer base from 0.3 million to 1.1 million serviced annually

Date	Target	Acquirer	Target Description	Area Coverage
04/09/2019	N&M Cooling And Heating, Inc.	Wrench	Residential & Commercial HVAC Services	Central & Western Florida
03/02/2020	Florida Cool, Inc	Wrench	Residential HVAC Repair, & Maintenance	Southwestern Florida
03/11/2020	Donovan Heat and Air, Inc	Wrench	Residential & Commercial HVAC Services	Jacksonville Beach, Florida
07/06/2020	Easy A/C	Wrench	Residential HVAC, Electrical, & Plumbing	Tampa, Florida
07/06/2020	On-Time Air Conditioning & Heating	Wrench	Residential HVAC Services	Pleasanton, California
09/01/2020	All About Water, LC	Wrench	Plumbing and water treatment services	Phoenix, Arizona
10/06/2020	Colins Comfort Masters	Wrench	Residential & Commercial HVAC Services	Gilbert, Arizona
06/09/2021	WCA Group, LLC	Wrench	Residential HVAC Services	Carmel, Indiana
08/06/2021	Boothe's Heating, Air, & Plumbing, LLC	Wrench	Residential HVAC Services	Southern Maryland

*The National Add-On Strategy is highly effective at leveraging the power of well-respected regional brands to establish national reach, as implemented by Wrench and others:*



**TURNPOINT**



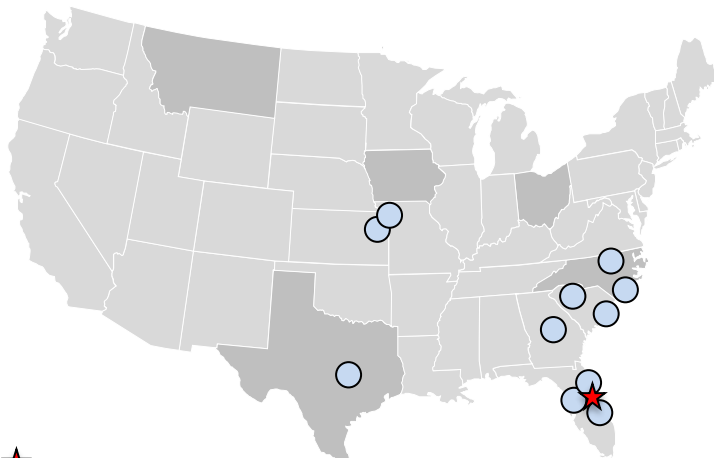
## United States Regional Add-on Strategy

- Regional acquisitions tend to leverage the acquiree's local reputation and relationships, and many acquisitions are already known to the acquirer prior to entering any transaction
- Through the established reputation / relationships, acquirers leverage the existing networks to further attract consumers without the need for market penetration advertising costs
- Additionally, a regional strategy allows for an efficient use of resources while maintaining a more centralized management team
- Overall, the cost efficiencies and experience allows access to additional financial resources for an eventual national expansion

## Case Study: Sale of Southern HVAC



- Southern HVAC ("SHVAC") is a leading Southeastern-US based HVAC service provider that offers air conditioning & furnace repairs, HVAC sales, and installation services
- Focus is on residential consumers, operating under numerous market-leading brands across its regional footprint
- MSouth is a private equity firm that provides equity capital and expertise to lower middle market companies typically valued between USD \$25 and \$250 million
- Invests with the objective of increasing operating cash flow through growth initiatives and active ownership



★ Southern HVAC HQ  
○ Service Coverage Area

- On May 16, 2016, MSouth Equity Partners announced the closing of its investment in SHVAC. Prior to the acquisition, SHVAC was an early consolidator in the coastal HVAC market acquiring approximately 4 businesses
- As an MSouth's platform company, Southern HVAC completed 13 add-on acquisitions, with current operations represented through 15 independent brands
- The acquisitions have extended the company's footprint into various states, expanding operations to include Texas, Kansas, Missouri, North/South Carolina, & Georgia
- On October 4, 2021, MSouth Equity Partners announced it had exited its investment, through a sale to Gryphon Investors
- Currently Gryphon has a majority interest in another HVAC provider, Right-Time Heating & Air Conditioning ("Right-Time"). Under Gryphon's oversight, the companies will experience operational cost improvements through standardized operation processes, economies of scale, and strategy consolidation

Date	Target	Acquirer	Target Description	Area Coverage
08/18/2017	Patricks Heating and Air Conditioning	SHVAC	Residential/Commercial HVAC & Plumbing	Ocala, Florida
08/18/2017	FAST of Florida	SHVAC	Residential/Commercial HVAC & Plumbing	Clearwater, Florida
08/18/2017	Duron Smith Heating & Air Conditioning	SHVAC	Residential/Commercial HVAC & Plumbing	Rockledge, Florida
07/08/2020	Precision Heating & Air	SHVAC	Residential HVAC Services and Provider	Austin, Texas
07/18/2020	Fox Service Company	SHVAC	Residential HVAC Services	Austin, Texas
12/14/2020	Cunningham Associates	SHVAC	Residential HVAC Services and Provider	Atlanta, Georgia
04/12/2021	Five Star	SHVAC	Residential HVAC Services & Electrical	Greer, South Carolina
04/27/2021	Mission Plumbing Heating & Cooling	SHVAC	Residential HVAC Services & Plumbing	Shawnee, Kansas
05/16/2021	Yellow Dot Heating & Air Conditioning	SHVAC	Residential/Commercial HVAC & Plumbing	Raleigh, North Carolina
05/17/2021	Dial Plumbing & Air Conditioning	SHVAC	Residential/Commercial HVAC & Plumbing	Edgewater, Florida
06/21/2021	A+ Heating & Cooling – Electrical	SHVAC	Residential HVAC & Electrical Services	Ocean Isle Beach, NC
06/21/2021	Swift Services	SHVAC	Resident/Commercial HVAC & Electrical	Myrtle Beach, SC
08/30/2021	C.M. Mose & Sons	SHVAC	Residential HVAC Services	Pleasant Valley, MO

*The regional add-on strategy allows for HVAC providers to fortify their market presence in established regions, while accessing economies of scale and more efficiently allocating management resources.*

*Other companies that have implemented this strategy include:*

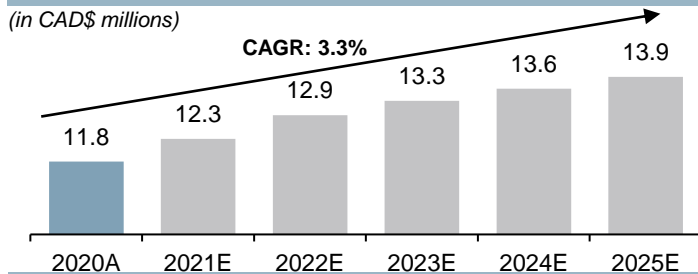


## Canadian HVAC Market Overview: National Add-on Acquisitions

- The Canadian market has historically seen lower levels of M&A activity, but that has changed in recent years
- Recently, the Canadian HVAC industry has experienced consolidation driven by financial buyers, such as private equity firms, to improve financial performance through add-on acquisitions, and establish nation-wide operations
- The Canadian HVAC industry is increasingly drawing attention from outside parties, owing to the attractive fundamentals present in the Canadian market

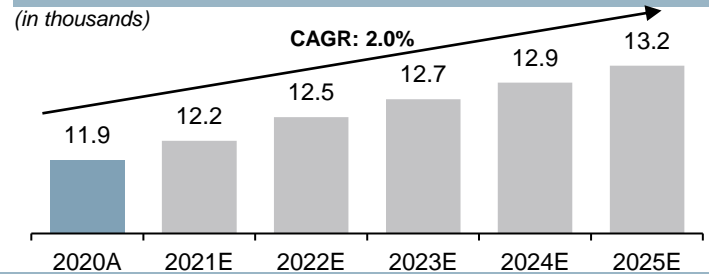
## Industry Forecasted Revenue

(in CAD\$ millions)



## Total Forecasted Enterprises

(in thousands)



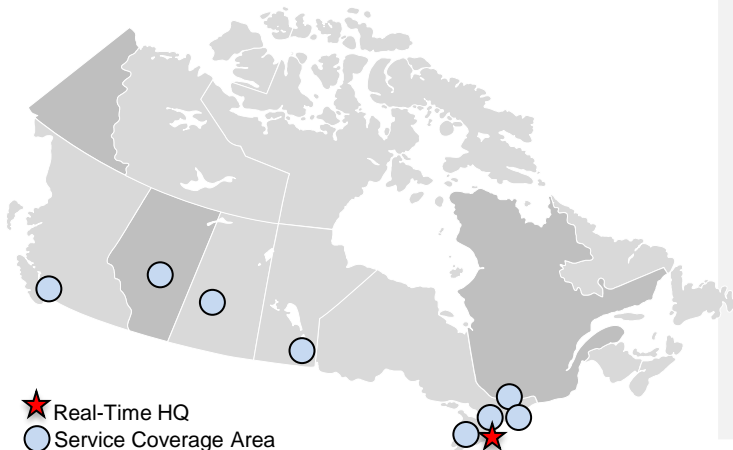
## Case Study: Sale of Right-Time Heating &amp; Air Conditioning Inc



CLAIRVEST

- Right-Time provides installation & preventative maintenance, repairs, and replacement
- Focuses on growth through M&A, and has completed 9 acquisitions since 2018
- Clairvest is a private equity firm specializing in mid-market growth equity investments, buyouts, and consolidating industries
- Typically invests \$25 to \$100 million per portfolio company in equity capital in companies with reoccurring revenue between CAD \$10 to \$50 million

- In November 2018, Clairvest completed the platform acquisition of Right-Time for approximately CAD \$21.3 million with a portion of it as Class A Preferred Shares convertible into a 15% interest
- Between 2018 to 2020, Right-Time, with the support of Clairvest, successfully completed three add-on acquisitions, increasing the service coverage from 7 to 11 cities nation-wide
- Additionally, Clairvest worked with Right-Time to enhance its online acquisition strategy and build out its leadership team
- As of December 2020, Clairvest sold its investment in Right-Time to Gryphon Investors, generating CAD \$100 million, reflecting an implied IRR of 110% and a 4.7x multiple on invested capital
- The founders retained a significant equity stake within Right-Time as a result of rollover equity. Rollover equity allowed the founders to maximize their own return in the business



Date	Target	Acquirer	Target Description	Area Coverage
06/14/2019	Home Aire Care Heating & Cooling	Real-Time	Residential HVAC provider	Kingston & Trenton, Ontario
02/26/2020	M&K ClimateCare Ltd	Real-Time	Residential HVAC services	London, Ontario
07/17/2020	Moore & Russel Heating Ltd	Real-Time	Residential HVAC & hot water services	Vancouver, British Columbia
03/10/2021	Atlas Service Company Inc	Real-Time	Residential HVAC provider	Oakville, Ontario
04/05/2021	Romaniuk Heating & Air Conditioning	Real-Time	Residential & Commercial HVAC	Edmonton, Alberta
06/05/2021	Comfort Masters Heating & AC	Real-Time	Residential HVAC, and plumbing services	Oshawa, Ontario
07/16/2021	Haven Home Heating & AC	Real-Time	Residential HVAC provider	Kingston, Ontario
08/10/2021	Anchor Home Comfort	Real-Time	Residential HVAC provider	Orleans & Embrun, Ontario
08/10/2021	FurnaceGuys Home Heating & Cooling	Real-Time	Residential HVAC services	Saskatoon, Saskatchewan

*With the support of Clairvest, and their current partners, Gryphon Investors, Right-Time has currently completed 9 acquisitions. Other companies adopting a Canadian National Add-On Strategy include:*



## International Roll-up Expansion

- Historically, the majority of HVAC M&A has been domestic, with most deals consisting of US buyers and sellers
- More recently, we have seen an increase in cross-border activity, with notable deals involving parties from across North America and internationally
- This increased geographical focus allows buyers to explore a broader range of potential acquisition targets, and also represents a beneficial development for sellers, as there is a wider range of acquirors available

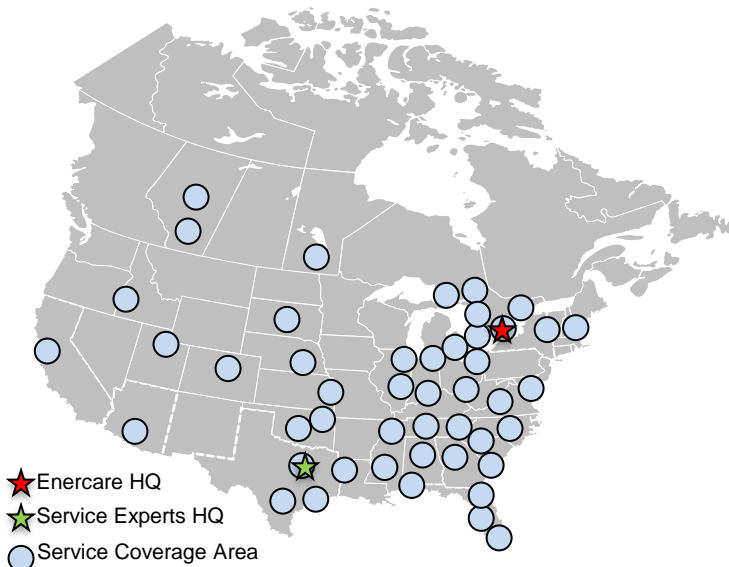
### Case Study: Enercare Acquired Service Experts



- Service Experts sells, repairs, and installs heating, ventilation, and air-conditioning equipment for home and commercial application throughout North America
- Currently operates with 4,000 employees throughout Canada and the United States



- Enercare rents, sells, and finances water heaters, furnaces, air-conditions, water treatment solutions and other HVAC products to residential and commercial customers
- Currently serves approximately 1.9 million customers annually



- On May 11, 2016, Enercare Inc ("Enercare") announced the completion of its acquisition of Service Experts Heating, Air Conditioning, & Plumbing ("Service Experts")
- Through the acquisition, Enercare was able to expand into the United States market, emerging as a market leader, and broadening their scope from Canada to North America
- Enercare purchased Service Experts for approximately USD \$340.8 million, serviced through USD \$200 million in debt facility and the remainder in equity
- Prior to the transaction, Enercare locations were located solely in Ontario
- Enercare now currently has over 130 locations across North America
- Enercare was an early actor in cross-border M&A, with the purchase of Service Experts representing a sizeable entrance into the US market

## International Expansion through Private Equity

- In addition to HVAC providers expanding through acquisitions, in some instances, private equity firms will acquire multiple providers to create an international network with the PE firm at the focal point
- Doing so allows the HVAC providers access to the resources of the PE firm, in addition to cost efficiencies, access to technology, and standardization of strategy/best practices through their shared connection

### Private Equity HVAC International Expansion Example



- Gryphon Investors is a private equity firm that actively seeks companies with strong growth results, and operates within the middle market
- Focused on companies with EBITDA of up to \$60 million, operating within the Business Services, Consumer Products & Services, Healthcare, Industrial Growth, and Software sectors
- Looks to invest USD \$50 to \$300 million through buy-outs, build-ups, and growth equity investments, with a holding period of 3 – 5 years

- Gryphon Investors purchased majority interest in both Right-Time Heating & Air Conditioning Inc and Southern HVAC, in 2020 & 2021 respectfully. Right-Time operates exclusively in the Canada, while Southern HVAC operates in the United States
- Through the Gryphon umbrella, both HVAC providers can access resources and expertise that cover the entirety of North America, and create an international network
- This represents an interesting new dynamic in the HVAC space, as Gryphon has proactively created a North American platform

## 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



Shaun Quennell  
Director– **Primary Contact**  
shaun.quennell@originmerchant.com  
T: 416-800-1768



Jim Osler  
Principal  
jim.osler@originmerchant.com  
T: 416-800-0784



Rob Penteliuk  
Principal  
rob.penteliuk@originmerchant.com  
T: 416-800-1780



Catherine David Nolan  
Senior Advisor  
catherine.davidnolan@originmerchant.com  
T: 416-499-7098



Karen Fisman  
Director  
karen.fisman@originmerchant.com  
T: 416-775-3658



Francis Laferriere  
Analyst  
francis.laferriere@originmerchant.com  
T: 905-399-3206

