

## **PE Hub**

### **[HVAC deal analysis shows why private equity is snapping up targets in the South](#)**

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From the largest private equity players such as Blackstone to some lower mid-market players with just a few hundred million dollars of assets under management, the heating, ventilation and air conditioning (HVAC) market is opening investment opportunities to all.

PE Hub analyzed about 80 residential and commercial HVAC deals that we covered between 2022 and 2024 and learned that demographic shifts, warmer temperatures, an abundance of targets to implement roll-ups and supersized returns are among the factors attracting investors.

The HVAC market is a low-risk investment, said Casey Schwartz, who co-leads Houlihan Lokey's facility and residential services practice. "It is a relatively safe industry to participate in from a preservation of capital perspective, and if you can acquire strong local businesses and demonstrate the creation of enterprise value with strong leadership, there is tremendous upside," he said.

Interviews with dealmakers suggested that some PE investors can quickly build and then flip the businesses by above average multiples, sometimes as high as the mid-teens.

"Private equity seeks great returns, and it isn't any different in HVAC investing; it's just a compelling way to hit or exceed those returns," according to Schwartz.

### **Upgrades**

The residential HVAC market saw tremendous activity from 2020 to 2022 as private equity rapidly developed and executed on sector theses, Schwartz explained. This was in the middle of the covid-19 pandemic, when people spent a lot of time at home, in many cases opting to replace or upgrade their HVAC systems along with other home repairs and maintenance.

"The industry has since faced some headwinds and normalization after this period of rapid growth," said Schwartz. "But the core attractive fundamentals and fragmentation of the industry remain strong. And, after a period of normalization, it's again a great time to be entering the space."

In 2021, the South was the fastest-growing region in the US, with an increase of 1.1 percent, according to the Census Bureau. The pandemic accelerated this trend, as many people sought to leave crowded cities.

Of the 80 HVAC deals that PE Hub covered between 2022 and 2024, an overwhelming majority of the residential deals were in the South.

“It isn’t that buyers are prioritizing a specific geography for the sake of geography,” Schwartz said. “It’s that buyers are prioritizing geographies that offer attractive business characteristics like population growth or density, relevant weather patterns, or competitive dynamics. Private equity is looking for good businesses, and a location’s economics factor into the investment thesis.”

For example, earlier this year, Investcorp acquired Shearer Supply, an HVAC equipment distributor based in Dallas.

“The company operates in the southwest region, which is attractive due to significant population growth and HVAC units being seen as a non-discretionary purchase, given the warmer year-round climate,” Rajiv Sheth, a principal at Investcorp, told PE Hub at the time.

In the South, temperatures can hover around 100F in the summer. The HVAC business is a very localized business, and being closer to customers is important, Sheth said.

But a lot of deals are happening in other regions too.

Take for example Morgan Stanley Capital Partners, which after 3.5 years of ownership is selling Sila Heating & Air Conditioning to Goldman Sachs Alternatives. During its ownership, MSCP supported Sila to make 35 acquisitions to scale the platform. Reports indicate that the firm made multiples around 17x to 20x EBITDA.

MSCP acquired Sila, a Pennsylvania-headquartered residential HVAC provider in the Northeast, Mid-Atlantic and Midwest, in 2021. The seller was Dubin Clark & Company. Sources told PE Hub at the time that Dubin Clark generated a 250 percent IRR and over 5x return in under two years.

Meanwhile, San Francisco-based Gryphon Investors amassed four HVAC-related platforms. In the portfolio currently are Southern Home Services (2021), a residential HVAC, plumbing and electrical services provider that is focused on the Southeast; Right Time, another residential-focused HVAC company, which is based in Canada; AirX Climate Solutions, a designer, manufacturer distributor and servicer of highly engineered HVAC products in industrial and commercial markets.

Between 2021 and 2023, Gryphon had Heritage Distribution Holdings in its portfolio. The company, a distributor of HVAC/R parts, equipment and supplies to contractors in the Southeast and Midwest, was sold to Beijer Ref.

While Gryphon's four platform investments in the HVAC space are different, they all draw from similar investment theses, according to Alex Earls, deal partner and co-head of Gryphon's Business Services.

"The businesses are in large, growing and fragmented markets; their non-discretionary, mission-critical nature is recession-resilient; there is an opportunity to grow through organic initiatives and add-on acquisitions; and the sector is experiencing tailwinds supported by the desire for more energy-efficient solutions and increasing air quality standards."

Historically, HVAC businesses have been the forte of family or founder-led businesses. There are approximately more than 100,000 potential targets, according to Schwartz, which makes PE's roll-up strategy achievable in this market.

This volume is synonymous with other trade markets such as landscaping, which are extremely fragmented.

"Gryphon uses an integrated deal and operations model that gives us the resources to act on exciting organic growth opportunities while bringing experience and know-how to execution-intensive projects," Earls said. "We have a track record of investing in multi-site technical services, value-added distribution and industrial technologies, and successfully integrating add-ons in fragmented industries similar to HVAC."

### **Commercial plays**

Like the residential market, our analysis showed most commercial HVAC deals were in southern regions.

However, most commercial HVAC companies, although based in the southern regions, have a multi-region footprint.

Unlike the residential market, where there hasn't been a lot of deals over the couple of years, the commercial HVAC market has been more active, according to Schwartz.

"There are so many great things about the commercial HVAC industry," Schwartz explained. "It's largely non-cyclical, supported by various forms of reoccurring revenue, and it leverages existing powerful customer relationships to drive business expansion."

Coolsys is one example of a successful roll-up strategy in commercial HVAC market.

Headquartered in California, the company operates in almost 30 states across regions such as the Southeast, Mid-Atlantic, Northeast and Pacific Northwest. Ares acquired Coolsys from Audax Private Equity in 2019. The company offers commercial refrigeration and HVAC, industrial refrigeration and HVAC, engineering services, and project management to healthcare, institutional, commercial and industrial clients.

Since 2019, PE Hub has covered almost 10 add-on acquisitions by CoolSys. Under Audax, the company had "transformative growth" with eight acquisitions that helped it to expand its presence in key geographic markets across the US.

Another example is Investcorp's Best in Class Technology Services, a Lenexa, Kansas-based provider of HVAC, electrical and plumbing maintenance, repair and replacement services that was acquired from Dunes Point Capital earlier this year.

Although financial terms were not disclosed, sources told PE Hub that Dunes Point Capital made almost mid-teens in multiples from the deal. The BCTS management team and Dunes Point Capital will remain meaningful shareholders alongside Investcorp.

### **Additional services**

Our results show that most investors combined their HVAC portfolios with plumbing and electrical services.

“Investors are trying to find other ways to expand with that customer,” Schwartz said. “Plumbing has represented an awesome opportunity to further leverage great customer relationships and offer a service that every existing customer needs. Every HVAC customer has plumbing needs, and every plumbing customer has HVAC needs.”

This also helps increase the “likely lifetime retention of the customer,” according to Earls. Even for large commercial customers, its easier for HVAC companies to secure long-term maintenance and repair contracts that could focus on several services such as plumbing and electrical services.

We expect the deals to keep on coming. PE Hub recently reported that Ridgmont Equity Partners is expected to test the market for Crete United in early 2025, three sources briefed on the matter said.