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## INDUSTRY UPDATE

| ○ Q3 | ○ 2019

EXCELLENCE ON A CONSISTENT BASIS

MERGERS & ACQUISITIONS

CAPITAL RAISING

STRATEGIC ADVISORY

### NEWSLETTER CONTENTS

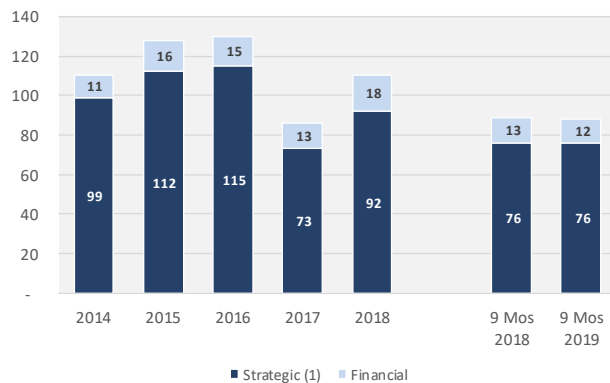
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### M&A MARKET UPDATE: NORTH AMERICAN HVACR

#### THIRD QUARTER VOLUME REMAINS STRONG

In the first nine months of 2019, the North American Heating, Ventilation, Air Conditioning and Refrigeration (“HVACR”) M&A market volume remained on par with the same period in 2018. In the first nine months of 2019, 88 transactions were completed in all segments of the industry compared with 89 deals during the same period last year. Strategic acquirors, including platform companies owned by private equity firms, completed 76 acquisitions in both periods, while financial buyers started 12 new platforms during the first three quarters of 2019 compared to 13 new platforms during the same period of 2018.

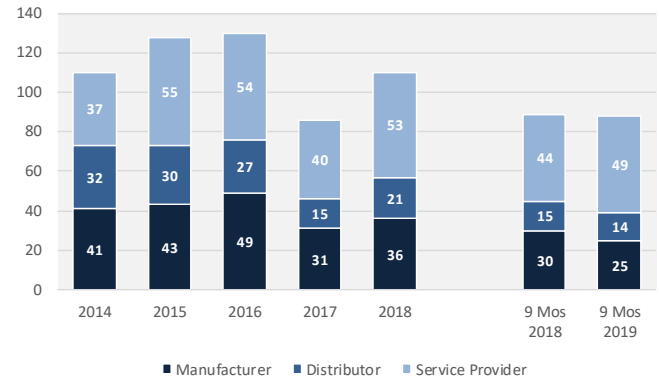
#### HVACR TRANSACTIONS BY BUYER TYPE



Source: Capital IQ

(1) Strategic acquirors include HVACR platform companies owned by financial sponsors.

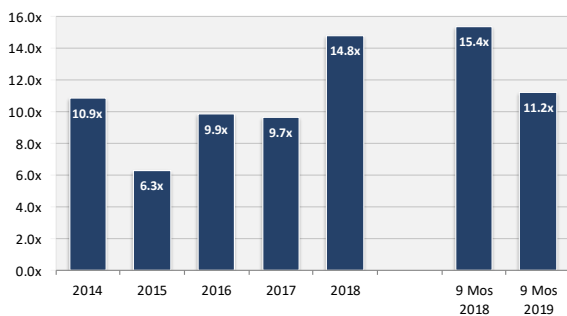
#### TRANSACTIONS BY SEGMENT <sup>(1)</sup>



Source: Capital IQ

(1) Segments are designated by the target company’s primary activity.

#### MEDIAN EV/EBITDA MULTIPLES—HVACR TRANSACTIONS



Source: Capital IQ. Includes only those transactions where data is disclosed.

With respect to industry segments, the distribution of M&A activity between manufacturers, distributors and service providers remained relatively constant. In our Q1 2019 HVACR Industry Update we noted that acquisition activity among service providers had fallen off in the first quarter of 2019 compared to the same period last year (from 17 deals to seven, respectively). Service provider M&A volume returned later in the year as 49 companies changed hands in the first nine months of 2019 compared to 44 during the 2018 period. Aside from a few large equipment manufacturers, the HVACR industry remains relatively fragmented. In recent years, this fragmentation combined with strong fundamentals has attracted increased interest from financial sponsors. While the recent 9-month period has seen EBITDA valuation multiples, where disclosed, return to average historical levels, we expect recent transaction activity to continue as strategic acquirors, both corporate- and private equity-owned, seek to increase regional density and geographic presence through consolidation.

Metronome Partners, LLC is an independent, Chicago and Memphis based M&A advisory firm that specializes in managing, structuring, and negotiating transactions of varying sizes and complexities in a broad range of industries. With over 200 transactions completed by Metronome’s principals, the firm guides its clients through critical, value-based corporate finance alternatives, including strategic sales, recapitalizations, divestitures, and debt and equity placements. The firm focuses on middle-market businesses nationwide, valued from \$30 million to over \$500 million.

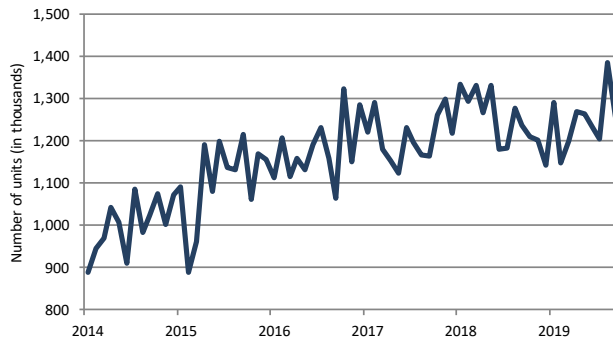
### INDUSTRY DRIVERS

As we noted in our *Q1 2019 HVACR Industry Update*, the U.S. market for all segments of the industry are substantial and growing. According to IBISWorld, the overall industry revenue estimates for HVACR manufacturers, distributors and service providers are \$49 billion, \$46 billion and \$97 billion, respectively.<sup>(1)</sup> In addition to M&A activity and the overall economy, other external drivers that influence industry growth include housing starts, construction spending, and the pace of spending on home and building improvements and repairs.

#### HOUSING STARTS

Over the past five years to 2019, all segments of the HVACR industry have expanded alongside broad housing construction trends. The industry derives a substantial share of revenue from the manufacturing, distribution and installation of HVACR equipment in new residential buildings. Despite month-to-month volatility, housing starts have rebounded over the past five years and are expected to continue a steady increase.

#### U.S. HOUSING STARTS (SEASONALLY-ADJUSTED ANNUAL RATE)



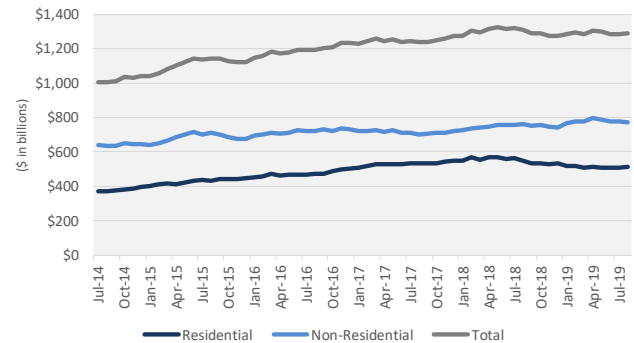
Source: U.S. Census Bureau; data retrieved from FRED, Federal Reserve Bank of St. Louis.

#### CONSTRUCTION SPENDING

As of August 2019, U.S. construction spending has increased by approximately 5.0% per year over the past five years according to the U.S. Census Bureau. While this rate of change is below the 5-year annual growth rate of 5.4% noted in our first quarter report, interest rates remain low, the economy and consumer confidence remain strong and unemployment is at historically low levels.

Although headwinds do seem to be approaching in the form of slowing GDP growth, a tight labor market, and tariffs on certain imported goods and materials, most forecasts call for continued growth and expansion in the U.S. construction industry, particularly in the near-term.

#### U.S. CONSTRUCTION SPENDING (SEASONALLY-ADJUSTED ANNUAL RATE)



Source: U.S. Census Bureau; data retrieved from FRED, Federal Reserve Bank of St. Louis.

#### HOME AND BUILDING IMPROVEMENTS AND REPAIRS

While the industry derives a substantial part of its revenue from installing systems in new buildings and homes, the downstream replacement and repair market is vital for ongoing industry health. Over the past ten years, the rate of equipment replacement, particularly among residential consumers, accelerated as the market digested “pent-up demand” from the downturn. Recent surveys of industry distributors indicate this demand cycle may have matured and we are approaching a “normal” rate of replacement.<sup>(2)</sup> While this slowdown in replacements may have a short-term impact on equipment manufacturers and distributors, the demand for repair services, which are typically more resistant to economic fluctuations, should increase. And maintaining a “normal” level of HVACR equipment replacement demand is more secure than in other industries—keeping air-conditioning, heating and refrigeration systems in working order is essential to safety and quality of life.

From a commercial standpoint, as approximately 40% of a building’s energy is consumed by HVACR equipment, many commercial builders and managers are willing to trade upfront capital costs for future energy savings. With an estimated three-fourths of U.S. buildings built before 1979, retrofits and upgrades will remain quite common in the near-term.

The government will also play a role in maintaining product and service demand as it enforces regulations to eliminate the production and importation of hydrochlorofluorocarbons (HCFCs) by 2030. While not all of the new regulations imposed over the past few years mandate equipment changes, HVACR manufactures are developing systems that do not require HCFCs. Eventually, replacing older equipment will be required either by law or through the absence of products and materials to service older units.

(1) IBISWorld: “Heating & Air Conditioning Equipment Manufacturing in the US”, May 2019; “Heating & Air Conditioning Wholesaling in the US”, July 2019; “Heating & Air Conditioning Contractors in the US”, July 2019.

(2) J.P. Morgan: “2019 HVAC Survey”, September 2019.

## SELECTED 2019 TRANSACTIONS BY INDUSTRY SEGMENT

### MANUFACTURERS

Announced	Target	Acquirer	EV (\$mm)
09/13/2019	The Arctic Chiller Group, Ltd.	Trane Inc.	
08/05/2019	ABC Industries, Inc.	Branford Castle Partners; Brookside Mezzanine Partners	
07/08/2019	SGS Refrigeration	SPX Corporation (NYSE:SPXC)	
07/01/2019	ZSi-Foster, LLC	Ideal Tridon Holdings, Inc.	
06/03/2019	Global Flow Products LLC	Continental Materials Corporation (AMEX:CUO)	
05/09/2019	Industrial Air-X-Changers Business Of Harsco Corporation	E&C FinFan, Inc.	\$592.0
05/03/2019	Alpha Sensors, Inc.	TE Connectivity Ltd. (NYSE:TEL)	
04/01/2019	Kysor Warren Business of Heatcraft Inc.	Epta S.p.A.	
03/11/2019	Aqua Hot Heating Systems, Inc.	Airxcel, Inc.	
02/11/2019	Resolute Industrial	AE Industrial Partners, LLC	
02/01/2019	Brasch Manufacturing Co., Inc	ASPEQ Heating Group LLC	-
01/08/2019	PB Heat, LLC	Noritz Corporation (TSE:5943)	\$47.0
01/08/2019	Functional Devices Incorporated	Shorehill Capital LLC	-

### NOTABLE TRANSACTIONS



Acquires



AE Industrial Partners, LP (AEI) acquired Resolute Industrial Holdings, LLC (Resolute), the largest independent provider of temporary HVACR solutions in North America, providing commercial HVACR rental services through a national fleet of large to small tonnage cooling equipment and heaters. Heating equipment is manufactured in-house under the proprietary Tioga brand.

### DISTRIBUTORS

Announced	Target	Acquirer	EV (\$mm)
09/20/2019	Enersol Inc.	Carel USA, Inc	
07/18/2019	Peirce-Phelps, Inc.	Watsco, Inc. (NYSE:WSO)	\$85.0
07/08/2019	Temperature Control Systems Inc.	Kele, Inc.	
06/25/2019	Pacific Marketing Associates, Inc.	Empire Equipment Company, LLC	
04/18/2019	Allied Cooling & Heating, LLC	Badger Bob's Services Inc.	
04/12/2019	Munch's Supply	Ridgmont Equity Partners	
04/04/2019	Dunphey & Associates Suply Co, Inc.	Watsco, Inc. (NYSE:WSO)	
03/13/2019	Commercial Products International, Inc.		
03/12/2019	Comfort Air Distributing, Inc.	Munch Supply LLC.	-
03/06/2019	Business and Assets of Temp Air Inc.	Sunbelt Rentals, Inc.	\$119.0
01/29/2019	Fluid Flow Products, Inc.	Bertram Capital Management LLC	-
01/03/2019	Knipp Services	Trane U.S. Inc.	-



Acquires



Watsco acquired the HVAC business of Peirce-Phelps, Inc., which serves over 9,000 customers from 19 locations in Pennsylvania, New Jersey and Delaware. Peirce-Phelps will operate as a stand-alone subsidiary of Carrier Enterprises, LLC, a joint venture between Watsco (80% ownership) and Carrier Corporation (20% ownership).

### SERVICE PROVIDERS

Announced	Target	Acquirer	EV (\$mm)
09/09/2019	P.J. Mechanical Corp.	Aterian Investment Partnres, LLC	
08/05/2019	Innovative Mechanical Systems Inc.	Pueblo Mechanical & Controls LLC	
07/31/2019	Agape Mechanical, LLC	CoolSys, Inc.	
06/19/2019	Powerhouse Equipment & Engineering Co.	Atlas Copco AB (OM:ATCO A)	
06/11/2019	EcoFactor, Inc.	Trane Inc.	
05/16/2019	Tri-Temp Refrigeration, Inc.	Climate Pros, Inc.	
04/12/2019	Applied Mechanical Inc./ Pyramid Mechanical	ACCO Engineered Systems, Inc.	
03/21/2019	CoolSys, Inc.	Ares Management Corporation (NYSE:ARES)	
03/13/2019	CroppMetcalfe, Inc.	HomeServe USA Corp.	
03/04/2019	A.B.C. Refrigeration & A/C, Inc.	CoolSys, Inc.	
02/22/2019	Reedy Industries, Inc.	Audax Group	
02/21/2019	Clockwork Inc./Affiliated Entities	Authority Brands, LLC	\$300.0
02/04/2019	Air Solutions, LLC,	HB McClure Company	-
01/11/2019	Hill York Service Corporation	EMCOR Building Services, Inc.	-
01/02/2019	Commercial Air	Pueblo Mechanical & Controls, LLC	



Acquires



The Private Equity Group of Ares Management Corporation acquired CoolSys, a parent of market-leading refrigeration and HVAC companies nationwide. Over the past tree years, CoolSys has undergone transformative growth with eight acquisitions with Audax Group, its former private equity partner. The company plans to continue its growth trajectory under Ares.

Source: Capital IQ

## TRADING STATISTICS

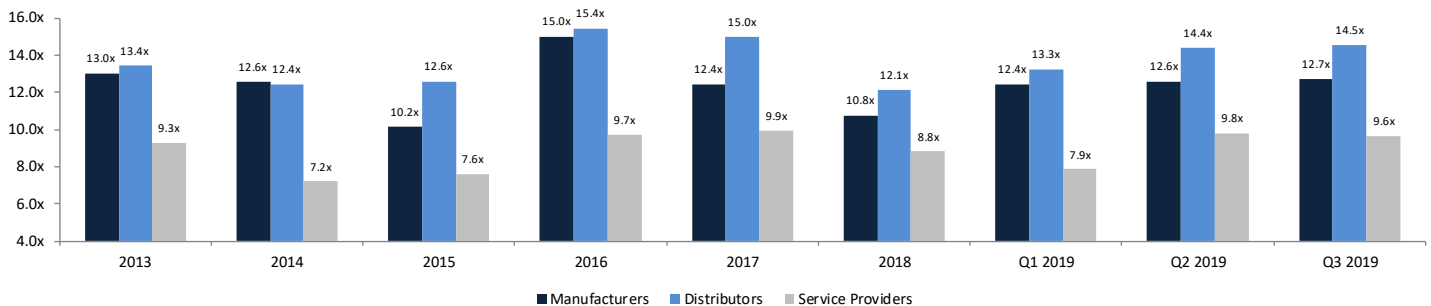
Our publicly-traded HVACR universe consists of manufacturers, distributors and service providers. Manufacturers of HVACR equipment currently trade at a median trailing-twelve-month (“TTM”) EBITDA multiple of 13.7x and include companies that specifically manufacture HVACR equipment such as AAON, Inc. and Lennox International, Inc., as well as large diversified manufacturers like Ingersoll Rand plc and Johnson Controls International plc. Distributors currently trade at a median TTM EBITDA multiple of 15.2x and include Watsco, Inc., with a TTM EBITDA multiple of 18.9x, as the sole pure-play publicly-traded distributor, with other more diversified distributors included for comparison. Service providers trade at a median TTM EBITDA multiple of 10.0x and include focused HVACR service providers such as Comfort Systems USA, Inc. and EMCOR Group as well as more general facility maintenance service providers.

## PUBLICLY-TRADED HVACR COMPANIES

	Closing Price 10/25/19	Stock Price			Enterprise Value (MM)	Enterprise Value/Revenue		Enterprise Value/EBITDA		Price/Earnings Ratio		Margins	
		52 Wk High	52 Wk Low	% of High		LTM	Cal 2019E	LTM	Cal 2019E	LTM	Cal 2019E	Gross	EBITDA
<b>Manufacturers</b>													
AAON, Inc. (NasdaqGS:AAON)	\$47.84	\$53.27	\$32.33	89.8%	\$2,475	5.4 x	5.1 x	27.6 x	25.3 x	49.8 x	45.3 x	25.4%	19.6%
A. O. Smith Corporation (NYSE:AOS)	\$51.07	\$56.66	\$40.34	90.1%	\$8,229	2.7 x	2.7 x	13.7 x	14.1 x	20.5 x	21.7 x	40.4%	19.6%
Daikin Industries, Ltd. (TSE:6367)	138.33	138.47	100.29	99.9%	42,763	1.8 x	1.8 x	11.9 x	11.8 x	22.7 x	22.0 x	35.1%	15.4%
Ingersoll-Rand Plc (NYSE:IR)	121.06	128.31	85.15	94.3%	34,728	2.2 x	2.1 x	14.5 x	13.1 x	20.8 x	19.0 x	31.3%	15.0%
Johnson Controls International plc (NYSE:JCI)	42.56	44.65	28.30	95.3%	38,551	1.2 x	1.6 x	8.1 x	11.3 x	18.8 x	20.0 x	29.7%	14.9%
Lennox International Inc. (NYSE:LII)	243.08	298.49	197.00	81.4%	10,943	2.9 x	2.9 x	20.4 x	16.1 x	26.1 x	21.5 x	28.1%	14.2%
Modine Manufacturing Company (NYSE:MOD)	11.51	16.67	9.50	69.0%	1,082	0.5 x	0.5 x	6.0 x	5.5 x	8.3 x	8.5 x	16.3%	8.3%
Minimum				69.0%	\$1,082	0.5 x	0.5 x	6.0 x	5.5 x	8.3 x	8.5 x	16.3%	8.3%
Mean				88.6%	19,824	2.4 x	2.4 x	14.6 x	13.9 x	23.9 x	22.6 x	29.5%	15.3%
Median				90.1%	10,943	2.2 x	2.1 x	13.7 x	13.1 x	20.8 x	21.5 x	29.7%	15.0%
Maximum				99.9%	42,763	5.4 x	5.1 x	27.6 x	25.3 x	49.8 x	45.3 x	40.4%	19.6%
<b>Distributors</b>													
Beijer Ref AB (publ) (OM:BEIJ B)	\$27.70	\$27.85	\$13.02	99.5%	\$3,798	2.5 x	2.5 x	28.6 x	22.4 x	41.0 x	40.0 x	30.6%	8.9%
Ferguson plc (LSE:FERG)	\$83.90	\$83.97	\$59.00	99.9%	\$20,202	0.9 x	0.9 x	11.5 x	10.8 x	18.3 x	16.2 x	29.4%	8.0%
HD Supply Holdings, Inc. (NasdaqGS:HDS)	\$40.34	\$47.13	\$35.35	85.6%	\$9,196	1.5 x	1.5 x	11.1 x	10.6 x	17.1 x	11.5 x	39.2%	13.4%
Watsco, Inc. (NYSE:WSO)	\$175.90	\$178.29	\$131.88	98.7%	\$7,330	1.6 x	1.5 x	18.9 x	18.2 x	26.7 x	26.9 x	24.4%	8.3%
Minimum				85.6%	\$3,798	0.9 x	0.9 x	11.1 x	10.6 x	17.1 x	11.5 x	24.4%	8.0%
Mean				95.9%	10,131	1.6 x	1.6 x	17.5 x	15.5 x	25.8 x	23.6 x	30.9%	9.6%
Median				99.1%	8,263	1.5 x	1.5 x	15.2 x	14.5 x	22.5 x	21.5 x	30.0%	8.6%
Maximum				99.9%	20,202	2.5 x	2.5 x	28.6 x	22.4 x	41.0 x	40.0 x	39.2%	13.4%
<b>Service Providers</b>													
ABM Industries Incorporated (NYSE:ABM)	\$37.40	\$42.67	\$25.64	87.6%	\$3,360	0.5 x	0.5 x	10.9 x	9.9 x	28.2 x	18.6 x	11.1%	4.8%
Comfort Systems USA, Inc. (NYSE:FIX)	\$51.57	\$59.83	\$36.27	86.2%	\$2,185	0.9 x	0.8 x	10.7 x	10.5 x	18.2 x	17.3 x	19.6%	8.2%
EMCOR Group, Inc. (NYSE:EME)	\$88.82	\$91.53	\$57.29	97.0%	\$5,313	0.6 x	0.6 x	10.0 x	9.9 x	16.1 x	15.5 x	14.8%	6.1%
Instalco AB (publ) (OM:INSTAL)	\$11.03	\$11.09	\$6.07	99.4%	\$619	1.2 x	1.1 x	12.7 x	11.4 x	15.2 x	16.4 x	48.5%	9.3%
Limbach Holdings, Inc. (NasdaqCM:LMB)	\$4.45	\$11.45	\$3.56	38.9%	\$75	0.1 x	0.1 x	6.2 x	3.7 x	NM	6.3 x	12.3%	2.2%
Nippon Air conditioning Services Co., Ltd. (TSE:4658)	\$6.59	\$7.34	\$5.76	89.7%	\$175	0.4 x	0.4 x	5.7 x	6.1 x	13.2 x	14.3 x	18.4%	7.0%
Taikisha Ltd. (TSE:1979)	\$32.43	\$32.66	\$24.45	99.3%	\$869	0.4 x	0.4 x	5.3 x	5.6 x	13.5 x	13.6 x	16.2%	8.0%
Minimum				38.9%	\$75	0.1 x	0.1 x	5.3 x	3.7 x	13.2 x	6.3 x	11.1%	2.2%
Mean				85.5%	1,800	0.6 x	0.6 x	8.8 x	8.1 x	17.4 x	14.6 x	20.1%	6.5%
Median				89.7%	869	0.5 x	0.5 x	10.0 x	9.9 x	15.6 x	15.5 x	16.2%	7.0%
Maximum				99.4%	5,313	1.2 x	1.1 x	12.7 x	11.4 x	28.2 x	18.6 x	48.5%	9.3%

Source: Capital IQ





## MEDIAN HISTORICAL EV/EBITDA



Source: Capital IQ; Q3 2019 multiples may differ from those shown in the detail above as the former are as of March 31, 2019, whereas the latter are as of the close of October 25, 2019.

## OUR EXPERIENCE

Metronome has represented a diverse group of HVACR companies that serve both the commercial and residential marketplaces. Our team actively follows all segments in the industry and maintains strong relationships with both strategic and financial industry participants. We also regularly work with shareholders of HVACR companies to assess liquidity alternatives and determine optimal financing strategies in conjunction with other operating and cultural objectives with the goal of maximizing value for all stakeholders. Recent Metronome HVACR engagements include the following mandates:

<p><b>Project Chill</b></p> <p>Corporate Sale <i>(IN PROCESS)</i></p> <p>HVACR Distributor</p>	<p><b>Project Build</b></p> <p>Corporate Sale <i>(IN PROCESS)</i></p> <p>HVACR Service Provider</p>	 <p><i>has been acquired by</i></p>  <p><i>The undersigned served as exclusive financial advisor to Reedy Industries</i></p> 	 <p><i>has sold a majority equity interest to</i></p>  <p><i>The undersigned served as exclusive financial advisor to MetroTech Service Corporation</i></p> 	<p><b>Charlesbank</b></p> <p>CAPITAL PARTNERS LLC</p> <p><i>has acquired</i></p>  <p><i>a CI Capital Partners portfolio company</i></p> <p><i>The undersigned served as financial advisor to Charlesbank Capital Partners, LLC</i></p> 
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<p><i>Metronome is currently representing a leading regional distributor of heating, ventilation and air conditioning equipment. The company works with a diverse group of vendors and also provides engineering and technical expertise to deliver complete building solutions.</i></p>	<p><i>Metronome is currently representing a privately-held designer, installer and servicer of heating, ventilation and air conditioning equipment. The company contracts with a variety of builders and construction companies and subsequently services and maintains installed systems.</i></p>	<p><i>Metronome served as financial advisor to Reedy Industries, Inc. (Reedy) in its sale to Audax Group. Reedy is a family of heating, ventilation and air conditioning parts distribution and services businesses with operations in six states throughout the Great Lakes and Midwest regions.</i></p>	<p><i>Metronome served as financial advisor to MetroTech Service Corporation (MetroTech) in its sale to Summit Partners. MetroTech provides preventive maintenance, emergency service repairs and HVAC design / installation services to multi-site commercial and retail customers across the U.S.</i></p>	<p><i>Metronome served as financial advisor to Sundberg America, LLC (Sundberg) in its financing with Freedom 3 Capital and Wells Fargo. Sundberg distributes various heating, ventilation, and air conditioning parts, installation essentials and accessory parts as well as other appliance replacement parts.</i></p>
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We pride ourselves on the long-term, consistent advice we provide our clients and are proud of the relationships our team has established, built and sustained. Our reputation is our livelihood and a testament to the rigorous processes we run and the excellent results we achieve.

Please contact one of the senior bankers below if you would like to discuss how the transactions and trends described in this report will affect the outlook for M&A and other capital markets opportunities for HVACR industry participants.

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