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HVAC INDUSTRY SNAPSHOT: HEATING AND AIR CONDITIONING IN US & MEXICO

MAY

2019

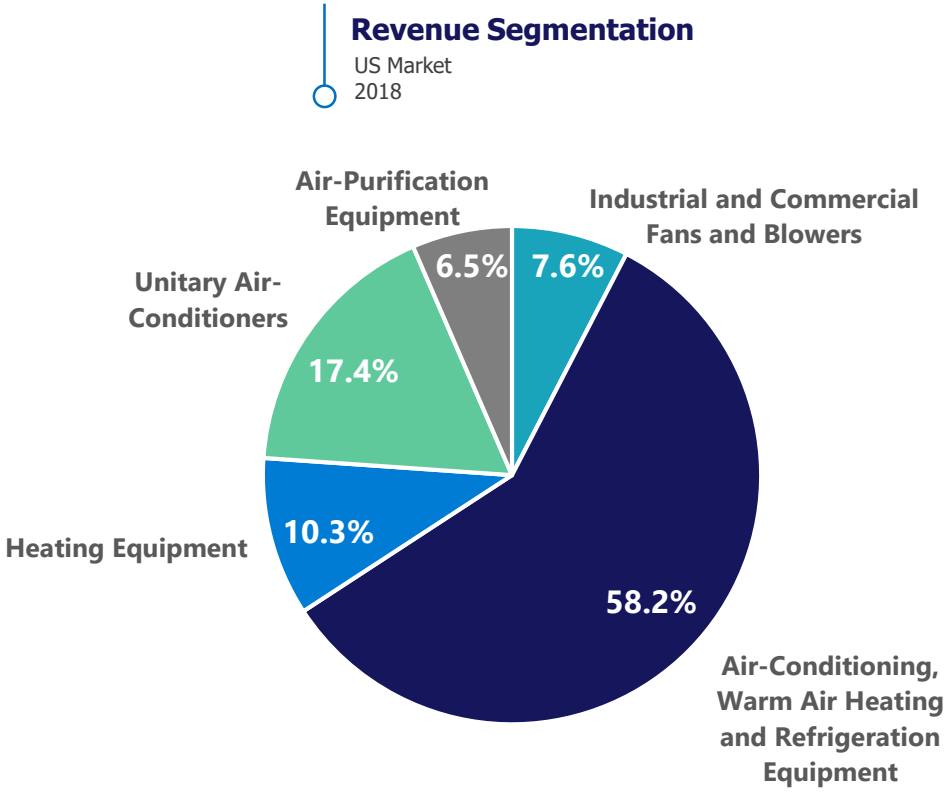
INDUSTRY SNAPSHOT

HVACR INDUSTRY

HVAC stands for heating, ventilation and air conditioning / refrigeration. It refers to the systems, machines and technologies used in indoor settings such as homes, offices and hallways, and transportation systems that need temperature regulation to improve comfort.

- Demand for HVAC equipment heavily depends on the level of construction activity in the residential, commercial and industrial sectors
- Energy-efficiency requirements are expected to spark sales, given the inherent cost savings in new generation HVAC equipment
- Industry revenue hinges on demand from contractors that install and repair climate-control systems in new construction and renovation projects

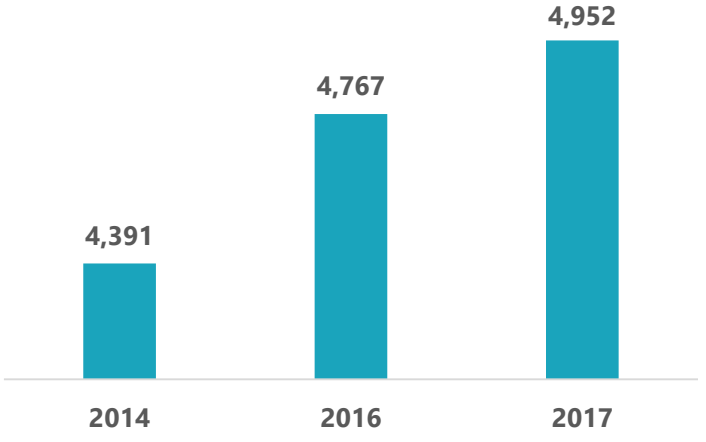
Air-conditioning, warm-air heating and refrigeration equipment is the industry's largest segment; comprising an estimated 58.2% of total industry revenue in 2018 in the United States.



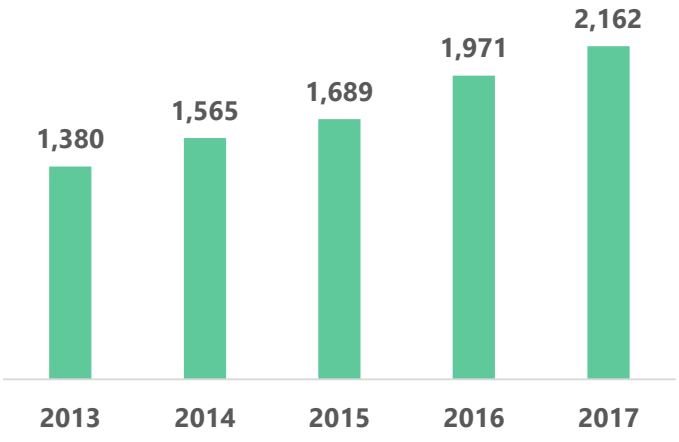
Sources: HVAC Training, IBISWorld

HEATING & AIR CONDITIONING IN MEXICO:

- In 2017, households with air conditioning in the country reached 15%. The states with higher percentage of homes with AC are Sinaloa and Sonora with 70%, and Baja California Sur, Tamaulipas, and Nuevo Leon with 50%
- In 2016 and 2017 the annual growth of the industry was very close to 7%
- Annual sales of air conditioning equipment have tripled since 1998, reaching about 600 thousand units per year by 2018



Homes with Air Conditioning
Thousands



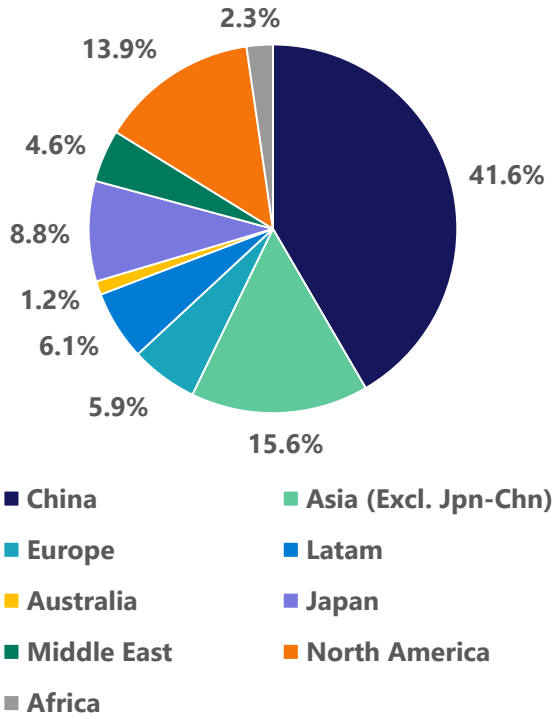
Air Conditioning Equipment Market
Thousands of Units

- Mexico has more than 600 companies dedicated in the HVAC sector
- The growth of the HVAC industry is primarily driven by growth in the residential and construction market. The more new homes, factories, and office buildings are built, the more HVAC units are needed to be installed
- Guanajuato and Queretaro are the HVAC manufacturing epicenters of the country
- Forecasted revenue CAGR of 4.18% (2017-2023) in Mexico

Sources: BSRIA, ASHRAE, ANFAD

GLOBAL HEATING & AIR CONDITIONING:

- Global sales of air conditioning equipment during 2018 were estimated in around 137 million units, equivalent to over US$102 billion in revenue
- Unitary air-conditioners represent the single-largest product category in the industry. They are made of air-to-air conditioning systems such as residential central air-conditioning, split and packaged air-to-air systems
- HVACR systems use more energy and cost more than any other system in an average home - typically making up about 42% of the utility bill

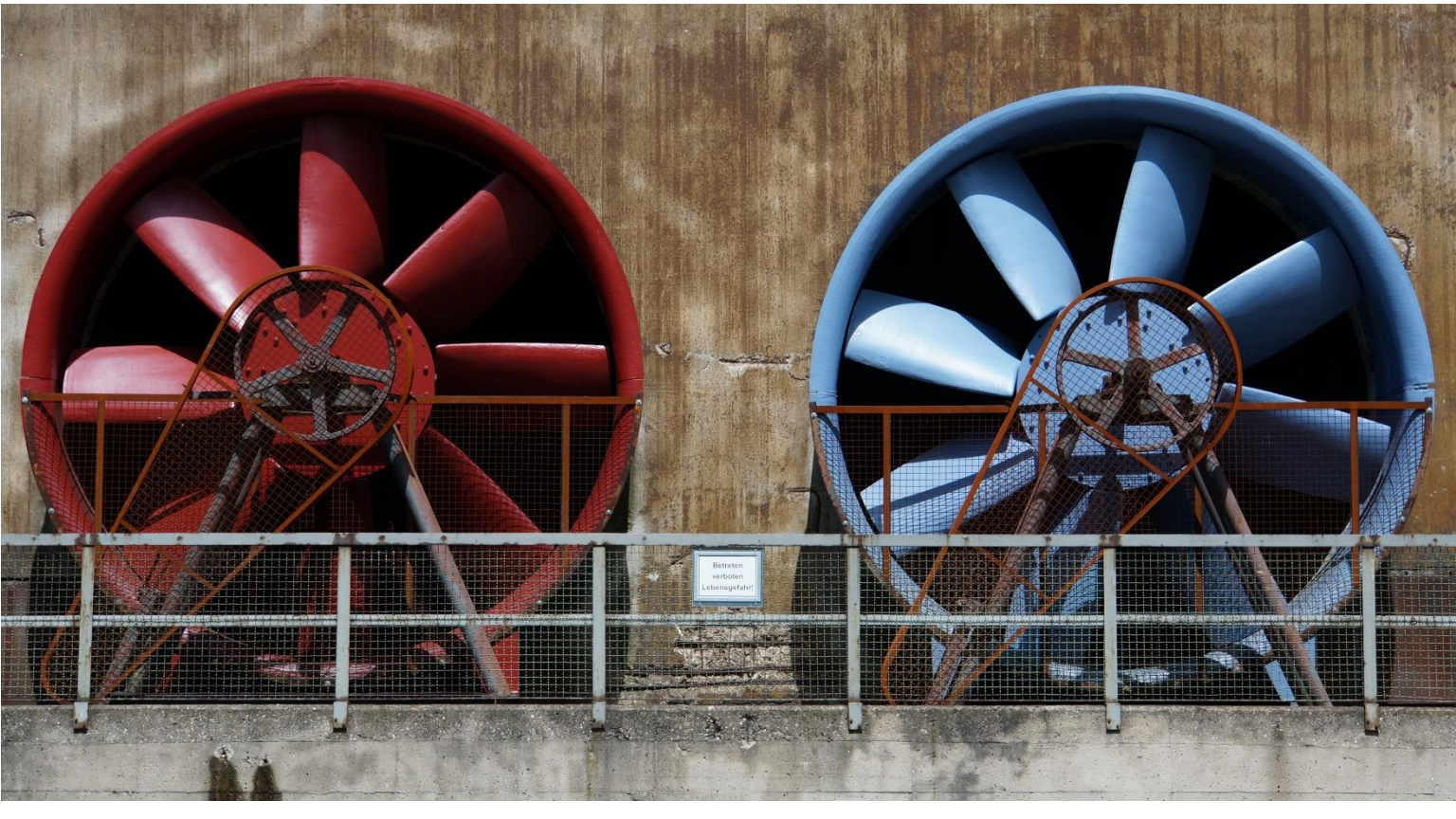


Demand of Air Conditioning Equipment
By Region
2017

Sources: BSRIA, Transparecy Market Research, IBISWorld

INDUSTRY TRENDS:

- **Smarter technologies:** Such as the use of smartphone apps, allowing building managers to control lighting, ventilation and other processes with one control point
- **Big data:** Better measurements of buildings environment thanks to the collection and mining of big data, allowing for more efficient HVAC systems to be installed
- **Online tools:** HVACR contractors will be using software, SEO, widgets and other online tools and strategies to help connect with local customers who are looking for their services
- **Preventative systems:** As HVACR systems continue to develop innovative solutions for buildings, consumers are expected to continue turning toward mobile technologies to set up preventative maintenance and service programs
- **Zoning systems:** Different temperature zones in a home or commercial building can be created and controlled by individual thermostats
- **Innovative Air Conditioning:** Thermally driven air conditioning, which uses both solar power and natural gas, is reducing energy costs, just as an ice-powered air conditioning system is lowering costs by up to 30%



Sources: CarrierEnterprise Aeroseal

CURRENT MARKET SITUATION

COMPARABLE PUBLIC COMPANIES - GLOBAL

Company	Country	Price 5/28/19	Sales US$M	EBITDA Margin	Mkt. Cap. US$M	Enterprise Value US$M	Annual Average EV / EBITDA			5/28/19	
							2016	2017	2018	EV / EBITDA	EV / Revenue
Johnson Controls International plc	IRL	$38.46	$31,708	14.7%	$34,546	$47,958	10.6x	11.5x	9.3x	9.8x	1.5x
Daikin Industries,Ltd.	JPN	$126.14	$22,391	15.1%	$36,896	$39,151	9.8x	11.4x	11.4x	11.3x	1.7x
Ingersoll-Rand Plc	IRL	$118.60	$15,860	14.9%	$28,601	$32,863	10.7x	12.6x	12.3x	13.9x	2.1x
Sandvik AB	SWE	$15.82	$10,934	22.2%	$19,849	$21,280	10.9x	11.9x	9.9x	9.0x	2.0x
Alfa Laval AB (publ)	SWE	$21.11	$4,525	17.9%	$8,853	$9,606	9.9x	14.2x	15.2x	12.2x	2.2x
Spirax-Sarco Engineering plc	GBR	$109.59	$1,470	29.8%	$8,068	$8,368	16.1x	19.0x	18.9x	NR	NR
Toto Ltd.	JPN	$37.95	$5,289	10.8%	$6,426	$6,193	9.3x	10.7x	11.1x	10.5x	1.2x
NIBE Industrier AB (publ)	SWE	$13.29	$2,525	15.0%	$6,698	$7,432	17.4x	17.3x	17.2x	NR	NR
Aalberts NV	NED	$33.87	$3,159	14.8%	$3,746	$4,431	10.9x	12.2x	11.6x	9.7x	1.4x
IMI plc	GBR	$11.85	$2,431	18.1%	$3,208	$3,715	10.3x	12.6x	10.9x	8.5x	1.5x
China Lesso Group Holdings Limited	CHN	$0.67	$3,451	16.0%	$2,075	$3,014	4.7x	5.8x	5.6x	5.3x	0.9x
Valmet Oyj	FIN	$24.90	$3,680	9.9%	$3,725	$3,561	8.5x	9.8x	9.6x	9.9x	1.0x
Ebara Corporation	JPN	$25.11	$4,595	9.6%	$2,490	$2,267	5.3x	7.7x	6.1x	5.0x	0.5x
BELIMO Holding AG	SUI	$5,255.80	$654	20.3%	$3,232	$3,080	17.3x	20.8x	21.7x	NR	NR
									Mean	**9.6x**	**1.5x**
									Median	**9.8x**	**1.5x**

NR: Not Relevant NA: Not Available

COMPARABLE PUBLIC COMPANIES – NORTH AMERICA

Company	Country	Price 5/28/19	Sales US$M	EBITDA Margin	Mkt. Cap. US$M	Enterprise Value US$M	Annual Average EV / EBITDA			5/28/19	
							2016	2017	2018	EV / EBITDA	EV / Revenue
Dover Corporation	USA	$89.99	$7,079	17.4%	$13,078	$16,294	10.6x	13.9x	11.7x	13.2x	2.3x
Lennox International Inc.	USA	$271.35	$3,839	14.3%	$10,642	$12,077	15.3x	15.4x	16.6x	NR	NR
A. O. Smith Corporation	USA	$43.05	$3,148	19.6%	$7,198	$6,902	14.5x	16.9x	15.8x	11.2x	2.2x
Colfax Corporation	USA	$25.21	$3,794	13.1%	$2,964	$7,256	10.5x	13.7x	11.3x	14.6x	1.9x
Resideo Technologies, Inc.	USA	$20.57	$4,878	4.4%	$2,524	$3,598	NA	NA	14.0x	16.7x	0.7x
Watts Water Technologies, Inc.	USA	$81.53	$1,575	15.4%	$2,770	$3,006	17.5x	12.8x	12.7x	12.4x	1.9x
AAON, Inc.	USA	$46.29	$449	19.0%	$2,412	$2,405	16.0x	19.7x	22.8x	NR	NR
SPX Corporation	USA	$30.44	$1,530	8.1%	$1,335	$1,746	10.3x	15.2x	20.5x	14.0x	1.1x
Graham Corporation	USA	$20.42	$90	7.2%	$201	$121	14.2x	16.3x	30.6x	NR	1.3x
Burnham Holdings, Inc.	USA	$14.99	$202	6.9%	$69	$86	6.6x	9.2x	7.7x	6.1x	0.4x
Continental Materials Corporation	USA	$17.95	$163	-0.1%	$31	$1	5.2x	5.1x	6.1x	NR	0.0x
									Mean	**12.6x**	**1.3x**
									Median	**13.2x**	**1.3x**

NR: Not Relevant NA: Not Available

Sources: Capital IQ, Mergermarket

CURRENT MARKET SITUATION

COMPARABLE TRANSACTIONS - GLOBAL

Date	Target	Country	Description	Buyer	% Acquired	Size US$M	EV / EBITDA	EV / Revenue
Apr-19	Finder Pompe S.r.l.	ITA	Systems for industrial applications, including HVAC industry	Gruppo Aturia SpA	100	$24	-	0.8x
Nov-18	Howden Africa Holdings Limited	RSA	Air and gas handling solutions	Howden Group South Africa Limited	52	$109	-	1.0x
Oct-18	Hydrapower Dynamics Limited	GBR	Products for HVAC and other industries	Supply Technologies (UKGRP) Limited	100	$8	-	-
Aug-18	JANKA ENGINEERING s.r.o.	CZE	HVAC systems	PZU Czech, a.s.; Shiftry Holdings Limited	100	$2	-	0.1x
Jul-18	ATCO Rubber Products, Inc.	USA	HVACR systems	Mueller Industries, Inc.	100	$163	-	1.0x
May-18	Lafert S.p.A.	ITA	Machinery for HVAC and other industries	Sumitomo Heavy Industries, Ltd.	100	$201	-	1.2x
Mar-18	Simx Limited	NZD	HVACR products	Volution Group plc	100	$52	-	2.0x
Sep-17	Integrated Cleanroom Technologies Pvt., Ltd.	IND	Installation of HVACR systems	Takasago Thermal Engineering Co., Ltd.	27	$20	-	-
Jun-17	AMTROL Inc.	USA	Heating solutions and ventilation systems	Worthington Steel Of Michigan, Inc.	100	$283	7.4x	1.1x
Mar-17	Opimus Group Nyrt. (nka:OPUS GLOBAL Nyrt.)	HUN	Heating accessories	Konzum Private Equity	86	$116	-	2.2x
Mar-17	Siemens Turbomachinery Equipment GmbH	GER	Ventilation systems, turbines, fans	Howden Group Ltd.	100	$204	-	1.3x
Sep-16	Spirotech Heat Exchangers Pvt. Ltd.	IND	Fin and tube condensers for HVAC	LU-VE India Corporation Private Limited	95	$36	7.5x	1.6x
Sep-16	Wescon Controls, LLC	USA	Control systems for many industries, including HVAC	Suprajit USA Inc.	100	$44	6.3x	1.2x
Sep-16	Luvata Heat Transfer Solutions Business	USA	Coils, coolers and coatings to the HVAC industries	Modine Manufacturing Company	100	$422	-	-
Aug-16	Callenberg Technology Group AB	SWE	Designs and installs HVAC solutions	Trident Maritime Systems, LLC	100	$64	-	-
Jul-16	Nortek Inc.	USA	HVACR systems	Melrose Industries PLC	93	$2,673	9.9x	1.1x
May-16	The Climate Control Group, Inc.	USA	HVAC products	NIBE Energy Systems Inc.	100	$364	14.6x	1.3x
Feb-16	FERRO S.A.	POL	Installation of HVACR systems	Palmyra Sp. z o.o.	100	$88	9.2x	1.1x
Feb-16	TDC Filter Manufacturing Inc.	USA	Air filtration products	BHA Altair, LLC	100	$11	-	-
Feb-16	Nordic Air Filtration A/S	DEN	HVAC filters	Hengst Automotive SE	100	$11	-	0.7x
Jan-16	Dantherm HVAC And European Subsidiaries Of Telecom Division Of Dantherm A/S	DEN	HVAC systems	Procuritas Partners AB; Procuritas Capital Investors V LP	100	$24	-	0.5x
Nov-15	J.A. Plastindustri A/S	DEN	Ventilation systems	Braas Monier Building Group S.A.	100	$22	-	-
Aug-15	Lindab Inc.	USA	HVACR systems	Ductmate Industries, Inc.	100	$11	-	0.6x
May-15	HVAC & Refrigeration Engineering Ltd	GBR	HVAC equipment	Oteac Ltd.	100	$16	-	-
Mar-15	Patton Limited	NZD	HVAC equipment	Beijer Ref AB (publ)	100	$22	-	0.5x
Dec-14	Unitemp cc (nka:Thermon South Africa (Pty) Ltd.)	RSA	Heating and control solutions	Thermon Group Holdings, Inc.	100	$4	-	0.5x
Oct-14	PAL Middle East PIR LLC	UAE	Pre-Insulated HVAC systems	Kingspan Group plc	100	$38	-	-
Sep-14	Eclipse, Inc.	USA	Heat exchangers, burners, recuperators	Elster Group SE	100	$158	-	1.3x
						Mean	**9.1x**	**1.0x**
						Median	**8.3x**	**1.1x**

NR: Not Relevant

Sources: Capital IQ, Mergermarket

CURRENT MARKET SITUATION

REPRESENTATIVE TRANSACTIONS - GLOBAL

Summary	Target	Buyer
On July 6, 2016, **Melrose Industries PLC**, a company that specializes in buying, improving and selling manufacturing companies, announced the acquisition of **Nortek, Inc.,** a manufacturer of HVAC systems in the U.S., for US$2.673 million representing multiples of enterprise value of 9.9x EBITDA and 1.1x sales.	NORTEK GLOBAL HVAC	Melrose
On September 6, 2016, **Modine Manufacturing Company**, a manufacturer of heat transfer systems company in the U.S., announced the acquisition of **Luvata's heat transfer solutions business in the United States**, for US$422 million.	LUVATA Heat Transfer Solutions Business	MODINE Always Innovating. Always Improving.
On May 12, 2016, **NIBE Energy Systems Inc.,** a manufacturer of heating systems in Sweden, announced the acquisition of **The Climate Control Group, Inc.,** manufacturer of HVACR products and solutions in the U.S., for US$364 million, representing multiples of enterprise value of 14.6x EBITDA and 1.3x sales.	CLIMATE CONTROL GROUP	NIBE INDUSTRIER
On June 02, 2017, **Worthington Steel of Michigan, Inc**. announced the acquisition of **AMTROL Inc**., a producer of HVAC products in the U.S., for US$283 million, representing multiples of enterprise value of 7.4x EBITDA and 1.1x sales.	AMTROL	WORTHINGTON INDUSTRIES
On March 08, 2017, **Howden Group,** manufacturer of air and gas handling equipment in the United Kingdom, announced the acquisition of **Siemens Turbomachinery Equipment GmbH,** a producer of turbines, compressors and fans for industrial applications in Germany, for US$204 million, representing an enterprise value of 1.3x sales.	SIEMENS Turbomachinery Equipment	Howden

Sources: Capital IQ, Mergermarket

GLOBAL REPRESENTATIVE TRANSACTION

Melrose Industries PLC acquired the remaining 92.8% stake of **Nortek Inc.**

Nortek Inc. has its offices in O'Fallon, Missouri and 80% penetration of American homes.

BUYER

Melrose

TARGET

NORTEK GLOBAL HVAC

MELROSE INDUSTRIES PLC ANNOUNCED THE ACQUISITION OF **NORTEK INC.** FOR US$2,673 MILLION

Melrose Industries PLC specializes in buying, improving and selling manufacturing companies in aerospace, automotive, powder metallurgy, and Nortek air & security industries.

Nortek manufactures and sells products for residential and commercial constructions. Offering split-systems, air conditioners and heat pumps.

The transaction represented implied multiples of 9.9x EBITDA and 1.1x revenue.

Melrose

- **AVERAGE ANNUAL RETURN OF 25%***
- **+11,000 EMPLOYEES**
- **FOUNDED IN 2003**

NORTEK GLOBAL HVAC

- **90% OF ITS SALES ARE IN THE US**
- **+11,400 EMPLOYEES**
- **FOUNDED IN 1967**

Sources: Melrose, Capital IQ, Nortek
*Since first acquisition

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SEALE & ASSOCIATES REPRESENTATIVE MEXICO ENGAGEMENTS

intelectiva has acquired KFC Costa Rica from QSR

ARCACONTINENTAL has acquired WISE

ARCACONTINENTAL has acquired DEEP RIVER SNACKS

CHEN has merged with Sigma alimentos a business of alfa

FOQUE GRUPO FOMENTO QUERETANO merged its beverage division with Coca-Cola FEMSA

GRUPO TAMPICO merged its beverage division with Coca-Cola FEMSA

caffenio has partnered with OXXO a subsidiary of FEMSA

caffenio has partnered with Cafés Tomari

Ragasa Acquisition Advisory Services

Fonterra Acquisition Advisory Services

TORREY has been acquired by FEMSA

CORPORACION EG Corporate Finance Advisory Services

GRUPO INDUSTRIAL SALTILLO has formed a partnership in the casting tools business between DITOMSA and npi technologies

AMERICAN STANDARD COMPANIES sold Cal-O-Rex to GRUPO INDUSTRIAL SALTILLO

CEMEX has carved out and sold its concrete pumping assets in Mexico to PUMPING TEAM

CEMEX has formed a partnership to market and develop oil storage and distribution in Mexico with ZENITH ENERGY

FEMSA sold QUIMIPRODUCTOS to ECOLAB

grupo protexa Corporate Finance Advisory Services

GRUPO CELUBRITECH has been acquired by COLFAX

COSMOCEL has sold Cosmocel Química to ICL Performance Products LP a business unit of ICL

FORTACERO Corporate Finance Advisory Services

Pinturas Berel Corporate Finance Advisory Services

GRUPO TAMPICO has acquired VW SEAT HONDA dealers of GRUPO FRAL

INVEKRA Holding company of sanfer acquired a 51% stake on Portugal 1864

GBM has been acquired by Arysta LifeScience

INMAGUSA Grupo Galaz, S.A de C.V. has been acquired by IOCHPE - MAXION

DLG Grupo has acquired workshop and store in Mexico City from GREENBRIER RAIL SERVICES

LOUISVILLE LADDER has acquired CENTURY

ALEN Acquisition Advisory Services

GRUPO INDUSTRIAL SALTILLO has sold its sanitaryware business ST. THOMAS CREATIONS and VITROMEX to Villeroy & Boch 1748

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Since 1999, **Seale & Associates** has been the trusted advisor to highly respected public and private companies from around the world, with a track record of success in a diverse range of industries. Seale is an elite boutique global investment banking firm with extensive experience in mergers and acquisitions (M&A), corporate finance advisory, and enterprise level strategy consulting. Our experienced team of professionals are committed to serving clients with excellence and integrity, while offering innovative ideas and solutions to address complex dealings. All securities related transactions are cleared through Seale Capital, Inc., a registered broker dealer and member of FINRA and SIPC.

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Please contact us if you would like further information about M&A trends and/or specific transaction multiples for your industry.

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