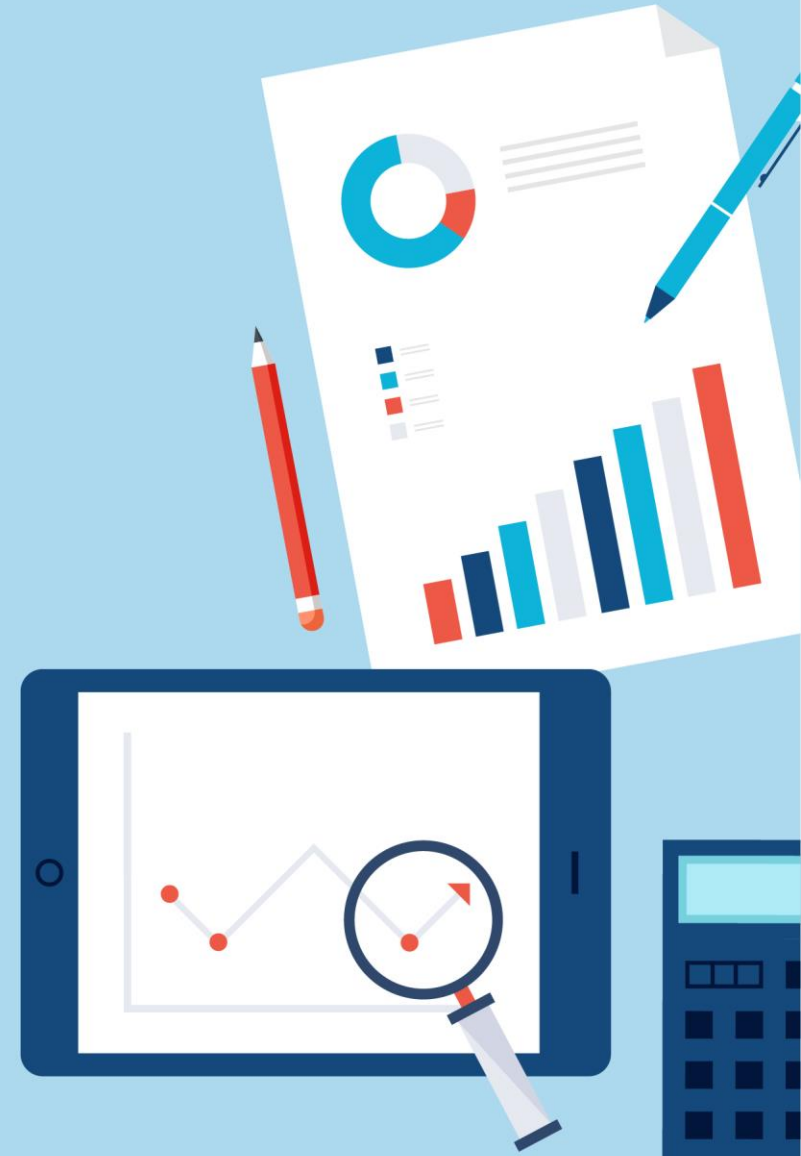


Sector Report

Heating, Ventilation & Air Conditioning (HVAC) Industry





HVAC Industry

Overview of the Market

The Heating, Ventilation and Air Conditioning (HVAC) UK market is estimated to be worth approximately £17.2bn and is forecast to contract by 4.1% by 2020. The residential and commercial construction markets are key components to demand in the UK HVAC industry, with performance being highly dependent upon downstream construction cycles. Since 2013, economic recovery, coupled with renewed confidence and policy support, has bolstered demand with the HVAC industry.

However, the construction industry is one of the sectors expected to be hit hardest by the EU referendum. Concerns regarding the UK's economic prospects and worries over the loss of free movement of labour have dampened investor sentiment within the sector. The HVAC industry is expected to contract in 2019 as a result, before recovering somewhat in 2020.

In recent years, sustainability has been a primary concern for both government and industry operators, as sentiment moves further towards energy efficiency. As such technology becomes vital to companies, they are beginning to compete for the skilled labour that it requires. Currently, the air conditioning market is being buoyed by the development of tall office buildings, which accounts for a large proportion of demand.

Market Share

The three major players in the market are as follows (Estimated):

- Centrica Plc (British Gas): 12.5%
- Home Serve Membership Ltd: 2.0%
- T Brown Group Ltd: 1%

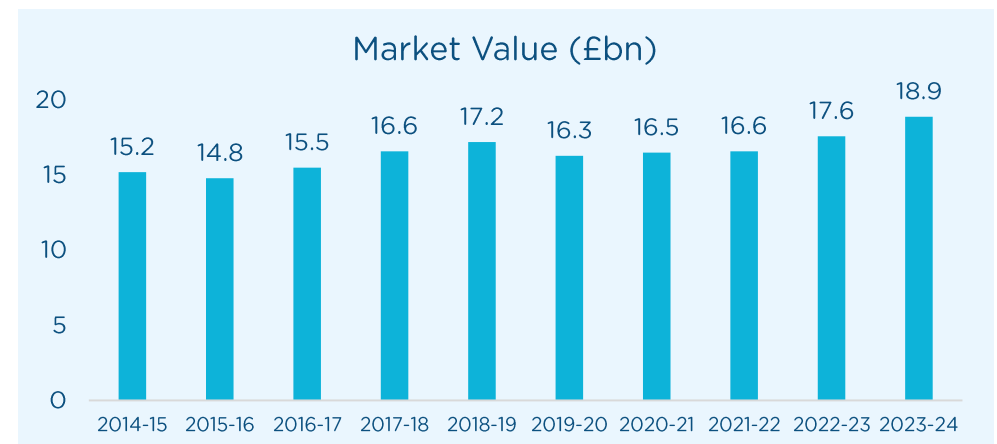
Source
IBISWorld (July 2018)
Plimsoll (October 2018)

HVAC Companies

A profitability analysis on the sector from a pool of 1,000 leading UK-based Air Conditioning & Refrigeration companies revealed the following points:

- The most profitable 414 companies benefitted from an average profit margin of 5.2%
- The least profitable 586 companies made an average profit margin of 0.0%; the industry average is 1.8%
- 378 of companies increased in value over the year with 231 companies increasing by more than 25%
- 371 companies decreased in value, 193 fell by more than 25%
- 112 companies have made a loss for two consecutive years

Based on analysis, companies were rated on their 'takeover attractiveness'. A total of 470 companies were given a 'Strong' rating whereas 177 companies were given the lowest rating, 'Danger'. 165 companies in the industry were highlighted to be highly attractive takeover prospects. The South East was the most attractive region for takeover prospects.





HVAC Industry

M&A Activity in the Sector

Market IQ data indicates a total of 79 significant deals in the industry from January 2011 to October 2018, with UK targets. Deals are only reported over a certain value threshold (c.£500k), therefore, it is likely that not all deals have been captured.

Upon breaking down deal type, M&A, activity within the sector is mainly categorised by acquisitions, with 70 since January 2011. There were also 8 investments and one merger. A geographical breakdown of the deals shows that the South East dominates M&A activity, benefitting from 17 deals in the time frame. The North West was close behind with 14 deals being completed.

Deal flow has been steady in each year with anomalous levels in 2014 and 2017. These levels are in line with the scattered overall growth for the last five years. 2015 and 2017's M&A transaction levels could be reflective of the quality of the deals currently occurring in the UK market. Brexit seems to have had a lesser impact on M&A levels in this industry than it has on others. Upstream markets such as construction have seen more negative Brexit effects. This will have a knock on trickle down effect into this market at some point over the next five years, depending on the quality of the UK's exit deal from the EU.

Industry Benchmarking Information - September 2018

Hallidays' client base consists of small to lower mid-market enterprises. Our benchmarking analysis reflects businesses with turnover below £10m, in line with the majority of our clients in this sector.

HVAC Benchmarking Data	Mean	Median	Lower Quartile	Upper Quartile
Turnover Growth/Decline (%)	6.21	5.06	-11.23	17.73
EBIT Margin (%)	4.71	3.87	0.85	8.59
EBIT Growth/Decline (%)	5.39	-2.56	-62.51	65.15
EBITDA Margin (%)	6.03	4.67	1.33	10.04
EBITDA Growth/Decline (%)	12.59	2.25	-46.95	56.66
Total Net Assets Growth/Decline (%)	8.88	8.03	-7.34	25.89
Current Ratio	1.94	1.54	1.18	2.04
Acid Test	1.76	1.39	1.01	1.94

HVAC Benchmarking

Using full company accounts filed in the last two years under the search criteria: Keywords concerning HVAC. Excluding companies with nil turnover in either period, we have summarised key benchmarking information for businesses under £10m turnover in the table above. September 2018.

M&A Activity Source

Experian Market IQ (October 2018)

Search Criteria: Keywords concerning HVAC.



Funding

Do you know all of the funding solutions available to help you grow your business?

There is a wide range of funding solutions available to you, many of which you may not have heard of, or even considered which we can help you with. It might be worth asking yourself...

Are you keen to find funding to support your innovative plans?
Do you have funding, but you're not sure if it's the right type?

As a registered credit broker, we can answer all of these questions and make accessing funding simple and straightforward. So, if you need a better facility for working capital, or if you're looking for a larger chunk of cash for investing in machinery, marketing or a new product line, then let us know.

Our collaborations with high street banks, Funding Circle, Funding Options and numerous other funders can help you find the funding you need.

If you wish to enquire further about funding, please contact:

Michael Berger - Corporate Finance Manager - michaelb@hallidays.co.uk - 0161 476 8276

Cashflow or Asset Finance

As a Funding Circle Introducer and with our network of funders, we can provide cashflow loans, where this is the right type of finance for your business.

Growth Funds, Venture Capital & Private Equity

If you have a high growth or innovative business, we can help you to secure the right equity and debt investment to reach the next stage in your business' evolution.

Stockport Business Angels

We are the Stockport Business Angels (affiliate of NWBA) and link businesses with the right collaboration and funding from business angels investors.

Invoice Finance (discounting/factoring) / Construction / Trade Finance

Invoice finance is becoming a more attractive option to a bank overdraft, this can ease cash flow, whilst providing a flexible facility.

Funding Success Stories

Hallidays has had a number of successes when it comes to obtaining growth funding for our clients:

- **ABN Amro Bank** £100k invoice finance facility (IFF) - To improve working capital for a seasonal company.
- **Aldermore Bank** £150k IIF - For a creative design studio requiring cash to expand.
- **RBS Invoice Finance** £100k IFF - For an engineering company to purchase bespoke machinery enabling them to fulfil a contract.
- **Lombard** £130k asset finance - For fittings and electronic equipment in a hospitality business.
- **FW Capital** - Growth funding of between £100k-£750k for multiple clients.



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