

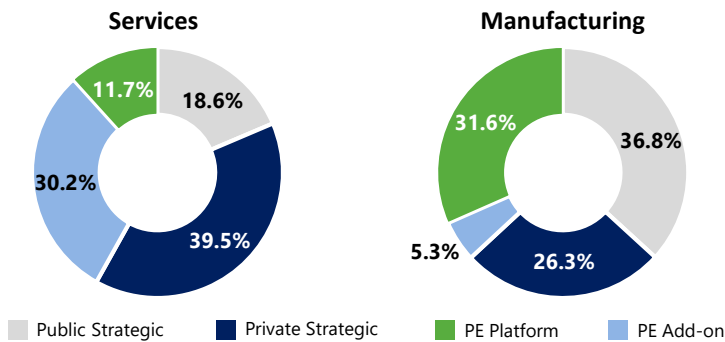


INDUSTRY OVERVIEW

- Expansion of the Heating, Ventilation, Air Conditioning, and Refrigeration (HVACR) market has resulted from economic growth, the increased availability of tools and products that promote energy efficiency, and the consequential opportunity they create to retrofit building infrastructures. Mergers and acquisitions (M&A) have picked up for both service providers and manufacturers, favoring those with predictable contract-based recurring revenue and those having differentiable IP.
- Thus far in 2019, 93 international and domestic deals have been announced or closed, compared to 90 in all of 2018. Private equity (PE) buyers (~41% of deals) have had notable appetite in the services space, particularly targeting buy-and-build acquisition strategies to stimulate value creation. For instance, Ares Management Corp. (NYSE:ARES) acquired CoolSys, Inc. from Audax Group (undisclosed) in March. CoolSys completed eight acquisitions while backed by Audax and under Ares has already gone on to acquire Agape Mechanical (July, undisclosed). Ares is expected to seek further M&A opportunities to bolster CoolSys' geographic presence and customer base.

SEGMENTED BUYER BREAKDOWN

- Both the Services (43 deals) and Manufacturing (38 deals) segments of the HVACR industry have garnered significant M&A interest. Within the Services segment, strategic acquisitions by private companies (17 deals) and add-on investments by private equity firms (13 deals) have accounted for the largest share of segment activity. The Manufacturing segment has predominantly attracted public strategic buyers (14 deals) and PE platform investments (12 deals).



Year-to-date ended August 20
Source: Capital IQ, FactSet, PitchBook, and Capstone Headwaters Research

SEGMENT HIGHLIGHT: INNOVATIVE SYSTEMS

- Product innovation includes items such as smart thermostats and sensors which equip homes and businesses with the ability to efficiently control energy-related costs and can provide heightened transparency into energy consumption. They help end-users to employ data analytics that help optimize energy consumption and reduce energy spend through, among others, the assessment of usage patterns to create real-time alerts and enable predictive energy demand and maintenance.

Such downstream demand has promoted investment by large industry operators into smart HVACR technologies. Notably, Trane, Inc., a subsidiary of Ingersoll-Rand Plc (NYSE:IR), acquired EcoFactor, Inc. (June) for an undisclosed price. EcoFactor provides a cloud-based home energy management platform that effectively monitors energy usage, demand response, and HVAC performance. Trane intends to implement EcoFactor's leading energy saving and fault detection performance technology into its Nexia Intelligence platform, advancing Nexia's leadership in smart home automation, according to the press release.¹

OTHER NOTABLE TRANSACTIONS

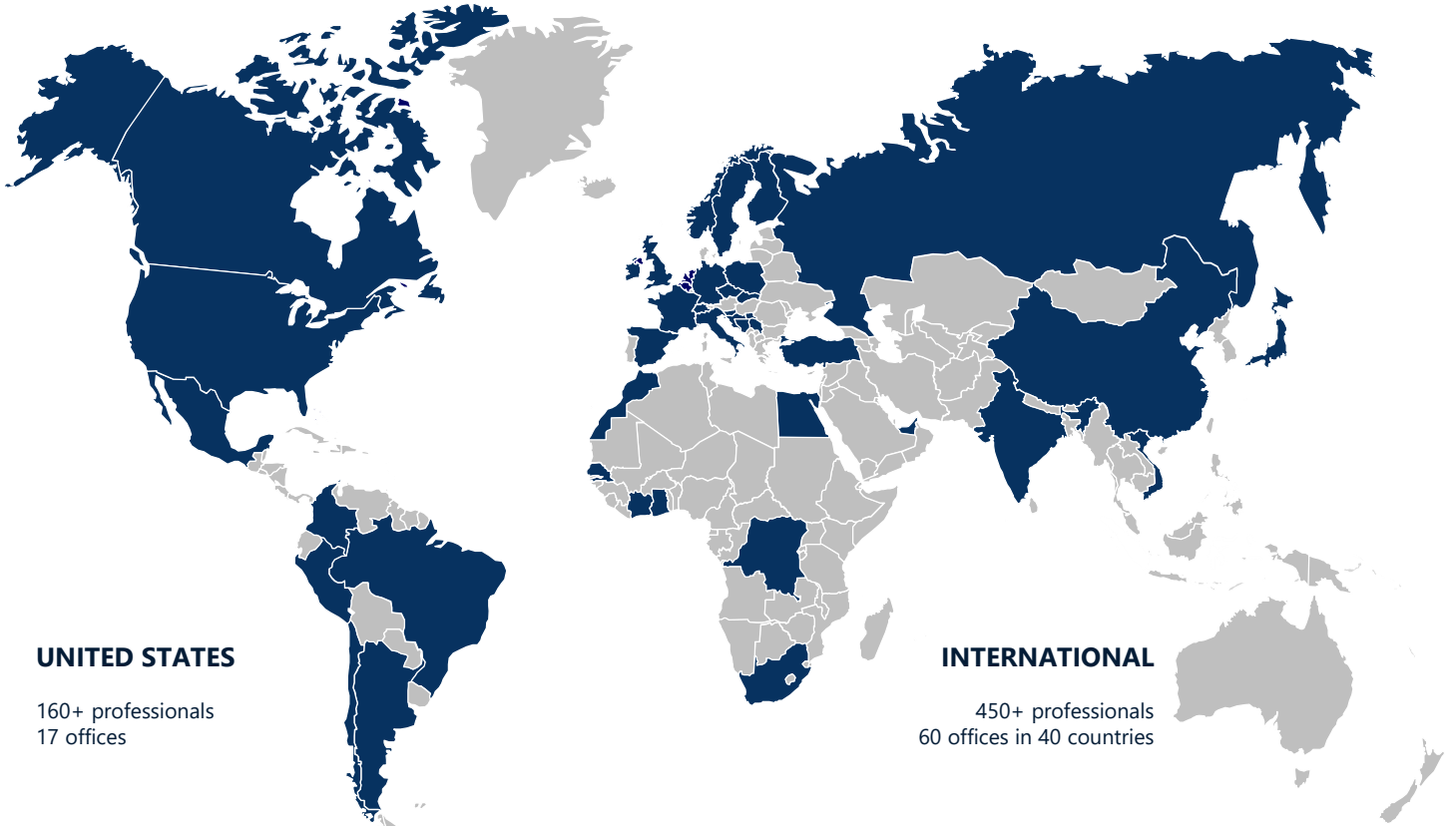
- SPX Corporation acquires SGS Refrigeration, Inc. (July 2019, Undisclosed)** – SPX Corp. (NYSE:SPXC) acquired SGS Refrigeration (SGS), an Illinois-based manufacturer and distributor of industrial refrigeration products (undisclosed). As a previous partner of SPX's Evaporative Condenser division, SGS will integrate into SPX's HVAC Cooling business. Founded in 2010, SGS generated ~\$15 million in 2018 annual revenue and has produced SPX's Cube line of forced draft and induced draft evaporative condensers, according to the press release.² The acquisition represents the propensity of large operators to buyout existing partners as a means to internalize manufacturing, combine resources to stimulate new growth, and foster supply chain efficiencies and cost reductions.
- Audax Group, Inc. acquires Reedy Industries, Inc. (May 2019, Undisclosed)** – Audax Group has reentered this marketplace by acquiring Reedy Industries, a provider of commercial HVAC services, mechanical services, and energy solutions for an undisclosed sum. Reedy has displayed a strong inorganic growth strategy, acquiring 14 companies since 2014 which includes four in 2019 under Audax's backing. Audax is expected to continue its buy-and-build approach to bolster Reedy's geographic reach throughout North America.

FIRM TRACK RECORD

 corporate divestiture (in market) Wholly-Owned Subsidiary of National Grid	CONFIDENTIAL pursuing a corporate sale (in market) Manufacturer of HVAC Systems	CONFIDENTIAL pursuing a corporate sale (in market) Provider of HVAC Contracting Services
CONFIDENTIAL pursuing a corporate sale (in market) Provider of Industrial Mechanical Contracting	 a portfolio company of has been acquired by 	 has been acquired by A portfolio company of



BUILT FOR THE MIDDLE MARKET



CITATIONS

1. EcoFactor, "Trane Acquires EcoFactor's Market-Leading Energy Intelligence Technology," <http://www.ecofactor.com/category/press-releases/>, accessed August 26, 2019.
2. SPX, "SPX Announces Purchase of SGS Refrigeration Inc.," <https://www.spx.com/spx-announces-purchase-of-sgs-refrigeration-inc/>, accessed August 26, 2019.

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