Consolidation

A View From A “Parallel Universe”

MARKETPLAN CONSULTANTS

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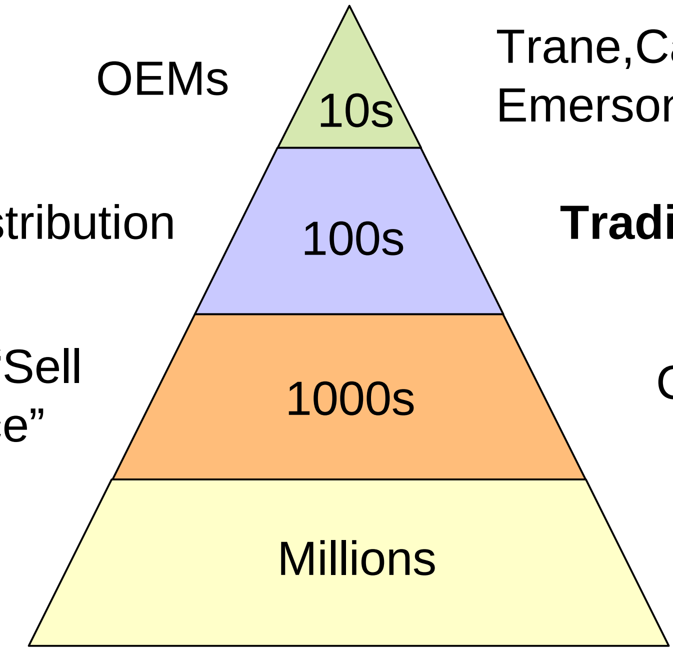
Industry Comparisons

- Similar “Pyramids”



Industry Size $100s B

So what's new?

- Consolidation in some form has been going on forever !
  - EXPAND create mass; CONTRACT create less
  - BIGS>Smalls; Like + Like
    - Leverage economies of scale
    - Expand market reach
    - Eliminate competition
- "Roll-ups" a bit different
  - Away from "ordinary" M&A

Why HVAC?   Mid 90s

- Everyone wants to be Waste Management !
  - Roll-up the fragmentation
  - GO public
  - Leverage !! and Buy, Buy, Buy

Why HVAC?

- Residential
  - Create a marketable NATIONAL brand

- Commercial
  - Create NATIONAL account capabilities

- TARGET ➡ 40-60,000 contractors

The Players…mid 90s

- Residential
  - Service Experts, ARS, BlueDOT

- Commercial
  - Group MAC, Comfort Systems, Building ONE

- Others
  - Utilities

Industry opinion makers

- Powerful, active industry groups-ACCA, SMACNA, PHCC.
  - ACCA most notable
- Neither endorsed nor (visibly) opposed.
  - Framed consolidation as a “message”
- ACCA MIX groups
  - Focus on independence

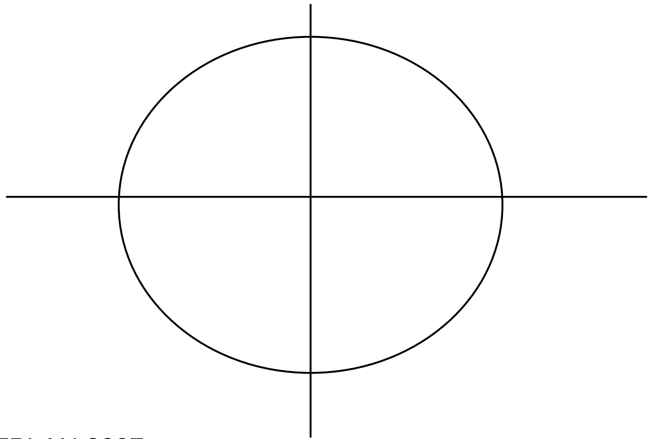
Why did HVAC fail?

- Conventional wisdom…
  - OVER-LEVERAGED
  - No earnings, no return, no interest

- Historic footnotes
  - Lennox buys Service Experts
  - ServiceMaster buys/sells ARS
  - BlueDOT fades
  - GroupMAC + BuildingONE-out of business
  - Comfort Systems survives
- Movers and shakers now franchisors

Why did HVAC fail?

- Between the lines…little to no VALUE
  - Scale impact-small and quick
  - Management system promises-blue sky
- Most importantly…a <u>LOCAL MARKET BIZ</u>
  - Name !!
  - Real time hands on
  - Regionality



Impact on wholesale distribution

- More subtle than dramatic…
  - Buying power of BIGGER buyers
  - Pushed distribution change/consolidation
    - BIGS got bigger
      - Regional privates; national chains
      - Newcomers – Home Depot via Apex and Hughes
    - OEMs into distribution
    - Rationalize lines – pressure on suppliers
  - Re-examine/invest in SERVICE side of distribution

The GOOD Things

- Possibilities and potential to EXIT
- “Shaped up” the industry
  - Trend acceleration-service contracts and flat rate pricing
  - Professionalize
- Marginal players out
- Re-examine relationships

The BAD things

- Needless dislocation
- Owner financial misfortunes
- Cloudy industry direction
- Questioned relationships

The “jury is out” things

- OEM relationships at all market levels
- New channel players
- Re-focus on major HVAC industry challenge
  - Finding and retaining TALENT
  - Push on technician certification
    - NATE = ASE

Future pyramids…

- Consolidation pressure UP and DOWN market…continues
- Cost and inventory control is assumed
- Where's VALUE?
- What's the LOCAL MARKET BIZ?
- Continually reinvent SERVICE