



National Business Valuation

SBA Business Valuations for 7a Lenders

Plumbing, Heating, and Air-Conditioning Contractors – Conference Call - June 2017

NAICS code: **238220**

NAICS Definition:

This industry comprises establishments primarily engaged in installing and servicing plumbing, heating, and air-conditioning equipment. Contractors in this industry may provide both parts and labor when performing work. The work performed may include new work, additions, alterations, maintenance, and repairs.

Industry Outlook:

Demand for Heating and Air- Conditioning Contractors industry services are projected to warm up over the five years to 2021. Accelerating construction markets in both residential and nonresidential sectors is forecast to continue boosting demand for new heating, ventilation and air conditioning (HVAC) installations, the industry’s primary service segment. Growing demand for automated systems from commercial clients will also be a crucial revenue driver, especially for larger industry players. Consequently, over the five years to 2021, industry revenue is forecast to increase at an annualized rate of 3.1% to reach \$102.3 billion, including a 4.3% increase in 2017 alone. The number of housing starts is anticipated to rise at an annualized rate of 3.1% over the five years to 2021, while the value of private nonresidential construction is expected to grow at an annualized rate of 4.3% during the same period. Furthermore, per capita disposable income is projected to increase at an annualized rate of 2.0%, allowing consumers to trade up to newer, more expensive energy-efficient HVAC upgrades and maintenance services.

12 month Industry Historical Growth Rate (Revenue): **4.0%**

Industry Beta (Ba): **1.31**

60 month Industry Average Historical Growth Rate (Revenue): **4.9%**

Projected 60 month Annual Average Growth Rate: **3.1%**

Number of recorded Private Acquisitions Nationally from 1/1/2011 to 12/31/2013: **117**

Number of recorded Private Acquisitions Nationally from 1/1/2014 to 12/31/2016: **140**

Percent Growth Number of Private Acquisitions Nationally from 1/1/2011 - 12/31/2013 to 1/1/2014 - 12/31/2016: **16.4%**

All US Revenue Sales Class: \$1 - \$499,999 Number of similar firms analyzed nationally: 11,822

Calendar Year	2013	2014	2015	2016q2
Average Sales Revenue	441,226	375,042	376,844	376,614
Average EBITDA	33,577	32,290	27,397	27,944
Average Seller Discretionary Earnings (SDE)	65,194	56,141	55,067	55,362
Valuation Estimate in US Dollars -	149,916 to 287,060			

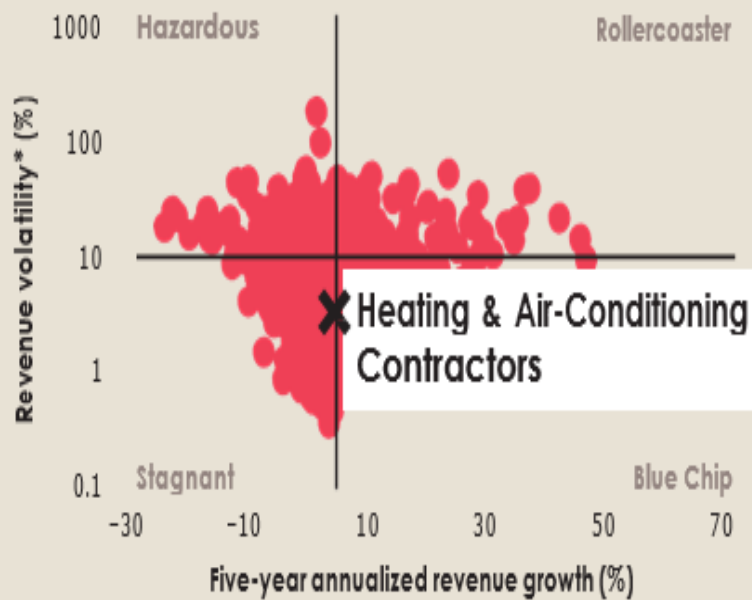
**Contributing sources:*

US Census, IBIS World, Key Value Data, Pratt Stats, NYU Stern School of Business, Bloomberg, and Bizminer

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the timeframe for capital investment.

When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.

Volatility vs Growth



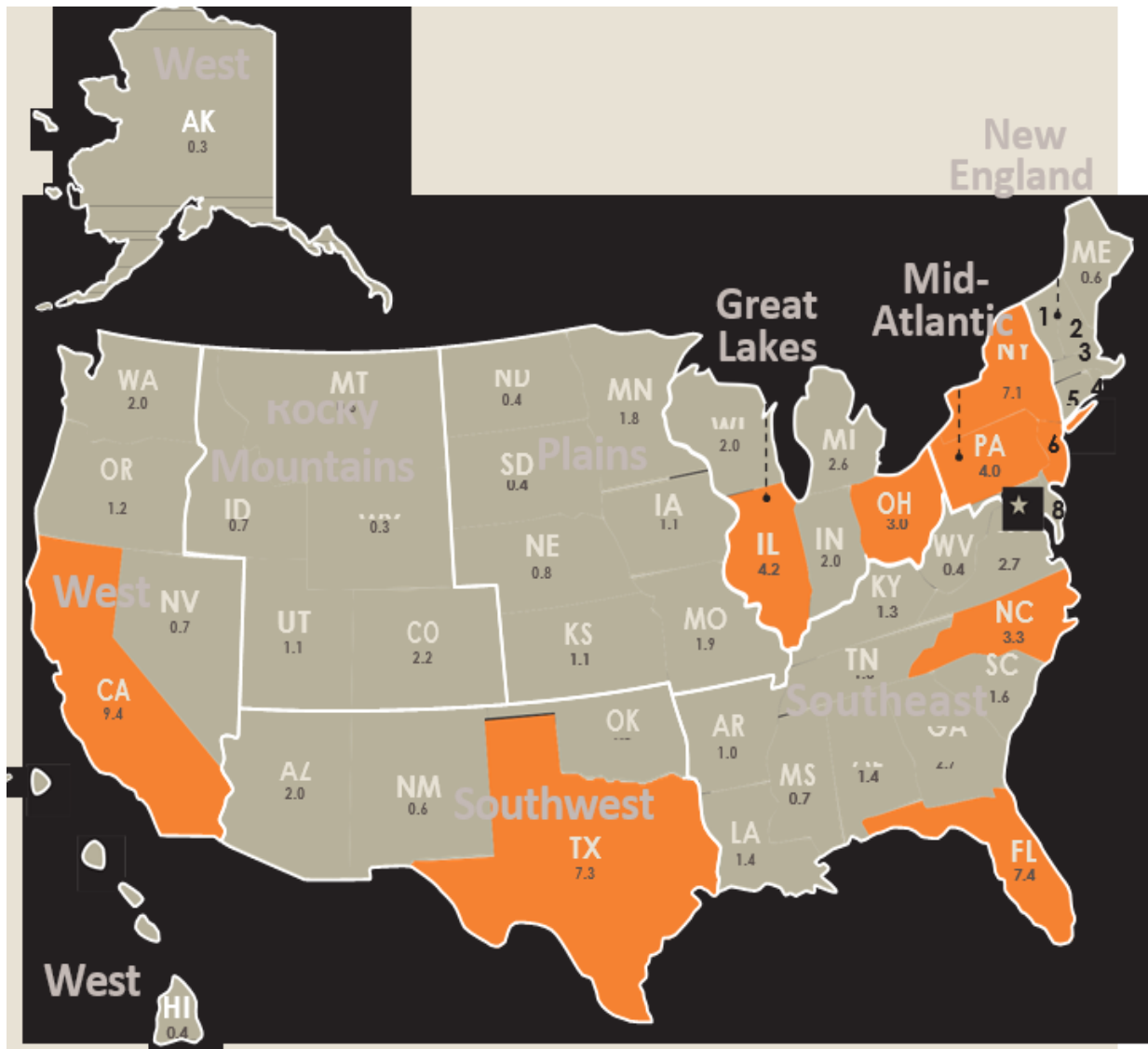
*Axis is in logarithmic scale

Notes:

- *Low revenue volatility leads to consistent decision making. Higher probability of accuracy of decision makers strategic planning and outcomes.*
- *Limited revenue growth displaying stagnant industry.*
- *Demand in industry showing inconsistencies depending on area. Possible results of market saturation, market shifts, or climate change.*

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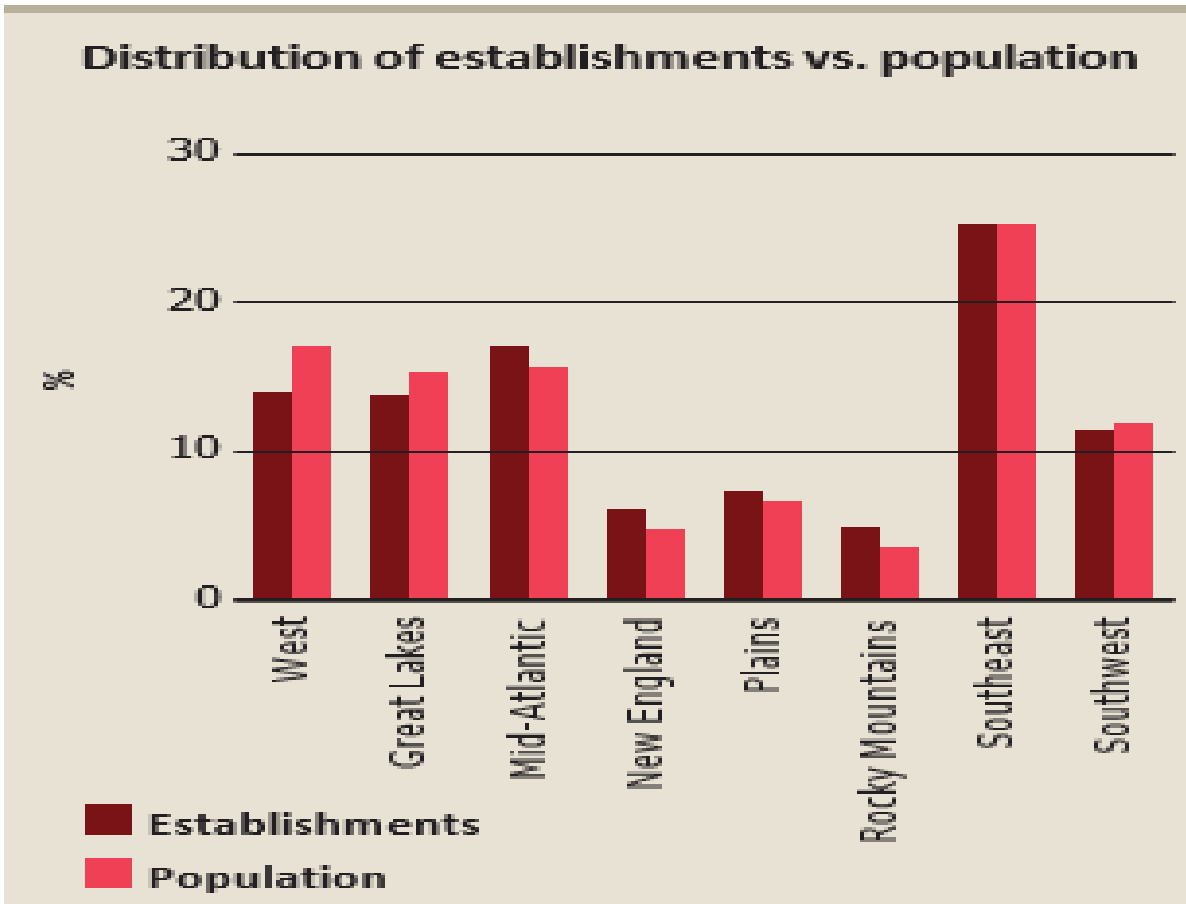


Notes:

- *Greater populated States retain higher percentage of firms. This leads to a greater amount of activity within private to private acquisition markets.*
- *More activity leads to greater amount of data to analyze.*
- *Greater probability of locating recorded sale transaction(s).*

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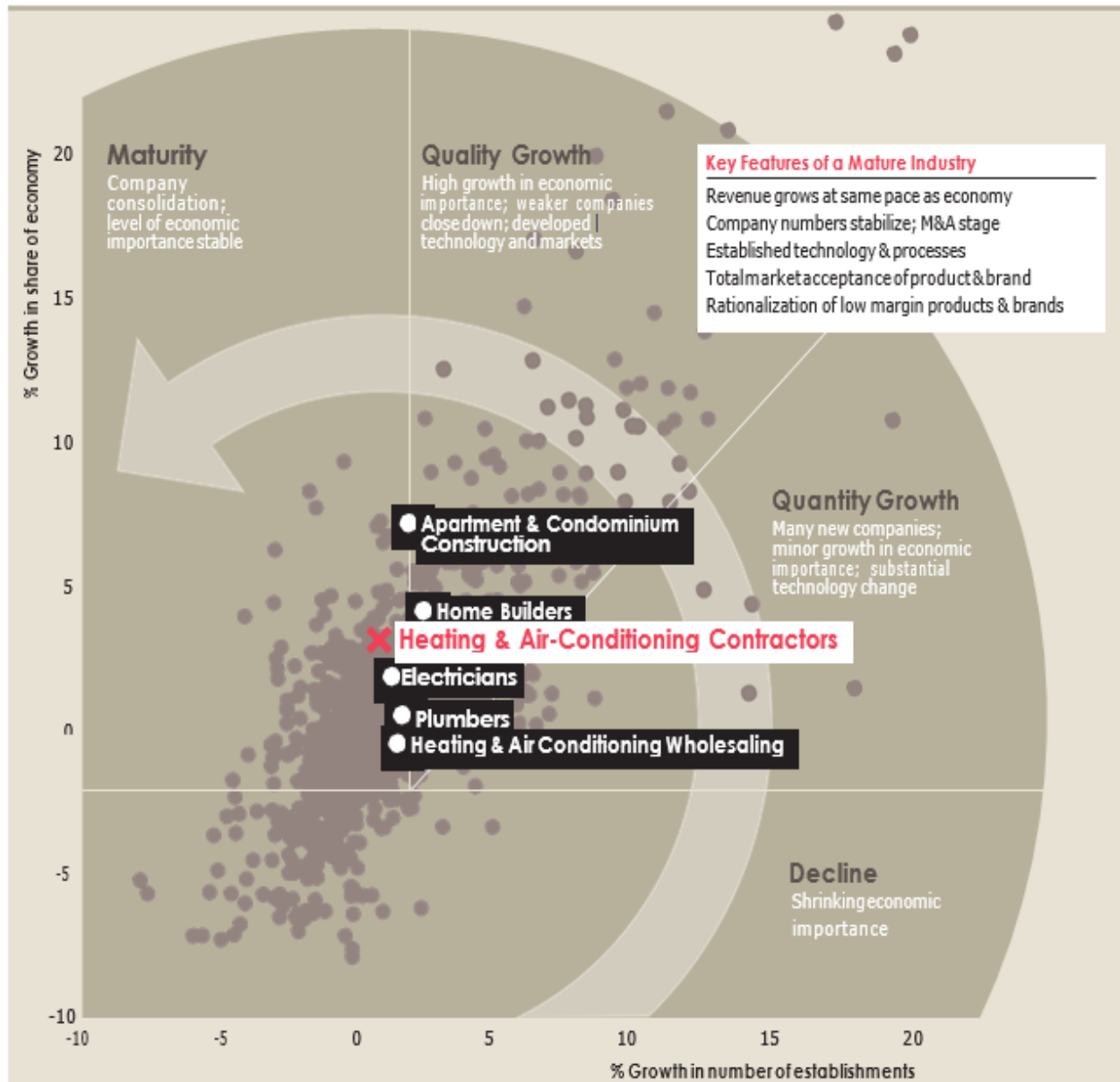


Notes:

- *Direct relationship of firms to population as a predictor of market trends/shifts.*
- *Indicator of possible market saturation, market demand, or market shortages.*
- *Varying grow rates of population depending on the rate of growth within complementary industries, i.e. Housing, commercial construction...*

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Notes:

- *Declining industry revenue growth (less than overall economy), contraction in the number of firms depending on size of firm.*
- *Mature industry reflect additional acquisition activity, shrinking margins, and stronger role of branding and process.*
- *Role of technological advances limited or established as compared to emerging industry.*

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