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HVACR Market Outlook & AHR Takeaways

The HVACR Sector Continues to be Supported by Enduring Tailwinds

TM Capital's HVACR team attended AHR 2025 – with over 1,800 exhibitors, more than 50,000 attendees and over 340 speakers. Hosted in Orlando for the first time since COVID, AHR is the largest HVACR convention in the U.S. and draws leading OEMs, manufacturers, distributors and contractors. We met with numerous strategic players as well as financial investors with HVACR portfolio companies and/or sector interest – see below for our key takeaways:

The U.S. HVACR market is poised for continued expansion, driven by technological innovations, supportive government policies and the need to modernize aging commercial buildings and residences. Operators in the industry are focused on (i) building next-gen systems / products with features that enhance energy efficiency and reduce installation times, (ii) adapting to the evolving legislation and regulatory backdrop and how that may impact their business (particularly given that a new administration took the helm this year), and (iii) how best to retain, cultivate and attract talent. While pockets of the industry have been facing a challenging labor market given a shortage of qualified HVACR technicians, supply chain disruptions and commodity price volatility, leading players are leveraging their market position and investing for the future.

As a result, transaction activity in the sector is strong and the demand for new acquisition and investment opportunities continues to expand. Leading manufacturers and distributors, supported by the strength of the underlying market, are actively seeking opportunities to add product breadth to serve as a "one-stop-shop" for their customers. We are also seeing continued robust interest from Private Equity and Family Office investors that value the mission-critical nature and cycle resiliency of the category and enduring tailwinds supporting long-term expansion.

Observations Across Commercial & Residential Markets

The U.S. HVACR market continues to outperform the broader building products sector, having expanded 10%+ in both 2023 and 2024 as both the commercial and residential segments exhibited strength. Key focus areas for commercial players include the aging infrastructure of buildings needing renovation and/or repurposing, data center expansion and IAQ. Residential players are managing through a period of technological modernization and regulatory transitions that will require adaptability to thrive in a market that is evolving quickly.

Commercial Markets

Aging Infrastructure

As the U.S. commercial building infrastructure continues to age (80% of buildings were constructed before 2000), replacement / renovation driven demand for sustainable, energy-efficient HVACR solutions is expected to grow. Return to Office (RTO) initiatives are expected to drive long delayed retrofit projects, which will further accelerating the replacement of HVACR systems and parts.

Data Centers

The substantial size of the data center market and significant momentum from AI bode well for the HVACR industry. HVACR plays a critical role in data center operations, providing specific environmental conditions for equipment operations and reliability. Every data center build or retrofit requires sophisticated cooling and ventilation equipment, providing growth opportunities for companies that provide flexible, customizable and/or modular solutions.

Indoor Air Quality (IAQ)

Indoor air quality (IAQ) has long been a buzzword in the HVACR industry, but its importance and potential impact are filtering down to consumers and business operators. IAQ is increasingly viewed as a fundamental feature akin to water and electricity. Initiated by rising awareness coming out of COVID, RTO is expected to accelerate the adoption of advanced systems that address ventilation, filtration and comfort at the end user's level, all while adhering to stronger efficiency standards.

Residential Markets

Electrification of HVAC

The Electrification of HVAC and rise of ductless systems, particularly for retrofit and modernization in urban areas, have been buoyed by federal state incentive programs. Ductless mini-splits are increasingly popular due to their enhanced energy efficiency and air quality control, ease of installation and improved heating performance in cold climates; they are particularly well suited for homes without existing ductwork, or for retrofits with limited space.

Refrigerant Transition

The EPA has mandated that new residential and light commercial air conditioning systems cannot utilize high-GWP refrigerants, and contractors have until the end of 2025 to install legacy systems. Only systems that function with lower-GWP refrigerants can be installed moving forward. As a result, manufacturers, distributors and contractors are highly focused on refrigerant compatibility, regulatory compliance, training and education for these new technologies. Companies that effectively embrace the transition toward to low-GWP units should fare well in 2026 and beyond.

Expanding Systems Pricing & Homeowner ROI

Residential HVACR systems are becoming more expensive as they incorporate more efficient, low-GWP refrigerants that require enhanced safety features due to their mild flammability. While consumers face higher upfront costs, these units are more energy efficient (while producing lower emissions) and provide better long-term value. As equipment prices continue to increase, it is critical for manufacturers and contractors to clearly articulate the energy efficiency savings, environmental benefits, enhanced durability, advanced features and tax credits / utility rebates that create a high-ROI investment for end users.

Technological Advancements & Innovation

Energy Efficiency – Energy efficiency improvements in HVACR systems have been driven by technological advancements, more stringent regulations and increasing demand for sustainable solutions. Modern HVACR systems now feature higher Seasonal Energy Efficiency Ratio (SEER) ratings, variable-speed compressors, and smart thermostats, which optimize performance and reduce energy waste. There are notable developments across key system categories:

- Central AC / Heat Pumps – Subject to higher Seasonal Energy Efficiency Ratio (SEER) ratings to drive enhanced energy efficiency – spurred by 2023 SEER2 regulations, base models require higher levels of efficiency. Market acceptance of heat pumps driven by gas bans, government incentives, enhanced energy efficiency and improved technology; cold-climate heat pumps can increasingly address both the winter and summer comfort needs in many regions of the country without the need for separate heating and cooling systems

Installation, Service and Maintenance – As units become more complex and expensive, consumers expect higher quality service, professionalism and expertise from their contractors. OEMs and third-parties are addressing these issues by offering more sophisticated diagnostic and analytical tools to deliver custom solutions for a building's specific needs along with easier-to-use service tools that allow technicians to efficiently and accurately identify replacement or maintenance needs.

- Installation – Diagnostic tools are now available to assist contractors and installers, enabling them to quickly adapt components and equipment to a building's layout and variable temperature / ventilation needs
- Service & Maintenance – Equipment is increasingly outfitted with sophisticated sensors and digital displays that alert technicians to maintenance / repair requirements, reducing the manual troubleshooting and guesswork required on older systems

Evolving Legislation Driving Systems & Parts Demand

There was significant discussion regarding evolving legislation and regulatory backdrop impacting the HVACR market at AHR. New regulatory standards are introducing myriad changes to HVACR landscape, but a measured implementation of these new standards is allowing the industry to adjust to emerging environmental and technological trends.

Industry participants are monitoring the actions of the Trump administration as it relates to energy efficiency standards and tariffs. While it is possible that the administration slows down the implementation of future minimum efficiency levels, the industry is not going to go back on efficiency standards for air conditioners, furnaces, water heaters, walk-in coolers and freezers, or commercial refrigeration equipment.

Regulatory Standards: HVACR Systems & Energy Efficiency

Energy Efficiency (DOE Standards)	Sets minimum efficiency standards across major product categories including central air conditioners and heat pumps (SEER rating), furnaces and boilers (AFUE), water heaters (EF) and commercial refrigeration equipment. Trends toward increased SEER ratings for AC systems, more stringent efficiency standards for heating systems and expanded implementation of smart controls.
Building Energy Codes (IECC & ASHRAE Standards)	IECC and ASHRAE standards work together to promote the use of energy-efficient HVAC systems. IECC is a broader energy code that sets requirements for the energy performance of buildings and is adopted by local governments. ASHRAE standards provide specific guidelines for the design and operation of energy-efficient HVAC systems.
Clean Air Act administered by the Environmental Protection Agency (EPA) **Phase-Out of Ozone-Depleting Refrigerants**	Regulates air emissions from stationary and mobile sources with the goal of protecting and improving air quality. The act sets National Ambient Air Quality Standards (NAAQS) for pollutants, such as sulfur dioxide and particulate matter, and empowers the EPA to enforce regulations to limit these emissions. The phase-out of ozone-depleting refrigerants like CFCs and HCFCs under the Clean Air Act is an essential part of global efforts to protect the ozone layer. The U.S. has aligned its regulatory measures with the Montreal Protocol, reducing the use of these substances and encouraging the transition to more environmentally-friendly alternatives. As the phase-out continues, the HVACR industry has adapted by introducing new refrigerants that are safer for the ozone layer and have lower global warming potentials.

2025 Market Outlook

While there is macroeconomic uncertainty under the new administration, particularly as it relates to tariffs and the approach to energy efficiency initiatives, the tailwinds behind the HVACR market continue to be powerful and should support continued expansion.

Sustainable drivers of the residential market include the increasing consumer demand for energy-efficient systems that offer long-term savings on energy bills and homeowners' increasing focus on environmentally conscious and eco-friendly solutions, particularly given rising energy prices. Additionally, the A2L refrigerant transition and the shift to healthier IAQ post-pandemic are boosting demand for new and advanced HVACR systems that ensure comfort, air purification and energy savings.

Commercial buildings have a significant need for energy-efficient solutions due to rising operational costs and tightening regulatory standards aimed at reducing carbon footprints. Building owners are increasingly seeking advanced HVACR technologies such as smart building systems, AI-based climate control and next-generation refrigerants to meet energy-saving goals and comply with green building certifications such as LEED. Additionally, the ongoing push for infrastructure upgrades and the recovery of the commercial real estate sector, along with an emphasis on maintaining healthy indoor environments in workplaces and public spaces, are contributing to growth.

TM Capital's HVACR Team

TM Capital has developed a market-leading HVACR sector practice, advising a broad range of privately-owned and financially-backed clients. In recent years, TM Capital has completed 8 transactions in the industry, totaling nearly $2 billion in aggregate enterprise value – the firm's significant track record and wide-ranging expertise has enabled us to educate market participants on the attractiveness of the industry and meaningfully expand financial investor interest in the sector.

BellSimons Companies has been acquired by Munch's Supply a subsidiary of marcone a portfolio company of Genstar Capital

Duro Dyne has been acquired by NSI Industries a portfolio company of Odyssey Investment Partners

Munch's Supply a portfolio company Ridgemont Equity Partners has acquired api Delta T of NH HVAC Distributors

Stevens Equipment Supply a portfolio company of Ironwood Partners, LLC has been acquired by Daikin

Arran Isle has sold LaSalle Bristol to Patrick Industries, Inc.

DiversiTech a portfolio company The Jordan Company has been acquired by Permira

SUPPLY.com has been acquired by Ferguson

DiversiTech has been acquired by The Jordan Company

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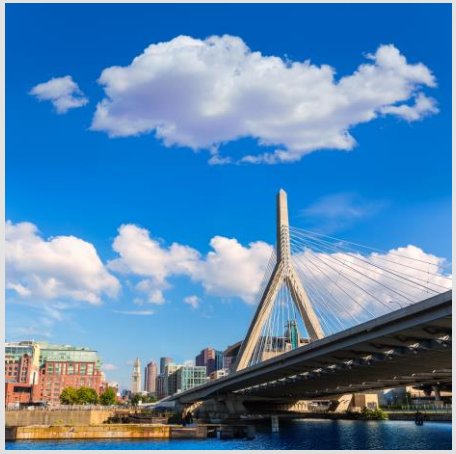

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