Commercial HVAC Company Serving Government & Education Markets

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Stage: Screening ▷ **Broker Eng.** ▷ Ownership Eng. ▷ Books & Valuation

Table 1: High-Level Deal Snapshot

Gross Revenue (cf)	Cash Flow (cf)	Asking Price	Projected Growth (As-Is)%	Recommended Acquisition multiple
$38,360,000	*$4,892,000*	*Not Disclosed*	*1.0% YoY*	*4.8x–6.6x* CF
Location	**Year Established**	**Risk Rank(1-10)**		
PA	< 2010	*5.5*		

Summary:

- From 2021 to 2025, the HVAC company delivered strong revenue growth of 17.4% CAGR *and roughly 84.0% total growth*—significantly outperforming the projected U.S. HVAC market's 6.9% revenue CAGR (2025–2033, per Grand View Research)[9]. Over the same period, COGS rose 17.7% CAGR (˜88.4% total growth), gross profit expanded at 29.7% CAGR (˜70.3% total), OPEX increased only 1.0% CAGR (˜2.2% total), operating profit recovered from early losses at -104.3% CAGR but still delivered ˜170.4% total growth, and Adjusted EBITDA grew at 23.3% CAGR (˜67.8% total growth).
- The forecasts provided by the broker from 2025 to 2028 (2025 appears prorated) show revenue contracting at -1.8% CAGR (˜-5.9% total change), while COGS declines 3.8% CAGR (˜-12.1% total). Gross profit grows 9.6% CAGR (˜29.9% total), OPEX rises 4.6% CAGR (˜11.3% total), operating profit increases 13.6% CAGR (˜40.2% total), and Adjusted EBITDA grows at 12.1% CAGR (˜35.5% total), with flat depreciation and adjustments.
- Over the full 2021–2028 period, revenue grows at 9.1% CAGR (˜73.2% total growth), gross profit grows at 21.1% CAGR (˜121.1% total growth), and Adjusted EBITDA at 18.5% CAGR (˜127.4% total growth). Despite early margin strength and substantial cumulative profit expansion, post-2025 revenue decline and rising OPEX raise concerns regarding sustainability—long-term performance hinges on cost control, pricing power, and bid success on high-margin projects.
- **Factoring in the lower future growth, considerable earnings management in the provided pro-forma, and volatile cash flows, the valuation for acquisition should be on the lower end of the cf multiple (˜4x) unless the company can prove that the performance is sustainable; even in this scenario, due to the lack of foreseeable growth and a declining economy, a cf multiple ˜5 is likely fair.**
- Risk-rating of 5.5 is not sector-driven, but primarily driven by the CF multiple of the asking price and the ability of the company to sustain those cash flows.

1 Market Analysis

Snapshot. The U.S. HVAC contracting market remains structurally resilient on the back of a very large installed base (air conditioning in roughly nine out of ten households)[7], recurring replacement/maintenance cycles, and mission-critical demand (i.e., data centers, healthcare, infrastructure). Near-term, the reduction of major federal homeowner tax credits after December 31, 2025[14], compounded with a recession leading to a decrease in discretionary upgrades, is likely to produce an unaccounted-for decrease in industry forecasts in the near term. Medium-term demand is supported by "improve-in-place" behavior (mortgage lock-in)[17, 21], tighter building codes, and the refrigerant transition (A2L equipment)[16], while wage inflation and skilled-labor scarcity pressure margins[11]. From a valuation lens, consistent non-discretionary installation clients, service-heavy operators with membership plans, and disciplined pricing/financing deserve higher multiples than install-skewed models that rely on expiring incentives.

Service Scope

- **Core offerings:** Installation/maintenance agreements and seasonal tune-ups; diagnostic and emergency service; change-outs (heat pumps, condensers, furnaces, air handlers); ductless mini-split installs; thermostat/controls upgrades.
- **Regulatory/transition work:** A2L-ready installs (R-454B/R-32), technician training, leak detection, and code-compliant ventilation and commissioning. AIM Act (EPA Technology Transitions Rule) requires installers and buyers to switch to more sustainable alternatives[16].
- **Adjacent services:** light commercial preventive maintenance contracts; indoor-air-quality (filtration, UV, ERV/HRV)[22]; small design–build/retro-commissioning; limited plumbing/electrical tie-ins where bundled value improves close rates.

1.0.1 Customers & Geography

Primary Segments	Owner-occupied residential (mid/upper income), property managers/HOAs, light commercial (retail/office), mission-critical facilities (i.e., data centers, healthcare, infrastructure), and public sector facilities with bid cycles.
Regions	Greater metro and surrounding counties (60–90 minute service radius), with micro-markets shaped by weather severity, housing stock age, and active rebate programs.
Sales Channels	Maintenance-plan renewals, referrals/repeat accounts, Google LSA/SEO and marketplaces, utility/state program leads, and GC/facility-manager relationships; selective participation on public bid lists.

1.0.2 Outlook by Horizon

Short term (0–12 mo)	Stable demand with modest growth; residential repairs and maintenance remain resilient; commercial contracts bolster backlogs. Persistent labor shortages; increased adoption of smart diagnostics and efficiency technologies; potential material price fluctuations.
Medium term (12–36 mo)	Mid-single-digit growth driven by commercial buildings, data centers, healthcare facilities; energy-efficient retrofits and smart HVAC systems gain traction; subscription-based services increase; industry consolidation leads to larger regional players.
Long term (3–7+ yr)	Regional growth from population migration to warm climates, sustainability initiatives, electrification of heating systems, and digital integration in building management. U.S. (2025-2033) 6.9% CAGR[9]; Risks include wage inflation, stricter environmental regulations on refrigerants and emissions, and intensified competition in saturated markets. This Growth expectation was forecasted prior to cuts to federal incentives for HVAC upgrades.

1.0.3 Market Dynamics

- **Demand drivers:** a large installed base and lifecycle replacements[7]; decreased household mobility partially due to real estate prices and mortgage rate-locks (due to higher interest rates increasing refinancing costs) are leading to more remodeling and retrofits[17, 21]; electrification/efficiency upgrades[14]; public sector non-discretionary demand, standard investment cycles, and compliance with evolving codes; New Building Construction Capital Expenditures usually include HVAC and new construction spending is historically high[23]; but most of this increase is due to increases in construction materials[24] and the growth is believed to be stagnating with architectural and construction demand stagnating[19].
- **Constraints:** skilled-labor availability and rising wages; A2L tooling/training and jurisdictional code adoption; equipment distributor lead times for specialty equipment; permitting variability.

1.1 How Competition Works in This Market

Table 2: Porter's Five Forces — concise assessment

Force	Key Rationale (listing & market cues)	Assessment
Threat of New Entrants	State licensing, EPA 608/A2L training, safety culture, and bonding create friction; digital lead-gen lowers local residential and commercial marketing barriers; reputation and memberships defend incumbents.	Medium
Bargaining Power of Suppliers	Distributor concentration in key metros; OEM program terms and allocation in tight cycles; dual-sourcing possible on commoditized SKUs; specialty components less substitutable.	Medium
Bargaining Power of Buyers	Residential buyers are price sensitive but sticky under warranties/maintenance plans; commercial buyers negotiate on SLA/uptime and total cost of ownership.	Medium
Threat of Substitutes	In-house maintenance for larger facilities; load-reduction measures (envelope/controls) postpone replacements but rarely eliminate HVAC need; portable solutions limited.	Low
Rivalry Among Competitors	Many local specialists; demand seasonality drives price competition in shoulder months; differentiation via response time and compliance/quality systems. Commercial/institutional O&M is more stable and less seasonal; residential demand spikes with weather and failures, and upgrades are more discretionary. Demand higher amongst	Residential: High; Commercial: Medium

Implications Long-term growth in the HVAC industry remains the consensus among analysts and economists, with rising employment and earnings through the 2025 slowdown reinforcing that view. The repeal of federal homeowner incentives under the "One Big Beautiful Bill" warrants a downward revision to short-term growth forecasts, though the magnitude is uncertain. For well-run operators with strong reputations and meaningful local share, HVAC remains a relatively resilient, cash-flow-generative sector for private investment, with mission-critical and light-commercial niches poised for above-trend growth over the next 1–3 years.[33, 34, 35, 36]

2 Company

2.1 Strengths, Challenges, Opportunities & Risks

Table 3: SWOT Overview

Strengths	**Weaknesses**
• 15+ years of operations with rapid growth and strong profitability in commercial HVAC • Niche focus: non-union, prevailing-wage projects for government & education (K–12, colleges, universities). With public projects, the client is the municipality or government so payments are timely and consistent • Pipeline of Sold Projects — The Company's more-than-two-year sold backlog provides the buyer with stability, and steady revenues and profits • Two complementary business units serving the same market with similar offerings • Large average project size ($8–$10MM) with strong margins	• Fewer than ten concurrent jobs → potential revenue lumpiness and scheduling risk (per listing) • Public-sector exposure; dependence on bid-based projects can disrupt income with competition, budget cycles, bid cadence, appropriations timing. • Customer concentration unknown; detailed terms not disclosed in listing.
Opportunities	**Threats**
• Continued Migration Toward Higher-Margin Projects — The Company's blend of government and education projects has driven dramatically improved profit margins • Geographic Expansion — The Company services a relatively narrow part of Pennsylvania and could grow dramatically by moving into new geographies • Maintenance/Service Contracts — The Company does not currently offer service contracts, but believes it has clients who would be interested	• Bid-driven price competition; prevailing-wage & compliance risk. • Supply-chain lead-time volatility for large equipment/components. • Interest-rate/appropriation delays for capital projects; budget reprioritization. • Decreased demand driven by decreases in federal incentives.

2.2 Customers & Revenue Quality

Core end-markets are public-sector education and government owners; work is split between new construction and refurbishment, with durable visibility from a multi-year contracted backlog (per listing)

End Markets	Commercial HVAC activities, Government & Education (K–12, colleges, universities)
Contract Mix	50% new construction / 50% refurbishment
Active Jobs	Fewer than ten projects active at any time
Backlog	Exceeds two years of revenue (contracted)
Avg. Project Size	$8–$10MM revenue per project

2.3 Operations

Two business units operate in the same market with similar offerings; work is executed under non-union, prevailing-wage requirements with emphasis on quality and responsiveness (per listing)

- Scheduling: fewer than ten concurrent, multi-month projects (per listing)
- Pipeline: contracted backlog >2 years of revenue provides forward visibility (per listing)
- Facilities: owned HQ office (with five vacant rental suites); leased warehouse (∼7,500 sq ft) for storage/staging

2.4 Human Capital & Intangibles

Team reputation drives repeat awards; seller indicates relationships likely to transfer post-sale.

- Strong capital relationship with specifiers & institutional clients.
- Established processes for installation on large public projects; responsiveness cited as a differentiator.
- Non-union workforce aligned to prevailing-wage compliance.

2.5 Long-Term Assets

Real estate optionality and fit-for-purpose footprint.

- **HQ Office (Owned):** available for sale; includes five vacant rental suites (per listing)
- **Warehouse (Leased):** ∼7,500 sq ft; lease assumable (per listing)

3 Financials

Table 4: Average Annual Growth Rates (CAGR) and Total Growth by Period

	2021–2025		2025–2028		2021–2028	
Metric	**CAGR**	**Total**	**CAGR**	**Total**	**CAGR**	**Total**
Revenues	0.174	0.840	−0.018	−0.059	0.091	0.732
Cost of Goods Sold	0.177	0.884	−0.038	−0.121	0.085	0.656
Gross Profit	0.297	0.703	0.096	0.299	0.211	1.211
Operating Expenses	0.010	0.022	0.046	0.113	0.026	0.137
Operating Profit	−1.043	1.704	0.136	0.402	−0.538	2.790
Plus Depreciation	−0.009	−0.201	0.000	0.000	−0.005	−0.201
EBITDA	−2.325	1.566	0.133	0.393	−1.272	2.574
Adjustments	−0.078	−0.575	0.000	0.000	−0.045	−0.575
Adjusted EBITDA	0.233	0.678	0.121	0.355	0.185	1.274

	Normalized EBITDA							
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Revenues	25,404,160	24,630,823	27,486,188	35,505,761	48,753,848	74,181,535	94,282,517	94,400,000
Cost of Goods Sold	22,130,566	22,764,991	22,844,125	31,036,333	39,817,784	53,545,570	63,303,043	63,492,792
Gross Profit	4,073,594	1,865,832	3,644,763	4,469,428	8,936,065	8,206,966	8,449,474	8,907,208
Gross Profit Marg. %	**16.0%**	**7.6%**	**13.3%**	**12.6%**	**18.3%**	**11.1%**	**9.0%**	**9.4%**
Operating Expenses	2,244,179	2,174,560	2,453,217	2,267,610	2,476,644	2,603,903	2,270,713	2,275,619
Operating Profit	1,829,415	−308,728	1,191,546	2,201,818	6,459,421	5,603,063	6,178,761	6,631,589
Operating Marg.%	**7.2%**	**-1.3%**	**4.3%**	**6.2%**	**13.3%**	**7.6%**	**6.6%**	**7.0%**
Plus Depreciation	128,577	159,841	137,360	173,425	102,792	102,792	102,792	102,792
EBITDA	1,777,992	−148,887	1,328,906	2,377,243	6,562,213	5,705,855	6,281,553	6,734,381
Adjustments	1,126,238	1,878,388	826,043	478,594	478,594	478,594	478,594	478,594
Adj. EBITDA	3,004,378	1,727,499	1,955,149	2,855,837	7,040,807	6,184,449	6,760,147	7,212,975
Adj. EBITDA Marg. %	**11.8%**	**7.0%**	**7.1%**	**8.0%**	**10.8%**	**14.9%**	**17.2%**	**15.5%**

3.1 Leverage(To be Determined)

Metric	**Est.**	**Note**
Net Debt	000	
Interest Rate	0.0%	
DSCR	0.00x	
Net Leverage	0.0x	

3.2 Taxes

Entity & Local Business Taxes

- **PA Corporate Net Income Tax (CNI).** C-corps owe state CNI; rate for tax year 2025 is **7.99%**[25]. Pass-throughs (LLC/partnership/S-corp) generally do not pay CNI at the entity level.
- **PA Personal Income Tax (PIT).** Owners of pass-throughs pay a flat **3.07%** PIT on distributive share[26, 27].
- **Philadelphia (if applicable).** Doing business in Philadelphia triggers the **Business Income & Receipts Tax (BIRT)**—*gross receipts* (1.410 mills) & *net income* (5.71%) for TY2025[28].

Sales & Use Tax (Contractor Rules)

- **General rate.** State sales/use tax is **6%**; add **+1%** in Allegheny County and **+2%** in Philadelphia[29].
- **Improvements to real property.** HVAC contractors are usually treated as the *consumer* of materials incorporated into real estate—pay sales/use tax on materials, equipment, components, and supplies; *do not* charge sales tax to the customer for the construction/installation service[30].
- **Government & education jobs (Act 45 BME).** For contracts with exempt entities (e.g., school districts, government), certain *Building Machinery & Equipment* (BME) — e.g., *chillers, boilers, fans, humidifiers, controls* — can be purchased tax-exempt by the contractor using Form **REV-1220**, when transferred under the contract to the exempt owner[31, 32]. Non-BME construction inputs remain taxable to the contractor.
- **Use tax.** Owed on untaxed out-of-state purchases of taxable materials/equipment used in PA[29].

Appendix — Glossary & Notes

Key Deal Terms

Cash Flow (CF). Normalized, recurring cash generated by the business before financing. In small business deals, CF may refer to SDE or EBITDA depending on context.[3, 2]

SDE (Seller's Discretionary Earnings). Earnings available to a single owner-operator: net income plus one owner's compensation and typical add-backs (interest, taxes, non-cash, non-recurring).[3]

EBITDA. Earnings before interest, taxes, depreciation, and amortization—used as a proxy for operating cash generation independent of capital structure.[2]

Acquisition Multiple. Purchase price divided by a financial metric (e.g., Price/EBITDA, Price/SDE). Interpreted as years of CF required to "earn back" the price, before growth or synergies.[2]

Enterprise Value (EV). Value of the core operations, typically equity value plus net debt and certain adjustments.[5]

Working Capital. Current assets minus current liabilities; deals often include a normalized level at close.[6]

Credit & Coverage

Net Debt. Total interest-bearing debt minus cash and cash equivalents.[5]

DSCR (Debt Service Coverage Ratio). CF available to service debt divided by total principal+interest due over a period.[4]

Market Structure (Five Forces shorthand)

New Entrants. How hard it is for new competitors to start (licenses, capex, safety culture, reputation).[1]

Suppliers. How much leverage input vendors have (concentration, lead times, switching costs).[1]

Customers. How much leverage buyers have (concentration, price sensitivity, switching frictions).[1]

Substitutes. Ease of alternatives that solve the same job.[1]

Rivalry. Intensity of competition among incumbents (number of rivals, growth, differentiation).[1]

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