



TIMING THE TRANSACTION: Faced with these dichotomies and an acquisitive mergers and acquisitions (M&A) market, many HVACR business owners and stakeholders wonder what strategic direction to follow. (Courtesy of Kelly Sikkema | Unsplash)

To Sell Or To Grow? A Guide for HVACR Business Owners

Acquisitions and divestitures represent
great opportunities in 2023 and beyond

The robust acquisition and consolidation of former family-owned HVACR companies continues its strong pace with expectations it will continue throughout 2023. Both strategic and financial buyers (e.g., private equity) are consolidating competitors to increase market share and expand product lines. While some business owners are looking aggressively into the future, others feel “spent” and are ready to cash out. Either way, we see tremendous opportunities for family-owned companies (including ACCA & NAHVAC members) to either sell and move into their next chapter or grow through acquisition.

Some of the variables adding complexity to HVACR and other industries include the well-documented supply-chain issues and increasing workforce issues. Distribution and direct sales and servicing companies face significant changes that will create challenges as well as opportunities. Besides wondering if your children or next-generation family members are prepared to run the company, business leaders must consider supply chain disruption, rising material costs, technology changes, sustainability, and other unique considerations.

Faced with these dichotomies and an acquisitive mergers and acquisitions (M&A) market, many HVACR business owners and stakeholders wonder what strategic direction to follow. This is the time to ask yourself if you have the strength to weather another year of ownership stresses. If not, is the next generation of your family ready and willing to step in and lead the business to a higher plateau? If you decide to expand, you can choose to continue to grow organically or through acquisitions, finding partners or additional funding. On the flip side, if you do not want to make the necessary investments to remain competitive — or choose to take advantage of the valuations in the current market — this may be an ideal time to sell.

Regardless of the path selected, begin the process with a thorough and honest evaluation of your business and personal situation. Discuss these topics with your management team and conduct a brainstorming session with an investment banker experienced in guiding businesses through strategic alternatives. The banker should understand your position in the HVACR industry as well as the needs of a business of your size to enable you to

properly evaluate your options, navigate the process, and ensure the most value from the transaction.

Options for Growing Your Business

If you decide to invest and expand your company, your options include:

- Find a partner — Seek a strategic partnership to propel growth with expanded resources and capabilities.
- Secure growth capital — There are several sources of growth capital, including:
 - Bank debt via a commercial loan, as the market currently offers reasonable rates and terms.
 - Mezzanine financing through an unsecured loan that typically commands higher interest rates than a bank loan but has no principal amortization, optimizing liquidity.
- Equity investment — Find an individual or firm interested in exchanging cash for ownership in your company with the anticipation of sharing in the income and appreciation.
- Acquisition — If you want to consider an acquisition, only choose to acquire another company that will be accretive to the value of your business. Begin by developing a checklist of criteria that the acquisition should provide.
- Organic growth — Create new ways to increase revenue by using your existing resources more effectively.

Choices for Exiting or “Taking Some Money Off the Table”

There are several options that exist to “take money off the table.” You can do a recapitalization (recap) that will reorganize the balance sheet and allow you, as the owner, to take money out of the business while maintaining control. You can also sell all or part of the business.

Various types of buyers who have different advantages and attributes:

- A strategic buyer who may pay a higher price and has significant synergistic reasons for wanting to acquire your business. Your company’s capabilities could increase the strategic buyer’s scope by substantially

increasing their own value and paying you a lucrative multiple. In addition, foreign strategic buyers are paying above-market prices for companies to enter the U.S. market — one of the reasons for substantive M&A activity in the middle market.

- A private equity firm may purchase a portion of your company (majority or minority), allowing you to stay involved and share in the growth. This is an appropriate hedging strategy for those not quite ready to exit and want to hedge their bets.

What is Your Business Worth?

In any of the above scenarios, an investment banker knowledgeable about the HVACR industry should be able to help you understand the real value of your company. When pursuing the best valuation, be keenly aware that the specifics of your business highly impact its value. Do not assume an industry-average multiple is the right valuation metric for your business. You must be able to see your business through the lens of potential investors and understand the value they find in your company. If the purchaser is strategic, then you must know how your business will impact the value of their business to obtain the highest valuation — what your company will bring to the table, to make that company better.

Selling your own company — or buying someone else’s — is not a task you want to take on without the assistance of experts who understand and can navigate the process while bringing value to whichever side of the table you end up on. This team should include investment bankers, attorneys, and accountants who can help guide you through the process and bring optimal value to one of the most important decisions in your lifetime.

All in all, acquisitions and divestitures represent great opportunities in 2023 and beyond. With sound advice, good planning, and a strategic approach, you can determine which options offer the best alternative for you and your business.



About Kevin Wilson

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