

What 11 HVAC Deals Taught Me About Real Acquisition Quality

A Structured Sourcing & Screening Experiment in Lower-Middle-Market Home Services

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84	19%	11	3	1
Outreach Sent	Reply Rate	Deals Reviewed	Qualified (≥7)	Standout (≥9)

1. Fellowship Context & Hypothesis

During the MergeWorks Fellowship, I concentrated exclusively on one vertical: owner-operated residential and light commercial HVAC businesses. The objective was to treat deal sourcing as a structured experiment — narrow scope, generate targeted deal flow, and identify repeatable signals of acquisition quality.

Hypothesis: If I concentrate exclusively on owner-operated HVAC businesses and apply disciplined screening, I can generate qualified deal flow and identify repeatable acquisition signals — even without capital, brand, or proprietary access.

Target Criteria

- Revenue: \$3M–\$15M
- EBITDA Margin: 15%+ (hard pre-screen filter — see Section 3)
- Business type: Founder-owned, operator-run, no PE backing
- Seller profile: Owner age 50+ (succession likely)

Why HVAC — Market Context

Factor	Context
Market Size	~\$115B U.S. residential & commercial HVAC (2024 est.)
Fragmentation	No dominant national players below \$25M — highly fragmented local competition
Active Acquirers	PE roll-ups (Apex Service Partners, Wrench Group), independent sponsors, family offices
Defensibility	Technician relationships are labor-driven and not easily replicated

Roll-up Precedent	Multiple active acquirers competing for quality local operators — clear exit optionality
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2. Sourcing Funnel & Statistical Results

Outreach Methodology

Outreach ran across four channels over 12 weeks. Messaging emphasized transition planning, team continuity, and legacy preservation — deliberately avoiding growth-capital framing. This shift drove measurably stronger response rates.

- Direct owner email (primary channel)
- LinkedIn outreach to identified owners
- Website contact form submissions through BizBuySell
- Structured follow-up: Day 5 and Day 14 after initial contact

Complete Sourcing Funnel

Stage	Count	% of Outreach	% of Prior Stage
Outreach Sent	84	—	—
Replies Received	16	19.0%	19.0%
Calls Completed	4	4.8%	25.0%
Deals Fully Reviewed	11	13.1%	—
Qualified (Score ≥7)	3	3.6%	27.3%
Standout (Score ≥9)	1	1.2%	33.3%

Key Insight: 37% of all replies came after follow-up outreach (Day 5–14). Initial silence is not rejection. HVAC owners are running trucks — they check email between service calls, not during them.

Scoring Distribution — All 11 Deals

Score Range	Count	Disposition
0–5 (Disqualified)	4	Rejected — install-heavy, owner-critical
6 (Below Threshold)	4	Monitored — insufficient recurring base
7–8 (Qualified)	2	Active — continued follow-up
9–11 (High Priority)	1	Standout — advanced to deep diligence

3. EBITDA as a Hard Filter — Not a Scoring Variable

MergeWorks principle: Buy + Improve, not Fix + Survive. EBITDA is a gate before scoring begins — not a category to optimize within the score.

Businesses below the EBITDA floor are turnarounds. Turnarounds require a fundamentally different skill set. Under this strategy, any deal below 5% EBITDA margin is rejected before the scorecard is applied.

EBITDA Margin	Decision Rule
< 5%	Reject immediately — do not score. This is a turnaround.
5–10%	Only proceed with a very clear, strong thesis — rare exceptions only
10–15%	Proceed with caution — articulate a specific reason before scoring
15%+	Normal range — worth full scoring and diligence time

All 11 deals reviewed in this capstone passed the EBITDA pre-screen before scoring was applied. The standout deal carried a 19% EBITDA margin — comfortably within the target range.

4. What Actually Determines HVAC Acquisition Quality

Primary Signal: Maintenance Agreement Penetration

Across 11 companies, maintenance agreement penetration emerged as the single strongest predictor of operational stability and long-term value — more reliable than revenue growth, marketing sophistication, or EBITDA margin.

Maintenance penetration predicts acquisition quality more reliably than any other single variable. This challenged my initial assumption that EBITDA margin was the primary indicator.

Why Maintenance Agreements Drive Value

- Smooth seasonality — reduce summer/winter revenue spikes that compress margins
- Lower customer acquisition cost — retained customers eliminate repeat ad spend
- Improve technician utilization — scheduled work fills capacity during slow periods
- Increase dispatch predictability — known schedules enable route optimization
- Support valuation multiples — recurring revenue trades at a premium to install revenue

Maintenance Penetration Tiers — Pattern from 11 Deals

Penetration	Business Profile	Acquisition Implication
< 25%	Install-heavy; revenue volatile	High risk — avoid without strong thesis
25–39%	Mixed model; owner-dependent	Acceptable — price in transition risk
40%+	Recurring base; structurally defensive	Target range — priority for diligence

Second Structural Insight: Owner Dependency Is Mispriced

The most common red flag across 11 deals was owner dependency masquerading as financial strength. Many businesses with 18–20% EBITDA margins still had:

- Owner-led sales — generating 35–50% of new business personally
- Relationship-dependent accounts — key clients tied to the owner's personal network
- No second-layer management — no service manager capable of autonomous operation

A 16% EBITDA business with 45% maintenance penetration is structurally more defensible than a 20% EBITDA install-heavy business with owner-dependent sales. HVAC quality is operational, not just financial.

5. Screening Framework — HVAC-Adapted 0–13 Model

Every business was scored against nine criteria adapted specifically for HVAC acquisition logic. The framework rewards structural quality over headline metrics and eliminates emotional bias from deal comparisons.

Note: EBITDA margin appears here as a scoring variable to reward margin quality above the pre-screen floor — all deals reaching this stage have already passed the hard filter.

Screening Criteria	Points	Scoring Logic
Recurring Service Revenue	0–2	2 = >40% recurring; 1 = 20–40%; 0 = <20%
EBITDA Margin	0–2	2 = 18%+; 1 = 15–18%; 0 = <15%
Customer Concentration	0–2	2 = no customer >5%; 1 = 5–15%; 0 = >15%
Maintenance Agreement Penetration	0–1	1 = 30%+; 0 = <30%
Technician Retention	0–1	1 = avg. tenure 3+ years; 0 = <3 years
Owner Involvement	0–2	2 = minimal; 1 = moderate; 0 = owner-critical
Geographic Density	0–1	1 = concentrated local footprint; 0 = dispersed
Capital Intensity	0–1	1 = asset-light or fleet well-maintained; 0 = heavy capex
Growth Potential	0–1	1 = clear upsell / geographic pathway; 0 = stagnant
TOTAL	0–13	≥7 = Qualified ≥9 = High Priority

6. Standout Deal Deep Dive — Score 11/13

Business Profile

Metric	Value
Business Type	Residential HVAC — Greater Metro Area
Annual Revenue	\$8.4M
EBITDA	\$1.6M (19% margin)
Maintenance Penetration	42%
Employee Count	32 employees
Owner Age	59 — succession actively considered
Framework Score	11/13 — HIGH PRIORITY

Detailed Scorecard

Criteria	Score	Notes
Recurring Service Revenue	2/2	42% maintenance agreement penetration
EBITDA Margin	2/2	19% — above 15% threshold
Customer Concentration	2/2	No single customer >3% of revenue
Maintenance Agreement Penetration	1/1	42% — structurally recurring base
Technician Retention	1/1	5+ year average tenure across crew
Owner Involvement	1/2	Owner drives primary sales — transition risk identified
Geographic Density	1/1	Concentrated local footprint
Capital Intensity	1/1	Fleet manageable; refresh anticipated
Growth Potential	0/1	CRM underdeveloped; limited upsell infrastructure
TOTAL SCORE	11/13	HIGH PRIORITY — Qualified for deep diligence

Why Attractive

- 42% maintenance penetration — approaching structural threshold for recurring base stability
- No single customer exceeds 3% of revenue — highly fragmented, low concentration risk
- Average 5+ year technician tenure — operational stability that can't be faked
- Dense geographic footprint — concentrated service area enables efficient dispatch

Why Not Perfect — Trade-off Analysis

- Owner drives 40–45% of new business origination — significant transition risk
- CRM underdeveloped — customer data not systematically captured
- Fleet refresh upcoming — material capex within 18–24 months
- Manual dispatch processes — margin upside available but requires operational work

Decision: Strong financials do not eliminate operational fragility. Structure deal with earnout tied to technician retention and maintenance agreement renewal rates post-close.

7. Valuation, Structuring & Financial Modeling

HVAC Market Transaction Multiples

Business Type	EBITDA Multiple	Key Variable
Independent, stable recurring base	4.5x–5.5x	Maintenance penetration ≥40%
Independent, install-heavy	3.5x–4.5x	Owner dependency / revenue volatility
Platform-backed roll-up target	6.0x–8.0x	Brand + systems infrastructure
Standout Deal (estimated)	~5.5x	$\$1.6\text{M} \times 5.5x \approx \$8.8\text{M EV}$

Standout Deal — Base Case vs. Downside Case

Assumption	Base Case	Downside Case
EBITDA	\$1.6M	\$1.28M (20% haircut)
Haircut Rationale	Owner exits cleanly; contracts transfer	Owner-driven revenue partially lost on exit
Multiple Applied	5.5x	4.25x
Enterprise Value	\$8.8M	\$5.4M
Deal Structure	80% at close	65% at close + seller note
Cash Flow Note	Fleet capex (\$300–400K) reduces near-term FCF	Fleet capex + attrition compress Year 1 returns

Simple Return Logic — 5-Year Hold (Unlevered)

- Entry: \$8.8M base case (5.5x on \$1.6M EBITDA)
- Year 1–2: Stabilize maintenance penetration >42%; implement CRM; reduce owner dependency
- Year 3–4: Route optimization adds 2–3 margin points; technician retention maintained
- Year 5 exit: 5.5x on improved \$1.9–2.0M EBITDA → ~\$10.5M–\$11.0M EV implied
- Implied gross return: ~1.2x–1.25x unlevered; meaningfully higher with modest seller financing

The multiple only holds if technician retention remains stable, service agreements persist through transition, and the owner's exit is structured to protect client relationships.

8. Lessons & Belief Changes

What Changed My Thinking

At the start of the fellowship, I believed revenue growth and EBITDA margins were the primary acquisition indicators. Reviewing 11 companies through a structured framework changed that. Operational structure matters more than headline financial performance.

Before This Experiment	After 11 Deals Reviewed
Revenue growth is the primary quality signal	Maintenance penetration predicts quality more reliably
EBITDA margin tells the whole profitability story	Margins can be real but misleading if owner-dependent
Owner involvement is a solvable management problem	Owner dependency is systematically underpriced in HVAC
Follow-up is optional — good deals surface themselves	37% of replies required persistence — follow-up is mandatory
Broad home services sourcing builds transferable skills	Vertical focus accelerates pattern recognition exponentially

Process Adjustments During the Fellowship

- Week 3: Shifted messaging to legacy/transition framing — reply rates improved noticeably
- Week 5: Added maintenance penetration as a qualifying question in initial outreach
- Week 7: Adjusted follow-up from Day 7 to Day 5 — HVAC owners check email between service calls
- Week 9: Built the structured scorecard after recognizing gut-feel evaluation produced inconsistent comparisons

9. New Deals Reviewed — BizBuySell Pipeline

Two additional deals sourced from BizBuySell, evaluated using the same 0–13 framework. Both are outside pure HVAC but adjacent — plumbing, heating, and energy services. They illustrate exactly why the EBITDA gate matters.

Deal A: Residential Powerhouse Plumbing, HVAC & Energy Solutions — Mongaup Valley, NY

Multi-service platform comprising two co-located businesses: Prestige Energy Solutions (HVAC/weatherization) and Silverman Mechanical II (plumbing/HVAC). Shared warehouse facility, shared equipment.

Metric	Value
Services	Plumbing, HVAC, Energy Efficiency / Weatherization
Combined Revenue	~\$8.8M projected
EBITDA	~\$1.04M (~12% margin)
Asking Price	~\$7.0M (~6.7x EBITDA)
Employees	~37 total (16 Prestige + 21 Silverman)
Real Estate	Owned warehouse included in transaction
Notable	~\$1.5M NYSERDA locked state contracts (Prestige)

EBITDA Pre-Screen: CONDITIONAL. At 12%, this sits in the 10–15% band. The seller's own language — 'below peer average, representing substantial upside' — is a turnaround pitch, not a stable platform thesis. Do not score without a specific margin recovery plan.

Criteria	Score	Notes
Recurring Service Revenue	1/2	NYSERDA contracts locked (~\$1.5M); HVAC maintenance contract scale undisclosed
EBITDA Margin	0/2	12% — below 15% pre-screen floor
Customer Concentration	1/2	Top 3 customers ~25% — moderate
Maintenance Agreement Penetration	0/1	No penetration data disclosed — absence is itself a signal
Technician Retention	0/1	No tenure data provided
Owner Involvement	0/2	Prestige owner personally drives ~\$3M of ~\$4.5M revenue — highly owner-critical

Geographic Density	0/1	50-mile radius — dispersed for a service business
Capital Intensity	1/1	Owned real estate provides asset backing; fleet/inventory included
Growth Potential	1/1	NYSERDA tailwinds; energy efficiency mandates; clear whitespace
TOTAL SCORE	4/13	BELOW THRESHOLD — Does not meet ≥7 qualified standard

Decision: Pass at current terms. 12% margin, 6.7x multiple, and owner-critical revenue do not meet Buy + Improve standard. Revisit only if seller restructures price to ~5.0x on stabilized EBITDA and NYSERDA accreditation is confirmed transferable.

Deal B: Plumbing & Heating Company — Nassau County, NY (Sakowich Mechanical)

67-year-old second-generation plumbing and heating contractor, founded 1958. Based in New Hyde Park, NY. Serves Nassau and Suffolk Counties. Debt-free operations. Owners retiring with 1–2-year transition offer.

Metric	Value
Services	Commercial & residential plumbing, heating, remodeling
2024 Revenue	~\$3.89M (grew ~25% over 4 years)
2024 Adj. EBITDA	~\$1.44M (~37% margin)
2025 Projected EBITDA	~\$1.25M (~32% margin)
Asking Price	~\$5.2M (~4.2x SDE)
Revenue Mix	~75% commercial / 25% residential
Employees	12 total — multiple Master Licensed Plumbers
Customers	1,100+; top 10 = ~34% of revenue
Debt / Real Estate	Debt-free. Real estate NOT included — lease required.
Seller Financing	Available

EBITDA Pre-Screen: PASS. 37% margin is best-in-class for a \$4M plumbing business. Comfortably above the 15%+ target range. Proceed to full scoring.

Criteria	Score	Notes
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Recurring Service Revenue	1/2	Property management and commercial contracts provide baseline; full scale not quantified
EBITDA Margin	2/2	37% in 2024; 32% projected 2025 — both above 18%+ tier
Customer Concentration	1/2	Top 10 = 34% — moderate; no single dominant client
Maintenance Agreement Penetration	1/1	Commercial maintenance agreements referenced as existing recurring base
Technician Retention	1/1	67-year business; multiple long-tenured Master Licensed Plumbers — high retention implied
Owner Involvement	1/2	Owners involved in estimating; 1–2 year transition offered. Manageable with structure.
Geographic Density	1/1	Nassau & Suffolk Counties — dense suburban market
Capital Intensity	1/1	Debt-free; ~\$300K fleet; low capex profile
Growth Potential	1/1	Estimating software, digital marketing, Queens/Brooklyn expansion, property mgmt contracts
TOTAL SCORE	10/13	HIGH PRIORITY — Qualified for deep diligence

Deal B — Valuation Model

Assumption	Base Case	Downside Case
EBITDA Used	\$1.25M (2025 projected)	\$1.0M (20% attrition on owner exit)
Multiple Applied	4.0x–4.5x	3.5x
Enterprise Value	\$5.0M–\$5.6M	\$3.5M
vs. Asking (\$5.2M)	At top of range — fair with seller financing	Overpriced by ~\$1.7M
Structure	70–75% close + seller note tied to retention	Lower close + earnout on Yr 1–2 EBITDA

Decision: HIGH PRIORITY. Score of 10/13. The 37% margin is structurally exceptional. Key diligence focus: (1) which commercial accounts are owner-relationship-dependent, (2) lease terms and landlord relationship, (3) Master Plumber license — is it concentrated in the owner?

Side-by-Side: Deal A vs. Deal B

Factor	Deal A: Residential Powerhouse	Deal B: Nassau Plumbing & Heating
Revenue	~\$8.8M	~\$3.9M
EBITDA Margin	~12%	~37%
Pre-Screen	CONDITIONAL	PASS
Framework Score	4/13	10/13
Asking Multiple	6.7x EBITDA	4.2x SDE
Owner Dependency	HIGH — owner drives ~\$3M	MODERATE — 1–2yr transition
Decision	PASS at current terms	HIGH PRIORITY

Deal A has 2.3x the revenue of Deal B — and scores 6 points lower. A larger business with lower margins and a higher asking multiple is not a better deal. The EBITDA gate exists precisely to avoid this trap.

10. Conclusion

Finding	Evidence
Vertical focus accelerates pattern recognition	11 HVAC deals built more expertise than 40 generic deals would
Follow-up creates disproportionate results	37% of all replies required Day 5 or Day 14 follow-up
Maintenance penetration predicts quality	42% penetration was the defining feature of the standout deal
Owner dependency is routinely underpriced	Most deals with 18%+ EBITDA still had owner-critical sales
Structured scoring improves decision clarity	0–13 framework eliminated emotional bias across all 11 reviews
EBITDA is a gate, not a score	Pre-screen eliminates turnarounds before scoring begins

I am not exploring M&A. I am building structured pattern recognition in HVAC acquisitions — one deal at a time, with data driving every conclusion.

Going-Forward Positioning

- Deal identity: Owner-operated HVAC businesses, \$3M–\$15M revenue. Not home services broadly. HVAC.
- Content: 1 post/week minimum — deal breakdowns, owner transition frameworks, red flags, framework updates
- Referrals: Specific positioning makes broker memory stick — 'the HVAC buyer' is more useful than 'the home services buyer'

Appendix: Data Validation Summary

This appendix provides the minimum proof standard to validate the sourcing process and deal pipeline documented in this capstone.

1. Outreach Volume

Metric	Value
Total outreach sent	84 contacts
Channels used	Email (primary), LinkedIn, website contact forms
Outreach window	12 weeks
Follow-up cadence	Day 5 and Day 14 after initial contact
Replies driven by follow-up	37% of all replies

2. Anonymized Deal Log — 11 Reviewed Businesses

Deal	Region	Rev. Range	EBITDA Margin	Score	Qualified	Source
HVAC Co #1	Southeast	\$3M–\$5M	<15%	4	No	Outreach
HVAC Co #2	Midwest	\$5M–\$8M	15–18%	6	No	Outreach
HVAC Co #3	Southwest	\$3M–\$5M	<15%	3	No	Outreach
HVAC Co #4	Southeast	\$5M–\$8M	15–18%	6	No	Outreach
HVAC Co #5	Midwest	\$8M–\$12M	18%+	7	Yes	Outreach
HVAC Co #6	Mid-Atlantic	\$3M–\$5M	<15%	4	No	Outreach
HVAC Co #7	Southeast	\$5M–\$8M	15–18%	6	No	Outreach
HVAC Co #8	Midwest	\$5M–\$8M	15–18%	6	No	Outreach
HVAC Co #9	Southwest	\$8M–\$12M	18%+	8	Yes	Outreach
HVAC Co #10	Mid-Atlantic	\$3M–\$5M	<15%	5	No	Outreach
HVAC Co #11 ★	Greater Metro	\$8M–\$12M	18%+	11	Yes ★	Outreach

★ = Standout deal. All company names and locations anonymized. Revenue ranges and scores reflect actual framework application.

3. Sample Scored Deals — Framework Validation

Three deals shown to validate scoring consistency across the range of outcomes.

Deal Sample A — HVAC Co #3 (Score: 3/13, Rejected)

- Recurring Service Revenue: 0/2 — <20% recurring, install-driven
- EBITDA Margin: 0/2 — below 15% pre-screen floor
- Customer Concentration: 1/2 — one HOA account at ~12% of revenue
- Remaining categories: 2/7 — owner-critical, dispersed geography, high capex
- Decision: Rejected. Install-heavy, below margin floor, owner-critical.

Deal Sample B — HVAC Co #9 (Score: 8/13, Qualified)

- Recurring Service Revenue: 1/2 — ~30% recurring; approaching threshold
- EBITDA Margin: 2/2 — 18%+ margin
- Customer Concentration: 2/2 — well-distributed; no customer >5%
- Technician Retention: 1/1 — avg. 4-year tenure
- Owner Involvement: 1/2 — has service manager in place; moderate dependency
- Decision: Qualified — active follow-up; monitoring maintenance penetration trajectory

Deal Sample C — HVAC Co #11 (Score: 11/13, Standout)

- Full scorecard in Section 6
- Decision: High priority — advanced to deep diligence
- Key differentiator: 42% maintenance penetration, 5+ year technician tenure, 19% EBITDA