



BUSINESS SWEDEN

BREATHE EASY

ACHIEVING GROWTH IN EUROPE'S EVOLVING
HVAC AND FILTERS INDUSTRIES

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INTRODUCTION

Consumer demand for connectivity and greener solutions in combination with stricter energy efficiency regulations are both transforming many industries and paving the way for growth. And the European HVAC and filters sectors are no exception. Industry evolution is non-negotiable, with change sweeping across all traditional sectors to meet both regulatory and business and consumer demand. This is driving market growth in the HVAC industry both globally and on a European level.

The global HVAC market is set to rise from USD 93.2 billion in 2018 to USD 133.2 billion by 2023. In the same period, the European market is expected to rise from USD 22.6 billion to USD 30.5 billion. Both the global and European markets are set to grow at a CAGR of 6.2%*.

While the HVAC filters market has a stand alone projected CAGR growth of 6.5% with a projected value of EUR 7 billion by 2024.

The Swedish HVAC and HVAC filters industries are highly skilled and hold vast experience compared to many of their global competitors. With the introduction of more stringent EU energy efficiency guidelines, an increased need for IOT and a consolidating market, the stage is set for Swedish businesses to seize opportunities in the HVAC markets of the major European players.

The bulk of the European HVAC market is dominated by Italy, Russia, France and Germany which account for 38% of the market share.

While growth within the filters market will mainly stem from positive development in Italy, UK, Germany and France.

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TRENDS IN THE EUROPEAN HVAC INDUSTRY

CONNECTIVITY DRIVING CHANGE

Europe's HVAC market projected rapid growth will be primarily driven from the demand for smart connected HVAC solutions. The smart connected HVAC market in Europe was estimated to EUR 200 million in 2018, a figure that is set to double in 2023.

The European market for smart connected air conditioning is driven by commercial, non-residential buildings. While smart connected heating is in demand by the residential sector.

The booming apps industry has changed both the way building managers control lighting, ventilation and many other processes but also the ability to better measure big data, paving the way for more efficient HVAC systems for the future.

The highly competitive nature of the HVAC market means it is necessary for actors in the sector to not only utilise, but maximise qualitative data, real time data and cloud offers. This flow of information gives decision makers real time financial information which they can quickly respond to.

For example, malfunctioning air conditioning can consume serious energy. Something as simple as a blocked filter can result in energy consumption increasing by up to 30%.

In public buildings such as hospitals, an outage of air conditioning or cooling systems can have serious consequences and, in some cases, put people's health at risk.

Green concepts are in demand and HVAC producers are embracing lean concepts with energy efficiency the focus. New, greener technologies can prevent heat loss, reclaim dissipated heat and co-opt renewable sources.

ENVIRONMENTAL REGULATIONS DRIVING CHANGE

In a bid to fast-track greener concepts into the market, regulators have introduced stringent guidelines for energy efficiency and reduction in SO_x, NO_x and ammonia. Regulations include:

- The Ecodesign Directive – a framework for environmentally compatible design for energy-consuming products, including HVAC equipment.
- EU guidelines that specify the emission levels of fluorinated greenhouse gases (F-gases). These gases are commonly used in heat pumps.
- Decarbonising regulations which have an overall mandate and goal to reduce CO₂ emissions from the built environment by 80% in the next 30 years. EU countries are implementing different initiatives to meet the goal, for example, Ireland is offering homeowners financial compensation to install heat pump systems which can reduce carbon emissions and lower energy bills. While in The Netherlands, authorities are aiming for all residential buildings to be supplied with non-natural gas by 2050.
- The Spanish authorities now have annual indoor air quality inspections for all buildings equipped with thermal (heating or cooling) installations with a capacity of 70kW or more.

CUSTOMERS EXPECTATIONS CHALLENGING INDUSTRY

In a highly competitive market, there is also a need for continued differentiation and many HVAC companies see customer service as an area where they can stand out and add extra value.

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Producers must keep up with current and future trends if they are to stay relevant and commercially viable

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Maintenance and service also represent a huge growth area. Online reviews from customers are important and not many businesses can survive if they only have a three-star rating. Technicians are increasingly expected to improve the interpersonal skills and create stronger trust and bonds with the customer.

The global demand across all sectors for connectivity, automated control systems and remote-control access are here to stay and are also contributing to a transformation within both the HVAC and filters industries.

Consumers are demanding change, including:

- Automated control access allowing them to operate connected systems via apps.
- Automated systems that detect climate fluctuations and automatically adjust temperatures and fans to provide optimal comfort.
- Connectivity systems which provide real time information about system conditions, supporting early detection of defects and contributing to reduced maintenance costs.

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EUROPEAN MARKET HOT SPOTS

Rapid change driven by regulations, demand for connectivity and market consolidation can be seen in the major markets across Europe.

The UK's market growth is forecast at a CAGR volume of 5% between 2020-2024. By 2022 the total market is expected to reach 2.2 million units worth EUR 178 million.

This growth will mainly stem from raised awareness of air pollution and customer demand for interconnectivity between appliances.

Demand for connected air conditioners is expected to rise and connectivity will become a new industry standard.

France will remain a challenging market with the industry expecting a CAGR decline of 1% between 2017-2022.

Forecasted sales for the French air treatment market is expected to reach 2.3million units and be worth EUR 343 million by 2022.

The country's RT2020 sustainable energy framework, which seeks to significantly reduce the energy consumption in the country, continues to hamper growth.

The market focus will be on installation of built-in and collective air treatment appliances in modern housing developments.

By 2022, the total Spanish market is expected to reach 2.6 million units worth EUR 749 million.

Spain's building industry reactivation is a clear market driver pushing growth and innovation.

New construction projects demand split heating and cooling systems

Renovation works on old buildings and refurbishments of tourist apartments will continue to push positive demand.



Growth of the German HVAC market is projected at a volume of CAGR of 2.75% for the period 2019–2024.

The trends in Germany show that IoT and energy savings will drive the main growth.

It is anticipated that before 2022, German customers will demand more advanced solutions with integrated building automation.

There will be an increased focus on maintenance and energy savings and a preference for installation and implementation of zero energy systems.

The forecast for the Russian HVAC market is growth at a CAGR volume of 5% for the period 2018–2023.

Air treatment products in Russia are expected to reach sales of 7.8 million units making the market worth EUR 402 million by 2023.

The unusually hot summer of 2018 drove epic sales in the country.

Split air conditioning was the strongest performer and air coolers bounced back after a few years of decline.

For the period 2018–2020, the Polish market is set to grow with a volume of CAGR of 5%. Sales are expected to reach 418,000 units equating to a market worth of EUR 359 million by 2023.

During 2018, successful media and health awareness campaigns increased health awareness of air pollution and the adverse effects of poor air quality. The campaigns focussed on demonstrating the damaging effects of smog and the impact of dry air on overall health.

The increased awareness of poor air quality is expected to significantly increase sales in air purifiers and humidifiers.

Consumer demand for connectivity is also set to be a main market driver.

By 2022, the Italian market is set to generate a volume of CAGR of 2% and 3.8 million units. This equates to EUR 1.6 billion in worth.

The Italian incentive programme, Conto Termico is dedicated to air conditioning with energy saving characteristics and has the potential to boost sales. The catalyst for growth is the need to replace outdated systems.

The forecast up to the mid 2020's is 100% demand and supply for connected air conditioner appliances. Producers who cannot provide advanced connectivity features will see their market share shrink or disappear.

In Turkey, the HVAC market is set to stagnate in retail volume CAGR until 2023.

This is primarily due to a decline in purchasing power.

By 2023, air treatment products are expected to reach sales of 3.5 million units with a market worth of EUR 619 million.

TURNING OPPORTUNITIES INTO GROWTH

Three major challenges are shifting the HVAC and filters markets but with a targeted approach, Swedish industry knowledge and solutions can play a pivotal role in advancing market evolution while accelerating growth.

CHALLENGE #1:

NEED FOR HIGHER INORGANIC GROWTH

Market consolidation across both the HVAC and filters industries is creating opportunities across all major European markets. This is not limited to the HVAC industry, many other segments within industries have benefited from this development and managed to acquire both new technologies and market share.

In 2018 alone, M&A deals to the value of EUR 838 billion were made. The hottest three regions in Europe for M&A deals were the UK and Ireland, CEE and the German speaking area with 859, 659 and 639 deals being made respectively.

The HVAC and filters industries are taking learnings from this trend and considering and exploring a faster pace acquisition model to accelerate growth in Europe.

Additionally, in the next few years, 50% of the companies in the German speaking region are on course for a generation shift. This coupled with the ongoing consolidation of the fragmented HVAC and filters markets and the need to acquire IOT solutions cannot be underestimated and is a key catalyst for M&A for the Swedish HVAC and filters industry.

While Swedish HVAC and filters producers are prioritising inorganic growth in their strategies, they often have small internal M&A teams

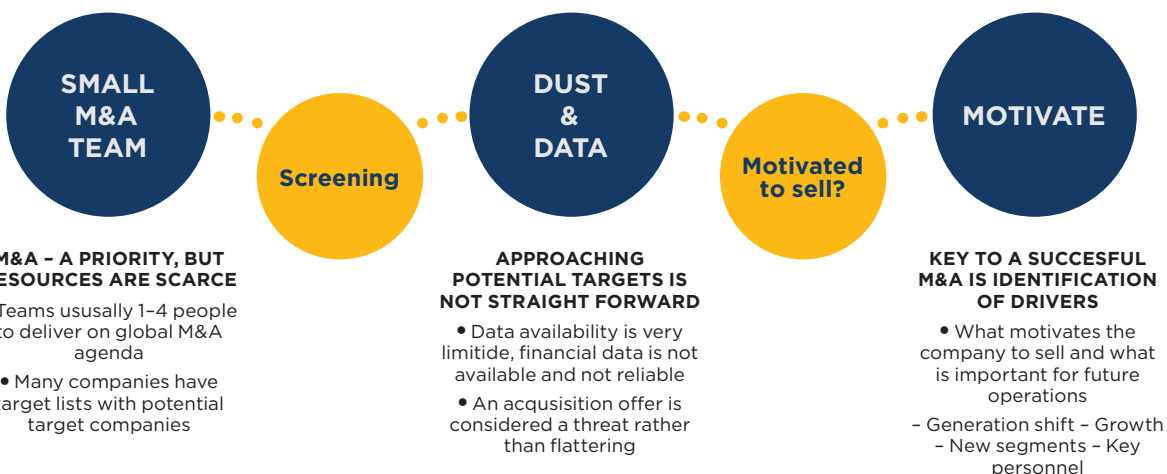
and limited access to data which hampers progression. M&A mapping and screening is cited as a challenge by producers as the financial data required to make informed decisions is often unreliable or non-existent. The rapidly evolving M&A landscape can be difficult to navigate and without swift analysis, data can become quickly outdated.

Small internal M&A teams can often find it difficult to structure both the M&A process and subsequent integration.

Swedish HVAC and filters companies also cite that business culture and identification of sales drivers is difficult. These two factors are key parameters needed to formulate a trustworthy proposal and motivate the acquisition target to sell to a Swedish company and not to their competitors.

SOLUTION: Business Sweden's M&A Fast Track

To meet the industry challenge of increasing M&A pace and lack of data, Business Sweden has created a fast track for mapping and assessing the most attractive targets within the European HVAC and filter industries. Business Sweden's fast track is enabled by our vast network of private banks, industry organisations and end users. From this, a tailored mapping and assessment of attractive M&A targets, including understanding of sales drivers and how much of



The three main challenges that slow down the M&A pace for Swedish companies are limited internal resources, data unavailability and difficulty in motivating the acquisition targets to sales.

the market that can be acquired in the next one to two years can be executed. Business Sweden's team can also support in the negotiation process, conduct commercial due diligence, develop a value realisation plan, create a PMI roadmap and draft and execute an integration plan.

CHALLENGE #2:

REDEFINITION OF EUROPEAN FOOTPRINT FOR PRODUCTION AND SALES HUBS

The critical need for companies to be close to their customers along with challenging labour costs and shortages are forcing the HVAC and filters industries to redefine their European footprint.

In CEE, average wages have increased 10–15% per year over the past three years and they face a serious shortage of labour. This increase is not aligned with annual cost savings and the 6–8% average increase in productivity targets.

The sector's labour shortage is fuelled by its inability to retain workers under the age of 30 for longer than a year and the migration of qualified workers. This has resulted in a skill shortage, delayed production and issues with quality assurance.

This fragmented and inefficient production and sales model is already forcing companies to take proactive steps to ensure long-term business sustainability. In a bid to remain competitive, stay close to customers and retain quality, companies across the industry are re-evaluating the footprint for their production and sales hubs in Europe. There is a drive for production and service to become more efficient and agile to meet the rapidly evolving demands of both commercial and private customers.

SOLUTION: Business Sweden's Fast Track for Optimal European Footprint
A team of Business Sweden experts are currently working on several assignments focusing on redefining the European footprint. By utilising Business Sweden's extensive network of governments, municipalities, contractors and property developers, we offer a fast track to an executive benchmark analysis which covers benchmarking of:

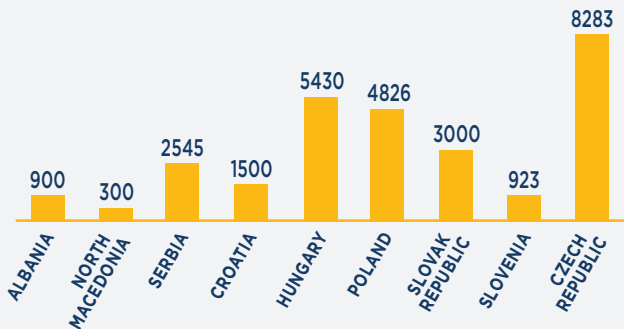
- Countries with the optimal set up from a supplier and customer perspective.
- Available incentive schemes that can be applied to investment case.
- Expected labour supply and labour cost development in the coming five-10 years.
- Relevant municipalities for setting up the sales and production hub.
- Facility search.



New markets within the CEE present opportunities that can be explored to improve European footprint and production channels.

FDI INFLOW IN 2017

SOURCE: WIIW 2017



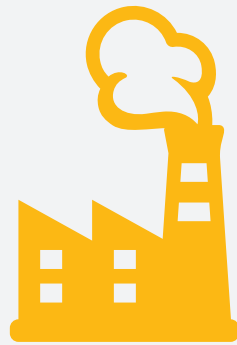
VOICES FROM SWEDISH PRODUCERS

“Labour costs have increased drastically the last couple of years, we are now looking at establishing further south. Other producers in the area import labour from Ukraine, but it is difficult to keep them long term”

SWEDISH PRODUCER ESTABLISHED IN NORTHERN EUROPE

INDUSTRY

Agriculture, manufacturing, oil & gas, energy, electronics, pharmaceutical, automotive and mining are the dominating industry sectors in the CEE region.



2017 GDP (PPP)/CAPITA

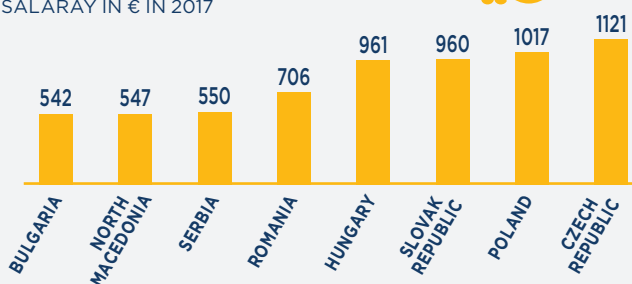
& REAL GDP GROWTH IN %, SOURCE: WIIP



Country	2017 GDP (PPP)/CAPITA	Real GDP Growth (%)
North Macedonia	10 900	(+0.5%)
Serbia	11 000	(+1.9%)
Bulgaria	14 800	(+3.6%)
Romania	18 200	(+7.0%)
Hungary	20 700	(+4.0%)
Poland	20 900	(+4.6%)
Slovak Republic	23 700	(+3.4%)
Czech Republic	26 800	(+4.3%)

AVERAGE MONTHLY SALARY

SOURCE: WIIW, GROSS MONTHLY SALARY IN € IN 2017



BG, RS & MAC FYR most cost competitive from a labour perspective

LABOUR AVAILABILITY

UNEMPLOYMENT % OF TOTAL LF, 2017, (% UNIT CHANGE SINCE 2010) SOURCE: WB



Country	Unemployment % (2017)	% Unit Change Since 2010
North Macedonia	24.4%	(-7.6)
Serbia	14.4%	(-4.8)
Bulgaria	6.0%	(-4.3)
Romania	5.9%	(-1.1)
Hungary	5.1%	(-4.5)
Poland	4.2%	(-7.0)
Slovak Republic	9.0%	(-5.4)
Czech Republic	3.4%	(-3.9)

LOGISTICS PER. INDEX

SOURCE: WB, 2018 RANKING

26	Czech Republic
31	Hungary
33	Poland
41	Slovak Republic
60	Romania
72	Bulgaria
76	Serbia
106	North Macedonia



EASE OF DOING BUSINESS

SOURCE: WB, 2018 RANKING

North Macedonia	11
Poland	27
Czech Republic	30
Slovak Republic	39
Serbia	43
Romania	45
Hungary	48
Bulgaria	50



CHALLENGE #3:

INEFFICIENT DISTRIBUTION CHANNELS

Competition in the fragmented HVAC and filters market is fierce. Swedish producers are performing well but need more dedicated distribution partners in the major European markets including Germany, Italy and Russia.

Solutions for connected homes are critical to market success. Sweden's position as innovators and leaders in connectivity puts Swedish producers in a unique position to enter new verticals with the right partners.

SOLUTION: Fast Track to Right Distribution Partners and Distribution Efficiency

Business Sweden's vast network connections to private and public project owners, turn-key providers and planners ensures a robust plan forms the basis of a fast track to efficient market analysis and partner searches. Via the fast track, we can provide recommendations on suitable market segments and partner alternatives in your prioritised growth market.



CONCLUSION

There are three clear trends, which are revolutionising the HVAC and filters industry and delivering opportunities for accelerated growth for the Swedish HVAC and filter producers. These are stricter energy efficiency guidelines, connectivity and automation and a consolidating market.

To meet the market's transformation, Swedish HVAC and filters companies are addressing three main challenges: increasing the pace of M&A, re-defining the European footprint for future production and sales hubs and changing inefficient distribution channels.

Business Sweden is in a unique position to provide Swedish HVAC and filter producers a fast track to European expansion. Our vast European network of private banks, industry organisations, governments, municipalities, property developers and planners are the foundation of our fast track programmes which enable us to tailor a plan for your market growth. The rapidly changing HVAC and filters sectors are moving rapidly towards an industry revolution and swift entry to market is crucial to maximise the vast potential offered by this transformation.

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We help Swedish companies grow global sales and international companies invest and expand in Sweden.

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