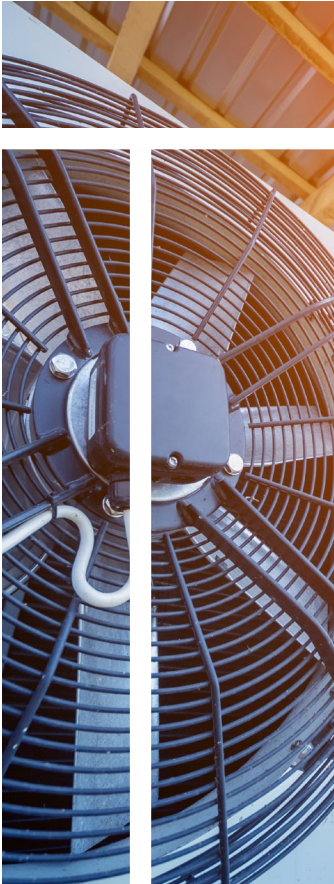


Investors Train Sights on Air Filtration Businesses



Emerging from the COVID-19 pandemic, people have a heightened level of focus on their health and wellness, specifically the air they breathe. While they were once concerned with air quality, primarily temperature and humidity, air cleanliness has now become a top priority. As a result, air filtration technology in commercial, industrial and residential settings is no longer a nice-to-have amenity, but rather a necessity to maintain a healthy lifestyle.

The fundamental shift in the way people think about air quality will create opportunities for the global air filtration market for years to come. As businesses and consumers navigate the “new normal” post-pandemic, the air filtration market is expected to experience double digit growth to \$22+ billion by 2028.

When tasked with navigating the best practices for air filtration, the American Society of Heating, Refrigerating and Air-Conditioning Engineers (ASHRAE) recommended a MERV-13 or higher filter to capture the most particles. For commercial spaces, customers and employees hold heightened expectations in order to feel safe enough to return to offices, schools and other locations. Consumer demand, regulatory requirements, such as MERV-13, and other local incentives have pushed many commercial properties to invest in air filtration to comply with new safety standards and keep people safe.

Healthcare settings are facing heightened pressure to increase the efficiency of their air filtration systems. As they seek to recoup market share lost to telehealth providers during the pandemic, they are taking all necessary steps to maintain a safe and healthy environment, especially for the most at-risk patients.

At the same time, the residential market is seeing rapid expansion. The influx of new air filtration customers, driven by the pandemic, is expected to sustain, resulting in a sizeable jump in the customer base that will generate continued growth through referrals. Home builders are also seeing an increased demand to incorporate air filtration systems into their properties.

LINCOLN PERSPECTIVE

Though there is no single best way to clean air, filtration businesses with different models and offerings across the sector are attracting investor attention. As the public increasingly monitors its health and wellness, private equity investors and strategic buyers see opportunity to capitalize on the market upside and capture new technology to better serve customers. While the pandemic may have heightened the focus on health and safety, the rise of the filtration market is more than a blip—it is a mainstay with long-lasting relevance.

For investors looking to enter the air filtration market, several market dynamics make these businesses attractive:

- 1 | Recurring Revenue Streams Abound**
Building operators and homeowners will always need to replace their filters regularly. The consequences of not changing an air filter are now more critical than ever as people more closely tie their safety to air cleanliness. Producers can capture attractive margins from aftermarket filters, generating strong cash flow characteristics for filtration businesses. Additionally, with this heightened focus on health and wellness that is front-of-mind for so many, people will be more inclined to stick to a regular filter replacement schedule. For investors, the associated recurring revenue streams ensure steady growth through economic cycles.
- 2 | Monitoring Capabilities Boost Investor Interest**
A key differentiator for air filtration businesses today is the ability to measure and report the quality of the air to give comfort that an environment is truly safe. Because consumers cannot see a change in air quality, providing technology that elucidates a filter’s effectiveness gives them peace of mind, empowering filtration business owners to demonstrate the quantitative benefits of their products. Investors are drawn to companies that offer monitoring capabilities that visualize the invisible.
- 3 | Air Quality Standards Evolve Globally**
As air quality standards rise and regulation develops, businesses, office managers and homeowners are upgrading their filters to meet new, more rigorous standards. Lincoln expects air quality standards to continue to become more demanding, resulting in continued revenue streams for filtration businesses. In the coming years this will be driven by the need and demand for higher MERV rated filters to meet the increasing regulations and more rapid replacement cycles.
- 4 | Attractive Financing Options Available**
Finance providers also view the sector favorably, with fully levered unitranche structures available to investors for businesses with strong competitive positions in their markets, robust historical financial performance and high recurring revenue due to air filter replacement cycles.

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