Energy Efficiency's Vital Role in the Future of the HVAC Industry

Presented by:

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HARDI

HEATING, AIRCONDITIONING & REFRIGERATION DISTRIBUTORS INTERNATIONAL

Who is HARDI?

- Over 430 U.S. HVACR Wholesale Distributor Member Companies
  - 7 International Distributor Member Companies
  - Est. $25B in Annual Sales
  - Est. 80-90% of U.S. Wholesale HVACR Sales
  - HVAC, Refrigeration, Hydronics, and Controls
  - Avg. 1,200 customers, $30M in sales, 60 employees/member company
- Approx. 1,000 member companies
- The Single Voice of HVACR Distribution
- 4 Product Councils:HVAC, Ref, Hydronics, Controls

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Is HVAC Distribution Recovering?

- July was 5th consecutive month of overall growth
- July's 13.6% increase over 8/09 is greatest year-over-year improvement in two years
- However, 12 mos still down .1%
  - NE, Mid-Al, SE, GL, SW, Canada up running 12
- Inventories up in 6 of 8 North American regions

Source: HARDI T.R.E.N.D.S.

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Is HVAC Manufacturing Recovering?

- July '10 A/C & HP shipments down 10% from '09
  - YTD up only 3% from 2009
- 3.4 mil combined A/C & HP units shipped YTD
- 27% of shipments > 13 SEER in '09
  - HARDI est. > 30% in '10

Source: AHRI, JP Morgan

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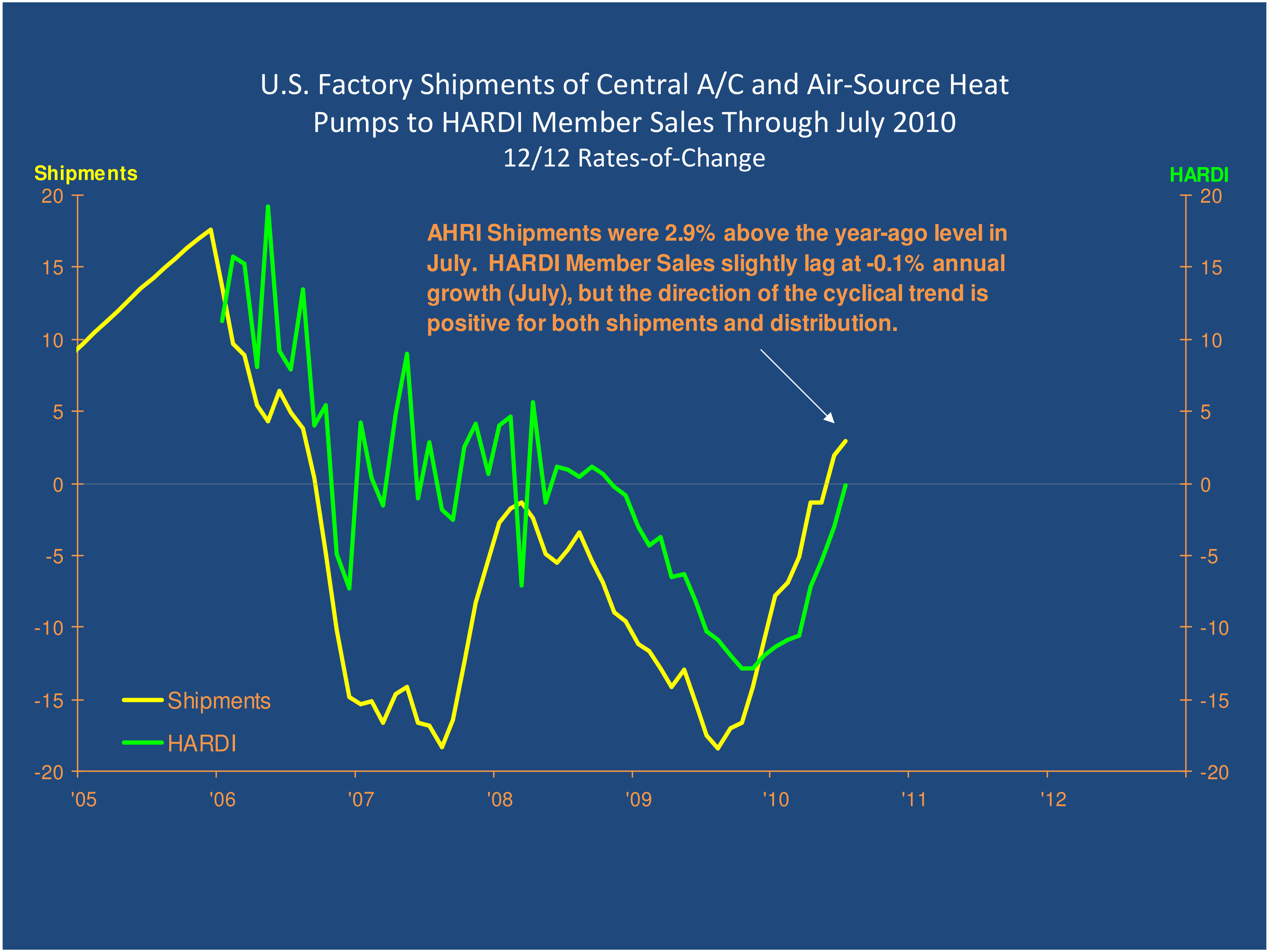
U.S. Factory Shipments of Central A/C and Air-Source Heat
Pumps to HARDI Member Sales Through July 2010
12/12 Rates-of-Change
Shipments
HARDI
AHRI Shipments were 2.9% above the year-ago level in July. HARDI Member Sales slightly lag at -0.1% annual growth (July), but the direction of the cyclical trend is positive for both shipments and distribution.
20
15
10
5
0
-5
-10
-15
-20
'05
'06
'07
'08
'09
'10
'11
'12
Shipments
HARDI

2011 Key Factors

- No $1,500 residential tax credit, no SEEARP, no Home Star, no Building Star
- Uncertain non-res ARRA spending
- Continued credit and household income uncertainty
- Statistical improbability of consecutive hot summers

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The Appliance Standards Effect

- "It is important to keep in mind, that the economics of energy efficiency, even with the help of the government, are generally not attractive enough, in our view, to drive discretionary replacements without a "green" incentive, as most consumers tend to focus on the upfront costs of replacing a new system. This is best exemplified by the significant pre-buy seen when the industry transitioned to 13 SEER in 2006- distributors clearly saw that the value delivered by higher efficiency was not commensurate with the higher price."
  - – JP Morgan 2010 HVAC Market Review & Outlook

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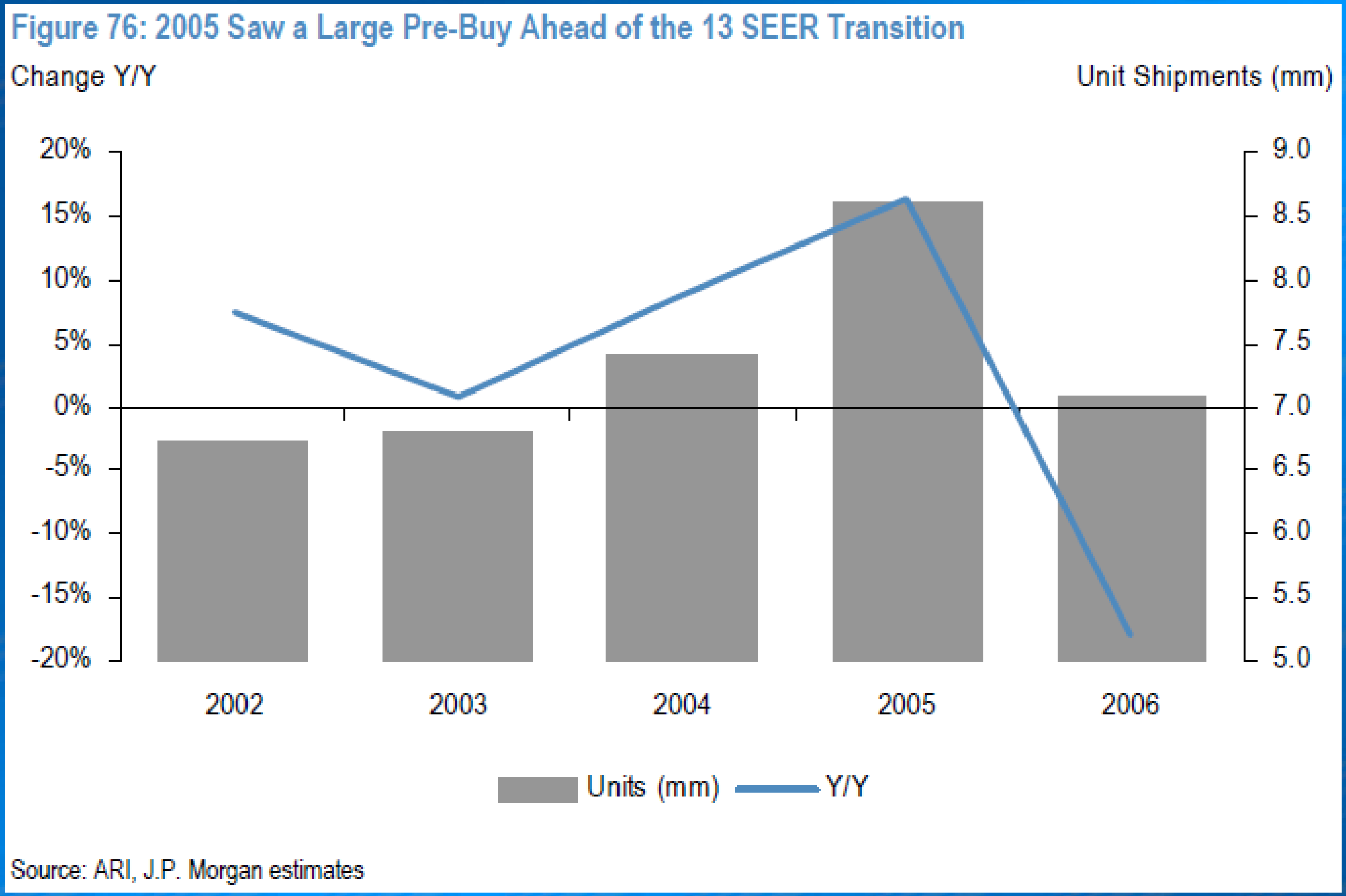
The Appliance Standards Effect



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Final Analysis

- Despite positive factors, 2010 underperformed
- 2011 will require much more successful utility efficiency programs to prevent mix slide
- Refrigerant transition potentially a barrier to system replacements
- More info:
  - www.hardinet.org
  - www.wholesaleobservations.blogspot.com
  - www.twitter.com/tgeehardi
  - Talbot Gee: (614) 345-4328, tgee@hardinet.org

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Same EE Challenges, Greater Stakes

- Non-unified programs and incentives
- Unreliable funding and administration
- Widely varying contractor qualifications
- Incorporation of industry stakeholders in program design and implementation continues to be a challenge for many programs
- Addressing these in 2011 will be essential for preventing slide in high-efficiency sales mix

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