

Customer & Market Due Diligence of Building Automation Components Manufacturer: Establishing Market Outlook, Channel Dynamics, & Commercial Synergies

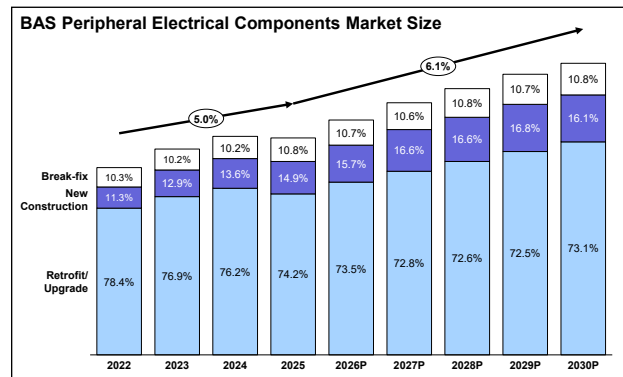
The Challenge: Our client, a mid-market PE firm, was evaluating an investment in a building automation system (BAS) peripheral electronic components manufacturer as an add-on for its lighting controls platform investment. The client was excited about gaining access to the fast-growing BAS market and the potential for commercial synergies across distribution channels. However, the client was concerned about technology obsolescence risk and the target's ability to grow beyond its core product category. As such, the client engaged Gotham to conduct a 3-week customer & market due diligence to: (1) estimate the market size and growth outlook for the target's BAS components; (2) understand BAS system architecture and the role of the target's components to assess technology obsolescence risk; (3) establish the target's reputation and competitive positioning; and (4) evaluate distribution channel dynamics and commercial synergy opportunities.

BAS Market & Channel Assessment: Gotham undertook a comprehensive and multi-faceted effort that involved:

- Conducting 62 anonymous interviews with BAS, HVAC, and electrical contractors and distributors, and gathering 176 anonymous survey responses to assess contractors' brand preferences, product usage trends, buying/replacement dynamics, key purchase criteria, channel dynamics, the target's reputation and competitive positioning, and the industry growth outlook
- Building a bottom-up market-sizing model to: estimate the size of the BAS market for each of the target's product categories by end-market (education, healthcare, office, data center, etc.) and by project type (new construction vs. energy efficiency retrofit vs. break-fix); and establish the target's competitive positioning and market share
- Leveraging government data, secondary research, and distributor product catalogs to develop a comprehensive view of BAS market dynamics, system architecture, technology obsolescence risk, distributor channel and sourcing dynamics, and the competitive landscape
- Performing a commercial synergy assessment to evaluate channel overlap and cross-selling opportunities across BAS, electrical, HVAC, and MRO distribution channels.

BAS Peripheral Components Is Growing At 6.1% CAGR, Driven Primarily By Energy Efficiency And Building Retrofit

Retrofit and energy efficiency upgrades account for the majority of demand as ASHRAE standards tighten, energy costs rise, and sustainability goals expand, with a central BAS delivering up to 30% energy savings. New construction is a smaller but growing contributor as stricter energy mandates push BAS penetration higher. Education, healthcare, and office account for the majority of end-market demand today given high HVAC equipment density, while data centers are the fastest-growing end-market, driven by specialized cooling requirements. Demand is also recession-resilient, as building owners continue to prioritize energy cost reduction even in down cycles. Importantly, the target faces limited technology obsolescence risk, as the shift from pneumatic and analog to digital controls occurred 10-20 years ago with no comparable shift expected, and relays remain critical to all BAS configurations with no viable substitutes.



The Target Is Strongly Positioned Across A Multi-layered Channel Of OEMs, Distributors, And Contractors

BAS peripheral components flow through a multi-layered channel of controls OEMs, distributors, and contractors. Tier 1 OEMs (Siemens, Schneider Electric, Honeywell) and Tier 2 OEMs (Distech, Reliable Controls, KMC) go to market through owned service branches or authorized distributors and contractors, typically operating vendor portals that supply their networks. Distributors range from national players (Kele, Alps Controls) carrying broad assortments of peripheral components to fragmented regional distributors that serve as authorized dealers for 1 or 2 OEMs and provide the local support contractors rely on. Contractors operate regionally and specialize in 1 or 2 controller types, with a small number of national players emerging through consolidation. The target's position is reinforced by how the channel selects brands: specification is driven by consulting and contractor engineers, and quality/reliability and availability outweigh price, favoring established, trusted brands. The target is the best recognized of 6-8 key competitors, holding the #1 or #2 position in its core categories with an NPS of 75.

Meaningful Commercial Synergy Opportunities Exist Across BAS, Electrical, HVAC, And MRO Channels

The target's strong brand and reach in the BAS channel give the platform access to that fast-growing channel and a path to position as a broader building automation player, while the platform also opens the electrical channel for the target, with near-term upside in emergency lighting and a longer-term runway to build a more comprehensive lighting portfolio. The target and platform also have complementary HVAC footprints, with the target serving commercial distributors and the platform serving residential, with shared MRO presence creating additional cross-selling opportunities.

The Outcome: Gotham established a robust assessment of the BAS market, system architecture, and distribution channel dynamics, providing the client with a clear, fact-based view of the target's market positioning, brand strength, and growth outlook. By addressing key concerns around technology obsolescence risk and establishing the viability of commercial synergies across multiple distribution channels, Gotham gave the client the clarity and confidence needed to place a strong bid for the target.