

EXECUTIVE SUMMARY

FMI Corporation, management consultants and investment bankers serving the construction industry, in cooperation with The New Horizons Foundation, a Sheet Metal Industry Initiative, examined the home improvement center (HIC) movement's current and potential impact on the HVAC industry and on the union segment of the trade. This is primarily a result of the HIC pursuit of installed sales (residential) and increasing overtures towards non-residential markets. Foundation Executive Director, Dennis Bradshaw, has said, "The home center has already changed the residential building market in terms of product sales and installation. Together, the Foundation and FMI will be able to project what may happen in the commercial market, specifically to the HVAC industry. That is why this study is so timely and so important for our HVAC contractors nationwide."

This research intends to identify specific trends and drivers that will impact future scenarios. These factors have been thoroughly reviewed and evaluated, taking into consideration many market dynamics. Our conclusions are as follows.

1. The HICs, particularly The Home Depot, Inc. ("Home Depot") and Lowe's Companies, Inc. ("Lowe's"), will continue to increase their installed sales programs.
2. The survey of SMACNA members and non-SMACNA member HVAC contractors shows that they recognize but downplay the long-term impact of the HICs on the HVAC industry.

3. Home Depot is already migrating to the non-residential construction market and will continue to increase its presence there, making a response by its direct competitors likely in the future.

This research was developed through a combination of interviews and surveys with industry stakeholders and an in-depth literature scan of private and public documentation, trade press, and industry reports.