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China Home Appliance

Takeaways from Europe HVAC expert call

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We hosted an expert call with a senior European HVAC industry expert, and the read-through was constructive for select Chinese HVAC players, particularly Midea. The key message is that Europe is not simply seeing a weather-driven spike in cooling demand; it is undergoing a multi-year heating-system replacement cycle as oil/gas boilers are replaced by heat pumps. Europe is also a channel-led market where installer trust, local service capability and regulatory compliance matter more than price and advertising. In this context, we think Midea's MBT Climate appears to be following the right playbook.

- **Europe is a structural growth opportunity for Chinese HVAC players, as heat pumps are replacing legacy fossil-fuel heating**. A heat pump is effectively an air conditioner operating in reverse, but in Europe the more important opportunity is heating replacement rather than a heatwave-driven cooling demand spike. According to EHPA, around 2.9mn heat pumps were sold across 21 European countries in 2025, and heat pumps accounted for 29% of heating appliance sales in 2024. Policy support from REPowerEU, national heat-pump subsidies, rising consumer focus on energy efficiency and elevated energy bills should continue to drive penetration. The ticket size is also meaningful, with retail equipment prices typically around €5–10k per unit; Carrier has previously framed the European heat pump market as potentially tripling from 2023 to around US$15bn by 2027.
- **The key success factor in Europe is winning installer and consultant trust, not undercutting incumbents on price**. The European playbook is very different from China: blanket advertising and cheap pricing are less effective because professional gatekeepers drive purchasing decisions. In residential HVAC, installers are the real route to the homeowner; in commercial HVAC, consultants help specify the system and installers execute the project. Installers typically work with 2-3 brands and prioritize reliability, training, technical support and spare-parts availability over product functionality or price. This also means product technology alone is not the main differentiator, especially as European brands already rely heavily on Asian and Chinese components inside their systems.
- **Midea appears to be following the right European playbook by acquiring local platforms**. Through Clivet and Arbonia's climate business, now forming part of MBT Climate in Europe, Midea has gained local manufacturing, local sales presence, stronger positioning in markets such as Italy, and European brands including German-origin Kermi. This gives Midea a stronger starting point than Chinese peers that rely primarily on exports. The remaining challenge is to deepen installer trust through successful pilot projects, reliable products, training and technical support, which could take many years. Carrier bought instant installer access through its €12bn Viessmann acquisition, while Midea's path looks closer to Daikin's more gradual model of organic channel-building supplemented by small and targeted M&As.
- **EU refrigerant regulation creates a window for new entrants because it forces a product-cycle reset across the industry**. EU Regulation 2024/573 phases down and bans F-gas usage in HVAC products in stages from 2025 to

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2035, pushing residential heat pumps away from F-gas refrigerants such as R32 toward natural refrigerants such as R290. Because R290 is flammable, traditional refrigerant-pipe indoor AC architectures face tighter safety constraints, supporting a shift toward hydronic systems and other compliant designs. In our view, this regulatory transition weakens part of the incumbents' legacy certification and installed-product moat, giving capable new entrants a window to catch up — provided they can meet European safety standards, secure certification, and train installers on the new technology.

Table 1: Sales and OP margin of key HVAC players in Europe

(FY25, Sales and OP margin in Europe, EUR bn, % margin)

Company	Ticker	Geographic exposure	Europe Sales	Europe OPM
Daikin	6367 JP	Global	4.6	Not disclosed
Carrier	CARR US	Global	4.4	8.8%
Vaillant	Private	Europe	3.3	Not disclosed
NIBE	NIBEB SS	Europe/North America	2.3	10.5%
MBT Climate	Subsidiary of Midea	Europe	1.2	Not disclosed

Source: Company annual reports of Daikin, Carrier and NIBE; Vaillant press release; JPM estimate for MBT Climate (the subsidiary of Midea Building Technology).

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Europe HVAC expert call summary

Below is a summary of our 16 September 2026 expert call with a senior HVAC industry expert who has approximately 40 years of experience across installation, servicing, sales representation, wholesale, manufacturing, design and consulting in European HVAC markets. The comments reflect the expert's views and estimates, based on his observations during the call, and should not be read as our forecasts or our views. Please note that questions are condensed and answers paraphrased, not verbatim quotations.

Europe HVAC industry 101

Q. What is HVAC, and how is the industry structured?

"HVAC" covers heating, ventilation, air conditioning and cooling across residential, public, commercial and industrial buildings. The market structure varies heavily by climate: Southern Europe is primarily cooling-led, while Northern Europe is primarily heating-led.

Residential and non-residential HVAC are fundamentally different businesses. Residential is much larger in unit volume, has many more brands, and is undergoing a major transition from oil and gas heating to heat pumps. Commercial HVAC is more customized, project-driven and influenced by consultants, with different routes to market and decision-makers. Commercial HVAC involves fewer counterparties and can be more profitable.

Q. What is a heat pump vs. an air conditioner — are they the same machine in reverse?

A **heat pump** is essentially an air conditioner operating in reverse. In summer, the system moves heat from inside the home to the outside; in winter, it moves heat from outside into the home. The underlying technology and components are broadly the same, with differences mainly in software and selected technical details.

There are two major system families: air-to-air systems, which are similar to split AC units common in China, and air-to-water or water-to-water systems, which use water loops or natural water sources and distribute heat through water inside the building.

Q. Why is European residential AC penetration still low, and will it change?

Low AC penetration in Europe is mainly due to the region's diverse building stock and climate history. Buildings in Italy, France, the UK, Norway and Germany differ significantly in insulation, glazing, wall thickness and thermal mass, reflecting local climate needs rather than a uniform cooling requirement.

Penetration should rise gradually as the climate warms, but the process will be slow and country-specific. Southern markets such as Greece and Spain are more likely to use split AC units, while Nordic markets remain more focused on water-based heating systems.

Residential and commercial value chains

Q. From factory gate to end user, who does the product touch?

In residential HVAC, the typical route is manufacturer (mass production of standardized units) → European central warehouse or importer → wholesaler/distributor → installer

→ homeowner. The installer is the most important player because the product requires professional installation, and the homeowner typically relies on the installer's recommendation when choosing a brand.

In commercial HVAC, the machine is much bigger and value per product is 10-100x higher than in the residential market. The production is more customized and more in Europe. The route to market is more project-based and customized. Consultants often determine the preferred system or brand family, then installers quote on the specified equipment or an equivalent. For very large end users, such as multi-national corporations, they may have internal technical expertise, effectively combining the role of owner and consultant.

Q. Do wholesalers and installers carry a narrow set of brands?

There are two common channel models. Some brands use exclusive distribution, where one distributor has legally protected rights in a country; Toshiba air conditioning in the Netherlands was cited as an example. Other brands use multi-channel distribution, with several competing distributors in the same market; Midea was cited as an example.

Manufacturers can also own the channel; Daikin Europe was cited as an example.

Private labeling is also common, especially among Asian manufacturers. The same underlying machine may be sold under different brand names, sometimes even within the same distribution channel.

Q. Why do installers stick to specific brands?

Installers tend to work with only a few brands because HVAC systems are increasingly complex, combining hardware, software and service requirements. Installers need to understand the product deeply, carry spare parts, and be able to service the machine quickly and reliably.

This creates a high barrier for new entrants. Installers are unlikely to add a new brand simply because it is cheaper. They prefer brands that offer reliability, training, technical support and continuity, which explains the market share resilience of incumbent European boiler brands as they transition into heat pumps.

Q. What exactly is an installer — a local technician or a national network?

Installers range from very small local businesses with one or two employees to national or international engineering companies with thousands of technicians and hundreds of vans. Despite the difference in scale, both small and large installers tend to limit themselves to a small number of trusted brands.

This makes installer relationships sticky and slow to change. Even large installation networks do not switch brands overnight because service quality, training, spare parts and customer responsibility matter more than upfront equipment price.

Q. Who handles after-market service and warranty?

After-market service is usually performed by the installer in both residential and commercial markets. The installer visits the building, diagnoses the problem and replaces parts, while the OEM is often not visible to the end user.

Where the OEM owns the distributor or has a national service organization, the brand may become more involved in service. Daikin and Carrier were cited as examples where the installer may be able to call on the OEM or national service organization for support.

Residential and commercial competitive landscape

Q. Who are the major residential heat pump players?

In residential HVAC, legacy boiler brands, such as Viessmann, Bosch, Vaillant, Remeha and NIBE, retain market share because they have loyal installer relationships while shifting product portfolios from boilers to heat pumps. Korean brands such as LG and Samsung entered the market in the early 2000s and benefited from consumer brand recognition. Chinese brands followed later, but many remain hard for European customers and installers to distinguish, with Midea standing out as one of the more recognized names.

The expert viewed Carrier's acquisition of Viessmann as primarily a channel acquisition rather than a product acquisition. The strategic value was the installer network and market relationships, not the equipment itself. Daikin similarly benefits from a strong installer network and deep market access.

Q. How do the dynamics differ in commercial and industrial HVAC?

Commercial HVAC is driven by reputation, installed base and long-established brand presence. Large machines are often replaced with the same brand already present on site, because service and maintenance are easier when concentrated with one brand.

This creates slow-moving market shares. Established brands such as Carrier, Trane, York, Johnson Controls, Daikin, Mitsubishi/Climaveneta and Aermec remain strong, although some legacy brands may be slower to innovate and could gradually lose relevance over time.

Q. What is required to become a top-five European HVAC player?

Mass advertising is the least valuable lever. HVAC is not a consumer impulse purchase; it is a long-life, high-value system where installation quality, energy cost and reliability matter. End users do not typically choose brands based on internet or social media advertising.

Don't try to be the cheapest. Being visibly too cheap can backfire because customers may interpret low price as a signal of inferior quality.

The better path is to invest in distributors, installers and local market relationships, though this takes time. The fastest route is acquisition of a local brand or manufacturer, as Carrier did with Viessmann and Midea did with Clivet, but this is expensive and still requires years of relationship-building.

Chinese players positioning

Q. What has Midea achieved through Clivet and Arbonia/Kermi, and what is a realistic path for Midea in Europe over the next 5-10 years?

Midea has taken the right strategic steps by acquiring or partnering with European platforms, including Clivet and the Arbonia climate business, which includes the German brand Kermi. These assets provide local experience, brand access and distribution relationships.

The expert sees Midea gradually gaining traction through co-branding, trade fairs, UK distribution buildout and broader product development. The combination of Clivet's European market knowledge and Midea's manufacturing and technology capabilities was viewed positively.

What remains to be done is taking time to cultivate brand and relationships. The expert emphasized that the first project with an installer must work well; if it does, the installer may use Midea again, but if it fails, the installer will likely return to a previous trusted brand. The right strategy is therefore patient and incremental. Midea needs to build "brick by brick," strengthening installer relationships, ensuring product reliability and expanding volumes steadily rather than rushing the market.

Q. What is Midea's real edge in residential and commercial HVAC?

Midea's advantage is less about a unique technology gap and more about cost, vertical integration and control of the value chain. The company has in-house capability across compressors, electronics, manufacturing, technology and software, and it now owns parts of European distribution and manufacturing.

According to the expert, technology differences for Chinese versus European brands are smaller than many assume. Many European heat pumps already use Asian components, including valves, compressors and heat exchangers, so Midea's integrated cost base is a competitive advantage.

Q. How large is the price gap between Midea and European brands?

The expert did not provide specific numbers but described the gap as very large. He said the technology is roughly similar to European products, while Chinese manufacturing cost plus landed cost in Europe is far below European price levels.

The key commercial implication is that distributors and installers can earn attractive margins by selling Midea equipment while still pricing the product at a reasonable level.

Q. What is the expert's view of Chinese HVAC groups such as Midea, Haier and Gree?

As component suppliers, Chinese companies are seen as attractive, reliable and increasingly important.

As finished-product brands, the challenge is much greater. Some Chinese manufacturers do not understand European demand, regulation or channel dynamics, and generic marketing claims can damage credibility. The expert's advice is to partner with European companies and ensure full compliance with the F-gas transition, rather than pushing products that may soon become obsolete.

Heat pump pricing, economics and industry cycles

Q. How important is equipment price in the total project cost?

Equipment price is only one part of the total project cost. Installation labor, piping, fittings, electrics, cranes, water work and building modifications often account for a large share of total cost.

A very low equipment price can even have a negative effect, because buyers may assume the product is lower quality. The expert's advice to brands is not to compete

purely on being cheapest, but to offer reliable, efficient products positioned slightly higher in the market.

Q. Over a 20-year life, how does total cost of ownership split across equipment, installation, maintenance and energy?

The expert said practitioners generally agree that running costs — energy plus maintenance — exceed the initial investment over the life of the system. This reinforces the point that equipment price alone should not drive purchase decisions.

In commercial HVAC, the exact split varies widely by system size and application, from smaller units to plant-wide systems. However, the broad conclusion is consistent: energy and service costs matter more than the initial price of the machine.

Q. Is energy efficiency an important factor cared by the buyer?

In residential HVAC, energy efficiency matters significantly because the buyer of the equipment is usually also the payer of the energy bill. Over a 10–20 year period, energy cost typically exceeds the initial investment, making high-efficiency equipment financially rational.

In commercial HVAC, the incentive structure is weaker. The party selecting the equipment is often not the party paying the energy bill. Building owners, tenants, consultants and installers may all have different incentives, which can cause equipment to be selected based on price, profit or project convenience rather than lifetime energy efficiency.

Q. Where is Europe in the residential heat pump cycle?

The expert believes the European residential heat pump market is back in an upswing after the 2021–22 war-driven boom and the 2023–24 downturn. He expects the current recovery to continue, though performance varies by country.

The two key drivers are energy prices and subsidies. Both are currently supportive, according to the expert, although subsidies remain unstable and can change materially by country and year.

Q. How do subsidies affect cheap versus premium brands?

In most European countries, subsidies are fixed amounts applied to the total project price including installation. Because the subsidy does not usually scale with the price of the heat pump itself, it does not strongly favor cheaper equipment over premium equipment.

Subsidies can help stimulate overall demand, but they are an unstable driver. Policy terms differ by country and often change year to year, making them less reliable than structural drivers such as energy prices and regulation.

Regulation, technology transition, and the heatwave impact

Q. Which regulations matter most for European HVAC industry?

The most important regulation is the EU F-gas Regulation, which targets the phase-out of fluorinated refrigerants. These refrigerants are the “blood” of many existing HVAC systems, and the regulation is already forcing a transition away from current technologies.

Other rules include energy labeling, Ecodesign and the Energy Performance of Buildings Directive, but the expert views the F-gas ban as the most directly impactful and enforceable. It is already affecting residential products and will increasingly affect split systems, monoblocs and eventually VRF systems.

Q. Will heatwave-driven demand stick or fade?

Heatwaves can produce sharp bursts of demand, but consumers are short-sighted and may forget the need for cooling once winter arrives. The expert cited portable AC demand as an example, which can spike during heatwaves and then fade.

For investors, the expert emphasized that commercial HVAC should be assessed through a longer-term regulatory and technology lens. Heating and cooling systems remain in buildings for 20 years, so durable success depends on product quality, compliance and strong installer relationships rather than one-off weather-driven demand spikes.



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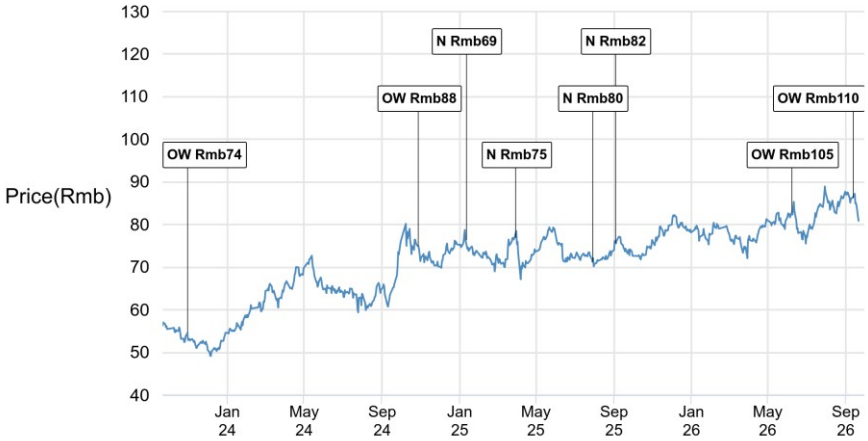
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Midea Group - A (000333.SZ, 000333 CH) Price Chart



Date	Rating	Price (Rmb)	Price Target (Rmb)
31-Oct-23	OW	54.50	74
29-Oct-24	OW	74.87	88
12-Jan-25	N	76.37	69
31-Mar-25	N	76.87	75
30-Jul-25	N	71.24	80
04-Sep-25	N	75.62	82
09-Jun-26	OW	82.85	105
14-Sep-26	OW	86.26	110

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