

Lennox International — Corporate Valuation

March 2026

Group project. Collaborator names and student identifiers are omitted from this public copy.

Table of Contents

1.Executive summary	2
2. Company and industry overview.....	2
3. Historical financial analysis	3
3.1 Normalised Income Statement	3
3.2 Balance Sheet & Cash Conversion Cycle	4
4. Forecasting Financial Statements	5
5. Valuation Methodology and Results	7
5.1 Discounted Cash Flow (DCF)	7
5.2 Comparable Company Multiples.....	9
5.3 Dividend Discount Model (DDM)	10
6. Results Summary.....	10
7. Conclusion and Investment recommendation	11

1. Executive summary

Lennox International Inc. (NYSE: LII) is a North American HVACR manufacturer with \$5,341M in FY2024 revenue across its Home Comfort Solutions and Building Climate Solutions segments. This report values company using a DCF model (WACC 8.63%, terminal growth 2.5%), comparable company multiples, and a two-stage DDM. Our weighted average intrinsic value is \$523.81 per share versus a market price of \$511.42-a gap of 2.4%. Given the limited margin safety and cyclical demand for HVAC systems, the stock appears fairly valued. So, our recommendation is HOLD. The following sections shows the financial analysis, valuation assumptions, and sensitivity tests supporting this conclusion.

2. Company and industry overview

Based in Richardson, Texas, Lennox International Inc., is one of the biggest manufacturers of heating, ventilation, air conditioning, and refrigeration (HVACR) systems in North America. Lennox was founded in 1895 and has two divisions: Home Comfort Solutions (HCS), which brought in \$3,577M (67%) of sales in 2024, and Building Climate Solutions (BCS), which brought in \$1,764M (33%). Following the departure Europe in the fourth quarter of 2023, Lennox is now mostly a North American company, with the US making up 94% of its total revenue.

Lennox is one of the three biggest manufacturers of residential HVAC systems in North America. Trane Technologies and Carrier Global are their primary competitors, and together they have about 55% of the US market. The HVAC industry is mature but attractive, as demand is supported by stable replacement cycles, strict energy-efficient regulations, and ongoing residential and commercial construction. New regulations and stricter energy-efficient standards are encouraging customers to replace older HVAC systems, which shows long-term demand for new equipment. The company stands out because it uses a vertically integrated distribution model. Lennox's company-owned store network is the only way to buy its flagship Lennox brand. This gives the company more power over

prices and allows it to work more closely with dealers than its competitors. Their other brands, like Armstrong Air, Ducane, and Concord, use independent distributors to reach the mid-market, which helps them reach a wider range of prices.

From a competitive standpoint, Lennox operates in a mature but attractive industry where performance depends on pricing discipline, energy-efficiency trends, replacement cycles, and channel strength. The peer set used in this report includes Trane Technologies, Carrier Global, Watsco, AAON, and Johnson Controls. Relative to these firms, Lennox appears to be a profitable, high-margin operator trading at a discount to peer median multiples, which partly explains the higher values generated by the multiples-based approach.

3. Historical financial analysis

3.1 Normalised Income Statement

The reported income statement was normalised by removing non-recurring and non-operating items for analyzing Lennox International's underlying financial performance. The objective of this adjustment is to obtain a clearer view of the company's sustainable operating performance.

Company's annual reports from 2021 to 2024 were used for analysis. Items like impairment on assets held for sale, gains or losses related to previous dispositions and pension settlements are considered non-recurring as they arise from specific strategic decisions and accounting adjustments rather than company's regular activities. The detailed adjustments are presented in Table A (Appendix).

After removing these items, the normalised income statement reflects only recurring operating revenues and expenses. Revenue increased over the analysed period, rising from \$4,194 million in 2021 to \$5,341 million in 2024, showing strong growth of approximately 27% in Lennox's HVAC operations. This increase shows higher demand in residential and commercial climate solutions as well as the company's pricing strategies and expansion of its product portfolio. Company also

benefited from increasing demand for energy-efficient solutions after government's introduction to stricter environmental regulations.

Gross profit also increased significantly from \$1,188 million in 2021 to \$1,772 million in 2024. This shows improved operational efficiency and cost management in key inputs of HVAC manufacturing such as steel, copper, and aluminium.

Operating income increased after normalisation, from approximately \$592 million in 2021 to \$1,036 million in 2024. Increase in operating margin from 14.1% to 19.4% shows that Lennox has been able to improve profitability through both revenue expansion and operational improvements. At the same time, selling, general, and administrative expenses increased at a slower rate than revenue, which is result of improvement in cost discipline.

Overall, the normalised income statement demonstrates that Lennox has strengthened its operating performance over the last four years.

3.2 Balance Sheet & Cash Conversion Cycle

The balance sheet was reorganised into an economic format separating operating assets and liabilities from financing items to derive net working capital (NWC) and invested capital. Operating current assets, comprising accounts receivable, inventory, and other current operating assets, totalled \$1,462M in 2024, offset by operating current liabilities of \$999M, resulting \$463M NWC. This represents a meaningful decline from the 2022 peak of \$550M, despite revenue growing by 13.2% over the same period, indicating improving capital efficiency. As a proportion of revenue, NWC contracted from 11.7% (2022) to 8.7% (2024).

Working capital efficiency can also be evaluated through cash conversion cycle (CCC), which calculates the number of days required to convert operating investments to cash flows. The CCC is calculated as:

$$CCC = DSO + DIO - DPO,$$

where DSO (Days Sales Outstanding) measures receivables collection period, DIO (Days Inventory Outstanding) captures the time inventory remains before sale, and DPO (Days Payables Outstanding) shows supplier payment terms.

DSO declined steadily from 43.2 days (2022) to 40.5 days (2024), suggesting faster receivables collection. DIO remained relatively stable at around 68 days, consistent with the seasonal production demands of HVAC manufacturing, as Lennox must maintain adequate inventory levels to meet seasonal demand fluctuations. DPO was around 43 days, with a slight improvement in 2024 as the company leveraged stronger supplier terms following higher purchasing volumes. The overall CCC of 65.42 days in 2024, down from 68.68 days in 2023, confirms that Lennox is converting its operating cycle into cash more efficiently, freeing up working capital to fund capital expenditure and shareholder returns.

Total invested capital grew from \$932M (2021) to \$1,567M (2024), primarily driven by the increase in PPE from \$515M to \$800M as Lennox invested in new manufacturing facility and expanded capacity.

4. Forecasting Financial Statements

Forecasted financial statements were constructed using the historical data to ensure consistency between revenue growth, cost structure and efficiency. We used a five-year explicit forecast period. Revenue projections were based on the company's historical growth trends and expected continued growth of the HVAC market. Historical margin relationships with revenue were used for other income statement items. This approach lets operating profitability improve in line with revenue growth while keeping Lennox's historical cost structure. The effective tax rate was projected using the company's historical average tax rate. Detailed calculations and assumptions are provided in the Appendix A.

Accounts receivables were estimated as 12% of revenue, based on the relationship between receivables and sales. Inventory was forecast about 20% of cost of goods sold, according to the operational inventory requirements. Accounts payable were forecast to be 13% of cost of goods sold for being consistent with the company's historical supplier financing structure.

Other operational current assets were predicted using a historical ratio of 1.7% of revenue, based on the average after outliers were eliminated. Based on historical capital intensity and recent infrastructure investments, capital expenditures were projected at roughly 3% of revenue.

Cash Flow & FCF Preparation

Free cash flow to the firm was constructed using the standard framework of:

$$FCFF = NOPAT + Depreciation \& Amortisation - CapEx - \Delta Net Working Capital$$

Table 1: Free Cash Flow to the Firm

FCFF Build (\$M)	2024A	2025F	2026F	2027F	2028F	2029F
Normalised EBIT	1,036	1,069	1,131	1,168	1,213	1,253
NOPAT (at 21% tax)	819	845	894	923	958	990
(+) Depreciation	95	97	102	106	110	114
(-) CapEx	(164)	(180)	(189)	(197)	(204)	(211)
(-) Δ NWC	(49)	75	24	24	23	20
FCFF	1,126	1,047	1,160	1,201	1,250	1,295

Over the forecasted years, FCFF grows from \$1,047M (2025) to \$1,295M (2029). The \$75M increase in NWC in 2025 forecast is worth noting (as working capital normalises after the exceptionally efficient 2024), which temporarily depresses FCFF relative to 2024. From 2026 onward, NWC changes moderate to \$20–24M annually, and FCFF resumes its upward trajectory in line with operating income growth.

5. Valuation Methodology and Results

5.1 Discounted Cash Flow (DCF)

The DCF model values Lennox based on a five-year forecast of FCFE (2025-2029), discounted at the weighted average cost of capital (WACC), plus a terminal value calculated by using the Gordon Growth Model.

To correctly compute WACC, first, we used the Capital Asset Pricing Model (CAPM, $K_e = R_f + \beta \times ERP$) to calculate the cost of equity. For the risk-free rate, we used 4.09%, which is the US 10-year Treasury yield from March 2026 (sourced from FRED). The equity risk premium of 4.23% is Damodaran's implied ERP as of January 2026, preferred over the historical ERP due to its forward-looking nature and lower sensitivity to survivorship bias. Beta of 1.14 was obtained from Yahoo Finance (five-year monthly regression). At the end, the calculated cost of equity was 8.91%.

Because existing senior notes are affected by the historically low rates era during COVID, with low probability to recur upon refinancing, we use the ICE BofA BBB US Corporate Index Yield of 5.02% as of March 2026. After considering the US federal statutory marginal tax rate of 21%, we receive an after-tax cost of debt of 3.97. With market-value weights of 94.2% equity and 5.8% debt, the WACC is **8.63%**.

Table 2: WACC Calculation

WACC Components	Value	Source
Risk-Free Rate (Rf)	4.09%	FRED
Equity Risk Premium (ERP)	4.23%	Damodaran
Beta (β)	1.14	Yahoo Finance
Cost of Equity (Ke)	8.91%	CAPM
Pre-Tax Cost of Debt (Rd)	5.02%	ICE BofA BBB

After-Tax Cost of Debt	3.97%	$R_d \times (1 - t)$
Weight of Equity	94.2%	Market value
Weight of Debt	5.8%	Market value
WACC	8.63%	

Terminal value and Intrinsic value: For the terminal growth rate, we took 2.5%, which resulted from approximating the long-run US nominal GDP growth, consistent with the mature, replacement-driven nature of the HVAC industry. The Gordon Growth terminal value of \$21,663M is discounted back five years, contributing \$14,323M or 75.5% of the enterprise value. Substantial terminal value is typical for a business generating stable cash flow. The sum of discounted forecast FCFs (\$4,638M) plus the present value of the terminal value gives an enterprise value of \$18,962M. Adding \$415M in cash and subtracting \$1,100M in total debt yields an equity value of \$18,277M, or \$520.70 per share over 35.1 million diluted shares.

Comparing it with the current market price of \$511.42, the DCF model implies a modest 1.8% upside. The sensitivity analysis demonstrates the valuation's dependence on key assumptions: at a WACC of 9.13% (+50bp), the implied share price falls to approximately \$481; at 8.13% (–50bp), it rises to \$567. Varying the terminal growth rate between 2.0% and 3.0% (holding WACC constant) produces a range of \$488 to \$559. This underlines that the 'buy' or 'sell' signal is sensitive to discount rate assumptions, particularly given the high terminal value weighting.

Table 3: DCF Sensitivity – Implied Share Price (\$)

$g \downarrow /$ WACC $\rightarrow$	7.63%	8.13%	8.63%	9.13%	9.63%
1.5%	\$535	\$495	\$460	\$430	\$404
2.0%	\$576	\$528	\$488	\$454	\$424
2.5%	\$623	\$567	\$521	\$481	\$448
3.0%	\$681	\$614	\$559	\$513	\$475
3.5%	\$753	\$671	\$605	\$551	\$506

5.2 Comparable Company Multiples

To validate our DCF result, we used a relative valuation approach using trading multiples from a peer group of five companies operating in HVACR and building product companies: Trane Technologies, Carrier Global, Watsco, AAON, and Johnson Controls. Reasons for choosing these companies are sector overlap, end-market exposure, and revenue concentration in the North American Region.

Table 4: Comparable Company Multiples

Company	EV/EBITDA	P/E (TTM)	EV (\$B)	EBITDA Margin
Trane Technologies	21.3x	30.0x	\$86.70	20.55%
Carrier Global	18.9x	22.0x	\$69.00	16.22%
Watsco Inc.	20.3x	28.0x	\$19.20	12.43%
AAON Inc.	31.0x	35.0x	\$9.75	22.64%
Johnson Controls	20.3x	25.0x	\$62.80	13.49%
Peer Median	20.3×	28.0×		
Lennox (LII)	16.5×	22.2×	18.6	21.2%

Source: Bloomberg Terminal (accessed March 6th, 2026)

Applying the peer median EV/EBITDA multiple of 20.3× to Lennox's 2024 EBITDA of \$1,131M yields an implied enterprise value of \$22,956M. After subtracting net debt of \$685M results in implied equity value of \$22,271M, or \$634.51 per share, which is a 24% premium to the current price. Separately, applying the peer median P/E of 28.0× to Lennox's diluted EPS of \$22.54 yields an implied share price of \$631.12, representing a similar 23.4% upside.

Lennox currently trades below peer medians at 16.5× EV/EBITDA and 22.2× P/E. This discount is due to the market's assessment of Lennox's narrower geographic footprint relative to peers with global presence like Trane Technologies and Carrier Global, prudence about the refrigerant transition execution risk, and near-term weakness in the US housing market. Alternatively, the gap may signal undervaluation, a hypothesis consistent with Lennox's superior EBITDA margin profile relative to several peers.

5.3 Dividend Discount Model (DDM)

As an additional valuation method, we employed the two-stage dividend discount model. Lennox's current annual dividend is \$5.20 per share. The three-year dividend CAGR of 7.2% was used as the Stage 1 growth rate for years 1–5, transitioning to a terminal growth rate of 2.5% from year 6 onward. Discounting at the cost of equity of 8.91%, the model yields an intrinsic value of \$101.59 per share—approximately 80% below the current price.

This significant discount doesn't represent fundamental overvaluation but indicates the limitation of DDM approach to value the companies with low payout ratios. Lennox's dividend payout ratio is approximately 22%, with most of the capital returned to shareholders through share buybacks (\$600M in 2021 alone). The DDM captures only the dividend component of total shareholder return and therefore substantially understates intrinsic value. We assign the DDM a weight of 10% in our blended valuation, treating it as a conservative floor.

6. Results Summary

Table 5: Valuation Summary

Methodology	Implied Price/Share	Upside / (Downside)	Weight
DCF (Base Case)	\$520.70	1.8%	50.0%
EV/EBITDA Multiples	\$634.51	24.1%	25.0%
P/E Multiples	\$631.12	23.4%	15.0%
DDM (Two-Stage)	\$101.59	-80.1%	10.0%
Weighted Average Intrinsic Value	\$523.81		
Current Market Price	\$511.42	2.4%	

We give each model a weight according on how well it adheres to Lennox: 50% to the DCF (the most complete intrinsic value framework), 25% to EV/EBITDA multiples (a market-based cross-check), 15% to P/E multiples (a supplement), and 10% to the DDM (a conservative floor). The weighted average intrinsic value is \$523.81, which is only 2.4% higher than the market price of \$511.42.

7. Conclusion and Investment recommendation

Our analysis of Lennox International results in a weighted average intrinsic value of \$523.81 per share, implying a 2.4% upside to the current market price of \$511.42. Our recommendation is **HOLD**.

The valuation methods we used produce a wide range of outcomes. We assigned weight to each valuation method, displaying our judgement on their suitability to fairly display the market price based on the company's reality. The DCF model serves as our primary anchor and suggests the market is pricing Lennox almost correctly under the base scenario. The comparable multiples analyses (EV/EBITDA at \$634.51, and P/E at \$631.12) indicate around 24% upside, which means Lennox trades at a discount compared to its peer median. However, this discount is partially justified by Lennox's relatively limited geographic reach and near-term headwinds like the refrigerant transition and subdued US housing starts. The DDM (\$101.59) results in significantly discounted valuation. This is primarily due to the company's low dividend payout ratio of ~22%.

The valuation is highly sensitive to the discount rate. A 50bp increase in WACC decreases the forecasted share price by ~\$40 (to ~\$481). On the other hand, 50bp decrease raises it by ~\$46. This sensitivity is mainly due to the terminal value, comprising 75.5% of EV. This weight is justifiable for a mature business like Lennox; however, it also means the valuation is a bet on the company being able to keep its competitive position. Investors should monitor three key macroeconomic factor that can potentially change the recommendation: 1. the interest rates (T-bills), as rate cuts can reduce the

WACC and shift the valuation to the BUY territory; 2. the execution of the low-GWP refrigerant transition: here Lennox's early investment to the market transition positions it well, but implementation risk is still in place; 3. the pace of US residential construction recovery, which directly affects the replacement and new demand that underpins around three-quarters of Lennox's revenue.

In summary, Lennox is a high-quality HVAC franchise generating strong growing free cash flows. At the current price, the market appears to be pricing its quality correctly. We observe no compelling catalyst for a considerable upside or downside at the valuation date, and therefore, we recommend investors to **hold** their current positions.

References

- 1) *Lennox International Inc. (2021) Form 10-k 2020. U.S. Securities and Exchange Commission.*
Available At : <https://investor.lennox.com/sec-filings/sec-filing/10-k/0001069202-21-000007>
- 2) *Lennox International Inc. (2022) Form 10-k 2021. U.S. Securities and Exchange Commission.*
Available At : <https://investor.lennox.com/sec-filings/sec-filing/10-k/0001628280-22-002664>
- 3) *Lennox International Inc. (2023) Form 10-k 2022. U.S. Securities and Exchange Commission.*
Available At : <https://investor.lennox.com/sec-filings/sec-filing/10-k/0001628280-23-004257>
- 4) *Lennox International Inc. (2024) Form 10-k 2023. U.S. Securities and Exchange Commission.*
Available At : <https://investor.lennox.com/sec-filings/sec-filing/10-k/0001628280-24-004446>
- 5) *Lennox International Inc. (2025) Form 10-k 2024. U.S. Securities and Exchange Commission.*
Available At : <https://investor.lennox.com/sec-filings/sec-filing/10-k/0001628280-25-004859>
- 6) *FRED (2026). 10-Year Treasury Constant Maturity Rate. [online] FRED, Federal Reserve Bank of St. Louis. Available at: <https://fred.stlouisfed.org/series/DGS10>*
- 7) *Yahoo Finance (2026) Lennox International Inc. (LII) [Online] Yahoo Finance, Available at: <https://uk.finance.yahoo.com/quote/LII/>*

Appendix A : Forecasting income statement items

Gross profit/Revenue	28%	27%	31%	33%	32,80%	33%	33%	33%	33%
SG&A/Revenue	14%	13%	14%	14%	13,80%	13,8%	14%	14%	14%
Losses and others/Revenue	0,22%	0,10%	0,17%	0,24%	0,20%	0,20%	0,20%	0,20%	0,20%
Equity method/Revenue	-0,28%	-0,11%	-0,17%	-0,15%	-0,15%	-0,15%	-0,15%	-0,15%	-0,15%
Operating income margin	14%	14%	17%	19%	19%	19%	19%	19%	19%
Effective tax rate	17%	19%	19%	19%	19%	19%	19%	19%	19%

Appendix B : Forecasting balance sheet items

Ratios	2021	2022	2023	2024	Average
AR/Revenue	12,12%	12,90%	11,94%	12,38%	12,33%
Inv/COGS	17,00%	21,93%	20,36%	19,75%	19,76%
AP/COGS	13,38%	12,44%	10,91%	13,73%	12,62%

Table A: Income Statement Normalisation Adjustments

Adjustment (\$M)	2021	2022	2023	2024
Reported Operating Income	590.3	656.2	790.1	1,034.8
(+) Restructuring costs	1.8	1.5	3.1	—
(+) Impairment	—	—	63.2	—
(-) Gain on sale	—	—	(14.1)	—
(+) Loss on sale	—	—	—	1.5
Normalised EBIT	592.1	657.7	842.3	1,036.3