

Lennox International - Confidence in the 2030 Targets

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Decision scope: Hypothetical outside-investor assessment of Lennox International's 2030 targets

Case convention: This is a classroom scenario. It does not describe a private discussion or recommendation made by Lennox management. Company explanations are attributed; no evidence after the cutoff is used.

The assignment

You are an outside strategy adviser preparing a confidence assessment for an investment committee. Lennox International has set 2030 targets of \$6.5-\$7.5 billion in revenue, a 22-23% segment-profit margin, and free-cash-flow conversion above 90% of net income. The committee wants to understand what the disclosed strategy and results imply about the achievability of those targets.

Should the committee raise, hold, or lower its confidence in the targets? Build the strongest case for your view and identify evidence that could change it. Distinguish HCS from BCS, reported growth from management-attributed volume, price/mix and acquisition components, and strategic adjacency from demonstrated economic returns. No valuation or financial model is required. The revenue growth scale check below is arithmetic for discussion, not company guidance.

Two businesses, different channels

Lennox reports two segments. Heating & Cooling Solutions (HCS) sells residential heating and cooling products through Lennox stores and dealers, as well as Allied products through independent wholesale channels. Building Climate Solutions (BCS) serves commercial contractors and national accounts. National Account Services provides installation, service and preventive maintenance. Lennox also sells parts and has expanded its product range through acquisitions. The company does not separately disclose service revenue, service margins, customer retention or customer lifetime value. [1]

These offerings may create useful adjacencies: a broader product assortment, contractor relationships, parts availability and recurring service interactions. Whether those adjacencies produce durable cross-selling, retention or superior returns is an open question in the public record.

2025: price and mix offset lower volume

Lennox reported 2025 consolidated revenue of \$5.195 billion, down 3%. Its management-attributed bridge was volume –13%, price/mix +9%, and acquisitions +1%. HCS revenue was \$3.343 billion, down 7%; volume fell 17%, partly offset by price/mix of +10%, while segment profit fell 4%. BCS revenue was \$1.852 billion, up 5%; its bridge included volume –5%, price/mix +8%, and acquired volume +2%, while segment profit increased 9%. [1]

The two segments therefore told different stories. HCS remained the larger segment by sales and was volume-sensitive. BCS increased sales and profit, but its 2025 sales growth was not volume-led. Lennox defines segment profit as a segment measure; it is not the same as consolidated GAAP operating income.

H1 2026: BCS momentum, HCS pressure

The first half of 2026 sharpened the contrast.

H1 2026	HCS	BCS
Sales	\$1,585.6m, –8%	\$1,094.8m, +30%
Segment profit	\$308.3m, –18%	\$250.9m, +40%
Management-attributed sales bridge	Volume –16%; price/mix +6%; acquired volume +2%	Volume +14%; acquisition +10%; price/mix +6%

For Q2 alone, HCS sales declined 7% and segment profit declined 12%; the company attributed the sales bridge to volume –12%, price/mix +3%, and acquired volume +2%. Lower sales volume was identified as a \$49 million segment-profit headwind. BCS Q2 sales increased 24% and segment profit 29%; its sales bridge was volume +12%, acquisitions +9%, and price/mix +3%. In BCS's profit bridge, management identified \$23 million from higher sales volume, \$15 million from price/mix and \$11 million from acquired volume, among other items. These are management explanations at displayed precision, not independent causal estimates. [2]

The Q2 earnings release described 15% organic BCS growth and cited national accounts, emergency replacement and service offerings. It did not quantify each source's contribution. The company also said residential end markets remained soft. H1/Q2 evidence may indicate a change in BCS momentum, but one cannot infer how persistent it will be or how much growth came from each demand source. [3]

Expansion through acquisitions

Lennox acquired Duro Dyne and Supco in October 2025. The 2025 filing reports \$42 million of revenue from the acquisition date through year-end, alongside segment-profit contributions. In July 2026, Lennox completed the acquisition of Heat Controller for \$205 million excluding cash, funded with cash and borrowing capacity. Acquired revenue can add scale and product breadth; it does not by itself show synergy, standalone returns or value creation. [1-2]

For 2026, management forecast approximately 8% revenue growth, including a 5% benefit from completed acquisitions. That is a forecast as of the cutoff, not an achieved result or proof of the 2030 targets. H1 interest expense was \$30 million versus \$15 million a year earlier, which the company attributed to higher borrowings and a term loan. The current record does not provide a complete acquisition-return bridge. [2-3]

The 2030 ambition and the missing bridge

Lennox's March 2026 release set 2030 targets of \$6.5-\$7.5 billion in revenue, 22-23% segment-profit margin, and free-cash-flow conversion above 90% of net income. The release described forward-looking and non-GAAP measures and said the company could not quantitatively reconcile the target measures to GAAP. It did not provide a detailed annual bridge separating organic growth, acquisitions, segment margins and cash conversion. [4]

Starting from 2025 revenue of \$5.195 billion, reaching the target range over five years implies about 4.6%-7.6% annual compound growth. This is our arithmetic, not Lennox guidance for annual growth. It does not separate organic growth from acquisitions or other portfolio changes.

Current-period profit bridges also require care. Lennox reported \$30 million of tariff refunds in the Q2 and H1 segment-profit bridges. Those refunds supported reported results but should not automatically be treated as recurring. Tariff rules, weather, new construction, interest rates and HVAC replacement demand could all influence future results. [1-2]

What research can and cannot tell you

Fang, Palmatier and Steenkamp (2008) examined 477 U.S. public manufacturing firms and 2,748 firm-year observations from 1990-2005. Their fixed-effects analysis found a nonlinear association between service transition and firm value, with results depending on the relatedness of services to the core business, resource slack and industry context. This suggests useful questions about fit, capability and scale. It does not provide a Lennox-specific threshold or forecast: service intensity is not separately disclosed, the sample is historical and observational, and the measures differ from the information available here. [5]

King, Dalton, Daily and Covin (2004) synthesized 93 published acquisition-performance studies and found heterogeneous results across studies and outcomes. Their analysis cautions against assuming that an acquisition's stated rationale or revenue contribution establishes value creation. It cannot predict the performance of Lennox's transactions: the evidence base covers older and diverse firms, deals and measures. [6]

Questions for discussion

1. Should the committee raise, hold or lower confidence in the 2030 targets? Which facts carry the most weight, and what is the strongest counterargument?
2. How do HCS and BCS differ in 2025 and H1 2026? What does each segment's volume, price/mix and acquisition bridge reveal-and leave unresolved?
3. What evidence would show that service and parts adjacencies create repeat customer value? What data would distinguish organic demand from acquired scale?
4. How should the committee interpret the 2026 guidance and five-year revenue CAGR scale check? What does the missing target bridge prevent you from concluding?
5. Which disclosures or operating measures would most change your confidence in either direction?

Sources

- [1]** Lennox International, [FY2025 Form 10-K](#), filed February 17, 2026. Item 1, pp. 1-7; MD&A, pp. 19-32; segment, acquisition and non-GAAP disclosures.
- [2]** Lennox International, [Q2 2026 Form 10-Q](#), filed July 29, 2026. MD&A, pp. 25-31; segment tables, debt and subsequent-events disclosures.
- [3]** Lennox International, [Q2 2026 earnings release](#), July 29, 2026.
- [4]** Lennox International, [2030 targets announcement](#), March 4, 2026.
- [5]** Fang, E., Palmatier, R. W., & Steenkamp, J.-B. E. M. (2008), "Effect of Service Transition Strategies on Firm Value," *Journal of Marketing*, 72(5), 1-14. [DOI](#). Detailed reading/access record: research source register.
- [6]** King, D. R., Dalton, D. R., Daily, C. M., & Covin, J. G. (2004), "Meta-analyses of Post-acquisition Performance: Indications of Unidentified Moderators," *Strategic Management Journal*, 25(2), 187-200. [DOI](#). Detailed reading/access record: research source register.