State of play of the EU heating market

LCP Delta view to 2035

Presentation for Agora Energiewende
Boosting the clean heat market: Solutions for the new policy cycle
Residence Palace, Rue de la Loi 155, 1040 Brussels
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Heat Subscription Research from LCP Delta

Providing insights and analysis on Europe's heating transition for over 20 years

Decarbonisation of Heat Service

Core focus: Forecasting how and why the sales of residential heating appliances will evolve and identifying where the key growth opportunities for low carbon heating (heat pumps, low carbon / high efficiency gas heating) exist across Europe. Insights on the leading brands, their products, market shares.

Core deliverables:

- ***Detailed country reports***
- ***Historic and forecast sales datasets***
- ***Policy / regulation / subsidy information***

DHS - Home

Heating Business Service

Core focus: Analysing how new consumer propositions and alternative business models – heat as a service / green finance / product leasing & rental – and the companies providing them (energy retailers / one-stop-shops / tech. start-ups) are shaping the future value chain and routes to market.

Core deliverables:

- ***Primary consumer research***
- ***Thematic reports and case studies***
- ***Stakeholder and propositions datasets***

HBS - Home

Client groups:

- EQUIPMENT MANUFACTURERS
- SERVICE PROVIDERS
- INVESTORS & FINANCIERS
- POLICY MAKERS
- CONSULTANTS
- ENERGY SUPPLIERS
- DISTRIBUTORS
- NETWORK OPERATORS
- COMPONENT SUPPLIERS
- TECHNOLOGY DEVELOPERS

Both Services provide:

- REPORTS & INSIGHTS
- DATABASES & DATA SETS
- MODELLING & ANALYSIS
- EXPERT SUPPORT & TEAMS SESSIONS

For clients doing these types of jobs:

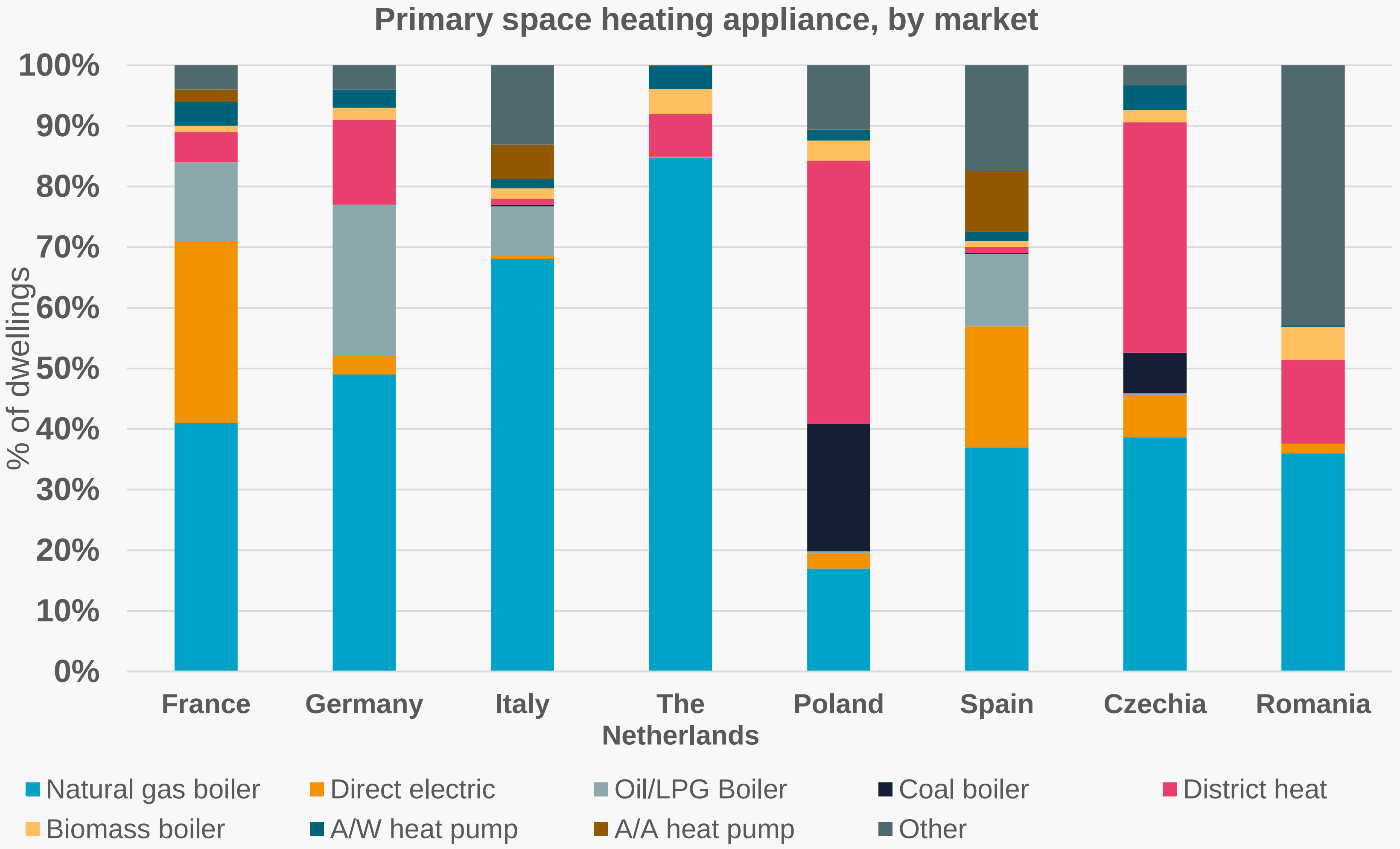
- STRATEGY & SOLUTIONS
- R&D / INNOVATION
- MARKET INTELLIGENCE
- PRODUCT MANAGEMENT
- POLICY & ADVOCACY
- PRODUCT MARKETING

Current state of play

A wide range of heating appliances are currently used across European markets

Key points:

- **Natural gas** boilers retain the dominant share of installations
- In some countries **other fossil fuels** still widely used
- In less mature markets **room-based heating** very common
- **Heat network** / district heating penetration varies widely
- **Air-based heating** / DX heat pumps only in 'hot' countries



Source: Various, including: LCP Delta Decarbonisation of Heat Service, CBS, Insee, ONS, Istat and others

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Types of heating brand in the European market

Heating Equipment Manufacturers – by Primary Business Background

Company type	The 'big 5' EU gas boiler manufacturers	Air conditioning (A/C) manufacturers	(Heating) heat pump specialists	Other players
Key attributes	• Business grew on the back of **volume gas boiler sales** • Followed by **acquisition of smaller competing brands** • **Global presence** • **Large portfolios**, including broad range of **low carbon heating** options • Annual sales (group level) = **€ billions**	• Business grew on the back of **volume A/C sales** • **Adapted core technology** for heating heat pump applications • **Global presence** • **Large portfolios**, rarely including ranges of **fossil fuel heating** options • Annual sales (group level) = **€ billions to 10s billions**	• Business grew based on **expertise in heating heat pumps** • Have grown **with and without acquisition** • **Multi-national presence** • **More targeted portfolios**, often without gas heating products • Annual sales (group level) = **€ 100s millions to billions**	• **Technology specialists and generalists** which do not fit neatly into the other 3 categories • Have **grown independently or via M&A** • **Regional to global** presence • Range **from niche to expansive** product portfolios • Annual sales (group level) = **€ 10s / 100s millions to billions**
Example brands	Viessmann, Vaillant, BDR Thermea Group, Bosch, Ariston	Toshiba, Panasonic, Daikin, Midea, Mitsubishi Electric, LG, Samsung	Stiebel Eltron, ecoforest, NIBE, Ochsner, Heliotherm Die Wärmepumpe	Rointe heating, Glen Dimplex, Intergas, windhager since 1921, sime, Groupe Atlantic, RMB Energie a Yanmar company, Robur, Ferroli

Main policy interventions to date

Governments have pulled many levers to stimulate growth

Policy levers to increase low carbon heat uptake

Subsidies and tax rebates

- **Direct subsidies and / or cashback** (most countries)
- **Boiler scrappage grants** (Denmark, UK)
- **Tax rebates** (Italy)
- **Reduced / zero VAT rates** (many countries)
- **0% loans** (Belgium, France, Scotland)

'Rebalancing' energy taxes

- **Moving environmental taxes** from the electricity unit price to gas unit price (Denmark, Netherlands)
- **Fossil fuel CO_2 tax** (Denmark, France, Germany)

Electricity tariffs

- **Obligatory dynamic tariffs / heat pump tariffs** (Switzerland, Spain, Germany)
- **Microgeneration export / net metering tariffs** (various)

Building regulations (new & old)

- *New build*: **Mandated minimum renewable energy share** or maximum primary energy use (many countries)
- *Retrofit:* **Mandated minimum % renewable energy share** (parts of Germany)
- **Minimum renovation standards** (Flanders**)**
- **Outright ban** on fossil boiler retrofits in (Zurich, Norway)**.**

Other / novel measures

- **Manufacturer sales quotas** (UK*)
- **Heat pump court** (Sweden)

*Currently being implemented

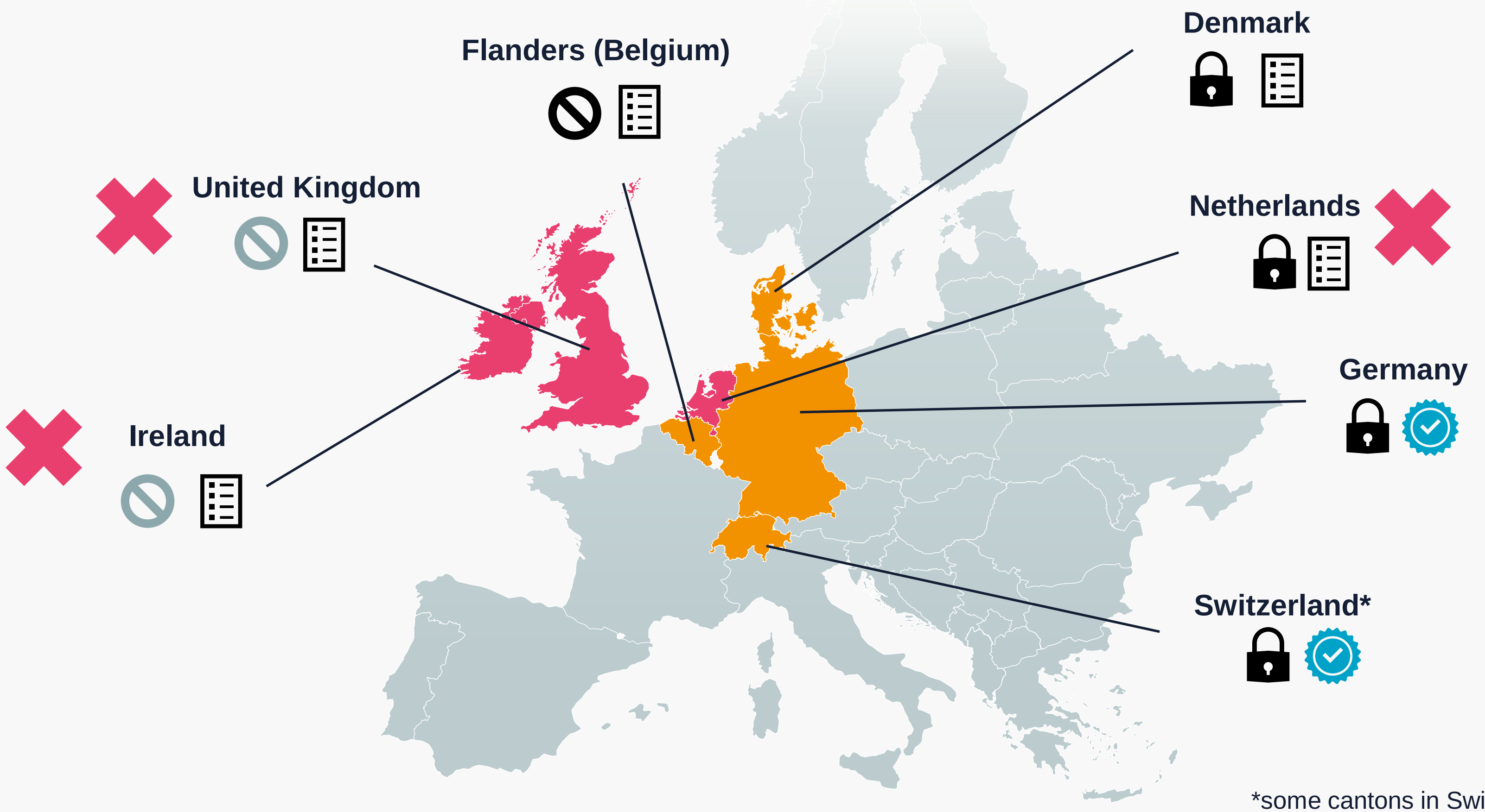
In 2025, only four countries have countries restrictions on <u>natural gas boilers</u> – none have implemented an outright ban

It is noteworthy that the two biggest natural gas markets, the UK and Italy, have no plans to restrict natural gas for heating in existing buildings. The previously proposed 2035 UK ban on sale of gas boilers has been scrapped.

2025 update
scrapped restriction

Approach
- Restricted
- De facto ban
- Outright ban

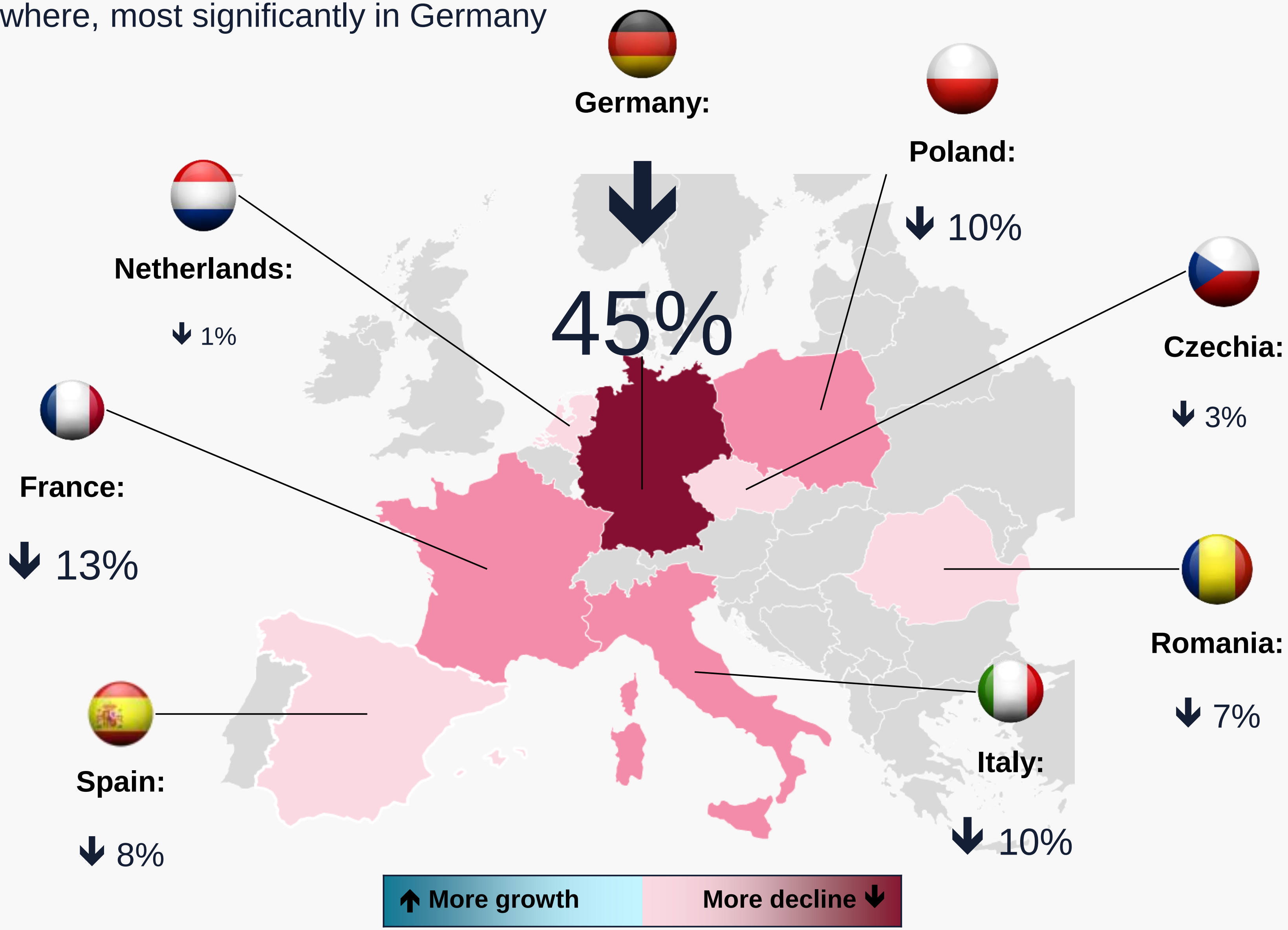
Status
- Confirmed and implemented
- Confirmed but not implemented
- Proposed
- Natural gas restrictions
- Scrapped restrictions



*some cantons in Switzerland have already implemented restrictions, but none at the national level.

Generative central heating market in 2024

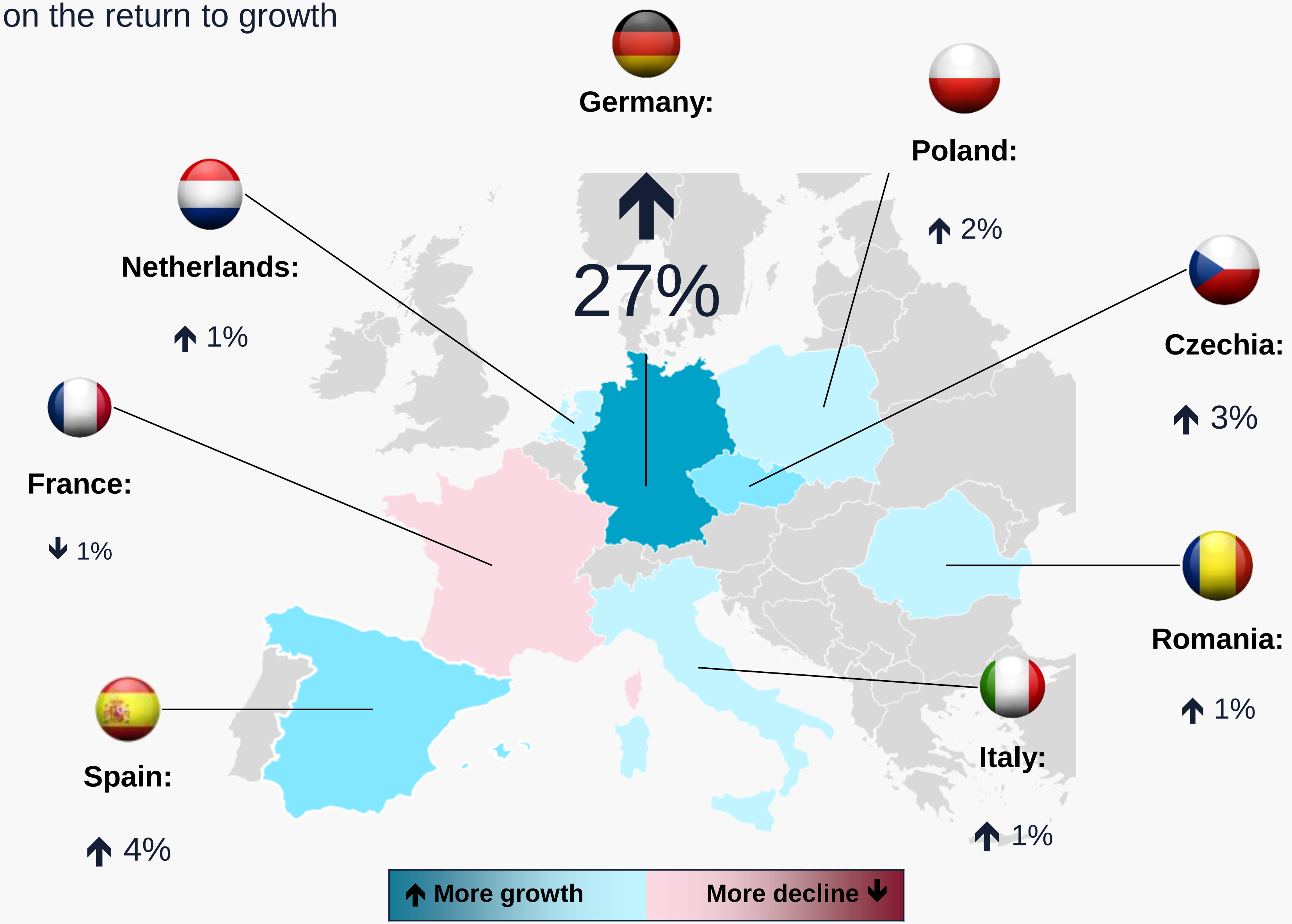
Contraction everywhere, most significantly in Germany



Market outlook

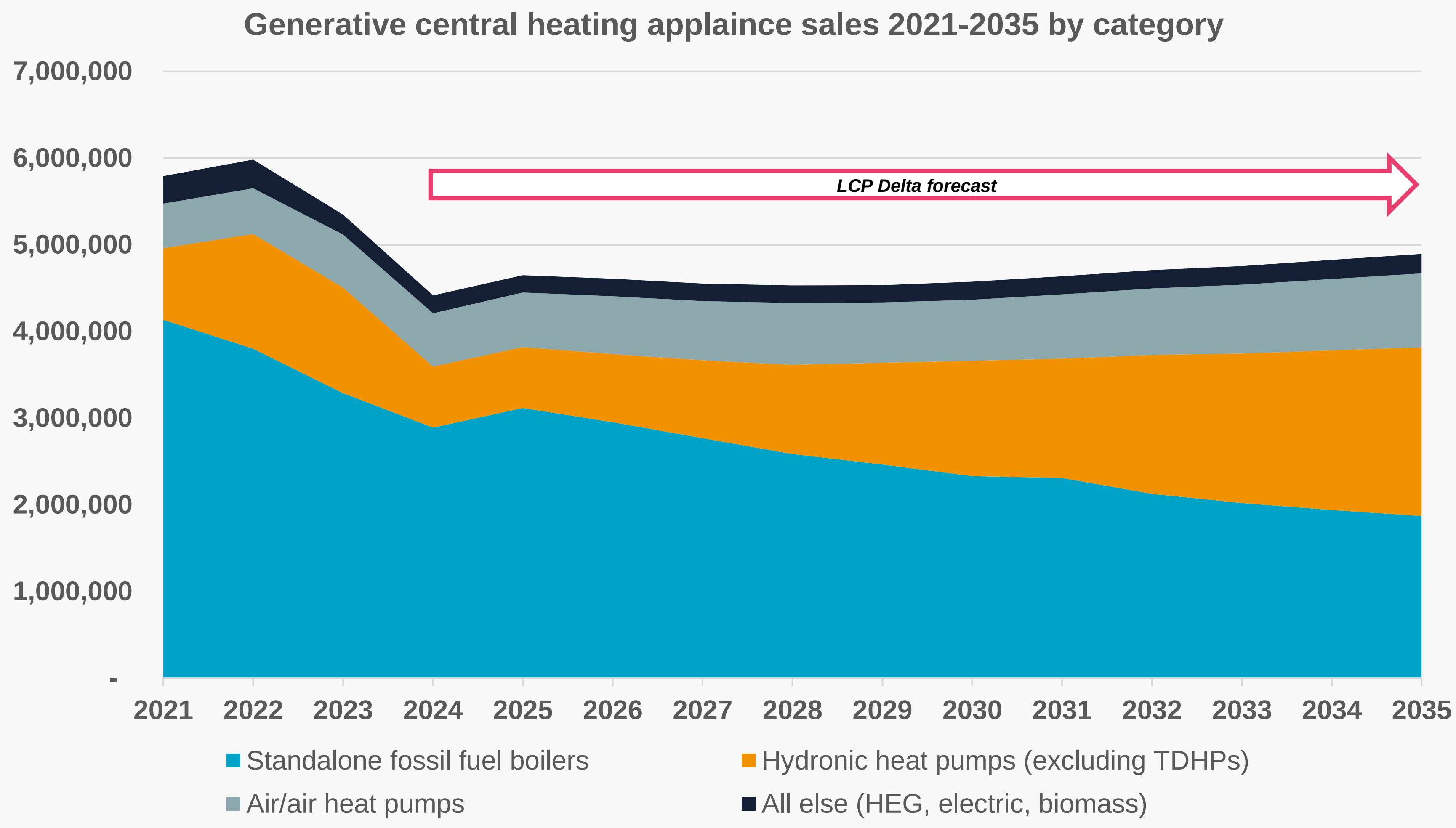
Generative central heating market in 2025

Germany to lead on the return to growth



LCP Delta market forecast to 2035 – by product category

All generative central heating across (across 8 core EU countries*)



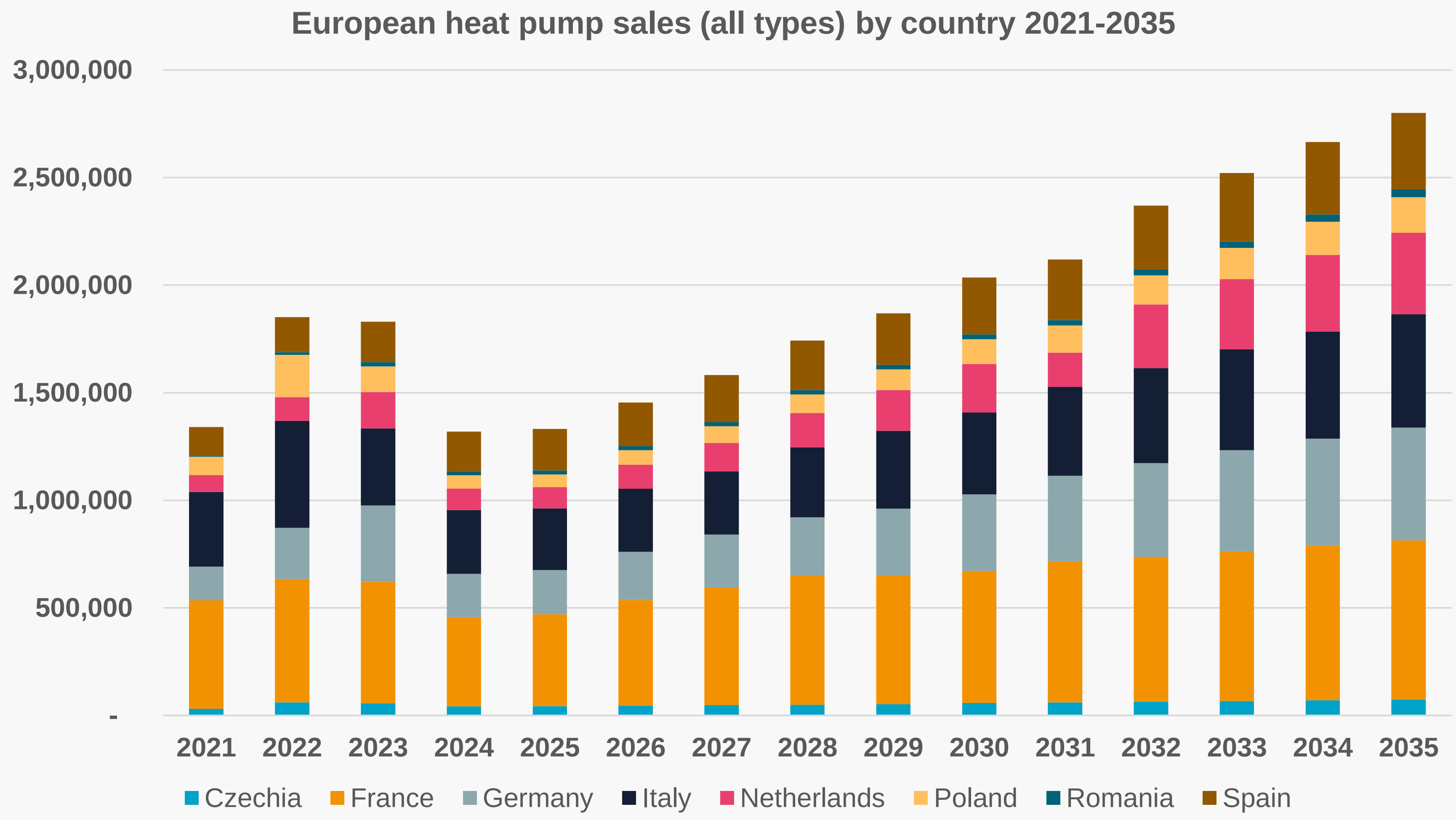
Highlights (2024-'35)

- **SFFBs:**
  - **CAGR -4%**
  - **Absolute drop of >1M annual unit sales**
- **Hydronic HPs**
  - **CAGR 9%**
  - **Absolute increase of ~1.24M annual unit sales**
- **Air/air HPs**
  - **CAGR 3%**
  - **Absolute increase of ~1/4M annual unit sales**

Source: LCP Delta Decarbonisation of Heat Service

*CZ, DE, ES, FR, IT, NL, PL, RO.

Heat pump sales by country (all product types)



Highlights:

- **Absolute increase:**
  - **~1.48M annual unit sales**
- **Largest market by volumes:**
  - **France (~740k units)**
- **Largest relative growth:**
  - **Netherlands; CAGR 12%**
- **Smallest market by volumes:**
  - **Romania; (~36k)**
- **Least relative growth:**
  - **CZ, FR, IT; all CAGR 5%**

Source: LCP Delta Decarbonisation of Heat Service

Summary: State of play and base case scenario outlook

- **EU heating market is currently in decline / in a trough after a bumper few years**
- **A return to pre-pandemic levels of activity and increased financial strain on consumers**
- **In the coming years LCP Delta expects a return to moderate growth in low carbon heating**
- **Key market drivers are varied: subsidies / new build regulations / market-led innovation**
- **Still, there remains a need for new policies to accelerate clean heat deployment levels**
- **Novel instruments e.g. ‘Clean Heat Market Instruments’ (CHMIs) should be further explored**

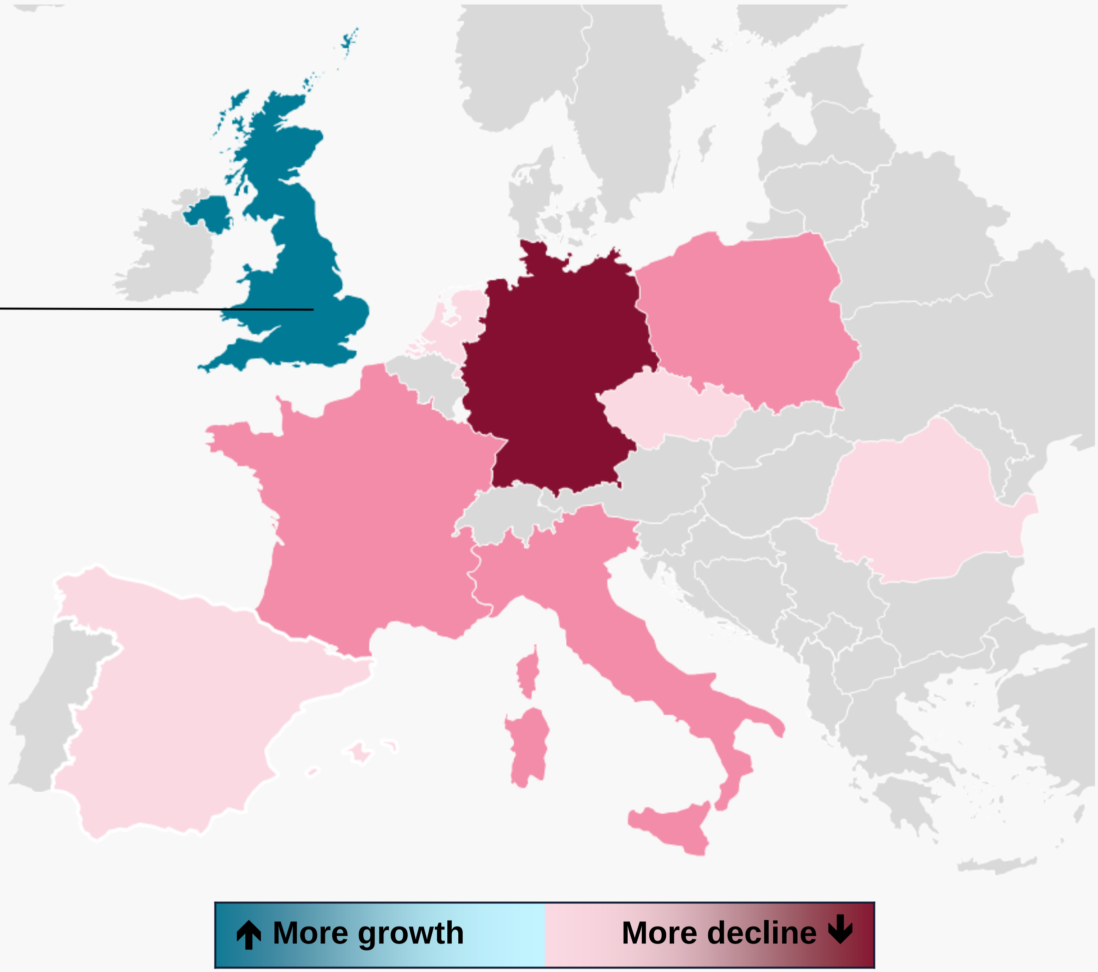
Generative central heating market in 2024

UK the only major heating market with heat pump growth

UK:

↑

60%



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