

Prairie Industry Perspective

Electrical Distribution Industry

PRAIRIE

September 2020



“Industrial/manufacturing, nonresidential construction and residential repair and remodeling are expected to take on a U-shaped recovery, while residential construction is expected to have a V-shaped recovery and oil and gas is expected to take on an L-shaped recovery.”

Recent Industry Performance

Electrical Wholesaling (EW) reports that, as 2020 began, the electrical distribution industry had “a fair amount of momentum,” and many analysts expected that the market would “grow at a modest but healthy rate” during the year.

EW estimates that, in 2019, total sales by distributors of electrical supplies reached an estimated \$117.5 billion. Additionally, *EW* indicates that the 2020 “Top 200” electrical wholesalers (based on 2019 revenue) account for an estimated \$81.4 billion in sales, or 69.0% of the industry’s total sales.

COVID-19’s Impact on the Electrical Distribution Industry

Sales for electrical distributors were impacted - in some cases significantly - when the COVID-19 (coronavirus) pandemic virtually shut down the national economy in mid-March 2020. A sampling of several of the largest distributors in the electrical wholesaling industry shows that, while sales were impacted during the first half of 2020, the industry nevertheless experienced some improvement as the second quarter progressed:

- *Rexel Group (Rexel)* – During the second quarter of 2020, sales were down 19.1%

year-on-year, which Paris-based Rexel says reflects “the impact of the lockdown in all geographies,” although the company reports “a gradual recovery” in sales starting in mid-April. Moreover, during the first half of 2020, Rexel posted sales of US\$7.09 billion, down 11.1% from the same period in 2019. Notably, Rexel reports that the company’s digital transformation over the past three years resulted in the firm’s strong online performance in the first half of 2020, as evidenced by the 7.2% increase in digital sales during this period. Still, due to uncertainty related to the recovery from the COVID-19 pandemic and the “risk of a second wave” of COVID-19 in several countries, Rexel is withholding full-year 2020 guidance.

- *WESCO International, Inc. (WESCO)* – On June 22, 2020, WESCO completed its merger with Anixter International Inc. (Anixter). The firm reports that, during the second quarter of 2020, net sales were \$2.1 billion, compared to \$2.2 billion for the second quarter of 2019, a decrease of 2.9%. Organic sales for the second quarter of 2020 declined by 12.3% as the Anixter merger on June 22nd positively impacted net sales by

10.3%. Additionally, for the six months ended June 30, 2020, net sales were \$4.1 billion, a decrease of 1.4%. Organic sales for the first six months of 2020 declined by 7.3% as the Anixter merger positively impacted net sales by 5.6%. Although CEO John Engel says, “Results exceeded our expectations across the board,” WESCO reported industrial sales down 21.0% across the U.S. and down 22.0% in Canada because of the COVID-19 crisis. Construction sales were also down, by 16.0% in the U.S. and 21.0% in Canada. At the same time, bidding for projects and project activity remained strong; industrial markets were improved through April, May and June; and a backlog of projects still exists. As the second quarter of 2020 ended, WESCO’s backlog was up 17.0% from a year prior, meaning construction projects are being delayed but not cancelled.

Moreover, according to a study outlined in the July 16, 2020, edition of *The Electrical Distributor Magazine (tED)*, research conducted in conjunction with financial services company Robert W. Baird (Baird) shows that, while electrical distributors surveyed by the publication experienced a challenging April and May 2020, they experienced “some recovery” in June. Overall, however, the *tED*/Baird survey found that, during the second quarter of 2020, revenue was down by 16.0% in electrical and nearly 15.0% in data communications (datacomm).

Further, *tED* indicates that the declines for members of the National Association of Electrical Distributors (NAED) were “nearly double the 9.8% decline in revenue seen across the broader distribution industry.” Breaking down the second quarter month-by-month, NAED distributors saw their largest revenue decreases in electrical and datacomm during April, when revenue was down 18.8% and 17.0% compared to April 2019. Revenue was also difficult in May,

as electrical saw a 17.9% decrease in revenue while datacomm’s loss was 19.3%. A rebound came as economies throughout the U.S. started to reopen in June, with electrical revenue’s dip at 9.0% and datacomm posting a 14.8% decrease in revenue.

Looking ahead to the third quarter of 2020, respondents to the *tED*/Baird survey expect to see continued improvement but say the quarter will still likely result in revenues that are lower than in 2019. Distributors expect revenue for electrical to be down 7.6% over the next three months, with datacomm down by 6.6%.

When it comes to recovery from COVID-19, respondents to the *tED*/Baird study broke down the different segments and potential “shapes” for recovery. Industrial/manufacturing, nonresidential construction and residential repair and remodeling are expected to take on a U-shaped recovery, while residential construction is expected to have a V-shaped recovery and oil and gas is expected to take on an L-shaped recovery.

Electrical Distributor Industry Trends/Drivers

Several trends and drivers currently impacting electrical distributors include:

- *The Rise of Digital Sales and Marketing* - *EW* reports that, since the COVID-19 pandemic began, the industry has experienced a move toward online sales calls and other virtual marketing initiatives. Additionally, *EW* reports that, according to executives from several of the nation’s largest distributors, these changes “will transform the industry forever.” For example, according to Brian Begg, VP of investor relations and treasurer at WESCO, “Digital solutions will continue to differentiate distributors and influence how we serve our

Industry Segments & Potential Shapes for Recovery

	Industrial/ Manufacturing	Oil & Gas	Residential Construction	Non-Residential Construction	Residential Repair & Remodel
V-shaped	19%	5%	37%	24%	29%
U-shaped	50%	32%	28%	33%	40%
W-shaped	24%	20%	22%	30%	21%
L-shaped	7%	43%	13%	13%	10%

customers.” Furthermore, Wes Smith, Mayer Electric Supply (Birmingham, AL) says, “We will never go back to ‘normal.’ Digital will accelerate, counters will look different...Work from home will become a way of life.” Similarly, Chris Scarbrough, CEO of Springfield Electric Supply Co. (Springfield, IL) suggests, “The future of selling in the electrical market will be digital sales development.” Phil DeLoache, president of First SOURCE Electrical (Houston, TX) concludes, “I believe all of us have learned to efficiently work remotely, our customers included.” As a result, “I believe more business will be conducted electronically versus face-to-face.” In light of these trends, *EW* anticipates that distributors’ field salespeople will engage in less business travel because of restrictions that customers have placed on visits by outside salespeople. Many distributors also plan to cut their travel to industry conferences until at least 2021. Some say their business travel will be restricted until a vaccine is widely available.

- *Volatile Copper Prices*— During the first quarter of 2020, copper prices were on track for their worst start to a year in more than three decades. *The Wall Street Journal* notes that while the cost of the metal - which is used in many electrical distributors’ products - started to recover in early January 2020 from lows reached in 2019 amid the trade war between China and the U.S., reports of the spread of COVID-19 in Wuhan, China, began dragging prices down again. As the first quarter of 2020 came to a close, copper for April delivery was down nearly 20.0% from the beginning of the year to \$2.24 per pound on the Comex division of the New York Mercantile Exchange; this was the metal's worst start to a year going back to 1989, according to *Dow Jones Market Data*. However, prices rebounded in the second quarter as manufacturing activity in China began to accelerate. By August 19, 2020, copper rose above \$3.00 per pound for the first time in more than two years. The advance came after data showed a drop in Chinese copper output in July and after mining giant Rio Tinto PLC said a smelter at a mine in Utah was having issues following maintenance; the company expects to have the smelter working normally in two months but cut its

2020 estimate for copper output. Supply disruptions around the world, in countries like Chile, related to the coronavirus and labor disputes, have also added fuel to the recent copper rally. Still, *The Wall Street Journal* reports that some analysts “worry that the recent run has gone too far, with some traders riding momentum in the metal simply because its price has risen lately.”

- *Construction Starts Slow* - Construction starts are an important driver for electrical distributors. The American Institute of Architects (AIA) suggests that, during the pandemic, the construction sector “appears to be faring...more robustly than, for example, travel, hospitality, and most other service sectors that rely on face-to-face interaction. However, construction has not been able to altogether avoid the economy-wide decline. With so much of the economy in slowdown or shutdown mode, businesses and organizations are hesitant to invest in modernized or new facilities.” Additionally, Dodge Data & Analytics (Dodge Data) reports that, year-to-date through the first seven months of 2020, construction starts were down 15.0% from the same period in 2019. Nonresidential starts plummeted 25.0%, nonbuilding starts dropped 20.0% and residential starts slipped 4.0%. Meanwhile, for the 12 months ending July 2020, total construction starts fell a more modest 5.0% from the same period a year earlier. Nonresidential building starts were 11.0% lower, while residential building starts rose 1.0%. Further, nonbuilding starts fell 7.0% over the 12 months ending July 2020. Looking ahead, Dodge Data forecasts that single-family starts will be down 10.0% in 2020 but will begin to recover quickly with 5.0% growth in 2021. However, it is anticipated that multifamily construction starts will drop 19.0% in 2020 and fall an additional 2.0% in 2021. Finally, Dodge Data anticipates that “...by the time we get to Q4 the level of (commercial building) starts activity is (expected to be) starting to return to the normal. With total 2020 commercial starts down 16%. But then forging ahead in 2021.”

Recent M&A Trends for Electrical Distributors

During 2020, the electrical distribution industry is continuing to see merger and acquisition activity. For instance, as alluded to previously, WESCO recently closed on its acquisition of Anixter, making the combined company the largest distributor of electrical products in North America, according to WESCO's market analysis. WESCO, which distributes industrial, construction and utility equipment, pursued Illinois-based Anixter, whose specialty is in data communications, security, wire and cable products. The deal had been in the works since 2019 and required WESCO to fight off a private equity firm that wanted to buy Anixter. WESCO raised its bid for Anixter several times until it was declared the winner. Upon completion of the merger, Anixter became a wholly-owned subsidiary of WESCO. Anixter's shares ceased trading prior to the market open on June 22, 2020, and as part of the merger, each share of Anixter common stock was converted into the right to receive \$72.82 in cash (without interest), 0.2397 shares of WESCO common stock, and preferred stock consideration consisting of 0.6356 depositary shares, each whole share representing a fractional interest in WESCO's newly created 10.625% Series A Fixed-Rate Reset Cumulative Perpetual Preferred Stock. Based on the 10-day volume weighted average price of WESCO common stock on the New York Stock Exchange (NYSE) as of the end of trading on June 17, 2020, and valuing the depositary shares based on the value of the underlying preferred stock, total consideration per share of Anixter common stock was \$97.93. The newly issued shares of WESCO common and depositary shares commenced trading on the NYSE on June 22nd.

Other notable mergers and acquisitions in 2020 include the following:

- In February, Eaton Corporation acquired Power Distribution Inc. (PDI), a supplier of mission-critical power distribution, static switching and power monitoring equipment and services for data centers and industrial and commercial customers.
- Also in February, electrical supply firm The Reynolds Company (Fort Worth, TX), a wholly-owned subsidiary of McNaughton-McKay Electric Co. (Madison Heights,

MI) acquired Houston, TX-based Flow-Zone, a distributor of pipe, valves, fittings, instrumentation, controls and measurement equipment for oil and gas industries throughout Texas and New Mexico. According to David Dozier, executive vice president of The Reynolds Company, "We have been looking at the PVF space for some time as a complementary market segment and are excited to give our customers a deeper and more diversified offering. This combination of products, services and solutions for Electrical and PVF will help customers streamline their operations, enabling them to focus on what really matters - their business goals."

- In July, Granite City Electric Supply (Quincy, MA) concluded an asset acquisition of Baynes Electric Supply (West Bridgewater, MA) and Baynes & Jones Electric Supply. The press release announcing the acquisition said, "The complementary combination of Baynes Electric and Granite City Electric locations creates a broader service network with greater inventory breadth, and delivery options for New England customers. The combined companies will provide more locations for customers throughout southeastern Massachusetts and Rhode Island." With the addition of Baynes' four locations in West Bridgewater, Vineyard Haven, Wareham and Nantucket, MA, Granite City Electric Supply Co. - ranked #50 on *EW's* 2020 "Top 200" ranking, now has 30 locations throughout New England.

Notable Closed M&A Transactions

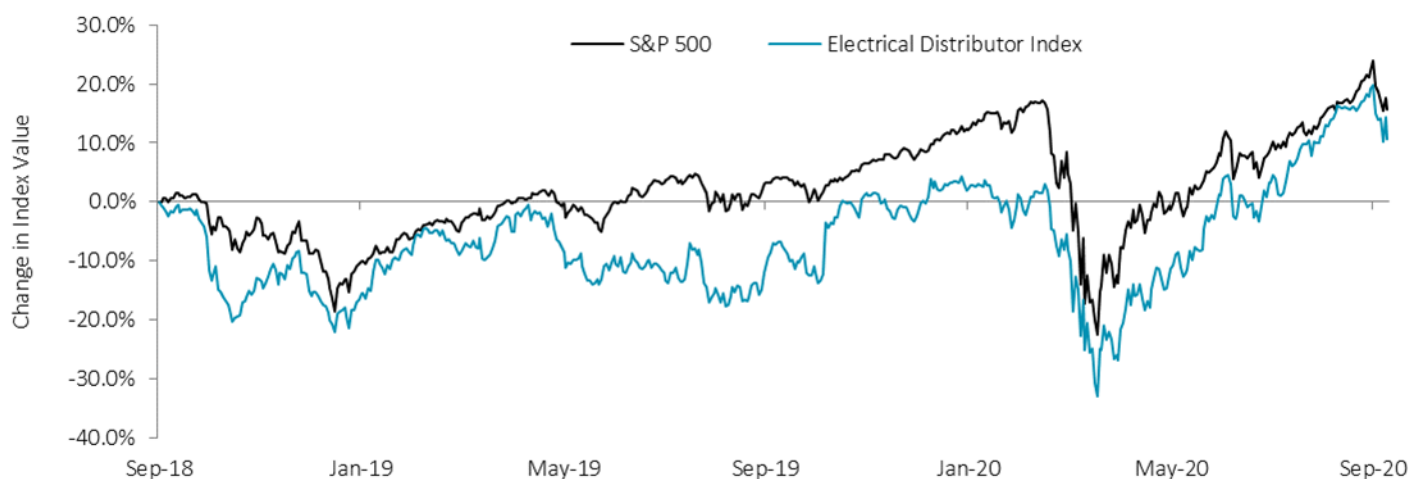
Year Closed	Target Name:	Acquirer Name:	Distribution Category
2020	Chelsea Lighting	Kinzie Capital Partners	Lighting and lighting control products
2020	Baynes Electrical Supply	Granite City Electric Supply	Electrical and lighting products
2020	Crescent Electric's Bronx, NY Location	Long Island Electrical Distributing	Electrical products
2020	Rexel's Pittston, PA & Johnson City, NY Locations	Schaedler Yesco Distribution Inc	Electrical products
2020	Anixter International Inc	WESCO	Network & security, electrical & electronic, and utility power products
2020	Galco Industrial Electronics, Inc	AEA Investors	Electrical control, automation, and motion products
2019	Frost Electric Supply Company	CED	Electrical supplies
2019	NABCO	Greenbriar Equity	Circuit breakers, fuses, motor controls, and connects
2019	Pittsburgh Wire and Cable Inc	TPC Wire & Cable Corp	Electrical wire and cable
2019	BTC Electronic Components	Aircraft Fasteners International	Connectors and wire management products
2019	Intro Corporation	BJG Electronics, Inc	Electrical connectors, tools, and accessories
2019	EIS	Audax Private Equity	Electrical wire, cable, and assemblies
2019	Omni Cable Corporation	Dot Family Holdings	Redistributor of wire, cable, and electrical products
2019	Franklin Electric	US Electrical Services (CED)	Electrical products
2019	Kaman Industrial Technologies Corporation	Littlejohn & Co.	Electrical and industrial products
2019	Richmond Electric Supply Co	Locke Supply Company	Electrical supplies, lighting fixtures, and construction products
2019	City Electric Company Inc	Sonepar	Commercial, residential, and industrial electrical products
2019	The Hite Company	Mayer Electric Supply Company, Inc	Electrical, lamps, and lighting products
2019	Kentucky Lighting & Supply, Inc	Wiseway, Inc.	Lighting and electrical products
2019	Electrical Sales Company, Inc	Young & Champagne Electrical Sales Inc.	Electrical products
2019	North Coast Electric Company	Sonepar	Electrical and industrial equipment used in diverse end markets
2019	Nu-Lite Electrical Wholesalers	CED	Electrical equipment and commercial construction products
2019	Becker Electric Supply	KENDALL ELECTRIC	Electrical products, automation controls, and lighting products
2019	Main Electric Supply Company, Inc	US Electrical Services (CED)	Electrical products
2019	US Lamp	Werner Electric Supply Company	Lighting products
2018	Valley Electric Supply Corp.	Springfield Electric Supply Company	Electrical products including conduit, fuses, power strips, and wire
2018	Maltby Electric Supply Co., Inc.	Edges Electrical Group LLC	Electrical products
2018	Tri State Supply Co., Inc.	CED	Electrical and automation products
2018	National Electric Supply Co	Crescent Electric Supply Co., Inc.	Commercial and industrial electrical products
2018	Connecticut Electric, Inc.	Tecum Capital Management	Residential electrical products
2018	Electrical Engineering and Equipment Co	CED	Electrical and industrial products
2018	Electrical Products of Oklahoma Inc	Distributor Sales Southwest Inc	Electrical products
2017	Tacoma Electric Supply, Inc.	Winsupply Inc.	Commercial, residential, and transportation electrical products
2017	D Reynolds Company	McNaughton-McKay Electric Company	Industrial and commercial electrical products
2017	Wholesale Electric Supply	CED	Electrical products
2017	Womack Electric Supply Co., Inc.	Crescent Electric Supply Co., Inc.	Electrical products
2017	Kriz-Davis Co.	Border States Industries, Inc.	Electrical supplies including conduit, fasteners, fuses, and wire
2017	Power Sources Unlimited, Inc.	Sager Electrical Supply Company, Inc.	Electrical and power conversion products
2017	Nelson Electric Supply Company Inc	Revere Electric Supply Co.	Electrical products
2017	Upchurch Electrical Supply Co	Mayer Electric Supply Company, Inc	Electrical products
2017	Mesco Corporation	Crescent Electric Supply Co., Inc.	Electrical and lighting products

Sources: S&P Capital IQ and public data

Publicly-traded Distributors of Electrical Products

(\$ in millions)	Stock	Enterprise	% of 52-	LTM		Revenue Growth		LTM Margins		EV / LTM		EV / NFY	
Company	Ticker	Value	Wk. High	Revenue	EBITDA	1 Year	3 Years	G. Profit	EBITDA	Revenue	EBITDA	Revenue	EBITDA
Fastenal Company	FAST	25,675	88.2%	5,532	1,420	6.6%	10.2%	46.2%	25.7%	4.6x	18.1x	4.6x	19.5x
Houston Wire & Cable Company	HWCC	135	56.7%	318	5	(8.8%)	3.3%	22.6%	1.6%	0.4x	26.7x	n/a	n/a
HD Supply Holdings, Inc.	HDS	8,607	90.3%	5,976	780	(3.2%)	6.6%	39.0%	13.1%	1.4x	11.0x	2.8x	16.6x
Rexel S.A.	RXL	7,360	85.9%	14,617	680	(4.6%)	(0.8%)	24.8%	4.6%	0.5x	10.8x	0.5x	7.8x
WESCO International, Inc.	WCC	7,482	72.6%	8,303	393	1.4%	4.2%	18.8%	4.7%	0.9x	19.1x	0.5x	9.0x
W.W. Grainger, Inc.	GWV	20,778	94.5%	11,632	1,425	3.1%	4.4%	37.1%	12.3%	1.8x	14.6x	1.8x	13.3x
		Median	87.0%	\$ 7,139	\$ 730	(0.9%)	4.3%	31.0%	8.5%	1.2x	16.3x	1.8x	13.3x
		Mean	81.4%	\$ 7,730	\$ 784	(0.9%)	4.7%	31.4%	10.3%	1.6x	16.7x	2.0x	13.2x

Electrical Distributor Index Performance vs. S&P 500



The electrical distributor index declined 33.2% in March 2020 in the midst of the COVID-19 pandemic. Since March, the electrical distribution index has experienced a significant rebound and has currently gained 10.7% over the last two years, slightly underperforming the gains of the S&P 500.

Note: Valuation data as of 09/10/2020

Note: With the acquisition of Anixter by Wesco, Anixter has been removed from the electrical distributor index

Sources: S&P Capital IQ and public data

About Prairie Capital Advisors

Prairie offers investment banking, ESOP advisory, valuation advisory and financial reporting valuations to support the growth and ownership transition strategies of middle-market companies. Headquartered in Oakbrook Terrace, Illinois, Prairie is a leading advisor to closely-held companies nationwide.

Transaction Highlight

Tacoma Electric Supply, Inc,



Prairie Capital Advisors represented Tacoma Electric Supply, Inc., a portfolio company of Thompson Street Capital Partners in the sale of the Company to Winsupply Inc.

Founded in 1981 in Tacoma, Washington, Tacoma Electric Supply is a full-service electrical distributor with locations in Tacoma and Puyallup. Tacoma Electric is consistently listed in the top 200 largest distributors in the nation in Electrical Wholesaling magazine.

Tacoma Electric recognized Prairie's professionalism, expertise and support throughout the sale process. Prairie designed and managed a competitive process while utilizing their electrical distribution industry knowledge, execution experience and access to key decision makers which resulted in a successful sale process.

Securities transactions are effected and offered through Prairie Capital Markets, LLC ("Prairie"), member FINRA/SIPC. PRAIRIE and Prairie Capital Advisors are service marks registered with the U.S. Patent & Trademark Office. This document is a result of Prairie Capital Markets, LLC and is for informational purposes only. It is not intended as an offer or solicitation with respect to the sale or purchase of a security. The opinions expressed are the views of the writer and do not reflect the views and opinions of Prairie. Prairie shall not be liable for damages resulting from the use of or reliance upon the information presented herein.

Contact Us



Timothy Witt
Managing Director
tim.witt@prairiecap.com



Terrel Bressler
Managing Director
tbressler@prairiecap.com



Anthony Dolan
Director
adolan@prairiecap.com



Dan Delap
Vice President
ddelap@prairiecap.com