

# Prairie Industry Perspective

## Electrical Distribution Industry

PRAIRIE

March 2021



“Construction starts are an important driver for electrical distributors.”

### Recent Industry Performance

Aggregate final-year end 2020 sales data for the electrical distributors industry has not been published. That said, it is clear that sales for many electrical distributors, like companies in other sectors, were negatively impacted when, in March 2020, the COVID-19 pandemic shut down large portions of the U.S. economy. However, a sampling of several of the largest distributors in the electrical wholesaling industry suggests that the industry experienced improvement in the second half of 2020 as the effects of the pandemic on the economy subsided. Furthermore, these same companies anticipate that 2021 may offer a return to growth. For instance:

- *Rexel Group* (“Rexel”) – During the fourth quarter of 2020, sales were down 3.7% year-over-year, which Rexel calls a “better-than-expected performance” that “demonstrates our ability to capture first signs of recovery thanks to an intact branch network and our best-in-class digital offer.” During fiscal year 2020 as a whole, Rexel’s sales were down 8.4% year-over-year. In the U.S., sales fell 7.7% during the fourth quarter of 2020, although Rexel reports that it experienced “strong resilience” in three U.S. regions during the same quarter – the Northwest, Mountain Plains and

Florida. At the same time, Rexel reports that it experienced more challenging markets in the U.S. Midwest and Gulf Central. Additionally, the company’s digital sales were strong in 2020, rising by 11.0% and accounting for about 21.0% of Rexel’s total sales in 2020. Looking to 2021, Rexel says that, while the environment continues to be challenging, it nevertheless has “cautious optimism” for the year ahead. As a result, the company forecasts same-day sales growth of between 5.0% and 7.0% in 2021.

- *WESCO International, Inc.* (“WESCO”) – WESCO reports that, during the fourth quarter of 2020, net sales were \$4.1 billion, up from \$2.1 billion in the fourth quarter of 2019 due to WESCO’s merger with Anixter completed in June 2020. Net sales for the fourth quarter of 2020 were up 4.4% compared to the third quarter of 2020, which had an additional three workdays. Furthermore, net sales for calendar year 2020 were \$12.3 billion versus \$8.4 billion for calendar year 2019, an increase of 47.6% due to the merger with Anixter, partially offset by the impact of the COVID-19 pandemic. According to the company, “For 2021, WESCO is exceptionally well positioned to support our customers

with an expanded set of products and differentiated services...As such, we expect to outperform in our end markets with sales increasing from 3% to 6% in all three of our business units.”

According to *Electrical Wholesaling's* (“EW”) “2021 Market Planning Guide,” issued in November 2020, the electrical distributors who responded to the publication’s annual survey were “particularly bullish in their prognostications.” As a group, respondents anticipated that – even in spite of the difficulties experienced by the industry as a result of the COVID-19 pandemic – total U.S. sales through electrical distributors would decline by just 1.6% in 2020 and that, in 2021, they will grow by 7.3%.

That said, *EW's* editors speculate that respondents’ forecasts are “a bit too far down the sunny side of the street” and are more likely “about two points better” than what *EW* readers expect. Further, market intelligence firm DISCCORP is similarly pessimistic, predicting a 9.4% decline in electrical distributors’ sales in 2020, followed by a 4.8% increase in 2021.

Helping to support analysts’ expectation for growth in 2021, as outlined in the February 2021 edition of *The Electrical Distributor Magazine* (“*tED*”), the \$900.0 billion COVID-19 relief bill signed into law in late 2020 made a now-permanent tax deduction that “encourages investment in the installation of energy-efficient systems in commercial buildings.” The fact that the *Commercial Buildings Tax Deduction* (Sec. 179D) – which *tED* says has been in effect in one form or another since 2005 – is permanent “means it is also a reliable sales tool for electrical distributors – one they can emphasize to commercial building owners.” According to Ian Reynolds, general counsel at the National Association of Electrical Distributors, “When 179D was allowed to be extended in the past, it was oftentimes done retroactively. It was impossible for people to use it as a selling strategy because it wasn’t in effect when they were making their original sale. Now that won’t be a problem.” Reynolds also notes, “Another benefit is that they allowed for [179D] to be adjusted based on inflation. And since the deduction was made permanent, it will continue to increase as inflation does.” As a result, *tED* says “more reliable – and more profitable – premium products will be more attractive to buyers knowing they can count on having the tax deduction available to them.” Alex Ayers, executive director of the

Family Business Coalition, agrees, noting, “Now if [clients] get the more energy-efficient premium product, it will immediately qualify for this tax deduction.”

### Electrical Distributor Industry Trends/Drivers

Several trends and drivers currently impacting electrical distributors include the following:

- *Construction Starts Slow* – Construction starts are an important driver for electrical distributors. Although results varied in 2020 depending on the construction sector, Dodge Data & Analytics (“Dodge Data”) reports that, overall, U.S. construction starts declined 10.0%, hitting \$766.3 billion in project revenues.

Broken down further, Dodge Data says that, during 2020, residential construction starts increased by 4.0%, to reach \$344.8 billion, due to strong activity in the single-family sector. Indeed, Dodge Data reports that single-family construction starts increased by 11.0% during 2020. At the same time, multifamily construction starts declined by 11.0%. Looking to 2021, Dodge Data forecasts that single-family housing starts will rise by 7.0%, while multifamily construction starts are expected to decline slightly, by 1.0%. Further supporting these estimates, according to Danushka Nanayakkara-Skillington, associate vice president of forecasting and analysis at the National Association of Home Builders, “Builders are going to be really busy [in 2021]. There’s a renewed interest in housing after [people have been] crammed into a small apartment or house during COVID lockdowns.”

On the commercial building side, Dodge Data reports that nonresidential building starts fell 24.0% in 2020 to \$239.9 billion, the lowest level the nonresidential segment has seen since 2015. Specifically, commercial starts fell 26.0%, institutional starts declined 13.0% and manufacturing starts decreased 59.0%. The only nonresidential construction segment to experience an increase in 2020 was warehouse construction, which grew 1.0% during the year. With regard to the market in 2021, the January 2021 forecast issued by the American Institute of Architects (“AIA”) looks for mid-single-digit percentage declines for nonresidential construction. Overall, according to the AIA’s Consensus Construction Forecast Panel (“Panel”) – which is an average of the

forecasts issued by eight leading economists – total nonresidential construction spending is anticipated to decline 5.7% in 2021, broken down as follows: total commercial construction, down 7.1%; office construction, down 9.3%; retail and other commercial construction, down 3.5%; hotel construction, down 20.2%; total industrial construction, down 4.5%; total institutional construction, down 4.0%; health construction, up 1.2%; education construction, down 3.9%; religious construction, down 6.7%; public safety construction, up 1.0%; and amusement and recreation construction, down 12.6%. However, the Panel agrees with Dodge Data that, even with a “potentially challenging year for the nonresidential construction market” in 2021, the residential construction market is expected to see growth. According to the Panel, this is a positive since a healthy housing market tends to lead to eventual growth for the nonresidential construction market.

- *Hot Markets for Electrical Distributors* – According to *EW*, some local markets are “powering through” the COVID-19 crisis. Included on *EW*’s list of “hot markets” are Charlotte and Raleigh-Durham, NC; Atlanta, GA; most of Florida’s metro areas; Colorado’s Front Range, from Colorado Springs north through Denver, Boulder and Fort Collins; Phoenix, AZ; Salt Lake City, UT; and all of Texas’ major metro areas, but particularly Austin and Dallas.
- *An Increase in Products Purchased Online* – *tED* reports that, since the COVID-19 pandemic began, buyers across all industries have begun purchasing more products online. Distribution Strategy Group (“DSG”), a consulting firm focused on distribution, found that, across industries, online purchases rose from about 52.0% of total orders pre-pandemic to 59.0%. Further, the firm estimates that post-COVID-19, online orders will drop by just 1.0%. “The changes [in buyer behavior] are here to stay,” anticipates Jonathan Bein, a managing partner at DSG. As a result, Jeff Scheck, branch manager at Springfield Electric Supply, says that technological investments are a must for every distributor. He also suggests that, while the way purchases are made may be changing, what it takes to demonstrate value will not. “More purchases will surely go online, especially with the generations that

are truly comfortable with an online experience,” he says, adding, “Success will still come from the relationships and value that a distributor can bring to the table. Distributors and their sales teams have to work even harder at bringing that value, whether that’s engineering support, design build services, kitting, jobsite management, fixture management, and yes, a good online experience.”

- *Copper Prices Soar* – As 2020 began, copper prices were on track for their worst start to a year in more than three decades. *The Wall Street Journal* (“WSJ”) noted 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 further. As the first quarter of 2020 ended, the price of copper for April delivery had dropped nearly 20.0% from the beginning of the year to \$2.24 per pound on the Comex division of the New York Mercantile Exchange. However, prices began to rebound in the second quarter as manufacturing activity in China began to accelerate, and by August 19, 2020, copper rose above \$3.00 per pound for the first time in more than two years. Overall, prices continued to rise for the remainder of 2020, and by late January 2021, copper was trading at \$3.63 per pound, which *Mining.com* says is “near an eight-year high.” Further, *Mining.com* anticipates prices will remain elevated, noting that, although copper supplies are expected to rise somewhat in 2021 as COVID-19 subsides, the market may be disrupted as mine workers seek higher wages. Additionally, warehouses registered with the London Metal Exchange report that stock levels have more than halved since October 2020; according to *Mining.com*, analysts predict that “low stocks will help propel prices higher later in 2021.” Meanwhile, the *WSJ* notes that President Joe Biden is expected “to boost spending on everything from infrastructure to electric-vehicle charging stations,” thereby driving up the price of raw materials, including copper. According to the *WSJ*, Bank of America forecasts prices will average \$4.31 per pound in the fourth quarter of 2021, approaching 2011 record highs.



## Recent M&A Trends for Electrical Distributors

Even during the pandemic, the electrical distribution industry continued to see merger and acquisition (“M&A”) activity. For instance, as mentioned 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. Other recent notable M&A deals include the following:

- In July 2020, Southwire acquired Madison Electric Products, which offers electrical components and accessories under brands including SmartLB, Smart Box, Draft Seal, Pull-It and other well-known brands. A large portion of these products come from its Sparks Innovation Center interface, a crowd-sourcing approach to product development, which allows electricians to submit new product ideas. According to *EW*, “This has contributed to a pipeline of new and innovative products that are focused on helping the electrician.” In addition, in September 2020, Southwire acquired Construction Electrical Products (“CEP”), a manufacturer of temporary power distribution and portable lighting products. CEP’s existing product line will be combined with Southwire’s expanding electrical safety and lighting solutions.
- During August 2020, Werner Electric Supply acquired the Sheboygan Falls, WI, branch of EESCO WESCO International. According to a report at [www.electricaltrends.com](http://www.electricaltrends.com), EESCO is WESCO’s Rockwell Automation division. Werner Electric Supply is the largest Wisconsin-based electrical distributor, operating 11 regional locations throughout Wisconsin and the Upper Michigan region. The company is ranked #31 on *EW*’s 2020 Top 200 list.
- In September 2020, Kinzie Capital Partners, a Chicago-based private equity firm, bought Chelsea Lighting, a New York-based lighting distributor with a focus on LED lighting and controls and Power over Ethernet (“PoE”) systems. Chelsea is the largest independent lighting and lighting controls distributor serving the New York City market where it supplies the real estate, design and construction industries. The company is ranked #82 on *EW*’s 2020 Top 200 list. According to *EW*, the acquisition will allow Chelsea to grow its PoE and Controls divisions, “where it has led high-profile projects throughout the nation.”
- Also in September 2020, Clayton, Dubilier & Rice (“CD&R”), one of the world’s largest private-equity firms, acquired Epicor, the electrical market’s largest provider of ERP software, in a \$4.7-billion deal with KKR. Epicor says partnering with CD&R will help fuel its ongoing transition to cloud-based software systems for distributors. One of the major points of focus for Epicor, which counts approximately 56.0% of *EW*’s Top 200 electrical distributors as customers, has been transitioning customers to its suite of cloud-based software products.
- During November 2020, IEWC Global Solutions acquired Jupiter Communications, a supplier of telecommunications, power and connectivity solutions. IEWC says the deal is a strategic move to go after the “dynamic growth” in the North American telecom, office and data center markets.
- In December 2020, Graybar Electric Co. completed the acquisition of Shingle & Gibb Automation, an automation and control specialist ranked #116 on *EW*’s 2020 Top 200 list. Headquartered in Moorestown, NJ, Shingle & Gibb Automation provides advanced automation and control solutions to industrial users and original equipment manufacturers.
- On December 31, 2020, Van Meter – the 26<sup>th</sup> largest electrical distributor in the U.S. – acquired Mid-West Electrical Supply Inc., a single-branch electrical distributor in Wichita, KS. “Wichita represents the largest electrical market in the State of Kansas,” says Lura McBride, president and CEO at Van Meter. “Establishing a physical presence in a sizable market... positions us for desired growth and an opportunity to leverage our inventory, supplier relationships and salespeople across an expanded territory.”
- In February 2021, Littelfuse, Inc. announced that it acquired Hartland Controls. Headquartered in Rock Falls, IL, Hartland Controls is a manufacturer and leading supplier of electrical components used primarily in heating, ventilation, air conditioning and refrigeration, as well as other industrial and control systems applications.

## Notable Closed M&amp;A Transactions

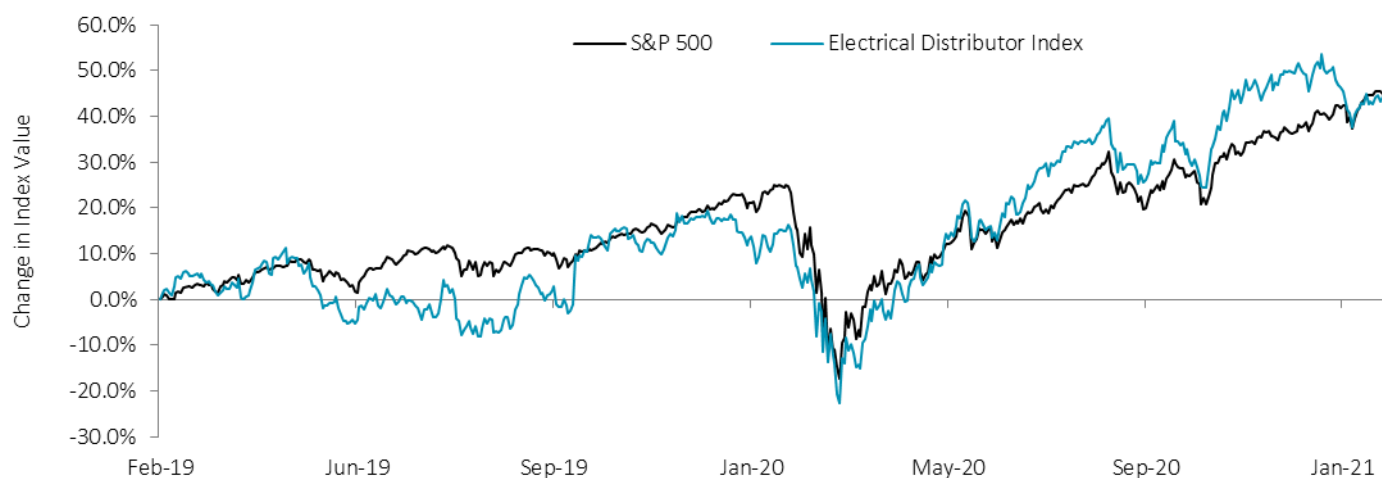
Year Closed	Target Name:	Acquirer Name:	Distribution Category
2021	Shanor Electric Supply Inc	NOCO Energy Corp	Electrical supplies
2020	Mid-West Electrical Supply Inc	Van Meter Inc	Electrical products
2020	HD Supply Holdings, Inc	Home Depot	Electrical and other industrial products
2020	Shingle & Gibb Company, Inc	Graybar Electric Company, Inc	Electrical and motion control products
2020	Foley Group Inc	Convergence Partners, Inc	Lighting and electrical equipment
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	Jupiter Communications	IEWC Corp	Electrical and telecommunication 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

Sources: S&amp;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	27,007	89.3%	5,647	1,453	5.9%	8.8%	45.5%	25.7%	4.8x	18.6x	4.6x	19.7x	
Houston Wire & Cable Company	HWCC	148	90.5%	303	5	(11.9%)	(0.2%)	22.3%	1.6%	0.5x	30.5x	n/a	n/a	
Rexel S.A.	RXL	8,547	97.7%	15,404	682	(8.4%)	(1.8%)	24.7%	4.4%	0.6x	12.5x	0.5x	7.7x	
WESCO International, Inc.	WCC	8,485	90.1%	12,326	645	47.5%	17.1%	19.2%	5.2%	0.7x	13.2x	0.5x	9.1x	
W.W. Grainger, Inc.	GWV	21,632	88.2%	11,797	1,509	2.7%	4.2%	35.9%	12.8%	1.8x	14.3x	1.8x	13.0x	
			Median	90.1%	\$11,797	\$ 682	2.7%	4.2%	24.7%	5.2%	0.7x	14.3x	1.1x	11.1x
			Mean	91.1%	\$ 9,095	\$ 859	7.1%	5.6%	29.5%	10.0%	1.7x	17.8x	1.8x	12.4x

## Electrical Distributor Index Performance vs. S&P 500



The electrical distributor index has experienced significant gains off of its March 2020 lows. Over the last two years, the electrical distributor index has increased 43%, in line with the gains of the S&P 500.

Note: Valuation data as of 02/22/2021

Note: With the acquisition of HD Supply by Home Depot, HD Supply 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.



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.

## Select Electrical Distribution Experience



## 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