

Prairie Industry Perspective

Electrical Distribution Industry

September 2021



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Recent Industry Performance

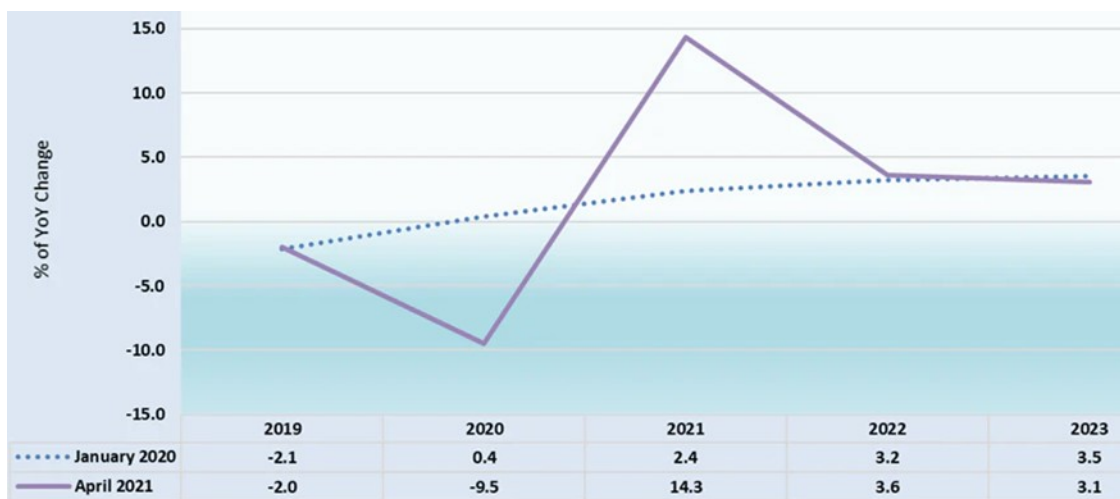
Christian Sokoll of DISC Corporation (“DISC”), a provider of sales forecasts and related market data for the electrical market, says that, during 2020, the overall electrical distribution marketplace was down 9.5% year-over-year compared to 2019.

A report released by the National Association of Electrical Distributors (“NAED”) is a bit more positive, indicating that, during calendar year 2020, the typical electrical distributor recorded a sales decline of 1.5% and a 4.0% profit margin. Further, the NAED highlights the fact that the typical distributor’s return on net worth was 18.8% in 2020, up slightly from the average return of 18.7% in 2019. Notably, NAED says that, during 2020, electrical distributors’ e-commerce sales were at the

highest level since the association started tracking that metric. According to Erin Prinster, a researcher and data analyst for NAED, “This makes sense given that [NAED] members needed to keep the industry moving and this is one channel that provided the means to service customers 24/7.”

Also, *Electrical Wholesaling* (“EW”) estimates that, during 2020, the five largest electrical distributors in North America—WESCO, Sonepar North America, Graybar Electric Company, Consolidated Electrical Distributors and Rexel Holdings USA—recorded an estimated \$40.3 billion in combined revenue and operated an estimated 3,205 branches in North America. According to EW’s sales data, these five companies accounted for no less than 36.0% of an estimated \$113.0 billion in combined U.S. and Canadian sales.

DISC’s Year-Over-Year Forecast, Including a Comparison of the Forecasts Issued in January 2020 versus April 2021



For 2021, a forecast issued in April 2021 (latest available) by DISC suggests that the market will experience 14.3% year-over-year growth. Comparatively, *EW* reports that, of the more than 40 distributor executives who provided a 2021 sales forecast as part of the publication's annual ranking of the 150 largest electrical distributors in North America, the average respondent expects a 12.5% revenue increase. *EW* notes that the historical average for annual sales growth in the electrical wholesaling industry is between +4.0% and +8.0%.

A review of the sales data for the second quarter of 2021 published by some of the largest distributors in the electrical wholesaling industry indicates they are, in fact, experiencing the predicted recovery from 2020. These companies also anticipate an overall increase in sales during 2021. For instance:

- *Rexel Group* ("Rexel") – During the second quarter of 2021, sales were up 32.3% year-over-year on a global basis and up 9.6% compared to the second quarter of 2019, which Rexel says reflects the company's "robust start to the year." Furthermore, U.S. sales were up 28.1% year-over-year, to \$933.3 million; however, during the second quarter of 2021, U.S. sales were 0.8% lower than during the second quarter of 2019. According to Rexel, sales rose due to strong underlying demand for electrical products, driven by the renovation business in the construction market. Sales were also boosted by healthy underlying demand due to increased electrical usage and greater complexity of installed solutions as well as an improvement in the industrial market in several countries. Moreover, a favorable pricing environment on cable and non-cable products enabled Rexel to gain market share over competitors in the industry. Rexel notes that, within the U.S., the company is experiencing positive trends thus far in 2021, with four regions at pre-crisis levels (Northwest, Mountain Plains, California and Florida); this is offsetting lower activity in the other four regions (Southeast, Northeast, Midwest and Gulf Central). Looking ahead, Rexel says that, following a better-than-expected start to the year as well as robust growth drivers and the growing benefits of the company's digital transformation, it is expected that 2021 sales growth will be in the range of 12.0% to 15.0%.

- *WESCO International, Inc.* ("WESCO") – WESCO reports that, during the second quarter of 2021, net sales were \$4.6 billion, up from \$2.1 billion in the second quarter of 2020; WESCO says that the "more than double" increase in net sales is due to WESCO's merger with Anixter, completed on June 22, 2020. For the six months ended June 30, 2021, net sales were \$8.6 billion compared to \$4.1 billion for the first six months of 2020, which was also "an increase of more than double due to the merger with Anixter." Still, according to John Engel, chairman, president and CEO of WESCO, "We are seeing accelerating sales and margin momentum in each of our strategic business units driven by three factors: the continuing economic recovery, our significantly increased scale, and our mix-shift into higher growth markets." Based on strong second quarter results, WESCO raised its full-year 2021 sales outlook, anticipating that sales will increase by 10.0% to 13.0%.

With regard to pricing for industry products, DISC's Sokoll suggests that, during 2021, prices charged by electrical distributors will continue to increase as demand improves and supply "is unable to keep up the pace." At the same time, he cautions that an "inflationary price bounce" may absorb "a large portion of the growth gain" experienced by the industry. According to Sokoll, "Just because you are selling more dollars doesn't mean that you're making more money or selling more stuff. As an example, 500 pounds of copper today is worth about what 1,000 pounds was at this time last year. It's all about current pricing and inventory valuation."

Electrical Distributor Industry Trends/Drivers

Trends and drivers currently impacting electrical distributors include the following:

- *Construction Industry Heading Toward Normalcy?* – According to Dodge Data & Analytics ("Dodge Data"), total construction starts decreased 10.0% during 2020 to \$766.3 billion. As 2021 began, Richard Branch, chief economist for Dodge Data, noted that construction starts were likely to see a "long and rocky road ahead." Branch indicated that, while high vaccination rates were giving hope for a strong economic recovery, the construction industry had become plagued with logistical problems and a rapid escalation in the prices of materials. As a result, Dodge data reports that, during

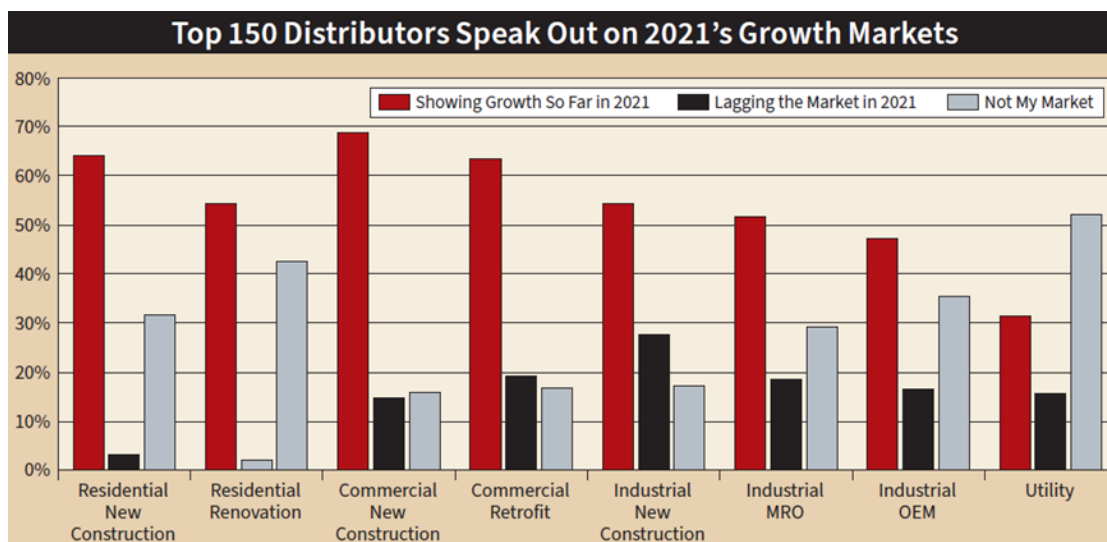
the first six months of 2021, total construction starts saw the following pattern: down 4.0% in January; down 2.0% in February; up 2.0% in March; down 2.0% in April; down 1.0% in May; and down 7.0% in June. Overall, the seasonally-adjusted annual rate for construction starts in June 2021 totaled \$863.6 billion. At the same time, Dodge Data reports that, despite some volatility month-to-month, when compared to the first six months of 2020, construction starts were up 15.0% in the first half of 2021, reaching \$436.0 billion.

Meanwhile, according to a July 2021 statement from Anirban Basu, chief economist for Associated Builders and Contractors (“ABC”), the construction industry “is coming back with a vengeance.” Basu notes that, even though the COVID-19 pandemic continues and is, in fact, surging in many parts of the U.S., the construction industry “is on the path to normalcy.” Looking ahead, Dodge Data’s Branch anticipates an “uneven” recovery through the second half of 2021 due to rising material prices and labor shortages. However, Branch sees “pent-up spending in the second half of the year as the ‘horse leaves the barn’ and starts running.” Overall, Dodge Data anticipates 4.0% growth for total construction starts in 2021 and an 8.0% increase in 2022.

- *The Positives Resulting from Supply Chain Challenges* – According to the NAED, like many other industries in the U.S., since the onset of COVID-19, the electrical distributors industry has been faced with “a global supply chain meltdown.” While supply chain difficulties resulted in numerous challenges for those in the electrical distributor space, NAED suggests there have also been positive

lessons associated with the supply chain crisis. For instance, some distributors report that the relationships with their key suppliers have become closer, and there has been greater collaboration and visibility to the supply process. Also, there has been a new interest in alternative products that the NAED says “may be a better fit than those in the standard buying habits.” In addition, distributors are reaching outside of their traditional suppliers and developing new relationships with alternative suppliers. With regard to their customer base, distributors are learning how to segment their customers to determine with whom they have the best relationships. According to the NAED, “The days of saying yes to all and trying to satisfy everyone are long gone. Although this is not a new concept, the segmenting of customers by bottom line contribution is gaining traction. Rewarding the loyalty and profitability of the customer base is more attractive.” Analysts say another byproduct of scarcity is creativity; in the current climate, salespeople have the opportunity to expose customers to alternative, higher-priced products. Customers who need products are now more willing to listen to available product options, which gives salespeople an opportunity to upsell and make customers more familiar with premium products.

- *Copper Prices on the Rise* – During the first quarter of 2020, the price of copper 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. Prices began to rebound in the second quarter as manufacturing activity in China began to accelerate, and by August 19, 2020,



Source: Electrical Wholesaling

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 was near an eight-year high. By early February 2021, it was trading above \$4.00 per pound, and by May 10 had reached a record high of \$4.80 per pound. *The Electrical Distributor Magazine* reports, “At that point, there were concerns about supply due to an ongoing strike by workers at the world’s largest copper mine in South America, and talk about copper prices reaching \$9 a pound by the end of 2022.” As a result, China tried to manipulate the copper market by releasing an unknown amount of copper from its reserves to stabilize the price; this had some impact during the month of June. Still, the price of copper rose \$0.75 per pound during the first six months of 2021 and was up \$1.50 per pound, or 55.0%, from July 1, 2020, to July 1, 2021.

While prices varied during the month of July 2021, as of July 30, 2021, copper prices sat at \$4.48 per pound. By the end of August, prices dropped to \$4.38 per pound. Year-to-date through August 2021, the price of copper was up 20.0%, and compared to the price of copper at the beginning of September 2020, the price was up more than \$1.30 per pound.

Recent M&A Trends for Electrical Distributors

The electrical distribution industry continues to experience a strong trend of merger and acquisition (“M&A”) activity. Recent notable M&A deals include the following:

- In March 2021, Omni Cable, LLC announced the acquisition of Houston Wire & Cable Company for \$91 million. The combined company results in a national wire and cable redistribution industry leader that will maximize OmniCable’s and HWCC’s highly complementary businesses, products and national footprint to better meet the needs of both companies’ customers. Headquartered in West Chester, PA, OmniCable is a premier redistributor of wire and cable, electrical products and value-added services.
- On March 12, 2021, Mueller Electric acquired Elcor Inc., a manufacturer of custom injection-molded parts, cable assemblies, power cords, cord sets, wiring harnesses and sub-assemblies. Mueller Electric has manufactured

electric and electronic components since 1908 and promotes itself as the inventor of the alligator clip. Along with its Ohio headquarter operations, Mueller has locations in England and China. The company sells its products to consumers and more than 50 electronic distributors, including Digi-Key, Allied, Mouser, RS Components, Farnell and Arrow Electronics.

- On April 1, 2021, Cape Electrical Supply, a subsidiary of Graybar, announced the acquisition of Richmond Electrical Supply, a single-location electrical distributor based in Richmond, KY.
- In April 2021, Kendall Electric Inc., a member of The Kendall Group, acquired Rumsey Electric Company. Like the Kendall Group, Rumsey is a 100.0% employee-owned company. The Kendall Group is comprised of six divisions with over 70 locations across nine states. Combined, Kendall and Rumsey will serve the electrical; lighting; automation; pipe, valve and fitting; steam and instrumentation industries. As part of *EW*’s 2020 Top 200 ranking, Kendall Electric was ranked #17 with 1,000 employees and 61 locations, while Rumsey was ranked #45 with 280 employees and 12 locations.
- On April 21, 2021, Electric Supply of Tampa (“ESI”), the largest independent distributor of electrical supplies headquartered in Florida, partnered with Supply Chain Equity Partners (“SCEP”), also of Tampa, to establish a super-regional platform for growth and expansion in electrical products distribution. SCEP is the only 100.0% distribution-centric private equity fund in the U.S., and the company’s investors include more than 40 distribution veterans. ESI is SCEP’s 44th distribution investment since 2007.
- On April 30, 2021, Van Meter Inc. (“Van Meter”), a 50.0% partner in Werner Ventures LLC, the legal entity that owns Werner Electric, made a stock purchase of the remaining business from MacDonald Ventures. “For 20 years, Van Meter and the MacDonald family have proudly owned and supported a successful and growing business in Minnesota,” said Lura McBride, president and CEO of Van Meter. “We find ourselves mutually understanding that our shared Minnesota business could reach even greater potential through the efficiencies and market influence gained by being owned by one company.” The joint

ownership model of Werner Electric of Minnesota began in 2001 when Van Meter and MacDonald Ventures partnered to purchase an independent electrical distributor known as Northland Electric. Werner Electric of Minnesota operates eight locations—six in Minnesota and two in Wisconsin—and employs 325 people.

- Also, during April 2021, Roebbing Capital Partners announced plans to acquire Teron Lighting Inc. (“TLI”), a 41-year-old manufacturer and distributor of commercial lighting fixtures. When the deal was announced, TLI employed 40 people at its 52,500-square-foot manufacturing facility.
- In early July 2021, Generac Holdings Inc., acquired Chilicon Power, a designer and provider of grid-interactive microinverter and monitoring solutions for the solar market. According to *EW*, “The deal bolsters Generac’s position in the residential energy technology market.” Russ Minick, Generac’s president of Energy Technology and chief marketing officer, reports, “Adding Chilicon’s robust microinverter solutions alongside Generac’s current PWRcell solar and storage product offerings will create one of the broadest product offerings in the residential clean energy market. Putting Chilicon’s microinverters in the hands of our global network of Generac dealers and distributors will strengthen our competitive position in this rapidly expanding market.”
- During July 2021, Sonepar USA Holdings Inc., entered into an agreement to acquire Springfield Electric Supply Company, a family-owned business headquartered in Springfield, IL. Springfield Electric Supply offers a full line of products and services to electrical contractor and commercial accounts. Operating in Illinois, Indiana, Missouri and Iowa, and ranked #43 on *EW*’s 2021 list of the 150 largest electrical distributors in North America, Springfield Electric joins Sonepar with 19 branch locations, 350 associates and a 100-year track record in the electrical wholesale distribution business. Springfield Electric had 2020 sales in excess of \$200.0 million. Meanwhile, Sonepar USA is represented by 13 locally-managed operating companies with over 700 locations nationwide. It entered the U.S. in 1998 and has continued to grow, not only due to organic growth but also due to strategic acquisitions of at least 59 distributors in the U.S., Canada and Puerto Rico.

Sonepar USA’s parent company, the Paris-based 45,000-employee Sonepar Group, is also family-owned. It operates approximately 2,800 locations in 40 countries worldwide and had 2020 sales of about \$27.0 billion.

- In July 2021, Hammond Power Solutions Inc., of Guelph, Ontario, acquired 100.0% equity ownership of Mesta Electronics Inc. of North Huntingdon Township, PA, a manufacturer of standard and custom active filter and induction heating products. Of the acquisition, Bill Hammond, Hammond’s CEO said, “This company broadens our product offering and manufacturing capabilities in power quality solutions. Mesta has an excellent reputation in the electrical industry for its standard and engineered to order capabilities and quality.”
- In August 2021, EMCOR Group Inc., completed its acquisition of Quebe Holding Inc. of Dayton, OH. Quebe provides preconstruction, construction, systems integration and energy solutions in a variety of markets, including automotive, commercial, healthcare, education, industrial and mission critical. The company has five Ohio-based business units: Chapel Electric Company, Romanoff Electric Company, Chapel-Romanoff Technologies, Kastle Electric Company and Kastle Technologies Company. Daniel Fitzgibbons, president and CEO of EMCOR Electrical Construction Services, noted, “Not only does the Quebe acquisition further strengthen EMCOR’s position in electrical construction, it also expands our capabilities across the state of Ohio.”
- On August 10, 2021, McNaughton-McKay Electric Company announced an agreement, in principle, to acquire Caniff Electric Supply, the largest independent electrical distributor of construction products in southeast Michigan. Operating out of three locations with 85 employees, Caniff offers a full line of products and services to electrical contractors and commercial accounts. Subject to final definitive agreements, the transaction is expected to close in early December 2021.
- On September 2, 2021, IEWC announced the acquisition of Cablcon, a supplier of custom broadband cabling as well as fiber and copper connectivity solutions, in a strategic move that continues IEWC’s growth in the North American telecom, central offices and data center markets.

Notable Closed M&A Transactions

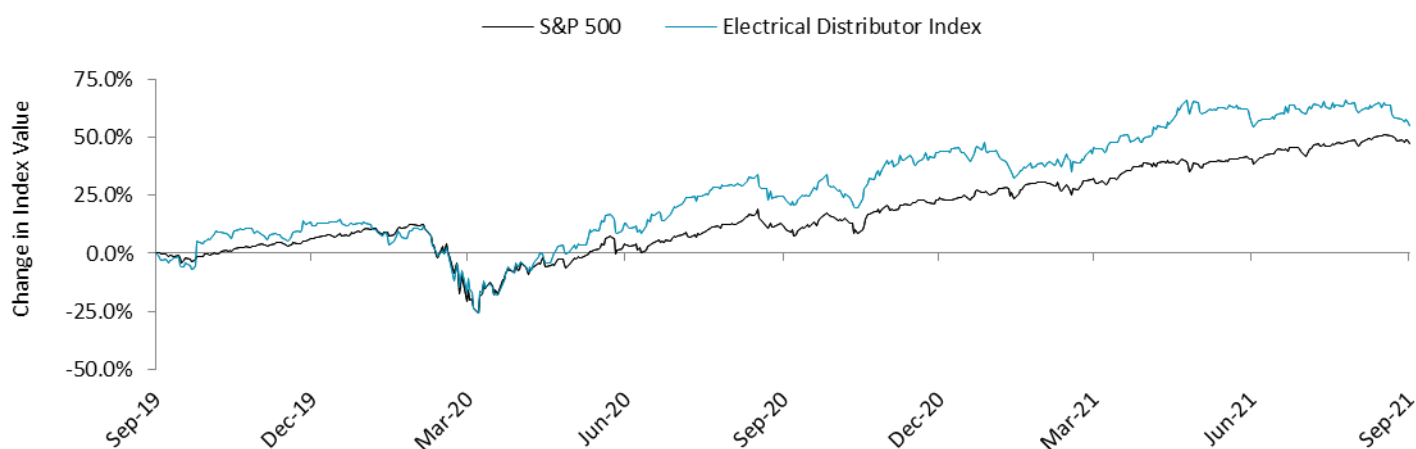
Year Closed	Target Name:	Acquirer Name:	Distribution Category
2021	Advanced Controls & Distribution, LLC	Connect-Air International, Inc.	Industrial electrical products
2021	Springfield Electric Supply Company	Sonepar SAS	Electrical equipment, components, and parts
2021	Caniff Electric Supply Co., Inc.	McNaughton-McKay Electric Company	Electrical products
2021	French Gerleman Electric Company	Agilix Solutions, LLC	Automation, electrical, power transmission, and safety products
2021	Richmond Electrical Supply, LLC	Cape Electrical Supply, LLC	Electrical products
2021	HCA Distributing	Volutone Distributing, Co.	Electrical products
2021	Houston Wire & Cable Company	Omni Cable Corporation	Wire and cable products
2021	Assets of Mid-West Electrical Supply, Inc.	Van Meter, Inc.	Automation, electrical, lighting, and power transmission products
2020	HD Supply Holdings, Inc.	The Home Depot, Inc. (NYSE: HD)	Electrical products
2020	Foley Group, Inc.	Convergence Partners, Inc.	Lighting and electrical equipment
2020	Assets of Titan Wire & Cable, LLC	Monroe Engineering, LLC	Wire and cable products
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	Schaeffler Yescos 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

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	30,784	93.9%	5,696	1,465	3.0%	6.8%	45.7%	25.7%	5.4x	21.0x	5.0x	21.7x
Rexel S.A.	RXL	9,108	92.3%	16,131	894	4.7%	1.0%	25.2%	5.5%	0.6x	10.2x	0.5x	6.9x
WESCO International, Inc.	WCC	10,501	93.9%	16,908	972	103.6%	27.8%	20.0%	5.7%	0.6x	10.8x	0.6x	9.1x
W.W. Grainger, Inc.	GWV	23,060	83.9%	12,250	1,666	5.3%	4.0%	35.2%	13.6%	1.9x	13.8x	1.7x	12.4x
		Median	93.1%	\$ 14,190	\$ 1,218	5.0%	5.4%	30.2%	9.7%	1.3x	12.3x	1.2x	10.8x
		Mean	91.0%	\$ 12,746	\$ 1,249	29.2%	9.9%	31.5%	12.7%	2.1x	14.0x	2.0x	12.5x

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 55%, outperforming the gains of the S&P 500.

Note: Valuation data as of 09/17/2021

Note: With the acquisition of HD Supply by Home Depot, HD Supply has been removed from the electrical distributor index

Note: With the acquisition of Houston Wire & Cable Company by Omni Cable Corporation, Houston Wire & Cable 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.

Select Electrical Distribution Experience



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