

Prairie Industry Perspective

Electrical Distribution Industry

PRAIRIE

March 2022



“During 2021, electrical distributors experienced a rise in the cost of commodities utilized by the industry, including steel, copper and plastic.”

Recent Industry Performance

Electrical Wholesaling (“EW”) reports that, during 2021, the performance of the electrical distributors industry improved substantially from the downturn experienced in 2020 following the onset of the COVID-19 pandemic.

At the same time, the publication reports that, during 2021, “Historic double-digit, year-over-year price increases for all sorts of electrical products...sent shockwaves up and down the supply chain.” During 2021, electrical distributors experienced a rise in the cost of commodities utilized by the industry, including steel, copper and plastic. Additionally, according to *EW*, the supply chain was “out of whack, with shipping delays at ports rippling through trucking routes and freight-rail lines.” Analysts note that, while supply chain difficulties are impacting the electrical distribution industry as a whole, perhaps the biggest impact is being felt by electrical manufacturers that rely on China and other Pacific Rim nations for their supply of semiconductors.

Despite these challenges, on average, the 200+ respondents to a recent survey conducted by *EW* estimate that their firms recorded a 10.0% increase in sales during 2021. Similarly, a review of fourth quarter sales data from some of the largest distributors in the electrical wholesaling industry indicates that they, too,

are experiencing a recovery in sales. These companies also anticipate an overall increase in sales during 2022. For instance:

- *Rexel Group* (“Rexel”) – During the fourth quarter of 2021, sales were up 20.3% year-over-year on a reported basis and up 12.2% on a constant and same-day basis. Furthermore, U.S. sales were up 20.0% year-over-year in the fourth quarter and, according to Rexel, “are now significantly above their pre-crisis level (+11.4% compared to Q4 19)” with all three U.S. end-markets—residential, commercial and industrial—above their 2019 level in value for the first time since the pandemic began. Additionally, for 2021 as a whole, Rexel reported record sales and growth: \$16.77 billion, up 15.6% on a constant and same-day basis. According to Guillaume Texier, Rexel’s CEO, “Rexel’s record results in 2021 attest to the success of our recent transformation. Our investments in people, digital and logistics allowed us to fully capture the market recovery and to optimize our operations in an environment marked by increasing inflation and continued tensions in the supply chain.” Looking ahead, Rexel predicts the market will continue to offer “favorable” conditions with room for additional growth in the U.S. Further, Rexel forecasts that fiscal 2022 same-day sales growth will be in the range of 4.0% to 6.0%.

- *WESCO International, Inc.* (“WESCO”) – WESCO reports that, during the fourth quarter of 2021, net sales were \$4.9 billion compared to \$4.1 billion for the fourth quarter of 2020, an increase of 17.5%. Further, the company’s backlog at the end of the quarter increased by more than 80.0%, to a record level, compared to the fourth quarter of 2020. For the year ended December 31, 2021, net sales were \$18.2 billion, versus \$12.3 billion for 2020, an increase of 47.8%; however, the company says this was primarily due to the June 22, 2020, merger with Anixter. Still, according to John Engel, chairman, president and CEO, “Wesco’s performance in 2021 was exceptional and laid the foundation for the extraordinary value creation opportunity that lies before us.” Engel added, “We finished 2021 with another very strong quarter of market outperformance and achieved new company records for sales, backlog and overall profitability. We have reduced our financial leverage to 3.9x EBITDA from 5.7x EBITDA in just eighteen months since closing the Anixter acquisition. And all of this has been done under the cloud of the pandemic and global supply chain challenges.” According to Engel, WESCO is “carrying strong positive momentum into 2022 and the year is off to an excellent start.” As a result, WESCO anticipates that sales will increase by 5.0% to 8.0% in 2022.

At the same time, *EW*’s survey is a bit more optimistic than the forecasts issued by Rexel and WESCO, with respondents expecting an average 9.7% increase in sales during 2022. According to *EW*, if that “bullish outlook” proves correct, total sales by the electrical distributors industry would reach \$143.2 billion. In comparison, Christian Sokoll of DISC Corporation (“DISC”), a provider of sales forecasts and related market data for the electrical market, is anticipating an increase in total industry sales of 4.6% in 2022 to \$127.0 billion. Regardless of the source, it appears that market participants and analysts expect sales for the electrical distribution industry to continue to rise in 2022.

Notably, *EW* suggests that the “hot local market areas” include the Austin, TX, metro area—which is at the top of the list—followed by the Sarasota, FL; Dallas, TX; Jacksonville, FL; Raleigh, NC; Nashville, TN; Charlotte, NC; and Tampa, FL, markets.

Electrical Distributor Industry Trends/Drivers

Trends and drivers currently impacting electrical distributors include the following:

- *The Construction Industry on the Road to Recovery* – During 2021, total construction starts increased 12.0%, reaching \$901.0 billion, according to Dodge Data & Analytics (“Dodge Data”). Richard Branch, chief economist for Dodge Construction Network—an umbrella brand which combines Dodge Data with the Blue Book Network—notes, “The increase in construction starts was impressive given the many challenges the industry faced during the year. Higher material prices, labor shortages, and multiple waves of COVID infections threatened to dampen the recovery. However, construction remained resilient and persistent throughout the year in the face of these difficult issues.”

Branch anticipates that these challenges will continue throughout 2022 but says that the construction industry is “well-positioned to make further gains fed by a growing pipeline of nonresidential projects waiting to break ground and the infusion of money directed towards infrastructure.” Overall, Dodge Data forecasts that construction starts will increase by 6.0% in 2022, to approximately \$955.0 billion. Still, Branch cautions that “hope must be tempered” since the construction industry will continue to face a number of difficulties in the coming year. “In a world where prices are rising, materials are hard to come by and labor is scarce, the ability to do more with less is what’s going to be a critical path forward in terms of increasing...profit margins,” Branch suggests. Broken down further, Dodge Data anticipates that specific segments of the construction industry will perform as follows in 2022:

- ◊ Single-family housing starts will rise by 4.0% in dollars and by 3.0% in total units. Meanwhile, multifamily housing starts are expected to increase by 5.0% in dollars and by 2.0% in total units. According to Dodge Data, residential starts in the Northeast region will rise by 10.0%, with starts in the West up by 9.0%.

- ◇ Commercial construction starts are forecast to rise by 12.0% in value during 2022. One of the leading segments of commercial construction will be warehouses, with starts set to rise by 13.0% in value during 2022. In addition, retail construction is expected to increase by 14.0% in value during 2022, while office construction—which Dodge Data says “took a sizeable hit in 2020 amid the surge in remote work”—is forecast to experience a 10.0% boost in value.
- ◇ Institutional building starts are forecast to grow 6.0% overall. More specifically, education construction starts are projected to increase by 9.0% in 2022. Further, the value of healthcare construction starts is poised to rise by 9.0%, with clinic and nursing home starts leading the way.
- ◇ Nonbuilding construction will increase by 6.0% in 2022. Notably, highway and bridge construction is predicted to rise by 6.0% in value. According to Branch, the newly signed Infrastructure Investment and Jobs Act will be the main catalyst for this increase. The program “will have a profound impact on construction starts in the years to come,” he says. “In 2022 alone, it will increase public works construction starts by \$11 billion over and above if the bill had not passed.” Additionally, electric utilities construction is expected to grow by 10.0% during the year.

In comparison, the January 2022 forecast issued by the American Institute of Architects (“AIA”) also anticipates “a healthy rebound” 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 projected to increase 5.4% in 2022, with specific construction segments recording the following pattern: total commercial construction, up 4.7%; office construction, up 0.8%; retail and other commercial construction, up 7.5%; hotel construction, down 0.4%; total industrial construction, up 9.4%; total institutional construction, up 4.4%; health construction, up 6.2%; education construction, up 3.5%; religious construction, down 1.1%; public safety construction, down 1.3%; and

amusement and recreation construction, up 7.7%. However, the Panel notes, “The uncertainty surrounding combatting Covid and its variants have added tremendous uncertainty to future building needs.”

- *Price Increases Expected to Continue for Electrical Products* – According to *EW*, “The price increases in the electrical market haven’t shown any signs of slowing down in recent months.” Indeed, since 1990, Electrical Marketing has published an “Electrical Price Index” each month, which covers more than 20 electrical products; notably, eight of the 10 largest monthly price increases occurred over the past two years. Wire and cable have seen some of the biggest increases during this timeframe. *EW* notes, “With inflation raging and shortages driving up prices, it’s tough to say when prices will return to anything near what we used to consider normal.”
- *Dealing With Competition by Offering Value-Added Services* – According to *The Electrical Distributor Magazine* (“*tED magazine*”), electrical distributors face competition “from big box sellers that are constantly upping their game to attract professional customers and online outlets looking to sway them with low prices.” In order to differentiate themselves, most electrical distributors offer local value-added services. Notably, *tED magazine* says that “the opportunities to attract, serve and retain customers” by offering these services are growing. In that regard, Mark Werner, vice president of Foundational IT Systems at Rexel USA, notes, “...we are developing more service opportunities with our customers that require greater system functionality and deliver a greater customer experience. As an example, customers are expecting software and system configuration support and services for our lighting and automation offers.” Indeed, Werner suggests that the industry is “becoming much more service oriented.” He says that, as electrical distributors add more value around not only the installation of a product, but also the technical support, training and life cycle of customers’ facilities, they will be viewed as solutions providers.
- *Worker Shortage* – According to a recent survey conducted by *tED magazine* and Baird, in January 2022, 73.0% of responding distributors reported that they are

currently short-staffed and hoping to hire new employees during the first quarter of the year. Survey respondents suggested that the best ways to recruit new staff include word of mouth from current employees and ad placements on internet job sites. Other hiring methods include the use of an outside staffing or recruiting agency and attendance at college and/or high school recruiting events. Further, one survey respondent suggested that the way to improve hiring prospects is to increase wages. That said, increasing wages can be a slippery slope. According to the survey respondent: “My main concern is increasing wages. It’s difficult to hire at pre-Covid levels so we are paying substantially more per hour to attract new employees. This then triggers increases for existing employees. If the economy suddenly returns to pre-Covid levels, companies will be in trouble.”

- *Copper Prices to Moderate or Rise Further in 2022* – In August 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 was near an eight-year high. In 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. *tED magazine* reported, “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 July 2021, as of July 30, 2021, copper prices sat at \$4.48 per pound. However, by mid-October, copper futures jumped to the year’s high of \$4.82 per pound. According to *Mining.com*, the price increase was due to the fact that “surging power prices threaten[ed] to curb [the supply of copper] at a time when exchange stockpiles are at rock bottom.” As the month proceeded, however, the price of copper began to drop. As December began, copper prices were down to approximately \$4.26

per pound. Nevertheless, on December 9th, *Mining.com* noted that, overall, copper prices had risen by about 20.0% year-to-date. That said, on December 15th, prices fell to \$4.12 per pound. However, on December 16th, following an upbeat statement from the Federal Reserve suggesting that the U.S. economy will remain resilient despite the spread of the Omicron variant of COVID-19, copper prices rose back to \$4.32 per pound. On December 31, 2021, due to robust demand from copper’s top consumer, China, prices were back up to \$4.46 per pound. Overall, copper prices rose 26.0% in 2021.

In a December 22, 2021, forecast, *Mining.com* suggested that higher supplies and softer demand would “cool” copper prices in 2022 after a “dizzying climb to record highs” in 2021, although the publication also noted that copper’s “central role in the energy transition will keep sentiment positive.” Nevertheless, while prices fell to \$4.31 per pound by late January 2022, they surged as high as \$4.71 per pound in mid-February (latest available) due to the fact that there was a very low supply of copper available, causing commodity market specialist Patricia Mohr to suggest that copper prices may “reach above \$5 per pound in the medium term.” Meanwhile, Fitch Solutions said in its outlook for 2022 that the tightness in copper inventories will ease a bit, with Chinese smelters increasing production. However, prices fell to \$4.51 per pound the following day, causing CME Group to indicate that copper prices are still seeking a direction.

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 November 2021, Graybar Electric Company (“Graybar”) acquired two electrical distributors: Steven Engineering Inc., a distributor of automation, motion control and pneumatic solutions, and Metro Electric Supply and Metro Lighting, a regional distributor that primarily serves homebuilders and contractors that specialize in residential, commercial and industrial projects. Steven Engineering was founded in 1975 and has a total of three locations in California and Oregon. As a subsidiary of Graybar, the company will continue to operate under the Steven Engineering name with the same leadership team,

employees and suppliers. Metro Electric Supply was founded in 1967 and operates 14 locations across the St. Louis region, including eight electrical supply locations and six lighting showrooms. Similar to Steven Engineering, as a subsidiary of Graybar, the company will continue to operate under the Metro Electric Supply and Metro Lighting brand with the same employees, leadership team and suppliers.

- During November 2021, Rexel purchased Mayer, a major distributor of electrical products and services operating in the Eastern part of the U.S. Headquartered in Birmingham, AL, Mayer operates 68 branches in 12 states, with a strong presence in Alabama, Florida, Georgia and Pennsylvania. It employs 1,200 employees and generated sales of \$1.2 billion over the 12 months ended August 31, 2021. Its customers are primarily in the commercial and industrial end-markets.
- In November 2021, electrical wholesale distributor City Electric Supply Company (“CES”) and solar equipment distributor Soligent signed an agreement for CES to acquire 100.0% of Soligent, including its solar distribution, engineering services and project financing business. Following the close of the transaction, Soligent became a subsidiary of CES.
- On December 1, 2021, the Reynolds Company, a subsidiary of McNaughton-McKay Electric Company, completed its acquisition of Mid-Coast Electric Supply, Inc., while McNaughton-McKay Electric Company closed on its purchase of Caniff Electric Supply (“Caniff”). Caniff is 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. According to McNaughton-McKay CEO Donald D. Slominski, with these transactions completed, “[W]e look forward to working together to leverage our combined strengths to provide best in class products and services to our customers.”

- On December 8, 2021, Sonepar USA, a subsidiary of the privately-held Sonepar Group, announced that it entered into an agreement to acquire Richards Electric Supply Company. A family-owned business headquartered in Cincinnati, OH, since 1937, Richards Electric has four branch locations and 150 associates. The company recorded sales in excess of \$125.0 million in 2021. The acquisition will enable Sonepar to expand its business into the Ohio and Kentucky markets.
- During December 2021, diversified electrical company Southwire announced the acquisition of Topaz Lighting Corporation (“Topaz”) of Medford, NY. Serving the construction, industrial and original equipment manufacturer markets for more than 35 years, Topaz is a provider of electrical fittings, components and lighting products. As part of the acquisition, Southwire will integrate Topaz’s distribution network to enhance Southwire’s distribution footprint. Topaz’s existing product line will also be combined with Southwire’s expanding components solutions and lighting platforms.
- In January 2022, Rexel closed on the purchase of Winkle Electric Company, a Rockwell Automation distributor with branch locations in Youngstown, OH, and Erie, PA. The acquisition expands Rexel’s presence as an authorized Rockwell Automation distributor and strengthens its distribution network in Eastern Ohio, Western Pennsylvania and Western New York.

Notable Closed M&A Transactions

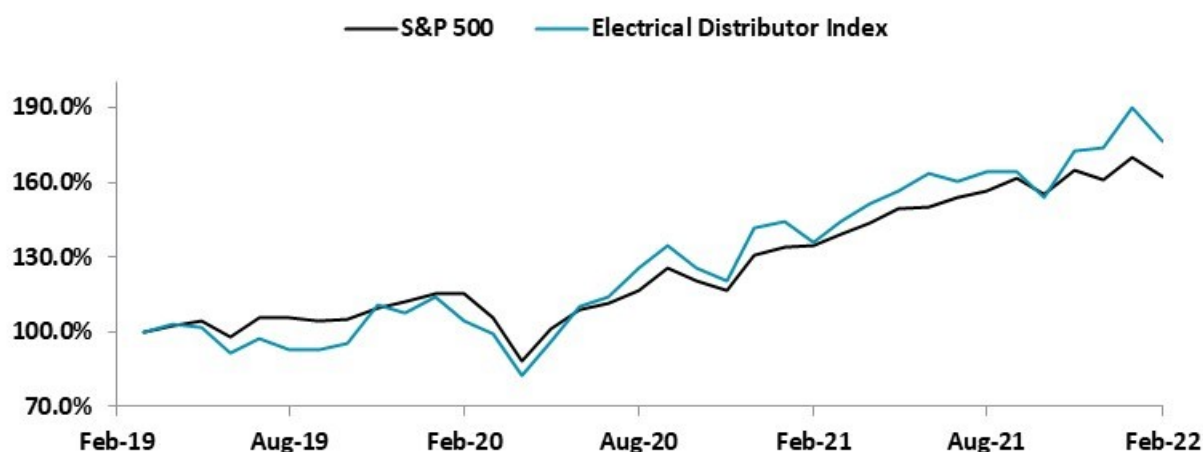
Year Closed	Target Name:	Acquirer Name:	Distribution Category
2022	Atlantic Electrical Supply Corporation	Encompass Supply, Inc.	Electrical products wholesaler
2022	Winkle Electric Company	Rexel USA, Inc.	Electrical products - distributor of Rockwell Automation products
2021	Caniff Electric Supply Co., Inc.	McNaughton-McKay Electric Company, Inc.	Electrical products wholesaler
2021	Mid-Coast Electric Supply	Reynolds Company	Electrical products
2021	Richard Electric Supply Company	Sonepar USA	Electrical products
2021	Steven Engineering	Graybar Electrical Company	Distributor of automation, motion control and pneumatic solutions
2021	Metro Electric Supply	Graybar Electrical Company	Electrical products
2021	Topaz Lighting Corporation	Southwire	Provider of electrical fittings, components and lighting products
2021	Engineered Fastener Company	Frontenac Company LLC	Electrical components distributor
2021	Mayer Electric Supply Company, Inc.	Rexel USA, Inc.	Electrical products wholesaler
2021	Soligent	City Electric Company	Solar electrical equipment
2021	Stealth Aerospace, Inc.	Aircraft Fasteners International, LLC	Electrical products supplier to aerospace industry
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	Schaebler 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	Omni Cable Corporation	Dot Family Holdings	Redistributor of wire, cable, and electrical products
2019	EIS	Audax Private Equity	Electrical wire, cable, and assemblies

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	29,915	79.2%	6,011	1,532	6.4%	6.6%	46.2%	25.5%	5.0x	19.5x	4.5x	19.4x
Rexel S.A.	RXL	9,910	90.8%	16,707	1,077	16.7%	3.2%	26.0%	6.4%	0.6x	9.2x	0.5x	6.7x
WESCO International, Inc.	WCC	10,771	87.8%	18,218	1,159	47.8%	30.6%	20.8%	6.4%	0.6x	9.3x	0.6x	8.1x
W.W. Grainger, Inc.	GWW	27,171	90.4%	13,022	1,754	10.4%	5.1%	36.2%	13.5%	2.1x	15.5x	1.9x	13.4x
		Median	89.1%	\$ 14,864	\$ 1,346	13.5%	5.8%	31.1%	10.0%	1.3x	12.4x	1.2x	10.8x
		Mean	87.0%	\$ 13,489	\$ 1,381	20.3%	11.4%	32.3%	12.9%	2.1x	13.4x	1.9x	11.9x

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 72%, outperforming the gains of the S&P 500.

Note: Valuation data as of 02/25/2022

Sources: S&P Capital IQ and public data

About Prairie Capital Advisors

Prairie offers investment banking, ESOP advisory, valuations & opinions 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



**Commonwealth
Electric Company**
of the Midwest



Kriz-Davis Co.
WHOLESALE ELECTRICAL SUPPLIES
"An Employee Owned Company"



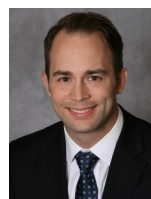
Contact Us



Timothy Witt
Managing Director
tim.witt@prairiecap.com



Terrel Bressler
Managing Director
tbressler@prairiecap.com



Anthony Dolan
Managing Director
adolan@prairiecap.com



John Waller
Managing Director
jwaller@prairiecap.com



Dan DeLap
Vice President
ddelap@prairiecap.com

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.