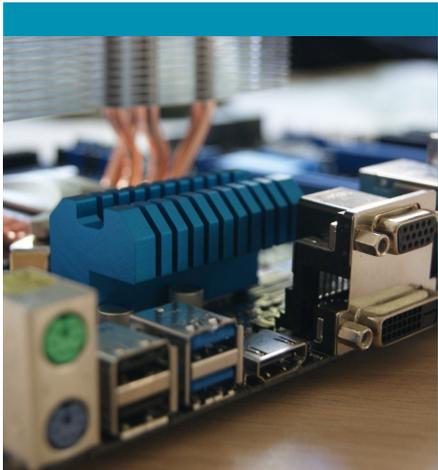


# Prairie Industry Perspective

## Electrical Distribution Industry



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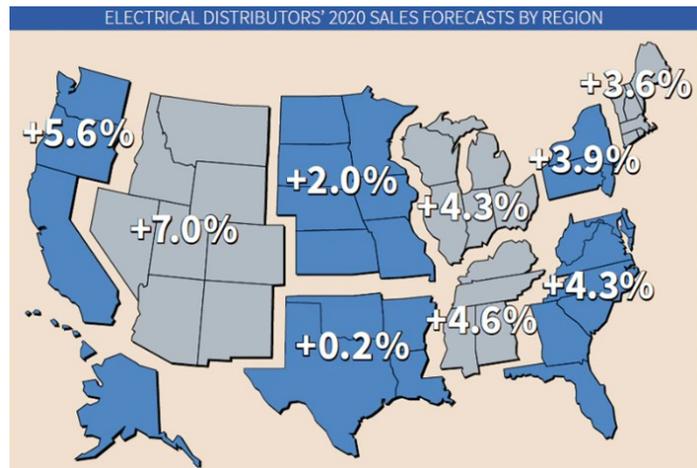
### Recent Industry Performance

A sampling of several of the largest distributors in the electrical wholesaling industry shows sales rose during both the fourth quarter of 2019 and during calendar year 2019 as a whole:

- *Anixter* - Sales increased 6.3% in the fourth quarter of 2019 and 5.0% for the full calendar year 2019. Anixter announced that the outlook is for sales growth in the range of 2.0% to 5.0% during the first quarter of 2020, and the company expects sales growth of 1.0% to 5.0% for the full-year 2020.
- *WESCO International, Inc. (WESCO)* – Compared to the fourth quarter of 2018, net sales in the fourth quarter of 2019 were up 4.4%. Further, net sales for 2019 as a whole were up 2.2% from 2018. WESCO expects that full-year 2020 sales will grow by up to 4.0%. As discussed later in this issue, on January 13, 2020, WESCO announced an agreement to acquire Anixter.
- *Rexel Group (Rexel)* - Sales were up by 0.7% globally during the fourth quarter and by 2.8% for the full year. Rexel reports that its priority

during the year was digital transformation, and indeed, the company’s digital sales increased by 12.9% in 2019. Rexel has not yet released a forecast for 2020 sales.

According to *Electrical Wholesaling’s (EW) “2020 Market Planning Guide,”* issued on December 30, 2019, distributors who responded to EW’s survey regarding the electrical wholesaling industry’s prospects in 2020 anticipate 4.0% national sales growth. Increases are expected to be generally uniform across the U.S., but particularly strong growth is projected for the Rocky Mountain region. While Christian Sokoll, president of electrical distribution and wholesaling market intelligence firm DISCCORP also expects sales to grow, his forecast for 2020 is lower, at just under 2.0%.



## Electrical Distributor Industry Trends/Drivers

Several trends and drivers currently impacting electrical distributors include:

- Business to Business (B2B) Distribution and Mobile Devices - The Electrical Distributor magazine (tED)* reports that, for U.S. companies, B2B e-commerce will account for as much as \$1.9 trillion in sales in 2020 with many of these purchases being made on a mobile device. In fact, recent research by *Forbes Insights* found that two-thirds of executives say that a mobile-friendly site makes them more likely to engage with or buy from a vendor. In addition, 37.0% of executives used a mobile phone to make business purchases between \$5,000 and \$100,000. As a result, *tED* says that, for electrical distributors, improving their B2B website's functionality on mobile platforms is "imperative." According to Matt Benevento, senior SEO specialist for Geek Powered Studios, since screen space is smaller on a mobile phone, a mobile-friendly site should contain product information, photos and pricing that is condensed and easy to find. He also says that checkout and payment processes need to be straightforward. Benevento suggests that to achieve a user-friendly mobile platform, desktop sites need to be developed with a "mobile-first" mindset – in other words, the site should be designed starting with the mobile version.
- Copper Prices on the Rise?* – During October and November 2019, copper was priced in the range of approximately \$2.50 to \$2.75 per pound. The cost of the metal, which is used in many electrical distributors' products, rose during the first week of December and moved above the \$2.80 per pound level as 2020 began. For all of 2019, the price of copper averaged \$2.72 per pound, up 4.0% from 2018. Still, this was about 16.0% lower than it was 10 years ago in 2010. Analysts, such as Andrew Hecht of *Seeking Alpha*, suggest that continued progress of trade talks between the U.S. and China could drive the price of copper to the \$3.00 per pound level or higher in 2020. At the same time, other experts such as Danske Bank analyst Jens Pedersen and Diego Hernandez, a veteran mining executive and president of SONAMI, the Chilean mining trade union, expect copper to level off around \$2.80 per pound in 2020.

- Construction Starts Remain Strong* – Construction starts are an important driver for electrical distributors. Dodge Data & Analytics notes that, although construction starts in 2019 were flat with 2018 when starts rose by 3.0%, 2018's growth in construction starts was on top of strong gains of 7.0% in both 2016 and 2017, and the 11.0% to 14.0% gains from 2012 through 2015. According to a recent forecast from Richard Branch, chief economist for Dodge Data, while construction starts are expected to decline in 2020, "the level of activity will remain close to recent highs."

## Recent M&A Trends for Electrical Distributors

According to *tED*, "The 'urge to merge' has taken hold of the industrial sector in 2019, and it's pulling the electrical distribution industry along with it. Whether it's larger companies acquiring smaller firms to broaden their marketplace footprint; equals merging to gain economies of scale; or large distributors taking themselves private, the moves being made are notable and the momentum strong." For example, in October 2019, Dutch-based lighting company Signify (formerly Philips) announced that it would acquire Cooper Lighting Solutions from Eaton for \$1.4 billion. According to Matt McCarron, VP of industrial/commercial sales for LEDVANCE, the lighting segment is a rich target area for M&A. "The lighting business today is tough; we're seeing a lot of contraction in it," says McCarron, pointing to the Signify-Cooper deal as a sign of potentially more activity to come over the next 12 months. "I think some of the smaller firms are running low on cash - both distributors and manufacturers - which effectively creates an environment for more of these types of deals."

Another large M&A deal in the space is that of Anixter and WESCO. On January 13, 2020, the companies announced a merger agreement under which WESCO will acquire Anixter in a transaction ultimately valued at approximately \$4.8 billion, or 8.6x EBITDA. According to John J. Engel, WESCO's chairman, president and CEO, "The transformational combination of WESCO and Anixter will create a premier electrical and data communications distribution and supply chain services company. With increased scale and complementary capabilities, we will be ideally positioned to digitize our business, expand our extensive services portfolio and supply chain offerings, and deliver solutions to our

customers whenever and wherever they need them around the globe.” Engel says the transaction is likely to close during the second or third quarter of 2020 after the

merger receives approval from Anixter stockholders and regulatory authorities.

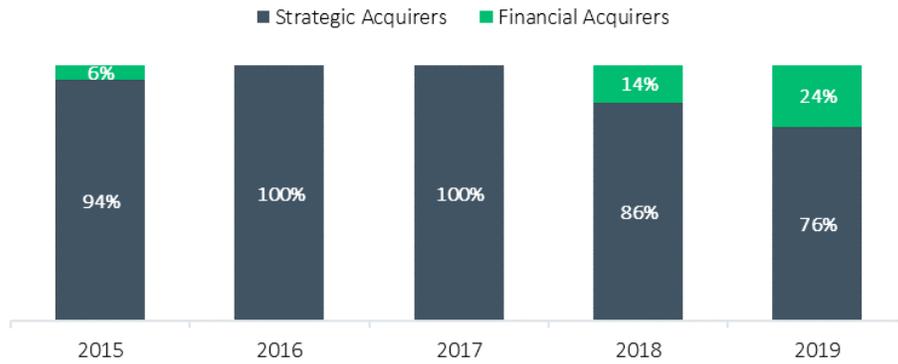
## Notable Closed M&A Transactions

Year Closed	Target Name:	Acquirer Name:	Distribution Category
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	Galco Industrial Electronics, Inc	AEA Investors	Electrical control, automation, and motion products
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

### Electrical Distribution Acquirers by Type

% of total U.S. Electrical Distribution Acquisitions

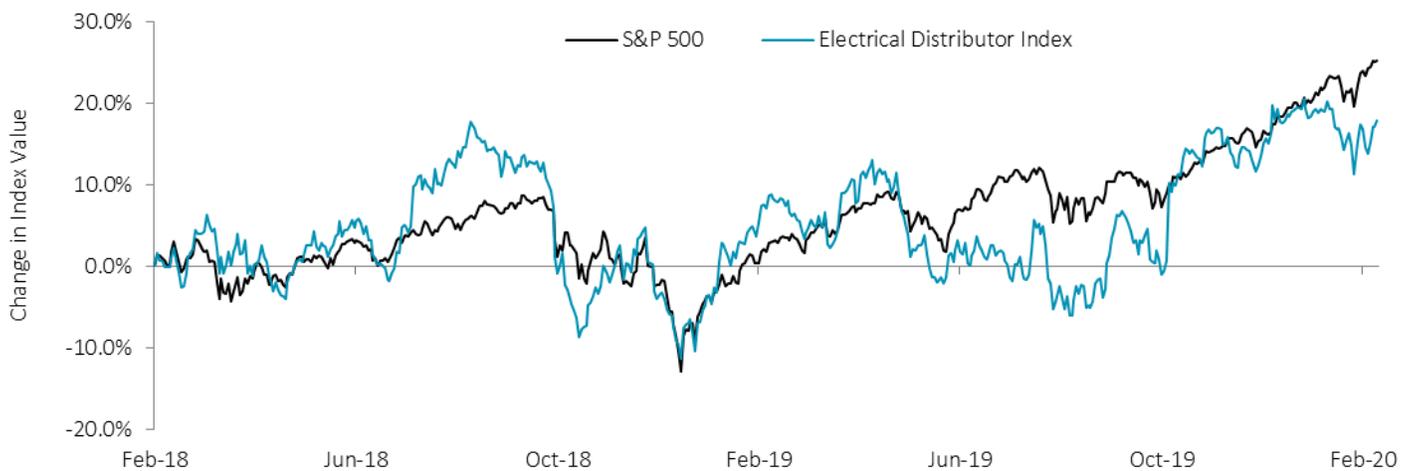


In an industry historically dominated by strategic acquisitions, financial buyers have become increasingly active in recent years.

### 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
Anixter International Inc.	AXE	\$ 4,586	98.9%	\$ 8,846	\$ 552	5.3%	5.1%	20.1%	6.2%	0.5x	8.3x	0.5x	9.2x
Fastenal Company	FAST	22,420	99.4%	5,334	1,362	7.4%	10.4%	47.2%	25.5%	4.2x	16.5x	4.0x	17.7x
Houston Wire & Cable Company	HWCC	157	62.6%	344	15	(2.0%)	9.4%	23.9%	4.2%	0.5x	10.8x	n/a	n/a
HD Supply Holdings, Inc.	HDS	9,396	88.9%	6,207	825	7.3%	5.3%	39.1%	13.3%	1.5x	11.4x	1.5x	10.6x
Rexel S.A.	RXL	7,576	99.8%	15,422	806	2.8%	1.4%	25.0%	5.2%	0.5x	9.4x	0.5x	7.6x
WESCO International, Inc.	WCC	3,396	78.8%	8,359	411	2.2%	4.4%	18.9%	4.9%	0.4x	8.3x	0.4x	8.1x
W.W. Grainger, Inc.	GWW	18,372	88.8%	11,486	1,617	2.4%	4.3%	38.3%	14.1%	1.6x	11.4x	1.5x	10.9x
<b>Median</b>			<b>88.9%</b>	<b>\$ 8,359</b>	<b>\$ 806</b>	<b>2.8%</b>	<b>5.1%</b>	<b>25.0%</b>	<b>6.2%</b>	<b>0.5x</b>	<b>10.8x</b>	<b>1.0x</b>	<b>9.9x</b>
<b>Mean</b>			<b>88.2%</b>	<b>\$ 8,000</b>	<b>\$ 798</b>	<b>3.6%</b>	<b>5.8%</b>	<b>30.4%</b>	<b>10.5%</b>	<b>1.3x</b>	<b>10.9x</b>	<b>1.4x</b>	<b>10.7x</b>

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



The electrical distributors index has gained 17.2% over the last two years, slightly underperforming the broader S&P 500's growth of 23.7%. Currently, electrical distributors are trading at 9.9x their last 12 month EBITDA.

Note: Valuation data as of 02/14/2020  
Sources: S&P Capital IQ and public data

### About Prairie Capital Advisors

Prairie offers investment banking, ESOP advisory and valuation services 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.



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## Transaction Highlight

### Omni Cable Corporation



Prairie Capital Advisors represented Omni Cable Corporation in the sale of the Company to DOT Family Holdings.

Headquartered in West Chester, Pennsylvania, and established in 1977, Omni Cable Corporation is one of North America's largest redistributors of specialty wire, cable and ancillary electrical products selling exclusively to electrical distributors. Serving a diverse range of end markets, the Company has developed a leading platform with 13 strategically located distribution centers in the United States and Canada.

Omni Cable recognized Prairie's extensive knowledge and expertise advising both electrical distribution and ESOP-owned companies. Prairie designed and managed a competitive process with a targeted group of potential acquirers, which attracted significant buyer interest and resulted in a highly successful outcome for its stakeholders.

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