

Prairie Industry Perspective

Electrical Distribution Industry

PRAIRIE

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Recent Industry Performance

A sampling of some of the largest distributors in the electrical wholesaling space shows that sales remained steady or rose between the fourth quarter of 2018 and the second quarter of 2019.

- *Anixter* - Sales increased by more than 5.0% in the fourth quarter of 2018 and 7.0% in the first quarter of 2019. Additionally, sales were up 5.8% in the second quarter to a record \$2.3 billion. Because of the growth it is experiencing, Anixter announced it has increased the lower end of its full-year 2019 sales outlook from 3.5% to 4.0%, and it reaffirmed the upper end of the range at 6.0%.
- *Wesco International, Inc.* - Net sales were up slightly in the fourth quarter of 2018, with sales in the first quarter of 2019 up by more than 4.0%. In the second quarter, net sales were \$2.2 billion, compared to \$2.1 billion in the second quarter of 2018, an increase of 2.2%. Wesco expects full-year 2019 sales growth of 1.0% to 4.0%.
- *Rexel Group* - Sales were up by about 2.0% during the fourth quarter overall, with close to a 7.0% increase in sales in

North America, which was mainly driven by heightened U.S. activity. Similarly, the 4.2% year-over-year rise in sales during the first quarter of 2019 reflected solid momentum in the U.S. as well as several European countries and China. During the second quarter, Rexel's sales rose 3.3% overall, with North American sales up 12.1% and U.S. sales up 7.0%. Rexel is on track to deliver on 2.0% to 4.0% same-day sales growth for the full-year 2019.

Further, *Electrical Wholesaling's (EW)* report, "The 2019 Top 200 Electrical Distributors," issued in August 2019, observes, "When you look at the many bullish 2019 sales forecasts of Top 200 distributors and the wide array of large construction projects they are now servicing, it would be easy to forget that just a few short months ago some economists were placing even-money bets that the U.S. economy would drift into recession in the next year or two." *EW* says that while that still may happen, it would likely "surprise the 38 (30% of all survey respondents) Top 200 distributors banking on double-digit growth in 2019, or the 53% of respondents (68 respondents) expecting 2019 growth in the 4% to 9% range." Supporting the double-

“Overall, despite some headwinds, we believe the electrical distribution industry will continue growing at a steady pace for the foreseeable future.”

digit growth forecasts by many of the top electrical distributors are construction projects in some specific commercial or industrial niches - data centers, hospitals and LNG (liquid natural gas) plants, as well as various projects in the oil and gas markets.

Electrical Distributor Industry Trends/Drivers

Several trends and drivers currently impacting electrical distributors include:

- *Development of Digital Branches* - Jeff Baker, CEO of Rexel USA, a division of Rexel Group, reports that Rexel currently has about 2,500 digital proximity locations, also known as microbranches, positioned close to Rexel's customers. Most of the microbranches are in the Northwest, but Baker says he sees the future as "[r]eal, digital locations that are restocked every day, owning that last 100 yards to our customers. There's sustainability in this model and there is definitely some momentum." As a result, Baker says the digital model is an important part of Rexel's future. "We believe that the term distributor is an obsolete term. When you see our digital journey over the next couple of years, it is going to be a big deal for us," Baker suggests.
- *Business to Business (B2B) Distribution is on the Rise - The Electrical Distributors* magazine reports that B2B distribution "is on a tear right now, and there's no end in sight. B2B distribution is two to three times the size of [business to consumer] retail and Amazon Business is estimated to be a top 20 distributor with over \$10 billion in gross merchandise volume (GMV)." While some electrical distributors may be intimidated by the idea of working with Amazon, Alex Moazed, CEO of Applico, an advisory firm that helps enterprise companies understand threats posed by big tech monopolies, indicates that distributors of all sizes can sell products on Amazon. Even smaller distributors that may not have the web presence and/or platform to realize huge e-commerce rewards can "[s]ell stuff that you don't sell in your core business, and that you can make good margins on." At the same time, Moazed

suggests that electrical distributors "that really want to be on the forefront" should try to figure out how to sell on the other marketplaces. According to Moazed, there will be at least one other successful option for B2B e-commerce sales, and he points to Alibaba and Walmart as potential online partners for electrical distributors.

- *Construction Starts Remain Strong* – Construction starts are an important driver for electrical distributors. Dodge Data & Analytics notes that, although the increase in total construction starts during 2018 was relatively small, at 0.3%, this is on top of strong gains in prior years; for example, in both 2016 and 2017, there were 7.0% increases in starts, and there were 11.0% to 14.0% gains from 2012 through 2015. According to a June 12, 2019, outlook from Robert Murray, chief economist and vice president of Dodge Data, the expansion of the construction cycle "is continuing with some deceleration marked by sluggish first-quarter [2019] performance, particularly in public works." While Murray reports that the Dodge Momentum Index, which gauges construction in the planning phase, may be "losing some steam," he says the loss is not much. In summary, compared to his forecast issued in November 2018, Murray says, "I don't know if the [construction] forecast has changed that much." He notes that he expects starts to remain flat once again in 2019.

Recent M&A Trends for Electrical Distributors

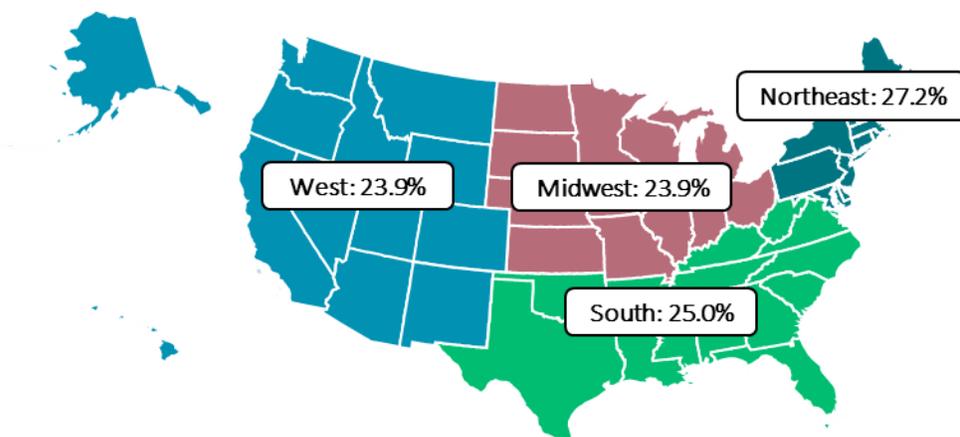
The electrical distributor industry is rather fragmented and includes both large companies and small regional and locally-based, privately-owned companies. Notably, *EW* reports that M&A activity in the sector is on the rise in 2019 "as both financial and strategic buyers remain active looking for viable companies to acquire." For instance, in February of this year, Sonepar USA acquired North Coast Electric, a family-owned and operated distributor. The purchase will increase Sonepar's presence in the Pacific Northwest, adding 34 branches in Washington, Oregon, Idaho, Alaska and Arizona. More recently, Kaman Corporation announced that it will sell its distribution segment to affiliates of

Littlejohn & Co., LLC. Kaman’s distribution segment supplies more than six million items – including electro-mechanical, bearings, power transmission, motion control and electrical and fluid power components, as well as

automation and MRO supplies – to customers in virtually every industry. With about 220 locations across the U.S., Kaman’s distribution segment generated about \$1.1 billion in net revenue during 2018.

Acquisition Completed by Region

Percentage of total acquisitions completed since the beginning of 2015



Geographic expansion remains a key driver for industry consolidation. Since 2015, the Northeast and South have been the most active regions for acquisitions.

Note: Region based on the target’s operating location.

Leading Strategic Acquirers

Number of acquisitions completed since the beginning of 2015



Strategic buyers have grown their geographic footprint and product lines through dedicated acquisition strategies. Sonepar, CED, and Crescent Electric Supply have been the most active strategic acquirers in the industry.

Notable M&A Transactions

Year Closed	Target Name:	Acquirer Name:	Distribution Category
2019	Richmond Electric Supply Co	Locke Supply Company	Electrical supplies, lighting fixtures, and construction products
2019*	Kaman Industrial Technologies Corporation*	Littlejohn & Co.	Electrical and industrial 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
2016	Atlanta Electrical Distributors	WESCO	Electrical equipment and products
2016	Bright Electrical Supply Company	Van Meter Inc	Lighting and electrical products
2016	Glenbard Electric Supply Inc	Revere Electric Supply Co.	Electrical products
2016	Beacon Electrical Sales	NorthEast Electrical Distributors (Sonepar)	Electrical products
2016	Brohl & Appell, Inc	Rexel	Automation, electrical and networking equipment
2016	Shealy Electrical Wholesalers, Inc	Border States Industries, Inc.	Electrical products and related parts and equipment
2016	Cape Electrical Supply	Graybar	Electrical and communications products
2016	Home Products Etc.	Crescent Electric Supply Co., Inc.	Lighting and home décor fixtures
2016	Precision Electrical Sales Company	R/B Sales Corporation	Electrical products
2016	Communications Products & Services	EIS, Inc	Electrical products including wire and cable
2016	Grove Madsen Industries	Codale Electric Supply, Inc (Sonepar)	Electrical products
2016	Miller Electric Supply Inc	Van Meter Inc	Electrical products to contractors and electrical companies

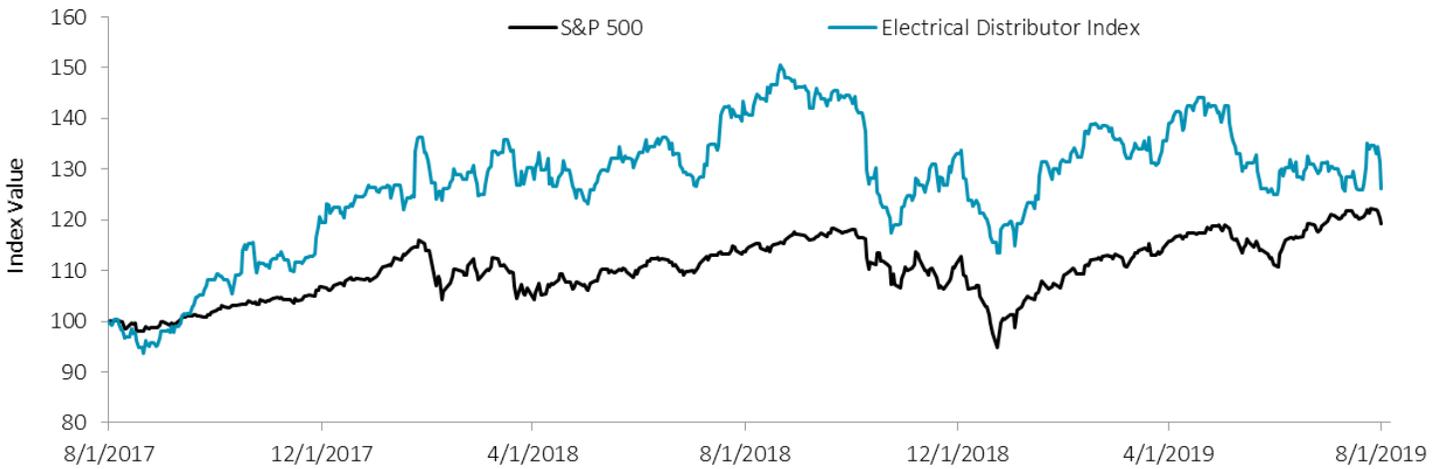
*Denotes announced transaction scheduled to close in Q3 2019

Publicly Traded Distributors of Electrical Products

(\$ in millions) Company	Stock Ticker	Enterprise Value	% of 52- Wk. High	LTM		Revenue Growth		LTM Margins		EV / LTM		EV / NFY	
				Revenue	EBITDA	1 Year	3 Years	G. Profit	EBITDA	Revenue	EBITDA	Revenue	EBITDA
Anixter International Inc.	AXE	\$ 3,588	83.5%	\$ 8,669	\$ 419	6.6%	6.9%	19.9%	4.8%	0.4x	8.6x	0.4x	7.7x
Fastenal Company	FAST	17,552	82.4%	5,189	1,175	11.0%	9.8%	47.6%	22.6%	3.4x	14.9x	3.2x	14.0x
Houston Wire & Cable Company	HWCC	166	49.8%	349	15	1.9%	8.1%	24.1%	4.4%	0.5x	10.8x	n/a	n/a
HD Supply Holdings, Inc.	HDS	9,232	83.1%	6,151	829	16.2%	(2.5%)	39.1%	13.5%	1.5x	11.1x	1.5x	10.0x
Rexel S.A.	RXL	6,893	74.1%	15,486	718	3.1%	0.5%	24.7%	4.6%	0.4x	9.6x	0.4x	7.7x
WESCO International, Inc.	WCC	3,560	73.9%	8,190	410	1.2%	3.1%	19.3%	5.0%	0.4x	8.7x	0.4x	8.3x
W.W. Grainger, Inc.	GWV	17,442	74.6%	11,286	1,645	3.6%	3.8%	38.6%	14.6%	1.5x	10.6x	1.5x	10.2x
Median			74.6%	\$ 8,190	\$ 718	3.6%	3.8%	24.7%	5.0%	0.5x	10.6x	1.0x	9.2x
Mean			74.5%	\$ 7,903	\$ 745	6.2%	4.3%	30.5%	9.9%	1.2x	10.6x	1.2x	9.7x

Note: Valuation data as of 08/01/2019

Electrical Distributor Index Performance vs. S&P 500



Publicly-traded electrical distributors have outperformed the broader S&P 500 over the past two years and are currently trading at 10.6x their last 12 month EBITDA.

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, the company is a leading advisor to closely-held companies nationwide.



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Transaction Highlight

Kriz-Davis Co.

Completion Date: August 2017



Prairie Capital Advisors represented Kriz-Davis Co. and its shareholders in the sale of the Company to Border States Industries, Inc. The transaction was publicly announced on July 26, 2017 and closed on August 28, 2017.

Headquartered in Grand Island, Nebraska and founded in 1945, Kriz-Davis is a leading distributor of electrical products with 18 locations covering six states in the Midwest. As a full-line electrical distributor, the Company has continuously served the electrical utilities, industrial/automation, electrical contractor, and data communications markets while delivering value and innovation to the growing needs of its customers. Kriz-Davis is perennially ranked as a Top 50 Largest Electrical Distributor in the U.S. by Electrical Wholesaling Magazine.

Prairie Capital Advisors acted as the exclusive financial advisor to Kriz-Davis, working closely with its shareholders and management team throughout the sale process. Prairie's deal team was integrally involved in each step of the process and guided Kriz-Davis and the management team to a successful transaction outcome.

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