

COVID-19: Supply Chain Assessment

April 3, 2020 | Vol. 1, Issue 2

Energy Solutions' Trade Ally Management Team is continuing its outreach to global, national, and regional market actors to bring you developments and updates to supply chain and market conditions that affect our clients' programs.

Method Review

The team gathered information across various technology areas and market actors to provide data on the following:

1. **Product Availability** — provides insight on observed and/or anticipated impacts related to product sourcing, assembling, and/or delivery.
2. **Equipment Sales** — provides insight on observed and/or anticipated impacts or company directives put in place regarding inside sales, indirect sales, counter sales, and availability of online sales.
3. **Service Providers / Contractors** — provides insight on company directives regarding delivering service to customers, e.g. are jobs suspended or are services deemed 'essential' and it's business as usual with social distancing in mind? If suspended or changed in any way, what are the impacts to the pipeline?
4. **Administrative / Application Submittal** — provides insight on company directives regarding working from home that may impact operations as well as participation in our clients' programs.

Findings

1. Product Availability

- a. **HVAC / Water Heating** — Strong inventories continue to exist, and factories continue to manufacture equipment. If necessary, plans are in place to suspend operations to clean facilities due to virus exposure.
- b. **Foodservice** — North American factories are still operational. Specialty equipment orders and replacement parts are delayed two weeks from Europe and 4-6 weeks from Asia.
- c. **Lighting** — Inventory of 45-90 days continues to exist across all product categories. Major distributors are well stocked, but smaller distributors are expected to be impaired in the coming months.

For these updates, the Trade Ally Team has communicated with the following number of market actors per technology area:

	This Issue	Total to Date
HVAC	7	17
Foodservice	8	24
Water Heating	5	12
Pumps	0	5
Lighting	3	13

2. Equipment Sales

- a. **HVAC / Water Heating / Lighting** — Operations and sales are continuing, though have largely shifted to online. New construction sales are slowing down but replacement sales for HVAC and Water Heating remain steady or are picking up.
- b. **Foodservice** — The industry has lost more than 3 million jobs and \$25 billion in sales. Roughly 50% of restaurant operators anticipate having to lay off more people in April (Source: <https://restaurant.org/covid19>). Operations are affected across the board — from modified hours and reduced staff, staff working from home, company downsizing, or temporarily or permanently going out of business. A top 100 foodservice dealer based in New York has gone out of business.

3. Service Providers / Contractors

- a. **HVAC** — Services are deemed essential and are continuing. Additional health and safety precautions for field technicians are either in place or are currently rolling out. Some slowdown is occurring, and contractors are seeking financial resources to avoid layoffs.
- b. **Foodservice** — Mandated dine-in closures are causing heavy disruption. Many businesses have closed or decreased operational hours and capacity. According to NPD, total restaurant transactions are down 36% from

this week last year, with quick serve down 34%. Full-service restaurants are down 71%. (Source: <https://www.npd.com/lps/pdf/npd-economic-virus-reporting-march-wk-3.pdf>) The cash-and-carry sector is heavily impacted, and the design-build sector is experiencing major delays.

- c. **Water Heating / Pumps** — Services are deemed essential. As one manufacturer representative stated, “people need hot water, no matter the situation”.
- d. **Lighting** — Supply chain disruptions are causing project delays as project specifications are set months in advance and materials may not be easily available or substituted.

4. Administrative / Application Submittal

Across technology areas, distributors remain highly engaged. When asked what program administrators could do to help during this time, the market continued to advocate for existing upstream and midstream programs and for new programs to launch as planned.

As first cost is a recognized and increasingly influential driving factor for both planned and emergency sales, market feedback has been unanimous that upstream and midstream programs are critical to driving high efficiency equipment sales and delivering savings to customers.

Currently, all upstream and midstream programs implemented by Energy Solutions are active. Rebate and incentive volume have increased 5% across all programs over averages seen in January and February.

5. General

As of April 3, 2020, we still estimate the sales volume impact at END OF YEAR to be:

- a. **HVAC:** down 15% across all categories.
- b. **Foodservice:** down 30% across all categories.
- c. **Water Heating / Pumps:** down 15% across all categories.
- d. **Lighting:** down 20% across all categories.

The majority of market actors expect delays and an eventual rebound in market sales in the coming months. A shortage of service providers is anticipated across all technologies as delayed projects resume, crowding the pipeline of planned and emergency projects.

Action Items / Moving Forward

- Energy Solutions will continue to communicate with the market and monitor trends. We will publish an update every two weeks.
- Energy Solutions will facilitate mutual market and client inquiries. If there are particular questions you'd like us to ask, please let us know.

Industry Resources:

Notable resources that centralize Utility Assistance Resources, Industry Information, and Tip Sheets:

- **HVAC / Water Heating:** <http://www.ahrinet.org/News-Events/Coronavirus-Updates>
- **Foodservice:** <https://caenergywise.com/covid-19/>
- **Construction activity report by state:** <https://www.constructconnect.com/covid-19-construction-activity-report>

Disclaimer: The COVID-19 virus pandemic is a rapidly evolving situation, and this is our best estimate of forecast impacts at this time with the information available. We will be continuously updating this forecast and adding details as more information becomes available and the actual impacts of the pandemic on the markets are felt. These updates will be versioned and dated so you can know at what time they apply.