



COVID-19: Supply Chain Assessment

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For 25 years, Energy Solutions has provided cost effective, market-driven solutions that deliver reliable, large-scale impacts. We currently implement more than 100 upstream and midstream programs across 22 states and Canada for HVAC, foodservice, water heating, pumps, and lighting technologies. During this pandemic, we have been in frequent contact with our global, national, and regional networks of distributors and manufacturers. We are surveying our trade allies to get a current snapshot of the market and inform you of developments and updates to supply chain and market conditions that affect our clients' programs.

Method Review

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

1. **Product Availability** — insight on observed and/or anticipated impacts related to product sourcing, assembling, and/or delivery.
2. **Equipment Sales** — 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** — insight on company directives regarding delivering service to customers, e.g. are jobs suspended or are services deemed 'essential' and 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** — insight on company directives regarding staff resources that may impact operations as well as participation in our clients' programs.

Findings

1. Product Availability

- a. **HVAC** — A large manufacturer reported minor supply chain challenges from Mexico, which have impacted numerous original equipment manufacturers nationwide and resulted in missed delivery dates. These challenges stem from uncertainty regarding what counts as an 'essential' industry. Domestic manufacturing and stock are otherwise strong with no major issues reported.
- b. **Foodservice** — A large equipment dealer cited supply chain issues in China, causing major hurdles for sales nationwide. Refrigerated Solutions Group announced the permanent closure of its Master-Bilt manufacturing facility in New Albany, Mississippi, citing unexpected conditions caused by the pandemic. Master-Bilt is a leading manufacturer of commercial foodservice refrigeration equipment.
- c. **Lighting** — Multiple distributors have reported that they are adhering to curbside pickup only, despite partial state re-openings.

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

	This Issue	Communications To Date
HVAC	7	51
Foodservice	4	52
Water Heating	3	29
Pumps	1	8
Lighting	8	32
Grand Total	22	171

Table 1

2. Equipment Sales

- a. **HVAC** — Sales are generally still down, but slowly improving and normalizing. A distributor reported that residential high efficiency sales have increased, with their highest performing heat pump sales up 25% last month.
- b. **Foodservice** — Sales and program application submissions declined in late March and through April. Sales have started recovering in May, as shown in Table 2.
- c. **Water Heating and Pumps** — A distributor reported an influx of school projects coming in now, as opposed to June, because the schools are empty and available for upgrades.
- d. **Lighting** — Multiple distributors have reported steady sales and quote volumes with minimal interruption from the pandemic.

Currently, all upstream and midstream programs implemented by Energy Solutions are active.





   	Rebates paid in the last four weeks vs. prior year-to-date weekly averages:	Units submitted to programs comparing two weeks ago to now:
HVAC	UP by 35%	DOWN by 11%
Foodservice	DOWN by 45%	UP by 22%
Water Heating/Pumps	UP by 7%	DOWN by 6%
Lighting	DOWN by 26%	UP by 10%

Table 2

3. Service Providers / Contractors

Where local and regional mandates have allowed, workers continue to return. Physical distancing and personal protective gear are being enforced. On-site job quoting is resuming across technology areas. Sectors with defined fiscal year budgets (e.g. schools) are trying to use available funds before they lose funding for the next year.

4. Administrative / Application Submittal

Where local and regional mandates have allowed, businesses are starting to reopen. In the Northeast, a distributor reported they are gearing up to reopen in phases. The first phase prioritizes warehouse employees and comprises approximately 25% of their company. A distributor noted that as their office workers return, staff will be physically distanced and stationed at every third desk.

5. General

As of May 29, 2020, we still estimate the sales volume impact at END OF YEAR to

be: **HVAC:** down 15% **Foodservice:** down 30%

Water Heating/Pumps: down 15% **Lighting:** down 20%

6. Market Insight

We are entering a new phase of the pandemic, with a near-national lockdown giving way to reopening with regional variations. Aside from enforcing caution and physical distancing in public and work settings, more stringent ventilation requirements for offices, restaurants, retail, and schools are emerging as an important opportunity to combine health and safety with energy efficiency measures.

- a. **HVAC** — Mechanical contractors have mentioned three general strategies:
 - i. **Dilution:** Extra outside air.
 - ii. **Filtration:** Increased standards, e.g. from MERV 1 filter to MERV 16 (minimum efficiency reporting value), high efficiency particulate air (HEPA) filters.
 - iii. **UV Lights:** Hospital grade — Coil or air sterilization.
- b. **Foodservice** — In Colorado, draft guidelines for restaurants include OSHA (Occupational Safety and Health Act) approved ventilation for indoor settings.



Disclaimer: The COVID-19 pandemic is a rapidly evolving situation, and this is our best estimate of impacts to forecast, at this time, with the information available. We will be continually 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.

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