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** — No reported impacts related to product sourcing, assembling, and/or delivery.

b. **Foodservice** — The majority of dealers have resumed 'normal' operations, with staff returning to office and customers allowed inside showrooms.

c. **Lighting** — In a roundtable with 18 distributors, 50% reported that branches were fully open, 30% reported that they are continuing to adhere to curbside pickup and online orders only, and 20% plan to fully open in the next two weeks.

d. **Water Heating** — Manufacturing facilities in Mexico have experienced outbreaks of COVID on factory floors, impacting the production of residential water heaters.

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	6	62
Foodservice	6	67
Water Heating	4	36
Pumps	0	13
Lighting	22	57
Grand Total	38	235

Table 1

2. Equipment Sales

a. **HVAC** — A California distributor noted that their residential equipment and parts sales were down while their commercial sales remain strong due to opportunities arising from temporarily unoccupied buildings and necessary building maintenance needs.

b. **Foodservice** — Dealers are expecting sales to pick up as restaurants reopen in compliance with indoor and outdoor dining guidelines. As noted in Issue 7, demand for used equipment was likely to increase in the next three to six months. A dealer who sells used and new equipment confirmed an influx of used equipment into the market.

c. **Water Heating** — In the Pacific Northwest, distributors are experiencing declining sales and working to address by leveraging water heating incentive programs for prospective customers.

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:
HVAC	UP by 27%
Foodservice	DOWN by 32%
Water Heating/Pumps	UP by 5%
Lighting	DOWN by 22%

Table 2

3. Service Providers / Contractors

a. **HVAC** — A manufacturer representative reported that new jobs have stopped coming in since mid-May, with bookings and new orders reduced by 50%. Existing projects are experiencing delays due to staffing and site restrictions and have affected contractors and consulting engineers. Service providers are relying on projects in their pipeline to carry their business through the end of the year.

b. **Water Heating** — There is regional variation. In King County in the Pacific Northwest, larger commercial projects were halted in late March / early April until service providers and contractors could enforce social distancing rules. Jobs are active now, though much slower as the number of staff permitted on site has been reduced. In the East Coast, businesses that had slowed down to skeletal crews and emergency-only jobs in April have reported a return to full staffing as business has picked up.

Across all technologies for service providers and contractors, staff restrictions and site cleanings have significantly increased labor hours and reduced profitability.

4. Administrative / Application Submittal

a. Promotions continue to largely drive program engagement, sales, and application submittals. We are also seeing program re-engagement from previously hard-to-engage market actors.

b. Companies are continually evaluating staffing needs and adjusting to align with updated strategies and changing client bases. Some layoffs are occurring, not due to a lack of work, but for cost cutting purposes.

5. General

As of June 26, 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

Foodservice / **HVAC** programs with refrigeration measures — Market demand for freezers is growing, driven by less frequent deliveries. Some suppliers are delivering once a week instead of twice, leading to restaurants' need for increased freezer space to hold ingredients.

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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