

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 insight on company directives or market observations around the following categories: product availability, equipment sales, service providers/contractor impacts, and administrative impacts.

Findings

1. PRODUCT AVAILABILITY

- a. **HVAC** — A distributor reported one-month product delays from two major residential equipment manufacturers. Where products simply are not available, some distributors are sourcing new brands and have expanded product line offerings to close sales. There are no reported delays in commercial equipment availability.
- b. **Water Heating** — A manufacturer confirmed that they are operating their facilities below normal capacity to relieve workforce stress and avoid unnecessary risk. This is causing further supply chain impacts.
- c. **Foodservice** — High demand is causing longer lead times for several manufacturers of refrigeration equipment. The current projection for production to meet demand is early to mid-October.
- d. **Lighting** — While many distributors confirm strong inventories and product availability, recent hurricanes have impacted some product availability.

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	15	106
Foodservice	14	113
Water Heating	7	54
Pumps	2	22
Lighting	11	85
Grand Total	49	380

Table 1

2. EQUIPMENT SALES

- a. **HVAC** — Many manufacturers reported huge gains in residential equipment sales above forecasts. Contractors nationwide confirmed a hot market for high-end high-efficiency equipment with strong customer interest for premium features and upgrades supporting indoor air quality. Service and maintenance demand for commercial equipment have been reduced because buildings are unoccupied. Commercial equipment replacements have been delayed, but distributors and manufacturers expect sales to return as buildings reopen and workers return to offices.
- b. **Foodservice** — A manufacturer noted that the states' ongoing stop-and-go openings and closings continue to have a negative impact on equipment sales.
- c. **Water Heating** — A distributor noted large impacts to sales as many business sectors are closed, including one out of every five restaurants and most schools. Hospitality customers are severely hit — including but not limited to hotels, bars, concert halls, and sporting arenas. Collectively, this is depressing the market.

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- d. **Lighting** — Several distributors reported strengthening sales in the past two months and they are well positioned for a strong fourth quarter, despite being ~25% down to this time last year.
- e. **Across technologies** — Mid/Upstream programs are being leveraged with a higher sense of urgency as an important cost competitive tool.

3. SERVICE PROVIDERS / CONTRACTORS

- a. **Across technologies** — Builders are coping with labor shortages, difficulties in obtaining financing, and permitting delays.
- b. **Lighting** — Projects once on hold are on track to resume at an accelerated pace to achieve pre-pandemic completion schedules.

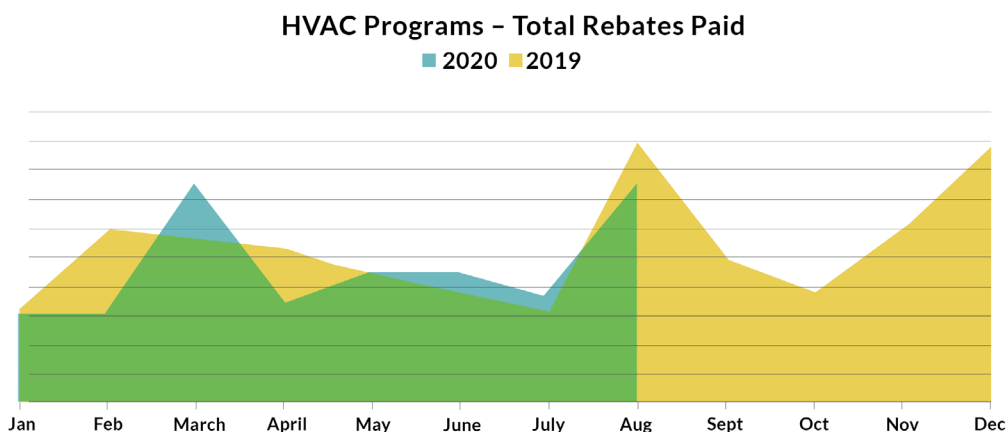
4. ADMINISTRATIVE / APPLICATION SUBMITTAL

- a. **Across technologies** — Staffing resources continue to be affected. A few examples:
 - i. A HVAC distributor reported many of their senior staff chose to retire rather than risk exposure to the coronavirus, putting extra pressure on staff resourcing and capacity to meet increased summer demand.
 - ii. Another HVAC distributor described a five-month backlog in application submissions due to limited staff.
 - iii. A lighting distributor reported staff exposure to COVID-19 interrupted operations. Rotating furlough schedules are also ending, and roles are being consolidated resulting in some staff being permanently laid off.

Market Insight: Refrigeration

- a. **Cold Storage** — For grocery stores investing in ‘click-and-collect’ take out offerings, refrigerated staging areas are needed to hold the increasing number of online orders being placed. There is also increasing interest in micro-fulfillment centers and dark stores that will be dedicated exclusively to the fulfillment of online orders.
- b. **COVID-19 Vaccine** — As the vaccines enter late-stage clinical trials, the spotlight and demand for ultra-low temperature freezers that are required by the vaccine cold chain will expand significantly. ‘Freezer farms’ have been built near airports to support storage and the increased demand will extend through the transportation and delivery stages of the vaccine.

Program Performance Spotlight: HVAC



On the whole, data show that total 2020 HVAC rebates paid is similar to 2019 payments. The COVID-19 pandemic has not had dramatic impacts, as HVAC has been an ‘essential’ service with steady demand. To note, applications are submitted for equipment on average 30-45 days after it is sold. We expect the summer demand peak will continue through September and we will see a strong year end finish.

Disclaimer: The COVID-19 pandemic is an evolving situation, and this report reflects our best estimate of market impacts 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.

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

Rebates paid in the last four weeks vs. 2020 year-to-date weekly averages:

HVAC	DOWN 4%
Foodservice	UP 47%
Water Heating/ Pumps	UP 31%
Lighting	DOWN 17%

Table 2