

COVID-19: Supply Chain Assessment

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Editor's Note

2020 has been a year like no other. In our more than 500 conversations with our market partners these past 10 months, we have heard stories of loss, despair, and worry, but we have witnessed incredible grit, ingenuity, and heart in our partners who have risen to the many challenges of this year and did whatever it took to keep their businesses going and their people protected.

We have also been inspired by our program administrator partners' steadfast commitment to market incentive programs that have provided a critical foothold to the market and to us in a tumultuous year. Never has the importance of these programs been more apparent than this year. Your support and willingness to adapt to market conditions and keep these programs solvent provided a financial lifeline to the businesses we all rely on to make our continued savings goals a success.

We are humbled and grateful that we've been able to continue our mission and even add resources to support these critical programs and to meet the many challenges we've all faced. We remain encouraged that, together, we will build a stronger, more resilient future in 2021 and beyond. Thank you.

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. **Foodservice** — A dealer reported that layoffs at the manufacturer level have slowed down the entire market, increasing factory lead times across the board. – “If you ordered a fryer right now (Dec 4th), you wouldn't get it until mid-January at least.”
- b. **Lighting** — Manufacturers are striving to ensure their products are updated in time for the emerging Design Lights Consortium (DLC) V5.0 updates, designed to improve the quality of light, connectivity, and realized energy savings of DLC listed products. This affects products currently qualified under DLC V4.4, as some will no longer qualify for rebates under DLC V5.0 effective February 28th 2021.

2. EQUIPMENT SALES

- a. **HVAC** — For residential sales, demand remains high for products that support indoor air quality and improved comfort. The smart home market, traditionally focused on thermostats, is also heating up and is rapidly expanding to include HVAC systems. Homeowners are increasingly interested in enabled WiFi controls, zoning capabilities, multiple operating modes, and sensors that can map trends and offer recommendations.
- b. **Foodservice** — As COVID cases surge and local and regional restrictions tighten, sales have slowed and are expected to remain slow until restrictions lift. One distributor noted that they were averaging \$30K a month in

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	12	140
Foodservice	14	162
Water Heating	5	81
Pumps	3	32
Lighting	4	110
Grand Total	38	525

Table 1

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revenue as opposed to the usual \$50-60K per week. Restaurants and hotels sales are reportedly down at least 50% and healthcare is down 30%. Another distributor noted that school sales have slowed as well, but they are still moving forward with designing and bidding for summer 2021.

- c. **Water Heating** — Distributors have reported that sales are down with the majority of sales being emergency replacement.
- d. **Lighting** — Distributors have reported strong sales due to end of year deadlines in advance of new DLC rules, with such frenzied business that they're looking forward to the holiday break to slow down.

3. SERVICE PROVIDERS / CONTRACTORS

- a. **HVAC** — Contractors reported continued strong interest in indoor air quality equipment as well as energy recovery ventilators, UV lamp devices, and ion-generation equipment to combat COVID.
- b. **Foodservice** — Project demand remains strong for refrigeration contractors for grocery store accounts.
- c. **Water Heating / Pumps** — A major manufacturer's representative reported that the approach for project sizing has changed, as new projects require analyses of load profiles that factor in short-term pandemic effects and long-term projections. This is particularly acute in multi-family applications with more occupants using hot water at the same time during stay-at-home orders.

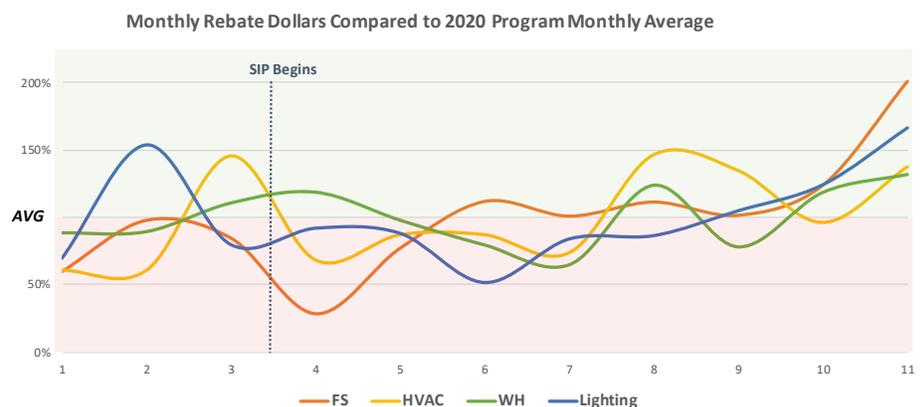
4. ADMINISTRATIVE / APPLICATION SUBMITTAL

- a. Staffing resources continue to be affected across all technologies as COVID cases rise nationwide. There have been multiple reports of application backlogs as staff struggle to cover sales and back end operations with limited resources.

5. YEAR IN REVIEW

This chart compares the rebates paid in 2020 - month to month and by % change, broken up by technology.

- a. **HVAC** — Though initially impacted by shelter-in-place (SIP) orders, the seasonality of this essential industry can be seen with rebates paid in late Q3 to reflect sales made during the summer cooling season. A strong December is expected to close out the year.
- b. **Water Heating** — As an essential service, no discernable trend was observed.
- c. **Foodservice** — SIP orders caused significant declines, particularly in April. However, many programs offered additional incentives and end of year promotions in an effort to bolster high efficiency sales in the face of an emerging used equipment market, and also to support the food service industry.
- d. **Lighting** — Lighting was off to a strong start in Q1 and was impacted by SIP orders. It has since recovered in Q4 with support from sales promotions.



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	UP 39%
Water Heating/ Pumps	UP 4%
Foodservice	UP 73%*
Lighting	UP 41%

*Additional incentives, promotions, and spiffs significantly increased rebates paid in the last four weeks.

Table 2. Editor's Note: Figures reflect a nationwide average. There are significant regional variations.

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.