Customer & Market Due Diligence Of Surge Protection Devices Manufacturer:
Establishing Market Outlook, Competitive Positioning, And Channel Opportunity

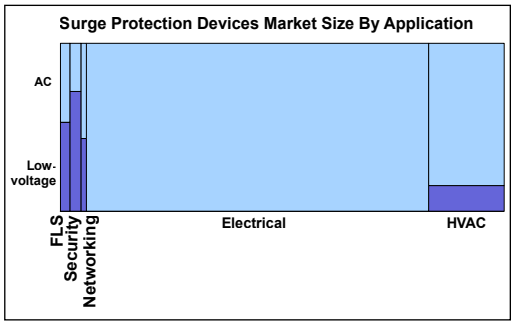
The Challenge: Our client, a middle-market PE firm, was evaluating an investment in a family-owned surge protection devices (SPD) manufacturer. The client was excited about the target's leadership position in the low-voltage fire & life safety (FLS), security, and networking application markets, but lacked clarity on the target's positioning in the larger electrical and HVAC application markets. As such, the client asked Gotham to conduct a customer & market due diligence to: 1) understand the surge protection devices market and growth outlook; 2) evaluate the target's competitive positioning and reputation; 3) evaluate the target's opportunity in the electrical and HVAC markets; and 4) establish the target's product line expansion opportunities.

Niche Product Channel Growth Potential Assessment: Gotham undertook a 2-phased approach with: Phase I focused on use cases, demand drivers, distribution channel dynamics, and competitive dynamics; and Phase II dove into further detail to quantify market demand, the opportunity in the electrical and HVAC channels, and product line expansion opportunities. Gotham:

- Conducted ~180 anonymous interviews with and ~275 online surveys of distributors, contractors, and other experts to establish: use cases, product usage trends, distributor channel dynamics, contractor purchasing dynamics, key purchase criteria, the target's reputation/competitive positioning, end-device proliferation, and industry growth outlook
- Built a bottom-up market sizing model by state, application market, demand driver, and product format, leveraging construction and government data, interview and survey findings, and SKU-level pricing
- Analyzed target sales data to understand market penetration and examined distributor-level data to determine the target's presence and opportunity in the electrical channel
- Leveraged secondary research, including distributor product catalogs, to identify and evaluate the target's expansion opportunities in multiple low-voltage and AC product categories.

Fire & Life Safety, Security, And Networking Markets Are Driven By Code Mandates And Outdoor End-device Proliferation

FLS demand is driven by the 2023 NEC 760.33 code that requires AC surge protection devices to be installed on fire alarm control panels; as only 25 states have adopted the 2023 code to-date, adoption from other states represents a growth tailwind. Security and networking demand is driven by increased proliferation of low-voltage end-devices, such as outdoor cameras, especially in high-lightning states. However, AC adoption in these applications is lower compared to FLS given less system criticality, lack of code mandates, and use of in-built surge protection in IT closets and data centers. Surge protection devices are rarely specified by brand but the target is the de facto choice for contractors. Contractors primarily purchase these products through low-voltage distributors who serve FLS, security, and networking channels, comprising national players like ADI who serve all channels, as well as more specialized security and networking distributors; some electrical distributors (e.g., Graybar, Wesco) also carry a low-voltage offering.



Electrical And HVAC Markets Represent Significant Growth Opportunity For The Target Despite Its Current Limited Presence

Increasing electrical surge protection devices penetration is driven by the 2020 NEC 230.67 code that requires whole-house surge protectors in residential applications, rising electronic load and usage of sensitive equipment, and declining power quality. As regards the electrical channel, the Big 4 switchgear OEMs have control through exclusivity agreements with national electrical distributors: Schneider/Square D and Eaton have the tightest exclusive relationships with Graybar/CED and Wesco, respectively, while Siemens and ABB are more permissive with their distributors carrying other brands. As such, the target can address the 20-30% of the market comprising replacement, repair, and smaller retrofit jobs in addition to getting specified in projects. Based on Gotham's mapping of the electrical distributor landscape (~3,000 distributors and ~9,500 locations), over half are available to the target, comprising ~2,000 Siemens- and ABB-aligned distributors and ~2,800 local distributors. In the HVAC application market, low surge protection device penetration, increasingly expensive equipment, and increasing heat pump adoption in the residential end-market creates an opportunity for contractors to upsell surge protectors when installing or replacing equipment or during service calls. Surge protection devices flow through a 2-tier distribution system: master distributors (e.g., Neuco, DiversiTech) supply components and parts to national wholesale distributors (e.g., Johnstone Supply, Winsupply), regional distributors, and thousands of local distributors; most branches choose which brands to carry based on contractor preferences.

The Target Has Product Line Expansion Opportunities In 5 AC And 9 Low-voltage Product Segments

Gotham identified 57 low-voltage and AC power product segments across 10 categories including peripheral electronics, low-voltage accessories, power quality, backup power, lightning protection, FLS, security, networking, panel, and HVAC components. After evaluating segments based on customer and channel fit, competitive dynamics, and availability of acquisition targets, Gotham determined 5 AC and 9 low-voltage segments are attractive.

The Outcome: Gotham provided clarity on the size of and outlook for the niche surge protection devices market, highlighting that low-voltage product demand is more prevalent in high-lightning states, and that code mandates, increasing electronic load, and power quality issues are driving demand for AC products. Gotham also established the target's leadership position in low-voltage applications and determined the path to growth in higher-volume electrical and HVAC channels. With a clear, fact-based understanding of market and channel dynamics, our client was able to pursue the target with conviction.

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