ECONOMIC DEVELOPMENT INCENTIVE FUND
PRINCE GEORGE'S FINANCIAL SERVICES CORPORATION

CONDITIONAL LOAN – TRANSACTION SUMMARY

Date: 11/18/2020

Underwriter: Brenda Billington

Company Name(s): Capital Lighting & Supply, LLC

Project Name: Capital Electric Westphalia

Company Contact: Charmienne Ganao

Website: www. soneparusa.com

Project Address: 8711 Westphalia Rd
Upper Marlboro, MD 20785

District #: 4

Type of Business: Wholesale/Retailer of Electrical Supplies

Entity Type: LLC

Loan Request: $250,000

Loan Type: EDI Conditional Loan

Leasehold: No – ground up construction

Program Purpose:
Assist in Retention/Creation of Jobs: ■Yes □No **Retention of 239 FTE**
Projected Jobs Created: ■Yes □No **Creation of 10 FTE by 2024**
Promotes local, small or minority business: ■Yes □No
Located in developed tier or gateway community: ■Yes □No
Located in a Revitalization Area: □ Yes ■ No
Located in a State Sustainable Community: □ Yes ■ No
Located in a State Priority Funding area: □ Yes ■ No
Special Assistance for Local Entrepreneurship Qualified: □Yes ■No
Economic Development Corporation Recommendation to Fund: ■Yes □No

Corporate Overview/Project Summary:
Sonepar International is a member of the global parent company Sonepar SAS. The Company supplies installation materials, cables, cable trays, lighting, heating, ventilation, air conditioning, renewable energies, building management, and specialty products internationally. Subsidiaries serve various areas for example in Brazil, Italy, Russia, China, Australia, India, Malaysia, New Zealand, Singapore, South Korea, Thailand, Vietnam, France and many more.

OTRA N.V. is a member of the global parent company Sonepar SAS and is an international holding company operating in the wholesale and distribution of technical products. The companies within the Otra group specialize in the supply of electrical installation materials to contractors, manufacturing industries and public authorities. In the Netherlands activities include the supply of sanitary ware and central heating products.

Sonepar SAS, is the ultimate global consolidated parent company located in France. This company owns 90% of Sonepar International and 10% of OTRA N.V. Total group sales in 2019 are reported as $24 billion dollars, with 48,000 associates, in 48 countries with 145 brands, 3,000 branches, 115 central distribution centers and over 1,000,000+ b to b customers served worldwide.

Sonepar USA Holdings, Inc. (https://soneparusa.com) is the company for the United States arm of Sonepar SAS an independent family-owned company with global market leadership in the business-to-business distribution of electrical, industrial and safety products and related solutions. This company is a member of the Sonepar Group, the world's largest privately-held electrical distributor. Within the United States there are several subsidiary company's formed which is represented by 13 locally managed electrical and industrial distributors including: (1) Capital Lighting & Supply, LLC dba **Capital Electric**; (2) Codale Electric Supply, Inc. dba **Codale**; (3) Cooperfreidman Electric Supply Co., Inc. dba **Cooper Electric**; (4) Crawford Electric Supply Company, Inc. dba **Crawford**, (5) Independent Electric Supply, Inc dba **Independent**; (6) Stuart C. Irby Company dba **Irby**; (7) North Coast Electric Company dba **North Coast**; (8) North East Electrical; (9) California Newco, Inc. dba **OneSource**; (10) Hagmeyer PPS Ltd dba **Vallen**; (11) QED, Inc.; (12) Viking Electric Supply dba **Viking**; and (13) World Electric Supply Company, Inc which have over 700 locations with coverage in all 50 states. Sonepar USA's core business is the distribution of electrical, safety, tools, and industrial products, as well as related solutions. With the rapid growth of technology, they provide a network of specialists who have the training and expertise to develop solutions tailored to customers' needs. These solutions include digital, integrated supply, safety, automation/control, energy audits, retrofits, storeroom and project management. Their customers are in the construction, industrial, utility and commercial markets.

Capital Westphalia Real Estate, LLC is the real estate holding company of the project property.

Brook Electric Supply Company is a member/subsidiary of Sonepar USA Holdings, Inc. This company wholly owns Capital Lighting & Supply, LLC. It should be noted as of May 29, 2020 this company was part of a merger currently known as Viking Electric Supply, Inc. Viking Electric Supply, Inc. is an electrical products distributor in the Upper Midwest recently merged with Brook Electrical Supply as of May 29, 2020. Viking was originally founded in 1964 with its headquarters in Minneapolis, Minnesota and now operates 24 branch locations in those areas in addition to the Chicago, Illinois area.

Capital Lighting & Supply, LLC dba Capital Electric (Borrower) is owned by Viking Electric Supply, Inc for the states of Georgia, North Carolina, South Carolina, District of Columbia, Delaware, Maryland, Pennsylvania, Virginia, and West Virginia.

The proposed project will allow the company to expand by constructing a two-story 362,800 s/f building on 68.94 acres located at 8711 Westphalia Road in Upper Marlboro, Maryland to house their corporate headquarters (38,380 s/f) and warehouse (324,500 s/f). It should be noted, there is an existing building which will be demolished in order to construct the new facility included in the cost of construction. On 12/31/19, Capital Westphalia Real Estate, LLC, affiliate holding company entered into purchase agreement for the land and construction of the building for approximately $78,300M. An additional $21,700M will be used to purchase automation/ sustainability equipment, solar, vehicle chargers, furniture and fixtures for a total project cost of $100,000M; with an expected completion date December 31, 2021. Approximately $95,500M or 99.5% will be derived borrowers' expenditures towards eligible project costs including purchase of land/building, construction, purchase of furniture, fixtures and machinery equipment. EDI and the State of Maryland (MEDAF) are financing $250,000 (.5%) each which will be used to reimburse expenditures towards eligible project costs including furniture, fixtures, machinery and equipment (see sources/uses below). A copy of the executed construction agreement satisfactory to FSC First is required at the time of closing. The company currently has 239 FTE employees with plans to hire 10 FTE employees over a 3-year period by 2024. The jobs would include mechanics for new automation technology, drivers and sales positions with an average salary of $50,000.

Economic/Community Impact: The company plans to increase their workforce by committing to 10 FTE associates with an average yearly salary of $50,000 for mechanics to operate new automation technology, drivers and sales positions over a three year period by 12/31/2024 with best efforts to hire local county residents.

The community will benefit by (i) retaining existing industry and commerce in the County; (ii) creating new jobs for county residents; (iii) broadening the local tax base, particularly the commercial tax base; (iv) promoting economic development and the growth of the County particularly in a developed tier; (v) encouraging a balanced local economy. (vi) The company has committed to 35% of furniture, fixtures, equipment and construction costs will be through an LSMBE, (vii) retain existing 239 FTE positions with best efforts to hire 10 new employees within the county. Best efforts to use Baltimore/Washington International Thurgood Marshall Airport and the Port of Baltimore for its shipping and transportation along with Maryland contractors/construction company and/or workers for the construction of the project site. Resource Allocation Model (RAM) estimates a Net Present Value of $10,914,710 in local tax receipts for this project. RAM shows a break-even point of 0.02 years using a 3% discount rate.

LOAN NARRATIVE – LOAN APPLICATION TERM SHEET

Loan Amount: $250,000

Purpose: Reimbursement of eligible project costs including construction and purchase of machinery, furniture, fixtures, equipment for the proposed office/warehouse space.

Terms: EDI

Rate: 3.0%
Term: 7 Years
Amortization: 7 Years
Estimated Payment: All principal and accrued interest would be deferred over the term of the County Loan.

Sources & Uses:

Use of Proceeds	EDI - FSC First	Owner's contribution	MEDAF	Total Project
Land/Building/Construction	$ -	$78,300,000	$ -	$ 78,300,000
Furniture/Fixtures/Machinery Equipment	250,000	21,200,000	250,000	21,700,000
Total	**$ 250,000**	**$99,500,000**	**$ 250,000**	**$ 100,000,000**
Percent of total, per funding source	***0.3%***	***99.5%***	***0.3%***	***100.0%***

Other financing terms:

- Maryland Economic Development Assistance Fund (MEDAF) will fund $250,000 @3% with a term of 10 years; reimbursement of eligible project costs towards the construction on site located at 8711 Westphalia Rd in Upper Marlboro, Maryland. Eligible project costs may include construction or acquisition of a building or real property, construction, installation/purchase of machinery, equipment, furnishings, fixtures, site improvements or infrastructure. All principal and interest would be deferred over the term of the loan. In the event that all of the performance criteria of the loan are met over the term, all outstanding principal and accrued interest would be forgiven at the end of the loan term. In the event of any performance criteria are not met, the loan would be repayable as described under conditions. The loan would be disbursed for up to 70% of borrowers directly incurred on-site eligible project costs. Guarantor(s) and collateral have yet to be provided.

- Prior to disbursement of loan proceeds, borrower must provide acceptable evidence of its ownership/control of the project site for a term not less than term of the loan; borrower will have spent at least $95,000,000 in eligible project costs at the project site by 12/31/2022. At least $360,000 of the projects will be eligible project costs not otherwise reimbursed by third parties against which the loan may be disbursed; the borrower will provide an employment report confirming it employs at least 230 permanent full time employees at its existing location and/or project site; county will have approved/funded its incentive.

Collateral: An irrevocable Standby letter of credit in the amount of $250M will be required for five years after the use/occupancy permit date. The proposed conditional loan is fully collateralized. If all conditions and performance criteria are met at the end of 5 years from date of U &O, collateral will be released.

Guarantors: As the parent company and subsidiaries are (i) international, privately held existing businesses (ii) all reflect strong financial performance with strong cash flow available to finance the project without EDI assistance and management (iii) loan is fully secured thus there will be no corporate guarantees.

Conditions prior to disbursement(s):

- The Borrower will provide acceptable evidence of its ownership/control of the Project Site for a term not less than the term of the County Loan
- The Borrower will provide an employment report confirming that it employs at least 239 permanent full-time employees at its existing location and/or the Project Site.
- The Borrower will have expended at least $360,000 of Eligible Project Costs at the Project Site, not otherwise reimbursed by a third party against which the County Loan may be disbursed.
- The Borrower will provide U&O (Use and Occupancy) and Letter of Credit.
- A copy of the executed construction agreement satisfactory to FSC First

Performance Criteria:

1. The Borrower will employ at least 239 permanent full-time employees at its existing location and/or the Project Site for the term of the County Loan.
2. The Borrower will employ at least 249 permanent full-time employees at the Project Site as of December 31, 2024 and retain that level of employment for the remaining term of the County Loan.

   "Full-time" employment will be measured annually as of December 31st of each required year, with employment reports due to the County by January 31st of the following year with the first reporting beginning the first December 31st following disbursement. The Company will initially provide an employment report at closing and disbursement of the County Loan.

   "Full-time" means an employee works at least 1,800 hours in a 12-month period, is paid an hourly wage of at least 150% of the prevailing federal minimum wage and is eligible for an employer-subsidized health care benefits package. A new full time permanent employee is a net new position to the State and would not include the movement of existing Company employees at other locations in the State, or employees of a company acquired by the Company after this date, if the employee's place of employment immediately before the acquisition was elsewhere in the State.

3. The Borrower will spend or cause to be spent a minimum of $95,000,000 in Project Costs at the Project Site by December 31, 2022.

4. The Borrower will maintain its headquarters and warehouse operations at the Project Site for the term of the County Loan.

5. Financial reporting is required including annual corporate tax return from Capital Lighting & Supply, LLC.

Conditions:

- If as of December 31, 2024, or any annual measurement date thereafter, the Borrower does not achieve Performance Criteria (2) the Borrower will repay a pro rata portion of the principal ($3,000) plus the associated portion of accrued interest for each position below 200. The claw back penalty will not exceed loan amount.

- If the Borrower does not meet Performance Criteria Performance Criteria (1), (3) or (4), all principal and accrued interest under the County Loan will be repaid.

- Borrower must provide 5-year Letter of Credit to begin at U&O (Use and Occupancy) permit assignment.

- The County Loan will close and be fully funded by December 31, 2022.

Loan forgiveness:

The proposed interest rate of Three Percent (3%) per annum, compounding monthly, will begin to accrue on the date of disbursement. Interest payments will be deferred, and payment thereof subsequently forgiven if Borrower:

(A) completes the construction of Project Property;

(B) Meets the job retention and job creation benchmarks and the other conditions for forgiveness set forth in the EDIF Conditions contained herein;

(C) Borrower's business headquarters must remain within Prince George's for five (5) years;

(D) Borrower must maintain at least 200 full-time for five (5) years (1/1/2023 – 12/31/2028);

(E) Invest or cause to invest $95mm capital expenditure by 12/31/2022; and

(F) Attempt best efforts to commit at least 35% MBE participation toward project.

<u>Income Statement Summary:</u> Capital Lighting & Supply, LLC

PROJECTED INCOME STATEMENT SUMMARY –				
$ Thousands				
	2017	2018	2019	6/30/2020
	Tax Return	Tax Return	Mgt. Prepared	Mgt. Prepared
	Accrual	Accrual	Accrual	Accrual
Sales	**$ 733,390**	**$ 783,007**	**$ 881,069**	**$ 432,599**
COGS	$ 575,821	$ 609,111	$ 685,978	$ 337,616
Gross Profit	**$ 157,569**	**$ 173,896**	**$ 195,091**	**$ 94,983**
Operating Expenses	$ 118,322	$ 126,043	$ 136,110	$ 67,919
Total	**$ 39,247**	**$ 47,853**	**$ 58,981**	**$ 27,064**
Other Income	**$ 1,850**	**$ 3,164**	**$ 345**	**$ (192)**
NOI	**$ 41,097**	**$ 51,017**	**$ 59,326**	**$ 26,872**
Plus:				
Depreciation/Amortization	$ 1,433	$ 1,800	$ -	$ -
Interest	$ 1,780	$ 1,895	$ 345	$ (192)
Extraordinary Gain/Loss	$ (134)	$ 51	$ -	$ -
Cashflow for Debt Service	**$ 44,176**	**$ 54,763**	**$ 59,671**	**$ 26,872**

<u>Comments:</u> The historical financial analysis for Capital Electric Supply, LLC (Operating Company) is based upon tax returns on an accrual basis for FY17 to FY18 with management prepared statements for FYE19 and the 6-month interim period ending 6/30/20. Please note the management prepared financial statements did not include detailed operating expenses. Capital Electric has branches in Georgia, North Carolina, South Carolina, District of Columbia, Delaware, Maryland, Pennsylvania, Virginia and West Virginia. After the merger with Viking this expanded their territory to include branches in Minnesota, Wisconsin and Illinois. As Viking Electrical Supply, Inc. is not locally owned and will not be responsible for repayment should conditions not be met, limited financial results will be provided.

As the OC would be responsible for repayment of conditional debt if warranted, it is important to reflect upon their direct results on a local level. It should be noted, Capital Electric Supply are management prepared statements are reported per International Financial Reporting Standards (IFRS 16). By using this standard this allows the companies to create a common accounting language so that all financial statements can be consistent and reliable to their various companies/subsidiaries from country to country. The interim period is filed using IFRS 16 rule which states all leases (whether operating or financial) must be included eliminating off-balance sheet items.

Positive sales trend: Historically revenues reflect a growth trend during all years analyzed. Other income consists of net interest, gross rents, and net gains/losses.

Positive gross margin trend: The cost of goods sold consists of purchases, freight, inventory adjustments and customer rebates/discounts. The cost of goods sold is well managed remaining flat at 78% of revenues resulting in gross profit of 22% through all periods analyzed. There is no RMA industry standard for the gross margin trend.

Operating expenses are stable: The largest operating expenses are salaries/wages (9% of revenues), rents (2%), taxes/licenses (1%) and employee benefits (1%). OPEX has averaged between 16% of revenues during all periods respectively.

Net profit on upward or stable trend: As the company demonstrated growth each year in revenues with both cost of goods sold and OPEX well managed, this resulted in conservative gains in net profits averaging 7% which exceeds the RMA industry trend of 2%.

Repayment ability: A schedule for existing debt was not provided by the borrower. However, the underwriter has estimated approximately $15,000M is outstanding for short/long term debt. As an example, if the term was 5% over a 15-year period the monthly debt service would be $118,619 and the annual debt service would be $1,423M. Given this scenario, the company clearly demonstrates the ability service its existing debt. The conditional loan is expected to be forgiven.

Balance Sheet summary:

BALANCE SHEET	2017	2018	2019	6/30/2020
TOTAL ASSETS	$ 298,469	$ 390,188	$ 468,203	$ 473,112
TOTAL LIABILITIES	$ 127,910	$ 181,255	$ 215,918	$ 201,140
Equity	$ 170,559	$ 208,934	$ 252,285	$ 271,972
Liab+Equity	$ 298,469	$ 390,189	$ 468,203	$ 473,112

Comments: As of 12/31/19, total assets are $468MM mostly consisting of accounts receivable, inventory, and other long-term assets. Due to operations being included in the consolidated parent company, accounts receivable/payable aging were not available. Total liabilities are ($215MM) consisting of accounts payable, other current liabilities, short term debt and long-term debt resulting in $252MM equity.

RATIO ANALYSIS	12 mos.	12 mos.	12 mos.	RMA
	2017	2018	2019	
Sales Increase/(Decrease)	n/a	6.77%	12.52%	
Current Ratio	2.03	2.24	2.13	1.20
A/R Days	51.14	53.58	50.75	
Inv Days	39.92	46.15	44.67	
A/P Days	65.20	74.42	70.08	
Debt/NW	0.75	0.87	0.86	1.70
Gross margin	21.5%	22.2%	22.1%	0.0%

DNBi reporting/Public Filings:

The Dun & Bradstreet report for Capital Lighting & Supply, LLC reports a rating of 1R4 (1R indicates there is more than 10 employees and 4 is considered moderate risk). The paydex score is 78, reflecting accounts are paid 3 days past due within the previous 24 months. There are no bankruptcies, no judgments, no liens, 51-UCCs, and 1 dismissed suit. The company is aware of all judgments and lawsuit activity. They do have in house legal counsel representing them in all matters.

Conclusion

Justify Pricing: The proposed pricing and loan structure is based on maturity of the business, years within the industry, fully secured, addition of jobs to Prince Georges County residents, historical financial performance of borrower and strength of affiliate parent/subsidiary companies. The rate of 3.00% is also influenced by existing headquarters and employees, support of expansion with the company required to remain within the County. The 7-year term will allow for stabilization of the project.

Summary & Recommendation:

- Retains existing industry and commerce in the County;
- Supports the County's commercial tax base;
- Assists in supporting the creation of 10 full-time jobs;
- Supports LSMBE;
- Supports best efforts of hiring of County residents;
- Promotes economic development and the growth of the County particularly in a developed tier;
- Stable financial performance of primary borrowers, domestic/international parent companies.
- Fully secured.
- More than adequate cash flow if conditions are not met.
- Leverage dollars with MEDAF.

Based on existing business experience, successful track record, free cash flow available if needed for debt repayment and fully secured collateral coverage, and a risk rating of 2, the underwriter recommends an approval as presented.

Risk Rating	
Rate	
1	Substantially Risk Free
2	Minimal Risk
3	Acceptable Business Risk
4	Special Mention

Based on these factors, the underwriter recommended approval as presented.

Underwritten by:	Signature	Date
Brenda Billington, Senior Loan Underwriter Brenda Billington		11/14/20
Reviewed by:	Signature	Date
Dawn Medley, Senior Vice President & EDI Fund Manager Dawn Medley		11/14/20

Approved by Financial Advisory Committee (FAC) and certified by:

FAC Approval Certification By:	Signature	Date
Timothy Sanders, Senior Investment Officer, Ventas, Inc., Acting FAC Chair	DocuSigned by: Tim Sanders 3782A20841B24E7...	12/3/2020

<u>LOCATION:</u>