



## SPECIALTY DISTRIBUTION

INDUSTRY UPDATE | APRIL 2017



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## WHAT WE'RE READING

**ONLINE RETAILERS' WAREHOUSE FULFILLMENT CENTERS DRIVE HIRING<sup>1</sup>**

Retailers and logistics companies have been opening warehouses at a record pace to ensure online orders reach customers as quickly as possible. Now they're struggling to find workers to staff them. Amazon.com Inc., Wal-Mart Stores Inc., and other e-commerce giants rely on armies of "pickers" to grab items off warehouse shelves and prep them for shipment. For years they've drawn from a seemingly limitless pool of people willing to take these jobs, which can be grueling but require little training or education.

Starting pay for warehouse workers rose 6% over the past year to \$12.15 an hour in February, according to an analysis by ProLogistix, a logistics staffing firm. Hourly earnings rose 2.8% across all professions over the same period, according to the Labor Department's Bureau of Labor Statistics. The warehouse and storage sector expanded dramatically as more people shop online, and accounted for 945,200 jobs in March, up 5.3% over the year-earlier period, according to seasonally adjusted Bureau of Labor Statistics data released Friday.

Read more from this article [here](#).

**RESTRUCTURE YOUR TEAM TO TAKE ADVANTAGE OF CROSS-SELLING<sup>2</sup>**

Cross-selling is more important than ever, and successful cross-selling requires the right kind of teamwork, according to Brian Gardner, owner of SalesProcess360 in "Build Revenue with Existing Customers".

Getting an entire team on the same page can be the key to moving in the right direction when it comes to cross-selling, though it's not always as simple as getting everyone in the same room. Rethink departmental silos. Invite the service team and marketing department into sales meetings.

"It all starts with the culture and the belief inside a company that they want to truly leverage information," Gardner says. "They remove the silos of their departments, the islands of data, the inside sales, outside sales, service and marketing teams are all rowing the boat in the same direction."

Read more from this article [here](#).

**WHY THE CUSTOMER IS THE NEW KING<sup>3</sup>**

While cash has been king of the distribution hill for decades, a new king has staked a claim in today's market: the customer. The customer is in control of when, where and how they want to do business – and they're willing to go elsewhere if you can't meet those demands.

Distributors may be losing as much as 5 percent of their business without knowing it, according to Jonathan Bein, managing partner at Real Results Marketing. The key to success – both online and off – is knowing your customers and what they want, according to Jennie Stenback, vice president of marketing communications, strategy & services for 3Wire Group Inc., a Minneapolis, MN-based distributor of OEM products for the foodservice and beverage industries. How do you uncover what your customers want? The answer is simple – even if the action requires some work. "Ask your customers. Always ask – and then ask again – and ALWAYS quantify," Stenback says.

Read more from this article [here](#).

## CONTENTS

- [WHAT WE'RE READING](#)
- [PUBLIC COMPARABLES & TRADING VALUATIONS](#)
- [M&A AND PUBLIC MARKET TRENDS](#)
- [NOTABLE M&A ACTIVITY](#)
- [ECONOMIC UPDATE](#)

## GROUP OVERVIEW

Harris Williams & Co. is a leading advisor to the specialty distribution market. Our significant experience covers a broad range of end markets, industries, and business models. This particular report focuses on trends and metrics in the following areas:

- Specialty Catalog and Direct Marketing
- Branch-Based Distributors
- Route-Based Distributors
- Automotive and Heavy Duty Aftermarket
- Building & Construction Products
- Consumer & Food Service
- Industrial, MRO, and Safety
- Healthcare
- Technology
- Electrical and Communications
- Alcohol, Tobacco, and Firearms

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## PUBLIC COMPARABLES &amp; TRADING VALUATIONS

## Key Trading Stats

As of April 25, 2017

(\$ in millions, except per share amounts)

SPECIALTY DISTRIBUTION PUBLIC COMPARABLES<sup>4</sup>

	LTM Margins			Stock Performance				TEV/EBITDA		Revenue Growth
	EBITDA	Gross	TEV	Current Price	1-Month Change	1-Year Change	% of LTM High	LTM	2016E	3-Yr. CAGR
<b>Automotive &amp; Heavy Duty Aftermarket</b>										
AutoZone, Inc.	22.2%	52.8%	\$25,050	\$685.73	(6.2%)	(12.1%)	83.7%	10.5x	10.4x	4.6%
O'Reilly Automotive, Inc.	22.3%	49.9%	26,536	256.36	(6.5%)	(4.6%)	87.5%	13.8x	12.5x	8.2%
Genuine Parts Company	7.9%	29.0%	14,079	89.41	(5.8%)	(10.1%)	84.4%	11.6x	10.4x	1.9%
LKQ Corporation	11.7%	37.2%	11,825	28.12	(7.2%)	(15.3%)	77.4%	11.7x	10.6x	16.1%
Dorman Products, Inc.	21.8%	39.3%	2,555	78.16	(2.2%)	46.3%	94.7%	13.6x	12.8x	7.4%
Uni-Select Inc.	8.9%	14.6%	1,225	26.29	2.9%	19.3%	95.8%	11.5x	10.0x	(12.4%)
<b>Median</b>	<b>16.8%</b>	<b>38.3%</b>			<b>(6.0%)</b>	<b>(7.3%)</b>	<b>86.0%</b>	<b>11.7x</b>	<b>10.5x</b>	<b>6.0%</b>
<b>Mean</b>	<b>15.8%</b>	<b>37.1%</b>			<b>(4.2%)</b>	<b>3.9%</b>	<b>87.2%</b>	<b>12.1x</b>	<b>11.1x</b>	<b>4.3%</b>
<b>Building &amp; Construction Products</b>										
CRH Plc	11.6%	31.6%	\$33,647	\$33.29	(4.9%)	14.8%	89.0%	9.7x	9.0x	7.8%
Wolseley plc	7.4%	28.0%	16,860	60.17	(4.7%)	10.2%	90.8%	10.5x	12.0x	1.9%
HD Supply Holdings, Inc.	12.1%	32.8%	11,668	39.26	(6.0%)	17.8%	87.8%	12.9x	11.8x	(4.3%)
Watsco, Inc.	8.7%	24.0%	4,904	137.29	(7.2%)	1.4%	86.0%	13.4x	12.4x	3.6%
Beacon Roofing Supply, Inc.	8.9%	23.1%	3,979	48.36	(4.2%)	8.4%	95.5%	10.7x	11.2x	22.7%
Builders FirstSource, Inc.	5.5%	24.7%	3,469	14.80	(5.3%)	23.0%	93.4%	10.0x	7.6x	61.3%
Boise Cascade Co.	4.0%	11.2%	1,449	28.65	1.2%	32.8%	94.0%	9.3x	7.7x	5.9%
<b>Median</b>	<b>8.7%</b>	<b>24.7%</b>			<b>(4.9%)</b>	<b>14.8%</b>	<b>90.8%</b>	<b>10.5x</b>	<b>11.2x</b>	<b>5.9%</b>
<b>Mean</b>	<b>8.3%</b>	<b>25.1%</b>			<b>(4.4%)</b>	<b>15.5%</b>	<b>90.9%</b>	<b>10.9x</b>	<b>10.2x</b>	<b>14.1%</b>
<b>Consumer &amp; Food Service</b>										
Sysco Corporation	5.6%	17.5%	\$36,416	\$52.40	(0.6%)	11.9%	91.8%	12.3x	12.4x	5.0%
Bunzl plc	7.4%	13.3%	11,298	29.30	1.9%	0.2%	85.9%	15.2x	14.7x	1.7%
US Foods Holding Corp.	3.9%	17.7%	9,361	27.29	1.3%	NA	96.9%	10.5x	8.9x	0.8%
United Natural Foods, Inc.	3.5%	15.3%	2,673	42.21	(4.8%)	18.4%	80.9%	8.6x	8.6x	11.3%
Core-Mark Holding Company, Inc.	0.9%	5.2%	1,872	33.67	(0.9%)	(14.9%)	67.3%	14.1x	10.9x	13.6%
SpartanNash Company	2.9%	14.4%	1,695	34.92	3.6%	23.5%	86.5%	7.5x	6.8x	43.8%
Essendant Inc.	3.0%	14.2%	1,124	14.52	(5.8%)	(57.9%)	41.7%	7.0x	7.4x	27.3%
<b>Median</b>	<b>3.5%</b>	<b>14.4%</b>			<b>(0.6%)</b>	<b>6.1%</b>	<b>85.9%</b>	<b>10.5x</b>	<b>8.9x</b>	<b>11.3%</b>
<b>Mean</b>	<b>3.9%</b>	<b>13.9%</b>			<b>(0.8%)</b>	<b>(3.1%)</b>	<b>78.7%</b>	<b>10.7x</b>	<b>10.0x</b>	<b>14.8%</b>
<b>Industrial, MRO &amp; Safety</b>										
Air Liquide SA	25.4%	35.8%	\$57,609	\$113.48	0.1%	1.5%	96.8%	11.3x	10.2x	(0.3%)
W.W. Grainger, Inc.	14.3%	39.8%	14,731	207.92	(14.8%)	(11.5%)	79.1%	10.1x	9.8x	2.0%
Fastenal Company	22.8%	49.5%	13,297	45.14	(13.0%)	(1.5%)	85.6%	14.5x	13.9x	5.8%
MSC Industrial Direct Co., Inc. Class A	15.7%	44.9%	5,543	87.91	(13.8%)	17.4%	83.2%	12.3x	12.4x	2.6%
Applied Industrial Technologies, Inc.	8.1%	27.8%	2,589	59.05	(5.0%)	31.6%	88.6%	12.8x	12.8x	0.7%
DXP Enterprises, Inc.	5.1%	27.5%	789	35.56	11.2%	78.6%	87.2%	16.0x	14.0x	(9.5%)
<b>Median</b>	<b>15.0%</b>	<b>37.8%</b>			<b>(9.0%)</b>	<b>9.5%</b>	<b>86.4%</b>	<b>12.6x</b>	<b>12.6x</b>	<b>1.4%</b>
<b>Mean</b>	<b>15.3%</b>	<b>37.5%</b>			<b>(5.9%)</b>	<b>19.3%</b>	<b>86.7%</b>	<b>12.8x</b>	<b>12.2x</b>	<b>0.2%</b>
<b>Healthcare</b>										
McKesson Corporation	2.4%	5.3%	\$38,783	\$137.94	(6.8%)	(20.2%)	69.2%	8.2x	8.2x	12.6%
Cardinal Health, Inc.	2.5%	4.8%	26,743	72.19	(13.1%)	(14.3%)	82.2%	8.6x	8.0x	10.8%
Henry Schein, Inc.	8.5%	27.9%	15,498	167.68	(2.1%)	(1.4%)	91.6%	15.7x	14.8x	6.1%
Patterson Companies, Inc.	8.7%	24.7%	5,252	43.62	(4.1%)	(2.5%)	86.5%	10.7x	12.1x	13.0%
Owens & Minor, Inc.	2.8%	11.6%	2,419	33.39	(4.2%)	(18.3%)	80.5%	8.9x	9.6x	2.4%
<b>Median</b>	<b>2.8%</b>	<b>11.6%</b>			<b>(4.2%)</b>	<b>(14.3%)</b>	<b>82.2%</b>	<b>8.9x</b>	<b>9.6x</b>	<b>10.8%</b>
<b>Mean</b>	<b>5.0%</b>	<b>14.9%</b>			<b>(6.0%)</b>	<b>(11.3%)</b>	<b>82.0%</b>	<b>10.4x</b>	<b>10.5x</b>	<b>9.0%</b>

## PUBLIC COMPARABLES & TRADING VALUATIONS

### Key Trading Stats

As of April 25, 2017  
(\$ in millions, except per share amounts)

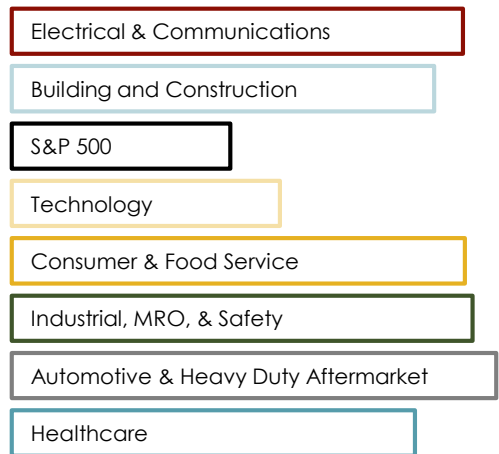
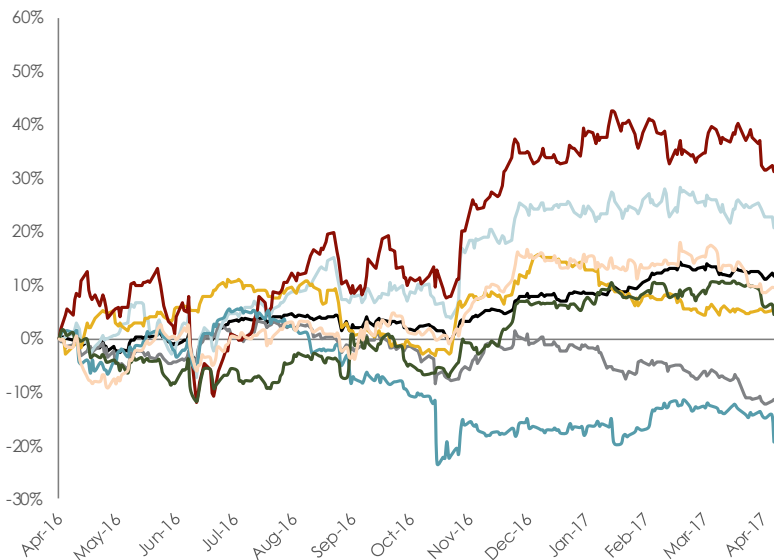
#### SPECIALTY DISTRIBUTION PUBLIC COMPARABLES<sup>4</sup>

	LTM Margins			Stock Performance				Revenue Growth		
	EBITDA	Gross	TEV	Current Price	1-Month Change	1-Year Change	% of LTM High	LTM	2016E	3-Yr. CAGR
	<b>Technology</b>									
Arrow Electronics, Inc.	4.6%	12.5%	\$8,799	\$70.53	(6.4%)	9.8%	92.9%	8.1x	7.7x	3.3%
Avnet, Inc.	4.0%	12.4%	8,081	43.90	(4.7%)	(1.7%)	85.2%	9.8x	8.9x	(8.4%)
SYNNEX Corporation	3.8%	8.4%	4,992	105.82	(11.7%)	23.0%	81.9%	9.0x	9.5x	8.2%
Tech Data Corporation	1.4%	5.0%	2,388	88.92	(6.4%)	23.9%	92.3%	6.4x	3.7x	(0.7%)
ScanSource, Inc.	1.0%	8.2%	1,049	37.65	(7.3%)	(8.7%)	83.8%	30.1x	8.8x	6.2%
<b>Median</b>	<b>3.8%</b>	<b>8.4%</b>			<b>(6.4%)</b>	<b>9.8%</b>	<b>85.2%</b>	<b>9.0x</b>	<b>8.8x</b>	<b>3.3%</b>
<b>Mean</b>	<b>3.0%</b>	<b>9.3%</b>			<b>(7.3%)</b>	<b>9.3%</b>	<b>87.2%</b>	<b>12.7x</b>	<b>7.7x</b>	<b>1.7%</b>
<b>Electrical &amp; Communications</b>										
Rexel SA	4.8%	23.2%	\$7,370	\$16.77	(5.0%)	25.3%	91.7%	10.4x	10.0x	(5.6%)
WESCO International, Inc.	5.4%	18.8%	4,386	63.82	(8.6%)	15.2%	83.8%	11.0x	10.7x	(0.8%)
Anixter International Inc.	4.7%	19.8%	3,827	76.30	(7.9%)	42.9%	86.7%	10.6x	9.4x	6.8%
<b>Median</b>	<b>4.8%</b>	<b>19.8%</b>			<b>(7.9%)</b>	<b>25.3%</b>	<b>86.7%</b>	<b>10.6x</b>	<b>10.0x</b>	<b>(0.8%)</b>
<b>Mean</b>	<b>5.0%</b>	<b>20.6%</b>			<b>(7.2%)</b>	<b>27.8%</b>	<b>87.4%</b>	<b>10.7x</b>	<b>10.1x</b>	<b>0.1%</b>

### Stock Prices

As of April 25, 2017

#### TRAILING TWELVE MONTHS STOCK PRICE PERFORMANCE<sup>4</sup>

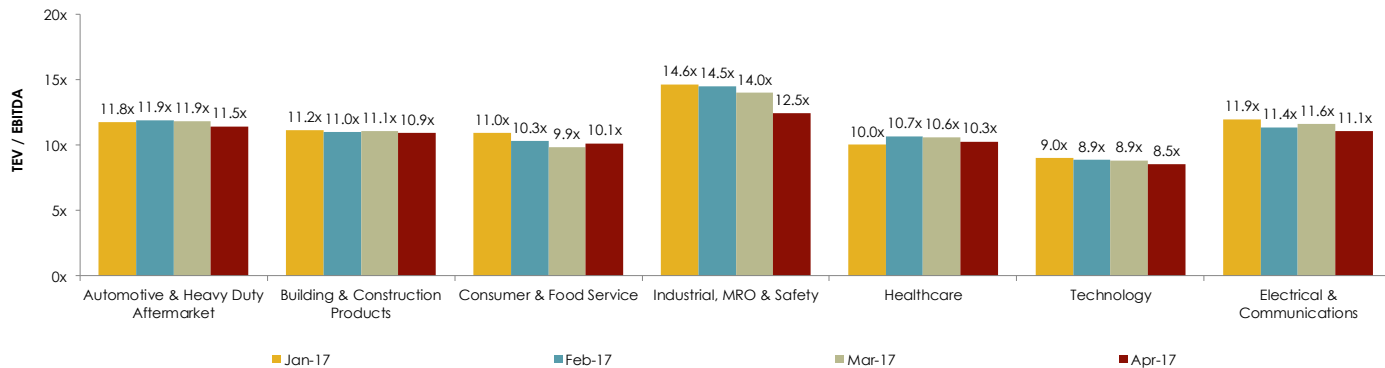


## M&A AND PUBLIC MARKET TRENDS

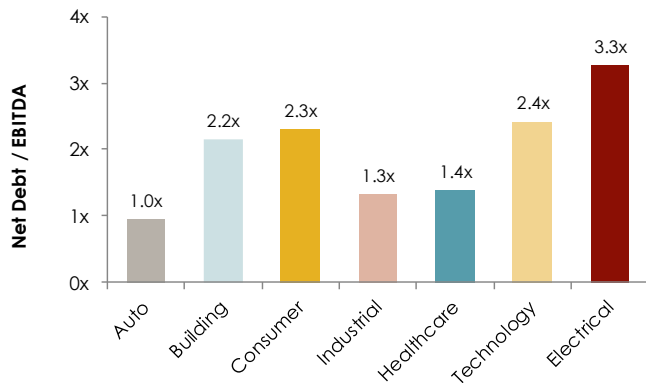
### Distribution Trends

LTM EBITDA as of  
April 25, 2017

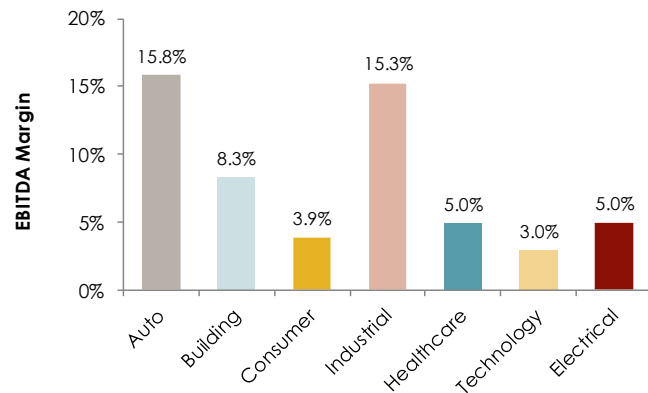
#### TEV / EBITDA MULTIPLES FOR PUBLIC COMPARABLES<sup>4</sup>



#### NET DEBT / EBITDA<sup>4</sup>



#### EBITDA MARGINS<sup>4</sup>



### M&A Trends

#### RECENT M&A AND PRIVATE EQUITY TRENDS<sup>5</sup>

U.S. MIDDLE  
MARKET PRIVATE  
EQUITY Q1 2017  
TAKEAWAYS

- Concerns surrounding trade policy and poor earnings performance hampered middle-market private equity deal flow in the B2C sector in the first quarter
- PE firms recorded a second consecutive quarter of strong fundraising performance, totaling \$34.95 billion across 40 different vehicles
- Exit activity was at its lowest level in nearly four years, though the IPO avenue returned to prominence
- In 2016, PE firms flocked toward the lower middle market to find suitable add-ons and buyouts at relatively lower valuations; however, the first quarter of this year was marked by larger middle-market deals as firms sought to deploy newly raised capital

## M&amp;A TRANSACTIONS

Announced M&A Transactions<sup>4</sup>

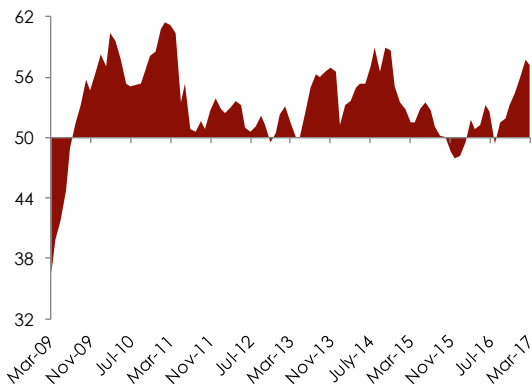
Announced	Target	Description	Acquirer	Private Equity Involvement
4/17/2017	CEMEX Pacific Northwest Materials Business	Produces and distributes cement and ready-mix concrete	Cadman Materials, Inc.	
4/15/2017	H Weiss Inc	Distributes hotel restaurant supplies & equipment	BHS Foodservice Solutions	
4/11/2017	Rupari Food Services, Inc.	Imports, exports, and manufactures pork and meat products	Carl Buddig & Co., Inc.	<b>(Seller)</b>
4/10/2017	Unified Grocers, Inc.	Provides grocery products and services	SUPERVALU, Inc.	
4/10/2017	Drillers Service, Inc.	Designs, manufactures and distributes water and fuel pumping systems	Franklin Electric Co., Inc.	
4/6/2017	Jiffy Air Tool, Inc.	Manufactures and distributes pneumatic tools and components	P&F Industries, Inc.	
4/6/2017	Electrical Sales, Inc.	Wholesales electrical products	Winsupply, Inc.	
4/6/2017	Passport Food Group LLC	Manufacturing and distribution of Southeast Asian food products	Swander Pace Capital LLC	<b>(Both)</b>
4/5/2017	J.G. Finneran Associates, Inc	Designs, manufactures and distributes laboratory instruments	Porvair Plc	
4/5/2017	AFI Shareholder LLC	Distributes hardware parts for aerospace, electronics, and defense	Audax Private Equity	<b>(Both)</b>
4/4/2017	Sidener Engineering Co., Inc.	Distributes fluid power, automation, and engineered safety products	Exotic Rubber & Plastics Corp.	
4/4/2017	Custom Corned Beef, Inc.	Provides wholesale of meat and meat products	New Water Capital LP	<b>(Buyer)</b>
4/3/2017	English Bay Batter, Inc.	Produces and distributes premium cookies and other sweet baked goods	C�r�lia SAS	<b>(Seller)</b>
4/3/2017	Scivation, Inc.	Wholesales and distributes prescription drugs and supplements	Woodbolt Distribution LLC	
3/31/2017	Reliance Comfort LP	Provides rental water heaters and cooling equipment	CKP (Canada) Holdings Ltd.	<b>(Seller)</b>
3/31/2017	Empire Resources, Inc.	Distributes semi-finished aluminum and steel products	TA Chen Stainless Pipe Co., Ltd.	
3/31/2017	Lightcap Industries, Inc.	Distributes construction products	Lightcap Industries Inc /Private Group/	<b>(Buyer)</b>
3/31/2017	Midland Paper Co., Inc.	Distributes paper products	Cansel Survey Equipment, Inc.	
3/31/2017	McLendon Hardware, Inc.	Distributes lumber products	Central Network Retail Group LLC	
3/31/2017	GLJ LLC	Designs, manufactures, and distributes consumer products	LKCM Capital Group LLC	<b>(Both)</b>
3/30/2017	Warehouse Energy Power, Inc.	Manufactures and distributes batteries and chargers	Crown Battery Manufacturing Co.	
3/30/2017	Sombra Mezcal	Distributes wines	Davos Brand	
3/30/2017	Thorpe Distributing Co.	Operates as a beverage distribution company	Capitol Beverage Sales LP	
3/29/2017	FCCL Partnership	Prepares and distributes bitumen blends	Genovus Energy, Inc.	
3/29/2017	Vermont Butter & Cheese Creamery, Inc.	Produces and distributes dairy products	Land O'Lakes, Inc.	
3/28/2017	Caesar Systems LLC	Wholesales and distributes computers, equipment, and computer software	Palantir Economic Solutions Ltd	
3/28/2017	The Baase Co.	Supplies commercial HVAC equipment	Tozour Energy Systems, Inc.	
3/28/2017	ACS Technologies, Inc.	Wholesales & supplies office equipment	R.J. Young Co., Inc.	
3/27/2017	Ricolife LLC	Wholesales and retails groceries related products	Youngevity International, Inc.	
3/23/2017	CM Sales LLC	Manufactures and distributes homes products	Mjic, Inc.	
3/22/2017	Cole-Parmer Instrument Co. LLC	Manufactures and distributes specialty instruments and equipment	Golden Gate Private Equity, Inc.	<b>(Both)</b>
3/22/2017	Skarnes, Inc.	Manufactures and distributes conveyor systems	RMH Systems, Inc.	
3/21/2017	Marshall Excelsior Co.	Manufactures and distributes engineering products	Harbour Group Industries, Inc.	<b>(Buyer)</b>
3/21/2017	Chelsea Building Products, Inc.	Designs, manufactures, and distributes extruded PVC profiles	aluplast GmbH	<b>(Seller)</b>
3/21/2017	Quality Products, Inc.	Manufactures and distributes aircraft ground support equipment	Tronair, Inc.	
3/21/2017	Axon Drilling Products, Inc.	Manufactures and supplies drilling products and solutions	Henderson Rigs & Equipment LLC	
3/18/2017	Nashtec LLC	Distributes products based on mineral raw materials	Nabaltec AG	
3/17/2017	Human Design Medical LLC	Provides lifestyle medical devices	Fosun Pharma Industrial Pte Ltd.	<b>(Seller)</b>

## ECONOMIC UPDATE

### A Snapshot of Key Economic Indicators

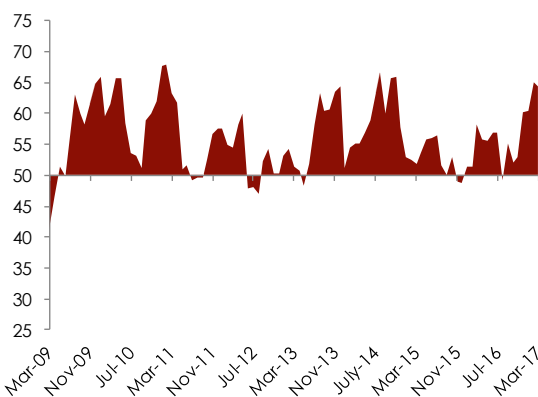
As of April 25, 2017

#### PMI INDEX<sup>6</sup>



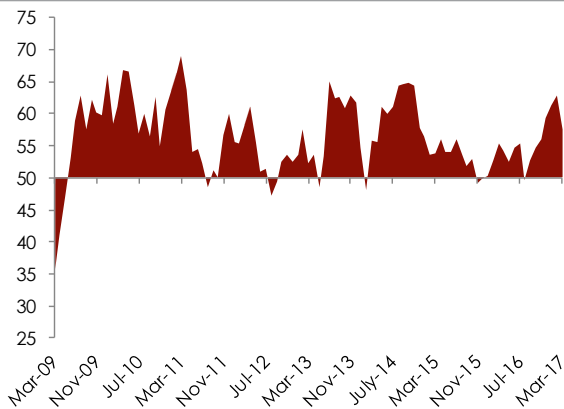
Note: A PMI Index figure greater than 50 indicates expansion.

#### ISM NEW ORDERS INDEX<sup>6</sup>



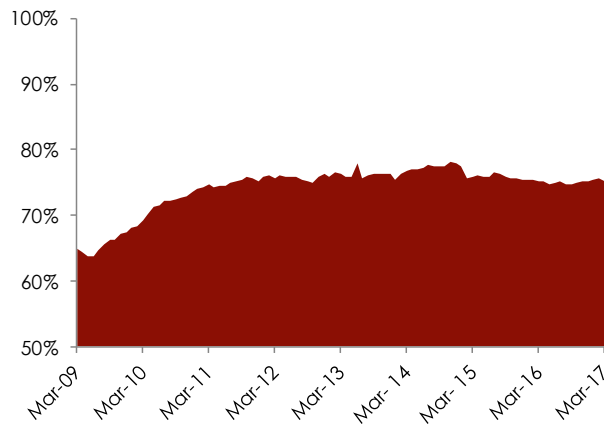
Note: An ISM Index figure greater than 50 indicates expansion.

#### INDUSTRY PRODUCTION INDEX<sup>6</sup>

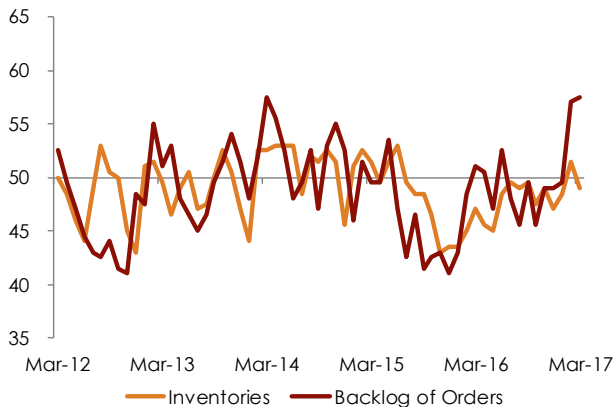


Note: A Production Index figure greater than 50 indicates expansion.

#### U.S. MANUFACTURING CAPACITY UTILIZATION<sup>7</sup>

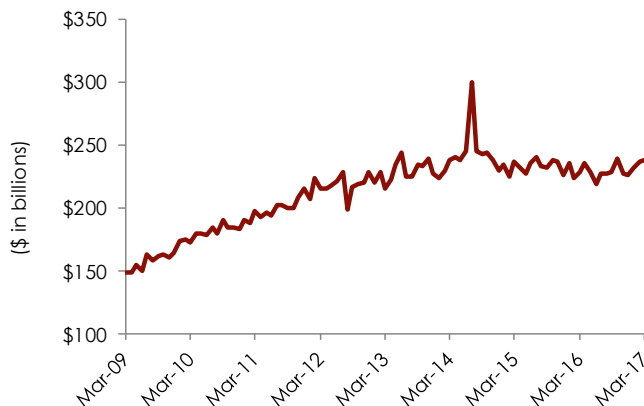


#### MANUFACTURING INVENTORIES & BACKLOG<sup>6</sup>



Note: A Manufacturing Inventory Index figure greater than 50 indicates expansion; A Backlog Index figure greater than 50 indicates expansion.

#### DURABLE GOODS NEW ORDERS<sup>6</sup>



## OUR FIRM

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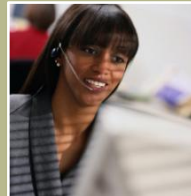
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& Government  
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Building Products  
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## HARRIS WILLIAMS &amp; Co.

## SOURCES

1. Wall Street Journal
2. Modern Distribution Management
3. Modern Distribution Management
4. FactSet
5. PitchBook
6. United States Census
7. U.S. Federal Reserve

## DISCLOSURES

Harris Williams & Co. ([www.harriswilliams.com](http://www.harriswilliams.com)) is a preeminent middle market investment bank focused on the advisory needs of clients worldwide. The firm has deep industry knowledge, global transaction expertise, and an unwavering commitment to excellence. Harris Williams & Co. provides sell-side and acquisition advisory, restructuring advisory, board advisory, private placements, and capital markets advisory services.

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