



## SPECIALTY DISTRIBUTION

INDUSTRY UPDATE | JUNE 2017



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## WHAT WE'RE READING

SELLER'S MARKET IN FULL SWING<sup>1</sup>

The window is wide open for distributors looking to sell, as a growing number of private equity firms and strategic buyers actively seek assets for their portfolios, according to analysts in the 2017 State of M&A in Distribution: 'Never Been a Better Time to Sell'.

"Private equity groups have incredibly strong interest in distribution today. But while PE firms are aggressively looking for platforms "there is a lack of quality assets for them to acquire, particularly assets of scale. There is a substantial imbalance right now in the amount of private equity capital that wants to invest in distribution versus the available options for them to deploy that capital," says one industry source.

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

BIG-BOX COMPETITION FOR B2B HEATS UP<sup>1</sup>

The competitive landscape for distribution is simultaneously becoming more and less crowded. Competitors from outside the industry continue to target the opportunities they see in the B2B space, as demonstrated by last week's announcement by Lowe's that it would acquire Houston, TX-based Maintenance Supply Headquarters, a distributor of MRO products to the multifamily housing industry.

The wholesale distribution market in the U.S. (estimated at \$5.3 trillion) remains highly fragmented. But that may be part of what makes it an attractive target for companies that have traditionally been focused on retail establishments like Lowe's and The Home Depot. Acquiring already established companies makes it much easier to hit the ground running.

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

CENTRALIZED VS. DECENTRALIZED PROCUREMENT: TRUST IS KEY<sup>2</sup>

Many wholesale distributors have multiple stocking locations within their businesses, it's always interesting to learn how each decides to manage their procurement. Is their purchasing centralized or decentralized? The challenge is to balance the pressure from the financial side of the company to reduce inventory and increase turns and the sales and service side with the need to stock enough of the right product to satisfy customers.

How do these seemingly opposing sides work together to provide the best value and meet the common objectives of satisfying the needs of the ultimate customer, and providing the best return on investment? The key is TRUST, according to Jason Bader in his article, "Gaining the Trust of the Sales Team".

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

AMAZON ADDS REFRIGERATED DISTRIBUTION WITH WHOLE FOODS DEAL<sup>3</sup>

By acquiring Whole Foods, Amazon is buying not just an established, upscale supermarket brand, but also a vast distribution network of warehouses and more than 460 stores worldwide — replete with back rooms and cold storage — in some of the most affluent ZIP codes in America. That's a significant boost in numbers for the Seattle company, which currently operates fewer than 100 distribution centers in the U.S.. More hubs means quicker and fresher delivery, which will bolster Amazon's existing grocery delivery service, AmazonFresh. The service, which is offered to the company's subscription Prime members for a monthly fee of \$14.99, is available only in about 20 U.S. cities. While the bid for Whole Foods may not bridge Amazon's "last mile," it certainly brings it closer, experts say.

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

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## 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 June 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	1-Month	1-Year	% of	LTM	2017E	3-Yr. CAGR
				Price	Change	Change	LTM High			
<b>Automotive &amp; Heavy Duty Aftermarket</b>										
O'Reilly Automotive, Inc.	22.0%	50.0%	\$23,584	\$231.39	(9.2%)	(11.2%)	79.0%	12.4x	11.4x	8.4%
AutoZone, Inc.	22.2%	52.7%	22,132	593.81	(11.3%)	(20.6%)	72.5%	9.3x	9.3x	4.2%
Genuine Parts Company	7.9%	29.0%	15,086	95.61	4.4%	(0.4%)	90.2%	12.4x	11.4x	2.3%
LKQ Corporation	11.8%	37.1%	12,824	32.43	4.7%	(0.0%)	89.2%	12.1x	11.6x	17.9%
Dorman Products, Inc.	22.2%	39.7%	2,569	79.04	(5.4%)	46.4%	89.3%	13.2x	12.6x	8.0%
Uni-Select Inc.	8.8%	11.1%	1,180	23.55	4.8%	(9.5%)	85.8%	10.9x	9.7x	(11.6%)
<b>Median</b>	<b>16.9%</b>	<b>38.4%</b>			<b>(0.5%)</b>	<b>(5.0%)</b>	<b>87.5%</b>	<b>12.2x</b>	<b>11.4x</b>	<b>6.1%</b>
<b>Mean</b>	<b>15.8%</b>	<b>36.6%</b>			<b>(2.0%)</b>	<b>0.8%</b>	<b>84.3%</b>	<b>11.7x</b>	<b>11.0x</b>	<b>4.9%</b>
<b>Building &amp; Construction Products</b>										
CRH Plc	11.6%	31.6%	\$36,305	\$36.12	(2.7%)	26.5%	88.3%	10.5x	9.5x	7.8%
Wolseley plc	7.4%	28.0%	17,071	61.00	(5.5%)	20.0%	91.4%	10.7x	12.1x	1.9%
HD Supply Holdings, Inc.	11.8%	32.6%	10,100	31.72	(20.9%)	(7.3%)	70.9%	11.3x	12.9x	(4.3%)
Watsco, Inc.	8.6%	24.1%	5,359	149.75	7.3%	12.2%	93.9%	14.6x	13.7x	3.8%
Beacon Roofing Supply, Inc.	8.9%	22.9%	3,981	49.14	(0.5%)	16.4%	94.3%	10.7x	11.2x	23.2%
Builders FirstSource, Inc.	5.5%	24.6%	3,692	15.31	4.4%	39.2%	92.8%	10.3x	8.3x	62.5%
Boise Cascade Co.	4.1%	11.3%	1,550	29.70	2.8%	36.4%	88.9%	9.4x	7.5x	6.7%
<b>Median</b>	<b>8.6%</b>	<b>24.6%</b>			<b>(0.5%)</b>	<b>20.0%</b>	<b>91.4%</b>	<b>10.7x</b>	<b>11.2x</b>	<b>6.7%</b>
<b>Mean</b>	<b>8.3%</b>	<b>25.0%</b>			<b>(2.2%)</b>	<b>20.5%</b>	<b>88.6%</b>	<b>11.1x</b>	<b>10.7x</b>	<b>14.5%</b>
<b>Consumer &amp; Food Service</b>										
Sysco Corporation	5.5%	17.8%	\$37,390	\$54.38	0.4%	11.8%	95.3%	12.5x	12.7x	6.0%
Bunzl plc	7.4%	13.3%	11,671	30.42	(4.5%)	8.1%	89.1%	15.7x	15.0x	1.7%
US Foods Holding Corp.	3.8%	17.7%	10,323	28.49	(1.5%)	18.8%	92.7%	11.8x	9.9x	1.1%
Performance Food Group Company	2.0%	12.6%	4,211	28.25	2.9%	15.4%	97.0%	12.8x	11.2x	85.9%
United Natural Foods, Inc.	3.5%	15.4%	2,251	35.39	(11.2%)	(18.7%)	67.8%	7.1x	7.2x	11.1%
Core-Mark Holding Company, Inc.	0.9%	5.2%	1,778	34.40	(2.2%)	(23.7%)	68.8%	13.8x	10.7x	14.8%
SpartanNash Company	2.9%	14.5%	1,664	27.20	(25.9%)	(5.2%)	67.4%	7.4x	6.6x	44.6%
Essendant Inc.	2.7%	14.1%	1,096	14.94	(12.1%)	(52.3%)	45.8%	7.5x	7.1x	26.7%
<b>Median</b>	<b>3.2%</b>	<b>14.3%</b>			<b>(3.3%)</b>	<b>1.4%</b>	<b>79.0%</b>	<b>12.1x</b>	<b>10.3x</b>	<b>13.0%</b>
<b>Mean</b>	<b>3.6%</b>	<b>13.8%</b>			<b>(6.8%)</b>	<b>(5.7%)</b>	<b>78.0%</b>	<b>11.1x</b>	<b>10.1x</b>	<b>24.0%</b>
<b>Industrial, MRO &amp; Safety</b>										
Air Liquide SA	25.4%	35.8%	\$61,037	\$122.96	(0.1%)	23.1%	97.2%	12.0x	10.2x	(0.3%)
Fastenal Company	22.8%	49.5%	13,083	44.40	1.0%	1.0%	84.2%	14.3x	13.4x	5.8%
W.W. Grainger, Inc.	14.0%	39.4%	12,848	180.32	0.7%	(18.0%)	68.6%	9.0x	9.5x	2.1%
MSC Industrial Direct Co., Inc. Class A	15.7%	44.9%	5,397	85.36	(1.3%)	18.6%	80.8%	12.0x	12.1x	1.5%
Applied Industrial Technologies, Inc.	8.3%	27.4%	2,630	60.20	(2.2%)	32.6%	87.2%	12.4x	12.6x	1.4%
DXP Enterprises, Inc.	6.2%	27.5%	888	36.21	(13.1%)	150.6%	86.2%	15.0x	13.5x	(10.0%)
<b>Median</b>	<b>14.9%</b>	<b>37.6%</b>			<b>(0.7%)</b>	<b>20.8%</b>	<b>85.2%</b>	<b>12.2x</b>	<b>12.3x</b>	<b>1.4%</b>
<b>Mean</b>	<b>15.4%</b>	<b>37.4%</b>			<b>(2.5%)</b>	<b>34.6%</b>	<b>84.0%</b>	<b>12.4x</b>	<b>11.9x</b>	<b>0.1%</b>
<b>Healthcare</b>										
McKesson Corporation	0.2%	5.4%	\$42,709	\$159.83	10.3%	(11.7%)	80.1%	115.1x	9.6x	13.0%
Cardinal Health, Inc.	2.4%	4.8%	28,076	74.99	3.2%	(2.2%)	87.7%	8.9x	8.5x	11.1%
Henry Schein, Inc.	8.5%	27.8%	16,660	182.73	3.3%	4.6%	97.7%	16.6x	15.9x	6.7%
Patterson Companies, Inc.	6.6%	23.3%	5,563	46.88	8.4%	(2.8%)	93.7%	15.0x	13.1x	11.1%
Owens & Minor, Inc.	2.7%	11.5%	2,330	31.54	(2.4%)	(13.3%)	82.4%	9.0x	9.3x	2.0%
<b>Median</b>	<b>2.7%</b>	<b>11.5%</b>			<b>3.3%</b>	<b>(2.8%)</b>	<b>87.7%</b>	<b>15.0x</b>	<b>9.6x</b>	<b>11.1%</b>
<b>Mean</b>	<b>4.1%</b>	<b>14.6%</b>			<b>4.6%</b>	<b>(5.1%)</b>	<b>88.3%</b>	<b>32.9x</b>	<b>11.3x</b>	<b>8.8%</b>

## PUBLIC COMPARABLES & TRADING VALUATIONS

### Key Trading Stats

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

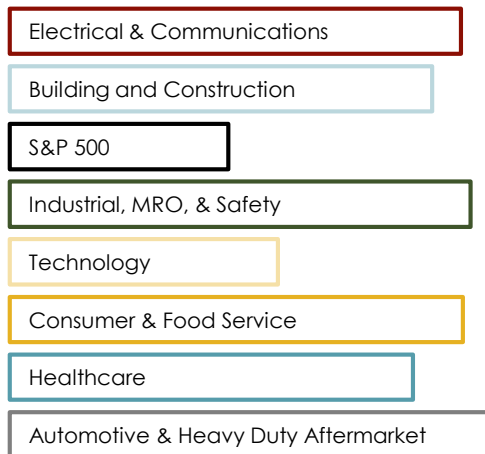
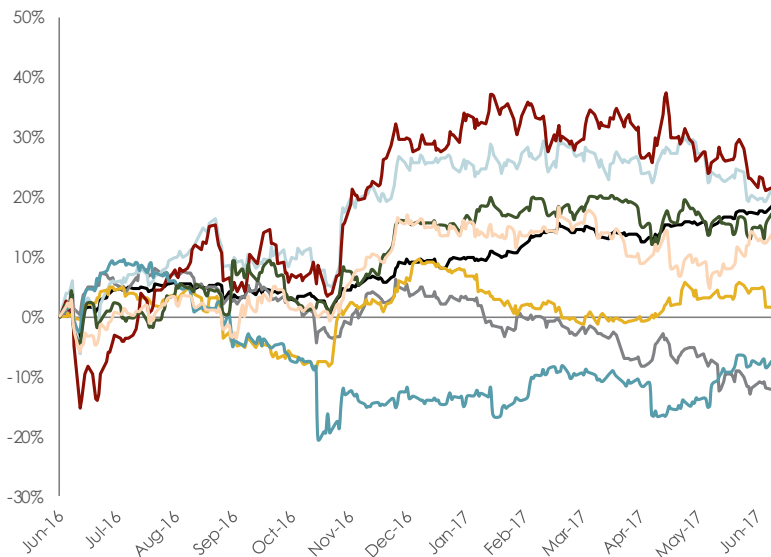
#### SPECIALTY DISTRIBUTION PUBLIC COMPARABLES<sup>4</sup>

	LTM Margins			Stock Performance				TEV/EBITDA		Revenue Growth
	EBITDA	Gross	TEV	Current Price	1-Month Change	1-Year Change	% of LTM High	LTM	2017E	3-Yr. CAGR
<b>Technology</b>										
Arrow Electronics, Inc.	4.5%	12.5%	\$9,433	\$77.12	1.6%	16.6%	98.6%	8.6x	8.2x	3.7%
SYNNEX Corporation	3.8%	8.9%	5,486	118.25	7.6%	27.8%	91.5%	9.9x	10.4x	5.6%
Avnet, Inc.	3.8%	12.2%	5,361	38.59	3.2%	(8.1%)	74.9%	6.8x	6.0x	(0.9%)
Tech Data Corporation	1.6%	5.2%	5,034	96.33	0.8%	19.6%	91.4%	11.4x	7.4x	0.6%
ScanSource, Inc.	3.1%	10.4%	1,031	38.55	(0.9%)	0.6%	85.8%	9.3x	8.8x	7.1%
<b>Median</b>	<b>3.8%</b>	<b>10.4%</b>			<b>1.6%</b>	<b>16.6%</b>	<b>91.4%</b>	<b>9.3x</b>	<b>8.2x</b>	<b>3.7%</b>
<b>Mean</b>	<b>3.4%</b>	<b>9.8%</b>			<b>2.4%</b>	<b>11.3%</b>	<b>88.4%</b>	<b>9.2x</b>	<b>8.2x</b>	<b>3.2%</b>
<b>Electrical &amp; Communications</b>										
Rexel SA	5.0%	23.4%	\$7,511	\$16.23	(4.7%)	19.2%	86.8%	10.2x	9.8x	(5.5%)
WESCO International, Inc.	5.4%	18.8%	4,097	57.30	(8.2%)	2.6%	75.2%	10.3x	10.1x	(0.8%)
Anixter International Inc.	4.8%	19.7%	3,884	78.60	(2.4%)	33.6%	89.3%	10.6x	9.4x	7.2%
<b>Median</b>	<b>5.0%</b>	<b>19.7%</b>			<b>(4.7%)</b>	<b>19.2%</b>	<b>86.8%</b>	<b>10.3x</b>	<b>9.8x</b>	<b>(0.8%)</b>
<b>Mean</b>	<b>5.1%</b>	<b>20.6%</b>			<b>(5.1%)</b>	<b>18.5%</b>	<b>83.8%</b>	<b>10.4x</b>	<b>9.8x</b>	<b>0.3%</b>

### Stock Prices

As of June 25, 2017

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

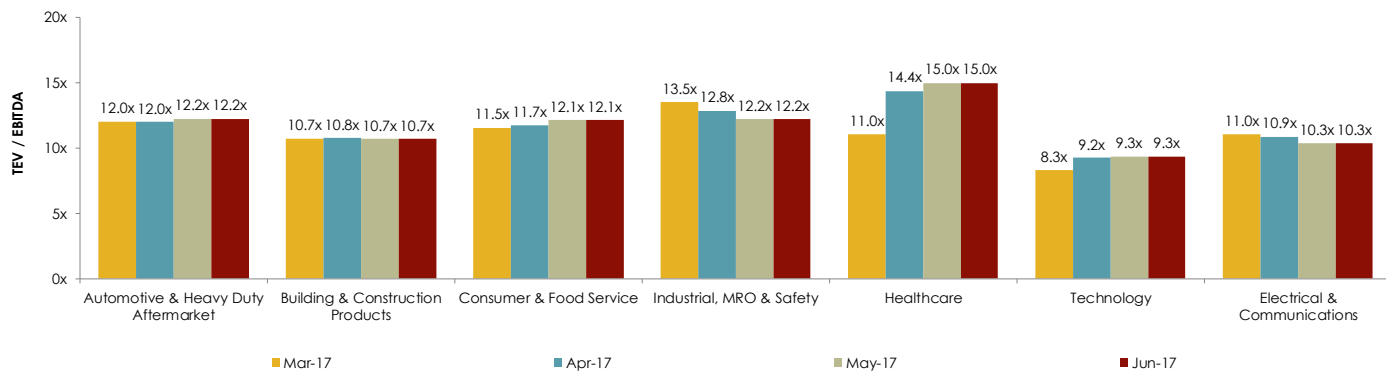


## M&A AND PUBLIC MARKET TRENDS

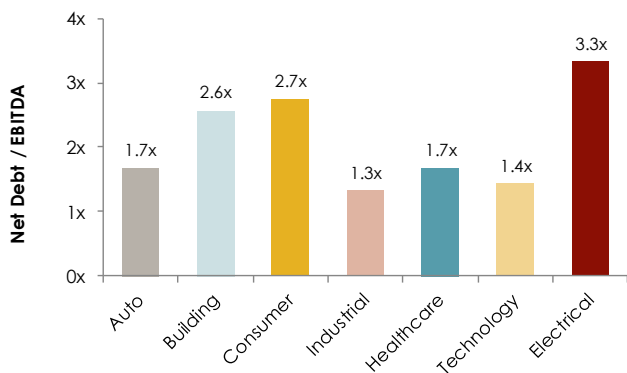
### Distribution Trends

LTM EBITDA as of  
June 25, 2017

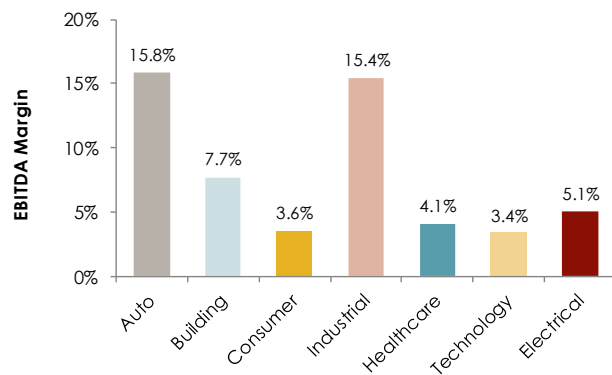
#### TEV / EBITDA MULTIPLES FOR PUBLIC COMPARABLES<sup>4</sup>



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



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



### M&A Trends

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

#### PRIVATE EQUITY BACKED EXITS

- Through the first five months of 2017, there have been 791 PE exits worth a total of \$168 billion
- Median hold times fell below five years for the first time since 2011 to 4.9 years
- EV / LTM EBITDA multiples have remained relatively stable over the last few years, averaging 9.0x thus far in 2017 compared to 8.9x in 2016
- Sales to strategics remain the most lucrative and popular exit route, making up 63% of all capital exited this year, although just 44.6% of exits by count
- IPOs are stabilizing and on track to make up 5.8% of PE-backed exits this year which will be the highest since 2014

## M&amp;A TRANSACTIONS

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

Announced	Target	Description	Acquirer	Private Equity Involvement
6/9/2017	Rehaba, Inc.	Supplies medical devices	South American Gold Corp.	
6/9/2017	BCBG Max Azria Global Holdings LLC	Designs and manufactures apparel, footwear and accessories	Global Brands Group Holding Ltd.	
6/9/2017	Ricerca Biosciences LLC - Chemical Division	Manufactures and distributes chemical products	Olon SpA	
6/9/2017	Dade Paper & Bag Co.	Distributor of foodservice disposables and janitorial sanitation supplies	Imperial Bag & Paper Co. LLC	<b>(Buyer)</b>
6/8/2017	Cyclo Industries LLC	Manufactures and distributes car care products	Niteo Products LLC	
6/8/2017	Structural & Steel Products, Inc.	Manufactures and distributes roadway infrastructure steel products	Highland Private Equity	<b>(Both)</b>
6/7/2017	Key Surgical, Inc.	Manufactures and supplies sterile processing products	Interlock Medizintechnik GmbH	
6/7/2017	Southern Motion, Inc.	Manufactures and sells furniture	Gainline Capital Partners	<b>(Buyer)</b>
6/6/2017	BIC Graphic USA Manufacturing Co., Inc.	Supplies writing instruments and complementary products	H.I.G. Capital LLC	<b>(Buyer)</b>
6/6/2017	Pexcor Manufacturing Co., Inc.	Manufactures water distribution manifolds	Mueller Industries, Inc.	
6/5/2017	Bristol Office Supply, Inc.	Provides office automation products	R.J. Young Co., Inc.	
6/5/2017	Crosman Corp.	Manufactures and supplies of products for the shooting sports	Compass Group and Management Shanghai M&G Colipu Office Supplies Co., Ltd.	<b>(Both)</b>
6/2/2017	Office Depot, Inc. /Mainland China Bus/	Provides office products, services and solutions	Baird Capital Partners Europe Ltd.	<b>(Buyer)</b>
6/2/2017	Cav Ice Protection Ltd.	Supplies airborne ice protection systems for aircraft	Lindenmeyr Munroe	
6/2/2017	Independent Paper Group LLC	Wholesales paper products	SK Capital Management LLC	<b>(Buyer)</b>
6/1/2017	Edrington Webb Travel Retail Americas LLC	Distributes and retails wine and spirits	The Edrington Group Ltd.	
6/1/2017	Gamemaster Athletic Co.	Supplies inflatable balls and other sporting goods	Logo Brands, Inc.	
5/24/2017	Kicking Horse Coffee Co. Ltd.	Roasts and distributes organic fair trade coffee	Luigi Lavazza SpA	<b>(Seller)</b>
5/24/2017	US Corrugated Inc Converting Facilities	Manufactures and distributes corrugated packaging products	WestRock Co.	
5/23/2017	Tabor Hill Winery & Restaurant	Engages in sales and distribution of wines, brandy and brandy spirits	Entente Spirits LLC	
5/23/2017	PartsSource, Inc.	Sells replacement medical parts for hospital equipment	Great Hill Partners LP	<b>(Both)</b>
5/23/2017	W.Marketing, Inc.	Distributes electrical and construction materials	Probiity Media Corp.	
5/23/2017	Drivven, Inc.	Provides automotive control and data acquisition solutions	LHP Software LLC	
5/22/2017	Farner-Bocken Co.	Distributes products to convenience and food service stores	Core-Mark Holding Co., Inc.	
5/22/2017	Nutraceutical International Corp.	Manufactures & distributes nutritional supplements	HGGC LLC	<b>(Buyer)</b>
5/22/2017	Seattles Hydro Spot LLC	Distributes and retails hydroponic products	GrowGeneration Corp.	
5/22/2017	InnerSpace Luxury Products LLC	Distributes luxury home goods	FirstTime Design Ltd.	
5/22/2017	Ottawa Fastener Supply Ltd.	Distributes personal protective gear	Descours & Cabaud SA	
5/19/2017	Bosco Industries, Inc.	Distributes and supplies specialty chemicals products	IMCD NV	
5/19/2017	CellRight Technologies LLC	Supplies medical equipment	Tissue Regenix Group Plc	
5/19/2017	Northwire, Inc.	Provides wire, cable and assemblies	Joule Assets, Inc.	
5/18/2017	Maintenance Supply Headquarters LP	Distributes maintenance, repair and operations (MRO) products	Lowe's Cos., Inc.	
5/17/2017	Endries International, Inc.	Distributes industrial equipment, machinery and related components	Nautic Partners	<b>(Buyer)</b>
5/15/2017	Werner Co.	Manufactures and distributes ladders and other climbing equipment	Triton Advisers (UK) Ltd.	<b>(Buyer)</b>
5/15/2017	Acoustical Ceiling Supply Co.	Produces commercial acoustical ceilings, insulation, and related products	L&W Supply Corp.	

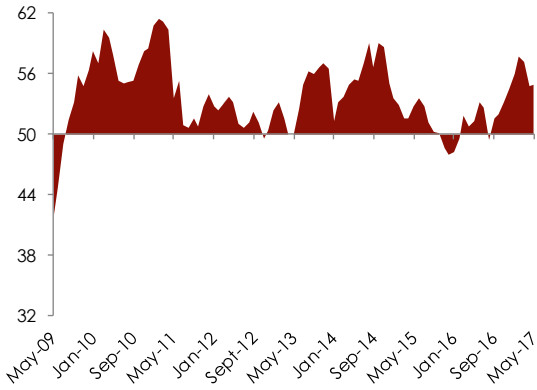


## ECONOMIC UPDATE

### A Snapshot of Key Economic Indicators

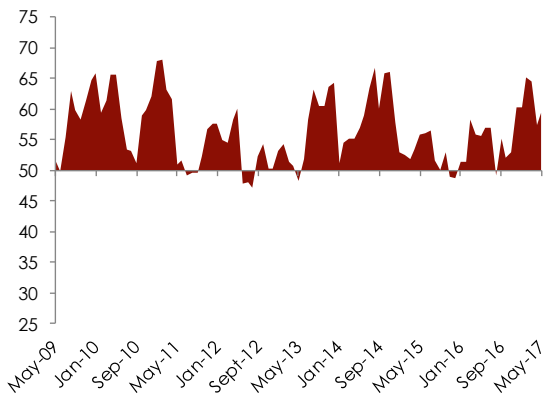
As of June 25, 2017

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



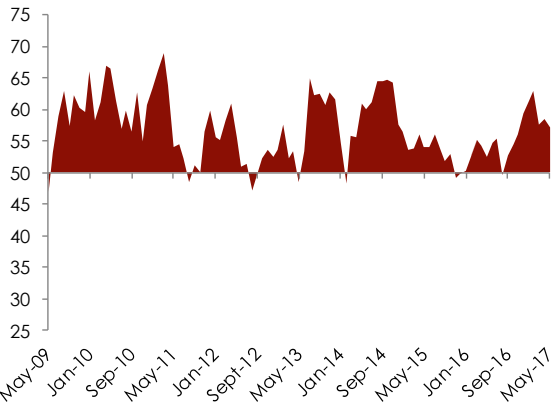
Note: A PMI Index figure greater than 50 indicates expansion.

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



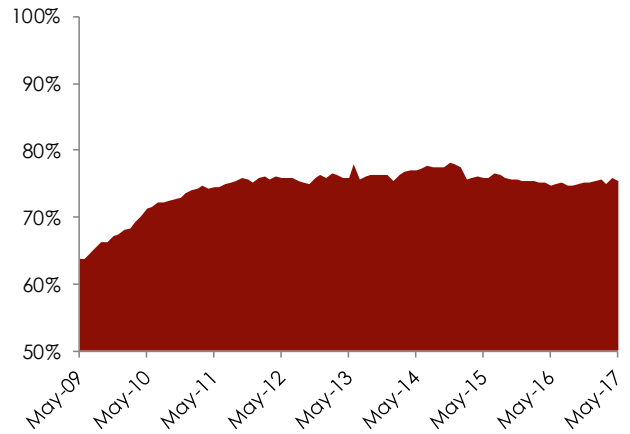
Note: An ISM Index figure greater than 50 indicates expansion.

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

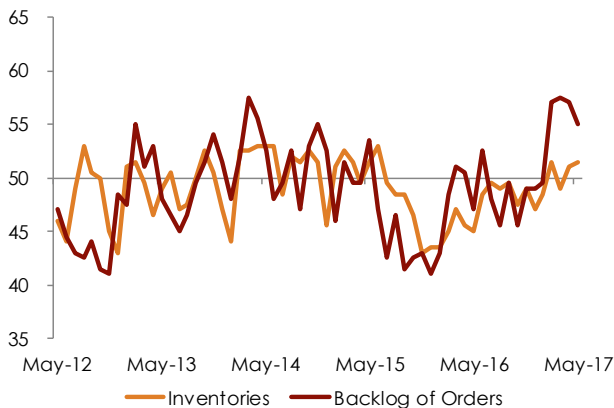


Note: A Production Index figure greater than 50 indicates expansion.

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

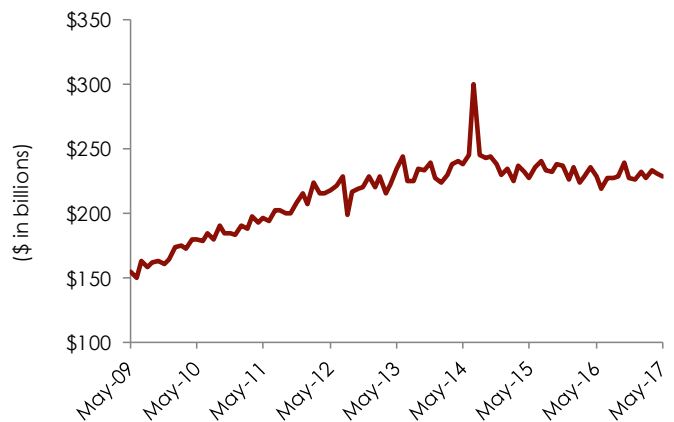


#### MANUFACTURING INVENTORIES & BACKLOG<sup>6</sup>



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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## HARRIS WILLIAMS &amp; Co.

## SOURCES

1. Modern Distribution Management
2. Industrial Distribution
3. Los Angeles Times
4. FactSet
5. PitchBook
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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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