



SPECIALTY DISTRIBUTION

INDUSTRY UPDATE | SEPTEMBER 2017



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WHAT WE'RE READING

INNOVATION DRIVES M&A¹

Mergers and acquisitions were once a primary result of excess capacity, says Steve Samek, author of the first Facing the Forces of Change study for the National Association of Wholesale-Distributors back in the 1980s. And while that may continue, today there are many other drivers behind the deals.

In recent years, we've heard about this in many areas. Arrow Electronics acquired a media portfolio in order to "strengthen its position as a thought leader." Companies with ties to the energy industry have acquired engineering firms to bring the talent in, even if the acquired company doesn't appear to outsiders as an obvious fit. And as technology continues to advance at breakneck speeds, chances are good that we'll see more of these deals.

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

HURRICANES WREAK HAVOC ON SUPPLY CHAINS¹

These catastrophic hurricane weather events are expected to wreak havoc on supply chains – especially pricing and deliveries – for weeks or even months, according to an Institute for Supply Management survey.

Two-thirds (67 percent) of survey respondents believe input materials pricing will be at least somewhat negatively impacted over the next three months, and more than one-fourth (27 percent) expect prices to be negatively or very negatively impacted, according to the survey, which focused on Harvey's impact and was conducted before Irma hit the U.S.

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

ISA DISTRIBUTOR AND SUPPLIER GROWTH SURGES IN AUGUST²

Following two straight months of decline, distributor and supplier members in the Industrial Supply Association experienced major growth during August that corresponds with a considerable jump in that month's Purchasing Managers Index from the Institute of Supply Management (ISM).

ISA's Distributor Index had declined from a reading of 69.9 in May to 61.1 in July, but increased 10.1 percentage points in August to a mark of 71.2. That's its highest mark since September 2014's 76.8. The highest mark since then was 70.3 in February of 2016.

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

GENUINE PARTS CO. TO ACQUIRE ALLIANCE AUTOMOTIVE GROUP¹

Genuine Parts Company, based in Atlanta, GA, has agreed to acquire Alliance Automotive Group, a European distributor of vehicle parts, tools, and workshop equipment for \$2 billion.

"We are excited to combine with AAG and enter the European markets with critical scale and a leading market position in the automotive aftermarket," said Paul Donahue, Genuine Parts Company's president and CEO.

AAG is the second largest parts distribution platform in Europe, with a focus on light vehicle and commercial vehicle replacement parts. Headquartered in London, AAG has 7,500 employees and over 1,800 company-owned stores and affiliated outlets across France, the U.K. and Germany.

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 & TRADING VALUATIONS

Key Trading Stats

As of September 26, 2017
(\$ in millions, except per share amounts)SPECIALTY DISTRIBUTION PUBLIC COMPARABLES³

	LTM Margins			Stock Performance				Revenue		
	EBITDA	Gross	TEV	Current	1-Month	1-Year	% of	TEV/EBITDA		Growth
				Price	Change	Change	LTM High	LTM	2017E	3-Yr. CAGR
Automotive & Heavy Duty Aftermarket										
O'Reilly Automotive, Inc.	22.2%	50.2%	\$22,221	\$215.15	6.4%	(23.6%)	75.1%	11.4x	11.3x	8.2%
AutoZone, Inc.	22.1%	52.7%	21,832	583.48	10.3%	(21.7%)	71.7%	9.1x	9.0x	4.7%
Genuine Parts Company	7.8%	29.1%	14,704	93.22	11.9%	(5.5%)	92.3%	12.0x	11.6x	2.2%
LKQ Corporation	11.7%	37.2%	13,573	35.08	2.3%	(1.7%)	97.8%	12.9x	12.3x	15.5%
Dorman Products, Inc.	22.3%	39.8%	2,274	70.21	9.0%	5.6%	79.3%	11.4x	11.0x	7.1%
Uni-Select Inc.	8.9%	14.4%	1,101	21.88	(1.0%)	(8.2%)	80.0%	9.9x	8.7x	(11.2%)
Median	16.9%	38.5%			7.7%	(6.9%)	79.7%	11.4x	11.1x	5.9%
Mean	15.8%	37.2%			6.5%	(9.2%)	82.7%	11.1x	10.6x	4.4%
Building & Construction Products										
CRH Plc	11.7%	31.5%	\$38,372	\$36.35	3.8%	7.6%	88.8%	11.2x	9.5x	6.4%
Ferguson PLC	7.4%	28.0%	17,797	63.87	9.2%	12.4%	95.7%	11.2x	12.6x	2.2%
HD Supply Holdings, Inc.	11.9%	32.8%	11,014	35.33	12.1%	10.8%	79.0%	14.3x	15.0x	(4.9%)
Watsco, Inc.	8.7%	24.1%	5,789	158.88	10.8%	12.7%	99.6%	15.4x	15.0x	3.8%
Beacon Roofing Supply, Inc.	9.2%	22.9%	4,253	50.08	5.9%	17.4%	96.1%	10.9x	12.1x	23.1%
Builders FirstSource, Inc.	5.5%	24.6%	3,895	17.33	18.8%	47.4%	98.6%	10.6x	8.8x	62.8%
Boise Cascade Co.	4.1%	11.2%	1,669	34.25	18.7%	29.3%	99.8%	9.9x	8.1x	6.4%
Median	8.7%	24.6%			10.8%	12.7%	96.1%	11.2x	12.1x	6.4%
Mean	8.4%	25.0%			11.3%	19.6%	93.9%	11.9x	11.6x	14.3%
Consumer & Food Service										
Sysco Corporation	5.3%	17.7%	\$37,079	\$54.09	3.4%	9.2%	94.8%	12.6x	11.3x	6.0%
Bunzl plc	7.3%	12.5%	11,835	30.08	0.1%	0.2%	93.9%	15.8x	14.2x	1.3%
US Foods Holding Corp.	3.8%	17.5%	9,790	26.68	(2.6%)	12.2%	86.8%	11.0x	9.4x	NA
Performance Food Group Company	2.0%	12.1%	4,195	28.20	4.6%	12.8%	94.3%	12.3x	10.2x	86.1%
United Natural Foods, Inc.	3.5%	15.4%	2,728	44.78	33.3%	14.5%	90.0%	8.6x	8.3x	10.9%
Core-Mark Holding Company, Inc.	0.8%	5.1%	1,610	30.60	16.0%	(15.8%)	69.4%	13.9x	10.6x	14.7%
SpartanNash Company	2.9%	14.4%	1,601	25.92	6.2%	(10.0%)	64.2%	7.0x	6.5x	12.7%
Essendant Inc.	2.4%	14.0%	961	12.84	10.5%	(36.4%)	57.0%	7.7x	7.2x	0.4%
Median	3.2%	14.2%			5.4%	4.7%	88.4%	11.7x	9.8x	10.9%
Mean	3.5%	13.6%			9.0%	(1.7%)	81.3%	11.1x	9.7x	18.9%
Industrial, MRO & Safety										
Air Liquide SA	24.9%	34.7%	\$68,794	\$130.43	6.6%	20.6%	98.8%	12.5x	11.0x	2.7%
Fastenal Company	23.1%	49.6%	13,190	44.53	7.4%	10.1%	84.4%	13.8x	13.2x	5.7%
W.W. Grainger, Inc.	13.4%	39.2%	12,697	178.79	11.9%	(17.4%)	68.1%	9.3x	9.4x	1.9%
MSC Industrial Direct Co., Inc. Class A	15.4%	44.7%	4,747	74.39	10.3%	3.3%	70.4%	10.7x	10.7x	1.1%
Applied Industrial Technologies, Inc.	8.2%	27.5%	2,651	62.55	11.7%	36.0%	90.7%	12.5x	11.8x	1.8%
DXP Enterprises, Inc.	6.3%	27.4%	781	30.86	17.1%	22.3%	73.5%	13.1x	11.6x	(11.8%)
Median	14.4%	36.9%			11.0%	15.4%	79.0%	12.5x	11.3x	1.8%
Mean	15.2%	37.2%			10.8%	12.5%	81.0%	12.0x	11.3x	0.2%
Healthcare										
McKesson Corporation	0.1%	5.2%	\$40,124	\$154.51	4.7%	(7.5%)	91.3%	311.0x	9.1x	10.2%
Cardinal Health, Inc.	2.5%	4.7%	25,203	67.34	1.9%	(13.3%)	79.3%	7.9x	7.7x	12.6%
Henry Schein, Inc.	8.5%	27.7%	14,863	80.34	(6.3%)	(2.3%)	85.9%	14.6x	14.1x	6.5%
Patterson Companies, Inc.	8.7%	24.3%	4,648	37.99	0.6%	(18.6%)	77.1%	9.5x	11.1x	9.9%
Owens & Minor, Inc.	2.8%	11.5%	2,234	28.59	4.3%	(16.9%)	77.2%	8.4x	8.9x	1.1%
Median	2.8%	11.5%			1.9%	(13.3%)	79.3%	9.5x	9.1x	9.9%
Mean	4.5%	14.7%			1.0%	(11.7%)	82.2%	70.3x	10.2x	8.0%

PUBLIC COMPARABLES & TRADING VALUATIONS

Key Trading Stats

As of September 26, 2017
(\$ in millions, except per share amounts)

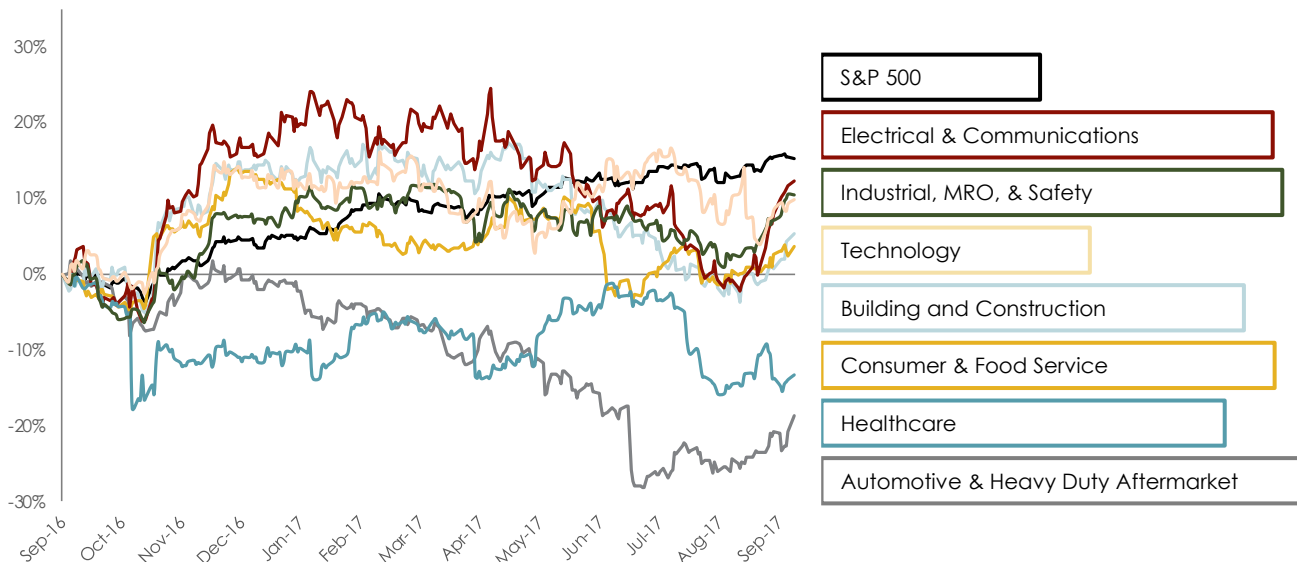
SPECIALTY DISTRIBUTION PUBLIC COMPARABLES³

	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
Technology										
Arrow Electronics, Inc.	4.5%	12.3%	\$9,902	\$80.24	4.3%	26.0%	94.9%	8.9x	8.5x	3.9%
SYNNEX Corporation	4.0%	9.1%	5,401	116.50	0.1%	9.2%	88.7%	8.9x	10.2x	4.7%
Avnet, Inc.	4.3%	13.6%	5,739	39.47	5.6%	(2.4%)	76.6%	7.6x	7.2x	(14.1%)
Tech Data Corporation	1.6%	5.4%	4,568	86.82	(18.4%)	(0.6%)	78.1%	9.2x	6.9x	3.0%
ScanSource, Inc.	3.4%	10.1%	1,105	41.70	11.2%	14.9%	92.8%	9.2x	8.6x	7.0%
Median	4.0%	10.1%			4.3%	9.2%	88.7%	8.9x	8.5x	3.9%
Mean	3.6%	10.1%			0.5%	9.4%	86.2%	8.8x	8.3x	0.9%
Electrical & Communications										
Rexel SA	5.0%	23.4%	\$7,802	\$17.00	12.9%	12.4%	90.9%	10.7x	9.8x	(5.5%)
WESCO International, Inc.	5.3%	18.6%	4,096	57.35	14.1%	(1.0%)	75.3%	10.5x	10.7x	(1.3%)
Anixter International Inc.	4.9%	19.7%	3,909	81.05	13.3%	30.5%	92.1%	10.3x	9.5x	7.3%
Median	5.0%	19.7%			13.3%	12.4%	90.9%	10.5x	9.8x	(1.3%)
Mean	5.1%	20.6%			13.4%	14.0%	86.1%	10.5x	10.0x	0.2%

Stock Prices

As of September 26, 2017

TRAILING TWELVE MONTHS STOCK PRICE PERFORMANCE³

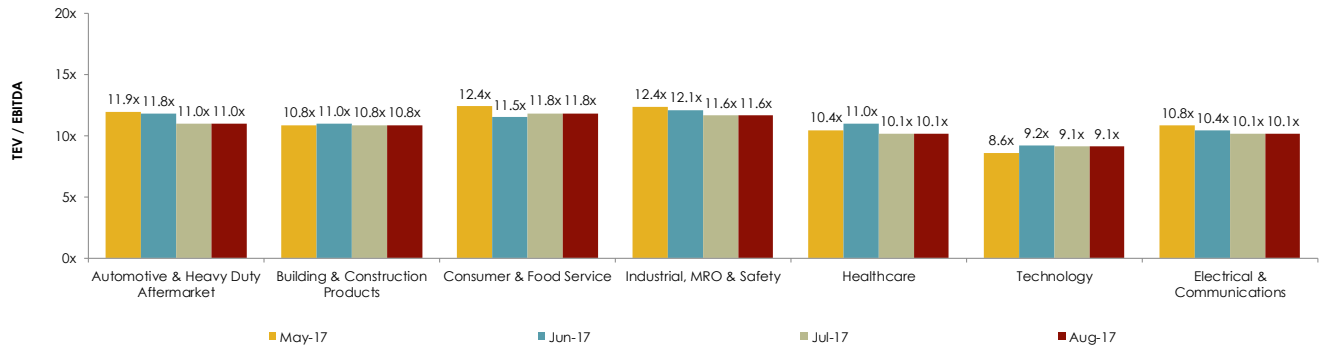


M&A AND PUBLIC MARKET TRENDS

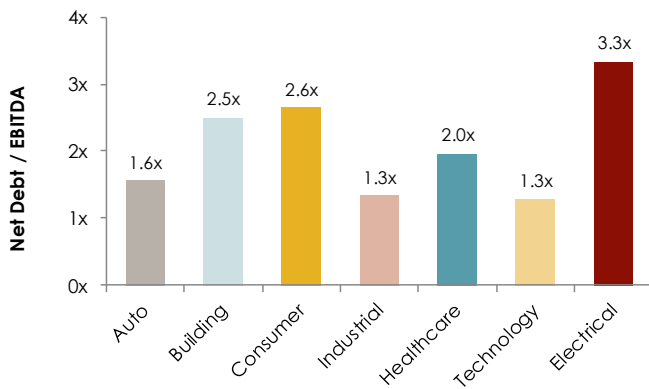
Distribution Trends

LTM EBITDA as of
September 26, 2017

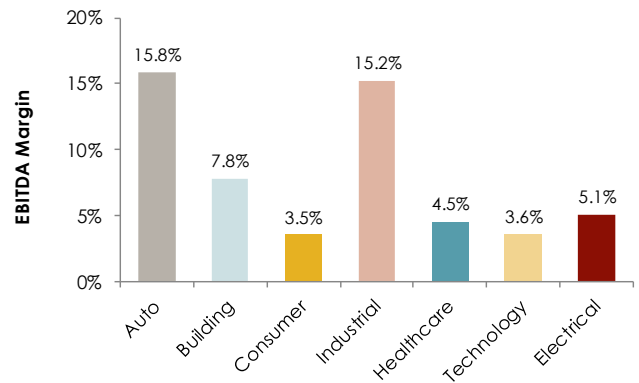
TEV / EBITDA MULTIPLES FOR PUBLIC COMPARABLES³



NET DEBT / EBITDA³



EBITDA MARGINS³



M&A Trends

RECENT M&A AND PRIVATE EQUITY TRENDS⁴

U.S. PE MIDDLE
MARKET REPORT

- Middle market PE firms invested \$236.9 billion across 1,086 deals in 1H 2017, on pace with last year
- Median deal size reached \$208.5 million in a sign that abundant dry powder has shifted deal activity towards the upper middle market
- There have been 23 PE exits through IPOs this year, nearly as many as all of 2016
- Middle market fundraising continues to be strong, making up 75% of all PE funds closed this year
- New funds have taken only 10 months to close this year, compared to 15 months two years ago

M&A TRANSACTIONS

Announced M&A Transactions³

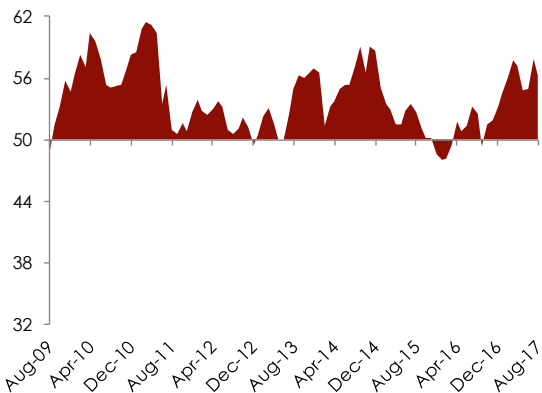
Announced	Target	Description	Acquirer	Private Equity Involvement
9/25/2017	General Electric Co. /Industrial Solutions Division	Manufactures and distributes electrical equipment	ABB Ltd.	
9/25/2017	Alliance Automotive Group SAS	Supplies spare parts for automotive industry	Genuine Parts Co.	(Seller)
9/20/2017	Performance Nutrition Center LLC	Distributes drugs and drug-related products	AgriTek Holdings, Inc.	
9/19/2017	National Industrial Lumber Co.	Provides industrial lumber products and solutions	U.S. Lumber Group LLC	(Seller)
9/18/2017	Dash Distributors, Inc.	Distributes automotive products	Uni-Sélect, Inc.	
9/14/2017	Satellite Vending Co	Provides vending, micro-market and office coffee services	Continental Cafe, Inc.	
9/8/2017	Vantage Medical Supplies, Inc.	Distributes medical and surgical equipment	Dealmed Medical Supplies LLC	
9/7/2017	C.H. Spencer & Co.	Distributes industrial pumps, compressors and related products	Atlas Copco AB	
9/7/2017	Medcart Pharmacy	Offers pharmacy products and services	PharmScript LLC	
9/6/2017	Newgistics, Inc.	Provides e-commerce services to retailers	Pitney Bowes, Inc.	(Seller)
9/5/2017	Honsador Holding LLC	Provides building materials and products	CanWel Building Materials Group Ltd.	(Seller)
9/5/2017	Medical Imaging Systems, Inc.	Distributes medical equipment	Alpha Imaging, Inc.	
8/31/2017	Advanced Auto Service & Tire Centers, Inc.	Distributes tires and provides repair services	The Pep Boys-Manny Moe & Jack	
8/30/2017	Colton Truck Supply	Supplies truck parts, accessories, tools and shop equipment	FleetPride, Inc.	
8/29/2017	Southern States Cooperative, Inc. /Ag. Retail	Provides farm supplies	Agrium, Inc.	
8/28/2017	Challenger Component Services, Inc.	Wholesale and distributes motor vehicle accessories, tools, and equipment	Bolts & Nuts Corp.	
8/25/2017	Milliken Millwork, Inc.	Manufactures and distributes doors and related products	JELD-WEN Holding, Inc.	
8/24/2017	Allied Building Products Corp.	Distributes building products	Beacon Roofing Supply, Inc.	
8/9/2017	Airgas Refrigerants, Inc.	Distributes industrial and medical equipment and specialty gases	Hudson Holdings, Inc.	
8/4/2017	L.V. Lomas Ltd.	Distributes chemical products	IMCD NV	
8/3/2017	Brenner Medical GmbH	Sells products related to obstetrics and gynecology	Clinical Innovations LLC	
8/3/2017	Midshire Business Systems Ltd.	Engages in the wholesale distribution of office machines and equipment	Sharp Electronics (Europe) GmbH	
8/1/2017	Omni Industrial Tir	Distributes industrial tires	Camso, Inc.	
7/31/2017	Magic Mobile Homes, Inc.	Wholesales auto parts and repairing services	Style Crest, Inc.	
7/28/2017	SEI/Aaron's, Inc.	Retails consumer electronics, computers, furniture, and other goods	Aaron's, Inc.	
7/27/2017	Churches Fire Security Ltd.	Provides fire protection alarms, extinguishers and escape services	Lyceum Capital Partners	(Buyer)
7/26/2017	Millennium Surgical Corp	Distributes and sells surgical instruments	Avalign Technologies, Inc.	
7/26/2017	Techni-Tool, Inc.	Distributes precision boring and tooling systems	TestEquity LLC	
7/25/2017	Robopolis SAS	Distributes robotics products in Europe	iRobot Corp.	(Seller)
7/25/2017	Raw Material Suppliers	Distributes rubber products	Polytek Development Corp.	
7/20/2017	Woodbury Health Products, Inc.	Distributes medical products	Convatec Group Plc	(Seller)
7/14/2017	Automaster Service Center LLC	Provides automotive tires, parts, accessories and services	The Pep Boys-Manny Moe & Jack	
7/5/2017	Virginia Builders' Supply, Inc.	Distributes drywalls, steel structures, fasteners, metal lath, plaster and accessories	Foundation Building Materials, Inc. Border Construction Specialties LLC	(Seller)
6/30/2017	Carter-Waters LLC	Distributes construction materials and equipment		(Seller)
6/29/2017	Senco Brands, Inc.	Manufactures and distributes air, battery and gas powered tools	Kyocera Corp.	(Seller)
6/29/2017	West Marine, Inc.	Operates marine retail stores	Monomoy Capital Partners LLC	(Buyer)
6/29/2017	POS Portal, Inc.	Distributes payment devices and services	ScanSource, Inc.	
6/28/2017	Staples, Inc.	Operates as office superstores and smaller stores	Sycamore Partners Management LP	(Buyer)
6/28/2017	Tecnopacking S.L.	Distributes industrial and disposable packaging products	Bunzl Plc	
6/28/2017	Stampede Meat, Inc.	Owns and offers meat products	Wynnchurch Capital Ltd	(Buyer)

ECONOMIC UPDATE

A Snapshot of Key Economic Indicators

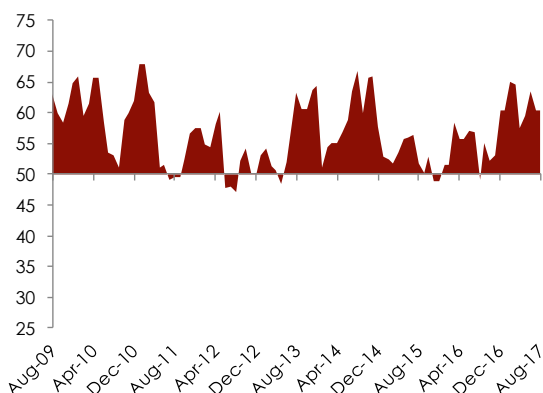
As of September 26, 2017

PMI INDEX⁵



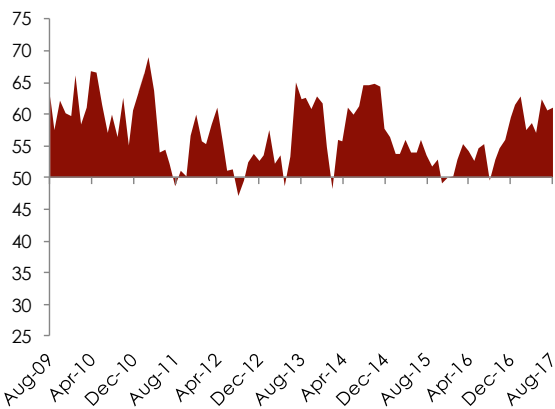
Note: A PMI Index figure greater than 50 indicates expansion.

ISM NEW ORDERS INDEX⁵



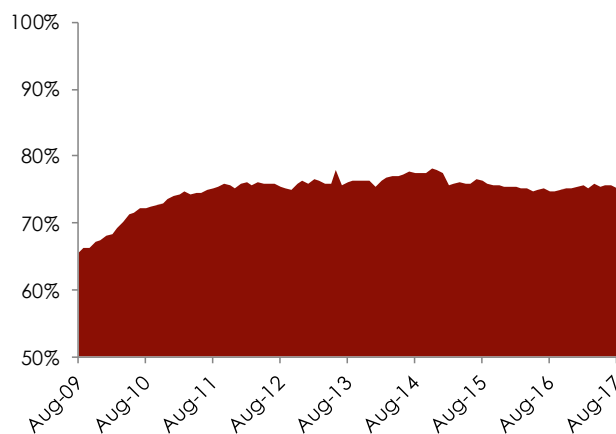
Note: An ISM Index figure greater than 50 indicates expansion.

PRODUCTION INDEX⁵

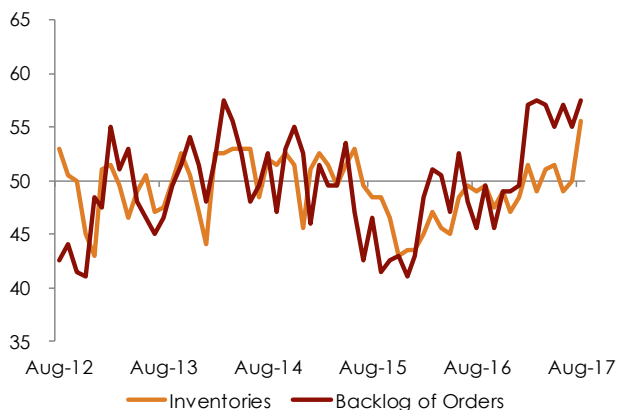


Note: A Production Index figure greater than 50 indicates expansion.

U.S. MANUFACTURING CAPACITY UTILIZATION⁶

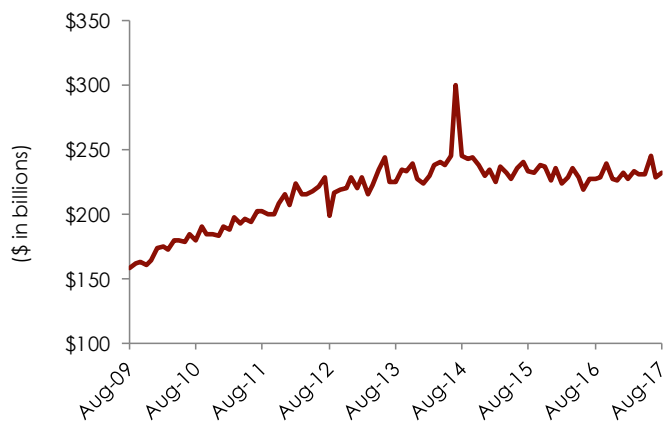


MANUFACTURING INVENTORIES & BACKLOG⁵



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

DURABLE GOODS NEW ORDERS⁵



OUR FIRM

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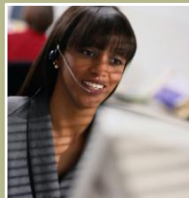
Aerospace, Defense
& Government
Services



Building Products
& Materials



Business
Services



Consumer



Energy, Power
& Infrastructure



Healthcare
& Life Sciences



Industrials



Specialty
Distribution



Technology,
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Transportation
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SOURCES

1. Modern Distribution Management
2. Industrial Distribution
3. FactSet
4. Pitchbook
5. United States Census
6. U.S. Federal Reserve

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