



SPECIALTY DISTRIBUTION INDUSTRY UPDATE | AUGUST 2017



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WHAT WE'RE READING

JULY 2017 M&A ROUNDUP: BUSY MONTH IN INDUSTRIALS KICKS OFF 3Q¹

The long-awaited M&A surge appears to have begun in July, with a healthy volume of distribution deals being announced, including from some of the largest players in the industrial sector.

Grainger, No. 1 on MDM's Top 40 Industrial Distributors 2017 list, sold its subsidiary Techni-Tool Inc. to Moorpark, CA-based TestEquity. Grainger bought Techni-Tool in 2012. In other July industrial deals, Motion Industries agreed to acquire Numatic Engineering, Los Angeles, CA. Numatic Engineering will be part of Motion's automation solutions group, which includes Braas Co., acquired in October 2016.

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

DATA SHARING KEY IN NEW SUPPLY CHAIN¹

Technology has already changed the dynamics of the supply chain. It's no longer a linear process, as products flow from one player to the next, according to Tom France, director of global transportation and logistics for Caterpillar. It's now a network, with information flowing between partners at all points in the chain.

The increase in transparency has boosted the need for broader collaboration at all points, France said earlier this month, "If the data flow doesn't match the physical flow, you're not moving anything," he said. If the customs agents at the port don't have the correct information about the shipment, for example, it will likely be delayed. And that could have a ripple effect for all of your partners. The ideal supply chain works on time.

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

GO BEYOND THE HYPE TO CAPITALIZE ON DISRUPTIVE TECH¹

It's easy to dismiss disruptive technologies as a lot of hype. After all, most of the conversation today is around what they could possibly do tomorrow. But if you wait too long to invest in understanding the potential impact, you may miss out on many of the returns. The time it takes for a new idea to become embedded in our businesses has significantly compressed over the last three decades, and that means business leaders who want to stay industry leaders need to be ready to jump.

For example, look at e-commerce. Monthly Distribution Management's 2017 State of E-Commerce in Distribution survey looked at how long it took distributors to reach maturity with their e-commerce initiatives. (Maturity is defined as e-commerce generating at least 10 percent of overall revenue.) In general, their research showed it takes at least five years from the initial efforts to achieve maturity.

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

Q&A: THE IMPLICATIONS OF UBER FREIGHT ON THE SUPPLY CHAIN²

Uber — the company that completely changed the market for car transportation — recently launched Uber Freight, a service that pairs available trucking companies with loads that need to be transported. Traditionally a very tedious process, Uber Freight is streamlining the supply chain through a simple workflow, quick job confirmation and fast payment, all within a mobile device.

According to data from PointSource — a design and tech agency that provides digital solutions — 88 percent of supply chain management personnel would be willing to use mobile to improve logistics management. And as Uber breaks into this area, it could potentially cause the same disruption as it did with taxi cabs.

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 August 30, 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
Automotive & Heavy Duty Aftermarket										
O'Reilly Automotive, Inc.	22.2%	50.2%	\$20,663	\$198.09	(1.0%)	(29.3%)	69.1%	10.6x	10.5x	8.2%
AutoZone, Inc.	22.2%	52.7%	20,268	529.53	0.5%	(29.5%)	65.1%	8.5x	8.5x	4.4%
Genuine Parts Company	7.8%	29.1%	13,180	82.90	(1.2%)	(21.1%)	79.7%	10.8x	10.4x	2.2%
LKQ Corporation	11.7%	37.2%	13,328	34.29	(0.7%)	(4.7%)	94.3%	12.6x	12.1x	15.5%
Dorman Products, Inc.	22.3%	39.8%	2,137	66.22	(15.0%)	5.2%	74.8%	10.8x	10.3x	7.1%
Uni-Select Inc.	8.9%	14.4%	1,092	21.66	(9.0%)	(7.7%)	79.2%	9.9x	8.7x	(11.2%)
Median	16.9%	38.5%			(1.1%)	(14.4%)	77.0%	10.7x	10.4x	5.7%
Mean	15.8%	37.2%			(4.4%)	(14.5%)	77.0%	10.5x	10.1x	4.3%
Building & Construction Products										
CRH Plc	11.7%	31.5%	\$36,801	\$34.47	(1.5%)	3.8%	84.3%	10.7x	9.2x	6.4%
Ferguson PLC	7.4%	28.0%	16,515	58.81	(0.4%)	3.9%	88.1%	10.4x	11.7x	2.2%
HD Supply Holdings, Inc.	11.8%	32.6%	10,309	32.75	1.2%	(10.1%)	73.2%	11.6x	14.1x	(5.0%)
Watsco, Inc.	8.7%	24.1%	5,356	145.66	(2.9%)	(1.5%)	91.3%	14.3x	13.3x	3.8%
Beacon Roofing Supply, Inc.	9.2%	22.9%	4,017	46.24	1.2%	(0.5%)	88.7%	10.3x	11.4x	23.1%
Builders FirstSource, Inc.	5.5%	24.6%	3,775	16.29	5.0%	19.8%	94.6%	10.3x	8.5x	62.8%
Boise Cascade Co.	4.1%	11.2%	1,478	29.35	(6.4%)	12.2%	87.9%	8.7x	7.2x	6.4%
Median	8.7%	24.6%			(0.4%)	3.8%	88.1%	10.4x	11.4x	6.4%
Mean	8.4%	25.0%			(0.5%)	3.9%	86.9%	10.9x	10.8x	14.3%
Consumer & Food Service										
Sysco Corporation	5.3%	17.7%	\$36,322	\$52.71	0.9%	0.6%	92.4%	12.3x	11.1x	6.0%
Bunzl plc	7.3%	12.5%	11,677	29.60	(0.7%)	(6.4%)	91.8%	15.7x	14.6x	1.3%
US Foods Holding Corp.	3.8%	17.5%	9,931	27.30	(2.8%)	12.1%	88.8%	11.1x	9.6x	NA
Performance Food Group Company	2.0%	12.7%	4,128	27.55	(4.0%)	2.8%	94.2%	12.1x	10.1x	86.1%
United Natural Foods, Inc.	3.5%	15.4%	2,186	34.12	(9.9%)	(28.3%)	68.6%	6.9x	7.0x	10.4%
Core-Mark Holding Company, Inc.	0.8%	5.1%	1,422	26.54	(27.1%)	(31.5%)	60.2%	12.3x	9.3x	14.7%
SpartanNash Company	2.9%	14.4%	1,547	24.46	(10.7%)	(24.6%)	60.6%	6.8x	6.3x	12.7%
Essendant Inc.	2.4%	14.0%	921	11.76	(0.6%)	(38.3%)	52.2%	7.4x	6.9x	0.4%
Median	3.2%	14.2%			(3.4%)	(15.5%)	78.7%	11.6x	9.4x	10.4%
Mean	3.5%	13.7%			(6.9%)	(14.2%)	76.1%	10.6x	9.3x	18.8%
Industrial, MRO & Safety										
Air Liquide SA	24.9%	34.7%	\$65,549	\$122.07	(1.0%)	14.0%	94.8%	11.9x	10.4x	2.7%
Fastenal Company	23.1%	49.6%	12,476	42.06	(3.4%)	(4.4%)	79.7%	13.1x	12.5x	5.7%
W.W. Grainger, Inc.	13.4%	39.2%	11,581	159.64	(3.4%)	(32.0%)	60.8%	8.5x	8.5x	1.9%
MSC Industrial Direct Co., Inc. Class A	15.4%	44.7%	4,337	67.22	(7.0%)	(9.2%)	63.6%	9.8x	9.7x	1.1%
Applied Industrial Technologies, Inc.	8.2%	27.5%	2,423	56.75	0.5%	19.5%	82.2%	11.4x	10.7x	1.8%
DXP Enterprises, Inc.	6.3%	27.4%	737	28.41	(3.7%)	(1.6%)	67.6%	12.3x	10.9x	(11.8%)
Median	14.4%	36.9%			(3.4%)	(3.0%)	73.7%	11.6x	10.6x	1.8%
Mean	15.2%	37.2%			(3.0%)	(2.3%)	74.8%	11.2x	10.5x	0.2%
Healthcare										
McKesson Corporation	0.1%	5.2%	\$38,460	\$146.70	(9.7%)	(20.2%)	78.8%	298.1x	8.7x	10.2%
Cardinal Health, Inc.	2.5%	4.7%	24,931	66.49	(14.3%)	(16.6%)	78.3%	7.8x	7.7x	12.6%
Henry Schein, Inc.	8.5%	27.7%	15,574	169.62	(7.3%)	3.3%	90.7%	15.3x	14.8x	6.5%
Patterson Companies, Inc.	8.7%	24.3%	4,636	38.29	(9.2%)	(17.4%)	77.7%	9.5x	11.1x	9.9%
Owens & Minor, Inc.	2.8%	11.5%	2,183	27.74	(14.0%)	(18.2%)	74.9%	8.2x	8.7x	1.1%
Median	2.8%	11.5%			(9.7%)	(17.4%)	78.3%	9.5x	8.7x	9.9%
Mean	4.5%	14.7%			(10.9%)	(13.8%)	80.1%	67.8x	10.2x	8.0%

PUBLIC COMPARABLES & TRADING VALUATIONS

Key Trading Stats

As of August 30, 2017
(\$ in millions, except per share amounts)

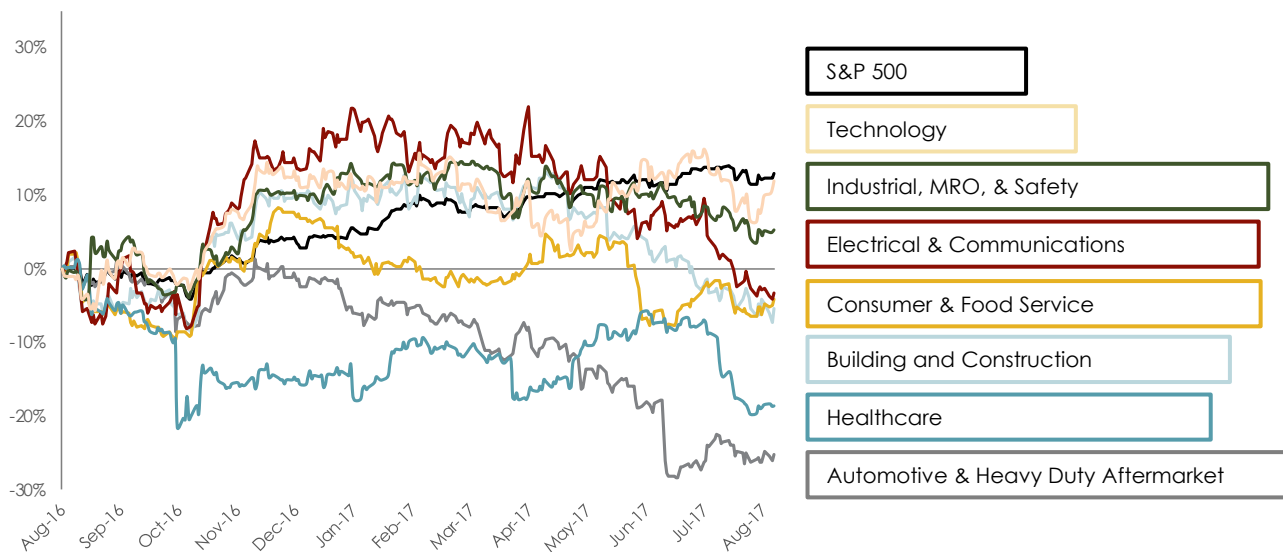
SPECIALTY DISTRIBUTION PUBLIC COMPARABLES³

	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%	\$9,725	\$78.27	(4.3%)	18.2%	92.6%	8.8x	8.3x	3.9%
SYNNEX Corporation	4.0%	9.1%	5,463	118.07	(1.6%)	11.1%	89.9%	9.0x	10.3x	4.7%
Avnet, Inc.	4.3%	13.6%	5,546	37.97	(0.4%)	(9.5%)	73.7%	7.4x	7.0x	(14.1%)
Tech Data Corporation	1.6%	5.2%	5,528	109.53	6.9%	51.6%	98.6%	12.5x	7.9x	0.0%
ScanSource, Inc.	3.4%	10.1%	1,010	37.95	(4.0%)	(11.1%)	84.4%	9.1x	7.8x	7.0%
Median	4.0%	10.1%			(1.6%)	11.1%	89.9%	9.0x	7.9x	3.9%
Mean	3.6%	10.1%			(0.7%)	12.0%	87.8%	9.4x	8.3x	0.3%
Electrical & Communications										
Rexel SA	5.0%	23.4%	\$7,118	\$14.75	(8.0%)	(6.2%)	78.8%	9.7x	8.8x	(5.5%)
WESCO International, Inc.	5.3%	18.6%	3,742	50.10	(2.7%)	(20.1%)	65.8%	9.6x	9.7x	(1.3%)
Anixter International Inc.	4.9%	19.7%	3,630	72.85	(8.3%)	14.1%	82.8%	9.6x	8.8x	7.3%
Median	5.0%	19.7%			(8.0%)	(6.2%)	78.8%	9.6x	8.8x	(1.3%)
Mean	5.1%	20.6%			(6.3%)	(4.0%)	75.8%	9.6x	9.1x	0.2%

Stock Prices

As of August 30, 2017

TRAILING TWELVE MONTHS STOCK PRICE PERFORMANCE³

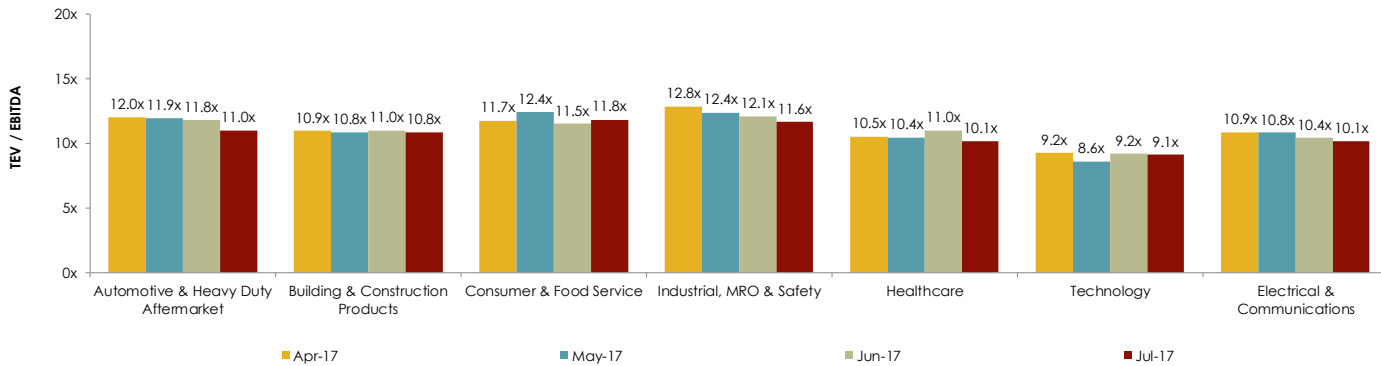


M&A AND PUBLIC MARKET TRENDS

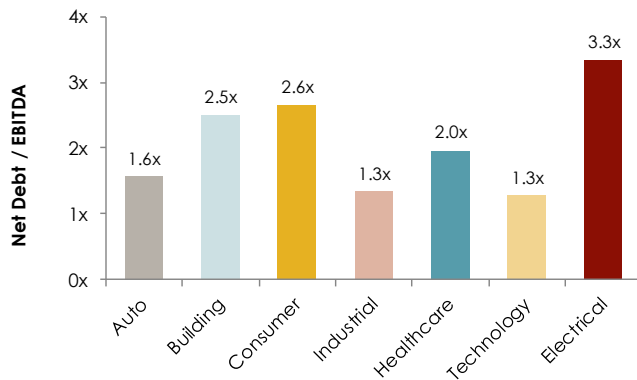
Distribution Trends

LTM EBITDA as of
August 30, 2017

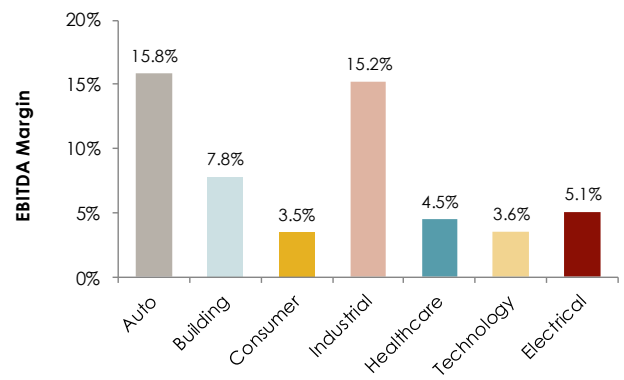
TEV / EBITDA MULTIPLES FOR PUBLIC COMPARABLES³



NET DEBT / EBITDA³



EBITDA MARGINS³



M&A Trends

RECENT M&A AND PRIVATE EQUITY TRENDS⁴

GLOBAL M&A
REPORT

- Globally, there were 8,077 M&A deals worth \$1.5 trillion in H1 2017, an 8.4% increase in value compared to last year
- North America had the highest deal value of any region, representing 43.9% of all global activity
- Cross-border activity remained strong as the value of international deals rose 27.7% to reach \$704.4 billion
- Global PE deal value continued its upward trend in H1 2017, with 1,420 buyouts valued at \$240 billion, a 26.7% increase in value from H1 2016
- Similarly, global PE exits reached a higher volume in H1 2017 than the same period last year, with 1,106 deals worth \$235.5 billion

M&A TRANSACTIONS

Announced M&A Transactions³

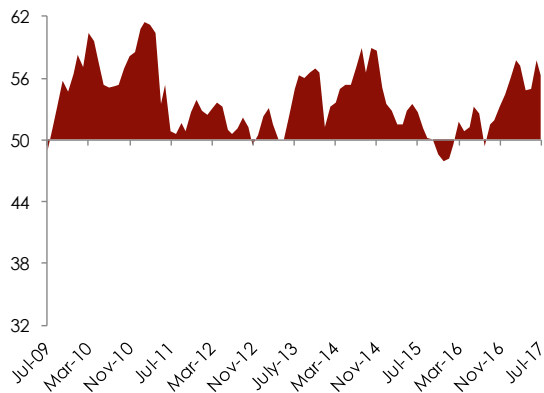
Announced	Target	Description	Acquirer	Private Equity Involvement
8/24/2017	Allied Building Products Corp.	Distributes building products	Beacon Roofing Supply, Inc.	
8/9/2017	Airgas Refrigerants, Inc.	Distributes industrial and medical equipment and specialty gases	Hudson Holdings, Inc.	
8/4/2017	L.V. 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 Tire	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, residential furniture, household appliances	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	Kyocera Corp.	(Seller)
6/29/2017	Senco Brands, Inc.	Manufactures and distributes air, battery and gas powered tools	Monomoy Capital Partners LLC	(Buyer)
6/29/2017	West Marine, Inc.	Operates marine retail stores	ScanSource, Inc.	
6/29/2017	POS Portal, Inc.	Distributes payment devices and services	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.	Owens and offers meat products	Wynnchurch Capital Ltd	(Buyer)
6/28/2017	Western Safety Products Ltd.	Distributes commercial and industrial first aid and safety supplies and equipment	Bunzl Plc	
6/26/2017	Reiff Reifen und Autotechnik GmbH	Distributes car tyres and automotive technology	European Tyres Distribution Ltd.	(Buyer)
6/22/2017	Spiral Binding Co., Inc.	Manufactures and distributes printing, binding, lamination and graphics equipment	Spiral Binding Co., Inc. /Private Group	(Buyer)
6/13/2017	A&R Wholesale Distributors, Inc.	Supplies fresh foods to schools	Gold Star Food Service, Inc.	
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	Canyon Insulation Inc	Provides insulation contracting services	TopBuild Corp.	
6/9/2017	Dade Paper & Bag Co.	Distributor of foodservice disposables and janitorial sanitation supplies	Imperial Bag & Paper Co. LLC	(Buyer)
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	(Both)
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	(Buyer)
6/6/2017	BIC Graphic USA Manufacturing Co., Inc.	Supplies writing instruments and complementary products	H.I.G. Capital LLC	(Buyer)
6/6/2017	HD Supply Holdings, Inc./Two Subsidiaries	Provides water supply services	Clayton Dubilier & Rice LLC	(Buyer)
6/6/2017	Pexcor Manufacturing Co., Inc.	Manufactures water distribution manifolds	Mueller Industries, Inc.	
6/5/2017	Crosman Corp.	Manufactures and supplies of products for the shooting sports	Compass Group and Management	(Both)

ECONOMIC UPDATE

A Snapshot of Key Economic Indicators

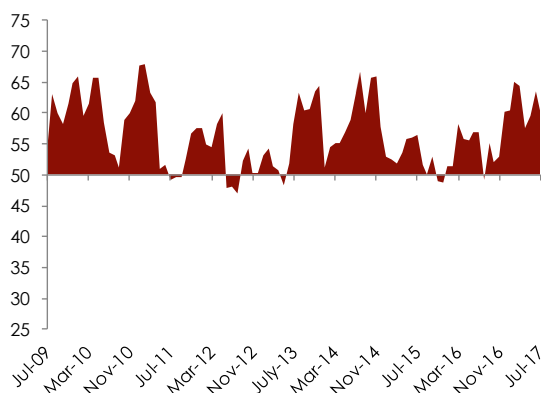
As of August 30, 2017

PMI INDEX⁵



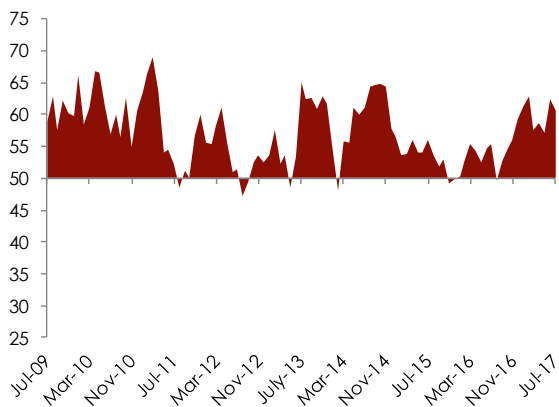
Note: A PMI Index figure greater than 50 indicates expansion.

ISM NEW ORDERS INDEX⁵



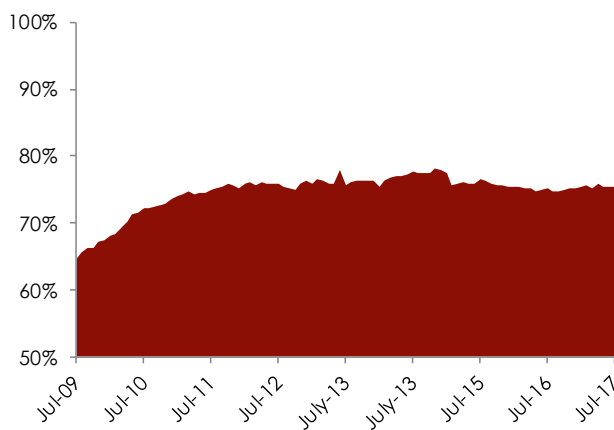
Note: An ISM Index figure greater than 50 indicates expansion.

PRODUCTION INDEX⁵

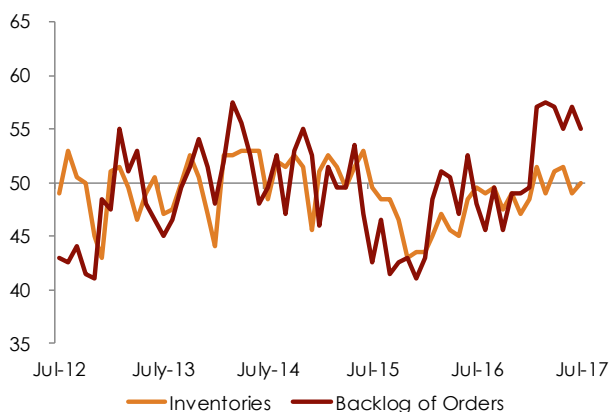


Note: A Production Index figure greater than 50 indicates expansion.

U.S. MANUFACTURING CAPACITY UTILIZATION⁶

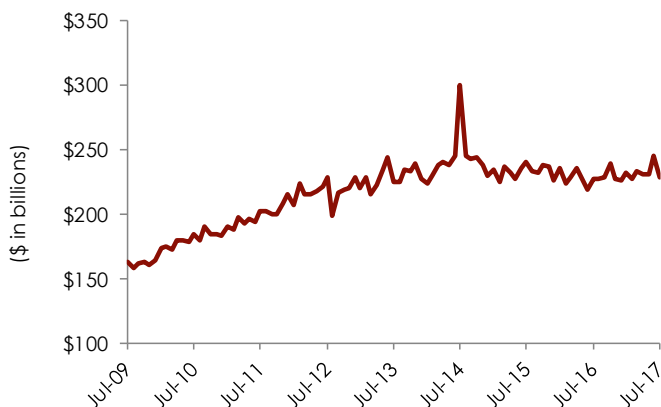


MANUFACTURING INVENTORIES & BACKLOG⁵



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

Harris Williams & Co. has a broad range of industry expertise, which creates powerful opportunities. Our clients benefit from our deep-sector experience, integrated industry intelligence and collaboration across the firm, and our commitment to learning what makes them unique. For more information, visit our website at www.harriswilliams.com/industries.

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Building Products
& Materials



Business
Services



Consumer



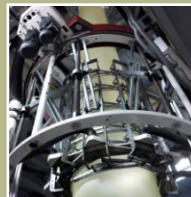
Energy, Power
& Infrastructure



Healthcare
& Life Sciences



Industrials



Specialty
Distribution



Technology,
Media & Telecom



Transportation
& Logistics



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NETWORK OFFICES

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New Delhi

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HARRIS WILLIAMS & Co.

SOURCES

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

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