



## SPECIALTY DISTRIBUTION

INDUSTRY UPDATE | JULY 2017



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## WHAT WE'RE READING

PRIVATE EQUITY FIRMS SPEND BILLIONS ON DISTRIBUTION IN JUNE<sup>1</sup>

The pace and volume of M&A finally picked up across the industry last month, led by a trio of blockbuster transactions involving private equity firms investing billions of dollars in distribution.

Staples Inc., Framingham, MA – No. 1 on MDM's 2017 list of the Top Jan-San Distributors – agreed to be acquired by private equity firm Sycamore Partners for \$6.9 billion. HD Supply, Atlanta, GA, agreed to sell its waterworks business to private equity firm Clayton, Dubilier & Rice for \$2.5 billion. In international news, Advent International acquired IPH Group, a Lyon, France-based distributor of industrial supplies.

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

MSC PROJECTS PRICING INCREASE<sup>1</sup>

Although the pricing environment in distribution is "spotty and broad-based" right now, price increases driven by suppliers are expected this fall and could bode well for companies such as MSC Industrial Supply, according to President and CEO Erik Gershwind.

"The pricing environment remains difficult as competitive intensity remains high," Gershwind said last week on an earnings call with analysts. "Moving forward, there are a few signs of life with a few large manufacturers signaling to us that price increases are likely in the coming months. If this were to become more broad-based, it would bode well for future price increases."

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

UNDERSTANDING THE 'AMAZON TAX'<sup>1</sup>

Amazon's reach into homes and businesses across the U.S. has resulted in a new sales tax law, commonly called the "Amazon tax," that affects any business selling goods in a state where it doesn't have a physical presence. The Supreme Court ruled last year that companies must collect sales taxes at the time of purchase or file a report on how much their customers are spending and alert them to the potential tax burden they face.

"Large online sellers that don't collect are now required to send customers a notice every time they buy something explaining that they may owe what's called a use tax — essentially, sales tax that wasn't collected at the time of purchase," according to a recent Denver Post article.

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

U.S. DISTRIBUTORS, SUPPLIERS RESPOND TO TRUMP PLANS<sup>2</sup>

Findings from a recent independent survey commissioned by Exact, a global provider of business software, point to optimism from wholesale distribution respondents regarding the perceived impact of the new administration's plans for trade deregulation on their businesses — with 63 percent of these respondents anticipating that the plans will be beneficial to their businesses.

Manufacturers are split, with 50 percent of respondents anticipating that the plans will be beneficial to their businesses. In response to publicly stated pending changes — such as border tariffs, revoking existing trade agreements and a focus on "buying American" — about one third of respondents from both industries have already increased investments in technology and hired more U.S.-based employees.

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 July 21, 2017

(\$ in millions, except per share amounts)

SPECIALTY DISTRIBUTION PUBLIC COMPARABLES<sup>3</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%	\$19,425	\$186.91	(19.2%)	(31.9%)	63.8%	10.2x	9.8x	7.7%
AutoZone, Inc.	22.2%	52.7%	19,221	493.44	(16.9%)	(38.0%)	60.3%	8.0x	8.1x	4.2%
Genuine Parts Company	7.8%	29.1%	13,204	82.96	(13.2%)	(18.7%)	78.9%	10.8x	10.0x	2.2%
LKQ Corporation	11.8%	37.1%	13,122	33.39	3.0%	2.2%	91.9%	12.3x	11.9x	14.8%
Dorman Products, Inc.	22.2%	39.7%	2,511	77.36	(2.1%)	35.8%	87.4%	12.9x	12.5x	6.3%
Uni-Select Inc.	8.8%	11.1%	1,134	22.46	(4.6%)	(16.1%)	82.1%	10.5x	9.4x	(11.6%)
<b>Median</b>	<b>16.9%</b>	<b>38.4%</b>			<b>(8.9%)</b>	<b>(17.4%)</b>	<b>80.5%</b>	<b>10.6x</b>	<b>9.9x</b>	<b>5.2%</b>
<b>Mean</b>	<b>15.8%</b>	<b>36.6%</b>			<b>(8.9%)</b>	<b>(11.1%)</b>	<b>77.4%</b>	<b>10.8x</b>	<b>10.3x</b>	<b>3.9%</b>
<b>Building &amp; Construction Products</b>										
CRH Plc	11.6%	31.6%	\$36,313	\$36.12	0.0%	23.6%	88.3%	10.5x	9.2x	6.5%
Wolseley plc	7.4%	28.0%	16,663	59.39	(2.6%)	9.4%	89.0%	10.5x	11.9x	1.9%
HD Supply Holdings, Inc.	11.8%	32.6%	10,006	31.26	(1.5%)	(13.6%)	69.9%	11.2x	13.3x	(4.3%)
Watsco, Inc.	8.6%	24.1%	5,432	152.00	1.5%	9.4%	95.3%	14.8x	13.8x	3.4%
Beacon Roofing Supply, Inc.	8.9%	22.9%	3,930	48.28	(1.8%)	0.6%	92.6%	10.5x	11.0x	22.5%
Builders FirstSource, Inc.	5.5%	24.6%	3,769	15.98	4.4%	22.1%	96.8%	10.5x	8.5x	61.5%
Boise Cascade Co.	89.0%	0.0%	1,550	29.70	0.0%	9.6%	88.9%	0.4x	7.7x	5.6%
<b>Median</b>	<b>8.9%</b>	<b>24.6%</b>			<b>0.0%</b>	<b>9.4%</b>	<b>89.0%</b>	<b>10.5x</b>	<b>11.0x</b>	<b>5.6%</b>
<b>Mean</b>	<b>20.4%</b>	<b>23.4%</b>			<b>0.0%</b>	<b>8.7%</b>	<b>88.7%</b>	<b>9.8x</b>	<b>10.8x</b>	<b>13.9%</b>
<b>Consumer &amp; Food Service</b>										
Sysco Corporation	5.5%	17.8%	\$35,551	\$51.00	(6.2%)	(1.8%)	89.4%	11.9x	12.1x	5.5%
Bunzl plc	7.4%	13.3%	11,360	29.49	(3.1%)	(5.3%)	86.4%	15.2x	14.2x	0.5%
US Foods Holding Corp.	3.8%	17.7%	10,212	28.00	(1.7%)	10.7%	91.1%	11.7x	9.8x	NA
Performance Food Group Company	2.0%	12.6%	4,237	28.50	0.9%	5.4%	97.9%	12.9x	11.2x	85.9%
United Natural Foods, Inc.	3.5%	15.4%	2,315	36.65	3.5%	(24.1%)	70.2%	7.3x	7.4x	11.1%
Core-Mark Holding Company, Inc.	0.9%	5.2%	1,873	36.45	6.0%	(24.5%)	72.9%	14.5x	11.2x	14.4%
SpartanNash Company	2.9%	14.5%	1,650	26.81	(1.4%)	(12.8%)	66.4%	7.3x	6.5x	44.6%
Essendant Inc.	2.7%	14.1%	1,078	14.43	(3.4%)	(55.4%)	44.3%	7.4x	7.0x	26.7%
<b>Median</b>	<b>3.2%</b>	<b>14.3%</b>			<b>(1.6%)</b>	<b>(9.0%)</b>	<b>79.7%</b>	<b>11.8x</b>	<b>10.5x</b>	<b>14.4%</b>
<b>Mean</b>	<b>3.6%</b>	<b>13.8%</b>			<b>(0.7%)</b>	<b>(13.5%)</b>	<b>77.3%</b>	<b>11.0x</b>	<b>9.9x</b>	<b>26.9%</b>
<b>Industrial, MRO &amp; Safety</b>										
Air Liquide SA	25.4%	35.8%	\$62,079	\$125.84	2.3%	21.8%	99.1%	12.2x	10.2x	(0.8%)
Fastenal Company	23.1%	49.6%	12,655	42.68	(3.9%)	(0.7%)	80.9%	13.3x	12.7x	5.7%
W.W. Grainger, Inc.	13.2%	39.2%	11,774	162.19	(10.1%)	(29.1%)	61.7%	8.7x	8.7x	1.9%
MSC Industrial Direct Co., Inc. Class A	15.4%	44.7%	4,597	71.77	(15.9%)	(1.3%)	67.9%	10.4x	10.3x	1.7%
Applied Industrial Technologies, Inc.	8.3%	27.4%	2,517	57.35	(4.7%)	24.1%	83.1%	11.9x	12.0x	1.2%
DXP Enterprises, Inc.	6.2%	27.5%	863	34.87	(3.7%)	95.8%	83.0%	14.6x	12.9x	(11.7%)
<b>Median</b>	<b>14.3%</b>	<b>37.5%</b>			<b>(4.3%)</b>	<b>10.5%</b>	<b>82.0%</b>	<b>12.0x</b>	<b>11.2x</b>	<b>1.4%</b>
<b>Mean</b>	<b>15.3%</b>	<b>37.4%</b>			<b>(6.0%)</b>	<b>18.4%</b>	<b>79.3%</b>	<b>11.8x</b>	<b>11.1x</b>	<b>(0.3%)</b>
<b>Healthcare</b>										
McKesson Corporation	0.2%	5.4%	\$43,829	\$164.85	3.1%	(16.6%)	82.7%	118.1x	9.9x	9.9%
Cardinal Health, Inc.	2.5%	4.8%	28,715	77.00	2.7%	(7.5%)	90.0%	8.8x	8.7x	12.1%
Henry Schein, Inc.	8.5%	27.8%	16,857	185.20	1.4%	2.4%	99.0%	16.8x	16.1x	5.9%
Patterson Companies, Inc.	8.8%	24.5%	5,088	43.02	(8.2%)	(13.3%)	86.3%	10.2x	12.0x	11.7%
Owens & Minor, Inc.	2.7%	11.5%	2,357	31.99	1.4%	(11.2%)	86.4%	9.1x	9.4x	1.8%
<b>Median</b>	<b>2.7%</b>	<b>11.5%</b>			<b>1.4%</b>	<b>(11.2%)</b>	<b>86.4%</b>	<b>10.2x</b>	<b>9.9x</b>	<b>9.9%</b>
<b>Mean</b>	<b>4.5%</b>	<b>14.8%</b>			<b>0.1%</b>	<b>(9.2%)</b>	<b>88.9%</b>	<b>32.6x</b>	<b>11.2x</b>	<b>8.3%</b>

## PUBLIC COMPARABLES & TRADING VALUATIONS

### Key Trading Stats

As of July 21, 2017  
(\$ in millions, except per share amounts)

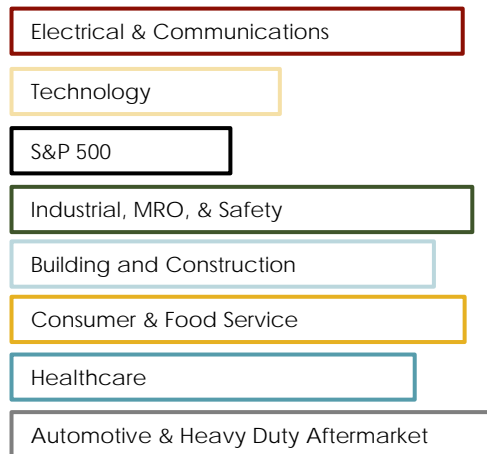
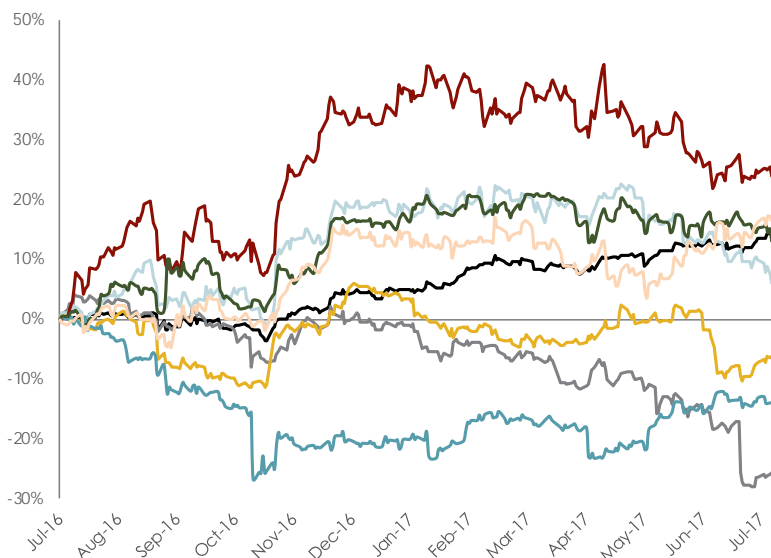
#### SPECIALTY DISTRIBUTION PUBLIC COMPARABLES<sup>3</sup>

	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%	\$9,905	\$82.33	6.8%	26.3%	99.8%	9.0x	8.6x	3.2%
SYNNEX Corporation	4.0%	9.1%	5,592	121.30	2.6%	21.5%	92.3%	9.2x	10.6x	6.9%
Avnet, Inc.	3.8%	12.2%	5,516	39.79	3.1%	(1.4%)	77.3%	7.0x	6.2x	(1.5%)
Tech Data Corporation	1.6%	5.2%	5,387	105.76	9.8%	38.6%	98.9%	12.2x	7.9x	0.6%
ScanSource, Inc.	3.1%	10.4%	1,101	41.30	7.1%	2.0%	91.9%	10.0x	9.4x	6.6%
<b>Median</b>	<b>3.8%</b>	<b>10.4%</b>			<b>6.8%</b>	<b>21.5%</b>	<b>92.3%</b>	<b>9.2x</b>	<b>8.6x</b>	<b>3.2%</b>
<b>Mean</b>	<b>3.4%</b>	<b>9.9%</b>			<b>5.9%</b>	<b>17.4%</b>	<b>92.0%</b>	<b>9.5x</b>	<b>8.5x</b>	<b>3.2%</b>
<b>Electrical &amp; Communications</b>										
Rexel SA	5.0%	23.4%	\$7,430	\$15.96	(1.6%)	19.3%	85.4%	10.1x	9.5x	(5.3%)
WESCO International, Inc.	5.4%	18.8%	4,102	57.40	0.2%	5.3%	75.4%	10.4x	10.1x	(1.3%)
Anixter International Inc.	4.8%	19.7%	3,906	79.25	0.8%	37.5%	90.1%	10.6x	9.3x	7.1%
<b>Median</b>	<b>5.0%</b>	<b>19.7%</b>			<b>0.2%</b>	<b>19.3%</b>	<b>85.4%</b>	<b>10.4x</b>	<b>9.5x</b>	<b>(1.3%)</b>
<b>Mean</b>	<b>5.1%</b>	<b>20.6%</b>			<b>(0.2%)</b>	<b>20.7%</b>	<b>83.6%</b>	<b>10.4x</b>	<b>9.7x</b>	<b>0.2%</b>

### Stock Prices

As of July 21, 2017

#### TRAILING TWELVE MONTHS STOCK PRICE PERFORMANCE<sup>3</sup>

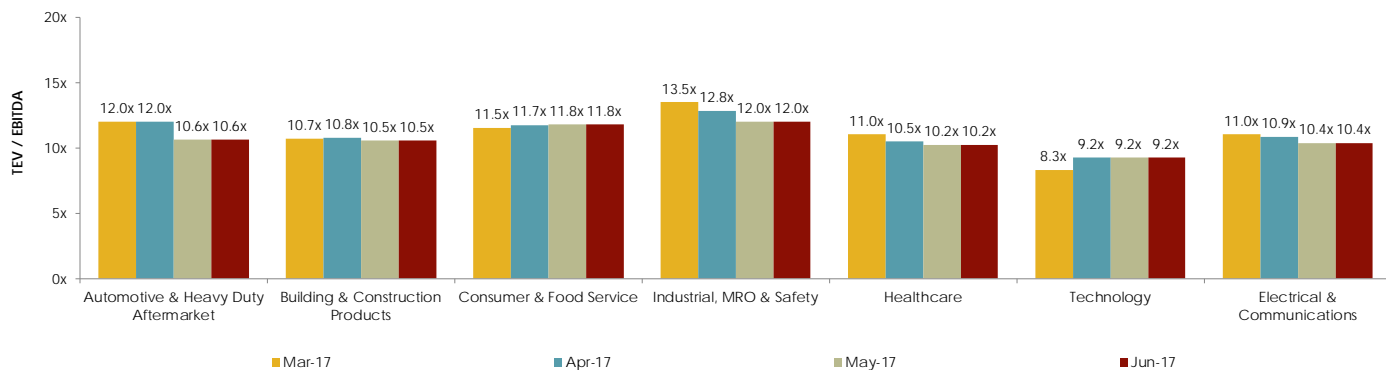


## M&A AND PUBLIC MARKET TRENDS

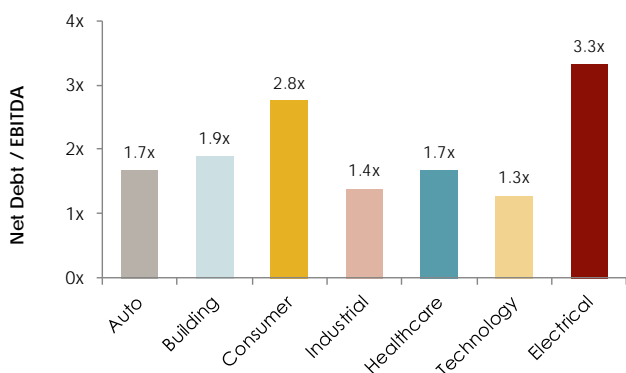
### Distribution Trends

LTM EBITDA as of  
July 21, 2017

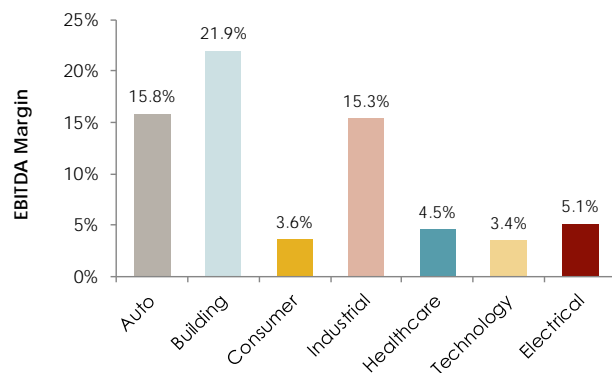
#### TEV / EBITDA MULTIPLES FOR PUBLIC COMPARABLES<sup>3</sup>



#### NET DEBT / EBITDA<sup>3</sup>



#### EBITDA MARGINS<sup>3</sup>



### M&A Trends

#### RECENT M&A AND PRIVATE EQUITY TRENDS<sup>4</sup>

U.S. PRIVATE  
EQUITY  
BREAKDOWN

- PE fundraising through June 2017 has mirrored the 2007 boom, with capital commitments on pace to surpass \$220 billion
- After clocking in at 10.7x in 2016, U.S. M&A EBITDA multiples have regressed slightly in the first half of the year, to 10.5x
- Median debt percentage has increased to 56.3% as high-yield bond spreads reached a three-year low
- Deal flow held steady as 866 deals have been completed in 2017 in the U.S., totaling \$151.1 billion in value
- PE exits in the first half of the year reached \$85.75 billion in exit value over 470 deals

## M&amp;A TRANSACTIONS

Announced M&A Transactions<sup>3</sup>

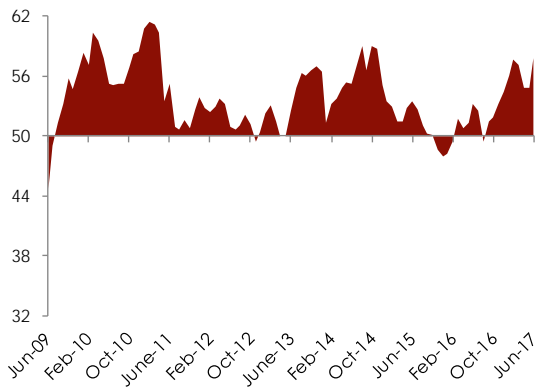
Announced	Target	Description	Acquirer	Private Equity Involvement
7/14/2017	Automaster Service Center LLC	Provides automotive tires, parts, accessories and services	The Pep Boys-Manny Moe & Jack	
7/5/2017	Virginia Builders' Supply, Inc.	Distributes drywalls, steel structures, fasteners, metal lath, plaster and accessories	Foundation Building Materials, Inc.	
6/30/2017	Carter-Waters LLC	Distributes construction materials and equipment	Border Construction Specialties LLC	(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)
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	Dade Paper & Bag Co.	Distributor of foodservice disposables and janitorial sanitation supplies	Imperial Bag & Paper Co. LLC	(Buyer)
6/9/2017	Canyon Insulation Inc	Provides insulation contracting services	TopBuild Corp.	
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. /2 Subs	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	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	(Both)
6/2/2017	Office Depot, Inc. /Mainland China Bus	Provides office products, services and solutions	Shanghai M&G Colipu Office Supplies Co., Ltd.	
6/2/2017	Independent Paper Group LLC	Wholesales paper products	Lindenmeyr Munroe	
6/2/2017	Cav Ice Protection Ltd.	Supplies airborne ice protection systems for aircraft	Baird Capital Partners Europe Ltd.	(Buyer)
6/1/2017	Tri-tex Co., Inc.	Manufactures and sells chemical, formaldehyde and related products	SK Capital Management LLC	(Buyer)
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.	
5/25/2017	Evergreen Partners of Raleigh LLC	Distributes nursery materials	SiteOne Landscape Supply, Inc.	
5/25/2017	Total Building Supplies Inc	Distributes building products	Ram Tool & Supply Co., Inc.	
5/24/2017	US Corrugated Inc. Converting Facilities	Manufactures and distributes corrugated packaging products	WestRock Co.	
5/24/2017	Kicking Horse Coffee Co. Ltd.	Roasts and distributes organic fair trade coffee	Luigi Lavazza SpA	(Seller)

## ECONOMIC UPDATE

### A Snapshot of Key Economic Indicators

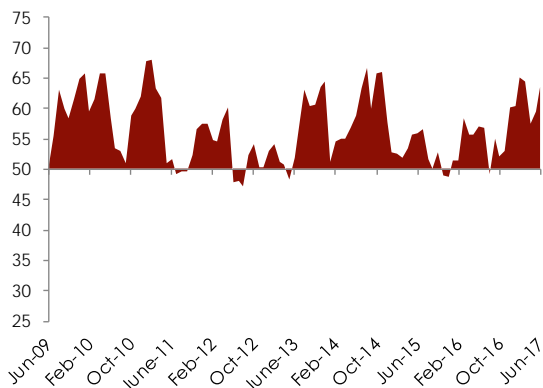
As of July 21, 2017

#### PMI INDEX<sup>5</sup>



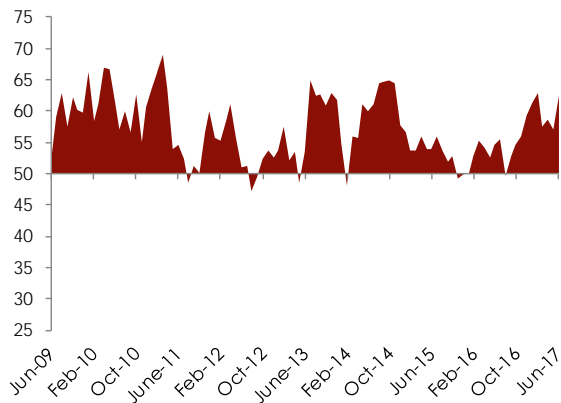
Note: A PMI Index figure greater than 50 indicates expansion.

#### ISM NEW ORDERS INDEX<sup>5</sup>



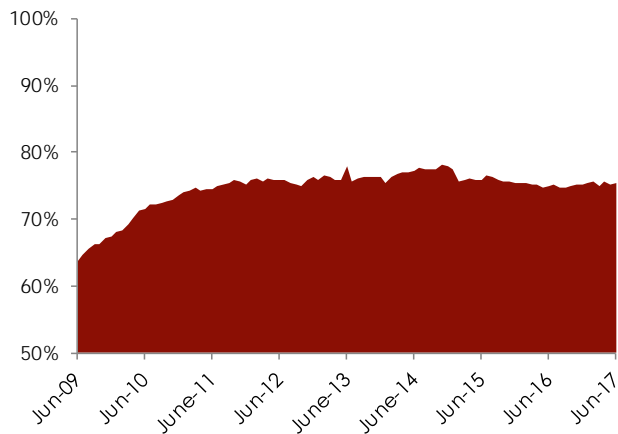
Note: An ISM Index figure greater than 50 indicates expansion.

#### PRODUCTION INDEX<sup>5</sup>

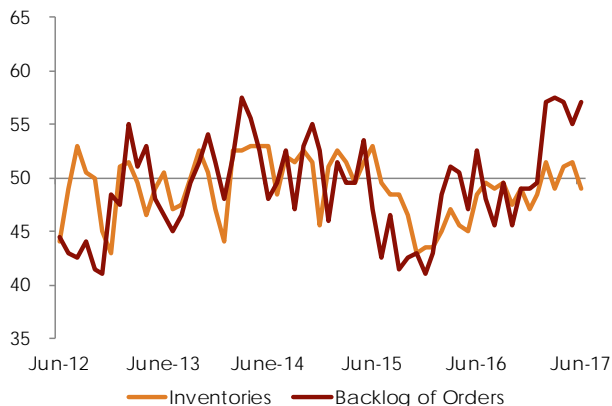


Note: A Production Index figure greater than 50 indicates expansion.

#### U.S. MANUFACTURING CAPACITY UTILIZATION<sup>6</sup>

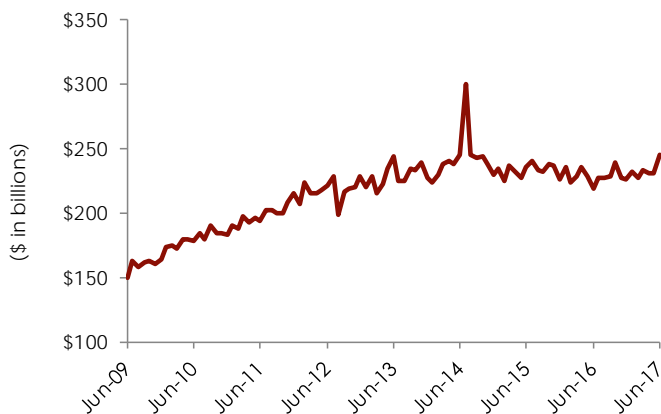


#### MANUFACTURING INVENTORIES & BACKLOG<sup>5</sup>



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>5</sup>



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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

## 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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