



## SPECIALTY DISTRIBUTION

INDUSTRY UPDATE | NOVEMBER 2017



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## WHAT WE'RE READING

OCTOBER 2017 M&A ROUNDUP<sup>1</sup>

Motion Industries, No. 4 on MDM's list of the Top 40 Industrial Distributors, made a move last month to expand its hose and belting capabilities by agreeing to acquire Apache Inc. Apache, a distributor of industrial hose and belting, specializes in fabrication of belts, hoses, cut and molded products. Motion expects Apache to generate annual sales of \$100 million, adding to Motion's \$4.6 billion in revenue (2016).

The company's purchase highlighted a busy month for distribution M&A, which also saw Market Leaders Lawson Products and Winsupply acquire growth.

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

4Q BEGINS WITH FLURRY OF UPBEAT REPORTS<sup>1</sup>

The U.S. economy is expected to register a healthy 4Q, with employment, manufacturing, construction spending, and exports surging in the last two months. The manufacturing sector registered healthy growth over the last month, with orders for new goods reaching \$478.5 billion. Distribution also expanded one month into the quarter. In 3Q, despite some disruptions due to hurricanes, distributors averaged 3.9% revenue growth.

It is expected that U.S. industrial production index will peak in the second month of 2018 and taper off the rest of the year before turning more sharply downward in 2019.

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

FINANCING ACQUISITIONS: KEYS TO STRUCTURING THE DEAL<sup>2</sup>

Conventional wisdom says that a company grows by reaching new customers, increasing its workforce, expanding marketing or launching new products or services. Of course, these are important ingredients to growth, but the — perhaps unconventional — truth is that this kind of growth can be riskier and less compelling to investors than growth through acquisition.

In fact, synergistic acquisitions can and often do bring middle market companies other significant benefits, including rapid growth, increased market share and economies of scale. And, namely, they pique the interests of those in the private capital markets.

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

INDEPENDENT DISTRIBUTORS: TAKE THE PLUNGE INTO DIGITAL<sup>2</sup>

Following Amazon, Grainger, and other national distributors, independent distributors are planning to take a plunge into digital to boost their sales and improve efficiencies. Now, due to the cloud and low-cost technology, distributors of all sizes have increased access to digital tools, which they need to compete.

Today, data and a digital mindset are driving the modern marketer. Aligning sales with marketing helps in achieving greater results. Digitalization allows companies to measure the effectiveness of marketing materials much better than in the past.

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 November 30, 2017  
(\$ in millions, except per share amounts)SPECIALTY DISTRIBUTION PUBLIC COMPARABLES<sup>3</sup>

	LTM Margins			Stock Performance				TEV/EBITDA		Revenue
	EBITDA	Gross	TEV	Current	1-Month	1-Year	% of	LTM	2017E	Growth 3-Yr. CAGR
				Price	Change	Change	LTM High			
<b>Automotive &amp; Heavy Duty Aftermarket</b>										
O'Reilly Automotive, Inc.	22.1%	50.2%	\$23,497	\$234.40	11.1%	(14.6%)	81.8%	12.0x	12.0x	7.9%
AutoZone, Inc.	22.1%	52.7%	24,584	678.40	15.1%	(13.4%)	83.4%	10.2x	10.2x	4.1%
Genuine Parts Company	7.4%	28.9%	14,618	92.86	5.2%	(3.5%)	92.0%	12.4x	11.8x	1.8%
LKQ Corporation	11.6%	37.2%	15,093	39.32	4.3%	19.8%	98.4%	14.4x	13.6x	13.9%
Dorman Products, Inc.	22.2%	39.8%	2,159	67.10	(2.9%)	(7.1%)	75.8%	10.7x	10.8x	6.6%
Uni-Select Inc.	8.6%	14.1%	1,317	20.99	(2.9%)	(6.9%)	76.7%	11.6x	10.8x	(9.4%)
<b>Median</b>	<b>16.8%</b>	<b>38.5%</b>			<b>4.8%</b>	<b>(7.0%)</b>	<b>82.6%</b>	<b>11.8x</b>	<b>11.3x</b>	<b>5.4%</b>
<b>Mean</b>	<b>15.7%</b>	<b>37.1%</b>			<b>5.0%</b>	<b>(4.3%)</b>	<b>84.7%</b>	<b>11.9x</b>	<b>11.5x</b>	<b>4.2%</b>
<b>Building &amp; Construction Products</b>										
CRH Plc	11.7%	31.5%	\$36,705	\$34.36	(8.7%)	3.4%	84.0%	10.7x	9.4x	6.4%
Ferguson PLC	7.9%	28.5%	19,005	72.24	3.3%	24.5%	97.9%	12.5x	11.7x	(1.4%)
HD Supply Holdings, Inc.	11.9%	32.8%	11,193	36.23	2.4%	(7.7%)	81.0%	14.5x	15.3x	(5.6%)
Watsco, Inc.	8.6%	24.0%	5,933	165.99	(0.3%)	11.4%	98.4%	16.0x	15.4x	3.3%
Beacon Roofing Supply, Inc.	8.7%	22.7%	4,527	63.59	14.8%	37.1%	98.7%	11.9x	10.8x	23.4%
Builders FirstSource, Inc.	5.5%	24.5%	4,157	19.98	10.9%	80.7%	97.4%	11.2x	10.1x	62.8%
Boise Cascade Co.	4.6%	11.7%	1,773	38.50	8.6%	68.9%	97.6%	9.1x	7.9x	6.7%
<b>Median</b>	<b>8.6%</b>	<b>24.5%</b>			<b>3.3%</b>	<b>24.5%</b>	<b>97.6%</b>	<b>11.9x</b>	<b>10.8x</b>	<b>6.4%</b>
<b>Mean</b>	<b>8.4%</b>	<b>25.1%</b>			<b>4.4%</b>	<b>31.2%</b>	<b>93.6%</b>	<b>12.3x</b>	<b>11.5x</b>	<b>13.7%</b>
<b>Consumer &amp; Food Service</b>										
Sysco Corporation	5.5%	17.7%	\$38,939	\$57.78	3.9%	8.5%	98.5%	12.6x	12.0x	5.9%
Bunzl plc	7.3%	12.5%	11,136	27.98	(10.2%)	8.7%	87.4%	14.8x	13.4x	1.3%
US Foods Holding Corp.	3.9%	17.5%	10,349	29.31	7.4%	28.2%	95.4%	11.2x	9.9x	NA
Performance Food Group Company	2.1%	12.2%	4,427	29.55	4.4%	40.0%	97.4%	12.3x	10.7x	87.3%
United Natural Foods, Inc.	3.4%	15.4%	2,797	47.80	23.3%	1.8%	96.4%	8.8x	8.5x	8.9%
Core-Mark Holding Company, Inc.	0.8%	5.1%	1,940	32.24	(5.3%)	(11.7%)	73.1%	15.6x	12.9x	15.0%
SpartanNash Company	2.8%	14.3%	1,587	25.36	3.3%	(30.0%)	62.8%	7.0x	6.7x	45.6%
Essendant Inc.	1.6%	13.7%	772	9.30	(3.9%)	(52.0%)	41.3%	9.4x	NA	25.1%
<b>Median</b>	<b>3.1%</b>	<b>14.0%</b>			<b>3.6%</b>	<b>5.2%</b>	<b>91.4%</b>	<b>11.7x</b>	<b>10.7x</b>	<b>15.0%</b>
<b>Mean</b>	<b>3.4%</b>	<b>13.6%</b>			<b>2.9%</b>	<b>(0.8%)</b>	<b>81.5%</b>	<b>11.4x</b>	<b>10.6x</b>	<b>27.0%</b>
<b>Industrial, MRO &amp; Safety</b>										
Air Liquide SA	24.9%	34.7%	\$70,452	\$122.46	(3.8%)	32.2%	94.6%	12.8x	11.4x	2.7%
Fastenal Company	23.2%	49.7%	15,312	52.18	11.1%	10.1%	98.7%	15.6x	15.2x	5.5%
W.W. Grainger, Inc.	13.4%	38.2%	14,725	218.23	10.4%	(5.4%)	83.1%	10.7x	10.8x	1.4%
MSC Industrial Direct Co., Inc. Class A	15.3%	44.5%	5,665	90.37	9.0%	1.2%	85.5%	12.8x	12.4x	0.6%
Applied Industrial Technologies, Inc.	8.3%	27.4%	2,723	63.80	0.2%	6.6%	91.1%	12.3x	12.0x	1.2%
DXP Enterprises, Inc.	6.3%	27.1%	740	28.52	(11.1%)	(15.3%)	67.9%	12.2x	12.2x	(12.4%)
<b>Median</b>	<b>14.3%</b>	<b>36.4%</b>			<b>4.6%</b>	<b>3.9%</b>	<b>88.3%</b>	<b>12.5x</b>	<b>12.1x</b>	<b>1.3%</b>
<b>Mean</b>	<b>15.2%</b>	<b>36.9%</b>			<b>2.6%</b>	<b>4.9%</b>	<b>86.8%</b>	<b>12.7x</b>	<b>12.3x</b>	<b>(0.2%)</b>
<b>Healthcare</b>										
McKesson Corporation	2.0%	5.2%	\$38,142	\$146.39	6.2%	1.8%	86.5%	9.4x	8.9x	7.8%
Cardinal Health, Inc.	2.4%	4.7%	27,581	58.90	(4.8%)	(17.1%)	69.4%	8.7x	8.6x	12.9%
Henry Schein, Inc.	8.4%	27.4%	13,407	70.66	(10.1%)	(5.1%)	75.6%	13.0x	12.8x	6.4%
Patterson Companies, Inc.	8.6%	24.4%	4,406	35.41	(4.3%)	(8.6%)	73.3%	9.2x	11.2x	8.8%
Owens & Minor, Inc.	2.7%	11.5%	1,941	18.75	(23.7%)	(44.7%)	50.6%	7.7x	8.2x	0.5%
<b>Median</b>	<b>2.7%</b>	<b>11.5%</b>			<b>(4.8%)</b>	<b>(8.6%)</b>	<b>73.3%</b>	<b>9.2x</b>	<b>8.9x</b>	<b>7.8%</b>
<b>Mean</b>	<b>4.8%</b>	<b>14.6%</b>			<b>(7.4%)</b>	<b>(14.7%)</b>	<b>71.1%</b>	<b>9.6x</b>	<b>9.9x</b>	<b>7.3%</b>

## PUBLIC COMPARABLES & TRADING VALUATIONS

### Key Trading Stats

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

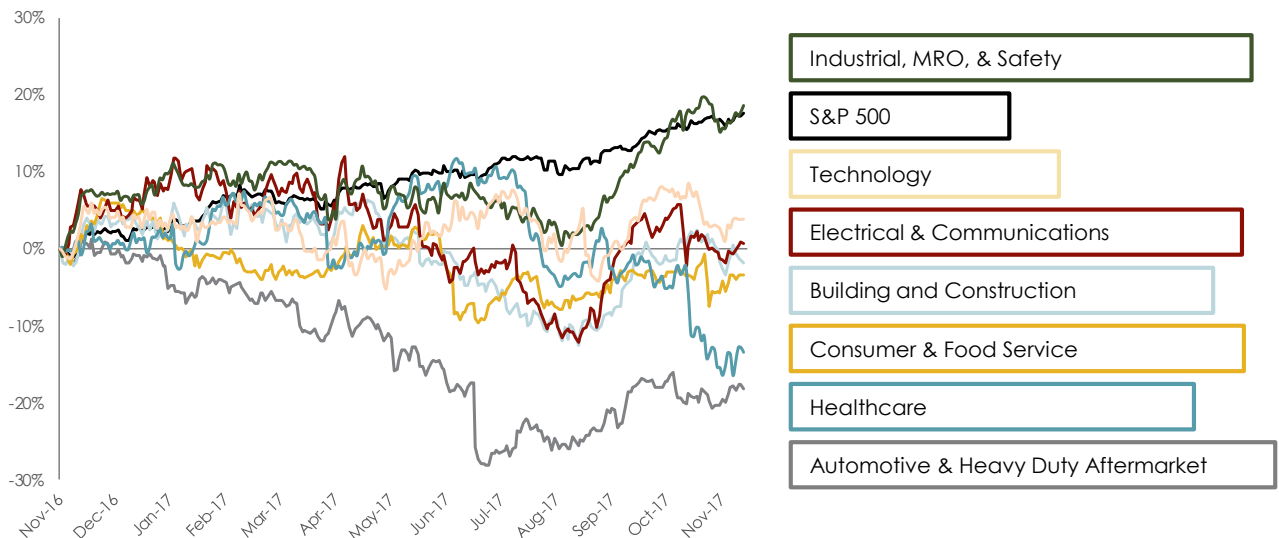
### SPECIALTY DISTRIBUTION PUBLIC COMPARABLES<sup>3</sup>

	LTM Margins		TEV	Stock Performance				TEV/EBITDA		Revenue
	EBITDA	Gross		Current Price	1-Month Change	1-Year Change	% of LTM High	LTM	2017E	Growth 3-Yr. CAGR
<b>Technology</b>										
Arrow Electronics, Inc.	4.5%	12.1%	\$9,737	\$79.20	(5.3%)	16.0%	93.7%	8.5x	8.2x	4.4%
SYNNEX Corporation	4.1%	9.0%	6,136	134.20	(0.5%)	14.8%	97.4%	9.7x	11.5x	4.1%
Avnet, Inc.	4.2%	13.7%	6,102	41.53	4.3%	(9.5%)	80.6%	8.1x	7.6x	(13.8%)
Tech Data Corporation	1.7%	5.6%	3,446	97.58	5.2%	15.0%	87.8%	6.1x	5.0x	5.4%
ScanSource, Inc.	3.5%	10.2%	1,180	35.90	(16.4%)	(5.2%)	79.2%	9.5x	9.0x	6.2%
<b>Median</b>	<b>4.1%</b>	<b>10.2%</b>			<b>(0.5%)</b>	<b>14.8%</b>	<b>87.8%</b>	<b>8.5x</b>	<b>8.2x</b>	<b>4.4%</b>
<b>Mean</b>	<b>3.6%</b>	<b>10.2%</b>			<b>(2.5%)</b>	<b>6.2%</b>	<b>87.7%</b>	<b>8.4x</b>	<b>8.3x</b>	<b>1.3%</b>
<b>Electrical &amp; Communications</b>										
Rexel SA	5.1%	23.5%	\$8,337	\$18.23	2.1%	17.8%	97.5%	11.0x	10.5x	(5.2%)
WESCO International, Inc.	5.2%	18.5%	4,462	65.35	3.5%	(3.8%)	85.8%	11.6x	11.6x	(1.3%)
Anixter International Inc.	4.8%	19.5%	3,651	72.30	5.2%	(7.5%)	81.6%	9.8x	9.0x	7.0%
<b>Median</b>	<b>5.1%</b>	<b>19.5%</b>			<b>3.5%</b>	<b>(3.8%)</b>	<b>85.8%</b>	<b>11.0x</b>	<b>10.5x</b>	<b>(1.3%)</b>
<b>Mean</b>	<b>5.0%</b>	<b>20.5%</b>			<b>3.6%</b>	<b>2.2%</b>	<b>88.3%</b>	<b>10.8x</b>	<b>10.3x</b>	<b>0.2%</b>

### Stock Prices

As of November 30, 2017

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

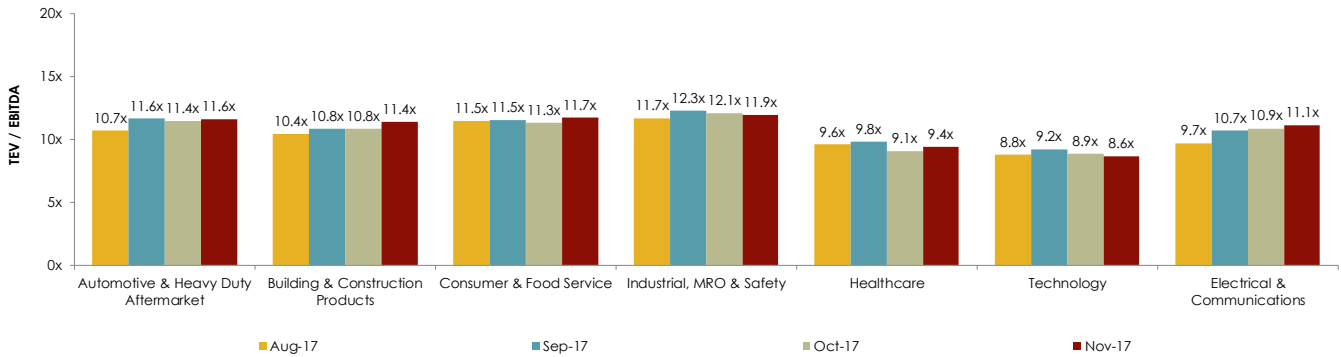


## M&A AND PUBLIC MARKET TRENDS

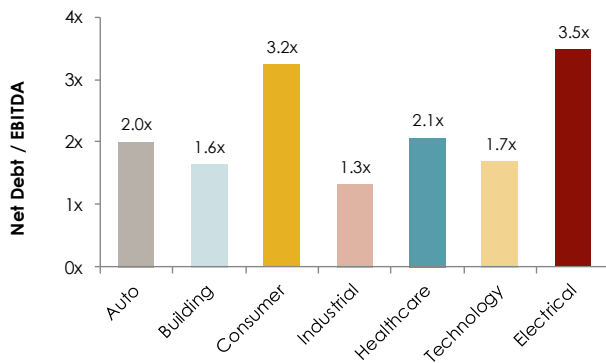
### Distribution Trends

LTM EBITDA as of  
November 30, 2017

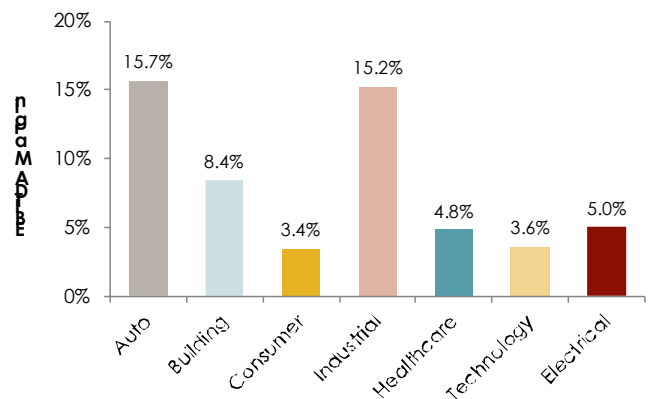
#### TEV / EBITDA MULTIPLES FOR PUBLIC COMPARABLES<sup>3</sup>



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



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



### M&A Trends

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

OCTOBER  
GLOBAL M&A  
ACTIVITY

- Globally, there were 1,183 M&A deals worth \$218.6 billion in October 2017, down 52% by value compared to October of last year
- North America accounted for 38.8% of global deal value (\$84.8 billion) in October 2017, followed by Europe with 36.3% (US\$79.3 billion)
- Africa and the Middle East were the only two regions that saw an increase in deal value with 21 deals worth \$2.9 billion
- Cumulative global buyout value for 2017 surpassed the 2016 totals, with YTD deal value of \$427.8 billion, compared to \$410.8 billion for all of 2016

## M&amp;A TRANSACTIONS

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

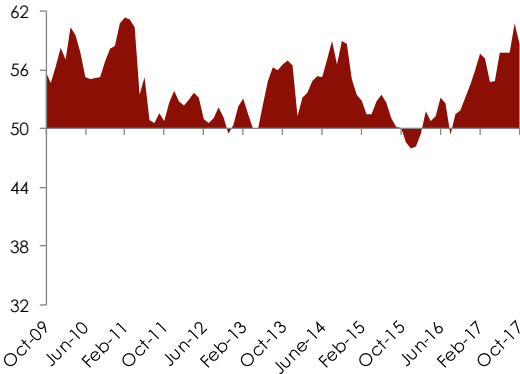
Announced	Target	Description	Acquirer	Private Equity Involvement
11/28/2017	Smith-Cooper International	Distributes branded valves, fittings, and pipe	Tailwind Capital	<b>(Buyer)</b>
11/20/2017	Charmer-Sunbelt Group	Distributes wines, spirits, beer, and other beverages	Republic National Distributing Co.	
11/17/2016	Atlanta Fixture & Sales Company	Distributor of foodservices equipment and supplies	Edward Don; Vestar Capital	<b>(Buyer)</b>
11/16/2017	IP Motor Sports, Inc.	Distributes engines and automobile parts	Scepter Holdings, Inc.	
11/15/2017	The Eads Co.	Engages in manufacturing and distribution of industrial machinery	FCX Performance	<b>(Seller)</b>
11/15/2017	The Massey Co., Inc.	Manufactures flow control instruments and valves	FCX Performance	
11/10/2017	Stark Group	Distributes and supplies building materials	Lone Star Americas	<b>(Buyer)</b>
11/10/2017	The Reynolds Co	Electrical distributor for industrial OEM markets	McNaughton-McKay	
11/9/2017	PK Controls	Distributes equipment and provides services for factory automation	Ohio Transmission Corp	
11/9/2017	CPM Medical Consultants LLC	Engages in distributing of orthopedic products	Fuse Medical, Inc.	
11/8/2017	Foodeko GmbH	Distributes food products	Neerlands Glorie Groente & Fruit	
11/8/2017	Spectrum Janitorial Supply	Distributes janitorial supplies	Nichols	
11/7/2017	American Builders Supply, Inc.	Supplies building materials and installation services	Kodiak Building Partners	<b>(Seller)</b>
11/7/2017	APCO, Inc.	Distributes building furnishings	Winsupply, Inc.	
11/7/2017	Peter Leuthold Getränke Center AG	Distributes beverages	Pilatus Getränke AG	
11/6/2017	RxCrossroads LLC	Provides specialty distribution for pharmaceutical companies	McKesson Corp.	
11/6/2017	IPCOM NV	Distributes fire protection products	Alpha Associés Conseil	<b>(Both)</b>
11/2/2017	SunSource Holdings, Inc.	Distributes fluid power and motion control technologies	Clayton Dubilier & Rice LLC	<b>(Both)</b>
11/2/2017	MCS Door & Hardware	Distributes doors, frames, hardware, and toilet partition products	Foundation Building Materials	
11/2/2017	Del-Pro Building Supplies, Inc.	Distributes wallboard, steel framing, insulation, and spray foam products	Foundation Building Materials	
11/2/2017	Weinstock Bros. Inc.	Distributes building products for bridge construction projects	Würlh Industry North America	
10/30/2017	Elastomerics Ltd.	Distributes polymer and additive products	Caldic BV	<b>(Seller)</b>
10/30/2017	Winzer Corp.	Distributes automotive and industrial repair supplies	ShoreView Industries LLC	<b>(Buyer)</b>
10/24/2017	American Controls, Inc.	Pump distributor and service provider	Anderson Process	
10/19/2017	Andalou Naturals, Inc.	Develops and distributes hair and skin care products	BWX Ltd.	
10/19/2017	Monroe Motor Products, Inc.	Distributes automotive parts and accessories	Genuine Parts Co.	
10/19/2017	A.J. Silberman & Co., Inc.	Distributes general line of groceries and other related products	Eby-Brown Co. LLC	
10/18/2017	Associated Grocers of Florida, Inc.	Distributes groceries and other food products	SUPERVALU, Inc.	
10/18/2017	American Silk Mills LLC	Distributes textiles	Sutlej Textiles & Industries Ltd.	
10/18/2017	First Choice Seafood, Inc.	Distributes fish and seafood products	Enson Group, Inc.	
10/18/2017	Ross Imaging LLC /Wisconsin Offices/	Provides office machines	James Imaging Systems, Inc.	
10/17/2017	HFM FoodService, Inc.	Distributes food	Sysco Corp.	
10/9/2017	Farmers Pride, Inc.	Sells and distributes poultry products	Jamaica Broilers Group Ltd.	
10/4/2017	T&T Marketing, Inc.	Distributes polymer resins and compounds	M. Holland Co.	
10/3/2017	The Bolt Supply House Ltd.	Supplies fasteners, nuts, and bolts	Lawson Products, Inc.	

## ECONOMIC UPDATE

### A Snapshot of Key Economic Indicators

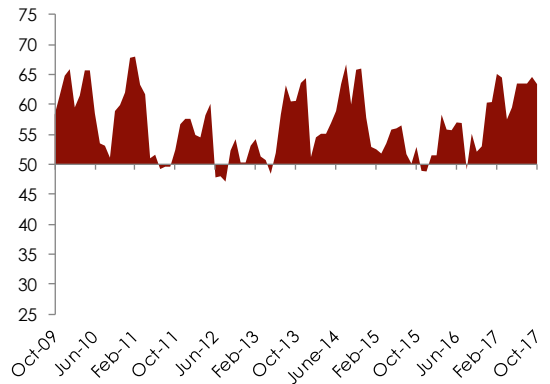
As of November 30, 2017

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



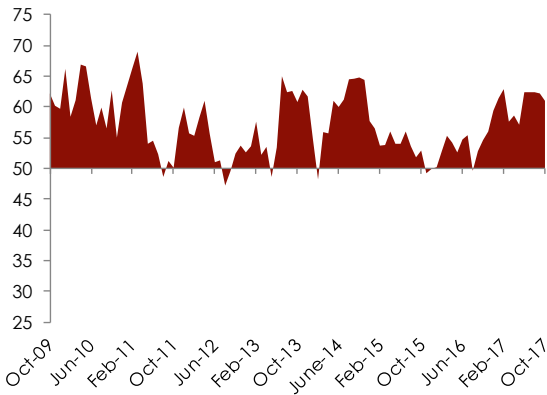
Note: A PMI Index figure greater than 50 indicates expansion.

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



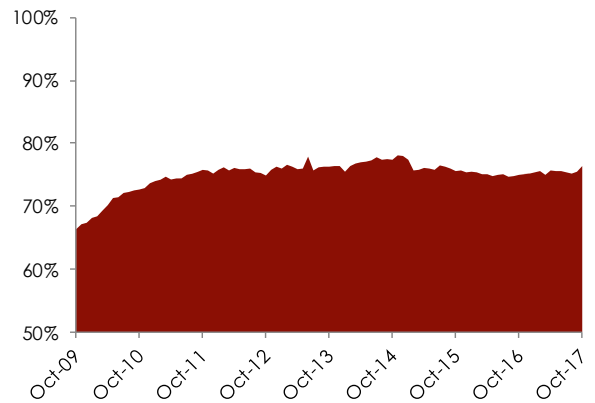
Note: An ISM Index figure greater than 50 indicates expansion.

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

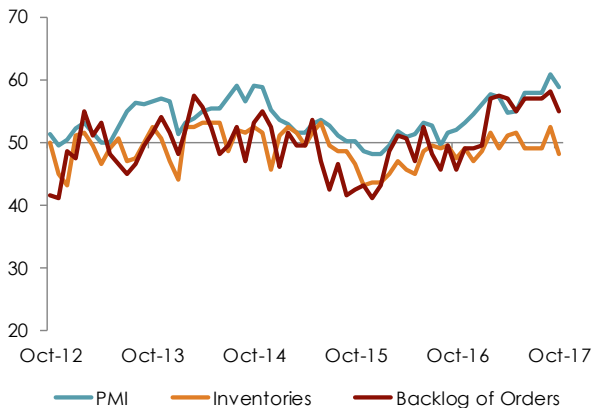


Note: A Production Index figure greater than 50 indicates expansion.

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

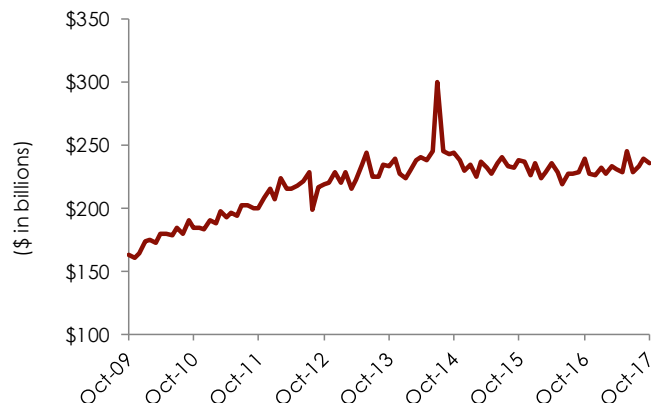


#### MANUFACTURING INVENTORIES & BACKLOG<sup>5</sup>



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>



## 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](http://www.harriswilliams.com/industries).

Aerospace, Defense  
& Government  
Services



Building Products  
& Materials



Business  
Services



Consumer



Energy, Power  
& Infrastructure



Healthcare  
& Life Sciences



Industrials



Specialty  
Distribution



Technology,  
Media & Telecom



Transportation  
& Logistics



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## 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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