



Strategic Consolidation Plays Continue to Drive Specialty Distribution M&A Activity

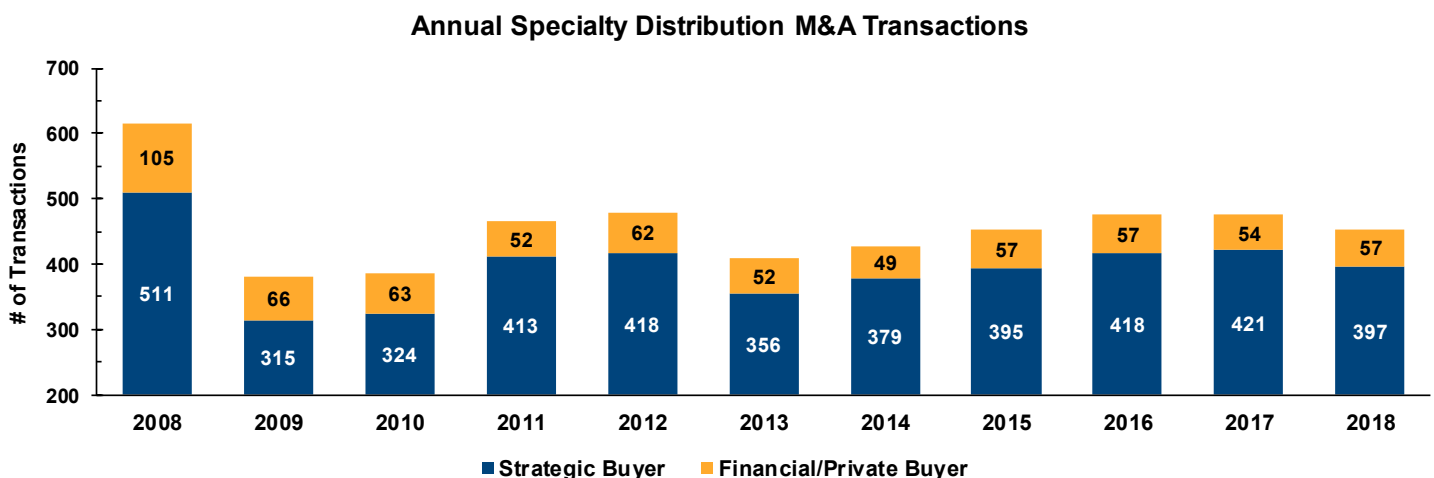
M&A activity in the Specialty Distribution Industry during 2018 continued to be driven by consolidation transactions that marked the majority of M&A activity in 2017. The second half of 2018 saw further activity on the part of strategic, and private equity backed operating companies, making acquisitions in fragmented pockets (based both on geography and product mix) of the distribution industry. In general, the Specialty Distribution Industry continues to be a “sellers market” as buyers compete aggressively for attractive companies.

In the second half of 2018, the prevalent buyer acquisition strategies continued the theme from the first half of the year: large consolidators, operating in fragmented industries, purchasing both regional and local competitors across a variety of sub-sectors. Specialty Distribution Sub-Sectors with notable M&A transaction activity during the second half of 2018 include Building Product & Materials and Industrial, MRO & Safety product distributors.

Strategic acquirers continue to utilize M&A as a key component to expanding geographic reach, adapting and expanding service offerings to meet evolving customer demands, and enhancing digital capabilities to adapt to the role of e-commerce in B2B distribution. Strategic buyers remain focused on identifying attractive avenues to utilize technology to improve customer relationships by simplifying e-commerce product catalogue search functionality and enhanced automated inventory monitoring and replenishment services.









The most active acquirers during 2018 included publicly traded and private-equity-backed strategic buyers, many of which have completed multiple transactions during the past several years. In addition, private equity sponsors continue to pursue platform companies actively in order to establish aggressive buy-and-build strategies. The focus on M&A by consolidators seeking to achieve greater scale and operational efficiencies will likely drive further transaction activity into 2019.

Specialty Distribution M&A Transactions by Year



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Notable Recently Announced and Closed Specialty Distribution Transactions

Date: 1/31/2019 (Closed)		Overview / Strategic Rationale:	Industrial MRO & Safety
Target:		<p>Essendant is a top-tier distributor that sells office and industrial products to thousands of wholesalers and resellers. Essendant distributes more than 170,000 different items, including janitorial and breakroom supplies, technology products, traditional office products, industrial supplies, cut sheet paper products, automotive products and office furniture. The Company was founded in 1992 in Deerfield, Illinois.</p> <ul style="list-style-type: none"> The acquisition creates a new powerhouse in the office products distribution space by expanding Staples' product offerings. The investment is consistent with Staples efforts to build out its B2B operations through inorganic growth opportunities. 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$996		
EV/LTM EBITDA	11.4x		
EV/LTM Revenue	0.2x		
Date: 9/17/2018 (Announced)		Overview / Strategic Rationale:	Chemical
Target:		<p>Nexeo is a leading global chemical and plastics distributor that operates through three business segments: chemicals, plastics and environmental services. The company provides approximately 24,000 products that are used in various industries.</p> <ul style="list-style-type: none"> The combination creates a more compelling product offering for Univar's customers and more reach for its suppliers. With the deal, Univar will grow its US and Canadian chemical sales force from around 660 sellers to about 960. The transaction solidifies Univar as the world's 2nd largest distributor behind Germany's Brenntag. 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	\$1,045		
EV/LTM EBITDA	9.5x		
EV/LTM Revenue	0.5x		
Date: 8/6/2018 (Closed)		Overview / Strategic Rationale:	Building Products & Materials
Target:		<p>Founded in 1986, Rose & Walker Supply is a five-branch distributor of drywall products, metal studs, ceiling systems, and insulation. Rose & Walker branches are located in Bloomington, Columbus, Lafayette, Indianapolis, and Terre Haute, Indiana. Rose & Walker Supply is based in Columbus, Indiana.</p> <ul style="list-style-type: none"> As a leading distributor of interior building products, the acquisition supports L&W Supply's overall growth strategy. L&W Supply has made five acquisition since mid-March 2018, supporting its strategy to expand its footprint to serve the professional contractor and builder. With this acquisition, L&W Supply now operates 163 locations in 35 states. 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	NA		
EV/LTM EBITDA	NA		
EV/LTM Revenue	NA		
Date: 10/1/2018 (Closed)		Overview / Strategic Rationale:	Industrial MRO & Safety
Target:		<p>Founded in 1947, HSC is a full-service distributor, offering customers a wide selection from over 8,000 hydraulic, pneumatic and industrial products. HSC operates from 30 locations primarily serving the southeastern United States.</p> <ul style="list-style-type: none"> The addition of HSC further expands Motion Industries reach and commitment to Motion's customers in the fluid conveyance channel. HSC will operate as a vertical division within Motion's Conveyance Solutions Group. 	
Acquirer:			
Key Metrics:			
Implied Enterprise Value (\$M)	NA		
EV/LTM EBITDA	NA		
EV/LTM Revenue	NA		

Recent Announced & Closed Transactions *(select transactions, not intended to be all-inclusive)*

Announced / Closed	Date	Target	Buyers / Investors	Price (MM USD)	EBITDA Multiple	Cross-Border	Target Business Sub-Sector
Closed	Feb 1	Industrial Products Company	Endries International, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Jan 31	Essendant Inc.	Staples, Inc.	954	11.4	-	Consumer, Food & Office
Closed	Jan 4	Interstate Building Materials	Atlas Copco AB	-	-	YES	Industrial, MRO & Safety
Closed	Jan 2	KOM Automation, Inc.	Shingle & Gibb Company, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Dec 19	Alliance Wholesale Supply	Koninklijke FrieslandCampina N.V.	-	-	YES	Consumer, Food & Office
Closed	Dec 17	Venture Roofing & Building Supply, LLC	TruckPro, LLC	-	-	-	Auto, Truck & Heavy Equipment
Closed	Dec 17	G & F Roof Supply	Brightree LLC	-	-	-	Consumer, Food & Office
Announced	Dec 14	Cahall Brothers, Inc.	Horizon Solutions LLC	-	-	-	Industrial, MRO & Safety
Closed	Dec 13	Pascale Service Corporation	TruckPro, LLC	-	-	-	Auto, Truck & Heavy Equipment
Closed	Dec 11	AgSync, Inc.	Raven Industries, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Dec 11	Blackman Plumbing Supply, Inc.	Ferguson Enterprises, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Dec 11	Endries International, Inc.	MSD Partners, L.P.	-	-	-	Industrial, MRO & Safety
Closed	Dec 6	Schaff Holdings Inc.	SiteOne Landscape Supply, Inc.	-	-	-	Building, Construction & Materials
Closed	Dec 4	Williams Equipment & Supply	US LBM Holdings, Inc.	-	-	-	Building, Construction & Materials
Closed	Dec 3	Titan Constructin Supply	Construction Supply Holdings, LLC	-	-	-	Building, Construction & Materials
Closed	Dec 3	CONNECTALL Ltd	Singer Equities, Inc.	-	-	YES	Industrial, MRO & Safety
Closed	Nov 30	WesternOne Rentals & Sales LP	United Rentals of Canada, Inc.	92	-	-	Industrial, MRO & Safety
Closed	Nov 30	Strategic Hospital Resources, Inc.	Smith Seckman Reid, Inc.	-	-	-	Healthcare Equipment & Products
Closed	Nov 19	Jack Becker Distributors, Inc.	Ferguson Enterprises, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Nov 13	Bennett Auto Supply, Inc.	O'Reilly Automotive, Inc.	-	-	-	Auto, Truck & Heavy Equipment
Announced	Nov 13	Dakota Fluid Power, Inc.	SBP Holding LP	-	-	-	Industrial, MRO & Safety
Closed	Nov 8	Underground Safety Equipment, LLC	Sunbelt Rentals, Inc.	39	-	-	Industrial, MRO & Safety
Closed	Nov 1	Hearos LLC	Clearlake Capital Group	-	-	-	Industrial, MRO & Safety
Closed	Oct 31	Radix Wire Co	High Road Capital Partners; High Road Capital Partners	-	-	YES	Industrial, MRO & Safety
Announced	Oct 23	Dealer Tire, LLC	Bain Capital Private Equity, LP	-	-	-	Auto, Truck & Heavy Equipment
Closed	Oct 22	The Cook & Boardman Group, LLC	Littlejohn & Co. LLC	-	-	-	Building, Construction & Materials
Closed	Oct 15	PDQ Airspares Limited	Aircraft Fasteners International, LLC	-	-	YES	Industrial, MRO & Safety
Closed	Oct 15	CSC Home & Hardware	American Builders & Contractors Supply C	-	-	-	Building, Construction & Materials
Closed	Oct 3	General Pet Supply, Inc.	American Builders & Contractors Supply C	-	-	-	Building, Construction & Materials
Closed	Oct 2	Grammer Industries, Inc.	Stellex Capital Management LP	-	-	-	Industrial, MRO & Safety
Closed	Oct 1	Motown Automotive Distributing Co., Inc.	Fisher Auto Parts, Inc.	-	-	-	Auto, Truck & Heavy Equipment
Closed	Oct 1	Thompson Distributing, Inc.	Shelby Distributors, LLC	-	-	-	Consumer, Food & Office
Announced	Sep 29	Robosson Supply, Inc.	Rhino Assembly Corporation	-	-	-	Industrial, MRO & Safety
Closed	Sep 26	Dolan & Traynor, Inc.	Alliance Foods, Inc.	-	-	-	Consumer, Food & Office
Closed	Sep 19	Hydraulic Supply Co.	Motion Industries, Inc.	-	-	-	Industrial, MRO & Safety
Announced	Sep 19	United Builders Supply Co., Incorporated	Riverhead Building Supply Corp.	-	-	-	Building, Construction & Materials
Closed	Sep 17	BlackHawk Industrial Distribution, Inc.	Snow Phipps Group, LLC	-	-	-	Industrial, MRO & Safety
Closed	Sep 11	NUDURA Corporation	Dryvit Systems Inc.	-	-	YES	Industrial, MRO & Safety
Closed	Sep 4	Blevins Building Supply, Inc.	US LBM Holdings, Inc.	-	-	-	Building, Construction & Materials
Announced	Sep 4	Marine View Beverage, Inc.	Crescent Electric Supply Co., Inc.	-	-	-	Industrial, MRO & Safety
Closed	Aug 29	Tommark, Inc.	Munch Supply LLC.	-	-	-	Industrial, MRO & Safety
Closed	Aug 24	Saladin Pump & Equipment Co., Inc.	SRS Distribution Inc.	-	-	-	Building, Construction & Materials
Closed	Aug 16	Speed Industrial Supply	Tech Air of Connecticut, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Aug 13	Jones Stephens Corporation	Ferguson Enterprises, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Jul 27	Quality Valve, Inc.	Pfingsten Partners, L.L.C.	-	-	-	Industrial, MRO & Safety
Closed	Jul 20	Interstate Building Materials Inc.	SRS Distribution Inc.	-	-	-	Building, Construction & Materials
Closed	Jul 16	Atlas Supply, Inc.	Beacon Roofing Supply, Inc.	-	-	-	Building, Construction & Materials
Closed	Jul 16	Alliance Wholesale Supply	American Builders & Contractors Supply C	-	-	-	Building, Construction & Materials
Closed	Jun 27	Marli Manufacturing Co., LLC	Auto-Vehicle Parts Co.	-	-	-	Auto, Truck & Heavy Equipment
Closed	Jun 22	G & F Roof Supply, Inc	American Builders & Contractors Supply C	-	-	-	Building, Construction & Materials
Closed	Jun 8	Cahall Brothers, Inc.	Koenig Equipment, Inc.	-	-	-	Building, Construction & Materials
Closed	Jun 7	Morse Fluid Technologies, Inc.	RG Industries, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Jun 4	R & K Building Supplies, Inc.	US LBM Holdings, Inc.	-	-	-	Building, Construction & Materials
Closed	Jun 4	North Fork Heating & Supply Corp.	F.W. Webb Company, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Jun 1	Seltin Supply Inc.	Ryan Herco Flow Solutions, Inc.	-	-	-	Industrial, MRO & Safety
Closed	Jun 1	WSB Titan Inc.	Gypsum Management & Supply, Inc.	627	9.2	YES	Building, Construction & Materials
Closed	May 29	Williams Equipment and Supply Company, Inc.	Construction Supply Holdings, LLC	-	-	-	Building, Construction & Materials
Closed	May 23	SRS Distribution Inc.	Leonard Green & Partners, L.P.	3,000	-	-	Building, Construction & Materials
Closed	May 11	Gulf Coast Paper Co., Inc.	Imperial/Dade LLC	-	-	-	Consumer, Food & Office
Closed	May 7	Paragon Medical, Inc.	Precision Engineered Products LLC	375	-	-	Healthcare Equipment & Products

Sources: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Key Metrics

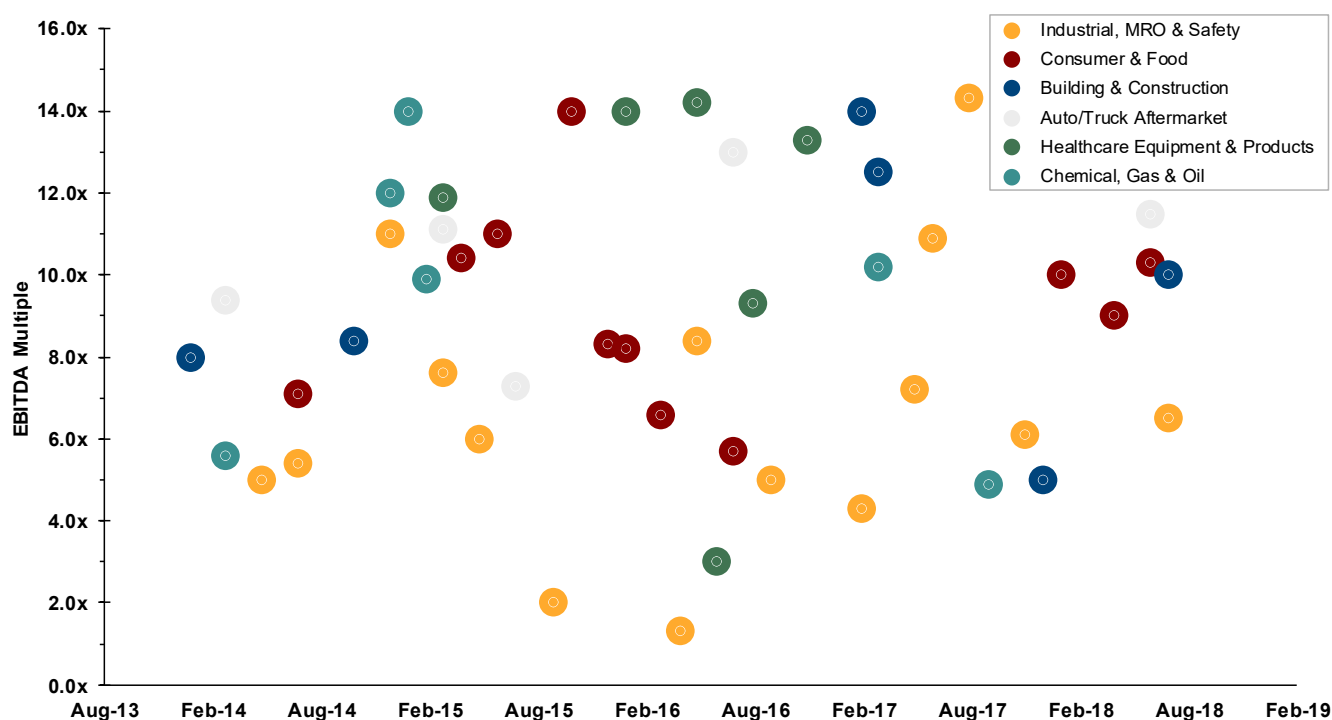
The majority of transaction activity in the Specialty Distribution Industry during 2018 occurred in three primary sub-sectors. Industrial, MRO & Safety (30.6%), Building Products & Materials (28.1%), and Consumer & Food Products (17.4%) accounted for over 75% of announced and completed transactions in the Specialty Distribution Industry during the last twelve months.

As evidenced in the table below (“Select Transaction Multiples”), transaction values across key sub-sectors of the industry continue to trend higher as strategic consolidators aggressively bid for quality acquisition targets, often paying a premium to historical averages. The average reported EV/EBITDA multiple paid by buyers across the Specialty Distribution Industry re-

mained relatively flat, with levels seen during late 2017 and the first half of 2018 at nearly 9.5X (average transaction size \$250 million), further highlighting the continued willingness of buyers to aggressively pursue high-quality targets to fuel growth.

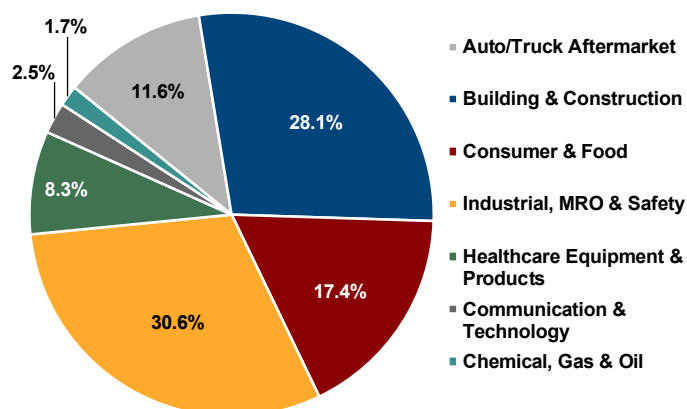
Strategic and private equity-backed operating companies accounted for the majority of transaction activity during the last twelve months. These buyers continue to utilize M&A as a primary driver of value creation for shareholders by increasing operational efficiencies and scale through targeted acquisitions.

Select Transaction Multiples



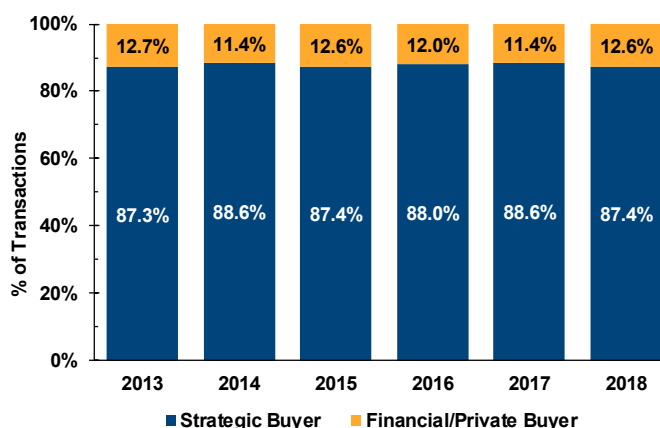
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Transactions by Sub-Sector (LTM)



Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

Share of Transactions by Buyer Type



Sub-Sector Profile: Chemical Distribution

The Chemical Distribution sub-sector saw a number of transactions from large strategic buyers as well as private equity buyers during the second half of 2018. The most active acquirers include Brenntag, IMCD, Maroon Group, Azelis and Italmatch Chemicals.



Buyers in the Chemical Distribution sub-sector continue to utilize M&A to drive above-average revenue growth. These companies are actively looking to acquire value-added distribution companies with strong manufacturing relationships, diverse product portfolios and strategic geographical locations. In 2018, manufacturing relationships, product portfolios and geographical location were the key factors driving acquisition activity.

The most significant platform investment in the second half of 2018 was the purchase of Azelis by EQT Partners in June for \$2 billion. Azelis will look to become an active acquirer of chemical distributors by leveraging EQT's experience with buy-and-build strategies. Brenntag and IMCD also continue to be active acquirers in the space. Brenntag acquired the Lubricants Division of

Reeder Distributors, Pachem Distribution, Desbro Kenya Limited, Alphamin S.A. and Canada Colors and Chemicals' chemical distribution business to expand its market coverage and service portfolio in international markets. In addition, IMCD acquired Velox GmbH and E.T. Horn Company in an effort to strengthen its product portfolio and to build a more extensive distribution network.

The chemical distribution sub-sector is a fragmented industry with the largest companies – including Brenntag, Univar, IMCD, Azelis, Nexeo Solutions and a few others – having a combined market share of less than 40% in mature markets, and much less in emerging economies. The remaining portion of the market is made up of a huge number of small, medium-sized and regional chemical distribution companies. Attracted by steady cash flows and breadth of end markets serviced by chemical distributors, a significant portion of M&A activity will come from private equity groups executing roll-up strategies in chemical distribution companies. Industry consolidation is, in any case, expected to remain a key motivation for M&A activity in 2019.

Active Chemical Distribution Buyers

Select Strategic Buyers	Date of Investment	Acquisition Activity
	1/16/2019	• Lubricants Division of Reeder Distributors
	12/19/2018	• Pachem Distribution
	9/13/2018	• Desbro Kenya Limited
	8/16/2018	• Alphamin S.A.
	7/3/2018	• Distribution Business of Canada Colors and Chemicals
	8/25/2018	• Velox GmbH
	6/12/2018	• E.T. Horn Company
Select Financial Buyers with Holdings	Date of Investment	Acquisition Activity
	5/14/2018	• J. Tech Sales
	9/20/2017	• Seidler Chemical
	2/28/2017	• Lincoln Fine Ingredients
	8/10/2018	• P-K Chemicals
	5/6/2018	• Dstralim
	12/10/2018	• BWA Water Additives UK Limited
	4/27/2018	• Metalworking Fluid Business of Afton Chemical Corporation
		
		
		

Leveraging Artificial Intelligence

Artificial intelligence (“AI”), working alongside humans, is transforming the distribution industry and driving unprecedented levels of innovation, profitability and growth. Distributors are turning to AI to create operational efficiencies and to improve their customer relationships.

AI is the programming of machines and systems to be aware of their real and virtual environments, so that they react to circumstances and stimuli the way a human would. As a result, machines and systems grow smarter over time, allowing distributors to make better informed decisions. Distributors are well positioned to leverage AI to automate certain tasks and to initiate actions based on their existing models and past results. Historically, business systems have been passive decision-support systems that merely aid humans by delivering information to help them to make decisions. AI enables distributors to create actionable insights more efficiently.

Through implementing AI, distributors can make better informed decisions and improve their customer relationships. For example, AI greatly improves distributors’ purchasing and pricing decisions. AI informs distributors purchasing decisions for higher accuracy, and it reduces the costs associated with overages and inventory surpluses. AI can also pinpoint optimal prices using data compiled through price elasticity, lost sales, historic sales and promotions. These applications enable distributors to create more intuitive and efficient internal operations. Additionally, AI improves distributors’ customer relationships through value-added services such as predicting customer consumption patterns. This capability reduces costs associated with downtime, and it creates a more informed and personalized customer profile. AI has many beneficial applications aimed at improving distributors operations and customer relationships through value-added services.

Distributors are uniquely close to their customers, and they should leverage these relationships to understand their customers’ needs and rapidly invest in capabilities that meet them. By turning to AI, distributors of all sizes can improve their operations and enhance their customer relationships. The race has just begun, but distributors must gain speed quickly to compete.



Source: Modern Distribution Management, Industrial Distribution, WSJ

Select Industry Quotes

“Information technology and business are becoming inextricably interwoven.”

- Bill Gates

“Modern AI, working alongside humans, is transforming the distribution industry and driving unprecedented levels of innovation, profitability and growth.”

- Modern Distribution Management

“The digital revolution has already transformed the distribution industry, and artificial intelligence and machine learning are set to take the industry further into new realms.”

- Matt Peterson, Industrial Distribution

“Distributors are uniquely close to their customers and should leverage these relationships to understand their customers’ needs and rapidly invest in capabilities that meet them.”

- Modern Distribution Management

AI

What we are reading:

Economic Outlook: Slowing Momentum (Modern Distribution Management)

Public and private distributors across most sectors reported double-digit quarterly growth in 2018. MDM forecasts that all but two of the 19 major distribution sectors will record revenue growth in 2019. Overall, MDM forecasts 2019 industry revenues for the U.S. wholesale distribution sector to slow to 3.6% in 2019, a slight decline from the 5.3% growth rate seen in 2018. Despite the strong economic momentum fueled by the Tax Cuts and strong employment in 2018, macroeconomic signs are pointing to a gradual slowing in 2019.

Automation Building a Safer, More Efficient Workforce (Industrial Distribution)

The appeal of online shopping and express delivery has placed significant strain on logistics to deliver supplies and services faster and at larger scales than ever before. Supply chain organizations and their human workforces are turning to automated solutions to help meet customer expectations. Automated solutions improve worker safety, increase efficiency and flexibility in operations and fill the workforce shortage present in certain areas of the supply chain.

Warehouse Labor Shortage (Valve Magazine)

The U.S. is experiencing historically low unemployment levels. Per the Bureau of Labor Statistics, the unemployment rate dropped to 3.7% in October, a nearly 50-year low. Due to the shrinking labor pool, industrial distributors are struggling to find the workers it needs. Andrew Lange, an executive with Fortna, stated, "There is extreme competition in distribution center labor. Companies lose staff as they go across the street for a 50-cent increase in pay. As a result, more companies are depending on temporary labor and that adds to cost and effects quality of workers". The lack of qualified candidates and a growing talent gap poses extreme risk to industrial distributors, as well as the broader economy.

Walmart Unveils High-Tech Grocery Warehouse to Bolster Food Push (IndustryWeek)

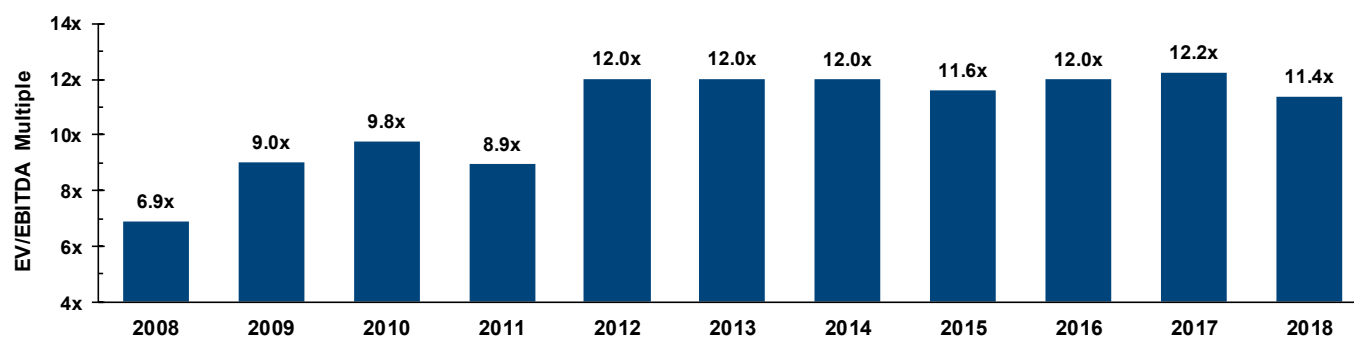
Walmart is building a high-speed grocery warehouse to solidify its position as the nation's biggest grocer. The new distribution center in Shafter, California is set to open in the fall of 2020 and will move products in and out 40% faster than the company's existing warehouses according to a blog post written by Walmart. The new center is Walmart's latest investment to grow its grocery business and serve as a barrier against Amazon's encroachment in the space.

Impact of Government Shutdown on Trade (IndustryWeek)

On January 25th, the US Federal Government ended the longest government shutdown in U.S. history at 35 days. The shutdown created severe ramifications for the U.S. economy and federal agencies that are critical to imports, exports and international trade. During the shutdown, tariff exclusions, licensing approvals and self-reporting of violations did not occur. Businesses seeking exclusion requests with regards to the \$34 billion list stalled, as no movement occurred on the outstanding exclusion requests. Additionally, importers that qualified for exclusions had to continue paying additional tariffs until the system was updated to reflect tariff exclusions. The shutdown will have cascading effects on many businesses for months to come.

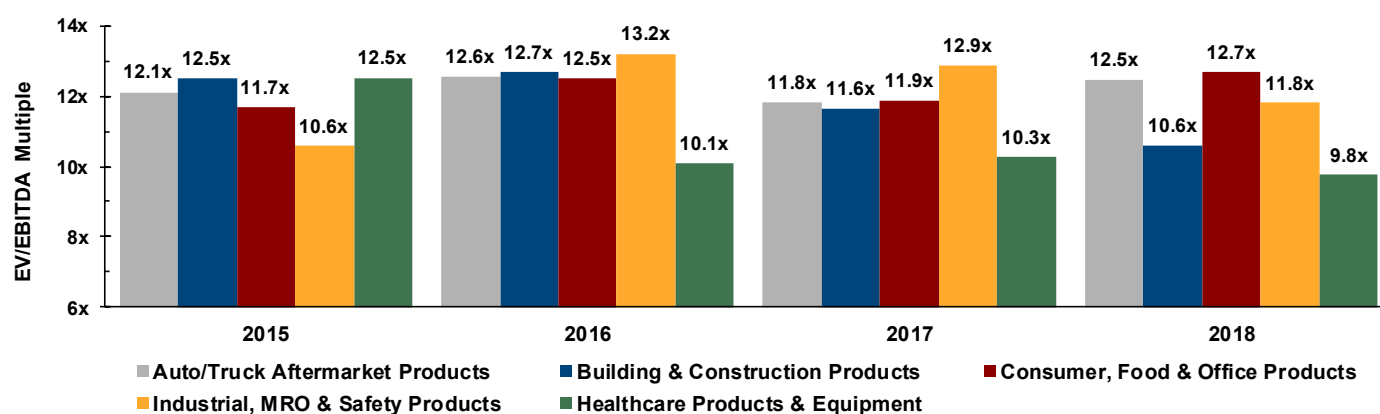
Public Company Comparisons Trading Multiples

Specialty Distribution Public Comparables: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of February 26, 2019

Distribution Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of February 26, 2019

Representative EdgePoint Specialty Distribution Transactions

Sell-Side Advisory QUALITY VALVE INC. Quality Valve, Inc. <i>has been recapitalized by</i> Pfingsten Partners, LLC	Sell-Side Advisory MARLI Marli Manufacturing, Inc. <i>has sold to</i> Auveco Products	Sell-Side Advisory williams EQUIPMENT & SUPPLY Williams Equipment & Supply <i>has sold to</i> Construction Supply Group	Sell-Side Advisory E.J. Thomas Company and AristoCraft Supply <i>have sold to</i> Strength Capital Partners	Sell-Side Advisory LAKE ERIE ABRASIVE & TOOL Lake Erie Abrasive & Tool <i>has sold to</i> Motion Industries
Sell-Side Advisory WACO SCAFFOLDING & EQUIPMENT Waco International Corporation <i>has sold to</i> Longroad Asset Management LLC	Sell-Side Advisory APPLIED Industrial Technologies Dixie Bearing, Inc. Aviation Division <i>has sold to</i> Aviation Sales Company	Sell-Side Advisory PURITAN PRODUCTS Puritan Products <i>has sold to</i> Zabel Capital	Sell-Side Advisory MORRIS S.G. Morris Company <i>has sold to</i> Applied Industrial Technologies	Sell-Side Advisory Mobile Air, Inc. <i>has sold to</i> Tioga Air Heaters



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