



## SPECIALTY DISTRIBUTION

Q1 & Q2 | 2019

### Specialty Distribution M&A Activity Driven by Strategic Consolidation Plays

M&A activity in the specialty distribution industry in the first half of 2019 continued to see consolidation transactions that marked the majority of M&A activity in 2017 and 2018. The first seven months of 2019 saw aggressive activity on the part of strategic and private-equity-backed operating companies, making acquisitions in fragmented pockets 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 first half of 2019, the prevalent buyer acquisition strategies continued a theme from prior years: 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 first six months of 2019 include building product & materials and industrial, MRO & safety product distributors.

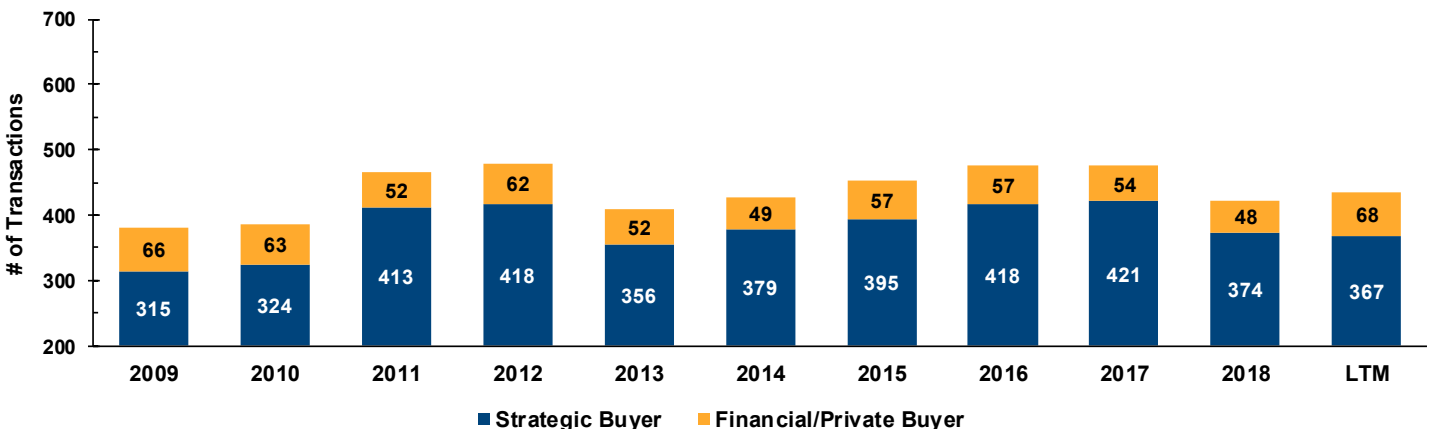
In addition to the synergies from increased geographic presence and product/service portfolio extensions, strategic acquirers continue to utilize M&A as a key component of adapting to the role of e-commerce in B2B distribution. Strategic buyers remain focused on identifying attractive avenues to utilize 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 the first half of 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 to pursue 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 during 2019 and into 2020.

### Specialty Distribution M&A Transactions by Year









*(Strategic Buyers Include Private Equity Owned Companies)*

Annual Specialty Distribution M&A Transactions



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

## Notable Recently Announced and Closed Specialty Distribution Transactions

Date: 6/24/2019 (Closed)	Overview / Strategic Rationale:	Building Products & Materials
<b>Target:</b> 	<p>Saint-Gobain Building Products Distribution Deutschland GmbH is a leading distributor of building materials in the Nordic region. The company operates a nationwide network of 220 branches from which approximately 5,000 employees serve a wide range of customers in the renovation and new construction sectors.</p> <ul style="list-style-type: none"> <li>• <i>Saint-Gobain divested its building products division.</i></li> <li>• <i>The acquisition significantly expands Stark Group's footprint in the builders' merchant industry in Northern Europe.</i></li> </ul>	
<b>Acquirer:</b> 		
<b>Key Metrics:</b> Implied Enterprise Value (\$M)      \$374 EV/LTM EBITDA                              7.0x EV/LTM Revenue                              0.2x		
Date: 6/26/2019 (Announced)	Overview / Strategic Rationale:	Industrial, MRO & Safety
<b>Target:</b> 	<p>Kaman's distribution segment is a leading distributor of more than six million items including electro-mechanical bearings, power transmission, motion control and electrical and fluid power components, as well as automation and MRO supplies, to a wide variety of industries.</p> <ul style="list-style-type: none"> <li>• <i>The acquisition allows Kaman to focus on accelerating growth in its aerospace and engineered products businesses. The company will continue to design and manufacture critical components, structures, and systems for commercial and military customers.</i></li> <li>• <i>The acquisition builds upon Littlejohn's deep expertise in investing in the distribution and industrial sectors.</i></li> </ul>	
<b>Acquirer:</b> 		
<b>Key Metrics:</b> Implied Enterprise Value (\$M)      \$700 EV/LTM EBITDA                              10.6x EV/LTM Revenue                              0.6x		
Date: 5/7/2019 (Announced)	Overview / Strategic Rationale:	Industrial, MRO & Safety
<b>Target:</b> 	<p>Southern Carlson is a leading distributor of construction fasteners, tools, packaging, facility supplies, and tool repair services. The company serves a broad array of end markets from over 150 branches across North America.</p> <ul style="list-style-type: none"> <li>• <i>The acquisition of Southern Carlson will expand Kyocera's reach across the North American residential, manufacturing, and industrial professional tool and fastener markets.</i></li> <li>• <i>The deal is the latest in a series of Kyocera's acquisitions of construction tool businesses, a sector expected to see demand growth and earnings stability.</i></li> </ul>	
<b>Acquirer:</b> 		
<b>Key Metrics:</b> Implied Enterprise Value (\$M)      \$815 EV/LTM EBITDA                              NA EV/LTM Revenue                              1.5x		
Date: 3/29/2019 (Closed)	Overview / Strategic Rationale:	Chemical
<b>Target:</b> 	<p>Nexo Plastics is a global leader in the distribution of plastics, including polymer products and prime engineering resins. Through its vast distribution network, Nexo Plastics connects world-class suppliers with customers across a broad cross section of industrial segments in more than 60 countries in North America, Europe and Asia.</p> <ul style="list-style-type: none"> <li>• <i>The resin distribution business, Nexo Plastics, was divested after Nexo was purchased by Univar in September 2018.</i></li> <li>• <i>One Rock Capital Partners plans to create a standalone plastics distribution business and to invest in growth by deepening its relationships with customers and supplier partners.</i></li> <li>• <i>Nexo Plastics will focus on expanding its service offering for its suppliers and customers worldwide.</i></li> </ul>	
<b>Acquirer:</b> 		
<b>Key Metrics:</b> Implied Enterprise Value (\$M)      \$640 EV/LTM EBITDA                              NA EV/LTM Revenue                              0.3x		
<b>Source: Company Filings, CapIQ, News Releases</b>		

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

Date	Acquirer	Target	Target Description	Price (\$MM)	Revenue Multiple	EBITDA Multiple
<b>AUTO, TRUCK &amp; HEAVY EQUIPMENT</b>						
2/4/2019	H&E Equipment Services	Charles Mancuso	Charles Mancuso distributes a wide variety of heavy equipment, including scissor lifts, compressors, hydraulic excavators, and water pumps	\$ 100	2.8x	NM
3/6/2019	Precision Truck Solutions	Mason Truck Sales	Mason Truck Sales distributes heavy duty truck parts from leading automotive manufacturers	NM	NM	NM
6/26/2019	K&M Tire	Cadillac Wholesale Tire	Cadillac Wholesale Tire distributes passenger, light truck, truck and farm tires in Michigan	NM	NM	NM
7/10/2019	Genuine Parts	PartsPoint Group	PartsPoint Group distributes automotive aftermarket parts and accessories in the Benelux	NM	NM	NM
<b>BUILDING, CONSTRUCTION &amp; MATERIALS</b>						
2/20/2019	Ply Gem Industries	Environmental StoneWorks	Environmental StoneWorks designs, manufactures, and installs stone veneers	\$ 186	NM	NM
3/6/2019	ASSA ABLOY	Agta Record	Agta Record manufactures, distributes, and installs automatic and industrial doors	966	2.3x	17.4x
4/24/2019	Alpha Group	Laminam SpA	Laminam SpA manufactures large-size ceramic surfaces	280	2.3x	9.6x
6/11/2019	Distribution International	Silvercote	Silvercote laminates and distributes metal building insulation (MBI) and related products	NM	NM	NM
<b>CONSUMER, FOOD &amp; OFFICE</b>						
4/1/2019	Fortive Corporation	Advanced Sterilization Corporation	Advanced Sterilization Corporation distributes innovative sterilization and disinfection products	\$ 2,700	3.5x	NM
5/1/2019	Bain Capital	Imperial Dade	Imperial Dade distributes foodservice disposables and janitorial sanitation products	NM	NM	NM
6/3/2019	Imperial Dade	Strauss Paper Company	Strauss Paper Company distributes janitorial supplies, janitorial equipment, and washroom supplies	NM	NM	NM
7/1/2019	Imperial Dade	The Paper Company	The Paper Company distributes foodservice and janitorial paper products	NM	NM	NM
<b>INDUSTRIAL, MRO &amp; SAFETY</b>						
2/1/2019	Endries International	Industrial Products	Industrial Products distributes fasteners and related production components to the OEM market	NM	NM	NM
4/3/2019	Snap-On	Power Hawk Technologies	Power Hawk Technologies manufactures and distributes rescue tools and related equipment	8	NM	NM
5/19/2019	Airgas	Tech Air	Tech Air distributes industrial and medical gases, welding supplies, and related equipment	NM	NM	NM
7/9/2019	Core & Main	Long Island Pipe Supply	Long Island Pipe Supply distributes fire sprinkler pipes, valves, fittings, devices, and accessories	225	NM	NM
<b>HEALTHCARE EQUIPMENT &amp; PRODUCTS</b>						
1/10/2019	One Beat CPR Learning Center	Foremost Medical Equipment	Foremost Medical Equipment distributes new and recertified healthcare equipment, devices, and supplies	NM	NM	NM
2/1/2019	Orthofix Medical	Options Medical	Options Medical distributes medical devices	6	NM	NM
8/1/2019	MobilityWorks	PC Industries	PC Industries distributes wheelchair accessible vans and commercial fleet vehicles for the disabled	NM	NM	NM

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

### Key Metrics

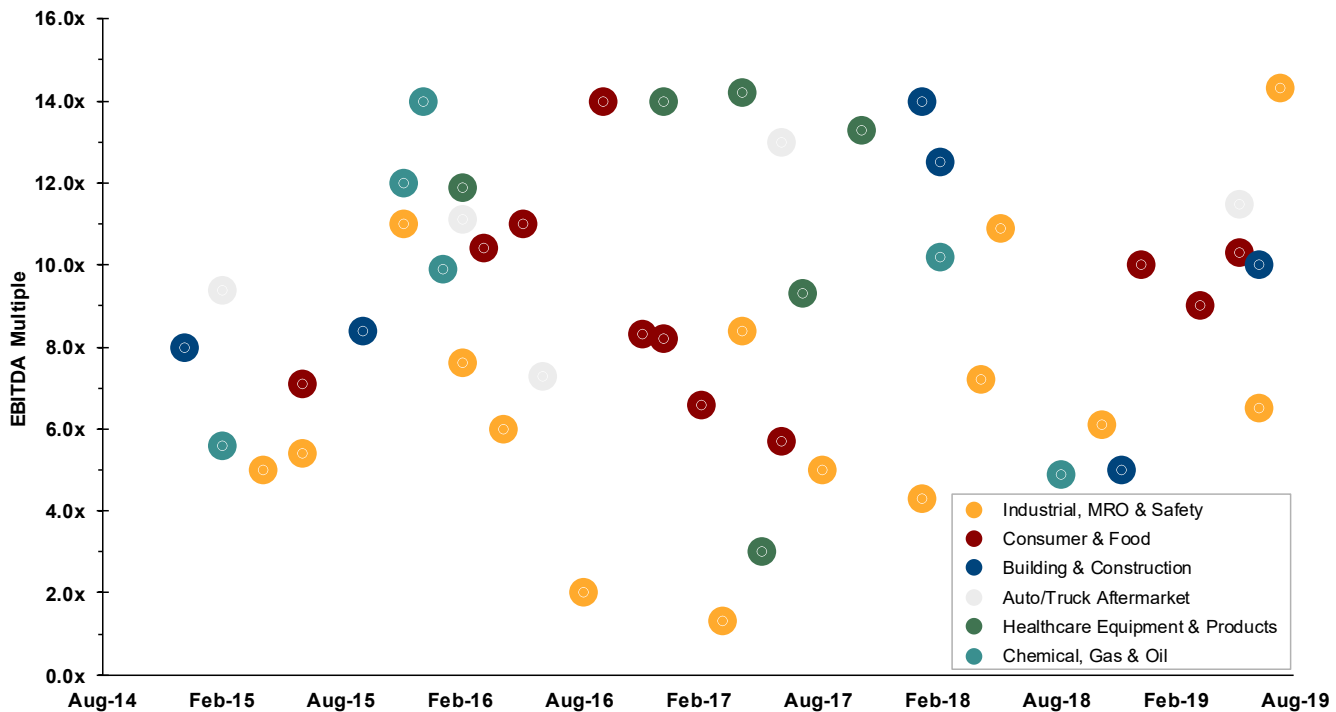
The majority of transaction activity in the specialty distribution industry during the last 12 months and the first half of 2019 occurred in three primary sub-sectors: industrial, MRO & safety (35.4%), building products & materials (25.1%), and consumer & food products (16.3%) accounted for over 75% of announced and completed transactions in the specialty distribution industry during the last 12 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 remained relatively flat, with levels seen during 2018 at nearly 9.5x (average transaction size \$250 million), further highlighting the willingness of buyers to pursue high quality targets aggressively.

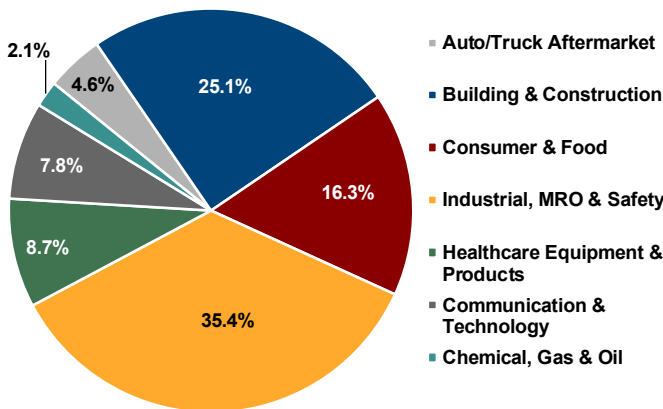
Strategic and private-equity-backed operating companies accounted for the majority of transaction activity during the last 12 months. These buyers continue to utilize M&A as a primary driver of value creation for shareholders by increasing operational efficiencies and scale through targeted acquisitions.

### Select Transaction Multiples



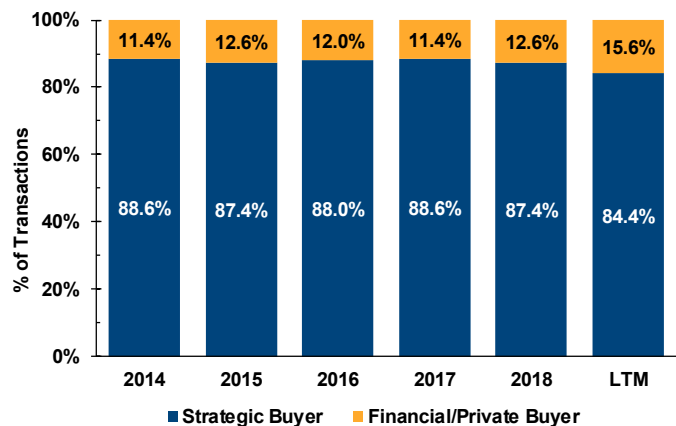
Source: EdgePoint Proprietary Database, Company Filings, CapIQ, News Releases

### Transactions by Sub-Sector (LTM)



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

### Share of Transactions by Buyer Type





## Sub-Sector Profile: Building Products & Material Distribution

The building products & materials distribution sub-sector experienced robust deal flow from both large strategic buyers and private equity buyers during the first half of 2019. Strong macroeconomic fundamentals, including the 9-year expansion of the U.S. economy, low unemployment, and high consumer confidence levels, have helped to drive industry activity in the building products & materials distribution sub-sector. Among the most active acquirers were SiteOne Landscape Supply, SRS Distribution, and Foundation Building Materials.

Buyers in this sub-sector continue to utilize M&A as a means to drive above-average growth, and they are actively looking to acquire regional distributors. Throughout the first half of 2019, market expansion continues to be the primary factor driving acquisition activity. This trend is expected to continue throughout the second half of 2019, as buyers aggressively compete for market share.

Strategic buyers such as SiteOne Landscape Supply, SRS Distribution, and Foundation Building Materials continue to remain active acquirers in the building products & materials distribution sub-sector. SiteOne acquired Landscape Depot Supply to com-

plement its existing branch network in the Greater Boston market. SiteOne will continue to be an active acquirer of hardscape and landscape supplies distributors, as demonstrated by its six acquisitions in 2019. SRS Distribution and Foundation Building Materials also continues to be an active acquirer in the space. SRS Distribution acquired Roofing Products and Building Supply to strengthen its existing footprint in Southern Louisiana, while Foundation Building Materials acquired Select Acoustics Supply to expand its presence in the Toronto commercial market.

The outlook for deals for the remainder of 2019 in the building products & materials distribution sub-sector is expected to remain strong, despite rising interest rates and higher material costs. A significant portion of M&A activity will come from strategic buyers or financial buyers with established platforms for investment; for while economic indicators remain strong, private equity investors without an existing platform will be hesitant to enter this space given the current point in this extended building cycle. Industry consolidation is, in any case, expected to remain a key motivation for M&A activity for the remainder of 2019.

## Active Building Products & Material Distribution Buyers

Select Strategic Buyers	Date of Investment	Acquisition Activity
	05/02/2019	<ul style="list-style-type: none"> <li>Select Acoustics Supply</li> </ul>
	02/04/2019	<ul style="list-style-type: none"> <li>Builders' Supplies Limited</li> </ul>
	04/03/2019	<ul style="list-style-type: none"> <li>Bailey Lumber &amp; Supply</li> </ul>
	04/02/2019	<ul style="list-style-type: none"> <li>BM windows</li> </ul>
	04/29/2019	<ul style="list-style-type: none"> <li>Assets of Metro Building Products</li> </ul>
	04/03/2019	<ul style="list-style-type: none"> <li>Delta Gypsum</li> </ul>
	07/05/2019	<ul style="list-style-type: none"> <li>Wholesale distribution business of L.H. Voss Materials</li> </ul>
	05/22/2019	<ul style="list-style-type: none"> <li>Stone and Soil Depot</li> </ul>
	05/01/2019	<ul style="list-style-type: none"> <li>Fisher's Landscape Depot</li> </ul>
	04/05/2019	<ul style="list-style-type: none"> <li>Landscape Depot</li> </ul>
	03/01/2019	<ul style="list-style-type: none"> <li>All Assets of All Pro Horticulture</li> </ul>
	01/08/2019	<ul style="list-style-type: none"> <li>Cutting Edge Curbing Sand &amp; Rock</li> </ul>
Select Financial Buyers with Holdings	Date of Investment	Acquisition Activity
 	07/12/2019	<ul style="list-style-type: none"> <li>Slover Roofing Supply</li> </ul>
	05/31/2019	<ul style="list-style-type: none"> <li>Presta Contractor Supply</li> </ul>
	02/22/2019	<ul style="list-style-type: none"> <li>Roofing Products And Building Supply</li> <li>American Roofing Supply</li> </ul>

## Amazon Struggles with Control

Amazon has long been viewed as the most significant disruptive threat to distributors across multiple industries. Amazon's rapid growth has been the topic of myriad pieces in distribution trade publications. Its operational excellence – its ability to deliver products quickly to customers – has long been the envy of supply-chain managers globally. Ironically, the company is now forced to deal with a problem of its own creation: the sale of banned and unsafe products in through its third-party vendor marketplace.

A recent study by the Wall Street Journal (WSJ) profiled the difficulties that Amazon faces with as it seeks to guard against banned, unsafe, and mislabeled products. The WSJ found over 4,000 items listed for sale on Amazon.com that have been declared unsafe, mislabeled, or banned by federal regulators. The WSJ also noted that these items, though available on Amazon, are barred from being stocked on the shelves of big-box retailers.

To address concerns, Amazon's spokespeople have reaffirmed the company's commitment to safety. The company's response to the WSJ's findings was to remove or edit a majority of the postings to bring them into compliance. Amazon has noted that it also uses digital tools to screen potential sellers, and that it blocked nearly three billion items in 2018. These actions stand in contrast to the Company's legal strategy. In multiple court proceedings regarding third-party sales, Amazon's common defense is that it is not the seller, and it therefore cannot be held responsible under consumer protection laws that allow consumers to sue retailers.

Third-party sellers make up a significant portion of merchandise sales on Amazon.com. Sales by third-party sellers have exploded to nearly 60% of physical merchandise sales in 2018, up from 30% a decade ago according to Amazon. As smaller retailers flooded Amazon's marketplace, the company was unprepared to monitor them, resulting in unsafe or mislabeled products being sold. In contrast, Target and Walmart have established online marketplaces for third-parties to sell direct to consumers, but they have put in place restrictive measures to protect consumers and company reputations.

This issue comes at a turning point for the world's leading technology platforms. Just as Amazon is forced to deal with third-party products, Facebook has had to deal with user content posted on its site. The controversy has increased the calls for regulatory intervention. Amazon's next moves to protect customers will be integral to its future.



Source: WSJ

### Select Industry Quotes

*"Amazon's overriding corporate philosophy of offering ever more options is clashing with internal efforts to make sure product listings won't harm buyers."*

- WSJ

*"In practice, Amazon has increasingly evolved like a flea market. It exercises limited oversight over items listed by millions of third-party sellers, many of them anonymous, many in China, some offering scant information."*

- WSJ

*"Amazon's struggle to police its site adds to the mounting evidence that America's tech giants have lost control of their massive platforms—or decline to control them."*

- WSJ

*"Amazon, Facebook, Twitter, Alphabet Inc. 's YouTube and others are under scrutiny over how they wield their dominance in booming internet markets while their forums are used for fraudulent listings, offensive content and misinformation."*

- WSJ



## What We are Reading:

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### **U.S. Cutting Tool Consumption Slowing Down (Advanced Manufacturing)**

U.S. cutting tool consumption totaled \$1.1 billion year-to-date, up 5.2% compared to 2018, according to the U.S. Cutting Tool Institute and the Association For Manufacturing Technology (AMT). Brad Lawton, chairman of AMT's Cutting Tool Product Group, said "The cutting tool market is now showing indications of the promised overall slowdown in the economy. The [year-over-year YTD] numbers are no longer showing the double-digit growth of 2018. Summer domestic slowdowns, international trade issues, and global declining economies are confirming a changing cutting tool market."

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### **Small Business Optimism Slips as Uncertainty Rises (NFIB)**

Optimism faded modestly in June, with the Small Business Optimism Index slipping 1.7 points to 103.3, reversing the gain posted in May, but still leaving optimism at historically high levels. The modest decline was driven by curbed spending, sales expectations, and the economic outlook.

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### **Continued Expansion in the Manufacturing Sector (Modern Distribution Management)**

The U.S. manufacturing sector expanded in June 2019, and the overall economy continued to grow for the 123rd consecutive month, according to the nation's supply executives in the latest ISM Manufacturing report. Timothy Fiore, chair of the ISM Business Survey Committee, said "Comments from the panel reflect continued expanding business strength, but at soft levels." Trade tensions between the United States and China remain a significant issue impacting the U.S. manufacturing industry.

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### **Grainger Adds Healthcare Facility Compliance Solutions (Modern Distribution Management)**

Grainger has announced an agreement with HealthCare Facility Compliance Corp. to offer Grainger health care customers a comprehensive governance, risk, and compliance solution. The new CRx software is tablet-based, and it is designed for health care customers looking to improve facility efficiency, patient experience, emergency readiness, and safety monitoring in compliance with standards. CRx is available as part of the Grainger Online SafetyManager, a suite of tools helping to make it easier for customers to manage, track, and maintain critical workplace safety activity and information.

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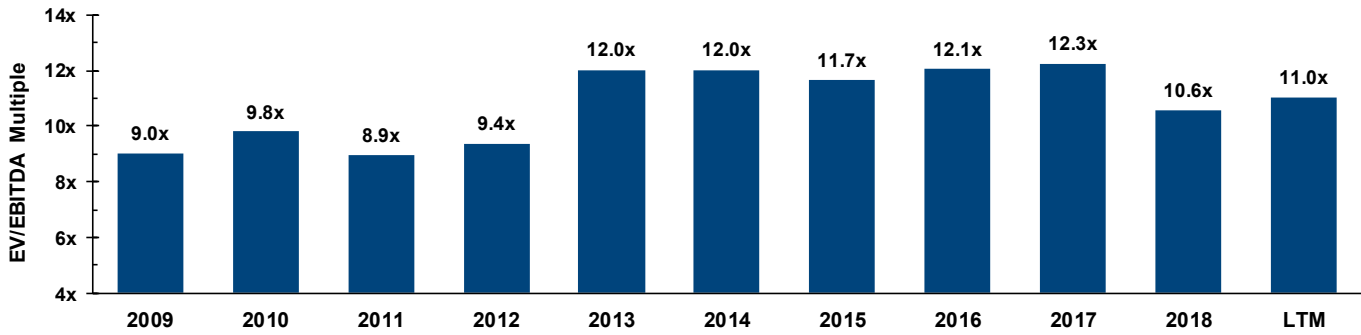
### **Amazon Expands Logistic Operations (Freight Waves)**

Amazon has surpassed the nation's leading shipping companies as the majority shipper of its own products. According to Rakuten Intelligence, a market research firm, Amazon carried as much as 45% of its own shipments in 2019, up from handling just 15% of its shipments in early 2017. John Hampstead, writer at Freight Waves, states, "Amazon entered transportation to survive, is now disrupting the industry by disintermediating its previous transportation providers, and has already begun monetizing the network built up, leveraging a stealth-mode digital brokerage platform to generate revenue by filling backhauls and repositioning its trailers."

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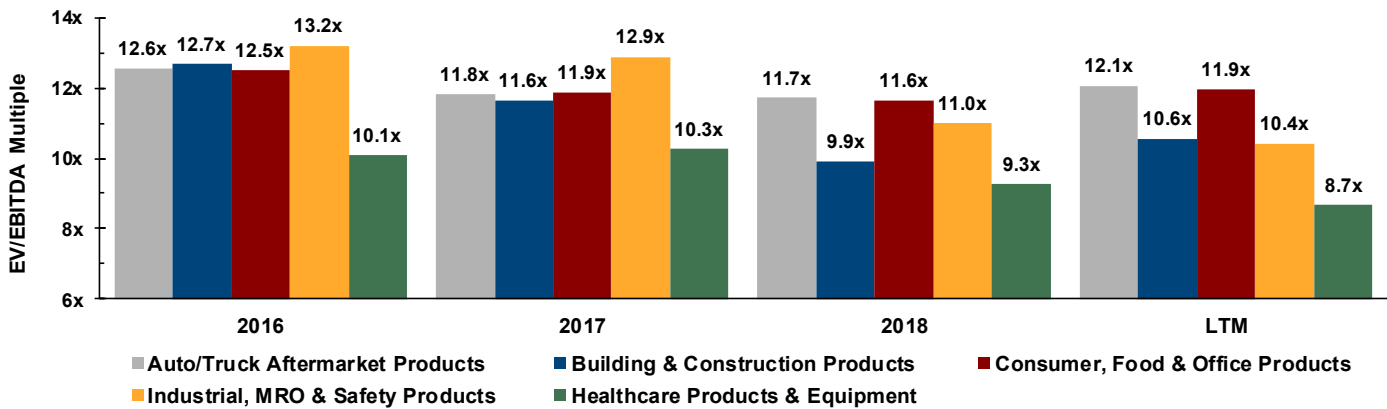
Public Company Comparisons Trading Multiples

Specialty Distribution Public Comparables: Annual EV/EBITDA Multiples



Source: CapIQ, public trading data as of September 4, 2019

Distribution Sub-Sector Public EV/EBITDA Multiples



Source: CapIQ, public trading data as of September 4, 2019

Representative EdgePoint Specialty Distribution Transactions

<p><b>Sell-Side Advisory</b></p> <p>Quality Valve, Inc. has been recapitalized by Pfungsten Partners, LLC</p>	<p><b>Sell-Side Advisory</b></p> <p>Marli Manufacturing, Inc. has sold to Auveco Products</p>	<p><b>Sell-Side Advisory</b></p> <p>Williams Equipment &amp; Supply has sold to Construction Supply Group</p>	<p><b>Sell-Side Advisory</b></p> <p>E.J. Thomas Company and AristoCraft Supply have sold to Strength Capital Partners</p>	<p><b>Sell-Side Advisory</b></p> <p>Lake Erie Abrasive &amp; Tool has sold to Motion Industries</p>
<p><b>Sell-Side Advisory</b></p> <p>Waco International Corporation has sold to Longroad Asset Management LLC</p>	<p><b>Sell-Side Advisory</b></p> <p>Dixie Bearing, Inc. Aviation Division has sold to Aviation Sales Company</p>	<p><b>Sell-Side Advisory</b></p> <p>Puritan Products has sold to Zabel Capital</p>	<p><b>Sell-Side Advisory</b></p> <p>S.G. Morris Company has sold to Applied Industrial Technologies</p>	<p><b>Sell-Side Advisory</b></p> <p>Mobile Air, Inc. has sold to Tioga Air Heaters</p>



EdgePoint is an independent, advisory-focused, investment banking firm serving the middle market.

