



Distribution | Q2 2020

Distribution Insights

COVID-19's impact on the economy and credit markets that started in March only worsened in April, but the overall environment improved over the course of the second quarter as the economy re-opened, businesses stabilized, mergers and acquisitions (M&A) activity started to pick up and credit markets opened again. Corporates, private equity investors and lenders will remain focused on the status of the health crisis and trajectory of the economic recovery with the hope that the indicators continue to trend in the right direction.

At the outset of COVID-19, when restrictions were at their height, more than 300 million Americans were under "shelter-in-place" or "stay-at-home" orders, which negatively affected a number of industries. Additionally, the shutdown and slow recovery of the credit markets made deals, especially larger ones, challenging to come by. For the three-month and six-month periods ending June 30th, 2020, U.S. distribution announced M&A transactions were down 40% (from 142 to 85) and 72% (from 61 to 17) year-over-year, respectively, according to Mergermarket.

However, not all businesses were equally impacted, as certain businesses and verticals proved their resiliency through the pandemic. These companies pivoted their business models to focus on "pandemic-proof" product categories such as safety and jan/san. The benefit of pivoting has been apparent in earnings releases from several of the large industrial distributors such as Fastenal, Grainger and MSC. Similarly, the M&A and credit markets have been open to these resilient businesses, as evidenced by HIG Advantage's acquisition of Supply Source Enterprises (a provider of branded and private label personal protective equipment and janitorial, safety, hygiene and sanitation products) from Genuine Parts Company.

With the re-opening of the economy on a state by state basis, many businesses have been able to stabilize their financial performance and even begin to grow after hitting a trough in April. Illustrating this trend, the PMI Index went from 41.5 in April to 43.1 in May to 52.6 in June. Between companies that are experiencing a recovery and those that were already built for resilience, combined with the continued improvement in the credit markets, we have seen an increase in new business activity. Based on these conversations, we have confidence that the uptick in recent activity is sustainable and we will experience positive momentum towards the end of this year and heading into 2021.

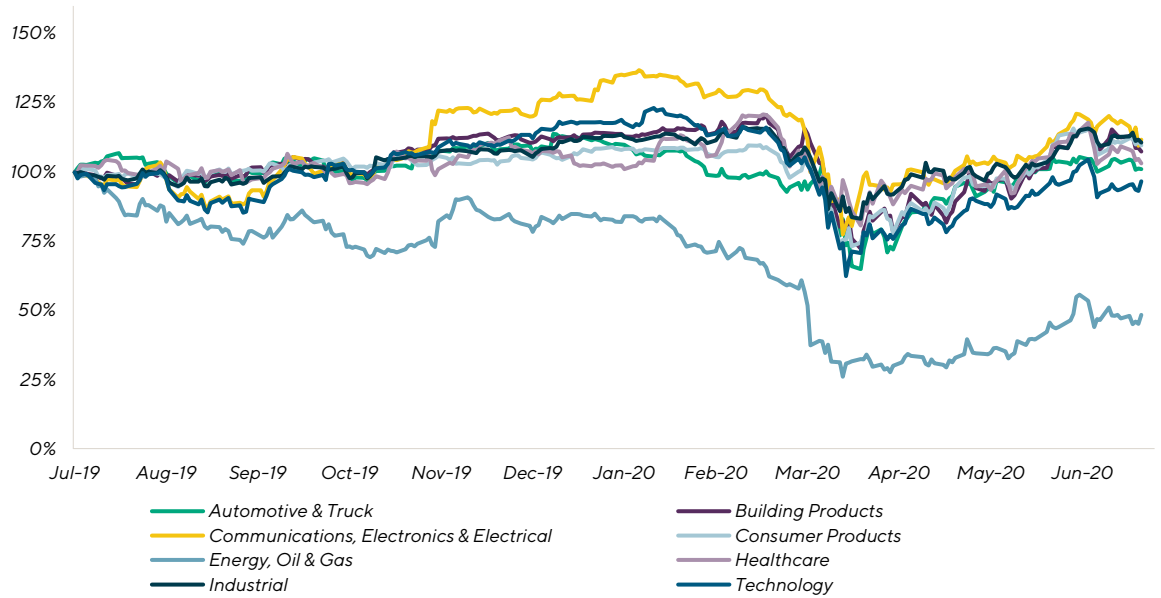
Lincoln has published two major thought pieces during this last quarter - "Articulating & Supporting Your COVID-19 Response Playbook" and "Timing for a Prospective Sale: An M&A Checklist as We Emerge from COVID-19". Both of these thought pieces have been very well-received by our clients and are great tools whether a liquidity event is in the near future or much further out. We would welcome the opportunity to discuss your company's strategic alternatives or the trends in the distribution market more generally. Request the documents: <https://www.lincolninternational.com/perspectives/preparing-for-discussions-with-potential-investors-in-uncertain-times/>

Quarterly Review

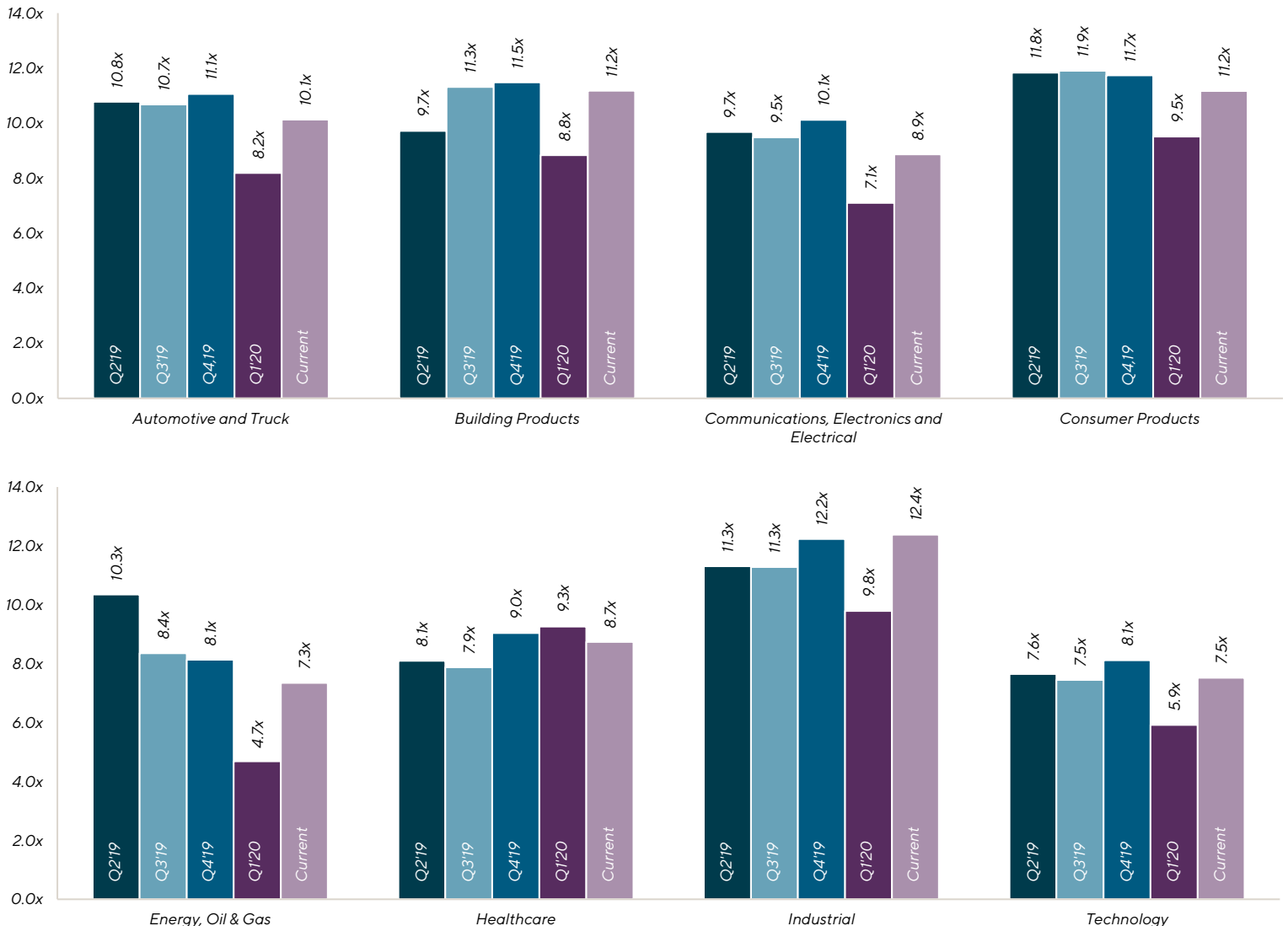
Index Performance

Lincoln's Distribution Index recorded a gain of 21.8% in Q2 2020 vs. Q1 2020. Energy, Oil & Gas (58.9%), Automotive and Truck (34.7%), Consumer Products (31.6%), Industrial (25.2%) and Building Products (29.7%) outpaced the index while Healthcare (11.8%), Technology (-20.5%) and Communications, Electronics & Electrical (-53.6%) lagged the index.

Distribution Index – LTM Relative Stock Price Performance



Distribution Index – Historical EV / EBITDA Valuation Performance



Comparable Public Companies

Company Name	Stock Price	% of 52		Enterprise Value	LTM		YoY Revenue Growth	EBITDA Margin	Enterprise Value / LTM	
		Week High	Market Cap		Revenue	EBITDA			Revenue	EBITDA
Automotive and Truck										
AutoZone, Inc.	\$1,128.12	88.5%	\$26,352	\$34,129	\$12,074	\$2,571	5.6%	21.3%	2.8x	11.8x
Genuine Parts Company	86.96	80.1%	12,545	16,697	19,215	1,353	1.7%	7.0%	0.9x	9.9x
LKQ Corporation	26.20	71.5%	7,964	12,793	12,407	1,298	1.2%	10.5%	1.0x	7.4x
O'Reilly Automotive, Inc.	421.67	92.8%	31,299	37,462	10,216	2,182	5.7%	21.4%	3.7x	14.7x
Uni-Select Inc.	5.42	55.1%	230	800	1,727	84	(1.3%)	4.9%	0.4x	6.8x
Building Products										
Beacon Roofing Supply, Inc.	\$26.37	69.6%	\$1,815	\$5,407	\$7,088	\$428	0.9%	6.0%	0.8x	9.6x
BMC Stock Holdings, Inc.	25.14	79.4%	1,684	2,043	3,722	241	1.3%	6.5%	0.5x	7.3x
Builders FirstSource, Inc.	20.70	72.8%	2,414	4,110	7,436	487	(2.9%)	6.6%	0.6x	7.0x
CRH plc	34.32	83.0%	26,933	35,179	28,200	4,169	(8.1%)	14.8%	1.2x	7.7x
Ferguson plc	81.87	85.9%	18,301	21,494	22,129	1,804	2.6%	8.2%	1.0x	11.8x
HD Supply Holdings, Inc.	34.65	80.1%	5,613	8,069	6,048	786	(1.7%)	13.0%	1.3x	8.6x
SiteOne Landscape Supply, Inc.	113.97	95.4%	4,771	5,677	2,400	185	11.2%	7.7%	2.4x	22.7x
Watsco, Inc.	177.70	95.1%	6,253	6,860	4,847	372	6.5%	7.7%	1.4x	14.7x
Communications, Electronics and Electrical										
Electrocomponents plc	8.31	91.8%	3,706	3,942	2,432	276	(0.9%)	11.4%	1.6x	13.4x
Rexel S.A.	11.44	75.8%	3,462	6,813	15,422	806	0.8%	5.2%	0.4x	6.8x
WESCO International, Inc. ⁽¹⁾	35.11	57.3%	1,756	3,201	8,366	398	2.7%	4.8%	0.4x	6.5x
Consumer Products										
Bunzl plc	\$26.82	98.5%	\$8,943	\$11,093	\$12,352	\$895	6.7%	7.2%	1.0x	11.1x
Core-Mark Holding Company, Inc.	24.96	60.9%	1,125	1,717	13,513	158	4.8%	1.2%	0.1x	7.4x
Pool Corporation	271.87	99.4%	10,857	11,602	3,279	375	9.0%	11.4%	3.5x	25.8x
SpartanNash Company	21.25	93.2%	758	1,642	8,850	165	7.6%	1.9%	0.2x	7.5x
Sysco Corporation	54.66	63.6%	27,746	37,025	59,502	3,025	(0.8%)	5.1%	0.6x	11.7x
United Natural Foods, Inc.	18.21	77.9%	996	4,815	25,232	480	43.6%	1.9%	0.2x	5.9x
US Foods Holding Corp.	19.72	45.8%	4,344	9,351	26,247	1,071	7.6%	4.1%	0.4x	8.7x
Energy, Oil & Gas										
DXP Enterprises, Inc.	\$19.91	45.3%	\$353	\$622	\$1,257	\$87	1.2%	6.9%	0.5x	5.5x
MRC Global Inc.	5.91	34.6%	485	1,527	3,486	161	(15.6%)	4.6%	0.4x	7.5x
NOW Inc.	8.63	58.0%	943	811	2,770	50	(12.0%)	1.8%	0.3x	9.0x
Healthcare										
Cardinal Health, Inc.	\$52.19	86.0%	\$15,239	\$20,665	\$153,586	\$2,751	7.0%	1.8%	0.1x	7.1x
Henry Schein, Inc.	58.39	78.9%	8,336	10,205	10,054	928	(24.3%)	9.2%	1.0x	9.9x
McKesson Corporation	153.42	89.1%	24,872	31,896	231,051	3,763	7.8%	1.6%	0.1x	9.8x
Owens & Minor, Inc.	7.62	78.6%	480	2,066	8,983	181	(9.5%)	2.0%	0.2x	8.2x
Industrial										
Air Liquide S.A.	\$144.50	91.3%	\$68,176	\$84,155	\$24,599	\$6,079	2.3%	24.7%	3.4x	13.2x
Applied Industrial Technologies, Inc.	62.39	88.3%	2,415	3,284	3,403	316	(2.4%)	9.3%	1.0x	9.1x
Fastenal Company	42.84	99.2%	24,540	25,078	5,391	1,217	6.0%	22.6%	4.7x	18.3x
MSC Industrial Direct Co., Inc.	72.81	91.2%	4,045	4,743	3,319	472	(0.1%)	14.2%	1.4x	9.5x
W.W. Grainger, Inc.	314.16	90.6%	16,797	18,866	11,688	1,602	3.9%	13.7%	1.6x	11.8x
Technology										
Arrow Electronics, Inc.	\$68.69	80.1%	\$5,404	\$7,908	\$28,142	\$915	(6.1%)	3.3%	0.3x	8.6x
Avnet, Inc.	27.89	60.1%	2,754	4,248	18,156	501	(8.8%)	2.8%	0.2x	7.1x
ScanSource, Inc.	24.09	61.8%	611	938	3,812	111	(2.4%)	2.9%	0.2x	7.8x
SYNNEX Corporation	119.77	78.2%	6,091	7,783	23,582	1,182	9.1%	5.0%	0.3x	6.6x
Mean		77.6%					1.5%	8.1%	1.1x	10.1x
Median		80.1%					1.3%	6.6%	0.6x	8.7x

Source: Bloomberg, Capital IQ and company filings, as of 6/30/2020

Note: dollars in millions, except stock price

(1) Completed merger with Wesco in June 2020, Q2 financials not yet reported

Lincoln International continues to generate great outcomes on behalf of global clients in the midst of economic uncertainty. Our team of 600+ professionals is pleased to share a few perspectives about dynamics of the deal-making environment.

See the perspectives:

<https://www.lincolninternational.com/perspectives/lincoln-international-continues-to-announce-close-deals-amidst-global-pandemic/>

05/11/20: **Quirch Foods**, the Florida-based food distributor and a portfolio company of New York-headquartered PE firm Palladium Equity, acquired **Butts Foods**, the Tennessee-based fresh protein distributor.

04/21/20: **KKR [NYSE:KKR]** purchased \$500m in newly issued convertible preferred stock of **US Foods Holding Corp. [NYSE:USFD]**, a Rosemont, Illinois-based foodservice distributor

04/01/2020: **J.H. Rose Logistics**, transportation, warehousing, and distribution services provider, has acquired **Stagecoach Cartage and Distribution**, an El Paso, Texas-based dry van and warehousing provider, from **Roadrunner Transportation Systems [NYSE: RRTS]**.

Source: MergerMarket

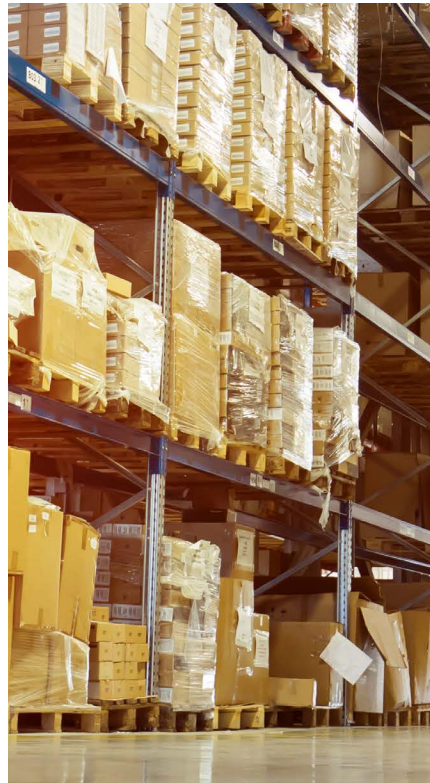
Selected M&A Transactions

Date	Target Company	Target Description	Acquiring Company
Pending	Pluradent	Dental equipment and materials	Deutsche Mittelstandsholding
Pending	Grainger China	Subsidiary of W.W. Grainger, Inc.	Sinovation Ventures
Pending	Water Works Supply Co.	Waterworks products	Core & Main (Clayton, Dubilier & Rice)
Jul-20	Antalis Société	Paper products	Kokusai Pulp&Paper
Jun-20	Honold & LaPage	Electrical, industrial and plumbing products	DSG
Jun-20	Movianto (Owens & Minor)	Healthcare supplies	EHDH Holding Group
Jun-20	Machine Tool Supply	Cutting tools, abrasives, and mold components	Mars
Jun-20	Production Tool & Supply of Rockford	Material handling equipment	DGI Supply (DoAll Company)
Jun-20	L&R Distributors	Consumer products such as cosmetics and hair care products	Platinum Equity
Jun-20	Supply Source Enterprises (GPC)	Jan/san and safety products	HIG Advantage (HIG Capital)
Jun-20	Hydra-Zorb	Pipes, hoses, and tube clamping	Ideal Tridon/ZSi-Foster
Jul-20	Mackenzie, Milne & Co.	Hardware tools	FICODIS
Jul-20	Access Control Systems	Automated, control, security, and surveillance systems	Brixey & Meyer Capital
Jul-20	Deluxe Entertainment Services	Digital cinema	Platinum Equity
Jul-20	Building Specialties Co.	Doors, doorframes, and hardware products	The Cook & Boardman Group (Littlejohn & Co.)
Jul-20	HILO Equipment & Services	Material handling equipment	Alta Equipment Group
Jun-20	Anixter International	Enterprise cabling and security solutions	WESCO International
May-20	Butts Foods	Proteins and other food products	Quirch Foods (Palladium Equity)
May-20	Fabory Nederland	Fasteners	Torqx Capital Partners
May-20	Temple Associates (Grainger)	Abrasives and metal finishing equipment	SurfacePrep (CenterOak)
May-20	Alameda Pipe & Supply Co.	Steel pipes and other products	JD Fields & Company
May-20	Maines Paper & Food Service	Food service assets	Lineage Logistics (Bay Grove Capital)
May-20	Active Healthcare	Diabetic care medical equipment	Solara Medical Supplies (AdaptHealth)
Apr-20	Midwest Equipment Sales	Tracks, tires, and undercarriage parts	Tecum Capital
Apr-20	Interwork Technologies	Data security and information management/storage solutions	Lifeboat Distribution (Wayside Technology Group)
Apr-20	Stagecoach Cartage and Distribution	Transportation and warehousing services	J.H. Rose Logistics
Apr-20	May Supply Company	Plumbing and water system materials, kitchen, bath design, and fixtures	Winsupply



Lincoln's Global Distribution Team

Our dedicated distribution team possesses deep knowledge of the key attributes top-performing distributors utilize to drive value for their customers and shareholders. With significant expertise across several verticals, the team brings valuable knowledge, contacts and global resources to each distribution transaction. We partner with professionals from the firm's other industry groups to offer clients the knowledge and perspective of both the underlying distribution business model, as well as deep end market and product expertise.



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