

Distribution Q2 2021



Market Insights

Public financial markets extended their winning streak in the second quarter of 2021. Despite some volatility in early May and, to a lesser extent, mid-June, the Dow Jones Industrial Average rose 5% above its close on March 31, 2021 and closed Q2 near its all-time high, which had been set in early May. Similarly, the S&P 500 index increased more than 8% to complete Q2 at its own record-high mark. Strength in public equities was underpinned by the sustained and widespread reopening of the economy as COVID-19 vaccines became widely available and businesses reopened more fully, leading gross domestic product (GDP) to rise a seasonally adjusted 6.5% for the quarter. The expansion of the nation's COVID-19 vaccination campaign enabled businesses to reopen more fully, unleashing pent-up consumer demand, spurring growth in job openings and driving increased demand for goods across numerous sectors. Favorable economic trends and an optimistic outlook, along with low interest rates and high levels of investment capital seeking deployment, have also boosted confidence and activity levels in the private markets, including mergers and acquisitions (M&A) transaction volume.

Similarly, M&A announced deal volume in North America continued its upward march in Q2, marking the fourth consecutive quarter of growth since Q2 2020, when the COVID-19 outbreak temporarily caused widespread uncertainty and volatility in the markets. April through June 2021 saw 2,216 deals announced, 15% greater than the count of 1,928 for the first quarter of 2021 and 111% greater than the count of 1,051 for Q2 2020. Valuations remained high as the median EBITDA multiple in Q2 was 19.1x across various business models, industries and end markets. Overall, M&A deal mix in the first half of 2021 has shown a reversion to pre-COVID-19 norms in terms of business quality; unlike the M&A market in late 2020, which was characterized by deals involving "pandemic-proof" businesses, M&A activity thus far in 2021 has been characterized by businesses that were impacted by COVID-19 initially but showed an ability to recover quickly and/or implemented long-lasting business model changes to compete in the post-COVID-19 world. As these companies have put Q2 2020 further into the rearview mirror, seller-friendly M&A market conditions and concerns about increases in capital gains tax rates have driven high levels of M&A in the first half of 2021, a trend that is expected to continue through the end of the year.

In the distribution sector, the 63 North American M&A deals announced in Q2 2021 nearly doubled the 32 distribution deals announced during the trough of the COVID-19 market downturn in Q2 2020 when corporates employed cash preservation strategies and financial markets went into "wait and see" mode. Moreover, the second quarter's high activity levels in distribution was built on a strong Q1 (67 announced

deals) and maintained the strong momentum in the sector. The sustained high levels of distribution M&A have been driven by favorable trends in the broader economy: lifting of stay-at-home orders and general reopening of the consumer economy, a sustained focus on commercial hygiene and safety and high levels of cash reserves and disposable income driving demand growth across the board. Distribution businesses attracting the most interest and the highest valuations are benefitting from these market dynamics, while also demonstrating the ability to effectively navigate and mitigate key challenges that the sector is facing (e.g., the echo-effects of manufacturing slowdowns due to COVID-19 and related global supply chain disruptions, increases in the cost of fuels and raw materials, labor shortages and capacity constraints in shipping and logistics, etc.).

Distribution M&A in the second quarter of 2021 extended the trends seen since late 2020, as consolidators in the building materials, chemicals, heating, ventilation and air conditioning (HVAC), industrial products and residential goods sectors capitalized on the strength in home improvement spending that began during stay-at-home orders and has continued into 2021, as well as the broad-based rise in manufacturing production. Major industry acquirers, such as Munch's Supply (API of New Hampshire and Marks Supply), Watsco (Temperature Equipment Corp. and Acme Refrigeration of Baton Rouge), US LBM (American Construction Source, Higginbotham Brothers and JP Hart Lumber Company), Builders FirstSource (Cornerstone Alliance, John's Lumber and WTS Paradigm), Imperial Dade (Moresco Distributing Company and Dalco Enterprises) and SiteOne (Arizona Stone & Architectural Products Inc., Solstice Stone Inc., Rock & Black Hardscape Supply and Timberwall Landscape & Masonry Products), highlighted ongoing consolidation by corporates in Q2.

The outlook for the remainder of 2021 is positive for the distribution sector as it works through the lingering effects of disruptions that began in 2020 and capitalizes on the return to normalcy seen across the broader economy. With the cost of capital low, corporates continue to seek growth via acquisition, and private equity sponsors are competing aggressively for attractive platforms by partnering with lenders also seeking to deploy capital in businesses with attractive cash flow profiles. These seller-friendly M&A conditions, coupled with significant tailwinds in the broader economy, will support continued growth in transaction volume through the second half of the year, driving high levels of M&A activity for distribution through the remainder of 2021.

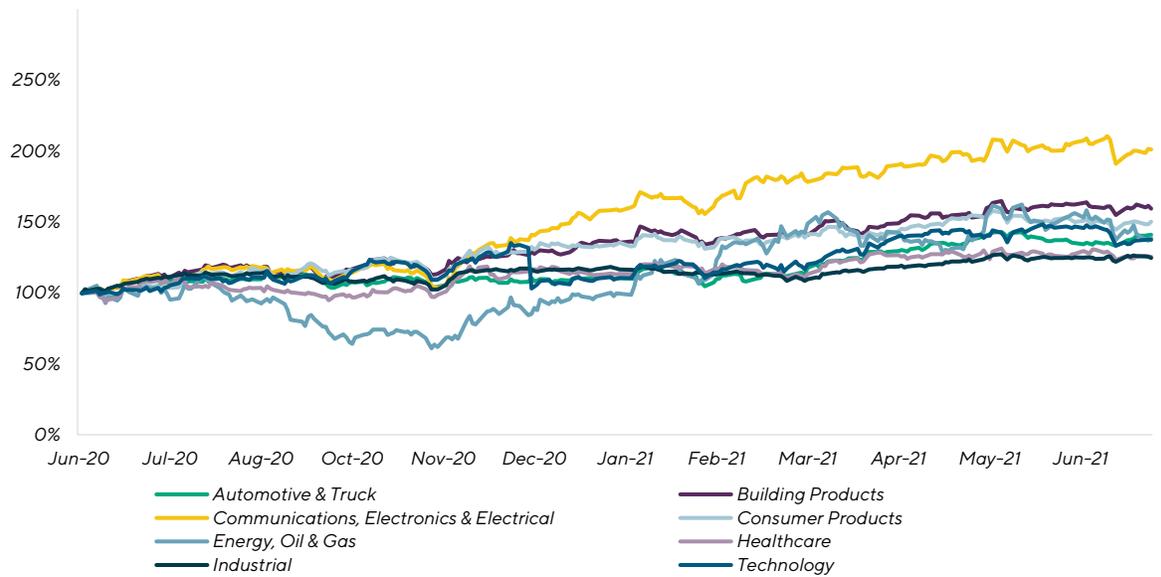
Lincoln welcomes the opportunity to discuss your company's strategic alternatives and how to think about the right timing for a process given business momentum and the market dynamics or the distribution market more generally.



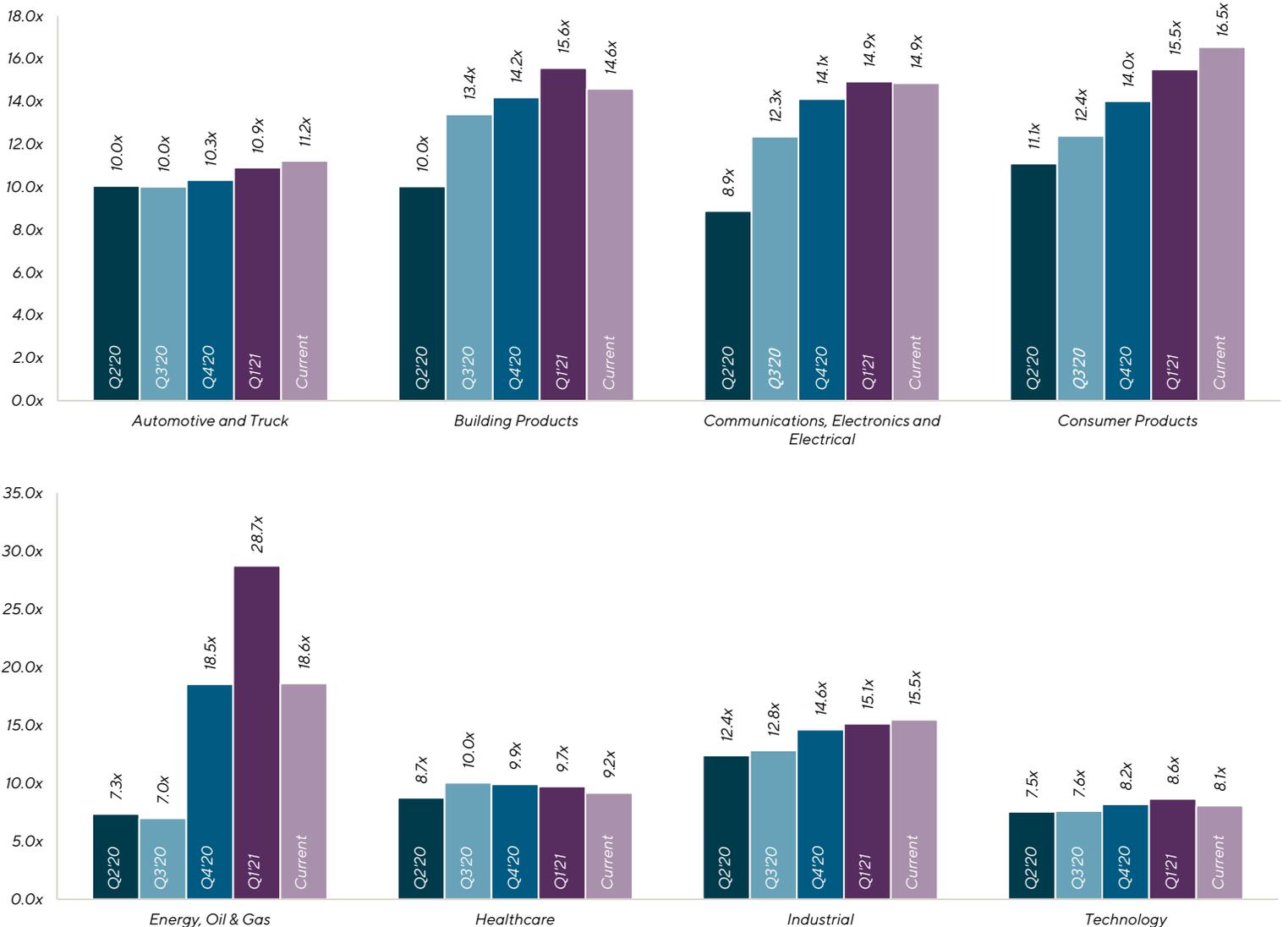
Index Performance

Lincoln's distribution index recorded a gain of 8.4% in Q2 2021 vs. Q1 2021. Consumer products (21.1%) and communications, electronics and electrical (14.9%) outpaced the index while automotive and truck (8.2%), industrial (6.3%), energy, oil and gas (5.9%), technology (2.2%), healthcare (0.6%) and building products (0.3%) 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 Week High	Market Cap	Enterprise Value	LTM		YoY Revenue Growth	EBITDA Margin	Enterprise Value / LTM	
					Revenue	EBITDA			Revenue	EBITDA
Automotive & Truck										
AutoZone, Inc.	\$1,492.22	96.8%	\$32,150	\$39,166	\$14,262	\$3,377	18.1%	23.7%	2.7x	10.5x
Genuine Parts Company	126.47	93.0%	18,271	20,572	16,910	1,378	(12.0%)	8.2%	1.2x	12.2x
LKQ Corporation	49.22	95.2%	14,872	18,454	11,799	1,471	(4.9%)	12.5%	1.6x	9.8x
O'Reilly Automotive, Inc.	566.21	99.4%	39,500	45,057	12,219	3,011	19.6%	24.6%	3.7x	13.1x
Uni-Select Inc.	13.25	99.6%	561	1,041	1,434	70	(17.0%)	4.9%	0.7x	10.6x
Building Products										
Beacon Roofing Supply, Inc.	\$53.25	87.4%	\$3,720	\$5,968	\$7,226	\$567	1.9%	7.9%	0.8x	8.5x
Builders FirstSource, Inc.	42.66	79.0%	8,836	10,940	10,946	970	47.2%	8.9%	1.0x	10.1x
CRH plc	50.39	95.9%	39,419	46,044	27,587	3,921	9.8%	14.2%	1.7x	11.6x
Ferguson plc	138.80	98.3%	30,809	33,099	22,235	1,910	0.5%	8.6%	1.5x	15.1x
SiteOne Landscape Supply, Inc.	169.26	82.1%	7,520	8,138	2,895	282	20.6%	9.7%	2.8x	23.1x
Watsco, Inc.	286.64	93.1%	10,163	10,634	5,183	450	6.9%	8.7%	2.1x	19.1x
Communications, Electronics & Electrical										
Electrocomponents plc	\$14.21	92.7%	\$6,677	\$6,847	\$2,003	\$192	2.5%	9.6%	2.5x	23.7x
Rexel S.A.	20.92	95.5%	6,377	9,161	12,593	557	(8.4%)	4.4%	0.6x	10.5x
WESCO International, Inc.	102.82	90.9%	5,160	9,862	14,399	772	72.1%	5.4%	0.7x	10.3x
Consumer Products										
Bunzl plc	\$32.99	88.2%	\$11,028	\$13,445	\$10,111	\$805	8.4%	8.0%	1.0x	10.4x
Core-Mark Holding Company, Inc.	45.01	94.1%	2,033	2,588	13,609	167	0.7%	1.2%	0.2x	11.8x
Pool Corporation	458.66	97.6%	18,407	19,024	4,320	586	31.7%	13.6%	4.4x	28.5x
SpartanNash Company	19.31	80.7%	700	1,515	9,150	215	3.4%	2.3%	0.2x	6.9x
Sysco Corporation	77.75	89.6%	39,775	48,192	44,028	1,450	(26.0%)	3.3%	1.1x	30.3x
United Natural Foods, Inc.	36.98	87.2%	2,084	5,709	26,935	732	6.8%	2.7%	0.2x	4.9x
US Foods Holding Corp.	38.36	91.1%	8,513	14,054	22,841	511	(13.0%)	2.2%	0.6x	24.4x
Energy, Oil & Gas										
DXP Enterprises, Inc.	\$33.30	92.6%	\$640	\$892	\$950	\$33	(24.4%)	3.5%	0.9x	15.9x
MRC Global Inc.	9.40	77.0%	776	1,597	2,375	38	(31.9%)	1.6%	0.7x	21.3x
NOW Inc.	9.49	79.2%	1,046	717	1,376	(15)	(50.3%)	(1.1%)	0.5x	n/a
Healthcare										
Cardinal Health, Inc.	\$57.09	90.7%	\$16,565	\$19,801	\$156,570	\$2,713	1.9%	1.7%	0.1x	7.3x
Henry Schein, Inc.	74.19	88.9%	10,438	12,387	10,615	786	5.6%	7.4%	1.2x	13.9x
McKesson Corporation	191.24	93.4%	29,578	34,318	238,228	4,005	3.1%	1.7%	0.1x	7.4x
Owens & Minor, Inc.	42.33	86.1%	3,181	4,240	8,684	458	(3.3%)	5.3%	0.5x	8.0x
Industrial										
Air Liquide S.A.	\$175.08	97.7%	\$82,633	\$97,195	\$20,485	\$5,407	(6.5%)	26.4%	4.0x	14.5x
Applied Industrial Technologies, Inc.	91.06	85.0%	3,539	4,071	3,065	287	(9.9%)	9.4%	1.3x	14.2x
Fastenal Company	52.00	95.7%	29,872	30,195	5,697	1,315	5.7%	23.1%	5.3x	20.6x
MSC Industrial Direct Co., Inc.	89.73	93.2%	5,020	5,749	3,129	429	(5.7%)	13.7%	1.8x	12.6x
W.W. Grainger, Inc.	438.00	91.3%	22,824	24,906	11,880	1,539	1.6%	13.0%	2.1x	15.4x
Technology										
Arrow Electronics, Inc.	\$113.83	91.2%	\$8,399	\$10,495	\$30,678	\$1,266	9.0%	4.1%	0.3x	7.7x
Avnet, Inc.	40.08	88.2%	3,988	5,169	18,468	392	1.7%	2.1%	0.3x	10.6x
ScanSource, Inc.	28.13	82.5%	716	894	2,935	91	(23.0%)	3.1%	0.3x	9.1x
SYNNEX Corporation	121.76	73.9%	6,322	6,228	26,919	1,305	14.2%	4.8%	0.2x	4.8x
Mean		90.1%					1.5%	8.2%	1.4x	13.6x
Median		91.2%					1.9%	7.4%	1.0x	11.7x

Source: Bloomberg, Capital IQ and company filings, as of 06/30/21

Note: dollars in millions, except stock price

Lincoln International's H1 Highlights

Government stimulus and pent-up consumer demand continues to buoy many companies during the economic recovery, leading to strong business fundamentals.

The ability to grow headcount remains a critical goal for any business looking to scale its operations and capitalize on current economic momentum and some business leaders are adjusting their growth plans due to lack of appropriate staffing.

With fewer but more compelling bids coming in the door, engaging with an advisor who understands your company thesis and can make connections with the best prospective buyers is critical.

**>\$280
billion**

in private capital
valued

160+
transactions
closed

**>\$3.5
billion**

of capital raised

Selected M&A Transactions

Date	Target Company	Target Description	Acquiring Company
Jun-21	Container Supply Inc.	Metal and plastic packaging products	Inmark, C.L. Smith and Silver Spur (Kelso & Company)
Jun-21	Cornwall Medical & Dental Supplies	Specialized medical and dental products	Medical Disposables & Supplies
Jun-21	Pestell Nutrition	Minerals, feed ingredients, bird seed and cat litter products	Wind Point Partners
Jun-21	WTS Paradigm	Buildings products	Builders FirstSource
Jun-21	Fence Supply	Fencing and building material	Fencing Supply Group (The Sterling Group)
Jun-21	Mid-Coast Electric Supply	Electrical and automation products	Reynolds Company
Jun-21	JM Swank (Platinum Equity)	Food ingredients	Brenntag
Jun-21	Southern Tool & Machine Co.	Industrial products	BlackHawk Industrial Supply (Snow Phipps Group)
Jun-21	Verity Wines	Fine wine and artisan spirits	Trinity
Jun-21	Houston Wire & Cable	Industrial wire and cable	OmniCable (Dot Family Holding)
Jun-21	Nicola Imports	Specialty food products	The Chefs' Warehouse
Jun-21	New Age Medical	Spinal implant and orthopedic products	Compass Group Equity Partners

Selected M&A Transactions (cont'd)

Date	Target Company	Target Description	Acquiring Company
Jun-21	Compressed Air Systems	Air compressors	Atlas Copco
Jun-21	Scott Stone	Natural stone products	Heritage Landscape (SRS Distribution)
Jun-21	Marks Supply	HVAC, plumbing, hydronics and pipe, valves and fittings products	Munch's Supply (Ridgemont Equity Partners)
Jun-21	Noverco	Natural gas	Enbridge
Jun-21	J.P. Hart Lumber and Hart Components	Building products	US LBM (Bain Capital)
Jun-21	Atlantic Coastal Supply	Plumbing	Winsupply
Jun-21	Wm. F. Hurst	Metalworking tools and supplies	MSC Industrial Supply Co
May-21	Moresco Distributing Company	Packaging and janitorial supplies	Imperial Dade (Bain Capital)
May-21	American Construction Source (Angeles Equity Partners and Clearlake Capital Group)	Full-line building products	US LBM (Bain Capital)
May-21	Cornerstone Building Alliance	Building materials	Builders FirstSource
May-21	Beehive Brick & Stone	Pavers, natural and manufactured stone, brick and other landscape products	Heritage Landscape (SRS Distribution)
May-21	Greco & Sons	Meats, vegetables, cheeses and pizza products	Sysco Corporation
May-21	Core-Mark	Convenience products for the retail industry	Performance Food Group Company
May-21	Obex Medical	Healthcare equipment and devices	Bunzl
May-21	Pneus Chartrand	Turnkey tire supply solution	Groupe Touchette
May-21	DecoPac	Cake decorations and related products	Kohlberg & Company
May-21	Acme Refrigeration	HVAC/R products	Watsco
May-21	Mad Rose Group	Fine wines and specialty foods from Europe	Incline Equity Partners
May-21	Westside Building Material	Interior building products	GMS
May-21	Arrowhead Building Supply	Residential and commercial roofing, siding and other related products	SRS Distribution (LGP)
May-21	Geo. Schofield	Outdoor living products	Outdoor Living Supply (Trilantic)
May-21	John's Lumber	Lumber and sheet goods, windows, doors, millwork, siding and decking	Builders FirstSource
May-21	Rock & Block Hardscape Supply	Landscape supplies	SiteOne Landscape Supply
May-21	Petromark	Motor fuel	Offen Petroleum (Court Square Capital Partners)
May-21	C.L. Smith	Rigid packaging solutions	Inmark (Kelso & Company)
May-21	Timberwall Landscape & Masonry Products	Hardscapes products and landscape supplies	SiteOne Landscape Supply

Selected M&A Transactions (cont'd)

Date	Target Company	Target Description	Acquiring Company
May-21	Higginbotham Brothers	Lumber and a deep catalog of specialty building products	US LBM (Bain Capital)
Apr-21	Wholesale Supplies Plus	Raw materials, supplies and packaging used in personal care products	Two Sigma Impact
Apr-21	Central National Gottesman	Specialty packaging	California Supply North
Apr-21	EDCO	Value and branded non-food fast-moving consumer goods products	Gilde Buy Out Partners
Apr-21	M.F. Foley Company	Specialty food products	The Chefs' Warehouse
Apr-21	Miller Vet Holdings	Veterinary supplies and equipment	Patterson Veterinary (Berkshire Partners)
Apr-21	Tri-State Wholesale Flooring	Flooring products	Crown Products
Apr-21	Dayton Appliance Parts Company	Foodservice equipment parts	Parts Town (Berkshire Partners)
Apr-21	AFC Industries (Incline Equity)	Fastening and assembly components	Bertram Capital
Apr-21	API of New Hampshire	HVAC products	Munch's Supply (Ridgemont Equity Partners)
Apr-21	Foley Lumber and Milaca Building Center	Lumber and building materials	American Construction Source (Angeles Equity Partners and Clearlake Capital Group)
Apr-21	Calpine Containers	Packaging	Rainier Partners
Apr-21	Temperature Equipment	Residential, light-commercial and applied HVAC systems, parts and supplies	Watsco
Apr-21	Hermance Machinery	Woodworking machinery	Würth Baer Supply Co
Apr-21	Ferraro Foods	Specialty foodservice products	Kelso & Company
Apr-21	Flex Flow	Horizontal multi-stage centrifugal pump packages and water management solutions	NOW Inc.
Apr-21	L&L Nursery Supply	Parts and products to the green industry	BFG Supply (Incline Equity Partners)
Apr-21	Allegheny Pipe & Supply	Industrial pipe, valves and fittings	Winsupply
Apr-21	International Key Supply	Replacement automotive keyless entry remotes	Automotive Keys Group (Kinderhook Industries)
Apr-21	Dalco Enterprises	Food service packaging and janitorial supplies	Imperial Dade (Bain Capital)
Apr-21	Rich & Rhine Wholesale	Convenience store products	Harbor Wholesale
Apr-21	H&H Door Company	Commercial doors	Cook & Boardman (Littlejohn)
Apr-21	Norfolk Wire & Electronics	Security, telecom, network and audio-video related products, supplies and tools	Resideo Technologies
Apr-21	Arizona Stone & Architectural Products	Manufactured stone, natural stone, landscaping pavers and brick	SiteOne Landscape Supply
Apr-21	Solstice Stone	Natural stone, clay brick, reclaimed brick and pavers	SiteOne Landscape Supply



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 the underlying distribution business model, as well as deep end market and product expertise.



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About Lincoln International

We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and public and privately held companies around the world. Our advisory services include mergers and acquisitions and capital markets advisory for the mid-market. We also provide valuations and fairness opinions and joint ventures advisory services. As one tightly integrated team of more than 650 professionals across 16 countries, we offer an unobstructed perspective, backed by superb execution and a deep commitment to client success. With extensive industry knowledge and relationships, timely market intelligence and strategic insights, we forge deep, productive client relationships that endure for decades. Connect with us to learn more at:

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