

Distribution Q3 2020



Distribution Insights

2020 has progressed with continued surprises, mainly due to the COVID-19 pandemic. As quickly as the economy and public, credit and mergers and acquisitions (M&A) markets deteriorated over the course of the second quarter, they reversed direction and experienced a record recovery in the third quarter. A snapshot of multiple metrics show the stark contrast between the two quarters. In April, we saw the unemployment rate skyrocket to 14.7% and it's been recovering since, reaching 11.1% by the end of Q2 and 7.9% by the end of Q3. Additionally, the first quarter Purchasing Managers' Index (PMI) was not materially impacted, finishing at 49.10 before falling to 41.50 in April and coming in at 43.10 and 52.60 in May and June, respectively. As the economy opened in the third quarter, the PMI continued increasing to reach 56.00 in August and 55.40 in September. Finally, looking at the S&P 500, after hitting a Q2 / yearly low of 2,191.86 on March 23rd and struggling through most of the second quarter, the index rallied to reach a high of 3,588.11, a 63.7% increase from the low, on September 2nd before settling at 3,363.00, a 53.4% increase from the low, at the end of Q3.

The M&A market recovered in a similar way, with Q3 transaction volumes increasing significantly over Q2 with strong momentum heading into Q4. Within North America, announced M&A transactions across industries reached 1,365 in Q3 2020, up over 41% from 968 in Q2, according to Mergermarket. Although this level was lower than last year's pace (1,804 transactions announced in Q3 2019), there is a lag effect associated with when deals come to market and when they are announced, in which case we see the growth of Q3 over Q2 to be a strong leading indicator for Q4 2020. The distribution sector experienced similar trends, with 53 deals announced in North America in Q3 2020, an increase of almost 77% over the 30 transactions announced in Q2 2019. While lower than last year's figure of 81 in Q3 2019, the trend line plus the overall activity in the market indicate that Q4 2020 should finish strong.

Within distribution, we continue to see activity in the building products, consumer, industrial and janitorial sanitation sectors. During Q3, consolidators such as Brady, Bunzl, Core & Main, Motion and SRS were active completing add-on acquisitions. An interesting trend was the return of larger transactions, with Builders FirstSource's announced acquisition of BMC Stock Holdings for \$2.5 billion in August and CD&R agreeing to acquire HD Supply's White Cap business for \$2.9 billion and combine it with The Sterling Group's Construction Supply Group.

While the recovery has improved transaction volume, there has also been an uptick in high-quality deals in the market that have pushed valuations for certain businesses to at or above pre-COVID levels. That is, with private equity firms seeking to put money to work, the opening of credit markets again, combined with strategics in certain industries being more active, owners have found an opportune time to bring their companies to market. Those businesses that have demonstrated resiliency during the pandemic - either from the very start or being temporarily impacted and recovering quickly - are receiving significant interest from buyers at premium valuations. However, pandemic resiliency has created a high bar and not one that every company can reach, in which case it has resulted in a bifurcated market from a valuation perspective.

Lincoln would welcome the opportunity to discuss your company's strategic alternatives and how you may think about the right timing given business momentum and the market dynamics, or the distribution market more generally.

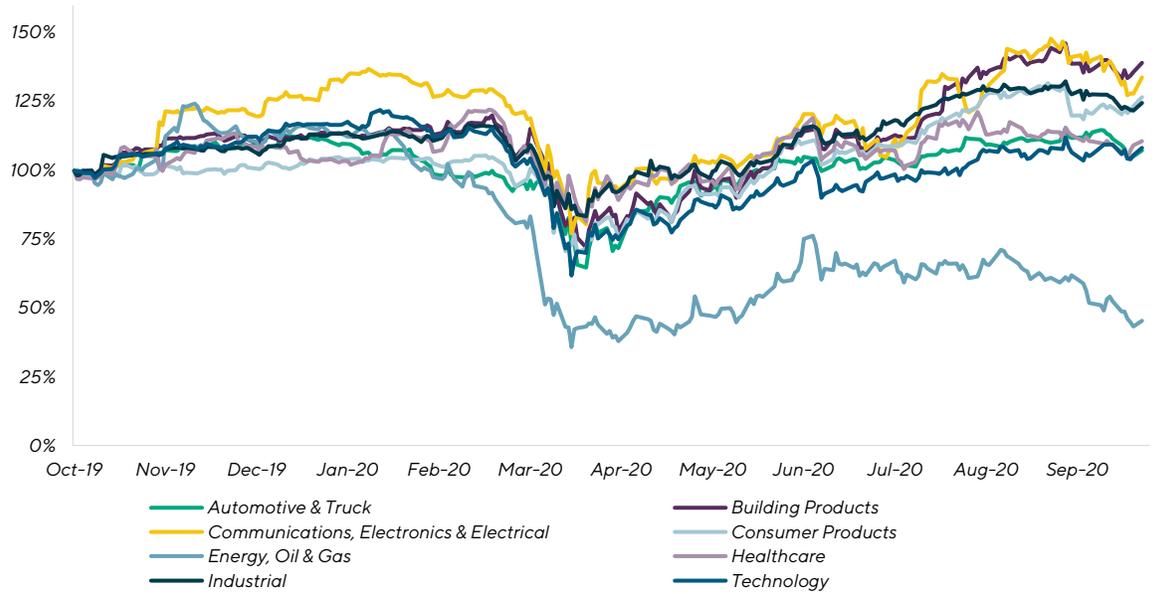
Lincoln International shared predictions on what's in store for M&A and restructuring in Q4 2020 and beyond. View the perspective here: <https://www.lincolninternational.com/perspectives/the-unpredictable-year-u-s-ma-reflections-and-projections/>

Quarterly Review

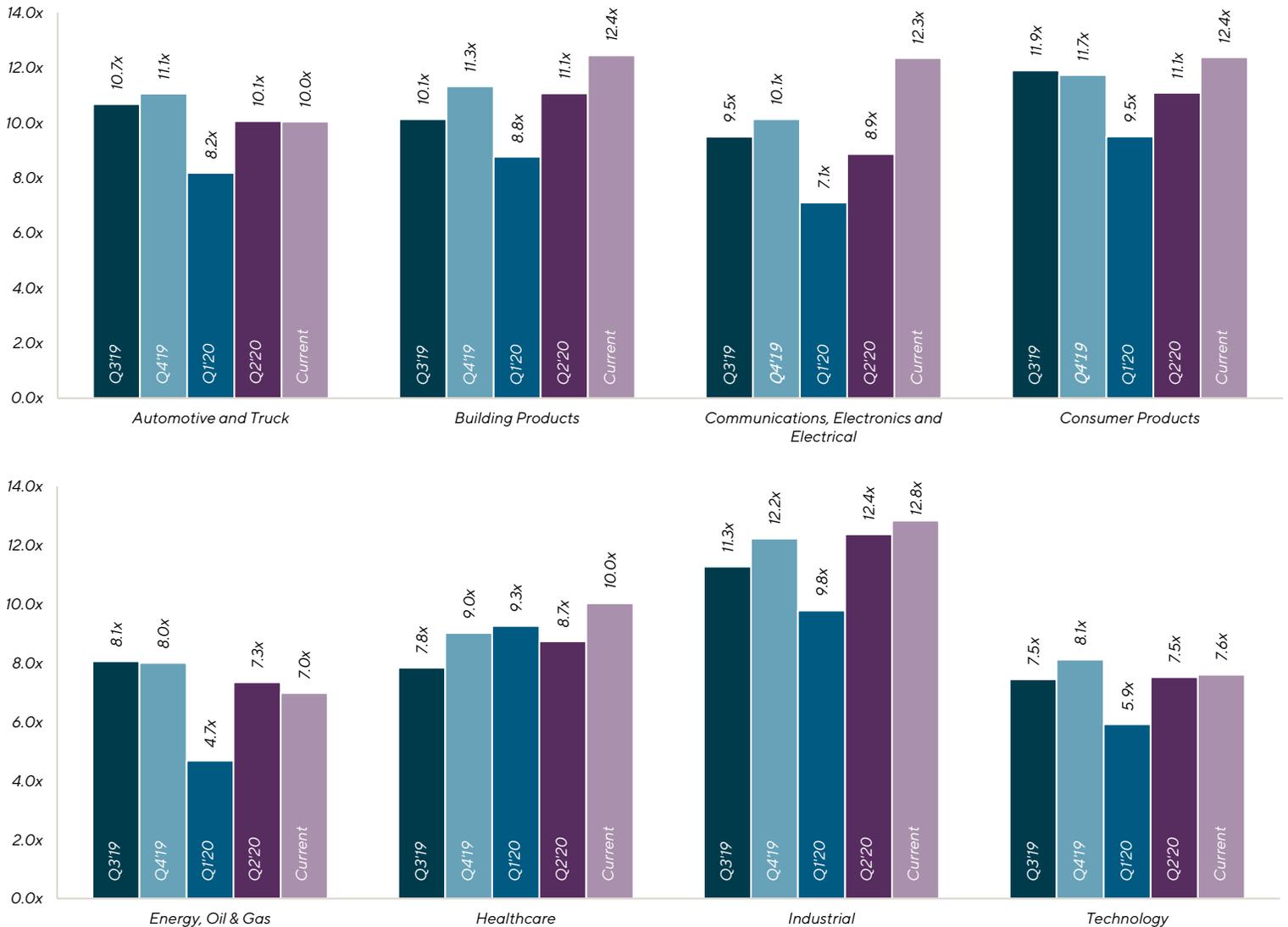
Index Performance

Lincoln's distribution index recorded a gain of 9.7% in Q3 2020 vs. Q2 2020. Building products (24.3%), communications, electronics and electrical (20.0%), consumer products (16.9%), healthcare (10.0%), technology (10.0%), industrial (6.7%), automotive and truck (5.8%) and healthcare (3.0%) outpaced the index while energy, oil and gas (-27.6%) 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.	\$1,177.64	92.4%	\$27,529	\$33,769	\$12,632	\$2,864	6.5%	22.7%	2.7x	10.6x
Genuine Parts Company	95.17	87.6%	13,730	16,741	18,591	1,312	(2.1%)	7.1%	0.9x	10.1x
LKQ Corporation	27.73	75.7%	8,438	12,622	11,785	1,225	(5.5%)	10.4%	1.1x	7.7x
O'Reilly Automotive, Inc.	461.08	94.5%	34,150	39,342	10,718	2,430	9.4%	22.7%	3.7x	14.2x
Uni-Select Inc.	4.28	42.6%	181	718	1,574	63	(9.8%)	4.0%	0.4x	7.7x
Building Products										
Beacon Roofing Supply, Inc.	\$31.07	84.5%	\$2,140	\$5,332	\$6,956	\$420	(0.8%)	6.0%	0.8x	9.6x
BMC Stock Holdings, Inc. ⁽¹⁾	42.83	98.4%	2,873	3,121	3,756	257	3.7%	6.8%	0.8x	10.5x
Builders FirstSource, Inc. ⁽¹⁾	32.62	97.5%	3,807	5,316	7,477	505	0.1%	6.8%	0.7x	8.8x
CRH plc	36.25	84.0%	28,448	37,446	27,647	4,216	(13.4%)	15.2%	1.3x	7.9x
Ferguson plc	101.02	97.6%	22,588	24,947	21,819	1,826	(0.9%)	8.4%	1.2x	12.1x
HD Supply Holdings, Inc. ⁽²⁾	41.24	95.1%	6,688	8,944	5,976	780	(3.2%)	13.1%	1.5x	9.6x
SiteOne Landscape Supply, Inc.	121.95	92.2%	5,385	6,114	2,465	206	10.9%	8.4%	2.5x	22.3x
Watsco, Inc.	232.89	93.4%	8,205	8,687	4,831	366	5.2%	7.6%	1.8x	18.7x
Communications, Electronics and Electrical										
Electrocomponents plc	9.21	95.8%	4,120	4,366	2,432	276	(0.9%)	11.4%	1.7x	14.2x
Rexel S.A.	12.61	80.1%	3,821	6,994	14,617	680	(5.6%)	4.6%	0.5x	7.6x
WESCO International, Inc.	44.02	71.8%	2,203	7,457	8,303	393	1.4%	4.7%	0.9x	15.2x
Consumer Products										
Bunzl plc	\$32.42	99.2%	\$10,812	\$12,994	\$11,942	\$888	1.4%	7.4%	1.0x	11.8x
Core-Mark Holding Company, Inc.	28.93	84.0%	1,305	1,721	13,449	154	3.1%	1.1%	0.1x	7.6x
Pool Corporation	334.54	97.8%	13,407	14,001	3,439	408	11.9%	11.9%	4.1x	29.1x
SpartanNash Company	16.35	68.3%	586	1,413	9,038	188	8.6%	2.1%	0.2x	5.8x
Sysco Corporation	62.22	72.4%	31,641	40,576	52,893	2,357	(12.0%)	4.5%	0.8x	16.2x
United Natural Foods, Inc.	14.87	63.6%	815	4,563	26,514	654	24.0%	2.5%	0.2x	4.4x
US Foods Holding Corp.	22.22	52.4%	4,903	10,395	24,364	834	(1.2%)	3.4%	0.4x	11.8x
Energy, Oil & Gas										
DXP Enterprises, Inc.	\$16.13	36.7%	\$287	\$492	\$1,175	\$71	(7.0%)	6.0%	0.4x	5.1x
MRC Global Inc.	4.28	27.7%	351	1,351	3,104	89	(23.1%)	2.9%	0.4x	10.5x
NOW Inc.	4.54	35.6%	497	297	2,364	15	(24.9%)	0.6%	0.1x	5.3x
Healthcare										
Cardinal Health, Inc.	\$46.95	77.4%	\$13,775	\$18,243	\$152,922	\$2,692	5.1%	1.8%	0.1x	6.4x
Henry Schein, Inc.	58.78	79.4%	8,392	10,359	9,291	761	(30.8%)	8.2%	1.1x	12.0x
McKesson Corporation	148.93	86.5%	24,155	32,622	231,002	3,714	6.2%	1.6%	0.1x	10.1x
Owens & Minor, Inc.	25.11	99.6%	1,602	3,050	8,414	193	(15.5%)	2.3%	0.4x	11.5x
Industrial										
Air Liquide S.A.	\$159.11	94.2%	\$75,039	\$92,574	\$23,904	\$6,146	(3.6%)	25.7%	3.7x	13.8x
Applied Industrial Technologies, Inc.	55.10	78.0%	2,136	2,884	3,246	292	(6.5%)	9.0%	0.9x	8.6x
Fastenal Company	45.09	90.4%	25,865	26,323	5,532	1,262	6.6%	22.8%	4.8x	18.5x
MSC Industrial Direct Co., Inc.	63.28	79.2%	3,517	4,205	3,287	474	(2.1%)	14.4%	1.3x	8.4x
W.W. Grainger, Inc.	356.77	95.9%	19,113	21,070	11,632	1,425	3.1%	12.3%	1.8x	14.8x
Technology										
Arrow Electronics, Inc.	\$78.66	91.7%	\$6,106	\$8,301	\$27,404	\$959	(8.4%)	3.5%	0.3x	8.7x
Avnet, Inc.	25.84	59.0%	2,552	3,807	17,634	404	(9.7%)	2.3%	0.2x	7.6x
ScanSource, Inc.	19.83	50.8%	503	727	3,048	100	(21.3%)	3.3%	0.2x	6.7x
SYNNEX Corporation	140.06	91.5%	7,212	8,614	23,843	1,163	3.6%	4.9%	0.4x	7.4x
Mean		79.3%					(2.5%)	8.1%	1.2x	11.0x
Median		84.5%					(0.9%)	6.8%	0.8x	10.1x

Source: Bloomberg, Capital IQ and company filings, as of 9/30/20

Note: dollars in millions, except stock price

(1) Builders FirstSource and BMC Stock Holdings agreed to a merger in August 2020

(2) HD Supply divested White Cap Supply to CD&R in August 2020 and subsequently agreed to be acquired by The Home Depot

Transaction Highlights

09/15/20: **Individual FoodService**, a California-based distributor of foodservice disposables and janitorial and sanitation products, has acquired **Central Sanitary Supply**, a janitorial, cleaning and facility supplies distributor.

08/31/20: **Premium Brands Holdings Corp [TSX:PBH]**, a producer, marketer and distributor of branded specialty food products, has acquired **Global Gourmet Foods Inc.** and agreed to acquire **Allseas Fisheries Inc.**

08/03/20: **Motion Industries**, an Alabama-based distributor of industrial replacement parts and subsidiary of **Genuine Parts Company [NYSE:GPC]**, acquired New Brunswick-based **TRC Hydraulics** and California-based **F&L Industrial Solutions**.

07/23/20: **Aetna Plastics**, the Ohio-based plastics group, has been acquired by **Harrington Industrial Plastics**, a California-based distributor of industrial plastic piping for corrosion resistant and environmental protection applications.

Source: MergerMarket

Selected M&A Transactions

Date	Target Company	Target Description	Acquiring Company
Sep-20	La Maison Ami-Co	Professional beauty products	Sally Beauty Holdings
Sep-20	France Auto Racing	Automotive paint protection film	XPEL
Sep-20	Hermima-Maier	Flower and vegetable seeds	Graines Voltz
Sep-20	Windy City Wire Cable & Technology	Low voltage wires and cables	Diploma
Sep-20	Amber Petroleum	Fuel	Greenergy
Sep-20	Colorado Boxed Beef	Proteins and meat products	Quirch Foods (Palladium Equity Partners)
Sep-20	CB Wholesale	Residential and commercial roofing, drywall and related products	SRS Distribution
Sep-20	Fitchco	Janitorial and maintenance supplie	Brady Industries
Sep-20	RSI Building Products	Building supply products	SRS Distribution
Sep-20	Signet	Specialty chemicals	IMCD
Sep-20	Chelsea Lighting	Lighting and lighting controls	Kinzie Capital Partners
Sep-20	Mabiotech	In-vitro diagnostic devices and reagents	Best Health (Amethis)
Sep-20	Marriott Drywall Materials	Drywall and accessories, steel framing, insulation, tools and fasteners	Foundation Building Materials
Sep-20	PartsmasterTM	Maintenance, repair and operations solutions	Lawson Products
Aug-20	Master Distribution	Channel fittings and pipe hangers	AFC Industries (Incline Equity Partners)
Aug-20	Price Container and Packaging	Rigid packaging	TricorBraun (AEA Investors)
Aug-20	Abco Kovex	Flexible packaging	Bunzl
Aug-20	MCR Safety	Personal protection equipment and other safety products	Bunzl
Aug-20	Modern Builders Supply	Landscaping supplies	SiteOne Landscape Supply
Aug-20	Excel Industrial Electronics	Drive systems and industrial automation technologies	Benshaw
Aug-20	Newport Distribution	Doors and door hardware products	Kendell Doors & Hardware (Keystone Capital)
Aug-20	Integrity Industrial Equipment	Forklifts and material handling equipment	Kensar Equipment Company
Aug-20	BMC Stock	Building products and services	Builders FirstSource
Aug-20	Silver Creek Supply	Irrigation, plumbing and fencing products	Heritage Landscape
Aug-20	Wise Safety	Textiles, clothing, fur, footwear, and leather goods	Mallory
Aug-20	TRC Hydraulics	Hydraulic components and systems	Motion Industries
Aug-20	F&L Industrial Solutions	Aluminum frames	Motion Industries
Aug-20	Inland Plywood Company	Plywood, overlay panels and other specialty building products	Patrick Industries
Aug-20	Alpine Sales	Countertops and engineered surfaces	Wilsonart Engineered Surfaces
Aug-20	Suffolk Solutions	Chemicals and ingredients	Brenntag
Jul-20	Promotional Considerations	Promotional products	MSP Design Group
Jul-20	PAB	Dry foods, dairy products and chilled food	Heylen Group
Jul-20	Active Sales	Fitting tools and wood joining equipment	LINC Systems
Jul-20	Campbell Paper	Janitorial, packaging and office supplies	Brady Industries
Jul-20	Advantech	Security integration	Cook & Boardman
Jul-20	Building Specialties	Doors, doorframes and hardware products	Cook & Boardman
Jul-20	All Packaging	Stock boxes and packaging supplies	B2B Industrial Packaging
Jul-20	Water Works Supply	Water, sewer, storm drain and fire protection products	Core & Main
Jul-20	A.L.L. Roofing Materials	Roofing and building materials	SRS Distribution



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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