

Distribution Q4 2020



Market Insights

The record recovery reported in our last Quarterly Review continued to take hold and gain momentum through the end of the year. Everyone watching the equities markets observed the impact of the news regarding the battle against the pandemic and the progress of the ongoing economic recovery, with the Dow Jones Industrial Average and the S&P 500 gaining 16% and 7%, respectively, and closing at record highs at the end of 2020. As we saw firsthand, buyers, investors and lenders matched this level of confidence in the private markets.

As we wrote in our last publication, Q3 mergers and acquisitions (M&A) deal volume across North America increased meaningfully over Q2 and our expectation was that the trend in deal launches would indicate a strong finish to the year. The data for Q4 proved that, as Mergermarket reported 1,651 announced transactions in Q4 2020 compared to 1,350 in Q3 and 917 in Q2. The surge in deal volume at the end of 2020 also resulted in higher activity year-over-year, as Q4 2019's deal volume was 1,520, and the average EBITDA multiple for these transactions was 18.2x in 2020 compared to 14.8x in 2019 (note that this data is across business models and industries generally, and not specific to distribution companies). One of the primary drivers of the higher average valuation is the view that the deals that launched in the back half of 2020 were generally higher quality deals and, specifically, those businesses that performed well during the pandemic (i.e., they demonstrated the characteristic of being "pandemic protected" either by showing resilience since the beginning of the pandemic or a quick and strong recovery to pre-pandemic run-rate levels after a brief downtick in performance).

The distribution sector experienced similar trends, with 71 North American M&A transactions announced during Q4 2020, which was higher than the 54 in Q3 and 22 in Q2. The Q4 2020 North American M&A deal volume was still slightly down year-over-year, with 78 announced transactions during the comparable period last year. The theme of larger transactions continued through the back half of the year. Building on the notable transactions mentioned in our last publication, Q4 2020 saw other large deal announcements such as Bain Capital acquiring US LBM, Clearlake Capital Group acquiring PrimeSource, Home Depot acquiring HD Supply, Platinum Equity acquiring Ingram Micro and Odyssey Investment Partners acquiring Protective Industrial Products (PIP), among others. One of the emerging themes in late 2020 and early 2021 has been robust M&A activity across more verticals within distribution, building off of jan/san and safety (noted above) and other activity by notable consolidators such as Individual FoodService, Jon-Don, NW Synergy, SiteOne, SRS, SureWerx and other players in other verticals, including but not limited to industrial supplies. These transactions include, but are not limited to, Endries acquiring K&L Sales (fasteners), Applied acquiring Advanced Control Solutions (automation), BlackHawk acquiring D&L Supply (cutting tools), Bossard acquiring Multi-Material Welding (welding supplies), Wajax acquiring Tundra Process Solutions (industrial process equipment), Ohio Transmission Corporation acquiring JCI Industries (pumps, motors, controls) and Electrocomponents acquiring Synovos (integrated supply).

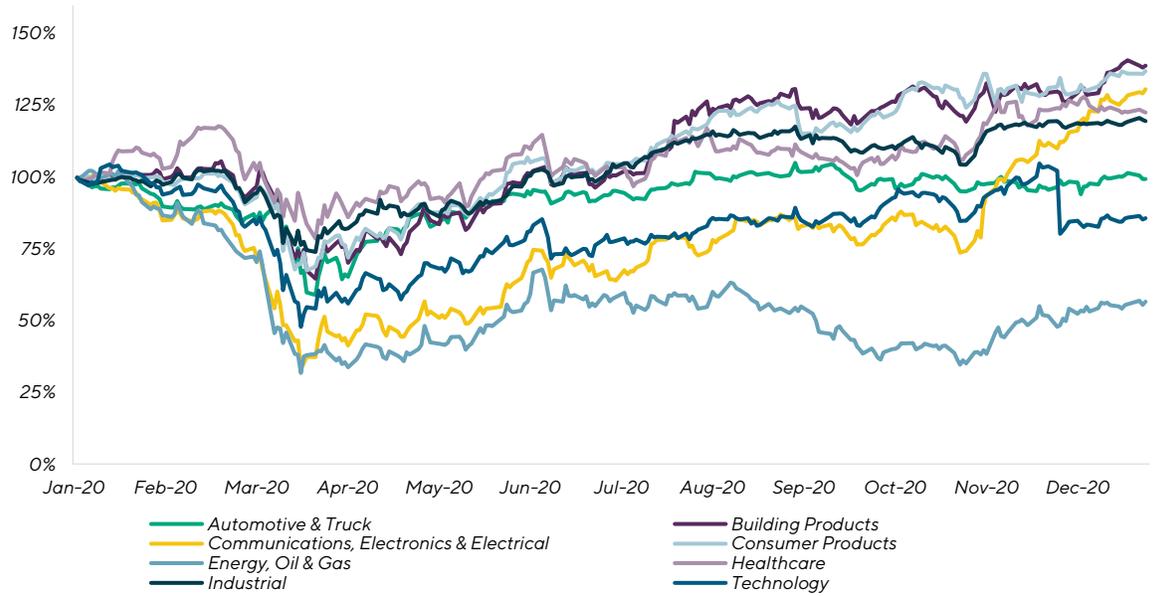
Looking ahead, the growing momentum from the end of 2020 provides confidence that 2021 will be another strong year for distribution M&A. From a supply perspective, even considering the number of announced transactions and closings at the end of the year, there remains a significant backlog entering 2021. That supply is expected to increase over the course of the year as more processes that went on hold due to COVID-related business performance issues in 2020 come back to market; simultaneously, we expect owners of well-performing businesses to start contemplating the potential impact of expected future tax law changes and consider a transaction. One view is that the consistency of the quality of businesses in the market in 2021 will be more variable compared to the back half of 2020, a period of time when the "pandemic protected" businesses decided to access the market, which will require buyers to work through and price the differing levels of quality and risk. Regardless, from a demand perspective, with equity and credit markets open and record levels of private equity capital eager to be deployed, sellers will find a market with active buyers, investors and lenders.

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.

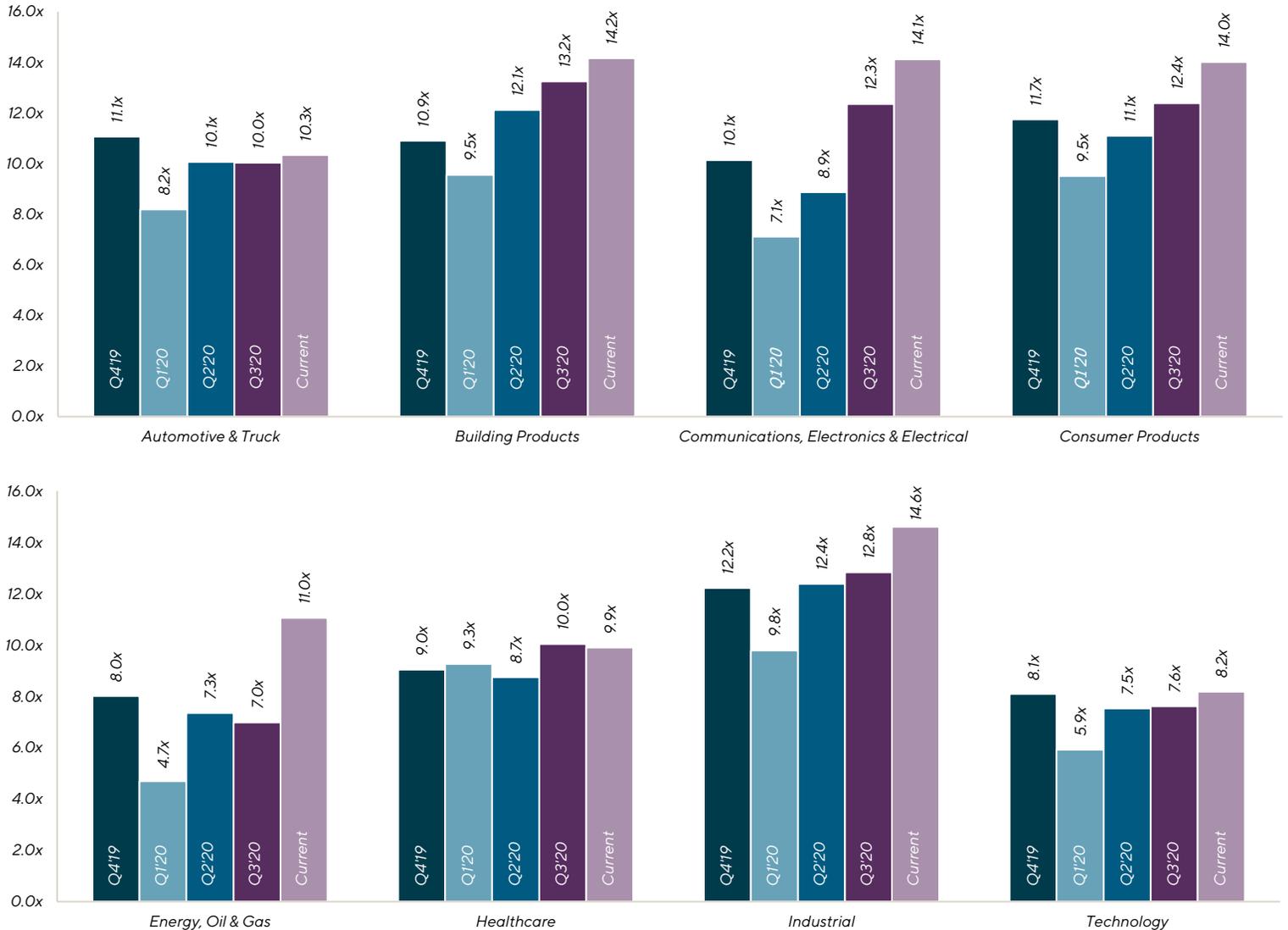
Index Performance

Lincoln's distribution index recorded a gain of 5.7% in Q4 2020 vs. Q3 2020. Communications, electronics & electrical (61.2%), energy, oil & gas (44.4%), industrial (15.4%), healthcare (14.9%), consumer products (12.6%) and automotive & truck (0.8%) outpaced the index while building products (-1.7%) and technology (-9.1%) 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 and Truck										
AutoZone, Inc.	\$1,185.44	93.5%	\$26,980	\$33,692	\$12,993	\$3,014	8.1%	23.2%	2.6x	10.0x
Genuine Parts Company	100.43	94.0%	14,488	17,296	18,436	1,365	(4.4%)	7.4%	0.9x	11.9x
LKQ Corporation	35.24	91.8%	10,725	14,848	11,685	1,283	(6.5%)	11.0%	1.3x	8.7x
O'Reilly Automotive, Inc.	452.57	92.7%	32,788	37,707	11,259	2,630	12.8%	23.4%	3.3x	12.6x
Uni-Select Inc.	6.36	60.7%	270	772	1,518	60	(13.1%)	4.0%	0.5x	8.5x
Building Products										
Beacon Roofing Supply, Inc.	\$40.19	97.7%	\$2,773	\$5,761	\$6,944	\$442	(2.3%)	6.4%	0.8x	10.0x
Builders FirstSource, Inc.	40.81	95.3%	4,767	6,314	7,792	521	6.3%	6.7%	0.8x	10.2x
CRH plc	41.61	92.6%	32,658	42,032	27,647	4,216	(13.4%)	15.2%	1.4x	8.5x
Ferguson plc	121.29	97.6%	27,159	29,649	21,819	1,836	(0.9%)	8.4%	1.3x	13.6x
SiteOne Landscape Supply, Inc.	158.63	98.0%	7,016	7,465	2,564	224	11.6%	8.7%	2.9x	25.5x
Watsco, Inc.	226.55	90.9%	8,032	8,484	4,973	398	6.0%	8.0%	1.7x	17.1x
Communications, Electronics and Electrical										
Electrocomponents plc	11.88	96.7%	5,583	5,741	2,436	247	1.5%	10.1%	2.2x	20.2x
Rexel S.A.	15.77	96.1%	4,767	8,072	14,617	680	(5.6%)	4.6%	0.5x	8.4x
WESCO International, Inc.	78.50	98.7%	3,928	8,895	10,297	552	24.5%	5.4%	0.9x	13.7x
Consumer Products										
Bunzl plc	\$33.35	90.1%	\$11,127	\$13,431	\$11,942	\$888	1.4%	7.4%	1.0x	11.6x
Core-Mark Holding Company, Inc.	29.37	81.5%	1,319	1,980	13,525	161	2.3%	1.2%	0.1x	8.4x
Pool Corporation	372.50	95.1%	14,959	15,421	3,680	452	16.4%	12.3%	4.2x	29.5x
SpartanNash Company	17.41	72.7%	624	1,449	9,099	212	7.9%	2.3%	0.2x	5.4x
Sysco Corporation	74.26	87.2%	37,825	46,142	49,368	2,071	(18.0%)	4.2%	0.9x	20.8x
United Natural Foods, Inc.	15.97	68.3%	896	4,775	26,890	691	9.6%	2.6%	0.2x	4.4x
US Foods Holding Corp.	33.31	78.8%	7,356	13,083	23,681	672	(5.4%)	2.8%	0.6x	18.0x
Energy, Oil & Gas										
DXP Enterprises, Inc.	\$22.23	55.0%	\$395	\$569	\$1,068	\$49	(16.7%)	4.5%	0.5x	7.7x
MRC Global Inc.	6.63	46.8%	545	1,463	2,747	62	(29.7%)	2.3%	0.5x	14.3x
NOW Inc.	7.18	60.3%	785	527	1,939	(24)	(37.0%)	(1.2%)	0.3x	33.5x
Healthcare										
Cardinal Health, Inc.	\$53.56	88.3%	\$15,716	\$19,713	\$154,646	\$2,683	4.7%	1.7%	0.1x	7.3x
Henry Schein, Inc.	66.86	90.4%	9,546	11,340	9,622	766	(29.1%)	8.0%	1.2x	13.1x
McKesson Corporation	173.92	92.7%	27,925	36,008	234,194	3,817	5.5%	1.6%	0.2x	7.5x
Owens & Minor, Inc.	27.05	85.4%	1,989	3,380	8,309	242	(16.0%)	2.9%	0.4x	11.5x
Industrial										
Air Liquide S.A.	\$164.22	92.9%	\$77,526	\$95,792	\$23,904	\$6,146	(3.6%)	25.7%	3.7x	13.7x
Applied Industrial Technologies, Inc.	77.99	94.6%	3,023	3,610	3,137	281	(9.5%)	9.0%	1.2x	12.9x
Fastenal Company	48.83	96.8%	28,031	28,351	5,566	1,273	5.3%	22.9%	5.1x	19.8x
MSC Industrial Direct Co., Inc.	84.39	96.1%	4,710	5,266	3,192	437	(5.1%)	13.7%	1.6x	11.4x
W.W. Grainger, Inc.	408.34	95.4%	21,915	23,700	11,703	1,553	2.6%	13.3%	2.0x	15.3x
Technology										
Arrow Electronics, Inc.	\$97.30	97.2%	\$7,368	\$9,462	\$27,557	\$954	(6.6%)	3.5%	0.3x	9.9x
Avnet, Inc.	35.11	81.7%	3,470	4,671	17,727	353	(7.0%)	2.0%	0.3x	10.4x
ScanSource, Inc.	26.38	70.5%	670	803	2,962	88	(24.2%)	3.0%	0.3x	8.4x
SYNNEX Corporation	81.44	49.4%	4,198	6,322	23,843	1,277	3.6%	5.4%	0.3x	4.0x
Mean		85.5%					(3.3%)	7.9%	1.3x	12.9x
Median		92.6%					(2.3%)	6.4%	0.9x	11.5x

Source: Bloomberg, Capital IQ and company filings, as of 12/31/20

Note: dollars in millions, except stock price

Lincoln's 2020 results

234 transactions worldwide

8,800+ debt and equity valuations annually

42% increase in capital advisory transactions over prior year

220% increase in transaction opinions

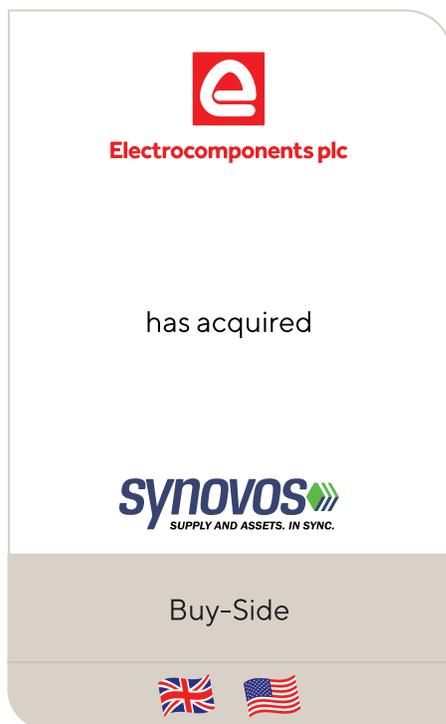
20% increase in average M&A deal value over prior year

51% M&A transactions completed with strategic acquirers

43% of transactions were cross-border

9% increase in global employees over prior year

Lincoln Distribution Highlights




Electrocomponents plc

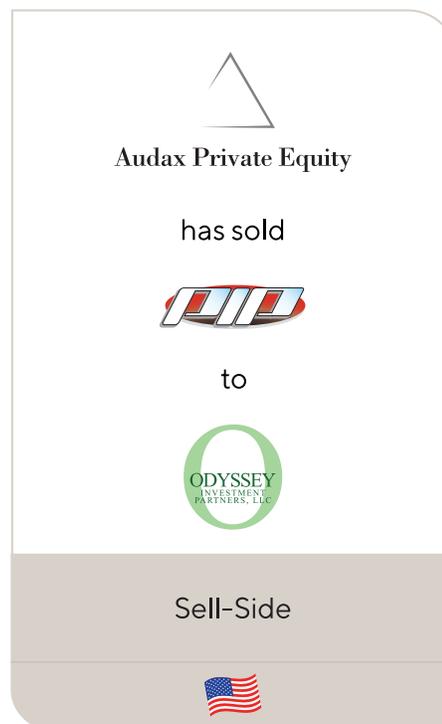
has acquired


synovos
SUPPLY AND ASSETS. IN SYNC.

Buy-Side



Acquisition of a supply chain services provider, including sourcing and procurement, design and operation and logistics and inventory management services




Audax Private Equity

has sold



to


ODYSSEY
INVESTMENT PARTNERS, LLC

Sell-Side



Sale of a designer, manufacturer and distributor of hand protection and complementary personal protective equipment

Selected M&A Transactions

Date	Target Company	Target Description	Acquiring Company
Dec-20	Industrial Soap Company	Janitorial supplies	Imperial Dade (Bain Capital)
Dec-20	Brady Industries (A&M Capital)	Janitorial and sanitation supplies	Industrial Foodservice (Kelso & Company)
Dec-20	Kerr Paper & Supply	Janitorial and sanitation supplies	Brady Industries (A&M Capital)
Dec-20	Southeastern Paper Group	Janitorial and paper supplies	NW Synergy (FEMSA)
Dec-20	Alpine Materials	Mulches, soils and hardscape materials	SiteOne Landscape Supply
Dec-20	SWPlus	Sanitary maintenance supplies and equipment, safety products	NW Synergy (FEMSA)
Dec-20	Rubber Service	Lightweight conveyor system components	Belt Power (Shorehill Capital)
Dec-20	Shingle & Gibb Automation	Electrical products	Graybar
Dec-20	Topmost Chemical & Paper	Janitorial and sanitation supplies	Brady Industries (A&M Capital)
Dec-20	Tundra Process Solutions	Industrial process equipment	Wajax
Dec-20	JCI Industries	Pumps, motors and controls	Ohio Transmission Corp. (Genstar Capital)
Dec-20	Inmark	Rigid container and life sciences packaging	Kelso & Company
Dec-20	JB&A	Broadcast, post-production and pro AV technologies	Exertis
Dec-20	Jennings Builders Supply & Hardware	Building products	US LBM Holdings (Bain Capital)
Dec-20	Jackson Newell Paper	Janitorial and paper supplies	Imperial Dade (Bain Capital)
Dec-20	Alpha Chemical	Chemicals and ingredients	Brenntag
Dec-20	Paper Chemical Supply Company	Janitorial and paper supplies	Imperial Dade (Bain Capital)
Dec-20	Beacon Roofing Supply (Interior Products Division)	Residential and commercial roofing materials	American Securities
Dec-20	Jer-And	Flooring and flooring installation solutions	Crown Products (WILsquare Capital)
Dec-20	Gard'N-Wise Distributors	Lawn and garden care products	BFG Supply (Incline Equity)
Dec-20	Snelling Paper & Sanitation	Janitorial and sanitation supplies and packaging	Bunzl
Dec-20	Shaw Paints	Paint, color and coating brands	Benjamin Moore
Dec-20	Protective Industrial Products (Audax Group)	Personal protective equipment and industrial safety products	Odyssey Investment Partners
Dec-20	River City Millwork	Interior and exterior doors, custom millwork and other ancillary products	Hardwoods Distribution
Dec-20	Canal Digital	Information technology products	Ingram Micro
Dec-20	Synovos	Integrated supply solutions	Electrocomponents
Dec-20	New West Oil Company	Lubricants and commercial fuels	RelaDyne (Audax Group)
Dec-20	Aura Hardwoods	Architectural building products	Hardwoods Distribution
Dec-20	Ingram Micro	Information technology products	Platinum Equity
Dec-20	Mid-State Lumber	Building material products	Specialty Building Products (The Jordan Company)

Selected M&A Transactions (cont'd)

Date	Target Company	Target Description	Acquiring Company
Dec-20	Great Southwest Paper Company	Janitorial products	Imperial Dade (Bain Capital)
Nov-20	TW Perry	Building materials	BMC Stock Holdings
Nov-20	Neo Distribution	Motorcycle parts and accessories	Powersports Distribution Group (Torqx Capital Partners)
Nov-20	Pharmavet	Animal healthcare products	Alliando
Nov-20	Joffe Lumber & Supply	Doors, frames and hardware	Unified Door and Hardware (Dunes Point Capital)
Nov-20	MultiMaterial-Welding	Welding supplies	Bossard Group
Nov-20	Riverside Paper Co.	Industrial and business packaging and shipping products and supplies	SupplyOne (Wellspring Capital)
Nov-20	Old Dominion Supply	HVAC parts and supplies	Ferguson
Nov-20	Atlantic Construction Fabrics	Geotextile, stormwater and erosion control solutions	Ferguson
Nov-20	PrimeSource (Platinum Equity)	Building materials	Clearlake Capital
Nov-20	HD Supply Holdings	Maintenance, repair and operations products	The Home Depot
Nov-20	Foundation Building Materials	Specialty building products	American Securities
Nov-20	Skytech Europe	Printed circuit boards	ILFA
Nov-20	Winterbotham Darby	Chilled foods	PAI Partners
Nov-20	McCon Building & Petroleum Services	Petroleum equipment	JF Petroleum Group (MidOcean Partners)
Nov-20	Stevens Equipment Supply	Equipment, accessories and parts	Daikin Industries
Oct-20	C.C. Supply	Building materials	SRS Distribution (Leonard Green)
Oct-20	Irrigators Supply	Landscaping supplies	Heritage Landscape (SRS Distribution)
Oct-20	Geroline	Safety products	SureWerx (The Riverside Company)
Oct-20	K&L Sales	Fasteners	Endries (MSD Capital)
Oct-20	Hedberg Supply	Landscaping supplies	SiteOne Landscape Supply
Oct-20	D&L Supply	Cutting tools	BlackHawk Industrial (Snow Phipps)
Oct-20	Mission Janitorial & Abrasive Supplies	Janitorial and sanitation supplies	Brady Industries (A&M Capital)
Oct-20	Burnco Landscape Centres	Landscaping supplies	SiteOne Landscape Supply
Oct-20	BNL Sciences	High purity specialty chemicals, excipients and biological raw materials	Caldic
Oct-20	Societe AHE	Aerospace hardware	FDH (Audax Group)
Oct-20	Comelt	Activated carbon and chemicals	Brenntag
Oct-20	Cadence Petroleum Group (Tenex)	Petroleum products	Wellspring Capital Management
Oct-20	Advanced Control Solutions	Industrial motion, fluid power, flow control and automation technologies	Applied Industrial Technologies
Oct-20	ILS Nordic	Lubricants	Aspo
Oct-20	Parts Authority (The Jordan Company)	Automotive and truck parts	Kohlberg & Company



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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