

# Distribution Q3 2022



# Market Commentary and Insights

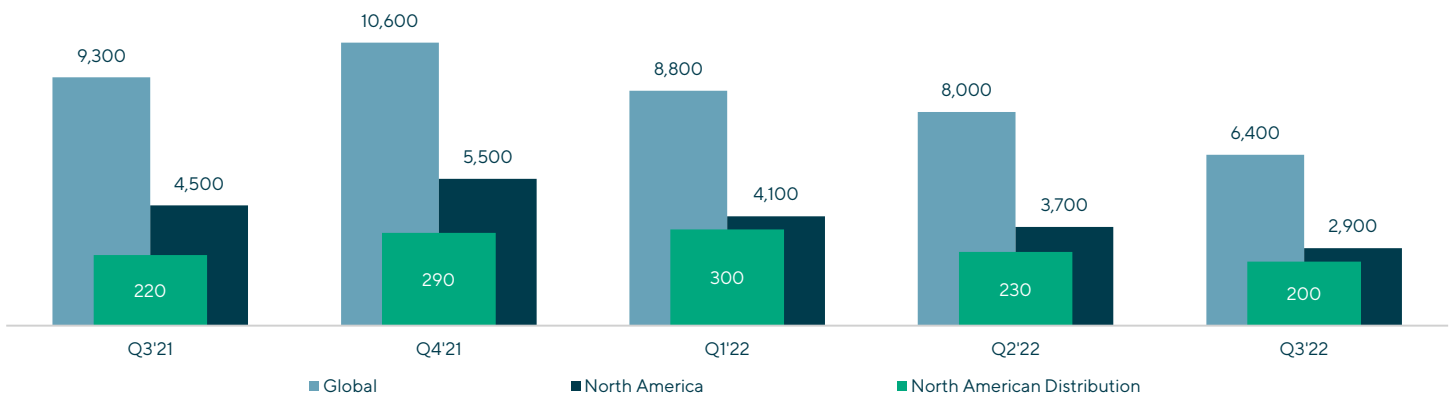
## Public Markets

- Public equity markets extended their 2022 slide in Q3, with the Dow Jones and S&P 500 declining 7.6% and 5.2%, respectively
- Public markets and the overall economy faced the same headwinds as in prior periods, with price inflation remaining stubbornly high even as supply chain snarls began to ease, employment growth slowed and GDP grew
  - Inflation, and the Federal Reserve's interest rate hikes to combat it, have weighed heavily on both consumer and investor sentiment leading economic prognosticators to forecast a recession in 2023
- Consumer goods and technology stocks have been hit hardest, due mainly to concerns about consumer spending in 2023 as well as rising interest rates, while sectors that tend to be less cyclical and / or more maintenance, repair and overall (MRO)-oriented, such as healthcare and automotive aftermarket, have performed well in Q3 and the year-to-date period
- Overall, our public stock distribution index performed better than the broader market – remaining flat for the quarter while the S&P 500 index declined 5.2%, buoyed by companies with recession-resistant demand drivers

## M&A and Private Markets

- Similar to the public markets, global mergers and acquisitions (M&A) activity continued to drop off from 2021 levels in the third quarter
  - Global M&A volume of approximately 6,400 deals was down 20% from Q2 and 31% compared to the year-ago Q3 2021 period
  - Within North America, the deal market fared slightly worse down 22% from the prior quarter and 36% from Q2 2021
  - North American distribution M&A activity remained relatively flat compared to both the global and North American M&A markets, limiting deal volume decline to 13% from Q2 and 9% from the year-ago period
- Contraction in M&A activity has been led by deterioration in the credit markets, which is due to numerous factors
  - Expectations of a recession have caused lenders to exercise caution in new loan deployments, limiting i) the universe of sectors and individual businesses they are willing to lend into, and ii) leverage levels (as measured by EBITDA turns and loan-to-value)
  - Rising base interest rates and expanding credit spreads are making debt more expensive and affecting debtors' ability to support fixed charge covenants, further reducing debt capacity and lending appetite
  - Higher interest rates are also deterring businesses from refinancing existing debt, reducing lenders' churn and therefore reducing their need to deploy capital in new loan underwriting
  - Discounted loans in the broadly syndicated market present an opportunity for debt investors to earn comparable yields without the incremental risk and diligence required in a private deal, enticing debt investors to spend their time in this space
- Despite these headwinds and a M&A environment less favorable than 2021, deals are getting done – and the distribution sector remains attractive to both strategics and financial investors
  - Low capital intensity and robust free cash flow generation
  - Highly fragmented markets ripe for consolidation
  - Numerous proven platforms with durable, recession-resistant demand drivers selling consumable products for MRO and

## Closed M&A Deal Volume

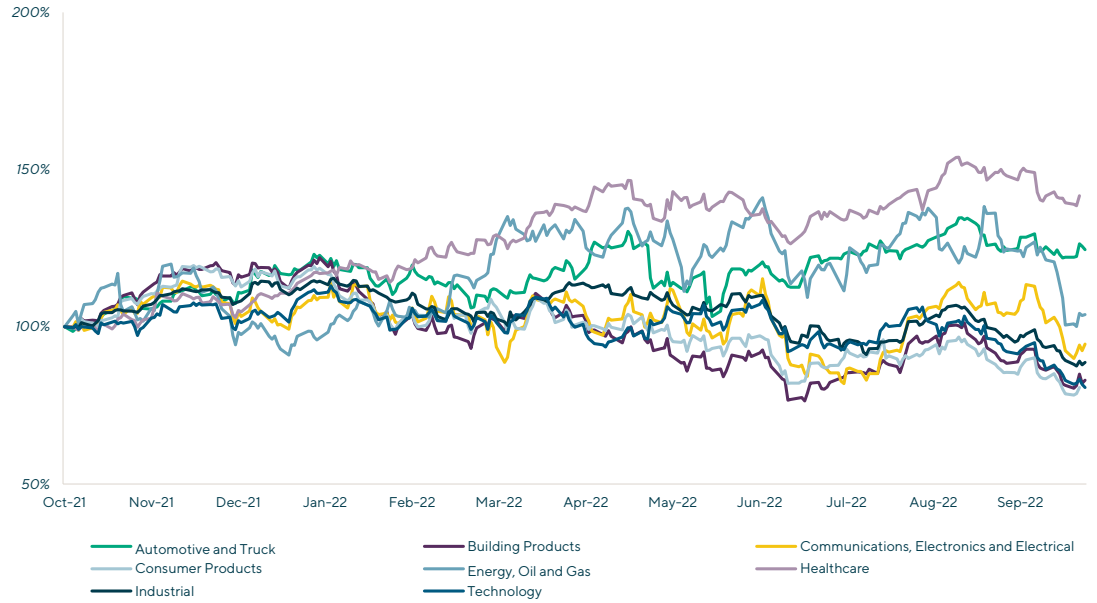


Source: S&P Global approximate closed M&A deal volume

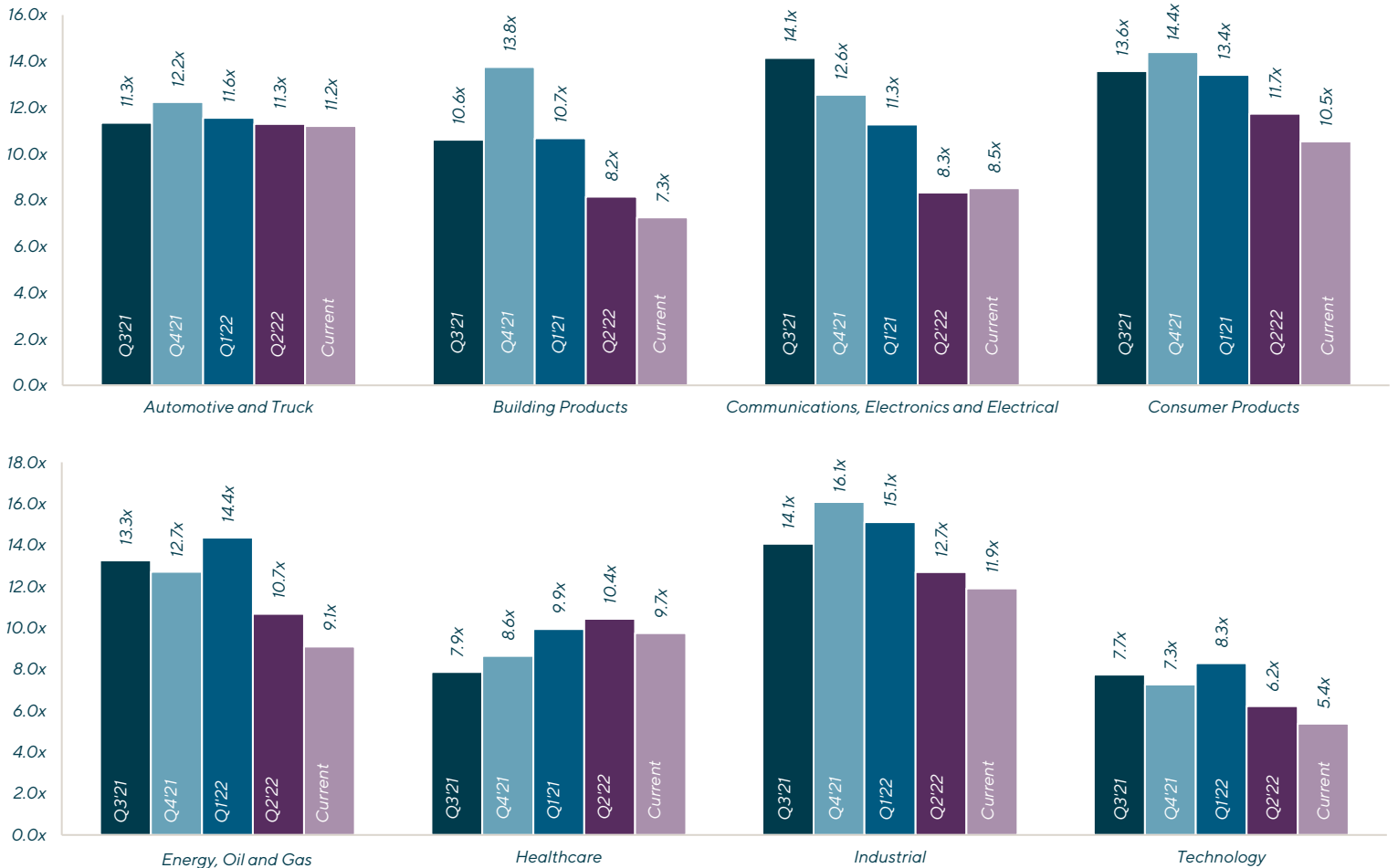
## Index Performance

Lincoln's distribution index remained flat in Q3 2022 vs. Q2 2022. This quarter, communications, electronics and electrical (9.3%), automotive and truck (2.8%), industrial (2.0%) and healthcare (2.0%) sectors trended upwards while consumer products (-10.2%), technology (-14.9%) and energy, oil and gas (-10.7%) sectors trended downwards. Over the last-twelve-months period, the healthcare and automotive and truck sectors continue to perform strongly with 37.8% and 24.5% growth, respectively, while the consumer products and building products sectors are down 21.9% and 17.0%, respectively.

## 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
<b>Automotive &amp; Truck</b>										
AutoZone, Inc.	\$2,141.93	90.7%	\$40,967	\$49,662	\$16,252	\$3,713	11.1%	22.8%	3.1x	12.3x
Genuine Parts Company	149.32	90.5%	21,118	24,731	21,376	2,104	16.7%	9.8%	1.2x	11.1x
LKQ Corporation	47.15	78.0%	12,937	16,393	12,979	1,676	0.9%	12.9%	1.2x	7.6x
O'Reilly Automotive, Inc.	703.35	93.7%	44,535	50,928	14,057	3,309	9.3%	23.5%	3.7x	13.8x
Uni-Select Inc.	26.57	93.7%	1,164	1,511	1,680	118	6.4%	7.0%	1.0x	11.2x
<b>Building Products</b>										
Beacon Roofing Supply, Inc.	\$54.72	83.8%	\$3,557	\$6,456	\$7,875	\$826	18.6%	10.5%	0.8x	6.8x
Builders FirstSource, Inc.	58.92	68.1%	9,196	13,084	22,751	4,192	27.9%	18.4%	0.6x	3.0x
CRH plc	32.43	68.6%	24,360	28,997	32,812	5,455	11.9%	16.6%	1.0x	5.5x
Ferguson plc	104.79	68.9%	21,444	25,801	28,566	3,136	25.3%	11.0%	0.9x	7.2x
SiteOne Landscape Supply, Inc.	104.14	40.1%	4,690	5,437	3,764	456	19.1%	12.1%	1.4x	10.1x
Watsco, Inc.	257.46	80.7%	9,247	10,019	7,205	829	21.6%	11.5%	1.4x	10.8x
<b>Communications, Electronics &amp; Electrical</b>										
RS Group plc	\$10.80	75.9%	\$5,090	\$5,137	\$2,554	\$335	10.9%	13.1%	1.8x	13.1x
Rexel S.A.	15.18	70.5%	4,628	7,596	16,715	1,255	18.1%	7.5%	0.5x	5.3x
WESCO International, Inc.	119.38	81.2%	6,065	11,383	19,996	1,328	14.3%	6.6%	0.6x	7.2x
<b>Consumer Products</b>										
Bunzl plc	\$30.75	84.9%	\$10,326	\$12,413	\$11,069	\$824	8.4%	7.4%	1.0x	11.6x
Performance Food Group Company	42.95	73.9%	6,669	11,647	47,194	790	61.6%	1.7%	0.2x	11.8x
Pool Corporation	318.21	54.7%	12,598	14,341	6,119	1,081	20.0%	17.7%	2.4x	12.5x
SpartanNash Company	29.02	77.4%	1,036	1,788	9,204	193	1.5%	2.1%	0.2x	6.9x
Sysco Corporation	70.71	77.3%	35,787	46,342	68,636	3,332	33.8%	4.9%	0.7x	13.1x
United Natural Foods, Inc.	34.37	59.4%	2,004	5,342	28,928	692	7.3%	2.4%	0.2x	5.4x
US Foods Holding Corp.	26.44	66.5%	5,937	11,496	32,154	860	23.9%	2.7%	0.4x	12.4x
<b>Energy, Oil &amp; Gas</b>										
DXP Enterprises, Inc.	\$23.68	65.3%	\$446	\$832	\$1,270	\$94	20.5%	7.4%	0.7x	7.0x
MRC Global Inc.	7.19	53.5%	601	1,506	2,961	96	15.7%	3.2%	0.5x	11.2x
NOW Inc.	10.05	75.0%	1,114	908	2,021	136	33.0%	6.7%	0.5x	7.1x
<b>Healthcare</b>										
Cardinal Health, Inc.	\$66.68	92.3%	\$17,471	\$18,605	\$181,364	\$2,356	8.4%	1.3%	0.1x	7.5x
Henry Schein, Inc.	65.77	71.0%	8,952	11,271	12,718	1,087	3.9%	8.5%	0.9x	9.3x
McKesson Corporation	339.87	90.6%	48,850	54,581	272,027	3,381	8.4%	1.2%	0.2x	13.7x
Owens & Minor, Inc.	24.10	49.1%	1,838	4,648	9,872	491	2.0%	5.0%	0.5x	8.5x
<b>Industrial</b>										
Air Liquide S.A.	\$115.28	76.6%	\$60,143	\$74,093	\$26,696	\$6,266	20.3%	23.5%	2.8x	11.6x
Applied Industrial Technologies, Inc.	102.78	84.8%	3,964	4,565	3,981	442	17.8%	11.1%	1.2x	10.1x
Fastenal Company	46.04	71.1%	26,458	26,974	6,817	1,597	16.8%	23.4%	4.1x	16.1x
MSC Industrial Direct Co., Inc.	72.81	82.7%	4,076	4,909	3,692	546	13.8%	14.8%	1.4x	9.3x
W.W. Grainger, Inc.	489.19	83.1%	24,886	27,587	14,785	2,317	17.3%	15.7%	1.9x	12.4x
<b>Technology</b>										
Arrow Electronics, Inc.	\$92.19	66.8%	\$5,916	\$9,231	\$36,063	\$2,150	10.5%	6.0%	0.3x	4.1x
Avnet, Inc.	36.12	72.0%	3,419	5,131	24,311	1,090	24.4%	4.5%	0.2x	4.3x
ScanSource, Inc.	26.41	64.4%	665	916	3,530	152	8.6%	4.3%	0.3x	5.8x
TD SYNNEX Corporation	81.19	68.1%	7,710	11,494	61,707	1,638	178.9%	2.7%	0.2x	7.3x
<b>Mean</b>		<b>74.2%</b>					<b>20.8%</b>	<b>9.8%</b>	<b>1.1x</b>	<b>9.3x</b>
<b>Median</b>		<b>75.0%</b>					<b>16.7%</b>	<b>7.5%</b>	<b>0.8x</b>	<b>9.3x</b>

Source: Bloomberg, Capital IQ and company filings, as of 6/31/21  
 Note: dollars in millions, except stock price

## Selected M&A Transactions

Date	Target Company	Target Description	Acquiring Company
Sep-22	Janitor's Closet	Janitorial supplies and equipment	Envoy Solutions (FEMSA)
Sep-22	ProSource Supply (CID Capital)	Plumbing, lighting and residential hardware	Blue Sea Capital
Sep-22	Distributors Inc	Fire protection products	Core & Main (CD&R)
Sep-22	Terra Firma (Goldner Hawn)	Specialty chemicals	DKSH Holding AG
Sep-22	Rahi Systems	Information technology solutions	Wesco International
Sep-22	Frezite	Tools for metal and wood applications	Sandvik
Sep-22	Western Interior Supply	Building products	Kodiak Building Partners
Sep-22	International Sales & Marketing	Foodservice and janitorial sanitation products	Imperial Dade (Advent International / Bain Capital)
Sep-22	Bay Wire	Wire and cable products	OmniCable (Dot Family Holdings)
Sep-22	Quest Engineering	Hydraulic hose, valves and gauges	Motion & Control Enterprises (Frontenac Company)
Sep-22	Knight Marketing Corporation and H.T. Berry Company	Facilities maintenance and foodservice supplies	Envoy Solutions (FEMSA)
Sep-22	Howard Precision Metals	Metal products	Ryerson Holding (Platinum Equity)
Sep-22	WestGroupe	Eyewear products	FYi HEALTH GROUP (L Catterton)
Sep-22	Advance Electrical	Electrical products	World Electric Supply
Sep-22	Switches Unlimited	Electromechanical and automation controls	New Yorker Electronics
Sep-22	Catawba Industrial Rubber Company and Coastal Hose & Rubber	Industrial rubber and hose	SBP Holdings (AEA Investors)
Sep-22	Western Steel and Plumbing	Plumbing and heating, ventilation and air conditioning (HVAC)	Dakota Supply Group
Aug-22	Campbell Metal Supply	Metal materials	Industrial Metal Supply
Aug-22	Waterworks Unit of Trumbull Industries	Water and fire protection products	Core & Main
Aug-22	Metabo HPT and Metabo Power Tools	Power tools and accessories	Koki Holdings America Ltd.
Aug-22	Producers Supply Company	Industrial supplies	BPS Supply Group (Trive Capital)
Aug-22	Midway Dental Supply (PNC Riverarch Capital)	Dental supplies and products	Henry Schein, Inc.
Aug-22	Alpine Gas	Gases and welding supplies	Holston Gases
Aug-22	Belt Power (Shorehill Capital)	Conveyor system components	Platte River Equity
Aug-22	JIS Distribution (Jergens)	Tooling components, fasteners and work holding equipment	PT Solutions (General Atlantic)
Aug-22	Wholesale Unit of G&S Oil Products	Motor fuels	Offen Petroleum (Court Square)

(1) Note: Includes M&A advisory transactions, capital raise transactions, restructuring transactions and JV&P transactions, valuations and opinions as well as transactions related other advisories














































## Selected M&A Transactions (cont'd)

Date	Target Company	Target Description	Acquiring Company
Aug-22	PromaPlast SA de CV	Plastic products	IMCD
Aug-22	Fischer Process Industries	Pumps, valves and process equipments	Tencarva Machinery (Bessemer Investors)
Aug-22	TexTrail (American Trailer Works)	Trailer parts and accessories	Dexter Axle (The Sterling Group)
Aug-22	TAGG Logistics (Dot Family Holdings)	Logistics and order fulfillment services	Hub Group, Inc.
Aug-22	Distribution Business of Avient (Avient)	Composites, polymers, additives, colorants and elastomers	H.I.G. Capital
Aug-22	Sealed Unit Parts Co	HVAC, refrigeration (HVACR) and applicants parts, components, test instruments and tools	NSI Industries (Odyssey Investment Partners)
Aug-22	Linzel Distributing	Outdoor lighting and landscape supplies	SiteOne Landscape Supply, Inc.
Aug-22	Risoul y Cia, S.A.	Industrial and automation products and service solutions	RS Group
Aug-22	Sphinx Tools Ltd (Helvetica Capital)	Precision round tools (micro tools) and surgical cutting tools	Sandvik
Aug-22	Flotech	Valves and actuators	FloWorks International LLC (Clearlake Capital Group)
Aug-22	King's Command Foods	Ready-to-eat sliced products	Premium Brands Holdings Corporation
Aug-22	Celltrion USA	Medical products	Celltrion Healthcare Co., Ltd.
Aug-22	Palm Paper Supply	Foodservice, skin and personal care, office, packaging and janitorial products	Imperial Dade (Advent International / Bain Capital)
Aug-22	Walker Industrial Products and New England Drives & Controls	Advanced automation and control solutions	Graybar
Aug-22	Tower Fasteners	Original equipment manufacturer (OEM) fasteners and components	All Integrated Solutions (MSC Industrial Supply)
Aug-22	Commercial Kitchen Parts & Service	OEM foodservice parts	Parts Town (Berkshire Partners / Leonard Green & Partners)
Aug-22	Mattson Distribution Company	Pressure washing equipment	SBP Holdings
Aug-22	Deco Truss	Roof trusses and building supplies	US LBM (Bain Capital)
Aug-22	First Source Electrical	Low-voltage electrical supplies	Winsupply
Aug-22	Star Stainless Screw Company	Fasteners	LindFast Solutions (Ardian, Nautic Partners and Carlson Private Capital Partners)
Jul-22	Sunbelt Packaging (Kian Capital, SouthPointe Ventures, Tenth Street Capital)	Packaging products	Envoy Solutions (Fomento Economico Mexicano)
Jul-22	HydraForce (Regional Growth Fund)	Hydraulically powered products	Bosch Rexroth
Jul-22	Wholesale Sheet Metal and Pile Protection Tops	HVAC equipment	Munch's Supply (Marccone Appliance Parts and Genstar Capital)
Jul-22	Esteson Co, Palo Alto Foods and Joseph Martin Distributing	Food and beverage products	Cheetah Technologies Inc.
Jul-22	Cornerstone Supply and Intermountain Machining Supply	Industrial tool products	BlackHawk Industrial (TruArc Partners)
Jul-22	Building Connections	Construction products	The Lawless Group

## Selected M&A Transactions (cont'd)

Date	Target Company	Target Description	Acquiring Company
Jul-22	ACE Packaging	Packaging products	Flexpak (Shorehill Capital)
Jul-22	National Tire Distributors	Tires, wheels and other automation supplies	Groupe Touchette Inc.
Jul-22	Foxworth-Galbraith	Lumber and building materials products	US LBM (Bain Capital)
Jul-22	Torbsa Limited	Building products	Affiliated Distributors
Jul-22	Hill & Markes	Foodservice disposables, janitorial and packaging and shipping products	BradyIFS (Kelso & Co.)
Jul-22	WCCO Belting	Industrial belt products	Continental
Jul-22	Romar Supply	Polyvinyl fluoride (PVF) and steel fabrication products	Winsupply
Jul-22	Prescott Dirt	Landscape material supplies	SiteOne Landscape Supply, Inc.

## Recent Lincoln Distribution Transactions

 <p>has sold</p> <p>ADI's India distribution division</p> <p>to</p>  <p>Sell-Side</p> 	<p>Foresight</p> <p>has sold</p>  <p>to</p>  <p>a portfolio company of</p>  <p>Sell-Side</p> 	 <p>has been sold to</p>  <p>Sell-Side</p> 	<p>TENEX   CAPITAL MANAGEMENT</p> <p>has sold</p>  <p>to</p>  <p>Sell-Side</p> 
 <p>and co-shareholders have sold</p>  <p>to</p>  <p>a portfolio company of</p>  <p>Sell-Side</p> 	 <p>has sold</p>  <p>to</p>  <p>a portfolio company of</p>  <p>Sell-Side</p> 	<p>DUNES POINT CAPITAL</p> <p>has sold</p>  <p>to</p>  <p>a portfolio company of</p>  <p>Sell-Side</p> 	 <p>has been sold to</p>  <p>a portfolio company of</p>  <p>Sell-Side</p> 
 <p>has acquired</p>  <p>Buy-Side</p> 	 <p>has been sold to</p>  <p>Sell-Side</p> 	 <p>has sold</p>  <p>to</p>  <p>a subsidiary of</p>  <p>Sell-Side</p> 	 <p>has acquired</p>  <p>Buy-Side</p> 



## 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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Private Funds Advisory  
Valuations & Opinions

## About Lincoln International

We are trusted investment banking advisors to business owners and senior executives of leading private equity firms and their portfolio companies and to public and privately held companies around the world. Our services include mergers and acquisitions advisory, private funds and capital markets advisory, and valuations and fairness opinions. As one tightly integrated team of more than 800 professionals in more than 20 offices in 15 countries, we offer an unobstructed perspective on the global private capital markets, 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: [www.lincolninternational.com](http://www.lincolninternational.com).

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