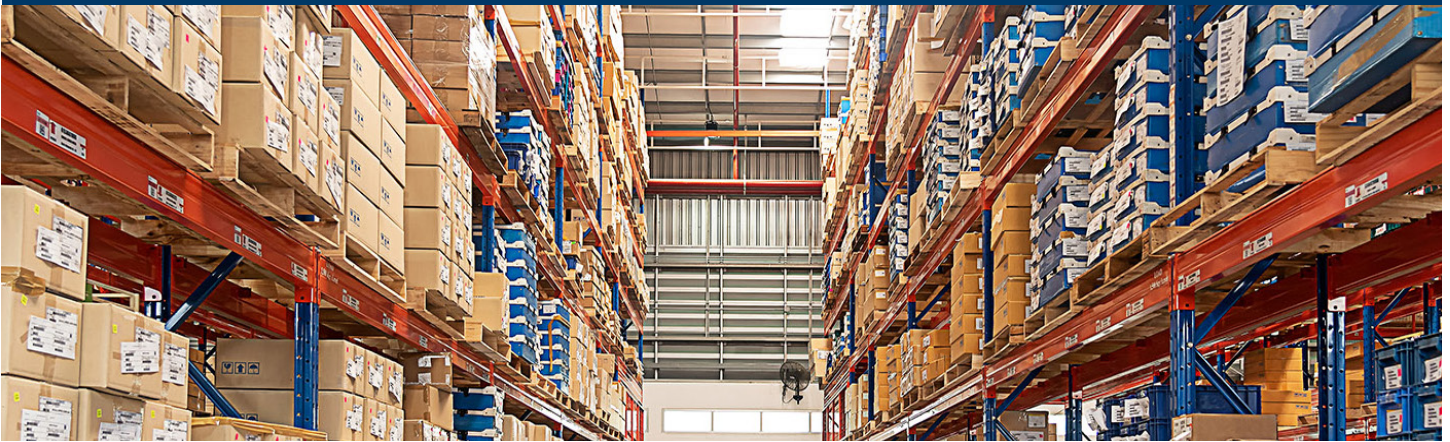


# INDUSTRIAL DISTRIBUTOR M&A PULSE

THIRD QUARTER 2023



# Q3'23

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# Industrial Distribution Coverage Team

## ABOUT PMCF

PMCF is an investment bank focused exclusively on middle market transactions with professionals in Chicago, Detroit, Denver, and across the globe through Corporate Finance International™ affiliates. Offering a depth of advisory services, PMCF helps clients worldwide meet their sale, acquisition, financing, and strategic growth objectives. Additional information on PMCF can be found by visiting our website, pmcf.com.

## INVESTMENT BANKING SERVICES:

- Mergers & Acquisitions
- Carve-outs & Divestitures
- Strategic Assessments
- Capital Raising



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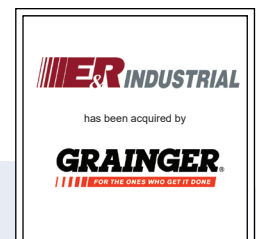
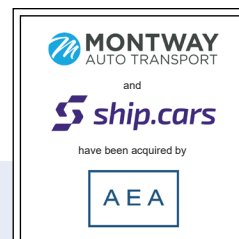


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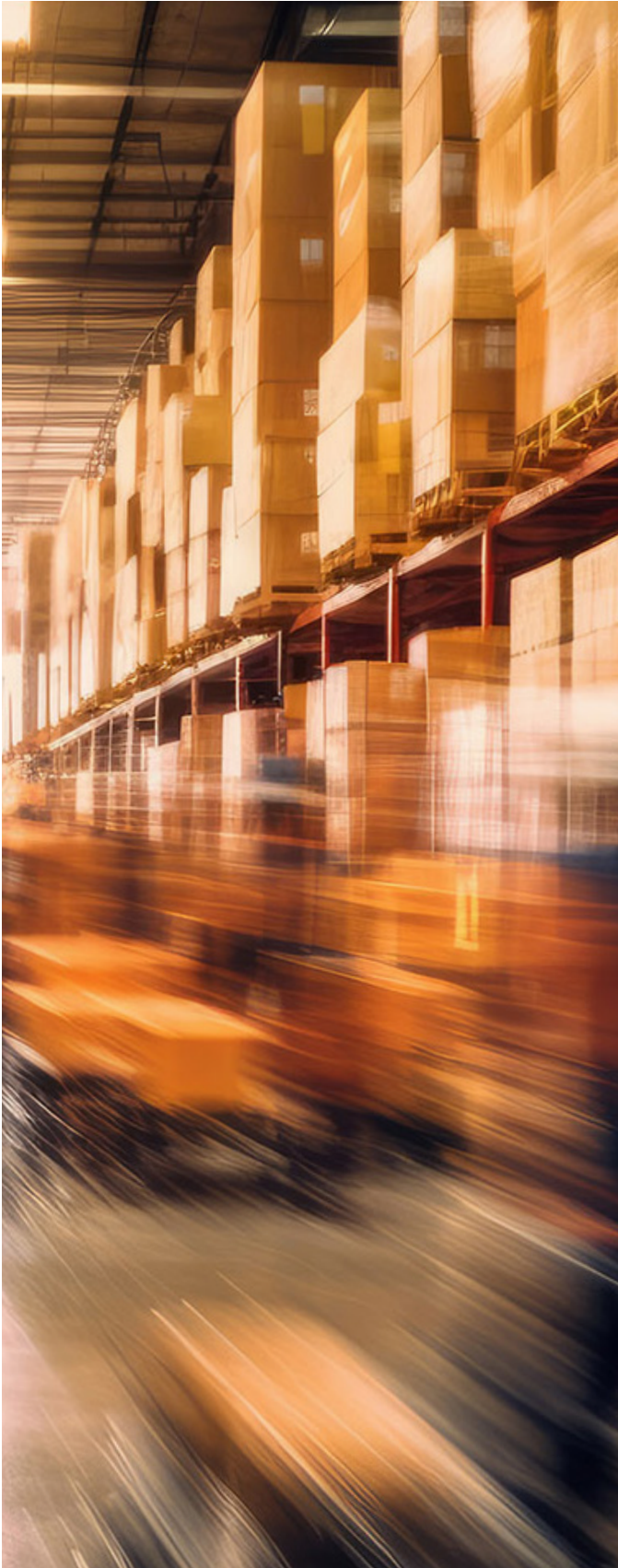
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## SELECT PMCF DISTRIBUTION TRANSACTIONS



# What We're Discussing with Clients

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1

Data through Q3-2023 show an improving economic and pricing environment compared with the trends observed in previous quarters. Our view is this improving trend supports the theory of a more likely “soft landing” and portends a stronger-than-expected 2024 for M&A transactions.

2

Today’s M&A environment tends to favor strong companies. While some sellers are pressing pause in an attempt to time the market, good companies (those with strong financials, good growth prospects, strong management teams, differentiated offerings, etc.) can attract value- and objective-maximizing outcomes in the current market.

3

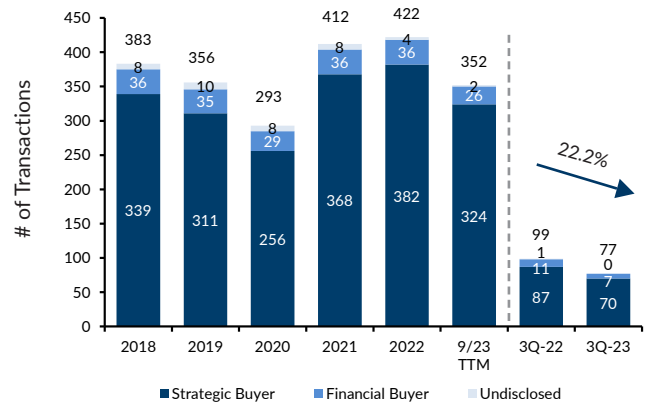
M&A transactions can take many forms and transaction processes can be designed to achieve nearly any objective. For example, seller preferences regarding structure, a buyer’s profile or retained ownership post-transaction should be communicated to potential buyers early in the process to optimize transaction outcomes. Do not be shy about exploring alternatives and options with your investment banker and M&A advisors.

# Q3 2023 Market Summary & Outlook

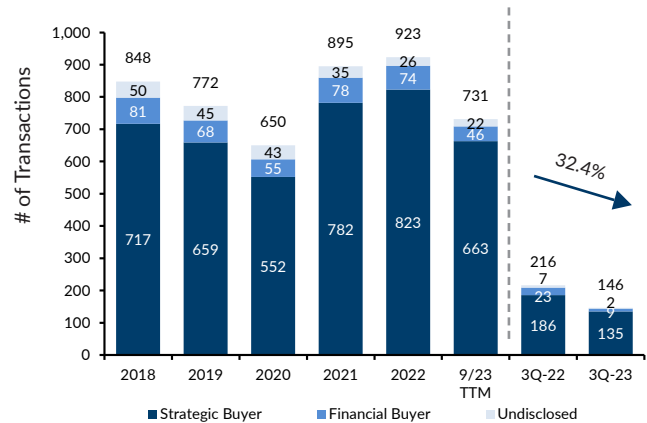
## Q3 2023 – QUARTERLY M&A MARKET RECAP

- In Q3-23, M&A activity in the US Industrial Distribution sector slowed, with 77 transactions closed – a 22.2% decrease from the Q3-22. Looking at the trailing twelve months ending September 2023, a total of 352 deals were completed. This figure remains nearly unchanged when compared to 2019 pre-pandemic volumes of 356 transactions, signaling stabilization in the Industrial Distribution sector from the record volumes seen in 2021 and 2022.
- Q3-23 Global Industrial Distribution M&A deal volume trends closely align with those seen in the US, declining 32.4% compared to Q3-22. TTM Sep-23 global deal volumes also declined, however, similar to domestic activity, remained consistent with pre-pandemic levels. Despite slowed M&A activity during Q3-23, conditions remain viable for a market rebound with global PE dry powder at \$1.4T, just 9.7% below its record high.
- Positive trends emerged in macroeconomic indicators during Q3-23. The US Industrial Production Index recorded a year-over-year increase of 4.6%. Additionally, as of September 2023, the US ISM Purchasing Managers Index (PMI), a key monthly gauge of economic activity in the US manufacturing sector, rose to its highest level since November 2022, reaching 49.0; whereas any value above 50 signals expansion.

### US INDUSTRIAL DISTRIBUTION M&A ACTIVITY<sup>(1)</sup>



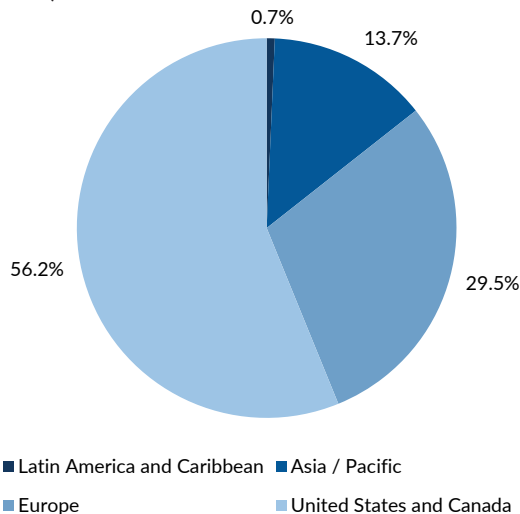
### GLOBAL INDUSTRIAL DISTRIBUTION M&A ACTIVITY<sup>(1)</sup>



(1) Sources: Capital IQ, PMCF proprietary research

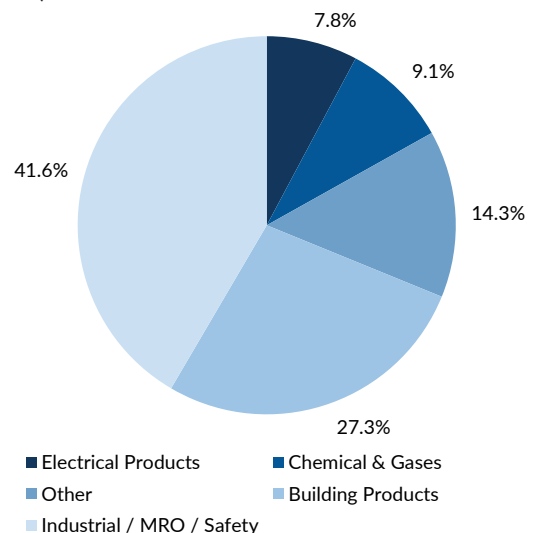
### INDUSTRIAL DISTRIBUTION M&A ACTIVITY BY REGION – GLOBAL<sup>(2)</sup>

(Q3-2023)



### INDUSTRIAL DISTRIBUTION M&A ACTIVITY BY SEGMENT<sup>(1)</sup>

(Q3-2023)



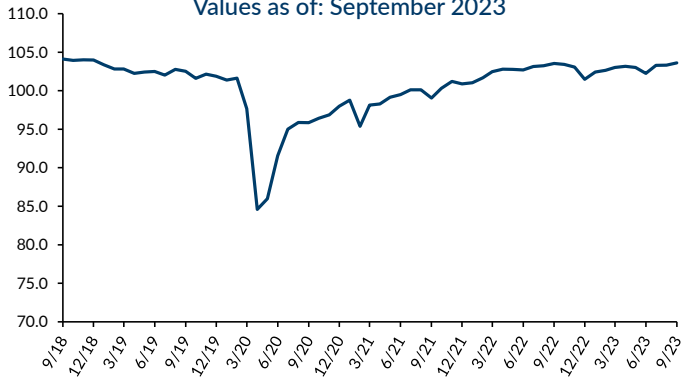
(1) Source: S&P Capital IQ Data.

(2) Transactions with no reported enterprise value ("EV") and transactions with reported EV up to \$500M.

# Macroeconomic Trends & Signals

## INDUSTRIAL PRODUCTION INDEX

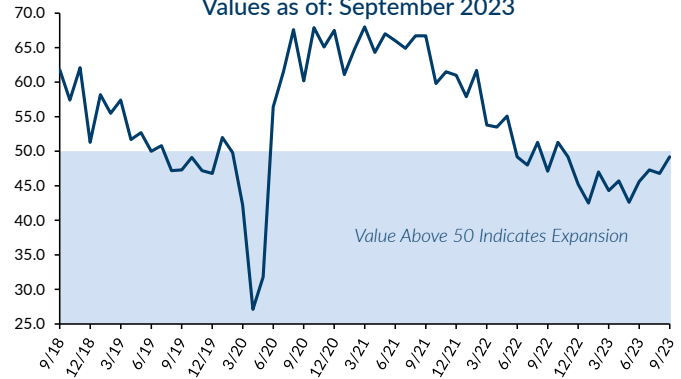
Values as of: September 2023



Source: Federal Reserve Bank of Chicago

## ISM NEW ORDERS INDEX

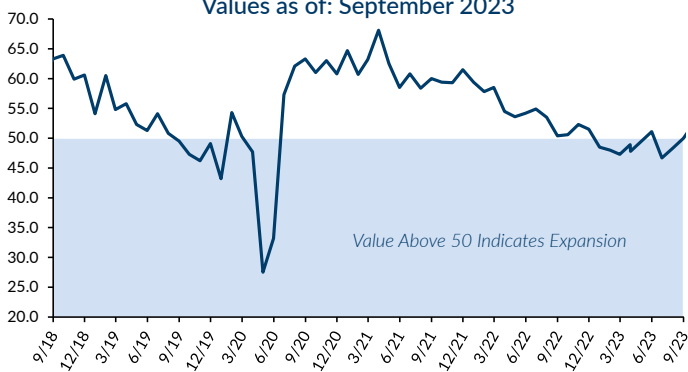
Values as of: September 2023



Source: Institute for Supply Management

## ISM PRODUCTION INDEX

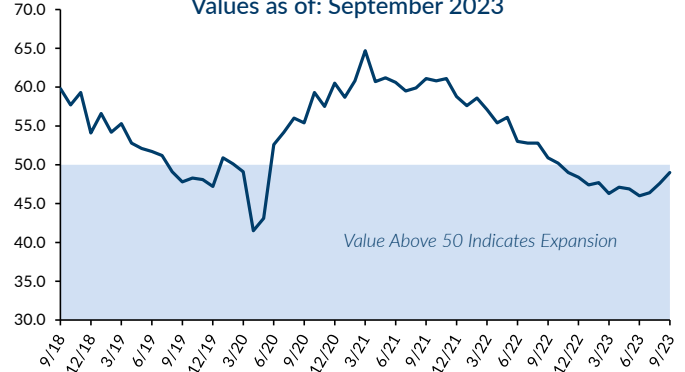
Values as of: September 2023



Source: Institute for Supply Management

## PURCHASING MANAGERS' INDEX

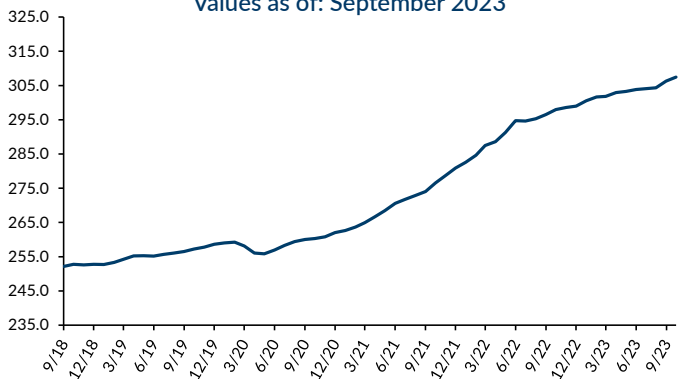
Values as of: September 2023



Source: Institute for Supply Management

## CONSUMER PRICE INDEX

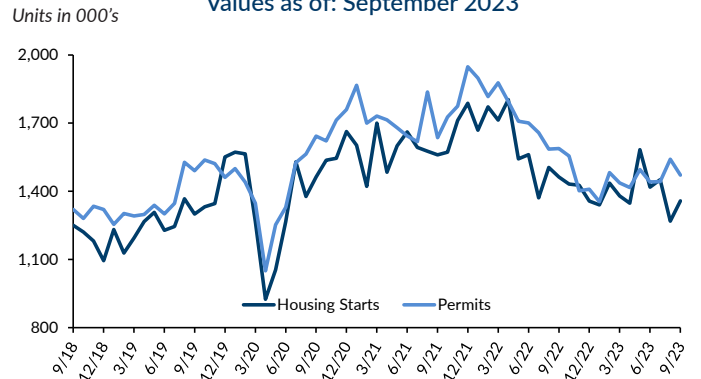
Values as of: September 2023



Source: Federal Reserve Bank of St. Louis

## HOUSING STARTS & PERMITS

Values as of: September 2023



Source: Federal Reserve Bank of St. Louis

# PMCF Industrial Distributor Index

Company Name	Headquarters Location	Market Cap. <sup>(1)</sup>	Enterprise Value <sup>(1)</sup>	TTM Revenue	TTM Gross Profit	TTM Adjusted EBITDA	TTM Gross Margin	TTM EBITDA Margin	Net Debt/EBITDA	EV/Revenue	EV/EBITDA <sup>(2)</sup> Q3 '23	EV/EBITDA <sup>(2)</sup> Q3 '22
<i>\$ in Millions<sup>(3)</sup></i>												
<b>Industrial/MRO/Safety</b>												
W.W. Grainger, Inc.	United States	\$34,593	\$37,152	\$16,283	\$6,439	\$2,781	39.5%	17.1%	0.8x	2.3x	13.4x	11.2x
Fastenal Company	United States	31,218	31,592	7,284	3,324	1,687	45.6%	23.2%	0.1x	4.3x	18.7x	16.9x
Applied Industrial Technologies, Inc.	United States	5,991	6,355	4,446	1,305	539	29.4%	12.1%	0.5x	1.4x	11.8x	10.3x
MSC Industrial Direct Co., Inc.	United States	5,502	5,982	4,009	1,643	567	41.0%	14.1%	0.8x	1.5x	10.5x	9.0x
Bossard Holding AG	Switzerland	1,692	2,052	1,279	402	170	31.4%	13.3%	2.1x	1.6x	12.1x	10.3x
MRC Global Inc.	United States	861	1,779	3,513	695	236	19.8%	6.7%	2.0x	0.5x	7.5x	10.2x
Kaman Corporation	United States	555	1,109	770	273	130	35.5%	16.9%	4.3x	1.4x	8.5x	11.6x
NOW Inc.	United States	1,267	1,105	2,313	537	183	23.2%	7.9%	NM	0.5x	6.0x	6.7x
DXP Enterprises, Inc.	United States	584	1,037	1,678	494	162	29.4%	9.7%	2.7x	0.6x	6.4x	7.6x
<b>Median</b>							<b>31.4%</b>	<b>13.3%</b>	<b>1.4x</b>	<b>1.4x</b>	<b>10.5x</b>	<b>10.3x</b>
<b>Electrical Products</b>												
WESCO International, Inc.	United States	\$7,392	\$12,949	\$22,470	\$4,891	\$1,695	21.8%	7.5%	3.1x	0.6x	7.6x	7.3x
Arrow Electronics, Inc.	United States	6,971	10,960	34,581	4,365	1,806	12.6%	5.2%	2.1x	0.3x	6.1x	4.2x
Rexel S.A.	France	6,744	10,058	21,159	5,475	1,529	25.9%	7.2%	2.2x	0.5x	6.6x	5.8x
Avnet, Inc.	United States	4,409	7,422	26,122	3,162	1,242	12.1%	4.8%	2.5x	0.3x	6.0x	4.7x
RS Group plc	United Kingdom	4,246	4,384	3,626	1,613	456	44.5%	12.6%	1.3x	1.2x	9.6x	12.0x
<b>Median</b>							<b>21.8%</b>	<b>7.2%</b>	<b>2.2x</b>	<b>0.5x</b>	<b>6.6x</b>	<b>5.8x</b>
<b>Building Products</b>												
CRH plc	Ireland	\$38,648	\$46,242	\$33,861	\$11,405	\$5,960	33.7%	17.6%	1.2x	1.4x	7.8x	5.2x
Ferguson plc	United Kingdom	33,487	38,144	29,734	9,025	3,105	30.4%	10.4%	1.5x	1.3x	12.3x	8.2x
Builders FirstSource, Inc.	United States	15,566	19,660	17,304	6,033	2,770	34.9%	16.0%	1.4x	1.1x	7.1x	3.0x
Pool Corporation	United States	13,906	15,322	5,634	1,682	814	29.9%	14.4%	1.5x	2.7x	18.8x	13.3x
Watsco, Inc.	United States	13,711	14,658	7,262	2,011	835	27.7%	11.5%	0.4x	2.0x	17.6x	12.1x
Beacon Roofing Supply, Inc.	United States	4,869	7,450	8,790	2,266	858	25.8%	9.8%	3.4x	0.8x	8.7x	7.3x
UFP Industries, Inc.	United States	6,335	6,020	7,608	1,480	818	19.5%	10.8%	NM	0.8x	7.4x	4.4x
<b>Median</b>							<b>29.9%</b>	<b>11.5%</b>	<b>1.4x</b>	<b>1.3x</b>	<b>8.7x</b>	<b>7.3x</b>
<b>Chemicals &amp; Gases</b>												
Air Liquide S.A.	France	\$88,319	\$101,679	\$32,432	\$18,203	\$7,649	56.1%	23.6%	1.7x	3.1x	13.3x	11.6x
Brenntag SE	Germany	11,755	14,253	18,635	4,065	1,388	21.8%	7.4%	1.6x	0.8x	10.3x	8.0x
IMCD N.V.	Netherlands	7,225	8,569	5,012	1,273	600	25.4%	12.0%	2.3x	1.7x	14.3x	15.6x
<b>Median</b>							<b>25.4%</b>	<b>12.0%</b>	<b>1.7x</b>	<b>1.7x</b>	<b>13.3x</b>	<b>11.6x</b>
<b>Transportation / Logistics</b>												
Old Dominion Freight Line, Inc.	United States	\$44,706	\$44,731	\$5,862	\$2,339	\$1,962	39.9%	33.5%	NM	7.6x	22.8x	13.4x
J.B. Hunt Transport Services, Inc.	United States	19,483	20,992	13,176	2,430	1,787	18.4%	13.6%	1.0x	1.6x	11.7x	8.9x
Expeditors Int. of Washington, Inc.	United States	16,953	15,784	10,464	1,461	1,127	14.0%	10.8%	NM	1.5x	14.0x	5.8x
Ryder System, Inc.	United States	4,869	11,958	11,848	2,337	2,619	19.7%	22.1%	2.8x	1.0x	4.6x	4.0x
C.H. Robinson Worldwide, Inc.	United States	10,028	11,916	18,441	1,261	689	6.8%	3.7%	2.6x	0.6x	17.3x	9.9x
XPO, Inc.	United States	8,658	11,610	7,635	1,629	1,026	21.3%	13.4%	2.8x	1.5x	11.3x	13.3x
Knight-Swift Transportation Holdings Inc.	United States	8,089	10,286	6,953	2,049	1,169	29.5%	16.8%	2.6x	1.5x	8.8x	5.5x
<b>Median</b>							<b>19.7%</b>	<b>13.6%</b>	<b>2.6x</b>	<b>1.5x</b>	<b>11.7x</b>	<b>8.9x</b>
<b>Median</b>							<b>27.7%</b>	<b>12.1%</b>	<b>2.0x</b>	<b>1.4x</b>	<b>10.3x</b>	<b>8.9x</b>
<b>Mean</b>							<b>27.9%</b>	<b>13.1%</b>	<b>1.9x</b>	<b>1.6x</b>	<b>10.9x</b>	<b>8.9x</b>

Source: Capital IQ

(1) Market capitalizations and total enterprise values as of September 30, 2023; income statement and balance sheet data as of last period reported

(2) Multiple of EBITDA based on EBITDA inclusive of equity income from affiliates

(3) Currency conversions assume the historical rate

# Public Company Equity Performance & Trends

## VALUATION TRENDS:

- In the third quarter of 2023, average industrial distribution public equity median EV/EBITDA multiples increased to 10.3x, up from 9.8x in the second quarter of 2023. Both the median EV/Revenue and the EV/EBITDA outpaced valuations in the previous four quarters.
- Improved and consistent margins, stemming from the stabilization of inflation, freight rates, and commodity prices, are fueling the increase in valuations.

PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC VALUATIONS <sup>(2)</sup>									
	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
<b>Revenue Multiple</b>									
Median	1.3x	1.6x	1.3x	1.0x	0.9x	1.0x	1.1x	1.3x	1.4x
Mean	1.7x	1.9x	1.6x	1.3x	1.3x	1.3x	1.4x	1.5x	1.6x
<b>EBITDA Multiple<sup>(1)</sup></b>									
Median	12.5x	13.7x	11.7x	9.6x	8.9x	9.4x	9.1x	9.8x	10.3x
Mean	11.5x	14.6x	12.2x	9.7x	8.9x	9.0x	9.8x	10.7x	10.9x

Source: Capital IQ

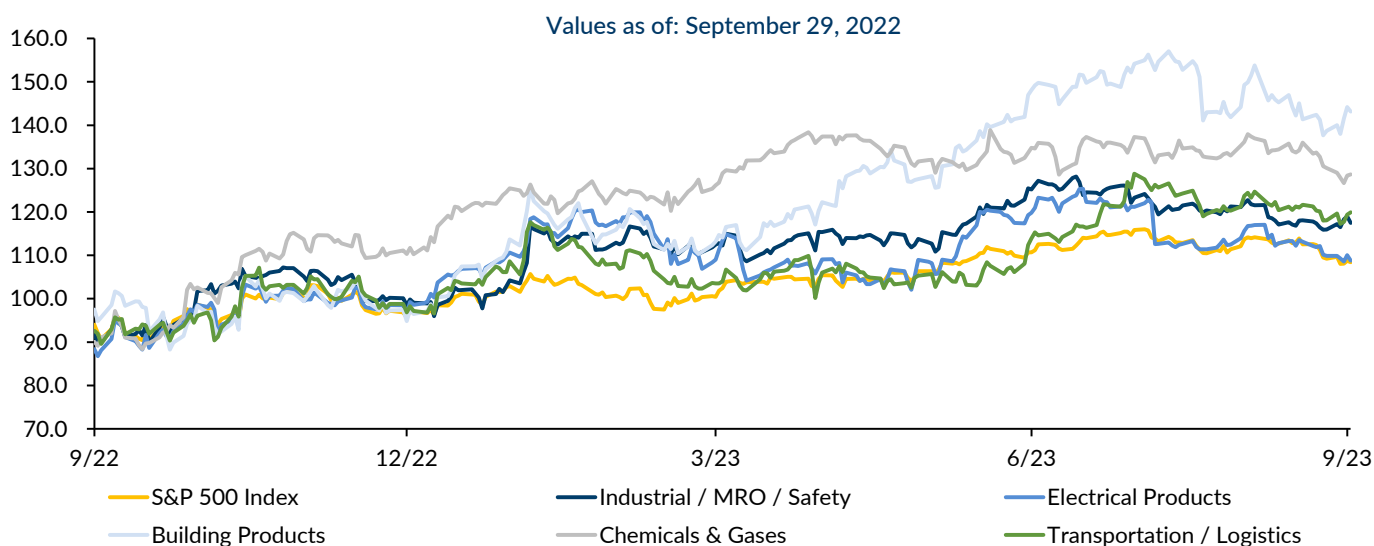
(1) Multiple of EBITDA based on EBITDA inclusive of equity income from affiliates

(2) Quarterly figures based on the last trading day of each quarter shown

## EQUITY PERFORMANCE:

- The Industrial Distribution equities performance shows meaningful growth year-to-date and year-over-year, growing 22.8% and 36.0%, respectively.
- All subsectors tracked by the Industrial Distribution Index grew year-to-date. The most significant gains stem from the Building Products subsector, up 47.4% from the start of the year. This is primarily due to growth in the residential housing starts market. With high interest rates keeping home inventory levels low, demand and backlog for new construction homes continue to grow.

## PMCF INDUSTRIAL DISTRIBUTION INDEX PUBLIC EQUITY PERFORMANCE<sup>(1)(2)</sup>



Source: Capital IQ

(1) Market capitalization indices with mixed currencies are converted into USD using historical spot rates

(2) Local currency quotes converted to USD using historical spot rates

# Market Commentary

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*Public companies within the Industrial Distribution sector are signaling renewed optimism, thanks to stabilized rates, normalized lead times, and an overall more predictable US economy. As market conditions become steadier, companies are actively exploring avenues to deploy capital and foster growth, generating increased interest in strategic acquisitions.*

**October 2023:** “Our capital allocation priorities remain unchanged and are focused on supporting our strategy to drive long-term profitable growth and return capital to shareholders. Our top priority is to continue to invest in organic growth. Strategic acquisitions have been a key contributor to accelerated growth in SCS and have helped transform our supply chain business in terms of expanding capabilities as well as rebalancing our vertical mix.”

**John J. Diez**, Executive VP & CFO, Ryder System, Inc.

**November 2023:** “Despite industry volatility caused by macroeconomic headwinds, our resilient third quarter results reflect the strength of our value-added portfolio, broad footprint, and operational initiatives we have put in place over the past several years. While challenges remain due to inflation and the increasing mortgage rates, we continue to generate healthy margins. This is proof of our attractive product mix and the benefits of our investments in multifamily. We remain confident in our 2023 outlook as we focus on being the best partner for our customers and executing our strategy to drive long-term growth.”

**David E. Rush**, CEO & President, Builders FirstSource, Inc.

**November 2023:** “In terms of capital allocation, we continue to actively pursue M&A opportunities with focus on larger deals that will allow us to enter new markets and diversify our product offerings. We are steadfast in our commitment to seek margin accretive opportunities in diverse end markets and emerging technologies to enable us to capitalize on market trends and to enhance durability in our performance in a dynamic and evolving energy landscape.”

**David A. Cherechinsky**, CEO, President & Director, Now Inc.

**November 2023:** “Lead times have now largely normalized and will contribute to the service of our delinquent backlog and improved visibility to future demand signals. Book-to-bill ratios, though below parity – [with the help of] a steady pricing environment, remain relatively stable. In addition, given what we can control, we remain steadfast in our focus on the initiatives that continue to benefit our structural margin health. Demand creation activity was strong in Q3, demonstrating our continued commitment to the role and value of our engineering investments.”

**Sean J. Kerins**, President, CEO & Director, Arrow Electronics, Inc.

Sources: Company SEC Filings and conference call transcripts



# Industrial Distribution M&A Activity

## SELECT INDUSTRIAL DISTRIBUTION TRANSACTIONS

EV in Millions

Closed Date	Target	Buyer	Industry Segment	Implied EV
Jul-23	Triple F Holdings, LLC	Imperial Dade Intermediate Holdings, LLC	Other	\$-
Jul-23	Farmers Copper, LTD.	Wieland-Werke Aktiengesellschaft	Industrial / MRO / Safety	-
Jul-23	Maverick Environmental Equipment LLC	Grand Equipment Company LLC	Building Products	-
Jul-23	Environmental Systems Company, LLC	Fidelity Energy & Sustainability	Chemical & Gases	-
Jul-23	Shepherd Electric Company, Inc.	Graybar Electric Company, Inc.	Electrical Products	-
Jul-23	Midwest Siding Supply, Inc.	Richards Building Supply Co., Inc.	Building Products	-
Jul-23	H & V Equipment Services, Inc.	Bottom Line Equipment, LLC	Building Products	-
Jul-23	Church's Lumber Yards	Builders FirstSource, Inc.	Building Products	-
Jul-23	Absolute Machine Tools, Inc.	ReNEW Partners, LLC.	Industrial / MRO / Safety	-
Jul-23	Bruce Supply Corp.	Ferguson plc	Industrial / MRO / Safety	-
Jul-23	The Kennedy Companies and Water Works Inc.	Ferguson plc	Industrial / MRO / Safety	-
Jul-23	ALVF, Inc.	EVI Industries, Inc.	Other	-
Aug-23	Cangro Industries, Inc.	Applied Industrial Technologies, Inc.	Industrial / MRO / Safety	6.2
Aug-23	Redi Carpet, Inc.	HD Supply, Inc.	Building Products	-
Aug-23	Sachs Chemical, Inc.	IMCD N.V.	Chemical & Gases	-
Aug-23	All American Vinyl Siding Supply, LLC	Beacon Roofing Supply, Inc.	Building Products	-
Aug-23	RENO Hardware and Supply, Inc.	White Cap Supply Holdings, LLC	Building Products	-
Aug-23	Henry Production Inc.	Hitachi Global Air Power US, LLC	Industrial / MRO / Safety	-
Aug-23	Accent Family of Companies	Apollo Global Management, Inc.; Apollo Impact Mission Fund, L.P.	Building Products	-
Aug-23	Axiom Test Equipment, Inc.	Transcat, Inc.	Industrial / MRO / Safety	38.6
Aug-23	Alpha Southwest, Inc.	PTNW Equity, Inc.	Industrial / MRO / Safety	-
Aug-23	A&M Cold Storage, LLC	WillScot Mobile Mini Holdings Corp.	Industrial / MRO / Safety	-
Aug-23	WARE, INC.	Armstrong International, Inc.	Building Products	-
Aug-23	Iowa Pump Works, LLC	United Flow Technologies	Industrial / MRO / Safety	-
Aug-23	New England Silica, Inc.	SiteOne Landscape Supply, Inc.	Building Products	-
Aug-23	The Ohio & Michigan Paper Company	Imperial Dade Intermediate Holdings, LLC	Industrial / MRO / Safety	-
Aug-23	Brockway-Smith Company	Boise Cascade Building Materials Distribution, L.L.C.	Building Products	172.0
Aug-23	Warshaw Incorporated	Dunes Point Capital, L.P.; Dunes Point Capital Fund III, L.P.	Electrical Products	-
Aug-23	Crane Engineering Sales, Inc.	AEA Investors LP	Industrial / MRO / Safety	-
Sep-23	Iverson's Lumber Company, Inc.	The Schockman Lumber Company	Building Products	-
Sep-23	Bearing Distributors, Inc.	Applied Industrial Technologies, Inc.	Chemical & Gases	18.0
Sep-23	Kb Kitchen & Batch Concepts, Inc.	Artisan Design Group, LLC	Building Products	-
Sep-23	Churchville Fire Equipment Corporation	Firematic Supply Co., Inc.	Industrial / MRO / Safety	-
Sep-23	Stretchtape, Inc.	Adherex Group	Chemical & Gases	-
Sep-23	S&H Building Material Corporation	Beacon Roofing Supply, Inc.	Building Products	-
Sep-23	Harrington Industrial Plastics LLC	Bain Capital Private Equity, LP	Industrial / MRO / Safety	-
Sep-23	The Urban Farmer Store Inc.	Heritage Landscape Supply Group, Inc.	Building Products	-
Sep-23	Iowa Fire Equipment Company	Pye-Barker Fire & Safety, LLC	Industrial / MRO / Safety	-
Sep-23	Assets of Burris Equipment Company	Alta Equipment Group Inc.	Building Products	15.2
Sep-23	Electric Supply Inc.	World Electric Supply Inc.	Electrical Products	\$-

# What is a Strategic Assessment and Why is it Important?

A Strategic Assessment is a comprehensive report that examines a business holistically with specific consideration given to the financial results, operations, and organizational structure. We advise our clients consider before a planned liquidity event to ensure your company is ready for a transaction. This process includes:

- Determining your company's current value
- Identifying factors that enhance or erode value and related risk considerations
- Developing strategies to bridge gaps in value and market position

The Strategic Assessment allows shareholders time to fully assess the business and implement changes and align strategies with the value-creation objectives of shareholders.



## SIGNIFICANT INDUSTRY EXPERTISE AND RESOURCES

Founded in 1995, PMCF has spent 25+ years successfully advising clients in the middle market. From M&A advisory or capital raising to strategic assessment and transaction planning, we execute transactions to achieve life-changing outcomes for our clients. We leverage our significant deal experience, industry relationships, and a deep understanding of sectors we serve to support our clients' organic and inorganic growth initiatives.

PMCF takes a strategic approach to transaction planning, ensuring the positioning and messaging conveys the unique differentiators of your company. Our affiliation with Plante Moran provides us access to transaction tax experts to provide insight into structure planning considerations. Together, our team and the Strategic Assessment prepare companies to navigate the challenges of, and succeed in, today's competitive environment. Areas of assessment may include:

- Developing strategies to effectively deploy capital and resources to maximize ROI on your high-priority growth initiatives
- Aligning your process capabilities with key macro trends driving industry growth
- Evaluating KPI trends and results and understanding how they are used in daily management
- Reviewing the organizational chart and the internal plan for turnover and/or succession of key management team members
- Pursuing customer diversification at attractive, appropriate margins
- Understanding margin trends and concentrations of margin within product groups or customers
- Assessing your company's differentiation and position in the marketplace
- Leveraging our extensive global relationships to help penetrate new customers and/or markets

*As an investment in your company, PMCF will complete a complimentary Strategic Assessment. For additional information, please visit [pmcf.com](http://pmcf.com)*

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