

Dynamic collaboration that takes you to powerful and unexpected places

SPOT ON | DISTRIBUTION | NOVEMBER 2018

Oaklins' Don Wiggins draws on decades of experience in the industry to share his view on the future of Distribution, in this issue of Spot On.

WHAT'S BEEN HAPPENING AND WHAT COMES NEXT

The number and size of distribution deals decreased in Q3 2018 when compared to the same quarter last year. The aggregate reported transaction value of the 237 M&A deals closed in this year's third quarter was US\$10.6 billion, which is significantly less than the US\$21.6 billion of closed deals reported for the third quarter of 2017.

(CONTINUE ON NEXT PAGE)



“Recently, major distribution trends include consolidation, the emergence of new technologies such as big data analytics, and new business models such as last-mile delivery services.”

DON WIGGINS
PRACTICE LEADER
LOGISTICS
JACKSONVILLE, USA

Read more on the following:

MARKET OVERVIEW

Distribution M&A activity declined in Q3 2018 compared to Q3 of 2017 as well as last quarter. There were 237 closed deals with an average size of US\$40 million during the most recent quarter, according to Capital IQ. [\(pg.2\)](#)

PUBLIC COMPANY VALUATIONS

Publicly-traded distribution stocks continue to outperform the S&P 500 in Q3 as US equity markets give up their gains for the year. [\(pg.3\)](#)

SPOTLIGHT

We look into the performance and M&A strategy of the largest global provider of food delivery services, Delivery Hero. [\(pg.6\)](#)

CASE STUDY

Supply Chain Equity Partners, a private equity firm focused solely on the distribution sector, has partnered with the management team of Coastal Construction Products, the largest distributor of waterproofing products in the southeastern United States. [\(pg.10\)](#)

Market overview

The average transaction size for Q3 2018 of US\$40 million was slightly below the historical third quarter average since 2013 of US\$50 million. The most noteworthy transaction during the quarter was the acquisition of MORSCO, Inc. by Reece Limited (ASX: REH) for US\$1.44 billion. Reece is the largest distributor of plumbing and HVAC supplies in Australia, and MORSCO is one of the largest distributors of plumbing supplies in the United States.

Valuation trends have generally been positive in the distribution space overall since 2016, with food and beverage and consumer goods valuations showing the most improvement in the last 24 months. Healthcare distribution company valuations have slipped in recent months. Industrial and capital goods distributors' valuations have remained consistent in the last 36 months.



Healthcare

Firms that are wholesalers or value-added distributors of pharmaceuticals, medical devices and equipment, healthcare supplies, insurance products and other healthcare products are included in this category.

Biotech and other research firms are not included in this category. Healthcare technology companies are also not included here.



Consumer Goods

Like ICG distributors, consumer products distributors wholesale and retail a wide variety of products. However, we define consumer goods as those products that have a shelf life of less than one year.

Examples of consumer goods distributors include clothing and footwear, sundries and groceries (ex-food), cosmetics, office supplies and household care products.



Industrial & Capital Goods (ICG)

ICG distribution companies can vary across a wide variety of products that are typically durable goods; i.e., those lasting for more than one year.

Common ICG products distributors include electrical equipment, HVAC, industrial chemicals and gases, building materials, heavy equipment and machinery, and hardware. This is not an exhaustive list but merely illustrative of the types of firms that would be included in this subgroup.

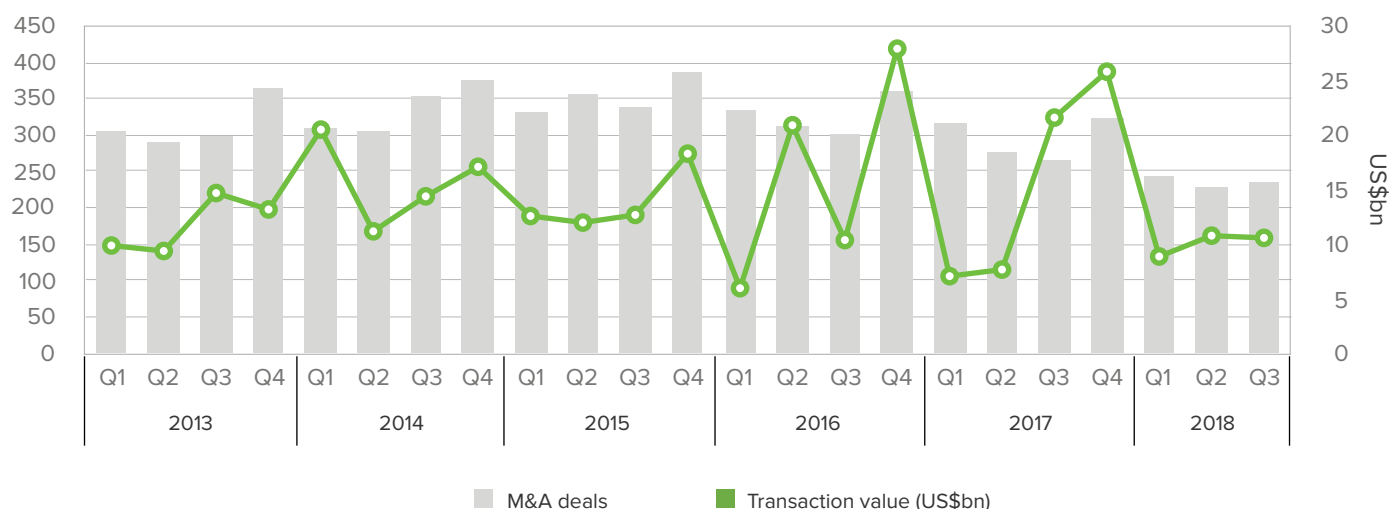


Food & Beverage

Food and beverage distribution companies covered in this category include companies such as Sysco and US Foods. These firms are wholesalers and supply food and beverage products to restaurants, grocery stores and other retailers.

Firms in this category do not grow, produce or otherwise manufacture any food or beverage products themselves.


Distribution M&A Deals – 2013 through 2018



Source: S&P Capital IQ

Selected public company valuations

The following is a selection of public listed companies from each of the four subgroups within the distribution sector. Valuation data is as of 30 September 2018.

 Healthcare				
Company	Country	Enterprise value (US\$m)	EV/Revenue	EV/EBITDA
NEUCA SA	Poland	422.3	0.2x	10.2x
AmerisourceBergen Corporation	United States	22,506.9	0.1x	9.4x
Henry Schein, Inc.	United States	15,387.3	1.2x	14.0x
NanJing Pharmaceutical Company Limited	China	1,463.6	0.3x	12.5x
McKesson Corporation	United States	35,839.6	0.2x	8.8x
Animalcare Group plc	United Kingdom	180.3	1.5x	12.4x
Patterson Companies, Inc.	United States	3,051.0	0.6x	12.1x
Owens & Minor, Inc.	United States	2,580.8	0.3x	13.0x
Selçuk Ecza Deposu Ticaret ve Sanayi A.S.	Turkey	389.0	0.1x	3.8x
Toho Holdings Co., Ltd.	Japan	1,423.6	0.1x	6.3x
		Average	0.5x	10.3x
		Average w/o outliers	0.2x	11.0x
		Median	0.2x	11.2x


Source: S&P Capital IQ

 Industrial & Capital Goods (ICG)				
Company	Country	Enterprise value (US\$m)	EV/Revenue	EV/EBITDA
L'Air Liquide S.A.	France	73,097.8	3.1x	13.1x
Beacon Roofing Supply, Inc.	United States	5,849.1	1.0x	14.3x
Cosan S.A. Indústria e Comércio	Brazil	5,067.0	2.2x	7.3x
Ferguson plc	Switzerland	20,900.8	1.0x	12.7x
HD Supply Holdings, Inc.	United States	9,820.8	1.8x	13.0x
ITOCHU Corporation	Japan	52,305.9	0.7x	13.3x
Nordwest Handel AG	Germany	107.8	0.2x	9.1x
Rexel S.A.	France	7,010.0	0.5x	10.2x
Ryerson Holding Corporation	United States	1,449.1	0.4x	7.7x
W.W. Grainger, Inc.	United States	22,201.2	2.0x	13.9x
		Average	1.3x	11.5x
		Average w/o outliers	1.1x	12.7x
		Median	1.0x	12.8x


Source: S&P Capital IQ

Selected public company valuations

The following is a selection of public listed companies from each of the four subgroups within the distribution sector. Valuation data is as of 30 September 2018.

 Consumer Goods				
Company	Country	Enterprise value (US\$m)	EV/Revenue	EV/EBITDA
Pyxus International, Inc.	United States	1,530.5	0.8x	10.4x
CMST Development Co., Ltd.	China	2,645.9	0.5x	34.9x
Bunzl plc	United Kingdom	12,329.9	1.1x	15.0x
Nordstrom, Inc.	United States	11,472.9	0.7x	7.0x
Costco Wholesale Corporation	United States	102,756.6	0.7x	17.4x
Dick's Sporting Goods, Inc.	United States	3,632.7	0.4x	4.9x
Metcash Limited	Australia	1,957.5	0.2x	6.9x
Orient International Enterprise, Ltd.	China	806.6	0.3x	34.4x
Takashimaya Company, Limited	Japan	3,653.0	0.4x	7.5x
Shoprite Holdings Limited	South Africa	7,665.8	0.7x	11.0x
		Average	0.6x	14.9x
		Average w/o outliers	0.6x	10.0x
		Median	0.6x	10.7x

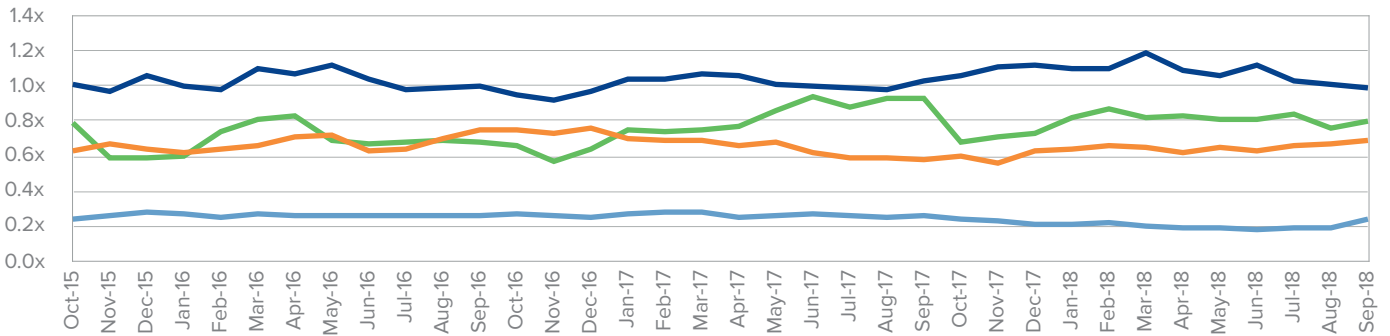
Source: S&P Capital IQ

 Food & Beverage				
Company	Country	Enterprise value (US\$m)	EV/Revenue	EV/EBITDA
Bonduelle SA	France	1,721.9	0.5x	7.4x
Mitsubishi Shokuhin Co., Ltd.	Japan	1,526.1	0.1x	7.0x
United Natural Foods, Inc.	United States	1,845.2	0.2x	5.5x
Marriott International, Inc.	United States	54,437.8	10.3x	19.1x
Pioneer Food Group Ltd.	South Africa	1,375.8	0.8x	9.1x
Premium Brands Holdings Corporation	Canada	3,178.9	1.7x	20.2x
Orkla ASA	Norway	9,003.9	1.8x	12.5x
Sysco Corporation	United States	45,935.8	0.8x	14.0x
Sligro Food Group N.V.	Netherlands	2,094.7	0.8x	11.7x
Total Produce plc	Ireland	1,072.9	0.2x	9.3x
		Average	1.7x	11.6x
		Average w/o outliers	0.8x	10.1x
		Median	0.8x	10.5x

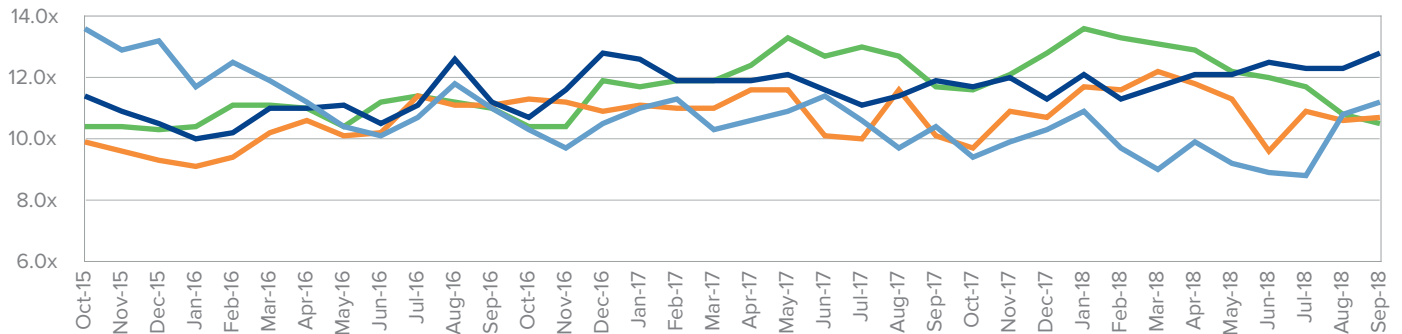
Source: S&P Capital IQ

Selected public company valuation trends

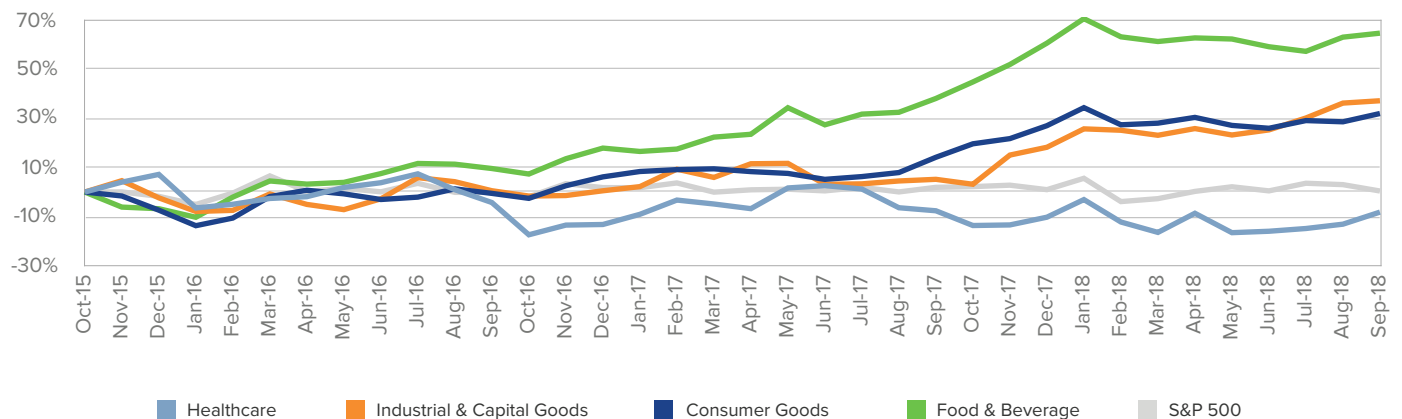
EV/Revenue trading multiples declined slightly during the last quarter for the industrial and capital goods and consumer goods subsectors, while food and beverage remained relatively steady. Healthcare revenue trading multiples ticked up slightly during the last quarter, after a downtrend for much of 2018.



Healthcare subsector EV/EBITDA multiples have rebounded sharply since the last quarter, while food and beverage EBITDA multiples have given up some ground after a year of strong outperformance. Consumer goods EBITDA valuations have remained largely unchanged over a two-year period. Industrial and capital goods valuations improved slightly from the last quarter.



The chart below compares stock-price returns of the four subsectors to the S&P 500 over the last three years. Overall, distribution stocks outperformed the S&P 500 during the last quarter, as the major stock indices gave up their year-to-date gains over the last three months. Consumer goods and healthcare subsectors saw the sharpest increases during the third quarter of 2018.



Source: S&P Capital IQ

Spotlight: Delivery Hero



STRATEGIC PRIORITIES AND SUPPORTING INITIATIVES

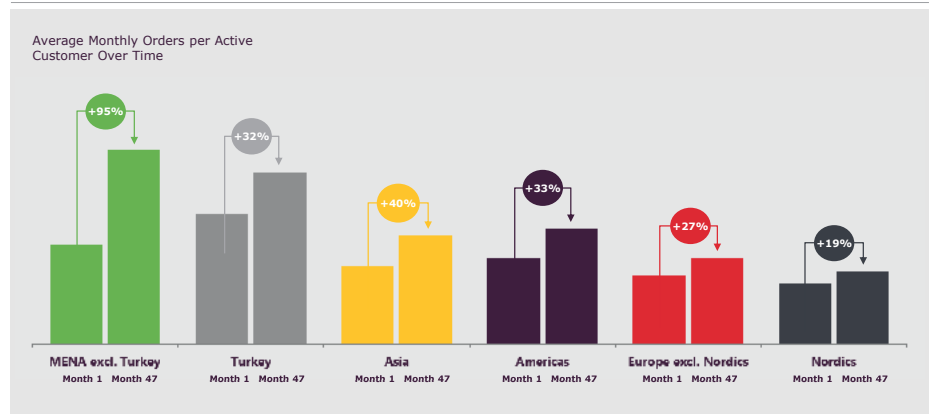
Delivery Hero SE (DB:DHHER) is the world's largest provider of food delivery services. The company provides last-mile logistics for online food orders in over 40 countries, supplying the technology and riders for both restaurants and consumers to facilitate the convenience of online ordering. Delivery Hero was founded by Niklas Östberg in May 2011 and is headquartered in Berlin, Germany.

The company also offers value-added services to restaurants, such as delivery-rider scheduling, fleet management, order processing and transmission, performance reports and other business intelligence tools.

Delivery Hero employs over 17,000 people, and its management team estimates that the company can reach approximately 2.7 billion people across the globe.

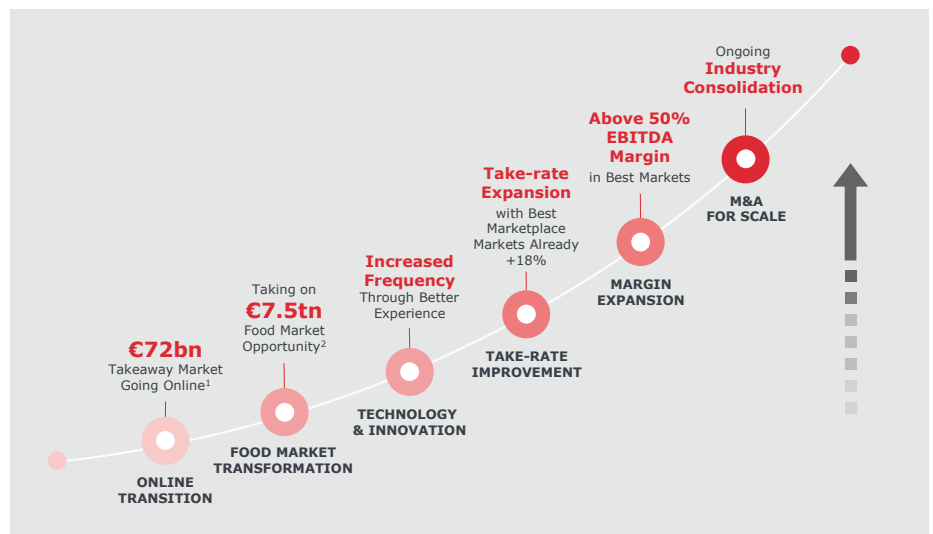
Delivery Hero's growth strategy is largely predicated on the transition of customer orders from in-person and phone to online methods. It seeks to capitalize on the food service market opportunity by providing the technology and user experience, both from the consumer and restaurant side, to make transactions easier and more seamless for its users. The company appears to be gaining traction with its value proposition, as the number of average monthly orders and frequency of use of its online platform have increased significantly over time.

Increasing number of orders



Source: 2H 2018 Company presentation

Multiple drivers for long-term growth and profitability



Source: 2H 2018 Company trading update

Delivery Hero's management continued growth in 2018, from both organic growth and acquisitions. The management team also increased its revenue guidance outlook for 2018 during the company's 2H 2018 trading update, citing stronger than expected existing business performance and

incremental increases in investments in targets. Delivery Hero's overall strategy is to build global leadership in food delivery by investing heavily in technology and user experience, as well as being a consolidator in the industry.

Spotlight: Delivery Hero



Delivery Hero

M&A STRATEGY

Delivery Hero's management team currently lists growth as its number one priority and plans to achieve profitability over the medium term. Acquisitions are a key pillar of management's growth strategy. The company has acquired several businesses in the last two years, including hipMenu (Romania), Foodpanda (Germany) and Deliveras (Greece), to name a few. It has also divested operations in select locations where the company's value proposition could not be realized, such as India and Brazil. Generally, the management team looks to acquire businesses in attractive end markets (high growth and margin potential) that have established leadership positions and strong management teams.

In the last 24 months, Delivery Hero completed a number of acquisitions and divestments across various geographic markets, including the UK, the Middle East, South America and Asia. The company's divestment decisions have been driven primarily by analysis of market leadership and penetration. The sale of Delivery Hero's UK operations in 2017 generated capital that could be

"We continually look to accelerate growth through select M&A. We acquire businesses in our segments to give us access to additional customers and restaurants, which allows us to better tailor our products and provides us with additional logistical or technological capabilities."

DELIVERY HERO SE
2017 ANNUAL REPORT

reinvested into other markets with less competition and a better opportunity to obtain a leadership position. Examples of such reinvestments include Deliveras (Greece) and Appetito24 (Panama), where the management team sees a better chance of becoming the market leader and thus developing sustainable margins.

Primary objectives when pursuing an acquisition:

- Geographical expansion
- Consolidation of market leadership
- Enhancement of technological or product offerings
- Capability to generate long-term shareholder value

M&A OUTLOOK

The management team expects additional investments to be made in the second half of 2018, at a pace of around US\$100 million, with similar investment levels forecasted for 2019. Incremental revenue from acquisitions was approximately US\$11 million in 2018 and is forecasted to be roughly US\$30 million in 2019. Given the company's current lack of profitability, additional focus is likely to be placed on acquisition candidates with defensible margins that have unique value propositions, high customer loyalty, low levels of competition or some combination thereof. Below is a summary of Delivery Hero's M&A activity in 2018.

Date	Transaction type	Target	Buyers	Sellers
1-Nov-18	Divestment	Foodora GmbH (Italian operations)	Glovoapp23, S.L.	Foodora GmbH (Delivery Hero)
3-Aug-18	Divestment	Kinboy International SA	Food.com Agência de Restaurantes Online S.A.	Delivery Hero SE (DB:DHER)
2-Aug-18	Acquisition	Cloud Treats Romania SRL	Delivery Hero SE (DB:DHER)	Private shareholders of Cloud Treats Romania SRL
22-Jun-18	Divestment	Foodarena GmbH	eaway.com N.V. (ENXTAM:TKWY)	Delivery Hero SE (DB:DHER)
7-Feb-18	Acquisition	Deliveras SA	Delivery Hero SE (DB:DHER)	Private shareholders of Deliveras SA

Source: S&P Capital IQ

Recent M&A activity

Below is a selection of recent M&A transactions in the distribution sector during the third quarter of 2018.

Close date	Target	Buyer	Seller	Transaction value (US\$m)	EV/ EBITDA
29-Sep-18	Taiga Building Products Ltd. (TSX:TBL)	Avarga Limited (SGX:U09)	Genghis S.A.R.L	81.8	3.6x
20-Sep-18	Compagnie Marocaine De Goutte A Goutte Et De Pompage	Development Partners International	Capital Invest; Amethis Finance	100.0	-
20-Sep-18	Belkin International, Inc.	FIT Hon Teng Limited (SEHK:6088)	-	850.0	-
14-Sep-18	Exotic Snacks AB	Rootfruit Scandinavia AB (publ) (NGM:ROOT)	-	6.7	-
12-Sep-18	Scott Equipment, Inc.	EnviroStar, Inc. (AMEX:EVI)	John S. Martin Family Limited Partnership	14.8	-
11-Sep-18	Starlight Culture Entertainment Group Limited (SEHK:1159)	Guotou Zhonglian Investment Management (Beijing) Company Limited	Cosmic Leader Holdings Limited	92.3	-
6-Sep-18	Besson Chaussures	Weinberg Capital Partners; Groupe Philippe Ginestet	Vivarte SAS	255.9	6.5x
4-Sep-18	Comercial del Acero S.A.	Corporación Aceros Arequipa S.A. (BVL:CORAREI1)	-	2.6	2.8x
4-Sep-18	YS PHARM CO., LTD.	G-treeBNT Co., Ltd. (KOSDAQ:A115450)	-	6.0	-
3-Sep-18	Tomoike Industrial Co., Ltd.	Tomoike Industrial (H.K.) Limited	Glory Fur Trading Co., Limited	0.1	-
31-Aug-18	Inmac Wstore S.A.S.	Bechtle AG (XTRA:BC8)	Systemax Inc. (NYSE:SYX)	247.5	-
30-Aug-18	State Pipe & Supply, Inc.	SeAH Steel International Co., Ltd.	SeAH Steel Holdings Corporation (KOSE:A003030)	11.5	-
30-Aug-18	Seah Steel California, LLC	SeAH Steel International Co., Ltd.	SeAH Steel Holdings Corporation (KOSE:A003030)	251.3	-
29-Aug-18	SeAH Japan Co., Ltd.	SeAH Steel International Co., Ltd.	SeAH Steel Holdings Corporation (KOSE:A003030)	5.4	-
27-Aug-18	Tyto Athene, LLC	Arlington Capital Partners LP	Norstan Communications, Inc.	75.0	-
24-Aug-18	TJ Systems (S) Pte Ltd	Beaqon Pte. Ltd.	-	2.1	-
17-Aug-18	UKF (Holdings) Limited (SEHK:1468)	-	KK Culture Holdings Limited (SEHK:550)	64.5	-
16-Aug-18	MOTOREX AG Langenthal	Bucher-Motorex Holding Ag	Fuchs Petrolub SE (DB:FPE3)	17.1	-
14-Aug-18	N & N Agriculture Pte Ltd	Alliance Glory Ventures Limited	Egg Harvest Pte. Ltd.	7.3	-
10-Aug-18	Asia Chemical Corporation	-	Mekong Capital	8.9	-
8-Aug-18	Aquilant Limited	H2 Equity Partners B.V.	UDG Healthcare plc (LSE:UDG)	26.7	-
6-Aug-18	Jay Gems Inc.	Renaissance Jewelry New York, Inc.	-	25.6	-

Source: S&P Capital IQ

Recent M&A activity (continued)

Close date	Target	Buyer	Seller	Transaction value (US\$m)	EV/ EBITDA
3-Aug-18	Marvin Leeds Marketing Services Inc.	Warpaint London PLC (AIM:W7L)	-	2.2	-
1-Aug-18	Custom Fluidpower Pty Limited	Helios Technologies (NasdaqGS:SNHY)	-	26.4	-
1-Aug-18	Midcoast Operating, L.P.	ArcLight Capital Partners, LLC	Enbridge (U.S.) Inc.	1,120.0	-
30-Jul-18	Rajputana Investment and Finance Limited (BSE:539090)	BRD Developers & Builders Limited	Manimudra Marketing Private Limited; Jit Finance Pvt Ltd	0.2	-
30-Jul-18	Rajputana Investment and Finance Limited (BSE:539090)	BRD Developers & Builders Limited	-	0.1	-
26-Jul-18	ProAct Services Corporation	EWT Holdings III Corp.	Hammond, Kennedy, Whitney & Company Inc.	132.0	11.0x
23-Jul-18	SCH Group Berhad (KLSE:SCH)	Hextar Holdings Sdn Bhd.	-	2.6	38.5x
20-Jul-18	Mabey Inc.	Sunbelt Rentals, Inc.	Mabey Group Ltd.	90.0	-
20-Jul-18	NuStar GP Holdings, LLC	NuStar Energy L.P. (NYSE:NS)	Harvest Fund Advisors, LLC; OFI SteelPath, Inc.	782.4	-
19-Jul-18	Ningbo Shuanglin Auto Parts Co.,Ltd. (SZSE:300100)	-	Xiangyang New Torch Science & Technology Co., Ltd.	36.5	9.9x
18-Jul-18	UKF (Holdings) Limited (SEHK:1468)	-	-	23.1	-
13-Jul-18	Luminous Town Electric Co., Ltd.	High Merit Group Limited	CDIB Capital Group; CDIB Capital Management Corporation	3.4	43.4x
12-Jul-18	Acro Aircraft Seating Ltd.	Zhejiang Tiancheng Controls Co., Ltd. (SHSE:603085)	Zhejiang Tiancheng Tech-Investment Co., Ltd.	75.1	-
10-Jul-18	NGL Propane, LLC	Superior Plus Energy Services, Inc.	NGL Energy Operating LLC	900.0	10.5x
4-Jul-18	Reifen Müller KG	Hankook Tire Worldwide Co., Ltd. (KOSE:A000240)	-	89.6	-
3-Jul-18	GOBA Internacional, S.A. de C.V.	ACCO Brands Corporation (NYSE:ACCO)	-	31.0	-
3-Jul-18	Helly Hansen AS	Canadian Tire Corporation, Limited (TSX:CTC.A)	Ontario Teachers' Pension Plan Board	809.4	-
			Average	181.3	15.4x
			Median	28.85	10.6x

Source: S&P Capital IQ



Case study

COASTAL CONSTRUCTION HAS PARTNERED WITH SUPPLY CHAIN EQUITY

The shareholders of Coastal Construction Products, LLC (CCP) have joined with a financial partner, Supply Chain Equity Partners, which will enable CCP to become a national leader in the waterproofing distribution space.

CCP is one of the largest independent distributors of caulking and sealants, waterproofing and concrete restoration materials in the United States. With roots going back 40 years, the company has worked with customers across the Southeast and the Caribbean, supporting them as they built or restored state capitals, office towers, power plants, bridges and more.

Supply Chain Equity Partners is the only private equity firm in the world that focuses exclusively on the distribution industry. Supply Chain Equity Partners acquires or invests solely in wholesale distributors and related logistics companies that are a critical link in the supply chain, regardless of subsector. The firm will utilize its extensive knowledge, experience and relationships in the distribution industry to maximize the growth and profitability of its portfolio companies.

Oaklins' team in Jacksonville acted as lead advisor to the seller.

 **COASTAL**
CONSTRUCTION PRODUCTS

has partnered with

 **SUPPLY CHAIN**
EQUITY PARTNERS

M&A SELL-SIDE

Construction & Engineering Services/
Logistics/Private Equity

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- Debt advisory
- Corporate finance services

Distribution is one of our focus areas. Combining comprehensive sector knowledge with global execution has led Oaklins to become one of the most experienced M&A advisors in the distribution sector, with a large network of relevant market players worldwide. This results in the best possible merger, acquisition and divestment opportunities for distribution companies.

If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.

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