

Distribution sector faces slowdown

SPOT ON | DISTRIBUTION | JANUARY 2023

“The good news is that many recent supply chain and distribution disruptions have begun to rationalize. However, we’re not totally out of that storm yet, and another storm may be on its way in the shape of higher interest rates and the slowing of the world economy. Some distribution sectors, such as building materials and furniture, have either flattened or turned down. Additionally, chip shortages, especially at the high end, continue to limit the availability of many products, hurting distributors. However, that shortage appears to be coming to an end. Most sectors remain relatively strong as we come out of the COVID-19 era, but the jury is still out on the prospects for 2023. With luck and appropriate government action, the hope is that interest rate increases and inflation will moderate, and the economy will recapture its previous growth trend.”

DON WIGGINS

DISTRIBUTION SPECIALIST, OAKLINS



MARKET OVERVIEW

Tracking the numbers

We chart deal volume and transaction values in distribution from 2017 through Q3 2022.

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SPOTLIGHT

Company in focus

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CASE STUDY

A deeper look

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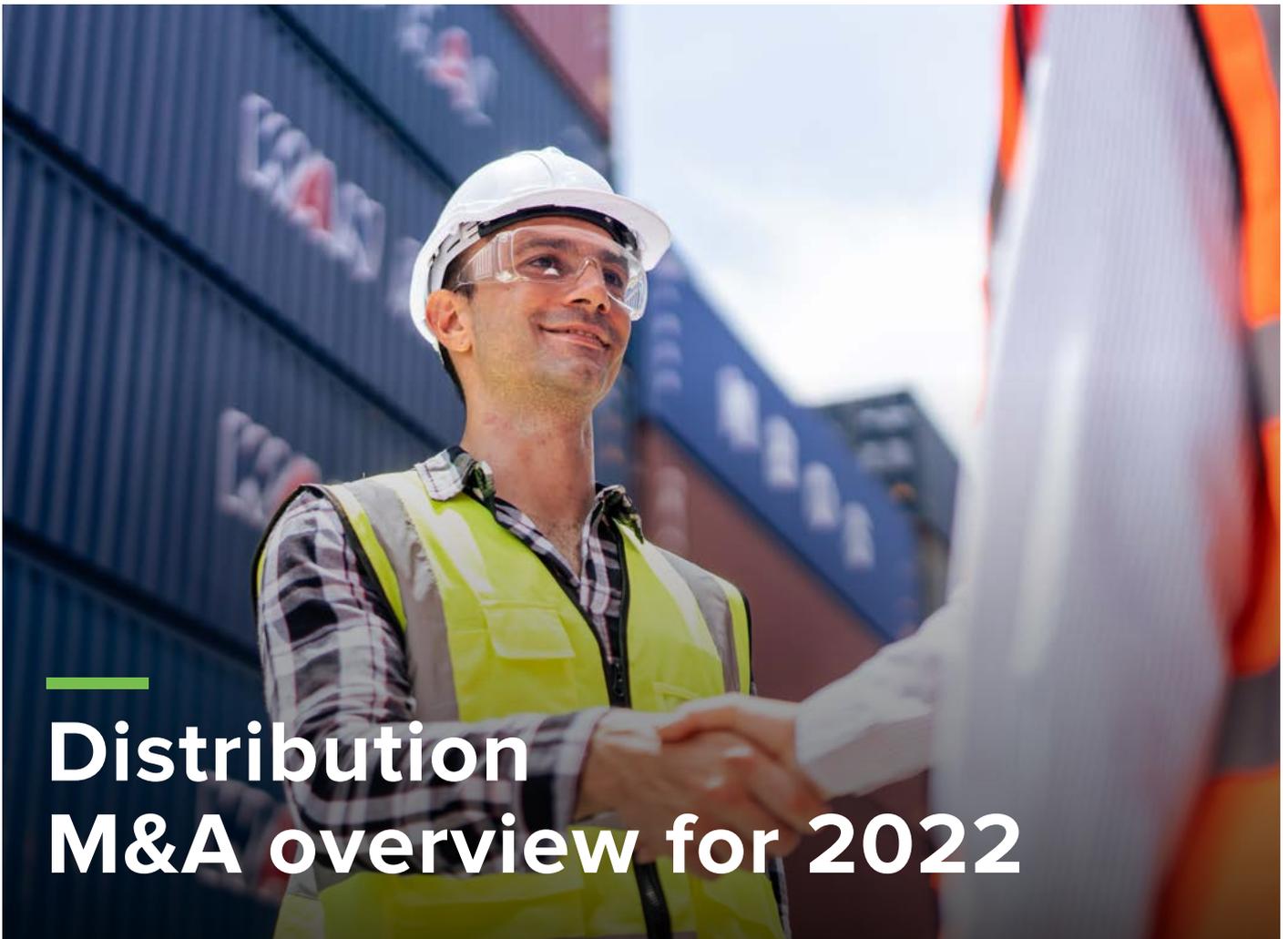
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RECENT M&A DEALS

Transactions from 2022

An overview of key deals closed throughout last year involving distribution companies around the world.

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Distribution M&A overview for 2022

The number of completed distribution M&A deals dropped by 20% in Q3 2022, compared to Q3 2021. However, it should be noted that Q3 2021 was one of the most active quarters since 2017.

While total transaction size in Q3 2022 also decreased, by 19%, the average closed deal in that period was US\$85.5 million compared to US\$84.6 million in Q3 2021. There continued to be market-based industry multiple reductions in Q3 2022, presumably due to global inflation levels, tighter financial conditions combined with higher interest rates, and persistent supply chain issues.

The most noteworthy transaction during Q3 2022 was the acquisition by electronic components company Gettop

Acoustic Co., Ltd. of a 54.9550% stake in Shanghai Shugu Electronic Technology Co., Ltd., a technology distributor based in Shanghai, China, for US\$2.4 billion. Other notable transactions in that quarter included: CSL Behring AG's acquisition of Vifor Pharma AG; National Aviation Service WLL's acquisition of John Menzies plc; Compagnie de Saint-Gobain S.A.'s acquisition of Kaycan Ltd.; and FNI's acquisition of Optimum Telecom Algérie S.p.A. These four deals alone represented US\$15.1 billion in transaction value.

Looking ahead, heightened uncertainty in the global economy will continue to hinder M&A activity. While it usually increases in Q4 as companies seek to close transactions before the end of the year, recent performance suggests that deal activity in Q4 2022 may have fallen short of expectations.

Market overview

To analyze the distribution sector in more detail, we have identified four subgroups. Our market analysis does not include those firms whose primary activity is manufacturing, but rather we focus on those that purchase goods from manufacturers and resell them on a wholesale or retail basis. We also include those distributors that add some value to the product before it is resold, such as firms that provide assembled or bundled products.



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 and healthcare technology companies are not included in this category.



Industrial & capital goods (ICG)

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

Common ICG products include electrical equipment, HVAC, industrial chemicals and gases, building materials, heavy equipment and machinery, and hardware. This list is illustrative of the items sold by companies included in this distribution subgroup.



Consumer goods

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

Examples of consumer goods include clothing and footwear, sundries and groceries, cosmetics, office supplies, and household care products.

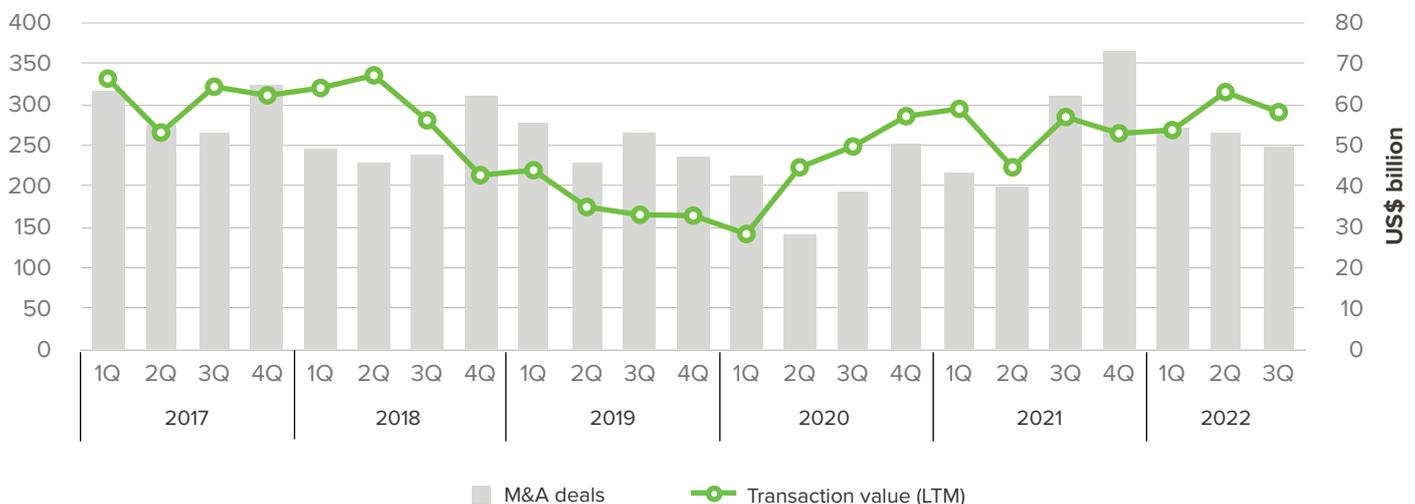


Food & beverage

Food & beverage distribution companies covered in this category include those such as Sysco and US Foods. These firms are wholesalers and supply food & 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 — 2017 through Q3 2022



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 are as of 30 September 2022.

 Healthcare				
Company	Country	Enterprise value (US\$m)	EV/Revenue	EV/EBITDA
NEUCA S.A.	Poland	651.3	0.3x	9.7x
AmerisourceBergen Corporation	United States	32,665.0	0.1x	9.5x
Henry Schein, Inc.	United States	11,271.3	0.9x	10.3x
NanJing Pharmaceutical Co., Ltd.	China	2,295.3	0.3x	10.8x
McKesson Corporation	United States	54,580.7	0.2x	14.4x
Cardinal Health, Inc.	United States	18,605.1	0.1x	8.2x
Patterson Companies, Inc.	United States	2,893.9	0.5x	9.1x
Owens & Minor, Inc.	United States	4,647.7	0.5x	9.5x
Selçuk Ecza Deposu Ticaret ve Sanayi AS	Turkey	756.5	0.4x	5.9x
Toho Holdings Co., Ltd.	Japan	559.9	0.1x	3.8x
		Average	0.3x	9.1x
		Average w/o outliers	0.3x	9.6x
		Median	0.3x	9.5x

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	74,092.5	2.7x	11.3x
Beacon Roofing Supply, Inc.	United States	6,456.4	0.8x	7.3x
Cosan S.A.	Brazil	14,515.4	2.2x	10.8x
Ferguson plc	United Kingdom	25,800.9	0.9x	8.2x
Watsco, Inc.	United States	10,019.3	1.4x	12.1x
ITOCHU Corporation	Japan	61,697.9	0.7x	10.9x
Nordwest Handel AG	Germany	93.0	0.1x	5.1x
Rexel S.A.	France	7,596.2	0.4x	5.8x
Ryerson Holding Corporation	United States	1,669.8	0.3x	2.1x
W.W. Grainger, Inc.	United States	27,586.7	1.9x	11.9x
		Average	1.1x	8.5x
		Average w/o outliers	1.0x	7.8x
		Median	0.8x	9.5x

Source: S&P Capital IQ

Selected public company valuations

Consumer goods

Company	Country	Enterprise value (US\$m)	EV/Revenue	EV/EBITDA
Genuine Parts Company	United States	24,731.4	1.2x	11.8x
CMST Development Co., Ltd.	China	1,639.9	0.1x	16.6x
Bunzl plc	United Kingdom	12,412.7	0.9x	12.4x
Nordstrom, Inc.	United States	6,800.3	0.4x	5.2x
Pool Corporation	United States	14,340.6	2.3x	13.3x
DICK'S Sporting Goods, Inc.	United States	10,820.8	0.9x	5.3x
Metcash Ltd.	Australia	3,202.6	0.3x	9.6x
Orient International Enterprise, Ltd.	China	493.0	0.1x	4.5x
Paltac Corporation	Japan	1,735.2	0.2x	7.6x
The TJX Companies, Inc.	United States	81,227.7	1.6x	14.8x
		Average	0.8x	10.1x
		Average w/o outliers	0.5x	10.9x
		Median	0.7x	10.9x

Source: S&P Capital IQ

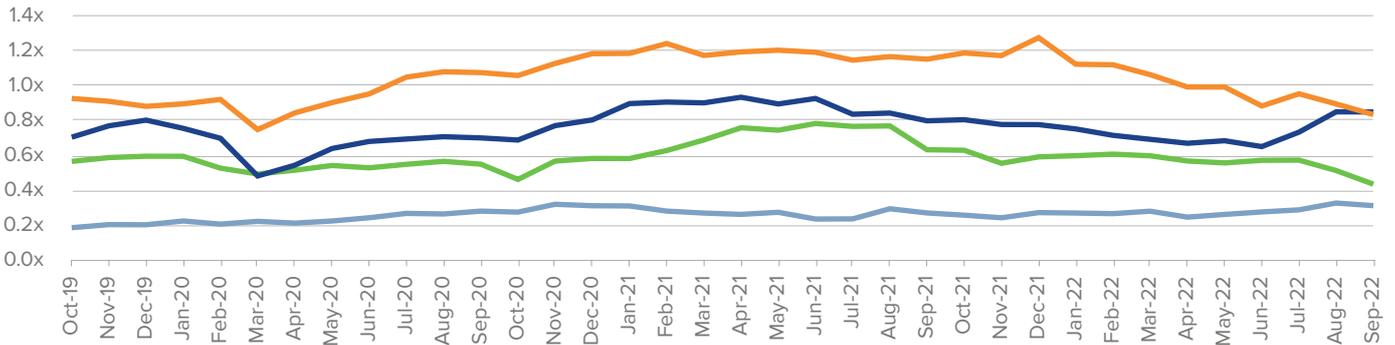
Food & beverage

Company	Country	Enterprise value (US\$m)	EV/Revenue	EV/EBITDA
Bonduelle SCA	France	1,350.9	0.6x	12.4x
Mitsubishi Shokuhin Co., Ltd.	Japan	982.8	0.1x	4.3x
United Natural Foods, Inc.	United States	5,342.2	0.2x	7.7x
MARR S.p.A.	Italy	858.7	0.5x	12.1x
US Foods Holding Corp.	United States	11,495.9	0.4x	13.4x
Premium Brands Holdings Corporation	Canada	4,506.3	1.1x	16.9x
Orkla ASA	Norway	9,024.0	1.8x	11.1x
Sysco Corporation	United States	46,341.6	0.7x	13.9x
Sligro Food Group N.V.	Netherlands	928.7	0.4x	10.0x
Performance Food Group Company	United States	11,647.3	0.2x	14.7x
		Average	0.6x	11.7x
		Average w/o outliers	0.5x	12.5x
		Median	0.4x	12.3x

Source: S&P Capital IQ

Selected public company valuation trends

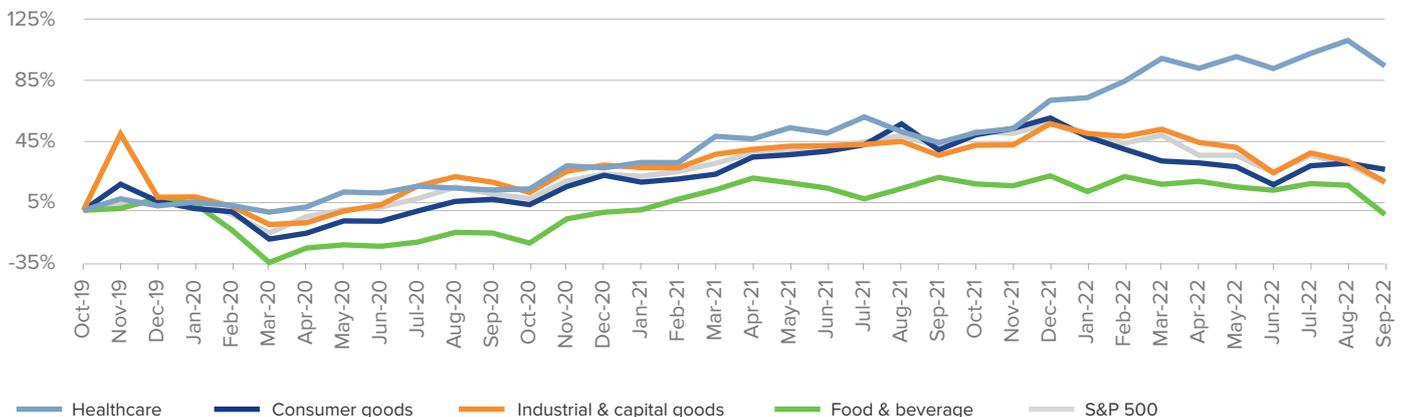
The EV/revenue trading multiples for the consumer goods subgroup have rebounded sharply since the last quarter, while industrial & capital goods and food & beverage revenue multiples have given up some ground. Healthcare revenue multiples have trended upward over a three-year period.



Even after experiencing significant fluctuations over a three-year period, healthcare and food & beverage EV/EBITDA trading multiples remain close to where they were in October 2019. In contrast, although industrial & capital goods and consumer goods EBITDA multiples underwent the same fluctuations over the three-year period, they are down significantly on their October 2019 levels by 17% and 24%, respectively.



The chart below compares the stock price returns of the four subgroups with the S&P 500 over the last three years. Publicly traded distribution stocks in the healthcare subgroup outperformed the S&P 500 returns on a trailing 36-month basis, especially since Q4 2021. The returns for stocks in the consumer goods and industrial & capital goods subgroups have been on par with those of the S&P 500. The food & beverage subgroup has continued to be devastated by the ongoing effects of the COVID-19 pandemic, which are now combined with the complication of high inflation.



Source: S&P Capital IQ



Spotlight — strategic priorities and supporting initiatives

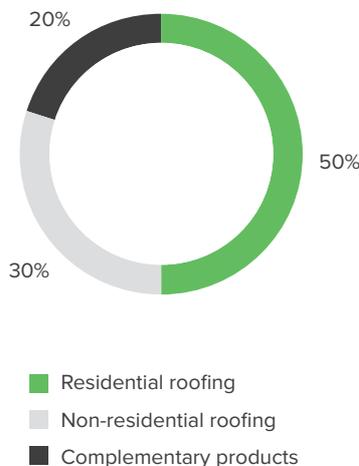
Beacon Roofing Supply, Inc. (NasdaqGS:BECN; hereafter, Beacon) is a Fortune 500, publicly traded distributor of building products, including roofing materials and complementary products such as siding and waterproofing. The company operates over 470 branches throughout all 50 states in the USA and six provinces in Canada. Founded in 1928, Beacon is headquartered in Herndon, Virginia.

The company provides a wide selection of over 100,000 stock keeping units of high-quality, professional grade exterior products, for both residential and non-residential roofing. Service is further enhanced by the company's On Time and Complete network (Beacon OTC®), market-based sales teams, and national call center.

Beacon employs over 7,000 team members who serve over 80,000 customers throughout North America.

The company currently holds approximately 10% of market share within a relatively fragmented market. Beacon is experiencing strong growth in revenue, driven by price and volume growth across all lines of business. In Q3 2022, net sales increased by 29% to US\$2.42 billion, a quarterly record.

Beacon Q3 2022 net sales mix



Beacon's growth strategy:

- Enhance customer experience by building a power brand and differentiation in customer service
- Go-to-market strategy involving commercial roofing acceleration, growing and focusing sales coverage, and national account expansion
- Footprint expansion through greenfield locations and strategic M&A
- Margin initiatives, including a new pricing model, superior digital and mobile platforms, and private label expansion



Source: Beacon Q3 2022 Earnings Presentation

Beacon Ambition 2025



Source: Beacon Q3 2022 Earnings Presentation

M&A STRATEGY

Beacon’s management team currently lists growth as one of its top priorities and plans to achieve profitability over the medium term. Acquisitions are a key pillar of management’s growth strategy, and the company has a dedicated M&A team driving their pipeline, acquisition and integration strategy.

In the last 24 months, Beacon has completed a number of acquisitions and divestitures. In 2021, the company completed the divestitures of its

solar products and interior products businesses. Beacon’s divestiture decisions were driven primarily by the company’s ongoing efforts to improve its financial flexibility and enhance its ability to pursue strategic growth initiatives in its core exteriors business.

Since November 2021, Beacon has completed five acquisitions. The acquisition of Midway Sales & Distributing, Inc., Crabtree Siding and Supply, Wichita Falls Builders

Wholesale, Inc., and Complete Supply, Inc. deepened the company’s already strong presence in the Midwest, Tennessee, North Texas and the Chicago Metropolitan markets. Beacon’s November 2022 acquisition of Coastal Construction Products, Inc. has enabled the company to create a specialty waterproofing division with a nationwide footprint within the United States. For details of this acquisition, see our case study on page [10/11].

“As part of Ambition 2025, we will continue to pursue additional strategic acquisitions to grow our business, while we also remain heavily focused on improving our operations and continuing to identify additional opportunities for organic growth.”

BEACON ROOFING SUPPLY, INC.

3Q 2022 FORM 10-Q

Beacon's primary objectives when pursuing an acquisition are:

- Core exterior building products
- Focus on independent distributors
- Ideal target has annual sales of US\$50–US\$250m
- Complementary geographic, product fit
- Opportunities that meet acquisition criteria

Management has been very effective in executing the company's growth strategy through acquisition in the past two years.

Below is a summary of Beacon's recent M&A activity.

Date	Transaction type	Target	Buyers	Sellers
1-Nov-22	Acquisition	Coastal Construction Products, Inc.	Beacon Roofing Supply, Inc. (NasdaqGS:BECN)	Supply Chain Equity Partners
1-Jun-22	Acquisition	Complete Supply, Inc.	Beacon Roofing Supply, Inc. (NasdaqGS:BECN)	
29-Apr-22	Acquisition	Wichita Falls Builders Wholesale, Inc.	Beacon Roofing Supply, Inc. (NasdaqGS:BECN)	
1-Jan-22	Acquisition	Crabtree Siding and Supply	Beacon Roofing Supply, Inc. (NasdaqGS:BECN)	
1-Dec-21	Divestiture	Solar products business of Beacon Roofing Supply, Inc.	BayWa r.e. Solar Systems LLC	Beacon Roofing Supply, Inc. (NasdaqGS:BECN)
1-Nov-21	Acquisition	Midway Sales & Distributing Inc.	Beacon Roofing Supply, Inc. (NasdaqGS:BECN)	
10-Feb-21	Divestiture	Interior products business of Beacon Roofing Supply, Inc.	Foundation Building Materials, American Securities LLC	Beacon Roofing Supply, Inc. (NasdaqGS:BECN)

Source: S&P Capital IQ





Case study

COASTAL CONSTRUCTION PRODUCTS, INC. — READY FOR THE NEXT STAGE IN ITS SUCCESSFUL JOURNEY

Beacon Roofing Supply, Inc. (Beacon) has acquired Coastal Construction Products, Inc. (Coastal) from majority owner Supply Chain Equity Partners (Supply Chain Equity) and members of current and prior management.

Coastal was founded in Jacksonville, Florida in the 1970s by William Harrell and Skip Allcorn. From the 1980s to the 2010s, Coastal enjoyed continuous expansion, opening several more locations throughout Florida. The second generation continued the legacy of expanding Coastal's waterproofing footprint when Martin Harrell took over as company CEO in 2012.

In 2015, Coastal merged with Georgia Construction Supply, extending Coastal's footprint into Georgia, Tennessee, Alabama and Arkansas.

In September 2018, Coastal was sold to Supply Chain Equity, the only private equity firm in the world that focuses exclusively on the distribution industry, with Coastal's management retaining an ownership interest in Coastal. Supply Chain Equity helped Coastal accelerate its growth and expand its geographical coverage in the construction products distribution space. The partnership with Supply Chain Equity enabled Coastal to become more sophisticated, to invest in digital technology including a new website, to complete two acquisitions, and to open three greenfield locations. Coastal became the largest independent distributor of waterproofing, concrete repair, caulking/sealant, and fire protection products.

Almost four years later, Supply Chain Equity and Coastal management agreed it was time to move forward. In November 2022, Coastal was sold



to Beacon, the largest publicly traded distributor of roofing materials and complementary building products in the USA and Canada.

“Expanding nationwide access to waterproofing products enhances our value proposition to our commercial and multifamily customers, and provides the opportunity to build more together,” says Julian Francis, Beacon's president and CEO.

Beacon's 14 specialized waterproofing branches in the western USA will combine with Coastal's 18 locations serving the Southeast and Midwest to form Beacon's new specialty waterproofing division. The new division will be led by Martin Harrell, Coastal's former CEO, with the entire Coastal management team transitioning to Beacon as part of the acquisition.

“Coastal had a leadership team in place with a proven track record of integrating and growing businesses, which was attractive to Beacon.”

MARTIN HARRELL

BEACON'S SPECIALTY WATERPROOFING DIVISION PRESIDENT & COASTAL'S FORMER CEO

Recent M&A activity

Below is a selection of M&A transactions in the distribution sector from 2022.

Date	Target	Target description	Acquiror	Country (Target/ Acquiror)	Valuation			
					Trans. value (US\$m)	Enterprise value (US\$m)	EV/ Revenue	EV/ EBITDA
27-Jul-22	Sicagen India Limited (BSE:533014)	Sicagen India Limited trades in and distributes building materials in India and internationally,	AMI Holdings Private Limited		1.1	24.2	0.2x	8.8x
22-Jul-22	Miers Construction Products Limited	Miers Construction Products Limited distributes construction and building products in the United Kingdom,	SIG plc (LSE:SHI)		43.9	43.9	0.7x	7.2x
3-Jun-22	Tura Scandinavia AB	Tura Scandinavia AB distributes accessories within the audio, home theater, video, gaming, computer, digital imaging/ photo, mobile phone, GPS, and home and leisure categories for retailers in the Nordic countries,	Tura Group AB (NGM:TURA)		24.6	24.6	0.3x	3.1x
11-May-22	Amerisource Bergen Corporation (NYSE:ABC)	AmerisourceBergen Corporation sources and distributes pharmaceutical products in the United States and internationally,	N/A		900.0	36,580.9	0.2x	9.7x
2-May-22	Huttig Building Products, Inc. (NasdaqCM:HBP)	Huttig Building Products, Inc., together with its subsidiaries, distributes millwork, building materials and wood products for new residential construction, in-home improvement, remodeling and repair works in the United States,	Woodgrain Inc,		403.3	400.0	0.4x	5.8x
1-May-22	A,L,I, Agenzia Libreria Internazionale S,R,L,	A,L,I, Agenzia Libreria Internazionale S,R,L, engages in the distribution of books,	Arnoldo Mondadori Editore S,p,A, (BIT:MN)		19.2	24.8	0.5x	4.7x
31-Mar-22	Australian Pharmaceutical Industries Limited	Australian Pharmaceutical Industries Limited engages in the wholesale distribution and retail of pharmaceutical, medical, health, beauty and lifestyle products to pharmacies primarily in the Australian, New Zealand and Asian markets,	WFM Investments Pty Ltd		768.3	740.0	0.3x	7.6x
8-Mar-22	EDOM Technology Co., Ltd. (TWSE:3048)	EDOM Technology Co., Ltd, engages in the distribution of electronic parts, and computer hardware, software and equipment in Taiwan,	WPG Holdings Limited (TWSE:3702)		30.4	541.5	0.1x	9.0x
1-Mar-22	Pronius Oy	Pronius Oy engages in the distribution of welding machines,	Boreo Oyj (HLSE:BOREO)		7.6	7.6	1.2x	5.7x
28-Feb-22	EFW Eco AB	EFW Eco AB distributes smart green and sustainable solutions to public and commercial partners, including smart waste bins, waste sensors and accessories,	Sustainion Group AB (NGM:SUSG)		2.7	2.7	0.4x	4.2x

Source: S&P Capital IQ

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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.

✉ DON WIGGINS

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Don leads Oaklins' distribution team. He is also the CEO of Heritage Capital Group, Oaklins' member firm in Jacksonville. Don has advised multiple clients in the distribution sector, including companies in storage, trucking, moving, rail services, local delivery and logistics technology. Clients have included Atlantic Quality Parts, Custom Wholesale Floors, Diabetic Supply and Medical Services Company. He has also completed significant transactions for a wide variety of companies with both strategic acquirors and private equity buyers, including Iron Mountain, Liberty Medical, HIG Capital and Pflingsten Partners.



Oaklins is the world's most experienced mid-market M&A advisor, with over 850 professionals globally and dedicated industry teams in more than 45 countries. We have closed 1,700 transactions in the past five years.

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