Oaklins

Expand your horizons with a clear M&A strategy

SPOT ON | DISTRIBUTION | JULY 2019

WHAT'S BEEN HAPPENING AND WHAT COMES NEXT?

The number of completed distribution deals remained unchanged from the same quarter a year ago, while the average transaction size decreased in Q2 2019. The 227 M&A deals closed in the second quarter had an aggregate reported transaction value of US$1.8 billion, significantly less than the US$10.8 billion of closed deals reported for Q2 2018. The average transaction size for Q2 2019 of US$10 million was also the lowest since 2013. High valuations and worries of impending recession in the United States are contributing to lower overall deal volume in the distribution sector. The most noteworthy transaction during the quarter was Watsco's (NYSE: WSO) acquisition of DASCO Supply for US$25 million. Watsco is the largest distribution network of HVAC supplies in North America and the Caribbean. DASCO Supply is one of the largest HVAC suppliers in the tristate area of New York, New Jersey and Connecticut.

After a mediocre year in 2018, in 2019 valuation trends have generally been positive in the distribution space overall, with consumer goods leading the way year-to-date. Healthcare distribution company valuations have continued their decline in recent months. Industrial and capital goods and food and beverage distributors' returns have remained consistent in the last 36 months and continue to outpace the S&P 500.

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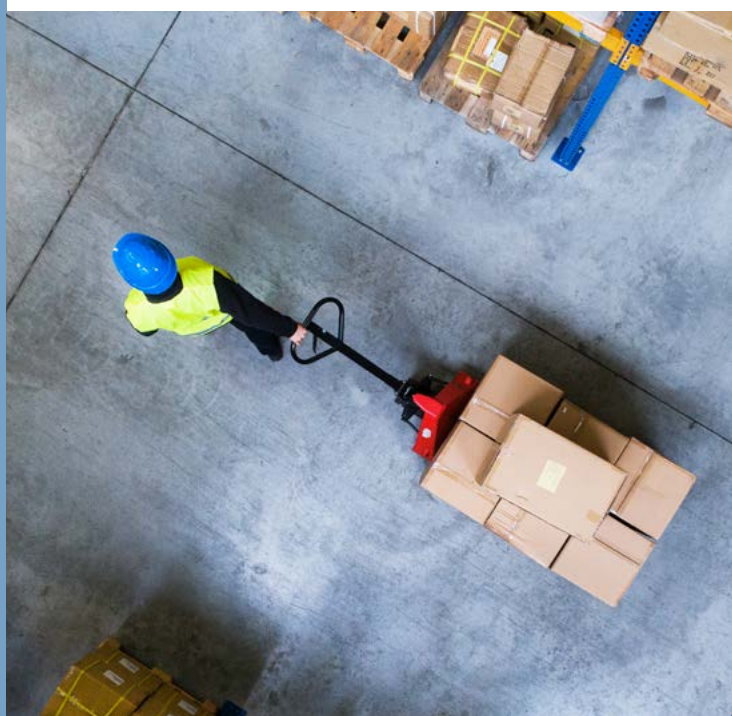
MARKET OVERVIEW (pg.2)
Average transaction size of distribution deals decreased in Q2 2019 compared to Q2 of 2018, although the number of completed deals remained unchanged.

PUBLIC COMPANY VALUATIONS (pg.3)
Consumer goods lead the way year-to-date valuation trends.

SPOTLIGHT (pg.6)
We look into the performance and M&A strategy of the largest supplier of landscaping supplies in the United States and Canada, SiteOne (NYSE: SITE).

M&A ACTIVITY (pg.8)
BWG Group, a leading retailer and distributor in Ireland, has acquired 100% of the outstanding shares of Corrib Food Products.



Market overview

To analyze the distribution sector with more granularity, we have identified four different subgroups below. We do not include in our market analysis those firms whose primary activity is manufacturing, but rather those that purchase goods from manufacturers and resell them on a wholesale or retail basis. We do 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 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.

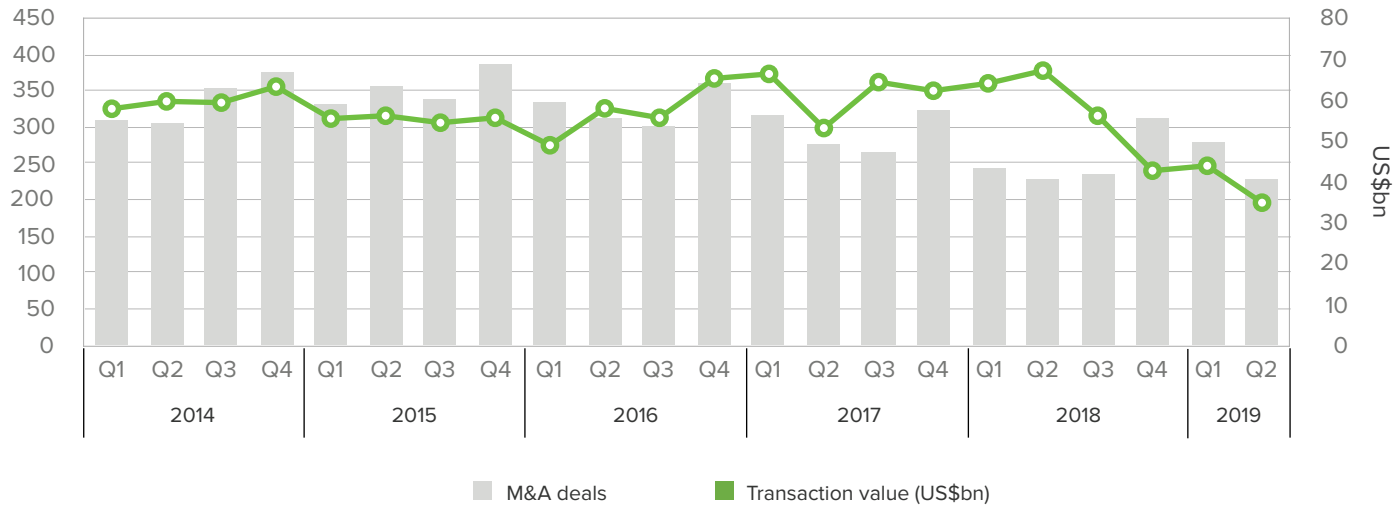
Common ICG products distributors include electrical equipment, HVAC, industrial chemicals and gases, building materials, heavy equipment and machinery, and hardware. This is not an exhaustive list, but merely illustrative of the types of firms that would be included in this subgroup.

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 — 2014 through 2019



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 June 2019.

Healthcare

Company	Country	Enterprise value (US$m)	EV/ Revenue	EV/ EBITDA
NEUCA SA	Poland	439.8	0.2x	10.2x
AmerisourceBergen Corporation	United States	19,803.9	0.1x	8.7x
Henry Schein, Inc.	United States	12,774.9	1.0x	11.4x
NanJing Pharmaceutical Company Limited	China	948.9	0.2x	7.1x
McKesson Corporation	United States	31,298.2	0.1x	7.4x
Henry Schein, Inc.	United States	12,774.9	1.0x	11.4x
Patterson Companies, Inc.	United States	2,800.7	0.5x	10.9x
Owens & Minor, Inc.	United States	2,074.9	0.2x	9.5x
Selçuk Ecza Deposu Ticaret ve Sanayi A.S.	Turkey	455.9	0.2x	3.6x
Toho Holdings Co., Ltd.	Japan	1,138.9	0.1x	5.7x
		Average	**0.4x**	**8.6x**
		Average w/o outliers	**0.2x**	**9.0x**
		Median	**0.2x**	**9.1x**

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	74,311.0	3.1x	13.1x
Beacon Roofing Supply, Inc.	United States	5,852.8	0.8x	11.9x
Cosan S.A. Indústria e Comércio	Brazil	6,930.8	2.4x	14.9x
Ferguson plc	United Kingdom	18,293.7	0.8x	10.7x
HD Supply Holdings, Inc.	United States	9,425.4	1.5x	11.4x
ITOCHU Corporation	Japan	57,403.2	0.5x	12.3x
Nordwest Handel AG	Germany	84.5	0.2x	7.3x
Rexel S.A.	France	6,160.7	0.4x	8.4x
Ryerson Holding Corporation	United States	1,577.2	0.3x	6.6x
W.W. Grainger, Inc.	United States	17,066.6	1.5x	10.4x
		Average	**1.2x**	**10.7x**
		Average w/o outliers	**0.8x**	**11.2x**
		Median	**0.8x**	**11.0x**

Source: S&P Capital IQ

Consumer Goods

Company	Country	Enterprise value (US$m)	EV/ Revenue	EV/ EBITDA
Pyxus International, Inc.	United States	1,282.2	0.7x	10.7x
CMST Development Co., Ltd.	China	1,864.1	0.5x	34.9x
Bunzl plc	United Kingdom	10,585.0	0.9x	13.1x
Nordstrom, Inc.	United States	9,343.2	0.6x	6.2x
Costco Wholesale Corporation	United States	114,883.7	0.8x	18.6x
Dick's Sporting Goods, Inc.	United States	6,515.2	0.8x	9.4x
Metcash Limited	Australia	1,675.0	0.2x	6.7x
Orient International Enterprise, Ltd.	China	702.6	0.3x	22.9x
Paltac Corporation	Japan	3,438.4	0.4x	12.8x
Shoprite Holdings Limited	South Africa	6,512.0	0.6x	11.3x
		Average	**0.6x**	**13.2x**
		Average w/o outliers	**0.6x**	**12.4x**
		Median	**0.6x**	**12.6x**

Source: S&P Capital IQ

Food & Beverage

Company	Country	Enterprise value (US$m)	EV/ Revenue	EV/ EBITDA
Bonduelle SA	France	2,074.6	0.7x	9.2x
Mitsubishi Shokuhin Co., Ltd.	Japan	1,533.3	0.1x	6.8x
United Natural Foods, Inc.	United States	3,664.1	0.2x	9.6x
MARR S.p.A.	Italy	1,782.5	1.0x	15.2x
Pioneer Food Group Ltd.	South Africa	969.3	0.7x	8.1x
Premium Brands Holdings Corporation	Canada	3,686.5	1.5x	19.4x
Orkla ASA	Norway	9,611.1	2.0x	13.4x
Sysco Corporation	United States	44,561.7	0.7x	13.1x
Sligro Food Group N.V.	Netherlands	1,835.1	0.7x	16.7x
Total Produce plc	Ireland	981.8	0.2x	7.6x
		Average	**0.8x**	**11.9x**
		Average w/o outliers	**0.6x**	**10.9x**
		Median	**0.7x**	**11.3x**

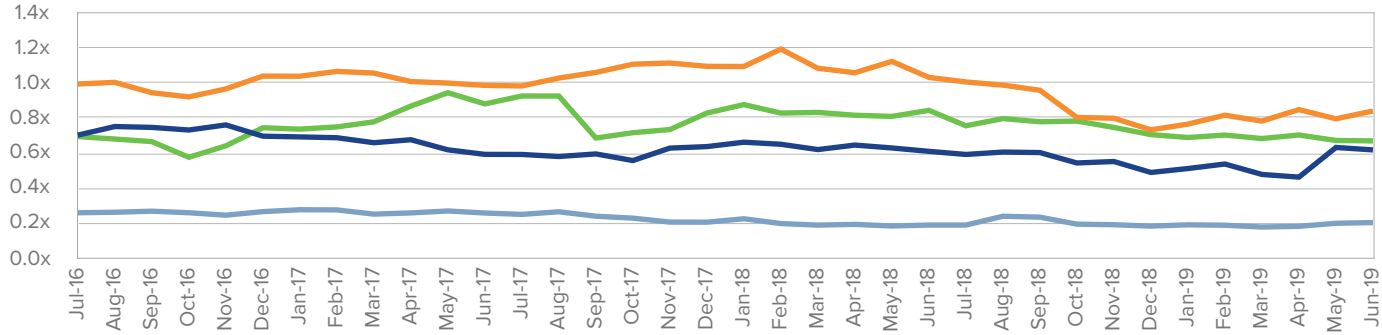
Source: S&P Capital IQ

"Distribution firms are focusing on growing the value-added components of their businesses, such as kitting, assembling and other services, in order to boost their margins."

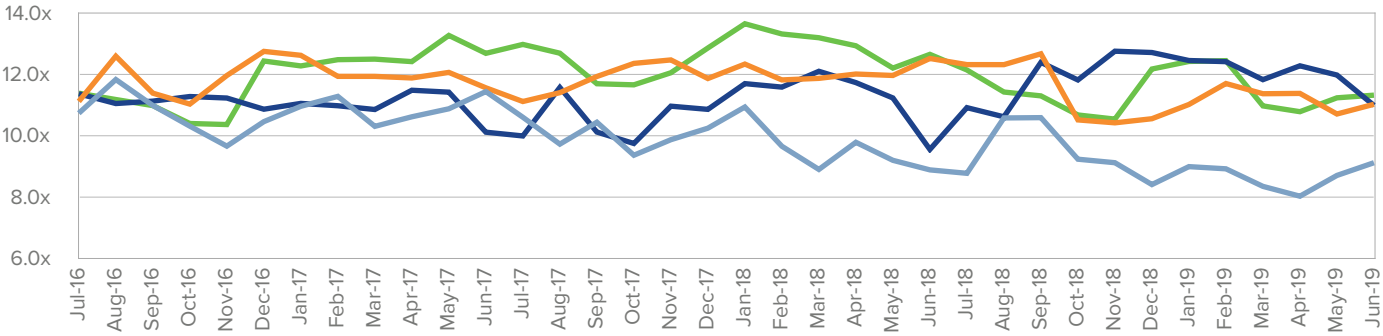
DON WIGGINS
PRACTICE LEADER, LOGISTICS
JACKSONVILLE, USA

Selected public company valuation trends

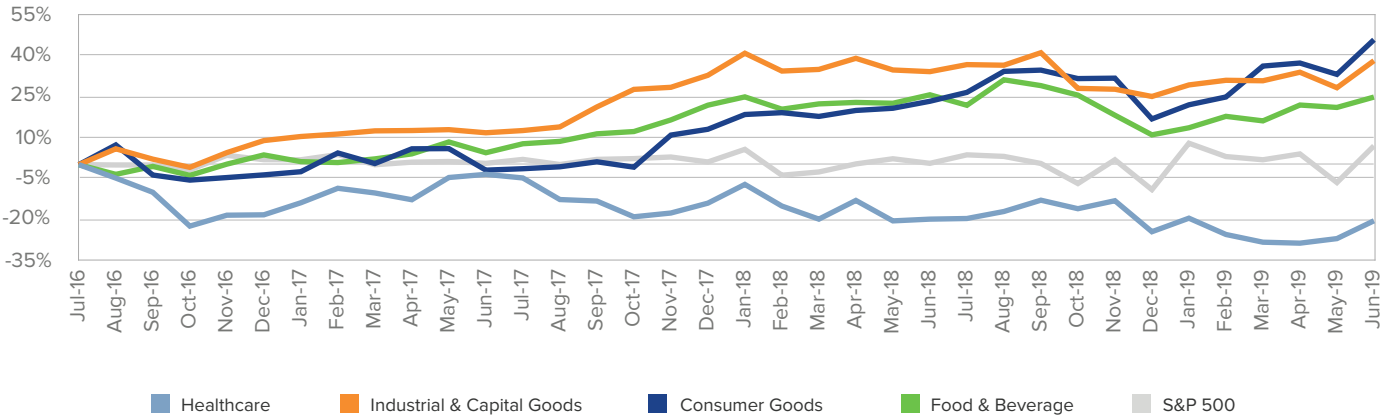
EV/Revenue trading multiples declined slightly during the first quarter of 2019 and subsequently rebounded in the second quarter. Industrial and capital goods revenue multiples have increased nearly 15% since the start of 2019, and consumer goods revenue multiples increased over 20% in the second quarter alone.



Distribution sector EV/EBITDA multiples have largely remained range-bound over the last 36 months. The healthcare sub-sector continues to be the underperformer, despite a recent uptick from 8.0x to 9.0x. The other subgroups have converged around the 11.0x level, with food and beverage multiples slightly edging out industrial and capital goods and consumer goods.



The chart below compares stock price returns of the four subgroups to the S&P 500 over the last three years. Overall, distribution stocks have outperformed the S&P 500 since mid-2017—apart from the healthcare subgroup, which has lagged behind the broad index over the last 36 months. The second quarter of 2019 saw increases for all distribution subgroups as the overall equity markets rebounded from a slight sell-off in April and May.



Source: S&P Capital IQ

Spotlight: **SiteOne**

STRATEGIC PRIORITIES AND SUPPORTING INITIATIVES

SiteOne Landscape Supply, Inc. (NYSE:SITE) is currently the largest and only national wholesale distributor of landscape supplies in the United States, with an increasing presence in Canada. Currently, SiteOne has over 540 branches and three distribution centers covering 45 US states and six Canadian provinces. Founded in 2001, SiteOne has its headquarters in Roswell, Georgia.

The company provides a wide selection of over 120,000 stock keeping units that range from fertilizer and seeds to concrete pavers. In addition to a wide variety of products, SiteOne offers residential and commercial landscaping professionals complimentary consultation services—which include design services, project planning and more.

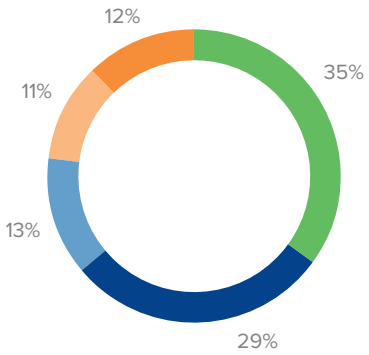
The company currently holds approximately 11% market share within a highly fragmented market. SiteOne's next closest competitor is roughly a quarter the size of SiteOne. The company prides itself on offering a full range of landscape and related supplies to professional landscapers and contractors. SiteOne is experiencing strong growth in both revenue and margin. In the first quarter of 2019, net sales increased by 12% to US$417.3 million, gross profit increased 20% to US$130 million and gross margin expanded 200 basis points to 31.2%.

SiteOne's growth strategy

- Deliver superior value to customers and suppliers
- Close and integrate high-value-adding acquisitions
- Continue to expand the number of markets in which a full range of products and services are provided

John Gertz, Vice President, SiteOne

SiteOne revenue segmentation



- **Irrigation & lighting:**
  - 35%
  - Sprinklers, controllers, pumps, outdoor lighting
- **Agronomics:**
  - 29%
  - Fertilizer, ice melt, paint, pest control
- **Nursery:**
  - 13%
  - Trees, shrubs, succulents, flowers, accent plants
- **Hardscapes:**
  - 11%
  - Concrete pavers, natural stone, bulk aggregates
- **Landscape accessories:**
  - 12%
  - Merchandised accessories, consumables, tools and equipment

Source: S&P Capital IQ; Company Investor Presentation Q1 2019; public filings

M&A STRATEGY

SiteOne Landscape Supply is not only the United States' largest and only national wholesale distributor of landscape supplies, but it is also the industry's leading consolidator. Management lists acquisition growth as one of their top value-creation levers and has a dedicated M&A team in place to execute their pipeline and acquisition strategy.

The company has acquired 40 businesses over the last five years, including Stone and Soil Deposit (Texas), Landscape Depot (Ontario, CA), All Pro Horticulture (New York) and Cutting Edge Curbing Sand & Rock (Arizona). With 2019 off to a strong start, management aims to continue their acquisition strategy for the foreseeable future.

When formulating strategy, SiteOne has several acquisition objectives. Primarily, the company is seeking to become a full-line provider for landscaping needs for all of the current markets in which it operates. At the end of 2018, management reported that the company conducted operations in approximately half of US metropolitan statistical areas, but only offered full lines to less than 30% of those markets. Recently, SiteOne has targeted well-run irrigation and agronomic distributors to improve company market positions and margins in existing markets.

In addition to expanding product lines in penetrated markets, SiteOne seeks to expand to new markets. Criteria for target companies includes more than just geography and product offering, management seeks to acquire profitable companies with sustainable margins in order to contribute to the overall margins of the company.

In 2018, 13 acquisitions accounted for an estimated increase of US$230 million in annualized net sales. In the first quarter of 2019, the five completed acquisitions accounted for an estimated US$57 million in annualized net sales.

Ultimately, SiteOne aims to understand the landscape of their smaller segments through acquisition of well-run distributors that will contribute to the ability for SiteOne to grow organically. Management has been very effective in executing the company's growth strategy through acquisition in recent years. Below is a summary of SiteOne's recent M&A activity.

> "....we feel like we're in a position now where we can consistently take market share from the weaker players that are out there, and that will add meaningfully to our organic growth potential..."
>
> **DOUG BLACK**
> CHAIRMAN & CEO

Date	Target	Location	Description
22-May-19	Stone and Soil Depot	Texas	Distributes hardscapes and landscape supplies
8-Apr-19	Landscape Depot	Ontario, CA	Provides wholesale hardscapes and landscape supplies
13-Feb-19	All Pro Horticulture	New York	Distributes landscape supplies
8-Jan-19	Cutting Edge Curbing Sand & Rock	Arizona	Supplies custom landscape, parking lot curbing, borders and landscape materials
6-Dec-18	Schaff Holdings	California	Wholesale distributes agricultural machinery and equipment
22-Oct-18	C&C Sand and Stone	Colorado	Distributes stone, brick, masonry and landscape materials
30-Jul-18	Stone Center	Virginia	Distributes hardscapes, landscape supplies and outdoor lighting
30-Jul-18	CentralPro	Florida	Distributes irrigation lighting and drainage products
25-Jul-18	Kirkwood Material Supply	Missouri	Provides full-service landscape supplies. Includes walls, pavers, stone, plants, lumber concrete and masonry
2-Jul-18	Landscape Express	Massachusetts	Manufactures soil, composts and stone products
26-Jun-18	All American Stone and Turf	Texas	Distributes hardscapes and landscape supplies, such as turf and stone
4-Jun-18	Auto-Rain Supply	Washington	Distributes irrigation, landscape, lighting, hearth and heating, and water-feature products
21-May-18	Landscaper's Choice	Florida	Distributes nursery and landscape supplies to landscape professionals

Source: S&P Capital IQ

Recent M&A activity

Below is a selection of recent M&A transactions in the distribution sector during the second quarter of 2019.

Date	Target	Target description	Acquiror	Country (Target / Acquiror)	Valuation			
					Trans. value (US$m)	EV/ Sales	EV/ Revenue	EV/ EBITDA
7-Jul-19	Bronco Manufacturing, LLC	Bronco designs and manufactures supplies and replacement parts for oil & gas drilling rigs worldwide. It also sources and distributes parts for rigs from other manufacturers.	Mhwirth Inc.		31.5	31.5	1.4x	N/A
3-Jul-19	HT Bendix A/S	Distributes fittings and accessories for the furniture, kitchen, and wood industry. Products include castors, wire articles, nails, screws, bolts, handles and keys, furniture locks and other related items.	Bufab AB (publ) (OM:BUFAB)		44.4	44.4	0.8x	N/A
20-Jun-19	Blaine Labs, Inc.	Develops and distributes dermatological products for medical, cosmetic and retail markets.	Alternate Health Corp. (CNSX:AHG)		19.6	19.6	1.4x	N/A
19-Jun-19	ABC Data S.A. (WSE:ABC)	Distributes computer hardware and software, primarily in eastern Europe. It also provides support services to its manufacturing partners for returns and exchanges, rentals and other professional support.	ALSO Holding AG (SWX:ALSN); MCI Capital TFI SA; MCI Venture Projects Sp. z o. o.		17.6	36.9	0.4x	N/A
18-May-19	R1 International Pte Ltd.	Distributes raw material for natural and synthetic rubber and also provides risk management and consultancy services for producers.	China Hainan Rubber Industry Group Co., Ltd. (SHSE:601118)		65.5	103.5	0.1x	8.4x
17-May-19	Fresks Försäljning AB	Distributes building materials to the construction markets. Products include concrete, gravel, sand, windows, flooring, roofing, tools, fasteners and other related products.	K-rauta AB		224.5	224.5	N/A	N/A
22-Apr-19	Shanghai Lonyer Fuels Co., Ltd. (SHSE:603003)	Supplies fuel oil and non-ferrous metals in China. It also offers supply chain management and risk consulting services for importers.	JT Asset Management Co., Ltd.		24.3	297.9	0.1x	22.7x
22-Apr-19	Thakral Corporation Ltd. (SGX:AWI)	Thakral is a holding company that imports and distributes foreign beauty and lifestyle products into Asian markets. It also provides sales, marketing and logistics support for companies looking to enter Asian markets.	Venture Delta Limited		87.2	103.6	0.9x	3.6x
12-Apr-19	J-Technology Co., Ltd.	Distributes semiconductor equipment such as memory multimedia chips for computers, multimedia set-top boxes and other peripheral computing devices.	Majestar Co., Ltd.		19.9	19.9	0.6x	N/A
2-Apr-19	Dunphey & Associates Supply Co., Inc.	Dunphey & Associates distributes HVAC equipment and components in North America. It also offers sheet metal supplies, fabrication services and estimates for custom HVAC work.	Watsco, Inc. (NYSE:WSO)		24.2	24.2	0.4x	N/A

Source: S&P Capital IQ

Case study

BWG GROUP HAS ACQUIRED CORRIB FOOD PRODUCTS

The shareholders of Corrib Food Products (CFP) have sold the company to BWG Foods UC. Financial details have not been disclosed.

CFP is a long-established independent distribution business servicing the food service sector throughout Ireland. The company has annual sales of over US$42 million and has a significant presence in the chilled and frozen food sector, along with being one of Ireland's leading suppliers of poultry products. The business operates from a major distribution center based near Athenry, Co. Galway, and other distribution depots in Dublin, with an extensive fleet of over 35 refrigerated vehicles. The company employs approximately 90 staff.

BWG Foods is one of Ireland's leading food retail and wholesale companies, with a turnover of over US$1.5 billion. Through its network of 22 value center and wholesale branches and food service depots, and a 240,000 sq. ft. national distribution center, the group is one of Ireland's leading wholesalers. It will seek to grow Corrib Food Products' business and enhance its service to customers nationwide by leveraging BWG's considerable wholesale experience, expertise and buying power, along with its market-leading supply chain.

Oaklins' team in Ireland acted as the exclusive M&A advisor to the seller in this transaction.

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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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