Oaklins

Post-COVID-19 recovery forming in M&A

SPOT ON | DISTRIBUTION | FEBRUARY 2021

WHAT'S BEEN HAPPENING AND WHAT COMES NEXT?

Mixed M&A activity in 2020 saw the total number of deals decrease by 21%, while the total annual deal transaction value increased by 74% — implying a significant jump in average deal size. Deal volume dropped significantly in the first three quarters, as companies adopted a wait-and-see approach to M&A during COVID-19. But global M&A markets for distribution began to show signs of life again in Q4 2020.

Several large, noteworthy transactions in 2020 included The Home Depot's acquisition of HD Supply, Apollo's acquisition of technology distributor Tech Data and WESCO International's acquisition of Anixter International. These three deals alone represented US$22.5 billion in transaction value.

Valuations for distribution companies fell sharply in Q1 and Q2 as a result of the COVID-19 pandemic, but subsequently rebounded in Q3 and Q4. Food & beverage distributors still lag behind other distribution subgroups after being hit hard with restaurant closures during the year. Healthcare distributors are catching up after weak returns in 2018 and 2019.

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MARKET OVERVIEW (pg.2)
We chart deal volume, stock returns, and enterprise valuation multiples from 2016 through Q4 2020.

PUBLIC COMPANY VALUATIONS (pg.3)
A selection of public company valuations from each of the distribution sector's four subgroups.

SPOTLIGHT (pg.6)
We check back in on Henry Schein's global M&A strategy after profiling the global healthcare distributor's activity back in 2018. We compare pre- and post-COVID-19 thoughts about the company's M&A activities with what management now sees for the future.

CASE STUDY (pg.9)
US LBM has acquired Maner Builders Supply Company. Oaklins' team in Jacksonville advised the sellers in this transaction.

HENRY SCHEIN'S STRATEGY FOR VALUE CREATION

"Our strategy is focused on delivering solutions that enable our customers to provide the best-quality patient care while optimizing the efficiency of their practice."

Market overview

To analyze the distribution sector with more granularity, we have identified the four different subgroups on the right. 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

This category includes wholesalers or value-added distributors of pharmaceuticals, medical devices and equipment, healthcare supplies, insurance products and other healthcare products.

This category does not include biotech and other research firms, neither have we included healthcare technology companies 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; in other words, those lasting for more than one year.

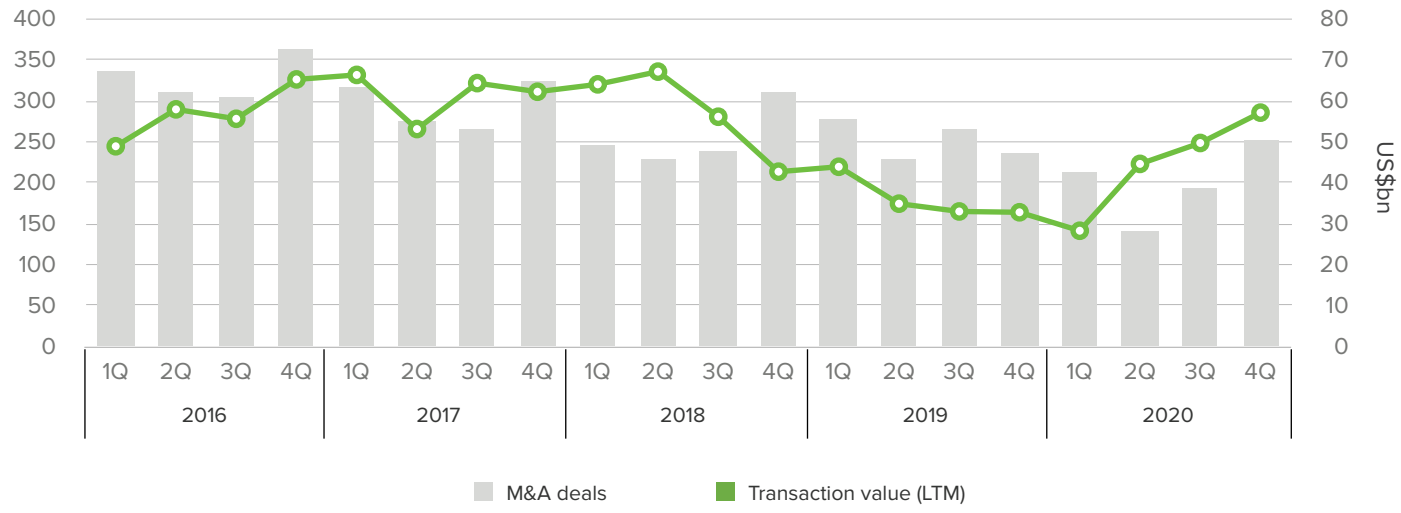
Common ICG products include electrical equipment; heating, ventilation and air conditioning (HVAC); industrial chemicals and gases; building materials; heavy equipment and machinery; and hardware. This is not an exhaustive list, but merely illustrative of the types of firms that would be included in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

Food & beverage

Food & beverage distribution companies covered in this category include companies such as Sysco and US Foods. These wholesale firms 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 — 2016 to Q4 2020



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 31 December 2020.

Healthcare

Company	Country	Enterprise value (US$m)	EV/ Revenue	EV/ EBITDA
NEUCA S.A.	Poland	839.5	0.4x	11.3x
AmerisourceBergen Corporation	United States	20,146.6	0.1x	8.2x
Henry Schein Inc.	United States	11,340.5	1.2x	14.8x
NanJing Pharmaceutical Company Limited	China	1,744.5	0.3x	10.2x
McKesson Corporation	United States	36,008.4	0.2x	9.4x
Cardinal Health Inc.	United States	19,712.6	0.1x	7.3x
Patterson Companies Inc.	United States	3,483.4	0.6x	11.5x
Owens & Minor Inc.	United States	3,379.8	0.4x	14.0x
Selçuk Ecza Deposu Ticaret ve Sanayi AS	Turkey	1,018.6	0.4x	10.7x
Toho Holdings Co. Ltd.	Japan	777.7	0.1x	4.9x
		Average	**0.4x**	**10.2x**
		Average w/o outliers	**0.3x**	**9.8x**
		Median	**0.3x**	**10.5x**

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	95,792.5	4.0x	15.6x
Beacon Roofing Supply Inc.	United States	5,760.8	0.8x	13.0x
Cosan S.A.	Brazil	7,389.6	3.2x	14.2x
Ferguson plc	United Kingdom	29,649.4	1.4x	16.1x
HD Supply Holdings Inc.	United States	7,892.7	1.3x	10.4x
ITOCHU Corporation	Japan	82,709.5	0.8x	11.2x
Nordwest Handel AG	Germany	92.5	0.2x	6.7x
Rexel S.A.	France	8,072.1	0.6x	11.9x
Ryerson Holding Corporation	United States	1,365.0	0.4x	8.9x
W.W. Grainger Inc.	United States	23,699.8	2.0x	15.3x
		Average	**1.5x**	**12.3x**
		Average w/o outliers	**0.9x**	**12.7x**
		Median	**1.1x**	**12.5x**

Source: S&P Capital IQ

Consumer goods

Company	Country	Enterprise value (US$m)	EV/ Revenue	EV/ EBITDA
Genuine Parts Company	United States	17,296.0	0.9x	12.7x
CMST Development Co. Ltd.	China	2,050.7	0.3x	38.1x
Bunzl plc	United Kingdom	13,431.2	1.1x	15.1x
Nordstrom Inc.	United States	9,493.3	0.8x	431.5x
Pool Corporation	United States	15,421.1	4.2x	34.2x
Dick's Sporting Goods Inc.	United States	7,172.7	0.8x	7.4x
Metcash Limited	Australia	3,204.4	0.3x	12.0x
Orient International Enterprise Ltd.	China	500.2	0.2x	14.1x
Paltac Corporation	Japan	3,167.1	0.3x	11.4x
Shoprite Holdings Limited	South Africa	6,847.5	0.8x	11.7x
		Average	**1.0x**	**58.8x**
		Average w/o outliers	**1.1x**	**16.4x**
		Median	**0.8x**	**15.4x**

Source: S&P Capital IQ

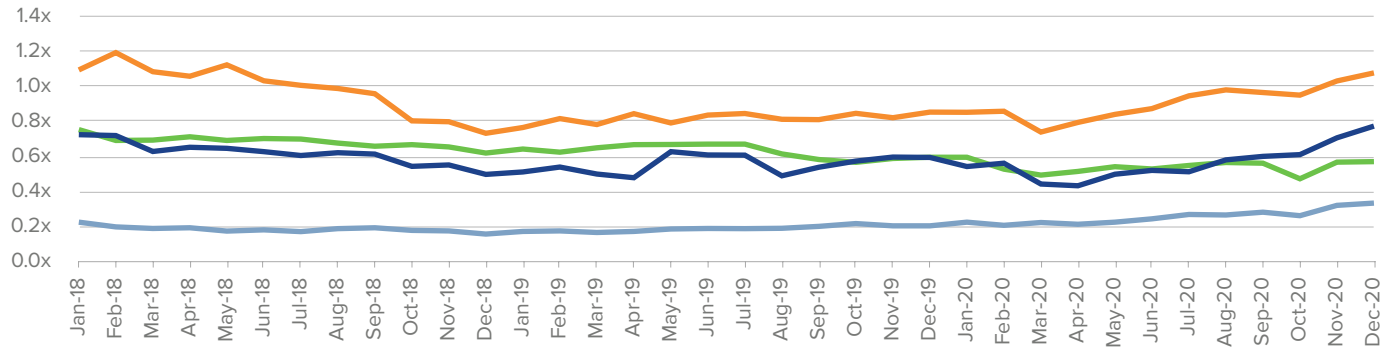
Food & beverage

Company	Country	Enterprise value (US$m)	EV/ Revenue	EV/ EBITDA
Bonduelle SCA	France	1,714.0	0.5x	7.8x
Mitsubishi Shokuhin Co. Ltd.	Japan	1,582.7	0.1x	6.3x
United Natural Foods Inc.	United States	4,774.7	0.2x	6.9x
MARR S.p.A.	Italy	1,646.7	1.1x	29.4x
US Foods Holding Corp.	United States	13,083.5	0.6x	19.5x
Premium Brands Holdings Corporation	Canada	4,346.7	1.5x	22.4x
Orkla ASA	Norway	11,191.0	2.3x	15.6x
Sysco Corporation	United States	46,142.2	0.9x	22.3x
Sligro Food Group N.V.	Netherlands	1,463.2	0.6x	19.4x
Total Produce plc	Ireland	1,200.4	0.3x	13.6x
		Average	**0.8x**	**16.3x**
		Average w/o outliers	**0.6x**	**18.8x**
		Median	**0.6x**	**17.5x**

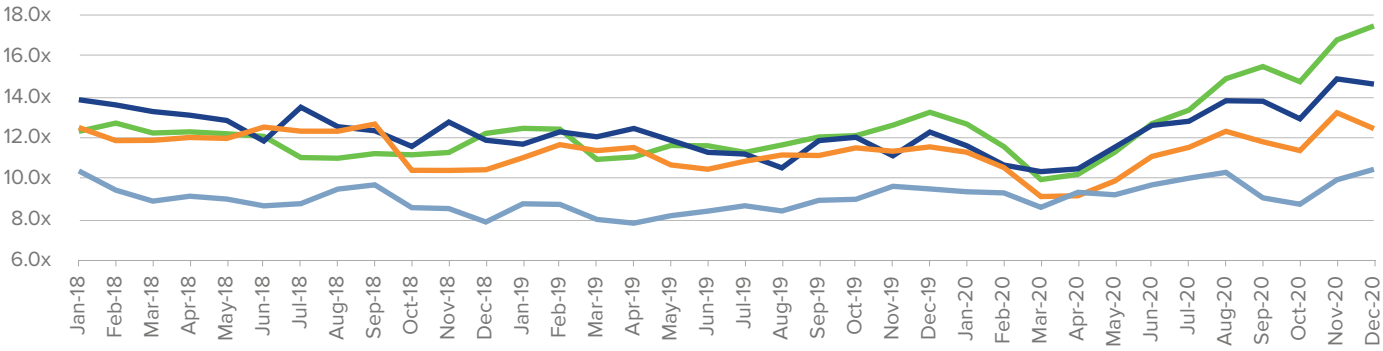
Source: S&P Capital IQ

Selected public company valuation trends

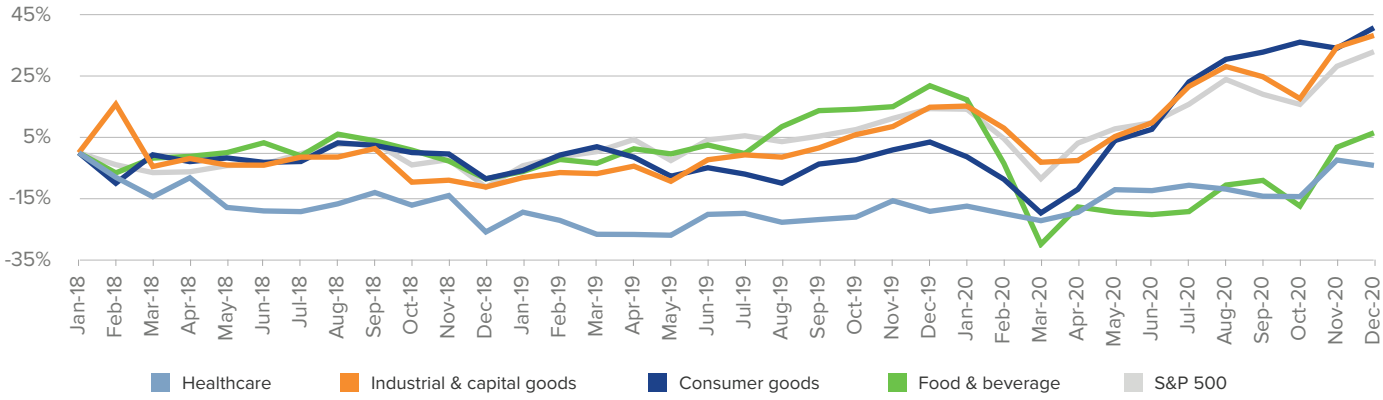
EV/Revenue trading multiples have remained steady for much of the last two years, until recently. Declines in valuations for all sub-sectors, except healthcare, have resulted in multiple compression for nearly all publicly traded distributors.



Similar to EV/revenue trading multiples, distribution sector EV/EBITDA multiples collapsed in the first quarter of 2020. The healthcare sub-sector was the only one of the four sub-sectors to remain stable during the first quarter. The other sub-sectors' EBITDA multiples declined by 10% or more due to concerns around COVID-19 economic impacts.



The chart below compares stock price returns of the four subgroups with the S&P 500 over the last three years. Aside from the healthcare sub-sector, most publicly traded distribution stocks were outperforming the S&P 500 on trailing 36-month returns since mid-2019. That has changed recently with COVID-19, as consumer goods and industrial & capital goods returns still exceed those of the S&P 500 for the last three years, but the food & beverage sector has been completely devastated by the pandemic due to many restaurants being forced to close temporarily, or permanently in the case of many smaller restaurants.



Source: S&P Capital IQ

Spotlight: **Henry Schein**

Henry Schein (NASDAQ: HSIC) is the world's largest provider of healthcare products and services to dental, animal health and medical practitioners. The company serves customers worldwide, including dental laboratories, government and institutional healthcare clinics and other alternate care locations. Henry Schein also offers value-added services such as technology solutions, including practice management software, e-commerce solutions and financial services.

As of 26 September 2020, net sales totaled US$9.6 billion, with reported EBITDA of US$766.5 million. Headquartered in Melville, New York, Henry Schein has been a Fortune 500 company for over 16 years. As the largest dental products distributor in the world and the second largest physician and alternate care distributor, Henry Schein employs over 19,000 staff and has more than one million customers worldwide. In 2019 the Ethisphere Institute recognized Henry Schein as one of the "World's Most Ethical Companies" for the seventh consecutive year.

MARKET TRENDS AND DEMOGRAPHICS

During Henry Schein's most recent investor presentation and earnings call, management discussed trends that they view as positively affecting the company's markets:

Demographic trends

- Aging population driving an increasing need for healthcare services and products
- Increasing awareness that good oral health is connected to good overall health

Technological improvements

- Software and services have become more sophisticated and allow service providers to be more efficient
- Prosthetic solutions are evolving to be more functional and cost-effective for patients
- Patient communications are increasingly carried out over electronic platforms, such as email, text and web portals
- Telemedicine is becoming more prevalent and driving efficiencies in healthcare delivery

Focus on preventive care

- Awareness is growing amongst patients regarding the importance of preventive care
- Access to care is improving globally

Consolidation of practitioners in dental and medical

- Multiple locations are coming under common management and ownership
- More procedures are moving from inpatient (hospital) to outpatient (physician offices or specialty center) locations

GLOBAL DISTRIBUTION NETWORK

Henry Schein operates 28 distribution centers around the globe, with over 3.5 million square feet of warehouse and processing storage capacity.

- 11 distribution centers in the Americas region
- Nine distribution centers in the Europe, Middle East, Africa (EMEA) region
- Eight distribution centers in the Asia-Pacific region

STRATEGY FOR VALUE CREATION

"Our strategy is focused on delivering solutions that enable our customers to provide the best-quality patient care while optimizing the efficiency of their practice."

Since we last visited Henry Schein's M&A strategy back in 2018, a few things have changed for the healthcare distribution giant.

Perhaps the most significant development was the spin-out of the company's animal care business, which merged with Vets First Choice and would eventually go on to form Covetrus. The rationale was to generate significant cash assets for Henry Schein's investors, with attractive tax attributes, and allow management to focus on the company's core operating segments in the dental and medical markets. Henry Schein's Animal Health segment represented approximately US$3.5 billion in sales at the time.

The divestiture of its animal health business allowed for the company's M&A pipeline to become centered around long-term growth strategies that cater to its dental and medical businesses. Subsequent acquisitions have focused on dental specialty markets, such as implants, endodontics and orthodontics, as well as specialty markets in medical, such as wound care. There have also been notable investments made in the e-commerce and software segments, with acquisitions of TDSC.com, Dentally, OrisLine and Ortho2.

Dental segment long-term growth strategy

- increase penetration with existing customers
- geographic expansion
- advancing technology solutions, centered on practice management software
- greater penetration of specialty markets
- continued focus on large group practices
- digitalization of prosthetic solutions

Medical segment long-term growth strategy

- increase penetration organically and through acquisition
- continued focus on large accounts, health systems and surgery centers
- focus on specialty segments and solutions
- create unique offering with supply partners
- pursue select international opportunities

Below are key acquisitions that management has identified in the dental market.

Year	Target	Strategic rationale	Location	LTM revenue (US$m)
2021	Prism Medical Products	Provides access to home medical care market	US	50
2020	TDSC.com	Expands distribution in North America online channel	US	20
2019	Dentally	Expands international software presence	UK	1.8
2019	Cliniclands	Provides access to dental market in Sweden	Sweden	10
2018	Wuhan	Expands dental business in China	China	40
2018	Medentis/Intra-Lock/Pro-Cam	Expands global dental implant portfolio	Germany/ Netherlands	45
2017	Ortho2	Advances orthodontic software offering	US	14
2017	EdgeEndo	Expands endodontic solutions line offering	US	17
2016	SAS	Enhances dental surgical supply offering	US	72
2016	Marrodent	Provides entry to dental market in Poland	Poland	32
2016	One Piece	Expands dental business in Japan	Japan	125

Recent M&A activity

Below is a selection of recent M&A transactions in the distribution sector during throughout 2020.

Date	Target	Target description	Acquiror	Country (Target / Acquiror)	Valuation			
					Trans. value (US$)	Enterprise value	EV/ Revenue	EV/ EBITDA
23-Dec-20	HD Supply Holdings Inc.	Distributor of industrial supplies to the North American market	The Home Depot Inc. (NYSE: HD)		10,315.4	8,000.4	1.3x	8.8x
17-Nov-20	Metro AG	Food wholesaler supplying hotels, restaurants, catering companies and independent retailers in Europe and Asia	EP Global Commerce GmbH		383.0	7,806.6	0.3x	5.7x
28-Oct-20	Antalis Société anonyme	Distributes paper and packaging supplies, primarily in Europe	Kokusai Pulp & Paper Co. Ltd. (TSE:9274)		561.7	573.8	0.3x	9.4x
02-Sep-20	Carlsen Fritzøe Handel AS	Operator of home improvement retail stores in Europe	Byggmakker Handel AS		163.0	163.0	0.7x	10.8x
17-Aug-20	Tianjin Tasly Medicine Distribution Group Co. Ltd.	Engages in wholesale and retail trade of pharmaceuticals, medical devices and other healthcare products	Chongqing Pharmaceutical Group Co. Ltd.		910.2	775.6	0.4x	13.0x
01-Jul-20	Solara Medical Supplies Inc.	Doing business as Imperial Beach Pharmacy, Solara distributes diabetes therapy devices and supplies	AdaptHealth LLC		427.6	427.6	2.3x	12.6x
30-Jun-20	Tech Data Corporation	Distributes technology products and solutions in the United States and internationally	Apollo Global Management Inc. (NYSE: APO)		6,914.8	5,950.7	0.2x	7.3x
22-Jun-20	Anixter International Inc.	Distributes cabling and security solutions as well as utility power solutions worldwide	WESCO International Inc. (NYSE: WCC)		5,282.6	5,000.6	0.6x	9.3x
22-Jun-20	Medtechnica Ltd.	Medical service provider and distributor of equipment in Israel	Ilex Medical Ltd (TASE: ILX)		17.9	43.0	0.5x	5.3x
30-Mar-20	Excel Co. Ltd.	Operates as an electronic devices trading company in Japan	Kaga Electronics Co. Ltd. (TSE:8154)		192.5	105.9	0.2x	15.8x

Source: S&P Capital IQ

Case study

TWO CLOSED DEALS ARE BETTER THAN ONE

US LBM and STORE Capital have acquired the operating assets and real property assets, respectively, of Maner Builders Supply Company

The shareholders of Maner Builders Supply Co. have sold the company to US LBM Holdings LLC. Additionally, Maner sold its real estate to STORE Capital (STORE) in a sale-leaseback transaction.

Maner Builders Supply distributes, delivers and installs building and construction materials for commercial and residential projects in the southeast of the United States. It offers framing, exterior doors and windows, roofing, engineered lumber, gypsum, masonry, fence, access controls, glass, and architectural and structural materials. The company also provides commercial products, such as hollow metal doors and frames, solid core and fire-rated birch wood doors and various door hardware items, toilet accessories, industrial fire extinguishers and cabinets. In addition, it also offers entry systems and lock sets, fasteners and power tools and accessories, safety materials, ladders and scaffolds, cutting and drilling tools and maintenance materials. Maner Builders Supply serves home builders, general contractors, government entities, private companies and homeowners. Founded in 1951 and based in Augusta, Georgia, the company has additional locations in Charleston and Aiken, South Carolina.

One of the largest building products distributors in the USA, US LBM operates in more than 250 locations nationwide, providing a wide range of building materials to custom home builders, national builders and specialty contractors. The company, founded in 2009, is based in Buffalo Grove, Illinois.

STORE, founded in 2011, provides real estate investment trust services and invests in single-tenant real estate.

MANER Builders Supply Co.

has been acquired by

U.S. LBM

M&A SELL-SIDE

Construction & Engineering Services/Logistics

Following the transaction, US LBM will lease back the same properties as a tenant.

Oaklins' teams in Jacksonville and Savannah served as intermediary and exclusive financial advisors to the seller in this transaction.

Deep local roots, global commitment

Oaklins brings you opportunities from across the world and we meet you with our expertise wherever you are

OAKLINS OFFERS A COMPREHENSIVE RANGE OF SERVICES

- M&A advisory (buy- and sell-side)
- Growth equity and equity capital markets advisory
- 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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Don leads Oaklins' distribution team. He is also the president of Heritage Capital Group, Oaklins' member firm in Jacksonville. Don has advised multiple clients in the distribution sector, which also includes storage, trucking, moving, rail service providers, 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 Pfingsten 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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