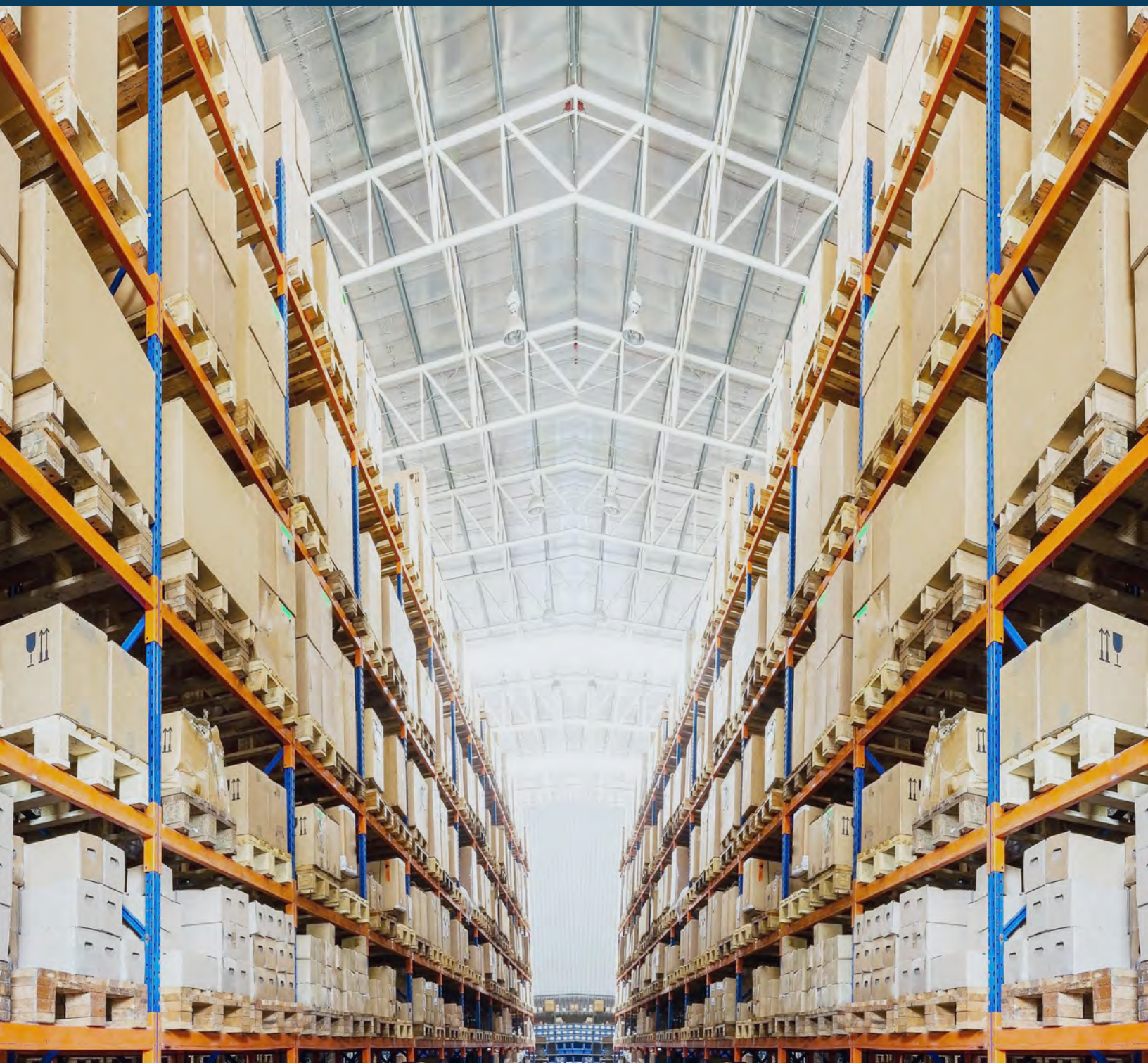




Specialty Distribution

INDUSTRY UPDATE | Q2 2023





IN THIS EDITION

- Key Insights and Observations
- U.S. Macroeconomic Backdrop
- M&A Activity Trends
- Key Distribution Industry Trends & Dynamics
- Public Markets and Subsector Performance
- M&A Transaction Highlights
- Recent Stout Transaction Spotlight
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- Specialty Distribution Practice Overview

Insights and Observations

Stout is pleased to present our Specialty Distribution Industry Update for Q2 2023. Through our team's national representation of leading distribution businesses, dialogue with top industry participants, and analysis of subsector performance, we have outlined key takeaways below, followed by an in-depth discussion of macroeconomic and subsector trends, recent M&A, and public company performance.

- ❖ Near-record private equity dry powder and corporate cash reserves have placed pressure on potential acquirors to invest while tightening credit conditions act as a brake on sponsor activity, resulting in targeted deal making in larger transactions and/or high-frequency deal making at the smaller end of the market.
- ❖ Factors restraining deal activity: a broadening disconnect between buyer and seller valuation expectations, higher financing costs, and tighter credit availability relative to the same period in 2022.
- ❖ An encouraging sign is that corporate buyers are increasingly bidding on and acquiring targets, benefiting from less competition as private equity bidders either show hesitation due to the financing environment and normalizing price/volume trends on the back of an inflationary period with disrupted supply chain, or are grappling with portfolio and operational tasks in lieu of aggressively pursuing targets. More corporate buyers are likely to participate in 2H 2023 as their strong balance sheets and sizable core businesses enable access to financing that would be elusive for downmarket suiters.

We hope that you find this edition helpful and that it serves as a valuable resource in staying up to date on the market. We look forward to staying in touch and encourage you to contact us directly if you would like to discuss our perspectives on current industry trends, M&A opportunities, or our relevant experience.

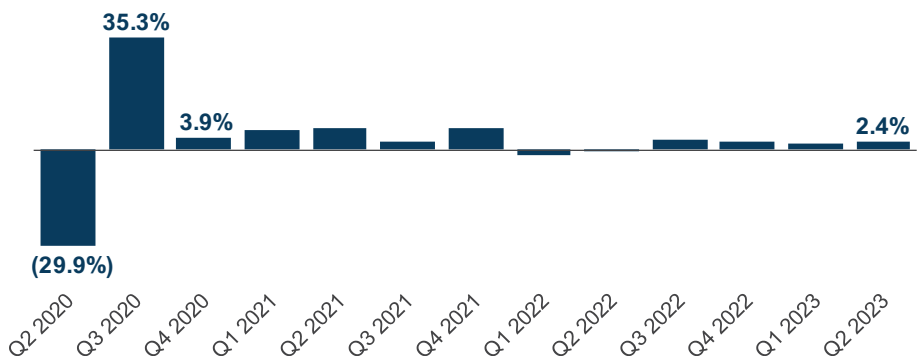
U.S. Macroeconomic Backdrop

In the Second Quarter of 2023, the U.S. Economy Was Defined by A Debt Ceiling Agreement and Ongoing Concerns Regarding Slowing Activity

- ❖ U.S. real GDP rose by 2.4% in the second quarter of 2023, which was up slightly from the 2.0% increase in the first quarter of 2023, despite continued concerns around a mild U.S. economic recession.
- ❖ Undeterred by worries of slight economic slowing, consumer confidence in the U.S. maintained elevated levels as unemployment rates remained extremely low and wages continued to increase in the second quarter of 2023.
- ❖ The U.S. manufacturing industry experienced a slight decline in the second quarter of 2023, which was a result of inflation, high raw material costs, declining shipping prices, continued global trade challenges, and low new order levels.

Real U.S. Quarterly GDP Growth

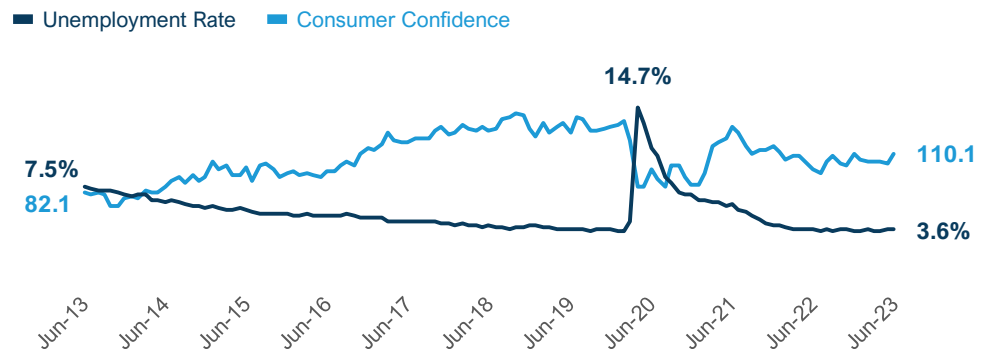
(Annualized quarterly percentage change)



Source: S&P Capital IQ

U.S. Unemployment Rate and Consumer Confidence

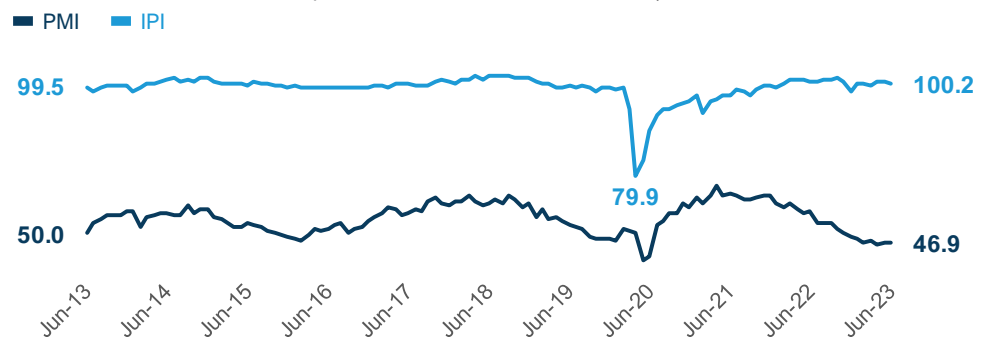
(Percentage of unemployed persons in U.S. labor force; index of consumer sentiment)



Source: Federal Reserve Economic Data

Purchasing Manager's Index and Industrial Production Index

PMI reflects health of manufacturing and services sectors from 0 – 100 (>50 represents expansion); IPI measures levels of industrial production indexed to 100.0 in 2017)



Source: S&P Capital IQ

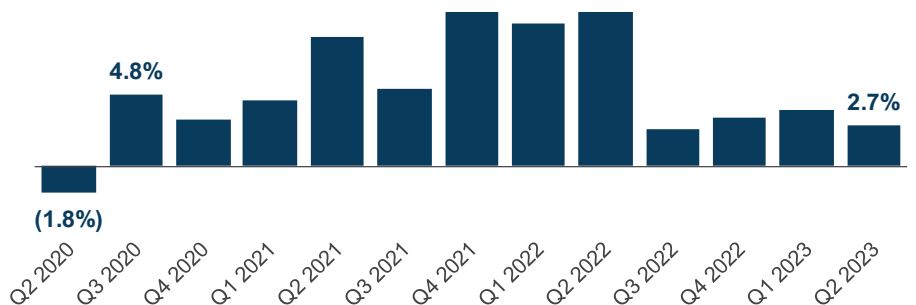
U.S. Macroeconomic Backdrop (cont.)

Resumption of Student Loan Repayments and Interest Rate Increases Fuel U.S. Economy Concerns

- ❖ Two additional interest rate hikes completed in the second quarter of 2023 took the key rate from 5.00% to 5.50%, recent inflation and consumer prices were still too high, resulting in the Fed following the pace of its rate increases that began in early 2022.
- ❖ Shipping supply continued to outpace demand for a second straight quarter, and declining imports and exports raise concerns over the future of shipping. There are growing concerns over continued falling shipping rates and high inventory levels alongside weakened demand.
- ❖ Imports and exports both decreased from the first quarter of 2023 by 2.8% and 3.7%, respectively, as global trade and geopolitical struggles continued.

Real U.S. Inflation Rate

(Annualized quarterly percentage rate)



Source: S&P Capital IQ

Producer Price Index: General Long-Distance Freight

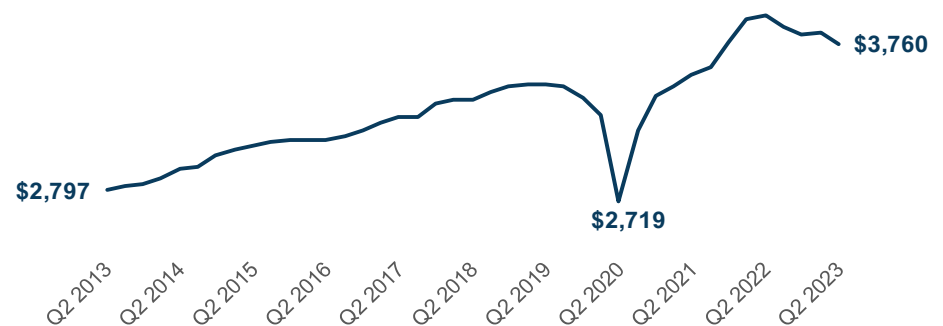
(Indexed to 100.0 as of 12/31/1992)



Source: Federal Reserve Economic Data

Real U.S. Imports of Goods and Services

(Billions of chained 2012 dollars, seasonally adjusted)



Source: Federal Reserve Economic Data

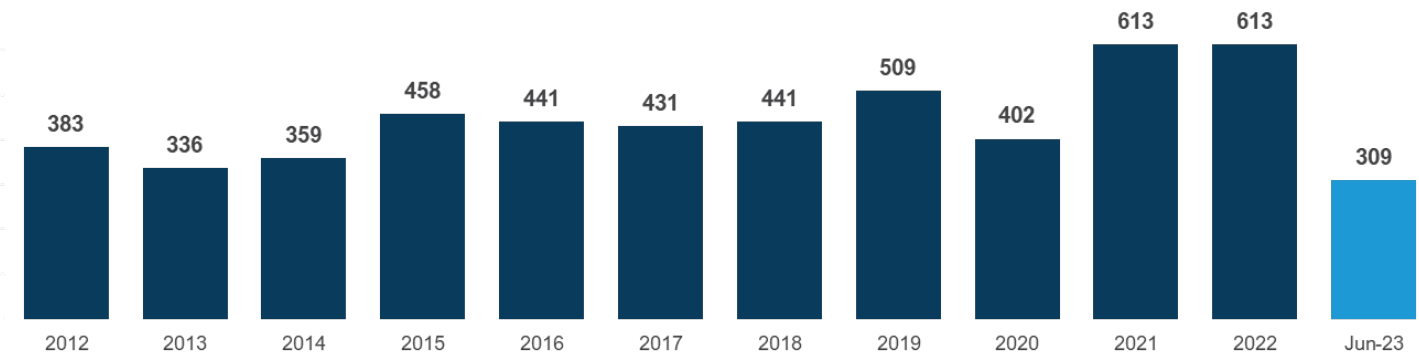
U.S. M&A Update

M&A activity within **specialty distribution** in Q2 2023 has shown continued momentum yet declining from levels achieved in 2021 and 2022, with an estimated 138 deals announced throughout the quarter, down from 154 deals announced in Q2 2022. Valuation multiples have continued to soften from all-time highs in 2021, with an average EV/EBITDA of 8.4x for transactions announced in the second quarter of 2023, down from 10.3x for transactions announced in 2022, partially as a result of the smaller average size of transactions.

Within specialty distribution, M&A activity in the Industrial & MRO, Building Products, and Consumer / Food & Beverage subsectors has remained particularly active, while activity in other subsectors has begun to slow. Key strategic and sponsor-backed platforms, including Core & Main (Clayton, Dubilier, & Rice), AFC Industries (Bertram Capital), Beacon Roofing Supply (NasdaqGS:BECN), Foundation Building Materials (American Securities), FreshEdge (Wind Point Partners), and Imperial Dade (Advent International), have lead consolidation activity and M&A momentum in Q2 2023 with each completing at least two transactions throughout the quarter.

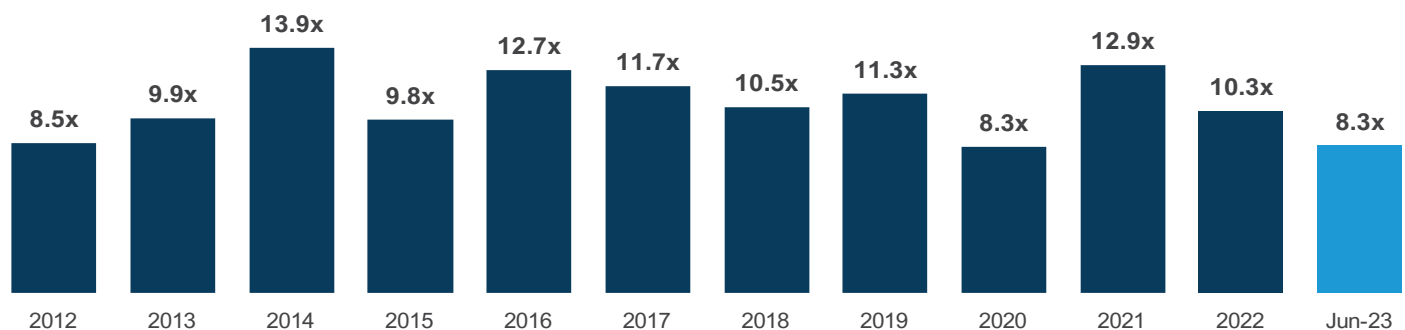
Historical Aggregate M&A Transaction Volume

(Number of announced M&A transactions; target based in the U.S.)



Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Database

Historical Average EV/LTM EBITDA Multiples



Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

Key Distribution Industry Trends & Dynamics

Distributors Continue to Drive Record Sales / Volume Growth and Uphold Conviction in Strong Continued Performance for the Remainder of 2023 Despite Economic Uncertainties as Recent Trends and Market Insights Support Continued Growth and M&A Activity

RECENT TRENDS

- ❖ Suppliers and customers alike continue to place strong emphasis on supply-chain reliability and efficiency, as well as the ability to source from onshore partners
- ❖ Reversion and normalization in the pricing environment, while posing challenges in the last 12 months, are beginning to provide performance forecastability as inventories return to balance
- ❖ The reshoring effect has improved supply-chain dynamics and bolstered product availability for customers and sales for distributors, particularly in the broader industrial sector
- ❖ Companies with diversified product portfolios have maintained momentum, benefiting from end markets experiencing positive tailwinds while hedging against end markets experiencing a trough
- ❖ Strong balance sheet positions have continued to support M&A activity among large strategics

MARKET INSIGHTS & COMMENTARY

Applied Industrial Technologies reported a 16% increase in annual sales in its 2023 full-year report.

“We continue to believe any near-term slowdown will be transitional and short in nature given positive tailwinds underpinning the industrial sector, and a greater focus on supply chain reliability and capacity investments.” – CEO, Neil Schrimsher



DXP's sales through 2H 2023 were up by more than 24% compared to the first half of last year.

“We closed two acquisitions and look forward to closing more during 2H 2023. This reflects continued execution of our strategic goals and the confidence we have in our balanced mix of business and strong balance sheet to support our key initiatives.” – CFO, Kent Yee



MSC touted a fifth consecutive quarter of double-digit sales growth.

“Looking ahead and despite macro uncertainty, we expect to continue outperforming the IP index as we leverage MSC specific momentum and strengthen our market position through strategic investments.” – CEO, Erik Gershwind



Automotive Aftermarket

KEY SUBSECTOR DRIVERS

Regular All Formulations Gas Prices

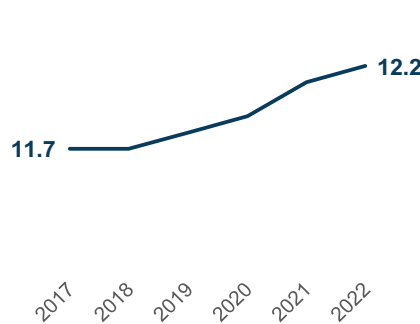
(Dollars per gallon, weekly ending Mondays)



Source: Federal Reserve Economic Data

Average Age of Automobiles and Trucks

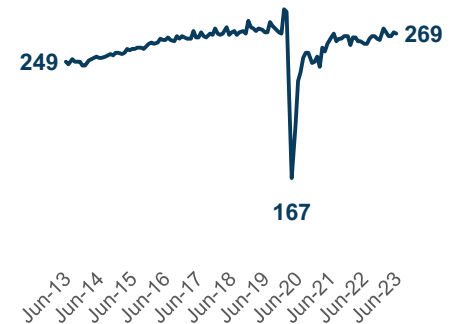
(Years)



Source: U.S. Department of Transportation

Vehicle Miles Traveled

(Billions of miles, seasonally adjusted)

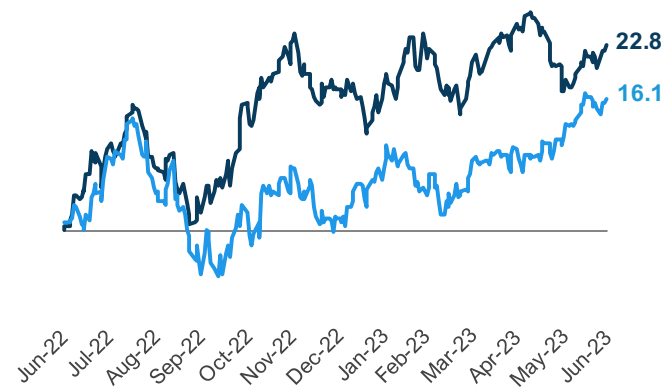


Source: Federal Reserve Economic Data

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

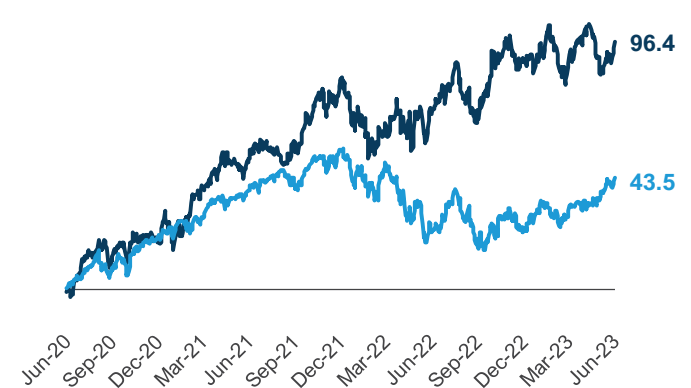
(Indexed to 0.0 as of 6/30/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

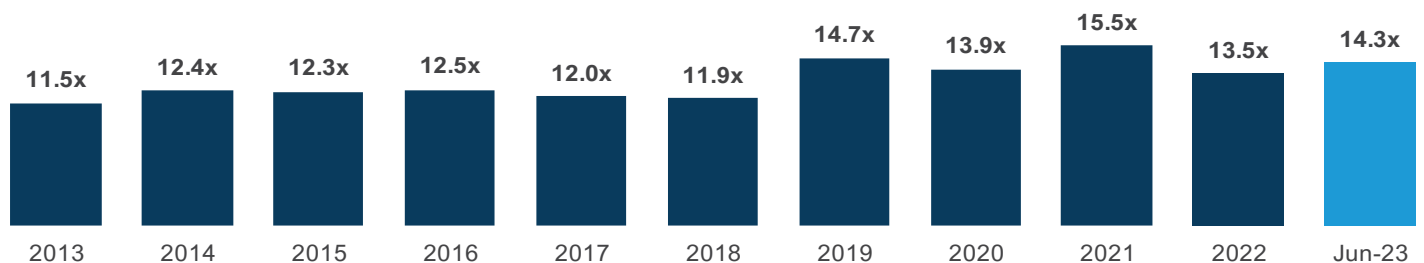
Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 6/30/2020) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples



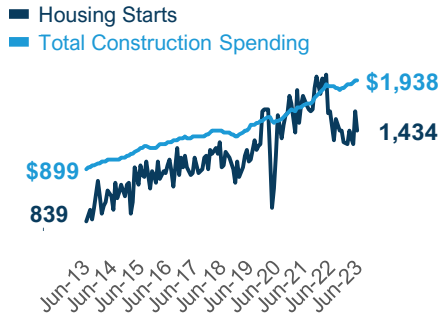
Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

Building Products Distribution

KEY SUBSECTOR DRIVERS

Housing Starts and Construction Spending

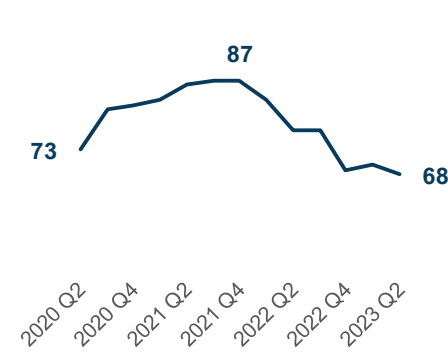
(Thousands of units, seasonally adjusted, spend in \$ in billions)



Source: Federal Reserve Economic Data

NAHB Remodeling Index

(Reflects health of current and future remodeling market from 0 – 100)



Source: National Association of Home Builders

NAHB Housing Market Index

(Reflects health of housing sales from 0 – 100)

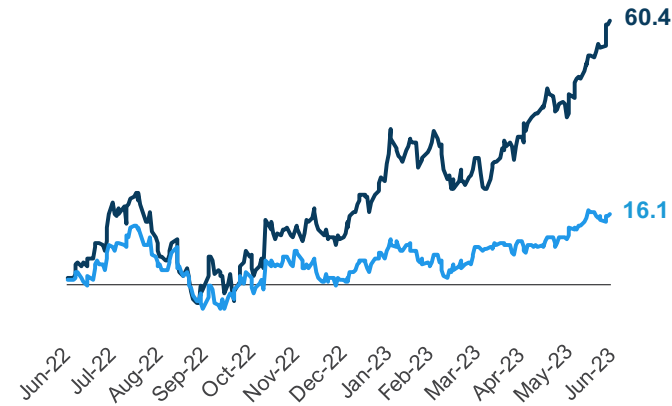


Source: National Association of Home Builders

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

(Indexed to 0.0 as of 6/30/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

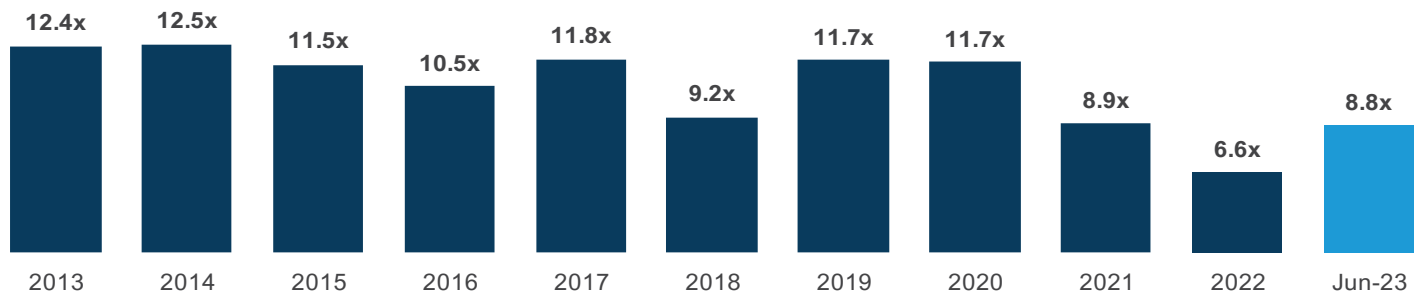
Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 6/30/2020) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples



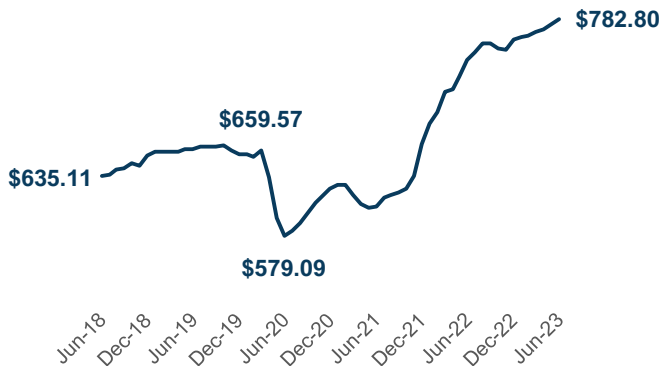
Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

Consumer / Food & Beverage Distribution

KEY SUBSECTOR DRIVERS

U.S. Retailers' Inventories

(\$ in billions, seasonally adjusted)



Source: Federal Reserve Economic Data

U.S. Consumer Confidence

(Index of consumer sentiment; long-term average = 100)

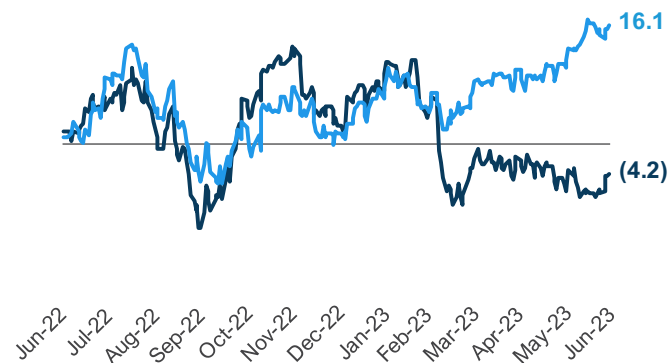


Source: S&P Capital IQ

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

(Indexed to 0.0 as of 6/30/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

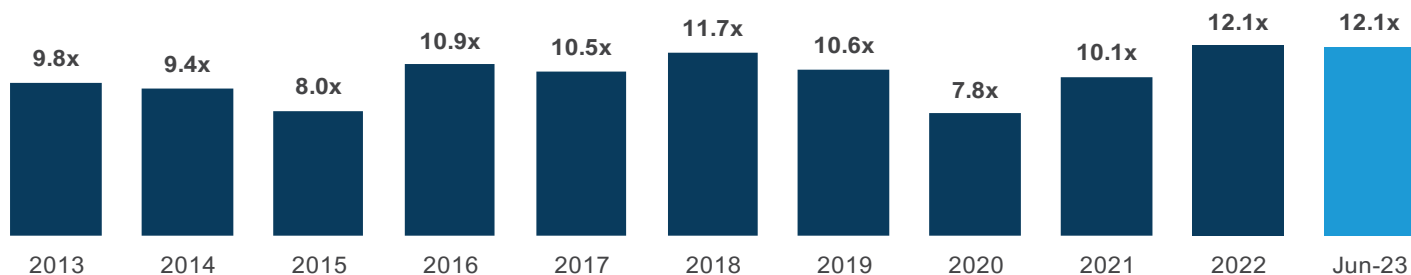
Indexed Stock Performance — Last 3 Years

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Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples

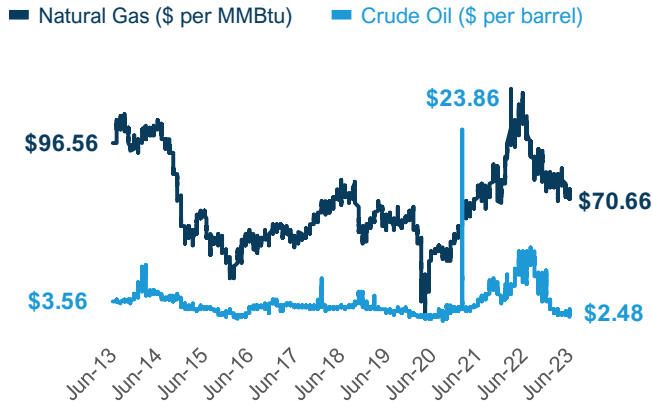


Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

Energy Distribution

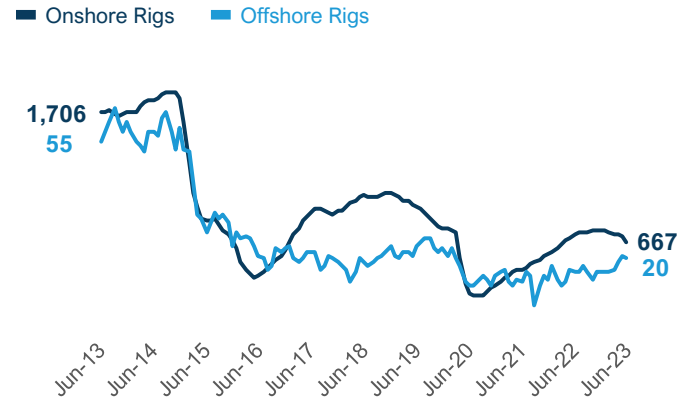
KEY SUBSECTOR DRIVERS

Natural Gas and Crude Oil Prices



Source: S&P Capital IQ

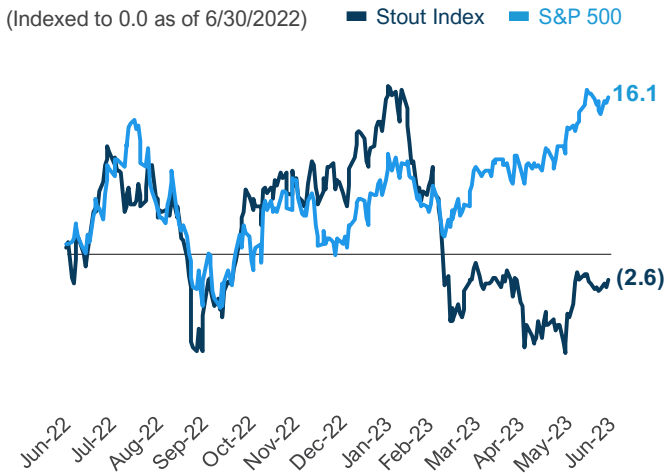
Natural Gas and Crude Oil Rigs in Operation



Source: U.S. Energy Information Administration

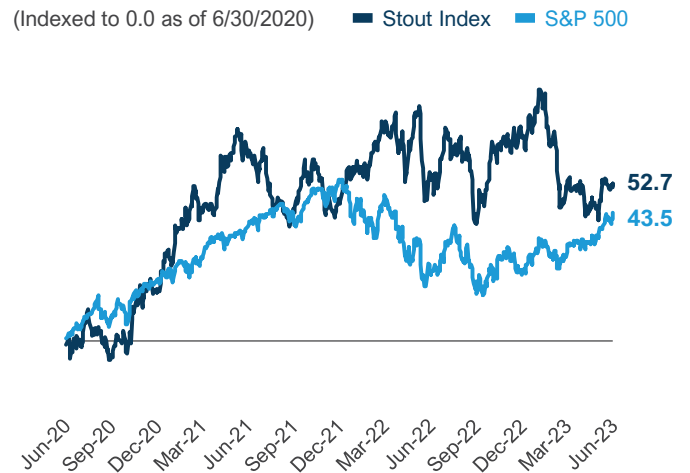
STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months



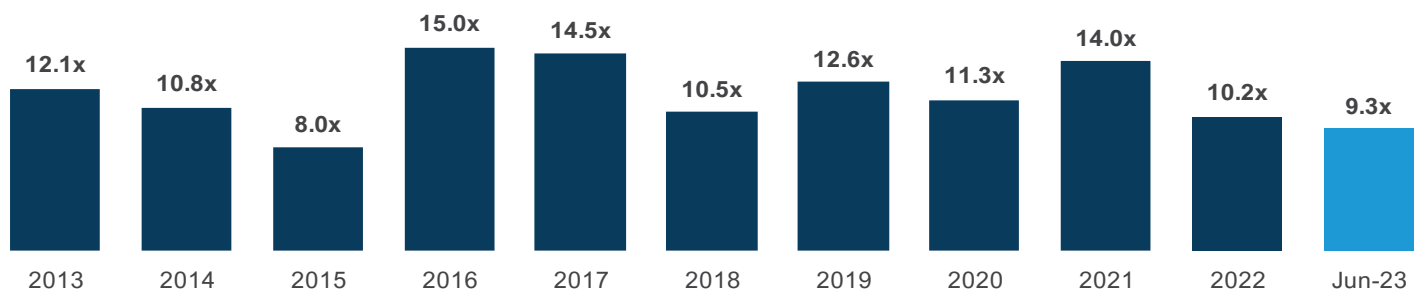
Source: S&P Capital IQ, Stout Proprietary Index

Indexed Stock Performance — Last 3 Years



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples



Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

Healthcare & Life Sciences Distribution

KEY SUBSECTOR DRIVERS

Medical Equipment Production Index

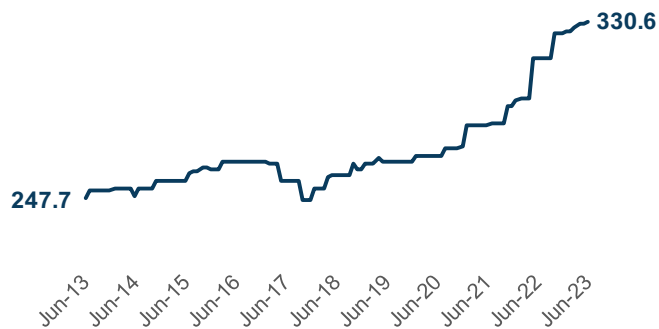
(Indexed to 100.0 as of 12/31/2017)



Source: Federal Reserve Economic Data

PPE Producer Price Index

(Indexed to 100.0 a of 12/31/1982)

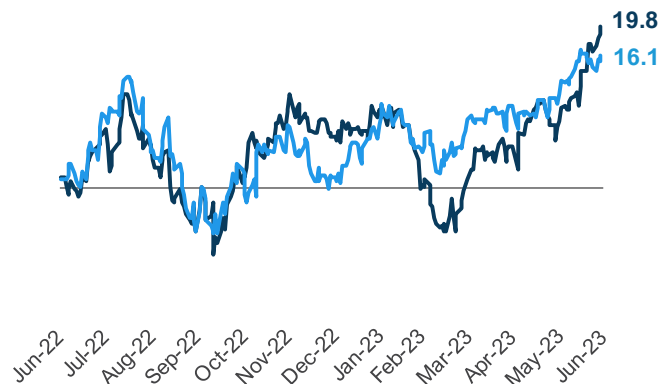


Source: Federal Reserve Economic Data

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

(Indexed to 0.0 as of 6/30/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

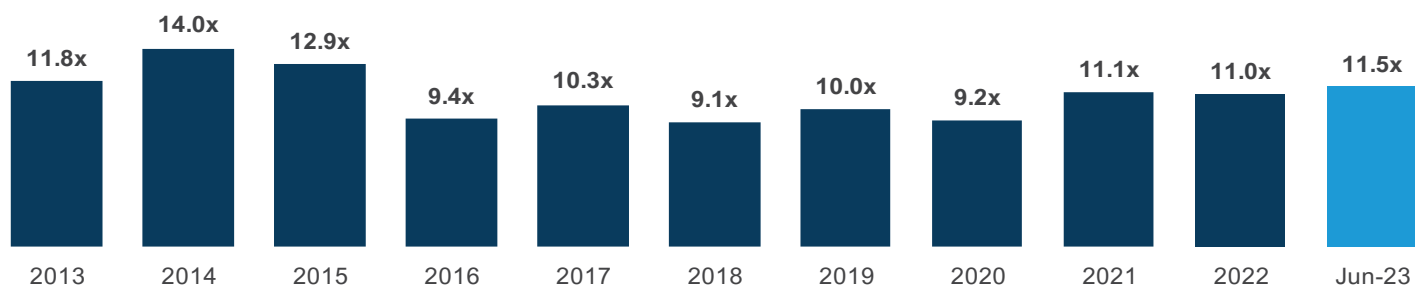
Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 6/30/2020) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples



Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

Industrial & MRO Distribution

KEY SUBSECTOR DRIVERS

U.S. Manufacturing Capacity Utilization

(Percent of capacity, seasonally adjusted)



Source: Federal Reserve Economic Data

Manufacturing Purchasing Managers' Index

(Measures health of manufacturing sector 0 – 100)



Source: Institute for Supply Management

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

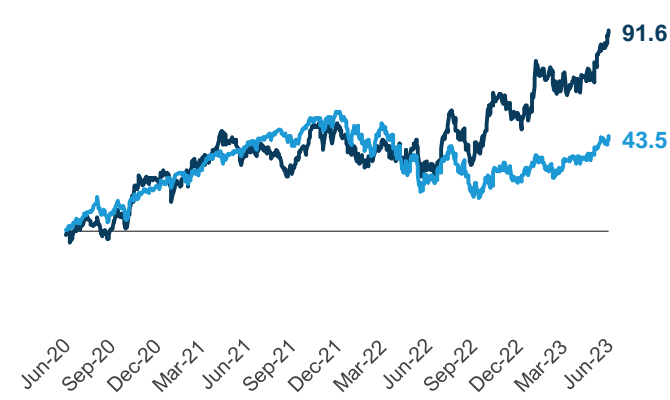
(Indexed to 0.0 as of 6/30/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

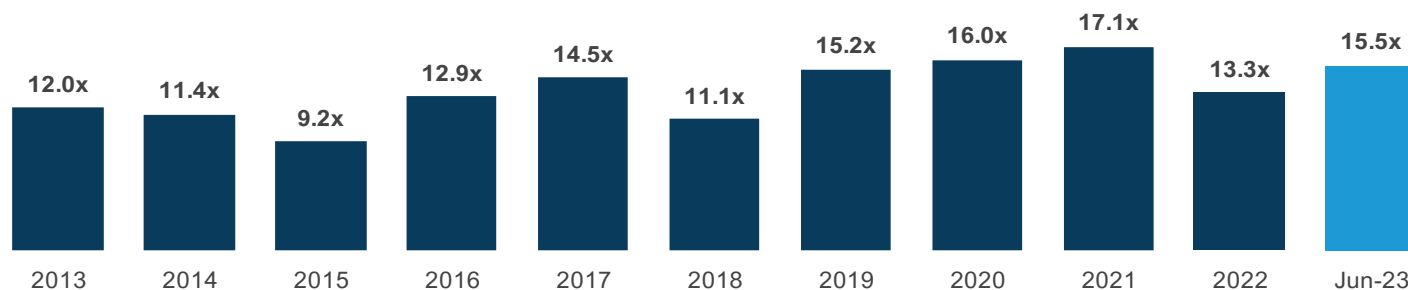
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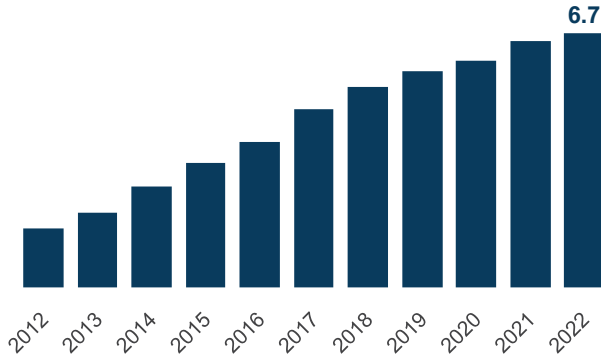
Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

Technology, Media, & Telecom Distribution

KEY SUBSECTOR DRIVERS

Global Mobile Broadband Subscriptions

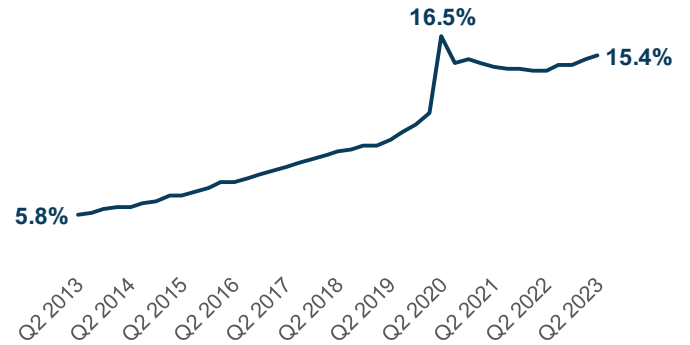
(Billions)



Source: International Telecommunication Union, Ericsson

E-Commerce Percent of Retail Sales

(Share of total retail sales globally)

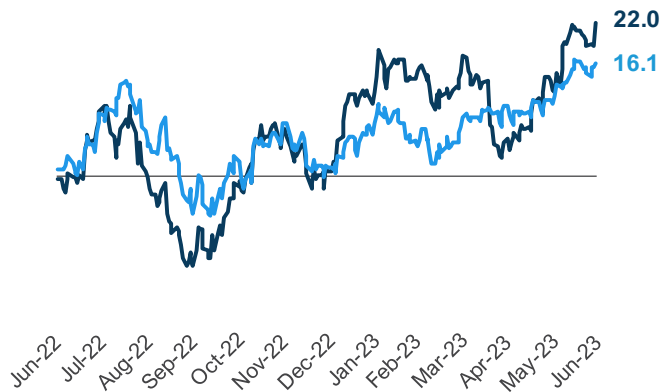


Source: Federal Reserve Economic Data

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

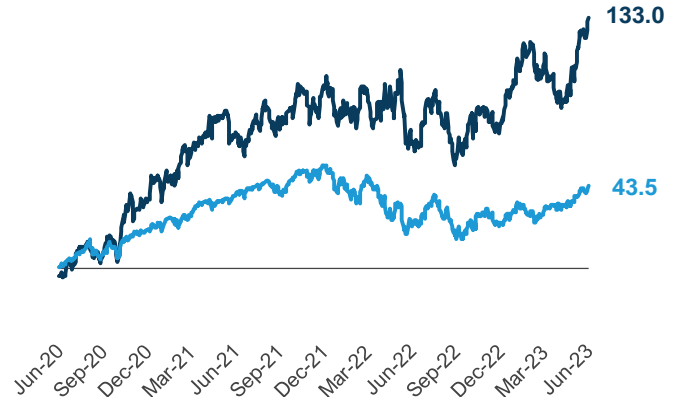
(Indexed to 0.0 as of 6/30/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

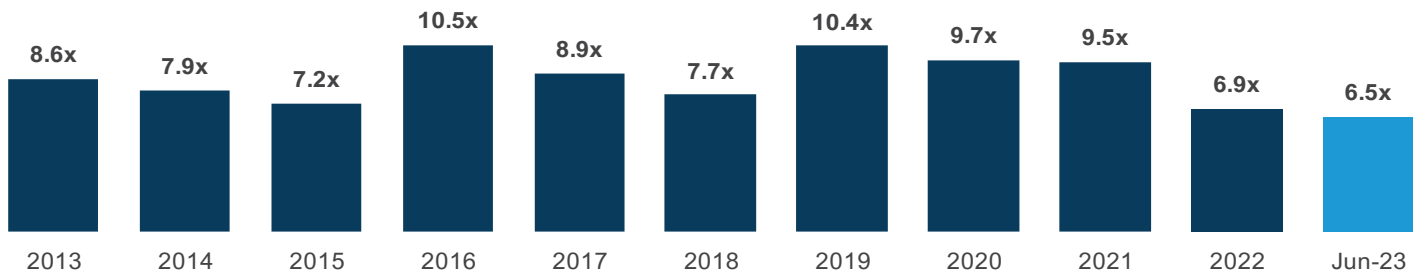
Indexed Stock Performance — Last 3 Years

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Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples

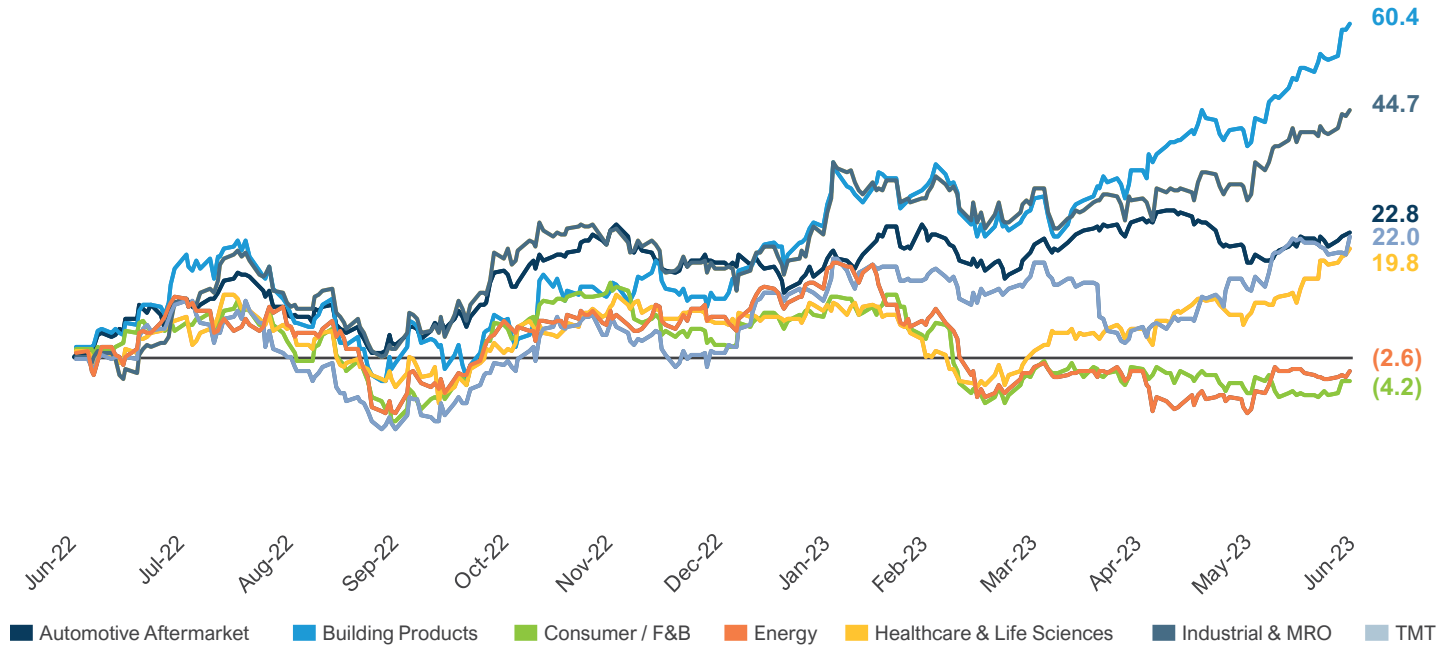


Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

Indexed Stock Performance by Subsector

Specialty Distribution Indexed Stock Performance — Last 12 Months

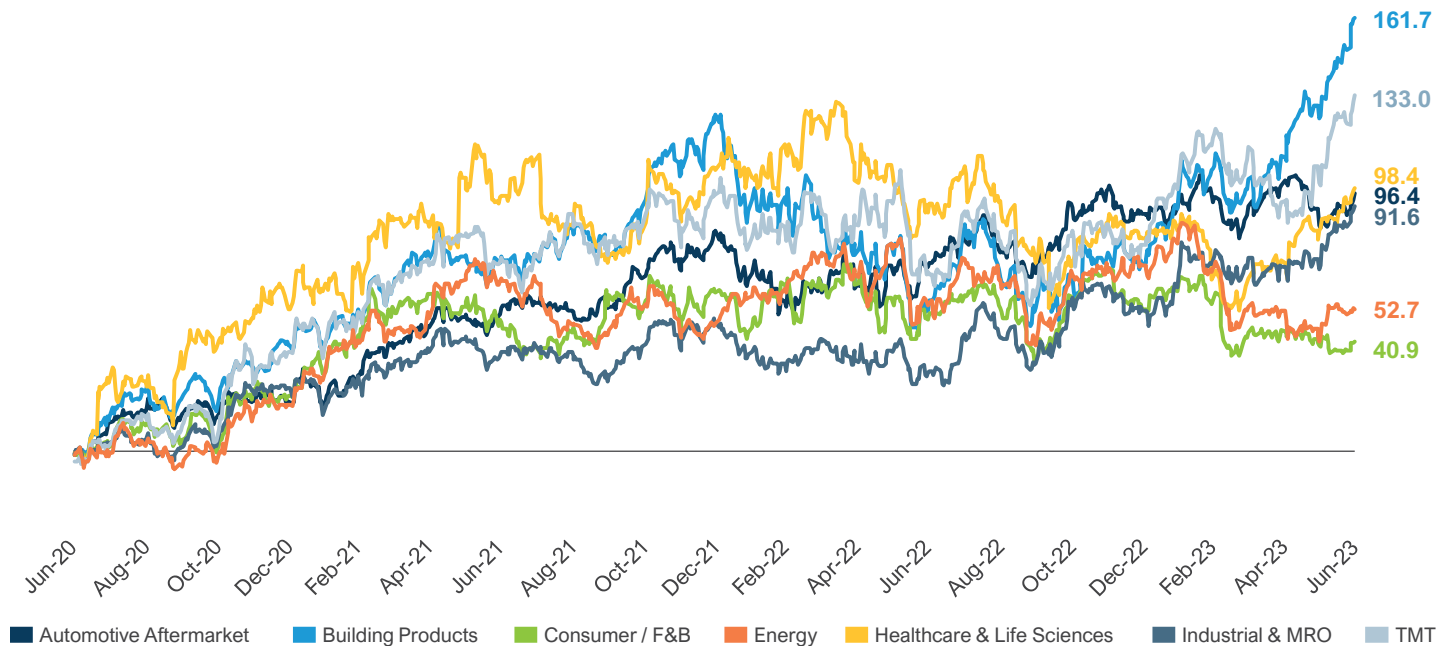
(Indexed to 0.0 as of 6/30/2022)



Source: S&P Capital IQ, Stout Proprietary Index

Specialty Distribution Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 6/30/2020)



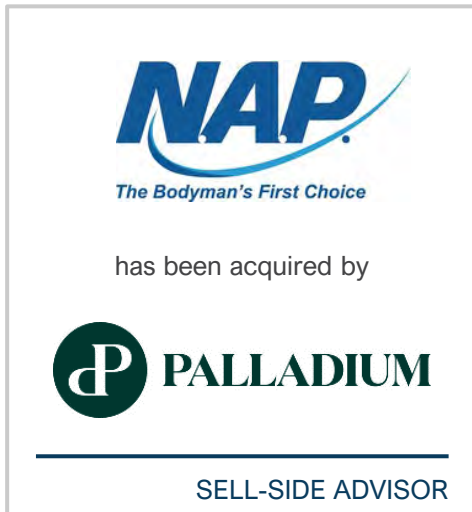
Source: S&P Capital IQ as of 6/30/2023, Stout Proprietary Index

M&A Transaction Highlights

Date	Acquiror (Ownership)	Target (Seller)	Industry Subsector
Jul-23	Palladium Equity Partners	National Auto Parts	Automotive Aftermarket
Jun-23	Commercial Foodservice Repair Co. (HCI Equity)	Harris Warren Commercial Kitchens	Industrial & MRO
Jun-23	RelaDyne (American Industrial Partners)	Michigan Petroleum Technologies	Energy
Jun-23	SRS Distribution (Leonard Green & Partners)	Washoe Building Supply	Building Products
Jun-23	Ferraro Foods (Kelso & Co.)	GDS Foods	Consumer / Food & Beverage
Jun-23	MiddleGround Capital	A.M. Castle & Co.	Industrial & MRO
Jun-23	Guardian Capital Partners	Northwest Fuel Systems	Automotive Aftermarket
Jun-23	Core & Main (Clayton Dubilier & Rice)	J.W. D'angelo Company	Industrial & MRO
Jun-23	Beacon Roofing Supply (Nasdaq:BECN)	Silver State Building Materials	Building Products
Jun-23	Medical Technology Associates (PNC RiverArch)	Premier Medical	Healthcare & Life Sciences
Jun-23	AFC Industries (Bertram Capital)	White Distribution & Supply	Industrial & MRO
Jun-23	Solar Art Window Film (Tregaron Capital)	American Window Film	Building Products
Jun-23	Motion & Control Enterprises (Frontenac Company)	Industrial Control Service	Industrial & MRO
Jun-23	Motion & Control Enterprises (Frontenac Company)	Power & Pumps	Industrial & MRO
Jun-23	Incline Equity Partners	GMES, LLC	Industrial & MRO
Jun-23	Kian Capital Partners	Team Air Distributing	Industrial & MRO
May-23	KeHE Distributors (Towerbrook Capital Partners)	DPI Specialty Foods (Arbor Investments)	Consumer / Food & Beverage
May-23	FreshEdge (Wind Point Partners)	Panama Banana Distributing Company	Consumer / Food & Beverage
May-23	Lipari Foods (Littlejohn & Co.)	Comercializadora Del Midwest	Consumer / Food & Beverage
May-23	BlueAlly Technology Solutions (Source Capital)	Corporate Armor Technologies	Technology, Media, & Telecom
May-23	Advent Home Medical (New Harbor Capital)	Med Emporium	Healthcare & Life Sciences
May-23	Imperial Dade (Advent International)	Columbus Paper Company	Consumer / Food & Beverage
May-23	Probo Medical (Avista Capital)	National Ultrasound	Healthcare & Life Sciences
May-23	AFC Industries (Bertram Capital)	Fastbolt Corporation	Industrial & MRO
May-23	Sterling Investment Partners	Florida Veg (Shoreline Equity)	Consumer / Food & Beverage
May-23	AramSCO (Odyssey Investment Partners)	Transafe, Inc.	Building Products
Apr-23	Calibre Scientific (StoneCalibre)	Greenwood Products	Healthcare & Life Sciences
Apr-23	Magneto & Diesel Injector Service (Gridiron Capital)	Turbo Diesel & Electric Systems	Automotive Aftermarket
Apr-23	Investcorp	Shearer Supply	Industrial & MRO
Apr-23	BlackHawk Industrial Distribution (TruArc Partners)	Stock'd Supply	Industrial & MRO
Apr-23	Prosource (Blue Sea Capital)	Huber Supply Co	Industrial & MRO
Apr-23	Gypsum Management and Supply (NYSE:GMS)	EMJ Companies	Building Products
Apr-23	Audax Private Equity	Krayden (Quad-C Management)	Industrial & MRO
Apr-23	Montgomery DME (Incline Equity Partners)	Advantage Home Medical	Healthcare & Life Sciences
Apr-23	Foundation Building Materials (American Securities)	MarJam Supply Co.	Building Products

Source: S&P Capital IQ, Stout Proprietary Database

Recent Stout Transaction Spotlight



Stout Advises NAP on Sale to Palladium Equity Partners

CLIENT PROFILE

- ❖ Founded in 1997 in Albuquerque, NM, National Auto Parts (“NAP”) is a leading value-added distributor of certified and non-certified aftermarket collision repair parts and is comprised of three entities that operate six distribution facilities across New Mexico and California
- ❖ Boasting a deep catalogue of over 95 thousand SKUs spanning all major car brands and production years, NAP serves its customers as a “one-stop shop” for a broad array of collision repair needs

BUYER PROFILE

- ❖ Also founded in 1997, Palladium Equity Partners’ recently formed unit “Palladium Heritage” seeks to acquire lower middle-market businesses in the B2B and industrial sectors that are founder / family owned and at a growth inflection point
- ❖ Palladium’s investment in NAP represents Palladium Heritage’s second platform investment since its inception

PROCESS SUMMARY AND OUTCOME

- ❖ As a result of this combination, the newly formed entity, “Collision Auto Parts”, is now the pre-eminent independent Western U.S. platform, providing value-added distribution of aftermarket automotive collision repair parts serving markets in the Western U.S. with six distribution facilities
- ❖ Stout served as the exclusive financial advisor to NAP in a highly targeted process, leading to a successful closing in July 2023

Select Stout Transaction Experience

 <p>The Bodyman's First Choice</p> <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has acquired</p>  <hr/> <p>BUY-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>
 <p>has been acquired by</p>  <p>a portfolio company of</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>(Titan Australia Pty Ltd)</p> <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>
 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>
 <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has been acquired by</p>  <p>a portfolio company of</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>a portfolio company of</p>  <p>has been acquired by</p>  <hr/> <p>SELL-SIDE ADVISOR</p>	 <p>has acquired</p>  <p>a portfolio company of</p>  <hr/> <p>BUY-SIDE ADVISOR</p>

Note: Includes transactions completed at prior firms

Specialty Distribution Practice

PRACTICE OVERVIEW

The Stout Specialty Distribution team leverages deep advisory experience as well as dedicated coverage and expertise across a range of business models and key distribution subsectors. The team maintains strong, long-standing relationships with highly active financial sponsors and key strategic consolidators in the space, alongside a deep understanding of the broader value chain, which enables Stout to provide superior outcomes for our clients.

DEEP SUBSECTOR COVERAGE



Automotive Aftermarket



Building Products



Consumer / Food & Beverage



Energy



Healthcare & Life Sciences



Industrial & MRO



Technology, Media, & Telecom

STOUT CONTACTS



Kevin Manning

Head of Investment Banking
kmanning@stout.com
+312.752.3335



Mark Abbott

Managing Director
mabbott@stout.com
+616.965.2408



Steven Rathbone

Managing Director
srathbone@stout.com
+646.810.4366



Matt Schloop

Managing Director
mschloop@stout.com
+248.432.1318



Mike Knoblock

Director
mknoblock@stout.com
+248.432.1251



Luke Korney

Senior Associate
lkorney@stout.com
+216.373.2964



Natalie Walgren

Senior Associate
nwalgren@stout.com
+312.752.3338



Garrett Reich

Analyst
greich@stout.com
+312.763.6633



ABOUT STOUT INVESTMENT BANKING

Stout's Investment Banking group provides mergers and acquisitions (M&A) advisory, capital market financing, and other financial advisory services to portfolio companies of private equity firms, closely held or family-owned businesses, and divisions of large corporate parents. Learn more about our [Investment Banking services](#).

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