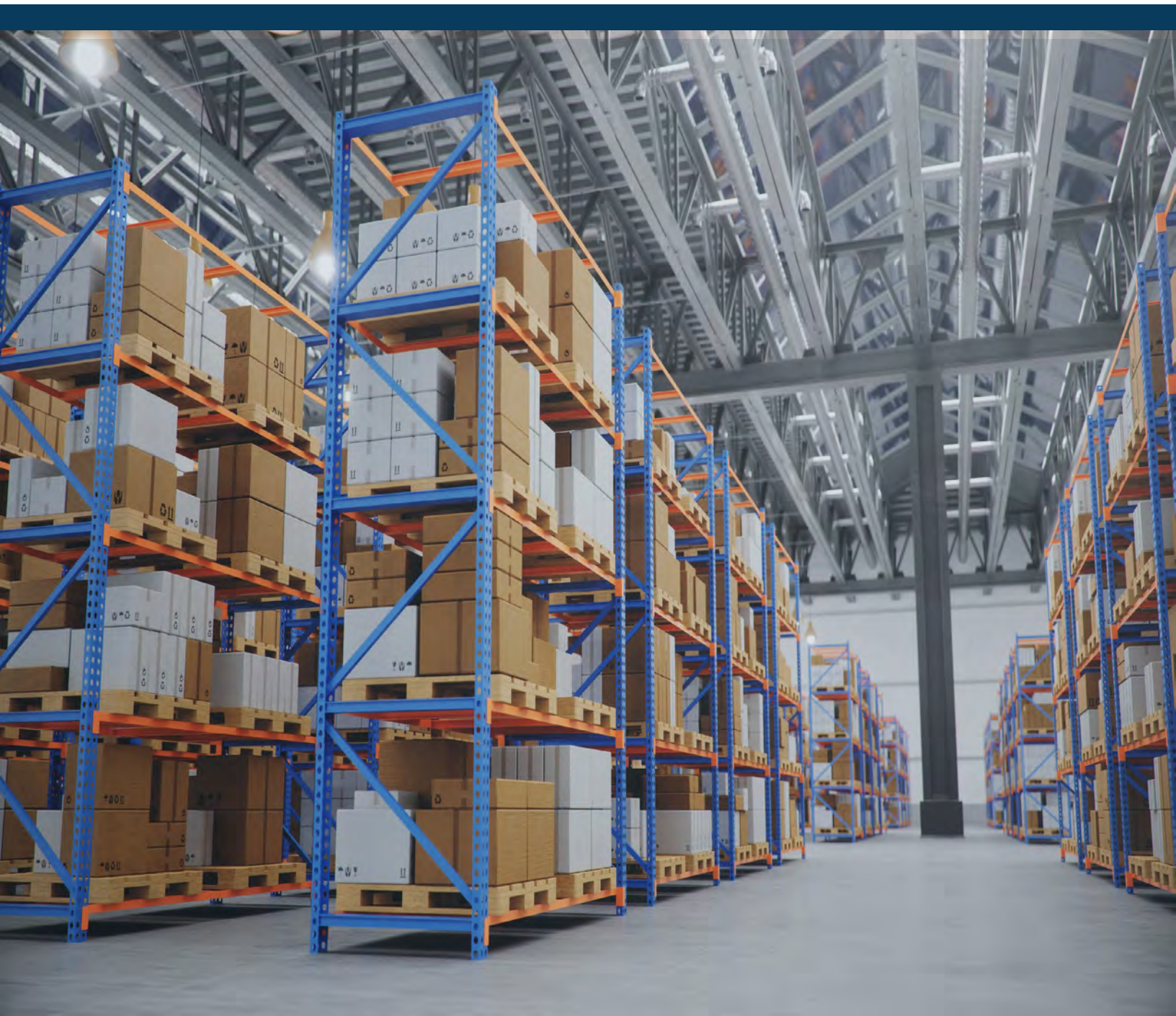




Specialty Distribution

INDUSTRY UPDATE | Q1 2023





IN THIS EDITION

- Key Insights and Observations
- U.S. Macroeconomic Backdrop
- M&A Activity Trends
- Market Forces to Watch in 2023
- 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 Q1 2023. Through our team's continued 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.

- ❖ Through Q1 2023, private equity firms have adjusted in order to complete transactions and keep leveraged buyout activity running. Private equity deals have on average been smaller than historical norms, making them easier to complete and finance. Many of these transactions were add-ons, which can deliver incremental revenue and EBITDA growth to cover escalation in interest costs.
- ❖ In Q1 2023, roughly 70% of private equity deal volume was under \$100 million of enterprise value. These transactions saw more resiliency in the broader M&A market due to the ability to obtain debt financing (often from direct lenders), integrate with existing platforms, and be completed at accretive multiples.
- ❖ Private equity firms are finding greater opportunities in corporate carve-outs and divestitures. With current rising interest rates and disrupted access to loans for LBOs, private equity firms are more inclined to look for attractively priced transactions. The vast amount of these carve-out transactions are also add-ons to existing sponsor-owned platform companies, and this trend is expected to continue throughout the remainder of 2023.

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.

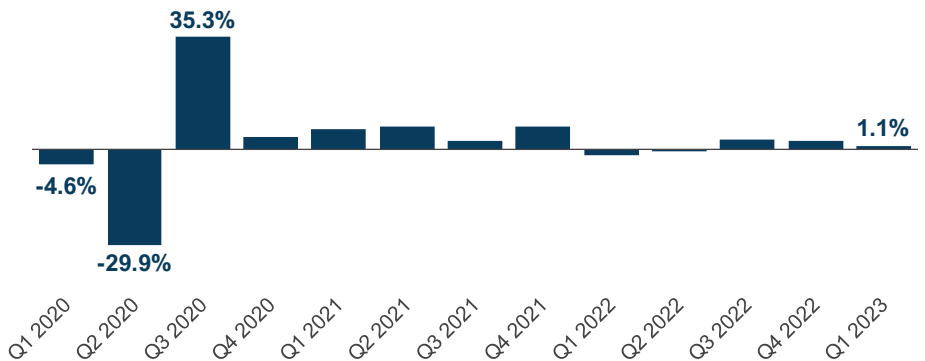
U.S. Macroeconomic Backdrop

In the First Quarter of 2023, the U.S. Economy Was Defined by Continued Contractionary Monetary Policy and the Beginning of Decelerated Growth

- ❖ U.S. real GDP rose by 1.1% in the first quarter of 2023, which was a stark slowdown compared to the 2.6% increase in the last quarter of 2022, suggesting that the Federal Reserve's efforts to cool off the economy are beginning to have an impact.
- ❖ Despite signs of a slowing economy, consumer confidence in the U.S. has maintained historical levels as a result of a strong job market and continued wage raises.
- ❖ The U.S. manufacturing industry experienced a slight decline in the first quarter of 2023, which was a result of inflation and high raw material pricing, labor retainment, and continued global supply chain challenges.

Real U.S. Quarterly GDP Growth

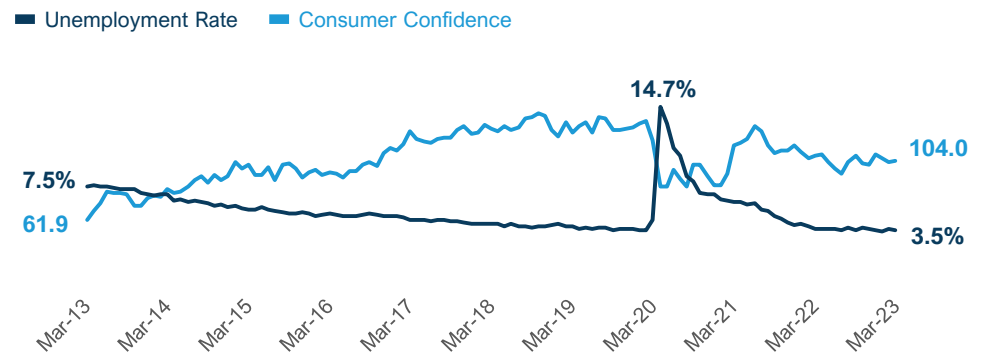
(Annualized quarterly percentage change)



Source: S&P Capital IQ

U.S. Unemployment Rate and Consumer Confidence

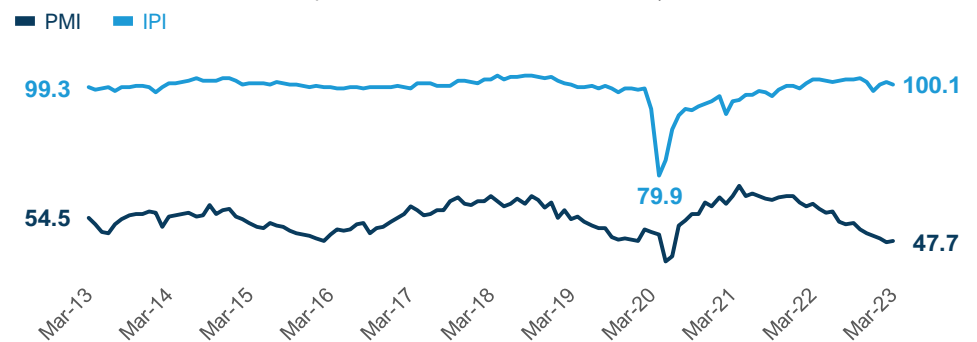
(Percentage of unemployed persons in U.S. labor force; index of consumer sentiment)



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

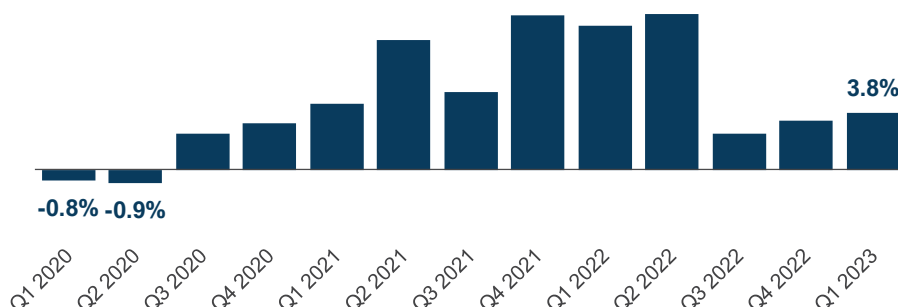
U.S. Macroeconomic Backdrop (cont.)

Ongoing Campaign to Combat Rising Inflation and Stabilize the U.S. Economy by the End of 2023

- ❖ With two interest rate hikes completed in the first quarter of 2023 taking the key rate from 4.50% to 5.00%, recent inflation and consumer prices were still too hot, pushing the Fed to follow the pace of its rate increases that began in early 2022.
- ❖ Shipping supply continued to outpace demand, but increased imports and consumer expenditure indicate a brighter future for the shipping industry. There is, however, ongoing concern over falling shipping rates and high inventory levels.
- ❖ Imports and exports both increased in the first quarter of 2023 by 0.73% and 1.19%, respectively, bouncing back after both declined in the last quarter of 2022.

Real U.S. Inflation Rate

(Annualized quarterly percentage rate)



Source: S&P Capital IQ

Producer Price Index: General Long-Distance Freight

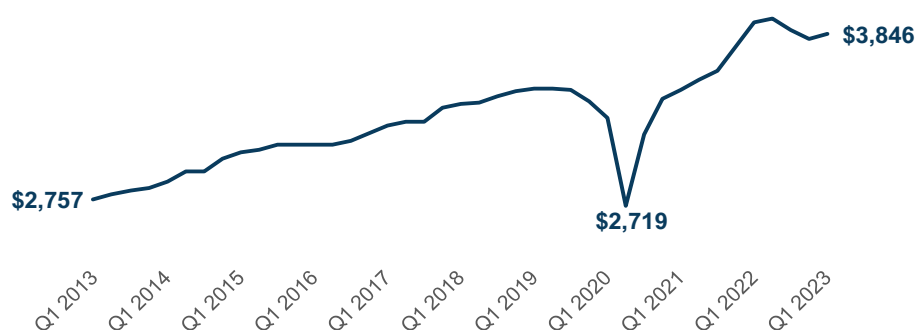
(Indexed to 100.0 as of 12/31/1992)



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

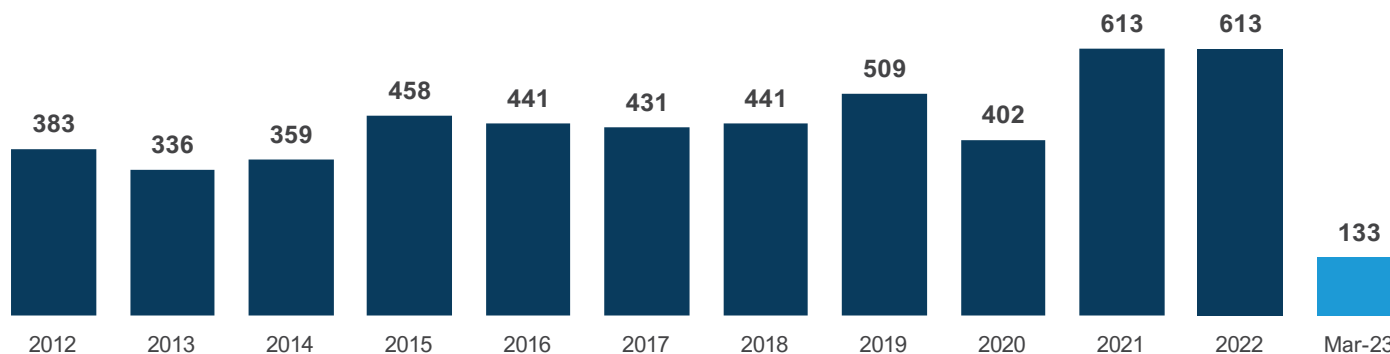
U.S. M&A Update

M&A activity within specialty distribution in Q1 2023 has begun to slow from the historical highs achieved in 2021 and 2022, with an estimated 133 deals announced throughout the quarter, down from a quarterly average of 153 deals announced throughout 2022. Valuation multiples have also continued to soften from all-time highs in 2021, with an average EV/EBITDA of 8.4x for transactions announced in the first 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 and building products subsectors has remained particularly active, while activity in other subsectors, including healthcare & life sciences and technology, media, & telecom, has begun to slow. Key strategic and sponsor-backed platforms in the industrial & MRO and building products subsectors, including AFC Industries (Bertram Capital), Aramsco (Odyssey Investment Partners), B2B Industrial Packaging (GenNx360 Capital Partners), Beacon Roofing Supply (NasdaqGS:BECN), Ferguson (NYSE:FERG), and GMS (NYSE:GMS), have led consolidation activity and M&A momentum in Q1 2023 with each completing at least two transactions throughout the quarter.

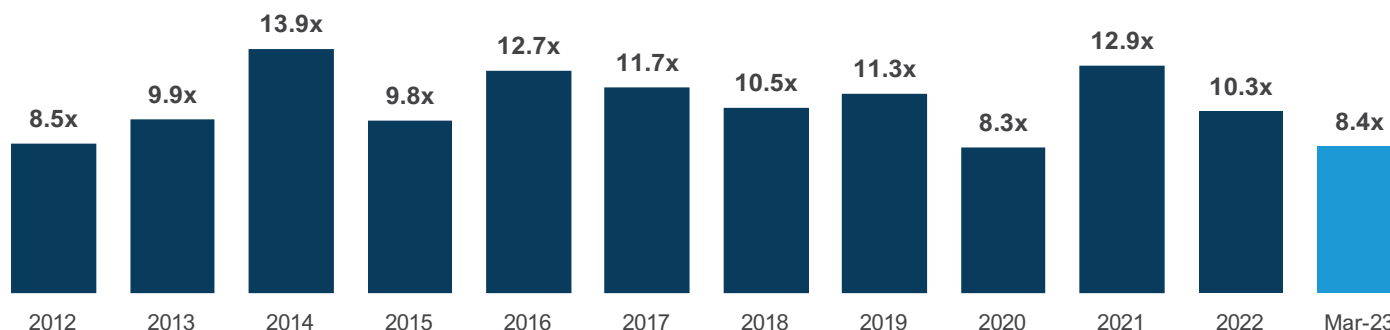
Historical Aggregate M&A Transaction Volume

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



Source: S&P Capital IQ as of 3/31/2023, Stout Proprietary Database

Historical Average EV/LTM EBITDA Multiples



Source: S&P Capital IQ as of 3/31/2023, Stout Proprietary Index

Market Forces to Watch in 2023

Deal Activity Continues to Slowly Outpace Most Expectations, but Valuations and Market Dynamics Have Shifted to the Downside From the Previous Two Years

Key Themes Are Emerging for Buyers and Sellers Alike

KEY M&A TRENDS AND DRIVERS

U.S. Reshoring Increasing Demand

- ❖ Companies continue to navigate out of global supply chain issues, from rising input costs, product shortages, and longer lead times.
 - ❖ This resulted in increased efforts to simplify supply chains, diversify supplier bases, reshore materials and inputs, and rely on domestic manufacturing and suppliers/distributors.
 - ❖ The U.S. government and companies are expected to continue emphasizing these movements.
-

Commodity Pricing Increasing Margins

- ❖ Freight and commodity prices have stabilized on a relative basis compared to 2020 and 2021 levels, while prices for goods and services for consumers remain elevated with modest increases.
 - ❖ This has benefited numerous industrial companies and suppliers by enhancing gross margins to record levels, which have impacted valuations in M&A processes.
-

Portfolio Optimization

- ❖ Divestiture activity is anticipated to continue at a healthy pace as companies reassess the structure of their portfolios.
 - ❖ Carve-out activity is expected to be bolstered by a favorable deal environment with corporates leveraging improved balance sheets and financial buyers, with record levels of capital, looking to put capital to use.
-

Emphasis on Sustainability and ESG

- ❖ Elevated consumer and corporate awareness of sustainability practices, rising ESG interest, and the prospect of more stringent environmental regulations are anticipated to increase demand for sustainable products and more efficient services.
 - ❖ Companies that support this practice, both organically and via M&A, are expected to have elevated demand for the foreseeable future.
-

Automotive & Specialty Vehicle Distribution

KEY SUBSECTOR DRIVERS

Regular All Formulations Gas Prices

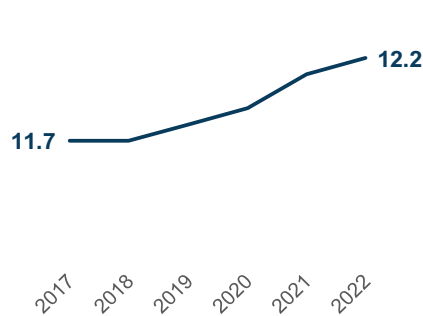
(Dollars per gallon, weekly ending Mondays)



Source: Federal Reserve Economic Data

Average Age of Automobiles and Trucks

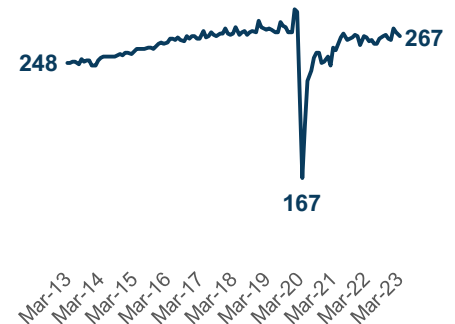
(Years)



Source: U.S. Department of Transportation

Vehicle Miles Traveled

(Billions of miles, seasonally adjusted)

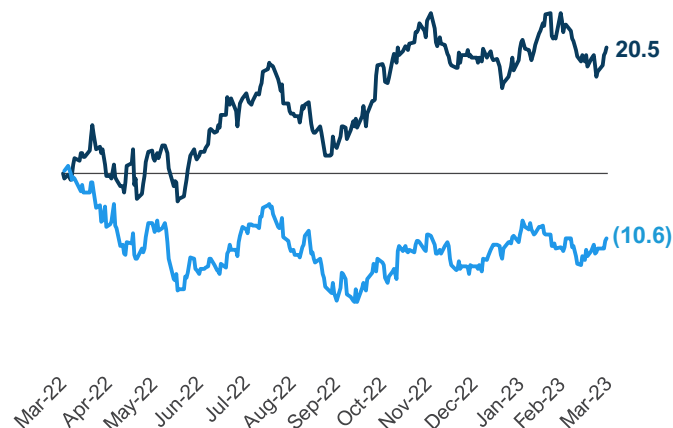


Source: Federal Reserve Economic Data

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

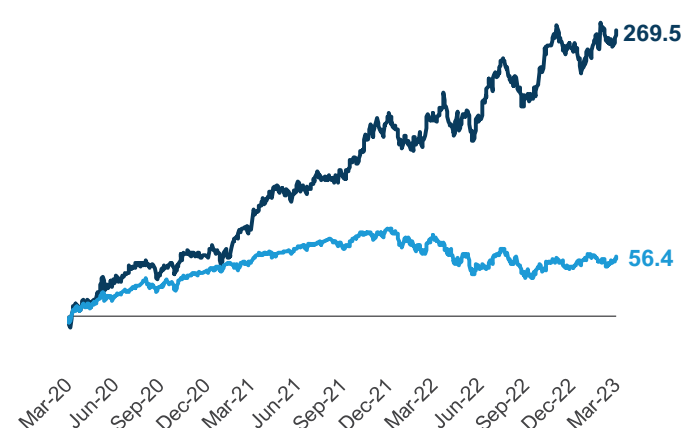
(Indexed to 0.0 as of 3/31/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

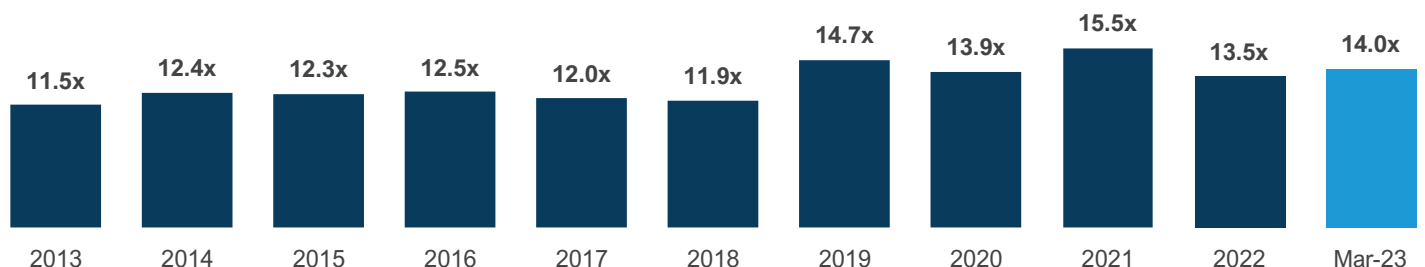
Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 3/31/2020) ■ 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 3/31/2023, Stout Proprietary Index

Building Products Distribution

KEY SUBSECTOR DRIVERS

Housing Starts and Construction Spending

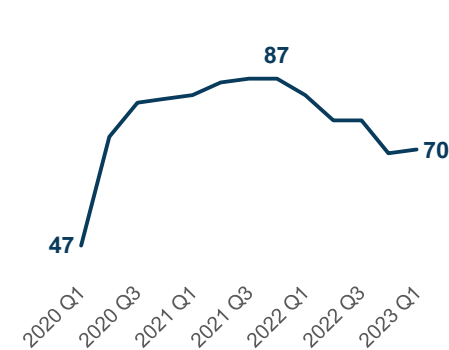
(Thousands of units, seasonally adjusted, spend in \$ in billions)



Source: Federal Reserve Economic Data

NAHB Remodeling Index

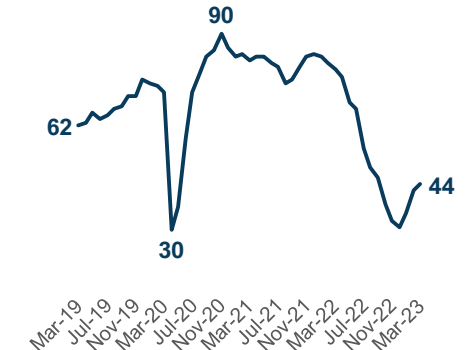
(Reflects health of current and future remodeling market from 0 – 100)



Source: National Association of Home Builders

NAHB Housing Market Index

(Reflects health of housing sales from 0 – 100)

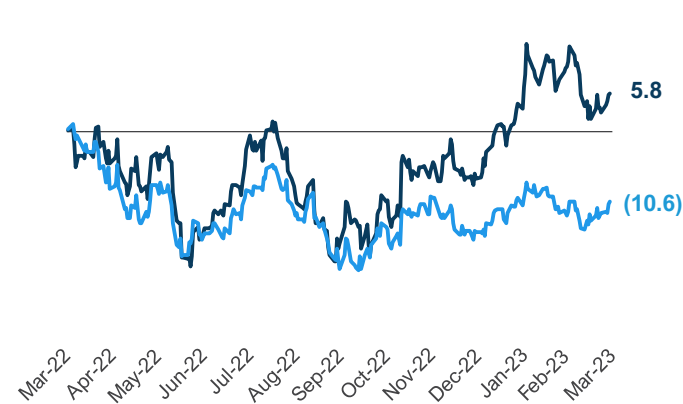


Source: National Association of Home Builders

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

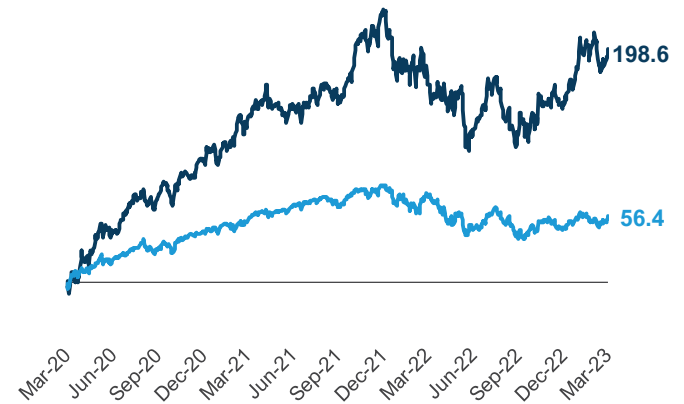
(Indexed to 0.0 as of 3/31/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

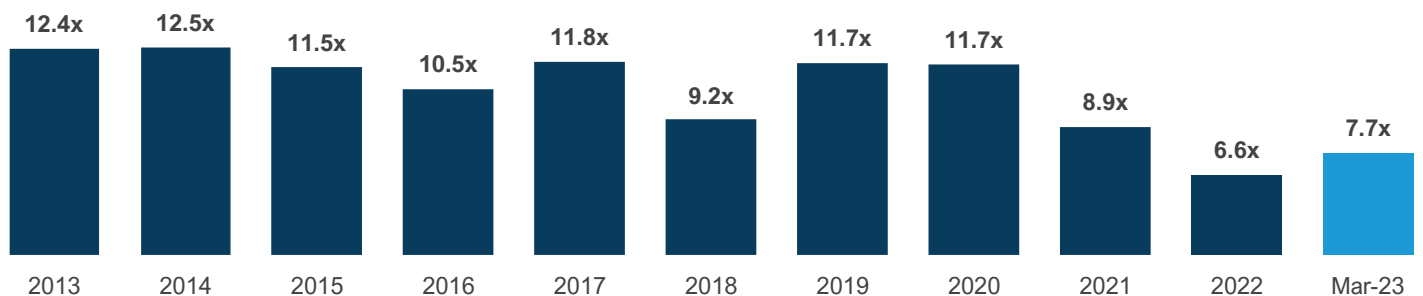
Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 3/31/2020) ■ 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 3/31/2023, Stout Proprietary Index

Consumer / Food & Beverage Distribution

KEY SUBSECTOR DRIVERS

U.S. Retailers' Inventories

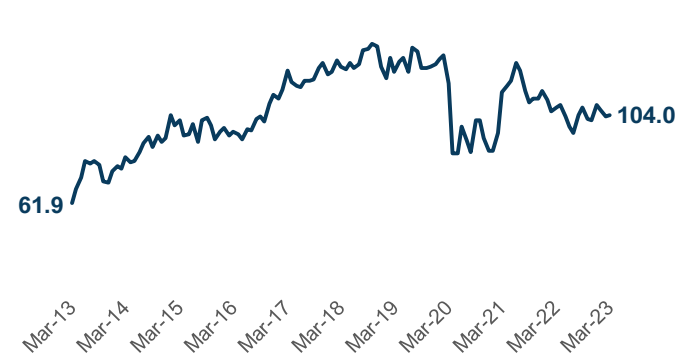
(\$ in billions, seasonally adjusted)



Source: Federal Reserve Economic Data

U.S. Consumer Confidence

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

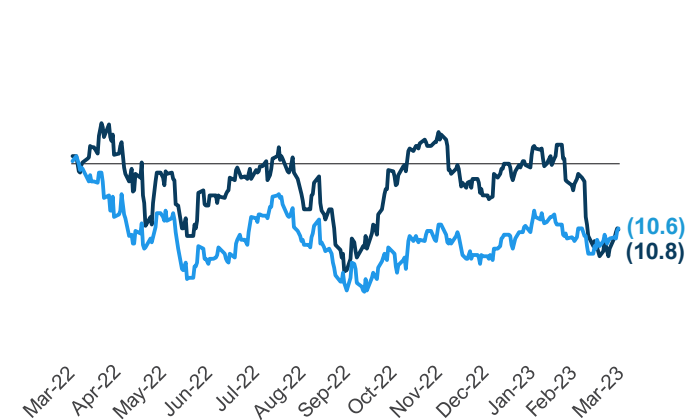


Source: S&P Capital IQ

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

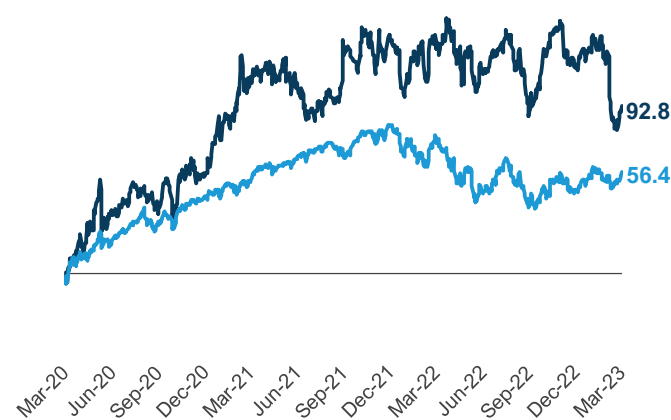
(Indexed to 0.0 as of 3/31/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

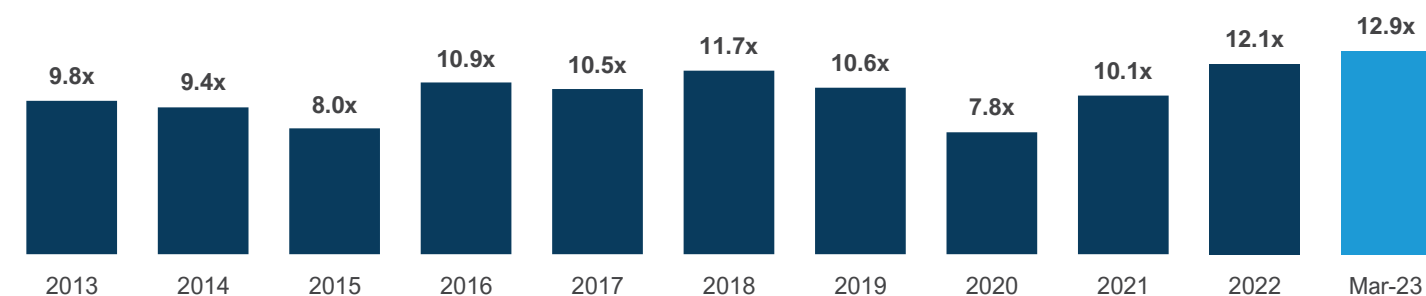
Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 3/31/2020) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples

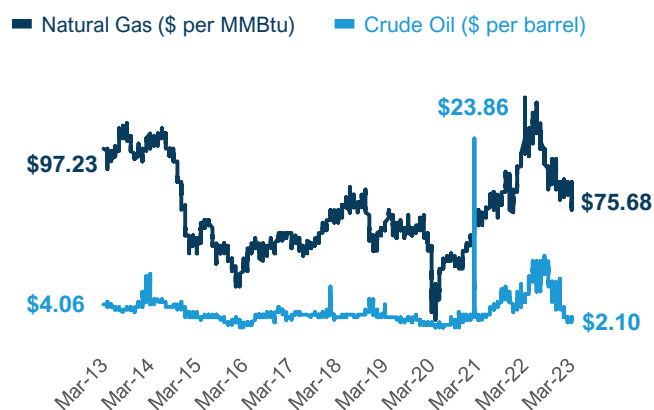


Source: S&P Capital IQ as of 3/31/2023, Stout Proprietary Index

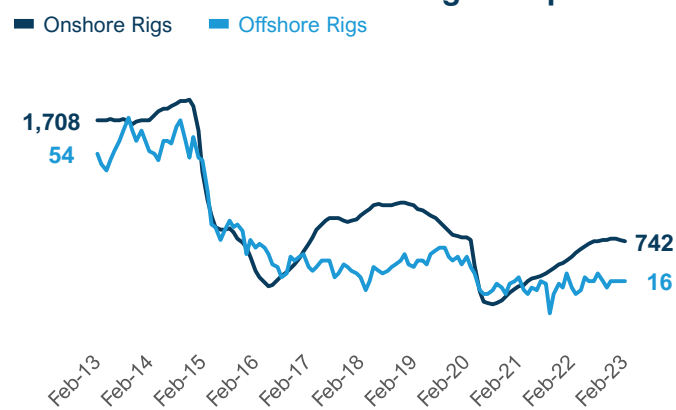
Energy Distribution

KEY SUBSECTOR DRIVERS

Natural Gas and Crude Oil Prices

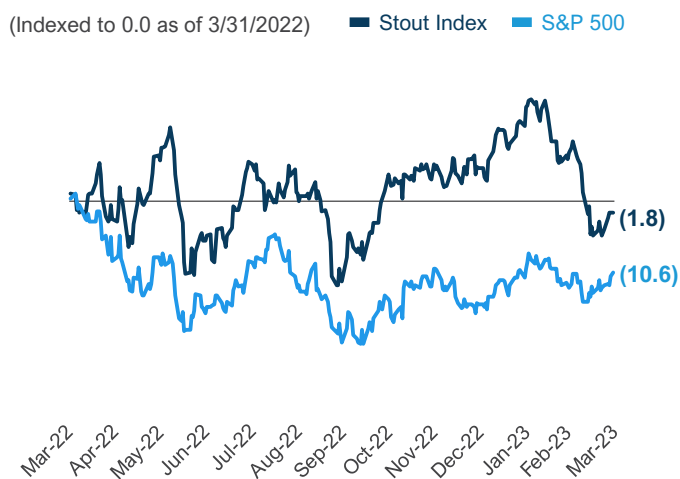


Natural Gas and Crude Oil Rigs in Operation

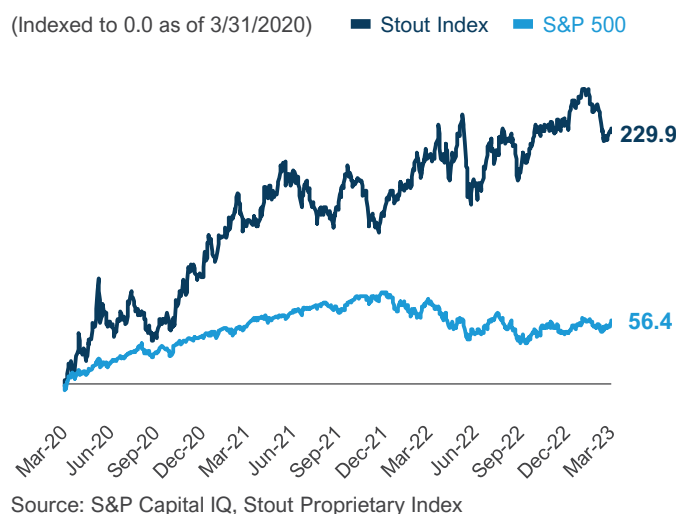


STOUT SUBSECTOR INDEX PERFORMANCE

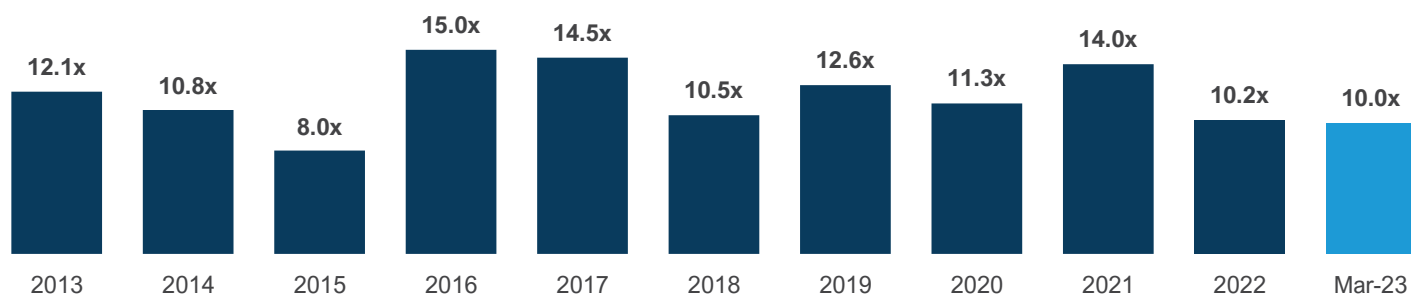
Indexed Stock Performance — Last 12 Months



Indexed Stock Performance — Last 3 Years



Historical Median EV/LTM EBITDA Multiples



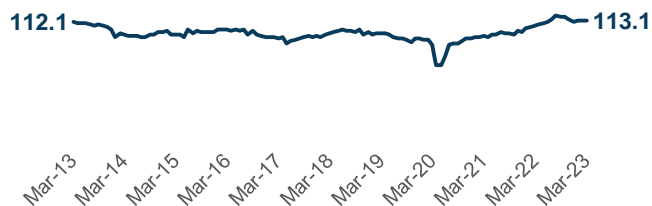
Source: S&P Capital IQ as of 3/31/2023, Stout Proprietary Index

Healthcare & Life Sciences Distribution

KEY SUBSECTOR DRIVERS

Medical Equipment Production Index

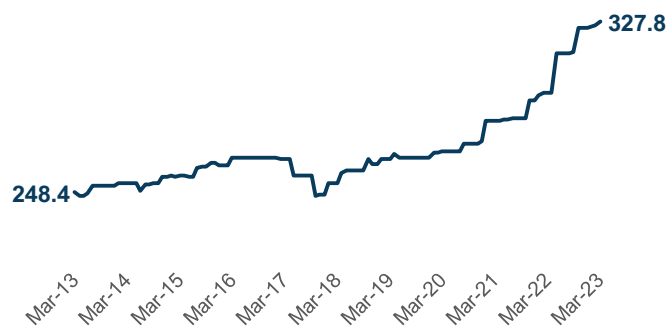
(Indexed to 100.0 as of 12/31/2017)



Source: Federal Reserve Economic Data

PPE Producer Price Index

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



Source: Federal Reserve Economic Data

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

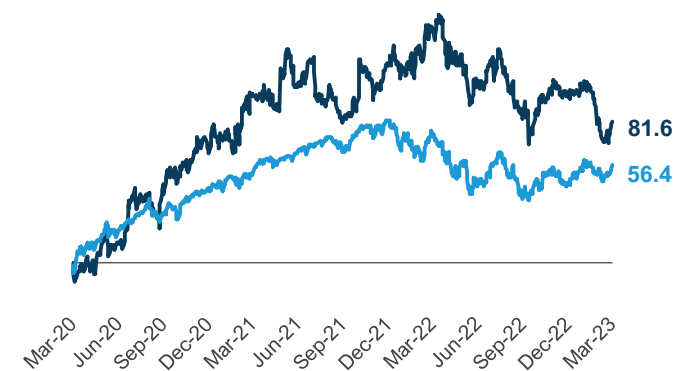
(Indexed to 0.0 as of 3/31/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

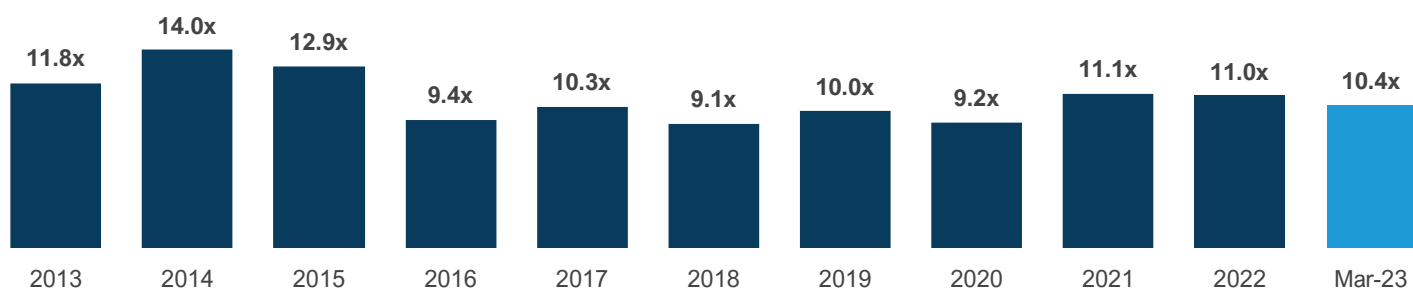
Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 3/31/2020) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples



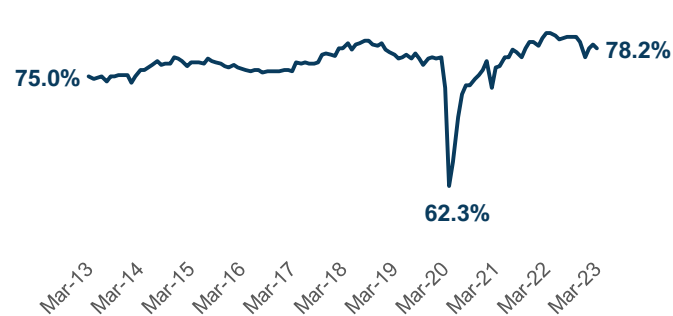
Source: S&P Capital IQ as of 3/31/2023, Stout Proprietary Index

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)

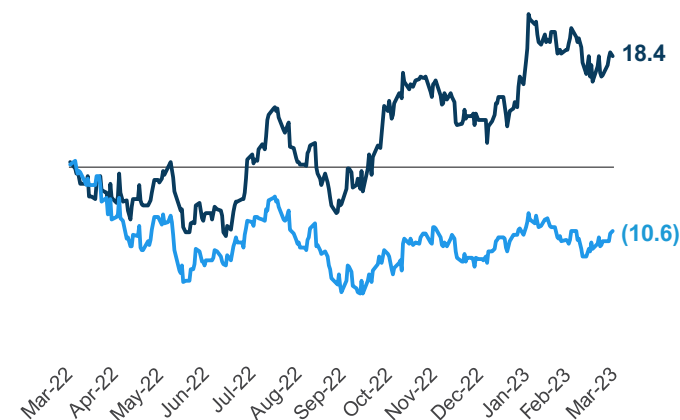


Source: Institute for Supply Management

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

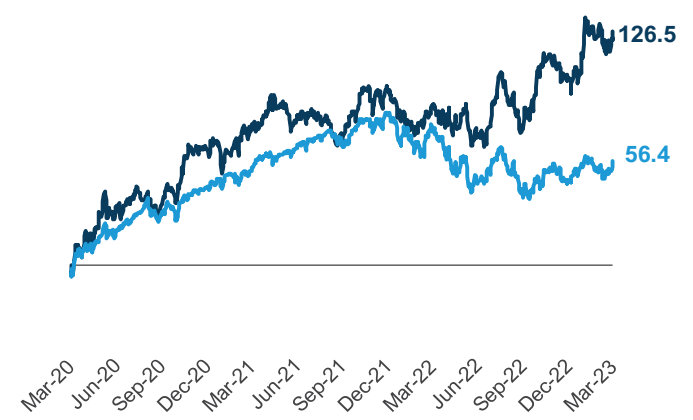
(Indexed to 0.0 as of 3/31/2022) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

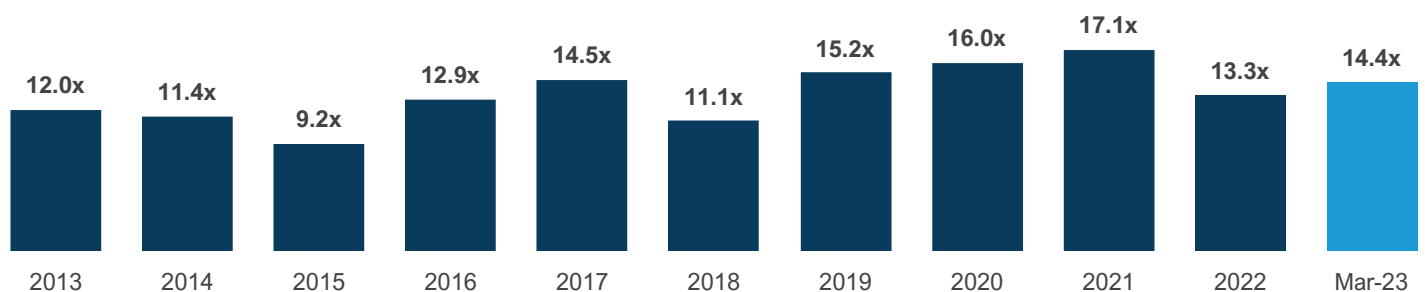
Indexed Stock Performance — Last 3 Years

(Indexed to 0.0 as of 3/31/2020) ■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples



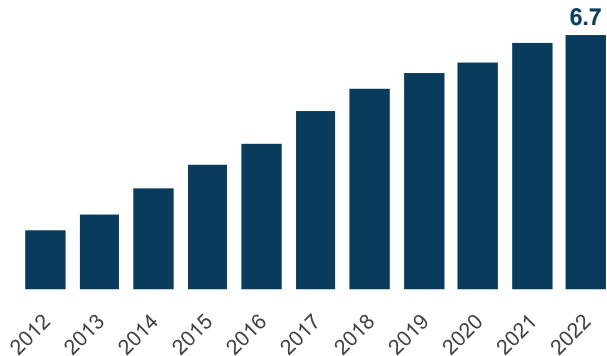
Source: S&P Capital IQ as of 3/31/2023, Stout Proprietary Index

Technology, Media, & Telecom Distribution

KEY SUBSECTOR DRIVERS

Global Mobile Broadband Subscriptions

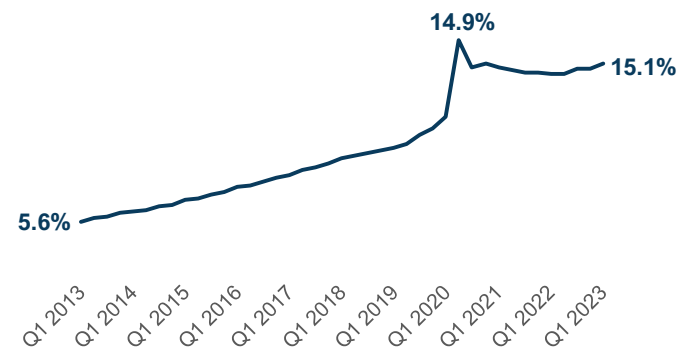
(Billions)



Source: International Telecommunication Union, Ericsson

E-Commerce Percent of Retail Sales

(Share of total retail sales globally)



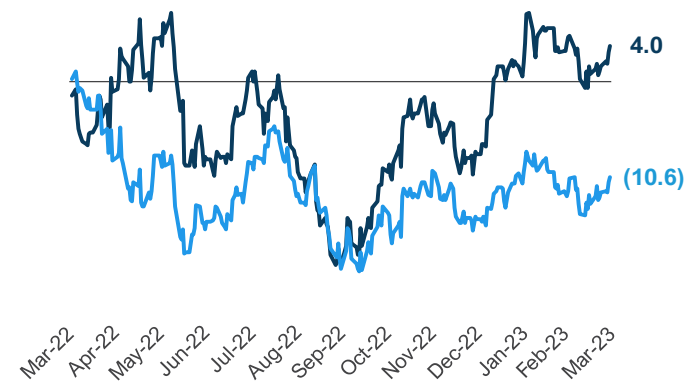
Source: Federal Reserve Economic Data

STOUT SUBSECTOR INDEX PERFORMANCE

Indexed Stock Performance — Last 12 Months

(Indexed to 0.0 as of 3/31/2022)

■ Stout Index ■ S&P 500

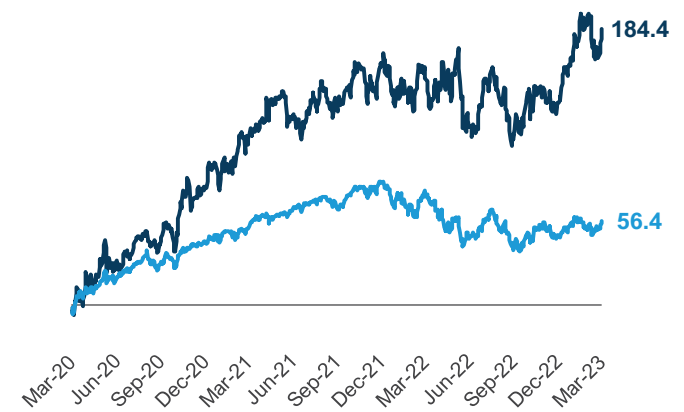


Source: S&P Capital IQ, Stout Proprietary Index

Indexed Stock Performance — Last 3 Years

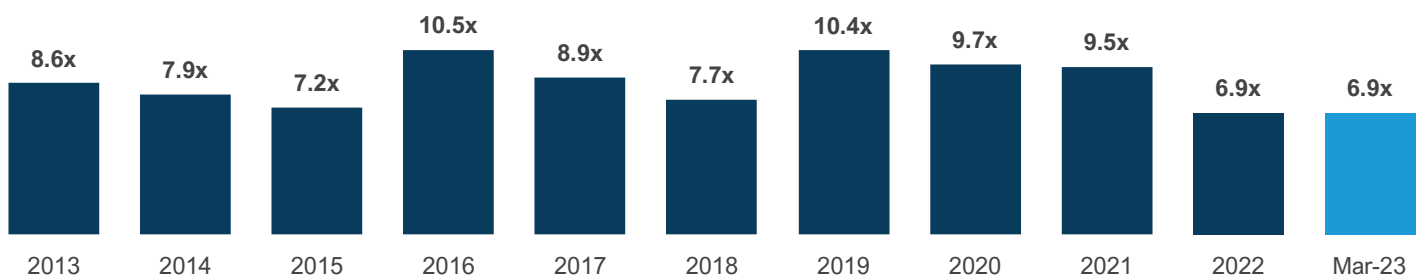
(Indexed to 0.0 as of 3/31/2020)

■ Stout Index ■ S&P 500



Source: S&P Capital IQ, Stout Proprietary Index

Historical Median EV/LTM EBITDA Multiples

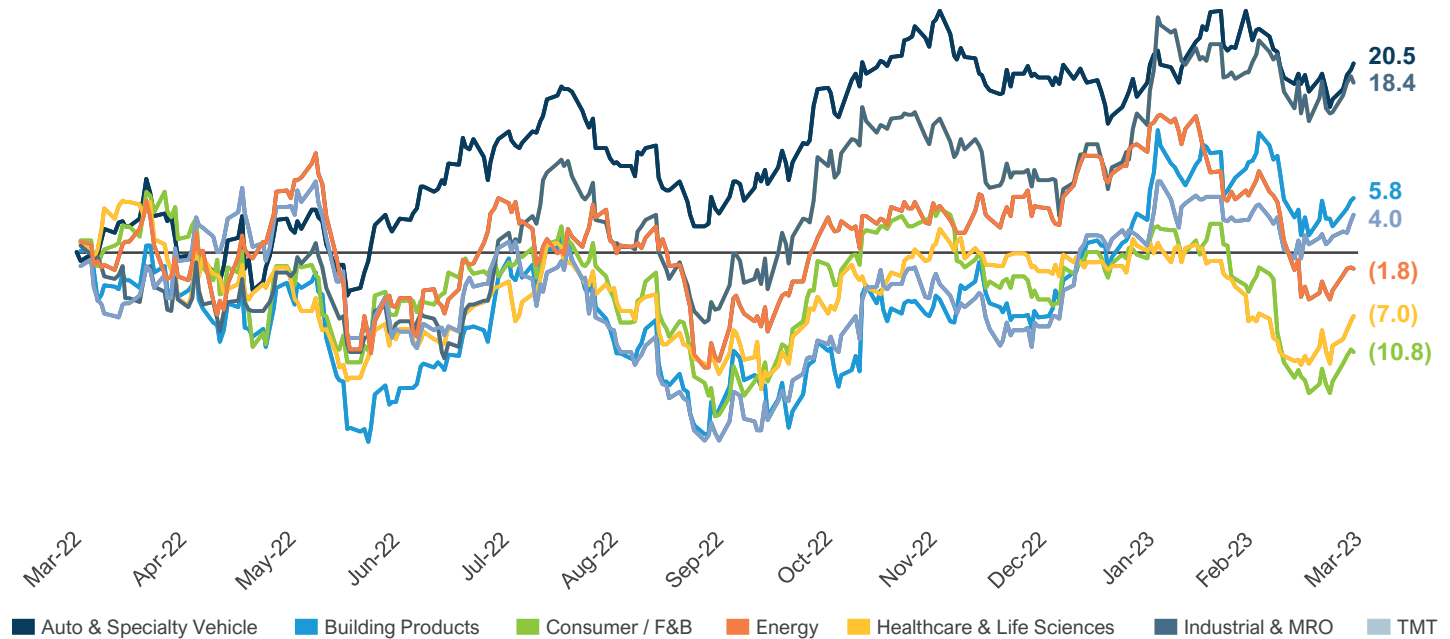


Source: S&P Capital IQ as of 3/31/2023, Stout Proprietary Index

Indexed Stock Performance by Subsector

Specialty Distribution Indexed Stock Performance — Last 12 Months

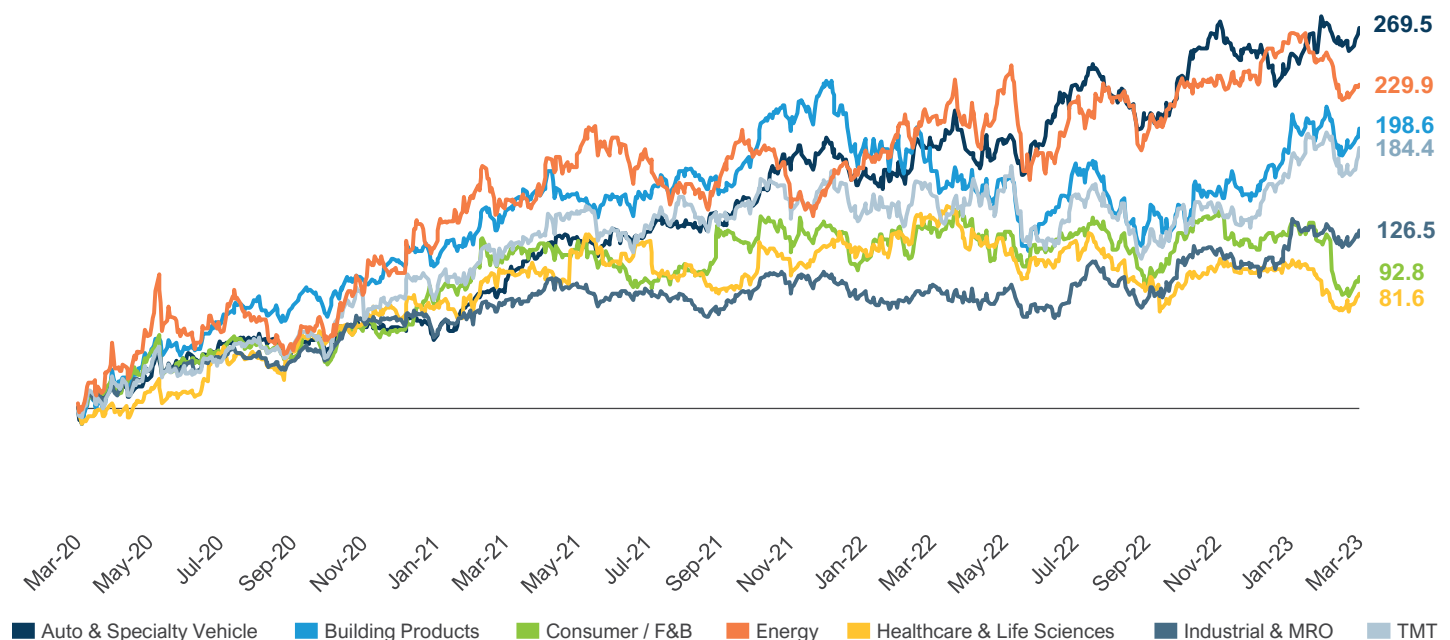
(Indexed to 0.0 as of 3/31/2022)



Source: S&P Capital IQ, Stout Proprietary Index

Specialty Distribution Indexed Stock Performance — Last Three Years

(Indexed to 0.0 as of 3/31/2020)



Source: S&P Capital IQ as of 3/31/2023, Stout Proprietary Index

M&A Transaction Highlights

Date	Acquiror (Ownership)	Target (Seller)	Industry Subsector
Apr-23	Gypsum Management and Supply (NYSE:GMS)	EMJ Companies	Building Products
Mar-23	SiteOne Landscape Supply (NYSE:SITE)	Triangle Landscape Supplies	Building Products
Mar-23	RelaDyne (American Industrial Partners)	Allied Oil & Supply	Energy
Mar-23	AramSCO (Odyssey Investment Partners)	EZ Concrete	Building Products
Mar-23	Ziyad Brothers (Peak Rock Capital)	Vintage Food Corporation	Consumer / Food & Beverage
Mar-23	B2B Industrial Packaging (GenNx360)	Brown Industrial Packaging	Industrial & MRO
Mar-23	Lipari Foods (Littlejohn & Co.)	Swiss American	Consumer / Food & Beverage
Mar-23	Fortune International (Investcorp)	Boston Sword & Tuna	Consumer / Food & Beverage
Mar-23	W.W. Williams Company (One Equity Partners)	Power Products Systems	Industrial & MRO
Mar-23	Kinderhook Industries	Auto-Wares	Automotive & Specialty Vehicle
Mar-23	Ascent Lifting (Shorehill Capital)	Cargo Control USA	Industrial & MRO
Mar-23	Transtar (Blue Point Capital Partners)	C&M Auto Parts	Automotive & Specialty Vehicle
Mar-23	EFC International (Frontenac Company)	Inventory Sales Company	Industrial & MRO
Feb-23	AmerCareRoyal (HCI Equity Partners)	Team Three Group	Consumer / Food & Beverage
Feb-23	Flow Control Holdings (Audax)	Flowtrend, Inc.	Industrial & MRO
Feb-23	BPS Supply Group (Trive Capital)	Tri STAR Industrial	Building Products
Feb-23	Solve Industrial Motion Group (Audax)	SPB-USA	Industrial & MRO
Feb-23	Envoy Solutions, LLC (FEMSA)	Mooney-General Paper	Consumer / Food & Beverage
Feb-23	Monroe Engineering (AEA Investors)	Fasteners, Inc.	Industrial & MRO
Feb-23	Flexpak (Shorehill Capital)	Preferred Packaging Products	Industrial & MRO
Feb-23	Groff Tractor & Equipment (Prophet Equity)	Plasterer Equipment Company	Industrial & MRO
Feb-23	Platte River Equity	Womack Machine Supply Company	Technology, Media, & Telecom
Feb-23	Imperial Dade (Advent International)	Focus Packaging & Supply	Consumer / Food & Beverage
Jan-23	Galco Industrial Electronics (Freeman Spogli)	Zesco Incorporated	Technology, Media, & Telecom
Jan-23	Radon Medical Imaging (Avante Capital Partners)	Premier Imaging Medical Systems	Healthcare & Life Sciences
Jan-23	Wynnchurch Capital	FloWorks (Clearlake Capital Group)	Industrial & MRO
Jan-23	AFC Industries (Bertram Capital)	Motor City Industrial (Kian Capital)	Industrial & MRO
Jan-23	GME Supply Co. (Platte River Equity)	Farwest Line Specialties	Industrial & MRO
Jan-23	Brady IFS (Kelso & Company)	YPV Distribution	Consumer / Food & Beverage
Jan-23	Kinzie Capital Partners	GT Golf Holdings	Consumer / Food & Beverage
Jan-23	Specialty Building Products (The Jordan Company)	Amerhart	Building Products
Jan-23	Calibre Scientific (StoneCalibre)	Dynalab Corp.	Healthcare & Life Sciences
Jan-23	SpartanNash Company (NasdaqGS:SPTN)	Great Lakes Foods	Consumer / Food & Beverage
Jan-23	Beacon Roofing Supply (Nasdaq:BECN)	Whitney Building Products	Building Products
Jan-23	Mobile Communications America (Sentinel Capital)	Tidewater Communications	Technology, Media, & Telecom
Jan-23	Gypsum Management and Supply (NYSE:GMS)	Tanner Bolt & Nut	Building Products
Jan-23	Belt Power (Platte River Equity)	Dunham Rubber & Belting	Industrial & MRO
Jan-23	Fencing Supply Group (The Sterling Group)	Hartford Fence Supply	Building Products
Jan-23	Partners Group	SureWerx (The Riverside Company)	Industrial & MRO

Source: S&P Capital IQ, Stout Proprietary Database

Recent Stout Transaction Spotlight



Stout Advises EMJ on Sale to GMS

CLIENT PROFILE

- ❖ Founded in 1962 and headquartered in Westmont, IL, EMJ is a leading distributor of drywall, acoustical ceilings, and related interior construction products to the greater Chicago market and exterior insulation finishing system (EIFS) related products in the Southeastern United States.
- ❖ EMJ currently operates under multiple brand names, including Westmont Interior Supply House and Contractors Acoustical Supply in Chicago.

BUYER PROFILE

- ❖ Founded in 1971, GMS is publicly listed on the New York Stock Exchange and operates a network of approximately 300 distribution yards with extensive product offerings of wallboard, ceilings, steel framing, and complementary construction products.
- ❖ In addition, GMS operates approximately 100 tool sales, rental, and service centers, providing a comprehensive selection of building products and solutions for its residential and commercial contractor customer base across the United States and Canada.

PROCESS SUMMARY AND OUTCOME

- ❖ Stout served as exclusive financial advisor to EMJ in a highly targeted process, leading to a successful closing in April 2023.

Select Stout Transaction Experience

 has been acquired by  GYPSUM MANAGEMENT & SUPPLY, INC. <hr/> SELL-SIDE ADVISOR	 INVESTMENT PARTNERS has acquired  STEIN FIBERS, LTD. <hr/> BUY-SIDE ADVISOR	 has been acquired by  <hr/> SELL-SIDE ADVISOR	 has been acquired by  a portfolio company of  <hr/> SELL-SIDE ADVISOR
 (Titan Australia Pty Ltd) has been acquired by  <hr/> SELL-SIDE ADVISOR	 has been acquired by  <hr/> SELL-SIDE ADVISOR	 has been acquired by  <hr/> SELL-SIDE ADVISOR	 has been acquired by  <hr/> SELL-SIDE ADVISOR
 has been acquired by  CONSUMER RETAIL PARTNERS <hr/> SELL-SIDE ADVISOR	 has been acquired by  CAPITAL CORPORATION <hr/> SELL-SIDE ADVISOR	 DENTAL SUPPLY has been acquired by  RIVERARCH CAPITAL <hr/> SELL-SIDE ADVISOR	 has been acquired by  <hr/> SELL-SIDE ADVISOR
 has been acquired by  a portfolio company of  <hr/> SELL-SIDE ADVISOR	 IN STOCK. IN TIME. a portfolio company of  CAPITAL PARTNERS has been acquired by  <hr/> SELL-SIDE ADVISOR	 SINCE 1942 has been acquired by  <hr/> SELL-SIDE ADVISOR	 has acquired  a portfolio company of  <hr/> BUY-SIDE ADVISOR

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 & Specialty Vehicle



Building Products



Consumer / Food & Beverage



Energy



Healthcare & Life Sciences



Industrial & MRO



Technology, Media, & Telecom

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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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