



HOW TO POSITION FOR PRIVATE EQUITY INVESTMENT

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RAYMOND JAMES

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Specialty Distribution Investment Banking

Introduction



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Agenda

1

Legacy Perception of Distribution

2

Explosive Growth in Distribution M&A

3

The Private Equity Wish List

4

How to Make Your Business More Attractive

5

The Right Time for Private Equity Investment

Private Equity's Legacy Perception of Distribution

Old-Fashioned

Unexciting

Limited Opportunity

1

**Antiquated Business
Models**

3

**Lacking
Entrepreneurialism**

5

Low Margin

2

Disintermediation Risk

4

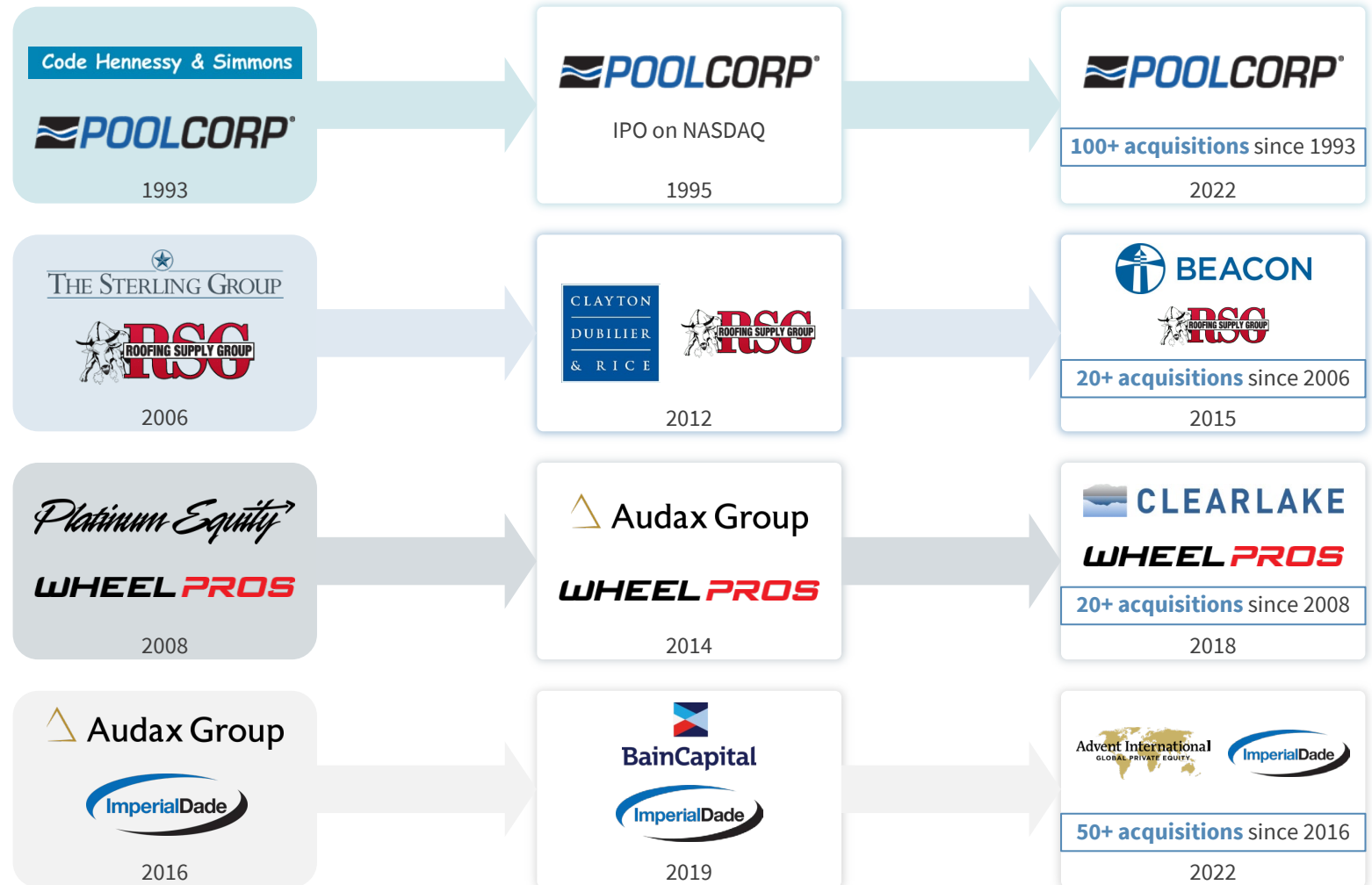
Generalists

6

**Low Growth and
Capital Intensive**

Pioneers Changed Perception

Early Distribution Success Stories



How Did We Get Here?

PrimeSource Being Sold from One PE Firm to Another

Distributor of specialty building materials trades hands and will now serve as Clearlake Capital Group's latest platform for organic growth and add-on acquisitions in this sector.



Mergers & Acquisitions

Gryphon Investors Selling Heritage Distributors for Nearly \$1.3B

Atlanta-based Heritage Distribution Holdings is a group of HVACR distributors serving the U.S. southeast and midwest via 64 branches across 10 states.



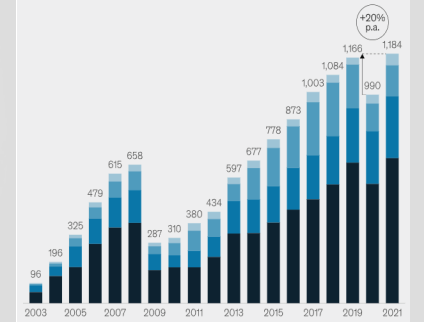
Distribution Industry Analysis

What Private Equity Firms Want in a Distributor: A Look Behind the Curtain

Get an insider's look at how private equity (PE) firms evaluate distribution companies, from people and processes to market opportunities. John Schweig, Chairman of the Board at BlackHawk Industrial and Operating Partner at private equity firm Snow Phipps, joined us for a recent Wholesale Change episode.

Private markets fundraising reached a new high.

Private markets fundraising by region, \$ billion



Audax Private Equity

News

APR 2017

Audax Private Equity Announces the Acquisition of Fastener Distribution Holdings

PE Firm GenNx360 Partners With Flow Control Distribution Exec to Form New Company

GenNx360 Capital Partners has teamed up with process & flow control solutions industry veteran Eben Lenderking to build a new distribution venture.

By GenNx360 Capital Partners
Sep 23, 2021



Latest in Mergers & Acquisitions

UPDATES
Security Breach Podcast
January 10, 2023

Pye-Barker Seeks
Further Expansion After
23 Deals in '22
January 23, 2023

FleetPride Acquires TML
Truck & Trailer Rental
January 23, 2023

MARKET FACTORS IMPACTING THE DEAL SPACE

Most of the top challenges that manufacturers and distributors were dealing with during Q1 continued right into Q2, including:

TOP MARKET FACTORS IMPACTING THE DEAL SPACE



Gemspring Capital Makes Strategic Investment in Shrieve Chemical Company

WESTPORT, CT (Dec. 3, 2019) — Gemspring Capital, a middle-market private equity firm, is pleased to announce an affiliate has completed an investment in Shrieve Chemical Company, a global leader in formulation and value-added direct sales and distribution of industrial chemicals, performance fluids and specialty lubricants.

US LBM Acquires American Construction Source

The mega deal brings American Construction Source's 70+ locations under the US LBM banner.

By Vincent Salandro



Specialty building materials distributor **US LBM** has acquired **American Construction Source (ACS)** in another mega deal in the LBM sector. Following the completion of the transaction, US LBM will operate nearly 400 locations across the U.S. The transaction is expected to close during the third quarter of 2021.

FINANCE

What Matters Most in a Private Equity Transaction in Distribution

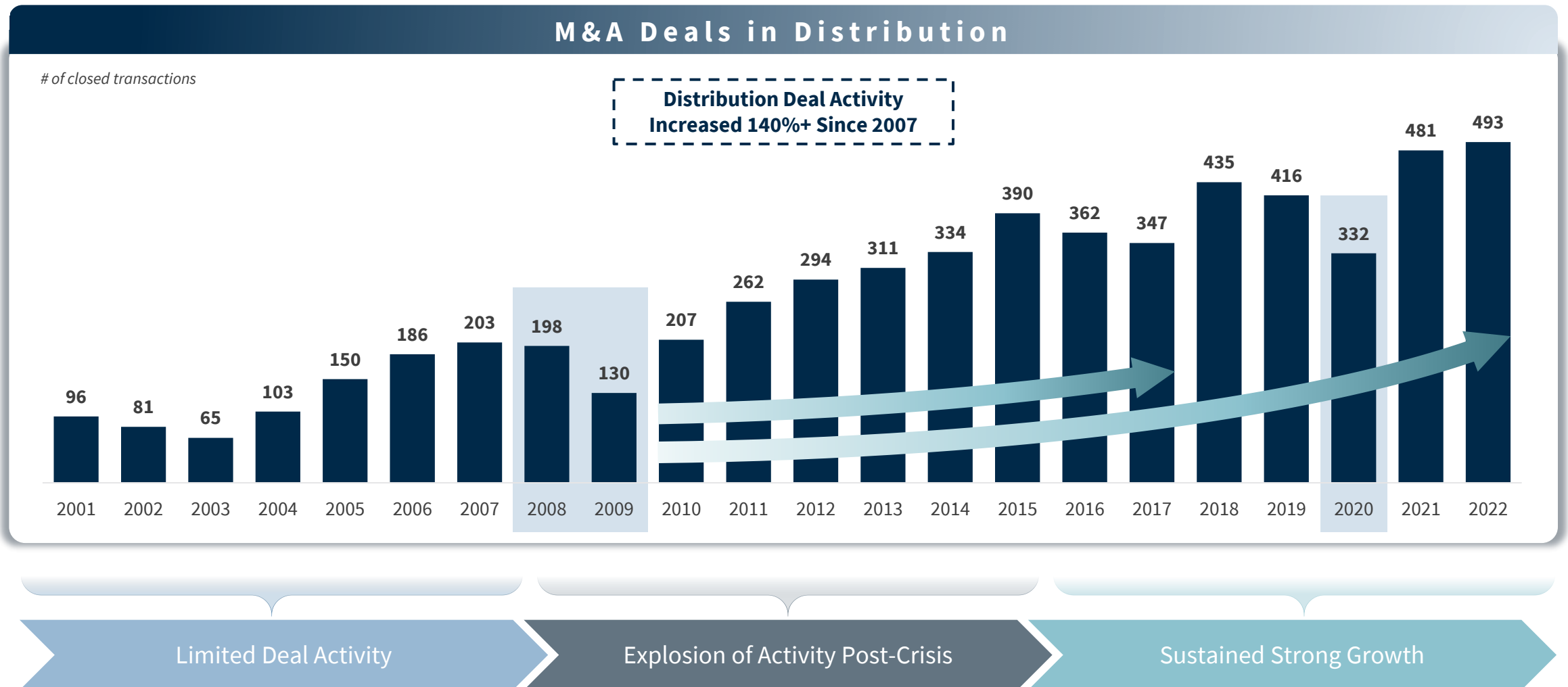
Success depends largely on two factors, according to a recent panel.

How private equity can add value in industrial wholesale distribution

Authors:
Jon Repp
EV Partnerships Principal, Strategy and
Execution, PwC & Coopers & Lybrand

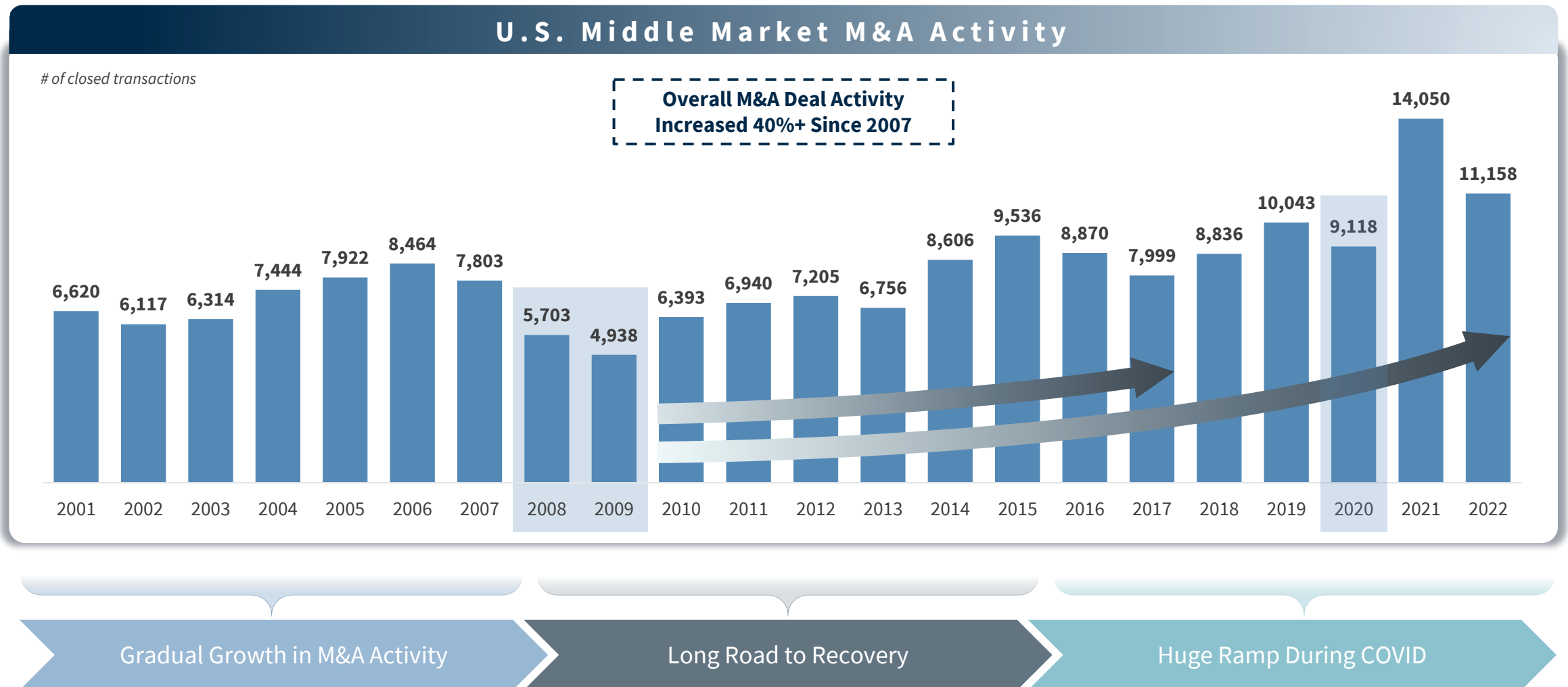
Advancements in e-commerce and logistics offer value creation opportunities for PE investors in the wholesale distribution industry.

Explosion in Distribution Deal Activity



Source: S&P Capital IQ. Includes closed M&A transactions between industrial distribution companies, private equity sponsors, and/or PE-backed portfolio companies based in the U.S. and Canada.

Steady Growth in Middle Market Deal Activity



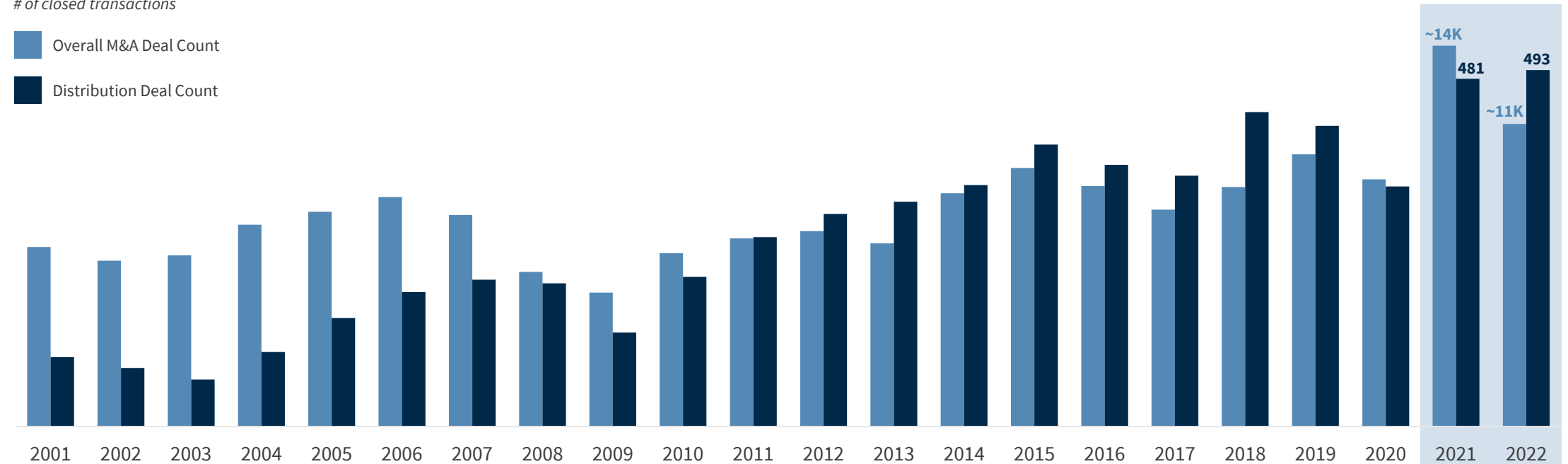
Source: FactSet. Data as of 12/31/22. Note: Transaction value includes deals with disclosed values between \$10MM and \$1,000MM. Number of transactions includes deals with undisclosed values.

Distribution Outpacing Overall M&A Deal Flow

Distribution Deals Compared to U.S. Middle Market M&A Activity

of closed transactions

Overall M&A Deal Count
Distribution Deal Count



Key Highlights

-20.6%
Overall M&A Deal Decrease (21'-22')

2.5%
Distribution Deal Increase (21'-22')

While overall M&A deal flow fell from peak 2021 levels,
Distribution activity grew in 2022

Private Equity Has Driven the Sea Change: 2001 vs. 2022

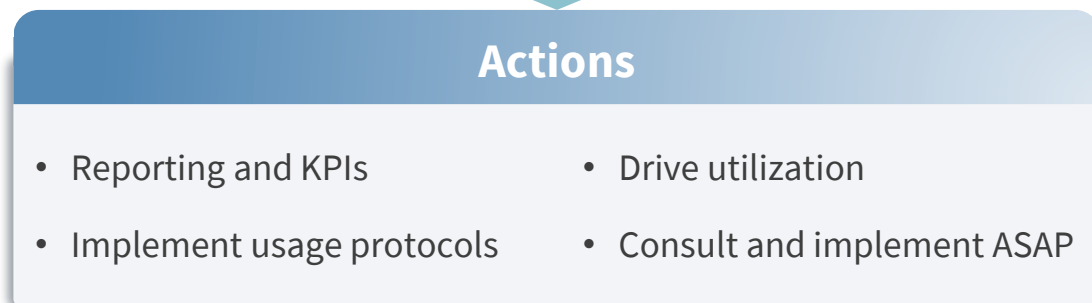
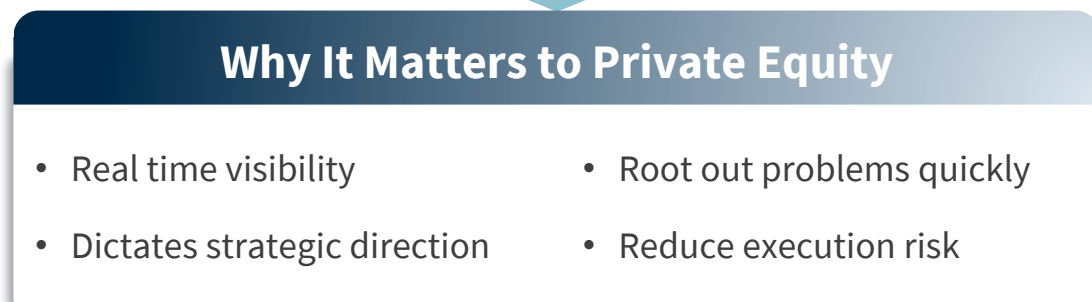
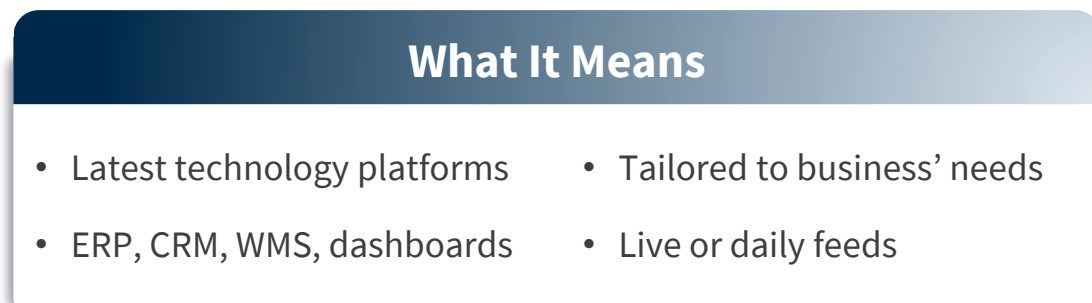
	2001	2022	% change
Number of Private Equity Firms	~4,000	~27,000	+575%
Amount of Private Equity Capital (\$B)	\$450	\$4,500	+900%
% of M&A Deals Involving Private Equity	<5%	~30%	+500%
No. of PE Deals in Distribution	65 ⁽¹⁾	493	+650%

(1) Statistic reflects 2003 data.
Source: Pitchbook, McKinsey & Company. Data as of 12/31/22.

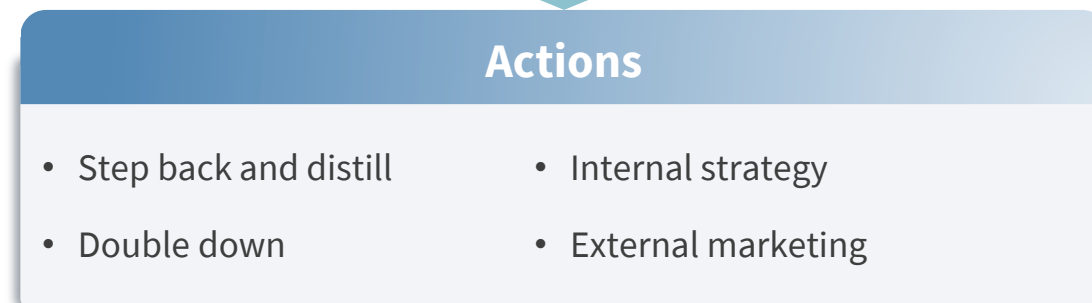
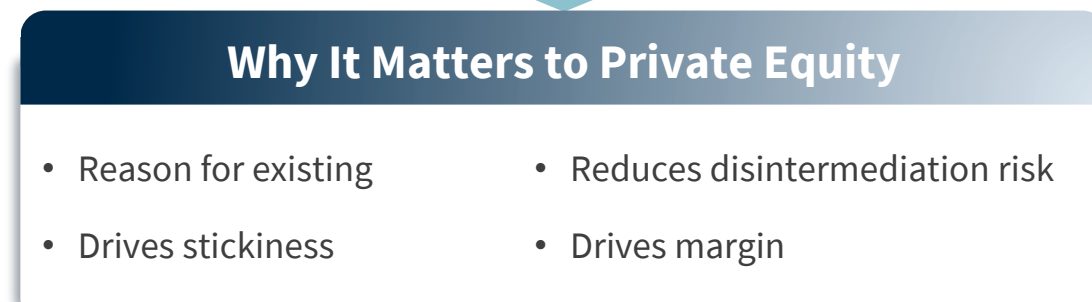
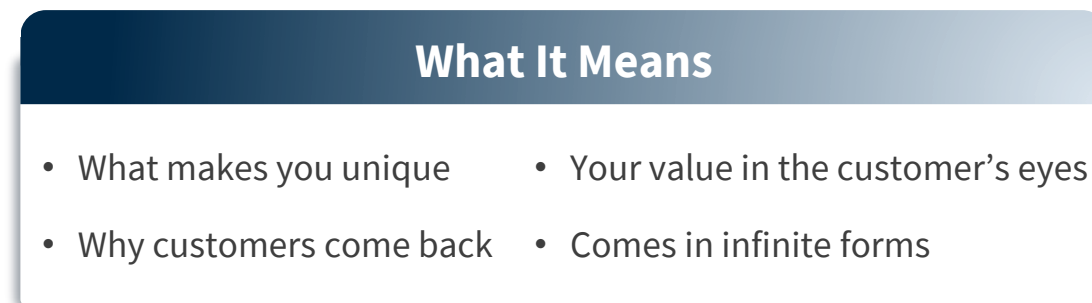
What Has Private Equity Woken Up To?



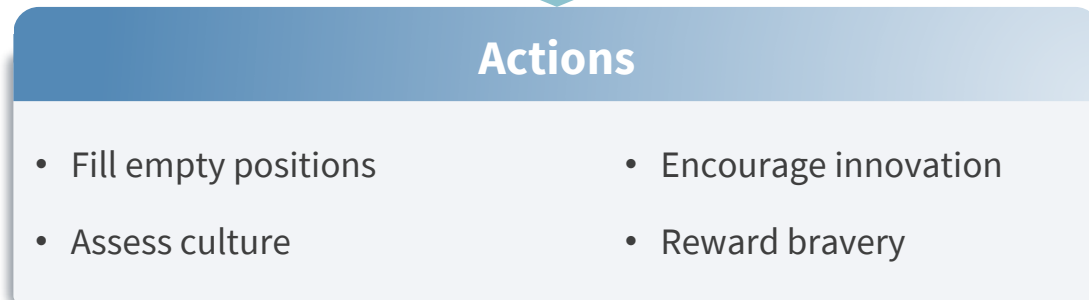
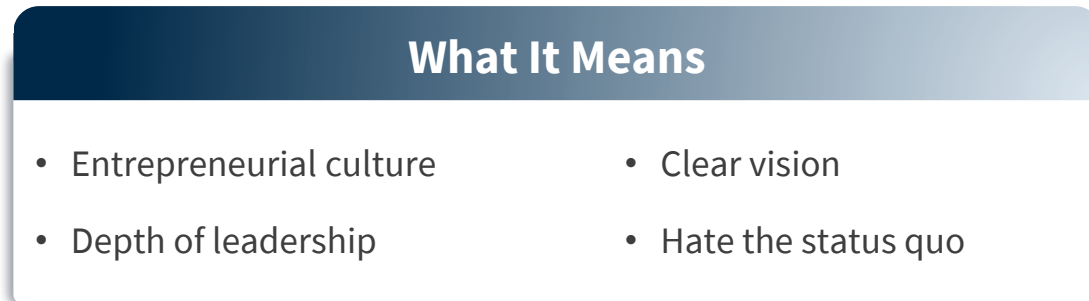
1 Quality Systems and Insights



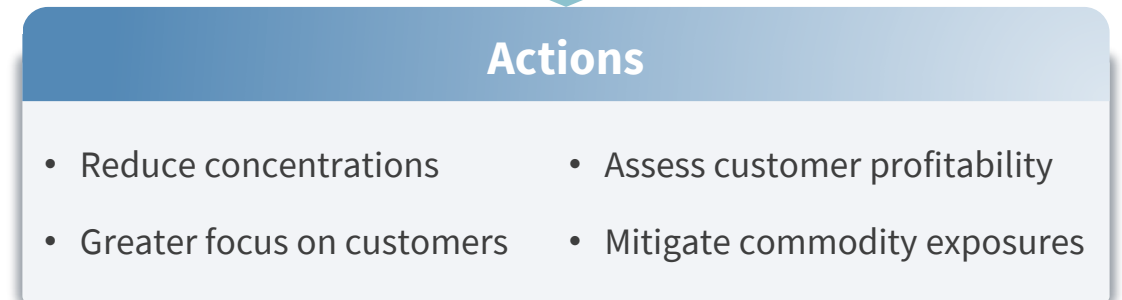
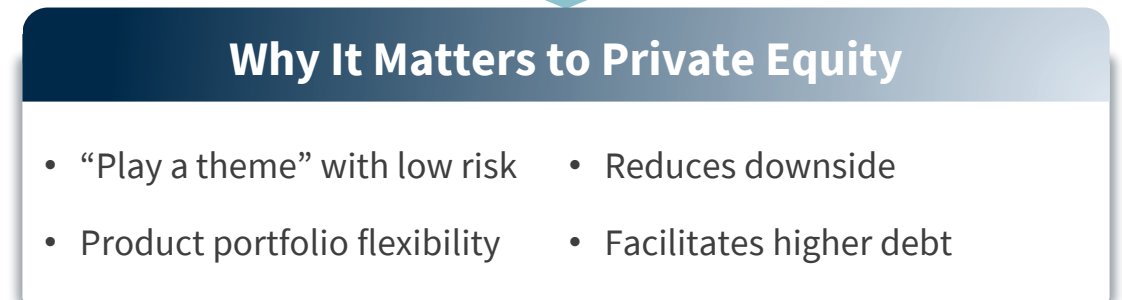
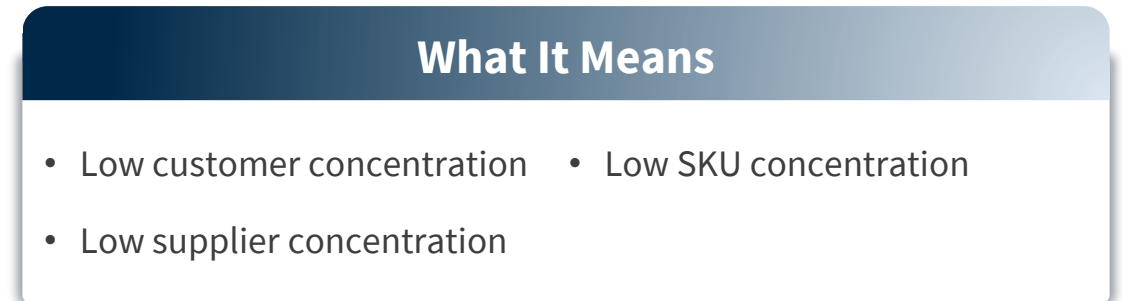
2 Strength of Value Proposition



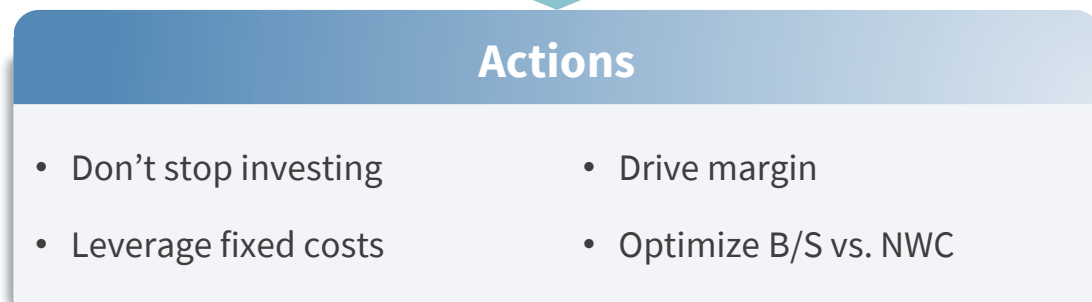
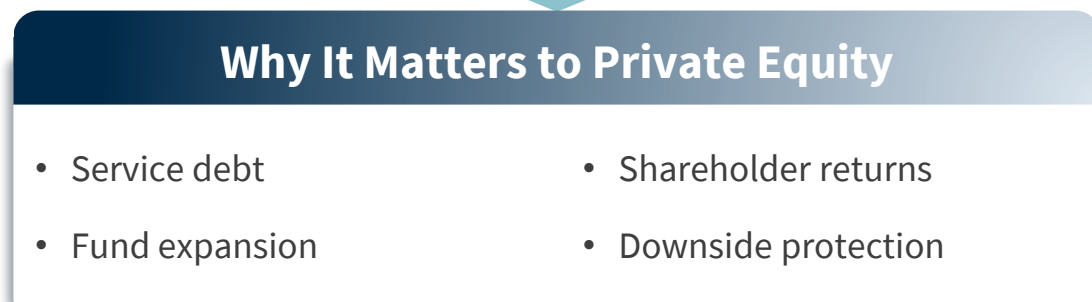
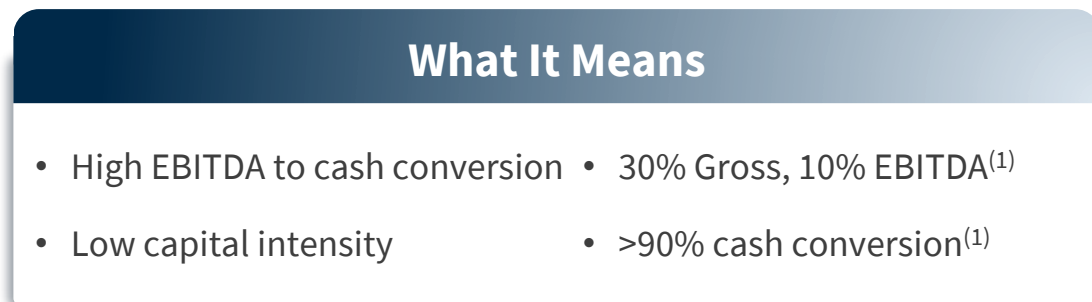
3 Innovative Leadership Teams



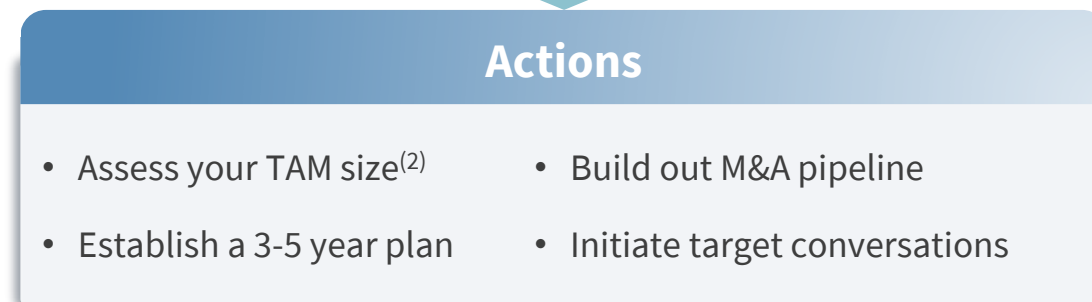
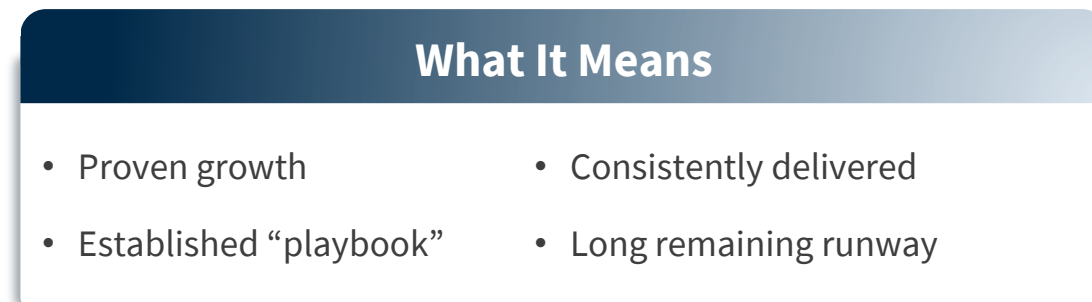
4 Diversified and Leverageable



5 Asset-Light, Cash Generative



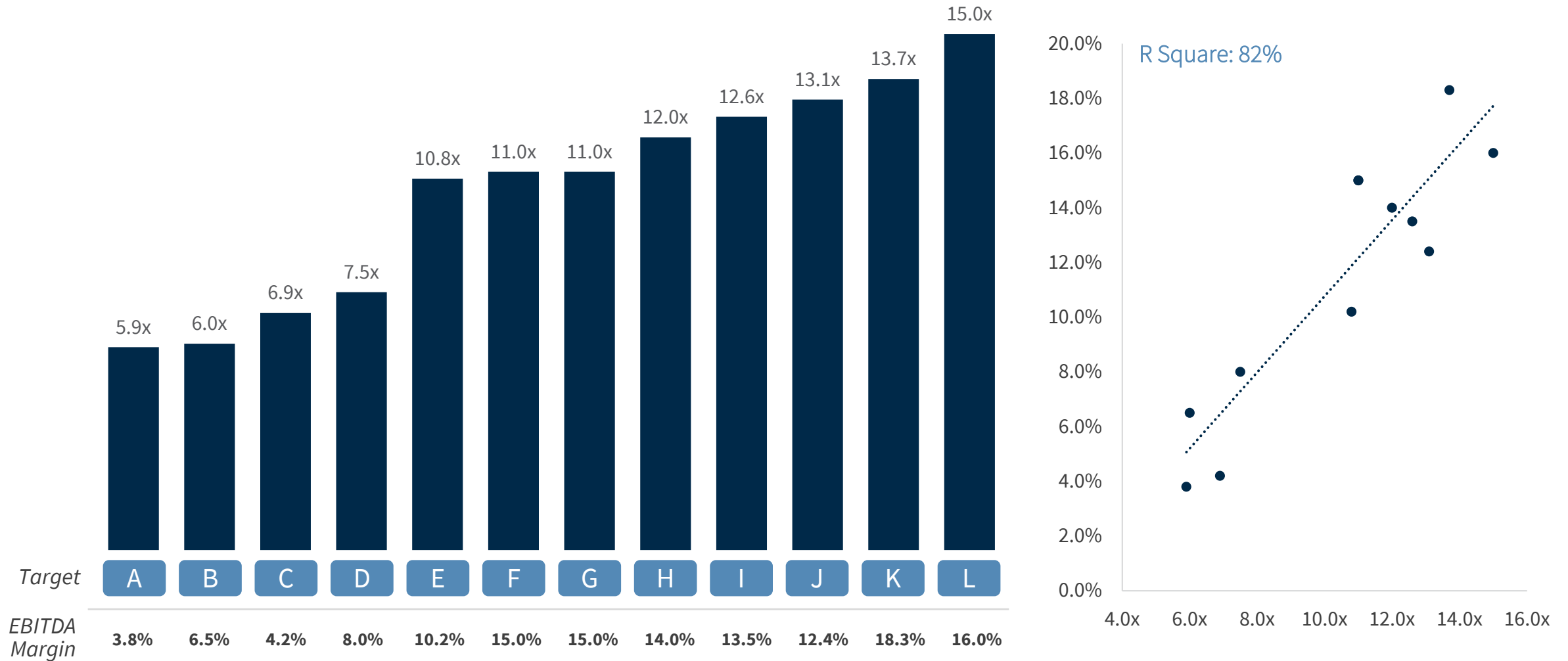
6 Explosive Growth Playbook



(1) Target margin and cash generation profile frequently cited by Private Equity, but can vary significantly by industry.

(2) TAM = Total Addressable Market, or the size of the market in which you operate, measured by combined annual revenues of all market participants.

Higher Margins Lead to Higher Exit Multiples



The Right Time for Private Equity Investment

When the time is right...



- ✓ Capital need (e.g. M&A)
- ✓ Expertise need (e.g. technology, operations)
- ✓ Entering high growth phase
- ✓ Performing well, not optimized
- ✓ Risks addressed
- ✓ Proven growth – more ahead
- ✓ Generational transition (liquidity)

...and when it's not



- ✓ Growth strategy unclear
- ✓ Business underperforming
- ✓ New or upcoming technology
- ✓ Significant concentrations
- ✓ Key positions open
- ✓ Retirement / no succession

Thank You

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Website Information:

For further information on Raymond James', please see our Specialty Distribution practice at the following link: ([Website](#)). Raymond James possesses an industry-leading, experienced team of investment bankers dedicated to the Distribution markets, covering the global marketplace with team members across North America.