



## Specialty Distribution Sector Brief

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Harris Williams | Q2 2023

# Key Industry Trends & Dynamics

*Specialty distributors continue to drive record sales and volume growth and uphold conviction in strong continued performance throughout 2023.*

## Robust First Quarter Performance

"Watsco delivered an exceptional first quarter, especially in light of last year's impressive first quarter, which also benefited from OEM pricing access amidst unprecedented inflation. Last year, same-store sales were up 25% and EPS was up 109%. This quarter, sales grew 2% to a record \$1.55 billion."



"Our EPS of \$0.52 increased by 10.5% over last year. Operating cash flow was \$389 million, 132% of earnings and 70% higher than a year ago. Our digital footprint came in at 54% of sales versus 47% a year ago, with 85% of our business going through some type of digital footprint."



"Our top line was strong with revenue of \$885 million, representing 2% sequential growth and a 19% year-over-year improvement. Compared to the same quarter last year, each of our 3 sectors experienced double-digit revenue increases."



"Against the headwinds of a very strong prior year period, poor weather in the West and North and moderating market demand, we executed well in the first quarter, delivering top line growth and gross margin expansion, along with a solid EBITDA outcome in this traditionally low-volume quarter."



"We had another solid quarter, demonstrating our industry position and operational focus. We grew EBITDA by 29% and adjusted EPS by 36% on approximately 15% sales growth, compounding on similar levels of growth in the prior year period."



"Our average daily revenue grew 11.5% versus the same quarter last year, well above the IP Index, which was basically flat. Our expertise in metalworking remains a cornerstone of our value proposition and helps us win new customers in high-growth end markets."



## Volume Recovery and Growth

"Volumes grew year-over-year and also improved sequentially. The U.S. Foodservice segment grew 6.1% and local case volumes increased 4.2%. Given that we serve all restaurant types, we retain case volume if and when customers trade up or down within restaurant customer segments."



"Effectively, all of our share gain in the last 3 years has been on volume and not price. Underlying a lot of our forecast assumptions is the MRO market growth, including price and volume, of about 1% to 5%."



"We are very pleased to see our organic volume growth accelerate, as total organic case volume increased 3.1% in the fiscal third quarter. Foodservice fill rates are essentially back to normalized pre-pandemic levels, which we expect to support further volume gains."



"We already experienced a slightly positive volume momentum since the beginning of the year and expect the destocking dynamics to phase out in the course of the second quarter, which should provide for a more positive demand environment in the second half of 2023."



"We are on track to exceed our 1.5x goal for restaurant volume growth for the full year led by strong independent case growth. Total case volume increased nearly 6% from the prior year and food cost inflation was approximately 3.5%."



"For the past few quarters, volume has increased in our International segment as long-cycle projects were being budgeted."



## Confidence in 2023 Outlook

"We are adjusting full-year fiscal 2023 guidance, including tightening sales to the high end of the prior range and increasing EBITDA margins and EPS following our third-quarter performance. We now project adjusted EPS of \$8.47 – \$8.60 (previously assumed at \$8.10 – \$8.50)."



"Once again, our adjusted EBITDA came in above our guidance, resulting from better-than-anticipated gross profit performance and tight operating cost controls. As a result, we are raising and tightening our full year adjusted EBITDA guidance range."



"We are reiterating the fiscal 2023 guidance that we released in February 2023 and are pleased with the progress to date. Q1 came in a little bit ahead of where we had expected, and our outlook hasn't changed on inflation."



"Our strong first-quarter performance, our solid and growing backlog and our strong alignment with our customers' spending plans all provide us with increasing confidence in our 2023 outlook. We continue to expect double-digit sales growth and EBITDA margins exceeding 8%."



"Current market conditions remain supportive of our outlook for the remainder of 2023. Across our HVAC businesses, supply chain and labor have been more stable overall."



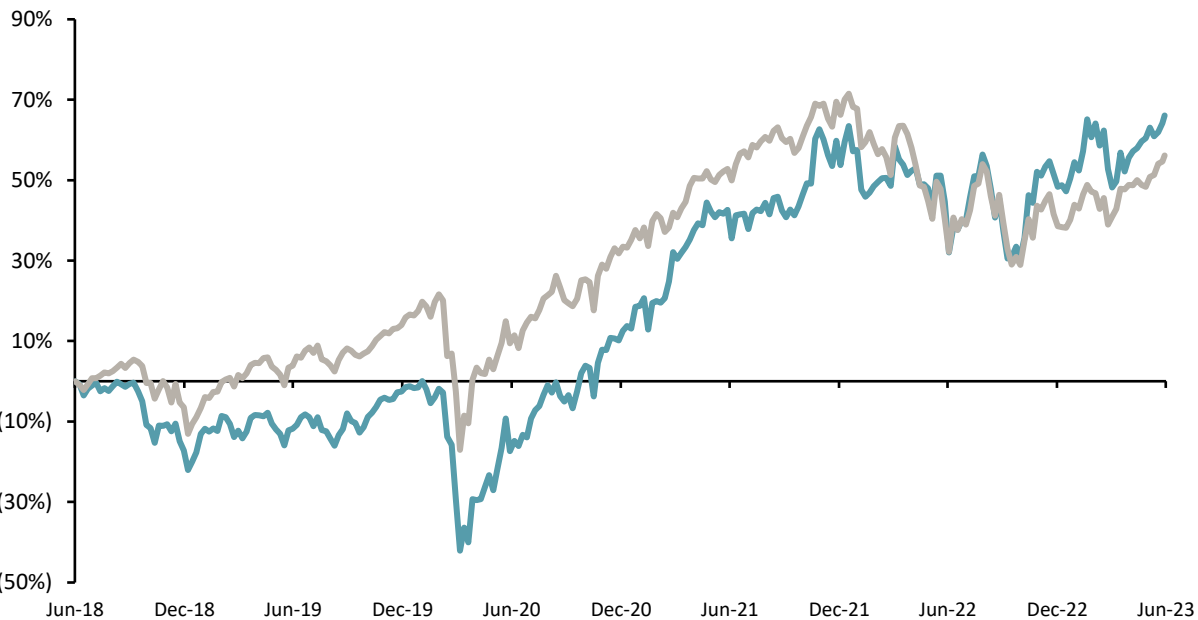
"Our outlook for 2023 remains largely the same as it was during our last Earnings Call in February. Due to good backlogs and healthy bidding, we believe commercial construction, which represents 14% of our sales, could grow slightly versus the prior year."



# Specialty Distribution Public Company Performance and Trends

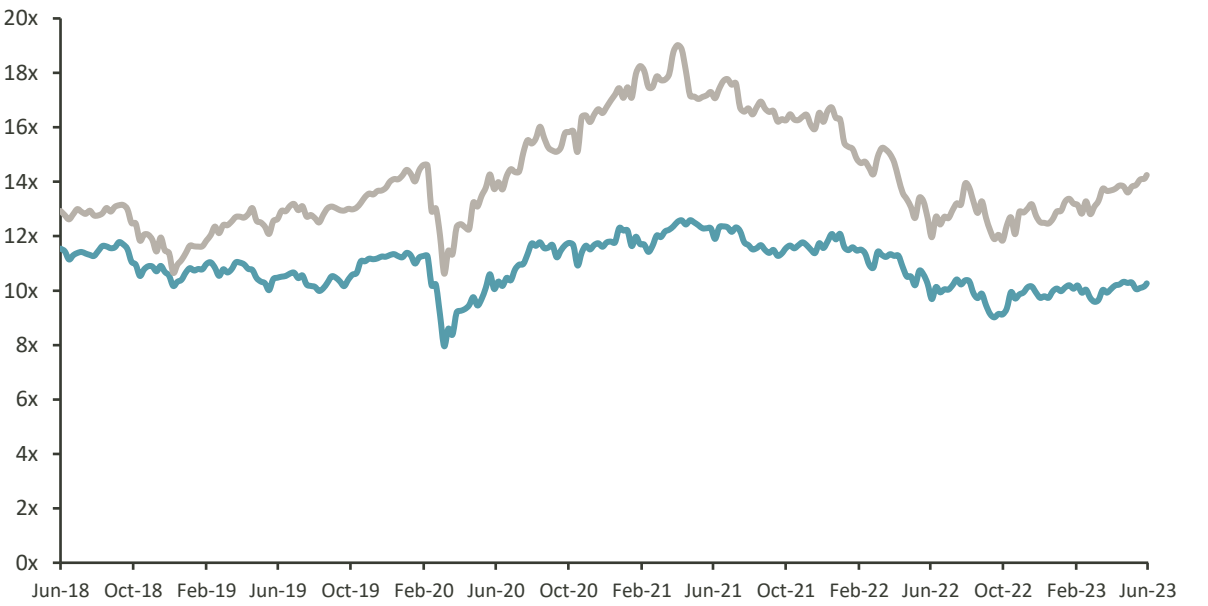
## Historical Stock Prices – Last 5 Years<sup>1,2</sup>

Indexed stock price performance for the period June 2018-June 2023



## Historical Median TEV/LTM EBITDA Multiples – Last 5 Years<sup>1,2</sup>

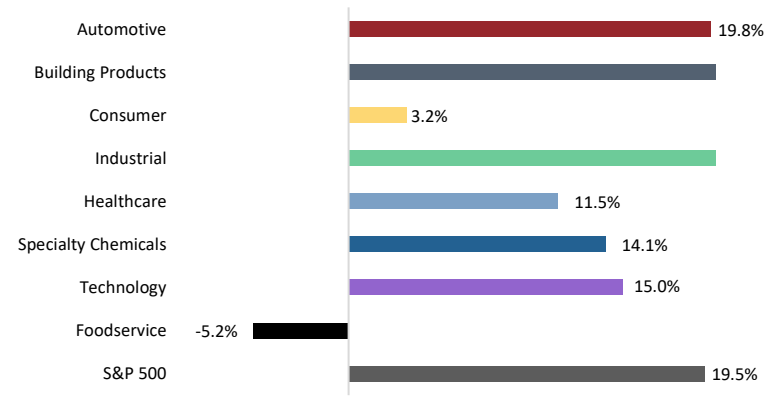
Median TEV/LTM EBITDA multiples for the period June 2018-June 2023



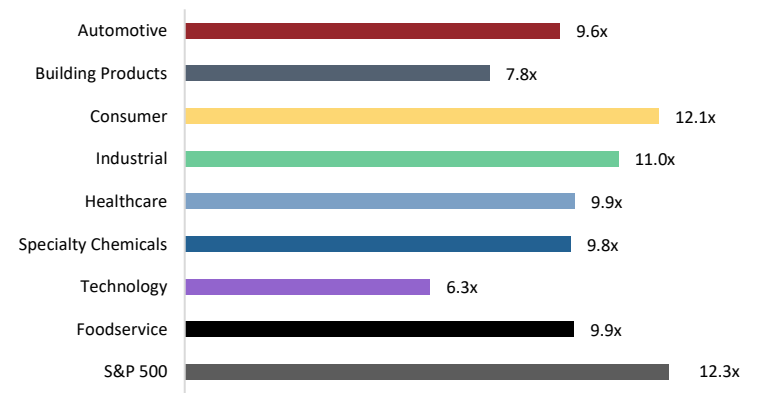
Representative Key Public Comparables<sup>2</sup>

# Specialty Distribution Public Company Performance and Trends (Cont.)

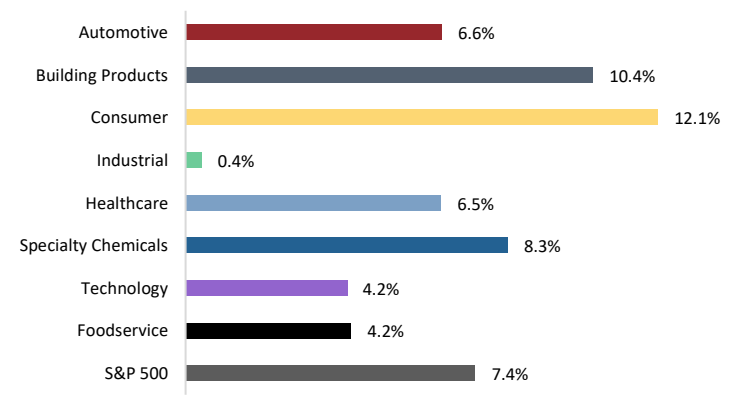
12-Month Change in Stock Price<sup>1,2</sup>



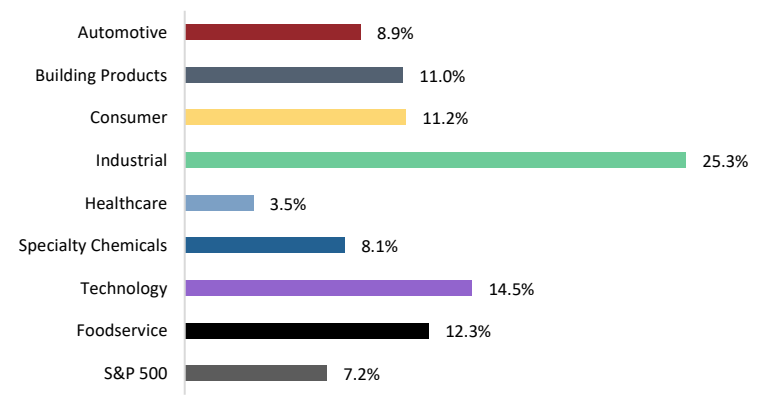
Median TEV/2023E EBITDA Multiple<sup>1,2</sup>



Median 3-Year Revenue CAGR (2020 — 2023)<sup>1,2</sup>

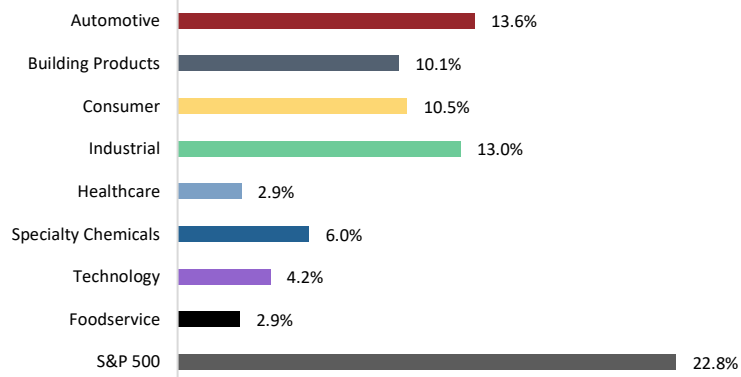


Median LTM Revenue Growth<sup>1,2</sup>

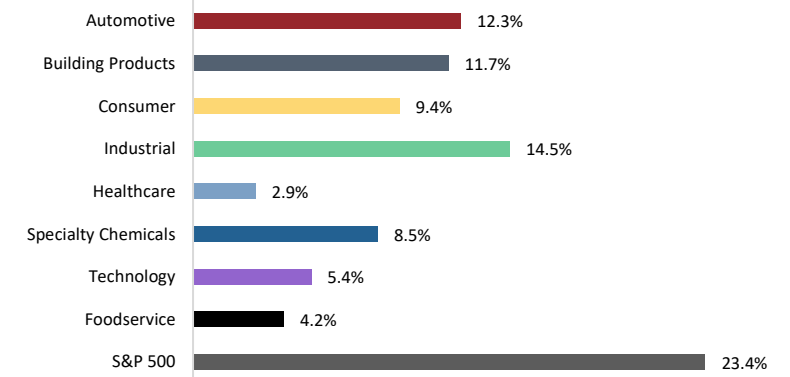


# Specialty Distribution Public Company Performance and Trends (Cont.)

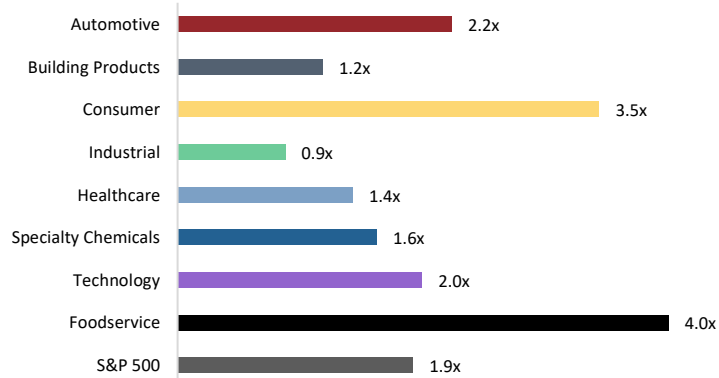
## Median EBITDA Margin (2020 — 2023)<sup>1,2</sup>



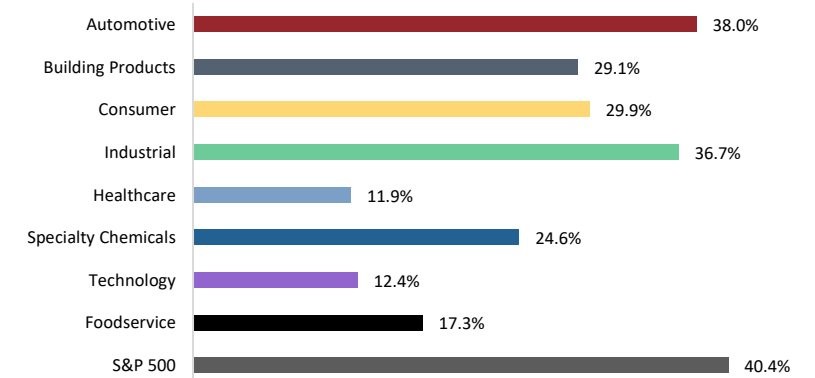
## Median LTM EBITDA Margin<sup>1,2</sup>



## Net Debt / LTM EBITDA<sup>1,2</sup>

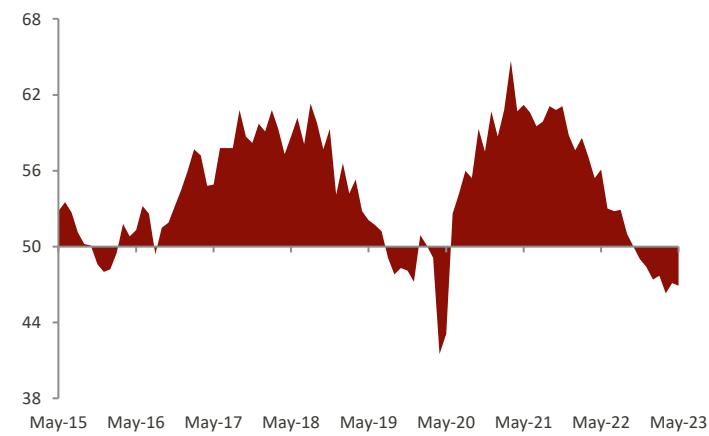


## Median LTM Gross Margin<sup>1,2</sup>

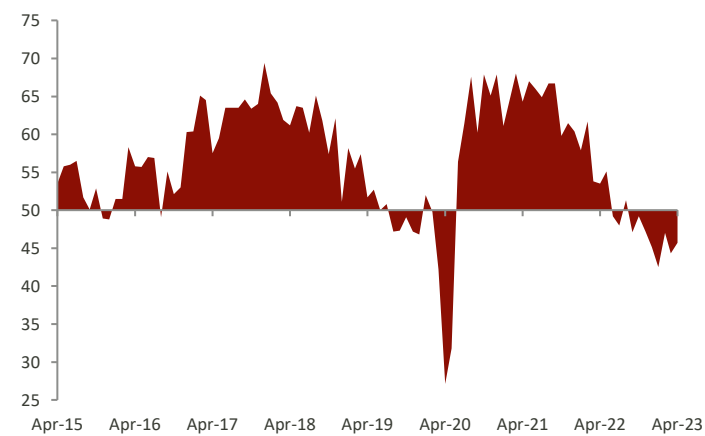


# Economic Trends

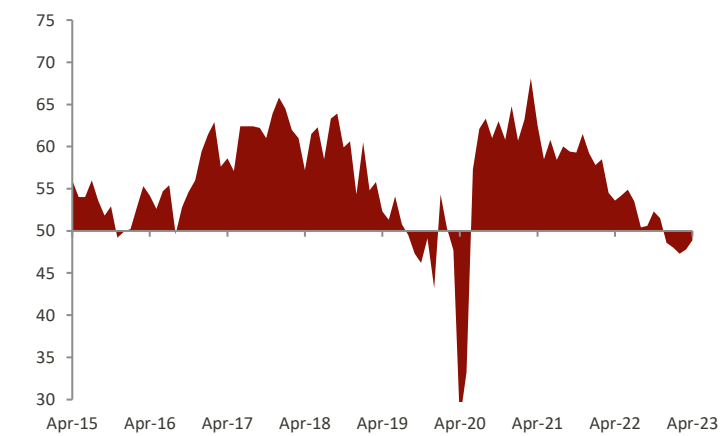
PMI Index<sup>1</sup>



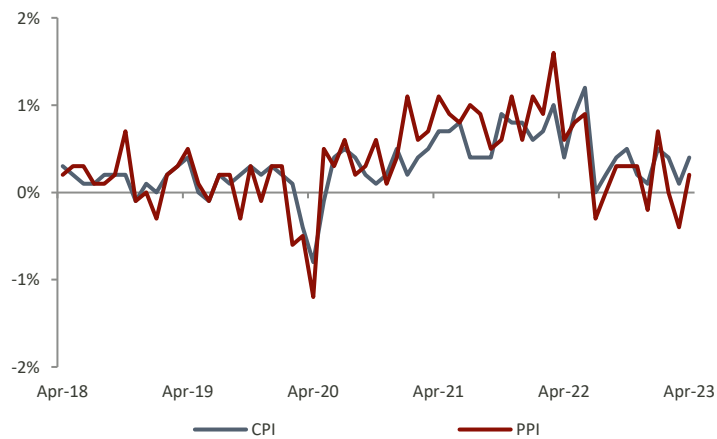
ISM New Orders Index<sup>1</sup>



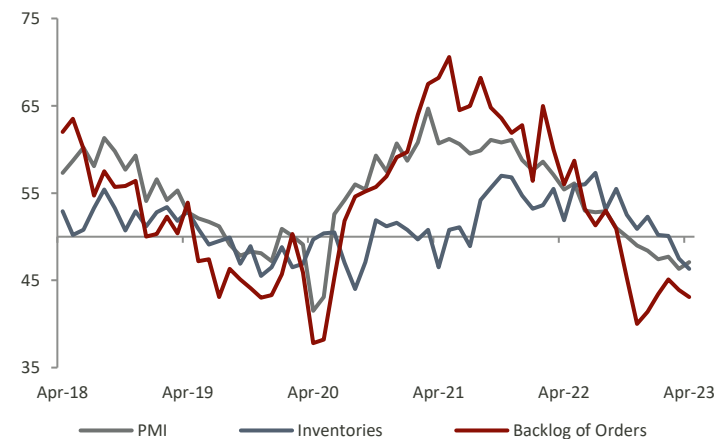
Production Index<sup>1</sup>



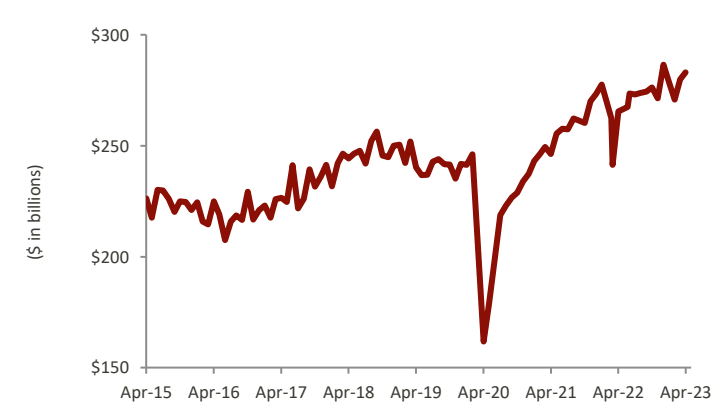
CPI & PPI Index (% Change)<sup>2</sup>



Manufacturing Inventories & Backlog<sup>1</sup>



Durable Goods New Orders<sup>3</sup>



1) Institute for Supply Management – Manufacturing PMI  
2) Bureau of Labor Statistics  
3) Federal Reserve Economic Data – St. Louis Fed

# Recent Specialty Distribution Transactions Detail

Date	Target	Business Description	Acquirer(s)
05/30/23	Link Outdoor Lighting, Inc	Wholesale distributor of outdoor lighting products with four locations across Florida, Texas and Tennessee	SiteOne Landscape Supply (NYSE:SITE)
05/25/23	C&R Stone World	Mapleton, Utah-based distributor of natural stone, masonry, hardscape and landscape supplies	Outdoor Living Supply (Trilantic North America)
05/23/23	RSD Supply	Houston, Texas-based distributor of flanges, pipe, butt weld fittings, forged steel, valves, studs, gaskets and other miscellaneous items to the oilfield industry and industrial markets	Field Industries
05/17/23	ISM Heinrich Krämer	Provider of athletic-inspired safety footwear	Protective Industrial Products (Odyssey Investment Partners)
05/15/23	Adams Wholesale Supply	Wholesale distributor of landscape supplies and agronomics with three locations	SiteOne Landscape Supply (NYSE:SITE)
05/15/23	Columbus Paper Company	Distributor of industrial, foodservice, and janitorial supplies throughout Georgia and Alabama	Imperial Dade (Bain Capital and Advent International)
05/12/23	Crush Bearings and Drives	Distributor of mechanical power transmission and motion control products	CBT Company
05/04/23	Riordan Materials Corporation	Provider of products for water treatment, wastewater treatment, odor control, solids handling, pumping and biosolid processes in Maryland, New Jersey, Pennsylvania, Delaware and Virginia	DXP Enterprises (NASDAQ: DXPE)
05/04/23	Florida Valve & Equipment Corp.	Provider of valve and related products and services for the municipal water markets in Florida	DXP Enterprises (NASDAQ: DXPE)
05/03/23	EAP International	Distributor of rubber sealing products, including O-rings, gaskets and associated technical products	AFC Industries (Bertram Capital)
05/02/23	Home Lumber & Building Supplies	One of Vancouver Island's oldest distributors of lumber and building materials	Gypsum Management & Supply, Inc. (AEA Middle Market Fund)
04/27/23	Sun Coast Resources	Distributor of fuel and lubricants	RelaDyne (American Industrial Partners)
04/26/23	St. George, Utah Assets	Establishes a new Flexpak branch location to distribute packaging supplies, including corrugate, stretch film, poly bags, bubble mailers and foam products to a variety of customer end markets including food, electronics and industrial manufacturing	Flexpak (Shorehill Capital)
04/25/23	Old Fort Building Supply	Full-line building materials distributor serving the residential, commercial and multifamily construction markets in northern Indiana and southwest Michigan	L&W Supply (ABC Supply Co)
04/25/23	CITCO Water	Value-added distributor of a diverse mix of water and wastewater chemical solutions, smart meters, integrated technology, hardware (pipes, valves, fittings), outsourced inventory management, and repair solutions	Trivest Partners
04/24/23	QFC Industries	Distributor of fasteners and other small components	AFC Industries (Bertram Capital)
04/19/23	General Work Products	Provider of access to safety-critical cordage, rope and fall protection products	Bishop Lifting (Altamont Capital Partners)
04/17/23	Midwest Pipe Supply Inc	Distributor of drainage and waterworks products	Core & Main, Inc. (NYSE: CNM)
04/14/23	EZ Concrete Supply	Distributor of decorative concrete supplies and equipment to specialty contractors across the US	Aramco (Odyssey Investment Partners)
04/11/23	Shearer Supply	Leading independent distributor of Heating, Ventilation and Air Conditioning equipment for residential and commercial properties in the southern US	Investcorp
04/10/23	OXARC	Distributor of industrial and specialty gases, welding and safety supplies	Meritus Gas Partners (AEA Small Business Fund)
04/10/23	Macaulay Controls Company	Calibration and installation of water instrumentation equipment	United Flow Technologies (H.I.G.)
04/10/23	Kodru-Mooney	Provider of valve, gate, and actuation equipment and services	United Flow Technologies (H.I.G.)
04/05/23	Coatings Hub	California-based concrete coatings distributor with facilities in Santa Ana and Los Angeles	Jon-Don (Incline Equity Partners)

# Harris Williams Specialty Distribution Experience

## Select Specialty Distribution Experience

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Business  
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Consumer



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& Infrastructure



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Life Sciences



Industrials



Technology



Transportation  
& Logistics

70% Revenue from  
repeat clients

83% Managing directors  
promoted from  
within the firm

30+ Year  
history



BANKING



## Business Services Coverage Areas

- › Specialty Distribution
- › Professional and Tech-Enabled Services
- › Commercial and Industrial Services
- › IT Services

## Specialty Distribution Subsectors

- › Automotive
- › Consumer
- › Healthcare
- › Specialty Chemicals
- › Building Products
- › Foodservice
- › Industrials
- › Technology

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# Sources & Disclaimers

## Sources

- Public Comparable Companies:** (Pages 3-5)
- Automotive & Heavy Duty Aftermarket:** AutoZone, O’Reilly Automotive, LKQ Corp., Genuine Parts Company, Dorman Products, Uni-Select
- Building & Construction Products:** CRH, Watsco, Beacon Roofing Supply, Builders FirstSource, Boise Cascade, GMS, Ferguson, ADENTRA (FKA Hardwoods Distribution)
- Consumer:** Fortune Brands Home & Security, Pool Corp., SiteOne Landscape Supply, Central Garden & Pet Co., Colabor Group, AMCON Distributing
- Industrial, MRO & Safety:** L’Air Liquide, Fastenal, WW Grainger, MSC Industrial, Applied Industrial Tech, MRC Global, SPX Corp., NOW, DXP Enterprises
- Healthcare:** McKesson, Cardinal Health, AmerisourceBergen, Henry Schein, Patterson Companies, Owens & Minor
- Specialty Chemicals:** Burning Rock Biotech Limited, Univar Solutions, DKSH Holding, IMCD NV
- Technology:** Arrow Electronics, Rexel, TD SYNnex Corp., Avnet, WESCO International, ScanSource
- Foodservice:** Sysco Corporation, Performance Food Group, Bunzl, US Foods, United Natural Foods, SpartanNash, Veritiv, The Chef’s Warehouse

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