GF DATA®

Distribution Drilldown

The most reliable data on private M&A transactions in the $10–250 million value range.

JUNE 2020

SERVING THE MIDDLE MARKET SINCE 2006

The GF Data Distribution Drilldown is one of four industry reports that is interspersed with our regular offerings. The annual rotation comprises: Manufacturing, Distribution, Health Care Services and Business Services.

GF Data provides data on private equity-sponsored M&A transactions with enterprise values of $10 to 250 million. We collect transaction information from private equity groups and other deal sponsors on a blind and confidential basis. Private equity contributors and other subscribers receive our quarterly M&A and leverage reports, as well as our semi-annual supplement on key deal terms.

Our on-line searchable data base, with valuation comps organized by NAICS code, is often heavily used by some but not all professionals in a given firm. These drilldown reports enable that detail to reach more of our users, and not just those charged with searching on-line.

For information on subscribing, or on contributing data as a private equity participant, contact us at info@gfdata.com.

CHART 1

VALUATION DRILLDOWN (ALL DISTRIBUTION)

2016-2020 YTD—TEV/EBITDA

			Buyouts Only						
TEV	ALL	Buyouts Only	Platforms	Add-Ons	Indiv/ Family Seller	PEG/ Corp Seller	Above Average	Post-Closing Mgt.	ALL THREE*
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* Note: ALL THREE* in the rightmost column denotes buyouts featuring above-average financial characteristics, a post-closing management solution and a private equity/corporate seller.

Let's begin with a review of GF Data's "belt and suspenders" approach to industry classification. Each deal is placed in a major business category (e.g., Distribution) and then tagged with a six-digit NAICS industry code (e.g. 423450—Medical, Dental & Hospital Equipment & Supplies Wholesalers). Most of the charts herein, including the valuation drilldown, focus on deals in the Distribution major business category. We then provide industry detail in selected NAICS groupings. Please note that the latter will not be perfect subsets of the former.

- Chart 1 disaggregates how valuation is driven by a variety of factors. The subset is Distribution deals completed in 2016-2020 YTD. Of 112 completed transactions, 104 were buyouts.
- This report comprises deals completed through March 31, 2020—a period whose market dynamics have been placed on hold and/or swept away by the global pandemic. We believe it will be 4Q at the soonest when there is enough "normalized" completed deal volume to come to judgments on enduring valuation trends.
- With that important caveat, through 1Q sellers of larger distribution businesses were being doubly rewarded for size. First, there continued to be a valuation differential based on size itself. Then, in the $100-250 mm TEV bracket, where these businesses offer other factors known to drive premium pricing (e.g., above average financial characteristics, provision of a management solution post-close, institutional ownership prior to sale), they received additional recognition beyond what is accorded to smaller businesses.
- Charts 2 and 3 show valuation by year among all distribution deals, and then among those in buyout transactions only. Valuations in the mid-sevens were at the upper end of the trading range established in the category over the course of the last decade.

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CHART 2

TOTAL ENTERPRISE VALUE/EBITDA (ALL DISTRIBUTION)

TEV	2003–2015	2016	2017	2018	2019–2020 YTD	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

Please note that N for 2003-2015 encompasses thirteen years of activity.

CHART 3

TOTAL ENTERPRISE VALUE/EBITDA (BUYOUT TRANSACTIONS)

TEV	2003–2015	2016	2017	2018	2019–2020 YTD	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

Please note that N for 2003-2015 encompasses thirteen years of activity.

DISTRIBUTION DRILLDOWN

CHART 4

PROFESSIONAL AND COMMERCIAL EQUIPMENT AND SUPPLIES WHOLESALERS (NAICS CODE: 4234)

2003-2020 YTD

TEV	TEV ($)	Revenue ($)	% Rev Growth (TTM)	EBITDA Margin (%)	TEV/ Revenue	TEV/ EBITDA	N	Std Dev
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Note: NAICS 4234 encompasses deals identified by acquirers as being in distribution, as well as other industry categories. Revenue and margin data for the trailing twelve month (TTM) period prior to closing.

GF SOURCE: GF DATA®

CHART 5

MACHINERY, EQUIPMENT, AND SUPPLIES WHOLESALERS (NAICS CODE: 4238)

2003-2020 YTD

TEV	TEV ($)	Revenue ($)	% Rev Growth (TTM)	EBITDA Margin (%)	TEV/ Revenue	TEV/ EBITDA	N	Std Dev
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Note: NAICS 4238 encompasses deals identified by acquirers as being in distribution, as well as other industry categories. Revenue and margin data for the trailing twelve month (TTM) period prior to closing.

GF SOURCE: GF DATA®

CHART 6

GROCERY AND RELATED PRODUCT WHOLESALERS (NAICS CODE: 4244)

2003-2020 YTD

TEV	TEV ($)	Revenue ($)	% Rev Growth (TTM)	EBITDA Margin (%)	TEV/ Revenue	TEV/ EBITDA	N	Std Dev
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Note: NAICS 4244 encompasses deals identified by acquirers as being in distribution, as well as other industry categories. Revenue and margin data for the trailing twelve month (TTM) period prior to closing.

GF SOURCE: GF DATA®

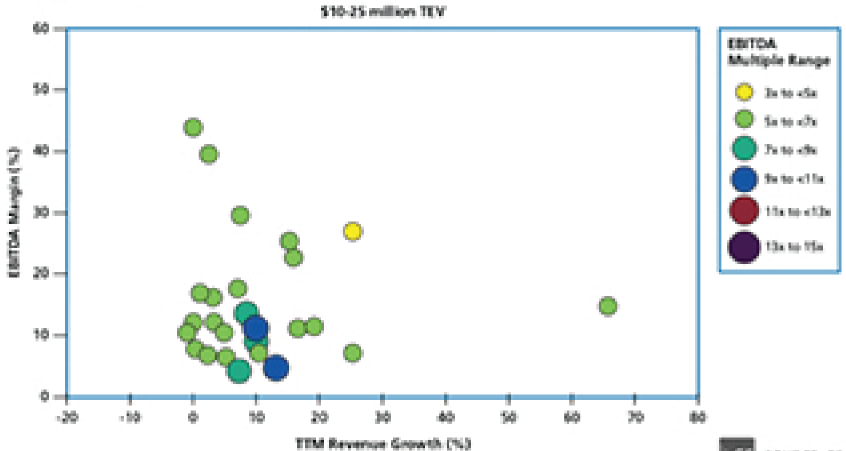
DISTRIBUTION DRILLDOWN

CHART 7

EBITDA MARGIN, REVENUE GROWTH, AND TEV/EBITDA

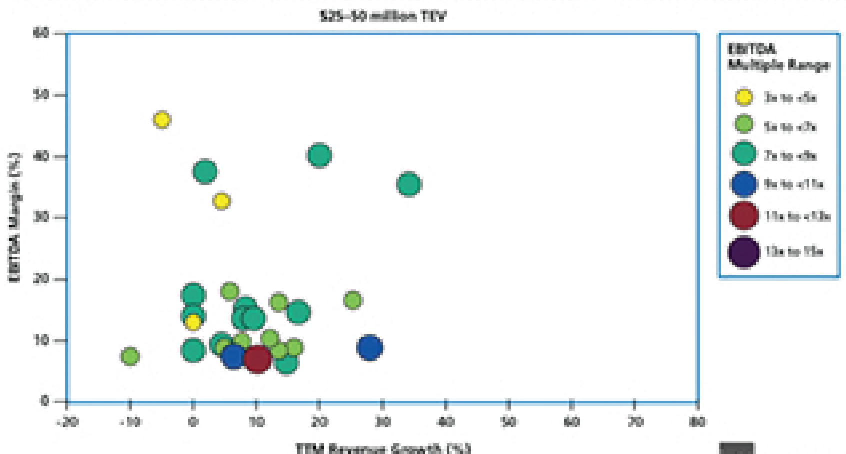
ALL DISTRIBUTION (MAJOR BUSINESS CATEGORY)

2017-2020 YTD



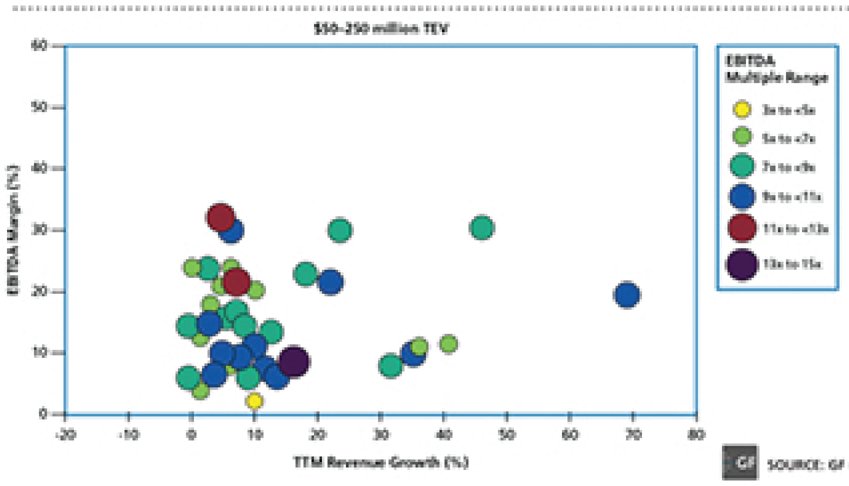
SOURCE: GF DATA®

CHART 8



SOURCE: GF DATA®

CHART 9



SOURCE: GF DATA®

- Two three-digit NAICS groupings comprise most deals tagged as distribution transactions. Wholesalers of durable goods is 423, wholesalers of nondurable goods is 424. The four-digit categories break down by industries served - motor vehicles, home furnishings, hardware, etc. Our on-line searchable data base offers wide coverage at the four-digit level.
- However, as we once again examine the generally imperfect relationship between headline financial characteristics and valuation, we focus on all of NAICS 423 to get a broader data set.
- The heat maps in charts 7-9 show the extent to which larger deals command fuller valuations – and the extent to which above-par EBITDA margins and revenue growth drive premium pricing more predictably within that cohort.
- GF Data defines better financial performers as businesses with TTM EBITDA margins and revenue both above 10 percent or one above 12 percent and the other metric at least 8 percent. Outliers on the high side are excluded.
- Charts 10 and 11 show average equity contribution for distribution deals versus the total GF Data universe. In general, acquirers of distribution businesses are required to contribute less equity than is average overall, likely due to the preponderance of financeable current assets in relation to business value.
- Charts 12 and 13 set forth the debt data for the sector. As noted, distribution deals were full participants in the extended seller's market and the unprecedented access to debt which was a principal driver of lofty valuations.
- Charts 14 and 15, drawn from our key deal terms report, provide general indemnification caps against breaches in reps and warranties. Caps in distribution deals once again were slightly lower than the benchmark – 10.0% in 2019/1Q 20, compared to 11.0% for the broader market.

GF Data is providing industry drilldowns interspersed with our more comprehensive reports on this schedule in 2020:

- April: Manufacturing
- June: Distribution
- September: Health Care Services
- December: Business Services

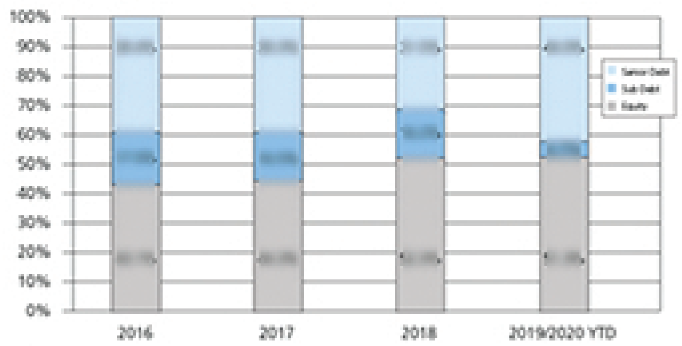
Subscribers will receive information on how these reports can be integrated into their GF Data packages as subscriptions come up for renewal.

For more information, please contact Bob Wegbreit at bw@gfdata.com.

DISTRIBUTION DRILLDOWN

CHART 10

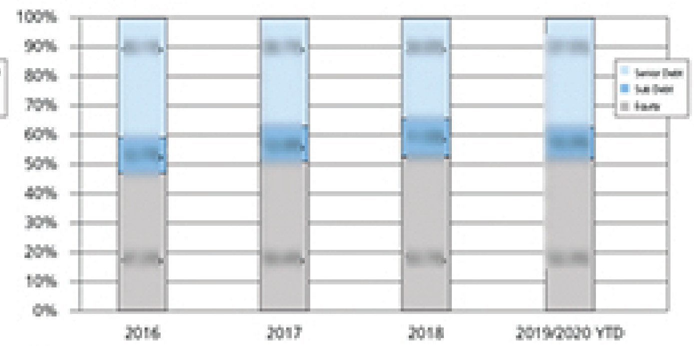
EQUITY AND DEBT CONTRIBUTION, PLATFORMS ONLY
(DISTRIBUTION)



SOURCE: GF DATA®

CHART 11

EQUITY AND DEBT CONTRIBUTION , PLATFORMS ONLY
(ALL DEALS)



SOURCE: GF DATA®

CHART 12

TOTAL DEBT/EBITDA
(DISTRIBUTION)

TEV	2003–2015	2016	2017	2018	2019–2020 YTD	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
100-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

Note: Deals with no debt are eliminated from leverage data, as are significant outliers. Please note that N for 2003-2015 encompasses thirteen years of activity.

SOURCE: GF DATA®

CHART 13

SENIOR DEBT/EBITDA
(DISTRIBUTION)

TEV	2003–2015	2016	2017	2018	2019–2020 YTD	Total	N =
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

Note: Deals with no debt are eliminated from leverage data, as are significant outliers. Please note that N for 2003-2015 encompasses thirteen years of activity.

SOURCE: GF DATA®

CHART 14

INDEMNIFICATION CAP (DISTRIBUTION)

% OF TOTAL ENTERPRISE VALUE

TEV	2016	2017	2018	2019–2020 YTD	Total	N =
10-25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25-50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50-250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

SOURCE: GF DATA®

CHART 15

INDEMNIFICATION CAP (ALL DEALS)

% OF TOTAL ENTERPRISE VALUE

TEV	2016	2017	2018	2019–2020 YTD	Total	N =
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
N =	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]

SOURCE: GF DATA®

DISTRIBUTION DRILLDOWN

On-point valuation comps organized by NAICS industry code are available on line at www.gfdata.com.

We provide detailed valuation data organized by major business category and/or NAICS code. You can organize your search by TEV or by year. GF Data reports at the finest level of industry detail at which there are at least three data points.

DISTRIBUTION

423	Wholesalers, Durable Goods
4231**	Motor Vehicle and MV Parts & Supplies
4232**	Furniture and Home Furnishings
4233**	Lumber and Other Construction Materials
4234**	Commercial Equipment & Supplies
4235**	Metal and Mineral Goods (exc. Petrol.)
4236**	Electrical and Electronic Goods
4237**	Hardware, Plumbing and Heating Equip. & Supplies
4238**	Machinery, Equip & Supplies
4239**	Misc. Durable Goods
424	Wholesalers, Nondurable Goods
4241**	Paper & Paper Products
4242**	Drugs & Druggists Sundries
4243**	Apparel, Piece Goods & Notions
4244**	Grocery and Related Products
4246**	Chemical & Allied Products
4247**	Petroleum & Petroleum Products
4249**	Misc. Nondurable Goods

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GF Data Resources LLC
2176 Harts Lane
Conshohocken, PA 19428

Phone: 610-616-4607

Andrew T. Greenberg
atg@gfdata.com

B. Graeme Frazier, IV
bgf@gfdata.com

Bob Wegbreit
bw@gfdata.com

Susan Guthrie
sg@gfdata.com

Tracey Osecki
to@gfdata.com