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# Specialty distribution sector report



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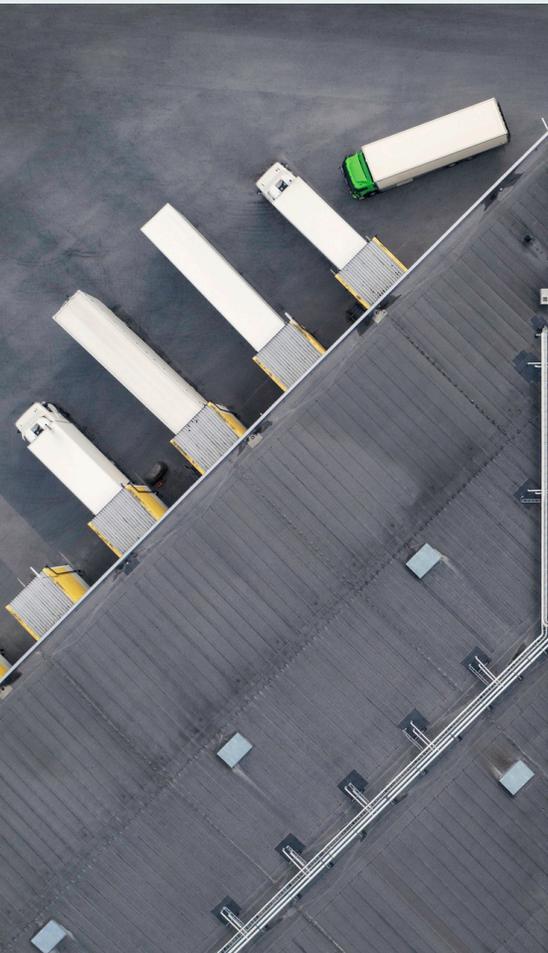


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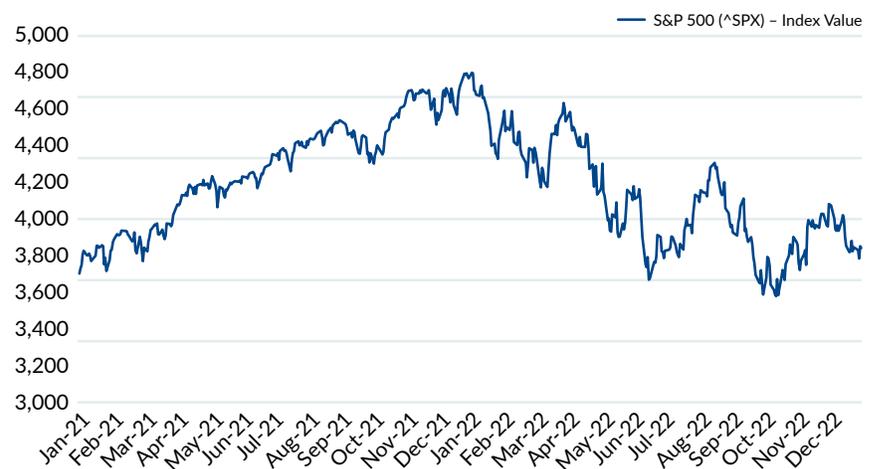
## 2022 Review: Overview of M&A and private market performance

Multiple macro factors have driven uncertainty and volatility in the public markets over the last year: inflation concerns, supply-chain issues fueled by lingering effects of the pandemic, slowing growth, a challenging interest rate environment and the Russia-Ukraine conflict. All of these factors have put pressure on valuations and the pace/volume of M&A activity in 2022 (relative to the torrid pace of 2021). However, private market M&A activity (especially financial sponsor activity) has shown strong resistance to these headwinds and the outlook for overall M&A activity in 2023 remains positive.

While economic concerns, debt markets and higher interest rates impacted M&A activity in 2022, strategic and financial dealmakers have remained active. High quality companies are still commanding attractive multiples despite choppy macro headlines and an uncertain near-term outlook. Additionally, valuations in the private market for 2022 remained resilient, dipping only moderately relative to the public market downturn despite rising interest rates that contributed to a decline in total debt utilization in M&A transactions.

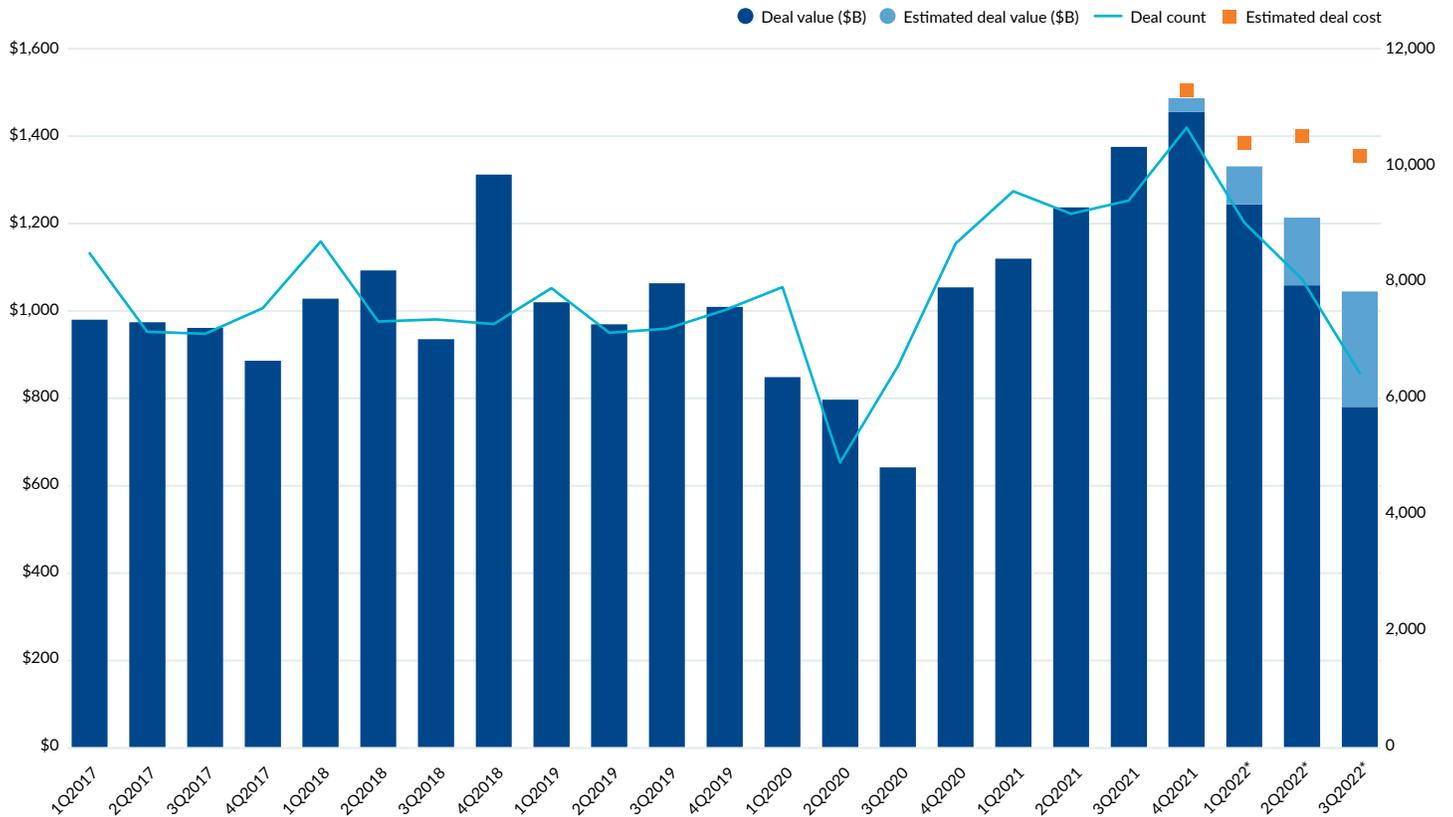


**CHART 1: INFLATION CONCERNS AND SUPPLY CHAIN ISSUES HAVE PUT EQUITIES UNDER PRESSURE IN 2022**



Source: Pitchbook/Cap IQ.

CHART 2: GLOBAL M&A ACTIVITY BY QUARTER



Source: Pitchbook.

### Key factors that influenced M&A market activity in 2022



Rising interest rates and cost of capital



Strong and persistent inflation



Supply-chain issues and business disruptions



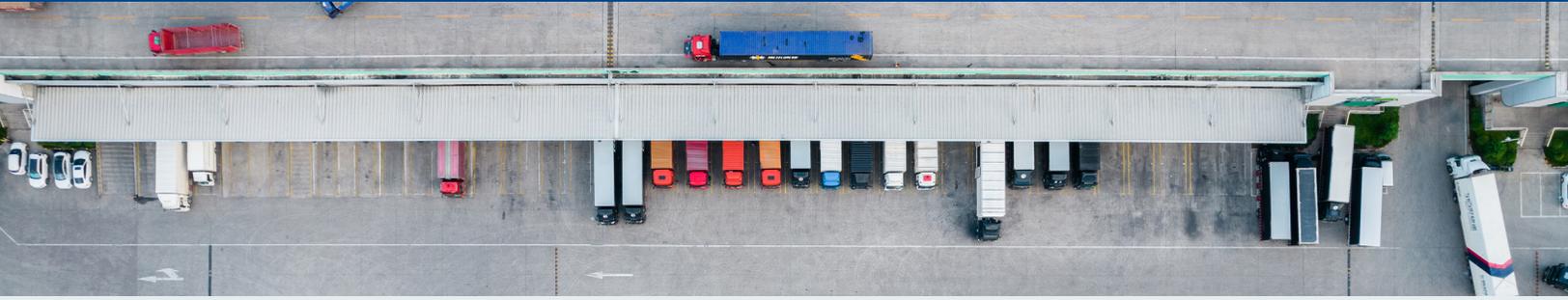
Availability of labor and rising wages – ongoing fight for human capital



Questions regarding the sustainability of corporate earnings



Growth and recessionary concerns



## Macroeconomic trends

**CHART 3: INDUSTRIAL PRODUCTION BACK TO PRE-PANDEMIC LEVELS**



Source: Federal Reserve Bank of Chicago.

**CHART 4: NEW ORDER TRENDS**



Source: Institute for Supply Management.

**CHART 5: PURCHASING MANAGERS' INDEX**



Source: Institute for Supply Management.

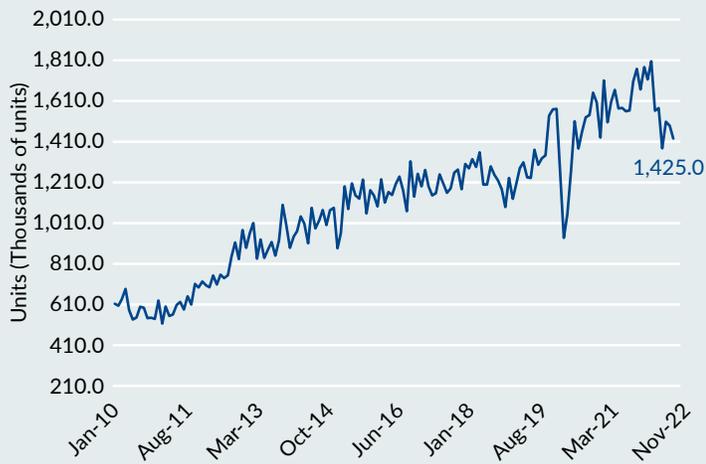
**CHART 6: CONSUMER PRICE INDEX**



Source: St. Louis Federal Reserve.

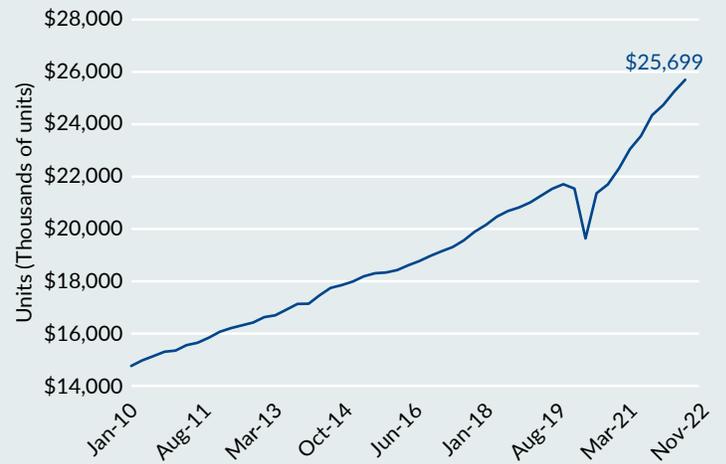


CHART 7: HOUSING STARTS & PERMITS



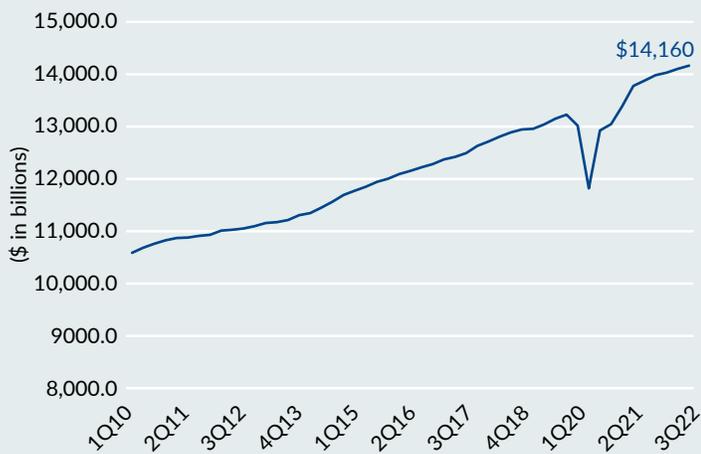
Source: St. Louis Federal Reserve.

CHART 8: U.S. GROSS DOMESTIC PRODUCT



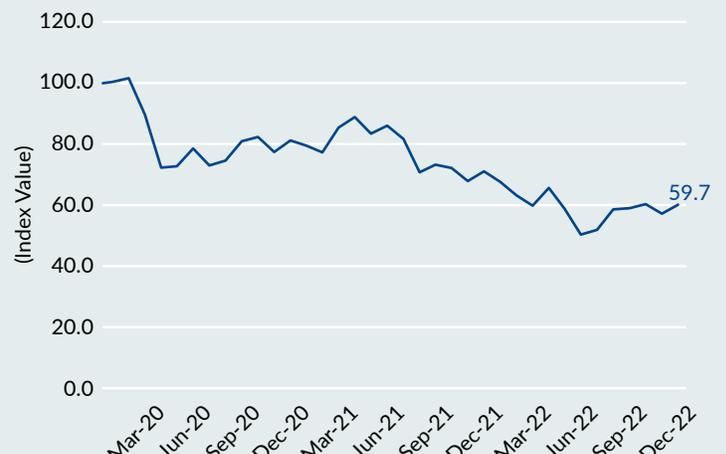
Source: St. Louis Federal Reserve.

CHART 9: U.S. PERSONAL CONSUMPTION



Source: U.S. Bureau of Economic Analysis.

CHART 10: U.S. CONSUMER CONFIDENCE



Source: University of Michigan.



## Key Distribution sector themes



**Supply chain:** Supply-chain disruptions are likely to persist into mid-to-late 2023, but we expect overall lead times to decrease for many products (especially those that are manufactured domestically). Many distributors are actively pursuing strategies to diversify supply chains away from international sources (in particular Southeast Asia) and leverage domestic resources to ensure quick, easy, and reliable access to product and to reduce overall costs. Leaders in the specialty distribution sector will continue to leverage flexibility in their business and supply chain models to quickly react and adapt to evolving market conditions.



**Labor costs and availability:** Rising costs and labor issues are increasing the complexity of navigating and managing daily operations and driving fierce competition for talented labor. We expect companies to continue to aggressively rely on rising incentive-based compensation (sign-on and productivity bonuses, increased paid time off), improved benefits, increased training, and opportunities for career advancement to attract and retain valuable human capital assets.



**Automation and technology:** Firms continue to use automation and technology, including B2B eCommerce platforms, improved warehouse management, and enterprise resource planning (“ERP”) systems to streamline processes and automate operations (e.g., serial number tracking, just-in-time inventory). Additionally, firms are increasingly utilizing technology to maximize profitability by improving efficiency and providing operational visibility to enhance control over daily operations.



**Value-added services:** In 2023 and beyond, the most successful distribution businesses will continue to implement value-added services (e.g., technology integration via EDI, vendor managed inventory, localized service, and support, eCommerce capabilities, etc.) to better entrench distributors within customer accounts and support new business development efforts.



**Omni-channel commerce:** Omni-channel commerce will continue to gain significant traction as the industry standard for successful customer interactions. Customers will demand similar experiences, transaction efficiency and pricing whether they are utilizing a web-based eCommerce platform, mobile-application, or interacting directly with a sales representative.



**P&L management and price vs. volume considerations:** Management of the bottom line has always been paramount to corporate growth and success. However, in the current environment there has been significant pricing and margin pressure due to rising material and labor costs, fluctuations in demand, and increasing fulfillment costs. Distributors will need to carefully evaluate the management of rising costs as they seek to maintain share, ensure profitable growth and protect the bottom line. Additionally, as investors continue to examine acquisition opportunities across the specialty distribution sector, there will be additional scrutiny on the key drivers of growth and profitability (i.e., price vs. volume).



**M&A activity:** In 2023, we expect both strategic and financial buyers to continue to capitalize on market fragmentation across the specialty distribution universe to pursue attractive M&A opportunities that offer geographic, product, and service expansion and diversification.

## Recent specialty distribution M&A activity

Date	Acquirer	Target	Target Description
Dec-22	B2B Industrial Packaging (GenNx360 Capital Partners)	Oak Paper Products	Distributor of packaging products and solutions
Dec-22	Graybar	ConneXion	Full-service distributor of electrical products
Dec-22	Dickman Supply	Lyons Electrical Supply	Distributor and installer of lighting products
Dec-22	Houchens Industries	Air Hydro Power	Distributes hydraulic, automation, and material handling products
Dec-22	Blackhawk Industrial Distribution, Inc.	Thomas Industrial Supply	Distributes fastening, packaging, and adhesive products
Dec-22	Imperial Dade	Classic Solutions	Distributor of janitorial sanitation and equipment products
Oct-22	Littlejohn & Co.	Lipari Foods	Specialty food distributor, importer and manufacturer
Oct-22	Outdoor Living Supply (Trilantic North America)	Bedrock Landscape Supply	Independent distributor of natural stone, pavers, bulk materials, and landscape supplies
Oct-22	CID Capital	Wiseway Supply	Distributor of electrical, plumbing and lighting products
Oct-22	Heritage Distribution Holdings (Gryphon Investors)	Coastal Supply Company	Wholesale distributor of HVAC/R equipment, parts, and supplies
Oct-22	Ascent Lifting, Inc. (Shorehill Capital)	Advantage Sales & Supply	Value-added distributor and fabricator of lifting and rigging products
Oct-22	Wind Point Partners	FreshEdge, LLC	Distributes food products

Source: S&P Capital IQ.

Date	Acquirer	Target	Target Description
Sep-22	Munch's Supply (Genstar Capital)	Total Air Supply / Spiral Air Manufacturing	Distributor and fabricator of HVAC components
Sep-22	FEMSA (Envoy Solutions)	Knight Marketing Corporation	Distributor of janitorial, skin, personal care, foodservice, packaging, and office supplies
Sep-22	Imperial Dade (Advent International)	International Sales & Marketing	Distributor of foodservice and janitorial sanitation products
Aug-22	Henry Schein, Inc. (NasdaqGS:HSIC)	Midway Dental Supply, Inc.	Distributes dental supplies and products
Aug-22	Peak Rock Capital LLC	The Tranzonic Companies	Distributes janitorial supplies
Aug-22	Imperial Dade	Palm Paper Supply	Distributor of foodservice, personal care, office, packaging, and janitorial sanitation products
Aug-22	B2B Industrial Packaging LLC	B to Z Holdings, Inc	Engages in the distribution of corrugated boxes, tape, and moving supplies
Aug-22	Winsupply Inc.	First Source Electrical, LLC	Distributes electrical products
Aug-22	Graybar Electric Company, Inc.	Walker Industrial Products	Distributes factory automation solutions and electrical components
Jul-22	Envoy Solutions, LLC	Sunbelt Packaging	Supplies packaging materials, equipment, and industrial supplies
Jun-22	Incline Equity Partners	Raney's	E-commerce distributor of aftermarket heavy-duty truck parts and accessories
Jun-22	TruckPro	WestFleet	Supplier of truck and trailer parts
Jun-22	Advent International	Imperial Dade	Distributor of foodservice packaging, facilities, and maintenance supplies and equipment
Jun-22	Certified Power Solutions	Skarda Equipment Company	Industrial fluid-power distributor
Jun-22	Bunzl	Hygi.de	E-commerce distributor of cleaning and hygiene products
Jun-22	Bunzl	USL	Distributor of medical consumables
Jun-22	CRH plc (LSE:CRH)	Barrette Outdoor Living Inc.	Manufactures and distributes vinyl, aluminum, and steel fence and railing
Jun-22	BradyIFS	Camden Bag and Paper Company	Regional distributor of foodservice and janitorial supplies
Jun-22	PDI	W.A. Bragg & Co.	Distributor of plumbing, lighting, electrical, and irrigation supplies
May-22	Darragh Company	Service Construction	Commercial construction distributor
May-22	DXP Enterprises, Inc. (NasdaqGS:DXPE)	Cisco Air Systems, Inc.	Distributes industrial air compressors
May-22	Imperial Dade	Allied Eagle Supply	Distributes janitorial equipment and provides other value-added services
Apr-22	Envoy Solutions, LLC	Sigma Supply	Distributor of packaging products and equipment

Source: S&amp;P Capital IQ.

Date	Acquirer	Target	Target Description
Apr-22	L Squared Capital	Globe Scientific	Distributor of laboratory consumable supplies
Apr-22	Network Wireless Solutions	JF Tech	Distributor of components for servers, wireless networks, and cellular optical fiber systems
Apr-22	Munch's Supply (Genstar Capital)	T.A. Gentry Supply	Plumbing supply business
Mar-22	Imperial Dade	Veritiv Canada, Inc.	Supplies paper, printing, imaging, graphic arts, packaging, and maintenance supplies
Mar-22	OEP Capital Advisors, L.P.	PGW Auto Glass, LLC	Engages in the distribution of auto glass and shop accessories
Mar-22	Core & Main, Inc.	Lock City Supply, Inc.	Distributes water and wastewater products to the municipal and utility markets
Mar-22	Stellar Industrial Supply, Inc.	Timesaver Industrial Inc.	Distributes maintenance, repair, and operation; metalworking and safety products
Mar-22	DXP Enterprises, Inc.	Drydon Equipment Incorporated	Distributes wastewater treatment equipment
Mar-22	DXP Enterprises, Inc.	Burlingame Engineers, Inc.	Distributes water and wastewater equipment
Feb-22	Nautic Partners, LLC	Vallen Distribution, Inc.	Distributes indirect industrial supplies and related supply-chain solutions
Feb-22	Gryphon Investors	Benoist Brothers Supply Company	Full-service distributor of heating and air conditioning products
Feb-22	ILUS International	Georgia Fire and Rescue Supply	Distributes firefighting and emergency response equipment
Feb-22	Jon-Don, LLC	USA-Clean, Inc.	Distributes floor care equipment parts
Jan-22	Builders FirstSource, Inc. (NYSE:BLDR)	National Lumber Company	Distributes building materials
Jan-22	Hardwoods Distribution Inc.	Mid-Am Building Supply, Inc.	Operates as a wholesale distributor of building materials
Jan-22	Pfingsten Partners	Fairbank Equipment	Distributor of agricultural and propane parts, components, and equipment
Jan-22	Blackhawk Industrial Distribution, Inc.	Pinnacle Tool & Supply, Inc.	Distributors of cutting tools, abrasives, metal working fluids, and MRO supplies
Jan-22	Gulfside Supply, Inc.	R&S Supply, Inc.	Supplies roofing and building products

Source: S&amp;P Capital IQ.

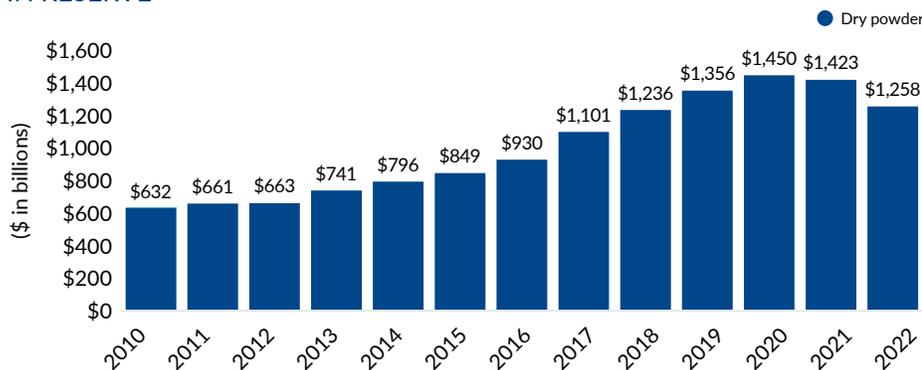
## 2023 M&A activity and valuation outlook

Despite ongoing concerns with rising inflation, slowing growth, increasing interest rates and broad global economic uncertainty, there is optimism in the deal community regarding expected overall M&A activity levels in 2023. All the fundamentals are in place for another strong year of activity (especially across the middle and lower-middle market), as uncertainty can breed opportunity.

Both strategic and financial buyers have significant dry powder to deploy. Large institutional investors continue to allocate substantial capital to the private equity and direct lending asset classes in the ongoing search for returns. As a result, we do not expect underlying economic concerns to meaningfully dampen M&A activity in 2023, especially in the middle and lower-middle market. In fact, opportunities exist for buyers to patiently deploy capital and selectively take advantage of negative valuation pressures caused by economic concerns and a weakened financing environment. We have seen that buyers are eager and willing to “choose their spots” in pursuit of new acquisition opportunities that offer predictable and durable demand drivers and recession-resistant business models.

That said, it’s important to note that while strategic and financial buyers still appear to be positioned for dealmaking, if interest rate increases persist and market conditions deteriorate further, the availability and price of debt financing could be impacted. Consequently, the availability and affordability of debt financing will be the single largest determinant of overall M&A activity in 2023.

**CHART 11: FINANCIAL SPONSORS STILL HAVE PLENTY OF DRY POWDER IN RESERVE**



Source: Pitchbook.

In summary, we anticipate M&A volume in 2023 to remain in-line with overall 2022 activity levels. We also expect the following themes to dominate the M&A landscape:

- Deal volume focused primarily on smaller, add-on opportunities
- Availability and pricing of debt financing
- Increased use of structure (e.g., seller notes)
- An increase in the average time to complete deals as buyers continue to heavily scrutinize the sustainability of corporate earnings and rigorously analyze new investment opportunities
- Strategic buyers conducting thorough portfolio rationalization initiatives
- Continued focus on environmental, social, and governance (“ESG”) initiatives

## Mesirow Specialty Distribution featured transaction

### Sale of Box Partners, LLC (“BOX” or the “Company”) to Charlesbank Capital Partners LLC

Headquartered in Elgin, IL, Box is a market leading, technology-enabled supplier of packaging, shipping, industrial supplies and related products for the eCommerce and distribution markets. Founded in 1989, the Company supports businesses across North America with a wide variety of packaging products that are essential for its customers in the successful operation of their businesses.

Mesirow was retained as Box’s exclusive financial advisor to guide the Company through a sale process geared towards financial sponsors. Mesirow’s investment thesis for the Company included the following:

- Trusted supply-chain partner with a comprehensive product portfolio and service model
- Highly defensible market position with strong barriers to entry
- Entrenched and diversified customer and vendor relationships
- Superior operational efficiency, growth and margins supported by a proprietary information technology infrastructure
- Significant, tangible, and actionable growth opportunities

Mesirow structured and executed a highly efficient sale process that generated significant interest and resulted in a premium outcome for Box’s equity holders as the Company was acquired by Charlesbank Capital Partners.

SELL-SIDE ADVISOR



HAS BEEN ACQUIRED BY



## Specialty Distribution

### Recent distribution transaction experience<sup>1</sup>

SELL-SIDE ADVISOR




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HAS BEEN ACQUIRED BY



SELL-SIDE ADVISOR




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HAS BEEN ACQUIRED BY



BUY-SIDE ADVISOR



a portfolio company of




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SELL-SIDE ADVISOR



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HAS BEEN ACQUIRED BY FUNDS ASSOCIATED WITH



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SELL-SIDE ADVISOR




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HAS BEEN ACQUIRED BY



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a portfolio company of



SELL-SIDE ADVISOR



WOOD PRODUCT ASSEMBLY AND PACKAGING SPECIALISTS

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HAS BEEN ACQUIRED BY



a portfolio company of



SELL-SIDE ADVISOR




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HAS BEEN ACQUIRED BY



Fastening, Packaging, Service.

a portfolio company of




1. As of 12.31.2022.

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## Mesirow Specialty Distribution Investment Banking Solutions

Mesirow Investment Banking is consistently focused on elevating the experience for our clients. With extensive sector-specific expertise and deep long-standing relationships, our dedicated Specialty Distribution team has a proven track record of completing highly tailored and successful transactions. Our highest priority is helping individuals and organizations achieve their financial and strategic goals.

For business owners contemplating a potential transaction, failing to plan early may mean leaving significant value on the table. If you are contemplating a potential sale of your business, specific actions should be taken to properly prepare for a sale. Do not discount the value premium that a professional advisor / investment banker can create through early preparation in a sale process.

If you have any questions regarding the trends and opportunities specific to your business, or if you would like to discuss planning for an eventual transaction, please contact Mesirow's Specialty Distribution investment bankers.

To learn more, visit [mesirow.com/investmentbanking](https://mesirow.com/investmentbanking).

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