



Industry Commentary

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Strong Momentum in Specialty Distribution: 2016 Year in Review

Across end-markets, specialty distributors' compelling business models are generating impressive growth and strong interest from financial sponsors and strategic acquirers.

The specialty distribution industry has seen heightened levels of M&A and capital markets activity over the last several years. In 2016 alone, William Blair completed 10 specialty distribution transactions in the United States and Europe. These transactions spanned a broad range of end-markets, including industrial, agriculture, building products, automotive aftermarket, education, energy, landscape supplies, and promotional products, and they generated significant interest from financial sponsors and strategic acquirers.

We examine several trends in specialty distribution that are driving M&A activity and the characteristics of these companies that make them such attractive acquisition targets. We also look at how QC Supply's recent acquisition by Charlesbank Capital Partners illustrates many of the factors that can lead to attractive valuations for specialty distributors.

Compelling Business Models Drive Financial Sponsor Interest

The broad-based interest in specialty distributors reflects the attractive market positions and financial characteristics of these companies'

















business models. Financial sponsors, in particular, are willing to pay high multiples for category-leading specialty distributors with defensible market positions in attractive end-markets; fragmented market structures that favor distributors' value-added models; compelling customer and supplier value propositions; diversification across customers, suppliers, and products; opportunities for both organic and acquisition growth; and highly attractive free cash flow generation and return on invested capital profiles.

When evaluating a potential target in specialty distribution, financial sponsors will closely examine a company's historical and projected organic growth trends, as well as the company's track record of successful acquisitions. Financial sponsors have been aggressively pursuing companies that are able to combine a clearly articulated and proven organic growth strategy, ability to capitalize on favorable secular tailwinds and a tangible pipeline for future add-on acquisitions.

Strategic Buyers Look to Become One-Stop Shops

In specialty distribution, acquisition

Specialty Distribution Transactions Completed in 2016

 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>Initial Public Offering & Follow-on Offering</p>
 <p>Follow-on Offering</p>	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 
 <p>has been acquired by</p> 	 <p>has been acquired by</p> 	 <p>has been acquired by</p> 

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strategies often are driven by strategic acquirers' desire to expand product portfolios and geographic reach in their addressable markets, drive wallet-share gains, mitigate online disintermediation threats from Amazon and others, expand proprietary product offerings, and strengthen customer retention through deeper and broader product categories. Customers are demanding enhanced multichannel sales and service, including online functionality, rapid fulfillment capabilities, and 24/7 customer service. The evolving multichannel environment has helped to expand customers' perception of value beyond just price. Technical support, value-added services, and dedicated sales efforts are more important than ever to customers.

As customers look to streamline their operations and partner with fewer vendors, the ability to be a one-stop shop is an increasingly important

element of customer retention for specialty distributors. As a result, acquirers are seeking best-of-breed companies that can dominate specific niche markets through brand awareness and reputation, differentiated value propositions, expansive product portfolios, and deep selection.

Category-Leading Market Position, Organic Growth Trends, and Consolidation Opportunities Drive QC Supply Acquisition

William Blair advised QC Supply on its December 2016 acquisition by Charlesbank Capital Partners. QC Supply's position as a category-leading distributor and solutions provider for the large, growing, and fragmented swine and poultry markets made it a highly attractive acquisition target for potential acquirers.

The growth of the swine and poultry market is being driven by several

favorable macro trends, including rising global protein consumption, increasing U.S. pork and poultry export activity, and an ongoing shift to healthier diets. QC Supply is well-positioned to capitalize on these trends by serving as a critical link between swine and poultry growers, integrators, and manufacturers.

In addition to QC Supply's exceptional reputation in this large and growing market, Charlesbank and other potential acquirers were attracted to QC Supply's unique ability to add value to its diversified customer base by offering end-to-end solutions and a comprehensive product portfolio. Buyers also saw a significant market consolidation opportunity, as distribution in the swine and poultry industry is highly fragmented. QC Supply has a proven track record of successfully executing highly accretive add-on acquisitions, including 10 since 2013.

To learn more about these and other trends that are shaping the M&A landscape in the specialty distribution industry, please do not hesitate to contact us.

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