

Clearview

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Industrial Distribution

The industrial distribution market has begun to see consolidation in recent years as major players have increased both the size of their product portfolios, and the range of different sectors that they can serve.

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Market overview

The industrial products market covers a vast range of sectors including the automotive, construction, chemicals, electronics, engineering, and MRO (maintenance, repair and operations) industries.

Although the market is broad, distributors operating across these sub-sectors each have very specific skillsets and work extremely closely with customers and manufacturers to ensure that they can source the right products at exactly the right time.

The importance of maintaining these key supply chain relationships is precisely why current economic and political headwinds - such as the US/China trade dispute and Brexit - are putting so much pressure on distributors, their supply chains and stock systems. For instance, if you take just one sector such as automotive, the Society of Motor Manufacturers and Traders has said that a no-deal Brexit would “trigger the most seismic shift in trading conditions that the UK automotive sector has ever experienced”.

Services

These close relationships between customers and distributors are also about far more than just getting products from A to B, they are also based on distributors offering a very strong service proposition and deep product knowledge.

Increasingly this service proposition also includes specific technical and training support around a certain product, as well as the provision of wider consultancy services. The important point is that such services help build sustainable long-term relationships between the parties, while they are also a value-add, given the challenge posed by new digital trading disruptors.

Technical support is a particular area of focus. A good example is RS Components, the trading brand of Electrocomponents, which offers more than 500,000 industrial and electronic products sourced from more than 2,500 suppliers.

With operations in 32 countries, it ships more than 50,000 parcels a day, and

supports customers across the product life cycle, whether via innovation and technical support at the design phase, improving time to market and productivity at the build phase, or reducing purchasing costs and optimising inventory in the maintenance phase.

To give just one example of technical support, the company recently introduced an IIoT (Industrial Internet of Things) development box, which is expected to find applications in a wide variety of industrial contexts, from production plants to industrial refrigeration, waste management, precision agriculture, transportation and logistics, energy and utilities, retail, and smart homes and buildings.

European consolidation

The distribution sector has begun to see consolidation in recent years as major players have increased both the size of their product portfolios, and the range of different sectors that they can serve.

This is being driven by a number of factors, such as the prevalence of increasingly automated business operations, and the ever-increasing need for manufacturers to completely outsource their distribution function so that they can concentrate on their core capabilities.

A good example is the European market, where the largest supplier of MRO products and services, IPH Brammer, was last year renamed Rubix when Advent International (which took Brammer private in 2017) merged the business with industrial supplies distributor IPH, which it bought from PAI Partners.

Rubix CEO Martin Gaarn Thomsen says the group now has an agenda to “transform our industry and provide innovative value-adding services and propositions for our customers”. As he adds: “The European industrial products distribution market is very fragmented and it offers both good growth and margin prospects. There is a real opportunity for us to provide value beyond the product to our customers.”



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Global consolidation

US activity

The US has seen a number of notable recent deals. For instance, Applied Industrial Technologies, a distributor of bearings, power transmission products and fluid power components, acquired FCX Performance, a distributor of valves, instruments, pumps, and lifecycle services to MRO and OEM customers. Sonapar, a market leader in the B2B distribution of electrical, and industrial and safety products, acquired North Coast Electric, one of the largest electrical distributors in the US.

Chemical distributor Univar acquired Nexeo Solutions, creating a leading global chemical and ingredients solutions provider. It subsequently sold Nexeo's plastics distribution

business to One Rock Capital Partners.

Kaman, a distributor of electro-mechanical, bearings, power transmission, motion control and electrical and fluid power components, sold its distribution segment to Littlejohn, and in a cross-border deal Japanese company Kyocera, a supplier of industrial and automotive components as well as electronic devices, acquired Southern Carlson, a distributor of tools, fasteners, packaging and facility supplies.

One example of an OEM acquiring a distributor is Boeing, who recently bought KLX Aerospace Solutions, a global provider of aviation parts and services.





























Scale

A recent report¹ highlighted how building scale was becoming increasingly important across the industrial distribution sector.

It said winning distributors were already transforming their operations to adapt to the major trends impacting the market, and highlighted how 'building scale where it matters most' was one of the actions that will distinguish the industry's outperformers. It also added that winners will move beyond product distribution and offer a suite of "monetisable value-added services" that customers want and need, while they will also embrace the digital revolution.

1: McKinsey: The coming shakeout in industrial distribution – April 2019

Recent Clearwater International Transactions

   received investment from  TPA CAPITAL Sell-side Undisclosed	  WURTH GROUP acquired  Buy-side Undisclosed	   MBO supported by   Buy-side Undisclosed	  United Agri Products (UAP) Ltd sold to  Sell-side €37m
  Clean Care sold to  Sell-side Undisclosed	   acquired  from cognetas Buy-side €315m	  Tom Martin & Company Ltd Non-Ferrous Metal Specialists since 1948 MBO supported by  Acquisition finance Undisclosed	  DOMUS sold to  Sell-side €40m

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