

Clearview

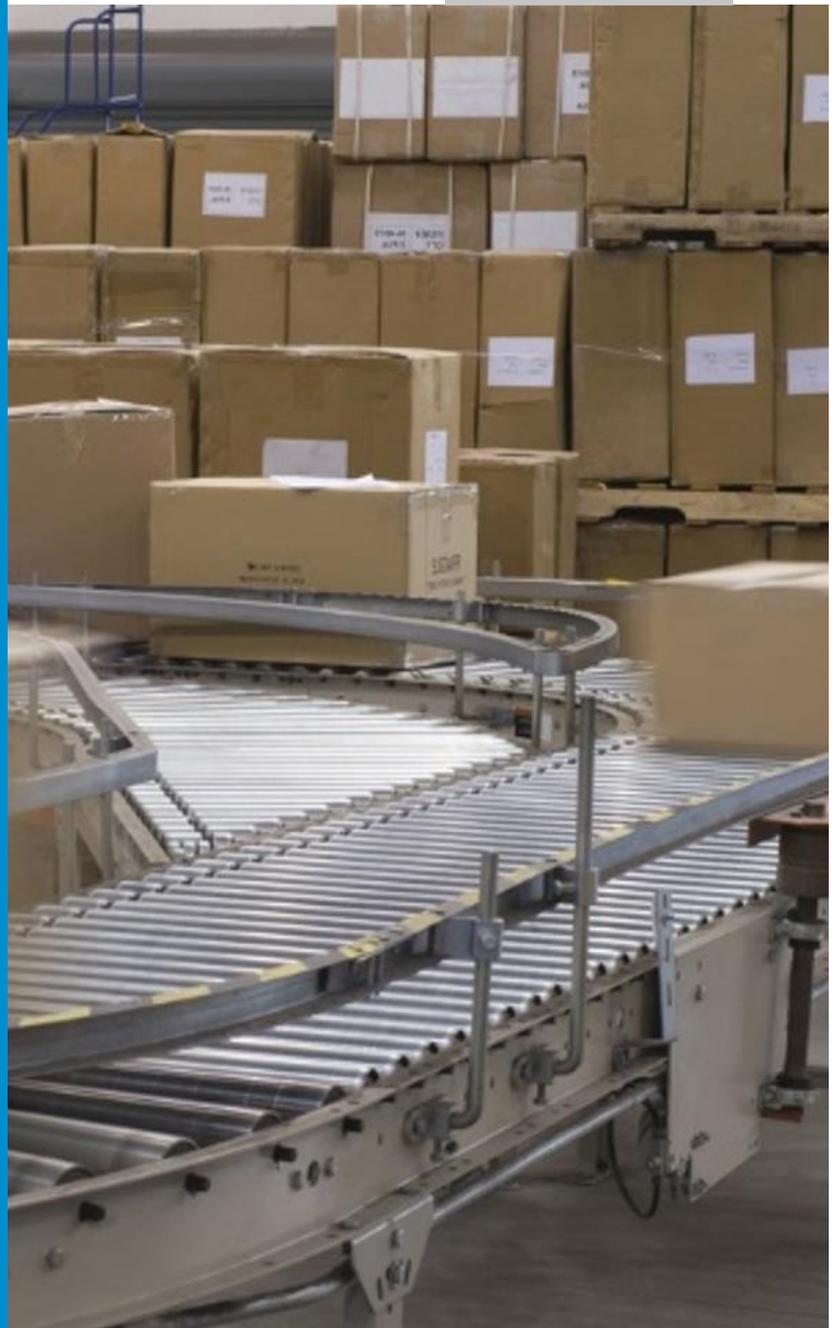
Spring 2021

Value-Added Distributors

Increasing supplier and customer demand for partners to deliver greater value-add over and above product distribution has driven significant industry growth and consolidation in recent years.

Inside:

- Trends in the distribution market
- M&A market for value-added distributors
- Sales maturation of distribution companies
- Case study: sale of a value-added distributor



Market trends

Value-added distributors (VADs) are becoming increasingly prevalent across a broad range of sectors including business supplies, construction, energy, consumer products, transportation and agriculture.

Whilst the market for VADs is broad, there are several common characteristics that typify a VAD in terms of strong customer relationships, specialist knowledge across niche product categories and the ability to quickly source the right products for the customer. VADs are distinguished by:

- Offering an effective sales channel for manufacturers
- Providing significant value-added services for end-users over and above the sale of products
- Integrating into customer's value chain, often acting as a business-critical sourcing partner
- Acting as a consultant with extensive product knowledge and technical expertise

Successful VADs are already adapting to ongoing trends. The market for VADs is being driven by three notable trends:

Digitalisation: A large number of VADs remain in the early stages of the digitalisation process. Successful VADs exploit the growing potential of digitalisation. For example, in the form of inventory management systems, product information management (PIM), logistics planning, automation or e-commerce.

Increased need for documentation: Documentation needs and regulations for certain product types place greater demands on sourcing and cooperation between distributor and manufacturer. VADs provide a valuable service to end-users by providing easily accessible documentation, serving as another way to differentiate themselves from traditional distributors and online competitors.

Own brands: The use of own brands among VADs, often in the form of private label-sourcing, continues to grow. This opens up the possibility of product tailoring according to specific customer needs and serves to further deepen the sourcing relationship.

Types of distributors





M&A activity

As VADs gain momentum there is a growing appetite for consolidation. This is manifested by active acquisition strategies from established distributors as well as industrial conglomerates and financial investors seeking bolt-on acquisitions for existing portfolio companies and new stand-alone platform investments.

Multiple rationales driving acquisition interest

Acquisition rationales such as diversification of the customer portfolio, increased know-how in a product niche, acquisition of talent and increased geographical presence are some of the factors that buyers cite as driving M&A activity. Three rationales are particularly prominent:

Expanding product coverage: Providing specific know-how and product knowledge enables the buyer to cover the entire product spectrum demanded by the customer, and act as a "one-stop shop" for the customer, reducing competition and strengthening the relationship.

Internationalisation: International customers increasingly want to engage with VADs who are able to operate across borders, providing the same high service level and delivery security across multiple territories negating the need for multiple distribution partners.

Scale: A significant factor for distributors, regardless of the amount of value-add, is the negotiating position between supplier and customer. As VADs are often dependent on a few large customers, there is a risk element that can be diversified by becoming part of a larger international acquisition player due to scale.

Acquisition interest comes from several types of players

The acquisition interest in VADs typically comes from a number of angles.

Strategic players: Much of the consolidation is driven by well-established distributors, who have achieved a position in the market where organic growth is not sufficient and therefore resort to acquisitions as a growth driver. However, strategic players can also be seen in the form of manufacturers who want to enter the value chain and gain greater control over a sales channel, as well as customers who want to move back into the value chain.

Financial investors: VADs have also drawn the interest of financial players, with several notable successful cases. Financial investors include both private equity funds and family funds with different investment horizons that see good opportunities to grow the business. For example through acquisitions and strategic development.

Industrial conglomerates: International industrial conglomerates are increasingly adopting the private equity mindset, diversifying operations across a range of services and markets, supported by a significant operational infrastructure and the potential to benefit from enhanced scale, synergies and cross-selling.



Acquisitions are a key element of our growth strategy aiding the Group's geographic expansion as well as extending our product offering and customer base.



Bunzl PLC, 2020

M&A activity

Buying interest in VADs comes from multiple angles

The primary buyer groups

Buyer type	Investment rationale (examples)	Buyers' examples
Strategic buyer 	<ul style="list-style-type: none"> • Access to new products, know-how, geographies or customers • Strengthen position towards suppliers or customers • Move a link up or down the value chain 	<ul style="list-style-type: none"> • Ahlsell, 18 acquisitions since 2015 • Bunzl, 65 acquisitions since 2015 • Bufab, 8 acquisitions since 2015
Industrial conglomerates 	<ul style="list-style-type: none"> • Strengthen position in existing markets or provide access to new markets • Investing in companies with niche skills 	<ul style="list-style-type: none"> • Lagercrantz, 22 acquisitions since 2015 • Indutrade, 61 acquisitions since 2015
Financial investors 	<ul style="list-style-type: none"> • Significant latent value in a scalable business models with diverse opportunities for growth and process optimisation • Often the possibility of a second exit with private equity models 	<ul style="list-style-type: none"> • Bain Capital's investment in US LBM • Acquisition of Parts Authority by Kohlberg & Company LLC

Prior to sale considerations

The majority of company sales depend on several factors, some of which are specific to distribution companies as well as general factors that apply to all types of businesses. Vendors should consider a range of internal and external factors including financial maturity and timing as well as the evolution of the underlying market and the presence of competitors and potential investors.

VAD specific factors to consider include the relative position within the value chain, the degree of value-add, how good inventory management is and the degree of digitalisation. External factors largely relate to customer and supplier dependency, competitiveness and spend.

Factors that should be discussed and assessed in the context of sales maturation

	Internal affairs	External relations
VAD-specific conditions	<ul style="list-style-type: none"> ✓ Product portfolio, level and types of service ✓ The degree of "value-add" ✓ Placement in the value chain ✓ Inventory management and commitment of working capital ✓ Degree of digitisation 	<ul style="list-style-type: none"> ✓ Supplier dependency and composition ✓ Customer dependency and composition ✓ "Share of wallet" of customers
General conditions	<ul style="list-style-type: none"> ✓ Level of documentation ✓ Earnings, cash flow and structure ✓ Internal dependency ✓ Strategy and management ✓ Sales timing and process 	<ul style="list-style-type: none"> ✓ Competitiveness ✓ Development in the underlying market ✓ External dependency ✓ Consolidation perspective ✓ Buyer's field

Transaction experience

Clearwater International has extensive experience in advising VADs across a range of end markets including industrials & chemicals, healthcare and consumer.

Case study

Clearwater International advised on the sale of HT Bendix, a leading C-parts supply chain partner to the furniture and kitchen industry, to Swedish Bufab. The company generates annual sales of approximately €45m in Denmark, Germany, the UK, France, Poland and the Baltics, and has achieved continuous and profitable growth since the company was acquired by management and Industri Udvikling in 2012.

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1975 A/S Herning Træløst is established and starts selling tools and fittings to the professional market and industry. In 1991, DT Group merges the company with BENDIX Tømmerhandel A/S and creates "HT BENDIX".
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1990s HT BENDIX sharpens its focus towards exclusively selling fittings to the furniture, kitchen and woodworking industries, leading to a decade of continuous annual growth records and expansion of the operational setup with automatic warehouse management systems and larger facilities.
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2012 DT Group sells HT BENDIX to management with the backing of the Danish private equity fund Industri Udvikling.
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2012-2019 A new era of professionalization and continuous annual revenue growth follows the ownership change driven by the independent and value-focused management style.
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2018 Following a general strengthening of the management team as part of a long-term strategic plan, Clearwater International were appointed to advise on the potential sale of HT BENDIX.
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2019 HT BENDIX is sold to Swedish Bufab, a publicly traded value-added distributor, ensuring attractive growth synergies for both companies.

Recent transactions

 sold to  Sell-side Undisclosed	 sold to  Sell-side Undisclosed	 sold to  Sell-side Undisclosed	 received investment from  Sell-side Undisclosed	 sold to  Sell-side Undisclosed	 sold to  Sell-side Undisclosed
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International Team



Michael Loudon
 Partner and International Head of
 Industrials & Chemicals, UK
 Tel: +44 845 052 0354
 Email: michael.loudon@cwicf.com



John Curtin
 Partner, Ireland
 Tel: +353 1 912 1724
 Email: john.curtin@cwicf.com



Simon Zhang
 Partner, China
 Tel: +86 21 6341 0699 x 813
 Email: zhang.yi@cwicf.com



Niccolò Querci
 Partner, Italy
 Tel: +39 348 233 0008
 Email: niccolo.querci@cwicf.com



Carsten Rydahl
 Partner, Denmark
 Tel: +45 27 62 03 73
 Email: carsten.rydahl@cwicf.com



Rui Miranda
 Partner, Portugal
 Tel: +351 918 766 799
 Email: rui.miranda@cwicf.com



Thomas Gaucher
 Managing Partner, France
 Tel: +33 153 890 505
 Email: thomas.gaucher@cwicf.com



Francisco Gómez
 Partner, Spain
 Tel: +34 699 446 314
 Email: francisco.gomez@cwicf.com



Markus Otto
 Managing Partner, Germany
 Tel: +393471653353
 Email: markus.otto@cwicf.com



Oscar Coster
 Director, Sweden
 Tel: +46 735030610
 Email: oscar.coster@valentum.se

Clearwater International Office 
 Partner Office 



KeyBanc Capital Markets

 Partner of Clearwater International

Distribution Practice Overview

Select Sector Focus Areas

 Broadline / Diversified	 Building Products	 Capital Equipment	 Chemicals / Ingredients	 Electrical / Electronics	 Facility Main. / JanSan	 Fasteners / Class-C Components	 Food / Foodservice
 HVAC / Plumbing	 Process Control	 Safety Products	 Specialty Packaging	 Specialty Transportation	 Third-Party Logistics	 Vehicle Aftermarket	 Niche / Specialty

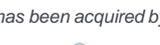
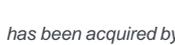
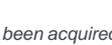
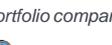
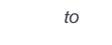
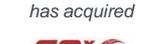
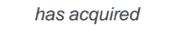
Representative Model Characteristics

 One-Step / Direct	 Two-Step / Master	 Route-Based	 Hub & Spoke
 Branch-Based / Retail	 Virtual Mfg. / Private Label	 VMI / Service-Intensive	 Hybrid Mfg. / Distribution

Extensive Capabilities

- M&A & Strategic Advisory
- Debt Capital Markets
- Equity Capital Markets
- Leveraged Loans
- Corporate Syndications

Recent Distribution Successes

 <i>a portfolio company of</i>  <i>has been acquired by</i>  <i>Sell-Side Advisor</i>	 <i>has been acquired by</i>  <i>Sell-Side Advisor</i>	 <i>a portfolio company of</i>  <i>has been acquired by</i>   &  <i>Sell-Side Advisor</i>	 <i>has been acquired by</i>  <i>Sell-Side Advisor</i>	 <i>a portfolio company of</i>  <i>\$271,000,000 Senior Secured Credit Facilities</i> <i>Sell-Side Advisor</i>	 <i>has been acquired by</i>  <i>Sell-Side Advisor</i>
 <i>a portfolio company of</i>  <i>has acquired</i>  <i>a portfolio company of</i>  <i>Buy-Side Advisor</i>	 <i>a portfolio company of</i>  <i>\$350,000,000 Senior Secured Credit Facilities</i> <i>Sell-Side Advisor</i>	 <i>has been acquired by</i>  <i>a portfolio company of</i>  <i>Sell-Side Advisor</i>	 <i>has divested</i>  <i>to</i>  <i>Sell-Side Advisor</i>	 <i>has acquired</i>  <i>\$560,000,000 Senior Secured Credit Facilities</i> <i>Sell-Side Advisor</i>	 <i>a portfolio company of</i>  <i>has been acquired by</i>  <i>Sell-Side Advisor</i>
 <i>has acquired</i>  <i>\$1,030,000,000 Senior Unsecured Credit Facilities</i> <i>Sell-Side Advisor</i>	 <i>has acquired</i>  <i>\$1,200,000,000 Bridge Unsecured Loan Facility</i> <i>Sell-Side Advisor</i>	 <i>has acquired</i>  <i>Buy-Side Advisor</i>	 <i>has acquired</i>  <i>Buy-Side Advisor</i>	 <i>a subsidiary of</i>  <i>has been acquired by</i>  <i>Sell-Side Advisor</i>	 <i>a portfolio company of</i>  <i>has been acquired by</i>  <i>Sell-Side Advisor</i>

For additional information on KeyBanc Capital Markets' Distribution Practice, please contact any of the individuals listed below

T.J. Monaco MD, Head of Distribution 216.689.3079 tj.monico@key.com	Jeff Johnston MD, Head of Mergers & Acquisitions 216.689.4115 jjohnston@key.com	John Ebert Director, Distribution 216.689.3553 john.ebert@key.com	Will Beecher Sr. Associate, Distribution 216.689.5683 william.beecher@key.com	Sam Beecher Associate, Distribution 216.689.5836 samuel.beecher@key.com	Joe Hess Sr. Analyst, Distribution 216.471.2644 joseph.hess@key.com
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Disclosure: Clearwater International and KeyBanc Capital Markets (KBCM), the corporate and investment banking arm of US-based KeyCorp (NYSE: KEY), have entered into a strategic alliance designed to enhance growth for global mid-market companies. Working in concert, KBCM and Clearwater International will further increase the level of cross border mergers and acquisitions (M&A) on behalf of both firms' corporate and institutional clients across the United States, Europe and China. Clearwater International is not affiliated with KeyBanc Capital Markets Inc or its parent, KeyCorp.

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