

Carleton McKenna & Co

FASTENING THE FUTURE: TRENDS & OPPORTUNITIES IN INDUSTRIAL DISTRIBUTION

SPRING
2024

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CM&Co Overview

Carleton McKenna & Co specializes in providing sell-side and buy-side M&A advisory, capital raising and strategic consulting services to middle-market clients, including closely-held businesses, multi-generational family businesses, portfolio companies of financial sponsor firms, divisions or subsidiaries of public companies and young growth companies.

Additionally, CM&Co is dedicated to maximizing shareholder value creation through a range of strategic options. Whether a business owner is prepared to pursue a transaction immediately or seeks to enhance the business's competitive positioning before a liquidity event, we offer tailored solutions to meet their needs.



**M&A
Advisory**



**Capital
Raise**



**Strategic
Consulting**

Industrial Distribution & Services Expertise

CM&Co has significant experience advising companies across the **Industrial Distribution and B2B Service sectors**. Specifically, we specialize in engineered components, OEM and aftermarket products, metals, industrials and machinery, hydraulics and pneumatics, design and engineering, value-add distribution and other niche manufactured products. Each experience draws on our understanding of market dynamics and leverages our deep relationships with industry experts and decisionmakers. We are able to reach the right people and ask the right questions to determine interest without significant lags that might otherwise drag out or damage a transaction process.

Senior-level Attention

We staff transactions with **senior-level team members**, enabling expert handling of complications or issues without needing to get anyone up-to-speed at the last minute. Larger/commercial banks often pass the bulk of the relationship management and work to junior-level analysts, with only episodic senior involvement. We believe that significant and complex transactions need active process participation and management with experience-levels to match.

Representative Experience

PH Premier Hydraulics, LLC
Special Valves, Fittings & Custom Products

has been acquired by

PTR GROUP LP

The undersigned provided exclusive financial advisory services to Premier Hydraulics, LLC

Carleton McKenna
INVESTMENT BANKING SERVICES

COMMERCIAL FLUID POWER

has been acquired by

NTS NATIONAL TUBE SUPPLY

The undersigned provided exclusive financial advisory services to Commercial Fluid Power

Carleton McKenna
INVESTMENT BANKING SERVICES

TESTOIL
REMARKABLE IN EVERY WAY

has been acquired by

euromins

The undersigned provided exclusive financial advisory services to Insight Services, Inc. (dba Testoil)

Carleton McKenna
INVESTMENT BANKING SERVICES

WEBSTER INDUSTRIES

has acquired

ACTION VIBRATORY EQUIPMENT

The undersigned provided exclusive financial advisory services to Webster Industries, Inc.

Carleton McKenna
INVESTMENT BANKING SERVICES

ATKVEGE

has been acquired by

LKQ
(NASDAQ: LKQ)

The undersigned provided exclusive financial advisory services to ATK Vege shareholders

Carleton McKenna
INVESTMENT BANKING SERVICES

ARROWHEAD INDUSTRIES CORP

The undersigned provided exclusive strategic alternative and financial advisory services to Arrowhead Industries Corp.

Carleton McKenna
INVESTMENT BANKING SERVICES

millman NATIONAL LAND SERVICES

has been acquired by

CBRE

The undersigned provided exclusive financial advisory services to Millman Surveying, Inc.

Carleton McKenna
INVESTMENT BANKING SERVICES

PRECISION COMPONENT INDUSTRIES, LLC

has been acquired by

OHIO GRATINGS, INC.

The undersigned provided exclusive financial advisory services to Precision Component Industries, LLC

Carleton McKenna
INVESTMENT BANKING SERVICES

CORNERSTONE INDUSTRIAL GROUP

has acquired

TERRAWISE SOLUTIONS

The undersigned provided exclusive financial advisory services to Cornerstone Industrial Group, LLC

Carleton McKenna
INVESTMENT BANKING SERVICES

WEBSTER INDUSTRIES

has been acquired by

MPE PARTNERS

The undersigned provided exclusive financial advisory services to Webster Industries, Inc.

Carleton McKenna
INVESTMENT BANKING SERVICES

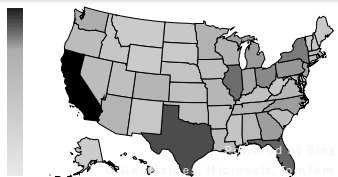
Sector Dive: US Tool & Hardware Wholesale⁽¹⁾

- Industrial tool and hardware wholesale has faced moderate volatility in recent years.
- The nonresidential construction sector suffered during the pandemic, while the residential sector initially benefited.
- Unfavorable economic conditions, including rising inflation and interest rates, have led to decreases in residential construction value.
- Revenue has grown at a CAGR of 1.5% to \$91 billion over the past five years, decreasing 0.1% in 2024 alone.
- Pandemic-related regulations increased operating costs, but average profit margins increased slightly due to lower labor costs and higher sales.
- Wholesalers depend on downstream markets, with retailers as the largest buyer segment.
- The Bipartisan Infrastructure Law has boosted demand from the public sector for construction projects, supporting demand for tools and hardware.
- Opportunities for the construction sector to recover are expected due to falling inflation and the possibility of interest rate cuts.
- New e-commerce platforms for manufacturers pose a threat to distributors, but demand from the Bipartisan Infrastructure Law is expected to continue supporting them.
- Revenue is projected to grow at a CAGR of 1.3% to \$97 billion through 2029.

Figure 1: Quick Facts⁽¹⁾

High concentration of enterprises

Low concentration of enterprises



2023 Revenues

\$91B

LTM⁽²⁾ Headcount

91,000

2023 Enterprise Count

5,000+

2023 Profits

\$5.6B (6%)

2023 Wages Paid

\$7.1B

CAGR: Through 2029

1.2%

Figure 2: Financial Performance⁽¹⁾

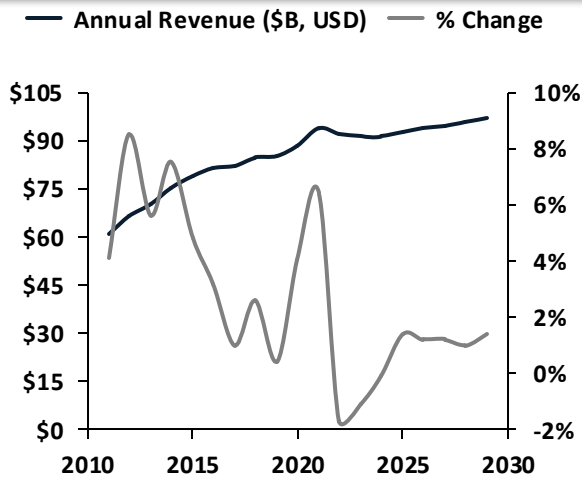


Figure 3: Product Segments⁽¹⁾

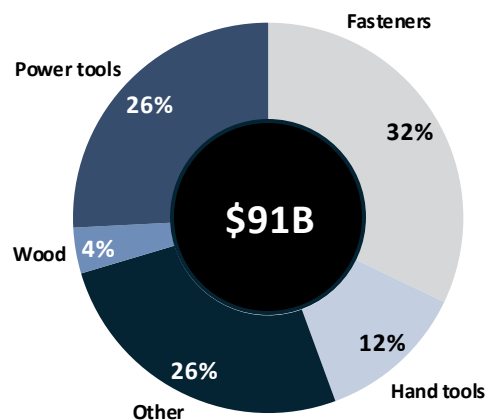
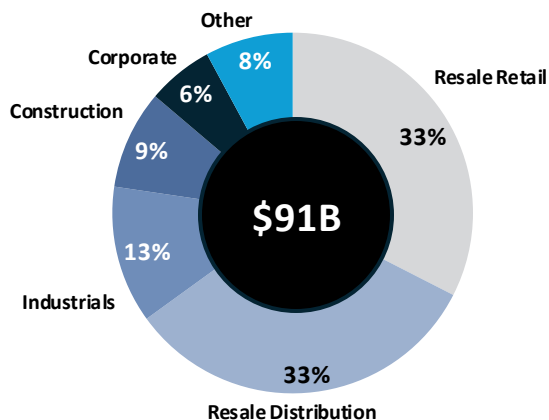


Figure 4: End Markets⁽¹⁾



(1) Source: IBISWorld

(2) Definition: LTM = Last Twelve Months

INDUSTRIAL DISTRIBUTION MARKET INDICATORS THROUGH 1Q 2024

Commentary

- Industrial production rose 0.4% in March 2024 but declined at an annual rate of 1.8% in the first quarter. Manufacturing output increased 0.5% in March, boosted in part by a gain of 3.1% in motor vehicles and parts; factory output excluding motor vehicles and parts moved up 0.3%. The index for mining fell 1.4% in March, and the index for utilities gained 2%. At 102.7% of its 2017 average, total industrial production in March was unchanged compared with its prior year level. Capacity utilization moved up to 78.4% in March, a rate that is 1.2% below its long-run (1972–2023) average⁽¹⁾.
- The Producer Price Index for final demand rose 0.2% in March 2024, (seasonally adjusted), the U.S. Bureau of Labor Statistics reported in April. Final demand prices moved up 0.6% in February and 0.4% in January. On an unadjusted basis, the index for final demand increased 2.1% for the 12 months ended in March, the largest advance since rising 2.3% for the 12 months ended April 2023⁽²⁾.
- Durable Goods Orders have been strong, with a 1.6% increase in March 2024, driven by demand for transportation equipment. Year-over-year orders rose by 11.5%, indicating a robust recovery. Despite supply chain disruptions, the sector remains resilient, supporting economic expansion⁽³⁾.
- Industrial firms are struggling to maintain pace with ever-increasing labor costs. Further, there is a shortage of skilled labor across global economies^(4,5).
- The seasonally adjusted Fastener Distributor Index (FDI) improved for the third consecutive month, reaching 53.0 in March 2024 (versus 50.5 in February). This improvement was more widespread than in recent months. Specifically, 40% of respondents reported sales above seasonal expectations, up from 31% last month and exceeding the 31% average over the past year. Additionally, 47% reported sales in line with expectations (compared to 31% in February), while only 13% reported weaker sales than expected, down from 38% last month and the lowest since March 2022 (6%)⁽⁶⁾.

Figure 5: Industrial Production Index (IPI)⁽³⁾

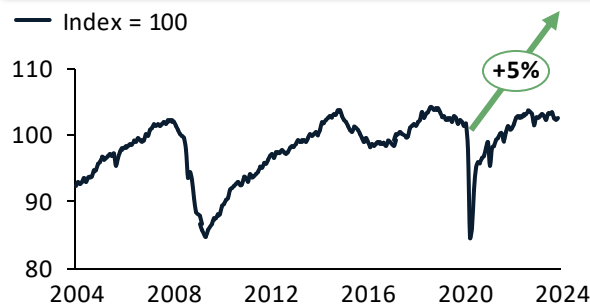


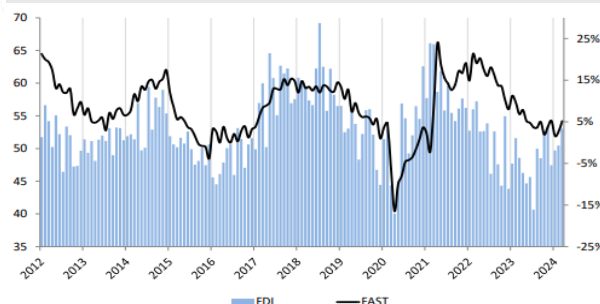
Figure 6: Producer Price Index (PPI)⁽²⁾



Figure 7: Durable Goods Orders⁽³⁾



Figure 8: Fastener Distributor Index^{(6)*}



(1) Source: Federal Reserve

(2) Source: Bureau of Labor Statistics

(3) Source: FRED Economic Data

(4) Source: United States Census Bureau

(5) JP Morgan

(6) RW Baird (* = seasonally adjusted)

MAJOR GROWTH DRIVERS

Recent Growth Drivers^(1,3)

- Economic stimulus packages deployed at the onset of the pandemic gave households access to disposable income in a low interest rate environment.
 - With unprecedented leisure time, consumers took on construction and related home-improvement projects at levels historically thought of as impossible.
- While nonresidential construction values initially took a dive at the onset of the pandemic, corporate profits in 2023 expanded for the first time since the onset of the pandemic in 2020, supporting further expanding fastener demand.
- Recent drivers of industrial distribution growth include the expansion of e-commerce, which has heightened the need for distribution facilities to support last-mile delivery and fulfillment operations.
- Additionally, supply chain resilience efforts, including diversification and reshoring, have increased demand for industrial space for inventory storage and distribution. The adoption of technology, such as automation and AI, is driving efficiency improvements in distribution and leading to increased demand for modern facilities.

YTD 2024⁽⁴⁾

- In 1Q 2024, domestic industrial stocks posted impressive gains, piggybacking on a resilient economy.
- Through March, top performing industrial end markets were waste management, construction, and business services. Lagging end markets include aerospace and defense, transportation and logistics, and conglomerates.
- Following the significant drop-off in public market performance at the onset of the pandemic, the industrial distribution sector has outperformed the broader industrials space. The Industrial Distribution Index has delivered total shareholder returns of 32% since 2020, outperforming the SP500 Industrials index by more than 10%.
- The continued reshoring of manufacturing coupled with potential for interest rate reductions in the latter half of 2024 present further growth runway for industrial operators.

Figure 9: End Market Contributions to Real GDP⁽²⁾

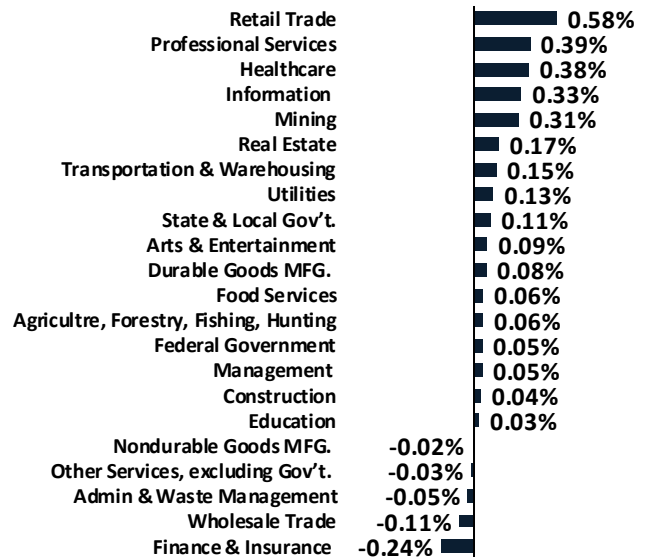


Figure 10: Industrial Fastener PPI⁽³⁾

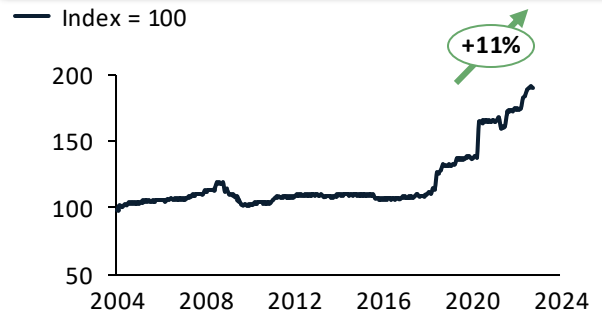
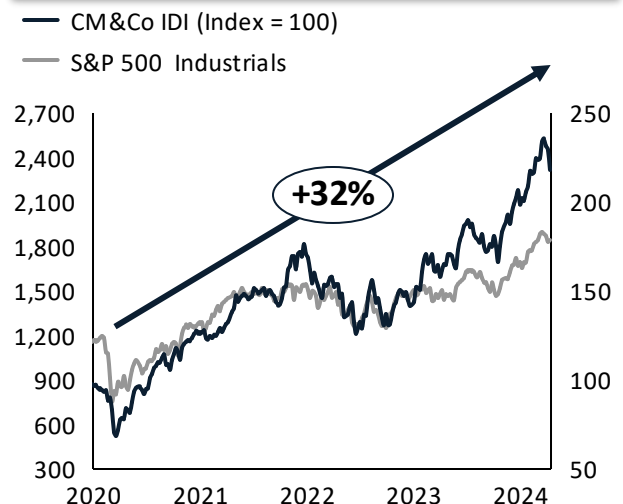


Figure 11: TSR Industrial Distribution Index⁽⁴⁾



(1) IBISWorld

(2) Source: Bureau of Economic Analysis

(3) CM&Co Primary Research

(4) Pitchbook (TSR = Total Shareholder Return)

Private Market Valuations⁽²⁾

- The **Merchant Wholesalers, Durable Goods** sector includes establishments primarily engaged in wholesaling products, such as motor vehicles, furniture, construction materials, machinery and equipment, metals and minerals, recyclable materials, and parts⁽²⁾. This set of data in GF Data is relatively robust, with 366 disclosed deals as reference.
- The **Industrial Supplies Merchant Wholesaler** sector includes companies focused on distribution of supplies for machinery and equipment generally used in manufacturing, oil well, and warehousing activities⁽²⁾. *Note: This set of data in GF Data is fairly thin with 34 disclosed deals.*
- Valuations on completed deals in the fourth quarter of 2023 averaged 7.5x Trailing Twelve Months (TTM) adjusted EBITDA – an increase of 0.2x from the third quarter and well above the 6.7x average from the second quarter. Average multiples for the year slipped to 7.3x compared to an average of 7.6x for both 2022 and 2021. The increased quarterly total brings EBITDA in line with the 7.6x average from the first quarter.
- When considering only the Buyout cohort, the year-over-year decline is even less visible: Buyout deals recorded an average purchase price of 7.3x for all last year, compared to 7.4x in 2022 and 7.5x in 2021.
- Despite the low deal volume, deal valuations improved at the end of the year, particularly for smaller transactions.
 - Deals valued between \$25 million and \$50 million recorded modest improvement in the fourth quarter, increasing by 0.1x on average. The increase marks the third consecutive quarter that this cohort has improved in average valuation.
 - Deals valued over \$50 million recorded significant improvement between the second and fourth quarter of 2023, increasing by an average of 1.6x over the period.
- Finally, in response to a high interest rate environment, the fourth quarter continued to see increased use of rollover equity across all deal sizes. Rollover equity on platform buyouts reached 14.7% at the end of last year, and rollover equity was employed in more than 60% of transactions tracked by GF Data.

Figure 12: Relevant Sector Valuations^(1,2)

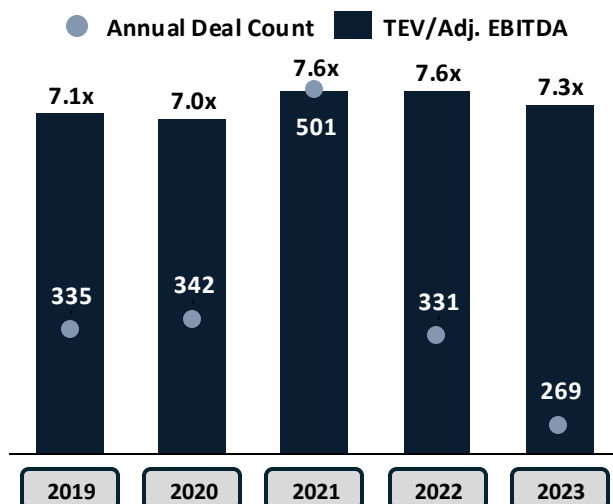
TEV/EBITDA –Wholesalers, Durable Goods⁽¹⁾

TEV*	All Years	2013 to Present	2018 to Present	N =
\$10-\$25M	5.6x	5.8x	5.7x	131
\$25-\$50M	6.3x	6.6x	6.7x	121
\$50-\$250M	7.9x	8.2x	8.6x	114
Total	6.5x	6.8x	6.9x	366
N =	366	237	166	n.a.

TEV/EBITDA – Industrial Supplies Wholesalers⁽¹⁾

TEV*	All Years	2013 to Present	2018 to Present	N =
\$10-\$25M	4.7x	4.8x	4.7x	16
\$25-\$50M	7.2x	7.2x	6.8x	5
\$50-\$250M	8.4x	8.4x	8.5x	13
Total	6.5x	7.1x	7.0x	34
N =	34	23	18	n.a.

Average Multiples and Deal Volume for All Transactions⁽²⁾



(1) Note: GF Data provides data on private equity-sponsored M&A transactions with enterprise values of \$10M to \$500M. The GF Data universe now comprises 4,847 transactions at multiples ranging from 3x to 18x TTM Adjusted EBITDA.

(2) Source: GF Data (* Denotes total enterprise value)

SELECT DISCLOSED STRATEGIC TRANSACTIONS 2017 THROUGH YEAR-TO-DATE⁽¹⁾



Date	Target	Acquirer (Portfolio)	EV ⁽²⁾	EV/EBITDA	EV/ Revenue
3/12/2024	FM Stainless	Hill & Smith (LON: HILS)	\$8.30		0.7x
1/9/2024	Capital Steel Service	Hill & Smith (LON: HILS)	\$7.50	7.5x	1.2x
12/1/2022	Wixroyd Group	Essentra (Industrial Supply & Parts) (LON:ESNT)	\$16.80		1.0x
10/6/2022	H. Paulin and Co	The Hillman Group (NAS: HLMN)	\$102.80	11.6x	0.7x
8/22/2022	Southern Fasteners & Supply	Park Ohio Holdings (NAS: PKOH)	\$18.70		
8/3/2022	Tower Fasteners	All Integrated Solutions	\$33.80		1.0x
7/12/2022	Precision Technology Supplies	Trifast (LON: TRI)	\$11.90	9.6x	1.7x
4/1/2022	Fraser Coast Bolts and Industrial Supplies	Coventry Group (ASX: CYG)	\$2.10	4.6x	1.2x
3/21/2022	TI Midwood & Co.	Bufab (STO: BUFAB)	\$94.70	14.3x	1.0x
9/1/2021	Falcon Fastening Solutions	Trifast (LON: TRI)	\$8.30	6.5x	1.5x
4/1/2021	NYK Component Solutions	Park Ohio Holdings (NAS: PKOH)	\$10.40	8.9x	0.7x
11/6/2019	American Bolt & Screw	Bufab (STO: BUFAB)	\$55.20		2.8x
10/9/2018	KLX Aerospace Solutions	Boeing (NYS: BA)	\$3,290.00	10.6x	1.1x
10/1/2018	Hydrapower Dynamics	Park Ohio Holdings (NAS: PKOH)	\$8.00	8.0x	1.1x
10/3/2017	The Bolt Supply House	Lawson Products Inc. (NAS: LAWS)	\$32.30		1.0x
3/31/2017	Mansco	Fastenal (NAS: FAST)	\$60.40		0.7x
		Median	\$17.7	8.9x	1.0x
		Mean	\$235.1	8.9x	1.2x

(1) Source: Pitchbook

(2) Definition: EV = Enterprise Value (Transaction Purchase Price)

SELECT ACTIVE STRATEGIC BUYERS

GREAT LAKES & MIDWEST REGION⁽¹⁾








Company	Description	Select Acquisitions
 Fairfield, OH	Provider of supply chain management services intended for original equipment manufacturers, defense and medical industries.	<ul style="list-style-type: none"> • Fast bolt Corporation • Chicago Industrial Fasteners • White Distribution & Supply
 Franksville, IN	Distributor of industrial fasteners and components intended to help manufacturing operations run with incredible efficiency. The company offers bits, bolts, sealants, hardware, components, and complete VMI programs.	<ul style="list-style-type: none"> • Tower Fasteners • Great Lakes Fasteners • Williams Fastener & Supply
 Rocky River, OH	Manufacturer and distributor of industrial products. The company's product offering includes screws, bolts, lock nuts, clips, clamps, and plugs and it also offers custom fastener conversion and traditional secondary machining services.	<ul style="list-style-type: none"> • T.W. International • National Threaded Fasteners
 Winona, MN	Fastenal operates a global network of in-market locations selling products such as threaded fasteners, bolts, nuts, screws, studs, and related washers.	<ul style="list-style-type: none"> • Spensall Precision Machining • Mansco • Cardinal Fastener
 Machesney Park, IL	Field Fastener Supply is engaged in providing fasteners, class "C" commodities, logistic services and technical support.	<ul style="list-style-type: none"> • Mid-State Nut & Bolt Company
 Wooddale, IL	Manufacturer of fasteners and c-class components for the automotive, medical, power generation, transportation and semiconductors industries.	<ul style="list-style-type: none"> • Circle Bolt 7 Nut • Barton Coldform
 Brillion, WI	Distributor of fasteners and related components intended for industrial original equipment manufacturers worldwide.	<ul style="list-style-type: none"> • Les Attaches Viscan • Alliance Nut & Bolt • Old Dominion Fasteners

(1) Source: Pitchbook

SELECT ACTIVE STRATEGIC BUYERS

(GREAT LAKES & MIDWEST REGION)⁽¹⁾



Company	Description	Select Acquisitions
 Lake Forest, IL	WW Grainger, Inc. is a diversified company principally engaged in the supply and distribution of MRO (maintenance, repair and operating) supplies and services on a global scale.	<ul style="list-style-type: none"> • Cromwell (Distributors) • WFS Enterprises
 Chicago, IL	Distribution Solutions Group Inc is an industrial distributor of maintenance and repair supplies. It has three operating segments namely Lawson, TestEquity, and Gexpro Services, of which key revenue is derived from the TestEquity segment.	<ul style="list-style-type: none"> • Head & Threads International • Bolt Supply House • Mattic Industries
 Westfield, IN	Distributor of pneumatic tools, compressors and fasteners intended for manufacturing, furniture, automotive, and other industries.	<ul style="list-style-type: none"> • Air-O Fasteners • Active Sales Co. • R.V. Evans • BlackHawk Industrial Distribution
 Hazel Park, MI	Distributor of fasteners and related products intended for the automotive, trucking, defense, construction and automation tooling industries.	<ul style="list-style-type: none"> • Quality Fastener and Supply • Smith Fastener • EMCO (Charlotte)
 Cleveland, OH	Industrial supply chain logistics and diversified manufacturing business. It operates in three business segments namely Supply Technologies, Assembly Components and Engineered Products.	<ul style="list-style-type: none"> • Southern Fasteners & Supply • NYK Component Solutions • Canton Drop Forge • Supply Technologies







Above list represents select strategic buyers demonstrating robust acquisition activity

(1) Source: Pitchbook

SELECT ACTIVE FINANCIAL BUYERS

GREAT LAKES & MIDWEST REGION⁽¹⁾



Company	Description	Select Acquisitions
 Boston, MA	The firm seeks to invest in healthcare, technology, business and financial services, consumer and services, industrial, retail, consumer & leisure, and technology sectors.	<ul style="list-style-type: none"> • Rubix Group International • TAR Csavar Csapagy
 Paris, France	Ardian is a private equity firm than prefers to invest in Europe and North America-based companies operating in the engineering, logistics & automation, industrial technologies, and software sectors, among others.	<ul style="list-style-type: none"> • Hi-Q Fasteners • Lindstrom Meric
 Boston, MA	Audax Private Equity is a private equity that seeks investments in companies operating in business services, consumer, financial services, healthcare, industrial services and technology sectors across the US & Canada.	<ul style="list-style-type: none"> • Metallics • All Size Supply Co. • FDH Aero
 Foster City, CA	Private equity investment firm focused on investing in industrial, manufacturing, business services, and consumer sectors within the United States.	<ul style="list-style-type: none"> • Fasco Fasteners & Supply • Motor City Industrial • Southwest Fasteners
 Stamford, CT	Private equity firm focused the global energy sector, spanning the energy spectrum from upstream oil and gas to midstream and downstream, including resources, equipment and services, and associated infrastructure.	<ul style="list-style-type: none"> • Nibscos Supply • Lamons
 Cleveland, OH	The firm focuses on lower middle market leveraged buyouts, recapitalizations, and build-up investments with entrepreneur- and family-owned businesses in the manufacturing, commercial, and industrial services sectors.	<ul style="list-style-type: none"> • Mid-States Bolt 7 Screw

Above list represents select financial buyers demonstrating robust acquisition activity

(1) Source: Pitchbook

Carleton McKenna Overview

Carleton McKenna & Co is an independent investment banking firm providing M&A and Capital Raising advisory services. We work with middle-market closely-held family businesses, multi-generational family businesses, portfolio companies of financial sponsor firms and divisions or subsidiaries of public companies focusing in Specialty Manufacturing, Consumer Products, B2B Services, and Healthcare.

Our Team is made up of finance and accounting experts, entrepreneurs and operators, C-Suite and Board professionals, lawyers, consultants and marketing professionals. These diverse experiences and skills drive extraordinary results for our clients.

We believe businesses are the economic engine of our society, and that business owners deserve and require a proactive advocate to maximize life changing transactions.

Middle Market M&A and Capital Raising Sectors

- Business-to-Business Services
- Specialty Manufacturing & Industrials
- Consumer Products
- Healthcare

Specialty Manufacturing & Industrials Professionals



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