



INTRODUCTION

The emergence and rapid global spread of COVID-19 has triggered substantial disruption to the economy and financial markets. With widespread government stay-at-home orders and shutdowns of non-essential businesses, both global and domestic trade have been delivered a shock. It is clear all industrial subsegments will be impacted to some extent but based on end-market exposure some markets may be more resilient or experience a lesser impact while others may face a longer-term return to pre-COVID normalcy.

Through discussions with business owners and investors as well as ongoing research, Meridian Capital's Diversified Industrials team is actively tracking the impacts of COVID-19 on various subsegments within diversified industrials. In the Spring 2020 Diversified Industrials Spotlight, we are profiling the personal protective equipment ("PPE") and value-added distribution segments. Volatile demand, variable logistics, and stressed supply chains present unique challenges for these industries that are critical in providing essential goods to both consumers and front-line workers. Companies that successfully navigate these challenges will be well positioned to capture market share and capitalize on likely consolidation strategies over the next 6-24 months.

WHAT WE'RE READING

Manufacturers' Survey Reveals Current Industry Impact of COVID-19, *National Association of Manufacturers*

Takeaway: Manufacturers across the United States are seeing direct supply chain impacts due to COVID-19, resulting in extra costs, longer lead times, and a shift into emergency response mode

COVID-19: What It Means for Industrial Manufacturing, *PWC*

Takeaway: Industrial manufacturers are concerned over economic impacts but "Safeguarding consumer and workforce health is priority number-one among businesses"

COVID-19: Distributors Take Hit in Late March, Move to Weather Q2, *mdm.com*

Takeaway: With uncertainty surrounding COVID-19 remaining, distributors are seeking "a foothold from which to build a plan for business moving forward in this new reality"

A 100x Surge in Demand: The PPE Supply Chain Tries to Cope With COVID-19, *GEP*

Takeaway: PPE has seen an unprecedented spike in demand, requiring players to massively scale production and bolster supply chains via real-time tech-enabled systems

Impact Of COVID-19 On Global Supply Chains and Opportunities In the Post-COVID World, *Entrepreneur*

Takeaway: While COVID-19 is shaking supply chains in the short-term, the pandemic could accelerate digital transformation initiatives for distributors strengthening supply chains in the long-term



Market Impacts of COVID-19 – PPE and Value-Added Distribution

Unprecedented Demand for Personal Protective Equipment



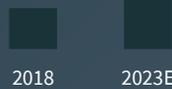
- Government initiatives such as the Defense Production Act have been implemented to divert resources to support increased production levels
- Non-traditional PPE manufacturers have begun allocating resources to manufacture PPE in order to better support global demand

PPE Industry Trends By the Numbers ¹



16%
CAGR 2019-2023

\$2.5B Incremental Growth



36%
Growth Coming From North America

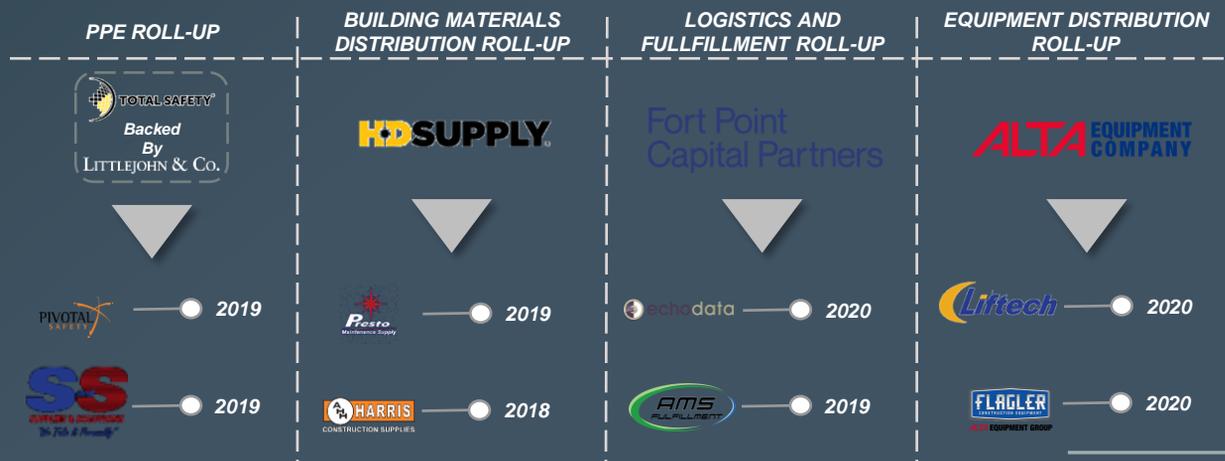
1. Technavio, Global Smart Personal Protective Equipment Report

Increased Reliance on Value-Added Distribution in Select End-Markets



- Level of impact is highly variable by end-market based on regulations and demand
- Grocery and essential commodities have realized large spikes from stocking / panic buys while traditional retail and foodservice distribution had been negatively impacted from shelter in place orders; stocking / panic buy demand has begun to normalize
- Supply chain, transportation, and logistical challenges have led to an increased reliance on value-add distribution partners
- Increasing use of e-commerce is further driving the demand for established and optimized distribution networks

Recent Consolidation Strategies Expected to Continue and Accelerate





Recent PPE and Value-Added Distribution Transactions

PPE

Date	Target	Buyer	Description
Feb-20	ArcOne Inc.	ONCAP, Onex, Walter Surface Technologies	Manufacturer of industrial safety products based in Taunton, Massachusetts.
Dec-19	Boss Canada, Inc.	Audax Group, Protective Industrial Products	Distributor of personal protection equipment.
Jul-19	DSI Safety Inc.	Audax Group, Protective Industrial Products	Manufacturer of personal protective equipment in Canada.
Feb-19	Liberty Glove & Safety, Inc.	Bunzl	Manufacturer of personal protection equipment, principally gloves, based in the city of Industry, California.
Dec-18	Kimberly-Clark (Wilson Brand)	SureWerx, The Riverside Company	Brand of personal protective equipment (PPE) products for the industrial sector.
Nov-18	Ontario Glove & Safety Inc	Delta Plus Group	Manufacturer and designer of full line of personal protective products.
Mar-18	Gloves, Inc.	Xeros	Provider of PPE cleaning and repair services in Austell.

Value-Added Distribution

Date	Target	Buyer	Description
Apr-20	H&R Construction Parts and Equipment, Inc.	All States Ag Parts, Kinderhook Industries	Distributor of new and used heavy equipment parts, headquartered in Buffalo, New York.
Apr-20	Performance Team, LLC	A.P. Møller-Mærsk	Provider of transportation and logistics services.
Mar-20	Summit Food Service Distributors Inc.	Flanagan Foodservice	Distributor of food products serving Ontario and Western Quebec.
Mar-20	Foothills Industrial Ltd	Wall, C R and Co	Provider of gas delivery products based in Calgary, Canada.
Mar-20	Gateway Distribution, Inc.	Brixey & Meyer Capital	Provider of distribution services.
Mar-20	Saccani Distributing Co.	Reyes Holdings	Distributor of alcoholic and non-alcoholic beverages based in Sacramento, California.
Feb-20	Liftech Equipment Companies, Inc.	Alta Equipment Company	Distributor of industrial machinery based in New York.

Select PPE and Value-Added Distribution Public Comps

Value-Added Distribution Company Name	Market Cap	Enterprise Value	Revenue LTM	Share Price Δ% Since COVID-19	EBITDA LTM	EV / Revenue	EV / EBITDA
Sysco Corporation	27,927	36,989	60,461	18.63%	3,313	0.6x	11.2x
Fastenal Company	21,106	21,644	5,391	8.42%	1,218	4.0x	17.8x
AmerisourceBergen Corporation	18,691	19,741	182,061	-0.52%	1,382	0.1x	14.3x
LKQ Corporation	7,006	11,948	12,506	-3.65%	1,211	1.0x	9.9x
Arrow Electronics, Inc.	4,619	7,345	28,917	4.12%	282	0.3x	26.1x
HD Supply, Inc.	4,599	7,104	6,146	-6.15%	836	1.2x	8.5x
Median	\$12,848	\$15,845	\$20,711	1.80%	\$1,215	0.8x	12.7x
Average	\$13,991	\$17,462	\$49,247	3.47%	\$1,374	1.2x	14.6x

PPE Company Name	Market Cap	Enterprise Value	Revenue LTM	Share Price Δ% Since COVID-19	EBITDA LTM	EV / Revenue	EV / EBITDA
The 3M Company	88,389	107,279	32,136	11.24%	7,673	3.3x	14.0x
E. I. du Pont de Nemours and Co.	32,155	48,631	21,512	25.09%	3,334	2.3x	14.6x
MSA Safety, Inc.	3,875	4,074	1,402	-10.72%	231	2.9x	17.6x
UniFirst Corporation	3,139	2,789	1,863	-0.05%	325	1.5x	8.6x
Avon Rubber p.l.c.	1,047	988	229	23.04%	38	4.3x	26.2x
Lakeland Industries, Inc.	120	109	108	-13.68%	8	1.0x	14.5x
Median	\$3,507	\$3,431	\$1,633	5.6%	\$278	2.6x	14.5x
Average	\$21,454	\$27,311	\$9,542	5.8%	\$1,935	2.6x	15.9x



Components of a Proactive Response Strategy

Because every business will be impacted in a unique way, the timing of the phases will vary for each company. Meridian's services can help support short-term as well as mid-to long-term strategies

	Phase I Business Assessment and Triage	Phase II Strategy Development	Phase III Strategy Execution
Phase Goals	<ul style="list-style-type: none"> Survive and prepare for eventual return to normal operations Respond to acute business risks as quickly as possible 	<ul style="list-style-type: none"> Develop strategy for business success over mid- to long-term Assess needs and reallocate resources as appropriate 	<ul style="list-style-type: none"> Push forward on identified initiatives Defend and improve competitive position Position business for long-term success and value creation
Key Factors that Shape Strategy	<ul style="list-style-type: none"> Severity and urgency of business impact Cash position and management; access to capital 	<ul style="list-style-type: none"> Strengths and weaknesses of business Competitive landscape and relative strength of competitors People and capabilities Resources on-hand as well as those that can be obtained 	<ul style="list-style-type: none"> People and capabilities Capital requirements and access to capital Company value drivers
Potential Courses of Action	<ul style="list-style-type: none"> Meet immediate liquidity needs with an accelerated financing process Take action to maintain balance sheet health 	<ul style="list-style-type: none"> Consider a recapitalization as a defensive or offensive strategy Opportunistically pursue organic and inorganic mid- to long-term growth strategies 	<ul style="list-style-type: none"> Continue to execute on organic and inorganic growth opportunities Position your business for a successful exit

Short-Term

Long-Term

DIVERSIFIED INDUSTRIALS



MERIDIAN CAPITAL INVESTMENT BANKERS

Meridian Capital has been helping middle market business owners achieve their M&A and corporate finance goals since 1995.

DIVERSIFIED INDUSTRIALS INDUSTRY EXPERIENCE

Meridian's diversified industrials practice offers access to industry-wide strategic and financial partner relationships, deep sector expertise, and proven transaction experience to help maximize shareholder value.

TRANSACTION EXPERTISE

- Mergers & Acquisitions
- Growth Capital
- Strategic Advisory

TAILORED PROCESSES

- High-Touch Approach
- Multidisciplinary Deal Team
- End-to-End Services

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About Meridian Capital

Meridian Capital (www.meridianllc.com), a Seattle-based M&A advisory firm, has served as a trusted advisor to business owners on complex corporate finance, M&A, and strategic challenges for over 20 years. The firm differentiates itself through its deep industry insights, highly customized service approach, and end-to-end commitment to execution.

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