

# MODERN DISTRIBUTION MANAGEMENT

The Newsletter for the Wholesale Distribution Channel

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■ MDM Interview

## New Firm Invests in Distribution

### *Distribution vets form Supply Chain Equity Partners*

*Sensing a need for outside investors with a firm grasp of distribution businesses, a group of industry veterans, as well as consultants Adam Fein and Brent Grover, has formed the first private equity firm that will invest exclusively in distribution companies. The goal is to use the principals' and investors' experience, expertise and networks in the industry to help management maximize the growth and profitability of portfolio companies, says principal Jim Miller.*

**MDM:** Where did you come up with the concept for Supply Chain Equity Partners?

**Jim Miller:** The idea actually came from the distribution industry itself. Supply Chain Equity was created to fill a void in the distribution sector that was expressed by distribution-company owners. A couple of years ago, I spoke to the distribution executives at NAW's Executive Summit about the "influx of private equity capital into the distribution sector."

The point of my presentation was to illustrate to distribution-company owners that another option besides selling to a strategic buyer existed in the market. As your readers know, selling to a competitor is often not a palatable alternative to distribution owners for a number of reasons. Following the presentation, several distribution-company owners approached me and expressed their frustration in dealing with traditional private equity funds – namely, that most of these funds knew nothing about distribution. So, one of the owners finally says, "You've sold a number of distribution companies. Go raise a pool of capital from those folks."

We would be interested in partnering with someone who really knows distribution and can help us increase the value of the company over time." Much easier said than done. We spent the past year round-

ing up investors, and currently have over two dozen distribution veterans as investors.

**MDM:** Why distribution?

**JM:** The short answer is that distribution is what we know, and what most of our investors know best. One of my partners, Jay Greyson, and I spent much of the past decade working with distribution companies, or private equity firms seeking to invest in distribution companies, in a financial advisory capacity. Our investors have spent most of their lives in distribution. And Jay has developed and managed two large multi-channel North American distribution and sales organizations.

We believed in distribution 10 years ago when the Internet was supposedly going to wipe out the sector and/or all distributors were going to be disintermediated, and we continue to believe in the sector today. Actually, we probably have a greater faith in the sector today, as distributors increasingly perform those services for their vendors and customers that those vendors and customers cannot do efficiently or at all, or will not do for themselves. The best distributors have become increasingly important to the supply chain.

**MDM:** What can Supply Chain Equity do that other funds cannot?

**JM:** It is too broad a statement to say that no other fund can create any value for the distributor. There are a few good funds out there that know distribution. Unfortunately for most distributors, the vast majority of those funds are the mega-funds that focus on \$200 million-and-up deal sizes. 95 percent of the distributors in the U.S. are

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More information on Supply Chain Equity Partners can be found at [www.supplychainequity.com](http://www.supplychainequity.com).

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not appealing to such funds due to minimum investment requirements. That being said, we do believe that Supply Chain Equity can create more value for more distributors seeking a partner than any other private equity fund.

The simple reason is that we and our investors have already done it – many of our investors are former owners themselves, who built world-class distribution companies. We also have some of the leading consultants and advisors to the distribution sector as investors, including NAW Institute for Distribution Excellence fellows Adam Fein and Brent Grover. They are all eager to share their experience with our portfolio companies to help them grow.

It's also important to note that we will waste less of a distribution-company owner's time educating us about their business – another point of frustration expressed by distribution-company owners. Due to our strict focus and experience in distribution, management will spend a fraction of their time educating us about their company and the bulk of their time working with us on the key aspects of growing a leading distribution business.

**MDM:** Do you make only controlling investments?

**JM:** We do not need to acquire a control position in a distribution company. We prefer it, but don't have to have it. We'll even consider co-investing with another private equity fund, if we can get comfortable that the other fund plus SCE makes the optimal partner for the business. We

have two critical investment criteria: That the distributor is, or can become, a vital link in the supply chain; and that management is excited about partnering with SCE to take the business to the next level.

**MDM:** With a potential economic downturn on the way, and news of a credit crunch, is now the right time to launch this fund?

**JM:** Actually, we believe that the timing is almost ideal for Supply Chain Equity to launch. We are long-term investors and comfortable with the cyclical nature of certain sub-sectors of the distribution industry. Some of the best distributors in the world serve cyclical markets, and use the downturns to streamline and fortify their businesses and market positions. And not all sub-sectors of distribution are subject to the same cycles.

Finally, we've always been strong proponents of more conservative capital structures. A big reason behind the huge prices over the past few years was the overabundance of debt financing available in the market. The debt markets have rationalized and the resultant prices are rationalizing.

Given the turbulent economy and the rationalization of the debt markets and current valuations, more so than at any time in the past few years, we believe the key distinguishing factor for distributors in choosing their partner going forward will be the value-added nature of that partner. Given those dynamics, we chose now to launch Supply Chain Equity.

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