



WHOLESALE TRADE IN THE US

TRADE OFF: Rising oil and steel prices will likely support industry growth moving forward.
Dmitry Diment | August 2022

Information provided by IBIS World. directly to Dan Altom of SCA Advisors.
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ABOUT SCA ADVISORS

**Selling Your Business with Purpose Driven Experience.
Founded in 1996 and selling businesses in Texas ever since.**

SCA Advisors is a leading M&A Advisory firm founded in 1996 with headquarters in Houston, Texas. SCA Advisors serves private company business owners in M&A advisory, exit plan, business valuations, preparing your business to sell and business sales. SCA Advisors has extensive experience managing transactions with strategic buyers, private equity, publicly traded and international companies.

ABOUT THIS INDUSTRY

INDUSTRY DEFINITION

The Wholesale Trade sector is an intermediary step in the supply chain process. Companies in the sector distribute goods from agriculture, mining, manufacturing and information industries to downstream markets, typically without any transformation.

MAJOR PLAYERS

- Mckesson
- Amerisourcebergen
- Cardinal Health
- Sysco
- Ford Motor Co
- General Motors Company

MAIN ACTIVITIES

The primary activities of this industry are:

- Wholesale of durable goods (motor vehicles, furniture, computers and hardware)
- Wholesale of nondurable goods (drugs, apparel, groceries and beverages)
- Wholesale trade, agents, brokers and electronic markets

The major products and services in this industry are:

- Durable goods
- Nondurable goods
- Wholesale trade agents and brokers

TRADE OFF:

RISING OIL AND STEEL PRICES WILL

LIKELY SUPPORT INDUSTRY GROWTH

MOVING FORWARD.

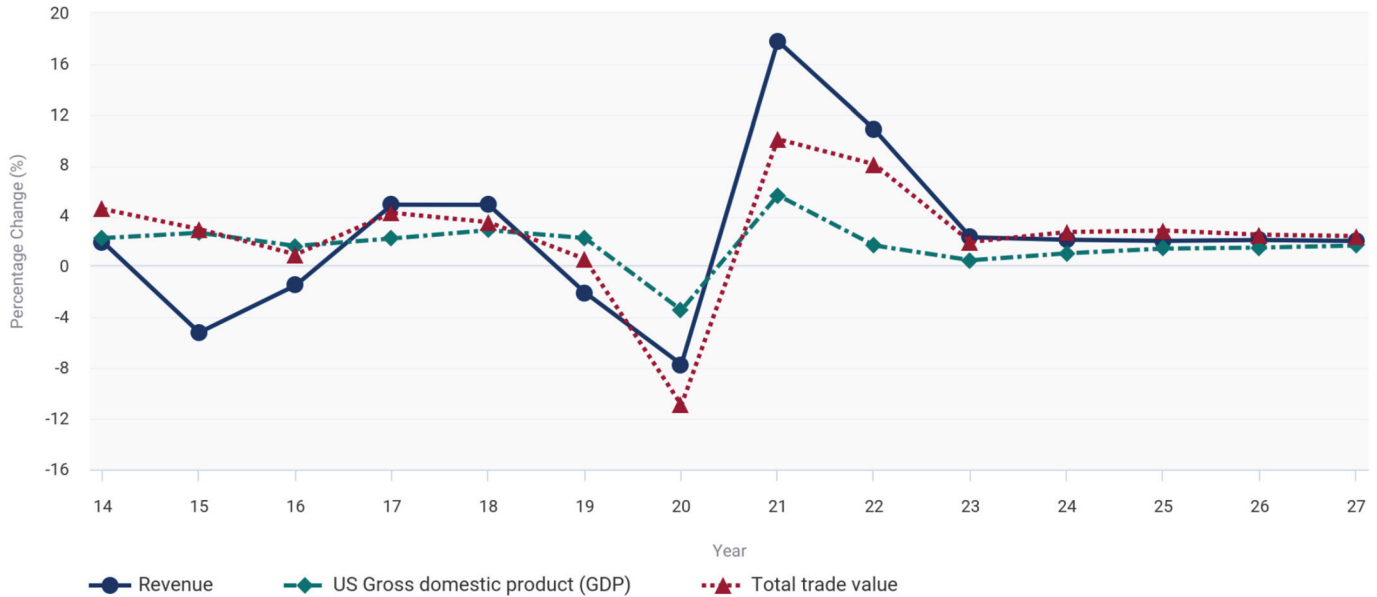
The Wholesale Trade sector distributes goods from across the economy to downstream markets. Over the five years to 2022, the sector has grown relatively steadily, with revenue rising substantially until 2019. Over the past five years, the sector has benefited from demand for goods from the Retail Trade sector (IBISWorld report 44-45) on account of greater consumer spending, which has been driven by a rise in disposable income and confidence in the economy. Likewise, the sector has benefited from the steady flow of goods being traded with the United States, necessitating their distribution. However, the COVID-19 (coronavirus) pandemic wreaked havoc on the economy, with US GDP growth declining 3.4% in 2020, the worst year since the conclusion of World War II. Sector revenue contracted 7.7% in 2020 as a result.

Many industries across the sector are dependent on commodity prices and have also been negatively affected by falling prices over the past five years, hindering the sector's expansion. Most notably, the world price of crude oil collapsed, with prices declining 32.8% in 2020 alone. Consequently, the petroleum and petroleum products wholesale subsector has experienced low prices, contributing to revenue declines across the sector between 2019 and 2020. However, the world price of crude oil skyrocketed in 2021, increasing 67.3% that year alone and resulting in revenue growing 17.8% as well. With global oil prices rising an additional 54.7% in 2022 and inflation pushing commodity prices upward, sector revenue is forecast to increase 10.9% in 2022 alone. Consequently, sector revenue is expected to rise an annualized 4.4% to \$11.4 trillion over the five years to 2022.

Over the five years to 2027, revenue is expected to rebound. In addition to recovering downstream demand from retailers and businesses, commodity-driven wholesalers are expected to experience a reversal of fortunes as the prices of oil and steel rise. Consequently, sector revenue is projected to grow at an annualized rate of 2.1% to \$12.7 trillion over the five years to 2027. Sector profit is also expected to recover much of the value that was lost in 2020 moving forward.

INDUSTRY PERFORMANCE

Key External Drivers 2014-2027



KEY EXTERNAL DRIVERS

US Gross domestic product (GDP)

The performance of the US economy has a significant effect on demand for exports in addition to price and demand for imports. For example, during periods of weak economic growth, retail spending is modest, which negatively affects demand for goods at the wholesale level. The performance of a country's dollar against its major trading partners also affects demand for internationally imported goods. In 2022, US GDP is expected to rise substantially, representing a potential opportunity for the sector.

Total trade value

Sector performance is influenced by total trade value. For example, a decline in imports of merchandise into the United States negatively affects the revenue of wholesalers as a result of reduced business. Despite the broad economic decline as a result of the COVID-19 (coronavirus) pandemic, total trade value is expected to recover in 2022.

INDUSTRY PERFORMANCE

Per capita disposable income

Per capita disposable income represents an individual's ability to purchase goods or services. This is an important driver of industry demand due to the industry's reliance on homeowners for upgrades, renovations and maintenance activity. Therefore, operators benefit from increases in per capita disposable income because consumers have more income to spend on housing renovations and additions. Per capita disposable income is expected to increase in 2021 directly resulting from government stimulus in response to the COVID-19 (coronavirus) pandemic.

Private spending on home improvements

Private spending on home improvements includes investment by homeowners and residential building owners on property upgrades and maintenance, such as the repair and installation of HVAC equipment. Since heating and air-conditioning is typically considered essential to a household's quality of life, the maintenance of working HVAC systems is more resistant to economic downturns than other types of home improvement activities. Private spending on home improvements is forecast to rise in 2021.

30-year conventional mortgage rate

The 30-year conventional mortgage rate measures the average interest rate for the most common loan home purchasers use. As the 30-year conventional mortgage rate increases, so does the borrowing cost associated with buying a home. In 2021, the 30-year conventional mortgage rate is expected to rise.

Value of residential construction

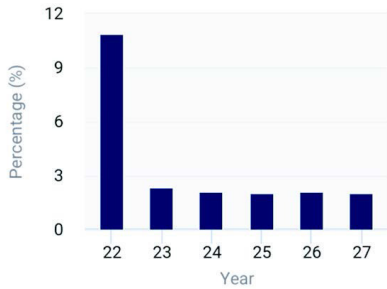
The value of residential construction consists of construction for new residential buildings. As the value of residential construction increases, demand for industry services increases in tandem. In 2021, the value of residential construction is expected to rise sharply.

OUTLOOK

Over the five years to 2027, the Wholesale Trade sector is expected to rebound from the unprecedented challenges posed by the COVID-19 (coronavirus) pandemic, as growth in the domestic economy and strong commodity prices are expected to drive demand for goods.

In particular, sector revenue growth is expected to continue based on inflationary pressures, although efforts to counteract inflation by the Federal Reserve have the potential to impede economic expansion. Still, sector revenue is expected to increase at an annualized rate of 2.1% to \$12.7 trillion over the five years to 2027. Nonetheless, sector growth is expected to largely depend on the ability of the government to take additional steps to stabilize the economy without inducing a downturn. Although the sector's largest players are expected to consolidate their position through further acquisitions, recovering sector profit is expected to encourage new entrants across various wholesale industries.

Industry Outlook
2022-2027



RETAIL AND BUSINESS RECOVERY

Retail demand is expected to recover over the next five years, driven by rebounding employment projections and increasing disposable income.

Per capita disposable income is projected to increase at an annualized rate of 0.8% over the five years to 2027, enabling consumers to purchase discretionary goods and premium products. While the national unemployment rate skyrocketed in 2020, it is expected to continue recovering over the next five years as nonessential businesses reopen and employment returns to growth. Consequently, the Retail Trade sector (IBISWorld report 44-45) is expected to experience growth over the five years to 2027, stimulating growth for many of the Wholesale Trade sector's durable and nondurable goods. In addition to rising demand from the Retail Trade sector, the Wholesale Trade sector is expected to experience demand from across other segments of the economy. Indicative of the strong flow of goods trade with the United States, total trade value is expected to increase at an annualized rate of 2.9% over the five years to 2027. With the number of businesses expected to continue rising, demand for wholesaling will likely be underpinned by growth from the Construction sector (23), Healthcare and Social Assistance sector (62) and the

Manufacturing sector (31-33) returning to growth.

REBOUNDED OIL PRICES

The outlook period is expected to experience the continuation of high commodity prices, benefiting a wide range of wholesalers that have been directly and indirectly affected by the pandemic.

For example, the world price of crude oil surged in 2021 and 2022, and is forecast to remain elevated relative to lows of the five years to 2022, with its recovery is essential to the petroleum wholesaling subsector. Over the five years to 2027, the Gasoline and Petroleum Bulk Stations industry (42471) and the Gasoline and Petroleum Wholesaling industry (42472) are expected to grow.

SECTOR LANDSCAPE

The Wholesale Trade sector is expected to recover over the next five years.

While the number of sector establishments is projected to rise at an annualized rate of 0.9% to 858,007 locations over the five years to 2027, many sector companies will likely seek to expand in scale. Specifically, many of the sector's small- and medium-sized wholesalers will likely seek to expand the scale of their operations, as indicated by rising revenue per employee and revenue per establishment figures across the sector. In doing so, small and medium-sized wholesalers will likely be better able to invest in costly technologies that enable them to automate inventory control and reduce their reliance on labor. While sector employment is expected to increase at an annualized rate of 1.6% to 7.7 million workers over the five years to 2027, wages' share of revenue will likely be stable during the same period. Sector profit is expected to continue growing over the next five years, although it is not expected to expand significantly. Consumers and companies are anticipated to invest in systems that will likely either lower or smooth out



INDUSTRY OUTLOOK

SECTOR LANDSCAPE

(continued)

volatility in monthly costs, such as energy payments. Heating and air-conditioning system manufacturers will likely capitalize on this development, and on widespread concerns about energy efficiency and environmental stewardship. According to 2016 data from Contracting Business (latest data available), a leading industry publication, adding variable-speed technology to new home HVAC systems can yield an increase of between four and five SEER points because it can reduce a system's environmental footprint by up to 40.0% (latest data available).

MARKET SHARE CONCENTRATION**Concentration in this industry is LOW**

The Wholesale Trade sector is highly fragmented due to its vast size. As a result, the sector has a low market share concentration, with the four largest companies expected to account for less than 10.0% of sector revenue in 2022. This figure has increased moderately over the current five-year period. According to Sunbelt Texas estimates, the four largest wholesalers in the sector accounted for a similar share of the industry five years prior. However, there is significant variation across individual wholesaling industries. For example, the Drug, Cosmetic and Toiletry Wholesaling industry (IBISWorld report 42421) has a medium level of market share concentration, with companies such as McKesson Corporation (McKesson), AmerisourceBergen Corporation (AmerisourceBergen) and Cardinal Health Inc. (Cardinal Health) expected to command more than 50.0% of the market in 2021. In contrast, most wholesaling industries that distribute indistinguishable products are characterized by a low level of market share concentration. This is demonstrated in the Fruit and Vegetable Wholesaling industry (42448), which has no major players, resulting in low market share concentration.

SCA Advisors identifies 250 Key Success Factors for a business. The most important for this industry are continued on the following page:

COMPETITIVE LANDSCAPE

KEY SUCCESS FACTORS

Ability to control stock on hand:

Wholesalers must have sufficient stock and ensure that they are not overstocked during periods of economic slowdown.

Upstream vertical integration (ownership links):

Many of the largest players within the sector are vertically integrated manufacturers and wholesale. To be successful, companies need to have control over their costs and product design, which comes from being vertically integrated.

Having contacts within key markets:

Wholesalers must have strong relationships with retailers, as they have some influence over the marketing of their product.

Guaranteed supply of key inputs:

Access to, or contracts with, reliable manufacturers and importers are key to the success of operators across the sector.

Having an extensive distribution/collection network:

Strong distribution networks minimize distribution costs and maximize market penetration.

Ability to pass on cost increases:

Commodity prices fluctuate drastically, so it is imperative for distributors affected by raw resource prices to be able to pass on any cost increases over the medium to long-term to ensure profitability.

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