

■ MDM-Baird Distribution Survey

Distributors Prepared to Combat Slower Growth in First Half of 2020

Company leaders expect to overhaul sales strategies, explore new markets and onboard fresh talent in the coming year

Distributors posted aggregate revenue growth (excluding acquisitions) of 0.8% during the fourth quarter of 2019 — below the 1.9% growth originally forecasted for the quarter, according to the latest Baird Industrial Distribution Survey, conducted in partnership with MDM. Growth decelerated 160 basis points versus the previous quarter, continuing the recent trend of sequentially moderating growth. So, what are distributors going to do about it?

By Bridget McCrea

More than 500 respondents representing a collective \$100 billion in annual revenues responded to the quarterly survey. When

asked what are their biggest business challenges they expect to face in the first six months of the year, many mentioned a stagnant market, economic uncertainty and slow sales growth. But they also discussed creating aggressive sales plans, upgrading online sales portals and increasing efforts overseas.

At least three-quarters of respondents are making changes to their sales process in three key areas over the next year:

- upping their digital marketing efforts (75%),
- productivity innovation (78%)

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INSIDE

**Commentary:
2020 Outlook and Emerging Trends to Watch**

While it's too early to call January, this year appears to be starting off on a more optimistic foot.

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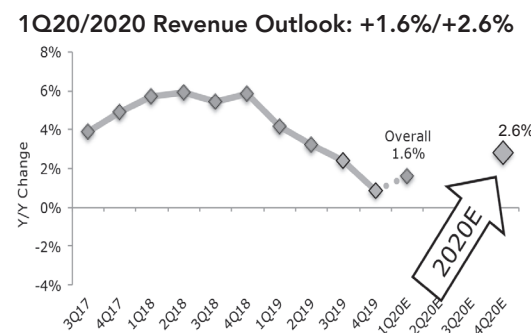
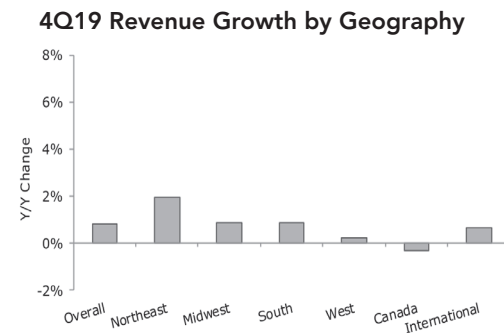
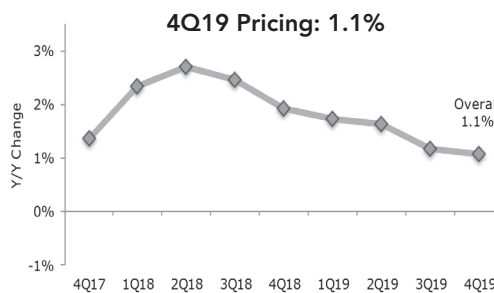
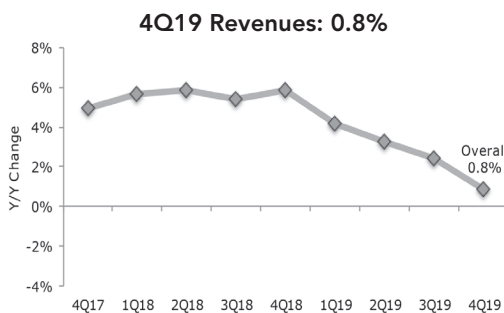
Fourth Quarter & Annual 2019 Pricing Trends Report

MDM's quarterly & annual look at inflation trends for dozens of product groups.

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4Q2019 Financial Metrics & Trading Multiples

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2020 Outlook and Emerging Trends to Watch

I haven't talked with a distribution executive in January – in Europe or North America – who had a good thing to say about the last two weeks of business in 2019. The likely culprit was having Christmas and New Year's holidays fall mid-week; customers, employees and revenues took time off. Manufacturing employment declined slightly in December as well but changed little in 2019 after growth the year before.

And while it's too early to call January, this year appears to be starting off on a more optimistic foot — from both the latest economic data as well as industry sentiment. In our recent [2020 Annual Distribution Outlook webcast](#), Baird Senior Research Analyst Dave Manthey offered a more optimistic picture than a year ago across industrial and construction sectors, as well as the broader economy. Summary: The odds of a recession are going down, while leading indicators and industry sentiment point to modest growth for 2020 overall.

But tariffs and pricing are continuing concerns, based on the fourth quarter 2019 survey MDM has partnered with Baird on for more than 10 years now, and recapped in our lead report in this issue. This survey is the strongest set of indicators for industrial distribution sectors for both quantitative and qualitative feedback from more than 500 distribution executives representing more than \$100 billion in revenues. It provides valuable insight on pricing trends, key macroeconomic trending and more specific construction and industrial market trending.

In our webcast, Manthey noted that weakness in industrial product categories has been expanding beyond heavy durable goods manufacturing into broader commercial manufacturing sectors. He added that there may be some inventory de-stocking taking place in response to the weakness appearing across the board now. But overall, his analysis was positive for strengthening market conditions as we move through the year.

Key 2020 Theme: Talent

We also discussed emerging trends in this webcast, which we boil down from this quarterly survey and our ongoing research through the year. There are a number of crosscurrents that continue to grow. The industry is maturing as distributors develop digital and analytics capability as leaders reshape and transform their companies to more data-driven organizations.

The real differentiators in 2020 are in the talent arena. This is not a new trend, but every organization is challenged to stay ahead of the accelerating shifts in the workforce. How will you transfer the knowledge of those on your team who know the most about your customers and markets to the next generation? Solve that equation first. Companies that proactively manage their knowledge and culture shifts this year will be best positioned for growth, given the modest growth forecast.

View the [2020 Annual Distribution Outlook webcast](#) and download the presentation slides.

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MDM-Baird Survey

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- and implementing new skills training/ workforce changes (76%).

Here’s how each of the main distribution sectors fared during the fourth quarter of 2019 and what distributors say they are planning for the rest of the year.

Industrial: Grainger Makes Waves

With revenue growth at its lowest levels since 2Q16, the industrial segment struggled during the final quarter of the year, with nearly all categories within it posing lower year-over-year revenues. Revenues decreased by 0.5% during the final quarter of the year, with industrial selling prices growing at 1.9% during the same period. As one industrial distributor noted, “4Q was downright disappointing.”

Baird forecasts growth for industrial at 1.1% during 1Q20 and 1.9% for 2020 overall (compared to 1.1% in 2019).

Several commented on the apparent pricing strategy of sector leader Grainger:

- “We are noticing Grainger flexing some low-margin quotes out there, with some strange pricing on the internet from them that doesn’t make any sense.”
- “What I’m hearing ... is that [Grainger] management is saying to their teams it’s time to get more aggressive on pricing for the right opportunities.”
- “I think when Grainger redid their pricing a couple of years ago that was probably one of the smartest things they could do because now you can’t sell based off of what their list price is relative to yours.”

When the company reset its pricing strategy in 2017, spokesman Joseph Miccucci noted, “We knew that our prices were a barrier to fully demonstrating [Grainger’s value to customers] and hindered our ability to grow existing customers and acquire new customers, especially in the medium market.”

Current and Expected Revenue and Pricing Levels by Sector

	4Q19 Sales Change	4Q19 Pricing Change	1Q20 Sales Forecast	2020 Sales Forecast
Overall	0.8%	1.1%	1.6%	2.8%
Plumbing	3.7%	2.0%	3.4%	2.4%
Gases & Cylinder Rental	2.7%	2.1%	3.8%	5.4%
Hoses & Accessories	-2.3%	-0.4%	-2.5%	1.4%
HVAC	2.7%	1.6%	3.3%	4.5%
Mechanical/Power Transmission	-1.3%	0.6%	-1.4%	3.1%
OEM Fasteners	-2.0%	-1.2%	-0.6%	1.3%
Pool & Spa	4.5%	1.9%	4.1%	5.8%
Safety	0.9%	0.7%	1.9%	1.2%
Industrial/Energy PVF	0.6%	0.5%	2.5%	3.7%
Electrical	1.8%	0.4%	2.2%	2.6%
General Industrial (MRO)	-0.5%	1.9%	1.1%	1.9%
Waterworks Products	2.1%	2.4%	3.0%	4.3%
Facilities Maintenance/Jan-San (MRO)	2.1%	1.3%	2.6%	1.0%
Metalworking/Cutting Tools	-3.9%	1.0%	0.7%	1.2%
Datacomm	3.5%	1.1%	3.6%	2.1%
Welding Hardgoods	1.4%	2.5%	3.2%	4.4%
Roofing	5.3%	1.1%	2.1%	3.9%
Wallboard/Gypsum	-1.7%	-1.3%	3.4%	3.7%
Building Materials/Lumber	6.4%	1.6%	4.2%	3.4%
Landscape Supplies	2.8%	2.4%	3.4%	6.2%

*For MRO, industrial includes industrial & manufacturing end-markets; non-industrial includes institutional, hospitality and other non-manufacturing end-markets. Jan-San results are included in these categories.

Electrical: Opportunity in Upcoming WESCO-Anixter Merger

Electrical distribution experienced a revenue growth of 1.8% during the final three months of 2019, while selling prices increased by 0.4%.

Baird forecasts growth of 2.2% for the first quarter of 2020, with 2.6% growth on top for 2020 as a whole (compared to 2.8% in 2019).

Top of mind for electrical distributors during the fourth quarter was the pending WESCO-Anixter merger. After some back and forth, the companies on January 13 announced WESCO will acquire Anixter in a transaction valued at approximately \$4.5 billion. A sampling of responses on the topic include:

- “The best thing for us is if WESCO and Anixter get together. There will be so much turmoil, so much redundancy in management/sales people, that it can only bode well for the distributors below them.”
- “Don’t know that it’s going to make any of the other big players scared.”
- “It will just make them bigger. We’re not really worried about it.”

Bill Galvin, Anixter president and CEO calls the deal, “... a recognition of the enormous value created by our talented people, Anixter’s deep industry relationships, innovative technology solutions, and global reach. Looking ahead, the combination with WESCO will allow the combined company to build on our complementary capabilities and create new ways to serve customers and partners.”

HVAC/Plumbing: Pricing Uncertainty

Even in the face of margin pressures and a largely “unspectacular” fourth quarter, HVAC and plumbing distributors remain cautiously optimistic about the year ahead. Posting revenue growth of 2.7% during the fourth quarter, companies saw selling prices grow by 1.6% during the same period.

Forecasted growth is 3.3% for 1Q20, with 4.5% growth projected for 2020 overall (compared to 4.8% in 2019).

Some distributors addressed new year price increases by HVAC OEMs and whether or not they see them as positive for their bottom lines:

- “We’ve seen every OEM go out with a price increase. I am cautiously optimistic [the increase] will stick, but there’s a little more risk to not getting the full impact due to potential market pressure.”
- “I’m not sure [the price increase] is going to be able to be passed along as easily as

it did last year. There seemed to be a lot of reasons why [it stuck] last year whether it was the impact of tariffs and/or some transportation issues.”

- “We’ve seen it pretty much across the board, at least on the equipment manufacturers that there’s been price increases. We see it as a positive thing, provided that everyone is doing it and at the same range.”

Building Products: Steady Demand for Most

Driven by the active residential and commercial construction markets, building products ended 2019 on a positive note. Lumber and building materials, for example, saw a broad-based uptick in revenues and pricing. The sector experienced revenue growth of 6.4% in 4Q19, selling prices growing at 1.6%.

The forecasted growth is 4.2% for the first quarter of 2020, and 3.4% growth in 2020 overall (compared to 2.9% in 2019).

Roofing revenue growth was 5.3% during 4Q19, and selling prices were growing at a 1.1% clip. The sector is expected to grow by 2.1% during Q120 and 3.9% growth in 2020 (compared to 4.5% in 2019).

- “Demand is steady for this time of year,” said one respondent.

Pool and Spa saw an 4.5% uptick in revenues for the quarter and a selling price increase of 1.9%. The sector’s forecasted growth is 4.1% for the first quarter of 2020 and 5.8% for the year (versus 1.9% in 2019).

- “Strong market — many new homes from 1-3 years ago still need landscaping,” said one respondent.

While landscape supplies grew by 2.8% and saw selling prices increase by 2.4% during 4Q19, revenues for wallboard/gypsum decreased by 1.7% and its selling prices fell by 1.3%. The former is expecting growth of 3.4% for 1Q20, while the latter is on track for a rebound with a forecasted growth of 3.4% for 1Q20.

Gases & Welding: Pricing Push

The gases and welding sector held its own during 4Q19 despite a decline in demand for hardgoods. Gases and cylinder rental revenue growth was the bright spot for the segment, which saw this portion of its revenues grow by 2.7% during the quarter. Selling prices grew by 2.1% in 4Q19.

The forecasted growth is 3.8% for the first quarter of 2020 and 5.4% in 2020 overall (compared to 3.0% in 2019).

Respondents expect price attainment to be more difficult in the near term:

- “Price increases in the market have been more difficult than early 2019.”
- “Pricing remains relatively flat. Of course, the major industrial gas companies continue to push pricing, as they always do. We do not believe there is a good reason for them to be pushing pricing.”
- “The market is a little soft, but we expect to see price increases in the 3% to 5% range. It will be more difficult to pass those on until the market starts to pick up.”

Pipe, Valves & Fittings: Action Under Pressure

Industrial/Energy PVF revenue growth was 0.6% last quarter, with selling prices growing by 0.5%. The segment is on track to grow by 2.5% during 1Q20 and by 3.7% in 2020. Specifically for waterworks products, revenue growth was 2.1% in 4Q19, with selling prices growing 2.4%.

Forecasted growth is 3.0% for Q120 and 4.3% in 2020 (versus 3.4% in 2019).

Distributors in industrial PVF expect ongoing pricing changes due to tariff costs and competitive pressure, but several are proactively making business adjustments themselves to meet the challenge:

- “Looking to increase margin with new pricing program.”
- “We are installing a new pricing program that analyzes our customers’ pricing by

item and individually prices each item to maximize margin.”

What’s in Store for 2020?

Asked to share their revenue outlooks for 2020, survey respondents collectively pinpointed 1.6% as their target number for the quarter and 2.8% for the year. The highest levels of expected growth:

- landscape supplies industry (6.2%),
- pool and spa industry (5.8%),
- gases and cylinder rental (5.4%).

Facilities maintenance/Jan-San, metalworking and cutting tools were the least optimistic sectors for the coming year.

Geographically, growth expectations for North American distributors in 2020 remained slightly above the overall survey average across the board, and are expected to fall into the 3%-3.5% range. The picture looks slightly rosier for U.S. regions versus Canada, while international growth is expected to trail the broader average, Baird reports.

As uncertainty and disruption remain key themes for business going into 2020, distributors are keeping an eye on the key forces of change that are impacting their respective segments right now. “The first half of this year will be really positive, but the problem is finding help. It’s just a challenging market labor-wise,” one respondent pointed out. “There’s a little more uncertainty for 2Q20.”

The Baird-MDM quarterly survey is the deepest financial performance benchmarking analysis for industrial wholesale distribution sectors, representing more than \$100 billion in aggregate annual revenue across six distribution categories. Survey participants receive a complete readout of the quarterly results. For questions or to participate, contact info@mdm.com, or Baird Senior Associate Luke Junk (ljunk@rwbaird.com).

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4Q18 & Annual Pricing Trends Report

Inflation trends for core industrial/construction products

These select product groups provide a snapshot of inflation trends based on the Producer Price Index from the U.S. Bureau of Labor Statistics. This report, with graphs for all of the products listed here, is available online at this issue in PDF format at www.mdm.com.

Key

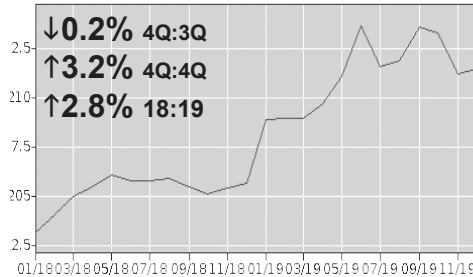
↑X.X% 4Q:3Q (4Q '19 with 3Q '19)

↑X.X% 4Q:4Q (4Q '19 with 4Q '18)

↑X.X% 18:19 (Year-end 2018 with 2019)

Industrial

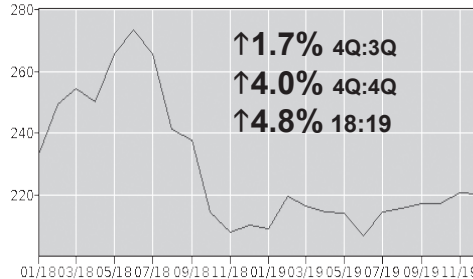
Abrasives



Product Group	4Q:3Q	4Q:4Q	18:19
Adhesives/Sealants	0.0%	1.5%	0.9%
Ind. Mat Handling Eqmt	0.2%	1.4%	1.4%
Industrial Rubber Products nec	0.5%	1.8%	1.8%
Metal Cutting Machine Tools	0.5%	1.5%	1.3%
Metal Forming Machine Tools	0.0%	2.9%	2.1%
Metal Valves (not FP)	0.4%	2.2%	1.9%
Personal Safety Eqmt & Clothing	0.0%	1.0%	1.3%
Pumps & Compressors	0.2%	1.2%	1.0%
Rubber & Plastic Belts & Belting	0.2%	3.5%	3.4%
Rubber & Plastic Hose	0.4%	2.6%	2.6%
Steel Mill Products	-4.6%	-14.8%	-16.1%

Construction

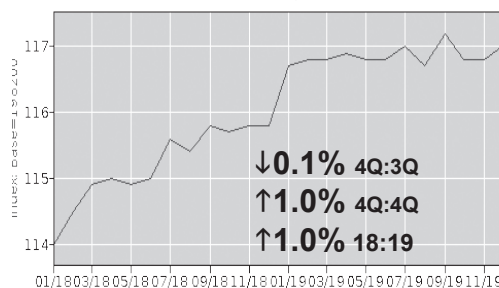
Softwood Lumber



Product Group	4Q:3Q	4Q:4Q	18:19
Plastic Construction Products	-0.5%	0.2%	0.0%
General Millwork	-0.1%	1.7%	1.7%
Gypsum Products	0.3%	-5.7%	-5.2%
Hardboard, Particlebd, Fiberbd	0.9%	-3.0%	2.5%
Hardwood Lumber	-2.7%	-9.4%	-10.6%
Plywood	-1.0%	-11.7%	-8.7%
Wood Ties, Siding, Shingles, etc.	0.2%	2.4%	2.6%

Electrical

Electrical Machinery & Eqmt*

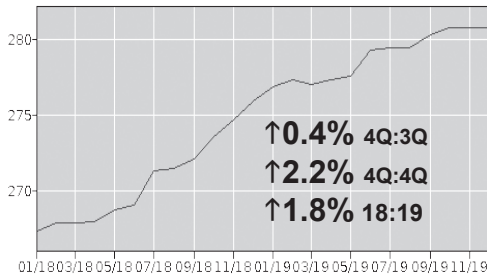


Product Group	4Q:3Q	4Q:4Q	18:19
Communications/Related Eqmt	-0.1%	3.8%	3.9%
Electric Lamp Bulbs and Tubes	-0.7%	-25.5%	-26.6%
Electronic Components & Accs.	0.1%	0.1%	0.3%
Integrating/Measuring Instrumts	0.4%	0.1%	0.7%
Lighting Fixtures	0.4%	3.0%	2.8%
Motors, Generators, etc.	0.3%	1.0%	1.4%
Switchgear, Switchbd, etc. Eqmt	0.1%	2.9%	2.7%
Transformers/Power Regulators	1.6%	2.7%	2.7%
Wiring Devices	0.6%	1.9%	1.9%
Fab. Ferrous Wire Products	-0.9%	-1.5%	-2.5%
Nonferrous Wire & Cable	-0.6%	-1.4%	-1.3%

*Category includes products in table to right

Power Transmission/Bearing/Fluid Power

Mech. Power Transmission Eqmt*

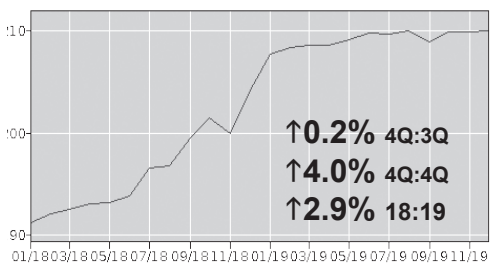


*Category encompasses first three (PT) products in table.

Product Group	4Q:3Q	4Q:4Q	18:19
Ball & Roller Bearings	0.5%	3.9%	5.3%
Plain Bearings & Bushings	0.0%	0.9%	0.4%
Speed Changers/Drives/Gears	0.2%	1.4%	1.2%
Fluid Power Equipment	0.2%	2.0%	2.3%
FP Cylinders, Actuators, Accum.	0.3%	2.0%	2.8%
FP Hose & Tube Fittings	0.0%	2.3%	2.4%
Fluid Power Pumps & Parts	0.2%	0.9%	1.3%
Fluid Power Valves	0.2%	2.5%	2.4%

Fasteners

Nuts, Bolts, Screws, Rivets, Washers*

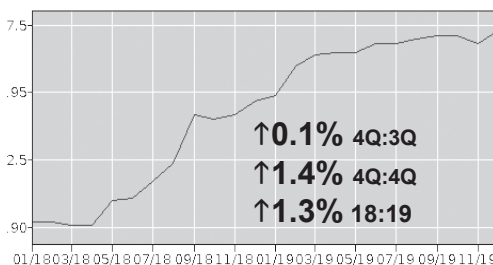


Product Group	4Q:3Q	4Q:4Q	18:19
Aircraft Fasteners	0.1%	12.0%	7.3%
Externally Thread. Fasteners**	0.4%	2.2%	2.1%
Internally Thread. Fasteners**	-0.1%	1.3%	1.2%
Nonthreaded Metal Fasteners**	1.2%	2.4%	1.9%

*Category encompasses products in table above
**Excludes aircraft fasteners.

Tools

Cutting Tools & Accessories*

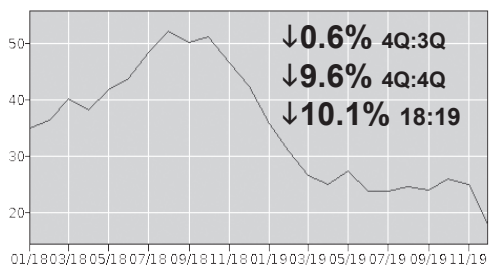


Product Group	4Q:3Q	4Q:4Q	18:19
Hand & Edge Tools	0.2%	2.4%	2.4%
Power-Driven Hand Tools	0.0%	1.4%	0.9%
Precision Measuring Tools	0.0%	3.3%	3.3%
Small Cutting Tools	0.1%	0.9%	0.9%
Tools, Dies, Jigs, Molds, Fixture	-0.3%	0.7%	0.2%

*Category encompasses some of the products in table.

Other

Plastic Resins and Materials

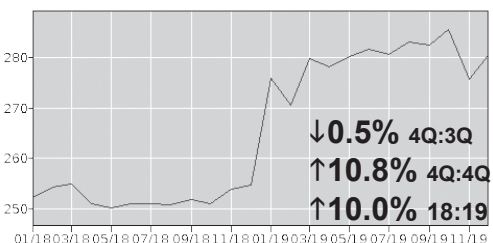


Product Group	4Q:3Q	4Q:4Q	18:19
Hardware*	0.2%	1.2%	1.2%
Builders Hardware	0.3%	1.1%	1.6%
Air Cond. & Refrigeration Eqmt	-0.3%	3.0%	3.1%
Heating Eqmt	1.0%	3.6%	4.2%
Plumbing Fixtures & Fittings	0.0%	3.5%	3.5%
Plastic Products (overall)	-0.4%	-1.1%	-1.3%
Pkgng Products from Plastics	-0.7%	-3.2%	-3.6%
Welding Machinery & Eqmt	0.0%	1.7%	1.7%
Office Supplies & Accessories	-0.9%	1.0%	1.1%
Pulp, Paper & Allied Products**	-0.5%	-2.2%	-2.1%
Boxes	-0.4%	0.3%	0.3%
Sanitary Paper Products	0.6%	1.7%	2.6%

*This category includes builders' hardware & other product groups

**Category includes boxes, sanitary paper products & office supplies & other groups

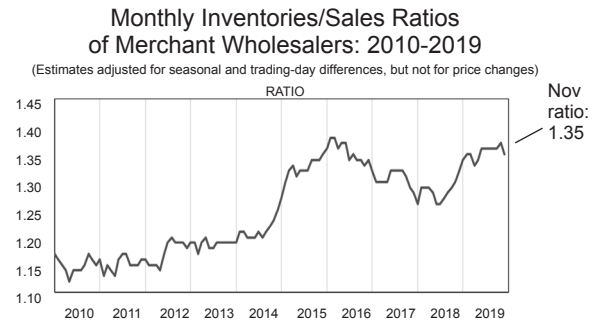
Industrial Gases



November 2019 | Monthly Wholesale Trade Data

Wholesale revenues in November were \$500.7 billion, up 0.8% from November 2018 and up 1.5% over October. November sales of durable goods were up 0.9% over last month and down 1.1% from a year ago. Sales of nondurable goods were up 2% over October and up 2.6% over last November.

Inventories were \$674.9 billion at the end of November, down 0.1% from the revised October level and up 3.3% from last year. November inventories of durable goods were down 0.3% from last month and up 3.4% from a year ago. Inventories of nondurable goods were up 0.3% from October and up 3.1% from last November.



Source: U.S. Census Bureau

Inventories/Sales Ratio. The November inventories/sales ratio for merchant wholesalers was 1.35. The November 2018 ratio was 1.32.

Sales and Inventories Trends: November 2019

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	% Change Sales 10/19-11/19	% Change Sales 11/18-11/19	% Change Inventory 10/19-11/19	% Change Inventory 11/18-11/19
42	U.S. Total	500,651	674,943	1.35	1.5	0.8	-0.1	3.3
423	Durable	238,295	419,501	1.76	0.9	-1.1	-0.3	3.4
4231	Automotive	40,665	70,394	1.73	4.5	3.0	-1.1	4.9
4232	Furniture & Home Furnishings	7,647	13,829	1.81	-2.4	1.7	-0.8	1.8
4233	Lumber & Other Construction Materials	12,174	19,823	1.63	-0.6	4.5	1.7	4.1
4234	Prof. & Commercial Equip. & Supplies	42,552	54,894	1.29	-1.1	-0.7	0.1	3.5
42343	Computer Equipment & Software	21,105	20,415	0.97	-2.6	-8.1	-0.8	-5.4
4235	Metals & Minerals	14,298	32,700	2.29	0.6	-9.7	-1.3	-4.8
4236	Electrical Goods	49,226	58,347	1.19	1.0	-2.9	0.1	3.0
4237	Hardware, Plumbing, & Heating Equipment	12,655	27,785	2.20	0.0	0.9	0.0	3.4
4238	Machinery, Equipment & Supplies	39,830	110,914	2.78	0.1	-0.3	-0.3	6.2
4239	Miscellaneous Durable	19,248	30,815	1.60	2.8	-5.6	0.2	1.2
424	Nondurable Goods	262,356	255,442	0.97	2.0	2.6	0.3	3.1
4241	Paper & Paper Products	7,847	9,455	1.20	3.0	-4.9	-0.2	2.0
4242	Drugs	61,830	66,300	1.07	0.3	4.5	1.1	5.7
4243	Apparel, Piece Goods & Notions	12,147	29,809	2.45	-0.1	-8.7	-0.4	5.4
4244	Groceries & Related Products	56,624	40,575	0.72	0.5	4.6	0.9	4.3
4245	Farm-product Raw Materials	16,869	23,838	1.41	10.1	12.3	-1.0	-5.2
4246	Chemicals & Allied Products	10,885	12,307	1.13	-3.7	-5.7	-1.6	-3.6
4247	Petroleum & Petroleum Products	61,586	19,205	0.31	6.6	3.2	0.6	-6.7
4248	Beer, Wine & Distilled Beverages	13,736	19,568	1.42	-0.3	2.7	0.8	13.3
4249	Miscellaneous Nondurable Goods	20,832	34,385	1.65	-2.3	-2.7	0.1	4.6

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis. Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

WESCO International and Anixter International Announce Merger

WESCO International, Inc. and Anixter International Inc. have announced that their boards of directors have unanimously approved a definitive merger agreement under which WESCO will acquire Anixter in a transaction valued at approximately \$4.5 billion. Anixter's prior agreement to be acquired by Clayton, Dubilier & Rice, LLC has been terminated, following CD&R's waiver of its matching rights under the agreement.

John J. Engel, WESCO's chairman, president and CEO, commented, "The transformational combination of WESCO and Anixter will create a premier electrical and data communications distribution and supply chain services company. With increased scale and complementary capabilities, we will be ideally positioned to digitize our business, expand our extensive services portfolio and supply chain offerings, and deliver solutions to our customers whenever and wherever they need them around the globe. Given the enhanced strategic profile and competitiveness of the combined company, we are confident we will deliver improved growth and earnings, and exceptional cash flow generation. We look forward to welcoming Anixter's talented associates to the WESCO team as we embark on this next chapter and create substantial value for our stockholders, customers, suppliers and people."

"This is the result of a very thorough process to determine the value of our company," said Bill Galvin, Anixter's president and CEO. "It's also a recognition of the enormous value created by our talented people, Anixter's deep industry relationships, innovative technology solutions, and global reach. Looking ahead, the combination with WESCO will allow the combined company to build on our complementary capabilities and create new ways to serve customers and partners."

Distributor

Ohio Transmission Corporation, Columbus, Ohio, has acquired **Laron Inc.**, Kingman, Arizona, a leading service provider of mechanical and electric motor repair and engineering in the southwestern United States.

Applied Industrial Technologies, Cleveland, reported fiscal second-quarter sales of \$833.4 million, down 0.8% compared to the year-ago period. Net income fell 1.8% to \$38 million.

Excluding a 3.2% increase from acquisitions, sales decreased 4% on an organic basis reflecting a 3.5% decline in the Service Center segment and a 4.9% decline in the Fluid Power & Flow Control segment. Sales for the six months ended Dec. 31, 2019, were \$1.7 billion, down 0.9% compared to the year-ago period, and profit was \$76.8 million.

MSC Industrial Direct Co. Inc., Melville, New York, reported fiscal 2020 first quarter sales of \$823.6 billion, a 1% decrease compared to fiscal 2019. Annual profit was \$65.4 million, a 11.8% decrease compared with the first quarter last year.

Fastenal Co., Winona, Minnesota, reported sales of \$1.28 billion for the fourth quarter of 2019, a 3.7% increase over the same period in 2018. The distributor reported net earnings of \$178.7 million, a 5.9% increase over the year-ago period. For the full year, Fastenal reported sales of \$5.3 billion, up 7.4% compared to 2018. Net earnings for the year rose 5.2%, to \$790.9 million.

Motion Industries, Birmingham, Alabama, a subsidiary of **Genuine Parts Company**, has named Chris Pacer to vice president of the company's newly formed Central Group.

Grainger, Chicago, has announced that David Rawlinson, senior vice president and president, Grainger Online Business, will be leaving the company effective Feb. 1, 2020, to become the CEO of a newly formed public company.

Economic

Total nonfarm payroll employment rose by 145,000 in December, and the unemployment rate was unchanged at 3.5%, according to the U.S. Bureau of Labor Statistics. Notable job gains occurred in retail trade and health care, while mining lost jobs.

Manufacturing employment was down by 12,000. Employment in the industry changed little in 2019, growing by 46,000, after increasing in 2018 by 264,000.

Industrial production declined 0.3% in December, as a decrease of 5.6% for utilities outweighed increases of 0.2% for manufacturing and 1.3% for mining, according to the latest data from the Federal Reserve.

Led by declines in production-related indicators, the **Chicago Fed National Activity Index (CFNAI)** fell to 0.35 in December from +0.41 in November.

Continued on next page

News Digest

Continued from previous page

Three of the our broad categories of indicators that make up the index decreased from November, and three of the four categories made negative contributions to the index in December. The index's three-month moving average, CFNAI-MA3, moved up to 0.23 in December from 0.31 in November.

Manufacturer

Eaton has entered into an agreement to sell its Hydraulics business to **Danfoss A/S**, a Danish industrial company, for \$3.3 billion in cash — a 13.2 multiple of 2019 EBITDA.

Acuity Brands Inc., Atlanta, reported fiscal 2020 first-quarter sales of \$834.7 million, down 10.5% compared to the year-ago period. Net income

decreased 28.4% to \$57 million.

Fortive Corp., Everett, Washington, has announced that the name of the new global industrial company which is expected to separate from Fortive later this year will be **Vontier Corporation**.

Builders FirstSource Inc., Dallas, has announced that CEO Chad Crow will retire this year after 20 years with the company. The Builders FirstSource Board of Directors said it has retained a leading global executive search firm to help identify a highly-qualified leader for the CEO position.

Acuity Brands Inc., Atlanta, has named Neil M. Ashe as its next president and CEO, effective Jan. 31, 2020. The Board of Directors also appointed Ashe as a member of the Board.

Calculation of MDM Inflation Index for December 2019

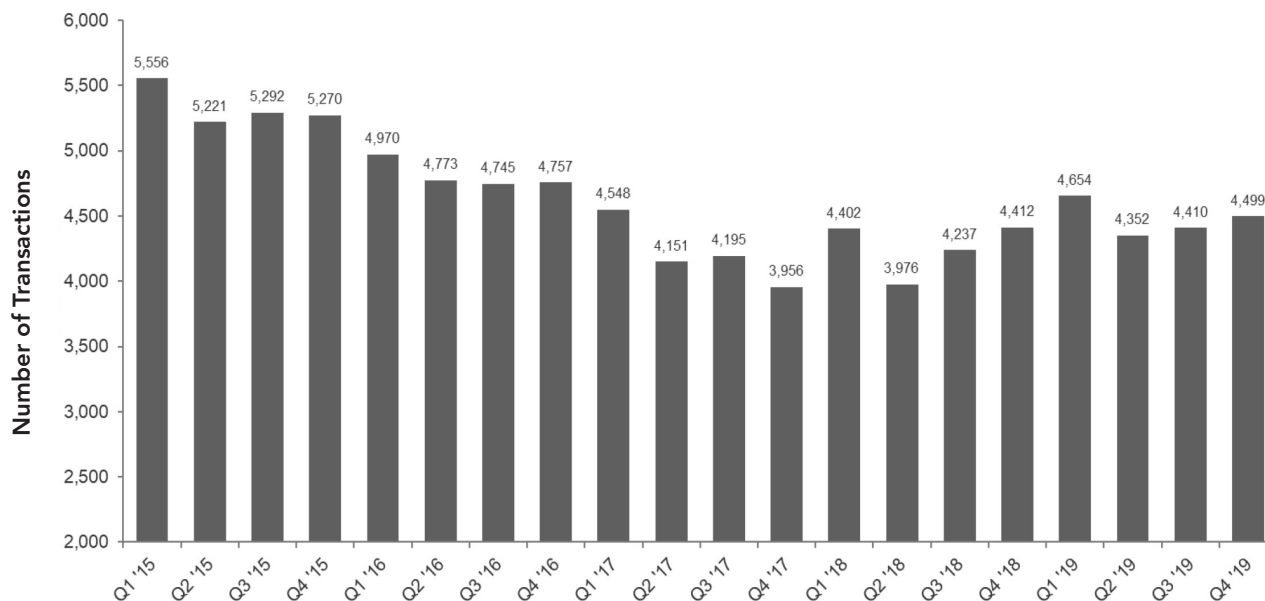
	BLS Price Indices Dec '19	BLS Price Indices Nov '19	BLS Price Indices Dec '18	% Sales Weight	Weighted Indices Dec '19 (1)X(4)	% Change Dec '19 Nov '19	% Change Dec '19 Dec '18
1136 Abr. Prod.	627.9	627.0	610.6	19.1	119.92	0.14	2.82
1135 Cutting Tools	535.0	533.6	528.5	18.9	101.11	0.25	1.23
1145 Power Trans.	877.2	877.2	862.2	15.4	135.10	0.00	1.74
1081 Fasteners	567.4	566.9	540.9	9.0	51.07	0.10	4.89
1149.01 Valves, etc.	1062.7	1074.0	1048.1	7.6	80.77	-1.05	1.39
1132 Power Tools	395.5	395.5	389.0	6.5	25.71	0.00	1.65
1144 Mat. Handling	648.8	648.8	640.5	6.2	40.23	0.00	1.30
0713.03 Belting	948.9	948.9	919.0	6.1	57.88	0.00	3.26
1042 Hand Tools	838.8	837.8	818.7	8.1	67.94	0.12	2.46
108 Misc. Metal	504.5	504.3	498.9	3.1	15.64	0.06	1.13
"New" Dec Index	363.3	December Inflation Index			695.35	-0.04	2.19
"New" Nov Index	363.5	November Inflation Index			695.65		
		December 2018 Inflation Index			680.47		

New index reflects 1977-100 base other #: 1967 To convert multiply by .52247

Fourth Quarter 2019 Financial Metrics & Trading Multiples

Domestic M&A Activity – All Industries

This chart shows the number of transactions announced each quarter for the last five years.



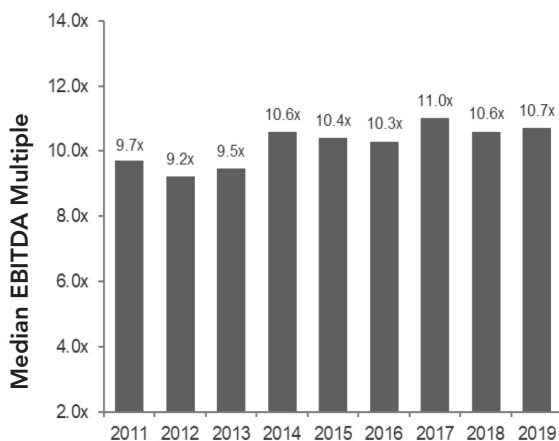
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 12/31/2019.

Notes: Represents reported M&A activity across all industries, not just distribution. Excludes debt tender offers, private placements, equity carve-outs, exchange offers, loan modifications, and open market repurchases.

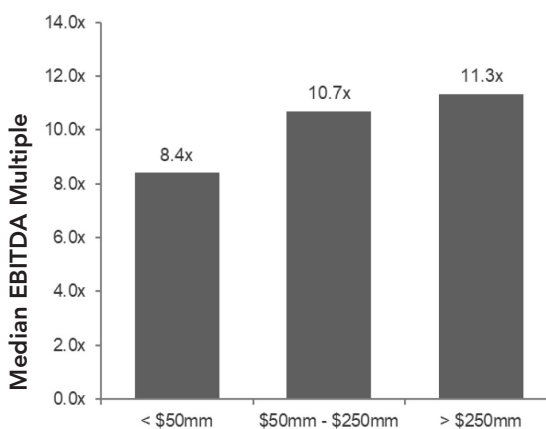
Median EBITDA Transaction Multiples – All Industries

The chart above shows the number of transactions announced each quarter for the last five years. The chart below shows the median EBITDA transaction multiples by year, as well as segmentation of multiples by enterprise value for the last twelve months.

By Year



By Deal Size - LTM



Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 12/31/2019.

Notes: Represents reported M&A activity across all industries, not just distribution. Based on U.S. deals and excludes multiples below 0.0x and above 25.0x

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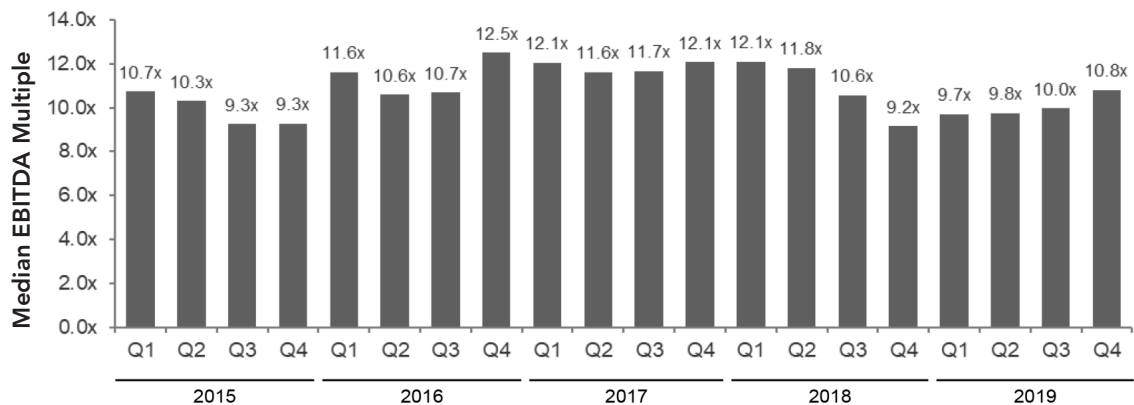
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Distribution Financial Metrics and Trading Multiples

(Data as of December 31, 2019)

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The chart below illustrates historical median EBITDA multiples for the below companies calculated using LTM EBITDA as of the quarter shown and the enterprise value as of the last day of the quarter.



The chart above illustrates historical median EBITDA multiples for the below companies calculated using LTM EBITDA as of the quarter shown and the enterprise value as of the last day of the quarter. The table below highlights key financial metrics and trading multiples for 30 distributors across diverse end markets. Please see definitions below.

Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Margins		Working Capital/LTM Sales	ROIC	EV/LTM EBITDA
					Gross	EBITDA			
Anixter International Inc.	AXE	\$4,630	\$8,712	5.0%	20.0%	4.9%	16.8%	7.7%	10.8x
Applied Industrial Technologies, Inc.	AIT	3,525	3,465	6.4%	29.1%	9.4%	19.9%	8.7%	10.8x
Arrow Electronics, Inc.	ARW	10,352	29,497	0.7%	11.8%	3.9%	15.7%	7.2%	8.9x
Avnet, Inc.	AVT	5,752	19,059	(2.1%)	12.6%	3.7%	20.4%	5.6%	8.1x
Beacon Roofing Supply, Inc.	BECN	5,119	7,105	10.7%	18.8%	6.4%	14.4%	2.2%	11.3x
Bluelinx Holdings Inc.	BXC	873	2,696	2.8%	12.7%	3.7%	16.4%	0.9%	8.7x
BMC Stock Holdings, Inc.	BMCH	2,236	3,596	(1.9%)	26.3%	6.8%	11.0%	8.2%	9.2x
Builders FirstSource, Inc.	BLDR	4,556	7,333	(4.6%)	27.2%	6.9%	8.2%	10.6%	9.0x
Bunzl	BNZL	11,708	12,172	5.2%	23.4%	6.8%	8.4%	8.5%	14.1x
DXP Enterprises, Inc.	DXPE	979	1,283	9.6%	27.7%	8.2%	19.7%	8.4%	9.3x
Fastenal Company	FAST	21,686	5,334	7.4%	47.2%	22.6%	34.5%	21.8%	18.0x
Ferguson	WOS	21,671	22,010	6.1%	29.4%	8.0%	8.8%	14.8%	12.3x
Foundation Building Materials	FBM	1,516	2,156	4.6%	29.1%	8.3%	14.1%	5.5%	8.5x
Genuine Parts Company	GPC	19,525	19,290	5.2%	32.5%	7.2%	11.2%	9.6%	14.0x
GMS, Inc.	GMS	2,337	3,213	13.4%	32.7%	9.0%	15.4%	5.7%	8.0x
HD Supply	HDS	9,120	6,207	7.3%	39.1%	13.3%	16.0%	12.2%	11.1x
Houston Wire & Cable Company	HWCC	165	344	(2.0%)	23.9%	4.2%	40.3%	4.1%	11.3x
Lawson Products	LAWS	474	368	7.1%	53.4%	6.5%	13.8%	9.7%	NM
MRC Global Inc.	MRC	2,280	3,905	7.1%	17.8%	5.4%	21.5%	4.9%	10.8x
MSC Industrial Direct Co., Inc.	MSM	4,761	3,356	2.7%	42.4%	14.5%	26.8%	13.6%	9.8x
NOW Inc.	DNOW	1,184	3,076	1.5%	20.1%	3.8%	19.3%	3.5%	10.2x
Park-Ohio Holdings Corp.	PKOH	1,014	1,645	1.6%	16.3%	8.4%	24.6%	6.9%	7.4x
Pool Corp.	POOL	9,192	3,160	6.6%	29.2%	11.7%	20.3%	20.5%	24.9x
Reliance Steel & Aluminum Co.	RS	9,668	11,340	2.2%	28.6%	10.2%	20.5%	8.4%	8.4x
Rexel SA	RXL	7,557	15,090	3.1%	25.4%	4.8%	12.5%	5.2%	10.5x
SiteOne	SITE	4,553	2,297	11.9%	32.7%	7.7%	23.7%	7.1%	25.7x
W.W. Grainger	GWW	20,551	11,402	2.8%	38.4%	14.4%	16.3%	20.0%	12.5x
Watsco Inc.	WSO	6,966	4,689	3.8%	24.4%	8.3%	24.7%	11.6%	18.0x
Wesco Aircraft Holdings	WAIR	1,854	1,696	8.0%	23.8%	8.9%	54.6%	5.0%	12.2x
WESCO International, Inc.	WCC	3,972	8,271	1.3%	19.1%	4.9%	17.4%	6.0%	9.8x
Median		4,593	4,297	4.2%	26.7%	7.5%	17.1%	7.9%	10.8x

Definitions: LTM means latest twelve months. Enterprise Value means market capitalization of a company's equity plus preferred stock plus total interest bearing debt net of any cash or cash equivalents. EBITDA means earnings before interest, taxes, depreciation and amortization. In certain cases earnings have been adjusted for certain disclosed income or expense items considered to be non-recurring.

Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, Bloomberg & company financials.