

# The 2011 Distribution Landscape Report

*An in-depth look at the top distributors and the state of the distribution industry in 2011*

The economy is not viewed as an oncoming train any longer by most distributors. But there is still some lingering uncertainty. To wit, the start of the summer's economic indicators were not exactly stellar – the manufacturing sector expanded, according to the benchmark ISM report, but not as quickly as it has been. And construction markets continue to trudge along.

Caution still pervades the distribution environment. Many say they are still not ready to hire, for example, and “more for less” continues to be a frequently heard mantra. That said, many distributors are having a record sales year, and outside of those serving construction markets, they are increasingly optimistic.

In this annual report, MDM takes a closer look at the state of the distribution industry. Also in this report: the annual MDM Market Leaders lists, presenting the top distributors in 12 sectors.

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# Distributors: Customers Want More

*Demand for services means opportunity - and challenge - in 2011*

**'The demand is on delivery. It is on pricing and on high efficiency and technology. They are all asking for more.'**

Many distributors of all sizes are finding themselves doing more for customers while battling for less business post-recession.

"When business down here spikes up, everything is full-throttle," says Richard Neels, president of fluid power distributor Hydraquip Distribution Inc., Houston TX. "The demand is on delivery. It is on pricing and on high efficiency and technology.

"... They are all asking for more."

## Lean Customers, Big Opportunities

Customers who have pared back staff and resources in response to the recession want distributors to perform more services for them.

"I do believe that OEMs, if they are competing on a national or global basis, have to take out all the waste they can," Neels says. They are looking to distributors to help with that. "Our goal is to aid in the process of our customers' achieving their goals."

Many distributors in MDM's recent Market Trends Survey said they have added new services in the past year. Services added include: consultations, VMI or consigned inventory, improved online support, tool regrinds, turn-key installations of systems, customer training videos, repairs, green-related services and more technical knowledge at the counter.

A power transmission/bearing distributor who responded to the survey said that he had started a new company to install and service the products the distributor sells. Grainger has expanded its ability to provide services to customers in various areas by acquiring service companies over the past two years. The distributor recently launched two programs – one aimed at helping customers with safety issues and one expanding the distributor's inventory management services.

President and CEO Jim Ryan said earlier this year that the distributor wants to help its customers meet productivity goals. "Companies that have products, services and technologies that can help companies and improve productivity can benefit in the foreseeable future," Ryan said.

MSC Industrial Supply has seen the same opportunities. President and CEO David Sandler told MDM earlier this year that MSC made it a priority to help customers who were downsizing. "We were able to help them to rely on us as

their tool crib due to our exceptional inventory position and service levels that we maintain. In addition to investing in those areas, we invested heavily in developing best-in-class vending and other solutions that helped our customers weather the storm," he said.

David Gordon, Channel Marketing Group, says he has seen more demand for storeroom management and more demands for using technology to improve productivity. "They're expected to do more with less, and so they expect everyone else to, as well. They need someone else to help," he says.

Distributors providing integrated supply services continue to see their share of the customer pie grow, with increasing requests for everything from tool crib management to delivering internal mail. Some MDM survey respondents said that national accounts or larger customers are demanding more documented cost savings and technology solutions.

## Choosing the Right Services

But depending on their models, not all distributors are chomping at the bit to provide the services that customers are demanding. In some cases, it's just not feasible or profitable to do so. As one survey respondent said, in many cases "customers will not pay for them." Customers are still price-sensitive.

Mike Baker, vice president of marketing and vendor relations for Independent Electric Supply, San Carlos, CA, gave an example of a company that wanted the electrical distributor to do recycling for them as part of a contract. "We're not recyclers," he says. "Had it been only electrical-type materials, we might have considered it, but they wanted us to manage everything, and we just couldn't do that.

"We will consider almost anything, but we'll only agree to do the things that make sense."

Michael A. Hamzey, COO of fluid power distributor R.M. Wright, Farmington Hills, MI, agreed. "Where it makes sense, we do it as part of a value-add," he says.

He says that larger customers have been less likely to pay extra for new services, as they are typically focused more on price. But with smaller customers, R.M. Wright has been more apt to send a bill for services.

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### Proactive Approach

Some distributors have been proactive in providing new services for customers, sensing a need in the market that needs to be filled.

Tom Roberts, president of HVAC distributor cfm Distributors, says his business has taken a message on the road to contractors about how they can adapt their businesses to the changing regulatory, economic and policy environment. "We tailor our products and marketing and training to help our customers succeed based on what we know and what we learning the market," Roberts says. "... A lot of people are still cutting expenses and not doing those kinds of meetings, so we thought it was more important

for us to do them." The distributor also printed a full catalog this year for its customers, including technical references so that contractors in the rural areas it serves would always have access to the material and knowledge of available products even when they can't go online.

HVAC Distributors Inc., Mount Joy, PA, is providing training for residential replacement dealers on generating more leads and finding new opportunities for business. Contractors have been receptive to the training. "They are looking for ways to generate more business," President Dave McIlwaine says.

Services seem to have provided that benefit for both distributors and their customers.

## Inventory Management a Top Priority

*Distributors carefully approach the rebuilding of inventories post-recession*

With increases in demand, the need to have more inventory in stock to meet customer needs seems logical. But uncertainty about the economy and inflation, among other things, may be keeping this trend at bay.

"People are rebuilding their inventories, but they're doing it very carefully," says Jon Schreibfeder, president of Effective Inventory Management. Companies are still looking to keep inventory investment low, while maintaining customer service levels and avoiding stockouts. That can be a fine line to walk.

### Speculate No More

The R.M. Wright Company, a fluid power distributor in Farmington Hills, MI, has grown its inventory 20 percent from its lowest levels in the past few years due to growing demand and the addition of new product lines. "You get to a point where you don't want to sell yourself short," COO Michael A. Hamzey says.

As such, more distributors are placing greater emphasis on the replenishment process and on forecasting, on determining when to buy and how much to buy, Schreibfeder says. "Where in good times before we were using SWG – scientific wild guessing – where people would buy quantities because they felt good, we're seeing ... people question every large purchase and really evaluating the need."

And there's less market speculation occurring, as well, even with a number of price increases from suppliers poised to go into effect. Where a company may have bought a three-

month supply in advance of the price increase, now it will buy only six weeks or maybe two months.

The "buy low, sell high" philosophy has taken a back seat to a keen focus on inventory turns and "increasing the number of opportunities to earn a profit from every dollar invested in inventory," Schreibfeder says. "They're not so much interested in maximizing profitability [through inventory] as in minimizing total inventory investment."

The same approach holds true for the introduction of new products and product lines. Companies are being more cautious and conservative and keeping product expansion decisions focused directly on the needs of the customer.

### Solution Sellers

"Almost every larger or intermediate player in the channel is looking to cut their inventory exposure," says Chris Lynch, COO of Reid and Wright, Inc., a building materials distributor based in Broomfield, CO. And they're turning to distributors to help them make it happen.

Demand for programs such as vendor managed inventory continues to increase, Schreibfeder says. The results are mixed depending on the approach being taken. "We've seen some very, very good results; and we've seen vendor managed inventory disasters where distributors end up stuck with too much of the wrong product," he says.

VMI programs managed by manufacturers tend to have a rockier track record, according to

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**'Almost every larger or intermediate player in the channel is looking to cut their inventory exposure.'**

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Schreibfeder. "A lot of manufacturers just don't understand distribution inventory management. They understand how to manufacture products and that's great, but they don't know how to maintain a finished goods inventory which results in problems with the VMI program."

Distributors providing VMI services to manufacturers, on the other hand, tend to have better success because understanding patterns of usage is important knowledge in distribution.

But offering VMI programs or consignment programs is not the solution for all distributors.

"Everyone is trying to reinvent themselves as solution sellers right now," says Mike Baker, director of marketing for Independent Electric Supply in San Carlos, CA. Though the electrical distributor will provide additional services for key contractor customers, it tends to shy away from consignment or VMI programs. "Instead we show them how we can provide better service to them – and allow them to make better use of their time – through other options we already offer," Baker says.

These options include specialized kitting and next-day delivery directly to the desired location on the project site, he says. "This eliminates the need to train the contractors and eliminates the time they would have to take going down to a trailer on the other end of the site to get the item they need," he says.

Even with mixed results, the demand for VMI-related programs does not appear to be going away any time soon, Lynch says. "Historically, we didn't feel it would work well for the specialized products we sell, but the customers started to demand it," he says. As a result, the company had to be creative and develop sustainable programs, with limited success.

The key is making sure providing the service makes sense. "Everybody's looking that little extra something to give them the edge, but does it really make them more money?" Baker says. "And if it doesn't, how sustainable is it?"

### Streamlined Inventory

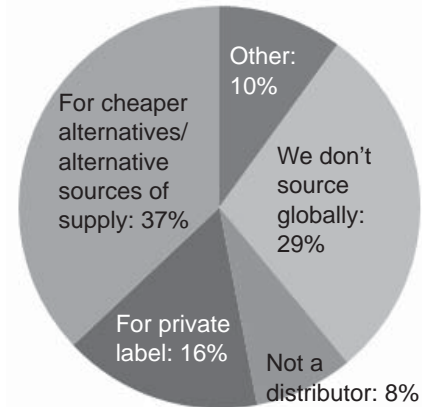
The desire to streamline inventory operations and be as lean as possible also has led to more distributors moving to stocking out of a central warehouse, Schreibfeder says. They're maintaining minimal stock at the individual branches, but are willing to replenish that stock more often from the "master warehouse."

"It goes back to that new emphasis on inventory turns," Schreibfeder says.

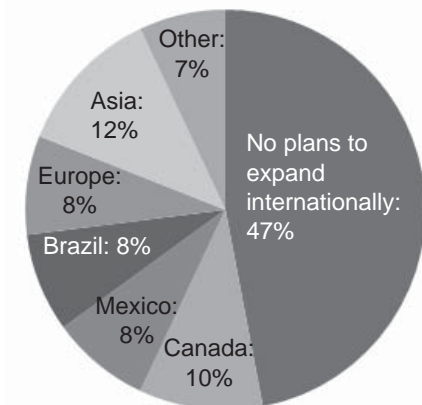
For some distributors, such as Independent Electric, streamlining inventory started at the

### Distributors' Global Plans

Why do you source product from outside the U.S. and Canada?



Where are you looking to expand outside of the U.S., or if based in Canada, outside of Canada in the next year?



branch level. Historically, Independent Electric's 24 branches have operated with independence, including product lines they stocked. Because there was no guarantee that two branches near each other would have the same lines, it could be difficult to transfer inventory.

The push to streamline inventory began in earnest in January 2010 when Tom Massip took on the role of president. "He said, 'This is too important. We're losing too much money by not doing this,'" Baker says.

While there was some pushback from managers at the start, once the cost savings and the increase in rebates could be demonstrated, buy-in to the program improved.

The move also allowed for more strategic buying, Baker says. "We can now buy more like a centralized distribution center would without actually having a centralized distribution center."

**'Everyone's looking at that little extra something to give them the edge.'**

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# Hiring Lags Despite Return in Business

*Distributors continue to do more with less, as demand grows*

The economy is slowly recovering, but significant concerns about recovery of the job market persist. The unemployment rate in the U.S. stood at 9.1 percent in May, essentially unchanged from the prior month.

"Business is starting to come back, but there's still a lag in hiring," says Skip DeVilling, president of DeVilling & Associates, LLC, a Sarasota, FL-based executive employment search firm. "The concern is when does it start to stress the work force too much? At what point do you need to do more?"

Additionally, companies are starting to seriously evaluate the number of people within their organizations who are rapidly approaching retirement age, and who will take with them the knowledge they've accumulated in their years on the job.

"There's always a risk involved in human resources," says Gerlinde Herrmann, president of The Herrmann Group Ltd., a human resources management firm based in Toronto, Ontario. Herrmann spoke at the Canadian Power Transmission Distributors' Association conference in June. "And like any other risk, you have to understand it and figure out how to manage it."

## New Approaches to Hiring

Some companies have started to add staff on a limited basis. In the electrical industry, distributors are looking for people with specific skill sets related to solar and wind energy, and energy management, says Prudence Thompson, a recruiter at Egret Consulting Group.

In 2010, HVAC Distributors Inc., Mount Joy, PA, had to hire more staff when it opened two new locations, but this year it's not planning on making additional hires. Instead, "we are trying to do more training and work on competencies with our people," says President David McIlwaine.

That focus on specific skill sets and enhanced training has become a key trend across sectors in the past year. "There have been more inquiries in the last six months, but each of those inquiries has very specific requirements attached to it," DeVilling says. "Companies believe they can find exactly what they want, and that one person who can meet every requirement on the list."

Distributors are relying more on psychologi-

cal and competency testing to ensure candidates fit within their culture. And they want someone with experience, but also someone who is looking for a long-term opportunity.

As such, recruitment efforts from nontraditional sources have picked up. "There's been a big emergence in companies that are starting to recruit raw talent into the industry that had never done that before," Thompson says.

That's the case for Applied Industrial Technologies Ltd. in Saskatoon, Saskatchewan. "We're looking for the right people regardless of if they're in the industry," says Ron Sowinski, president. "If they're commerce people and have that business orientation, and they're the right people for our organization, it doesn't matter that they don't have that direct experience."

But not every company has the budget to hire. "Everyone is looking at taking valuable employees and making them as productive as we can," says A.J. Maloney, executive vice president of Coburn Supply Co., Beaumont, TX. Coburn now has a more stringent process for branches to use to justify new hires. "Locations have to justify the savings and/or the sales they get with increased employment," he says.

## Focus on Training

Coburn Supply has taken a more strategic and even cautious approach to hiring, implementing over the past two years a new human resources technology-based tool that helps the distributor evaluate current and potential employees. "We're trying to be more productive on that end," he says.

Adding staff may not be the most important course of action for every company, Herrmann says. "The most important thing is that people want to belong," she says. This is particularly true of younger workers.

"We've probably lost some good people because we didn't have a defined way of moving up through the company," says Mike Baker, vice president of marketing and vendor relations at Independent Electric Supply Inc., San Carlos, CA.

To combat this, Independent Electric began developing "career track" courses for all employees. One-on-one meetings are held with employees at individual branches to assess their goals and to create pathways to attain those

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***'The concern is when does it start to stress the work force too much?'***

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***‘Knowledge in the marketplace is disappearing.’***

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goals within the company. “We keep track of their progress and check in with them to make sure they’re still on the path they want to be on,” Baker says. “And if they’re not, we work with them to find out why and how we can change it.”

Associations, such as the National Association of Electrical Distributors and the Gases and Welding Distributors Association, are offering members more online resources and tools to meet the demand for in-house training.

“There is such a great need for that in-house training because the knowledge in the marketplace is disappearing,” DeVilling says.

And it is important to understand the differences in how your new hires will learn. “Today, everyone is connected, always connected,” he says. “But they’re busy, so they expect to be connected or else they will move on.”

## Margins Squeezed in First Half

Some distributors say they have found themselves squeezed this year. Manufacturers are passing more work to them, at the same time raising their prices as the cost of materials goes up. And customers – especially larger ones – want to off-load as much work as they can to the distributor, but they want to pay less for it.

What’s more, as reported earlier this year in MDM, price increases have challenged distributors in every sector this year. In the quarterly MDM-Baird Benchmarking Survey, 94 percent of respondents said they expected price increases this year.

Not all say that the price increases have affected their business significantly due to contracts with suppliers or customers, but the recent MDM Market Trends Survey results indicate that it is still a top concern for many going forward.

For those serving builders and contractors, who are bidding low on the few construction projects that are out there, the price increases are a big hurdle to profitability because they have a more difficult time passing them on.

The cost of fuel on top of price increases is also squeezing margins.

As a result, distributors say they are continuing to look at ways to cut costs and be more efficient. EDI use has grown – several survey respondents mentioned a focus on more efficient use of data between channel partners. More data overall on inventory and pricing has also become a priority for many.

Lean has also become a mainstream option for many distributors, who are excited about the opportunities it offers to lower costs and boost the bottom line. Distributors overall have become more aware of profitability challenges, according to Bruce Merrifield of Merrifield Consulting: “Maybe I have got to do a better job of where I make money and where I lose money and how to do more with the first and fix the second.”

# A Growing Focus on Diversification

*Hit hard by trends in certain markets, distributors work to diversify exposure*

Large national distributors have been diversifying their product availability and end-markets for much of this decade. The most obvious example is Chicago-based Grainger, which continues to add products from different sectors and lands on several MDM Market Leaders lists this year.

But after the recession, more distributors of all sizes say they recognized the need to prioritize diversification into new markets or product types to buffer their companies from the ups and downs of cyclical business. It's also an opportunity to increase existing customer spend.

"Diversification is a focus for us," says Mike Rowlett of Womack Machine Supply. "We don't want to follow the price of oil and the price of copper and the price of coal and natural gas. We don't want to build a big company that follows the prices of the commodities."

Before the economy crashed, Womack Machine Supply bought four companies in 14 months. All of those were diversifications into new geographies and end-markets, says Rowlett. The distributor is reaping the rewards of that diversification now.

The company's goal is that the new areas, including expansion in factory automation equipment, grow faster than the distributor's core hydraulics business.

## Going Beyond the Traditional

David Gordon of Channel Marketing Group says that electrical distributors continue to explore and dive into datacomm opportunities. Electrical distributors are also considering safety products, tools and even power transmission in some cases due to the complementary nature of some product lines.

In the building materials/construction sector, Craig Webb, editor of ProSales Magazine, says that distributors are diversifying their image to appeal to more customers. "Distributors need to widen products to make themselves more appealing to remodelers as opposed to builders," he says. "Remodelers have more specific product needs that are highly dependent on the project." Example: Kimal Lumber has been remarketing itself as Kimal Lumber & Hardware in order to appeal to a broader marketplace.

While green has been a growth market in building materials and construction, customers aren't always willing to pay for it – especially if

they can't see the "green" in their home. People – and in turn the contractors, particularly in remodeling – are willing to pay for green if they can see it in their homes, but "they won't pay extra for the 2x4s even if they're certified," Webb says.

Coburn Supply Co., Beaumont, TX, an HVAC and plumbing products distributor, has looked beyond residential construction markets and is increasing its focus on waterworks and commercial markets, doing more showroom and custom home work, and targeting remodeling markets. "We continue to improve showrooms to get more consumer-driven purchases," says A.J. Maloney, executive vice president.

Michael A. Hamzey of R.M. Wright says his business in Michigan has also looked beyond its traditional markets for growth. He says that the key is to take a more strategic approach to diversification, avoiding what has in the past been seen – negatively – as being "everything to everyone." R.M. Wright has hired and trained salespeople to focus on its new product lines and markets.

The distributor added product lines that complement its traditional fluid power lines, including electronics and electrical. R.M. Wright has also grown its safety products portfolio.

R.M. Wright has targeted new customer markets, as well, including solar and wind, both which have grown in the Great Lakes area. The distributor has discovered new opportunity with the production of hybrid vehicles.

## More Customer Spend

Some distributors are taking now as an opportunity to educate current and potential customers about the products and services they offer that customers may not have taken advantage of before.

Canadian Bearings, Mississauga, ON, has even gone so far as to move to a new brand: CB. Its message: We offer much more than power transmission and bearing products.

For years, the distributor has sold products outside of its core to integrated supply accounts. For example, the distributor has sold as much in dollar volume in safety products as in bearings in its national accounts business. "We see this as a big opportunity to get more sales from our existing accounts," says Fisher Shi of Canadian

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**'Diversification is a focus ... We don't want to follow the price of oil and the price of coal and natural gas.'**

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Bearings.

The distributor launched a new website this year with this goal, highlighting products not only in PT/bearing but also in safety, MRO, electrical, conveyors, lubricants and more.

### End-Market Trends

These distributors are not alone. In the MDM Market Trends Survey, many companies noted less cyclical industries as growth opportunities, including pharmaceutical, food and beverage, and institutional markets.

Other markets, such as repair and remodel or machinery/equipment, have come back more strongly than others, leading more distributors to focus on them.

In the survey, food and beverage, alternative energy, oil and gas and medical end-markets came out on top as areas in which MDM readers are seeing strength.

Construction continues to be the weakest - on the resident and commercial sides - but pulp and paper also was named as a weak end-market for some.

## MODERN DISTRIBUTION MANAGEMENT

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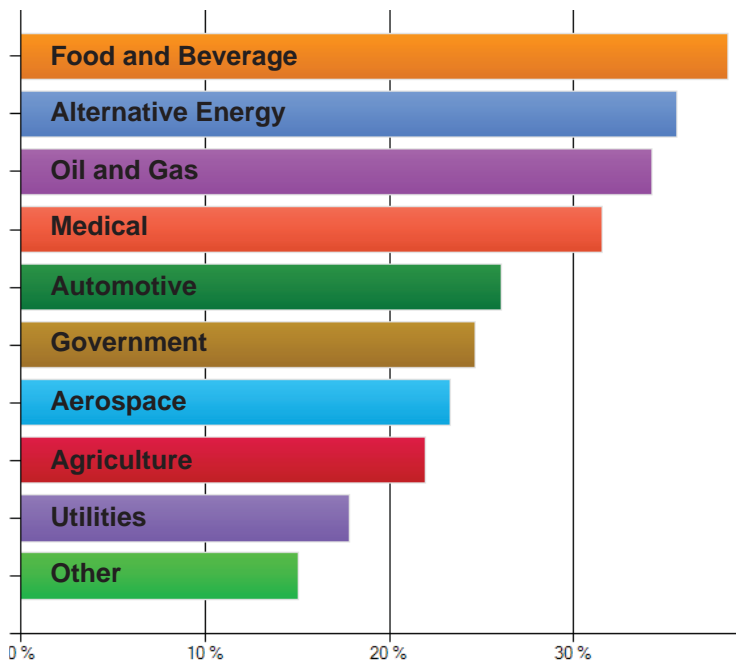
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### In which end-markets are you seeing strength?

Respondents could choose more than one answer.

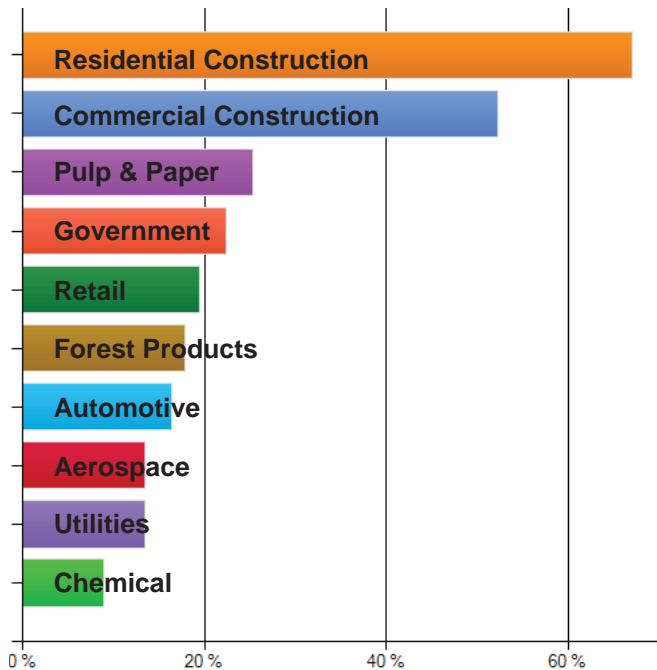


Source:  
MDM Market  
Trends Survey

***'Distributors need to widen products to make themselves more appealing to remodelers as opposed to builders.'***

### In which end-markets are you seeing weakness?

Respondents could choose more than one answer.



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# A More Favorable Environment for M&A

*M&A picks up again, as conditions improve for all buyers*

*This article provides an overview of current trends in distribution M&A.*

2011 M&A Special Report Part 1

**'We're going to start to see a higher volume of deals this year partly driven by capital markets.'**

The last half of 2010 saw an uptick in acquisition activity in distribution as the economy improved. Deals were also pulled into 2010 due to a proposed capital gains tax increase at the end of 2010; even though that change did not go into effect, many distributors pushed forward with deals anyway in either December or January.

"That pulled forward several transactions where companies would not normally have sold for another two to three years," says Jim Miller, co-founder of Vetus Partners, a distribution-centric M&A advisory firm, and principal in Supply Chain Equity Partners, a distribution-focused private equity firm.

Due to this, the pace of distribution M&A has just recently picked up steam again for 2011. "We expect a lot of M&A activity in the back half of 2011 and in 2012," Miller says.

## Financial vs. Strategic Buyers

The environment has grown more favorable for buyers of all types. "We're going to start to see a higher volume of deals this year partly driven by capital markets," says Curt Tatham, managing director for investment bank Lincoln International. Tatham leads the firm's distribution group. "Financing markets are more available to companies now."

Larger distributors have been aggressive about taking market share, taking advantage of current market conditions and healthy cash balances to make strategic acquisitions.

The drivers of consolidation for many of these companies include product portfolio expansion, expanding into new geographies, access to new capabilities such as technology or logistics, economies of scale and service expansion.

Large public consolidators are also looking to support growth expectations in the market. "Public markets are expecting double-digit growth," Miller says. "To support these valuations, they will need to buy growth in a lot of instances."

Distribution continues to be an attractive target for financial buyers, who are back in force with accumulated dry powder upwards of \$500 billion and leverage ratios for the largest deals

returning to pre-recession levels. With 2009 considered a "dead year" for many private equity firms doing deals, there is pressure to deploy a growing stock of cash. "Several funds are behind on their investing schedule," Miller says.

Tatham agrees. "By our estimate, it would take 4.5 years to go through all the capital they are sitting on," he says. Another factor that may contribute to increased activity: Private equity firms that invested in a company in 2005 or 2006 may be looking to exit those investments in the next couple of years.

## Deal Size

In general, the mid-market (more than \$100 million, less than \$500 million) is seeing more activity than the small or large ends right now. "Where we see things the hottest right now is the middle market which fits like a glove with the private equity and the strategic buyer universe right now," Miller says.

Private equity firms are actively seeking out platform companies. And those that back regional platforms are looking to build them up. "We're seeing a lot of activity on the very small side as equity-backed distributors are buying smaller companies," says Jason Kliewer, director, investment banking at Robert W. Baird & Co. Kliewer is a member of Baird's distribution team.

And the small end of the market is ripe for acquisitions as many struggle to support growth as demand picks back up. In 2009 distributors were able to convert inventories and receivables into cash; but now, banks are not extending the same credit terms for smaller companies, making growth for these distributors tough.

"As we head into the upswing of the cycle and see strong earnings forecast, to fund that growth you have to invest in working capital," Kliewer says.

Rising commodity prices are complicating the issue further. In fact, Miller says he has seen an uptick in cash-strapped companies coming to market. "We're seeing more distressed opportunities today than we were a year ago," he says.

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### Valuation Trends

Miller estimates that valuations on average are 5X to 8X EBITDA, with platform companies receiving more, and smaller companies receiving less.

Platform companies are highly attractive, and therefore drive higher valuations in the market. When looking at whether a distributor is a platform investment, buyers consider the breadth and depth of the management team (corporate and branch); IT systems; value-added services; defensible market position; scalability; and diversity of customer and supplier base.

"There is tremendous demand for new platform investment opportunities for private equity," Miller says. But when you start dipping into smaller companies – or add-ons to platforms – prices go down. He says a valuation depends on many factors, including the company's individual history and the markets it serves.

Kliwer agrees. "The only thing we can say consistently does seem to hold up in distribution and the M&A markets in general is as you move up in size, you do see an increase in EBITDA multiple from a valuation standpoint," Kliwer says. He says that many large distributors would expect to buy a small distributor for 4X or 5X EBITDA. A \$50 million to \$100 million company may draw up to 6.2X EBITDA. A strong platform might draw 7X to 10X.

The increased competition between private equity firms and strategic buyers, as well as favorable lending environment for deals, is pushing valuations higher for the best companies.

### The Numbers

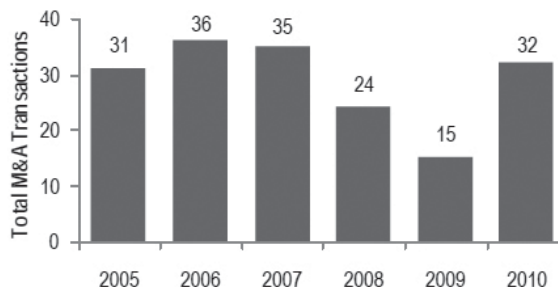
A recent report released by Robert W. Baird & Co. provides insight into M&A trends over the past decade in industrial distribution. The firm broadly defines industrial distribution in the report as a diverse sector that includes automotive aftermarket, building and roofing products, electrical and automation, flow control, jan-san, industrial supply, integrated supply, PVF, safety, and others.

Baird analyzed 811 transactions, most of which were majority-stake transactions. For the 190 deals with a reported value, the median deal size was \$66 million. Industrial distributors in this analysis were involved in 14 \$1 billion-plus

### Trends in Distribution M&A: 2005-2010

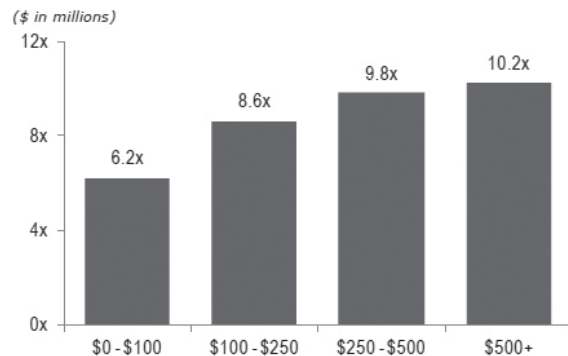
#### M&A Transactions by Year

Most deals reported in the period studied by Robert W. Baird & Co. had no disclosed value. This chart is meant to provide M&A activity trend information based on available data.



#### Median LTM EBITDA Multiples by Transaction Size

When studying the past five years of M&A in distribution, Baird noted a correlation between transaction values and LTM EBITDA multiples. This is consistent with trends in the broader M&A market, where larger targets command typically premium valuations.



Source: Robert W. Baird & Co., Dealogic.

transactions in the 2005 to 2010 period.

According to Baird, the number of deals between 2005 and 2010 was highest in 2006 and 2007. M&A activity slowed significantly in 2008 and 2009, followed by a doubling of activity in 2010. Still, 2010 dollar volume was well below values seen in 2006 and 2007.

Since 2005 strategic acquirers have accounted for nearly two-thirds of distribution deals with reported value of \$100 million or higher.

Financial sponsor activity picked up in 2010, as 7 of the 13 \$100+ million transactions analyzed by Baird involved private equity buyers.

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***'There is tremendous demand for new platform investment opportunities for private equity.'***

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# Private Equity Drives Deal Demand

*Financial buyers return to market, focused on platforms for growth*

*This article examines the role private equity is playing in the consolidation of distribution markets.*

2011 M&A Special Report Part 2

**'At some point you want to bring someone in to take part of the risk.'**

Private equity capital continues to play a key role in driving consolidation through platform investments and add-on acquisitions in distribution. Take hose and accessories distribution. At least three major distributors in that sector are private equity-backed and aiming to expand their geographic presence.

Hose and accessories distributor Lewis-Goetz & Company welcomed outside investment about four years ago to accommodate conflicting demands on the business: an owner seeking liquidity and the company's desire to continue growing by acquisition.

So private equity firm Audax Group took a majority stake, allowing the distributor to continue executing on its strategy to build a national presence. Lewis-Goetz is now nearly 50 percent larger and has nearly doubled its locations since the investment.

Houston, TX-based GHX Industrial has followed a similar path. The CapStreet Group invested in the hose and accessories distributor the same year Audax invested in Lewis-Goetz. GHX's owners stayed with the company.

"They could see the opportunities ahead for the industry," says Michael Young, managing partner at CapStreet. "... They'd made several acquisitions but at some point you want to bring someone in to help take part of the risk."

A third hose and accessories distributor – Singer Equities – came onto the scene about six years ago as a spinoff from Indusco Group. LLR Partners Inc., a private equity firm, bought the group of industrial rubber distributors in mid-2008. Singer has pursued several acquisitions, targeting companies with less than \$30 million in annual sales, according to its website.

## The Attraction to Distribution

Private equity firms are attracted to distribution for strong cash flows distributors can see even in down times, multiple growth and margin enhancement opportunities, and recurring revenues.

Jason Kliewer, director in investment banking at Robert W. Baird & Co. and a member of Baird's distribution team, says there are many levers that can be pulled to build the top line and control costs in distribution.

"There are opportunities to become more efficient and more profitable through the intelligent use of technology," says Will Burnett, a managing director with Owner Resource Group. "And there are many examples of things that allow a distribution business to expand the value they can provide to the end customer. Those two things – technology and value-add – are attractive to us."

In addition, he says, the diversified exposure that comes with buying a company that serves many end-markets is attractive.

The fragmented nature of most distribution sectors is also attractive to financial buyers – economic buyers looking for a high return on investment – seeking a platform whose value can be enhanced through add-on acquisitions.

"The distribution space is rich with targets for add-on acquisitions across different types of end-markets," says Reed Anderson, senior vice president at Houlihan Lokey and head of the investment banking firm's distribution practice.

Private equity interest in distribution across sectors has not waned, despite a dry spell in late 2008 and 2009 due to tight credit markets and the recession. In fact, that dry spell may be part of the reason demand for acquisitions has recently picked up. The firms are looking to invest the capital they were unable to use for nearly two years.

## What's Driving Recent Investment

Jim Miller, co-founder of advisory firm Vetus Partners and principal in distribution-focused private equity firm Supply Chain Equity Partners, says that one of the key drivers of M&A in distribution is private equity firms' demand for deals.

Due to an M&A standstill on the financial buyer side at the end of 2008 and throughout 2009, private equity firms have a pile of cash from investors that must be spent. Some estimate that there is upwards of \$500 billion available.

According to Anderson, private equity firms raised nearly twice as much money in the four years leading up to 2009 as they did in the 10 years before that.

"By our estimate, it would take 4.5 years

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to go through all the capital they are sitting on. But that is not their business model,” says Curt Tatham, managing director for investment bank Lincoln International. Tatham leads the firm’s distribution group.

Compounding that: Credit markets have reopened.

“The credit markets are as strong as they’ve been in years, which enables private equity groups to get more aggressive bidding for businesses because they have more leverage available to them,” Anderson says.

Miller agrees, saying that leverage ratios have nearly returned to pre-recession levels, which is pushing valuations up for the best companies that can serve as platforms for future acquisitions.

On the other side of the coin, private equity firms that made investments five or more years ago will likely be looking to sell, which should also drive M&A over the next two years. “They need to buy and sell businesses to succeed and survive,” Anderson says. “They need to show returns to their limited partners to raise new capital.”

“I won’t be surprised if the majority of these companies don’t at least test the market before the end of 2012,” Miller says.

Private equity firms typically will sell to another private equity firm that does larger deals or has a different set of skills; or they will sell to a strategic buyer. The idea is to get a return for their investors.

In some cases, private equity firms have taken companies public as an exit strategy. This was the case when CHS Capital, previously known as Code, Hennessy & Simmons, exited Beacon Roofing Supply in 2004 – after growing it to around \$800 million from \$72 million in 1997 when CHS initially invested in the business. Beacon is now a \$1.6 billion public company.

CHS’s current investments include fluid power distributor SunSource, Addison, IL, and infrastructure products distributor MSC Waterworks. It recently sold fasteners distributor The Hillman Companies Inc. to Oak Hill Capital Partners in a deal valued at \$815 million.

Peter Gotsch, who formed Ellipse Capital (owner of Ward Adhesives) in 2008 to focus on distribution investments, was previously with CHS Capital as the co-leader of the distribution team.

While the extreme success of the Beacon investment may be rare, he says the right companies with the right systems and management provide great opportunities for growth

geographically or through expanded product offerings. “I think M&A conditions have improved tremendously since 2009,” he says.

### Long Runway for Growth

The strategy of more and more private equity firm-backed regional distributors resembles that of large strategic buyers. “There are still a number of distributors in that space and a lot of runway for them to make acquisitions to grow into more of a national player,” Baird’s Kliever says. Organic growth also plays a part.

Sterling Investment Partners became a majority shareholder in \$130 million flow control products distributor FCX Performance, Columbus, OH, in the second half of 2008 – right when the financial crisis started. In a post on FCX’s website, Chairman Charles Santoro said that despite the timing, FCX was an attractive investment for the firm. “Even in that macro environment, we never lost sight of the fact that this was a very dynamic distribution platform,” he said in the blog post. “It’s highly scalable.”

FCX Performance CFO Charley Hale told MDM the investment by Sterling fueled FCX’s growth plans. “We had done a lot of acquisitions in our history, but the driver of the transaction with Sterling in 2008 was additional capital and resources to accelerate the growth trend,” he says. And the driver for FCX’s acquisitions is strategic in nature. The distributor sees opportunities to expand its reach in certain product areas, including pumps and filtration, as well as grow into new end-markets.

“Our markets are still very fragmented,” Hale says. “... We are looking for companies in good geographies with good products – and the key to bring that all together is a great management team and a great employee infrastructure.”

New York-based CI Capital Partners bought Valley National Gases, an industrial gases distributor, in 2007. The already acquisitive distributor had \$220 million in sales at the time; when CI Capital Partners sold the company to Matheson Trigas in 2009, Joost Thesseling, a managing director at CI Capital, said the firm had completed eight add-on acquisitions.

CI Capital Partners recently invested in another industrial gases distributor, Tech Air, Danbury, CT. The sector is attractive to CI Capital Partners because of the fragmented nature beyond the top three in the space – Airgas, Praxair and Matheson. “Airgas, Matheson and Praxair are qualified buyers,” he says. “But we believe there is room for another participant in consolidating the industry.”

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***‘The credit markets are as strong as they’ve been in years, which enables private equity groups to get more aggressive.’***

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CI Capital Partners is also the owner of Conney Safety, a catalog-based safety products distributor it purchased in 2007 for \$48 million. Since then, the firm has made one add-on acquisition and has plans to continue acquisitions in 2011. The firm has no immediate plans to sell Conney.

### Overcoming the Private Equity Stereotype

Ongoing success with investments in wholesale distribution have kept private equity firms coming back for more; but some private equity firms say they still find they need to educate potential sellers on the benefits they can provide. And some say that highly publicized failures – including the Ch. 7 bankruptcy of private equity-backed flooring distributor Hoboken Wood Flooring in 2008 – turned some potential sellers off of private equity.

But Anderson says that there are many models that private equity firms employ, and depending on what a seller's objectives are, private equity may be a great fit or may not be the best path. A strategic acquirer may be a better option.

"Every private equity group is not the same," he says. "Different groups have different perspectives. Some will invest in trying to build out a business and make operational changes. Others are just interested in financial engineering. Depending on what a seller is looking for, one can find the right partner."

Some smaller private equity firms were founded on the premise of making themselves more attractive to a sector of the seller universe.

Supply Chain Equity Partners was founded and supported by distribution veterans and other investors who have served the distribution industry. At the time it was formed in 2007, Miller explained to MDM the decision to form a distribution-focused private equity fund: "Supply Chain Equity was created to fill a void in the distribution sector that was expressed by distribution-company owners. ... Some owners expressed frustration with some more traditional private equity funds about their knowledge of distribution."

Owner Resource Group, also founded in 2007, was founded on the idea that a more personal approach was needed to help owners sift through the confusion that often surrounded private equity capital. The firm has eight people. "We all had backgrounds in private equity and management consulting, and we realized that private equity did not have a positive reputation," Burnett says. "We had been fighting that headwind. But we also knew there was a lot of

### Selected Private Equity Firms Invested in Distribution

Here are examples of private equity firms with current or past investments in wholesale distribution businesses. (Examples of past or current investments in parentheses)

- Supply Chain Equity Partners (Cone Instruments)
- Brazos Private Equity (ORS Nasco, BlackHawk)
- Ellipse Capital (Ward Adhesives)
- Freeman Spogli (Brooks Equipment)
- CI Capital Partners (Tech Air)
- Bain Capital (HD Supply, IMCD Group)
- Clayton, Dubiler, & Rice (Univar, HD Supply)
- CHS Capital (SunSource, Pool Corp.)
- Gores Group (Stock Building Supply)
- Luther King Capital Management (IDG)
- TPG (American Tire Distributors)
- Clearlake Capital Group (Coast Crane Co.)
- Audax Group (Lewis-Goetz & Co.)
- Sterling Investment Group (FCX Performance)
- Oak Hill Capital Partners (Hillman Companies)
- The Capstreet Group (GHX Industrial)
- Owner Resource Group (Global Parts Distributors)
- Carlyle Group (HD Supply)
- LLR Partners (Singer Equities)

confusion around private equity."

So the founders, who invest in small to medium-sized businesses, decided to create a firm that worked directly with business owners and management teams rather than go through brokers. "I've spoken with 400 business owners in the past year. To a man or woman they each have a different outlook and set of goals," Burnett says, which supports the idea that in the end, a solution for outside capital is not the same for each company.

### Advice for Sellers

Private equity is attractive to sellers that want to continue running their businesses, according to experts. It's also attractive to sellers that want to grow via acquisition, but may not have the expertise or history to do so.

"They have the expertise in-house to do the acquisitions – the owner brings in a partner who can help him grow the business and provide additional capital," Anderson says. Private equity firms may be able to help the company pursue growth that the firm wasn't able to before.

And the resources private equity firms bring can go beyond just money and advice on transactions. More private equity firms have brought in former executives of distribution companies such as Wolseley, Wesco, Grainger, and Anixter. These executives are brought in to examine and advise on potential deals; if those deals go

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***'The owner brings in a partner who can help him grow the business and provide additional capital.'***

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through, the executives are usually placed on the boards of those companies to provide another level of distribution-specific expertise.

On the flip side, when you sell your business to a private equity firm, know that it may be sold again in another five years or so, due to the nature of the industry. But if private equity is an attractive option, experts recommend finding a firm that you feel comfortable working with

and that supports your goals for the business.

“Talk to multiple people. Most good companies get calls from investment bankers and private equity firms,” Thesseling says. “Money is money, but most private equity firms are small places. If you’re selling your business to a private equity firm, particularly if you are staying on, you will be partners with these people for a long time. Chemistry is incredibly important.”

## Strategic Acquirers Pick Up the Pace

*Growth expectations, cash stockpiles & share opportunities spur activity*

*This article explores strategic buyer trends in today’s distribution M&A markets.*

Allan Chartier – president, CEO and owner of Midwest Industrial Tools Inc. – wasn’t necessarily looking to sell his Omaha, NE-based industrial MROP distribution company.

But when DGI Supply, a DoAll Company, approached him, he gave the idea serious consideration. He knew DGI Supply’s leaders through decades of work in the industry association. Most importantly, he trusted them.

“It’s still a relationship business as far as I’m concerned. ... They got my interest because I could look them in the eye and trust them,” Chartier says. Chartier, a 37-year employee for Midwest Industrial Tools and owner since 1982, did not have a succession plan in place for the business.

There were other reasons the deal made sense. DGI Supply and Midwest Industrial Tools are both Sandvik and 3M distributors, for example; they are similar culturally; and integrated supply and vending are a core part of both distributors’ growth strategies.

Chartier’s decision to sell his business to DGI Supply is not unlike that of other small and mid-sized family-owned distribution companies who have sold to strategic buyers – usually large public companies or family-owned distributors – in the industry.

“Every acquisition that I’ve been involved in has been driven by a relationship I started with an owner,” says Todd Barlett, vice president-acquisitions and global business development for public distributor Applied Industrial Technologies, Cleveland, OH. He says acquisition opportunities often spring from long-term relationships. “A real trust and relationship has to be built,” he says.

It is expected that more family-owned dis-

tributors will consider selling their businesses in the next couple of years as earnings (and therefore valuations) improve. And for many, strategic acquirers such as DGI Supply and Applied Industrial Technologies are an attractive option. Strategic players benefited from less competition for deals over the past couple of years when private equity firms were essentially sidelined due to tough financing conditions.

As the economy and credit markets bounce back, private equity firms have also come back.

Despite increased competition in M&A, strategic acquirers have stepped up acquisitions and plan to continue using acquisitions as a path to growth over the next year.

“I think you will see an increase in acquisitions – from the buying side as companies’ balance sheets become stronger and they are more confident in the market, and from the selling side as owners take advantage of improved valuations and businesses look to unload some investments,” says Frank Roach, CEO of HVAC/plumbing distributor Ferguson Enterprises, Newport News, VA, owned by Wolseley plc.

### Motivation to Buy

Much of the motivation on the buyer side is not unlike that of private equity-backed distributors like FCX Performance or Lewis-Goetz and Company, which are building out a broader geographic presence.

Some strategic acquirers, like privately held DGI Supply and power transmission/bearing distributor Purvis Industries, are also looking to strengthen their national presence or position in regional markets. Many distributors are also looking to expand their product breadth.

Larger public distributors are also motivated by the need to spend cash that has built up on

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**‘A real trust and relationship has to be built.’**

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### 2011 M&A Special Report Part 3

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their balance sheets over the past two years.

Jim Miller, co-founder of Vetus Partners, a distribution-centric M&A advisory firm, and principal in Supply Chain Equity Partners, says the public markets are expecting double-digit growth. "The organic growth is better in some sectors than others, but most executives I talk to are not highly confident in double-digit annual growth in each of the next three to five years. To support those valuations, they will need to buy growth in a lot of instances."

Curt Tatham, managing director for investment bank Lincoln International, agrees. "When you look at where these public companies are valued, there is clearly an expectation that the top line is going to come back," he says. "... They are looking for ways to augment their growth."

Barlett says this is the case with Applied, which like other public companies, accumulated cash and reduced debt during the downturn. And while organic growth is also important to Applied, Barlett says that acquisitions can often create value more quickly for shareholders – especially in new markets, such as fluid power and globally. Roach says that risk in acquisitions is perceived as lower right now. "And there has been an increase in corporate and investor confidence," he says.

### Sector Consolidation

The bearing and power transmission product distribution market is a good example of a sector that has seen a lot of activity by its three largest distributors in recent years. Many sectors have seen similar moves by market leaders.

Motion Industries, Kaman Industrial Technologies and Applied Industrial Technologies have all been busy making acquisitions to expand in the U.S., Canada and Mexico and to broaden their product portfolios beyond bearing and power transmission products.

Applied's Barlett says that the distributor is seeking acquisitions to expand its product breadth, service expertise and global position. While tuck-in acquisitions to support the distributor's core business continue to be important, platforms for new markets are also attractive.

For example, Applied bought seven distribution businesses from Fluid Power Resource LLC in mid-2008, right before the market crashed that fall. Those businesses had 2007 sales of \$244 million when they were purchased. Fluid power is a fast-growing part of Applied's business.

Kaman, Bloomfield, CT, is also growing in

complementary product areas. "By itself with the business recovery in the OEM sector, Minarik was a great acquisition," Steven Smidler, president, told MDM in late 2010 of its expansion in motion control through the purchase of Minarik. "Very complementary, minimal overlap. We will continue to look for ways to expand both our classic bearing/PT/fluid power segment and our motion control and automation."

Another platform business Applied has recently invested in: fasteners. UZ Engineered Products, Cleveland, OH, acquired in 2010, had sales in 2009 of \$23 million. UZ also sells a line of other industrial supplies, an area Applied, Motion Industries and Kaman have all expanded in recent years.

Birmingham, AL-based Motion Industries President Bill Stevens told MDM in 2008 that the distributor's commitment to being a bearing and power transmission-hydraulics distributor is strong. But the distributor also recognizes opportunities in industrial supplies. "The product area is less technical in nature, but fits our MRO world," he said. "...Our goal is to replicate in the industrial supplies business what we've been able to do in the bearing and PT business."

In 2008, the distributor made two acquisitions in industrial supplies: Drago Supply and General Tool and Supply. Motion is also growing in automation, as well as services and integrated supply. Motion Industries has announced two acquisitions so far in 2011.

Deal flow is strong, Barlett says. "It's really bounced back." Applied's focus is on quality businesses, he says, not "fixer-uppers." "We've looked at a lot of opportunities in the past year," he says. Pricing for deals has stabilized, he says, and the risk has declined. In fact, many companies that took their businesses off the market back when the recession hit have returned thanks to improved valuations.

### The Sell Side

For sellers, the growth opportunities that come with being owned by a much larger company are attractive. Chartier of Midwest Industrial Tools says that was one factor that led him to agree to sell to DGI Supply.

"Frequently we find an individual who is second or third generation and doesn't have another generation that wants to continue in the business. But they have built a great business and want to finish their career with HD Supply," says HD Supply CEO Joe DeAngelo. HD Supply, a \$7.5 billion distributor previously owned by Home Depot, is now private and backed by

**'To support valuations, they will need to buy growth in a lot of instances.'**

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private equity firms. Home Depot retains a share in the business.

Bill Derville, who sold General Tool and Supply to Motion Industries in 2009, told MDM after selling that the move would help take the company to the next level whereas before General Tool had had to pass on growth opportunities it did not feel it had the capital to pursue. The distributor wanted to be able to service customers on a larger scale.

Drago Supply, Port Arthur, TX – also purchased by Motion Industries – also cited growth opportunities as one reason why it sold. At the time, Sam Drago, executive vice president, told MDM: “Business is more complicated today than at any other time in our history, and there is a trend towards contracts with a larger geographic scale than we could offer.”

Some acquisition activity on the strategic buyer side is also being driven by companies rationalizing their business portfolios. Lawson Products Inc., Des Plaines, IL, sold Rutland Tool in late 2010 to MSC Industrial Direct Co. Inc. because it did not fit with its core strategic focus. Rutland Tool is an industrial supplier focused on metalworking products – MSC’s traditional focus – and Lawson is focused more on the MRO side of the market, which is more profitable for the distributor.

While many of the acquisitions we hear about are of larger distributors interested in moving to the next level or distributors divesting businesses, another trend has emerged.

The smallest of distributors that are struggling to fund working capital (some with revenues of less than \$1 million) are being picked

up by small to mid-sized distributors that, in essence, “buy” the assets by continuing to employ the ownership and staff and serve customers.

The business is swallowed by the new company, but it prevents the owner from liquidating the business and laying off employees.

### Outlook

The recession certainly slowed activity in distribution mergers and acquisitions not only on the private equity side, but also on the strategic buyer side. That led to some pent-up demand for buyers and sellers.

“Over the past few years, many companies focused on capital discipline and organic growth rather than acquisitions,” Ferguson’s Roach says.

But as the market has turned around, that focus has shifted, he says. Quality and quantity of deals continue to be strong for strategic acquirers, and they say that valuations have come back in line with seller expectations.

While there are many options for sellers interested in an exit strategy or in finding a way to support growth, usually a company knows whether they want to consider a financial buyer or to sell to a strategic buyer, who is sometimes a long-time and well-known competitor.

Chartier preferred to sell his business to another family-owned company that he knew well, rather than entertain the proposals he received from private equity firms.

“My employees are near and dear to my heart,” he says. “I wanted to take care of them and give them a tremendous opportunity going forward, and that’s what we’ve done.”

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***For sellers, the growth opportunities that come with being owned by a larger company are attractive.***

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# 2011 Sector Lists & Reports

Market Leaders and Sector Trends for the following sectors:

- \* Industrial
- \* Power Transmission/Bearing
- \* Fluid Power
- \* Electrical
- \* HVACR/Plumbing/PVF
- \* Building Materials
- \* Gases & Welding Equipment
- \* Electronics
- \* Safety
- \* Other Distribution Sector Market Leaders
  - Fasteners
  - Pharmaceutical
  - Plastics

\* **APPENDIX:** Company Listings (incl. summary of company, revenues, sales growth/decline, employees, locations and key executives where available)

## Methodology for 2011 MDM Market Leaders Lists

These are the 2011 MDM Market Leaders. The lists are ranked in order of fiscal 2010 revenue size alone; no other factors were used to compile these lists.

This year we refined the lists to as accurately as possible reflect North American revenues where they are clearly broken out by the global distributors. For example, rather than list Wolseley plc as the top industrial distributor, we listed its North American subsidiaries, Ferguson/Wolseley Canada. Another example: Global fastener distributor Bossard falls in the top 40 industrial listing because we used just the revenues from its Americas segment.

We also added distributors that were excluded last year, including market-leading fluid power distributors SunSource and Berendsen Fluid Power. This changed the makeup of the top 40 industrial distributor list.

We collected data for this report in several ways. Companies were asked to fill out a form online providing data about revenues, trends and executives. In addition, forms were sent to

companies known to be the largest players in their sectors. We also utilized SEC annual filings for public companies.

In the end, not every company was willing to provide us with revenue data for 2010, yet we deemed it important to include them anyway (e.g. McMaster-Carr, SunSource, etc.).

We utilized several resources to estimate where to place these companies on their respective lists. These resources included: past reported revenues, average revenue increases within the sectors, data from economic reports and conversations with industry experts.

All companies for which we estimated revenues and/or position are notated with "N/A."

Revenues for all companies in this report are provided in U.S. dollars.

For companies who report their data in other currencies, we converted their revenues to U.S. dollars using the exchange rate in place on the last day of that company's reported fiscal year to determine ranking.

**PERSPECTIVE** ■ *Commentary by Thomas P. Gale*

## MDM's Top Distributors: The Ultimate Reality Show

This is our annual update of the top 40 largest industrial distributors and the largest distributors in 11 other sectors. The big are getting bigger. That is not entirely surprising given the economic rebound.

Predictably, those distributors dependent on the construction industry are having the hardest time regenerating their growth rate. Ferguson/Wolseley Canada, still No. 1 on the Top 40 list at \$9.4 billion in annual revenues, saw revenues shrink by more than 7 percent. HD Supply, No. 2 with \$7.5 billion in annual revenues, grew just over 1 percent.

More importantly, our report on the state of the distribution industry goes beyond revenue size indicators. How can you not go deeper when the primary descriptor for wholesale distribution is fragmentation? The findings in MDM's annual landscape report - the first articles are in this issue - show how wholesale distribution is becoming more complex.

This year, we expanded our analysis of product sectors from eight to 12. They are industrial, electrical, power transmission/bearing, fluid power, HVAC/plumbing, building materials/construction supplies, fasteners, gases/welding equipment, safety, electronics, plastics and pharmaceutical distribution sectors.

We identify the largest companies in each

individual sector, but we also profile key shifts. This includes product line expansion and channel convergence. Grainger (No. 3) continues to increase SKUs and is using acquisitions as a growth vehicle. Others, such as Motion and Kaman in power transmission/bearing, are acquiring industrial supply companies. Of course some distributors have gone the other direction, keeping a strict focus on core competencies in an attempt to differentiate.

Size will always be the easiest metric, but not always the most meaningful. The lessons of the past three years have made that painfully clear to every distribution executive. If there were a way to accurately rank this industry by profitability instead of revenue size, our list would probably look different and may not correlate directly to revenues.

That's not taking anything away from the achievements of those on our lists. The quality of a company - from the leadership to those on the front lines - is also measured by how customers vote where to spend their dollars. That is the ultimate reality show in distribution.

Our editors survey and interview hundreds of executives throughout the year assembling the data and insight for this annual update. Thank you to all who have generously shared your knowledge and insight.

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***Distributors dependent on the construction industry are having the hardest time regenerating their growth rate.***

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# Industrial Sector Report

*MDM Market Leaders: Top 40 Industrial Distributors*

## Key Trends

### 1. Diversification of Product Offerings

Distributors continue to diversify and add product lines, including private label, which has become a significant percentage of some larger distributor's sales. Safety and jan-san are both complementary growth areas, especially for those industrial distributors focused on MRO. Customers continue to want to consolidate suppliers, and distributors have worked hard to educate them on the array of products they offer.

For example, Canadian Bearings has gone so far as to change its name and branding to CB to move past its traditional product areas in the mind of its customers. The distributor says it has grown its product offerings over the year to serve national accounts, and now it wants to grow spend in other customer accounts. As an example of the mindset of these distributors, MSC Industrial Supply COO Erik Gerswind told MDM earlier this year: "We put the most focus on are the product lines that logically are in the most demand from our customers. Certainly metalworking, our core business, would be a big one. Other examples would be safety supplies, hand and power tools, material handling products and fasteners to name a few." To expand product lines, some distributors are using acquisitions.

### 2. Ecommerce/Online Tools Become More Sophisticated

The largest – and even some of the smaller – distributors in this sector expanded and improved their websites over the past year. Grainger, for example, gets 25 percent of its sales from its ecommerce site. MSC Industrial Supply gets nearly a third. The sites are starting to resemble B-to-C best practices.

Still, not all industrial distributors are jumping into online transactions. While they are updating their websites, online buying is not part of the equations for distributors like Lewis-Goetz & Co., which has a highly technical product and service line. "The products we sell for the most part don't lend themselves to that," says CEO Jeff Crane. "We don't sell from a catalog, and we don't sell off a shelf. Everyday our locations are making and fabricating products specific to a customer and an application. The other dilemma for us and the products we sell

## Top 40 Industrial Distributors

1. Ferguson/Wolseley Canada: \$9.4 billion
2. HD Supply: \$7.5 billion
3. Grainger: \$7.2 billion
4. Airgas: \$3.9 billion
5. McJunkin Red Man Corp.: \$3.9 billion
6. Motion Industries: \$3.5 billion
7. Fastenal: \$2.3 billion
8. Wilson/CE Franklin: N/A\*
9. McMaster Carr: N/A
10. Applied Industrial Technologies: \$1.9 billion
11. Sonepar Industrial (w/Hagemeyer): N/A
12. MSC Industrial Supply: \$1.7 billion
13. WinWholesale: N/A
14. Interline Brands: \$1.1 billion
15. Kaman Industrial.: \$831.9 million
16. Wurth - North America: \$815 million
17. DXP Enterprises: \$656 million
18. FW Webb: \$650 million
19. Barnes: \$548.5 million
20. BDI: \$496 million
21. Turtle and Hughes: \$420 million
22. Industrial Distribution Group: \$418 million
23. Lewis-Goetz & Co. Inc.: \$340 million
24. Lawson Products: \$316.7 million
25. Kinecor: \$303.2 million
26. SunSource: N/A
27. DGI Supply: N/A
28. RS Hughes Co.: \$204 million
29. Strategic Distribution (SDI): N/A
30. Hisco: \$196 million
31. Gas and Supply Co.: \$189.6 million
32. Perry Supply Inc.: N/A
33. Canadian Bearings: \$171 million
34. Berendsen Fluid Power: N/A
35. Bossard America: \$138.4 million
36. Womack Machine Supply Co.: \$134 million
37. FCX Performance: \$128.9 million
38. Kimball Midwest: \$128 million
39. IBT Inc.: \$118 million
40. BlackHawk Industrial: \$110 million

\* Wilson/CE Franklin's revenues - formerly on this list as Wilson Industries - were estimated based on data in the annual report of Smith International, its former owner, and the final quarter of data presented in new owner Schlumberger's annual report.

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is that they can be hazardous if they are applied incorrectly.”

**3. Services Growth**

Inventory management and other services have grown in importance. Grainger and MSC Industrial Supply, for example, have both pointed to inventory management services as a key growth area. Distributors have also grown their expertise in safety to complement their expansion in that area. Customers are looking to distributors to help them be more efficient and provide more resources and services than ever before, and distributors are taking advantage of this to improve their stickiness and sell more products. In the same vein, industrial distributors tell MDM that demand for integrated supply and/or national account services continues to grow, as customers seek to consolidate suppliers and improve efficiencies.

**Acquisitions/Expansion**

The industrial distribution sector remains fragmented, but acquisition activity has picked up significantly in 2011. Here are the key moves from the largest distributors in the industrial sector in 2010 and the first half of 2011:

- \* Grainger has returned to acquisitions as a growth vehicle over the past year. Grainger is using acquisitions to fuel growth overseas, as well as to build out key parts of its portfolio, including services and specialty brands.
- \* Lawson Products sold Rutland Tool to MSC Industrial Supply, in line with Lawson’s plan to focus on MRO and MSC’s focus on its core expertise – metalworking.
- \* In 2010 Airgas fought off a hostile takeover bid from Air Products. While Airgas was on a hiatus from acquisitions during most of the year as a result, it has returned to acquisitions for growth in 2011.
- \* Wurth made a stronger play in North American markets with the acquisition of industrial supplies distributor Oliver Van Horn Co., New Orleans, LA, expanding its capabilities to grow in the complementary market category.
- \* Industrial Distribution Group bought the assets of Alamo Iron Works, a 135-year-old distributor that filed for Ch. 11 bankruptcy protection.
- \* Power transmission/bearing distributors Kaman, Applied Industrial Technologies and Motion Industries continue to be active on the acquisition front, expanding in industrial supplies and in fluid power.
- \* DXP Enterprises continued on the acquisi-

tion trail, with purchases of D&F Distributors and Quadna in 2010, both pumps distributors.

- \* Interline Brands continued to build out its jan-san portfolio with the acquisition of CleanSource, San Jose, CA.
- \* Lewis-Goetz & Company is growing rapidly via acquisition, contributing to its strong growth from 2009 to 2010 by more than 30 percent. The distributor has acquired three companies in 2011 and has plans to continue growing via acquisition.

**The Numbers**

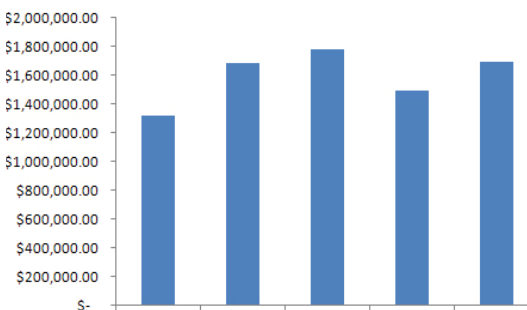
Average growth for companies on list: 10.44%

Economic indicators of interest to this sector:

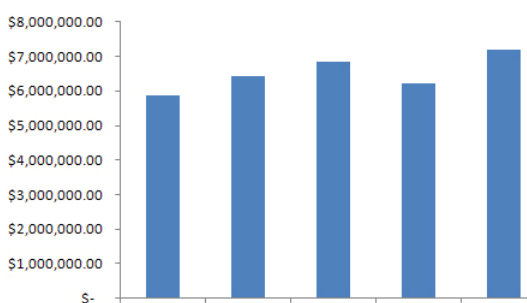
- \* Manufacturing has expanded for nearly two straight years, according to the Institute for Supply Management’s Purchasing Managers Index. The latest report, in June, showed less robust expansion, with slower growth in new orders and production. Employment continues to lag in manufacturing. Cost pressures continue.
- \* Capacity utilization has hovered around 76 percent.
- \* Between December 2009 and December 2010, industrial production increased by 5.9 percent.

**Sales Growth Trends - Fiscal 2006-2010**

**MSC Industrial Supply**



**Grainger**



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# Power Transmission/Bearing Sector

*MDM Market Leaders: Top 10 Power Transmission/Bearing Distributors*

## Key Trends

### 1. Diversifying into New Product Lines

Big distributors diversifying into fluid power, motion control and industrial supplies, as well as expanding in core power transmission and bearing lines. The expansion into fluid power does provide some challenge to these distributors, who have said that fluid power markets tend to be less centralized, contrasting with the business model in other distribution sectors. Canada is a growth market for some. Suppliers also continue to expand their product areas to open their reach to new markets.

### 2. End-Market Opportunities

Distributors say they continue to diversify their end-market exposure. Alternative energy, such as wind power, is attractive to power transmission/bearing distributors looking to take advantage of new markets. Energy efficiency is also a target area for many distributors and manufacturers in this sector, with growing customer interest in more efficient products that can save customers money.

Automotive markets have strengthened. Many power transmission/bearing distributors said that this was an area of growth for them. Oil & gas, as well as the petrochemical industry, is a growth area for some in this sector.

### 3. Technical Expertise Grows in Importance

Customers are demanding more technical expertise, as the products in the channel become more technologically advanced. Distributors are focused on product training and application.

## Acquisitions/Expansion

\* Applied Industrial Technologies has expanded recently in its core, power transmission/bearing. It also bought UZ Engineered Products in 2010, an MRO distributor that expands Applied's ability to serve government markets.

\* Kaman Industrial Technologies acquired motion control distributor Minarik for \$39 million in mid-2010. Minarik, a national distributor, helps balance Kaman's business between OEM and MRO markets. The distributor said that it views Minarik as a platform for future growth. Kaman also acquired Allied Bearings Company last year, increasing Kaman's exposure to oil and

## Top 10 Power Transmission/Bearing Distributors

1. Motion Industries: \$3.5 billion
2. Applied Industrial Technologies: \$1.9 billion
3. Kaman Industrial: \$831.9 million
4. DXP Enterprises: \$656.2 million
5. BDI: \$496 million
6. Kinecor: \$303.2 million
7. Canadian Bearings: \$171 million
8. Grainger (PT): \$122 million
9. IBT Inc.: \$118 million
10. Purvis Industries: N/A

Other: OTP Industrial Solutions

gas and petrochemical industries.

\* Motion Industries was active in 2009, but slowed its acquisition pace in 2010. In 2011, the distributor completed two acquisitions: Dayton Supply & Tool Company and D.P. Brown of Detroit. The former supports its growth in industrial supplies.

\* Purvis Industries continues to grow through acquisition, recently buying BMG of Texas and in 2011 picking up Bearing Solutions Inc., Houston, TX, which was folded into Purvis' newest division serving the oil and gas industry.

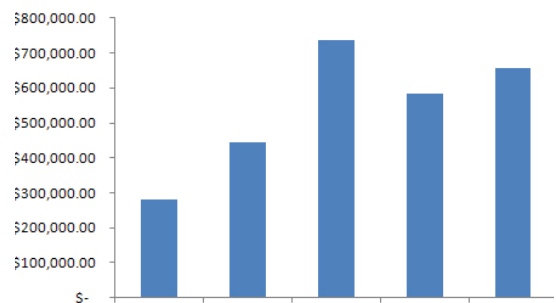
\* BDI has been acquisitive in the first half of 2011, acquiring PneumaTrek National and Gopher Bearing Company.

## The Numbers

Average growth for companies on list: 11.44%

### Sales Growth Trend - Fiscal 2006-2010

#### DXP Enterprises



# Fluid Power Sector

*MDM Market Leaders: Top 5 Fluid Power Distributors*

## Key Trends

### 1. Power Transmission/Bearing Distributors Expand Into Fluid Power

Power transmission/bearing distributors diversifying into fluid power markets, providing both challenge and opportunity for smaller distributors. Some smaller local or regional distributors have benefited from this trend, as they can. "We are looking for ways to use technology to sell the less technical products," he says.

Larger distributors expanding in fluid power have also added services capability, a key element of serving the market.

### 2. Supplier Acquisitions

This sector has seen a large number of acquisitions on the supplier side. Parker Hannifin and Eaton, two of the larger suppliers to distributors in this sector, have been active over the past several years. Parker recently expanded in Brazil with the acquisition of a filter manufacturer.

It purchased \$45 million Gulf Coast Seal in 2010, which is a manufacturer focused on off-shore oil and gas applications as well as machining services.

"This acquisition further strengthens our ability to service the critical oil and gas market and accelerates our growth globally in this key area," said Kurt Keller, president of Parker's Seal Group. The acquisition also expanded the supplier's product line. Tuthill Coupling Group was one of Eaton's recent acquisitions. The manufacturer had sales of \$35 million.

### 3. More Demand for Services

Fluid power distributors say they are seeing more demand from customers for the services they provide. As a result, the amount and level of training has gone up, and solution-oriented selling has become a priority. "Customers are looking to outsource as much labor and as much work as they can," says Rowlett.

### Acquisitions/Expansion

\* Motion Industries, Applied Industrial Technologies and Kaman Industrial Technologies all indicated their desire to continue growing by acquisition of fluid power businesses. Applied Industrial Technologies, which started acquiring fluid power business in the 1990s, said

## Top 5 Fluid Power Distributors

1. Applied Industrial Technologies (FP for calendar year 2010), Cleveland, OH, \$597 million
2. Motion Industries (FP), Birmingham, AL, \$567 million
3. Kaman Industrial Technologies, Bloomfield, CT, fluid power revenues N/A
4. SunSource, Addison, IL, N/A
5. Grainger (FP), Chicago, IL, \$287.3 million

Other large regional Fluid Power distributors: Hydradyne Hydraulics, Berendsen Fluid Power, FCX Performance, Womack Machine Supply

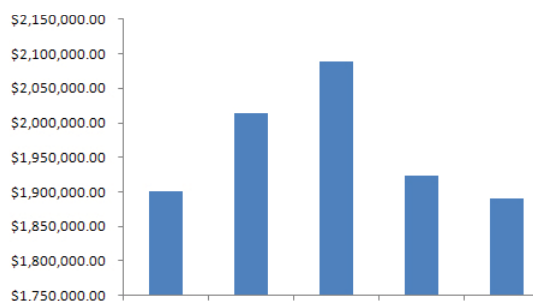
in a 2010 interview that it expects its \$169 million acquisition of Fluid Power Resource in 2008 to start to reap rewards as the economy recovers.

\* In industrial rubber and hose, a related subsector, large regional distributors such as Lewis-Goetz & Co., Singer Equities and GHX Industrial continue to build out their portfolio with a goal of expanding their geographic reach. All three have the backing of private equity firms, which have provided the capital to grow these companies.

## The Numbers

### Sales Growth Trend - Fiscal 2006-2010

#### Applied Industrial Technologies



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# Electrical Sector Report

*MDM Market Leaders: Top 25 Electrical Distributors*

## Key Trends

### 1. Energy Efficiency/Alternative Energy

Just a few years ago, “green” was still being widely considered a fad by many in the distribution sector. Now, energy efficiency and alternative energy are viewed by many as a key growth opportunity – particularly in the electrical sector. Several MDM Market Leaders, including Independent Electric Supply in San Carlos, CA, and McNaughton-McKay Electric, Madison Heights, MI, introduced initiatives in these areas in 2010.

“Energy efficiency in particular is a continuing opportunity in the electrical sector, and it’s not going to be just this year,” says David Gordon, president of Channel Marketing Group. “But the ones who are doing better are the ones who are going out and creating demand rather than just bidding.”

LEDs continue to be a hot product category to meet the growing demand for energy efficient lighting, while solar continues to dominate the alternative energy headlines – primarily due to government regulations surrounding alternative energy and rebates supporting the installations. Price, however, may be keeping these areas from growing more rapidly, says Prudence Thompson, director of electrical distribution at Egret Consulting Group, Mundelein, IL.

Contractor interest in wind projects appears to have diminished over the past year, leading to less demand for wind related products from distributors, according to the 2011 Contractor Insights report released by Channel Marketing Group and Allen Ray Associates. The report surveyed electrical contractors on their expectations for 2011. Contractors continue to rely heavily on distributors to meet their purchasing needs.

### 2. Hiring Focused on Specialization

Hiring is beginning to pick up once again, though companies are being more particular about who and how they hire. “Companies are looking to hire people with specific skill sets in solar, wind and energy management to meet the continuing demand in these areas,” says Thompson.

In addition, Egret is seeing more demand for bringing professional consultants and designers in-house, says Ted Konnerth, CEO and president, Egret Consulting. They’re seeing a need to

## Top 25 Electrical Distributors

1. Sonepar: \$5.2 billion
2. WESCO Distribution: \$4.9 billion
3. Rexel Holdings (Rexel/Gexpro): \$4.8 billion
4. Graybar: \$4.6 billion
5. Anixter: \$3.9 billion
6. CED: N/A
7. HD Supply (Electrical): \$1.4 billion
8. Border States Electric: \$1.0 billion
9. Grainger (Electrical): \$936 million
10. Crescent Electric Supply Co: \$769 million
11. Platt Electric Supply: N/A
12. Mayer Electric Supply: \$568 million
13. McNaughton-McKay Electric Company: N/A
14. Dealers Electrical Supply: N/A
15. EIS, Inc.: \$449.9 million
16. Turtle & Hughes: \$420 million
17. Elliott Electric Supply: \$375 million
18. The Reynolds Company: N/A
19. Wholesale Electric Supply of Houston: N/A
20. Independent Electric Supply: \$370 million
21. North Coast Electric: \$343 million
22. OneSource Distributors: \$335 million
23. Summit Electric Supply: \$301.5 million
24. State Electric Supply Company: N/A
25. City Electric Supply: N/A

have this type of worker on staff rather than on contract, he says.

Distributors are expected to provide more training in specialized areas, as well, providing a significant opportunity for growth. “If you can position yourself as the expert on something, if you have the special knowledge on how to navigate the rebates available to contractors around alternative energies, you will be in demand,” says Jim Filanc, a director at Southern Contracting Company, San Marcos, CA.

### 3. Industrial, Public Markets Driving Growth

“If you’re focused on the residential market this year, you are S.O.L.,” Gordon says. Industrial markets are leading the pack, primarily because of the drive for energy efficiency, and the government continues to invest in projects. Multi-family construction may offer some opportuni-



ties, Gordon says, but it will be highly dependent on the geographies in which you operate.

Government spending and regulations will also drive growth as new buildings will have to meet new requirements, depending on the geography. For example, in California, demand is strong for new health care facilities and to upgrade existing infrastructure to meet new seismic requirements, according to Mike Baker, vice president of marketing and vendor relations at Independent Electric Supply, San Carlos, CA.

**Acquisitions/Expansion**

\* WESCO expanded its product reach with the \$246 million purchase of TVC Communications, LLC, a broadband communications network infrastructure products distributor based in Annville, PA. The purchase also expands Wesco’s reach geographically in international markets.

\* EIS, Inc., a subsidiary of Genuine Parts Co., acquired Seacoast Electric, with locations in New York, Virginia, Texas and California. Seacoast will operate a separate division of EIS. EIS also acquired Fay Wire of Elmhurst, IL.

\* Graybar Canada acquired Avad Industrial Sales, Inc.

\* On the other hand, Rexel sold HCL Asia, a non-core business.

\* Several distributors made expansion moves through opening new locations rather than acquiring other companies, including Summit Electric, OneSource Distributors, and Mayer Electric.

**The Numbers**

Average growth for companies on list: 11.3%

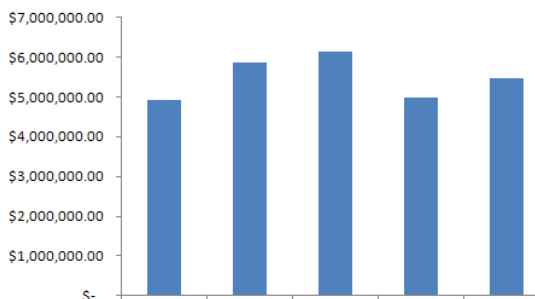
Economic indicators of interest to this sector:

\* Confidence in the electrical market was positive at the end of 2010, with the Electriindustry Business Confidence Index (EBICI) for current North American business conditions climbing to 68 in December, its highest level since June 2010. A reading above 50 indicates more panelists than not reported conditions improved during the month. The report is released monthly by NEMA, the association of electrical and medical imaging equipment manufacturers.

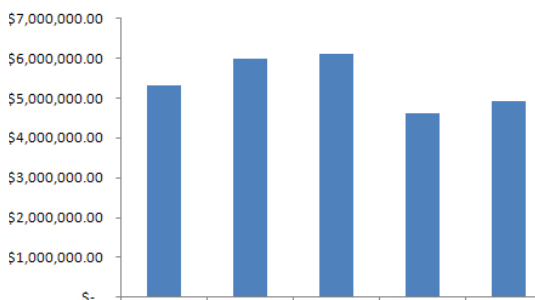
The intensity of change in current North American conditions also edged higher in December increasing to +0.4 from +0.3 the previous month.

**Sales Growth Trends - Fiscal 2006-2010**

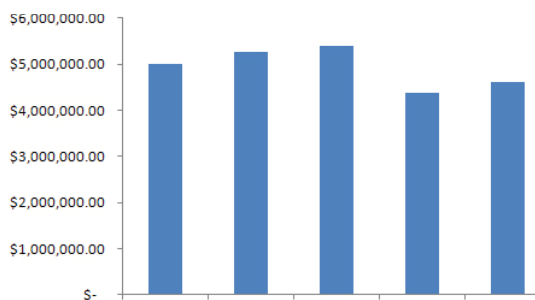
**Anixter**



**Wesco**



**Graybar**



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# HVACR/Plumbing/PVF Sector Report:

*MDM Market Leaders: Top 10 HVAC/Plumbing/PVF Distributors*

## Key Trends

### 1. Growth Rebounds - Slowly

The American Supply Association reported this year that distributors and manufacturers of plumbing, heating, cooling, piping and industrial PVF products are reporting single-digit growth in 2011, though the distributors and manufacturers under \$10 million in annual sales are still seeing declines overall.

Heating, Airconditioning and Refrigeration Distributors International recently reported sales have grown only slightly, but growth trends vary depending on the U.S. region. Canadian distributors continue to see declines. Inventories are being rebuilt. Commodity prices continue to rise, squeezing distributors who are seeing high price sensitivity by end-users bidding on the few construction projects available.

### 2. Regulatory and Policy Shifts Change Demand

HVAC distributors in particular are affected by myriad policy and regulatory shifts, providing both challenges and opportunities. As new regulations are implemented in the U.S., and more efficient and cost-effective models are introduced, replacements have grown more attractive than repairs. "They're all going to break; they're all going to face extinction of some kind," Barry Logan, senior vice president of Watsco, said in late 2010.

That said, there has recently been a slide in the sale of high-efficiency units. HARDI, the association for HVACR distributors, cites the introduction of "dry-shipped" R-22 units this year and the significant reduction in the 25C tax credit as the main causes of this trend.

### 3. End-Market Diversification

With residential and commercial construction still down, many distributors in these sectors have shifted their focus to repair and remodel markets or to infrastructure projects. Multi-family housing is stronger than single-family housing construction. More distributors are opening showrooms and/or working with custom homebuilders to increase direct end-user exposure, as well. Diversification is attractive to these distributors.

For industrial PVF distributors, oil and gas,

## Top 10 HVAC/Plumbing/PVF Distributors

1. Ferguson/Wolseley Canada: \$9.4 billion
2. McJunkin-Red Man: \$3.8 billion
3. Watsco: \$2.8 billion
4. Hajoca (incl. EMCO): N/A
5. Wilson/CE Franklin.: N/A
6. WinWholesale: N/A
7. Johnstone Supply: N/A
8. HD Supply (HVAC/Plumb/PVF): \$981 million
9. FW Webb: \$650 million
10. RE Michel: N/A

as well as other energy segments continue to grow, but there is a definite trend of distributors diversifying away from these markets.

## Acquisitions/Expansion

Some key moves by distributors in this sector:

\* In HVACR, Watsco and Carrier Enterprises announced another joint venture in 2011, building on their venture that was launched in 2009.

\* WinWholesale opened six new locations in 2010. It continues to grow across the country in the different sectors in which it operates. Its largest sector is HVACR/plumbing/PVF.

\* McJunkin Red Man Corp. is aggressively expanding globally and nationally to reach more energy markets and create a . Recently the industrial PVF distributor acquired Stainless Pipe and Fittings in Australia, enhancing the distributor's global projects capabilities. The acquisition complemented the acquisition of Transmark Fcx in 2009. McJunkin also has expanded in the U.S. in the past year, with acquisitions of Dresser Oil Tools & Supply in Montana and North Dakota, and The South Texas Supply Company in Houston, TX.

## The Numbers

Average growth for companies on list: 8.1%

Economic indicators of interest to this sector:

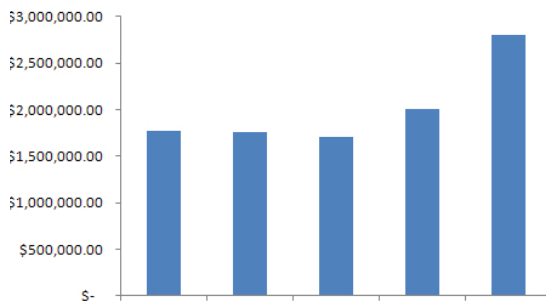
\* Heating, Airconditioning and Refrigeration Distributors International (HARDI) announced North American HVACR average distributor sales for April 2011, the latest data available, were up just less than a percent from the same month last year snapping a string of 10 consecutive months with an average 10 percent annual growth rate.

\* The value of construction in the U.S. in 2010 was \$814.2 billion, 10.3 percent below the \$907.8 billion spent in 2009. Private construction fell 14.3 percent, while public construction fell 2.7 percent in a year-over-year comparison.

\* In 2010, housing starts increased 6.1 percent over starts in 2009, led by increases in the Northeast.

**Sales Growth Trends - Fiscal 2006-2010**

**Watsco**



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# Building Materials Sector Report

*MDM Market Leaders: Top 10 Building Material/Construction Distributors*

## Key Trends

### 1. Remodel /Repair

Construction markets continued to struggle in 2010, particularly when it came to residential construction. According to the U.S. Census Bureau, housing starts were up in 2010 over the prior year, but nowhere near where they were just a few years before. In addition, the value of construction was down significantly.

As a result of the flailing construction market, building materials distributors turned much of their attention to the remodel and repair market in order to “just survive,” says Chris Lynch, COO of Reid & Wright, a building materials distributor based in Broomfield, CO. “Refocusing on products and channels that serve the repair and remodel market kept our sales declines at around 50 percent rather than 75 percent or greater [since 2006].”

Homeowners who can't sell their homes in the current marketplace have turned their attention toward upgrading their existing homes by adding new amenities, such as decks or lofts, Lynch says.

“Distributors need to widen the products they are offerings to make themselves more appealing to remodelers because a remodeler is much more likely to want a specialized product available when they walk in the store, as opposed to a builder who comes in with a plan that you fill over the next several months,” says Craig Webb, editor of ProSales magazine.

### 2. Product Expansion

“In order to succeed in today's operating environment, [building materials distributors] can't be a one-trick pony,” Webb says. Contractors and builders will rely more heavily on distributors to provide a broader range of products and to provide them faster.

For example, Kimal Lumber, a Florida lumberyard, rebranded itself earlier this year as Kimal Lumber & Hardware and added 2,200 SKUs targeted for professional builders and remodelers, Webb says.

The importance of distributors to contractors and builders has not gone down. “The more products you need, the more sources you have to find,” Webb says. As such, they're looking for partners to work with to meet their needs.

## Top 10 Building Material/Construction Distributors

1. ABC Supply: \$4 billion
2. ProBuild Holdings: N/A
3. Allied Building Products: \$1.7 billion
4. Beacon Roofing Supply: \$1.6 billion
5. HD Supply (Bldg Mats): \$1.5 billion
6. 84 Lumber: N/A
7. L&W Supply: \$1.1 billion
8. Stock Building Supply: \$861 million
9. Roofing Supply Group: \$781 million
10. Builders FirstSource: \$700.3 million

3. Volatility in Lumber, Commodity Prices  
Lumber prices in 2010 were up over 2009, but prices remained low when compared to 2007 levels. Softwood lumber increased 6.3 percent, while hardwood lumber posted gains of 7.2 percent.

“If you're a building materials distributor and you get 30 to 40 percent of your revenues from lumber sales, when those prices are down, it can be painful,” Webb says. “And it can be especially painful if the prices are down, but the cost of gas is up.” But, that volatility may increase some builders' and contractors' reliance on distributors to manage the paperwork around commodity pricing and purchasing.

## Acquisitions/Expansion & Divestments

\* ABC Supply's acquisition of Bradco Supply shook up the building materials industry as well as this year's Market Leaders list. With the acquisition, ABC had 479 locations in 44 states and the District of Columbia.

\* ProBuild Holdings announced in December it would close 20 locations. According to ProSales magazine, ProBuild says the closures are part of “an effort to align our business with current market needs.” The closures included lumber yards, component facilities, gypsum yards and millwork facilities.



\* Earlier in the year, ProBuild acquired Chopp Lumber in San Antonio, TX.

\* US LBM Holdings continued its expansion in 2010, making acquisitions in New York, Chicago, and the East Coast. While the companies revenues still place it outside the Top 10 for the MDM Market Leaders list, its pace of growth may change that soon.

**The Numbers**

Average decline for companies on list: -1.1%  
 Excluding ABC Supply's 53.8% growth from Bradco Acquisition: -10.25%

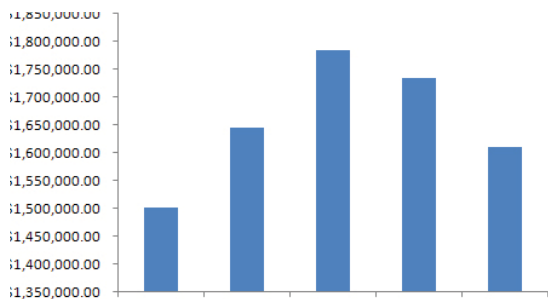
Related economic indicators for this sector:

\* The value of construction in the U.S. in 2010 was \$814.2 billion, 10.3 percent below the \$907.8 billion spent in 2009. Private construction fell 14.3 percent, while public construction fell 2.7 percent in a year-over-year comparison.

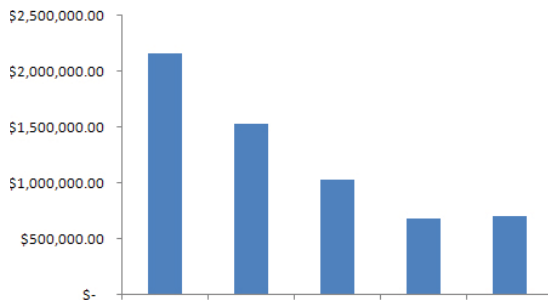
\* In 2010, housing starts increased 6.1 percent over starts in 2009, led by increases in the Northeast.

**Sales Growth Trends - Fiscal 2006-2010**

**Beacon Roofing Supply**



**Builders FirstSource**



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# Gases/Welding Eqmt Sector Report

*MDM Market Leaders: Top Gases & Welding Equipment Distributors*

## Key Trends

### 1. Steel Shortages Have Impact on Expansion Opportunities

A key difference between gases distribution and other distribution sectors is that most gases distributors also have a manufacturing arm that compresses gases and fills cylinders, says Lloyd Robinson, president of Gases and Welding Distributors Association and Maspeth, NY-based AWISCO. As such, the availability and price of steel has a major impact on the sector.

The continued global shortage of steel has limited the ability of some companies to expand, says Lori Kneepfel, CEO of Gas and Supply, Broussard, LA. "Now that business is picking back up, our customers have increased demand but it is difficult to get enough cylinders fast enough to meet the demand," she says. Currently, the industry is reporting a three- to four-month backlog on cylinders.

### 2. Automation/Technology Improving Operations

The recession caused many companies to find ways to do more with less regardless of the sector, and as with many other sectors, technology played a key role in helping gases companies streamline their operations. Automation of the manufacturing arm helped Gas and Supply meet demand "with far less people and far more productively than we've ever been able to in the past," Kneepfel says. Automation has also offered more accuracy in the filling of straight gases and gas mixes.

### 3. Higher Demand for Training

Technology has also improved access to training of all types for the industry, something that's been in higher demand in recent years, Robinson says. GAWDA responded to the demand by introducing GAWDA University Online, training tools for member companies with particular emphasis on compliance with safety practices and government regulations.

### Acquisitions/Expansion

\* By far, the largest M&A newsmaker in the gases and welding equipment sector in 2010 was the ongoing hostile takeover attempt of Radnor, PA-based Airgas by Air Products, Lehigh Valley,

## Largest National & Regional Distributors in This Sector

Airgas, Radnor, PA, \$3.8 billion  
Praxair Distribution Inc.  
Gas and Supply Co., Broussard, LA, \$189.6 million  
Rogers Oxygen, Rockville, MD  
Norco Inc., Boise, ID

PA. Air Products began its bid in Feb. 2010 at \$60 per share. The two companies went back and forth, through proxy challenges and court cases, with the battle ending in Feb. 2011 when the manufacturer withdrawing its "last, best offer" of \$70.

\* Airgas itself was unusually quiet on the acquisition front during the battle, but restarted its acquisition engine in early 2011, completing five acquisitions so far in 2011.

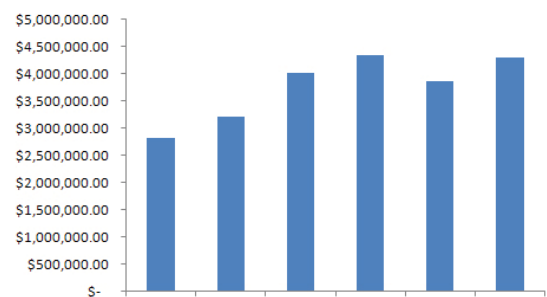
\* Manufacturer Matheson Tri-Gas, Inc., Basking Ridge, NJ, expanded its presence in Texas through the acquisition of Bellville-based Western International Gas and Cylinders, Inc.

"There's always pressure to consolidate but there hasn't been a whole lot of activity over the last two and a half years," Robinson says. "As somebody who is trying to grow his business, it's kind of frustrating that no one wants to sell." Activity is expected to pick up over the next two years.

## The Numbers

### Sales Growth Trends - Fiscal 2006-2011

#### Airgas



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# Electronics Sector Report

*MDM Market Leaders: Top 5 Electronics Distributors*

## Key Trends

### 1. Blurring the Line between Electrical and Electronics

"There are a lot of things happening right now where electrical is no longer easily differentiated from electronic," says Ted Konnerth, president of Egret Consulting Group, a consulting firm focused on recruiting for the electrical industry.

The trend began with the move by electrical distributors into the datacomm industry more than a decade ago, but the line is being further blurred by LEDs "because they are inherently electronic," Konnerth says.

For example, with the move toward a "smart grid," electrical transmission cables must be able to handle electronic communications. Glenview, IL-based Anixter – which appears on both the electrical and electronics list this year – reports its second largest business unit as "Electrical and Electronic Wire & Cable," representative of the shared products in both sectors.

And Arrow Electronics acquired Eshel Technology Group, Inc., a lighting distributor, in October 2010.

### Acquisitions/Expansion

\* The biggest shift on the 2011 electronics sector list is the absence of 2010's No. 4 company: Bell Microproducts. The company was acquired by Phoenix, AZ-based Avnet, Inc.

\* Avnet also acquired Unidux, a Japanese distributor of active and passive components, and the TallardTechnologies companies, Miami, FL.

\* Arrow Electronics completed six acquisitions in 2010, including Eshel Technology Group. The other acquisitions were:

- o VericallInc., an e-commerce business geared toward meeting the end-of-life components and parts shortage needs of customers.

- o PCG Parent Corp., doing business as Converge, a provider of reverse logistics services.

- o Transim Technology Corp., a service provider of online component design and engineering.

- o Sphinx Group Ltd., a United Kingdom-based distributor of security and networking solutions.

- o Intechra, an information technology

## Top 10 Electronics Distributors

1. Avnet, Phoenix, AZ, \$19.2 billion
2. Arrow Electronics, Melville, NY, \$18.7 billion
3. Future Electronics, Pointe Claire, QC, N/A
4. Anixter, Glenview, IL, \$3 billion
5. Digi-Key Corporation, Thief River Falls, MN, \$1.5 billion

asset disposition company.

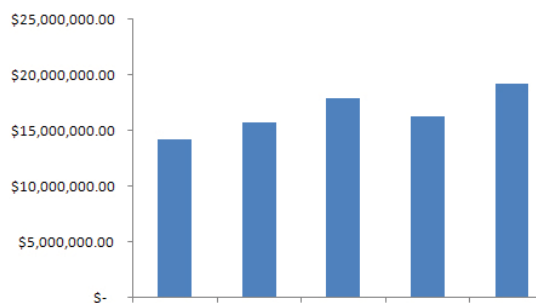
\* Anixter, Glenview, IL, acquired Clark Security Products, Inc. and General Lock, LLC, a corporate affiliate of Clark, for \$36.6 million.

## The Numbers

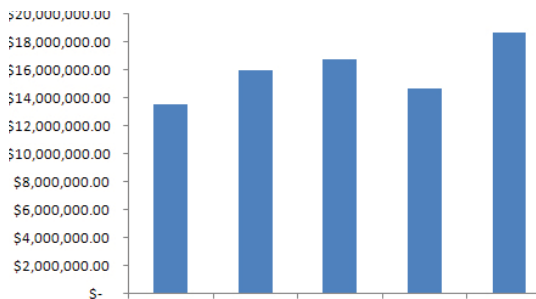
Average growth for companies on list: 35%

### Sales Growth Trends - Fiscal 2006-2010

#### Avnet



#### Arrow



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# Safety Products Sector Report

*MDM Market Leaders: Largest Distributors and Trends in Safety*

## Key Trends

### 1. Diversified Distributors Target Safety

Large national diversified distributors – and even smaller distributors – are adding safety products as complementary add-on opportunities. Grainger, one of the largest industrial/MRO distributors in the country, has made safety a priority and even acquired a safety services provider last year. Airgas' safety reach has expanded in recent years, as well. This has challenged the role safety specialist distributors have played in the market.

Airgas commented on the attraction to safety products in its 2010 Annual Report: "The company has identified these products as strategic because it believes they have good long-term growth profiles relative to the company's core industrial gas and welding products due to favorable end customer markets, application development, increasing environment regulation, strong cross-selling opportunities or a combination thereof."

Grainger said the growth of safety in its portfolio will be a priority. Currently 15 percent of its sales are in Safety and Security. That is more than \$1 billion in sales in 2010. In its 2011 Factbook, it said: "As the company expands its vast safety offering, it will also add safety services to insure that customers view Grainger as the primary partner for all of their safety needs. The services offering will begin with product-related safety and training services."

Smaller non-safety distributors have grown interest over the past several years in expanding their offerings, either by adding safety products strategically to their current offering or by working with a marketing or buying group for access to these lines.

## Selection of the Largest National & Regional Distributors in This Sector

Grainger, Chicago, IL  
 Airgas Safety, Radnor, PA  
 VWR International, Radnor, PA  
 Orr Safety, Louisville, KY  
 Arbill, Philadelphia, PA  
 Northern Safety & Industrial, Utica, NY  
 Conney Safety Products, Madison, WI  
 Safety Today, Columbus, OH  
 Wise Safety & Environmental, St. Louis, MO

### 2. Increased Demand for Services

The demand for services from customers continues to grow and these distributors continue to hone their service offering to meet that demand.

### Acquisitions/Expansion

\* Grainger acquired SafetyCertified in October 2010, an online safety and risk management company. It is now known as Grainger Online SafetyManager program. It is targeted at training customers on safety topics.

\* Acklands-Grainger acquired Solus Securite Inc. to broaden its safety services offering there.

\* MRO distributor Lawson Products launched a line of safety products in 2010, including 5,000 new items. The addition is part of a larger strategy to grow Lawson's customer base through product expansion.

\* MSC Industrial Supply added 1,100 safety products to its catalog in early 2011.

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# Other Distribution Sectors

*MDM Market Leaders in pharmaceuticals, fasteners and plastics*

## Top 10 Semi-Finished Plastic Shapes Distributors

Global Plastics Letter provided the following list to MDM as a representation of the largest distributors of semi-finished plastic shapes in North America. The first three distributors on the list - SABIC, Laird and Piedmont - each have more than \$200 million in annual sales. The rest of the list fall under \$100 million.

1. SABIC Polymershapes
2. Laird Plastics
3. Piedmont Plastics
4. Curbell Plastics
5. Cope Plastics
6. Total Plastics
7. AIN Plastics
8. Port Plastics
9. Professional Plastics
10. Regal Plastics

## Largest Drug Distributors

Pembroke Consulting's Adam Fein, who writes the popular Drug Channels blog, provided the following list as a representation of the largest pharmaceutical wholesalers.

Top 3:

McKesson Corp.  
Cardinal Health Inc.  
AmerisourceBergen Corp.

Other Large Wholesalers in This Sector:

- \* Morris & Dickson
- \* FFF Enterprises
- \* H.D. Smith
- \* Smith Drug
- \* NC Mutual Wholesale Drug
- \* Value Drug Company
- \* Anda Distribution
- \* Harvard Drug Group

## Top Fastener Distributors

In no particular order, a selection of the largest fastener distributors in North America. Fastener revenues were not broke out from overall revenues, except where noted.

- \* Fastenal, Winona, MN, \$2.3 billion (49% fasteners)
- \* Wurth - North America, Ramsey, NJ, \$815 million
- \* Anixter International, Glenview, IL, \$3.88 billion
- \* Endries International (Wolseley Industrial Group Company), \$200 million
- \* McMaster Carr, Chicago, IL, N/A
- \* Bossard America, \$138.4 million
- \* Lawson Products, Chicago, IL, \$316.78 million
- \* MSC Industrial Supply, Melville, NY, \$1.7 billion
- \* Barnes Logistics & Manufacturing Services, Bristol, PA, \$548.5 million
- \* Copper State Nut & Bolt, Phoenix, AZ, N/A
- \* BE Aerospace, Wellington, FL, \$772.9 million (fasteners)
- \* Wesco Distribution, Pittsburgh, PA, \$4.93 billion
- \* Bisco Industries, Anaheim, CA, N/A
- \* Kimball Midwest, Columbus, OH, \$128 million
- \* The Hillman Group, Chicago, IL, N/A

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# APPENDIX: 2011 Company Listings

## Included in company listings:

- Top 40 Industrial Distributors
- Top 10 Power Transmission/Bearing Distributors
- Top 25 Electrical Distributors
- Top 10 Building Materials/Construction Distributors
- Top 10 HVACR/Plumbing/PVF Distributors

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# Top 40 Industrial Distributors

## 1. FERGUSON/WOLSELEY CANADA

Headquarters: Newport News, VA

2010 Revenues: \$9.43 billion

Change in Sales from 2009: -7.55%

Employees: 19,500

Locations: 1,461

Key Executives: Wolseley Chief Executive Ian Meakins; North America Chief Executive Frank Roach, Ferguson COO Kevin Murphy; Ferguson SVP-Business Groups Steve Petock; Ferguson CMO Jim Feltman

UK-based Wolseley is a distributor of heating, plumbing, PVF and building materials in Europe and North America. Ferguson, Wolseley's U.S. company, saw 2010 sales decline 11 percent; Canadian sales declined 3 percent in constant currency for the year. In its fiscal 2011, Wolseley has seen improvement. For the nine months ended April 30, 2011, sales were up 3 percent year-over-year. In the U.S., sales inched up 2 percent, and Canadian sales were down just 2 percent. "The group continued to make progress in the third quarter broadly maintaining the revenue growth trends achieved in the first half despite tougher comparatives," Chief Executive Ian Meakins said. "New residential construction, which accounts for 20 percent of group revenue, remained subdued in most regions, while demand in repair, maintenance and improvement (RMI) segments held up well in most markets." In the U.S., Wolseley reported that demand in residential and RMI markets held up well and the business made good progress in the industrial and commercial segments including Fire and Fabrication, though from a low comparable base.



## 2. HD SUPPLY

Headquarters: Atlanta, GA

2010 Revenues: \$7.5 billion

Change in Sales from 2009:1.35%

Employees:15,500

Locations: 765

Key Executives:CEO Joe DeAngelo; SVP and SBD and Integration Vidya Chauhan;SVP and CFO Ronald Domanico; SVP and CIO Michele Markham; SVP and General Counsel Ricardo Nunez; SVP and HR & Marketing and Communications Meg Newman; Senior Vice President Joe Izganics

Line of Business Presidents: Vasken Altounian, HD Supply Canada; Steve Ferry, President, HD Supply Plumbing HVAC; John Stegeman, President, HD Supply White Cap; Jerry Webb, HD Supply Waterworks; Jon Michael Adinolfi, Crown Bolt; Rich Fiechter, HD Supply Repair & Remodel; Anesa Chaibi, HD Supply Facilities Maintenance; Rick McClure, HD Supply Utilities; Mike Stanwood, HD Supply Industrial PVF; Steve Margolius, President, HD Supply Electrical

Number of New Locations:4

Former Ferguson CEO John Stegeman joined the HD Supply leadership team in 2010; he is executive president. HD Supply continues to record losses as it has in the past three years since being spun off from The Home Depot in 2007 and sold to a trio of private equity firms including Bain Capital, The Carlyle Group and Clayton, Dubilier & Rice. Those losses are starting to narrow however. In its latest report on the first quarter 2011, HD Supply reported improvement in industrial and nonresidential construction markets. In 2010, HD Supply provided an update on restructuring efforts. It had planned to close or consolidate branches and reduce its work force. HD Supply focuses its businesses around Infrastructure & Energy, Maintenance, Repair and Improvement, and Specialty Construction.

## 3. GRAINGER

Headquarters: Chicago, IL

2010 Revenues: \$7.2 billion

Change in Sales from 2009: 15.43%

Employees: 18,500

Locations: 607 branches, 20 regional warehouses, 24 DCs

Key Executives: President & CEO James Ryan; Grainger International President Court Carruthers; Grainger U.S. President Michael Pulick; CFO Ronald Jadin; SVP Global Supply Chain D G Macpherson; SVP HR Lawrence Pilon; SVP Communications & Investor Relations Laura Brown; CIO Timothy Ferrarell; General Counsel John Howard

2010 Acquisitions: SafetyCertified, Solus Securite, Ranson Industrial and Safety Supplies, THF International (Colombia Joint Venture)

2010 Divestments: Highsmith

Grainger is seen as both a partner in the supply chain and a stiff competitor, sometimes by the same company. The distributor has added acquisitions back into the mix for growth in the past year. Its focus has been on growing services and expanding overseas. Grainger continues to expand its product offerings, as well as its presence online at grainger.com. More than a quarter of Grainger's revenues come from its online platform.

**4. AIRGAS**

Headquarters: Radnor, PA

2010 Revenues: \$3.9 billion

Change in Sales from 2009: 11.28%

Employees: 14,000

Locations: 1,100

Key Executives: CEO Peter McCausland; COO Michael Molinini; CFO Robert McLaughlin; CIO Robert Dougherty; General Counsel Robert Young Jr.; SVP HR Dwight Wilson; SVP Corporate Development Leslie Graff

The distributor of welding gases and equipment took a brief break from its growth by acquisition strategy in 2010 as it fought off a hostile takeover bid from Air Products, which ultimately failed. It has returned to acquisitions in 2011. Airgas recently announced the alignment of its 12 regional companies into four new divisions, identified as North, South, Central and West. The operating structure is aimed at helping Airgas leverage its new SAP platform.

**5. McJUNKIN RED MAN CORP.**

Headquarters: Houston, TX

2010 Revenues: \$3.86 billion

Change in Sales from 2009: 5.46%

Employees: 3,500+

Locations: 225+

Key Executives: Chairman, President & CEO Andrew Lane; CFO Jim Underhill; CAO Gary Ittner

2010 Acquisitions: South Texas Supply, Dresser Oil & Tools

Number of new locations:2

McJunkin Red Man Corp. - the product of a merger between McJunkin Corp. and Red Man Pipe and Supply Company in 2007 - continued to grow in 2010 with the acquisitions of Dresser Oil Tools & Supply and The South Texas Supply Company. It is also expanding internationally - recently to Australia - to build out its capabilities to manage global projects. McJunkin Red Man is a global distributor of pipe, valves and fittings (PVF) and related products and services to the energy and industrial sectors, and supplies these products and services across each of the upstream, midstream and downstream markets.

## 6. MOTION INDUSTRIES

Headquarters: Birmingham, AL

Locations: 547

Employees: 5,689

2010 Revenues: \$3.5 billion

Change in Sales from 2009: 20.7%

2010 Acquisitions: Completed the acquisition of BC Bearing Engineers/US Bearings & Things/TechCan Services

Motion Industries, a subsidiary of Genuine Parts Co., continues to expand its presence in industrial supplies and fluid power. Motion is an industrial parts distributor of bearings, mechanical power transmission, electrical and industrial automation, hydraulic and industrial hose, hydraulic and pneumatic components, industrial products, and material handling. Motion serves customers from the automotive, chemical, food and beverage, wood and lumber, iron and steel, pulp and paper, mining and aggregate, petrochemical, and pharmaceutical industries.

## 7. FASTENAL

Headquarters: Winona, MN

2010 Revenues: \$2.26 billion

Change in sales from 2009: 17.57%

Employees: 13,285

Locations: 2,490

Key Executives: President & CEO Will Oberton; CFO Daniel Florness; EVP Sales Nicholas Lundquist, Leland Hein & Steven Rucinski; EVP Operations James Jansen; EVP Product & Procurement Michael Camp; EVP IT Ashok Singh

Number of new locations (not as a result of acquisition):127

Fastenal has seen broad growth over the past year, and its 2010 international sales grew 30 percent. The distributor has increased its attention on vending over the past couple of years. Its vending program, Fastenal Automated Supply Technology (FAST), took off in 2010, according to the distributor. "The program was designed to be extremely cost-effective for customers, in turn creating new opportunities for our stores," President and CEO Will Oberton said in the distributor's annual report. "And in fact we're now seeing exceptional growth at customer sites where FAST 5000 machines are placed. In my opinion, this will be a big part of the future of industrial supply, and it will become an increasingly important part of our business in 2011 and beyond."

**8. WILSON/CE FRANKLIN**

Headquarters: Wilson - Houston, TX; CE Franklin - Calgary, AB

2010 Revenues: N/A

Key Executives: CE Franklin President and CEO Michael West; CE Franklin CFO Mark Schweitzer; CE Franklin VP-Commercial Strategies Jim Baumgartner; CE Franklin SVP-Business Development Merv Day; CE Franklin VP-Operations Rod Tatham; CE Franklin VP-Sales Doug Peters; CE Franklin VP-Business Effectiveness Ron Koper

The biggest news for industrial PVF distributor Wilson in 2010 was the announcement that its parent company Smith International Inc. would be acquired by Houston, TX-based Schlumberger Ltd. The announcement was made in February 2010. Revenues in Schlumberger's and Smith's annual SEC filing break out distribution sales for Wilson Industries and CE Franklin, the Canadian distribution arm, together. Based on three quarters of sales, MDM estimated Wilson and CE Franklin's revenues at more than \$2 billion in 2010 for placement on the list.

**9. McMASTER CARR**

Headquarters: Chicago, IL

2010 Revenues: N/A

Change in Sales from 2009: N/A

Employees: N/A

Locations: N/A

Key Executives: CEO Jay Delaney; CFO Larry Leive

Facilities maintenance MRO distributor McMaster Carr historically has not divulged its annual sales. MDM estimated McMaster Carr's place in the top industrial distributor rankings using industry data and discussions with industry experts. McMaster Carr sells more than 480,000 items to a set of diverse customers, including manufacturing, machining, maintenance, medicine and movie-making.

**10. APPLIED INDUSTRIAL TECHNOLOGIES**

Headquarters: Cleveland, OH

2010 Revenues: \$1.89 billion

Change in Sales from 2009: -1.60%

Employees: 4,655

Locations: 473

Key Executives: Chairman & Chief Executive Officer David L. Pugh; President & Chief Operating Officer Benjamin J. Mondics; Vice President – Marketing and Strategic Accounts Thomas E. Arnold; Vice President – Acquisitions and Global Business Development Todd A. Barlett; Vice President – General Counsel & Secretary Fred D. Bauer; Vice President – Chief Administrative Officer Michael L. Coticchia; Vice President – Chief Financial Officer & Treasurer Mark O. Eisele; Vice President – Supply Chain Management Jeffrey A. Ramras; Vice President – Communications and Learning Richard C. Shaw; Corporate Controller Daniel T. Brezovec; Assistant Controller Jody A. Chabowski; Assistant Treasurer Alan M. Krupa  
Acquisitions: UZ Engineered Products, SCS Supply Group

CEO David Pugh spoke with MDM for an interview published Feb. 10 and Feb 25, 2010. The power transmission/bearing distributor has been growing in the fluid power space over the past decade. Applied Industrial Technologies is also keeping an eye on opportunities for acquisitions or growth in Canada and Mexico. Applied Industrial Technologies has made several acquisitions in 2010 and 2011, focused on PT/bearings.

**11. SONEPAR**

Headquarters: Paris, France

2010 Revenues (industrial only): N/A

Locations: 582

Key Executives: CEO North America Dave Gabriel; CFO North America Kathy Rusko

Sonepar, a France-based global distributor, like most distributors, experienced declines in 2009; 2010 was a completely different story, with a year-over-year revenue increase for operations in North America.

**12. MSC INDUSTRIAL SUPPLY**

Headquarters: Melville, NY

2010 Revenues: \$1.7 billion

Change in Sales from 2009: 13.6%

Locations: 96 branches, 4 customer fulfillment centers

Employees: 978 salespeople

2010 Acquisitions: Rutland Tool & Supply Co.

Key Executives: President and CEO David Sandler; CFO Jeffrey Kaczka; COO Erik Gershwind

President and CEO David Sandler told MDM in an interview: "The last couple of years really provided one of the best opportunities to position MSC for long-term growth that I've seen in all of my 35 years in industrial distribution. We didn't just manage through the recession; we invested into the recession and used it as an opportunity to accelerate our long-term growth plans." The distributor is expanding services and products, while keeping a focus on its core metalworking platform.

**13. WINWHOLESALE**

Headquarters: Dayton, OH

2010 Revenues: N/A

Employees: 525

Locations: 3,825

Key Executives: President and CEO Richard Schwartz; COO WinWholesale & President Noland Company Monte Salsman; CFO Jack W. Johnston; COO Noland Company John W. Simmons; CIO Steven L. Hangan; 2010 New Locations: 6

WinWholesale opened six new locations in 2010, expanding its reach in diverse sectors. The distributor consists of more than 450 "wholesaling corporations" in which WinWholesale is an equity partner. Noland Company is a subsidiary. The distributor covers: plumbing and heating supplies; industrial PVF; HVACR; electrical equipment; industrial and commercial fastening hardware; waterworks and utility supplies; and pumps.



**14. INTERLINE BRANDS**

Headquarters: Jacksonville, FL

2010 Revenues: \$1.08 billion

Change in Sales from 2009: 2.62%

Employees: 3485

Locations: 57 DCs, 25 showrooms, 38 VMI locations, 9 support facilities, 4 cross-dock facilities

2010 Acquisitions: CleanSource Inc., Northern Colorado Paper Inc.

Key Executives: CEO Michael Grebe; COO Kenneth Sweder; CFO John Ebner; General Counsel Michael Agliata; VP Field Sales Federico Bravo; CIO Lucretia Doblado; VP HR Annette Ricciuti; CAO David Serrano; VP Distribution James Spahn

Interline Brands tapped a new president earlier this year. Kenneth Sweder, who will also continue to serve as the company's COO, will lead the business. Interline Brands continues to focus its efforts on growing the jan-san side of its business with its AmSan subsidiary. It acquired CleanSource for \$60.1 million in October 2010. Michael J. Grebe, Interline's CEO, said: "The acquisition enhances our position in the strategically important jan-san market as well as provides us with an opportunity to expand our national account capability to the West Coast. In addition, the transaction provides the potential for meaningful operating and sales benefits as we leverage our platform to generate cost synergies and sourcing benefits, as well as cross-sell more products to deliver a better value proposition to our customers." In its most recent quarterly earnings report, Interline reported that trends are positive in end-markets and customers are growing more confident.

**15. KAMAN INDUSTRIAL TECHNOLOGIES**

Headquarters: Windsor, CT

2010 Revenues: \$831 million

Change in Sales from 2009: 28.88%

Employees: 4269 (total for Kaman Corp.)

Locations: 200 (distribution facilities)

2010 Acquisitions: Minarik Corp.; Allied Bearings Supply Co.; Fawick de Mexico

Key Executives: President Steven Smidler

Kaman, a national distributor of power transmission and motion control products, continues to be active in M&A. Kaman Industrial Technologies is part of Kaman Corp. New Kaman President Steven Smidler in a late 2010 interview with MDM said that he was optimistic about 2011. "Of the suppliers that I've talked to, most people are talking into the 8 to 10 percent growth ranges going into 2011. If that were to occur in a relatively steady fashion, most of us would be pleased." Kaman has been active on the acquisition front, growing in PT/ bearings, motion control, fluid power and industrial supplies. After Kaman subsidiary Minarik acquired Automation Technology in April 2011, he said: "The synergistic opportunity of combining Automation Technology's technological strength in OEM markets with Kaman's leadership position in power transmission and MRO markets, allows us to offer all customers in the area a value proposition unlike any other supplier in the market place. Automation Technology fits nicely with our acquisition last year of Minarik and is part of our overall expansion strategy to further increase our already national automation and control footprint."

## 16. WURTH-NORTH AMERICA

Headquarters: Ramsey, NJ

2010 Revenues: \$815 million

Change in Sales from 2009: 12.41%

2010 Acquisitions: Oliver Van Horn Co.

Locations: 110 (North America)

Employees: 5700

Key Executives: CEO of Wurth Group, North America, Robert Stolz

Wurth Industry of North America is part of the Adolf Wurth GmbH & Co. KG based in Kanzelsau, Germany. Wurth in North America distributes fasteners, assembly and MRO products to customers in the heavy manufacturing, truck, agricultural equipment, electronics, railcar, construction equipment and recreational vehicle industries. The distributor acquired Oliver H. Van Horn Co. in late 2010. The acquisition grew Wurth's reach into a complementary market category to its core. MRO in the U.S. is a growth area for the distributor. Robert H. Stolz, CEO of North America for The Wurth Group, spoke with MDM about the company's structure. "It's a unique company, a family business," Stolz says. "But it is decentralized, with more than 400 companies in 84 countries." About the Oliver Van Horn acquisition, he said: "We're interested in supporting Van Horn's growth, within its structure, and will be looking for additional industrial supply companies. Wurth offers its companies support functions through a corporate culture of discipline, benchmarking and professional standards to support their growth."

## 17. DXP ENTERPRISES

Headquarters: Houston, TX

2010 Revenues: \$656 million

Change in Sales from 2009: 12.51%

2010 Acquisitions: D&F Distributors; Quadna

Employees: 1772

Locations: 176

Key Executives: President & CEO David Little

DXP is comprised of its Innovative Pumping Solutions (IPS), Precision Supply Chain Services, and MROP Service Centers (maintenance, repair, operating and production). DXP products are focused on pumps, bearings, power transmission, seals, hose, safety, fluid power, electrical and industrial supplies. In a release announcing sales for the first quarter 2011, CEO David Little said: "All of the markets we serve continue to show improvement, especially oil and gas. We continue to invest in our operations while driving sales growth, improving operating margins, creating SuperCenters and being customer-driven experts in MROP solutions."

**18. FW WEBB**

Headquarters: Bedford, MA

2010 Revenues: \$650 million

Change in Sales from 2009:11.11%

Employees: 1,400

Locations: 74

Key Executives:CEO John Pope; President Jeff Pope; CFO Bob Mucciarone; Sr VP Purchasing Ed Welch; Director Marketing Alicia Criniti; VP HR Ruth Martin; Sr VP Industrial Sales Ernie Coutermarsh; Sr VP Plg/Htg Sales John Provencal; Sr VP HVAC/R John Thomas;

FW Webb breaks out their sales like this: 75% HVAC/Plumbing/PVF; 15% Industrial; 5% Pharmaceutical; 5% Plastics. The company is targeting power, wastewater, energy and green sustainability as growth industries in 2011. FW Webb services customers in New England and upstate New York. In addition to its core businesses, FW Webb has a biopharm division to serve pharmaceutical and bio-tech markets in New England and New York. FW Webb recently announced an executive change that will drive growth in industrial markets. It tapped Senior Vice-President Ernie Coutermarsh to lead Industrial Business Development and Jim Bodle to Vice President of Industrial Sales. Coutermarsh will focus on major projects and possible acquisitions of industrial competitors.

**19. BARNES LOGISTICS AND MANUFACTURING SERVICES**

Headquarters:Bristol, PA

2010 Revenues: \$548.5 million

Change in Sales from 2009: 1.74%

Employees: 4,900 (total in Barnes Group)

Locations:14 DCs, 19 sales and support facilities, 1 global sourcing office

Key Executives:President Patrick J. Dempsey

Recent growth for the distribution side of Barnes Group's business has been driven by strengthening end-market demand in the company's North American distribution businesses. In addition, the distributor has seen increased overhaul and repair activity in the aerospace aftermarket business.

## 20. BDI

Headquarters: Cleveland, OH

2010 Revenues: \$496 million

Change in Sales from 2009: 25.57%

Employees: 1,034

Locations: 154

Number of New Locations (not as a result of acquisition): 5

Key Executives: CEO Carl James; CFO Dan Maisonville; COO and USA President John Ruth

BDI is in the following sectors: Industrial, Power Transmission/Bearing, Fluid Power, Electrical, Safety and Supply Chain Services. BDI has grown by acquisition in early 2011, with the purchase of Pneumatrek National in Salt Lake City and Gopher Bearing Company in Minnesota. The distributor reported that it will be starting its One BDI global IT project with SAP and iTelligence in 2011, as well as working to penetrate industrial markets further. It, like many distributors, are working to improve processes company-wide. The distributor sees opportunity for growth in all its markets.

## 21. TURTLE & HUGHES

Headquarters: Linden, NJ

2010 Revenues: \$420 million

Change in Sales from 2009:10.53%

Employees: 550

Key Executives: CEO Jayne Millard; President T&H Jack Signagra; Exec VO T&H Rick Reffler; CFO Treavor Barnett; President T&H Integrated JJ Drummond

Turtle & Hughes is a diversified distributor in Industrial, Power Transmission/Bearing, Electrical, Pharmaceutical, Fasteners, Safety and MRO integrated Supply. The distributor reports strong growth in electrical construction and in MRO integrated supply.

## 22. INDUSTRIAL DISTRIBUTION GROUP

Headquarters: Belmont, NC

2010 Revenues: \$418 million

Change in Sales from 2009: 20.46%

Employees:1037

Locations: 26

2010 Acquisitions: Certain assets of Alamo Iron Works

Key Executives:CEO Charles A. Lingenfelter; EVP & CFO James C. Melton; EVP-Sales & Marketing Edward C. Gerber

A key focus for the industrial distributor continues to be its integrated supply business. IDG reported it sees Industrial Machinery & Equipment and Transportation as growth markets in 2011. IDG currently distributes 400,000 products from 10,000 suppliers to more than 15,000 customers throughout North America and China. IDG was acquired in 2008 by Luther King Capital Management.

**23. LEWIS-GOETZ & COMPANY**

Headquarters: Pittsburgh, PA

2010 Revenues: \$340 million

Change in Sales from 2009: 36%

Key Executives: CEO Jeffrey Crane; COO George "Randy" Fox; CFO Michael Kulmoski Jr.; CAO JoAnn Capan; EVP Operations James Thieman; Senior EVP Operations Scott Johnson

Lewis-Goetz has continued on the acquisition trail this year, acquiring two businesses in January and one in June. CEO Jeff Crane told MDM earlier this year that Lewis-Goetz will keep its focus on its core: "We operate in a focused product niche. We provide fabricated rubber industrial products: hose, conveyor belt and gaskets and sealing products. That space, and the universe of people that provide those products is made up of thousands of distributors across North America. Many of them are family-owned with owners that are nearing retirement without a succession plan or exit strategy." In regard to end-markets, Crane said that its investments in diversifying in energy markets have paid off. He said: "Coal is still an important end-market for us. But the natural gas and the on- and off-shore petroleum drilling are markets that are new to us. Our investments in the Gulf Coast have given us access to some of those markets we didn't have access to before."

**24. LAWSON PRODUCTS**

Headquarters: Des Plaines, IL

2010 Revenues: \$316.78 million

Change in Sales from 2009: -16.39%

Key Executives: NA

The main reason Lawson's revenue declined in 2010 was due to its divestment of Rutland Tool. It sold the unit to MSC Industrial Supply at the end of last year. Lawson Products has been on a path of change recently, restructuring its sales organization, optimizing its distribution network, and replacing its legacy IT systems with SAP.

**25. KINECOR**

Headquarters: Montreal, Quebec

2010 Revenues: \$303.2 million

Change in Sales from 2009: 7.9%

Locations: 60+ branches, 11 service & repair centers

Employees: 820

Kinecor was created in 2001 with the amalgamation of National Bearings Inc., Spencer Industries, Spencer Teris Ltd. (also known as Industrial Chrome in Prince George, BC), Motion Technologies and Wajax Process Technologies. The Canadian distributor sells bearings, power transmission products, hydraulics and pneumatics, process equipment, material handling and safety and PPE products.



**26. SUNSOURCE**

Headquarters: Addison, IL

2010 Revenues: N/A

Locations: 53

Key Executives: CEO Justin Jacobi

SunSource provides products, services and information in hydraulics, pneumatics, filtration, automation systems, and related industrial components to both the industrial and mobile equipment markets.

**27. DGI SUPPLY**

Headquarters: Wheeling, IL

2010 Revenues: N/A

Key Executives: Chairman and President Michael Wilkie; Vice Chairman Jon Henricks; SVP David Crawford; COO Bill Henricks; VP-Sales and Marketing Mickey Davis; VP Finance & Accounting Steve Lund;

DGI Supply is the distribution arm of DoALL Company. DGI Supply focuses on Inventory Control Solutions, with a wide array of vending options. It has a sales force of more than 120, 46 sales offices and a call center of more than 70 individuals. DGI Supply recently announced it was buying Midwest Industrial Tools, Omaha, NE.

**28. RS HUGHES Co.**

Headquarters: Sunnyvale, CA

2010 Revenues: \$204 million

Change in Sales from 2009: 6.81%

Employees: 400

Locations: 48

Key Executives: CEO Bob McCollum; President Pete Biocini; CFO Gail Zimmerman; VP Joe Vargas; VP Mike Page

Number of New Locations (not a result of acquisition): 1

R.S. Hughes Co. is an industrial distributor specializing in abrasives, adhesives, electrical, and safety tapes.

**29. SDI Inc.**

Headquarters: Bristol, PA

2010 Revenues: N/A

Employees: 400

Key Executives: CEO and President Haywood "Woody" Bower

SDI is an MRO integrated supply company. It is seeing strength currently in manufacturing, food & beverage, and consumer products. SDI added more than 65 customer locations in 2010.

**30. Hisco Inc.**

Headquarters: Houston, TX

2010 Revenues: \$196 million

Change in Sales from 2009: 23.27%

Employees: 336

Locations: 29

Key Executives: President Bob Dill; Executive VP Sales and Marketing Paul Gill; VP Finance and Operations Mark Linville

Hisco, an employee-owned distributor of electronic and industrial materials, has locations in the U.S., Puerto Rico, the Dominican Republic and Mexico. In 2010 Hisco added a Canadian division. The distributor has been focused in recent years on growing in key segments, where it has added business development managers: military, solar, medical devices, and automotive electronics. The distributor has also added a chemical management division.

**31. GAS AND SUPPLY**

Headquarters: Baton Rouge, LA

2010 Revenues: \$189.6 million

Change in Sales from 2009: 5.13%

Locations: 39

Key Executives: President and CEO Lori Kneappel

Gas & Supply Co. is a distributor of welding supplies, compressed gases, bulk gases, medical gases, safety supplies, and related services in the Deep South and South Central regions. Gas and Supply represents the following companies: Industrial Welding Supply; TNT Welding Supply; IWS Gas and Supply of Texas; Industrial Welding & Tool Supply; Komp Gas and Supply; Southern Gas and Supply; ArcTimer; and Jayco Industrial Supply, according to its website.

**32. PERRY SUPPLY**

Headquarters: Birmingham, AL

2010 Revenues: N/A

Locations: 1

Key Executives: President John Coffey; Vice President Charles Beasley; General Manager Dennis Ivey

Perry Supply offers a comprehensive line of mining, foundry, construction and industrial supplies. Perry Supply is a stocking distributor for more than 20 manufacturers and is a preferred member of the Induserve Supply Cooperative. Perry Supply also owns a variety of equipment for mining and industrial customers that is available for rent or lease.

**33. CANADIAN BEARINGS**

Headquarters: Mississauga, Ontario

2010 Revenues: \$171 million

Change in Sales from 2009: 10.32%

Employees: 290

Locations: 33

Key Executives: President & CEO Farrukh Khalili; COO Farhang Manucherian; CFO Roland Bissoon

Canadian Bearings Ltd. is a Canadian industrial distributor; integrated supply accounts for 15 percent of the power transmission/bearings distributor's total sales. The distributor reported strength in Mining, Waste Management, and Machinery Manufacturing. The distributor is rebranding itself as CB and has redesigned and launched its website with a focus on products that go beyond its traditional power transmission and bearing portfolio.

**34. BERENDSEN FLUID POWER**

Headquarters: Tulsa, OK

2010 Revenues: N/A

Locations: 45 offices in North America

Employees: 400

Berendsen Fluid Power a distributor of hydraulic and pneumatic products and services.

**35. BOSSARD AMERICA**

Headquarters: Zug, Switzerland

2010 Americas Revenues: \$138.3 million

Change in Sales from 2009: 16.56%

Employees: 1,500 (Global)

Locations: 50

Key Executives: CEO David Dean; CFO Stephan Zehnder; CEO America Steen Hansen

The fastener distributor attributes recent growth in the Americas to higher sales to existing customers as well as to an enhanced market share through the acquisition of new customers. The Bossard Group operates in three geographic regions – Europe, America and Asia.

**36. WOMACK MACHINE SUPPLY Co.**

Headquarters: Farmers Branch, TX

2010 Revenues: \$134 million

Change in Sales from 2009: 7.2%

Employees: 225

Locations: 9

Key Executives: CEO Mike Rowlett; CFO Kenny Talley; President Art Kostaras

Womack Machine Supply is an industrial distributor of supplies and components for hydraulic, pneumatic, and automation control systems. Womack Companies supply individual components and complete systems to customers in every industry from Energy, Agriculture, and Construction, to Defense. Diversification has been a focus in recent years for the distributor.

**37. FCX PERFORMANCE**

Headquarters: Columbus, OH

2010 Revenues: \$128.9 million

Change in Sales from 2009: 3.45%

Employees: 235

2010 Acquisitions: Baro Companies (Houston, TX); Solares controls (Lakeland, FL)

Locations: 20

Key Executives: CEO Charles Simon; CFO Charles Hale

FCX Performance focuses on valves and instrumentation. It has been expanding by acquisition in recent years, growing its geographic reach. FCX reported strength in Chemical, Pulp and Paper, OEM, and Food and Beverage end-markets. The distributor sees opportunities to expand its reach in certain product areas, including pumps and filtration, as well as grow into new end-markets. “Our markets are still very fragmented,” says CFO Charley Hale earlier this year. “... We are looking for companies in good geographies with good products – and the key to bring that all together is a great management team and a great employee infrastructure.”

**38. KIMBALL MIDWEST**

Headquarters: Columbus, OH

2010 Revenues: \$128 million

Change in Sales from 2009: 9.4%

Branches: 3

Employees: 950

Key Executives: President Pat McCurdy; VP Sales - Chas McCurdy; VP Operations Dave McCurdy

Industrial MRO distributor Kimball Midwest serves customers from distribution centers in Columbus, OH; Grand Prairie (Dallas), TX; and Reno, NV. It is targeting government and automotive end-markets as growth opportunities in 2011.

**39. IBT Inc.**

Headquarters: Merriam, KS

2010 Revenues: \$118 million

Change in Sales from 2009: 1.55%

Employees: 334

Locations: 41

Number of New Locations: 1

Key Executives: President & CEO Stephen R. Cloud; Treasurer/CFO Wayne Shields; Vice President of Sales, Marketing & Operations Mark Byrne; Vice President of Supply Chain Rex Davis; Director Corporate Development Jeff Cloud

More than 50 percent of IBT's revenues come from power transmission/bearing. But it also sells industrial, fluid power, electrical and safety supplies. IBT is seeing strength in Automotive, Food & Beverage, Agriculture and Energy markets.

**40. BLACKHAWK INDUSTRIAL DISTRIBUTION INC.**

Headquarters: Tulsa, OK

2010 Revenues: \$110 million

Employees: 268 (as of May 2011)

Locations: 10

Key Executives: Bill Scheller – President and CEO; Parker Strickland – CFO; Bryan Collins – EVP Operations; Heather Riggs – Director of Supplier Development; Cheryl Lawson – Duncan Industrial Division; Carl Norris – Rogers Industrial Division; Tom Berger – Fuchs Machinery Division; Mark Pittman – Duncan Industrial Division

Acquisitions in 2010: Duncan Industrial Solutions, Rogers Industrial Supply

BlackHawk Industrial Distribution Inc. is a new entity formed by Bill Scheller, former CEO of ORS Nasco, and Brazos Private Equity Partners. BlackHawk Industrial announced the acquisition of Duncan Industrial Solutions Inc. in October 2010. Since then, it has acquired Rogers Industrial Supply and Fuchs Machinery. Of the Fuchs acquisition, Scheller said: "Fuchs Machinery is a great example of the type of acquisitions we are looking to add to BlackHawk Industrial."





# Top 10 Power Transmission/ Bearing Distributors

## 1. MOTION INDUSTRIES

Headquarters: Birmingham, AL

Locations: 547

Employees: 5,689

2010 Revenues: \$3.5 billion

Change in Sales from 2009: 20.7%

2010 Acquisitions: Completed the acquisition of BC Bearing Engineers/US Bearings & Things/TechCan Services

Motion Industries, a subsidiary of Genuine Parts Co., continues to expand its presence in industrial supplies and fluid power. Motion is an industrial parts distributor of bearings, mechanical power transmission, electrical and industrial automation, hydraulic and industrial hose, hydraulic and pneumatic components, industrial products, and material handling. Motion serves customers from the automotive, chemical, food and beverage, wood and lumber, iron and steel, pulp and paper, mining and aggregate, petrochemical, and pharmaceutical industries.

## 2. APPLIED INDUSTRIAL TECHNOLOGIES

Headquarters: Cleveland, OH

2010 Revenues: \$1.89 billion

Change in Sales from 2009: -1.60%

Employees: 4,655

Locations: 473

Key Executives: Chairman & Chief Executive Officer David L. Pugh; President & Chief Operating Officer Benjamin J. Mondics; Vice President – Marketing and Strategic Accounts Thomas E. Arnold; Vice President – Acquisitions and Global Business Development Todd A. Barlett; Vice President – General Counsel & Secretary Fred D. Bauer; Vice President – Chief Administrative Officer Michael L. Coticchia; Vice President – Chief Financial Officer & Treasurer Mark O. Eisele; Vice President – Supply Chain Management Jeffrey A. Ramras; Vice President – Communications and Learning Richard C. Shaw; Corporate Controller Daniel T. Brezovec; Assistant Controller Jody A. Chabowski; Assistant Treasurer Alan M. Krupa  
Acquisitions: UZ Engineered Products, SCS Supply Group

CEO David Pugh spoke with MDM for an interview published Feb. 10 and Feb 25, 2010. The power transmission/bearing distributor has been growing in the fluid power space over the past decade. Applied Industrial Technologies is also keeping an eye on opportunities for acquisitions or growth in Canada and Mexico. Applied Industrial Technologies has made several acquisitions in 2010 and 2011, focused on PT/bearings.

## 3. KAMAN INDUSTRIAL TECHNOLOGIES

Headquarters: Windsor, CT

2010 Revenues: \$831 million

Change in Sales from 2009: 28.88%

Employees: 4269 (total for Kaman Corp.)

Locations: 200 (distribution facilities)

2010 Acquisitions: Minarik Corp.; Allied Bearings Supply Co.; Fawick de Mexico

Key Executives: President Steven Smidler

Kaman, a national distributor of power transmission and motion control products, continues to be active in M&A. Kaman Industrial Technologies is part of Kaman Corp. New Kaman President Steven Smidler in a late 2010 interview with MDM said that he was optimistic about 2011. “Of the suppliers that I’ve talked to, most people are talking into the 8 to 10 percent growth ranges going into 2011. If that were to occur in a relatively steady fashion, most of us would be pleased.” Kaman has been active on the acquisition front, growing in PT/bearings, motion control, fluid power and industrial supplies. After Kaman subsidiary Minarik acquired Automation Technology in April 2011, he said: “The synergistic opportunity of combining Automation Technology’s technological strength in OEM markets with Kaman’s leadership position in power transmission and MRO markets, allows us to offer all customers in the area a value proposition unlike any other supplier in the market place. Automation Technology fits nicely with our acquisition last year of Minarik and is part of our overall expansion strategy to further increase our already national automation and control footprint.”

**4. DXP ENTERPRISES**

Headquarters: Houston, TX

2010 Revenues: \$656 million

Change in Sales from 2009: 12.51%

2010 Acquisitions: D&F Distributors; Quadna

Employees: 1772

Locations: 176

Key Executives: President & CEO David Little

DXP is comprised of its Innovative Pumping Solutions (IPS), Precision Supply Chain Services, and MROP Service Centers (maintenance, repair, operating and production). DXP products are focused on pumps, bearings, power transmission, seals, hose, safety, fluid power, electrical and industrial supplies. In a release announcing sales for the first quarter 2011, CEO David Little said: "All of the markets we serve continue to show improvement, especially oil and gas. We continue to invest in our operations while driving sales growth, improving operating margins, creating SuperCenters and being customer-driven experts in MROP solutions."

**5. BDI**

Headquarters: Cleveland, OH

2010 Revenues: \$496 million

Change in Sales from 2009: 25.57%

Employees: 1,034

Locations: 154

Number of New Locations (not as a result of acquisition): 5

Key Executives: CEO Carl James; CFO Dan Maisonville; COO and USA President John Ruth

BDI is in the following sectors: Industrial, Power Transmission/Bearing, Fluid Power, Electrical, Safety and Supply Chain Services. BDI has grown by acquisition in early 2011, with the purchase of Pneumatrek National in Salt Lake City and Gopher Bearing Company in Minnesota. The distributor reported that it will be starting its One BDI global IT project with SAP and iTelligence in 2011, as well as working to penetrate industrial markets further. It, like many distributors, are working to improve processes company-wide. The distributor sees opportunity for growth in all its markets

**6. KINECOR**

Headquarters: Montreal, Quebec

2010 Revenues: \$303.2 million

Change in Sales from 2009: 7.9%

Locations: 60+ branches, 11 service & repair centers

Employees: 820

Kinecor was created in 2001 with the amalgamation of National Bearings Inc., Spencer Industries, Spencer Teris Ltd. (also known as Industrial Chrome in Prince George, BC), Motion Technologies and Wajax Process Technologies. The Canadian distributor sells bearings, power transmission products, hydraulics and pneumatics, process equipment, material handling and safety and PPE products.

## 7. CANADIAN BEARINGS

Headquarters: Mississauga, Ontario

2010 Revenues: \$171 million

Change in Sales from 2009: 10.32%

Employees: 290

Locations: 33

Key Executives: President & CEO Farrukh Khalili; COO Farhang Manucherian; CFO Roland Bissoon

Canadian Bearings Ltd. is a Canadian industrial distributor; integrated supply accounts for 15 percent of the power transmission/bearings distributor's total sales. The distributor reported strength in Mining, Waste Management, and Machinery Manufacturing. The distributor is rebranding itself as CB and has redesigned and launched its website with a focus on products that go beyond its traditional power transmission and bearing portfolio.

## 8. GRAINGER (PT)

Headquarters: Chicago, IL

2010 Power Transmission Product Revenues: \$122 million

Employees: 18,500

Locations: 607 branches, 20 regional warehouses, 24 DCs

Key Executives: President & CEO James Ryan; Grainger International President Court Carruthers; Grainger U.S. President Michael Pulick; CFO Ronald Jadin; SVP Global Supply Chain D G Macpherson; SVP HR Lawrence Pilon; SVP Communications & Investor Relations Laura Brown; CIO Timothy Ferrarell; General Counsel John Howard

2010 Acquisitions: SafetyCertified, Solus Securite, Ranson Industrial and Safety Supplies, THF International (Colombia Joint Venture)

2010 Divestments: Highsmith

Grainger is seen as both a partner in the supply chain and a stiff competitor, sometimes by the same company. The distributor has added acquisitions back into the mix for growth in the past year. Its focus has been on growing services and expanding overseas. Grainger continues to expand its product offerings, as well as its presence online at [grainger.com](http://grainger.com). More than a quarter of Grainger's revenues come from its online platform.

**9. IBT Inc.**

Headquarters: Merriam, KS

2010 Revenues: \$118 million

Change in Sales from 2009: 1.55%

Employees: 334

Locations: 41

Number of New Locations: 1

Key Executives: President & CEO Stephen R. Cloud; Treasurer/CFO Wayne Shields; Vice President of Sales, Marketing & Operations Mark Byrne; Vice President of Supply Chain Rex Davis; Director Corporate Development Jeff Cloud

More than 50 percent of IBT's revenues come from power transmission/bearing. But it also sells industrial, fluid power, electrical and safety supplies. IBT is seeing strength in Automotive, Food & Beverage, Agriculture and Energy markets.

**10. PURVIS INDUSTRIES**

Headquarters: Dallas, TX

2010 Revenues: N/A

Locations: 53

Key Executives: Owner Bob Purvis

2010 Acquisitions: BMG of Texas

Purvis Industries is a large regional independent bearing, power transmission, electrical control, fluid power and belting services distributor with 53 locations and more than 360 team members in 8 states and Canada. Headquartered in Dallas, TX Purvis Industries goes to market through eight business units: CAPCORP Total Belting Solutions, American Keyed and Custom Shaft, National Mechanical Power Systems, Purvis Bearing Services, Triad Industrial Automation, U.S. Conveying Systems & Equipment, HydraAir Fluid Power and National Petroleum Oilfield Products.





# Top 25 Electrical Distributors

## 1. SONEPAR

Headquarters: Philadelphia, PA (U.S.)

2010 Revenues: \$5.2 billion

Change in Sales from 2009: 13%

Employees: NA

Locations: 582

Key Executives: CEO North America David Gabriel; CFO North America Kathy Rusko

Sonepar, a France-based global distributor, like most distributors, experienced declines in 2009; 2010 was a completely different story, with a year-over-year revenue increase higher than the average increase among the Top 25 electrical distributors.

## 2. WESCO

Headquarters: Pittsburgh, PA

2010 Revenues: \$4.93 billion

Change in Sales from 2009: 9.0%

Employees: 6,800

Locations: 407

Key Executives: President & CEO John Engel; CFO Richard Heyse; COO Steve Van Oss

In 2010, WESCO expanded its international presence, accelerated LEAN initiatives and completed two acquisitions. In its annual report, the distributor reported improving conditions across end markets, higher product prices and product costs, favorable foreign currency exchange rates and the positive impact of our recent acquisitions. WESCO serves industrial firms, electrical and data communications contractors, utilities and commercial organizations, institutions and governmental entities.

### 3. REXEL HOLDINGS USA (REXEL/GEXPRO)

Headquarters: Dallas, TX

2010 Revenues: \$4.8 billion

Change in Sales from 2009: 2.2%

Employees: 7,300

Locations: 530

Key Executives: CEO Jean-Charles Pauze; CFO Michel Favre; Senior Vice President & Business Development & Corporate Operations Pascal Martin; President & CEO Rexel Holdings USA Chris Hartmann; Senior Vice President & CEO Gexpro Mitch Williams; Senior Vice President & CEO Canada Jeff Hall

Steady improvement. That's how global electrical distributor Rexel - parent company of Rexel Holdings USA - characterized 2010. Starting the in third quarter, sales returned to the positive side in North America after nine straight quarters of decline.

### 4. GRAYBAR

Headquarters: St. Louis, MO

2010 Revenues: \$4.6 billion

Change in Sales from 2009: 4.5%

Employees: 7,000

Locations: 240

2010 Acquisitions: Avad Industrial Sales, Inc. (Graybar Canada)

Number of New Locations: 2

Key Executives: President & CEO Robert Reynolds Jr.; Executive Vice President & COO Kathleen Mazarella; Senior Vice President & CFO D. Beatty D'Alessandro; Senior Vice President, Human Resources Beverly Propst; Senior Vice President, Secretary & General Counsel Matthew Geekie; Senior Vice President, Operations Larry Giglio; Senior Vice President, U.S. Business Bob Lyons; Vice President & Chief Information Officer Scott Clifford; President & CEO, Graybar Canada Frank Hughes

Last year, Graybar announced leadership changes in order to "drive strategic growth," including the appointment of a new vice president of comm/data, an area several electrical distributors are seeing as growth areas in the future. The company continued this strategy throughout 2010, and is targeting the industrial market for growth in 2011. Its also streamlining some of its operations. In Ohio, Graybar consolidated its Akron and Canton branched into one new facility, but maintained the existing headcount. It also opened two new locations.

## 5. ANIXTER

Headquarters: Glenview, IL

2010 Revenues: \$3.88 billion

Change in Sales from 2009: 8.4%

Employees: 7,989 (global)

Locations: 179

2010 Acquisitions: Clark Security Products & General Lock, San Diego, CA

Key Executives: President & CEO Robert J. Eck; Executive Vice President, Finance & CFO Dennis J Letham;

Vice President Global Finance Ted A. Dosch

There's some debate as to whether Anixter belongs in the electrical distribution channel, says David Gordon, president of Channel Marketing Group, based primarily on its foundation of electronics. But the global company has focused much of its growth in the last few years on building out its presence in the electrical wire and cable end market, especially in the U.S. and Canada.

## 6. CED

Headquarters: Irving, TX

2010 Revenues: N/A

Change in Sales from 2009: N/A

Locations: 570

Key Executives: President H Dean Bursch

Privately held CED does not divulge its annual revenues, but continues to be one of the largest players in electrical distribution in the U.S. Recently, CED moved its headquarters from Westlake Village, CA, to Irving, TX.

## 7. HD SUPPLY (ELECTRICAL)

Headquarters: Atlanta, GA

2010 Revenues: \$1.4 billion

Change in Sales from 2009: 0.6%

Employees: 15,500

Locations: 765

Key Executives: CEO Joe DeAngelo; SVP and SBD and Integration Vidya Chauhan; SVP and CFO Ronald Domanico; SVP and CIO Michele Markham; SVP and General Counsel Ricardo Nunez; SVP and HR & Marketing and Communications Meg Newman; Senior Vice President Joe Izganics

Line of Business Presidents:

Steve Margolius, President, HD Supply Electrical

Rick McClure, HD Supply Utilities

Vasken Altounian, HD Supply Canada

Steve Ferry, President, HD Supply Plumbing HVAC

John Stegeman, President, HD Supply White Cap

Jerry Webb, HD Supply Waterworks

Jon Michael Adinolfi, Crown Bolt

Rich Fiechter, HD Supply Repair & Remodel

Anesa Chaibi, HD Supply Facilities Maintenance

Mike Stanwood, HD Supply Industrial PVF

HD Supply's position on the Top 25 Electrical Distributors list is a result of sales from HD Supply Electrical and sales through HD Supply Utilities. Former Ferguson CEO John Stegeman joined the HD Supply leadership team in 2010; he is executive president. HD Supply continues to record losses as it has in the past three years since being spun off from The Home Depot in 2007 and sold to a trio of private equity firms including Bain Capital, The Carlyle Group and Clayton, Dubilier & Rice. Those losses are starting to narrow however. In its latest report on the first quarter 2011, HD Supply reported improvement in industrial and nonresidential construction markets. In 2010, HD Supply provided an update on restructuring efforts. It had planned to close or consolidate branches and reduce its work force. HD Supply focuses its businesses around Infrastructure & Energy, Maintenance, Repair and Improvement, and Specialty Construction.

## 8. BORDER STATES ELECTRIC

Headquarters: Fargo, ND

Revenues: \$1.02 billion (for fiscal year ended March 31, 2011)

Locations: 58

Employees: 1,300

Key Executives: CEO Tammy Miller; President Gary Miller

After 10 years of being active in the Mexico market, Border States sold its Juarez, Mexico, branch in 2010 to ABSA del Norte, S.A. de C.V. and exited the Mexico market. Border States is one of the largest ESOPs in the U.S. and serves the construction, industrial and utility markets in the U.S.

## 9. GRAINGER (ELECTRICAL)

Headquarters: Lake Forest, IL

2010 Revenues: \$936 million

Change in Sales from 2009: 7.5%

Employees: 18,500

Locations: 607 branches, 20 regional warehouses, 24 DCs

2010 Divestments: Highsmith

2010 Acquisitions: SafetyCertified, Solus Securite, Ranson Industrial and Safety Supplies, THF International (Colombia Joint Venture)

Key Executives: President & CEO James Ryan, Grainger International President Court Carruthers; Grainger U.S. President Michael Pulick; CFO Ronald Jadin; SVP Global Supply Chain D G Macpherson; SVP HR Lawrence Pilon; SVP Communications & Investor Relations Laura Brown; CIO Timothy Ferrarell; General Counsel John Howard

Grainger is seen as both a partner in the supply chain and a stiff competitor, sometimes by the same company. The distributor has added acquisitions back into the mix for growth in the past year. Its focus has been on growing services and expanding overseas. Grainger continues to expand its product offerings, as well as its presence online at [grainger.com](http://grainger.com). More than a quarter of Grainger's revenues come from its online platform.

## 10. CRESCENT ELECTRIC SUPPLY CO.

Headquarters: East Dubuque, IL

2010 Revenues: \$769 million

Change in Sales from 2009: 2.3%

Locations: 120

Acquisitions: Broken Arrow Electric Supply (Missouri operations)

Key Executives: President/CEO Martin Burbridge; SVP/CFO James Etheredge; SVP/COO Chris Breslin

Crescent Electric Supply Company serves contractors, utilities, institutional and industrial customers with a broad line of electrical, lighting, automation and datacomm products.



**11. PLATT ELECTRIC**

Headquarters: Beaverton, OR  
2010 Revenues: N/A  
Change in Sales from 2009: N/A  
Locations: 104  
Key Executives: CEO Harvey Platt; President Jeffrey Baker

Platt Electric serves the electrical construction, commercial, industrials, utility, digital surveillance, and data comm markets.

**12. MAYER ELECTRIC SUPPLY**

Headquarters: Birmingham, AL  
2010 Revenues: \$568 million  
Change in Sales from 2009: 6.4%  
Employees: 850  
Locations: 50  
Number of New Locations: 1 - Calvert, AL  
Key Executives: CEO Nancy Goedecke; President Wes Smith; CFO David Morgan

Mayer Electric Supply Company, a distributor of electrical, lighting, and communications products in the Southeast U.S., has recently been certified as a Women's Business Enterprise. Mayer Electric serves electrical contractors, builders, commercial businesses, and institutional and industrial facilities.

**13. McNAUGHTON-McKAY ELECTRIC**

Headquarters: Madison Heights, MI  
2010 Revenues: N/A  
Employees: 700  
Locations: 23  
Key Executives: President & CEO Donald D. Slominski Jr.; Executive Vice President & COO John R. McNaughton III; Executive Vice President Sales & Marketing Richard M. Dahlstrom

Detroit was one of the areas hardest hit by the recession, particularly as the auto industry fell into crisis mode at the end of 2008 into the beginning of 2009. But things seem to be changing for the area. McNaughton-McKay Electric is seeing strength in industrial MRO and OEM markets currently, though commercial construction remains a struggle for the electrical distributor. Clean energy and process will be focuses for the company in 2011.

**14. DEALERS ELECTRICAL SUPPLY Co.**

Headquarters: Waco, TX

2010 Revenues: N/A

Locations: 59

Dealers Electrical Supply is a privately held, employee-owned distributor of electrical supplies to the commercial, residential, and industrial construction industries and electric utility companies. In addition, the company also supports OEM and MRO automation and operates retail lighting branches.

**15. EIS Inc.**

Headquarters: Atlanta, GA

2010 Revenues: \$449 million

Change in Sales from 2009: 30.1%

Employees: 680

Locations: 38

Key Executives: President and CEO Bob Thomas; Sr. VP & CFO Matt Tyser ; Sr. VP Logistics Bill Knight ; Sr. VP Electrical Electronic Business Alex Gonzalez ;Sr. VP Marketing Larry Griffin; Sr. VP Converting & Fabrication Tom Jones ; Sr. VP Seacoast Electric David Quinn

Positive sales growth for EIS, Inc., a subsidiary of Genuine Parts Co., can be partly attributed to the two acquisitions it made in 2010: Fay Wire, Elmhurst, IL, and Seacoast Electric Company, Hawthorne, NY. But the distributor says most of the markets it focuses on are experiencing growth right now, particularly markets related to alternative energy generation. Areas EIS will be focusing on in 2011 include electric power generation and green power technologies (HV/EV and battery development, wind, solar primarily).

**16. TURTLE & HUGHES**

Headquarters: Linden, NJ

2010 Revenues: \$420 million

Change in Sales from 2009: 10.5%

Employees: 550

Key Executives: CEO Jayne Millard; president T&H Jack Signagra; Exec VO T&H Rick Reffler; CFO Treavor Barnett; President T&H Integrated JJ Drummond

Turtle & Hughes is a diversified distributor in Industrial, Power Transmission/Bearing, Electrical, Pharmaceutical, Fasteners, Safety and MRO integrated Supply. The distributor reports strong growth in electrical construction and in MRO integrated supply.

**17. ELLIOTT ELECTRIC SUPPLY**

Headquarters: Nacogdoches, TX  
2010 Revenues: \$375 million  
Change in Sales from 2009: 20.2%  
Employees: 900  
Locations: 104  
Key Executives: President Bill Elliott

Elliott Electric prides itself on its ability to invest in the company even during tough economic times. It does this through internal financing and maintaining a customer base that crosses sectors. It also maintains a keen focus on providing new technology to customers to streamline the process, including full account management online, EDI and real-time stock availability.

**18. THE REYNOLDS COMPANY**

Headquarters: Fort Worth, TX  
2010 Revenues: N/A  
Locations: 18  
Number of New Locations: 1  
Key Executives: Chariman Don Reynolds; COO Donald Reynolds; President Walt Reynolds

The Reynolds Company is an independently owned wholesale distributor with global distribution and project management experience.

**19. WHOLESALE ELECTRIC SUPPLY COMPANY OF HOUSTON**

Headquarters: Houston, TX  
2010 Revenues: N/A  
Change in Sales from 2009: N/A  
Locations: 9  
Key Executives: CEO Joe Jones Sr.; President Robert Fields; Vice President/CFO Clyde Rutland; SVP Operations John Fuller; SVP Sales Greg Hall; SVP/CIO Gary Wardwell

Wholesale Electric Supply Co. of Houston distributes a broad range of products to the chemical, petrochemical, refining, commercial, OEM and utility industries. The distributor recently added new services such as Wholesale ComTel Supply, which offers a full range of voice, data and electronic communications products and services to create or enhance telecommunications infrastructure.

**20. INDEPENDENT ELECTRIC SUPPLY INC.**

Headquarters: San Carlos, CA

2010 Revenues: \$370 million

Change in Sales from 2009: 2.8%

Employees: 450

Locations: 24

Key Executives: CEO Ron Snow; President Tom Massip; CFO Greg Adrian; Vice President David Jones; Marketing Director Mike Baker

Alternative energy markets are strong in California, says Mike Baker, director of marketing for Independent Electric Supply, Inc. As such, it's no surprise that solar, wind, LEDs and renewables were the strongest end-markets for the San Carlos, CA-based distributor – and the areas being targeted for even more growth in 2011. The company also decided in 2010 to place a keen focus on providing more training and career advancement opportunities to all its employees. "We've probably lost some good people in the past because of the lack of a defined way to move up in the company," Baker says. "We wanted to change that, and so we did."

**21. NORTH COAST ELECTRIC COMPANY**

Headquarters: Seattle, WA

2010 Revenues: \$343 million

Change in Sales from 2009: 11.7%

Locations: 33

Key Executives: CEO Peter Lemman; President Mike Miller; CFO Ron Stewart; COO Rick Bumpus

North Coast Electric, family owned and operated since 1913, is an electrical distributor operating in Washington, Oregon, Idaho, Alaska, and Arizona. As a full line electrical distributor, North Coast supplies electrical equipment to the electrical contractor, factory automation, industrial MRO, and commercial & institutional markets. In 2009, the company launched the Big Blue Blog to help keep its customers and suppliers informed of what's going on at North Coast Electric.

**22. ONESOURCE DISTRIBUTORS**

Headquarters: Oceanside, CA

2010 Revenues: \$335 million

Change in Sales from 2009: 36.7%

Employees: 290

Number of New Locations: 2

Key Executives: President & CEO Bob Zamarripa; Executive VP/COO Mike Smith; CFO Tim Walsh

Construction markets - both residential and commercial - continue to be a challenge in 2010 for OneSource Distributors. But strength in OEM, utility, MRO and infrastructure markets more than offset those challenges. The distributor did not make any acquisitions in 2010, but quickly shifted to an acquisition mindset with the purchase of Industrial & Safety on Jan. 7, 2011. The company is looking at the possibility of completing more acquisitions in industrial, safety and electrical this year.

**23. SUMMIT ELECTRIC SUPPLY**

Headquarters: Albuquerque, NM

2010 Revenues: \$301.5 million

Change in Sales from 2009: -2.1%

Employees: 500

Locations: 19 + export div. + marine div.

Number of New Locations: 2

Key Executives: President & CEO Victor R. Jury, Jr.; Senior Vice President, Business Development Joe Chesky; CFO Russ Hiller; Vice President, Marketing Sheila Hernandez; Vice President, Supplier & Product Strategy Drew Ott; Vice President, Information Technologies David Wascom; Vice President, Operations Cole Harrison; Vice President, Associate Resources Dan Long; Regional Vice President, Southwest Scott Cogan; Regional Vice President, Gulf Coast Dan Ferrari

Summit Electric continued to expand its presence in 2010, adding locations in Texas and Louisiana, and hiring to expand sales in key areas such as Latin America. Summit prides itself on giving back to the communities it serves as well as communities in need, donating \$42,520 to Haiti earthquake relief, nearly \$10,000 to the American Red Cross in New Mexico, and continuing to support and recognize its employees efforts in volunteerism.

**24. STATE ELECTRIC SUPPLY COMPANY**

Headquarters: Huntington, WV

2010 Revenues: N/A

Change in Sales from 2009: N/A

Employees: 700

Locations: 40

Key Executives: CEO & CFO Clarence Martin

State Electric Supply provides services and products for Commercial, Data Communications, Electrical, Energy Audits and Safety Products/Training, HVAC, Industrial, Institutional, Mining, OEM, Preventative Maintenance Contractors, Residential, and Utility customers, with locations in West Virginia, Kentucky, Ohio, Virginia, and North Carolina. In 2010, State Electric undertook initiatives to build out its online presence through Facebook. "Social media is the future," says Ryan Ramsby, a merchandiser for the electrical distributor and the head of its social media initiative. "It's a great way to instantly reach customers for free. The fastest growing demographic group on Facebook is the 65-plus, and the average age is around 33. Those are our customers. If you're serious about your business, you have to be a part of this."

**25. CITY ELECTRIC SUPPLY**

Headquarters: Orlando, FL

2010 Revenues: N/A

Employees: 1,800

Locations: 370

CES is a full-line electrical supply house with operations in 26 states. The distributor works hard to educate its customers on new initiatives, including green standards with "the Green House."





# Top 10 Building Materials/ Construction Distributors

## 1. ABC SUPPLY Co. INC.

Headquarters: Beloit, WI

2010 Revenues: \$4 billion

Change in Sales from 2009:53.8%

Locations: 450 Employees: 7,000

Key Executives: President and CEO David Luck; Vice President and COO Keith Rozolis

2010 Acquisitions: Bradco Supply

The distributor of exterior building products, including roofing materials, siding, windows and gutters, as well as the tools and equipment professional contractors need, rocketed to the top of the MDM Market Leaders building materials list by acquiring 2010's No. 6 company, Bradco Supply. The new company eclipses former No. 1 ProBuild Holdings by around 20 percent.

## 2. PROBUILD HOLDINGS

Headquarters: Denver, CO

2010 Revenues: N/A

Locations: 450

New Locations in 2009 (not as a result of acquisition): Waldorf, MD, San Antonio, TX, Orem, UT, Winchester, VA, and Sacramento, CA.

Key Executives: President and CEO Bill Myrick; EVP-Operations Jim Cavanaugh; EVP/CFO Tim Trenary; CIO John C. Huber

ProBuild carries construction products for national builders, local contractors and do-it-yourselfers. While the distributor continued to search for expansion opportunities around the U.S., announcements of new locations were offset by the news in December that it would be closing 20 lumber yards, component facilities, gypsum yards and millwork facilities.

### 3. ALLIED BUILDING PRODUCTS

Headquarters: East Rutherford, NJ

2010 Revenues: \$1.7 billion

Change in Sales from 2009: +6%

Employees: 3,100

Locations: 180

Acquisitions: Olympic Supply, Sacramento, CA

Key Executives: CEO Bob Feury Jr.

Since 2008, Allied Building Products has closed or merged 27 locations, many in smaller markets, and added three locations. Due to the continued downturn in the macroeconomic environment, Allied curtailed capital spending and kept development activity to a minimum; during 2010 Allied acquired one Exterior Products distributor in Sacramento, CA.

### 4. BEACON ROOFING SUPPLY INC.

Headquarters: Peabody, MA

2010 Revenues: \$1.61 billion

Change in Sales from 2009: -5.3%

Locations: 185

Key Executives: President and CEO Paul M. Isabella; EVP/CFO David R. Grace

2010 Acquisitions: Posi-Slope, Toronto, Ontario, Canada; Louisiana Roofing Supply, Baton Rouge, LA; Phoenix Sales, Tampa, FL; Independent Building Materials, Orlando, FL

Beacon Roofing Supply expanded its operations in 2010 by adding nine branches, while closing only two. The key strength of the company, according to its management team, is the stability of the roofing market which is somewhat insulated from swings in the overall building cycle. As a result, sales in 2010 were only down 5.3 percent in a sector where many other companies posted double-digit declines.

## 5. HD SUPPLY (CONSTRUCTION)

Headquarters: Atlanta, GA

2010 Revenues: \$1.5 billion

Employees: 15,500

Locations: 765

Key Executives: CEO Joe DeAngelo; SVP and SBD and Integration Vidya Chauhan; SVP and CFO Ronald Domanico; SVP and CIO Michele Markham; SVP and General Counsel Ricardo Nunez; SVP and HR & Marketing and Communications Meg Newman; Senior Vice President Joe Izganics

Line of Business Presidents:

Steve Margolius, President, HD Supply Electrical

Rick McClure, HD Supply Utilities

Vasken Altounian, HD Supply Canada

Steve Ferry, President, HD Supply Plumbing HVAC

John Stegeman, President, HD Supply White Cap

Jerry Webb, HD Supply Waterworks

Jon Michael Adinolfi, Crown Bolt

Rich Fiechter, HD Supply Repair & Remodel

Anesa Chaibi, HD Supply Facilities Maintenance

Mike Stanwood, HD Supply Industrial PVF

HD Supply's position on the Top 25 Electrical Distributors list is a result of sales from HD Supply Electrical and sales through HD Supply Utilities. Former Ferguson CEO John Stegeman joined the HD Supply leadership team in 2010; he is executive president. HD Supply continues to record losses as it has in the past three years since being spun off from The Home Depot in 2007 and sold to a trio of private equity firms including Bain Capital, The Carlyle Group and Clayton, Dubilier & Rice. Those losses are starting to narrow however. In its latest report on the first quarter 2011, HD Supply reported improvement in industrial and nonresidential construction markets. In 2010, HD Supply provided an update on restructuring efforts. It had planned to close or consolidate branches and reduce its work force. HD Supply focuses its businesses around Infrastructure & Energy, Maintenance, Repair and Improvement, and Specialty Construction.

**6. 84 LUMBER**

Headquarters: Eighty Four, PA

2010 Revenues: N/A

Locations: 282

Key Executives: CEO Joe Hardy; President Maggie Hardy Magerko

New locations in 2009 (not as a result of acquisition): reopened Milton, FL location

Positive signs emerged in 2010 for 84 Lumber, even in areas where the housing market was hit the hardest. Improvements in local construction markets led to the decision to reopen a location in Milton, FL. The location closed when the market hit its lowest point. It's a significant shift for a company that was plagued by news of closures in 2008 and 2009.

**7. L&W SUPPLY**

Headquarters: Chicago, IL

2010 Revenues: \$1.06 billion

Change in Sales from 2009: -18.5%

Locations: 163

Key Executives: President and CEO Brendan J. Deely

L&W Supply continued to be negatively impacted by an extremely slow rebound in the residential housing market in the U.S. A subsidiary of USG Corp., L&W reported that about 30 percent of its 2010 sales came from new residential construction. In the current market environment, the distributor has been focusing on reducing cost structure. L&W closed five distribution centers in 2010 and opened four.

**8. STOCK BUILDING SUPPLY**

Headquarters: Raleigh, NC

2010 Revenues: \$861 million

Change in Sales from 2009: -39.8%

Locations: 57

Employees: 2,300

Acquisitions in 2010: Bison Building Materials (Houston, TX) & National Home Centers (Arkansas)

Key Executives: President & CEO Jeff Rea; EVP/Chief Supply Chain Officer Jim Drexinger; EVP/CFO Jim Major; EVP/General Counsel Brian Yeazel

More than a year after being spun-off of Wolseley through a joint venture with private equity firm The Gores Group, Stock Building Supply is still trying to refind its footing in the North American building materials market. Another changing of the guard happened at the end of 2010 with the appointment of Jeff Rea as president and CEO. At the beginning of 2010, former President & CEO Joe Appelman said the company would be targeting "aggressive expansion" in 2010.

**9. ROOFING SUPPLY GROUP**

Headquarters: Dallas, TX

2010 Revenues: N/A

Employees: 915

Locations: 57

Key Executives: President & CEO Mike Farrell; Chairman Vin Perella

Roofing Supply Group provides one-step distribution services from manufacturers of roofing products to roofing contractors, home builders, and other end users. The company experiences continued growth, having opened new branch locations and expanded into new geographic markets in recent years. The distributor recently acquired Construction Resource, Inc., a Northern California distributor of commercial roofing and waterproofing materials.

**10. BUILDERS FIRSTSOURCE**

Headquarters: Dallas, TX

2010 Revenues: \$700.3 million

Change in Sales from 2010: 3.3%

Locations: 52 (distrb); 47 (manuf)

Key Executives: President & CEO Floyd F. Sherman; Senior Vice President & CFO M. Chad Crow; SVP-Operations Morris E. Tolly

Commodity inflation was a positive factor for Builders FirstSource in the fourth quarter of 2010, but lower volume and competitive price pressures continued to put the squeeze on the company's bottom line. Floyd Sherman, CEO, said competitive pricing pressures remain a concern. "But we have recently seen signs that suggest pricing discipline may be returning to the market."





# Top 10 HVACR/Plumbing/PVF Distributors

## 1. FERGUSON/WOLSELEY CANADA

Headquarters: Newport News, VA

2010 Revenues: \$9.43 billion

Change in Sales from 2009: -7.55%

Employees: 19,500

Locations: 1,461

Key Executives: Wolseley Chief Executive Ian Meakins; North America Chief Executive Frank Roach, Ferguson COO Kevin Murphy; Ferguson SVP-Business Groups Steve Petock; Ferguson CMO Jim Feltman

UK-based Wolseley is a distributor of heating, plumbing, PVF and building materials in Europe and North America. Ferguson, Wolseley's U.S. company, saw 2010 sales decline 11 percent; Canadian sales declined 3 percent in constant currency for the year. In its fiscal 2011, Wolseley has seen improvement. For the nine months ended April 30, 2011, sales were up 3 percent year-over-year. In the U.S., sales inched up 2 percent, and Canadian sales were down just 2 percent. "The group continued to make progress in the third quarter broadly maintaining the revenue growth trends achieved in the first half despite tougher comparatives," Chief Executive Ian Meakins said. "New residential construction, which accounts for 20 percent of group revenue, remained subdued in most regions, while demand in repair, maintenance and improvement (RMI) segments held up well in most markets." In the U.S., Wolseley reported that demand in residential and RMI markets held up well and the business made good progress in the industrial and commercial segments including Fire and Fabrication, though from a low comparable base.

## 2. McJUNKIN RED MAN CORP.

Headquarters: Houston, TX

2010 Revenues: \$3.86 billion

Change in Sales from 2009: 5.46%

Employees: 3,500+

Locations: 225+

Key Executives: Chairman, President & CEO Andrew Lane; CFO Jim Underhill; CAO Gary Ittner

2010 Acquisitions: South Texas Supply, Dresser Oil & Tools

Number of new locations:2

McJunkin Red Man Corp. - the product of a merger between McJunkin Corp. and Red Man Pipe and Supply Company in 2007 - continued to grow in 2010 with the acquisitions of Dresser Oil Tools & Supply and The South Texas Supply Company. It is also expanding internationally - recently to Australia - to build out its capabilities to manage global projects. McJunkin Red Man is a global distributor of pipe, valves and fittings (PVF) and related products and services to the energy and industrial sectors, and supplies these products and services across each of the upstream, midstream and downstream markets.

## 3. WATSCO

Headquarters: Miami, FL

2010 Revenues: \$2.8 billion

Change in sales: 40%

Employees: 4,000

Locations: 505

Key Executives: CEO Albert Nahmad; SVP Barry Logan; CFO Ana Menendez

Watsco is a distributor of air conditioning, heating and refrigeration equipment and related parts and supplies, currently operating over 500 locations in the U.S. and Puerto Rico, with additional market coverage on an export basis to parts of Latin America and the Caribbean. After reported a sales increase of 5 percent in the first quarter 2011, president and CEO Albert H. Nahmad said: "We are encouraged that our basic fundamentals – continued acceptance of higher-efficiency HVAC systems in both residential and commercial markets, an obsessive desire to gain market share, ever-improving operating efficiency and strategic use of our balance sheet to grow our business – should produce a record year of performance in 2011." This year, Watsco completed another joint venture transaction with Carrier Corp. that includes Carrier's company-operated HVAC distribution network in the northeast U.S. The network had revenues of \$210 million in 2010.

**4. HAJOCA CORP./EMCO**

Headquarters: Ardmore, PA/London, ON

2010 Revenues: N/A

Hajoca Corp. has locations in 32 states. In 2003, the HVAC distributor purchased Emco Limited, an HVAC distributor in Canada. While both companies continue to operate as independent companies, due to Hajoca's ownership of Emco, we have chosen to list them together for this list.

**5. WILSON/CE FRANKLIN**

Headquarters: Wilson - Houston, TX; CE Franklin - Calgary, AB

2010 Revenues: N/A

Key Executives: CE Franklin President and CEO Michael West; CE Franklin CFO Mark Schweitzer; CE Franklin VP-Commercial Strategies Jim Baumgartner; CE Franklin SVP-Business Development Merv Day; CE Franklin VP-Operations Rod Tatham; CE Franklin VP-Sales Doug Peters; CE Franklin VP-Business Effectiveness Ron Koper

The biggest news for industrial PVF distributor Wilson in the past year was the announcement that its parent company Smith International Inc. would be acquired by Houston, TX-based Schlumberger Ltd. The announcement was made in February 2010. Revenues in Schlumberger's and Smith's annual SEC filing break out distribution sales for Wilson Industries and CE Franklin, the Canadian distribution arm, together. Based on three quarters of sales, MDM estimated Wilson and CE Franklin's revenues at more than \$2 billion in 2010 for placement on the list.

**6. WINWHOLESALE**

Headquarters: Dayton, OH

2010 Revenues: N/A

Employees: 525

Locations: 3,825

Key Executives: President and CEO Richard Schwartz; COO WinWholesale & President Noland Company Monte Salsman; CFO Jack W. Johnston; COO Noland Company John W. Simmons; CIO Steven L. Hangen; 2010 New Locations: 6

WinWholesale opened six new locations in 2010, expanding its reach in diverse sectors. The distributor consists of more than 450 "wholesaling corporations" in which WinWholesale is an equity partner. Noland Company is a subsidiary. The distributor covers: plumbing and heating supplies; industrial PVF; HVACR; electrical equipment; industrial and commercial fastening hardware; waterworks and utility supplies; and pumps.

## 7. JOHNSTONE SUPPLY

Headquarters: Portland, OR

Locations: 350

With regional distribution centers based in Portland, Oregon, Memphis, Tennessee, Allentown, Pennsylvania, Jacksonville, FL, and Las Vegas, NV, Johnstone Supply has more than 350 independently-owned stores, totaling over a billion dollars in annual sales. In 2010, Johnstone Supply tapped DeWight Wallace as the new CEO.

## 8. HD SUPPLY (HVACR/PVF/PLUMBING)

Headquarters: Atlanta, GA

2010 Revenues: \$981 million

Employees: 15,500

Locations: 765

Key Executives: CEO Joe DeAngelo; SVP and SBD and Integration Vidya Chauhan; SVP and CFO Ronald Domanico; SVP and CIO Michele Markham; SVP and General Counsel Ricardo Nunez; SVP and HR & Marketing and Communications Meg Newman; Senior Vice President Joe Izganics

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**9. F.W. WEBB COMPANY**

Headquarters: Bedford, MA

2010 Revenues: \$650 million

Change in Sales from 2009: 11.1%

Employees: 1,400

Locations: 74

Key Executives: CEO John Pope; President Jeff Pope; CFO Bob Mucciarone; Sr VP Purchasing Ed Welch; Director Marketing Alicia Criniti; VP HR Ruth Martin; Sr VP Industrial Sales Ernie Coutermarsh; Sr VP Plg/Htg Sales John Provencal; Sr VP HVAC/R John Thomas

FW Webb breaks out their sales like this: 75% HVAC/Plumbing/PVF; 15% Industrial; 5% Pharmaceutical; 5% Plastics. The company is targeting power, wastewater, energy and green sustainability as growth industries in 2011. FW Webb services customers in New England and upstate New York. In addition to its core businesses, FW Webb has a biopharm division to serve pharmaceutical and bio-tech markets in New England and New York. FW Webb recently announced an executive change that will drive growth in industrial markets. It tapped Senior Vice-President Ernie Coutermarsh to lead Industrial Business Development and Jim Bodle to Vice President of Industrial Sales. Coutermarsh will focus on major projects and possible acquisitions of industrial competitors.

**10. R.E. MICHEL**

Headquarters: Glen Burnie, MD

2010 Revenues: N/A

Locations: 200+ Sales Locations

In addition to local inventory, the distributor has a 900,000 square foot Distribution Center in Maryland. In 2010, HVAC/Plumbing distributor R.E. Michel positioned itself for growth in alternative energy markets and improved energy efficiency models.