

2018 M&A Roundup

Produced by:



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2018 M&A Overview

Convergence Colors 2018 Distribution M&A

In like a lion, out like a lamb – 2018 started with a few landscape-shifting deals in the industrial and building materials sectors. Applied Industrial Technologies' agreement to buy FCX Performance Inc., set the tone for distribution M&A in 2018 – adjacency and building a more differentiated specialty capability in response to the growth of Amazon Business and increasing threats posed by digital competition and commoditization. Applied added to its core power transmission and fluid power business with an expansion into complementary and broader flow control markets that FCX had built out.

The competitive landscape continued a healthy pace in the second quarter with major deals by Sun-Source and MSC, plus competing bids to buy Essendant that stretched out for most of the year. The Staples-Essendant saga was finally settled in October and M&A extended into marketing groups as IDC-USA merged with the marketing group Affiliated Distributors.

Overall, the M&A landscape in distribution continued a strong pace with multiples maintaining strength throughout the year. And as 2018 ended with expectations for an economic cycle downshift of some sort in 2019, there was increasing consensus that 2019 could bring a higher level of consolidation activity as a large amount of investor cash is still available, distribution businesses offer protection to downside cycles, and more distributors may decide to exit while valuations remain relatively high.

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January

FCX Deal Strengthens Applied's Specialty Differentiation

Thomas P. Gale | January 17, 2018

Applied last week said it plans to acquire the Columbus, OH-based distributor of specialty process flow control products and services for 11.3x projected 12-month EBITDA. The deal is expected to close within 30 days.

Applied is No. 10 on MDM's 2017 Top 40 Industrial Distributors list, with fiscal 2017 revenues (June 2017) of \$2.6 billion. FCX is No. 30 on MDM's top industrial distributors list – and No. 4 on the Top 10 Fluid Power Distributors list – with 2016 revenues of \$346 million.

However, FCX has been on an aggressive acquisition pace, most recently in the fourth quarter of 2017 with the acquisition of Eads Distribution, Houston, TX, which added an estimated \$100 million in revenue on top of several other smaller acquisitions earlier in 2017.

The deal is significant in that Applied's fluid power segment, as reported in MDM's 2018 Competitive Landscape for Wholesale Distribution report, accounts for approximately \$700 million, or more than 25 percent, of its total annual revenue.

The FCX acquisition, with expected 12-month revenue of \$550 million, boosts Applied's combined specialty fluid power and flow control businesses to close to 40 percent of total revenue. It's a strong move, sweetened by FCX's 35-percent margins, to protect against increasing online sales of industrial products, as well as differentiate its technical capabilities against offerings by traditional competitors.

The deal gives Applied a flow control technical sales force of 222 outside sales and 174 inside sales reps who can cross-sell Applied products, as well as 262 service technicians. Combined, there will be 430 service centers with more than 70 repair facilities for fluid power and flow control products.

FCX has 68 locations, with a concentration east of the Mississippi and strong Texas coverage west up through Colorado to Minnesota. There is great potential to leverage AIT's strong western states presence as well as into the Southeast for FCX products.

The sales mix for FCX is 75 percent MRO, 12 percent OEM, and 13 percent EPC (Engineer-

ing, Procurement and Construction contractor projects).

The deal gives Applied a stronger position in process industries that make up more than half of the FCX customer base. FCX's largest sector is in petrochemical (27 percent), followed by distribution resale (13 percent). These are followed by food & beverage (9 percent), oil & gas (9 percent), pharmaceuticals (8 percent), and steel & metals (7 percent).

Except for some overlaps in pumps, the product lines are mostly complementary. FCX distributes highly engineered valves, instruments, pumps, and lifecycle services to MRO and OEM customers across diverse industrial and process end markets. The company's value-added solutions help customers improve cost productivity, reduce downtime, increase efficiency and effectively meet increasing regulatory compliance standards.

FCX operates 68 locations with more than 1,000 team members. The acquisition is anticipated to contribute approximately \$550 million in sales and \$68 million in EBITDA in the first 12 months of Applied ownership.

FCX has been the primary consolidator of the specialty flow control distribution sector, with more than 20 acquisitions since 2000.

The pending acquisition of FCX "further enhances our position as a differentiated industrial distributor," said Neil Schrimsher, Applied's president and CEO. "FCX brings to Applied market leading, value-added specialty flow control expertise with premier brands, high-touch technical service, an extensive footprint, and strong customer relationships. This compelling adjacency move is an excellent fit, especially when considering served industries, customer opportunities, engineering capabilities and value-added services."

"We believe that distributors like FCX Performance and Applied Industrial, through their strong technical selling models, provide customers with solutions that cannot easily be replicated by online competitors," said Jason Kliever, co-head of Baird's distribution group, which advised FCX on the transaction.

January 2018 M&A Roundup: New Year Begins with a Bang

Eric Smith | February 6, 2018

A pair of deals that will alter the landscape in the industrial and building materials sectors helped 2018 begin with a bang in distribution M&A, which is poised to accelerate throughout the year following this fast start.

Last month saw industrial distributor Applied Industrial Technologies, Cleveland, OH, No. 10 on MDM's list of the Top 40 Industrial Distributors, agree to acquire fluid power distributor FCX Performance Inc., Columbus, OH, for \$768 million.

MDM CEO & Publisher Tom Gale outlined the deal in a blog last month, noting its significance because Applied's fluid power segment, as reported in MDM's 2018 Competitive Landscape for Wholesale Distribution report, accounts for approximately \$700 million, or more than 25 percent, of the company's total annual revenue.

The FCX acquisition, with expected 12-month revenue of \$550 million, boosts Applied's combined specialty fluid power and flow control businesses to close to 40 percent of total revenue.

Another notable deal from January saw HD Supply expand its footprint with the announcement that its Construction & Industrial – White

Cap division (No. 8 on MDM's list of the Top 10 Building Materials & Construction Distributors) will acquire A.H. Harris Construction Supplies, Hartford, CT, for \$380 million.

"The acquisition of A.H. Harris will be the single largest transaction HD Supply Construction & Industrial has ever made, and it will strengthen HD Supply's position as the premier distributor in specialty construction," HD Supply Construction & Industrial President John Stegeman told MDM. "The combined company will allow us to better serve our customers in New England, New York, New Jersey, Pennsylvania, Washington, DC, Baltimore, Virginia and the Carolinas."

"It's a logical marriage between two former rivals that enhances HD Supply's strengths in the marketplace," Tom Gale wrote in a recent blog. "It expands its national footprint, with an ability to attract more large, regional and national customers as well as consolidate purchases – and to some degree inventories – across its supply base. Within the region, the combination strengthens the combined companies' marketing and merchandising capabilities."

Other Key Deals in January

- Ferguson Acquires Duhig Stainless
- SRS Distribution Acquires Venture Roofing & Building Supply
- Bunzl Acquires Companies in the US and UK
- Midwest Wholesale Hardware Acquires Strauss Lock Distributors
- Arrow Electronics Acquires eInfochips
- DXP Acquires Application Specialties
- PRC Industrial Supply Acquires Ace Conveyor Services

February 2018 M&A Roundup: Master Distributor Deal Highlights Slow Month

Eric Smith | February 28, 2018

Though 2018 began with a flurry of M&A activity – with landscape-shifting deals in the industrial and building materials sectors – February was much slower in terms of deal volume and dollar value.

One notable deal saw two master distributors join forces when AIV Inc., Houston, TX, acquired Zenith Supply Co. Inc., Pittsburgh, PA. Terms were not disclosed.

Established in 1991, AIV is a master distrib-

utor of valves and actuators, selling through distribution only to the oil & gas, refining, chemical, petrochemical, power, pulp & paper and water treatment industries.

Zenith Supply is a master distributor of slow-moving, mission-critical industrial steel and special alloy valves manufactured by Velan Inc.

The deal makes strategic sense, according to Rocky Pontikes, managing director of Mesirow

Financial's Investment Banking group, which represented Zenith Supply in the deal. "... our efforts will help the strategic combination of Ze-

nith and AIV to continue delivering exceptional service and quality to its customers for many years to come," Pontikes said.

Other Key Deals in February

- Singer Equities Acquires Smith Industrial Rubber & Plastics
- NEFCO Acquires Contractors & Industrial Supply
- Cardinal Health Completes Sale of Cardinal Health China Business
- A&M Industrial Acquires Industrial Tool Specialist
- Tencarva Acquires Saladin Pump & Equipment
- Ohio Transmission Corp. Acquires Compressed Air Systems

Buffett, Bezos, Grainger and Fastenal - What's Ahead?

Ian Heller | March 5, 2018

On Feb. 26, the Fox Business show "Countdown to the Closing Bell with Liz Claman" ran a segment highlighting Warren Buffett's recent disclosure that Berkshire Hathaway is holding on to \$116 billion in cash. One of the reasons Buffett is sitting on such a large pile of cash is he's struggling to find good companies to buy at a reasonable valuation.

Claman interviewed Mariann Montagne, a senior portfolio manager for Gradient Investments, who identified three potential acquisitions for Buffett, including Fastenal and Grainger. She named the two distributors because with "Fastenal and Grainger, you are providing the inputs for that infrastructure build-out without the risk of the infrastructure."

Buffett's most recent shareholder letter expands on the barriers he sees in finding companies to buy with all that cash. The legendary investor notes that good acquisition targets have, "durable competitive strengths; able and high-grade management; good returns on the net tangible assets required to operate the business; opportunities for internal growth at attractive returns; and, finally, a sensible purchase price."

Buffett goes on to say, "That last requirement proved a barrier to virtually all deals we reviewed in 2017, as prices for decent, but far from spectacular, businesses hit an all-time high. Indeed, price seemed almost irrelevant to an army of optimistic purchasers."

He blames this in part on the CEOs of strategic buyers: "The CEO job self-selects for 'can-do' types. If Wall Street analysts or board members urge that brand of CEO to consider possible acquisitions, it's a bit like telling your ripening teenager to be sure to have a normal sex life.

Once a CEO hungers for a deal, he or she will never lack for forecasts that justify the purchase."

Another problem is that Buffett says "we never factor in, nor do we often find, synergies" – but synergies are often a large part of the forecasted valuation growth for strategic buyers. Of course, debt is still very cheap and the recent tax cuts mean corporations are generating even more cash. What all this suggests is that the buying frenzy is likely to continue but finding targets priced attractively without taking into account synergies is hard for financial buyers like Buffett.

So, what does this mean for the distribution industry? Do Grainger and Fastenal meet Buffett's requirements? We obviously can't know what the Grainger and Fastenal boards would consider a sensible selling price, but Buffett has proven he has some interest in distribution.

Berkshire Hathaway owns electronics components distributor TTI Inc. – No. 4 on MDM's 2017 Market Leaders list for electronics distributors. And last fall Berkshire Hathaway purchased Production Tool Supply for an undisclosed sensible price and renamed it Berkshire eSupply.

Berkshire eSupply is the latest evolution of a master distributor. The firm provides tools to allow smaller distribution companies to build "private label websites." Berkshire eSupply says, "Our e-commerce system becomes yours, with your branding and pricing for a low up-front fee. As buyers become younger and customer expectations rise, you need a highly capable website."

This is truly a modern version of Mark

March

Kahn's brilliant idea of producing private label catalogs and marketing materials as well as providing fulfillment for other distributors when he ran Production Tool Supply successfully for so many years. Berkshire eSupply still offers those services and it also helps its distribution customers get into the private label vending business.

This is an intriguing value proposition but it's a different angle on distribution than what Buffett would get if he bought Grainger or Fastenal. Both of those companies (especially Grainger) compete directly with Amazon Business and thus have to slug it out for "long tail" MRO purchase contracts with a much larger foe.

That's not what Buffett's doing with the former Production Tool Supply. His Berkshire eSupply strategy avoids pitting his capital directly against Jeff Bezos' – a battle that would be very fun to watch but perhaps not ideal in terms of generating returns for two of the world's three richest people. Instead, he's inviting thousands of distributors to buy services from him so they can go into battle directly against pure digital competitors in the marketplace.

Berkshire eSupply is the Amazon Business third party marketplace turned on its head – it's a third-party supply base for distributors. Indeed, at some point, distributors will buy through Berkshire eSupply and sell through Amazon Business, adding two intermediaries in a world that was allegedly disintermediating not so long ago.

On the Fox Business segment, Montagne said, "If you think of Warren Buffett, back in the gold rush days, 150 years ago, he'd be the guy at the side of the road selling you the flour, the grains, the picks and the shovels and the jeans on your way out west." In her view, Buffett isn't interested in speculating on a gold mine but he's happy to sell all of those risk-taking gold

miners the stuff they need to go prospecting themselves.

Montagne implies that Buffett should avoid cyclical, federal budget and regulatory risk by investing in the distributors that support infrastructure instead of the companies that build it. I interpret Buffett's actions a little differently. He's not selling to the individual prospectors competing with giant mining conglomerates – he's selling to the merchants who sell to the prospectors. In other words, he is avoiding risk by buying capabilities to support the distributors who fight Amazon instead of buying the distributors themselves.

Of course, if Grainger or Fastenal are willing to sell at Buffett's "sensible price," he may be interested – but they will need to prove they have "durable competitive strengths" in a rapidly evolving competitive environment in order to make him an interested buyer. Both companies have very strong management teams, but in my view, Fastenal is better equipped to sell directly to the gold miners in the long run. On the other hand, Grainger probably makes a better acquisition target for Amazon. By virtue of my making this assessment, of course, it's more likely that the outcome will be the reverse or different entirely.

In the meantime, staying one step back in the supply chain is a great way for Berkshire Hathaway to experiment in industrial distribution as the current wave of disruption works its way through the industry. Buffett has a track record of understanding industry dynamics better than anyone and he demands rational valuations, so if he starts buying more distributors, it's probably a good time to be a buyer. But that could also mean you already missed your best opportunities as a seller.

March 2018 M&A Roundup: Building Materials Deals Top the List

Thomas P. Gale | April 3, 2018

March was notable in the size of deals in the building materials and construction products sectors. Among the biggest deals, Ferguson completed the sale of Stark Group, its Nordic building materials distribution business, to an affiliate of Lone Star Funds, a global private equity firm, for €1 billion (US\$1.2 billion).

Ferguson said in 2017 it would divest its Nordic division, part of a number of changes at the distributor that included rebranding from Wolseley to Ferguson plc and appointing a new

CEO for its U.S. business, Ferguson Enterprises. In the year ended 31 July 2017, Stark Group generated sales of €2.2 billion (US\$2.6 billion).

Bluelinx Holdings agreed to acquire Cedar Creek, a building materials wholesaler serving 32 central U.S. states from Canada to Mexico, for \$413 million. Combined revenues for the companies in 2017 was \$3.2 billion.

HD Supply Holdings completed its acquisition of A.H. Harris Construction Supplies for \$380 million, announced in January. The largest

transaction for HD Supply Construction & Industrial, the deal expands its national footprint, with an ability to attract more large, regional and national customers as well as consolidate pur-

chases – and to some degree inventories – across its supply base. Within the region, the combination strengthens the combined companies' marketing and merchandising capabilities.

Other Key Deals in March

- ABC Supply Acquires Robosson Supply
- SRS Distribution Acquires Top Notch Roofing Supply
- SRS Distribution to Acquire American Roofing Supply
- C.H. Briggs to Acquire Dolan & Traynor
- Curbell Plastics Acquires Guard Industries O&P Business
- Singer Equities Acquires Foster Hose and Fittings
- Belt Power Acquires Regional Supply LLC
- Saint-Gobain Acquires HyComp
- Atlas Copco Acquires Walker Filtration
- Atlas Copco to Acquire Klingel Joining Technologies
- Industrial Supply Solutions Acquires Tri-Flex Hose & Fitting
- Danaher to Acquire Integrated DNA Technologies
- RPM Acquires Miracle Sealants
- FedEx Acquires P2P Mailing

April 2018 M&A Roundup: MSC Continues Strong Acquisition Pace with AIS Deal

Thomas P. Gale | May 1, 2018

At a multiple sure to get attention, MSC Industrial Supply Co. (NYSE:MSM), Melville, NY, has acquired All Integrated Solutions (AIS) from the New York private equity firm High Road Capital Partners. AIS is a distributor of industrial fasteners and components, MRO supplies and assembly tools based in Franksville, WI. The deal has several story lines that add to how the 2018 competitive landscape is shaping up.

First, let's look at the multiple. In an email today, Baird Senior Research Analyst Dave Manthey noted that the purchase price of \$86 million implies an EBITDA multiple in the low double-digits. AIS has annual sales of \$66 million. (Dave provides a great analysis of the deal; Baird is MDM's partner in the quarterly MDM/Baird Distribution Survey; to get on the Baird Equity Research email for the industrial distribution sector, email Dave at dmanthey@rwbaird.com.)

Second, there is a great cross-sell fit for MSC with AIS. The deal may not be as eye-popping as MSC's acquisition of Barnes Distribution North America in 2013, but there are some important parallels. MSC bought Barnes for \$550 million; Barnes reported 2012 revenues of \$300 million. In this AIS deal, MSC gains share and account access into six upper-Midwest states with a

company that has traits of both Barnes and MSC – Class C fastener and vendor-managed inventory solutions, and a metalworking and MRO product portfolio with an emphasis on value-added services.

The deal is a further investment in MSC's strategy to strengthen its competitive moat against the increasing margin and commoditization pressures of digital channels to provide customized services – to embed the company as a supplier into its customers' frontline work flows as specialists.

MSC plans to maintain AIS's operations, providing the company's customer base access to MSC's 1.5 million-plus product portfolio to support their full metalworking and MRO needs. Similar to its acquisition of Barnes, MSC will extend AIS's production, fastener and VMI solutions to MSC's manufacturing customers.

The deal also contains an interesting mix of the industry consolidation themes of family business, private equity and strategic buyers. AIS is an outgrowth of a three-generation family distribution company, with two divisions run by second-generation brothers – All Tool Sales and All Fasteners. In 2013, private equity firm High Road Capital Partners' portfolio company Accurate Components & Fasteners, New Brigh-

ton, MN, acquired All Tool Sales. Though public, MSC has third-generation family leadership in its president and CEO, Erik Gershwind.

This is MSC's second significant deal in the last year. Last August it bought \$100-million industrial distributor DECO Tool Supply, Davenport, IA. And as Manthey noted in his analysis, with an estimated pro-forma leverage ratio still below 1.5x EBITDA, MSC has plenty of financing room for more acquisitions.

Side note on this deal: As a resident of

Minnesota for more than two decades (pre-2000) and someone close to upper Midwest industrial distribution markets for closer to four decades, I'm also reminded that this latest MSC deal is another indication of the strength of that region's highly fragmented manufacturing markets when you consider the Würth Adams platform business out of Minneapolis and many other strong fastener and MRO distributors from Nebraska over to Chicago and beyond.

Other Key Deals in April

- Bishop Lifting Acquires Safeway Sling USA
- Endries International Acquires Branam Fastening Systems
- Pentair Board Approves Spin-Off of Electrical Business
- Atlas Copco Acquires Klingel Joining Technologies
- Ballard Industrial Acquires Jaxx LLC
- Essendant, S.P. Richards to Merge
- City Electric Joins Sonepar USA
- BlueLinx Completes Acquisition of Cedar Creek
- Emerson to Acquire Greenlee, Klauke Brands
- Safety Supply Corp. to Acquire LFS Glove
- Turtle & Hughes Buys Associated of Los Angeles
- F.W. Webb Expands Water Works Business
- Sandvik to Acquire Metrologic Group

Staples Makes All-Cash Offer for Essendant

Thomas P. Gale | May 17, 2018

Just about a month after Genuine Parts Company entered into a merger agreement to combine Essendant and GPC's S.P. Richards business in a deal valued at \$680 million, Essendant Inc. (Nasdaq: ESND) has confirmed that it received an unsolicited proposal from Staples, Inc. to acquire all shares of Essendant stock for \$11.50 per share in cash.

The private-equity owner of Staples, Sycamore Partners, already owns about 10 percent of Essendant. The FTC shut down Staples' attempted acquisition of Office Depot in 2015, arguing that the combination would lead to higher prices for office supplies. But both political and market factors have shifted quickly, and the relative market positions of Essendant and SPR make for a significantly different story for the competitive impact to their respective customers.

Essendant and Genuine Parts Company entered into a merger agreement on April 10, 2018 to combine Essendant and GPC's S.P. Richards business in a deal valued at \$680 million, including a one-time cash payment to GPC of \$347 million. The merged business products

wholesaler has pro forma 2017 net sales of about \$7 billion and more than \$200 million in adjusted EBITDA. The merger agreement with GPC remains in effect, and the Essendant board of directors has not changed its recommendation that Essendant's shareholders vote in favor of that transaction.

A week later, on April 17, Staples communicated its initial proposal to Essendant, which Essendant declined after thorough review by its board in consultation with its financial and legal advisors. Staples sent a revised proposal on April 29 stating that it believed it will be able to identify incremental value opportunities to enable it to increase its offer significantly in excess of \$11.50 per share after receiving confidential information and engaging in discussions with Essendant. On May 4, in consultation with its financial and legal advisors, Essendant's Board determined that Staples' revised proposal is reasonably likely to lead to a "Superior Proposal" as defined in the merger agreement with Genuine Parts Company ("GPC"). There can be no assurance that the Staples proposal will result

May

in a transaction.

On May 7, 2018, GPC made an enhanced proposal to the previously announced merger agreement with Essendant under which Essendant shareholders would be provided a non-transferable right to a contingent cash payment following completion of the merger and based on the subsequent trading price of Essendant shares. The contingent payment would have a maximum value of \$4.00 per share and a minimum value of zero. Specifically, the contingent payment would be equal to \$12.00 per share minus the greater of (a) the weighted average price of Essendant shares during a 20-day measurement period ending at the later of (i) December 31, 2019 or (ii) the 12-month anniversary of closing, or (b) \$8.00, subject to other terms and conditions. There can be no assurance that the GPC merger agreement will be amended to incorporate this proposal.

The deal structure for the GPC-Essendant deal is a definitive merger agreement to combine Essendant and GPC's S.P. Richards business in a Reverse Morris Trust transaction. Upon closing of the transaction, GPC shareholders will own approximately 51% and Essendant shareholders will own approximately 49% of the combined company.

Extra Innings

As I noted last month, the deal with GPC buys Essendant time to build a differentiation strategy to combat a long list of competitors – digital, retail and otherwise – that have decimated traditional distribution channels for office products. Those in the sector view the deal as practically inevitable – a combination of competitors that

serve a shared market of smaller, independent office products dealers.

It's a strong exit strategy for GPC, with \$16 billion in 2017 revenues, allowing it to focus on strengthening capabilities in automotive, industrial and electrical markets with NAPA (53 percent of revenues), Motion Industries (35 percent of revenues) and EIS (5 percent of revenues). SPR currently makes up 12 percent of that pie. Of the sectors GPC operates in, SPR's traditional customers of smaller independent office products dealers are perhaps the most vulnerable to the entry of disruptive competitors over the past ten years.

In the spirit of the first month of baseball season, I also commented last month that the combination of Essendant and S. P. Richards solves some immediate problems for both managers; the big question is whether the new team runs out of innings before it learns how to play together. With the Staples bid, you have to wonder whether that game will be called on account of raining offers.

Essendant's confirmation follows its Schedule 13D filing with the U.S. Securities and Exchange Commission by Staples, Inc., Sycamore Partners and certain affiliates disclosing a 9.9% ownership stake in Essendant. Staples is a portfolio company of Sycamore Partners. Investment firm Blackrock holds major positions in both GPC and Essendant, owning more than 10 percent of the stock in both companies.

Citigroup Global Markets Inc. is acting as financial advisor and Skadden, Arps, Slate, Meagher & Flom LLP is acting as legal counsel to Essendant.

Walmart Should Buy Grainger

Ian Heller | May 22, 2018

Walmart should buy Grainger. This is not a rumor, it's a suggestion and it's not one I've previously heard.

In contrast, I am often asked if I think Amazon will or should buy Grainger. I have no idea if they will, but it would surprise me if it happened. Despite the occasional purchase (like Whole Foods), Amazon is not a very acquisitive company; Bezos & Co. prefer to grow organically. Also, Amazon has hired many employees from major distributors and e-procurement companies and has developed substantial in-house expertise.

Unlike Amazon, Walmart has not an-

nounced a strategic move into B2B markets. I don't know their plans, but they appear to be far behind Amazon, which is aggressively developing the capabilities to sell to businesses, agencies and institutions. Buying Grainger would be a huge shot of B2B vitamins for Walmart.

Wholesale trade is an enormous market. As reported in MDM's annual Economic Benchmarks for Wholesale Distribution, total U.S. sales by distributors was \$5.7 trillion in 2017. By comparison, the U.S. Census Bureau reported that 2017 retail sales (excluding gas stations, restaurants and car dealers) was less than \$4 trillion.

It's not news that Walmart is way behind Amazon in building online sales volumes. What may surprise you is that it's going to get even more difficult for Walmart to close the gap, for two reasons. First, Amazon Business is very focused and rapidly building momentum in B2B. Second, the role of artificial intelligence in the purchasing process is growing and Amazon is in the lead with these technologies. Increasingly, consumers are going to place orders via voice commands and with the cameras on their phones.

You can try out this technology today by downloading the Amazon app, clicking on its camera icon and pointing it to a product you want to purchase. Or you can hit the microphone icon and describe what you need. In either case, Amazon does a great job taking you to matching items on its website that you can buy with one-click ordering.

Walmart has voice ordering on its app, but its camera functionality is limited to bar codes, receipts and shelf tags. The camera won't identify an object for you.

If you want to order via smart speaker, you can put an Amazon Echo in your home or business and buy via voice by talking to Alexa. Obviously, all of these purchases go to Amazon. If you want to buy by voice from Walmart, you use the Google Home speaker – the name shows that it's intended for retail, not B2B. Google and Walmart are allies in the fight against Amazon, but their current capabilities are not only aimed at retail, they are more limited.

Grainger is a \$10-billion company, but it could play a hundred-billion-dollar role in helping Walmart and Google battle Amazon. Here's why: Grainger has the best combination of expertise, scale and assortment in "tail spend" in industrial distribution. Buying Grainger would enable Walmart to supercharge its entrée into the B2B market, meaning it could quickly generate much larger returns to help justify increasing its expenditures in artificial intelligence and machine learning.

The problem for Walmart and Google is that the longer they wait to get serious about developing distribution capabilities, the harder it will be to catch Amazon. Not only is Amazon aggressively investing in and growing their B2B capa-

bilities, they're making customers very comfortable with using the same purchasing tools for their personal and business purchases. You can voice order groceries from Alexa at home and office supplies from her (it?) at work.

Jeff Bezos and his team have demonstrated remarkable agility and they keep outmaneuvering their rivals, including Walmart. If Walmart wants to get serious about B2B and – most importantly – avoid being closed out of an enormous market that Amazon can mine for many billions of dollars in sales – then buying Grainger would be a great start.

What's in it for Grainger? Well, it's going to be very difficult for them to compete in tail spend B2B without state-of-the-art artificial intelligence, machine learning and Internet of Things technology capabilities. Indeed, distribution executives at some companies would be hard-pressed to define those terms accurately.

Additionally, although Grainger has aggressively invested in value-added services over the years, it is still vulnerable to pure digital players. Too many of Grainger's transactions follow three simple steps: order on a website; fulfill from a distribution center; deliver on a common carrier. The company is very, very good at this business but no one's better at it than Amazon. That leaves Grainger vulnerable to Amazon in fighting for the small, repeat tail-spend orders it dominated for many years.

Unlike Walmart, I don't think Amazon needs Grainger to continue their explosive growth in wholesale distribution. Amazon Business is a highly-competitive and capable B2B distributor on its own. However, Amazon might consider buying Grainger just to keep it out of the hands of Walmart. In any case, Grainger holds a tremendous amount of value that Walmart and Google could leverage to vault into the B2B fight. In return, Grainger would get inside access to a huge third-party marketplace to sell through and the benefits of Google's artificial intelligence capabilities.

This would radically change the game in wholesale distribution, giving Amazon Business a truly robust rival and an alternative third-party marketplace for distributors. Sounds like a natural fit to me.

May

May 2018 M&A Roundup: Strong Pace Continues

Thomas P. Gale | June 12, 2018

May continued at a strong pace in distribution M&A, with major deals by SunSource and MSC capturing most of the spotlight – except for Staples crashing the Essendant-S.P. Richards party.

A month after Essendant and Genuine Parts entered into an April \$680-million merger agreement to combine the office products distributors, Sycamore Partners, Staples' private-equity owner and owner of about 10 percent of Essendant, made a bid for Essendant shares in May. For now, the Essendant-GPC deal stands.

At a multiple sure to get attention, MSC Industrial Supply Co. (NYSE:MSM), Melville, NY, in May acquired All Integrated Solutions (AIS) from the New York private equity firm High Road Capital Partners. AIS is a distributor of industrial fasteners and components, MRO supplies and assembly tools based in Franksville, WI. The deal has several story lines that add to how the 2018 competitive landscape is shaping up.

Finally, SunSource Holdings, Inc., Addison, IL, a fluid power and motion control distributor in the U.S. and Canada, completed its acquisition of Ryan Herco Flow Solutions from Greenbriar Equity Group in May. SunSource was acquired in late 2017 by private equity firm Clayton, Dubilier & Rice, which last August acquired HD Supply's Waterworks business unit for \$2.5 billion; soon after it renamed the company Core & Main.

SunSource does not report revenues, but MDM ranks the company 25th on our Top 40 Industrial Distributors list for 2017, with estimated revenues in the \$500-million range. Ryan Herco also does not report revenues, but was ranked in MDM's 2017 list as the 28th largest industrial distributor, with more than 30 locations nationally and estimated revenues of more than \$200 million.

Other Key Deals in May

- nVent Completes Separation from Pentair
- US LBM Acquires Myrtle Beach Building Supply
- AMETEK Acquires SoundCom
- Beacon Roofing Supply Acquires Tri-State Builder's Supply
- Airgas Acquires Weiler Welding
- Crawford Packaging Acquires Celplast Packaging Systems and BVM USA
- Henkel to Acquire JemPak
- U.S. LUMBER to Acquire Midwest Lumber
- Ferguson Fire & Fabrication Acquires National Fire
- Motion Industries Acquires Power Industries, Inc.
- Radians Acquires Neese Industries

June 2018 M&A Roundup: Deal Levels Keep Humming

Thomas P. Gale | July 9, 2018

While there were no blockbuster deal announcements across distribution sectors in June, the strong pace of M&A in 2018 continues, with MDM reporting on about a dozen transactions. And the deals last month align with the current themes defining distribution sectors in 2018 – industry consolidators continuing to expand geography, manufacturers divesting to refocus, and specialty distributors expanding product and service capability.

In building materials, U.S. LBM Holdings LLC, Buffalo Grove, IL, has acquired R&K Building Supplies, Gilbert, AZ. The deal expands

U.S. LBM's growing business in the Southwest. Building products distributor ABC Supply Co. Inc., Beloit, WI, acquired the assets of G&F Roof Supply, Inc., a Southern California-based distributor of roofing products with locations in Anaheim, Whittier, and Gardena, CA. The acquisition increases ABC Supply's footprint in the Los Angeles and Orange County regions.

Ohio Transmission Corp., Columbus, OH, acquired Crimson Electric, Duncan, SC, an electrical apparatus service center serving customers in the Carolinas. The deal expands OTC's geographic footprint and product mix, adding

electric motor repair to its portfolio.

RG Group, York, PA, acquired Morse Fluid Technologies, Ramsey, NJ. MFT provides fluid processing and conveyance components and application engineered solutions. The acquisition strengthens RG Group's ability to provide pneumatic, electronics, and process products and services to medical and bio-pharmaceutical customers in the New York, New Jersey, Pennsylvania, Maryland and Delaware markets, the company said.

Fluid power distributor Ryan Herco Flow Solutions, Burbank, CA, completed its acquisition of Seltin Supply, Richardson, TX. Seltin Supply supports Texas' high-tech marketplace, with a focus on the microelectronics and high-purity space, the companies said. Seltin distributes stainless steel pipe, tube, fittings, valves and other high-purity components from locations in Richardson and Austin, TX. Earlier this year, the company was acquired by fluid power and motion control distributor SunSource Holdings, Inc.

Other Key Deals in June

- Ryan Herco Flow Solutions Acquires Seltin Supply
- U.S. LBM Acquires R&K Building Supplies
- F.W. Webb Expands with N.Y. Acquisition
- 3M Divests Communications Markets Division
- Ohio Transmission Corp. Acquires Crimson Electric
- Essendant Offers Update on Proposed S.P. Richards Merger
- GPC Acquires German Automotive Parts Distributor
- RG Group Acquires Morse Fluid Technologies
- Core & Main Buys St. Louis Fabrication & Supply
- Sandvik to Divest Stainless Wire Business
- ABC Supply Acquires G&F Roof Supply

July 2018 M&A Roundup: No Vacation for Manufacturers

Thomas P. Gale | August 6, 2018

Though a few large distributors made moves in July, M&A activity in industrial markets was weighted toward manufacturers. Textron, Sandvik, Dana and Timken all had deals during the month. Fluid power distributor SunSource also continued down an aggressive M&A path during July with the acquisition of United Distribution Group.

In Europe, the next round of divestitures in the blockbuster \$70-billion Praxair-Linde merger are in play as Praxair announced it will sell its European businesses to Taiyo Nippon Sanso Corporation for EUR 5 billion in cash (US\$5.6 billion), subject to customary adjustments at closing. The businesses generated annual sales of approximately EUR 1.3 billion (US\$1.5 billion)

in 2017.

In the U.S., SunSource Holdings, Inc., Addison, IL, a fluid power and motion control distributor in the U.S. and Canada, is adding The United Distribution Group to a growing platform for Sunsource, which was acquired by private equity firm Clayton, Dubilier & Rice last year. SunSource earlier this year acquired Ryan Herco Flow Solutions from Greenbriar Equity Group.

And there was consolidation activity in Minnesota (Mars Supply) and New Jersey (Madsen Group) as those independent MRO distributors added specialty capability to their respective portfolios.

Other Key Deals in July

- Textron Completes Sale of Tools Business to Emerson
- Sandvik Acquires Inrock
- Sandvik Completes Acquisition of Metrologic Group
- Timken to Acquire Cone Drive
- Timken Acquires Rollon Group
- Dana Incorporated to Purchase Oerlikon Group Drive System Segment
- SKF to Divest Linear and Actuation Technology Business
- Praxair To Sell European Businesses
- SunSource to Acquire UDG
- Barnes Group Acquires Industrial Gas Springs
- TTI, Inc. Acquires Compona AG
- TTI, Inc. to Acquire RFMW Ltd
- Beacon Roofing Supply Acquires Atlas Supply
- ABC Supply Acquires Alliance Wholesale
- Distribution International Subsidiary Acquires Canadian Supplier
- SRS Buys Wholesale Division of Interstate Building Materials
- Wilcox-Slidders Joins Madsen Group's Tool Krib Supply
- Mars Supply Acquires TC Clipper
- Bolts & Nuts Merges with Technical Threads

August 2018 M&A Roundup: Slow & Steady Dog Days

Thomas P. Gale | September 11, 2018

While no blockbuster deals were announced, the distribution M&A landscape in August maintained a steady pace of activity, with continued consolidation of single-market and smaller regional companies by national consolidators across the usual sectors. It's an indicator that distribution M&A markets continue to be ex-

tremely favorable for strategic buyers.

For both distributor and manufacturer acquisitions during August, the continued theme for 2018 has been the addition of specialty services and capability, as more national distributors continue to add both geographic reach and more differentiated service capabilities.

Other Key Deals in August

- Northwest Pipe Acquires Ameron Water Transmission Group
- Atlas Copco Acquires Quiss
- Sandvik Acquires Custom Electric Manufacturing
- Bunzl Acquires Enor Group
- Core & Main Acquires Assets of Finish Line Systems, LLC
- Core & Main Acquires Assets of DOT Sales Company
- Ferguson Acquires Jones Stephens
- Ferguson Acquires Four Companies in July
- L&W Supply Acquires Rose & Walker
- U.S. LUMBER to Acquire Alexandria Moulding
- ABC Supply Acquires Landis Supply
- SRS Distribution Acquires Crown C Supply
- Sealed Air Acquires AFP, Inc.
- Air Products Acquires Rotoflow
- Tech Air Acquires Speed Industrial Supply
- Wolseley Industrial Group Acquires Action Automation
- Munch's Supply Acquires Tommark Company

September 2018 M&A Roundup: Staples-Essendant Saga Settles

Thomas P. Gale | October 9, 2018

There was a renewed level of M&A announcements in September on both the private equity and strategic buyer sides. Office products dealers and other customers finally got some resolution in September to the disrupted merger announcement in April of Genuine Parts Company subsidiary S.P Richards and Essendant. Staples entered shortly after that definitive merger agreement with a sweetened offer, and concluded the ongoing negotiations with an all-cash tender offer for outstanding shares of

Essendant on Sept. 24.

On the industrial products side, Brazos Private Equity Partners exited its founding investment in Blackhawk Industrial Distribution, 32nd on MDM's 2018 Top Distributor list, with the sale to Snow Phipps Group. PE firm Supply Chain Equity also established a national platform in the waterproofing and sealant distribution sector with its investment in Coastal Construction Products.

Other Key Deals in September

- Brazos Private Equity Partners Announces Sale of BlackHawk Industrial
- Crescent Electric Supply to Acquire National Electric Supply
- Coastal Construction Products Partners with Supply Chain Equity
- Staples Reiterates Proposal to Acquire Essendant
- Essendant Says Staples Offer Better than S.P. Richards Deal
- S.P. Richards/Essendant Merger Agreement to Terminate
- Staples to Acquire Essendant
- Staples Commences All-Cash Tender Offer for Outstanding Shares of Essendant
- Genuine Parts Company Announces Industrial and Automotive Acquisitions
- U.S. LBM Acquires Blevins Building Supply
- Barnes Group to Acquire Gimatic S.r.l.
- B&D Industrial Acquires Western Machine Works
- Ferguson Waterworks Acquires Grand Junction Pipe & Supply
- Packaging Distribution Services Acquires Serenity Packaging Corp.
- RPM International Acquires Nudura Corp.
- Timken Completes Purchase of Cone Drive
- Timken Completes Acquisition of Rollon Group
- Resideo Technologies Names CFO

The Deeper Story Behind the IDC-AD Merger

Thomas P. Gale | October 3, 2018

Yesterday it was announced that IDC-USA, a cooperative of 76 bearings and power transmission products distributors, has merged with the marketing group Affiliated Distributors, which had 31 members in its bearings/PT division prior to the merger. It's a milestone in the history of industrial cooperatives and the markets they serve; it's also an interesting study in the pretty complex mix of variables that change over time that define the value of these entities – changing markets, the strength of national competitors, supplier relationships and even the personalities of the co-op leaders and members themselves.

There are a lot of parallels between IDC-USA and its now fellow AD members that are part of AD's industrial division that has 154 members. I.D. ONE was a cooperative of industrial MRO distributors that formed in 1987, about the same time IDC-USA was forming. There was intense opposition to these cooperative entities by manufacturers and competing distributors, and many hours of intense debate at association meetings well into the 1990s. Many suppliers fought the organizations tooth and nail because of the very reason they were formed – to gain more volume purchasing and negotiating power with suppliers.

October

Over time, these organizations developed additional support services in marketing and training, and in IDC's case, warehousing and private-label product sourcing. You could argue that these organizations provided important counterbalances to broader cyclical trends that otherwise would have sharply limited the ability of its traditionally small, independent members to grow and compete effectively.

A common characteristic was the strong personalities of the co-op directors and key members that fought the battles and altered the competitive dynamics just as national distributors started gaining scale in the 1990s. Anyone who knows Dan Judge, who became president of I.D. ONE in 1993 and founded NetPlus Alliance in 2002, or Jack Bailey, who guided IDC-USA up until a few years ago, appreciates the leadership qualities required to align a group of independent distribution company owners in intensely competitive markets.

I.D. ONE grew to 60 members and \$4 billion in sales by 2000, when it merged with Affiliated Distributors, which until then had been exclusively a privately-owned marketing group of electrical distributors. After I.D. ONE, three other cooperatives became part of AD and expanded its coverage into other product sectors: CL Watt for plumbing, The Piping Connection for PV&F, and Amarok for building materials (2008).

The Independent Distributors Cooperative was started more than 30 years ago as a purchasing group to level the playing field against "big-box" competitors. It opened a stocking warehouse in 1995, and today has warehouses in Indianapolis, IN and Reno, NV with more than

70 suppliers. AD formed the Bearings & Power Transmission Division in 2015 with eight founding companies.

Arguably, the value proposition of cooperatives over time – providing scale to independent distributors – changes and is challenged to meet what can be increasingly diverse objectives for its members based on their respective size, markets and product portfolios. They have played critically important roles to help sustain a diversity of market competition and choice for customers and access to markets for suppliers.

The final pieces of the puzzle for this IDC merger to take place interestingly came back to personality and organizational structure change, as in August AD completed a transition of ownership from its chairman and CEO since 1991, Bill Weisberg. Weisberg's father, David Weisberg, founded AD in 1981. AD is now member-owned. AD's competitive culture under Weisberg's leadership over more than two decades has often contrasted with the organizational cultures of its competitors.

"Voting to join AD was an easy decision for me, as I suspect it was for the majority of my fellow IDC independents," said Chris Hughes, Board Chairman of IDC-USA and President of Transmission & Fluid Equipment, Inc. "Frankly, with AD's recent transition to a member-owned organization, it made the decision that much easier. It's a win-win for all independent distributors."

As a part of the merger, IDC-USA President & CEO George Graham will take on the role of president of the AD Bearings & Power Transmission Division. He replaces bearings industry veteran Bill Childers.

October 2018 M&A Roundup: Marketing Group Mergers Top Deals

Thomas P. Gale | November 27, 2018

The biggest deals in October M&A activity across distribution verticals arguably were separate merger announcements by competitive marketing groups in the electrical sector, IMARK and Affiliated Distributors (AD). To kick off the month, IDC-USA, one of the oldest cooperatives in the bearings/power transmission sector, with 76 members, joined forces with the AD bearings/PT division, which formed a few years ago and had 31 members prior to the IDC merger.

I wrote an analysis of the merger looking at the history and changing roles of these buying and marketing groups in leveling the playing

fields of competition for independent distributors through the scale and services they provide. The value proposition of cooperatives – providing scale to independent distributors – changes over time and is challenged to meet what can be increasingly diverse objectives for its members based on their respective size, markets and product portfolios. Cooperatives have played critically important roles to help sustain a diversity of market competition and choice for customers and access to markets for suppliers. I find it interesting that the strategy for viabil-

October/November

ity and growth for these two major groups has been to start consolidating verticals under one organization.

The second merger announcement was by IMARK, the largest marketing group in the U.S. electrical distribution sector, which expands the group into complementary distribution verticals.

Omni Corporate Services, a member-owned group of plumbing and HVAC wholesalers across the U.S., and Equity Plumbing, formerly privately held and the largest U.S. plumbing group by membership, will be combining with IMARK to form the new group's plumbing vertical, IMARK Plumbing.

Other Key Deals in October

- The Deeper Story Behind the IDC-AD Merger
- IDC-USA to Merge with AD
- IMARK Group Expands and Broadens Platform
- Lawson Products Acquires Screw Products Inc.
- P.T. International Acquires IPTCI Bearings
- Ohio Transmission Corporation Acquires Tape Industrial Sales
- Motion Industries Acquires Hydraulic Supply Co.
- Genuine Parts Company Announces Automotive Acquisitions in The U.K.
- ABC Supply Acquires DRI Supply Co.
- ABC Supply Acquires CSC Home & Hardware
- Ferguson Acquires Dogwood Building Supply
- Fastener Distribution Holdings Acquires PDQ Airspares
- F.W. Webb Expands in New York
- Honeywell Acquires Transnorm
- Johnson Controls Acquires Lux Products
- TTI Completes RFMW Acquisition
- United Rentals Canada to Acquire WesternOne Rentals & Sales LP
- Bunzl to Acquire Volk do Brasil

November 2018 M&A Roundup: Nationals Continue to Expand

Thomas P. Gale | December 11, 2018

While no new large deals were announced in distribution M&A during November, there was a continuing steady stream of national distributors adding to their portfolio with multi-location independents. The only mega-deal activity

was United Rentals' closing its previously announced \$2.1-billion acquisition of BlueLine from Platinum Equity to expand its equipment rental capacity in many of the largest metro areas in North America, including both U.S. coasts, the Gulf South and Ontario.

Other Key Deals in November

- Applied Industrial Technologies Acquires Fluid Power Sales
- SBP Holdings Acquires Dakota Fluid Power
- Ferguson Acquires Robertson Supply
- Winsupply Acquires MSI Supply
- AMETEK Acquires Spectro Scientific
- United Rentals Completes BlueLine Acquisition
- SRS Distribution, Bill Wahl Supply Join Forces
- Industrial Supply Co. Acquires Paxton Production Tools
- Colony Hardware Acquired by Audax
- Golden State Foods Announces Sale of
- Nine Distribution Centers
- Johnson Controls to Sell Power Solutions Business
- Sandvik to Acquire Dura-Mill
- Sandvik to Acquire Chinese Toolmaker
- RBC Bearings Sells Miami Subsidiary
- Fersa Bearings Acquires 100% of NKE Austria
- Radix Wire Acquired by High Road Capital Partners
- Barnes Group Completes Gimatic Acquisition
- The Bossard Group Expands in China
- Bossard Group Acquires Stake in 3d-prototyp GmbH

December M&A Roundup: Bolt-on, Year-end Deals

Thomas P. Gale | January 10, 2019

The overall theme for December M&A activity affecting distribution channels was getting bolt-on deals done before the end of the year. An interesting story impacting many industrial distributors who sell welding/PPE was SureWerx's acquisition of the Jackson Safety® and WILSON® brands from Kimberly-Clark Professional. The move is part of a global restructuring plan KCP announced a year ago to focus its global safety and scientific businesses on its core PPE categories, including gloves, apparel and eyewear.

It's a continued platform growth story for

SureWerx, a Canadian company that has expanded into the U.S. and sells through distributors servicing the industrial, construction, safety and automotive aftermarket in North America.

Also of note to industrial channels is the announced acquisition, scheduled to complete at the end of this month, of N.H. Bragg by Horizon Solutions. Bragg has been a legacy Maine-based industrial distributor; Horizon has been a long-term regional consolidator in New England across electrical, industrial and safety categories. Both companies are known for their value-added cultures and strong customer relationships.

Other Key Deals in December

- Singer Equities Acquires Connectall Ltd.
- Horizon Solutions to Acquire N.H. Bragg
- Connexion Agrees to Purchase Van Meter's Chicago Location
- Endries International Acquired by MSD Partners, L.P.
- U.S. LBM Holdings Acquires Deering Lumber
- Avnet Acquires Softweb Solutions
- Ferguson Acquires Blackman Plumbing Supply
- Staples, Essendant Extend Merger Terms
- United Rentals Canada Completes WesternOne Acquisition
- SureWerx Acquires Jackson Safety and Wilson Brands From KCP
- Regal Beloit to Sell Business Segment
- Emerson Acquires Advanced Engineering Valves
- Gardner Denver Acquires MP Pumps
- 3M to Acquire M*Modal's Technology Business
- SKF Completes Previously Announced Divestment of L&AT Business
- Alfa Laval Agrees to Divest the Majority of its Greenhouse Division
- Allied Motion Acquires TCI, LLC
- Symbia Logistics Completes Three Acquisitions



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