

Access the full 2014 Distribution Industry Outlook Webcast at mdm.com/2014Outlook-Webcast

consider where you want your business to be five years from now. Then really consider borrowing and locking in interest rates because the Federal Reserve certainly has been artificially keeping them low."

Along with historically low interest rates, inflationary pressures have been mild. For his Consumer Price Index Forecast, Duguay projected price inflation for 2013 to be 2 percent to 3 percent, up from 1.7 percent in 2013. As the U.S. economy strengthens and other global markets (specifically China, Brazil and India) start to emerge from recession, inflationary pressures will become more of an issue.

"This is really where it comes down to what are the opportunities in this business cycle," Duguay says. "And one of them is certainly interest rates. Don't be afraid to borrow ahead of those

rising interest rates and inflation."

Priorities for 2014

In 2014, distributors are prioritizing growing revenue from existing customers, according to MDM's 2014 Distribution Industry Outlook Survey. Two of the best ways to do this is through expanding product offerings and expanding sales teams, Duguay says.

"The focus in 2014 should be on your own company," he says. "You really want to take advantage of low interest rates and finance your future in terms of investing in your own people, buying more efficient equipment, looking to upgrade your CRM system, whatever it takes to make sure that when economic times are stronger you are fully able to take advantage of that growth."

4Q2013 Financial Metrics & Trading Multiples

Quarterly update is newly expanded with more data, added value

On the following two pages, we feature a new, expanded quarterly report with data on merger and acquisition trends and financial metrics for the largest publicly traded distributors across diverse sectors.

In partnership with Houlihan Lokey, an investment banking firm, we have added data on M&A activity trends across all industries (not just distribution), as well as valuation multiples for deals in all industries.

Why is this data valuable to you? This data can help distributors, manufacturers and others who serve the industry:

Gauge M&A activity. The data presented on the first page of this report provides insight into deal activity across industries. For example, in the fourth quarter 2012, deal volume spiked, largely due to expected tax changes in the first quarter 2013. Deal volume tanked during the recession, reflected in the low figures in 2009 on the graph.

Understand M&A transaction valuation trends. While there are many factors that go into how a company is valued, the graphs on the first page provide a high-level view of median EBITDA transaction multiples for those companies that report the data. This will largely reflect data from larger acquirers, and in many cases, public companies, but can still provide perspective on both overall trends year-to-year, as well as current-year multiples by size of deal. In gen-

eral, the smaller the acquired company is, the lower the multiple. Note: The data on the top of the second page reflects trading multiples for the public companies in the table below it.

Benchmark your quarterly performance.

On the second page of this report, you will see a number of balance sheet metrics for the largest publicly traded distributors, including margins, return on invested capital and working capital to sales.

Understand the differences in performance across industries. You'll notice differences in margin, sales performance and more between, for example, gases and hardgoods distributor Airgas (55.9% GM), building products distributor A.M. Castle (13% GM) and electrical and datacomm distributor Anixter International (22.6% GM), in part due to the differences in product mix and end-markets these distributors serve.

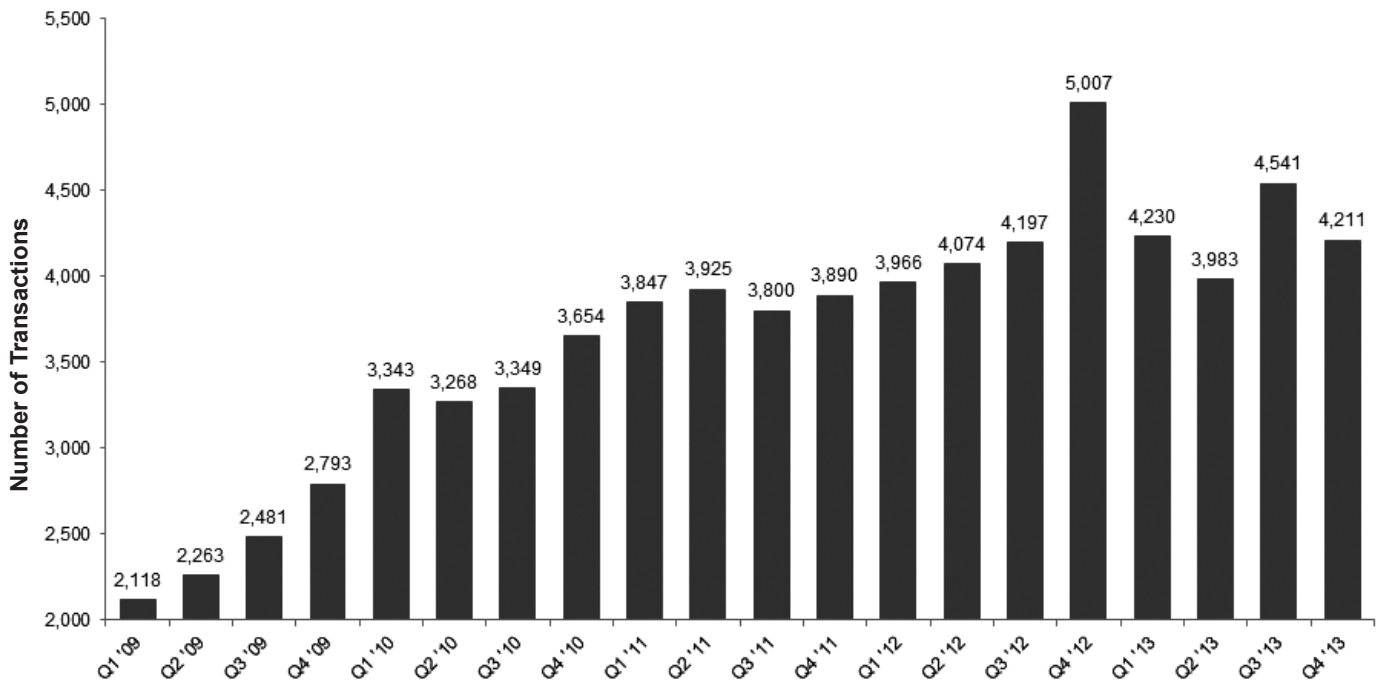
Track the industry's performance. The financial metrics presented on the second page of this report also provide a good way to scan sales growth figures for the past 12 months as of the end of the most recent quarter.

The materials on these pages are for informational purposes only. If you have any questions or feedback on the data on these two pages, please email me at lindsay@mdm.com.

– Lindsay Konzak, Editor

Domestic M&A Activity – All Industries

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



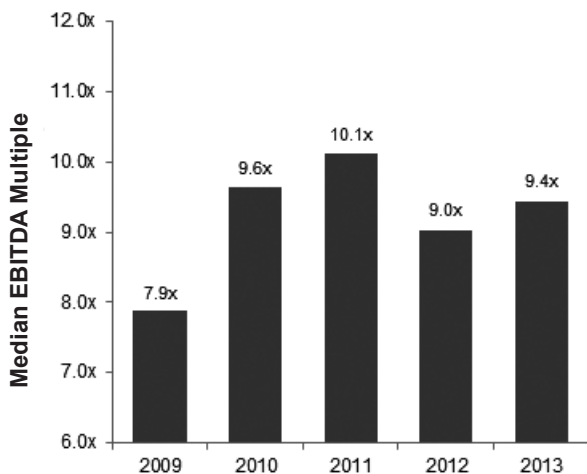
Data Source: Thomson Reuters, S&P Capital IQ, as of 12/31/2013

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

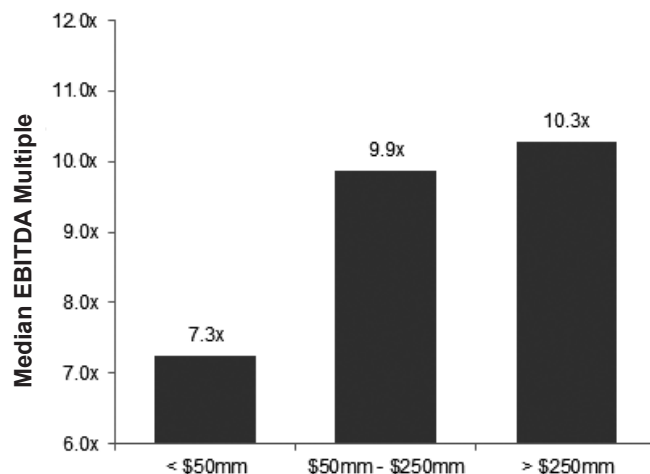
Median EBITDA Transaction Multiples – All Industries

The charts below shows the median EBITDA transaction multiples by year, as well as segmentation of multiples by enterprise value for the last 12 months.

By Year



By Deal Size - Last 12 Months



Data Source: Thomson Reuters, S&P Capital IQ, as of 12/31/2013

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

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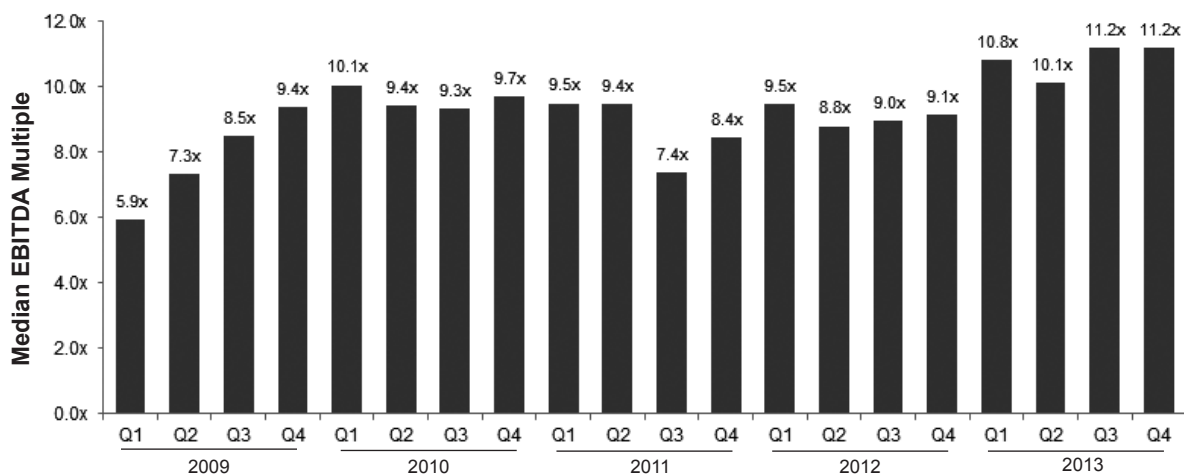
Houlihan Lokey is an international investment bank with a dedicated Distribution advisory practice and expertise in mergers and acquisitions, capital markets, financial restructuring and valuation. Houlihan Lokey is ranked as the No. 1 M&A advisor for U.S. transactions under \$1 billion, as well as the No. 1 M&A advisor for U.S. transactions under \$100 million, according to Thomson Reuters. For more information, please contact Reed Anderson, Head of Industrial Distribution, at (612) 215-2256 or randerson@hl.com.

Distribution Financial Metrics and Trading Multiples

(Data as of Dec. 31, 2013)

These materials are for informational purposes only. Houlihan Lokey gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this presentation. The material presented reflects information known to the authors at the time this presentation was written, and this information is subject to change. Houlihan Lokey makes no representations or warranties, expressed or implied, regarding the accuracy of this material.

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



The table below highlights key financial metrics and trading multiples for 31 distributors across diverse end markets. LTM means latest 12 months. Enterprise Value means market capitalization of a company's equity plus preferred stock plus total interest bearing debt net of any cash or cash equivalents. EBITDA means earnings before interest, taxes, depreciation and amortization. In certain cases earnings have been adjusted for certain disclosed income or expense items considered to be non-recurring.

(in millions, except per share data)

Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Margins		Working Capital/LTM Sales	ROIC	EV/LTM EBITDA
					Gross	EBITDA			
A.M. Castle	CAS	\$563	\$1,094	-4.4%	13.0%	2.9%	25.8%	NA	17.7x
Airgas, Inc.	ARG	\$10,693	\$5,068	0.7%	55.9%	18.5%	16.4%	8.0%	11.4x
Anixter International Inc.	AXE	\$3,663	\$6,172	-0.8%	22.6%	5.8%	22.2%	9.3%	10.2x
Applied Industrial Technologies, Inc.	AIT	\$1,993	\$2,449	-0.3%	28.1%	8.1%	18.3%	16.0%	10.1x
Arrow Electronics, Inc.	ARW	\$7,163	\$20,607	0.4%	13.2%	4.1%	14.4%	NA	8.4x
Avnet, Inc.	AVT	\$7,282	\$26,657	2.8%	11.7%	3.7%	14.9%	9.9%	7.4x
Beacon Roofing Supply, Inc.	BECN	\$2,197	\$2,241	4.0%	23.7%	7.2%	18.3%	7.5%	13.7x
Bluelinx Holdings Inc.	BXC	\$620	\$2,106	3.0%	10.8%	-0.1%	17.4%	NA	NM
Builders FirstSource, Inc.	BLDR	\$986	\$1,408	8.6%	21.0%	3.2%	10.6%	NA	22.2x
Bunzl	BNZL	\$9,367	\$8,669	3.2%	22.2%	7.1%	7.1%	12.9%	15.3x
DXP Enterprises, Inc.	DXPE	\$1,866	\$1,221	3.4%	29.9%	9.8%	14.8%	14.7%	15.7x
Fastenal Company	FAST	\$14,006	\$3,326	1.7%	51.7%	23.3%	33.4%	25.3%	18.0x
Genuine Parts Company	GPC	\$13,364	\$13,679	2.3%	29.7%	8.9%	15.4%	19.4%	11.0x
HD Supply	HDS	\$10,158	\$8,616	1.8%	29.2%	8.3%	14.3%	-16.8%	14.2x
Houston Wire & Cable Company	HWCC	\$289	\$393	-0.2%	21.9%	7.5%	31.7%	8.1%	9.7x
Ingram Micro Inc.	IM	\$3,953	\$42,101	2.7%	5.8%	1.5%	7.1%	8.1%	6.1x
Kaman Corp.	KAMN	\$1,353	\$1,643	0.9%	28.2%	8.4%	26.6%	8.8%	9.8x
Lawson Products	LAWS	\$134	\$285	0.1%	56.3%	0.8%	18.7%	NA	NM
MRC Global Inc.	MRC	\$4,293	\$5,193	-2.6%	19.0%	8.3%	21.2%	8.7%	9.9x
MSC Industrial Direct Co., Inc.	MSM	\$5,225	\$2,559	4.1%	45.7%	17.9%	23.9%	15.2%	11.4x
Park-Ohio Holdings Corp.	PKOH	\$977	\$1,174	1.6%	18.0%	9.1%	21.1%	9.8%	9.2x
Pool Corp.	POOL	\$2,909	\$2,046	2.5%	28.6%	8.6%	17.3%	16.6%	16.6x
Reliance Steel & Aluminum Co.	RS	\$7,923	\$8,806	4.6%	26.3%	8.7%	23.7%	6.5%	10.3x
Rexel SA	RXL	\$10,963	\$17,816	2.7%	24.5%	5.9%	12.0%	6.1%	10.5x
Stock Building Supply	STCK	\$533	\$1,144	6.8%	22.6%	1.4%	10.0%	NA	NM
United Stationers Inc.	USTR	\$2,309	\$5,106	0.9%	15.6%	5.1%	15.5%	10.5%	8.9x
W.W. Grainger	GWW	\$17,821	\$9,438	1.6%	43.8%	15.7%	16.1%	21.5%	12.1x
Watsco Inc.	WSO	\$3,662	\$3,682	1.7%	24.0%	7.7%	22.3%	12.6%	13.0x
Wesco Aircraft Holdings	WAIR	\$2,581	\$902	2.5%	35.7%	21.3%	81.1%	8.3%	13.4x
WESCO International, Inc.	WCC	\$5,504	\$7,513	3.2%	20.6%	7.8%	14.3%	10.5%	9.4x
Wolseley plc	WOS	\$15,633	\$19,974	-2.0%	27.8%	6.3%	8.7%	12.9%	12.4x
Median		\$3,663	\$3,682	1.8%	24.0%	7.7%	17.3%	9.9%	11.2x

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

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