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Home Depot Sells Off Supply Unit

New owners committed to acquisition strategy

After months of speculation, The Home Depot has agreed to sell its wholesale division, HD Supply, and bring its focus back to the performance of its retail core. Three private equity firms will buy the $12 billion unit.

By Lindsay Young

The Home Depot, Atlanta, GA, has agreed to sell HD Supply to a team of private equity firms – Bain Capital LLC, Carlyle Group and Clayton Dubilier & Rice Inc. – for $10.3 billion, or roughly 10X-12X EBITDA. The firms are splitting the investment equally.

The sale has been expected for weeks now, with a number of private equity firms rumored to have bid for the unit and several to have bowed out due to the down housing market – one of HD Supply's core customer bases. HD Supply reported a decrease in organic sales in the recent quarter.

"This was not an easy decision," HD CEO Frank Blake said. "(HD Supply chief) Joe DeAngelo and his team have built a world-class operation over the last few years. We gave careful consideration to a number of options, including holding onto the business."

Blake said that selling HD Supply in pieces, as some industry-watchers expected, would have been "timely and distracting," with the added cost of separating the businesses. An IPO, another option considered, would have resulted in a multiple discount relative to the sale of the entire business.

Industry-watchers say HD Supply's new owners will likely sell off some of HD Supply's assets almost immediately in an effort to better integrate the wholesale unit under a common platform.

CD&R's David Novak said that it is premature to say whether the private equity team will divest any of HD Supply's assets after taking full ownership. The new owners however do plan to continue building the company through acquisitions. "That we will certainly do," Novak said. "Local scale is very important for productivity and service levels."

That means that HD Supply, with $12 billion in sales in 2006, will continue as a major player in the distribution M&A market.

History

Little more than a month after former CEO Robert Nardelli retired, HD announced in February it would consider a potential HD Supply spin-off. Nardelli had pushed the wholesale division as a way to diversify HD's offering and spark growth to balance out a slowing retail division.

While HD had reported that some investors wanted it to stick with its HD Supply strategy, other investors were quite vocal on their dissatisfaction with the wholesale business. They called it an unnecessary diversion from the retailer's core business. This included Ralph Whitworth, an activist investor whose firm, Relational Investors, recently won a seat on HD's board of directors.

Home Depot has spent the past few years building up its wholesale unit, which originated back in the mid-1990s. It bought $5.5 billion diversified distributor Hughes Supply for $3.4 billion, or 12X EBITDA, in early 2006, and National Waterworks, at the time with $1.5 billion in annual sales, for $1.35 billion in mid-2005.

In 2004, Home Depot acquired White Cap Construction Supply, then a $500 million distributor.

The year 2005 started an acquisition frenzy, which included $400 million William Bros. Lumber, Contractors' Warehouse, the $100 million Greenwald Supply

continued on next page

INSIDE

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Inc. and Greenwald Industrial Products Company, fastener and industrial supplies distributor Brafasco, and catalog MRO supplier Utility Supply of America Inc.

Crown Bolt Inc., a distributor of fasteners and hardware, was acquired in 2005, as well – its primary customer is Home Depot. Blake confirmed that Crown Bolt was included in the sale of HD Supply. Home Depot has signed a seven-year supply agreement from Crown Bolt.

In 2006, HD Supply made almost $4 billion in acquisitions, starting with the Hughes buy. Its other acquisitions in the past year were quite diverse, including distributors in waterworks, electrical, concrete and utilities.

"Home Depot has finally faced the inevitable truth they could not run the collection of companies they acquired over the past five years," said Adam Fein, president of Pembroke Consulting. "The private equity firms taking over have the opportunity to build a unified common platform. But to do that, they will probably divest some of the companies that are a part of HD Supply."

In mid-May, Grainger President Jim Ryan told analysts that the new owners will have the same challenges in unifying HD Supply's diverse businesses. "The challenges in building the HD Supply business exist regardless of who owns them … It takes time, patience and a lot of money. That said, it can be done. But a change in ownership doesn't change any of this."

Impact on M&A Market

In a recent MDM audio conference, Jim Miller, who heads the distribution practice at investment banking firm Vetus Partners, said that even talk of a potential HD Supply spin-off had a slight impact on valuations in the distribution M&A marketplace.

The effect of talk of a divestment came from two areas: "One, the position of Home Depot as a competitive buyer against another bidder, or at least the perceived threat of Home Depot as a competitive buyer," Miller said.

"And two, Home Depot Supply as a potential exit opportunity. There were several private equity funds that were chasing distribution investments with the intent of buying them, holding them for a period of time and potentially flipping them to HD Supply."

The firms likely will pay closer to 12X EBITDA for HD Supply, according to Miller. "When they started this process, I believe they were touting approximately $1 billion of EBITDA from HD Supply. With the recent softening of some of their end markets, particularly the residential end market, I'm guessing that HD Supply's most recent trailing 12 months' EBITDA was closer to $800 million than it was to $1 billion.

"That's a full purchase price, but I still believe that CD&R (and the other firms) are getting a good collection of assets and the investment will be a good one over time."

Miller said that the final sale price of $10.3 billion is a "good sign" for distributors contem-

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plating selling part or all of their businesses. Some industry-watchers expected the price to be closer to 8X EBITDA.

He says that deals of this magnitude typically "set the bar" for valuations in the sector – valuations for smaller companies are then discounted from that bar. "Even with a significant discount to this bar, valuations for smaller distributors in this sector should hold fairly well in the near term," he says.

Private Equity & Distribution

More than 100 private equity firms are targeting distribution right now, thanks to low-cost financing, high valuations and a healthy earnings environment. That has provided a "great selling opportunity for quality distribution businesses," Robert W. Baird & Co.'s Tom Lange said during the recent MDM audio conference.

Fein said private equity is being attracted by the ongoing need for wholesale distribution to end markets insulated from global competition, such as facilities maintenance, construction, or health care services.

The firms buying HD Supply are no strangers to the distribution world. Clayton Dubilier & Rice invested in global electrical distributors Rexel Inc. and Wesco International, and recently sold its investment in $3.2 billion lab supplier VWR International Inc. Also, the former CEO of building materials and plumbing distributor Wolseley plc (parent of Stock Building Supply and Ferguson) is an operating partner at CD&R.

Carlyle has recently made industrial and construction investments, as well, including Goodyear Tire and Rubber Company's Engineered Products Division. It previously owned PT manufacturer Rexnord before selling it to Apollo Management.

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Timeline of Home Depot Supply Expansion

Overview: Home Depot's supply business comprised about 12 percent of Home Depot's total revenues, or roughly $12 billion of its $90 billion in 2006.

Acquisition Timeline

(Company revenues at time of acquisition where available; all acquisitions not listed):

2006
- **Hughes Supply,** $5.5 billion
- **Grafton Utility Supply**
- **Texas Contractors Supply**
- **Edson Electric Supply**
- **Western Fasteners**
- **Cox Lumber,** $396 million
- **Forest Products Supply**

2005
- **National Waterworks** (water and sewer systems market), $1.5 billion
- **William Bros. Lumber** (building materials), $400 million
- **Utility Supply of America Inc.** (catalog supplier of MRO supplies to water and wastewater treatment market)
- **Contractors' Warehouse** (building materials)
- **Greenwald Supply Inc.** and Greenwald Industrial Products Company Inc., $100 million
- **Litemor Distributors** (commercial lighting)
- **Crown Bolt Inc.** (fasteners, hardware and related products)
- **Brafasco** (fasteners and industrial supplies)

2004 **White Cap Construction Supply**, $500 million

2001 **Your "other" Warehouse** (plumbing supplies)

2000 **Apex Supply** (plumbing supplies and HVAC distributor)

1996 **Maintenance Warehouse/America Corp.** (direct-mail marketer to apartment building maintenance market), $30 million

Source: MDM Research

Know Your Customers

Interline Brands looks to grab a bigger share of customers' wallets

To successfully integrate its company and grab market share, Interline Brands has had to pay close attention to and respond to the needs of acquired and current customers, Interline Brands President William Sanford said recently at the JPMorgan Basics & Industrials Conference.

In fact, learning about customers starts before an acquisition is even made, he said. "The relationships we acquire are important. We have to understand how strong those relationships are before we make an investment," Sanford said.

The $1 billion distributor of facilities maintenance products was formed through a series of mergers of more than 20 companies in the plumbing supply and facilities maintenance industries.

Last year it bought American Sanitary Inc., a rollup and national distributor of janitorial and sanitary supplies, providing Interline a higher-margin and complementary product line. This has beefed up customer spend with Interline from just 10 percent of a customer's wallet to a potential 30-40 percent, Sanford said.

AmSan also nearly doubled the number of customers in Interline's portfolio. The two companies fortunately had just a 5 percent customer overlap. That has provided clear opportunities for Interline to cross-sell.

Interline also owns Wilmar, Sexauer and Travco brands, along with Barnett, Hardware Express, Maintenance USA, U.S. Lock, Leran and Barnett of the Caribbean, and others. Interline sources private label product by the container from China. Private label comprises roughly 20 percent of the distributor's product.

"Increasingly customers will price-shop different items at a retailer and when a contractor comes in they can minimize the contractor's gross profit by forcing that contractor to buy an item at a retailer," Sanford said. "But by using our exclusive brands, the contractor can buy the product at half what it would cost at a retailer and mark it up to increase his profitability but still save the customer money."

The Name on the Door

Every brand – private label or otherwise – reaches a different customer niche, and many came from distributors Interline acquired. "In MRO, the name on the door is very important," Sanford said. "The customers prefer to do business with companies they've done business with over the years." At Interline, sales reps are also brand-specific, and the catalogs look and feel the same as they did when Interline acquired them, he said.

Sanford said it is key to "approach a customer the way the customer wants to be approached."

For example, Interline has two MRO catalogs in place for facilities maintenance. Its Wilmar catalog includes 99 percent of what an apartment community can use. But that customer also requires Interline have a field sales rep in place and Interline trucks for delivery. The distributor is able to charge a premium for this high level of service.

On the other hand, Maintenance USA, Interline's other MRO catalog for facilities maintenance, focuses on smaller properties that don't have a maintenance manager on site. That sales model relies on telesales and direct mail, rather than the high-touch model Wilmar uses. For Interline, that means a lower cost to serve and a lower price for the customer.

Despite the fact that Interline carries many brands on the front-end as displayed in its many catalogs, on the back-end many of the products are the same. They are not branded until they hit the shipping dock.

This integrated operating platform, with one distribution network, enables Interline to cater to its diversified customer base in an efficient manner. To manage the platform, Interline has a proprietary IT system with a relational database for the multiple part numbers and price points.

Using an integrated back-end fuels Interline's desire to build out the number and types of products it is selling at specific customers, either from a supplier it is already using or from another Interline catalog.

Understand Customer Needs

It's also important to understand how customers view certain product lines, Sanford said. For example, Interline's institutional customers see janitorial and sanitary distribution as a "service," while they view Interline's plumbing business as just a source of product.

Because of this, Sanford said that Interline is more successful in the institutional markets at converting jan-san customers to its other product lines than the other way around. "They are much more willing to listen to our story

on plumbing and electrical products than the reverse," he said.

In the contractor market, Interline has spent time learning and understanding the customer base – especially after buying Barnett in 2000. At the time, Barnett was a mail-order business with just 3-7 percent of individual customer spend. The distributor's customers were primarily plumbing contractors. But the company also had a "very good product offering," Sanford said, "and were pioneers in Asian sourcing in the plumbing industry."

So Interline asked Barnett's customers how it could become a more important supplier. "They told us, 'You need to be local, and you have to have will-call. Fill out your product offering and offer more things like HVAC and copper tubing.'"

In addition to taking in these concerns, Interline also looked at how it could save money for the contractors. The distributor found that it could help manage shrinkage off contractor trucks by creating a truck stock program, using private label product where it could to save the customer money and replenishing only what was written down the day before as used. As a result, Interline has brought the average shrinkage of its contractor customers from 15 percent down to 2-3 percent a year.

"We can manage each truck as a profit center for the owner of that business, and we can get 100 percent of that business," Sanford said. "During the last 12 months we have seen some softness in that space, but we have continued to set up new vendor managed inventory and truck programs. … We have a lot of prospects in the pipeline and a lot of signed deals in the pipeline that will be implemented in the next 12 months."

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The Gray Market and Distribution

Law is fuzzy; suppliers aim to eradicate practice

The gray market is ill-defined and can range from legitimate goods intended for sale elsewhere sold in an unauthorized area, to outsourced manufacturers who generate more product than that ordered by an OEM, to goods that are remanufactured after use, to pure piracy. Here's a look at a recent case between a manufacturer and distributor.

By Fred Mendelsohn

Recently, Hewlett-Packard resolved a "gray market" lawsuit that it filed in a federal district court in Tennessee against one of its by-then terminated distributors and one of the distributor's customers.

In essence, HP claimed that its distributor violated the terms of its authorized reseller agreement by purchasing products at deep discounts and then selling the products to a customer not authorized by HP.

The distributor allegedly worked with one of its customers to "cook up" false reasons for ordering extra products in order to sell them to an unauthorized customer. As a result of this conduct, HP filed suit against the distributor, the customer involved, its president, and the distributor's president. According to reports, the suit settled for upwards of eight figures.

Defining Gray Market

The gray market is of course not new to distribution, but it means different things to different people, depending in large part on the industry involved, and takes on several forms.

In a case I filed on behalf of a large supplier of heavy construction equipment, the gray market refers to the importation into the U.S. of heavy equipment destined for other countries (e.g., China), and not authorized for sale in North America (the supplier's general exclusive territory), much like the importation of non-American bound luxury cars.

In the luxury car market, importers take advantage of exchange rates and the generally lower prices of cars destined for sale in places like the European Union, modify the cars to meet U.S. safety and emission standards, and sell them at a deeply discounted price – all to the chagrin of the authorized luxury automobile dealers.

Similarly, the parallel importation of unau-

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thorized heavy equipment leaves the purchasers without the benefits of authentic goods, such as warranty protection or regulatory review, and without the support of the supplier's customer service organization.

Of course, this "gray market iron" has additional risks:

- It may not have interchangeable component parts,
- may pose additional liability exposure to the user,
- may have illicit or counterfeit parts, and
- may have higher failure rates and require greater levels of service than legitimate equipment.

In many gray market cases (unlike the black market), the transactions are not illegal, but are not authorized by the manufacturer. As such, suppliers do not always have legal redress and have to resort to other tactics to address the issue.

For example, some years ago, NEDA initiated an authorized supplier communications and advertisement campaign, and several of the large, electronic suppliers (Cisco Systems, Nortel Networks and others) formed the Alliance for Gray Market and Counterfeit Abatement to combat the gray market.

Redress

In the heavy equipment case, the supplier has a remedy, in part because the units that surfaced in various places in the U.S. bore fictitious serial numbers. Under federal unfair competition laws, this type of shadow product distribution is illegal, especially because it causes confusion among end-users as to legitimate product and shadow product.

Is it protected by warranty? Can purchasers obtain authentic replacement parts, intended for these non-authorized imports? Do the units comply with U.S. safety and emission standards?

Other remedies are found in the damage to the goodwill and trade name and/or trademark of the goods themselves, including under anti-dilution statutes, which generally protect certain famous trade names, trademarks and service marks from blurring or tarnishing (without the need for showing consumer confusion – a hallmark of traditional trademark claims).

In the Hewlett-Packard case, HP was able to use traditional common law theories of liability and the underlying reseller agreement to redress its gray market claims, which in that case involved an existing authorized second tier distributor or reseller.

The reseller had agreements with HP for both printers and laptop computers (through Compaq, which was purchased by HP), which provided for the purchase by the second tier distributor from first tier distributors at deep discounts, and resell the products only to customers in the U.S.

The pricing programs required the second tier reseller to support in writing the reasons for the deep discounts, which the second tier distributor did allegedly in cahoots with its customer. HP believed, and alleged, that the second tier reseller purchased the products with the intent to sell, and in fact sold, the products to purchasers in Saudi Arabia.

HP asserted claims of common law conspiracy, fraud and unjust enrichment, plus breach of the reseller agreement against the second tier distributor and its alleged customers, plus the presidents of each business, as individuals are always liable for individual tortious acts.

Discounts Drive Market

The gray market is ill-defined and can range from legitimate goods intended for sale elsewhere being sold in an unauthorized area (like the heavy equipment and luxury auto examples), to outsourced manufacturers who generate more product than that ordered by the OEM, to goods that are remanufactured or reconfigured after use (like the products of the members of the AGMA), to pure piracy, where the goods and parts are counterfeit, or where legitimate distributors with access to product look for creative ways to obtain and resell at large profits.

Either way, deeply discounted prices are the driving force for the distribution of shadow goods, which has negative implications across the supply chain. As long as there is a buck to be made, shadow or gray market brokers will look to generate sales, irrespective of deficiencies in the products sold, and to the detriment of those who participate in authorized distribution.

Regardless of the industry, manufacturers, distributors and those in the shadows will likely see an increase in effort and creativity by suppliers and their counsel to target and eradicate gray market activities.

For more information, please contact Fred Mendelsohn at fmendelsohn@burkelaw.com or 312-840-7004.

Schneider Electric Continues Campaign Against Counterfeiting

Three companies banned from selling Square D products

North American Breaker Co. (NABCO) has been enjoined in federal court from buying or selling virtually all Square D QO circuit breakers, and two other companies – CES Liquidating Inc. and TES Liquidating LLC – have been enjoined from selling any of Schneider Electric's Square D products.

Square D filed suit against NABCO on July 26, 2006, contending that the company placed 50,594 counterfeit Square D circuit breakers into the field. In the suit, Square D alleged that NABCO was guilty of trademark infringement.

"Counterfeit Square D products pose serious health and safety hazards to innocent customers," said Bill Snyder, vice president-channel distribution for the Schneider Electric North American Operation Division. "Through this lawsuit and others like it, Square D has demonstrated its ongoing commitment to prevent counterfeiting and protect Square D's customers, trademarks and designs."

The suit against NABCO also requires the company to provide Square D with records going back to 2004 identifying its suppliers and purchasers of Square D products, along with information about quantities acquired and sold.

"Armed with NABCO's supplier list, Square D has every intention of pursuing counterfeiters up and down the distribution chain," Snyder said.

CES Liquidating Inc. (formerly Connecticut Electric & Switch Manufacturing Company) and TES Liquidating Inc. (formerly Tacoma Electric Supply LLC) are permanently enjoined from marketing, selling, distributing, purchasing and importing any Square D products.

The injunction arose out of Square D's claims that CES and TES sold counterfeit circuit breakers bearing Square D trademarks. Square D claimed that the two sold 85,000 counterfeit circuit breakers.

Square D had filed suit Dec. 20, 2006, alleging that CES and TES participated in advertising, product disparagement and trademark infringement in violation of federal and state law.

In order to prevent the potential purchase of counterfeit products, customers should continue to purchase their Square D products from authorized Square D distributors.

Square D is a brand of Schneider Electric for National Electrical Manufacturing Association type electrical distribution and industrial control products, systems and services. Square D products are found in all types of residential, commercial and industrial construction, in a wide range of manufacturing and processing facilities, and in or on the products of other manufacturers.

A copy of the lawsuits and Consent Orders for Permanent Injunctive and Other Relief are available by calling the Square D Legal Department (847) 397-2600.

Headquartered in Palatine, IL, the North American Operating Division of Schneider Electric had sales of $3.7 billion in 2006. The North American Operating Division is one of four operating divisions of Schneider Electric, Paris, France, and markets the Square D, Telemecanique and Merlin Gerin brand products. Schneider Electric has 2006 sales of $17.2 billion worldwide.

U.S. Nail Producers File Dumping Case Against China, UAE

Five U.S. producers of steel nails have filed antidumping duty petitions alleging that dumped imports of nails from China and the United Arab Emirates (UAE) are causing material injury to the domestic industry. The petitioners allege antidumping margins of 59 percent to 136 percent for China and 98 percent to 114 percent for the UAE.

The petitioners are Mid Continent Nail Corporation, Poplar Bluff, MO; Davis Wire Corporation, Irwindale, CA; Gerdau Ameristeel Corporation (Atlas Steel & Wire Division), Tampa, FL; Maze Nales (Division of W.H. Maze Company), Peru, IL; and Treasure Coast Fasteners, Inc., Fort Pierce, FL.

Domestic nail producers contend that unfairly priced imports of steel nails have injured the U.S. industry by undercutting their prices and taking sales based on unfair trading practices.

The petition requests that the U.S. government impose antidumping duties on nail imports from China and the UAE. Antidumping duties are intended to offset the amount by

Continued on next page

which a product is sold at less than fair value in the U.S. (i.e., the amount by which the product is sold below production costs or at a price that is below the price charged in a comparable market).

Dumped imports of steel nails from China and the UAE constitute a large and increasing share of the U.S. market. Imports of nails from China and the UAE surged from 411,980 short tons in 2004 to 698,460 short tons in 2006, or 70 percent. Chinese and UAE shipments accounted for 75 percent of all nail imports in 2006.

The petition covers certain steel nails that are produced from various grades of steel and that have a variety of finishes, heads, shanks, points and sizes. Certain steel nails may be sold in bulk or collated into strips or coils using materials such as plastic, paper, or wire. Steel roofing nails and nails for use in powder-actuated hand tools are not covered by the petition.

"Imports from China and the UAE have flooded the U.S. market during the past three years, taking significant market share from the domestic producers," said Paul C. Rosenthal, the lead attorney for the petitioners. "The unfairly priced imports from China and the UAE have caused severe financial distress to the domestic industry, leading producers to reduce production, close divisions, and even completely shut down their nail operations.

"Domestic producers need relief from dumped imports to prevent further plant closures and to allow domestic producers to return to healthy profit levels."

The filing of the petition starts the process by which the U.S. International Trade Commission will determine if the U.S. nails industry has been materially injured, or threatened with material injury, and the U.S. Department of Commerce will determine whether dumping exists.

The USITC must reach its preliminary determination of material injury or threat of material injury within 45 days; the Commerce Department is required to announce preliminary antidumping duties in 160 days.

Once the Commerce Department makes its preliminary determination, U.S. Customs and Border Protection will require importers to pay a cash deposit or post a bond equal to the estimated dumping margin. The entire investigative process takes about one year. Final determinations will happen in mid-2008.

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Industrial & Construction Markets Update

PERSPECTIVE

Be careful not to get a sugar high from the HD Supply spin-off announced this past week. After a deal of this magnitude, it's easy to get excited about what it means once the dust settles. But the dust won't settle on HD Supply. If anything, the non-contributing or distracting units will be shed and a leaner, more focused business will emerge. It was not purchased to be gutted or dismantled. The remaining entity, while smaller in size, will likely continue as the lead consolidator in a narrower band of distribution verticals.

The deal will have a large impact in a few sectors, and virtually no impact in others beyond the perceived valuation halo effect. Some had anticipated the price for HD Supply might cool slightly due to the weakness of residential markets in North America. The estimated 12X EBITDA valuation of this deal means the bar is high for blockbuster deals. It's a seller's market because of the flood of private equity buyers.

But it would be a mistake to extrapolate the valuation of a distributor with $12 billion in annual revenues to a company with $12 million in annual revenues. As MDM's audio conference speakers noted in May and June, valuations at smaller companies have been about half of the Hughes Supply and HD Supply deals.

A popular pastime for pundits in this industry has been to ponder whether some distributor might be able to scale into a $50-billion international entity. A possibility on paper perhaps, but it goes against the grain of history. It's a daunting task to scale up a diverse portfolio of product distribution, gain synergy and deliver the high levels of local customer service that define the core value of distribution. At the same time, it's dangerous to point a finger at the deal last week and say it proves that HD Supply has been a failure.

Technology distributor **Ingram Micro Inc**., Santa Ana, CA, has agreed to buy **DBL Distributing In**c., Scottsdale, AZ, a distributor of consumer electronics accessories and related products with 2006 sales of nearly $300 million. The purchase price is $96 million. The deal strengthens Ingram Micro's position in a higher-margin niche of the consumer electronics market. Ingram Micro reported $31 billion in fiscal 2006 annual sales, and overall gross margin of 5.4 percent.

US Electrical Services, LLC, Exton, PA, has acquired **Pioneer Electric Supply**, Beltsville, MD. Pioneer has been supplying the needs of electrical contractors in greater Washington, DC for almost 16 years. The company focuses primarily on large and small new construction and renovation projects. Pioneer will join four other area USESI-owned locations in the area.

Reliance Steel & Aluminum Co., Los Angeles, CA, has agreed to acquire **Clayton Metals, Inc**., Wood Dale, IL. Clayton Metals specializes in the processing and distribution of aluminum, stainless steel and red metal flat-rolled products, custom extrusions and aluminum circles through its four metals service center locations. Clayton Metal's sales for the 12 months ended Dec. 31, 2006, were $123 million.

VWR International, Inc., West Chester, PA, a supplier to the global research laboratory industry, has agreed to acquire **Bie & Berntsen A-S**, a Danish scientific laboratory supply distributor. Bie & Berntsen is one of Denmark's largest suppliers of chemical and laboratory equipment with 90 employees, all in Denmark. The company has annual revenues of US$27 million. VWR, a $3.2 billion distributor, recently changed hands. It was sold to Madison Dearborn Partners in early May.

SKF has acquired **Baker Instruments Company**, Fort Collins, CO, a manufacturer of test and diagnostic instruments for electric motor assessment, for $14 million. Baker has annual sales of $11 million. "This move into electric motor diagnostics is important to our new Energy Efficiency solutions business, and is in line with the SKF Group's move towards supporting our customers in their sustainability efforts," said Phil Knights, president, SKF Service Division.

Diversified industrial manufacturer **Eaton Corporation**, Cleveland, OH, has acquired **Pulizzi Engineering**, a manufacturer of AC power distribution, AC power sequencing, redundant power and remote-reboot power management systems. Pulizzi Engineering had 2006 sales of $12 million and is in Santa Ana, CA.

Schneider Electric will sell **MGE UPS Systems** to diversified industrial manufacturer **Eaton Corp**. The expected move is to fulfill a commitment to the European Commission following Schneider's acquisition of **American Power Conversion**. Eaton is offering 425 million euros (US$569 million) for the business, which had revenues of 156 million euros (US$209 million) in 2006.

continued on next page

Housing starts in May were 2.1 percent below April and 24.2 percent below May 2006. Year-to-date, the steepest declines in housing starts were seen in the Midwest, with a 33.4 percent fall, and the West, with a 28.3% decline. Year-to-date, the steepest declines in permits were again in the Midwest, with 27.7 percent decline, and the West with a 26.7 percent decline.

Industrial production was unchanged in May after a smaller revised increase of 0.4 percent in April. Output in the manufacturing sector edged up 0.1 percent in May, and mining output moved up 0.5 percent after declining 0.6 percent in April. At 112.7 percent of its 2002 average, overall industrial production for May was 1.6 percent above its year-earlier level. The rate of capacity utilization for total industry fell 0.2 percentage point, to 81.3 percent.

April U.S. manufacturing technology consumption totaled $281.54 million, according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association. This total was down 27.2 percent from March, but up 2.2 percent from the total of $275.43 million reported for April 2006. With a year-to-date total of $1,259.09 million, 2007 was up 8.7 percent compared with 2006.

Following a strong gain in March, **Canadian manufacturing shipments** edged down in April. Shipments decreased by 0.6 percent to an estimated $49.7 billion. Excluding the motor vehicle parts and accessory industries, manufacturing shipments increased 1 percent in April.

The **Producer Price Index for Finished Goods** increased 0.9 percent in May, the U.S. Bureau of Labor Statistics of the U.S. Department of Labor reported. This advance followed a 1.0-percent increase in March. The index for finished goods excluding foods and energy moved up 0.2 percent in May.

The industrial producer price index rose by 0.4 percent in the euro area in April 2007. In March, prices increased by 0.3 percent. In April 2007, compared with April 2006, industrial producer prices gained 2.4 percent in the euro area. The highest year-over-year increases were recorded in Luxembourg (8.7 percent), Hungary (8 percent), Bulgaria (7.9 percent) and Lithuania (7.3 percent). A decrease was registered in Denmark.

Profits for electrical distributors in 2006 rose sharply to the highest level since 1993, reaching a median of 3.7 percent, according to the National Association of Electrical Distributors in its annual Performance Analysis Report. The 3.7 percent figure represents the third consecutive year of sharp rises in profit margins. Accompanying the increased profits were 2006 median sales increases of 17.4 percent, also the highest in a decade.

Hagemeyer, Naarden, the Netherlands, announced that Rudi de Becker will resign as CEO and chairman of the Board of Management of Hagemeyer at the next annual general meeting of shareholders in April 2008. Hagemeyer said that De Becker wants to spend more time with his family. Hagemeyer is a distributor of electrical parts and supplies, safety and other MRO products in 25 countries in Europe, North America and Asia-Pacific.

RBC Bearings Incorporated, Oxford, CT, an international manufacturer of highly-engineered precision plain, roller and ball bearings for the industrial, defense and aerospace industries, reported sales for the fiscal year ended March 31, 2007, were $306.1 million, an increase of 11.5 percent from the prior year. Profit was $28.5 million, up 128 percent from the year before.

The **Barnes Distribution** business segment of Barnes Group Inc. has opened an international sourcing center in Shanghai, China. The sourcing center will complement Barnes' previously established sourcing center in Taiwan. Barnes Distribution is a distributor of maintenance, repair, operating and production supplies.

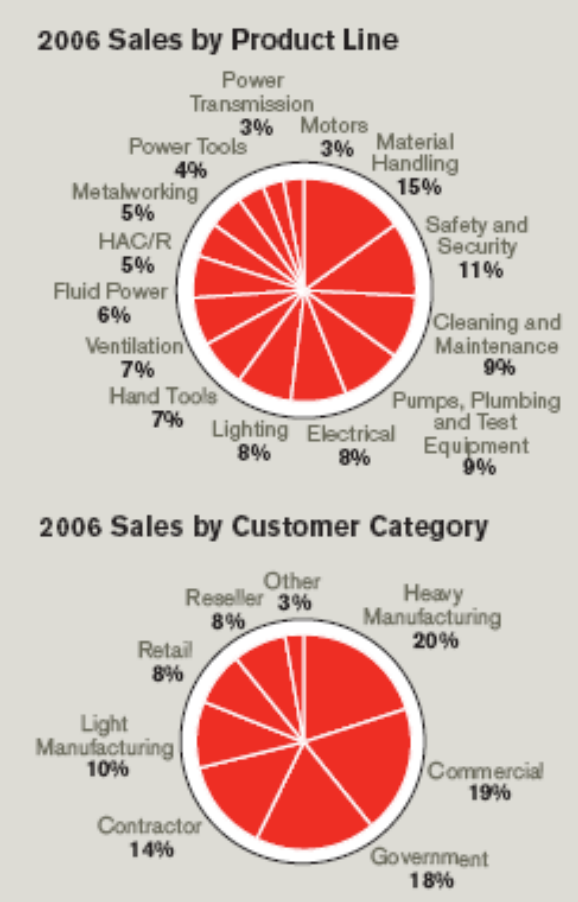
Canadian wholesalers posted sharply lower sales in April, as declines in a number of major sectors erased all of the strong gains made over the previous two months. Overall sales fell by 3.1 percent in April to an estimated $42.8 billion. April's drop was the largest since August 2003 and followed increases of 2.3 percent and 0.9 percent in March and February respectively. Five of the seven wholesale sectors registered declines in April. Leading the way was the automotive products sector (-8.3 percent), followed by "other products" (-5.9 percent) and machinery and electronic equipment (-2.3 percent).

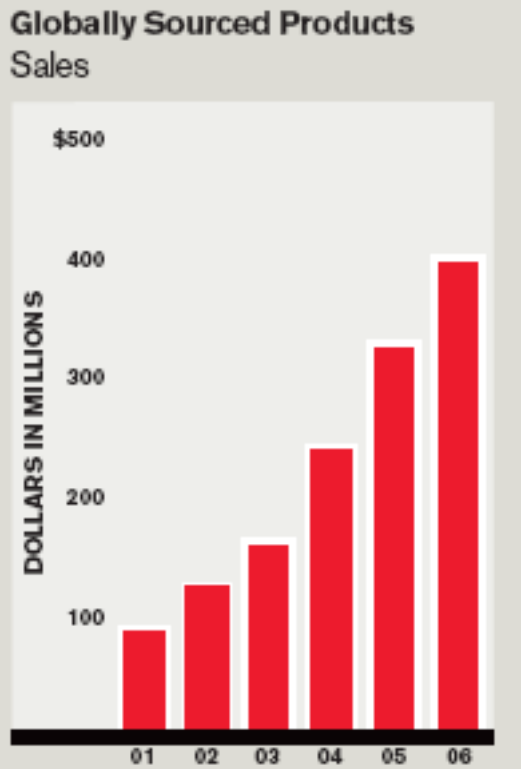
Builder confidence declined two more points in June, according to the National Association of Home Builders/Wells Fargo Housing Market Index. With a reading of 28, the HMI now is at the lowest level in its current cycle and has reached the lowest point since February 1991.

Grainger by the Numbers: 2007 Factbook

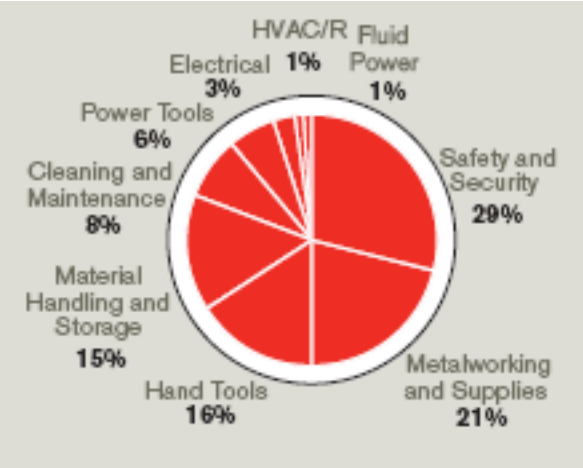
W.W. Grainger, Chicago, IL, $5.9 billion broad-line distributor of facilities maintenance products, sells primarily to industrial and commercial maintenance departments, contractors and government customers. The company has been driving two initiatives: market expansion, which is nearly finished in the U.S., and product expansion. Grainger recently released its 2007 Factbook, which is full of statistics on its operations in the U.S., Mexico, China and Canada. The following graphics were pulled from that Factbook, which is available on Grainger's Web site, www.grainger.com.

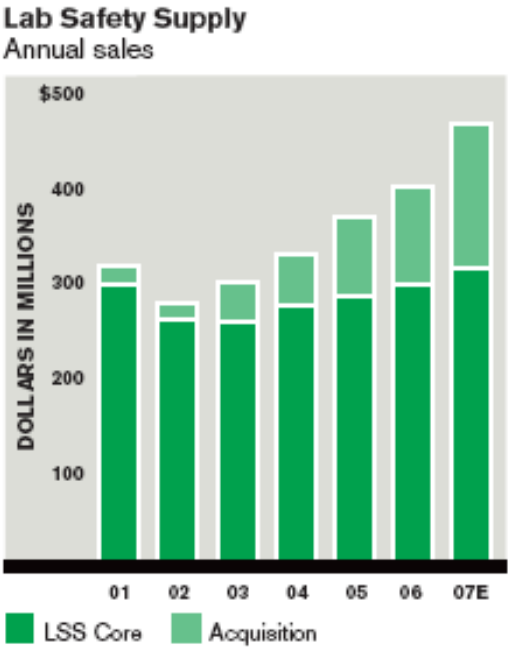
U.S. Sales Breakdown





Canada Sales by Product Line Acklands-Grainger





Ingram Micro to Buy DBL Distributing

Technology distributor Ingram Micro Inc., Santa Ana, CA, has agreed to buy DBL Distributing Inc., Scottsdale, AZ, a distributor of consumer electronics accessories and related products with 2006 sales of nearly $300 million. The purchase price is $96 million.

The deal strengthens Ingram Micro's position in a higher-margin niche of the consumer electronics market. Ingram Micro reported $31 billion in fiscal 2006 annual sales, and overall gross margin of 5.4%.

The Consumer Electronics Association estimates the consumer electronics market at $155 billion in 2007, with the accessories market at $11 billion. The industry is forecast to grow at 7% in 2007 following a 13% growth rate in 2006. An industry analyst told MDM the sub-category of consumer electronics accessories is much less price sensitive and offers stronger growth rates than core CE product areas.

Ingram Micro expanded its consumer electronics position last year when it acquired certain net assets of AVAD, a distributor of home technology integration solutions for custom installers in the U.S. AVAD was a privately held alliance of 12 companies employing 280 people throughout the U.S. AVAD reported sales of $200 million in 2004 and served 8,000 dealers through 28 multi-functional facilities that combined product showrooms, distribution centers, training locations and will-call capabilities under one roof. Its product portfolio included vendors in the high-end consumer electronics market.

"Our acquisition of DBL Distributing is another step forward in Ingram Micro's consumer electronics strategy," said Greg Spierkel, CEO, Ingram Micro Inc. "This strategy positions Ingram Micro at the forefront of two significant trends: the continuing convergence of commercial and consumer technologies and the growing importance of retailers in the marketplace. The transaction is an example of how we plan to deploy capital in the future - through strategic acquisitions that spur growth, enhance profitability and expand our addressable market."

DBL Distributing offers a comprehensive mix of more than 17,000 consumer electronics products to independent retailers across the U.S. The company reported 2006 sales of nearly $300 million, following four years of double-digit sales growth, with gross and operating margins double those of Ingram Micro's core distribution business. In 2006, DBL was recognized as the 15th largest privately held and the 13th fastest growing company in Arizona.

"While our purchase of AVAD two years ago made us leaders in the custom installation market, the acquisition of DBL makes us leaders in the independent retail market," said Keith Bradley, president, Ingram Micro North America. "This acquisition provides us with a complementary portfolio of products and services for a new and expansive customer base. We plan to leverage this opportunity by cross-selling our current selection of information technology products to DBL's customers as well as offer our customers access to DBL's extensive CE accessory products."

Bradley added that DBL Distributing will operate as a wholly owned subsidiary of Ingram Micro Inc., maintaining the same brand name, business model and management structure to ease the transition for customers and vendor partners of both companies.

As part of this transaction, Ingram Micro has also purchased NXG Technology, DBL's own private-label brand of custom audio and video installation products. The NXG brand includes two complete lines of audio/video cables, three complete lines of in-wall and indoor/outdoor speakers and a complete offering of in-wall volume controls and A/V selectors.

"DBL will benefit significantly as a wholly owned subsidiary of Ingram Micro as it gains instant visibility and access to vendors and customers worldwide," said David Lorsch, president and CEO of DBL Distributing. "In addition, DBL can leverage Ingram Micro's availability of capital and world class logistics resources to equip its infrastructure to continue DBL's legacy of growth."

Investment banking firm Vetus Partners served as financial advisor to DBL for the transaction.

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