MODERN DISTRIBUTION MANAGEMENT

The Newsletter for the Wholesale Distribution Channel

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Wholesale Prices Skyrocket in 2007

Energy, food prices fuel largest increase in more than 25 years

This is an overview of wholesale price inflation trends in the past year for commodities in industrial and construction channels. Overall, inflation was 6.3 percent in 2007, a significantly larger jump than in 2006.

Wholesale prices jumped 6.3 percent in 2007, due to a surge in fuel and food prices. Without fuel and food, core inflation saw a more moderate 2-percent increase, the Bureau of Labor Statistics reported.

The government attributed the faster overall rate of increase to the index of finished energy goods, which rose 18.4 percent in 2007 after a much shorter climb of 2 percent a year earlier. Finished consumer foods jumped 7.4 percent following a 1.7-percent increase in 2006.

The other key inflation index, the Consumer Price Index, rose faster than expected with a 4.1-percent increase.

Fed Chairman Ben Bernanke said recently that food and energy prices are expected to decelerate over the coming year.

Of more interest however, than the overall price gains in the past year, are gains in areas relevant to most MDM readers. Construction materials and components index was up 1.8 percent, materials for nondurable manufacturing were up 13 percent, and materials for durable manufacturing up 1.6 percent.

Manufacturers Alliance/MAPI Chief Economist Dan Meckstroth told MDM that raw food material and oil prices in 2007 drove the increases in the nondurable sector, while a moderation during the year of high prices in core commodities - including steel, copper and zinc - fuelled a smaller increase in durables as compared with 2006.

Fed Cuts Rate

In response to worsening economic indicators, the Fed slashed short-term interest rates by 0.75 percentage points this week to 3.5 percent. In a release, the Federal Open Market Committee cited a weakening of the economic outlook, deteriorating conditions in financial markets, tightening credit, and a deepening of the housing contraction as well as some softening in labor markets.

The Committee said it expects inflation to moderate in coming quarters and raise rates when growth picks up.

On the next page, find producer price inflation trends for the past year and December. On pages 4-6, find breakouts by commodity groups for a look at individual fluctuations.

continued on next page

Price Change: 2006-2007

Product Sector	2006 Change	2007 Change
Construction Materials/Components	+4.3%	+1.8%
Materials for Durable Manufacturing	+12.5%	+1.6%
Materials for Nondurable Manufacturing	+1.2%	+13.0%
Basic Industrial Materials	+17.0%	+16.8%
Crude Foodstuffs & Feedstuffs	+2.8%	+25.2%
Overall	**+1.1%**	**+6.3%**

Source: Bureau of Labor Statistics/PPI; MDM Analysis

INSIDE

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Construction Materials/Components: Up 1.8 %

Prices for materials and components for construction advanced 1.8 percent in 2007, after climbing 4.3 percent in 2006. In December, the index for materials and components for construction inched up 0.1 percent compared with a 0.1-percent decline in November.

Associated General Contractors of America Chief Economist Ken Simonson said recently that many observers expect that the end of the recent calm in materials prices is coming soon. "Materials costs are beginning to turn up again, and labor costs have started to accelerate."

Materials for Durable Manufacturing: Up 1.6%

The index for materials for durable manufacturing was up 1.6 percent in 2007, following a 12.5-percent jump in 2006. In December, prices decreased 1.0 percent in December following a 1.1-percent advance in November. The primary nonferrous metals index fell 8.5 percent after rising 2.5 percent in the prior month. Prices for thermoplastic resins, building paper and board, and aluminum mill shapes also turned down.

Materials for Nondurable Manufacturing: Up 13.0%

The index for materials for nondurable manufacturing advanced 13 percent in 2007, following a 1.2-percent gain in 2006. In December, prices for materials for nondurable manufacturing edged up 0.1 percent in December after a 3.6-percent rise in November. Prices for basic organic chemicals, plastic resins and materials, and for paint materials declined after increasing in the prior month.

Basic Industrial Materials: Up 16.8%

The basic industrial materials index moved up 16.7 percent in 2007 following a 17-percent gain in 2006. In December, this index was unchanged after decreasing 0.5 percent a month earlier. Iron and steel scrap prices turned up 5.7 percent. The index for copper base scrap fell less than in November. The index for softwood logs, bolts, and timber was unchanged. By contrast, prices for aluminum base scrap declined 3.2 percent.

Crude Foodstuffs & Feedstuffs: Up 25.2%

Price increases for crude foodstuffs and feedstuffs grew 25.2 percent in 2007, compared with a 2.8-percent increase in 2006. The index climbed 4.3 percent in December after increasing 2 percent in the preceding month. Prices have particularly spiked in response to demand to make ethanol, tightening supply. The drought in 2007 also constricted supply, increasing prices.

Finished Energy Goods: Up 18.4%

The index for finished energy goods surged 18.4 percent in 2007. The index fell 1.9 percent in December. Leading this downturn, gasoline prices declined 4.8 percent in December following a 34.8-percent surge a month earlier.

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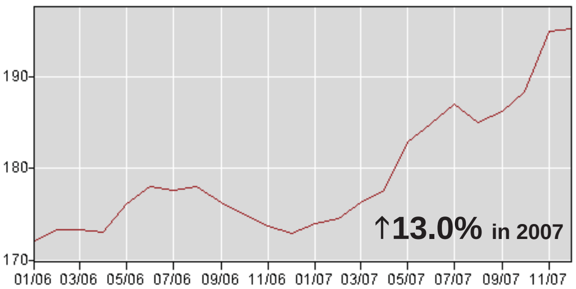
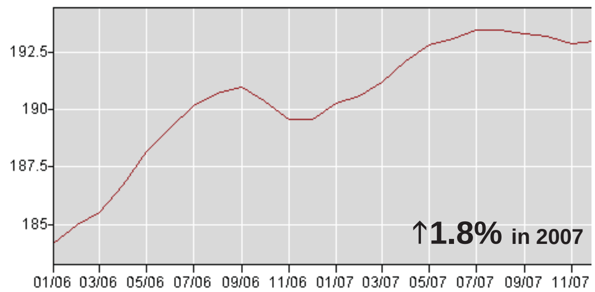
2006-2007 Inflation Trends

All charts: Bureau of Labor Statistics

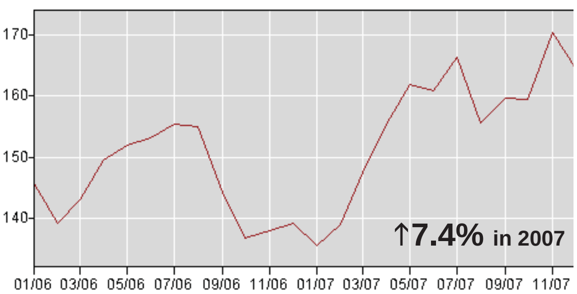
Materials for Nondurable Manufacturing



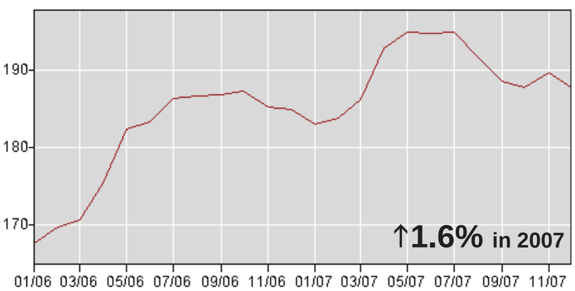
Construction Materials/Components



Finished Energy Goods



Materials for Durable Manufacturing



Mind the Gap: Adam Fein Addresses Inflation-Fueled Growth vs. Real Growth

Wholesaler-distributors in varied sectors have been seeing strong double-digit top-line revenue growth. While the economic expansion increased unit sales, recognize that unusually high commodity prices have made revenue growth easier to achieve in recent years. In Adam Fein's recent MDM Webcast, "Wholesale Distribution Economic Outlook," he addressed this issue.

Fein, president of Pembroke Consulting, presented as example the hardware, plumbing, heating and cooling distribution sector, which has seen flat growth year-over-year. But once adjusted for inflation, unit growth was negative.

"I call that the growth gap," he says. In this case, the gap was 5.3 percent. "I can't predict commodity prices any better than anyone else can. But what it does say is there has been a substantial amount of artificial inflation in the revenue growth of some distributors."

Affecting the growth of plumbing distributors, for example, is the price of copper, which quadrupled between 2003 and 2006. The price was driven by demand around the world, particularly China and India, which are starting to consume a substantial amount of the world's products – including steel, oil and other core commodities.

Fein said distributors should use a more strategic approach and move away from a dependence on inflation-boosted growth.

"What that means for a distributor is that as you're looking at your growth year-on-year, you need to be careful and understand how much of your growth is actually growth and how much is simply the benefit of inflation flowing through to the bottom line."

Ask yourself: "How much would top-line revenue growth slow if product prices remain flat over the next 24 months?"

Evaluate sales based on changing prices of underlying commodities. "While profits may feel very good right now, I want to caution distributors as we go into a potential slowdown that commodity prices tend to decline, and therefore the revenue hit for distributors could be unexpectedly large. That may catch some distributors by surprise, so certainly it is certainly something to look out for," Fein said.

Order the CD of "Wholesale Distribution Economic Outlook: Adam Fein's First Look at 2008" at www.mdm.com/conferences, or call 1-888-742-5060.

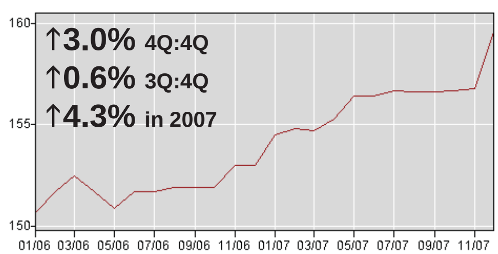
Inflation by Commodity Group

Pricing trends for the year and fourth quarter 2007

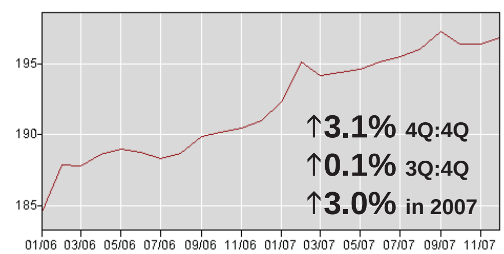
These 24 select product groups provide a snapshot of inflation trends based on the Producer Price Index from the U.S. Bureau of Labor Statistics. Fourth quarter 2007 is compared with fourth quarter 2006, third quarter 2007 with fourth quarter 2007, and the full year 2007 with the full year 2006. The graphs depict trends from January 2006.

Key
↑**11.6%** 4Q:4Q (4Q '06 with 4Q '07)
↑**1.8%** 3Q:4Q (3Q '07 with 4Q '07)
↑**3.0%** in 2007 (2006 with 2007)

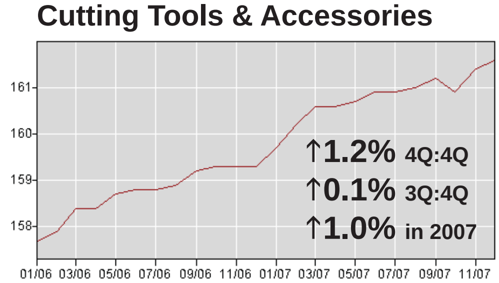
Abrasives



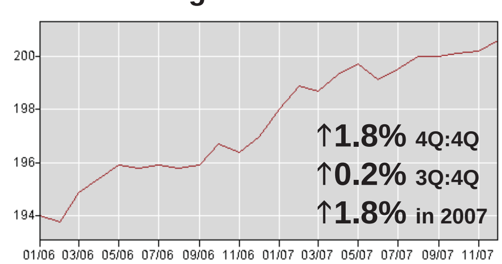
Adhesives & Sealants



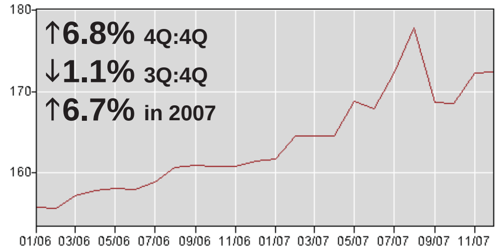
Cutting Tools & Accessories



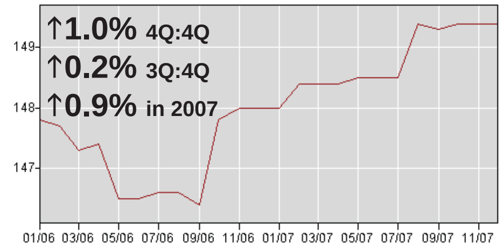
Hand & Edge Tools



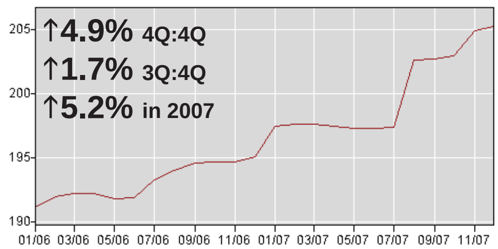
Fasteners



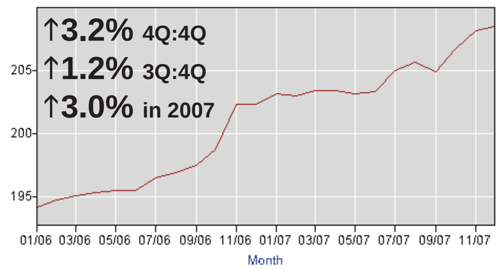
Power-Driven Hand Tools



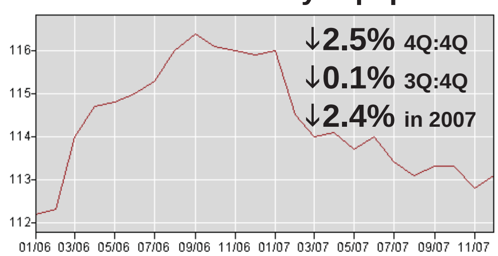
Ball & Roller Bearings



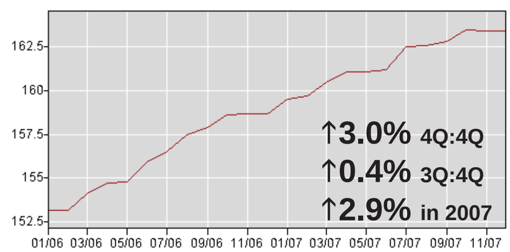
Mech. Power Transmission Eqpt.



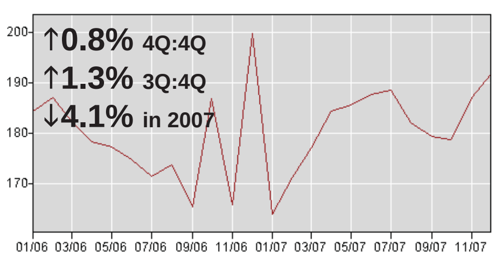
Electrical Machinery/Equipment



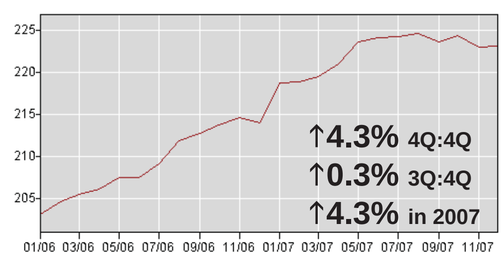
Material Handling Eqpt. (Ind)



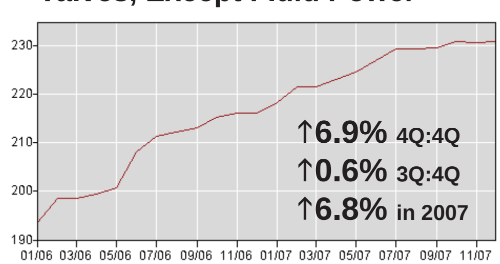
Industrial Gases



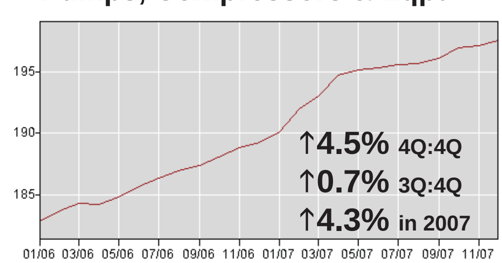
Welding Machinery/Equipment



Valves, Except Fluid Power



Pumps, Compressors & Eqpt.



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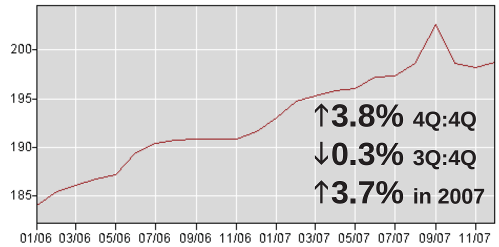
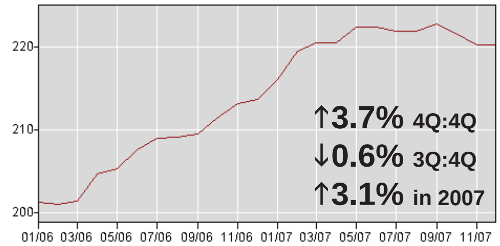
Inflation by Commodity Group from p. 4-5

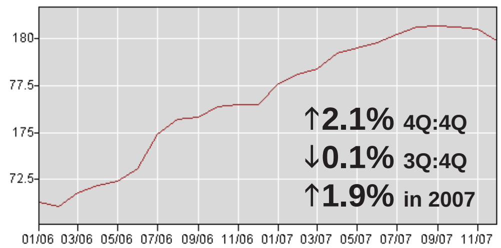
Fluid Power Equipment



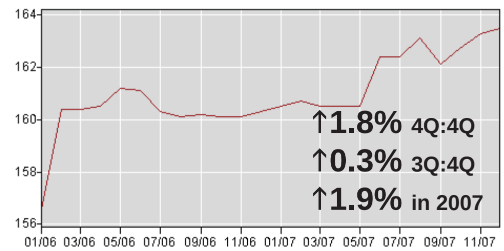
Plumbing Fixtures & Fittings



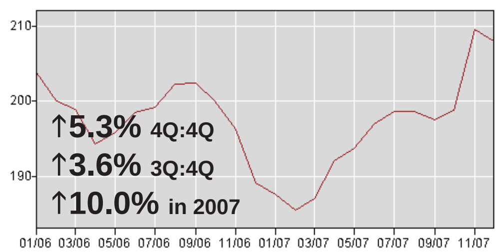
Hardware



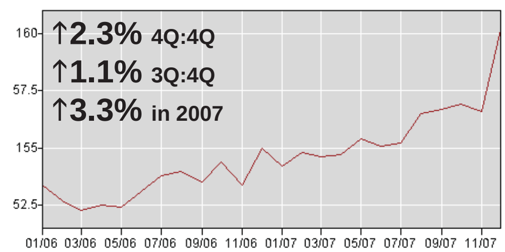
Sanitary Paper Products



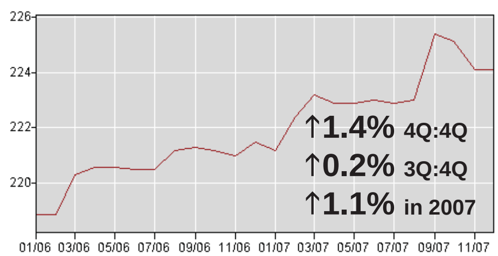
Plastic Resins & Materials



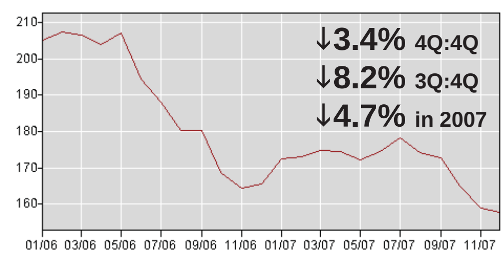
Spec. Cleaning, Polish, San. Products



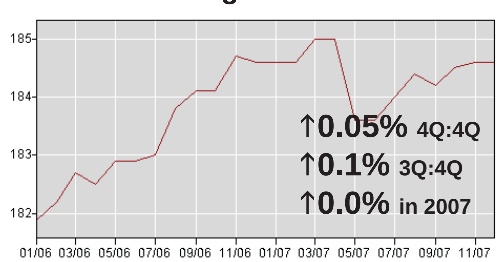
Industrial Safety Equipment



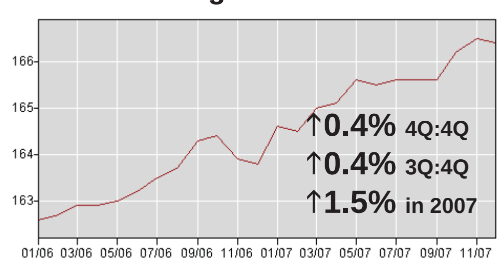
Softwood Lumber



Metal-Forming Machine Tools

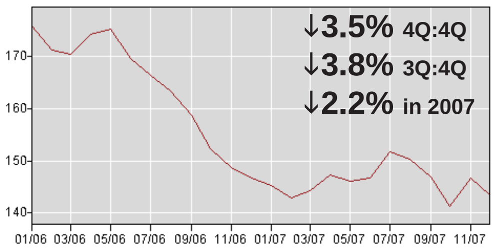


Metal-Cutting Machine Tools

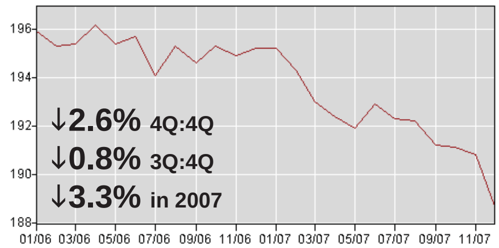


Source: U.S. Bureau of Labor Statistics, MDM Analysis

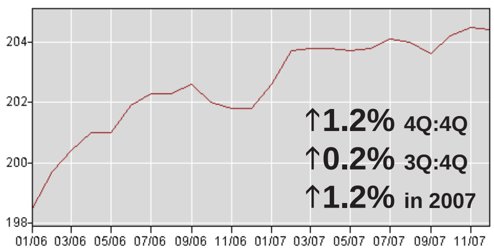
Hardbd, Particlebd, Fiberbd Products



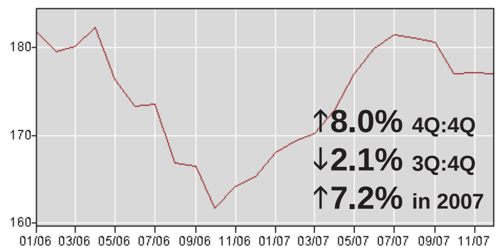
Hardwood Lumber



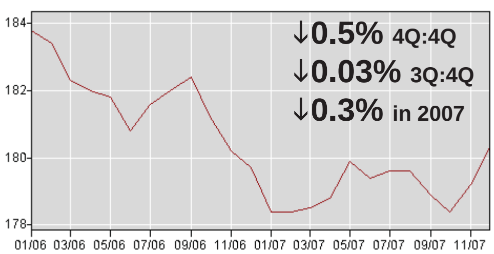
General Millwork



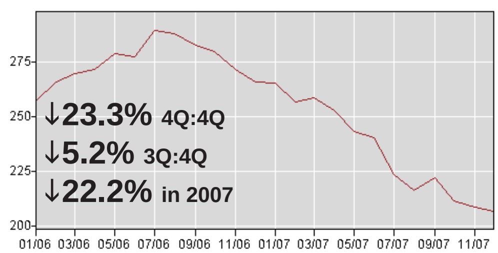
Plywood



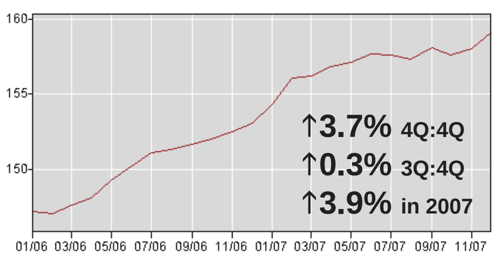
Construction Products from Plastics



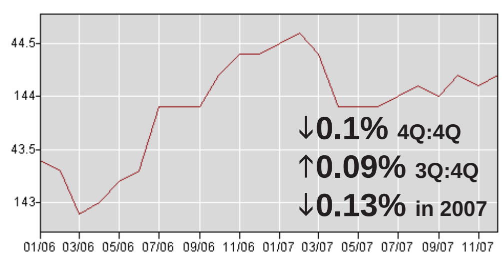
Gypsum Products



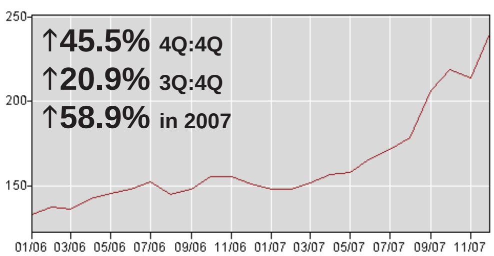
Air Conditioning & Refrig. Eqmt.



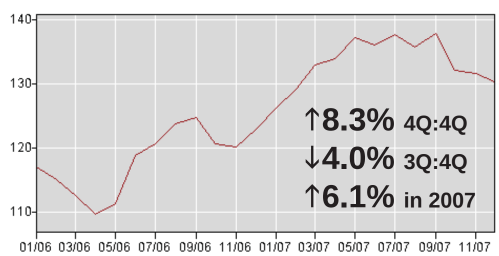
Tools, Dies, Jigs, Fixtures, Ind. Molds



Flour

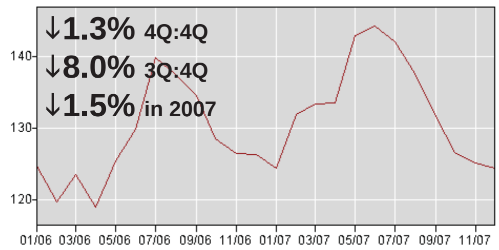


Processed Poultry

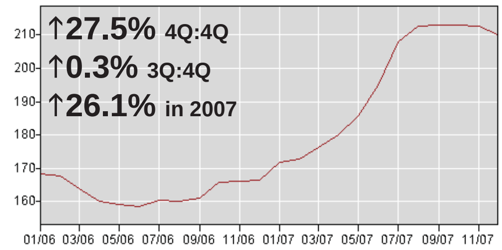


Source: U.S. Bureau of Labor Statistics, MDM Analysis

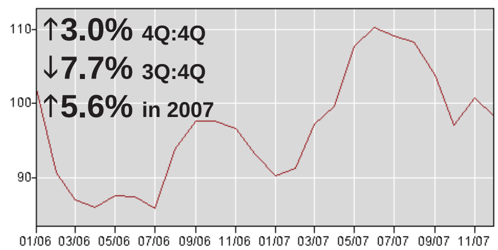
Pork Products



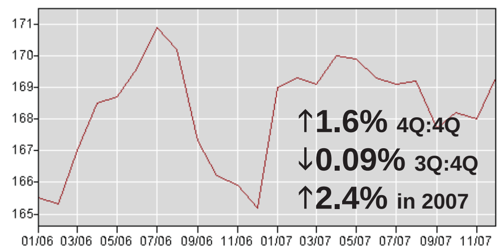
Fluid Milk Products



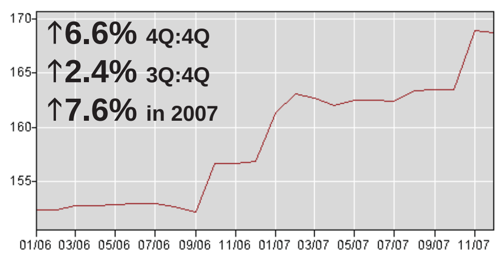
Butter



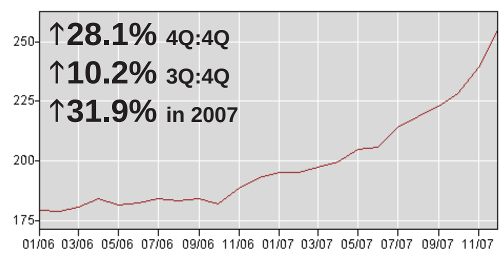
Sugar & Confectionary



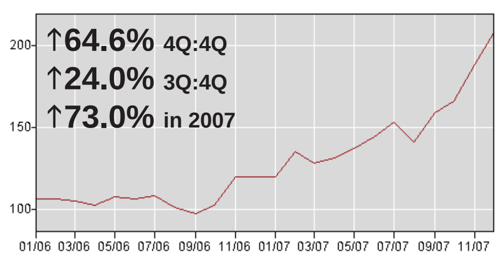
Coffee



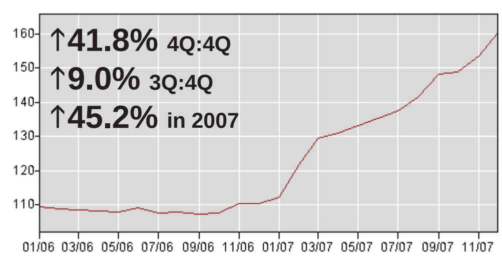
Shortening & Cooking Oil



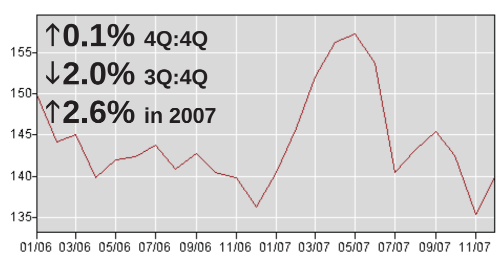
Oilseeds



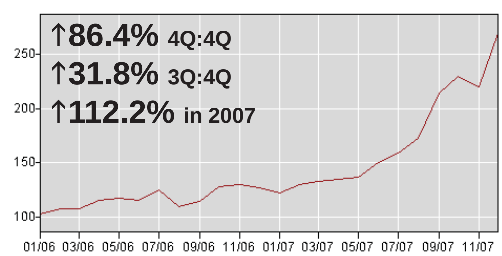
Processed Eggs



Beef/Veal Products



Wheat



Source: U.S. Bureau of Labor Statistics, MDM Analysis

Value Drivers in Distribution

If you want to sell, consider key criteria buyers use in assessing your business

By Jonathan Skelly

As the M&A marketplace for wholesale distribution companies continues to be active, an increasing number of distribution company owners have begun to contemplate selling their business.

While the sale of a company is equal parts art and science, one thing is clear – owners and operators who properly prepare for a sale and take into consideration the main criteria buyers use in assessing an acquisition, consistently achieve more favorable outcomes.

Here is a synopsis of criteria buyers of businesses consider in an acquisition and what I focused on while executing acquisitions for HD Supply and Hughes Supply.

Preparing for a Sale

Once owners determine their desire to sell the company, it is necessary to follow a core set of steps to best position the business:

Develop A Reasonable Rationale for Selling. Buyers want to understand your intentions and believe that you are committed to selling.

Examine Overall Operating Performance. If recent financial performance has consistently improved, the attractiveness of the business increases. If performance is inconsistent and declining, improve it before entering the marketplace and be able to explain the declines.

Are the Financials "Clean?" If there are extensive personal expenses throughout the financial statements (i.e. club memberships, excessive T&E, salaries to non-employees), remove those to improve bottom-line performance and valuation. If the company does not have audited financials, consider an audit.

Prepare A Strategic Growth Plan. More than putting together next year's budget, management must articulate how to successfully grow the company over the next few years.

Tie Up Loose Ends and Prepare for Inspection. This can involve everything from solidifying key customer and vendor accounts to cleaning up the physical appearance of branches.

What Buyers Want

In addition to the sale preparation steps mentioned above, it is important to recognize what a buyer of a business will look for in a potential acquisition. Future sellers can use these guidelines when considering improvements to their businesses or in determining if they are an attractive acquisition target:

Financial Performance. Acquirers focus on several financial benchmarks to determine an acquisition's attractiveness,including gross margin, operating margin and growth performance.

Return on Invested Capital. Acquirers, especially in distribution, typically only consider companies with a return on invested capital (ROIC) that exceeds the buyer's cost of capital.

Market Factors. Is the acquisition serving large, growing markets and are the trends within these markets favorable? Slower growth and smaller markets are less appealing.

Company-Specific Risks. Are there issues related to environmental, asbestos, or customer concentration?

Growth Potential. Can the acquisition continue to grow organically or through acquisitions/consolidation?

Synergies & Integration. Buyers seek acquisitions where 1+1=3. This is accomplished through both growth and cost savings synergies.

Key Value Drivers in Distribution

While the aforementioned apply to almost all companies in a sale, there are factors more specific to distribution that buyers will focus on:

Geographic Footprint. Does this acquisition expand existing geographic reach and provide access to new customers?

Product & Service Expansion. Does it allow buyer access to new products & services, open new customer categories and provide for cross-selling opportunities to existing customers?

Systems & Processes. Does the acquisition operate on a current version of a distribution IT system and have standard business processes in place (this speaks to ease of integration)?

Vendor Alignment. Do the target company's main vendors line up well with the acquiring company's preferred vendors? Buyers also look favorably upon targets that consolidate purchases with a core group of vendors.

Management & Talent. Distribution is a people business and quality management and sales talent are crucial. People are what the acquirers are really buying. Cultural fit with the acquiring company is also important.

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Monthly Wholesale Trade: Sales and Inventories for November 2007

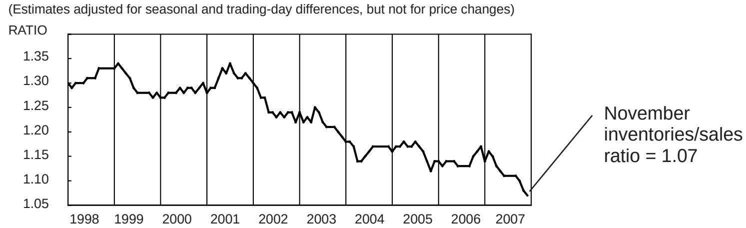
Sales. November 2007 sales of merchant wholesalers, except manufacturers' sales branches and offices, were $380.4 billion, up 2.2 percent from the revised October level and were up 14 percent from November 2006. Sales of durable goods were up 0.9 percent from last month and up 6.1 percent from a year ago. Compared to last month, sales of computer and computer peripheral equipment and software were up 3.9 percent and sales of electrical and electronic goods, up 3.1 percent. Sales of nondurable goods were up 3.3 percent from last month and up 21.7 percent from last year. Sales of farm product raw materials were up 9.7 percent from last month and sales of petroleum and petroleum products were up 8.9 percent.

Inventories. Total inventories of merchant wholesalers were $406.2 billion at the end of November, up 0.6 percent from the revised October level and up 4.3 percent from a year ago. End-of-month inventories of durable goods were up 0.5 percent from last month and up 0.5 percent from last November. Inventories of motor vehicle and motor vehicle parts and supplies were up 2.3 percent from last month, and inventories of professional and commercial equipment and supplies were up 1.4 percent. End-of-month inventories of nondurable goods increased 0.8 percent from October and were up 11 percent from last November. Inventories of petroleum and petroleum products were up 2.6 percent from last month and inventories of chemicals and allied products were up 1.7 percent.

Inventories/Sales Ratio. The November inventories/sales ratio for merchant wholesalers, based on seasonally adjusted data, was 1.07. The November 2006 ratio was 1.17.

Monthly Inventories/Sales Ratios
of Merchant Wholesalers: 1998-2007

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Monthly wholesale trade: Sales and inventories November 2007

NAICS Code	Business Type	Sales $ millions	Inventories $ millions	Stock and Sales ratio	% Change in Sales 10/07-11/07	% Change in Sales 11/06-11/07	% Change Inventory 10/07-11/07	% Change Inventory 11/06-11/07
42	U.S. Total	380,351	406,153	1.07	2.2	14.0	0.6	4.3
423	Durable	175,294	250,614	1.43	0.9	6.1	0.5	0.5
4231	Automotive	27,637	38,247	1.38	-0.7	-1.7	2.3	-2.4
4232	Furniture & Home Furnishings	6,087	7,963	1.31	-2.5	1.1	0.9	4.7
4233	Lumber & Other Construction Materials	10,224	14,214	1.39	-0.5	-10.3	-0.7	-5.3
4234	Prof. & Commercial Equip. & Supplies	31,585	32,280	1.02	1.8	11.2	1.4	4.3
42343	Computer Equipment & Software	17,160	12,092	0.70	3.9	14.0	-0.7	4.2
4235	Metals & Minerals	13,349	22,429	1.68	-1.0	-2.7	-1.6	-9.6
4236	Electrical Goods	27,141	32,783	1.21	3.1	5.6	0.6	0.8
4237	Hardware, Plumbing, & Heating Equipment	8,036	15,463	1.92	-1.2	7.6	0.3	4.8
4238	Machinery, Equipment & Supplies	30,549	64,874	2.12	0.8	11.9	0.3	4.0
4239	Miscellaneous Durable	20,686	22,361	1.08	3.3	20.7	-0.8	1.3
424	Nondurable Goods	205,057	155,539	0.76	3.3	21.7	0.8	11.0
4241	Paper & Paper Products	8,356	6,933	0.83	0.1	6.2	0.2	8.0
4242	Drugs	34,258	31,753	0.93	0.3	9.3	1.1	1.6
4243	Apparel, Piece Goods & Notions	11,151	15,596	1.40	4.3	4.8	-0.7	5.1
4244	Groceries & Related Products	43,664	27,198	0.62	-0.1	13.4	0.1	8.1
4245	Farm-product Raw Materials	17,679	20,261	1.15	9.7	55.9	0.1	42.0
4246	Chemicals & Allied Products	8,956	9,196	1.03	-1.6	12.9	1.7	6.5
4247	Petroleum & Petroleum Products	51,148	13,974	0.27	8.9	48.6	2.6	6.9
4248	Beer, Wine & Distilled Beverages	8,791	10,561	1.20	-1.2	4.7	0.0	11.3
4249	Miscellaneous Nondurable Goods	21,054	20,067	0.95	2.4	17.1	2.2	18.4

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

MODERN DISTRIBUTION MANAGEMENT VOL. 38, NO. 02
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Industrial & Construction Markets Update

PERSPECTIVE

Home Depot bought Hughes Supply in January 2006 with an EBITDA valuation above 12X, a number still ringing in the ears of many distributors. A scant year later HD announced its intentions to focus on retail and explore alternatives for its $12-billion distribution unit. It sold the unit this past June.

As distributors ring in this year, the competitive landscape looks vastly different than even six months ago. While there is still a lot of private equity money searching for deals in distribution, debt markets have tightened.

As a result, valuations are dropping fast, and the level of deal-making activity dropped significantly in the last quarter of 2007. In 2008, we will likely see strategic buyers execute smaller add-ons, rather than the blockbuster deals spawned by an overheated market of the past few years.

So where exactly are opportunities likely to emerge in 2008? Interestingly, the playing field seems to be leveling. Smaller distributors have a better opportunity to make strategic acquisitions as competition has cooled significantly. And it's important to keep in mind that valuations are still at historically high levels.

Competition is still out there in the form of traditional industry consolidators that continue to expand through careful (and frugal) acquisition strategies. Also, conditions are extremely favorable, thanks to the low dollar, for European distributors to continue their consolidation of select distribution markets in North America.

Regardless, the turbulent economy will likely keep M&A activity low, with everyone working hard just to make the numbers, much less make the numbers work on an acquisition. That said, there will always be distributors who find opportunity in market corrections.

Rexel, global distributor of electrical supplies, has made Chris Hartmann the CEO of **IESC**, the holding company of Rexel's U.S. activities, effective Jan. 21. He takes over from Dick Waterman, who is retiring but will stay on as an advisor to Rexel and will serve as chairman of the National Association of Electrical Distributors.

WinWholesale, Dayton, OH, has opened **Tampa Winnelson Company** to provide plumbing and mechanical contractors in the Tampa Bay area. It is the first WinWholesale company in the Tampa Bay area and serves Hillsborough, Pasco, Pinellas and Polk counties.

Employee-owned **Windsor Factory Supply Ltd.**, Windsor, ON, Canada, has agreed to acquire **Keep Industrial Supply Ltd.**, also based in Ontario. Keep has locations in Woodstock, Brantford and Stratford, ON. The business will continue to operate as Keep Industrial Supply Ltd.

Great Northern Lumber, Inc., Chicago, IL-based lumber products wholesaler and manufacturer, has acquired **Service Lumber Company**, which operates in Northwest Indiana as an industrial hardwood lumber distributor. Great Northern Lumber, Inc. will continue to distribute SLC's lineup of hardwood products throughout the Upper Midwest market.

ST Solutions, formerly Salem Tools, Salem, VA, has agreed to buy **Regal Industries**, Louisville, KY. Regal Industries supplies cutting tools, as well as bonded, coated and superabrasive products to industries in Kentucky, Tennessee and Indiana. Regal also offers inventory management solutions to manufacturing facilities.

The **ERIKS** group has acquired **Schmitztechnik GmbH** in Mönchengladbach, Germany. Schmitztechnik GmbH sells and customizes plastics and rubber components. The company had annual sales of €5.5 million.

Avnet, Inc. has agreed to buy UK-based distributor **Azzurri Technology Ltd**. Azzurri is a distributor of high technology semiconductors and embedded systems products in Europe. Upon closing, Azzurri will be integrated into Avnet Electronics Marketing EMEA primarily within the Avnet Memec specialist division.

Valley National Gases, LLC, Washington, PA, has acquired **Wolfenden Industries**, a distributor of industrial, medical and special gases with three operating locations in Northeast Ohio. Wolfenden has sales of $43 million.

Industrial distributor **Lewis-Goetz and Company, Inc.**, Pittsburgh, PA, has named Jeffrey T. Crane as president and CEO. Crane has served as the company's president since May 2006.

Global building products and plumbing/HVAC distributor **Wolseley** plc reported a 25 percent drop in profit for the five months ended Dec. 31, 2007. Full half-year results will be announced in March. Revenue was up 2

continued on next page

percent. The UK-based company was hit hardest in North America, where profit was down 40 percent and revenue down 10 percent (5 percent in constant currency).

The U.S. Department of Commerce announced its **preliminary findings in the antidumping duty investigations on imports of steel nails** from China and the United Arab Emirates. Commerce determined that Chinese and UAE producers/exporters will pay from 20.77 percent to 118.04 percent and 4.47 percent in duties.

Industrial distributor **Applied Industrial Technologies**, Cleveland, OH, reported sales increased 8.2 percent to $511 million in the 2008 second quarter ended Dec. 31, 2007. Profit was up 23.7 percent. Year-to-date, sales were up 6.7 percent to $1.02 billion, and profit was up 19.5 percent to $47.4 million.

MSC Industrial Direct Co. Inc., Melville, NY, distributor of MRO supplies to industrial customers, reported sales in the first quarter 2008 were $437.6 million, an increase of 8.8 percent from the prior-year period. Profit was up 16.3 percent to $46.9 million.

The Fastenal Company, Winona, MN, reported sales for the year ended Dec. 31, 2007, were up 14 percent to $2.06 billion. Profit increased from $199 million to $232 million in 2007, up 16.9 percent. Sales for the quarter ended Dec. 31 were $519.2 million, an increase of 15.7 percent over the same period last year. Profit was up 23.3 percent.

Industrial production was unchanged in December. For the fourth quarter, output fell 1 percent (annual rate), the first quarterly decrease since the fourth quarter of 2006. Total industrial production in December was 1.5 percent above its year-earlier level.

After holding steady in October, **manufacturing sales in Canada** increased by 1.1 percent in November. Sales improved by $573 million to $50.6 billion. Almost all of the increase in manufacturing was the result of a surge in petroleum and coal product sales during the month, which benefited from sharply rising prices.

U.S. distributors' sales of power transmission/motion control products continue to fluctuate, dropping 5.9 percent from October to November after a 5.2 percent increase in sales the prior month, according to the latest Power Transmission Distributors Association month-end trend data for November 2007.

Schneider Electric has agreed to acquire **IMS**, a U.S. company that designs and manufactures integrated motor and drive products with revenues around $20 million in 2007. With this acquisition, Schneider Electric strengthens its presence in general motion control through the fast-growing integrated motor and drive market.

Arrow Electronics, Melville, NY, has agreed to acquire the electronic components distribution business of **Hynetic Electronics** and **Shreyanics Electronics** in India. Arrow is a global supplier of products and services to industrial and commercial users of electronic components and computer products.

Columbus McKinnon Corp., Amherst, NY, manufacturer of material handling products, is considering strategic alternatives, including selling, for its **Univeyor** business. The company is in the process of selecting a financial advisor to lead the initiative.

Thomas & Betts Corp., Memphis, TN, has acquired **The Homac Manufacturing Company**, a manufacturer of components used in utility distribution and substation markets, as well as industrial and telecommunications markets, for $75 million. In 2007, Homac sales were $65 million.

German-based driven and static tools manufacturer **EWS Tool Technologies** has acquired tool manufacturer **Command Tooling Systems LLC**, Minneapolis, MN. Command has 75 employees. Command is a producer of tool holders for milling machine systems and serves the automotive industry, air and space technologies and manufacturing of medical components.

Thomas & Betts Corp., Memphis, TN, has decided to sell the plastic pipe business acquired with the company's recent purchase of **Lamson & Sessions Co.** The company will sell the business, which includes polyvinyl chloride (PVC) and high-density polyethylene (HDPE) conduit, duct and pressure pipe used in construction, industrial, municipal, utility and telecommunications markets sold under the **Ameriduct, Pyramid, Lamson Vylon** and other brand names.

MDM News Digest
Continued on p. 4 of this section

Business Outlook: U.S. Export Orders Continue Forward Momentum

MARKETS UPDATE SUPPLEMENT P. 3

Many manufacturers, especially those with multinational interests, have been able to fend off challenges to the sector, according to the latest Manufacturers Alliance/MAPI Survey on the Business Outlook, available at www.mapi.net.

The December 2007 composite index of 64 is just one point below the 65 reported in the previous two surveys conducted in September 2007 and in June 2007.

A business index above 50 indicates that overall manufacturing activity is expected to increase over the next three to six months. It should be noted, however, that the index measures the direction of change rather than the absolute strength of activity in manufacturing.

In something of a surprise in the midst of negative economic data, six of the 10 factors measured by the quarterly survey were higher than the September 2007 report.

The exports orders index, which measures how fourth quarter 2007 exports are expected to compare with those of fourth quarter 2006, reached an all-time high of 80 percent, surpassing the previous high of 79 percent in June 2007 and above the 75 percent recorded in September 2007.

The rise in export orders suggests that slower growth in domestic markets is being partly offset by continued growth abroad.

Most of the survey respondent companies are global manufacturers and are therefore likely to better withstand a slowdown in U.S. economic growth.

The investment index, which queried executives on their expectations regarding capital investment in 2008 compared to 2007, rebounded to 74 percent in the December 2007 report from 62 percent in September 2007.

Other indexes showed more modest gains, but improvement nonetheless. The capacity utilization index, based on the percentage of firms operating above 85 percent of capacity, rose to 46.4 percent in December 2007 from 41.7 percent in September 2007, and remains above its long-term average of 33 percent.

The research and development (R&D) index asked executives for their insights regarding R&D spending in 2008 compared to 2007. This index rose to 77 percent, improving upon the 75 percent in the September survey, and helps confirm that there remains some underlying strength in manufacturing.

Another slight increase came in the backlogs index, which compared the fourth quarter 2007 backlog of orders with the backlog of orders one year earlier. The December 2007 index of 67 percent represents a one point advance from 66 percent in the September 2007 survey. An accumulation of backlogs usually occurs when new orders exceed shipments. Also, the inventory index rose to 64 percent in December from 63 percent in September.

The other indexes showed moderate decreases.

The quarterly orders index, which compared new orders for the fourth quarter of 2007 with the same quarter one year ago, fell from 73 percent to 69 percent.

The prospective shipments index, based on expectations of anticipated shipments in the first quarter of 2008 compared with the same quarter last year, declined to 74 percent from 77 percent in the previous two surveys.

The annual orders index, based on a comparison of expected orders for all of 2008 with orders in 2007, slipped to 75 percent compared with 78 percent in the September 2007 survey.

Meanwhile, the profit margin index gave back one point, falling to 68 percent in relation to the 69 percent in the September report.

In a supplemental section of the report, senior financial executives reported on how companies respond to a slowdown in economic activity.

Fifty-nine percent of the respondents indicated that signs that sales are beginning to slow is enough to trigger the implementation of a contingency plan to deal with slower growth, while 28 percent said they wait for a sales slowdown that persists for two or more months.

The most widely cited action companies could take in response to a slowdown, named by 74 percent of the respondents, was imposition of budget cuts on the divisions whose business is expected to slow, while 72 percent said they would reduce their labor force.

When asked if the weaker dollar helped or hurt their companies, nearly two-thirds (64 percent) answered in the affirmative and only 13.5 percent said it was a “net minus.” Only 7.5 percent of respondents said that the credit crunch is starting to affect their businesses.

The survey reflects the views on current and future business conditions of 56 senior financial executives representing a broad range of manufacturing industries.

While a variety of indexes are included in the survey, the business outlook index is a weighted sum of shipments, backlogs, inventories, and profit margin indexes.

Report: Canadian Domestic Demand Balancing Out Manufacturing Weakness

MARKETS UPDATE SUPPLEMENT P. 4

The Canadian economy is "firing on all cylinders except one," with manufacturing in the midst of a year-long recession, according to a new Manufacturers Alliance/MAPI report, available at www.mapi.net.

In "Review of the Canadian Economy, 2007-2008," Jeremy A. Leonard, MAPI economic consultant, writes that the Canadian economy is growing at or above potential, and labor markets are as tight as they have been in a generation. However, manufacturing is suffering from the rapidly strengthening Canadian dollar and slower-than-expected growth in the U.S.

Real gross domestic product grew by 2.9 percent at an annualized rate in the third quarter 2007 but is expected to decelerate to the 2-percent range before regaining momentum in the latter part of 2008.

Leonard forecasts GDP growth of 2.3 percent in 2008. The strong Canada-U.S. exchange rate continues to take its toll on exports, but strong domestic demand has taken up the slack. The manufacturing sector has been in recession over the past year. GDP has declined in four of the past six quarters, translating into a 0.4 percent year-over-year decline through the third quarter of 2007. The main pockets of weakness are in the large, export-intensive durable goods industries, with the notable exception of aerospace.

In a forecast of selected economic indicators for 2008, the report indicates that nonresidential investment is expected to grow by 6.1 percent, imports will increase by 6 percent, and pretax corporate profits and real disposable income are each predicted to grow by 4.4 percent. The forecast for industrial production growth, however, is flat.

The unemployment rate has slid to a 33-year low of 5.8 percent. There are considerable differences across provinces, though, with the industrial heartland of Ontario and Quebec suffering and the resource-intensive West booming.

Manufacturing employment has declined by 12.4 percent over the last three years, but the pace of job loss decelerated somewhat in 2007.

"Considering the many risks buffering the North American economy, Canada is in a fairly enviable position," Leonard said.

"But manufacturers will have to redouble their efforts to cut costs and boost productivity because the strong dollar will be a fact of life for quite a while."

MDM News Digest

Continued from p. 2 of this section

Weyerhaeuser Company, Federal Way, WA, has agreed to sell its iLevel European engineered wood products operations to **Finnforest** of Finland, part of the **Metsaliitto Group**.

Veyance Technologies, Inc., manufacturer of Goodyear-branded conveyor belts, has formed **Shandong Aneng Conveyor Belt & Rubber Co., Ltd.**, a long-term joint venture between **Veyance's Asia** subsidiary and the **Yinhe Group's Ruiyuan Rubber and Plastics Company, Ltd.** Shandong Aneng also has a tentative agreement to purchase exclusive rights to the Yinhe Depreux brand in China.

Parker Hannifin, Cleveland, OH, supplier in motion and control technologies, reported that for the second quarter 2008, which ended on Dec. 31, 2007, sales were $2.8 billion, an increase of 12.7 percent. Profit increased 9.8 percent.

The Timken Company, Canton, OH, has agreed to acquire **Boring Specialties Inc.**, a provider of precision deep-hole oil and gas drilling and extraction products and services. Based in Houston, TX, BSI had 2006 sales of $48 million.

Sandvik, Stockholm, Sweden, has agreed to acquire South African company **Corstor International Ltd.** Corstor is a manufacturer of borehole core storage and handling systems for the mining and exploration industries.

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