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A Shift in Deal-Making

Smaller acquisitions, strategic buyers lead the market

The prognosis for the distribution M&A market was mixed in the recent MDM Webcast "Distribution M&A 2008 Update: Redefined Value in a Tough Market." Three industry experts spoke on concerns of the credit crunch, valuation drops, a strained economy and inflation in relation to prospects for distribution mergers and acquisitions in the next couple years. (A CD recording is available at www.mdm.com.) Here's a summary of the two-hour event.

By Lindsay Young

Deal activity has fallen significantly from the boom years of 2005 and 2006, but the market has not yet fallen off a cliff. Still, companies are less willing to take a risk in the current market unless the acquisition target is top-notch and hitting its numbers, says Jon Skelly of PCE Investment Bankers.

"Distribution M&A activity has fallen dramatically from the record levels of a couple of years ago," says Jim Miller, managing director of Supply Chain Equity Partners. "But the interesting thing is that the volume of potential distribution investment opportunities has not declined by a meaningful amount. There are still a lot of distribution companies out there on the market today."

Some of the factors driving the market: private business owners in the 55-plus age bracket looking to sell; foreign buyers taking advantage of currency trends; an abundance of private equity money that still needs to be invested; and buyers looking for value acquisitions.

Strategic Growth

Strategic players – like Airgas, Sonepar and Wolseley – have more power in the current market. "If you're a strategic acquirer right now and you have the courage and the capital to do so, it's an excellent time to be in the marketplace looking for transactions," Skelly says. "There is a lot less competition among the private equity community and a lot less competition in your strategic peer base."

Strategic activity has fallen in most subsectors of distribution; some have seem more dramatic declines such as those attached to residential construction. For example, building materials and plumbing distributor Wolseley – a busy acquirer in years' past – has completed substantially fewer deals since the start of 2008.

But many strategic buyers are taking advantage of a less competitive environment to execute deals that fit with their strategic growth plans, Skelly says.

"Most strategics are willing to pay a little bit more in terms of multiples for a company if it is a type A and a top performer," he says.

Many distribution companies in the marketplace, however, are not ready for sale, the panelists say. "The strategic acquirers will tell you what they're interested in acquiring if you call them and ask them," Skelly says.

"I think that'd be a good lesson for a lot of folks who work for distribution businesses: Go to the source, ask the buyers what they're looking for and then cater the transaction to that desire. Try to keep some of the less profitable, low-growth businesses on the sideline."

Evergreen Consulting President Brent Grover says that now is ripe for good values. "This is a good time to jump-start growth with a series of small acquisitions," he says.

"I always like to err on the side of caution: avoiding excessive leverage, not cutting corners on due diligence and insisting on excellent 90-day integration with an oversight by a seasoned executive."

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INSIDE

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Bar is raised in mergers & acquisitions climate

Is it a buyer's or a seller's market in wholesale distribution mergers & acquisitions? I think the answer is both, as there are a lot more variables on how value is being measured than even a year ago. If you run a tight ship and considering a sale, your value is still historically high. If you are a buyer with a clear strategy and view of current markets, there are great opportunities.

As this issue's lead article details, the feeding frenzy of the past few years in wholesale distribution merger & acquisition activity is over. But note carefully that deal-making is not. Mega-deals with double-digit EBITDA valuations have cooled in risk-averse credit and economic climates. Well-managed smaller distribution companies are in some ways more marketable than ever, particularly as strategic buyers (the larger regional, national and international distributors) have been able to be more competitive with financial buyers (investment funds looking for good investments, typically to resell in a three- to five-year time span).

The key takeaway from our Webcast panel in May was that the bar has been raised on both seller and buyer sides. Those distributors who have invested to create a healthy business are seeing interest and even auctions. They may not be as crowded as a year or two ago, but they are likely just as intense if not moreso for companies that have built strong platforms.

Case in point: I had a conversation last week with a $70-million distributor that has put a lot of time and internal resources into cleaning up its product database. That distributor's primary concerns were the incredible waste of time spent tracking and fixing order mistakes and confusion. But beyond the productivity gains with effort like that, there is a bump to the balance sheet. There is no question that this year or 20 years from now, the valuation of this distributor will reflect that hard work.

Every business that spends any time analyzing strengths and weaknesses can identify where it could be spending more time and money to reduce its constraints. As Al Bates pointedly showed in these pages recently with his research, distributors tend to ride the rollercoaster of good times and bad times, often focused on short-term cash flow at the expense of long-term value creation.

I'd argue that the current economy and shifts in credit markets are going to help create a clearer and wider gap between the companies that sacrifice margin and profitability for the sake of short-term sales, versus those who manage with a longer-term perspective. I expect that to play out from the smallest to the largest companies, private and public. ■

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Shift in Deal-Making
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Financial Weakness

Financial buyers, or private equity firms, drove the market from 2005 to the start of 2007, thanks to an abundance of cheap debt – which drove multiples up. In 2007 that changed when private equity firms had to start contributing more equity to close deals at committed pricing. Their ability to pay top dollar weakened.

Though private equity is no longer driving the market, they still remain interested in distribution. Valuations have retreated from record levels, but still remain historically high. "Last year they were still very high," Miller says. "They were just starting to show signs of weakening … and they've fallen substantially in the past year. But again, with the state of the private equity markets in wholesale distribution from a historical perspective, valuations are better than they were in their trough in the early part of this decade." The median overall distribution EBITDA valuation multiple dropped by nearly 25 percent in the past year.

"Banks are not as willing to take the risks lending into larger transactions right now," Skelly says. "They're more comfortable in making a $20, $30, or $40 million loan than they are making a $200 million loan into a company for an LBO (leveraged buyout). While the terms are tighter, there's more capital being lent into the smaller end of the middle market than there is the upper end or the larger market."

Smaller Deals

The number of small transactions completed in 2007 was less than in 2006, and the aggregate value was less, Grover says. Data up to first quarter 2008 show a significant drop from the zenith in the second quarter 2007.

Bank credit is available for smaller deals – more so than for larger deals, he says. "But the price is higher and the terms more stringent. When I say the price is higher, I'm not just talking about interest rates," Grover says. "It's also the terms, the restrictions and the loan covenants, and the bells and whistles that can make

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Key Factors in Acquiring and Selling a Distribution Company

PCE Investment Bankers' Jon Skelly outlined considerations in acquiring and selling a company.

Acquiring?

Accelerate Growth Rate
Look at how acquisition will help you supplement organic growth; acquisitions are often quicker and more certain growth vehicles than greenfield branches.

Diversification
Look at how acquisition will broaden your geographic reach or your current product offering.

Improve Operational Performance
Look at opportunities to acquire strong operators and implement their core competencies within the base business; consider access to management, sales and branch talent.

Potential Risks
1. Availability of quality companies to acquire.
2. Integration is a key consideration, as is the culture of the company you are acquiring.
3. Keeping focus on the core business.
4. Diluting existing shareholders to fund acquisitions.

Selling?

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

Examine Overall Operating Performance
If recent performance has consistently improved, the attractiveness of the business increases. If not, improve before entering the market and be ready to explain declines.

Clean Up Financials
If there are extensive personal expenses, remove those to improve bottom-line performance and valuation. If your company does not have audited financials, consider an audit.

Prepare a Strategic Growth Plan
Management must say how they will successfully grow the company over the next few years.

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

the credit become much more expensive over the terms of the loan if everything doesn't go very, very well." Profitability right now is a concern, he says. "When companies in this industry catch cold, they often have a significant drop-off in profitability, which can cause lenders to get very uncomfortable."

Outlook

The panelists were mixed in their prognosis for the rest of 2008 and beyond.

Miller says that the market will improve by this time next year due to the volume of dollars in the private equity market that need to be spent. He says lenders will start to lend money again. "About this time next year I would think we will go from a grade D to a C," he says.

Skelly agreed that the market is "not going to completely fall off a cliff." He says he is having more conversations with large regional distributors who are interested in doing acquisitions.

"I think you're going to have a new wave of buyers coming to play," he says. In addition, ESOP-owned businesses have extra incentive to acquire, if they take care to think acquisitions through on a strategic level.

Grover says that he sees the M&A market as basically the same a year from now. "A lot of companies I'm close with and other companies we talk to in distribution are struggling with their profitability right now." That is the most important factor in pricing a deal and whether the deal will happen, he says.

Grover advises distributors to "keep up the curb appeal of the company." "That includes the people, the systems, the asset base of the organization, the way assets are managed, managing gross profits and naturally being ready when an opportunity appears. Be ready for it because sometimes they come out of the blue."

Other Topics Discussed in Webcast

Financial buyer activity and trends; strategic buyer activity and trends; valuations by sector and company size; M&A activity by end market; preparing for a sale; what buyers want; overview of due diligence and transaction process; small company M&A trends; exit strategy options; and the outlook for distribution M&A.

To order the CD recording from this event call 1-888-742-5060 or go to www.mdm.com/conferences.

MAPI China Trade Analysis: Surplus for Manufactures Surges

China's trade surplus declined by 8 percent, from $62.9 billion to $58 billion, from January-April 2008 compared year-over-year with 2007, the result of higher oil prices and other crude materials imports, yet the surplus for manufactures surged by 34 percent, according to a Manufacturers Alliance/MAPI analysis of Chinese trade data for the first four months of the year.

China's worldwide trade surplus in manufactured goods is on track to rise from $444 billion in 2007 to $586 billion in 2008.

Ernest H. Preeg, MAPI Senior Fellow in Trade and Productivity and author of India and China: An Advanced Technology Race and How the U.S. Should Respond, also notes that the Chinese surplus was down by 2 percent with the U.S. but rose by 26 percent with the European Union (EU), marking the first time China's surplus is larger with the EU than the U.S.

"The modest overall decline in the Chinese trade surplus masks the continued rapid rise in the Chinese surplus in manufactures, now larger with the EU than the U.S.," Preeg said. "This is principally the result of the grossly undervalued Chinese currency, even more undervalued with the euro than with the dollar."

Preeg's analysis highlights a number of key issues regarding China's trade statistics:

The trade deficit for petroleum was up by 80 percent, to $43.8 billion in 2008 and for other crude materials by 35 percent, to $41.9 billion.

The trade surplus in manufactures was up by 34 percent, to $151.5 billion in 2008. By export market, the Chinese surplus was down 2 percent for the U.S., from $47.2 billion in 2007 to $46.3 billion for 2008, while up 26 percent for the EU, from $36.6 billion to $46.1 billion.

So through April 2008, China recorded surpluses at nearly the same level for the U.S. and the EU, in contrast with the much higher surplus with the U.S. in 2007. These figures, however, do not include large Chinese exports through Hong Kong to these destinations. A Hong Kong adjustment would raise China's surplus with the EU above that with the U.S. because Chinese exports to the EU were 18 percent higher than to the U.S.

Preeg further notes that Chinese trade with India grew faster than with any other major trading partner, with exports up by 49 percent, to $9.7 billion, and imports up by 87 percent, to $9.7 billion.

Price is an Issue, But Not *the* Issue

How to avoid losing a sale to the lowest price

This article examines four common mistakes made by salespeople that lead to competing on price and what you can do about it.

By Colleen Stanley

You've hired a dedicated sales force. Your company has the best product. Great service is delivered after the sale. So why is your team losing sales to "low price?" Here are four reasons we see when working with individuals and sales teams:

1. Wrong Audience

If you're trying to sell ice to an Eskimo, you're in front of the wrong prospect! Let's face it, you could be Zig Ziglar and still not close the sale if you are not selling to a real prospect. Knowledge, business acumen and excellent selling skills are useless if they are not in front of a prospect that values the expertise.

Neil Rackham, author of "Rethinking the Sales Force," does an excellent job describing the two types of buyers that exist in the market place: the transactional buyer and the value buyer.

The transactional buyer feels the product/service is easily substitutable, doesn't value the expertise of the salesperson, and sees price as the main decision criteria. Trust in the product is more important than trust in the salesperson.

The value buyer recognizes differentiation, appreciates the expertise of the salesperson, and places trust in the person over the product. The key decision criterion is a salesperson that understands their business and knows how to fix their problems – and they are willing to pay for that expertise and service.

If a salesperson is trying to sell value to the transactional buyer, they're going to fail because their company's business model of offering value doesn't match their prospect's business model of buying on price. They don't want to buy ice.

2. Poor Consultative Sales Skills

OK, so you're in front of the right prospect and are still getting beat up on price. More than likely it's because you didn't set up a consultative sales call, but instead a question/answer session. The problem starts when the appointment is set.

Some salespeople seem almost apologetic when setting up appointments. "I know how busy you are" can be interpreted as "I have nothing going on," or "I'd like to come by – I'll only be 20 minutes" can come across as: "My product/service doesn't deserve much time." If your prospect has a problem that is costing them $100,000, can it be thoroughly discussed and diagnosed in 20 minutes? A sales meeting set with poor expectations leads to poor investment by the prospect.

Lousy selling skills clobber salespeople who work in industries where goods sold are perceived as commodities. The untrained salesperson doesn't know how to move the sales call from a "give me a quote" call to a consultative sales call. Many sales professionals "obey" the prospect and give a quote without qualifying the prospect.

The professional salesperson knows how to respond when the prospect starts pressuring for price by saying, "We are competitive in our pricing, however, it's not the reason our customers do business with us."

This response tells the prospect that you are not there to talk price, you are there to learn about his business's issues and challenges. After all, if price is the only issue, the prospective customer doesn't need a highly paid sales professional. They only need a well-designed Web site with an e-commerce function.

3. No Competitive Analysis on the Competition

Run a pop quiz on your salespeople this week and see if they know your company's strengths and weaknesses as compared with your biggest competitor. A salesperson must know the gaps in the competitor's offering such as no training on products, lack of 24/7 support, or difficult implementation.

Once the gap is identified, the professional salesperson crafts questions to expose the gap and impact to the prospect. Put it this way, if you can't find any differences, how the heck can you prospect? And if there is no difference, the prospect has earned the right to buy on price.

4. Conviction

This theoretical word is at the core of selling value. Conviction starts with the salesperson. Merit Gest, a fellow sales trainer, teaches her clients, "You have to be sold on yourself before

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you can sell anything else!"

An old joke floating around the sales training world states, "If you are looking for a brain surgeon, do you look for the cheapest or the best?"

Salespeople must have the same attitude. Do you regard yourself as the "sales surgeon" in your industry? Make sure you are in front of the right prospects and ask yourself: Is price the issue or are you making it the issue?

Colleen Stanley is president of SalesLeadership Inc., a business development consulting firm specializing in sales and sales management training. The company provides programs in prospecting, referral strategies, consultative sales training, sales management training, and hiring/selection. She is the author of "Growing Great Sales Teams: Lessons from the Cornfield."

Reach Colleen at 303-708-1128 or visit www.salesleadershipdevelopment.com.

Canada Wholesale Trade: 2007 in Review

Statistics Canada: Agricultural products, machinery/electronics lead sector

Wholesale sales in Canada continued their upward trend, posting strong growth for the fourth straight year in 2007.

Increased demand for agricultural products in the "other products" sector led the growth with its best showing since 2003, according to "Wholesale Trade: The Year 2007 in Review," a recently released report from Statistics Canada (www.statcan.ca). Machinery and electronic equipment sales, which accounts for 21 percent of wholesale sales, also contributed by posting gains higher than total wholesale growth.

Nationally, wholesale revenues increased 5.5 percent to $517.8 billion. Since 2002, the rate of wholesale sales growth has averaged 5 percent, almost double growth for the economy as a whole, which posted average growth of 2.7 percent.

In addition, growth in wholesale industries contributed to job creation across Canada in 2007. Wholesalers added 759,000 workers, which equals 5.3 percent of total employment.

This excerpted piece from the Statistics Canada study highlights the performance of wholesale industries in Canada for 2007. (Unless otherwise specified, all data are in current Canadian dollars; they have not been adjusted for inflation.)

'Other Products'

Nearly one-eighth of Canada's wholesale sales in 2007 were in the "other products" sector. The sector includes agricultural chemicals, fertilizers, animal feed and other farm supplies as well as recycled materials and paper products.

This sector has grown at an average rate of 7.6 percent annually since 2002; in 2007, it posted a growth rate of 10.5 percent, with sales exceeding $63.6 billion.

Much of this growth was due to increased sales of agricultural materials, like fertilizer and animal feed, resulting from increased global demand. Higher demand and higher prices for Canadian crops on the global market led to increased profits in the sector.

Machinery and Electronic Equipment

The largest wholesale sector in Canada continued to show better-than-average gains in 2007, posting a growth rate of 7 percent over 2006. Though solid, this figure represents a slowdown over the previous two years, which saw growth of 8.6 percent in 2006 and 11 percent in 2005. Sales in the machinery and electronic equipment totaled $110.4 billion.

Decreasing investment in mining and oil and gas extraction companies contributed to this slowdown. Investment in these areas declined by 6.4 percent in 2007, though investment in other areas helped offset the loss.

A portion of the growth can be attributed to the rebounding of the personal computer market since 2005. Sales of computers and other electronic equipment recorded their highest numbers since 1999 even as prices have declined.

Personal and Household Goods

Consumer spending is up across Canada. Low inflation and interest rates coupled with strong employment and income levels have provided for a positive marketplace for consumers. As such, the highly consumer-driven sector of personal and household goods is also up 7.2 percent from 2006.

In addition, sales of pharmaceuticals aided the sector's growth. Between October 2006 and September 2007, Canadians purchased a total of 448 million prescriptions, spending more than $20.7 billion.

By Province

The prairie provinces of Saskatchewan, Manitoba and Alberta led the way for provincial wholesale growth across Canada, posting an average growth rate of 9.2 percent annually since 2002 compared with 5 percent nationally.

After a weak showing in 2006, Saskatchewan posted the highest rate of growth among the provinces for 2007, up 19.6 percent. Sales within the province followed the national patterns, with growth driven by the "other products" and machinery and electronic equipment sectors. The provincial growth rates, however, solidly outpaced national rates by more than double, posting increases of 38 percent and 16.1 percent respectively.

Manitoba's growth rate of 11.8 percent relied even more heavily on growth in the "other products" and machinery and electronic equipment sectors, as growth in the other sectors stayed well below average.

Alberta's growth rate of 4.5 percent tempered the economic surge in the Prairies. It represents the first posting below the national average since 2002. A sharp decline in auto sales and machinery and electronic equipment drove the slowdown in the province.

The surging economy in Newfoundland and Labrador led the Atlantic region's wholesale rebound in 2007. Regional growth matched national growth at 5.5 percent as compared to growth of 0.4 percent in 2006.

Much of that growth can be attributed to increased mining and extraction activities, part of the machinery and electronic equipment sector, in Newfoundland and Labrador. The region, which also includes New Brunswick, Prince Edward Island and Nova Scotia, also saw solid gains in the food, beverages and tobacco products sector – one of the key sectors for the downturn of 2006. Nova Scotia was the only province in the region to post decreases in this sector.

British Columbia posted its sixth straight year of growth higher than the national average. Sales increased 8.6 percent in 2007 to $53.5 billion. A strong economy drove growth in all of the wholesale sectors, but especially in the consumer driven sectors of food, beverages and tobacco (+13.6 percent) and personal and household goods (+20.9 percent).

The housing slump in the U.S. continued to have a negative influence on lumber. Exports from British Columbia fell by 21.8 percent, the third consecutive year of a decline in sales.

Ontario continued its dominance of the Canadian wholesale sector, representing 50.7 percent of total sales in 2007. But, slow growth continues to erode that figure, which was 54.2 percent in 2006. Sales increased by 4.2 percent in 2007, the fifth consecutive year that increases have been below the national average.

Though the machinery and electronic equipment sector and the "other products" sectors posted positive growth, they were offset by declines in building materials.

Quebec also posted growth below the national average. At 5.2 percent, however, the rate represents a rebound from a well-below average 2006. The growth was driven by sales in the personal and household goods sector, which improved 8.2 percent over 2006. Like Alberta, Quebec suffered from decreased sales of automobiles (-1.6 percent) and slowing sales of auto parts and accessories (+0.1 percent).

Growth in the Northern Territories outpaced growth in most of the provinces in 2007. Wholesale sales in Northwest Territories increased by 25.2 percent, and topped sales in Prince Edward Island. The personal and household goods sector showed the strongest growth, accounting for 68.5 percent of wholesale growth. Diamond production also surged by 13.1 percent from 2006.

Download the full report, "Wholesale Trade: The Year 2007 in Review" online at MDM's Databank, www.mdm.com/databank. - *Jenel Stelton-Holtmeier*

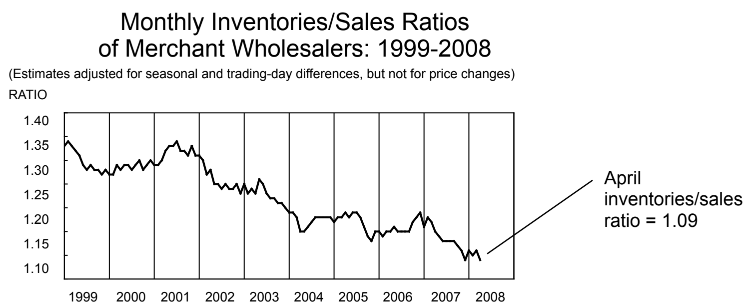
Canadian Sales Growth by Sector: 2006-2007

	2006-2007 % Change
Farm products	4.4
Food, beverages and tobacco products	5.2
Food products	5.8
Alcohol and tobacco	-0.7
Personal and household goods	7.2
Apparel	4.0
Home and personal products	7.3
Pharmaceuticals	7.9
Automotive products	1.9
Motor vehicles	2.1
Motor vehicle parts and accessories	1.2
Building materials	2.8
Building supplies	5.4
Metal products	0.4
Lumber and millwork	-2.5
Machinery and electronic equipment	7.0
Machinery and equipment	7.0
Computers and other electronic equipment	6.7
Office and professional equipment	7.4
Other products	10.5
Total	**5.5**

Source: Statistics Canada, Monthly Wholesale Trade Survey, www.statcan.ca

Monthly Wholesale Trade: Sales and Inventories for April 2008

April 2008 sales of merchant wholesalers were $390.3 billion, up 1.4 percent from the revised March level and were up 12.7 percent from the April 2007 level. The March preliminary estimate was revised upward $0.7 billion or 0.2 percent. April sales of durable goods were up 2.3 percent from last month and were up 7.3 percent from a year ago. Compared to last month, lumber and other construction materials were up 5.9 percent and sales of furniture and home furnishings were up 5.2 percent. Sales of nondurable goods were up 0.6 percent from last month and were up 17.8 percent from last year. Sales of paper and paper products were up 6.2 percent from last month and sales of grocery and related products were up 1.8 percent.



Source: U.S. Census Bureau

Inventories. Total inventories of merchant wholesalers, except manufacturers' sales branches and offices, after adjustment for seasonal variations but not for price changes, were $427.4 billion at the end of April, up 1.3 percent from the revised March level and were up 8.1 percent from a year ago. The March preliminary estimate was revised upward $0.9 billion, or 0.2 percent. End-of-month inventories of durable goods were up 1.1 percent from last month and were up 4.9 percent from last April. Inventories of metals and minerals, except petroleum, were up 2.9 percent from last month and inventories of motor vehicle and motor vehicle parts and supplies were up 2.5 percent. End-of-month inventories of nondurable goods increased 1.7 percent from March and were up 13.5 percent compared to last April. Inventories of petroleum and petroleum products were up 8.8 percent from last month and inventories of farm product raw materials were up 4.2 percent.

Inventories/Sales Ratio. The April inventories/sales ratio for merchant wholesalers was 1.09. The April 2007 ratio was 1.14.

Monthly wholesale trade: Sales and inventories April 2008

NAICS Code	Business Type	Sales $ millions	Inventories $ millions	Stock and Sales ratio	% Change in Sales 3/08-4/08	% Change in Sales 4/07-4/08	% Change Inventory 3/08-4/08	% Change Inventory 4/07-4/08
42	U.S. Total	390,338	427,363	1.09	1.4	12.7	1.3	8.1
423	Durable	180,214	262,551	1.46	2.3	7.3	1.1	4.9
4231	Automotive	26,680	40,777	1.53	-2.4	-4.8	2.5	10.6
4232	Furniture & Home Furnishings	5,741	8,257	1.44	5.2	-0.2	1.0	3.7
4233	Lumber & Other Construction Materials	9,907	14,051	1.42	5.9	-9.7	-0.1	-4.7
4234	Prof. & Commercial Equip. & Supplies	30,618	32,016	1.05	1.6	7.6	0.5	5.1
42343	Computer Equipment & Software	15,342	11,402	0.74	0.3	8.4	0.9	7.9
4235	Metals & Minerals	14,503	24,908	1.72	1.5	3.5	2.9	3.3
4236	Electrical Goods	29,309	34,163	1.17	3.2	12.9	0.6	6.6
4237	Hardware, Plumbing, & Heating Equipment	7,806	15,042	1.93	-0.4	-2.8	-0.3	-2.2
4238	Machinery, Equipment & Supplies	30,986	69,032	2.23	2.1	13.9	0.9	7.5
4239	Miscellaneous Durable	24,664	24,305	0.99	7.6	25.9	1.0	-0.8
424	Nondurable Goods	210,124	164,812	0.78	0.6	17.8	1.7	13.5
4241	Paper & Paper Products	8,363	6,962	0.83	6.2	8.1	-1.3	4.6
4242	Drugs	30,885	30,920	1.00	-0.1	3.1	0.6	4.3
4243	Apparel, Piece Goods & Notions	11,115	16,717	1.50	3.3	7.1	-1.4	3.7
4244	Groceries &Related Products	44,998	26,206	0.58	1.8	6.2	0.5	2.5
4245	Farm-product Raw Materials	21,492	26,210	1.22	-5.5	59.4	4.2	67.2
4246	Chemicals &Allied Products	8,835	9,739	1.10	2.1	8.5	1.9	9.7
4247	Petroleum &Petroleum Products	55,887	15,160	0.27	0.5	39.9	8.8	15.1
4248	Beer, Wine & Distilled Beverages	9,100	10,310	1.13	0.8	8.9	-1.1	3.8
4249	Miscellaneous Nondurable Goods	19,449	22,588	1.16	1.5	8.4	1.7	15.4

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.

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Industrial & Construction Markets Update

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Report: PT/MC Sales in U.S., Canada Grow in April

U.S. distributors' overall sales of PT/MC products climbed 6.4 percent in April 2008 compared to March 2008, according to April 2008 month-end trend data from the Power Transmission Distributors Association.

When matched up against sales in the same month last year, sales in April 2008 were up 11.5 percent. Accounts receivable collection days fell 4.3 percent since March 2008. The confidence index of U.S. distributors held steady for the fifth month in a row at 5.8 (on a 10-point scale).

Canadian distributors also reported a rise in PT/MC sales, gaining 8.6 percent in April 2008. Sales over the same period last year were up 6.6 percent. Accounts receivable collection days dropped 6.9 percent compared to March 2008. In April 2008, the confidence level of Canadian distributors was held constant for the third month in a row at 5.7 (on a 10-point scale).

U.S. manufacturers' sales declined in April 2008, with a 2.7 percent loss compared to March 2008. Sales in April 2008 climbed 2.1 percent compared to April 2007. Orders in April 2008 were down 3.6 percent over March 2008. The confidence level of U.S. manufacturers declined slightly in April 2008 to 5.2 (on a 10-point) compare to 5.6 in March 2008.

Canadian manufacturer's sales declined slightly in April 2008 with a 0.4 percent loss compared to March 2008. Sales were down 2 percent when compared to the same period last year. For January, the confidence level of Canadian manufacturers decreased 0.2 to 5.0 (on a 10-point scale) from March 2008 to April 2008.

Three of nine product categories for U.S. manufacturers posted sales gains. For Canadian manufacturers, more than half of the products manufactured posted a positive gain, resulting in negligible losses this month.

Grainger's Canadian subsidiary **Acklands-Grainger Inc.** has acquired **Excel Industriel**, Granby, Quebec. Excel is a business-to-business broad line distributor of maintenance, repair and operating (MRO) supplies. The company expects an incremental sales contribution of $11 million from the acquisition over the next 12 months.

Airgas, Inc., Radnor, PA, has agreed to buy **Energy Safety Services Inc.**, doing business as **Oilind Safety**, based in Phoenix, AZ. The provider of rental safety equipment and safety services had $21 million in sales in 2007. Oilind Safety will operate as a stand-alone company within a new Airgas organization that includes construction and rental businesses.

WinWholesale Inc., Dayton, OH, has opened three **Winnelson** locations on the East Coast and in the Southeast. The new Winnelson companies provide plumbing supplies, equipment and accessories to residential and commercial plumbing contractors. WinWholesale Inc. is a supplier of domestic and industrial supplies and materials.

WinWholesale has opened the first renewable energy resources company in the Win Group of Companies. The company – **Framingham Winsupply Company**, Holliston, MA – will focus on the renewable energy market by providing contractors with photovoltaic, solar thermal, geothermal and wind turbine products for residential and commercial use.

LLR Partners Inc. will buy **Singer Equities, Inc.**, owner of five industrial rubber distributors: **Allied Rubber and Rigging, Hampton Rubber Company, National Hose and Accessory, PRC Industrial Supply and R/W Connection**. Singer Equities sells hoses, belts, fittings, gasket materials and other specialty items. LLR Partners, a private equity firm based in Philadelphia, PA, provides capital to middle market growth companies.

At the end of May, **Atlas Copco Compressors LLC**, in the U.S., purchased **Gulf Atlantic Equipment Company** in Florida, and **Compressed Air Products in Georgia**. Both companies were Atlas Copco compressor distributors. The distributors will keep their names for an interim period and will become part of the southern region within Atlas Copco Compressors LLC, in U.S. The distributors together employ about 60 people.

EnPro Industries, Charlotte, NC, has acquired **Air Perfection, Inc.**, Dixon, CA. Air Perfection distributes compressed air products, including those made by Quincy Compressor, an EnPro Industries company, and it will be operated as a unit of Quincy. EnPro Industries, Inc. is a supplier of sealing products, metal polymer and filament wound bearings, compressor systems and components, diesel and dual-fuel engines and other engineered products.

As of May 30, Dutch seals distributor **ERIKS** held 95 percent of shares in valve manufacturer **Royal Econosto NV**. The distributor will buy the company for €8.21 a share. ERIKS and Econosto terminated the listing of Econosto on Euronext Amsterdam.

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France-based **Schneider Electric** has agreed to buy **RAM Industries**, Leesport, PA, a supplier of engineered control systems to HVAC&R machine manufacturers. The acquisition will strengthen Schneider's automation offering into the OEM market. It also strengthens its position in the energy efficiency segment. RAM has facilities in the U.S., Mexico, Brazil and China.

RBC Bearings Inc., Oxford, CT, international manufacturer of highly-engineered precision plain, roller and ball bearings for the industrial, defense and aerospace industries, has acquired **Precision Industrial Components LLC (PIC Design)**, Middlebury, CT, for $6.6 million in cash and assumption of debt.

For the second time this year, **Veyance Technologies, Inc.**, Birmingham, AL, is broadening its conveyor belt installation, splice and repair service footprint to support coal producers. The manufacturer of Goodyear Engineered Products has agreed to buy **National Belt Service**, or **NBS**, based in Bessemer, AL, with additional operations in Wheeling and Charleston, WV, and Atlanta, GA. In February, Veyance bought **Monk Mining Supply**, a coal mining conveyor belt service company based in Tazewell, VA.

Parker Hannifin Corp., Cleveland, OH, manufacturer in motion and control technologies, has acquired **Titan Industries**, South Gate, CA, a manufacturer of industrial rubber, custom and composite hoses as well as related products. Titan will be integrated into the Industrial Hose Products Division, part of Parker's Fluid Connectors Group.

Swedish supplier **Alfa Laval** – manufacturer in heat transfer, centrifugal separation and fluid handling – has acquired Melrose Park, IL-based **Standard Refrigeration**, a supplier of shell-and-tube heat exchangers for refrigeration, air-conditioning and industrial applications in the North American market. Standard Refrigeration had annual sales of about SEK 220 million (US$36 million) and 185 employees in two locations in the U.S.

Gates Corp., Denver, CO, is restructuring its belt manufacturing facilities in North America and closing its Moncks Corner, SC, belt plant. Production from the plant will be absorbed into its other North American belt production facilities. The Moncks Corner plant closing is expected to be complete in the first quarter of 2009.

Swedish manufacturer **Atlas Copco** has opened a new plant in Wuxi, China. The plant replaces an old factory and adds capacity. The facility will manufacture diamond bits for regional markets, as well as casing shoes and reaming shells for global markets. The new facility belongs to **Atlas Copco (Wuxi) Exploration Equipment Ltd** in the Atlas Copco Geotechnical Drilling and Exploration division.

April **U.S. manufacturing technology consumption** totaled $396.47 million, according to the Association for Manufacturing Technology and the American Machine Tool Distributors' Association. This total, as reported by companies participating in the USMTC program, was down 27.6 percent from March, but up 29.2 percent from the total of $306.86 million reported for April 2007. Year-to-date, 2008 is up 19.9 percent compared with 2007.

Manufacturing failed to grow in May, according to the nation's supply executives in the latest Manufacturing ISM Report on Business. The PMI fell below 50 percent for the fourth consecutive month. In relative terms, May was down slightly from April as the rate of contraction in manufacturing slowed. The Production Index was a bright spot as it moved above 50 percent after declining for two months. Exports continue strong due to the weak dollar — without the weak dollar the story would be much more negative in manufacturing.

In April, indexes for **manufactured goods and raw materials** prices reached record levels in Canada. From March to April, prices charged by Canadian manufacturers, as measured by the Industrial Product Price Index (IPPI), rose 1.4 percent. While down slightly from the 1.8 percent increase observed in March, the growth in prices remained strong for a second consecutive month, pushing the IPPI above its last historical peak reached in April 2007. This increase was almost entirely driven by petroleum and coal products, which continued their upward climb with an increase of 7.9 percent, similar to the rate recorded in March.

New orders for manufactured durable goods in April decreased $1.0 billion or 0.5 percent to $214.4 billion, the U.S. Census Bureau announced. This was the third decrease in four months and followed a 0.3 percent March decrease. Excluding transportation, new orders increased 2.5 percent. Excluding defense, new

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U.S. MARKET ANALYSIS: Plastics MRO

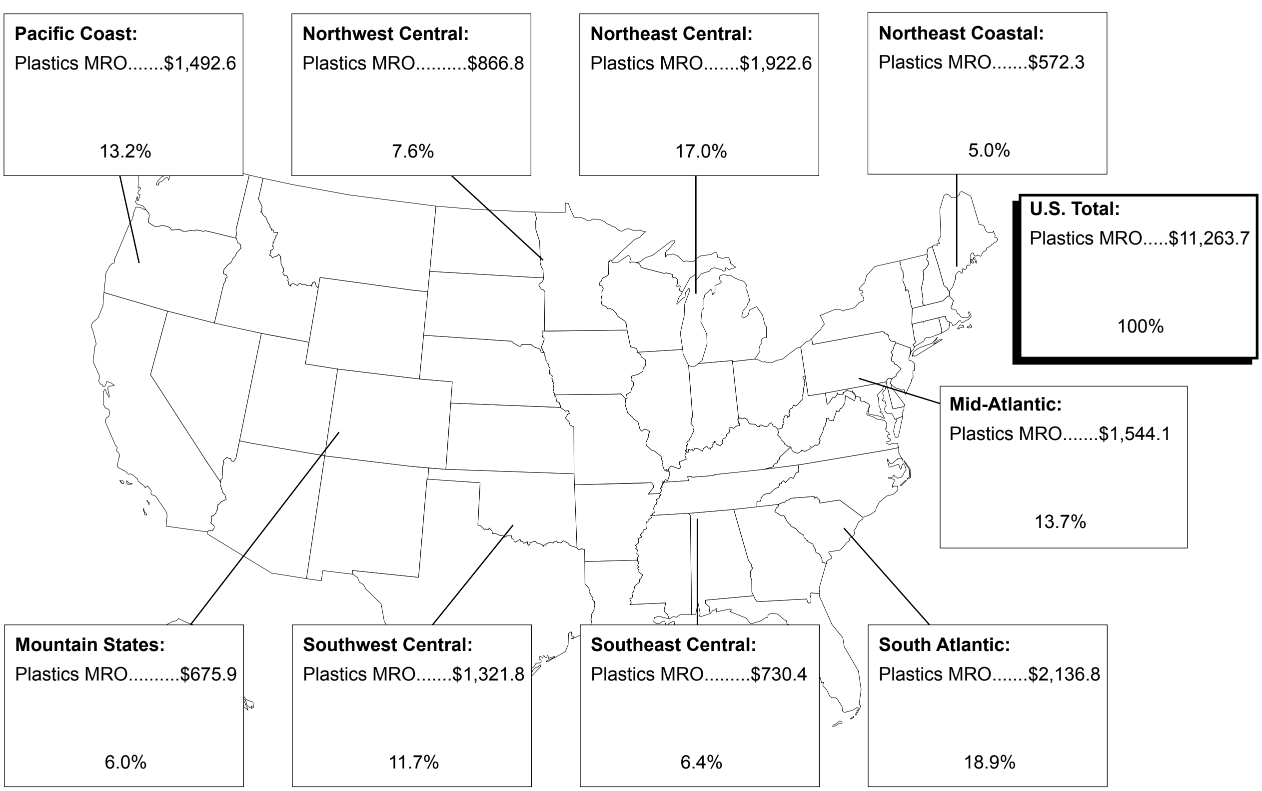
The industrial product group listed here - Plastics MRO - represented a market in 2007 of $11.3 billion, according to estimates by Industrial Market Information, Minneapolis.

These charts show the top ten industries, by SIC code, consuming these products; and the 2007 end-user consumption of these groups sorted by the nine government market regions.

Top ten industries in $ volume, by SIC code consuming Plastics MRO (2007 estimates)

SIC CODE	Plastics MRO	Companies	Total
8062 General Medical & Surgical Hospitals	1,942,213,476	10,259	1,942,213,476
1711 Plumbing, Heating & Air-Conditioning	1,000,923,710	150,704	1,000,923,710
1521 General Contractors - Single Family Houses	473,972,672	305,347	473,972,672
1542 General Contractors - Nonresidential Buildings	468,121,914	47,371	468,121,914
1731 Electrical Work	356,927,859	104,074	356,927,859
1541 General Contractors - Industrial Buildings/Warehouses	266,198,957	11,421	266,198,957
1721 Painting & Paper Hanging	176,283,353	76,012	176,283,353
2621 Paper Mills	166,992,756	1,948	166,992,756
2834 Pharmaceutical Preparations	164,120,163	3,481	164,120,163
2015 Poultry Slaughtering & Processing	151,102,438	713	151,102,438

End-user consumption of Plastics MRO by region, millions of $ (2007 est.)



Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. Industrial Market Information has more than 200 industrial product profiles available at the county level. www.imidata.com

MDM News Digest

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orders decreased 0.3 percent. Transportation equipment, down three of the last four months, had the largest decrease of 8 percent to $56.1 billion.

Construction spending in April 2008 was estimated to be 0.4 percent below March, according to the U.S. Census Bureau of the Department of Commerce. April 2008 was also 3.9 percent below the April 2007. Both private and public construction reported lower rates for April 2008.

The total value of **building permits in Canada** was up strongly in April as construction intentions rose in all provinces and in both the residential and non-residential sectors. Contractors took out $6.4 billion worth of permits in April, up 14.5 percent from March and the highest level since October 2007. Permits have seen a downward trend since last summer.

The total value of **residential construction investment in Canada** reached $19.8 billion in the first quarter of 2008, an increase of 7.5 percent compared with the first quarter of 2007. The favorable job situation, growth in disposable income, flexible financing options and the strength of the economy in Western Canada continued to support demand for housing. The biggest increases in residential investment occurred in British Columbia, Alberta and Ontario.

Real gross domestic product -- the output of goods and services produced by labor and property in the U.S. – increased at an annual rate of 0.9 percent in the first quarter of 2008, according to preliminary estimates released by the Bureau of Economic Analysis.

China's trade surplus declined by 8 percent from January-April 2008 compared year-over-year with 2007, the result of higher oil prices and other crude materials imports. The surplus for manufactures surged by 34 percent, according to a Manufacturers Alliance/MAPI analysis of Chinese trade data for the first four months of the year. China's worldwide trade surplus in manufactured goods is on track to rise from $444 billion in 2007 to $586 billion in 2008.

Following sharp drops a month ago, **NEMA's Electroindustry Business Confidence Indexes** (EBCI) for both current and future North American conditions rebounded in May. The EBCI for current North American conditions, after tumbling to 27.3 in April, sprang back to 48.

Canadian wholesalers reported a modest rebound in sales in March, helped by higher deliveries of building supplies and machinery and electronic equipment. Sales increased by an estimated 0.6 percent to $42.7 billion, recouping some of the 2.1 percent decline reported in February.

Premier Farnell, a UK-based industrial distributor, reported sales in the first quarter 2008 were up 6 percent to £199 million (US$389 million at current exchange rates). Sales in China were up 57 percent, and sales in Eastern Europe and India were up 60 percent. Web sales were up 31 percent year-on-year.

Rexnord LLC, Milwaukee, WI, a diversified industrial company with platforms in power transmission and water management products, reported sales in the fiscal 2008 were up 47.6 percent to $1.85 billion, due to acquisitions. Core sales growth was 9.1 percent.

RBC Bearings Inc., Oxford, CT, international manufacturer of highly-engineered precision plain, roller and ball bearings for the industrial, defense and aerospace industries, reported sales for fiscal 2008 were $330.6 million, an increase of 8 percent from 2007. Excluding the impact of the decrease in the class 8 heavy truck market, sales rose 12 percent. Profit for fiscal 2008 was $40.2 million, compared with $28.5 million in the same period a year ago.

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