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Manage the Panic of 2009

Brent Grover: Strategically position your company for the upswing

In a recent MDM Webcast, "Manage the Panic of 2009: New Rules for New Economic Realities," Brent Grover looks at how distributors can position themselves during the downturn to ensure strength when conditions improve. Here's a summary of the event.

By Lindsay Young

Distributors, to say the least, are facing more uncertainty now than in recent memory.

In a recent MDM Webcast, "Manage the Panic of 2009: New Rules for New Economic Realities," Evergreen Consulting's Brent Grover says we are now seeing the worst business conditions in his decades of work in the industry.

"Distributors are not accustomed to dealing with this uncertainty," he told participants. "Or the speed of decline in demand and prices."

Now more than ever leaders need to avoid hunkering down, and instead strategically prepare their companies for the upswing. When the downturn does reverse course, fewer companies will emerge, making it critical for distributors to hone and hold onto their competitive edge.

So how should distributors move forward while the going is still tough? According to Grover, get a firm grip on cash and the cash cycle. Avoid breaching loan covenants. And look for opportunities to buy companies at bargain prices.

Hold onto only those spending programs and capacity that will sustain you and that will build strategic capability.

One of Grover's key pieces of advice was on managing cash and avoiding cash traps in a distributor's working capital cycle, inventories, receivables, payables and in facilities.

"Cash is king," Grover said. "It always has been and always will be king."

Danger Signs

Grover introduced 15 danger signs distributors should monitor. Among them: a 5-percent to 10-percent drop in trailing-twelve-month (TTM) sales; a 1-percent to 2-percent TTM drop in gross margin percentage; a cash flow TTM drop; credit line utilization above 80 percent; vendors' tightening terms; turnover in management and sales reps and loss of important product lines.

Most distributors will check at least a few off on this list. "My immediate concern is the banking questions on this list," Grover says.

Supplier financing is likely to tighten up, because suppliers are having their own cash flow problems. Supplier financing may also grow to be inadequate, which happens when distributor inventory swells. When this happens, distributors will turn to the bank, Grover says, which will be tough: "Banks do not want to increase available credit even to creditworthy customers."

He homed in on what he calls the "big three of credit reporting" when dealing with banks. He said banks like 13-week or more cash flow forecasts, and a forecast that integrates the balance sheet, income statement and the borrowing base of receivables and inventory.

"You should be looking for cash crunches in your 13-week forecast and beyond using TTM data," he says. TTM involves treating each month as year-end and not relying on the last calendar year or quarterly data.

The percentage of credit line a distributor uses is critical, as well: "A large customer who fails to pay on time or at all – that quickly can eat up available capacity."

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INSIDE

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

Benchmark Your Financial Capabilities

While the lead article's title – *Manage the Panic of 2009* - might seem extreme, it's important to clarify its real meaning. Reports we're hearing from distributors in January indicate they are not in panic mode. On the contrary, every distribution company has become very focused by necessity on cost control, created by the panic and instability in financial markets.

I think that's an important distinction. This isn't a typical downturn, where a company just needs to reduce costs across departments by a certain percentage until the tide turns. This time a distributor needs to upgrade financial skills.

The traditional financing and cash flow models distributors have used for decades have changed significantly, with much tighter and in some cases very different parameters in place. In many cases, the credit tools and levers distributors have used to grow their businesses have either disappeared or been reduced significantly. The result is that traditional rules of cash flow management, which distributors historically have leveraged effectively, are outdated. Those who manage cash flow and credit functions in 2009 in the same way as before are on thin ice.

The natural conclusion from this shift in financial foundations is that those companies with a stronger and more flexible financial position – regardless of the length of the downturn – have much more opportunity to emerge with a stronger market position. That's obvious at one level - better capitalized companies tend to outperform weaker ones. But in practice this core competency requires a very different management approach and benchmarks to monitor.

Do you manage your credit functions strategically, or has it been a broad-based sales tool and expense? Have you reduced inventory levels to an optimal level and improved forecasting capability to free some cash without hurting service levels? As Brent Grover notes in this article, as both supplier and bank financing get tighter, distributors have to get more nimble and attentive to up-to-date financial metrics.

As in every business cycle, distributors who adapt more quickly to the new conditions gain advantage over competitors. In this downturn, the focus has to be on gaining the maximum amount of financial flexibility and freedom to keep positioning for future growth.

On another note, MDM is committed to expanding our coverage of emerging growth opportunities for distributors, including globally. On page 4 of this issue you'll find the first in a series of monthly analysis of specific markets, with a look at Brazil.

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Manage the Panic

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Customers and Credit

Distributors are challenged to manage the credit relationships they have with customers during this time, as well. "Sometimes we get in so deep with customers, and they owe us a lot of money; we have a lot of special stock on hand. We feel we can't afford to stop doing business with them," Grover says.

Grover recommends tightening credit limits, revisiting your policy on selling to past due accounts, reviewing hold orders, ensuring someone in the company knows what to do when a customer goes bankrupt and seeks court protection, and how to plan for preferential payment claims. Grover also says to avoid letting salespeople or others overturn your credit manager's decisions. And says there is no substitute for top management dealing personally with serious credit problems. Grover also recommended credit insurance.

Should sales people have some say in whether to extend credit to a customer? Grover says no. "It's not their capital that is at risk," he says. "… They have everything to gain if a sale is processed and nothing to lose. I would leave them out of the credit process, with the exception of input if they know something that needs to be shared – good or bad – about the customer." He recommends leaving credit decisions to the credit department.

On the question of customers using credit cards, Grover says the card can have a "useful purpose." He says it's better to get paid "2.5 percent less than not at all" (referring to typical credit card processing fees).

"If it's a customer you can handle on a credit card basis, and not take on a credit risk, then it's a good idea," he says. "But I'd also be cautious if a customer is using a credit card, not because you asked him to, but on his own volition. It may mean his credit lines are tapped out, and he is running his business on his credit card."

Capital Expenditures

With capital expenditures, distributors should approach spending decisions in three ways. One, is it an investment in the company's strategy, such as Internet connectivity, a stronger ERP or a private label product? If so, keep investing.

Two, is it adding to capacity? If you don't need the capacity in the foreseeable future or have excess, Grover said there is no reason to add. And three, are you replacing worn-out assets? He recommends not to unless it's "really important."

Grover's point: "Conserving cash means being very disciplined about capital expenditures." Don't stop innovating in low-risk new profit models and product ideas, but hold onto some dry powder.

The People Equation

Grover says that one of the most important parts of distributor expense control is people. Focus on A and B performers. A performers are those who if they left the business customers and fellow employees would miss them.

B performers are those that have the potential to be A performers. C players are interchangeable – they don't add a lot of value, and if D performers were gone, everybody would be glad, Grover says. They tend to be a drag on business goals. In looking at cost-cutting initiatives, do everything you can to hold onto A and B. Grover is not in favor of across-the-board salary reductions or freezes that risk losing A and B for the sake of being fair to C and D.

"The philosophy is that you're better off with a small cadre of outstanding, experienced, trained and dedicated experts than a large group of slugs."

■ *Global Report*

After Strong 2008, Brazil's Growth Slows

But the largest South American country still holds opportunity

Brazil often is identified as one of the most promising emerging markets for manufacturers and distributors. Even with a global recession, many companies and analysts are seeing opportunities for growth.

This is the first in a series of monthly features looking at growth opportunities globally.

By Jenel Stelton-Holtmeier

During the first part of 2008, the Brazilian economy experienced high growth in most sectors with an outlook for that expansion to continue. The first nine months saw loosened credit conditions, rising internal demand and strong export activity despite unrelenting currency appreciation.

But the fourth quarter was a different story. Growth slowed at an alarming rate.

Though the country is still in positive territory, the fourth quarter of 2008 was "surprisingly on the downside," according to Fernando Sedano, an economic consultant for Manufacturers Alliance/MAPI based in Brazil. "I expect a tough first half of 2009."

On the other hand, international companies that are already doing business there are seeing continued opportunities for growth – albeit at a slower pace.

"The government has made significant progress in the last 15 years to strengthen the macroeconomic conditions there," says Jose Vara, area director of Latin America for Avnet Electronics Marketing Americas, an $18 billion electronics distributor based in Phoenix, AZ.

"As such, GDP is still growing, and there is a lot of potential in the country."

While a variety of companies are announcing major cuts to their global workforce, Vara says Avnet plans to continue building its base in Brazil and grow market share.

"We have no plans for business to get so bad that we have to consider changing that model. If it happens, we'll have to sit down and revisit that strategy, but for now, we just don't see it."

Current Conditions

For the first three quarters of 2008, conditions in the U.S. seemed to have little impact on the economic environment in Brazil.

Growth continued its strong pace, with GDP growth averaging 6.38 percent for the first nine months, and 6.81 percent for the third quarter, according to the Brazilian Institute of Geography and Statistics (IBGE).

However, when the U.S. financial markets collapsed, led by the failure of Lehman Brothers in September, economists began predicting a bleaker picture for the country.

The result is that industries that are traditionally reliant on credit for operations will have a more difficult time obtaining it, Sedano says. Growth likely will slow significantly in those sectors.

The Brazilian government is taking some steps to fend off a recession from tightened credit conditions. It recently announced a US$2 billion fund to subsidize credit lines for auto purchases, for example.

Additionally, the state reduced the Tax on Manufactured Products (IPI) by 6 percent for car purchases with engines up to 1 liter and 3.5 percent for larger engines.

In January, fears of inflation eased and worries about the slowing economic growth prompted the Monetary Policy Committee to cut short-term interest rates to 12.75 percent.

Interest rates had remained steady in the country at 13.75 percent since October. The inflation rate itself actually declined nearly half a percentage point in December, from 6.39 percent to 5.9 percent.

And unemployment reached its lowest level since 2002 when it was measured at at a year-end 6.8 percent.

In that positive figure is a bleak spot: Industrial employment dropped by 0.6 percent in November when compared with employment figures in October. From January to November 2008, industrial employment recorded growth of 2.4 percent.

Another negative indicator: Brazil's purchasing managers' index began declining in October after more than two years of steady growth, as output, new orders, and employment declined, according to the *Latin America Manufacturing Outlook: 2008-2009*, a report authored by Sedano for the Manufacturers' Alliance/MAPI.

Opportunities and Challenges

"A slowdown is not a recession," Avnet's Vara says. "We certainly see a slowdown, but Brazil will not enter a recession." His company is continuing plans for strategic investment throughout the country.

Vara's optimism is not limited to growth in the electronics sector, where Avnet operates. He believes there is opportunity for "companies in all kinds of business."

"Brazil remains healthy, and economically is one of the best countries in the world," Vara says. The electronics distributor has been in Brazil since 1999, expanding through acquisitions of local companies.

Before 1990, according to Vara, it wasn't easy for international companies to expand into the region. But the government has been working hard to reduce barriers to international trade, including increasing exports and keeping inflation low. (The Monetary Policy Committee has an allowance for the rate to stay between 4.5 percent and 6.5 percent.)

Those actions made doing business in Brazil attractive to many global manufacturers.

"Our customers – like Ericsson and Xerox – were there, and they began asking us to come down and provide them with support as well," Vara says. "So we saw an opportunity and followed it."

The majority of the distributor's business is in the southeast and north regions of Brazil, but "if our customers decide to expand to other areas, we will definitely follow them," he says.

Sector Growth

Brazil is rich in natural resources, including iron ore and nickel. Vara suggests that sectors that are tied to this sector will see some of the greatest opportunities, even as other parts of the world struggle to maintain growth.

Non-metallic mineral products may also show resilience, Sedano says. But, that is largely dependent on the continued growth of infrastructure projects.

Through the Program for the Acceleration of Growth, the Brazilian government has implemented public infrastructure projects – primarily roads – and has announced plans to continue.

Agriculture and agriculturally related businesses will also continue to see growth, Sedano says. The food and beverages sector likely will lead manufacturing growth for the first half of 2009.

"In times of crisis, people cut spending on durables but not on basic needs," he says.

In addition, production of biofuels likely will continue to expand as global demand increases.

The biggest challenge to taking advantage of these opportunities is not economic, according to Vara. It's the cultural barriers that exist.

One such barrier is language: Portuguese is the official language of Brazil. For most Latin American countries, the official language is Spanish.

To offset this challenge, Avnet has established an operations center in Argentina and Colombia to support businesses in the north and south of the continent. But the central operations for the region are in Brazil.

"The key to success in this country is to respect the culture, respect the people," Vara says.

Outlook

While current forecasts predict a tough first half of the year, the outlook for the second half of 2009 is fuzzier.

The performance of the country's economy will depend on many external factors.

Many of the products produced in Brazil are exported to China. If China's economy goes into recession, the impact on Brazil could be significant, Sedano says. But the converse is also true: If China's economy stays solid, Brazil may not suffer as much.

Because of the key role natural resources plays, deflation of global commodity prices would drag down the health of Brazil's economy.

And probably the most significant factor in the uncertainty of forecasting for 2009 are unknowns related to the global economy as a whole.

"The longer and deeper the downturn, the harder the economic consequences for Brazil," Sedano says.

Most analysts continue to predict slight growth for Brazil's GDP in 2009. Vara says Avnet is working from an estimate of growth between 2 percent and 2.5 percent.

The government is trying to present a more optimistic look, maintaining the outlook for growth for the year will reach 4 percent, according to the finance minister. Other analysts predict that growth could slow to almost stagnant.

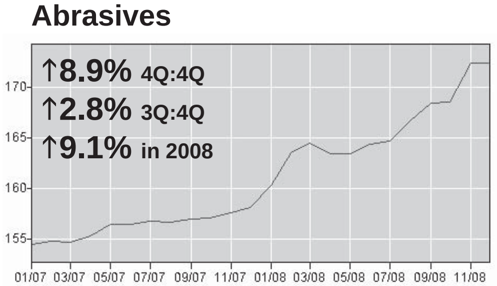
Inflation by Commodity Group

Pricing trends for the year and fourth quarter 2008

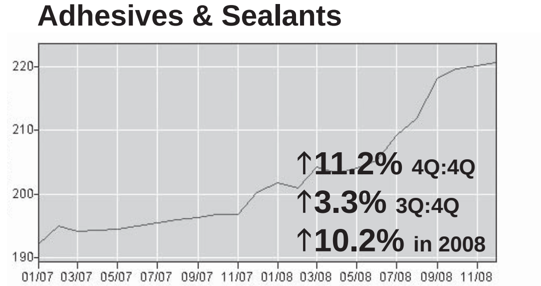
These 24 select product groups provide a snapshot of inflation trends based on the Producer Price Index from the U.S. Bureau of Labor Statistics. Fourth quarter 2008 is compared with fourth quarter 2007, third quarter 2008 with fourth quarter 2008, and the full year 2008 with the full year 2007.

Key
↑**11.6%** 4Q:4Q (4Q ‘07 with 4Q ’08)
↑**1.8%** 3Q:4Q (3Q ‘08 with 4Q ‘08)
↑**4.2%** in 2008 (2007 with 2008)

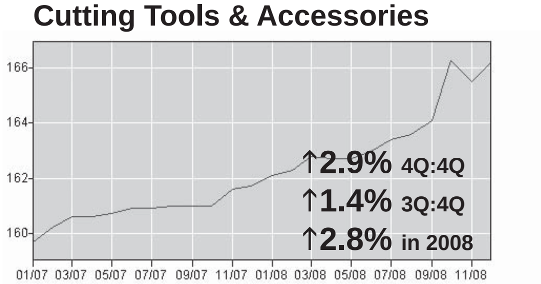
Abrasives



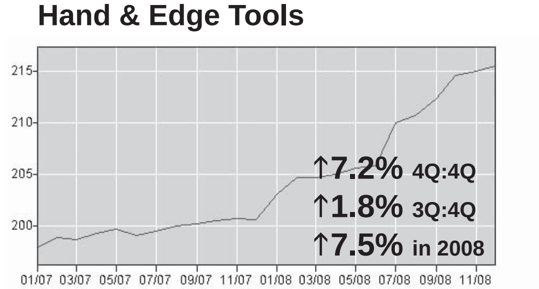
Adhesives & Sealants



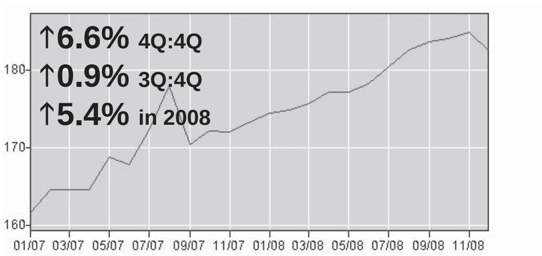
Cutting Tools & Accessories



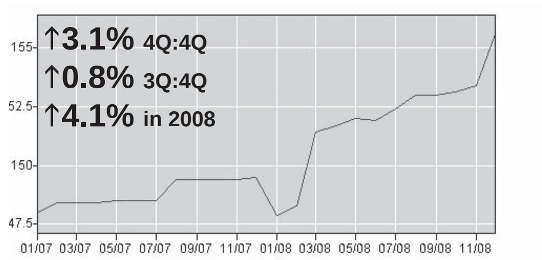
Hand & Edge Tools



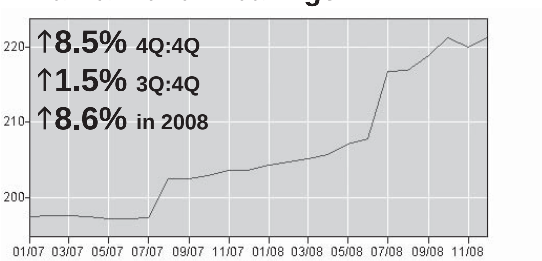
Fasteners



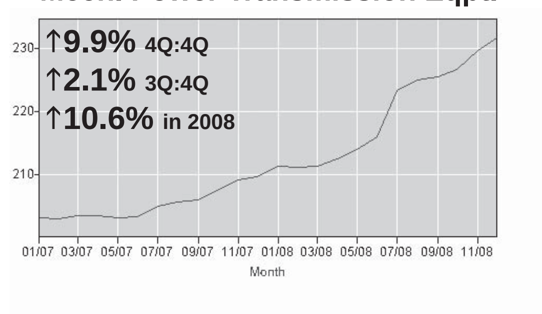
Power-Driven Hand Tools



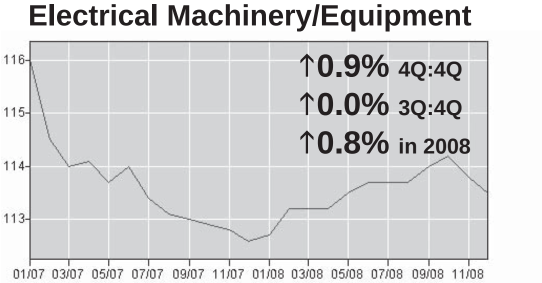
Ball & Roller Bearings



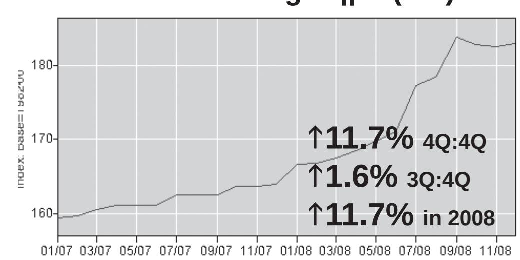
Mech. Power Transmission Eqpt.



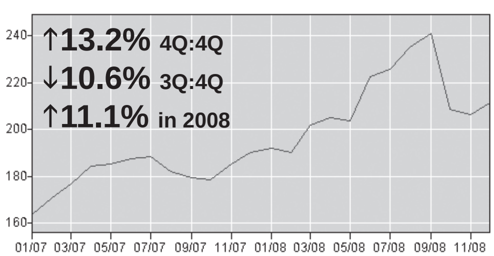
Electrical Machinery/Equipment



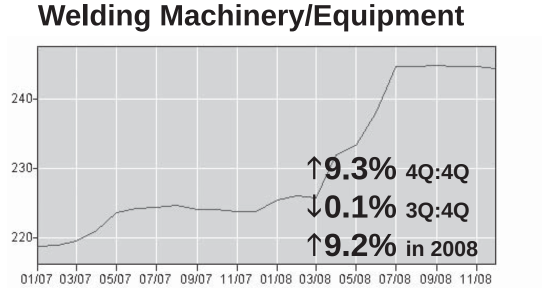
Material Handling Eqpt. (Ind)



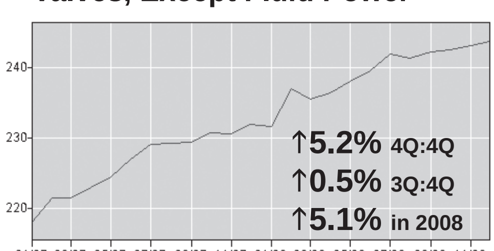
Industrial Gases



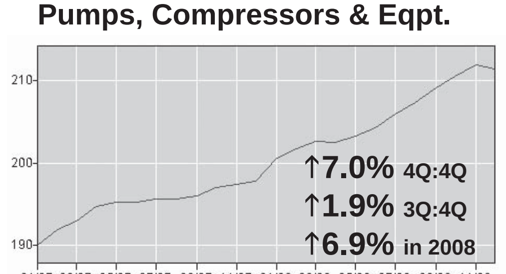
Welding Machinery/Equipment



Valves, Except Fluid Power



Pumps, Compressors & Eqpt.



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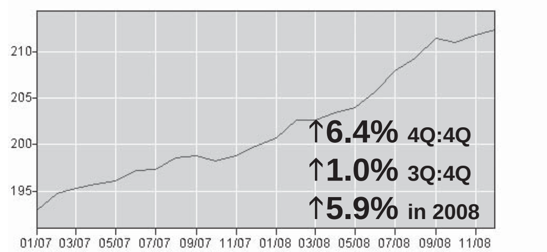
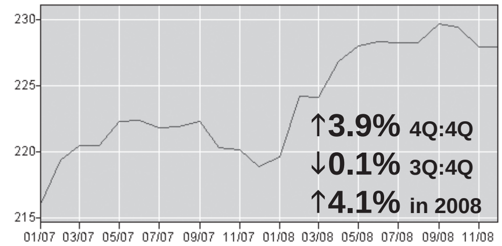
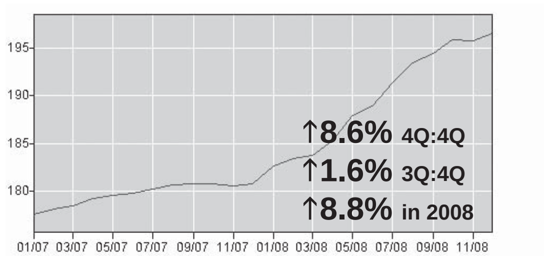
Fluid Power Equipment



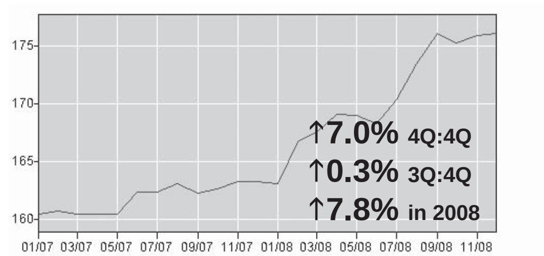
Plumbing Fixtures & Fittings



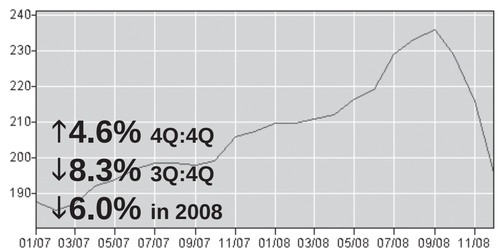
Hardware



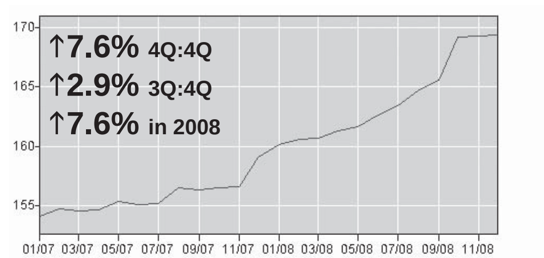
Sanitary Paper Products



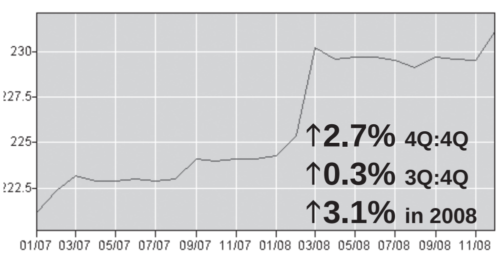
Plastic Resins & Materials



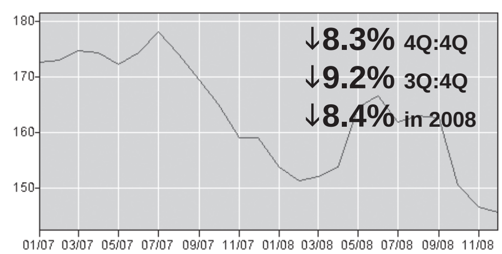
Spec. Cleaning, Polish, San. Products



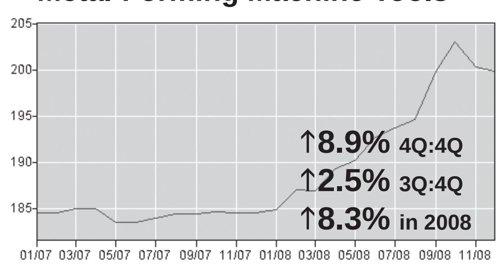
Industrial Safety Equipment



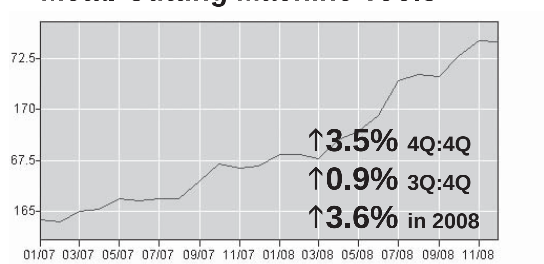
Softwood Lumber



Metal-Forming Machine Tools



Metal-Cutting Machine Tools

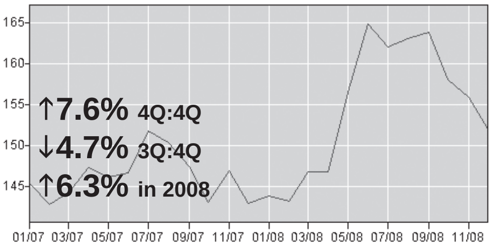


Source: U.S. Bureau of Labor Statistics, MDM Analysis

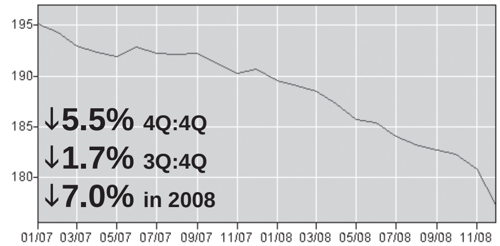
MDM Inflation by Commodity Group

Pricing trends for the year and fourth quarter 2008

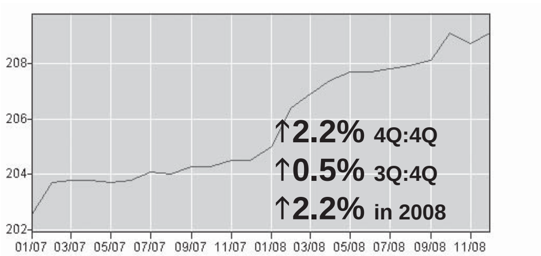
Hardbd, Particlebd, Fiberbd Products



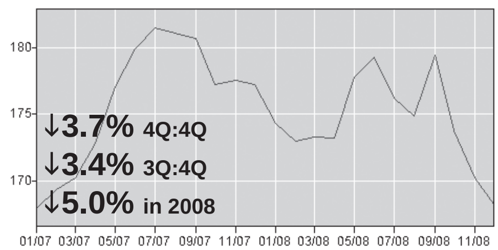
Hardwood Lumber



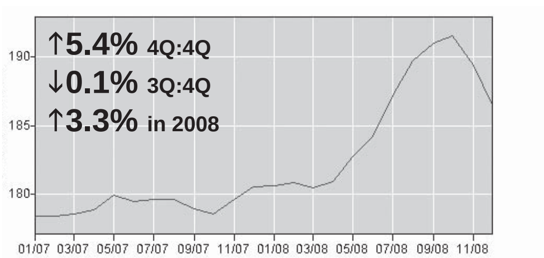
General Millwork



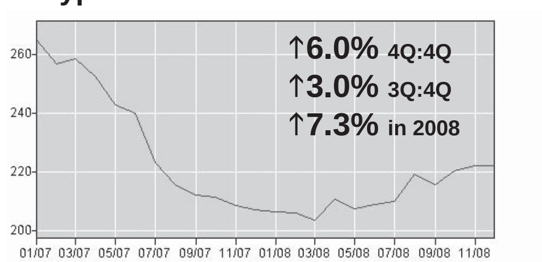
Plywood



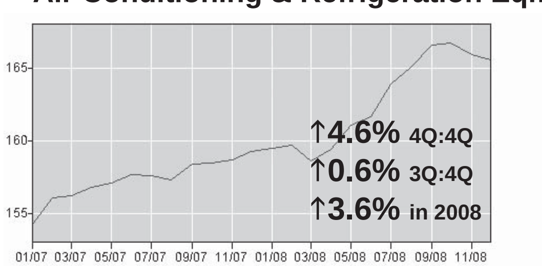
Construction Products from Plastics



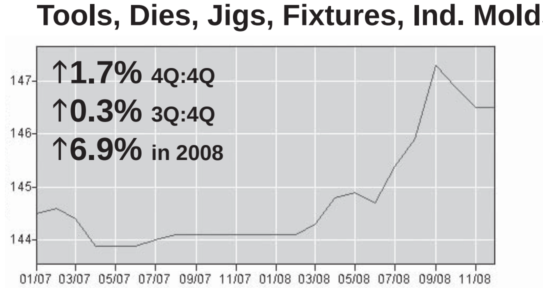
Gypsum Products



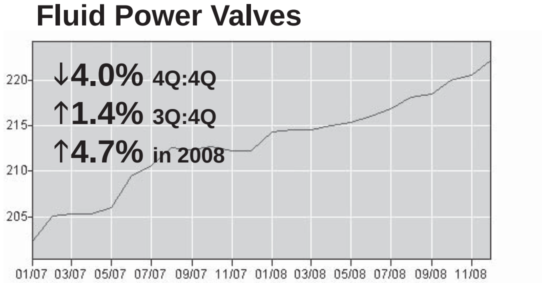
Air Conditioning & Refrigeration Eqmt.



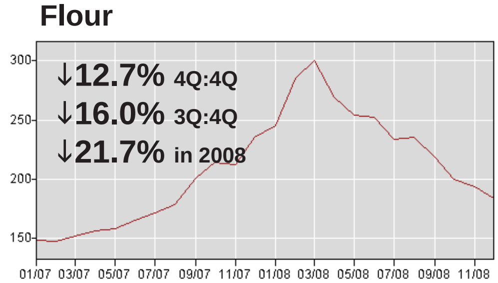
Tools, Dies, Jigs, Fixtures, Ind. Molds



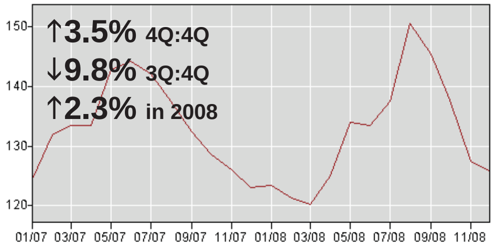
Fluid Power Valves



Flour



Pork Products



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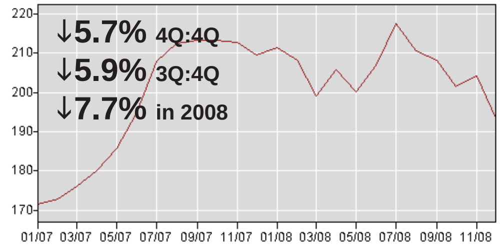

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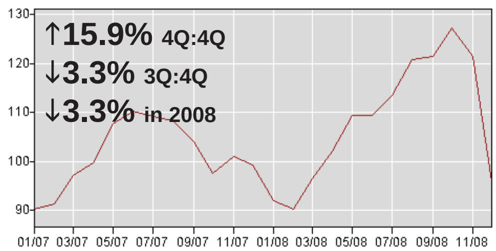

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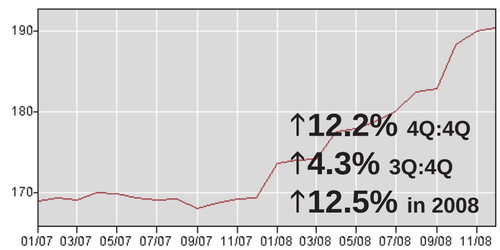

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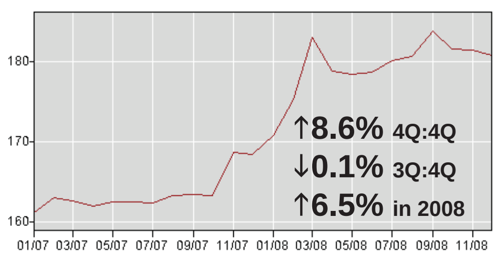
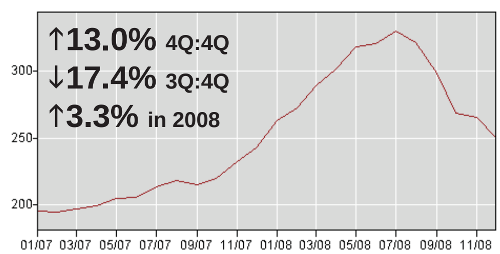


Shortening & Cooking Oil



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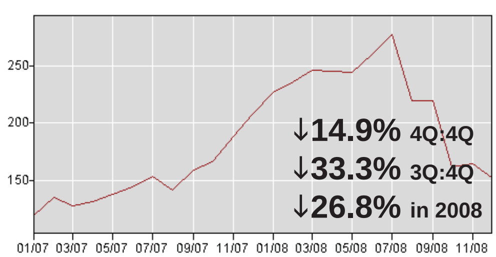
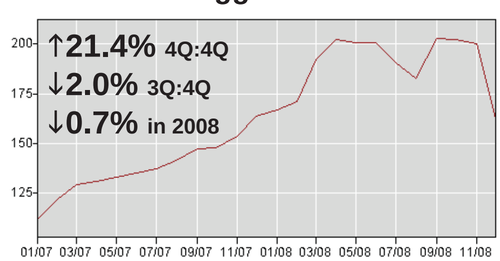
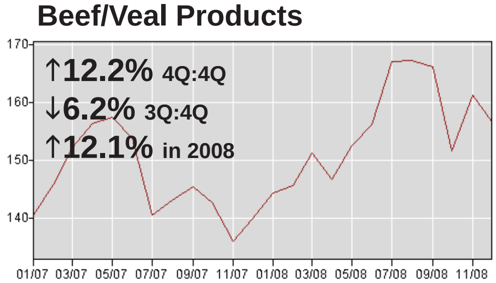


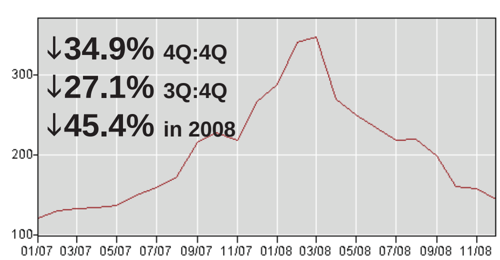
Processed Eggs



Beef/Veal Products



Wheat



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Industrial & Construction Markets Update

VOL. 39, NO. 02 | JANUARY 25, 2009

Fastenal Starts to See a Slowdown in the Fourth Quarter

Fastenal Company, Winona, MN, reported sales for the year ended Dec. 31, 2008, were $2.34 billion, an increase of 13.5 percent from the prior year. Profit was up to $279.7 million, an increase of 20.2 percent.

While its annual numbers were strong, the distributor said in its earnings call that the fourth quarter slowed significantly.

In October, sales growth was at 11.9 percent; November was at 6.8 percent, and December saw no sales growth. CEO Willard Oberton said that December was the first time in Fastenal's 42-year history that the distributor saw no growth year-over-year.

"Looking forward into 2009, things are very slow," Oberton said. "It's difficult out there. Right now, looking at our January sales numbers, we see about a 4 percent to 6 percent negative sales growth in January, the first time we've ever seen that in the company. We're watching very closely."

In the fourth quarter, Fastenal reported sales of $544.9 million, up 5 percent over the prior-year period. Profit increased 11.3 percent to $62.5 million.

Though Fastenal has not announced layoffs, between Dec. 1 and Jan. 15 the distributor lowered its overall headcount by 4 percent through attrition. "We haven't let anyone go," Oberton said. "We've just had a number of people leaving the company, and we're not replacing them at this time." Overall head count grew by 9.2 percent in 2008.

Store openings are slowing, as well. In 2008, Fastenal opened 161 new stores, an increase of 7.5 percent, which was under Fastenal's original projection. Oberton said that the company does not know by how much Fastenal will slow its store openings, however. "It'll be a very low number," he said.

When the economy does bounce back, Oberton said that Fastenal will

continued on p.4 of this section

Interline Brands, Jacksonville, FL, a distributor of MRO products, plans to cut its work force, consolidate 10 distribution centers over the next six months and make other moves to cut costs. The distributor says it is seeing adverse conditions across its core end-markets and does not expect to meet its previously issued earnings per share range for the fourth quarter 2008. Interline will be eliminating 85 full-time positions. This reduction and other cost cuts are expected to generate annualized savings of about $12 million.

Hagemeyer North America, Charleston, SC, has launched its 2009-2010 Electrical MRO catalog. The 642-page catalog is the first full-line Electrical MRO products catalog produced by Hagemeyer NA and features 12,845 electrical products from more than 100 Hagemeyer suppliers.

Avnet, Inc., Phoenix, AZ, reported sales of $4.27 billion for second quarter fiscal 2009 ended Dec. 27, 2008, a decrease of 10.2 percent over second quarter fiscal 2008. Excluding the impact of changes in foreign currency exchange rates, sales were down 6.4 percent for the quarter. Organic sales were down 14.9 percent. Profit was $112.3 million, down 21 percent from the prior year quarter.

Kennametal Inc., Latrobe, PA, plans to reduce headcount by 800 positions within the next three to six months in an effort to address current market challenges and reduce costs. The cuts are in addition to 400 positions announced as part of a restructuring plan in April 2008. The tooling manufacturer says that a global decline in industrial production, amplified by customers reducing their inventories has significantly decreased demand. The company also continues to adjust its manufacturing workforce in line with production requirements and to implement other steps to reduce costs.

U.S. housing starts in December were down 15.5 percent from November, and 45 percent below December 2007, according to the U.S. Census Bureau and the Department of Housing and Urban Development. Privately-owned housing starts were at a seasonally adjusted annual rate of 550,000 in December. An estimated 904,300 housing units were started in 2008. This is 33.3 percent below the 2007 figure of 1,355,000. By region, the Northeast saw a 15.4 percent drop in housing starts in 2008, Midwest had a 35.7 percent decline, the South a 33.5 percent fall, and the West was down 39 percent.

Industrial production fell 2 percent in December, and declines were again widespread. Output was revised up in October, but it was revised down in November; for the fourth quarter as a whole, total industrial production decreased 11.5 percent at an annual rate. Capacity utilization for total industry fell to 73.6 percent in December, a level 7.4 percentage points below its average level from 1972 to 2007.

Wholesale prices fell 1.9 percent in December, seasonally adjusted, the Bureau of Labor Statistics of the U.S. Department of Labor reported. Prices for finished goods other than foods and energy (core inflation) rose 0.2 percent in December.

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MDM News Digest

Continued from p. 1 of this section

ERIKS group reported sales of €1.132 billion (US$1.48 billion at the current exchange rate), an increase of 19.3 percent over sales for 2007. Organic growth contributed €42 million (US$54.9 million) to growth in 2008; acquisitions in 2007 and 2008 added €208 million (US$272 million).

The fourth quarter **Baird Industrial Distribution Survey**, from Robert W. Baird Inc., indicates the industrial economy is in recession. On average, respondents' fourth quarter revenues were down significantly, with increased pricing offsetting unit volume declines. Expectations are for continued declines through 2009, though the trajectory should not be as severe as it was in recent weeks which were negatively impacted by abnormal holiday closures.

Canadian manufacturing sales decreased for a fourth consecutive month in November. Sales fell 6.4 percent to $48.4 billion, the lowest level since December 2004.

Parker Hannifin, Cleveland, OH, reported sales of $2.7 billion for fiscal 2009 second quarter ending Dec. 31, 2008, a decline of 5 percent from the same quarter a year ago. Profit declined 26.7 percent to $155.4 million. "Current quarter results reflect the fact that the global recession has deepened and widened in recent months and creates some uncertainty for the remainder of our fiscal year and throughout calendar 2009," said Don Washkewicz, president and CEO.

Precision Castparts Corp., Portland, OR, reported sales for the third quarter were $1.6 billion, a decline of 3.2 percent over the prior year period. Profit was $239.1 million, down 3 percent. For the first nine months ended Dec. 28, 2008, sales improved 4.8 percent to $5.2 billion, compared to the first nine months of fiscal year 2008. Profit for the period increased 10.7 percent to $784.2 million.

Rexnord LLC, Milwaukke, WI, announced that **Zurn Industries**, LLC, its wholly owned water management subsidiary, has agreed to acquire **Fontaine-Alliance** Inc. for CAD30 million. Fontaine manufactures sluice gates and other engineered flow control products for the municipal water and wastewater markets. Fontaine is based in Magog, Quebec, Canada, and has annual sales of CAD40 million.

Industrial and automotive product manufacturer **Gates** Corp., Denver, CO, will close its Salt Lake City, UT, distribution center in the summer of 2009. The center currently services automotive aftermarket customers, and employs 42 associates.

continued on p.4 of this section

Calculation of MDM Inflation Index for December 2008

		BLS Price Indices Dec. '08	BLS Price Indices Nov. '08	BLS Price Indices Dec. '07	% Sales Weight	Weighted Indices Dec. '08 (1)X(4)	% Change Dec. '08 Nov. '08	% Change Dec. '08 Dec. '07
1136	Abr. Prod.	512.1	512.1	473.8	19.1	97.81	0.00	8.08
1135	Cutting Tools	450.6	448.7	438.2	18.9	85.17	0.42	2.85
1145	Power Trans.	724.2	717.6	651.4	15.4	111.52	0.91	11.18
1081	Fasteners	492.9	499.3	465.6	9.0	44.36	-1.30	5.86
1149.01	Valves, etc.	854.4	848.4	787.1	7.6	64.93	0.71	8.55
1132	Power Tools	344.7	339.9	331.0	6.5	22.41	1.43	4.15
1144	Mat. Handling	524.7	523.2	468.5	6.2	32.53	0.27	12.00
0713.03	Belting	607.4	614.2	549.8	6.1	37.05	-1.10	10.48
1042	Hand Tools	734.5	732.5	683.4	8.1	59.50	0.28	7.48
108	Misc. Metal	457.7	458.8	425.2	3.1	14.19	-0.25	7.64
"New" December Index		297.5	December Inflation Index			569.46	0.24	7.86
"New" November Index		296.8	November Inflation Index			568.10		
			December 2007 Inflation Index			527.97		

New index reflects 1977=100 base other #: 1967 To convert multiply by .52247

Distribution Financial Metrics and Trading Multiples

(Data as of December 31, 2008)

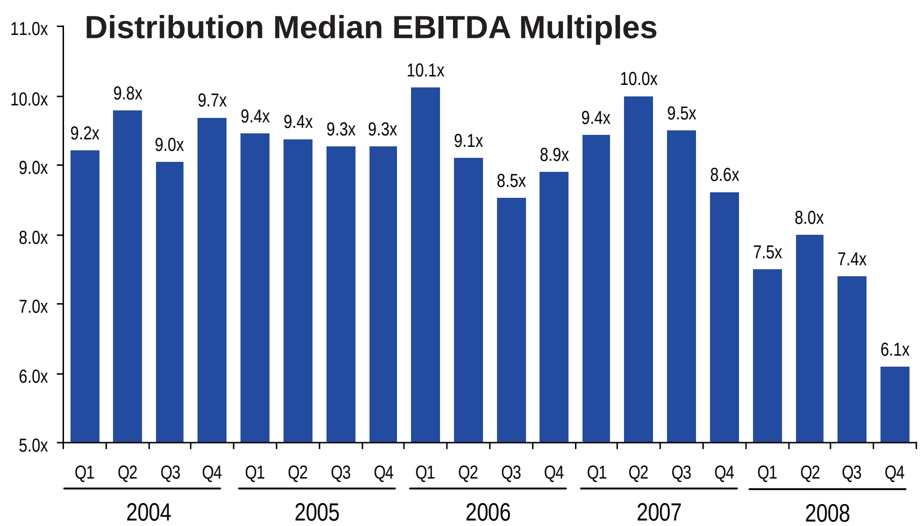
($ in millions)

Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Gross Margin	LTM EBITDA	LTM EBITDA Margin	EV to LTM Sales	EV to LTM EBITDA	ROIC	Working Capital/Sales
Airgas Inc. *	ARG	$4,953	$4,373	22.7%	52.0%	$739	16.9%	1.1 x	6.7 x	9.9%	6.6%
AM Castle & Co.	CAS	378	1,502	5.7%	15.4%	90	6.0%	0.3	4.2	7.8%	19.2%
Anixter International Inc. *	AXE	2,189	6,170	9.0%	23.8%	497	8.1%	0.4	4.4	13.1%	26.8%
Applied Industrial Technologies Inc.	AIT	852	2,115	3.7%	27.1%	166	7.9%	0.4	5.1	16.8%	15.1%
Barnes Group Inc. *	B	1,226	1,468	4.1%	38.0%	229	15.6%	0.8	5.3	11.7%	21.4%
Beacon Roofing Supply Inc. *	BECN	974	1,784	8.4%	23.5%	129	7.2%	0.5	7.6	7.7%	15.1%
BlueLinx Holdings Inc.	BXC	463	3,057	(23.5%)	10.9%	11	0.3%	0.2	N/M	N/M	12.6%
Builders FirstSource, Inc. *	BLDR	263	1,168	(32.4%)	22.0%	(42)	(3.6%)	0.2	N/M	N/M	12.1%
Building Materials Holding Corp.	BLGM	314	1,601	(32.5%)	17.9%	(42)	(2.6%)	0.2	N/M	N/M	12.5%
Bunzl plc	BNZL	3,888	7,599	9.6%	23.4%	559	7.3%	0.5	7.0	12.8%	6.1%
DXP Enterprises Inc.	DXPE	357	712	100.5%	27.6%	56	7.8%	0.5	6.4	9.6%	19.6%
Fastenal Co. *	FAST	5,124	2,315	16.2%	52.3%	481	20.8%	2.2	10.6	25.5%	32.7%
Genuine Parts Co.	GPC	6,480	11,122	3.4%	29.7%	938	8.4%	0.6	6.9	17.4%	23.1%
Houston Wire & Cable Company *	HWCC	209	375	6.3%	24.3%	46	12.4%	0.6	4.5	23.9%	29.6%
Huttig Building Products Inc.	HBPI	35	725	(21.7%)	19.0%	(14)	(1.9%)	0.0	N/M	N/M	9.3%
Interline Brands Inc. *	IBI	723	1,218	(1.1%)	38.2%	119	9.8%	0.6	6.1	8.1%	26.2%
Kaman Corp.	KAMN	548	1,209	13.7%	27.0%	86	7.1%	0.5	6.4	8.8%	26.0%
Lawson Products Inc.	LAWS	199	499	(2.5%)	57.8%	41	8.2%	0.4	4.8	13.6%	17.5%
MSC Industrial Direct Co. Inc. *	MSM	2,483	1,780	5.4%	46.2%	347	19.5%	1.4	7.2	22.2%	26.1%
Park-Ohio Holdings Corp.	PKOH	419	1,067	(2.5%)	14.6%	69	6.5%	0.4	6.1	7.0%	24.9%
Pool Corp *	POOL	1,174	1,825	(6.2%)	28.4%	132	7.2%	0.6	8.9	12.4%	18.2%
Reliance Steel & Aluminum Co.	RS	3,699	8,282	16.2%	25.7%	961	11.6%	0.4	3.8	11.7%	24.7%
Rexel SA	RXL	6,216	17,114	12.3%	24.2%	1,045	6.1%	0.4	5.9	6.9%	15.1%
Smith International Inc.	SII	8,912	10,012	18.3%	32.5%	1,793	17.9%	0.9	5.0	15.0%	33.5%
Watsco Inc. *	WSO	1,127	1,763	1.3%	25.9%	112	6.3%	0.6	10.1	10.5%	21.5%
WESCO International Inc. *	WCC	1,915	6,170	4.8%	19.8%	394	6.4%	0.3	4.9	14.3%	13.2%
Wolseley plc	WOS	7,658	32,787	(0.5%)	27.7%	1,809	5.5%	0.2	4.2	4.6%	11.1%
WW Grainger Inc. *	GWW	6,159	6,869	9.6%	42.5%	908	13.2%	0.9	6.8	20.6%	16.0%
Median		$1,151	$1,805	5.1%	26.4%	$149	7.6%	0.5 x	6.1 x	12.0%	18.7%

* = Companies covered by Baird Research

The table above highlights key financial metrics and trading multiples for 30 publicly traded distributors in the industrial and building products industries.

The table below illustrates historical median EBITDA multiples for the above companies calculated using LTM EBITDA as of the quarter shown and the enterprise value as of the last day of the quarter. Please see Definitions at bottom of page.



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Definitions. LTM means latest twelve months. Enterprise Value ("EV") means market capitalization of a company's equity plus preferred stock plus total interest bearing debt (including capitalized leases) net of any cash or cash equivalents. EBITDA means earnings before interest, taxes, depreciation and amortization. In certain cases earnings have been adjusted for certain disclosed income or expense items considered to be non-recurring in nature. ROIC means return on invested capital and is defined as tax-effected EBIT divided by the sum of the book value of equity plus net debt. Working Capital is calculated as current assets, less cash, minus current liabilities excluding short-term borrowings and current portion of long-term debt.

Fastenal
Continued from p. 1 of this section

start re-investing in outside sales people first, followed by store growth. "We're not retreating at all," he said. "We're just holding our cards close until we understand what's going on in the economy."

Fastenal did report some positives, including base margin improvement. Oberton also said that Fastenal is seeing improvement in sales with small and medium-size customers.

Managing Expenses

Daniel Florness, CFO, gave examples of smaller ways Fastenal is working to control expenses.

One example he provided was Fastenal's handheld technology, MC70, that its store personnel use. The cost for each is $30 per month for the cellular connection. Fastenal recently renegotiated that to $19 a unit. "If you take that $11 per month savings times 3,000 units, and it's a nice savings. It's one example of how we can manage expenses in this environment."

Another example: Fastenal has 200,000-plus active customers a month. Toward the end of 2008, Fastenal created a way to email and e-fax invoices to customers. The distributor now has 8,000 customers turned on with email and e-fax. The distributor's goal is to increase that to 50 percent of its customers during 2009. "That cost for us between paper and postage and envelopes is about $150,000 a month," Florness said.

"Our ability to manage expenses like that is a big deal as we look into 2009. Those are dollars we can free up so we can still keep feet on the street selling and servicing our customers' needs." *- Lindsay Young*

MDM News Digest
Continued from p. 3 of this section

Gates Canada Inc., Denver, CO, will close its London, Ontario, Canada power transmission facility as a result of declining sales volumes, continued pricing pressures and higher raw material costs. The Company plans to transition a portion of its operations to its facility in Windsor, Ontario, by the end of the second quarter of 2009.

In November 2008, U.S. distributors' **sales of power transmission/motion control products** experienced the largest month-to-month decrease in sales since January 2002, falling 16 percent when compared with October 2008, according to the latest month-end trend data from the Power Transmission Distributors Association. Sales in November 2008 were down by 4.1 percent from the year-ago month.

Canadian distributors reported a 12.8 percent drop in PT/MC sales in November 2008. Sales over the same period last year were down 11.2 percent.

November U.S. machine tool consumption totaled $185.57 million, according to the American Machine Tool Distributors' Association and the Association for Manufacturing Technology. This total, as reported by companies participating in the USMTC program, was down 34.7 percent from October and down 51.4 percent from November 2007. With a year-to-date total of $4,004.31 million, 2008 is up 2.8 percent compared with 2007.

National HVACR distributor sales for the month of November 2008 were down 14.1% from a year ago, according to the Monthly Targeted and Regional Economic News for Distribution Strategies Report produced by Heating, Airconditioning and Refrigeration Distributors International. All eight HARDI regional reports indicated negative performance in November. Over the previous twelve months, U.S. and Canadian wholesale sales were collectively even with 2007.

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