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Facing the Perfect Storm

Distributor Western Tool Supply and importer STO Industries share their stories of going into – and coming out of – bankruptcy

The precarious position of companies serving residential construction markets was made even worse in late 2008 by the turmoil in the financial markets. For Western Tool Supply, a distributor, and STO Industries, a fastener importer, it meant having to file for Ch. 11 bankruptcy protection so they could meet their obligations and restructure. In this article, the companies tell their stories. MDM also examines bankruptcy trends and the impact of bankruptcies on the distribution channel.

By Lindsay Konzak

For Kevin Kiker, closing down or even selling the company he founded more than two decades ago was not an option.

When the housing market crashed, and the credit crisis hit, Kiker had little choice but to file for Ch. 11 bankruptcy protection last year to save what he could of Salem, OR-based Western Tool Supply, a tool and fastener distributor. "It never crossed my mind to give up," he says.

The task would be no small feat. At its peak, his company had grown to 75 branches in the U.S. and Canada. But due to the credit crisis and weak cash flow, bills were coming due from landlords, banks, and other vendors.

Kiker knew he had to restructure the business, or the business would not make it. "It was excruciating," he says.

Western Tool Supply is just one of many distributors both big and small in residential construction markets that have gone into Ch. 11 bankruptcy protection over the past three years. Others that have been forced to do the same: Stock Building Supply, Building Materials Holding Corp., Bison Building Materials and Wheeler's Building Materials.

The impact of the recession has reached beyond these markets, with distributors outside of this sector also restructuring under the bankruptcy code. Sales of distressed distribution companies have driven mergers and acquisitions markets over the past two years.

Western Tool Supply's story is illustrative of the challenges that many distributors and their channel partners have faced in one of the roughest markets in recent history.

Bankruptcy Trends

Despite the recession's being officially over, many in the industry expect the number of bankruptcies to continue to be high over the next year both among distributors and their customers. For the building supply industry, which is still bouncing along the bottom, the worst may be yet to come, according to some.

"I think unfortunately we're going to see the biggest group of companies exit in the next nine months," building supply industry expert Ruth Kellick-Grubbs says. She is the president of Kellick & Associates. "It's been tough to manage the cash up to this point, and I don't see it getting any easier over the next nine months. … We will have some markets rebound faster than others. But nobody is rebounding fast."

She says that if companies are in trouble, they need to move quickly and gather the resources they will need, including an outside adviser, to turn the situation around. "If they decide bankruptcy is where they will go, the sooner they do it the more chance they have of preserving something."

In the first half of 2010, business bankruptcy filings were down 4 percent, with Ch. 11 business reorganizations registering the sharpest decrease of 17 percent, accord-

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PERSPECTIVE ■ *Commentary by Thomas P. Gale*

A Case for Contingency Planning

If your company has no room for improvement in either benchmarking or contingency planning, then read no further. You have your priorities defined and are well-positioned to negotiate the next few years of volatility. I'm oversimplifying of course, but I believe the next 12-24 months will reshape many distribution sectors and markets. Here are a few reasons why.

As industry groups dive back into the fall meeting schedule, there is a sense of optimism not seen the past few years. But the pattern is tracking pretty closely to what we've heard from economist Dr. Adam Fein and others who track industrial markets closely. The rebound is sluggish and has the potential to stay so for a few years. A weak recovery doesn't feel very good, as we all are finding out, but it beats what just happened.

In that light, depending on sector, some distributors are emerging from this recession either on fire or enjoying strong growth at or close to pre-recession levels.

Historically, the growth period out of the trough of a recession has been fairly aggressive and steady; we are not experiencing either of those characteristics at this point. Or if you are in the minority who is enjoying that, how much is attributable to customer restocking versus downstream demand? It's difficult for most distributors to get an accurate answer to how much "pull" their customers are experiencing versus inventory replenishment.

Add to that the likelihood that we face a much more volatile global economy over the next five years. There will be increased bankruptcy and forced sales – more opportunities for growth – as your competitors get squeezed because their balance sheets can't handle the rebound.

Distributors who are most effective at identifying and advance planning worst-case to the wildest best-case scenarios will be positioned to seize opportunities with customers, suppliers and service providers, including banks, before competitors can react. But it goes much deeper than crystal ball gazing or playing "what-if" on Friday afternoons.

At every level of competition in distribution markets, these next few years are being defined right now by those who mine the metrics in all parts of their businesses – inventory, pricing, service levels, profitability, market potential and productivity are at the top of the list. They are redefining the business model to match new conditions. Most importantly, they are positioned to adjust quickly because they have data for decisions, and a culture to plan and take advantage of new opportunities.

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Bankruptcy

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ing to the American Bankruptcy Institute. The data is not available by industry.

Still, while the number of business bankruptcy filings was down in the first half, the number is down from a high level. In 2009, business bankruptcies were up 40 percent from the 12-month period ended in 2008, the highest since 1993.

The number of businesses that succeed in reorganizing through Ch. 11 is low. Studies show that about a third of companies succeed in getting their reorganization plans confirmed in the courts, the final step before emerging from Ch. 11.

But as noted by industry experts interviewed by MDM and by a February 2009 paper, "The Success of Ch. 11: A Challenge to the Critics," by Harvard Professor Elizabeth Warren and University of Texas Professor Jay Lawrence Westbrook, many companies wait until the last minute to enter Ch. 11, when it is already too late to save the business.

On the other hand, success rates for companies who have a plan for reorganization in hand after entering Ch. 11 can reach 70 percent, according to Warren and Westbrook's research. That weeds out those companies that did not have a chance at success when originally filing. Cases for those companies that do not succeed in reorganizing are either dismissed by the courts or are converted to Ch. 7 bankruptcy, where the company's assets are liquidated.

Western Tool Supply succeeded in emerging from Ch. 11 bankruptcy protection this year. Kiker's reorganization plan was approved by creditors and the courts within nine months.

Western Tool Supply's Story

Kiker was a plumber when the recession of the early 80s hit. He started his tool business out of his garage to supplement his income, and that eventually became his main business. "I knew the construction trades well," he says. His father was a builder.

Kiker opened his first store in Albany, OR, and then moved to Salem, OR, where Western Tool Supply's headquarters now are.

He expanded throughout the Pacific Northwest. "As the market grew, we grew," he says. In fact, excluding the past few years, the company has grown at an average annualized rate of 25 percent per year for 27 years.

In 2001, he acquired a chain of stores in California named Post Tool, and in 2002 expanded into the mountain states with an acquisition. The distributor continued to grow through both organic and acquisitive growth.

In 2004, Western Tool Supply moved into western Canada with the acquisition of House of Tools. Sales in Canada grew to about $50 million. Around the same time, the distributor bought a company with 13 stores in New England called Woodworker's Warehouse/Trendlines.

At its peak, Western Tool Supply reached $127 million in sales, 75 stores and 500 employees. "And then it all came crashing down," Kiker says. The U.S. crash was big – with housing starts falling 74 percent from January 2006 to August 2010 – but Kiker says that western Canada, where most of his business was, was also hit hard by a deep decline in the oil industry, and that had an impact on his markets there.

While Kiker was fighting to meet his obligations to banks, vendors and others, his channel partners and customers were also struggling. Suppliers were downsizing or being acquired. Customers struggled to pay their bills. "We had huge losses in our receivables," Kiker says. "We didn't get paid, so we couldn't pay. It was just a big meltdown."

Kiker filed for bankruptcy in Canada first, and soon after closed operations there. He filed for Ch. 11 in the U.S. soon after. He then shifted his focus to saving his U.S. business. As Kiker put it, there were "two raging infernos and only one fire hose."

He expects to reach up to $16 million in sales this year from a much smaller footprint in the U.S.

The Perfect Storm

Like many distributors, Western Tool Supply's already precarious position due to its exposure to residential construction markets was made worse by the turmoil in financial markets, which peaked in late 2008. Banks have either shut down credit lines altogether, or decreased the percentage value of assets that they would lend on – at a time when the value of those assets has dropped. For distributors serving construction channels, the challenge has been even greater.

"On the corporate level, banks are saying we have too much exposure into this channel," Kellick-Grubbs says. "… Our industry is persona non grata to banking institutions."

This credit squeeze was the main reason Washington-based fastener importer STO Industries filed for Ch. 11 bankruptcy protection last year. STO's bank, with a large portfolio of loans linked to real estate markets, started calling

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loans due.

As a result, President Jacob Davis' line of credit also came due – within four weeks – despite the fact STO Industries had never missed a payment. He could not pay in the time frame set by the bank, and no other banks were lending.

Compounding the problem, STO Industries, which sources product from Asia, stocked up before the Beijing Olympics in the summer of 2008. "Every factory said there would be a huge bottleneck that would take months to clear out," Davis says. But the bottleneck never materialized, and Davis' orders came in all at once – right when financial markets crashed at the end of 2008 and demand tanked.

"The only reason we filed (Ch. 11) was because the bank called the note," Davis says. "And our dollars were tied up in inventory."

When attempts to come to an agreement outside of court failed, Davis says his only recourse was filing for bankruptcy protection. The company's plan of reorganization includes payments over several years to the bank, providing STO with the ability to continue investing in the business.

Like Kiker, Davis never thought twice about his decision to continue, though filing Ch. 11 did briefly rock his confidence. "You second-guess your ability as a business owner," he says.

But after 25 years of success, Davis says he recognized his company had been the victim of a perfect storm. "The reality is that it was a situation that was unavoidable by many of us. It was one blip in time," he says. "You know that time is what makes things right. And if you believe in your business, you will stick with it. There's no other choice."

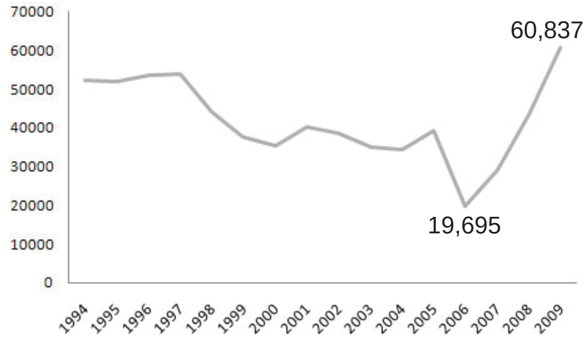
What's more, he says, others depended on his decision to move forward – namely his factories and employees. "A lot of responsibility comes along with whether you're going to keep at it or not," he says. "There was no thought not to do it."

Channel Impacts

Distributors in the hardest-hit sectors or regions continue to struggle with the hard decisions required to survive and thrive. But when facing trouble, some have done too little, and acted too late. If they lose a big receivable or a bank pulls a note, it can push them over the edge. "These markets are very finely balanced," Indian River Consulting Group's Mike Marks says, and a bankruptcy filing can come quickly.

STO Industries and Western Tool Supply have both succeeded in reorganizing so that they could continue business, but, as noted above,

U.S. Business Bankruptcies: 1994-2009



Data includes Ch. 7 and Ch. 11 bankruptcy filings.
Source: American Bankruptcy Institute

two-thirds of Ch. 11 bankruptcy filings do not result in a reorganization plan, but instead are dismissed or converted to Ch. 7 bankruptcies – leaving a gap in the market. In Ch. 7, businesses liquidate and capacity leaves the market. Competitors pick that up.

Hoboken Wood Flooring, Wayne, NJ, a nearly $600 million wood flooring distributor, filed a voluntary Ch. 7 bankruptcy petition in 2007. Sales losses over that year were attributed to the housing downturn, competition from manufacturers going direct, and the company's push to expand nationally.

Hoboken was the largest in its sector, and its bankruptcy and closing had long-reaching effects. Among them: the shifting of a large volume of sales to the next largest in the industry, including J.J. Haines and Company Inc., Glen Burnie, MD, and other former competitors. "All of a sudden $600 million in sales dropped into someone else's lap," Marks says.

The closing of a distributor also affects vendors. Suppliers are likely to look for another distributor or distributors to pick up the sales capacity they lost. Depending on the sector, they may also ask those distributors to drop other lines to make room.

The recession and credit strain has also had an impact on relationships thanks to an increased diligence when extending trade credit. Distributors across sectors continue to see declines in available credit from suppliers and other companies they do business with. Payment may be expected upfront. "A lot of the elasticity is gone to absorb anymore of the hits. People are a lot more rigorous in who they choose to do business with," Kellick-Grubbs says.

Proactive Communications

To offset potential issues with customers or vendors, both Western Tool Supply and STO Industries made communication a priority.

"It didn't take long for our competition to hear about the filing," Davis says. "But when it happened, letters were already composed, and we were already on the phone talking to the customers. It was the same with the factories."

Davis says customers were supportive – that may in part be due to the fact they were feeling the pain of the recession, as well. "That was a big motivator to keep going. The emails flowed in telling us that they were going to support us."

Kellick-Grubbs says that distributors should make it clear to their vendors what steps have been taken to turn the business around, and what the next five steps will be. "So that vendors know you have a plan, that you're on top of it, and that things are improving," she says.

But while filing for bankruptcy may not have the stigma it used to – especially in this most recent downturn – it will continue to be a last resort for many businesses. "If you're going through it, it's the last thing you want to do," Kellick-Grubbs say. "Our industry is full of high-integrity people; it's the last thing they want."

In Hindsight

If he could go back, would Kiker do anything differently? "I think we made a mistake – and everyone else did, too – in thinking that the good times were going to go on forever, that they were never going to stop," he says.

"Going back, I should not have assumed those times were going to go on forever. Because they certainly did not. And when they stopped, nobody could have seen that it would get so bad so quickly for so long."

But, he says, you can't undo what happened. You just have to deal with it. "Would I have done things different? There's not much point in second-guessing. Put your energy into improving, and move on." That's now Kiker's focus.

He seems to have reemerged with a much smaller but stronger company intent on diversifying end-markets outside of residential construction and trying new strategies, including expanding his outside sales force, and expanding its website. The company is also trying Facebook, Twitter, YouTube and blogs to reach new and younger customers.

Companies like Western Tool Supply – restructured and refocused after the worst recession in recent history – that are focused on growing smarter in the 'new normal' are likely to come out ahead.

"The whole industry is going to have to rebuild in some sense. We feel like we're starting over," Kiker says. "We have a chance to keep this going – but it's a whole different ballgame now."

Interview: Factors that Contribute to Success in Ch. 11 Bankruptcy

MDM spoke with Howard Levine, partner at Sussman Shank LLC in Portland, OR, and attorney for Western Tool Supply in its reorganization through Ch. 11 bankruptcy. He spoke about the process and what factors make success more probable.

MDM: Provide an overview of what it means when a company files for Ch. 11 bankruptcy protection.

Howard Levine: The bankruptcy code is simply a tool that's available to companies in financial distress that empowers the company with certain provisions of the law to change agreements that it has with its creditors. In its simplest form that is what bankruptcy is. What Ch. 11 does to a large extent is changes the leverage between the debtor and its creditors.

In Ch. 11 the idea is that the creditor and debtor are supposed to get together and figure out a business solution to their problems. In my view, it's a shared problem. Through this process the idea is to negotiate a resolution where parties recognize the strength and weakness of each other's position, incorporate that resolution into a large business plan that considers the interest of other creditors, to utilize the bankruptcy code to improve its balance sheet and improve its business operations, and develop a reorganization plan – essentially a contract with all the creditors – and get it approved by the court. And then honor the contract after Ch. 11.

MDM: Have creditors been more willing to work things out with debtors due to economic conditions?

Levine: The answer is a qualified maybe. There is recognition in many quarters that you need to work things out because it is a shared problem. The lenders don't want the collateral back when they can't sell it. They can't sell a half-built subdivision but they don't want to finance the debtor to finish it. So what do you do? That's a difficult business problem for the bank – because the banks for regulatory reasons and for internal reasons don't really want it back, and they don't want the responsibility of dealing with it.

My experience with banks for the past two years has been that banks sometimes make bad business decisions because of regulatory pres-

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sures put to bear on the bank. Or you have the issue of lender paralysis where they can't or won't make a decision. The other side of that is that some banks are extremely cooperative because the alternative of being difficult is not in its best interest.

MDM: Have vendors been more flexible?

Levine: They are in a conundrum themselves. They have two problems. They have a large receivable that they may not be able to collect from a customer that may be important to them and that they may not be able to replace.

… The bankruptcy code does provide for payment of trade debt on a high-priority – it's called an administrative expense claim. There are protections in the bankruptcy laws for people who supply credit to debtors in Ch. 11. Some vendors are willing to accept that; others are not.

MDM: How long does the process take?

Levine: It varies by company, industry, personality, by bank, by motives, by skill, by expectations. There is no time frame I could tell you with any confidence. There are timeframes that are built into the process. Different judges in different places will be more or less flexible on shortening time and compressing processes to accommodate a debtor or a circumstance.

… There is a lot to be said for discussing issues before bankruptcy. Sometimes you can work things out in advance and have a pre-packaged plan. When you file you move forward and get it approved by the court very quickly. The court likes to see progress and likes to see people getting along and working together to have a plan confirmed.

There really is no reason not to talk. But it can be hard for people to work things out at least initially. It is a negotiated process. ... Very few Ch. 11s succeed if everyone is litigating.

MDM: How often does a company get sold after filing bankruptcy?

Levine: What's being sold is usually not the company but the assets of the company. You have a company in Ch. 11 – it's a viable business – but it can't be reorganized for one reason or another. So to pay your creditors you can sell assets. It is usually a court-supervised auction. It happens with more frequency now than it used to. It's a particularly good tool for the acquiring company to buy assets.

MDM: When an economic downturn occurs, when do you see the most bankruptcies?

Levine: When the economy starts going badly we get a lot of efforts to restructure either informally or formally through Ch. 11. The most successful time in my opinion for companies to emerge from Ch. 11 is not when the economy is starting to fail. The most successful time is when the economy is turning around.

If you file Ch. 11 on the way down, the opportunity to reorganize is going to be jeopardized. Because even if you shed old debt, you still are struggling in a bad economy. It's difficult to pull the airplane out of a dive.

Contrast that with the economy that has bottomed and the problems behind you. You have a much better opportunity to tell the court that things are getting better and that you can improve. Filing Ch. 11 when the economy is turning around is a very good tool if you need to use the provisions of bankruptcy to help you.

MDM: What factors can contribute to success in a Ch. 11 filing?

Levine: The outcome of the case can depend on the quality of the client and the company, the quality of the lawyer, the ability of lawyers to get along, the ability of lawyers to persuade their clients to do certain things, the integrity of the client and how much the creditors like the owner of the company. You can't discount the human aspect of Ch. 11. It is not entirely cold and sterile.

I think it's not a good idea to file Ch. 11 and not have a business plan on how you're going to extricate yourself. Ch. 11s are often filed like that. Some are filed because a foreclosure is about to happen, and the company decides to go to a lawyer at the last minute. I think you should have a pretty good idea of what you want to accomplish before you go in. Ch. 11 will not make a sick business well.

MDM: What else should companies keep in mind about this process?

Levine: It is very expensive and time-consuming. It is a drain on management and a distraction. That hurts business. There's a lot of paperwork. You have to go to court. You have to testify. These are all unpleasant things.

But there are successes in Ch. 11. And the bankruptcy code does a pretty amazing job of providing a vehicle for a range of businesses to restructure.

■ *MDM Interview*

Common Pitfalls with VMI

Analyze & improve processes before automating: 'Don't pave the cow path'

The weak economy has led to more companies looking for new ways to improve their bottom lines. Vendor Managed Inventory has been growing in popularity, but according to Thomas A. Kozak, president of Pan-Pro LLC, it is also easy to do wrong. Kozak spoke with MDM about how to avoid the common pitfalls.

Kozak recently presented "10 Ways to Not Benefit from VMI Programs" at the 2010 IDEA E-Biz Forum, sharing lessons from his 36 years in supply channel optimization.

MDM: How do you explain VMI in practical, concrete terms?

Thomas A. Kozak: VMI is defined as everything from putting a supplier's employee in place at a customer to write orders to moving ERP calculations from the distributor to the supplier or an outsourced cloud, all the way to advanced Supply Channel Optimization (SCO).

In my presentation at IDEA, I defined VMI with a beautifully crafted message where every word has significant meaning, and it tells Pan-Pro's approach to Supply Channel Optimization.

But in practical, concrete terms, VMI is eliminating work, not automating it. And VMI is giving our teams the tools to do their functions better, not just to do what they have been doing faster. Those that let go of how we did things and instead focus on how we can do things now and how we can do things in the future, they can add great value for their company and their supply chain partners.

MDM: What do you think is the biggest or most common mistake companies make when implementing VMI programs?

Kozak: There was an author who really radically changed my thinking of business and IT with his wonderful characterization of the biggest mistake. It was 1990, and Dr. Michael Hammer wrote in the Harvard Business Review: "It is time to stop paving the cow paths."

In other words, don't take the approach of automating what we've been doing because it's what we've been doing, but rather think about what we could or should be doing and automate them.

MDM: How difficult is it to get the companies you work with, particularly their executives, to understand that it's about new processes, not necessarily keeping to old processes?

Kozak: Our experience is quite varied in that area. I think it's up to the leadership of the distributor and the manufacturer. If we're going to change direction, if we're going to stop paving the cow path, they're going to have to set the tone. They're going to have to lead the way. It's not that hard.

MDM: Where should the leadership come from for these initiatives?

Kozak: Leadership comes from and at many levels, but it starts with solid support from the top. I have found that when the top executives from both companies work together to set clear fact-based expectations for success and communicate those expectations to their entire team, warehouse to executives, that's when success happens. If the team isn't ready, it's the executives who can provide the impetus to get ready.

Sometimes people have comfort zones and what we're doing with Supply Channel Optimization is outside of some people's comfort zones. Others embrace it fully and run with it. When people come to us, they often have a very clear understanding of what their objective is.

When there's a challenge, it's usually cultural, not technical. Our teams can get so used to doing things the way they have always been done, sometimes there's just resistance to doing something a new way.

MDM: At the E-Biz Forum, you mentioned that several companies approach VMI or SCO from an IT perspective. Could you expand a little bit on how businesses treat VMI as a technical endeavor? How should companies approach it?

Kozak: If you're going to turn on and benefit from a more advanced Supply Channel Optimization program, it's going to require a little bit of work from IT. That IT effort is required at the start of the process and the relationship; we have to get that data flowing between the two companies. But a successful program requires a lot more than just managing that data flow.

Focusing on just the IT element can delay progress on implementation. IT is perennially busy, and IT can be inclined to conceptualize everything as a "project," something that is defined and then completed, and then it's done.

Supply Channel Optimization is a tool for an ongoing relationship where two supply chain partners are working together at many levels, commercially and technically, to beat the competition. So the IT part tends to be very front-loaded, and then it's a commercial program. It's ongoing collaboration at many levels, not a "project."

MDM: What ongoing role does IT have?

Kozak: It's an important role, but it's not a continuous role. IT's role in this initial project is to get the data flowing between the two companies, and that will keep happening if nothing changes – that's a big "if."

What if the company's ERP provider has a new release, or the business closes a warehouse and changes its logistics strategy? When those kinds of changes happen, if we've got a successful SCO program together, it's imperative the data flow doesn't break with those changes. As we slice the data more and more thinly, it's even more important that we have correct and reliable data. That's IT's role.

MDM: What sort of metrics should be used to measure the effectiveness of a VMI program?

Kozak: We should use the metrics that are applicable to managing our inventory assets to meet our macro business goals.

We should address another idea before we go on with the metrics, however: What's the difference between item management and asset management? I used these two terms in my presentation at IDEA, and they are important to evaluating the SCO process.

Item management is when the team members are focused on micro level components of individual parts of a product line. At this level we see people reviewing individual item's order points, days' supply, three-month moving averages and the like on reports or queries of the system, and on reviewing and changing generated orders.

Asset management is when the entire team is focused on how a product line is performing as a whole. Here we see questions like "What is the trend on the Key Performance Indicators for the line?" "Is my end customer service level where I want it to be so my business beats the competition?" "Is my dead inventory being managed to the level needed for financial performance?"

And if the KPI results are not in line with the overall business goals, then the business and the relationship is changed as needed. We don't go back to looking at the order point of an individual item.

For inventory optimization and asset management, the calculations are complex and the items interdependent. If we focus on individual items and overriding individual settings, we miss that chance to get more performance out of that asset.

That said, a focus on asset management also frees time for team members to gather and provide market intelligence, knowledge about the future of the business that is not consistent with the past. Replenishment is like trying to drive down the highway while you're looking in the rearview mirror.

When the team members are not focused on this item management level, they can have time to learn and communicate to the system this big picture, the "here's what you don't know from the history."

MDM: Can you provide some specific examples of metrics that can be used?

Kozak: In the most successful SCO programs, the focus is on one of two metrics; how is the supply chain doing together to service end customer demand or the focus is on is our inventory asset investment where we want it in relation to sales. The shorthand for that is Fill or Turns.

Supply Chain Optimization, unlike VMI, is focused on achieving the goal – Fill or Turns – while providing the best possible performance for the secondary metric. So for example, we may have a distributor that feels their path to greater profitability and market dominance is to provide better service than their competitor down the street.

Many distributors choose to differentiate by providing higher fill to that end customer, by having the product that the end customer wants when the customer shows up to buy it. But you don't want to just have the product, you want to do it at a level of investment that makes your business make sense. That's where SCO comes in.

If a supply chain is not achieving the primary goal, there are many supporting metrics, still at the asset management level, that can guide us together to determining what business changes are needed to achieve the goal. And often, those changes can be pretty simple.

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Industrial & Construction Markets Update

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Wolseley Sales for Fiscal 2010 Down 9% from Last Year

U.K.-based Wolseley, No. 1 on MDM's list of top 40 industrial distributors, reported sales for the fiscal year ended July 31, 2010, were £13.2 billion (US$20.9 billion), down 9 percent from the prior year. On a constant currency basis, sales were down 10 percent.

The distributor of heating, plumbing, PVF and building materials in Europe and North America recorded a loss of £340 million (US$538.9 million), compared to a year-ago loss of £1.17 billion.

"Demand across our markets remains mixed and the economic outlook continues to be unclear," said Ian Meakins, chief executive. "Revenue growth in the early part of the current financial year is similar to that seen in Q4 last year. We will continue to take actions that will strengthen the business and, whilst overall we remain cautious about the outlook for our markets, we are confident that Wolseley will make good progress in the year ahead."

Disposals

Due to ongoing losses at Stock Building Supply – in which Wolseley maintained a 44 percent interest after a joint venture in 2009 – Wolseley has written off the carrying value of £41 million.

During the first half, the group sold its business in Ireland and completed the previously announced disposals of the Czech, Belgian and Slovakian plumbing and heating businesses in Central and Eastern Europe. In the second half of the year the Public Works business in France was sold for £7 million.

The Group disposed of the small Friosol business in Central and Eastern Europe for £3 million. Overall, the businesses disposed of in the year contributed revenue of £95 million and trading losses of £7 million and dispos-

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Duncan Industrial Solutions Inc., Oklahoma City, OK, has been acquired by **BlackHawk Industrial Distribution**, Inc., Dallas, TX. Duncan is the first acquisition for BlackHawk, a new industrial distribution platform created through a partnership between Bill Scheller, former CEO and president of ORS Nasco, and Brazos Private Equity Partners, LLC.

The Board of Directors for **Airgas**, Inc., Radnor, PA, reappointed CEO Peter McCausland to the board to serve as a director. The board also unanimously appointed John C. van Roden Jr. to serve as chairman. McCausland was ousted as chairman and director by shareholder vote in a proxy battle instigated by the **Air Products** hostile takeover bid.

A special committee of Atlanta-based **BlueLinx Holdings** Inc. has recommended that stockholders accept the pending tender offer to sell their shares to **Cerberus ABP Investors** LLC. Cerberus recently raised its offer price to $4 a share, up from $3.40 a share.

Carlisle Companies Inc., Charlotte, NC, has sold **Trail King Industries**, Inc., its specialty trailer business. Trail King had year-to-date sales of $69 million through the third quarter of 2010.

Thomas & Betts Corp., Memphis, TN, has acquired **Cable Management Group**, Ltd., a privately held, global manufacturer of cable protection systems specified in industrial and infrastructure/construction applications, for £70 million (US$110 million) from available cash reserves.

Diversified industrial manufacturer **Eaton** Corp., Cleveland, OH, has completed its purchase of **CopperLogic**, Inc., a manufacturer of electrical and electromechanical systems.

Washington, D.C.-based **Danaher** Corp., has agreed to acquire **Keithley Instruments**, Inc., Solon, OH, a manufacturer of complex electronic instruments and systems. Keithley will become part of Danaher's Tektronix business.

Diversified industrial company **Actuant** Corp., Butler, WI, announced plans to divest its European Electrical business, which markets its products primarily under the Kopp brand name. The European Electrical business has previously been reported as part of the company's Electrical segment.

Actuant reported sales for the fiscal year ended Aug. 31, 2010, were $1.16 billion, up 4 percent over fiscal 2009. Core sales increased 2 percent. Profit increased 75 percent to $24 million. Fourth-quarter sales were $310 million, an increase of 19 percent, with core sales increasing 18 percent. The diversified industrial company recorded a fourth quarter loss of $16.8 million, compared to a year-ago loss of $16.5 million.

Fairmont Supply, Canonsburg, PA, expanded by opening the Fairmont Supply Oil & Gas Division in Washington, PA. It will supply gas and oil exploration and production companies with products including pipe,

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MARKETS UPDATE SUPPLEMENT P. 2

Online Resources

View company or sector news at mdm.com/company-news or www.mdm.com/sector-news.

MDM News Digest
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valves and fittings, safety equipment, hose and rubber products, general industrial tools and others.

Carmel, IN-based **Schlage Lock Company** LLC, a business unit of **Ingersoll Rand**, has acquired the Door Hardware Division of **Fusion Hardware Group**. Fusion manufactures decorative door hardware and accessories, including knobs, levers, deadbolts and keyed entry plates.

North American HVACR median distributor sales increased 15 percent in August compared to last year, according to the latest Monthly Targeted and Regional Economic News for Distribution Strategies (TRENDS) report, released by Heating, Airconditioning and Refrigeration Distributors International.

Manufacturing expanded in September, according to the latest Manufacturing ISM Report on Business. The **Purchasing Managers Index** stood at 54.4, a decrease of 1.9 percent points from August. September marks 14 consecutive months of growth for manufacturing and 17 consecutive months of growth for the overall economy.

Construction spending in August 2010 was estimated at a seasonally adjusted annual rate of $811.8 billion, 0.4 percent above the revised July estimate of $808.6 billion, according to the U.S. Census Bureau of the Department of Commerce. During the first 8 months of this year, construction spending amounted to $539.4 billion, 11.2 percent below the $607.5 billion for the same period in 2009.

The **transmission/motion control (PT/MC) industry** experienced rapid expansion during the second quarter, according to the inaugural Quarterly Business Index released by the Power Transmission Distributors Association. The overall reading of the association's distributor and manufacturer members revealed an index of 77.0. A reading above 50 indicates growth.

Real gross domestic product - the output of goods and services produced by labor and property located in the U.S. - increased at an annual rate of 1.7 percent in the second quarter of 2010, (from the first quarter to the second quarter), according to the "third" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 3.7 percent.

The **Canadian Industrial Product Price Index** (IPPI) increased 0.4 percent in August compared with July, led by primary metal products, according to Statistics Canada. The **Raw Materials Price Index** (RMPI) rose 2.2 percent, mainly as a

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Calculation of MDM Inflation Index for August 2010

		BLS Price Indices Aug. '10	BLS Price Indices Jul. '10	BLS Price Indices Aug. '09	% Sales Weight	Weighted Indices Aug. '10 (1)X(4)	% Change Aug. '10 Jul. '10	% Change Aug. '10 Aug. '09
1136	Abr. Prod.	511.2	517.1	511.8	19.1	97.64	-1.15	-0.12
1135	Cutting Tools	454.7	455.5	452.0	18.9	85.94	-0.18	0.60
1145	Power Trans.	727.6	721.0	719.8	15.4	112.05	0.91	1.09
1081	Fasteners	483.7	486.6	470.7	9.0	43.53	-0.61	2.75
1149.01	Valves, etc.	873.8	872.8	859.4	7.6	66.41	0.11	1.68
1132	Power Tools	339.4	338.1	337.4	6.5	22.06	0.39	0.59
1144	Mat. Handling	525.8	525.5	520.9	6.2	32.60	0.05	0.94
0713.03	Belting	644.1	638.9	622.5	6.1	39.29	0.81	3.46
1042	Hand Tools	731.8	731.8	739.6	8.1	59.28	0.00	-1.06
108	Misc. Metal	457.1	456.8	452.0	3.1	14.17	0.06	1.12
"New" August Index		299.4	August Inflation Index			572.96	-0.01	0.90
"New" July Index		299.4	July Inflation Index			573.01		
			August 2009 Inflation Index			567.83		

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

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U.S. MARKET ANALYSIS: Machine Tool Accessories

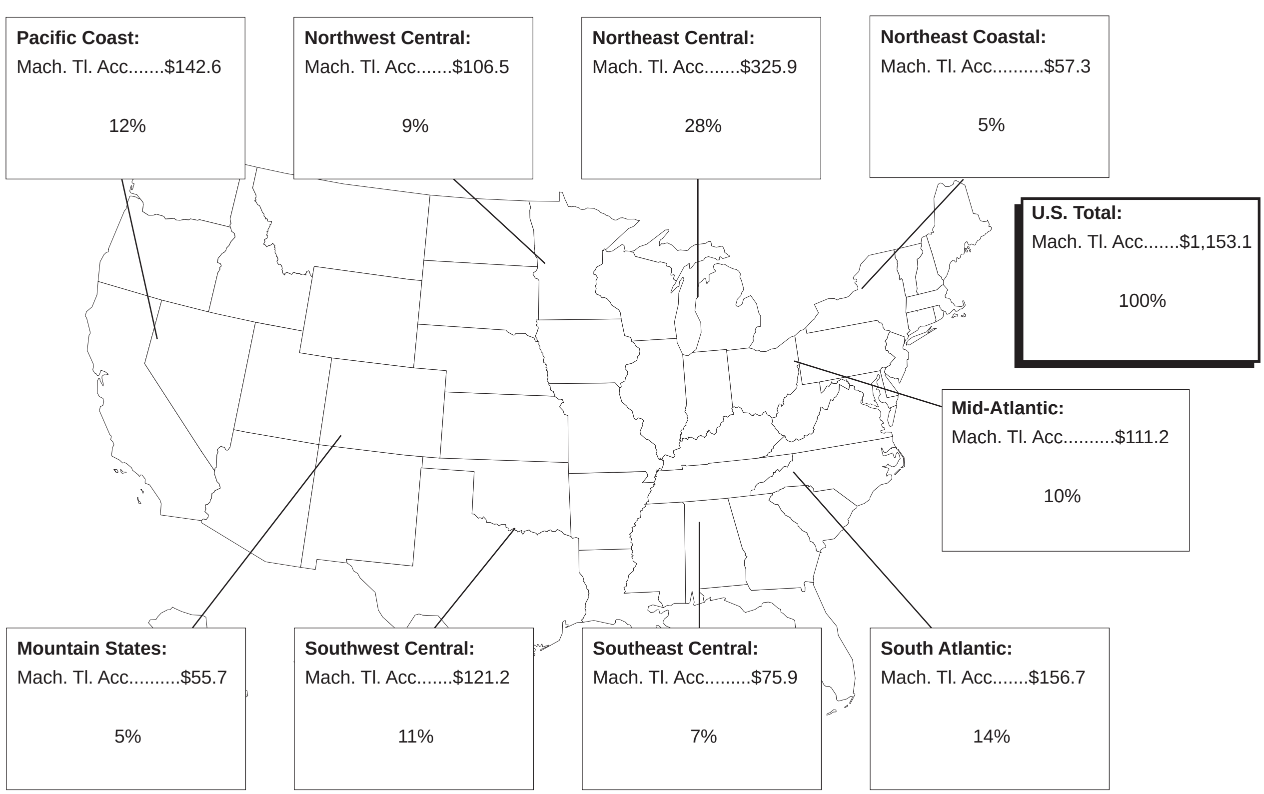
Machine Tool Accessories represented a market in 2009 of $1.15 billion, according to estimates by Industrial Market Information, Minneapolis. These charts show the top ten industries, by SIC code, consuming these products; and the 2009 end-user consumption of these groups sorted by the nine government market regions.

Top ten industries in $ volume, by SIC code consuming Machine Tool Accessories

(2009 estimates)

SIC CODE	Companies	Machine Tool Accessories
3714 Motor Vehicle Parts & Accessories	5,239	124,619,737
3711 Motor Vehicles & Passenger Car Bodies	2,243	74,616,029
1711 Plumbing, Heating & Air Conditioning	168,664	60,926,754
3599 Industrial/Commercial Machinery & Equipment, NEC	28,610	57,605,569
1731 Electrical Work	112,113	42,571,119
3724 Aircraft Engines & Engine Parts	725	42,275,680
3531 Construction Machinery & Equipment	3,294	40,622,303
3721 Aircraft	1,496	33,070,958
3544 Special Dies & Tools, Die Sets, Jigs & Fixtures, Industrial Molds	6,682	32,106,819
3523 Farm Machinery & Equipment	2,953	31,604,184

End-user consumption of Machine Tool Accessories by region, millions of $ (2009 est.)



Source: INDUSTRIAL MARKET INFORMATION, INC. (763) 535-7432. © 2010 Industrial Market Information, Inc., Boulder, CO. All rights reserved. Industrial Market Information has more than 200 industrial product profiles available at the county level. www.imidata.com

Wolseley

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als improved Group profitability by £27 million. Since the year end, Brandon Hire in the UK was sold. Total cash consideration was £43 million, and in the year ended 31 July 2010, the business generated revenue of £70 million and a trading profit of £5 million.

By Region

Ferguson, Wolseley's U.S. company, reported 2010 sales declined 11 percent to £5.17 billion (US$8.22 billion). In the fourth quarter, the company recorded organic growth for the first time in three years as new residential and RMI markets continued to recover. Trading profit was £239 million (US$380.2 million). U.S. sales account for about 39 percent of group revenue.

In Canada (6 percent of group revenue), sales were £765 million (US$1.21 billion), an increase of 9 percent, or a decline of 3 percent in constant currency. Trading profit of £41 million (US$65.2 million).

U.K. sales (19 percent of group revenue) declined 9 percent, primarily a result of disposals and branch closures during the year. Sales were £2.47 billion. Trading profit in the year of £91 million was £36 million ahead of the prior year, £23 million of which arose from the exit of the business in Ireland. RMI sector continues to experience gradual recovery, while commercial and industrial markets remained weak.

Nordic region sales (15 percent of group revenue) declined 8 percent in constant currency to £2 billion. Trading profit increased 4 percent to £100 million.

Sales in France (15 percent of group revenue) were £1.93 billion, down 10 percent (11 percent in constant currency). Trading profit was £30 million, down 6 percent.

Central and Eastern Europe sales (6 percent of group revenue) declined 11 percent.

The company has also introduced a proposal to move its headquarters to Switzerland.

MDM News Digest

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result of higher prices for non-ferrous metals.

The **Chicago Fed Midwest Manufacturing Index** (CFMMI) decreased 1.4 percent in August, to a seasonally adjusted level of 79.9. The Federal Reserve Board's **industrial production index for manufacturing** (IPMFG) edged up 0.2 percent in August. Regional output in August rose 8.5 percent from a year earlier, and national output increased 6.5 percent.

The **Chicago Fed National Activity Index's** three-month moving average, CFNAI-MA3, declined to -0.42 in August from -0.27 in July. August's CFNAI-MA3 suggests that growth in national economic activity was below its historical trend, according to a press release.

New orders for manufactured durable goods in August decreased $2.5 billion or 1.3 percent to $191.1 billion in August, according to the latest release from the U.S. Census Bureau. Down three of the last four months, this decrease followed a 0.7 percent July increase.

Sales of power transmission/motion control (PT/MC) products by U.S. manufacturers dropped in July by 1.3 percent compared with the previous month, and Canadian manufacturers' sales dropped by 12.3 percent according to July 2010 sales data released by the Power Transmission Distributors Association (PTDA) in its Market Outlook Report.

Privately-owned housing starts in August 2010 were at a seasonally adjusted annual rate of 598,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. This is 10.5 percent above the revised July estimate and 2.2 percent above the August 2009 rate.

Worthington Industries, Inc., Columbus, OH, reported sales of $616.8 million and net earnings of $23.3 million for its fiscal 2011 first quarter.

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