

Intelligence for Wholesale Distribution Professionals

MDM/Baird Survey: Playing Catch-Up

After slow start to the first quarter, March 'comes to life'

Robert W. Baird & Co., in partnership with Modern Distribution Management, conducted a survey of about 500 distributors and manufacturers to gauge business trends and the outlook for the distribution industry in diverse sectors. Here is a summary of first-quarter results and distributor and manufacturer expectations for 2014.

Revenue growth in the first quarter was lower than expected for respondents to the first-quarter 2014 MDM/Baird Distribution Survey. First-quarter revenues, on average, were up 2.2 percent overall, lower than the 4.3 percent growth forecast in the fourth-quarter survey.

Respondents expect revenues to grow 4.1 percent in the second quarter of 2014 and 4.9 percent for the full year.

Harsh winter weather during the first quarter may have delayed some expected sales, according to respondents, but many view it as opportunity going forward. As one industrial distributor noted: "March

is coming to life; there's a catch-up going on."

Excluding weather, underlying business trends for most survey respondents were stable (53 percent) or accelerating (36 percent). This result carried across sectors, with 80 percent or more of respondents in most sectors identifying trends as stable to accelerating. PVF - water & sewer was the exception with slightly fewer – 70 percent to 80 percent.

PVF - water & sewer once again posted the strongest revenue growth in the quarter, with average increases of 8.1 percent. Much of the growth in this segment was attributed to depletion of unfinished residential lots, which necessitates new investment.

Two segments reported revenue declines in the first quarter. Fasteners saw the largest decline, falling 1.1 percent in the quarter. Roofing fell 0.6 percent, but respondents in this segment are expecting

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Commentary: Target Markets, Efficiencies & Standing Out

Thought leaders share their insights about succeeding in today's market.

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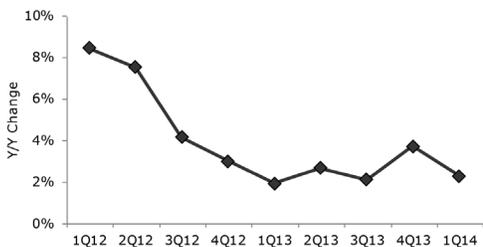
MDM's quarterly look at inflation trends for dozens of product groups.

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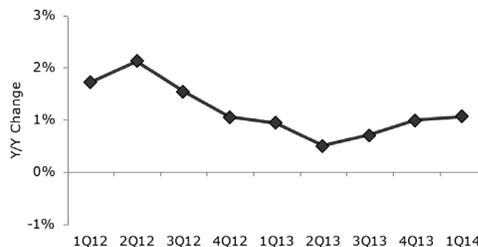
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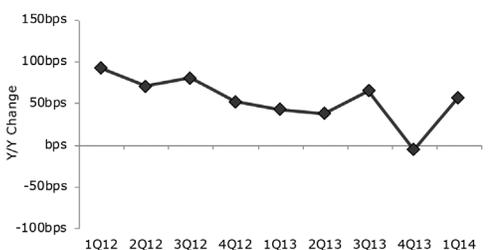
1Q14 Revenues +2.2%



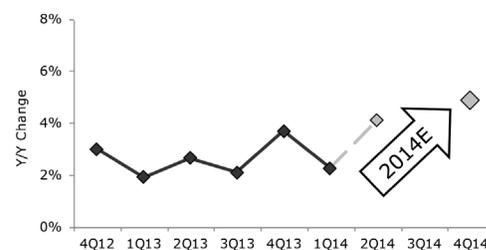
1Q14 Pricing +1.1%



1Q14 Gross Margins +60bps



2Q14/2014 Revenue Outlook +4.1%/+4.9%



PERSPECTIVE ■ Commentary by Lindsay Konzak**Insights from mdm.com: Target Markets, Efficiencies & Standing Out**

On mdm.com, we not only feature our premium content that you read in this newsletter twice a month, we also feature ongoing blogs with insights from thought leaders in the industry, breaking news and extra features such as video interviews and Premium Extra bonuses.

Here are some of the insights presented on mdm.com that you might have missed in the past month:

To define your target market, Bob DeStefano writes in "Embrace the Marketing Paradox: There are Riches in Niches," consider industry, geography, demographics and psychographics. How will you know if you've found an ideal niche? He says the ideal will have a specialized need or interest that you can meet, it's easy to market to them, it's large enough to support your business and they have the economic resources to support your product.

To be successful online, design your website for your customers with an eye toward making it easy for them to do business with you, DeStefano writes in "Is Your Website Customer-Focused or Egocentric?" And make sure that your website is aligned with your overall business strategy and marketing objectives.

To make your facility more efficient, consider whether your warehouse design increases productivity, decreases operations cost and

improves customer service levels, which Lee Schwartz writes about in "What's the Shortest Path Between Two Lines?" Does your layout make sense? If what is received has to also be inspected, but receiving and inspection are on opposite sides of the warehouse, what can you do to change that?

To "turbocharge" your profitability, Jonathan Byrnes writes in "Turbocharge Your Strategic Account Management," use three important profit levers: profiling and account selection, pricing and product portfolio, and supply chain integration.

To stand-out in a changing market, Steve Epner writes in "How Distributors Can Survive in a 'Random-Access' World," distributors need a value proposition that can be justified by the customer. And when they determine what that is, they must be able to measure or quantify the value and break down what they do into measurable functions.

Get more insights from MDM's blog at mdm.com/blogs. If you'd like to contribute, please reach out to us at editor@mdm.com. We have a blog category called Industry Insiders and encourage distributors and manufacturers in particular to contribute their take on current issues and trends or to share what they are doing with our audience.

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MDM/Baird Distribution Survey

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a much stronger second quarter with revenue growth of 6.6 percent on average.

Across segments, gross margins were up by 60 basis points in the first quarter 2014, and pricing was up 1.1 percent.

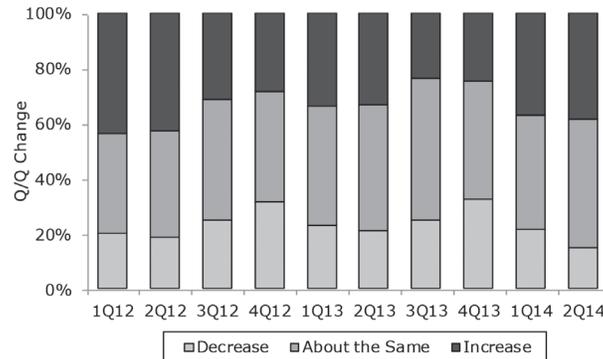
In line with expectations from the fourth-quarter survey, 37 percent of respondents said they increased inventory levels in the first quarter. Slightly more respondents (21 percent) decreased inventory levels during the quarter than said they anticipated doing so in the prior quarter (18 percent).

In the second quarter, 39 percent of respondents expect to increase inventories, with 15 percent planning to decrease, consistent with normal seasonality and implying a normal ramp-up into the summer season.

Here is the breakdown of results:

Industrial supply companies reported mixed results compared with fourth-quarter sales growth. Cutting tools remained the weak-

Inventory Levels, Historical and Expected



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Thirty-seven percent of survey respondents said they increased inventory levels in the first quarter, while 21 percent decreased. Looking ahead, 39 percent plan to increase inventories in the second quarter, with 15 percent expecting to decrease. This expectation is consistent with normal seasonal patterns, implying a normal ramp into the summer selling season.

Current and Expected Revenue and Pricing Levels by Sector

	1Q13 Sales Change	1Q13 Pricing Change	2Q14 Sales Forecast	2014 Sales Forecast	
Building Materials	1.5%	1.5%	5.0%	4.7%	Lumber prices flattish sequentially in 1Q14
Cutting Tools	0.5%	0.9%	3.9%	4.4%	Trends more in-line with Industrial/Mfg MRO
Datacomm	0.5%	1.4%	4.2%	4.0%	Trends appear to remain stuck in neutral for now
Electrical	1.0%	0.3%	3.8%	5.5%	Increased optimism for nonresidential construction
Fasteners	-1.1%	-2.0%	2.5%	2.1%	Pricing on imported product may be set to rise in 2Q
Gases/Cylinder Rental	4.3%	2.2%	5.3%	4.1%	Helium supply vastly improved ex-Air Products
Hoses & Accessories	2.7%	1.1%	5.2%	6.7%	Momentum accelerating after three flat quarters
HVAC	5.6%	2.5%	5.4%	5.4%	Winter weather a benefit despite lost selling days
Mech/Power Trans.	0.4%	-0.7%	1.9%	4.4%	First positive revenue reading since 4Q12
MRO - Industrial/Mfg*	2.4%	0.6%	5.0%	5.4%	Trends in March appear to be reaccelerating
MRO - Non-Mfg*	2.9%	1.1%	3.2%	3.2%	End market growth remains slow, but steady
Plumbing	1.4%	6.5%	1.5%	6.5%	Pent-up demand anticipated after harsh weather
Pool & Spa	0.5%	0.4%	4.7%	7.2%	Underlying industry trends remain broadly positive
PVF - Ind. & Energy	1.9%	1.0%	2.1%	2.8%	2014 revenue forecast essentially unchanged
PVF - Water & Sewer	8.1%	7.1%	7.8%	7.7%	New investment driven by diminishing residential lots
Rental Equipment	3.0%	2.2%	7.3%	6.9%	Feedback suggests increased Spring activity
Roofing	-0.6%	-0.1%	6.6%	7.8%	Increased optimism for summer selling season
Safety	6.9%	1.2%	1.4%	0.9%	Competitive pressures persist; Staples targeting safety?
Welding Hardgoods	2.2%	2.0%	5.1%	5.6%	Uptick in demand for bigger-ticket items
Overall	2.2%	1.1%	4.1%	4.9%	

*For MRO, manufacturing includes industrial & manufacturing end-markets; non-manufacturing includes institutional, hospitality and other non-manufacturing end-markets. Jan-san results are included in these categories.

est product category, but demonstrated a relatively stable trajectory. Safety was the strongest product category with growth of 6.9 percent. Industrial/manufacturing MRO sales growth slowed during the first quarter with average revenue gains of 2.4 percent, compared with 5.8 percent last quarter.

The end of March marked a shift in sales, as bad weather eased in many areas of the country. "March has taken off pretty strong," one respondent noted. "The activity level has really picked up, even better than sales (results)."

While much attention has been paid to AmazonSupply's recent moves in the industrial space, a new big-box competitor appears to be making more noise now. Respondents have seen Staples "making some noise in safety."

"We've heard that Staples is trying to hire safety specialists," one respondent said, "and they're not being cheap either."

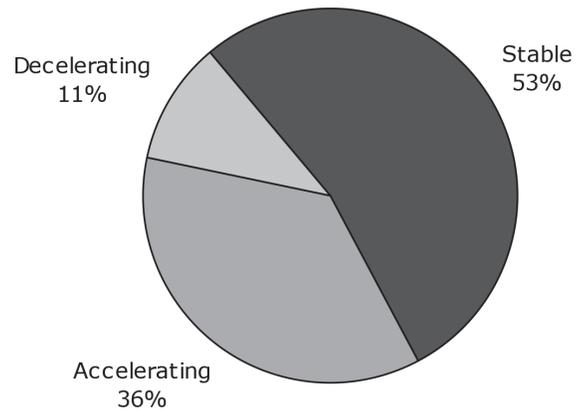
Customers continue to demand more services, according to industrial supply respondents, including vending and other vendor-managed inventory services.

E-commerce remains a focus, but wariness about expanding e-commerce platforms remains. "Ready availability of (online) price comparisons is challenging," one distributor said.

Industrial supply companies expect a mixed bag for the second quarter. Growth is forecast to accelerate in cutting tools (+3.9 percent) and industrial/manufacturing MRO (+5 percent), while the growth rate is expected to slow significantly in safety products (+1.4 percent).

For 2014, safety companies expect revenue growth of 0.9 percent, with industrial/manufacturing MRO companies forecasting an aver-

Excluding weather, how would you classify underlying trends in your business?



age of 5.4 percent annual growth and cutting tools companies forecasting 4.4 percent annual growth.

In industrial gases, gases sales growth outpaced hardgoods for the seventh straight quarter. Gases increased 3.7 percent, while hardgoods increased 1.9 percent.

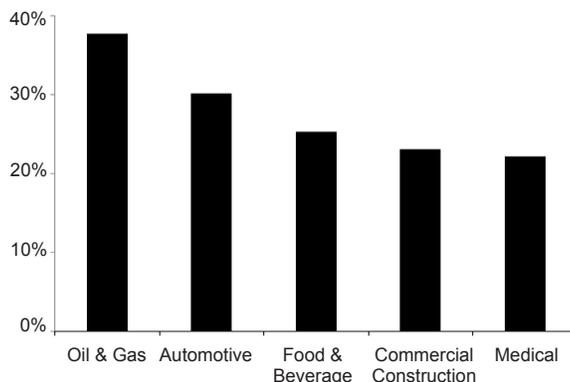
Pricing increased 2 percent for industrial gases. Prices continue to gravitate higher, but within "normal" ranges. "We went out with a price increase and in general aren't seeing any issues," one respondent said.

Expectations for revenue growth in 2014 are in line with the overall average. Gases companies expect revenue to grow 4.1 percent for the year; hardgoods companies are forecasting growth of 5.6 percent. For the second quarter, gases companies expect growth of 5.3 percent, and hardgoods companies expect growth of 5.1

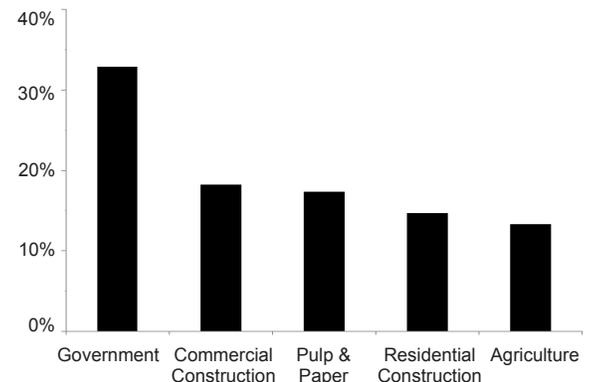
In which end markets are you seeing strength and weakness?

Respondents were asked to identify their strongest and weakest end markets. Here are the top five responses to each question.

Strongest end markets



Weakest end markets



percent.

Ongoing issues with helium supply are showing signs of leveling off for many respondents, while others still see it as “a headache.” “We haven’t seen any movement yet,” one respondent said.

Customers appear to be investing in their businesses again, as demand for bigger ticket items in the hardgoods category has increased.

In **building products**, HVAC saw strong growth in the first quarter (5.6 percent), albeit lower than the 12.8 percent seen in the fourth quarter. Roofing and pool & spa companies, on the other hand, had a relatively stagnant quarter. Roofing fell 0.6 percent, and pool & spa grew 0.5 percent. Non-manufacturing MRO fared slightly better with average sales growth of 2.9 percent.

Cold weather drove up demand for HVAC products during the quarter, even with the loss of some sales days. That same weather, however, “shut off all demand” in roofing, according to respondents.

For both segments, the outlook for 2014 is positive, with demand for roofing materials expected to “break as soon as the weather does.”

For 2014, three of the building products seg-

ments are expected to grow at a stronger pace than the overall survey results. HVAC companies are forecasting average annual growth of 5.4 percent, roofing companies are forecasting growth of 7.8 percent, and pool & spa companies expect growth of 7.2 percent. Non-manufacturing MRO is expected to remain relatively steady with average annual sales growth of 3.2 percent forecast.

Wire & cable companies reported a slowing of sales growth in the first quarter, with revenue growth for electrical companies of 1.1 percent still outpacing datacomm (0.5 percent).

While optimism about increased sales from nonresidential construction has grown, datacomm trends appear to be “stuck in neutral.” “The market isn’t all that robust,” one respondent said. Utilities also appeared to be a strong market in the first quarter.

Pricing trends for both segments were flat to slightly positive on average, but copper prices threaten to be a modest headwind going forward. The outlook for 2014 calls for 4 percent to 6 percent growth.

-Jenel Stelton-Holtmeier

Report: U.S. Industrial Distributors More Optimistic About U.S. Economy

Optimism regarding the direction of the domestic economy rose among U.S. industrial manufacturers during the first quarter of 2014, according to the Q1 2014 Manufacturing Barometer, released by PwC US. The positive sentiment about the prospects of U.S. commerce in the next 12 months reached the highest level since the fourth quarter of 2005.

Conversely, optimism regarding the prospects of the world economy lessened during the first quarter as U.S. industrial manufacturers remained cautious on the global stage.

Optimism around the prospects of the U.S. economy during the next 12 months rose among U.S. industrial manufacturers to 71 percent in the first quarter of 2014, from 68 percent in the previous quarter and 55 percent in the first quarter of 2013. Concurrent with the improved sentiment, uncertainty around the domestic outlook has continued to abate among industrial manufacturers, dropping to 27 percent in the first quarter, representing the lowest level since the first quarter of 2012.

“The level of optimism among industrial manufacturers concerning the direction of the domestic economy continued to rise, with company revenue growth expectations remaining at

healthy levels,” said Bobby Bono, PwC’s U.S. industrial manufacturing leader. “This improved sentiment bodes well for the year ahead, as management teams continue to indicate consistent near-term spending plans, including hiring more workers, supporting new product development and investing in IT and R&D.”

Overall sentiment about the world’s economic prospects among U.S. industrial manufacturers that market abroad weakened somewhat during the first quarter of 2014, with optimism declining to 41 percent from 47 percent in the fourth quarter of 2013. However, global sentiment is ahead of the 36 percent level of optimism recorded in the first quarter of 2013.

Regarding actual company growth expectations, 82 percent of survey respondents expect positive revenue growth for their own companies in the next 12 months, with 15 percent forecasting double-digit gains and only five percent anticipating decreased revenues.

The projected average revenue growth rate for own-company revenue over the next 12 months remained consistent at 5.3 percent, compared to 5.4 percent in the fourth quarter of 2013, but well above the 4.3 percent recorded in the first quarter of 2013.

1Q14 Pricing Trends Report

Inflation trends for dozens of product groups

These select product groups provide a snapshot of inflation trends based on the Producer Price Index from the U.S. Bureau of Labor Statistics. This report, with graphs for all of the products listed here, is available online at this issue in pdf format at www.mdm.com.

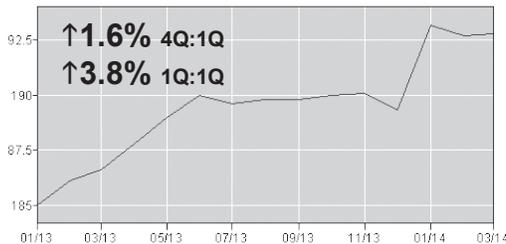
Key

↑X.X% 4Q:1Q (4Q '13 with 1Q '14)

↑X.X% 1Q:1Q (1Q '13 with 1Q '14)

Industrial

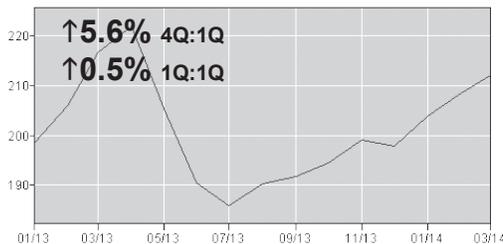
Abrasives



Product Group	4Q:1Q	1Q:1Q
Adhesives/Sealants	1.1%	0.9%
Pumps & Compressors	1.3	2.4
Ind. Mat Handling Eqmt	0.9	1.4
Rubber & Plastic Belts & Belting	0	-3.8
Rubber & Plastic Hose	0.3	1.5
Industrial Rubber Products nec	0.3	0.3
Personal Safety Eqmt & Clothing	-0.6	0.7
Metal-Forming Machine Tools	0.7	1.6
Metal-Cutting Machine Tools	0.2	1.1
Metal Valves (not FP)	2.3	4.6
Steel Mill Products	1.6	1.3

Construction

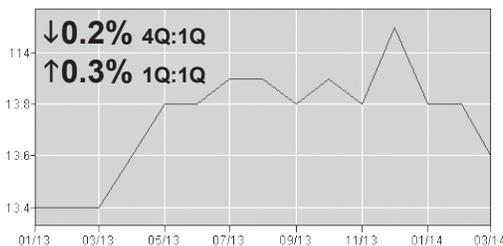
Softwood Lumber



Product Group	4Q:1Q	1Q:1Q
Plastic Construction Products	1.4%	0.3%
General Millwork	1.5	2.8
Gypsum Products	10.8	10.9
Hardboard, Particlebd, Fiberbd	-0.7	-17.7
Hardwood Lumber	5.9	23.6
Plywood	-0.3	-3.1
Wd Ties, Siding, Shingles, etc.	6.0	10.3

Electrical

Electrical Machinery & Eqmt*

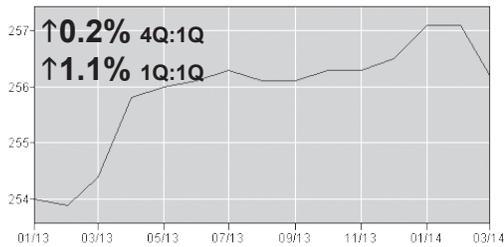


*Category includes products in table to right

Product Group	4Q:1Q	1Q:1Q
Electronic Components & Accs.	-0.9%	0.2%
Integrating/Measuring Instrumts	-1.0	0.2
Motors, Generators, etc.	1.4	1.9
Wiring Devices	1.2	1.6
Transformers/Power Regulators	0.1	-0.8
Switchgear, Switchbd, etc. Eqmt	-0.1	0.8
Communications/Related Eqmt	0.5	0.7
Electric Lamp Bulbs and Parts	-2.8	-7.2
Fab. Ferrous Wire Products	0.1	0.7
Nonferrous Wire & Cable	0.6	-3.5
Lighting Fixtures	0.3	0.7

Power Transmission/Bearing/Fluid Power

Mech. Power Transmission Eqmt*

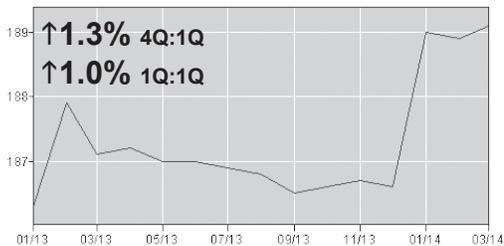


*Category encompasses first three (PT) products in table.

Product Group	4Q:1Q	1Q:1Q
Ball & Roller Bearings	-0.2%	1.8%
Plain Bearings & Bushings	0.1	1.3
Speed Changers/Drives/Gears	0.4	1.4
Fluid Power Equipment	0.7	1.0
Fluid Power Valves	0.7	1.4
FP Hose & Tube Fittings	0.7	0.2
FP Cylinders, Actuators, Accum.	0.5	0.9
Fluid Power Pumps & Parts	1.4	1.7

Fasteners

Nuts, Bolts, Screws, Rivets, Washers*



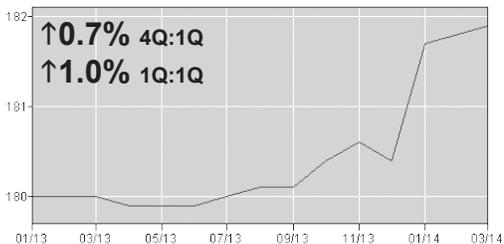
Product Group	4Q:1Q	1Q:1Q
Aircraft Fasteners	0.0%	-1.0%
Externally Thread. Fasteners**	0.7	0.6
Internally Thread. Fasteners**	0.0	0.2
Nonthreaded Metal Fasteners**	1.1	1.1

*Category encompasses products in table above

**Excludes aircraft fasteners.

Tools

Cutting Tools & Accessories*

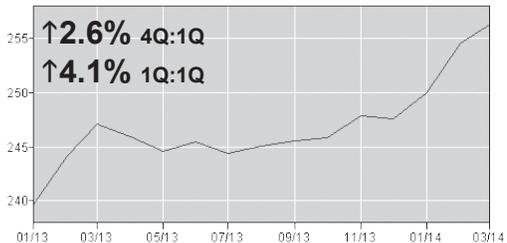


*Category encompasses some of the products in table.

Product Group	4Q:1Q	1Q:1Q
Hand & Edge Tools	0.4%	1.2%
Power-Driven Hand Tools	0.6	3.2
Precision Measuring Tools	-0.3	-0.3
Small Cutting Tools	1.0	1.3
Tools, Dies, Jigs, Molds, Fixture	0.0	0.4

Other

Plastic Resins and Materials

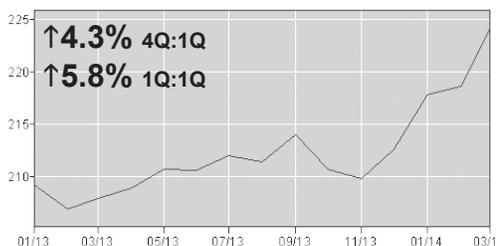


Product Group	4Q:1Q	1Q:1Q
Hardware*	0.7%	1.1%
Builders Hardware	1.0	2.2
Air Cond. & Refrigeration Eqmt	1.1	2.1
Heating Eqmt	0.6	1.3
Plumbing Fixtures & Fittings	1.1	2.2
Plastic Products (overall)	0.5	1.8
Pkgng Products from Plastics	0.1	1.8
Welding Machinery & Eqmt	0.2	1.2
Office Supplies & Accessories	1.1	2.4
Pulp, Paper & Allied Products**	-0.2	1.3
Boxes	-2.1	5.0
Sanitary Paper Products	-0.9	-1.0

*This category includes builders' hardware & other product groups

**Category includes boxes, sanitary paper products & office supplies & other groups

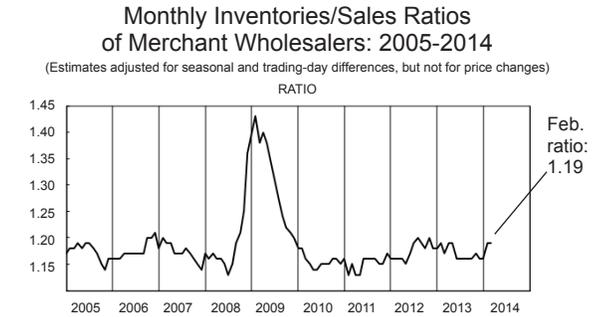
Industrial Gases



Monthly Wholesale Trade Data

Wholesale revenues in February were \$436.1 billion, up 0.7 percent from January and up 3.1 percent from February 2013, according to the U.S. Census Bureau. February sales of durable goods were up 0.1 percent from last month and were up 2.9 percent from a year ago. Sales of nondurable goods were up 1.2 percent from January and up 3.3 percent from last February.

Inventories. Total inventories of merchant wholesalers were \$518.3 billion at the end of February, up 0.5 percent from the revised January level and up 4.7 percent from February 2013. February inventories of durable goods were up 0.7 percent from last month and were up 5.9 percent from a year ago. Inventories of nondurable



goods were up 0.1 percent from January and were up 2.9 percent from last February.

Inventories/Sales Ratio. The February inventories/sales ratio for merchant wholesalers was 1.19. The February 2013 ratio was 1.17.

Sales and Inventories Trends: February 2014

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	Percent Change Sales 1/14-2/14	Percent Change Sales 2/13-2/14	Percent Change Inventory 1/14-2/14	Percent Change Inventory 2/13-2/14
42	U.S. Total	436,054	518,258	1.19	0.7	3.1	0.5	4.7
423	Durable	199,574	319,031	1.60	0.1	2.9	0.7	5.9
4231	Automotive	32,899	52,129	1.58	0.3	3.2	0.5	8.0
4232	Furniture & Home Furnishings	5,204	8,541	1.64	-0.6	7.2	0.3	6.6
4233	Lumber & Other Construction Materials	9,606	14,873	1.55	-2.9	0.2	1.2	7.1
4234	Prof. & Commercial Equip. & Supplies	37,808	40,295	1.07	0.2	0.7	1.4	5.1
42343	Computer Equipment & Software	21,061	17,549	0.83	-2.7	-1.1	2.2	5.6
4235	Metals & Minerals	13,141	27,274	2.08	1.9	1.6	0.0	-0.9
4236	Electrical Goods	34,603	35,253	1.02	-1.6	2.2	0.5	1.2
4237	Hardware, Plumbing, & Heating Equipment	9,768	18,771	1.92	0.2	2.9	0.4	2.1
4238	Machinery, Equipment & Supplies	37,880	94,696	2.50	1.8	11.9	1.4	12.2
4239	Miscellaneous Durable	18,665	27,199	1.46	0.2	-6.3	-0.7	-1.4
424	Nondurable Goods	236,480	199,227	0.84	1.2	3.3	0.1	2.9
4241	Paper & Paper Products	7,745	7,432	0.96	0.0	3.6	-2.0	7.1
4242	Drugs	37,733	41,233	1.09	1.6	9.5	2.0	18.9
4243	Apparel, Piece Goods & Notions	12,247	24,046	1.96	1.8	0.7	0.0	5.3
4244	Groceries & Related Products	49,350	32,427	0.66	-0.1	4.3	-1.3	0.3
4245	Farm-product Raw Materials	19,357	22,277	1.15	-4.6	-8.8	2.7	-4.6
4246	Chemicals & Allied Products	10,909	12,418	1.14	1.5	5.1	-1.3	5.8
4247	Petroleum & Petroleum Products	67,978	19,749	0.29	4.0	6.7	-2.6	-12.4
4248	Beer, Wine & Distilled Beverages	10,784	14,419	1.34	1.9	2.7	-0.5	4.1
4249	Miscellaneous Nondurable Goods	20,377	25,226	1.24	0.0	-6.2	0.4	-0.7

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.

Grainger Sales Up 5% in 1Q

Grainger, Chicago, IL, reported sales for the first quarter of \$2.4 billion, an increase of 5 percent compared to the first quarter of 2013. Profit for the quarter increased 2 percent to \$217 million.

Organic sales increased 5 percent, driven by 4 percentage points from volume, 1 percentage point from price and 1 percentage point from higher sales of seasonal products, partially offset by a 1 percentage point decline from business disruptions due to the extreme weather that closed some customer and Grainger facilities across parts of North America during the months of January and February.

Sales for the U.S. segment increased 7 percent in the first quarter year-over-year. Organic sales increased 5 percent, driven by 4 percentage points from volume, 1 percentage point from price and 1 percentage point from higher sales of seasonal products, partially offset by a 1 percentage point decline due to the extreme weather in January and February. Strong sales growth to customers in the heavy and light manufacturing, natural resources, retail and commercial customer end markets contributed to the sales increase in the quarter.

First-quarter sales for Acklands-Grainger, the Canadian business segment, decreased 10 percent in U.S. dollars and were down 2 percent in local currency. The 2 percent sales decline consisted of a 4 percentage points decline from volume partially offset by a 2 percentage points benefit from the timing of Good Friday, which fell in April this year. The business in Canada continues to be negatively affected by a weak macroeconomic environment, unfavorable currency exchange, lower commodity prices and a reduction of Canadian exports.

Sales for the Other Businesses, which includes operations primarily in Asia, Europe and Latin America, increased 11 percent for the first quarter compared to the prior year.

Distributor News

The Fastenal Company, Winona, MN, reported sales for the first quarter of \$876.5 million, up 8.7 percent from the previous year. Profit was \$111.9 million, up 2.6 percent from the same period in 2013.

MSC Industrial Direct Co. Inc., Melville, NY, reported second-quarter sales of \$661.5 million, up 16.2 percent from the prior-year period. The acquired **Barnes Distribution North America** business contributed \$69.8 million to sales in the second quarter. Sales were \$1.3 billion for MSC's fiscal first half, up 17.5 percent. Profit was \$108.5 million.

HD Supply Inc., Atlanta, GA, announced it will dispose of its **Litemor** business, a specialty lighting distributor included within the **HD Supply Canada** business.

Airgas Inc., Radnor, PA, announced that Thomas R. Stringer has been named president of **Airgas Merchant Gases**, effective immediately.

United Rentals Inc., Stamford, CT, reported sales for the first quarter of \$1.2 billion, up 7.1 percent from the previous year. Rental revenues were up 9.7 percent to \$1 billion. Profit was \$60 million, compared to a profit of \$21 million in the first quarter of 2013.

Watsco Inc., Miami, FL, reported sales for the first quarter of \$762.6 million, up 6.9 percent from the previous year. Profit was \$16.8 million, up 25.2 percent from the first quarter of 2013.

Bunzl plc, the international distribution and outsourcing group, reported revenue for the first quarter has increased 5 percent compared to the same period last year.

The Bossard Group, Switzerland, reported sales for the first quarter of CHF 161.5 million (US\$182.6 million), an increase of 5.6 percent year-over-year.

Falcon Metal Corporation, Charlotte, NC, an industrial distributor of fasteners and other production components, announced it has changed its name to **Falcon Fastening Solutions Inc.**

CenturyVallen, a Canadian industrial supplies distributor and member of the **Sonepar Canada** family of businesses, has changed its name to **Vallen**.

Affiliated Distributors, an industrial and construction products buying and marketing group in North America, is expanding into the Latin America market. Strategic recruitment in Mexico, Brazil and Colombia will be initial countries of focus for AD.

Economic News

Industrial production increased 0.7 percent in March, according to the Federal Reserve. **Capacity utilization** for total industry increased in March to 79.2 percent.

continued on p.2 of this section

News Digest

Continued from p. 1 of this section

Privately-owned housing starts in March were at a seasonally adjusted annual rate of 946,000. This is 2.8 percent above the revised February estimate of 920,000 and 5.9 percent below the March 2013 rate of 1,005,000.

Wholesale prices increased 0.5 percent in March, seasonally adjusted, the U.S. Bureau of Labor Statistics reported.

February **U.S. cutting tool consumption** was \$157 million, according to the U.S. Cutting Tool Institute and the Association for Manufacturing Technology. This total was down 1.2 percent from January and down 6.8 percent from February 2013.

February **U.S. manufacturing technology orders** totaled \$354.4 million, according to the Association for Manufacturing Technology. This total was down 6.2 percent year-over-year. With a year-to-date total of \$733.82 million, 2014 is down 0.6 percent compared with 2013.

The March composite index in the **Manufacturers Alliance for Productivity and Innovation Business Outlook** improved to 69 from 67 in the December survey – the fifth straight quarterly

advance and the highest level since the March 2011 reading of 72.

Canadian manufacturing sales increased 1.4 percent in February to \$51.2 billion, according to Statistics Canada.

First-quarter **Canadian investment in non-residential building construction** decreased 0.6 percent from the previous quarter to \$12.9 billion.

Canadian municipalities issued building permits worth \$6.1 billion in February, down 11.6 percent from January, according to Statistics Canada.

Manufacturer News

Private equity funds managed by **Blackstone** have agreed to buy **Gates Corp.**, Denver, CO, a manufacturer of power transmission belts and fluid power products.

Atlas Copco's U.S.-based Quincy Compressor LLC, Quincy, IL, has agreed to acquire the compressor business of **National Pump & Compressor Ltd.**, Beaumont, TX, and **McKenzie Compressed Air Inc.**, Houston, TX.

Calculation of MDM Inflation Index for March 2014

	BLS	BLS	BLS		Weighted	%	%	
	Price	Price	Price	%	Indices	Change	Change	
	Indices	Indices	Indices	Sales	Mar. '14	Mar. '14	Mar. '14	
	Mar. '14	Feb. '14	Mar. '13	Weight	(1)X(4)	Feb. '14	Mar. '13	
1136	Abr. Prod.	572.3	572.0	553.6	19.1	109.32	0.05	3.38
1135	Cutting Tools	493.2	492.9	487.8	18.9	93.22	0.06	1.11
1145	Power Trans.	800.4	803.2	795.7	15.4	123.26	-0.35	0.59
1081	Fasteners	510.7	510.1	503.9	9.0	45.96	0.11	1.34
1149.01	Valves, etc.	963.4	962.6	941.9	7.6	73.22	0.08	2.28
1132	Power Tools	360.7	360.7	349.2	6.5	23.44	0.00	3.30
1144	Mat. Handling	576.3	575.1	565.9	6.2	35.73	0.20	1.82
0713.03	Belting	838.8	838.8	864.6	6.1	51.17	0.00	-2.98
1042	Hand Tools	779.2	777.1	767.9	8.1	63.11	0.26	1.46
108	Misc. Metal	478.3	476.6	475.5	3.1	14.83	0.36	0.59

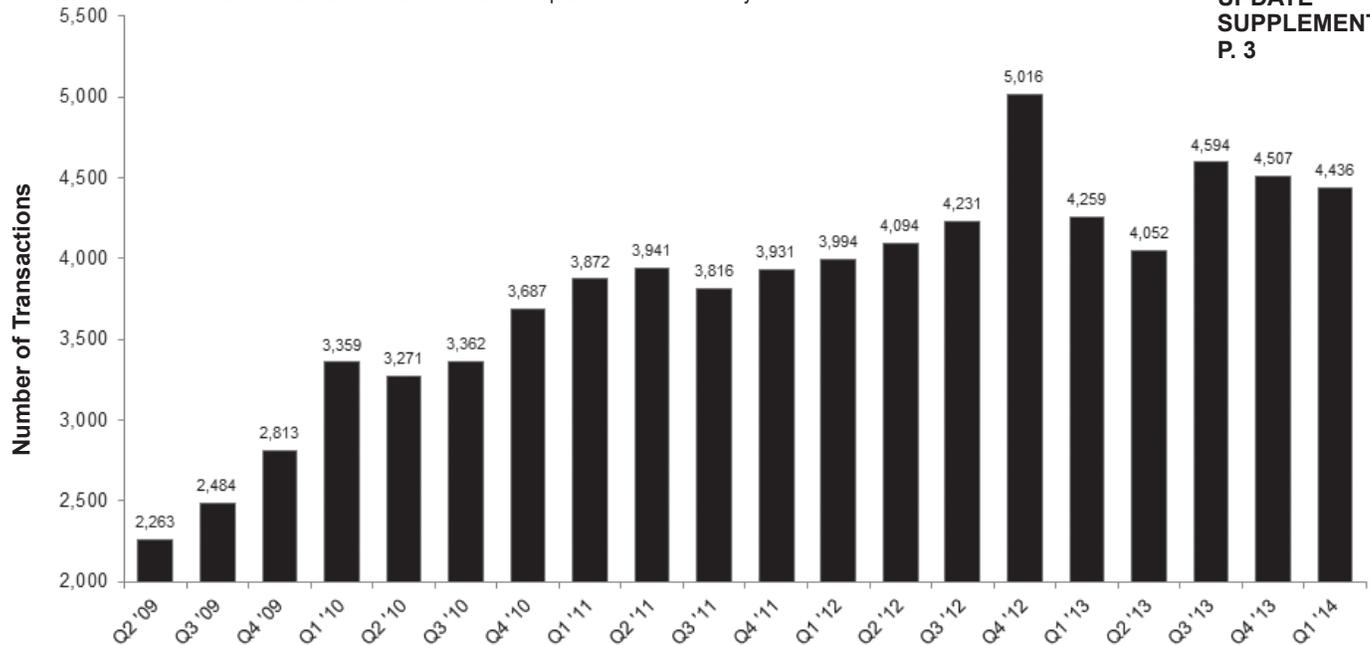
"New" March Index	330.9	March Inflation Index	633.25	0.01	1.34
"New" February Index	330.8	February Inflation Index	633.18		
		March 2013 Inflation Index	624.88		

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

First Quarter 2014 Financial Metrics & Trading Multiples

Domestic M&A Activity – All Industries

This chart shows the number of transactions announced each quarter for the last five years.



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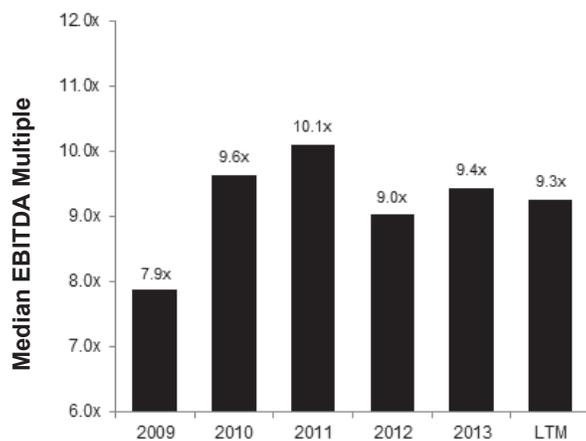
Data Source: Thomson Reuters, S&P Capital IQ, as of 3/31/2014

Notes: Represents reported M&A activity across all industries, not just distribution. Excludes debt tender offers, private placements, equity carve-outs, exchange offers, loan modifications and open market repurchases.

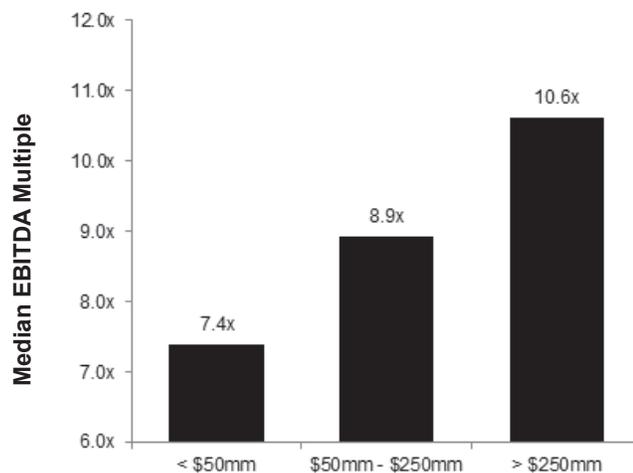
Median EBITDA Transaction Multiples – All Industries

The charts below shows the median EBITDA transaction multiples by year, as well as segmentation of multiples by enterprise value for the last 12 months.

By Year



By Deal Size - Last 12 Months



Data Source: Thomson Reuters, S&P Capital IQ, as of 3/31/2014

Notes: Represents reported M&A activity across all industries, not just distribution. Based on U.S. deals and excludes multiples below 0.0x and above 25.0x.

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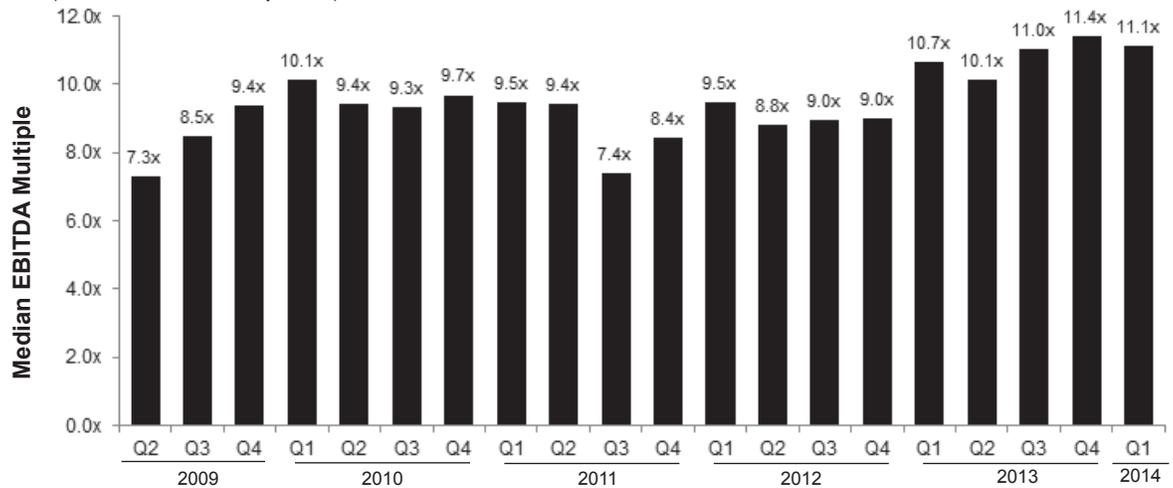
Houlihan Lokey is an international investment bank with a dedicated Distribution advisory practice and expertise in mergers and acquisitions, capital markets, financial restructuring and valuation. Houlihan Lokey is ranked as the No. 1 M&A advisor for U.S. transactions under \$1 billion, as well as the No. 1 M&A advisor for U.S. transactions under \$100 million, according to Thomson Reuters. For more information, please contact Reed Anderson, Head of Industrial Distribution, at (612) 215-2256 or randerson@hl.com.

Distribution Financial Metrics and Trading Multiples

(Data as of March 31, 2014)

These materials are for informational purposes only. Houlihan Lokey gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this presentation. The material presented reflects information known to the authors at the time this presentation was written, and this information is subject to change. Houlihan Lokey makes no representations or warranties, expressed or implied, regarding the accuracy of this material.

The chart below illustrates historical median EBITDA multiples for the below companies calculated using LTM EBITDA as of the quarter shown and the enterprise value as of the last day of the quarter.



The table below highlights key financial metrics and trading multiples for 31 distributors across diverse end markets. LTM means latest 12 months. Enterprise Value means market capitalization of a company's equity plus preferred stock plus total interest bearing debt 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 millions, except per share data)

Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Margins		Working Capital/ LTM Sales	ROIC	EV/LTM EBITDA
					Gross	EBITDA			
A.M. Castle	CAS	\$559	\$1,053	-3.7%	12.7%	2.0%	24.6%	NA	NM
Airgas, Inc.	ARG	\$10,427	\$5,068	0.7%	55.9%	18.5%	17.6%	8.1%	11.1x
Anixter International Inc.	AXE	\$4,084	\$6,227	0.9%	22.8%	6.2%	21.1%	10.1%	10.7x
Applied Industrial Technologies, Inc.	AIT	\$1,973	\$2,449	-0.3%	28.1%	8.1%	18.3%	17.1%	10.0x
Arrow Electronics, Inc.	ARW	\$7,798	\$21,357	3.6%	13.1%	4.3%	13.7%	8.9%	8.5x
Avnet, Inc.	AVT	\$7,853	\$26,657	2.8%	11.7%	3.7%	14.9%	10.3%	8.0x
Beacon Roofing Supply, Inc.	BECN	\$2,073	\$2,279	1.7%	23.3%	6.9%	16.7%	7.5%	13.2x
Bluelinx Holdings Inc.	BXC	\$526	\$2,152	2.2%	10.7%	0.0%	14.8%	NA	NM
Builders FirstSource, Inc.	BLDR	\$1,170	\$1,490	5.8%	21.5%	3.8%	10.1%	NA	20.4x
Bunzl	BNZL	\$10,129	\$10,101	5.7%	23.9%	7.2%	7.0%	12.4%	14.0x
DXP Enterprises, Inc.	DXPE	\$1,565	\$1,242	1.7%	30.0%	9.6%	14.9%	13.4%	13.1x
Fastenal Company	FAST	\$14,572	\$3,326	1.7%	51.7%	23.3%	33.4%	26.5%	18.8x
Genuine Parts Company	GPC	\$13,956	\$14,078	2.9%	30.1%	8.2%	15.0%	18.8%	12.0x
HD Supply	HDS	\$10,505	\$8,487	-1.5%	29.2%	8.3%	13.0%	NA	14.9x
Houston Wire & Cable Company	HWCC	\$288	\$383	-2.5%	22.1%	7.2%	33.4%	NA	10.4x
Ingram Micro Inc.	IM	\$4,687	\$42,554	1.1%	5.9%	1.6%	6.5%	8.4%	6.9x
Kaman Corp.	KAMN	\$1,372	\$1,682	2.4%	27.7%	8.2%	26.0%	NA	9.9x
Lawson Products	LAWS	\$165	\$270	-5.5%	59.8%	0.2%	19.3%	NA	NM
MRC Global Inc.	MRC	\$3,716	\$5,231	0.7%	17.5%	7.4%	20.4%	8.1%	9.6x
MSC Industrial Direct Co., Inc.	MSM	\$5,650	\$2,559	4.1%	45.7%	17.9%	23.9%	16.0%	12.4x
Park-Ohio Holdings Corp.	PKOH	\$1,031	\$1,203	2.5%	17.7%	9.4%	20.6%	NA	9.2x
Pool Corp.	POOL	\$3,004	\$2,080	1.7%	28.4%	8.6%	14.7%	18.7%	16.7x
Reliance Steel & Aluminum Co.	RS	\$7,516	\$9,224	4.7%	26.0%	8.2%	23.0%	6.8%	9.9x
Rexel SA	RXL	\$10,409	\$17,919	0.6%	24.6%	5.5%	9.7%	6.3%	10.5x
Stock Building Supply	STCK	\$596	\$1,197	4.6%	22.9%	2.0%	10.4%	NA	NM
United Stationers Inc.	USTR	\$2,139	\$5,085	-0.4%	15.5%	5.1%	16.4%	9.9%	8.2x
W.W. Grainger	GWW	\$17,540	\$9,438	1.6%	43.8%	15.8%	16.1%	21.2%	11.8x
Watsco Inc.	WSO	\$3,727	\$3,743	1.7%	24.0%	7.7%	20.3%	13.6%	12.9x
Wesco Aircraft Holdings	WAIR	\$2,626	\$915	1.5%	35.7%	21.1%	86.1%	8.3%	13.6x
WESCO International, Inc.	WCC	\$5,095	\$7,513	3.2%	20.6%	6.7%	14.7%	9.7%	10.2x
Wolseley plc	WOS	\$16,538	\$22,043	3.4%	27.9%	6.1%	10.5%	12.9%	12.4x
Median		\$3,727	\$3,743	1.7%	24.0%	7.2%	16.4%	10.2%	11.1x

Data Source: Thomson Reuters, S&P Capital IQ, Bloomberg & company financials.

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