

MDM/Baird Survey: Measured Growth

First half of 2014 slower than anticipated for revenue growth

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 second-quarter results and distributor and manufacturer expectations for 2014.

Moderate growth in revenues was reported by respondents to the second-quarter MDM/Baird Distribution Survey. Excluding acquisitions, revenue growth was up 3.5 percent year-over-year, up from 2.2 percent year-over-year in the first quarter but still lower than the 4.3 percent growth forecast in the fourth-quarter survey.

But the lower-than-expected half-year growth has not lessened anticipation for the remainder of the year. Respondents expect revenues to grow 4.7 percent in the third quarter of 2014 and 2.9 percent for the full year.

Hoses & accessories posted the stron-

gest revenue growth in the quarter at 6.7 percent, and forecasted the second-highest growth of all sectors at 7 percent expected growth. Mechanical/power transmission forecasted the highest growth at 7.5 percent for the third quarter.

The fastener and roofing segments again reported declines in the second quarter, after falling 1.1 and 0.6 percent respectively in the first quarter. Fasteners fell 0.1 percent, with price increases expected overseas for the third quarter. Roofing fell 1.2 percent, some of which was attributed to high inventories driving prices down and a weak re-roofing market.

Eighty percent of respondents indicated that they plan to increase their inventories in 3Q, up moderately year-over-year. Thirty-six percent of respondents reported their companies had increased inventory levels in 2Q, down one percent from 1Q. Eighteen percent of respondents indicated

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Commentary: Making a Multichannel Sales Force

Efforts around multichannel sales benefits more than just customers.

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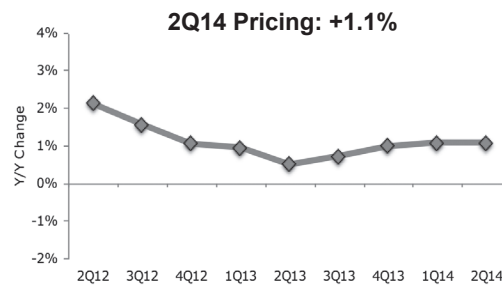
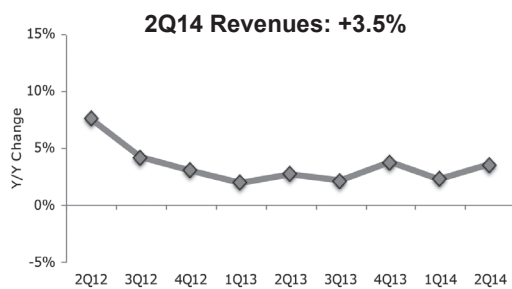
Second Quarter 2014 Pricing Trends Report

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

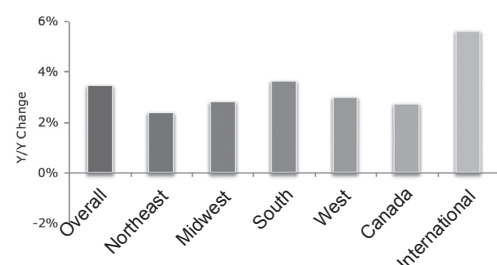
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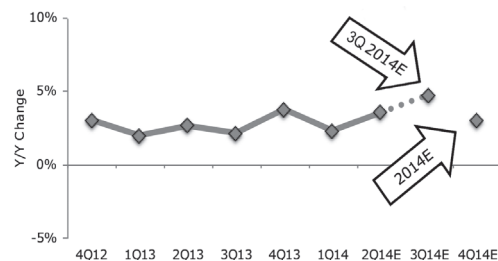
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2Q14 Revenue Growth by Geography



3Q14/2014 Revenue Outlook: +4.7%/+2.9%



PERSPECTIVE ■ Commentary by Jenel Stelton-Holtmeier**Making Multichannel Salespeople**

Technology has become an integral part of doing business today. New tools make our jobs easier than before (for most people anyway). But technology can also require a change in how we think about how we do our jobs.

In this issue, we present the latest results of the quarterly MDM-Baird Distribution Survey. For the second-quarter survey, we asked a special question on if technology is changing the role of the salesperson.

Almost one-third of respondents (29 percent) said they perceived that the role of their salespeople hasn't changed at all because of technology – which leads me to wonder how these companies are using technology. Are they still approaching sales the same way they did a decade ago? Or are other factors driving changes?

For the two-thirds of respondents who said yes to the question, how technology is impacting the role of sales coalesced into three primary areas: mobility, analytics and instantaneous access to more information.

As one distributor noted: "Salespeople need to apply technology to be smarter, better, faster."

We're surrounded by data these days, but that doesn't mean your sales team needs to memorize every piece of data. They need the tools to access and analyze that data quickly.

And they need to know how to use those tools to access information in a variety of ways.

"Omnichannel" and "multichannel" have in some ways become industry buzzwords, but they've been used primarily in reference to how to service customers. I would argue that these concepts are just as important in supporting your sales team.

Think about it. A customer asks your field sales rep to find a product that would meet a new need they've identified. How will your sales rep respond? Likely he will pull out his smartphone or tablet and go to the company website. Or if the company has made a few additional investments, she could go to a mobile app that provides guidance for product applications.

Salespeople do not need to rely solely on what's in their brains or the printed papers in their folio to service customers. They have multichannel access to the information too. And many times, that may be the most efficient way for them to get the right information to the customer.

There's a lot to look at with regard to the role of the modern salesperson. We will be examining this topic more in future issues of MDM Premium. If you have any thoughts on the topic that you'd like to share, email me at jenel@mdm.com.

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MDM-Baird Survey
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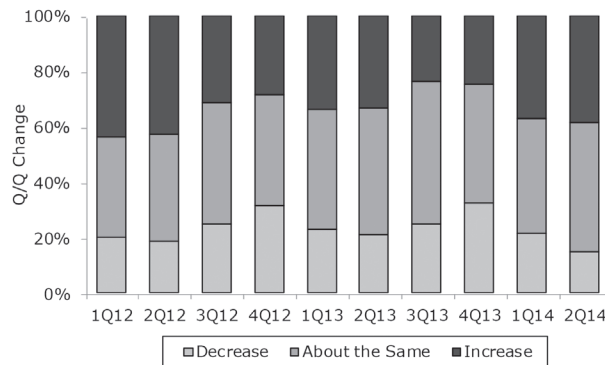
they had decreased inventory levels.

Industrial supply companies reported revenue growth in two-thirds of its product categories: general industrial (MRO), cutting tools, mechanical/power transmission and hoses & accessories. Revenues were down for safety products, which had the strongest growth in the first quarter, and fasteners. The two product categories had projected growth of 6.2 and 3 percent, respectively.

Trends in capital equipment showed increases, especially in the upper Midwest. Companies revealed that obtaining business with national accounts is especially difficult, for multiple reasons.

“There’s a high correlation between incumbency and winning [national account] bids,” one respondent noted. “And once the bidding is done, it’s like giving a purchaser a toy without assembly instructions.”

Inventory Levels, Historical and Expected



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Thirty-six percent of survey respondents said they increased inventory levels in the second quarter, while 18 percent decreased. This is roughly consistent with normal seasonal patterns and recent history. Looking forward, the number of distributors looking to maintain/increase their inventories in the third quarter (80%) is up moderately vs. the prior year.

Current and Expected Revenue and Pricing Levels by Sector

	2Q13 Sales Change	2Q13 Pricing Change	3Q14 Sales Forecast	2014 Sales Forecast	
Building Materials	1.8%	0.8%	1.2%	1.0%	Lumber pricing essentially flat y/y in 2Q
Cutting Tools	1.6%	1.1%	4.5%	4.2%	Improving capital equipment trends
Datacomm	2.0%	0.9%	3.6%	2.2%	Shift to cloud data continues to be digested
Electrical	3.3%	1.6%	5.5%	3.8%	Nonresidential recovery appears to be broadening
Fasteners	-0.1%	1.1%	3.0%	2.2%	Overseas price increase rumors continue for 3Q
Gases/Cylinder Rental	3.5%	1.9%	4.6%	4.0%	Metal fab trends on the mend, in part from O&G?
Hoses & Accessories	6.7%	-0.4%	7.0%	2.5%	Momentum expected to persist
HVAC	3.3%	1.5%	5.3%	4.8%	2Q lull in recovery due to unfavorable weather
Mech/Power Trans.	3.9%	1.8%	7.5%	4.9%	Interest in industrial investment remains on upswing
MRO - Industrial/Mfg*	4.3%	0.8%	3.5%	2.2%	Improvement as weather normalizes
MRO - Non-Mfg*	5.2%	2.3%	4.9%	2.9%	Steady underlying growth, boosted by positive inflation
Plumbing	4.3%	1.4%	6.4%	6.2%	Continued recovery in new residential construction
Pool & Spa	2.8%	0.6%	3.9%	2.8%	Industry growth trends consistently positive
PVF - Ind. & Energy	4.8%	0.9%	3.6%	3.9%	Rebounding oil & gas trends a key tailwind
PVF - Water & Sewer	2.3%	1.0%	2.5%	1.4%	Activity levels remain mixed by geography
Rental Equipment	0.0%	0.9%	2.5%	2.1%	Underlying volume slightly negative
Roofing	-1.2%	-1.3%	3.2%	-2.1%	Prices lower: weak re-roofing, high shingle inventory
Safety	5.8%	1.8%	6.2%	4.1%	Continued pressure from national distributors
Welding Hardgoods	3.6%	1.8%	3.9%	3.8%	Early-stage improvement in equipment trends
Overall	3.5%	1.1%	4.7%	2.9%	

*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.

Others noted that the “hoopla” around AmazonSupply isn’t taking business away from independents the way some threatened it would. One respondent stated that a similar, unrealized hype about big box stores circulated markets in the late 1990s.

Industrial supply companies held a generally optimistic outlook for the second half of 2014 in the U.S., but trends in Canada are weaker and expected to remain weak for the remainder of the year. The mechanical/power transmission category forecasted growth of 7.5 percent for the third quarter and 4.9 percent for the year, the highest of all product categories. Cutting tools predicted the next highest growth rate for the rest of the year at 4.2 percent.

Revenue growth for welding hardgoods outpaced gases’ revenue growth for the first time in eight quarters in the **industrial gases** sector, but barely. Revenue growth for hardgoods was up 3.6 percent while gases’ growth was 3.5 percent.

Pricing increased 1.9 percent for industrial gases, holding steady with previous quarters. Surcharges, some due to the past winter weather and higher natural gas prices, were reported by some respondents.

Expectations for revenue growth in the second half of 2014 are in line with the overall average. Gases companies expect revenue to grow 4 percent; hardgoods companies are forecasting growth of 3.8 percent, down from a previously projected 5.6 percent in the first quarter.

Previous issues with helium supply have improved at least temporarily for many respondents, and pricing on R22 refrigerant continues to decline. But, a new supply shortage of argon is anticipated by some companies.

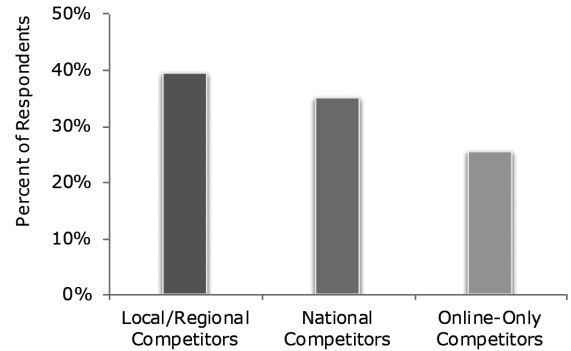
“We’re hearing that big argon shortages are coming up because of a lack of new steel mills,” one respondent said.

In **building products**, HVAC revenues declined from 5.6 percent in the first quarter to 3.3 percent, level with the same period one year ago. Roofing and building materials companies also saw little growth in the second quarter. Roofing declined for the fourth quarter in a row to -1.2 percent, and building materials grew ever-so-slightly to 1.8 percent. Non-manufacturing MRO saw a 5.2 percent revenue growth and plumbing revenues grew 4.3 percent.

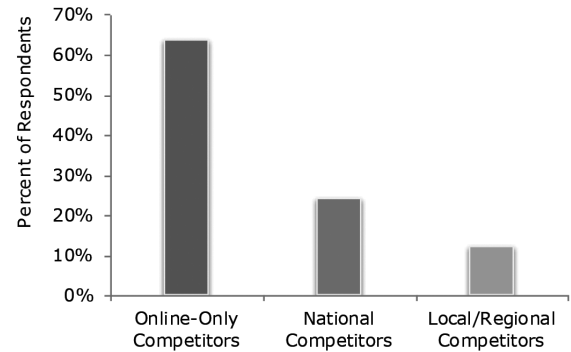
HVAC companies reported their planned transitions to 13-SEER product are moving forward smoothly, and inventories are expected to remain low through the rest of the year.

“The risk of stocking a lot of 13-SEER product is that someone comes out with a low-priced

Most Significant Competitive Threat



Least Significant Competitive Threat



14-SEER product,” one respondent said.

For 2014, all segments except roofing are forecasting modest growth. HVAC companies are forecasting average annual growth of 4.8 percent, non-manufacturing MRO anticipates 2.9 percent growth and plumbing at 6.2 percent. Pool & spa companies expect growth of 2.8 percent, down from the previous quarter’s forecast of 7.2 percent. Building materials forecast growth of 1 percent for the remainder of 2014 and roofing companies are forecasting a further decline of -2.1 percent.

Wire & cable companies reported an increase in revenue growths after a slowing in the first quarter. Revenue growth for electrical companies was up 3.3 percent, again outpacing datacomm, up 2 percent, a 1.5 percent increase over the first quarter.

Some recovery was seen for nonresidential construction, and industrial investment was noted to be supporting strong growth. But, trends for publicly-owned utilities versus investor-owned may differ.

“When you look at investor-owned utilities, that market is probably flat-to-down. Public power, however, appears to be strong,” one respondent said.

The outlook for 2014 was reduced from 4 percent to 6 percent growth to 2 percent to 4

percent.

The Unchanging Face of Competition

While much attention has been paid to the growing influence of online competitors, respondents to the second-quarter survey indicated that they still view traditional competitors as a more significant competitive threat.

Respondents were asked a special question about who they consider to be the most significant competitive threat to their businesses.

Online-only competitors were identified by most respondents – more than 60 percent – as the least significant threat.

Only one segment, hardgoods, ranked online-only competitors as the most significant threat.

On the other hand, most respondents identified local/regional competitors and national companies as the most significant threats in the second-quarter survey.

E-Commerce, Improved Economy Drive Distribution Industry Growth

Driven by advances in e-commerce and an improved economy, the U.S. distribution industry is growing, according to the 2014 McGladrey Distribution Monitor. The annual report, presented by McGladrey LLP and the NAW Institute for Distribution Excellence, shows that 74 percent of distributors reported an increase in sales over the past 12 months, with an average increase of 7.5 percent. Those numbers are expected to improve in the coming year, as 91 percent of distributors expect to increase sales an average of 8.9 percent.

“At 5.5 million employees, wholesale distribution accounts for approximately one in every 20 jobs in the United States,” said Dan Blaylock, 2014 chairman of the board for the National Association of Wholesaler-Distributors. “Because the industry is so important to the vitality of the U.S. economy, identifying and understanding the various strategic management challenges that the distribution community faces is one of the great priorities of our time. Business intelligence, such as that provided by the McGladrey Monitor, helps provide a road map to navigate to solutions.”

“According to the U.S. Census Bureau in April 2014, sales of U.S. merchant wholesalers totaled \$450.2 billion, up 7.8 percent from April 2013,” said Karen Kurek, leader of industrial products for McGladrey. “Total inventories of merchant wholesalers were \$530.6 billion for the same period, up 6.7 percent from the year before. These figures confirm the results of the 2014 Monitor, which clearly finds good news across the distribution industry.”

Monitor results show that 39 percent of distributors describe themselves as thriving in 2014, an uptick from 32 percent in 2013. A lower percentage of distributors say they are holding steady or declining than in 2013. Sixty nine percent of distributors expect their profits before interest and taxes to increase over the next year.

Two-thirds (66 percent) of distributors expect to add jobs in the U.S. over the coming year, with an average expected workforce increase of five percent.

When asked about potential impediments to growth, distributors most often cited competition from other companies (65 percent) as the biggest threat over the next 12 months. However, nearly as many distributors (63 percent) cited government regulation as a limiting factor on growth, and 59 percent said they expected taxation to limit their growth over the next twelve months.

When asked about specific regulations and their impact on growth, implementation of the Affordable Care Act was by far the most commonly cited limiting factor. Sixty-eight percent of distributors said they believe the implementation of the law would limit their growth over the next 12 months. The only other regulation cited by more than half of respondents was state regulation (53 percent). Federal (60 percent) and state (61 percent) taxes were also identified as potential threats.

Four out of five distributors plan to increase their investments in information technology in the next 12 months, with investments rising by 13 percent on average. IT is a driving force at thriving distributors; executives in those companies expect to increase IT spending by 16 percent on average.

“Ten years ago, technology was a tool that could give a distributor a competitive advantage; today, the ubiquity of enterprise resource planning, customer relationship management and other software tools have made technology much more commonplace—and necessary to stay competitive,” the report notes. “Advances in business analytics and the use of data are changing the way distributors are doing business.”

2Q14 Pricing Trends Report

Inflation trends for dozens of product groups

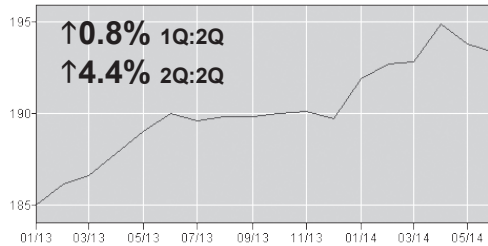
These select product groups provide a snapshot of inflation trends based on the Producer Price Index from the U.S. Bureau of Labor Statistics. This report, with graphs for all of the products listed here, is available online at this issue in pdf format at www.mdm.com.

Key

↑X.X% 1Q:2Q (1Q '14 with 2Q '14)
 ↑X.X% 2Q:2Q (2Q '13 with 2Q '14)

Industrial

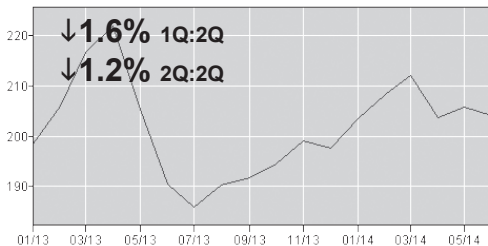
Abrasives



Product Group	1Q:2Q	2Q:2Q
Adhesives/Sealants	1.1%	7.5%
Pumps & Compressors	0.4	2.9
Ind. Mat Handling Eqmt	0.9	2.6
Rubber & Plastic Belts & Belting	0.0	-3.8
Rubber & Plastic Hose	0.1	1.6
Industrial Rubber Products nec	0.1	0.4
Personal Safety Eqmt & Clothing	0.2	1.7
Metal Forming Machine Tools	0.6	2.0
Metal Cutting Machine Tools	0.2	1.5
Metal Valves (not FP)	0.7	4.9
Steel Mill Products	0.9	1.9

Construction

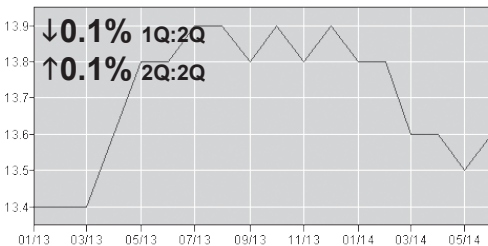
Softwood Lumber



Product Group	1Q:2Q	2Q:2Q
Plastic Construction Products	0.6%	0.9%
General Millwork	0.6	3.6
Gypsum Products	-3.1	8.1
Hardboard, Particlebd, Fiberbd	0.2	-16.5
Hardwood Lumber	4.2	28.5
Plywood	1.6	-1.3
Wd Ties, Siding, Shingles, etc.	5.8	16.3

Electrical

Electrical Machinery & Eqmt*

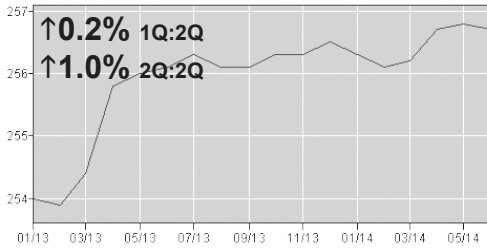


*Category includes products in table to right

Product Group	1Q:2Q	2Q:2Q
Electronic Components & Accs.	-0.3%	-0.2%
Integrating/Measuring Instrumts	0.4	1.2
Motors, Generators, etc.	0.2	1.8
Wiring Devices	-0.3	1.4
Transformers/Power Regulators	0.2	-0.5
Switchgear, Switchbd, etc. Eqmt	-0.3	0.4
Communications/Related Eqmt	-0.1	0.6
Electric Lamp Bulbs and Parts	-1.2	-8.3
Fab. Ferrous Wire Products	0.0	0.6
Nonferrous Wire & Cable	-1.7	-5.0
Lighting Fixtures	0.1	0.7

Power Transmission/Bearing/Fluid Power

Mech. Power Transmission Eqmt*

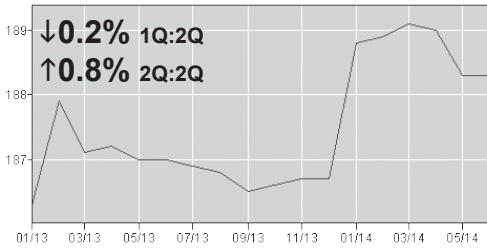


*Category encompasses first three (PT) products in table.

Product Group	1Q:2Q	2Q:2Q
Ball & Roller Bearings	0.7%	2.5%
Plain Bearings & Bushings	1.0	2.3
Speed Changers/Drives/Gears	0.3	1.6
Fluid Power Equipment	0.2	1.2
Fluid Power Valves	0.2	1.4
FP Hose & Tube Fittings	0.0	0.2
FP Cylinders, Actuators, Accum.	0.5	1.3
Fluid Power Pumps & Parts	0.1	1.8

Fasteners

Nuts, Bolts, Screws, Rivets, Washers*

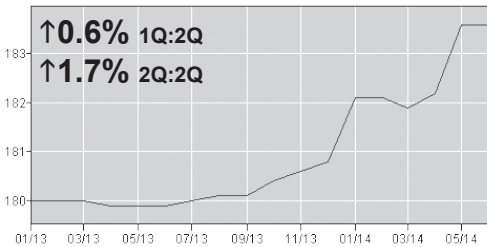


Product Group	1Q:2Q	2Q:2Q
Aircraft Fasteners	-1.0%	-2.0%
Externally Thread. Fasteners**	0.1	0.7
Internally Thread. Fasteners**	0.0	0.2
Nonthreaded Metal Fasteners**	0.0	1.0

*Category encompasses products in table above
**Excludes aircraft fasteners.

Tools

Cutting Tools & Accessories*

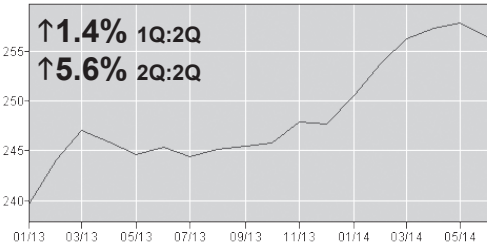


*Category encompasses some of the products in table.

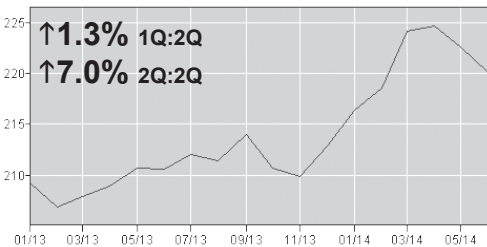
Product Group	1Q:2Q	2Q:2Q
Hand & Edge Tools	0.6%	1.8%
Power-Driven Hand Tools	0.5	3.7
Precision Measuring Tools	0.0	-0.2
Small Cutting Tools	0.8	2.1
Tools, Dies, Jigs, Molds, Fixture	0.2	0.5

Other

Plastic Resins and Materials



Industrial Gases



Product Group	1Q:2Q	2Q:2Q
Hardware*	0.4%	1.5%
Builders Hardware	0.4	2.6
Air Cond. & Refrigeration Eqmt	0.4	2.2
Heating Eqmt	0.4	1.7
Plumbing Fixtures & Fittings	1.0	3.0
Plastic Products (overall)	0.3	2.2
Pkging Products from Plastics	-0.5	1.1
Welding Machinery & Eqmt	1.7	3.1
Office Supplies & Accessories	0.7	3.1
Pulp, Paper & Allied Products**	0.4	1.6
Boxes	0.3	5.2
Sanitary Paper Products	-0.3	-1.3

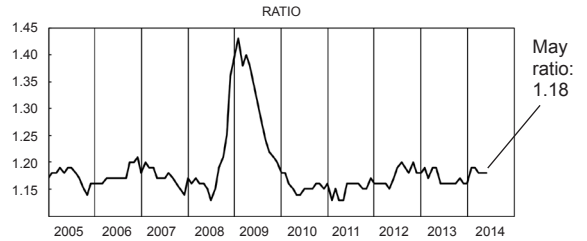
*This category includes builders' hardware & other product groups
**Category includes boxes, sanitary paper products & office supplies & other groups

Monthly Wholesale Trade Data

Wholesale revenues in May were \$453.2 billion, up 0.7 percent from the revised April level and up 6.6 percent from May 2013. May sales of durable goods were up 0.2 percent from last month and up 5.9 percent from a year ago. Sales of nondurable goods were up 1.1 percent from April and up 7.2 percent from last May.

Inventories. Inventories were \$532.7 billion at the end of May, up 0.5 percent from the revised April level and up 7.9 percent from May 2013. May inventories of durable goods were up 1 percent from last month and up 8.5 percent from a year ago. Inventories of nondurable goods were down 0.3 percent from April, but up 6.9 percent from last May.

Monthly Inventories/Sales Ratios
of Merchant Wholesalers: 2005-2014
(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories/Sales Ratio. The May inventories/sales ratio for merchant wholesalers was 1.18. The May 2013 ratio was 1.16.

Sales and Inventories Trends: May 2014

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	Percent Change Sales 4/14-5/14	Percent Change Sales 5/13-5/14	Percent Change Inventory 4/14-5/14	Percent Change Inventory 5/13-5/14
42	U.S. Total	453,153	532,693	1.18	0.7	6.6	0.5	7.9
423	Durable	206,493	327,857	1.59	0.2	5.9	1.0	8.5
4231	Automotive	34,462	54,907	1.59	1.1	4.0	1.9	10.4
4232	Furniture & Home Furnishings	5,276	8,600	1.63	-1.1	3.2	-0.3	6.1
4233	Lumber & Other Construction Materials	10,200	15,140	1.48	1.4	6.1	1.2	8.6
4234	Prof. & Commercial Equip. & Supplies	39,147	40,965	1.05	-0.9	5.5	0.3	7.1
42343	Computer Equipment & Software	22,426	18,010	0.80	-1.6	5.5	-1.9	6.5
4235	Metals & Minerals	13,698	28,367	2.07	3.2	11.3	2.1	7.2
4236	Electrical Goods	36,204	36,868	1.02	-1.1	5.7	0.9	5.5
4237	Hardware, Plumbing, & Heating Equipment	10,074	19,375	1.92	1.2	4.0	-0.8	2.4
4238	Machinery, Equipment & Supplies	39,240	96,299	2.45	1.0	12.0	1.1	13.5
4239	Miscellaneous Durable	18,192	27,336	1.50	-1.4	-3.2	0.8	1.5
424	Nondurable Goods	246,660	204,836	0.83	1.1	7.2	-0.3	6.9
4241	Paper & Paper Products	7,878	7,461	0.95	-1.0	4.2	-0.1	4.6
4242	Drugs	40,591	43,630	1.07	0.7	11.9	1.5	21.5
4243	Apparel, Piece Goods & Notions	12,696	24,733	1.95	2.0	10.7	0.0	6.8
4244	Groceries & Related Products	52,129	33,113	0.64	-0.3	4.8	-1.9	2.4
4245	Farm-product Raw Materials	22,920	22,373	0.98	6.6	6.7	-3.2	5.3
4246	Chemicals & Allied Products	11,233	12,492	1.11	1.4	9.8	0.5	5.7
4247	Petroleum & Petroleum Products	66,814	21,131	0.32	0.0	12.3	2.0	-0.8
4248	Beer, Wine & Distilled Beverages	10,881	14,765	1.36	0.0	2.8	-0.2	3.5
4249	Miscellaneous Nondurable Goods	21,518	25,138	1.17	3.8	-7.8	-1.5	2.5

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 4.9% in 2Q

Grainger, Chicago, IL, reported sales for the second quarter of \$2.5 billion, a 5 percent increase over the same period a year ago. Profit increased 3.2 percent to \$1.1 billion.

For the first half, sales were \$4.9 billion, up 4.9 percent from the same period one year ago. Sales gained two percentage points from acquisitions and net of dispositions, and lost one percentage point from foreign exchange.

Excluding acquisitions and foreign exchange, organic sales increased 4 percent, driven by 5 percentage points from volume.

U.S. segment sales were up 6.9 percent year-over-year. Excluding acquisitions, organic sales increased 5 percent, driven by 6 percentage points from volume, partially offset by a 1 percentage point decline from the timing of Good Friday. Sales growth to customers in the heavy and light manufacturing, retail, natural resources and commercial customer end markets contributed to the sales increase in the quarter.

Canada sales were down 8.5 percent, 3 percent in local currency. The decline consisted of two percentage points from the timing of Good Friday and a one percentage point decline from volume. Lower sales to the construction, mining, oil and gas, government, light manufacturing and reseller customer end markets more than offset growth to customers in the commercial, forestry, utilities, transportation, heavy manufacturing and retail end markets.

Other businesses segment sales increased 14.4 percent compared to May 2013. Sales growth consisted of 16 percentage points from volume and price, partially offset by a two percentage points decline from unfavorable foreign exchange. The sales increase was primarily due to strong revenue growth from Zoro and business in Japan, which more than offset modest sales declines in Europe and Latin America.

Distributor News

MSC Industrial Direct Co. Inc., Melville, NY, reported sales for the fiscal third quarter ended May 31 of \$720.5 million, up 13.1 percent year-over-year. Profit increased 3.7 percent to \$64.7 million. Fiscal year-to-date sales were \$2.1 billion, up 15.5 percent year-over-year. Profit decreased 4.4 percent to \$173.3 million.

The Fastenal Company, Winona, MN, second-quarter sales were \$949.9 million, up 12.1 percent year-over-year. Profit was \$130.5 million, up 7.9 percent. For the first six months of the year, sales were \$1.8 billion, up 10.4 percent over the same period the previous year. Profit increased 5.4 percent to \$242.4 million.

Fastenal reported sales for June of \$321.3 million, an increase of 18.3 percent from the previous year. Daily sales increased 12.7 percent to an average of \$15.3 million.

Sonepar Deutschland, a division of Paris, France-based electrical distributor **Sonepar**, has acquired **BTF-Group**. BTF-Group consists of three companies in Germany, generating annual sales of €50 million (US\$68.2 million).

Larry Davis, president of **ORS Nasco**, will join Tacoma, WA-based **Stellar Industrial Supply Inc.** as an equity partner, executive vice president and chief commercial officer on Sept. 8. Davis will remain at ORS Nasco, the industrial supplies division of **United Stationers**, Deerfield, IL, until Sept. 5.

Industrial distributor **Hisco Inc.**, Houston, TX, has acquired the sales and distribution division of **STI Electronics Inc.**, Madison, AL.

Gases distributor **Airgas Inc.**, Radnor, PA, has acquired **Abbott Gas Products**, Olean, NY.

ESP International, Cedar Rapids, IA, a company serving OEM off-highway equipment markets, has acquired **Industrial Seal**, Dallas, TX. Industrial Seal is a seal distributor serving the industrial OEM and oil & gas markets in the Texas, Oklahoma and Louisiana region.

Plumbing supplies distributor **APR Supply Co.**, Lebanon, PA, has acquired **W.G. Balph Company**. W.G. Balph has two branch locations in Pittsburgh and Greensburg, PA.

Field Fastener, Machesney Park, IL, a distributor of fasteners and other small components, has merged with fasteners distributor **HRS Logistics**. HRS Logistics has offices in Tyler, TX, Monterrey, Mexico, and Monclova, Mexico.

Fluid power distributor **Ryan Herco Flow Solutions**, Burbank, CA, has acquired **Barnes Industrial Plastic Piping**, Tampa, FL. Barnes Industrial Plastic Piping is an industrial distributor of piping products.

Plumbing distributor **Ferguson**, Newport News, VA, will construct a new distribution center in Coxsackie, NY, and is leasing warehouse space for a

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News Digest

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regional distribution hub in Secaucus, NJ. The new facility will create 95 new jobs.

The Bossard Group, Switzerland, reported sales for the first half of CHF 321 million (US\$359.5 million), an increase of 3 percent year-over-year. As reported in local currencies, sales grew 5.6 percent. In the second quarter, group sales increased 2.8 percent (5.5 percent in local currencies) to CHF 159.6 million (US\$178.8 million).

HVAC distributor **Watsco Inc.**, Miami, FL, reported second-quarter sales of \$1.2 billion, up 4 percent year-over-year. Profit increased 9 percent to \$56.1 million. For the first six months, sales were \$1.9 billion, up 5 percent over the same period a year ago. Profit grew 12 percent to \$72.9 million.

United Rentals Inc., Stamford, CT, reported second-quarter sales of \$1.4 billion, up 6.2 percent over the same period a year ago. Rental revenue was \$1.2 billion, up 17 percent year-over-year. Profit grew 13 percent to \$94 million. For the first six months, sales were \$2.6 billion, up 12 percent year-over-year. Rental revenue grew 13 percent to \$2.2 billion. Half-year profit grew 48 percent to \$154 million.

Economic News

The Conference Board Leading Economic Index for the U.S. increased 0.3 percent in June to 102.2. The **Coincident Economic Index** increased 0.2 percent, and the **Lagging Economic Index** increased 0.5 percent.

Privately owned housing starts in June were at a seasonally adjusted annual rate of 893,000, according to the U.S. Census Bureau and the Department of Housing and Urban Development. This is 9.3 percent below the revised May estimate of 985,000, but is 7.5 percent above the June 2013 rate of 831,000.

May U.S. cutting tool consumption was \$169 million, according to the U.S. Cutting Tool Institute and the Association for Manufacturing Technology. This total, as reported by companies participating in the Cutting Tool Market Report collaboration, was down 3.5 percent from April and down 4.4 percent from May 2013.

May U.S. manufacturing technology orders totaled \$351.9 million, according to the Association for Manufacturing Technology. This total

was down 10 percent from April and down 17.5 percent when compared with May 2013. With a year-to-date total of \$1,971.8 million, 2014 is down 1.4 percent compared with 2013.

The quarterly **Manufacturers Alliance for Productivity and Innovation Business Outlook's** composite index improved to 71 in June from 69 in the March 2014 survey—the highest level since the March 2011 reading of 72.

The **NFIB Small Business Optimism Index** fell 1.6 points to 95 in June. While job components improved, capital outlays and planned spending faded along with expectations for improving business conditions.

Canadian wholesale sales rose 2.2 percent to C\$52.6 billion (US\$49 billion) in May. While higher sales were recorded in four subsectors, representing 72 percent of wholesale sales, the motor vehicle and parts subsector accounted for most of the gain.

Canadian manufacturing sales rose 1.6 percent to C\$51.6 billion (US\$48 billion) in May, according to Statistics Canada. Sales rose in 11 of 21 industries, representing about 61 percent of the manufacturing sector.

Manufacturing output in Latin America will grow by 2 percent in 2014 and 2.1 percent in 2015. The former was revised downward from the 3.1 percent growth anticipated in MAPI's December 2013 report, according to the Latin America Manufacturing Outlook.

Manufacturer News

Diversified manufacturer **3M**, St. Paul, MN, through **Sumitomo 3M**, has agreed to acquire **Sumitomo Electric Industries Ltd.**'s 25 percent interest in Sumitomo 3M Ltd. for 90 billion Japanese Yen (US\$885 million). Upon completion of the transaction, 3M will own 100 percent of Sumitomo 3M Ltd.

Chemical manufacturer **Albemarle Corp.**, Baton Rouge, LA, has agreed to acquire **Rockwood Holdings Inc.**, Princeton, NJ, for \$6.2 billion.

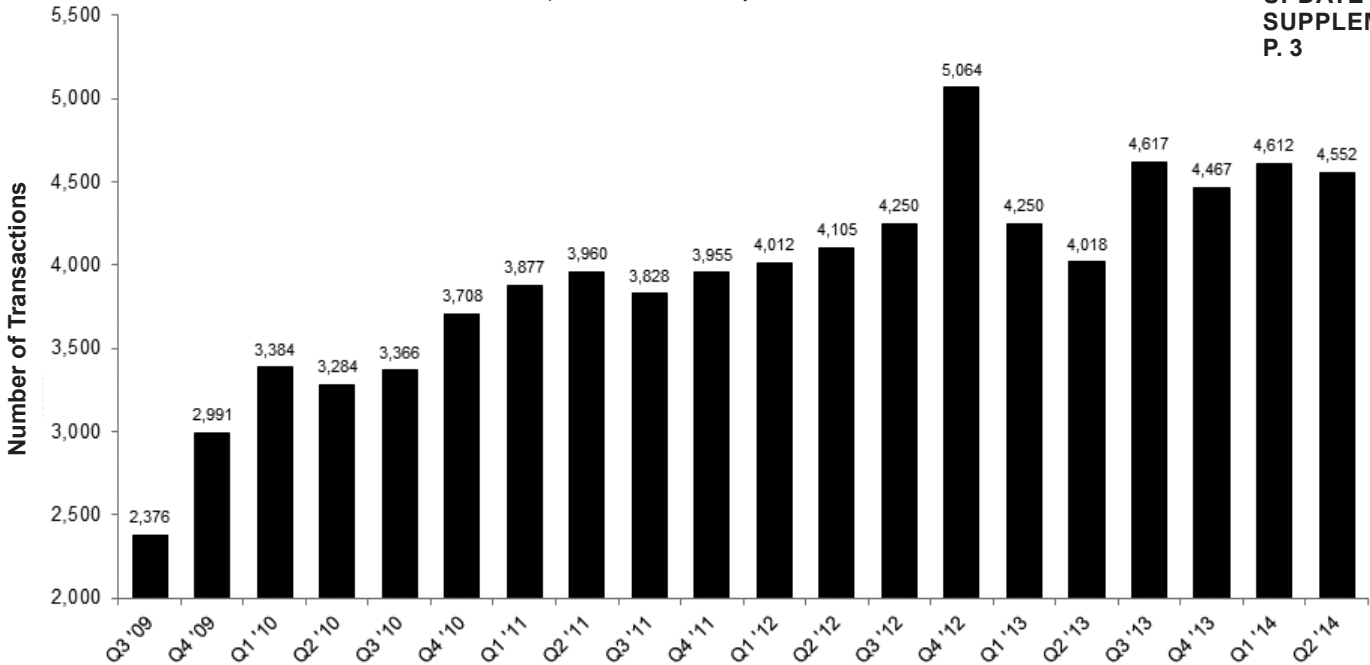
Polymers manufacturer **HEXPOL** has agreed to acquire **Kardoes Rubber Co.** for \$31.8 million. Kardoes is a rubber compounding plant in Lafayette, AL.

Second 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.

**MARKETS
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SUPPLEMENT
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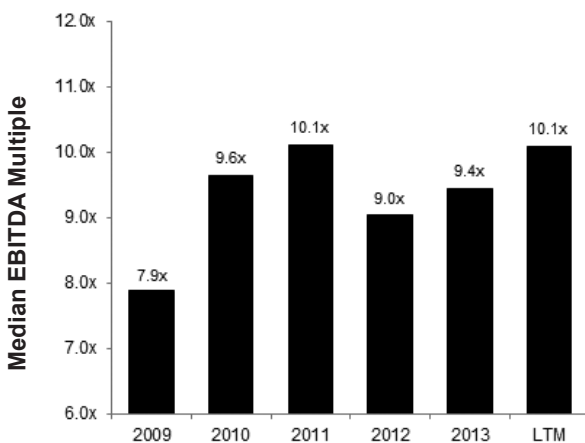
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 6/30/2014

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.

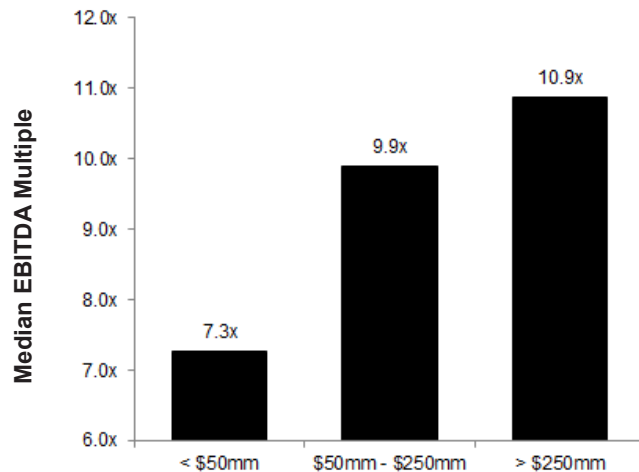
Median EBITDA Transaction Multiples – All Industries

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: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 6/30/2014

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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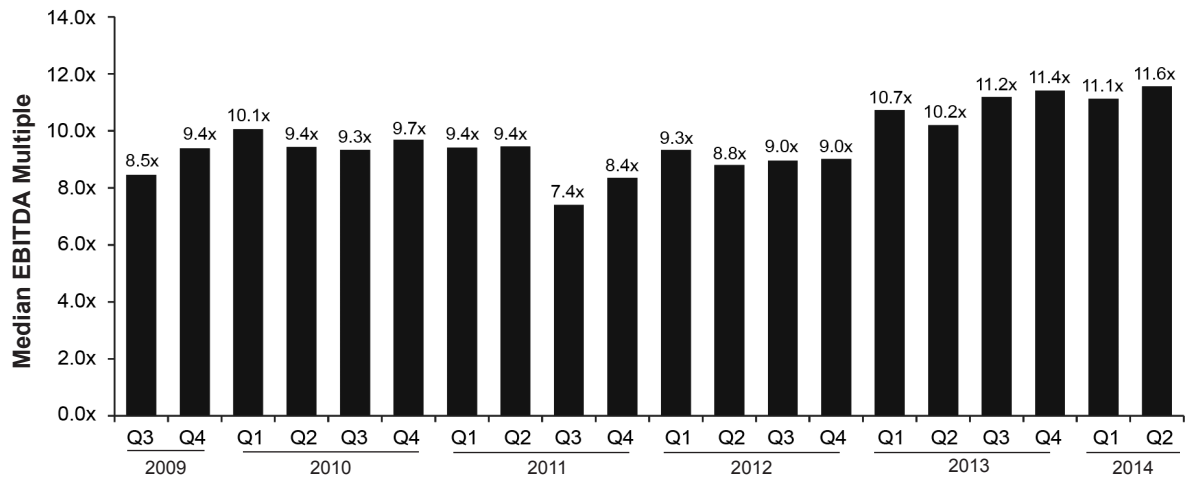
Houlihan Lokey is an international investment bank with a dedicated Distribution advisory practice and expertise in mergers and acquisitions, capital markets, financial restructuring and valuation. Houlihan Lokey is ranked as the No. 1 M&A advisor for U.S. transactions under \$1 billion, as well as the 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 June 30, 2014)

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.

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 table below highlights key financial metrics and trading multiples for 32 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.

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	\$480	\$1,014	-3.7%	12.4%	1.2%	24.9%	NA	NM
Airgas Inc.	ARG	\$10,585	\$5,073	0.1%	55.7%	18.5%	16.9%	7.9%	11.3x
Anixter International Inc.	AXE	\$4,049	\$6,259	0.5%	23.0%	6.2%	21.7%	10.4%	10.4x
Applied Industrial Technologies Inc.	AIT	\$2,080	\$2,446	-0.1%	28.0%	7.9%	19.1%	15.8%	10.7x
Arrow Electronics Inc.	ARW	\$7,925	\$21,590	1.1%	13.2%	4.4%	13.7%	8.7%	8.3x
Avnet Inc.	AVT	\$7,243	\$27,042	1.4%	11.7%	3.7%	14.0%	10.1%	7.2x
Beacon Roofing Supply Inc.	BECN	\$1,824	\$2,248	-1.4%	23.1%	6.1%	17.5%	6.3%	13.3x
Bluelinx Holdings Inc.	BXC	\$584	\$2,093	-2.8%	10.8%	0.2%	17.2%	NA	NM
Builders FirstSource Inc.	BLDR	\$1,024	\$1,516	1.8%	21.9%	4.0%	9.1%	NA	16.8x
Bunzl	BNZL	\$10,548	\$10,101	5.7%	23.9%	7.2%	7.0%	12.4%	14.6x
DXP Enterprises Inc.	DXPE	\$1,557	\$1,300	4.7%	29.6%	9.4%	16.8%	10.2%	12.8x
Fastenal Company	FAST	\$14,598	\$3,499	3.0%	51.0%	22.8%	33.4%	25.1%	18.3x
Genuine Parts Company	GPC	\$14,292	\$14,504	3.0%	30.4%	8.2%	15.3%	17.5%	12.0x
HD Supply	HDS	\$11,113	\$8,600	1.3%	29.2%	8.5%	14.9%	NA	15.2x
Houston Wire & Cable Company	HWCC	\$282	\$389	1.6%	21.8%	7.1%	35.4%	4.9%	10.2x
Ingram Micro Inc.	IM	\$5,070	\$42,675	0.3%	5.9%	1.6%	7.5%	7.7%	7.4x
Kaman Corp.	KAMN	\$1,454	\$1,708	1.5%	27.6%	8.4%	27.0%	NA	10.2x
Lawson Products	LAWS	\$162	\$271	0.7%	59.9%	0.9%	20.8%	NA	NM
MRC Global Inc.	MRC	\$4,168	\$5,231	0.0%	17.3%	7.0%	23.5%	7.2%	11.4x
MSC Industrial Direct Co. Inc.	MSM	\$6,227	\$2,734	3.2%	46.2%	17.0%	23.9%	13.9%	13.4x
NOW Inc.	DNOW	\$3,699	\$4,301	0.1%	18.8%	5.7%	28.6%	NA	15.1x
Park-Ohio Holdings Corp.	PKOH	\$1,055	\$1,238	2.9%	17.5%	9.1%	20.8%	9.8%	9.3x
Pool Corp.	POOL	\$2,860	\$2,116	1.7%	28.4%	8.6%	16.9%	18.7%	15.7x
Reliance Steel & Aluminum Co.	RS	\$7,753	\$9,752	5.7%	25.8%	8.2%	22.6%	7.2%	9.7x
Rexel SA	RXL	\$9,863	\$17,809	-0.6%	24.6%	5.5%	11.7%	6.1%	10.1x
Stock Building Supply	STCK	\$581	\$1,228	2.6%	23.3%	2.0%	9.6%	NA	NM
United Stationers Inc.	USTR	\$2,169	\$5,089	0.1%	15.5%	5.1%	16.9%	9.9%	8.3x
W.W. Grainger	GWW	\$17,683	\$9,543	1.1%	43.8%	15.8%	16.7%	20.5%	11.7x
Watsco Inc.	WSO	\$3,828	\$3,792	1.3%	24.0%	7.7%	20.2%	13.6%	13.0x
Wesco Aircraft Holdings	WAIR	\$3,023	\$1,017	11.1%	33.8%	18.8%	93.7%	6.8%	15.8x
WESCO International Inc.	WCC	\$5,245	\$7,516	0.0%	20.5%	6.6%	14.9%	9.7%	10.6x
Wolseley plc	WOS	\$16,073	\$22,043	3.4%	27.9%	6.1%	10.5%	12.7%	12.0x
Median		\$3,939	\$4,047	1.3%	24.0%	7.0%	17.1%	10.0%	11.6x

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

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