

Intelligence for Wholesale Distribution Professionals

Survey: Disruptions Stunt Growth

Revenues in 1Q MDM-Baird survey fall short of expectations

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 2015.

By Eric Smith

Disruptions that included the West Coast port slowdown, slumping oil & gas market, surging U.S. dollar and inclement weather took a toll on distributors' sales in the first quarter, according to the most recent MDM-Baird Distribution Survey.

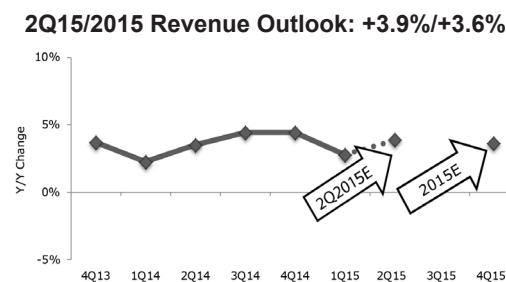
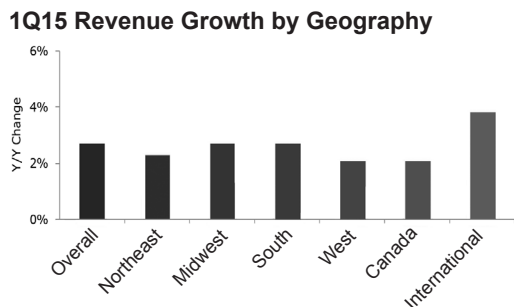
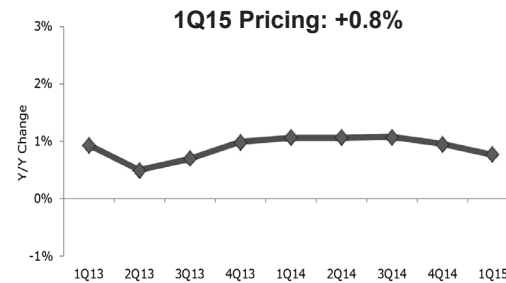
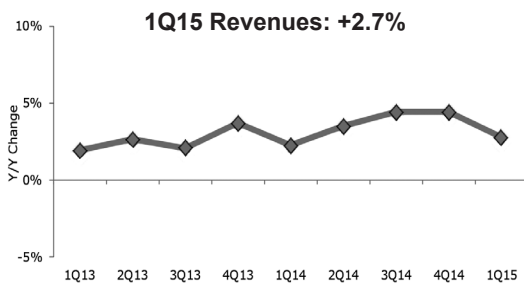
Excluding acquisitions, revenue growth fell short of respondents' expectations, reaching just 2.7 percent in the first three months of 2015. That was down from 4.4 percent in the fourth quarter of 2014 and a full percentage point shy of what respondents projected for the period.

Despite an abundance of supply chain and economic headwinds, some positives emerged from the survey. The quarter saw better revenue growth than first quarter 2014, which managed only 2.2 percent, and the strong U.S. dollar bolstered growth outside North America, with international revenues exceeding all domestic geographic regions in the first quarter.

Distributors expect a slight recovery in the second quarter, with projections for 3.7 percent revenue growth. According to the survey: "2Q15 trends will set the tone for the remainder of 2015." Distributors forecast 3.6 percent revenue growth for 2015, down considerably from the 4.9 percent growth in 2014 they expected just three months ago.

Though pricing remained somewhat steady in the first quarter, with a 0.8 percent improvement year-over-year, survey respondents noted a challenging environ-

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Distributors must start viewing IT as strategic rather than just tactical.

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PERSPECTIVE ■ Commentary by Thomas P. Gale**Elevate the Role of IT**

The role of IT in a distribution company has to change. Amid this amazing technology explosion, where there are more apps every day, some ERP systems are starting to look like Star Wars battle cruisers. They may be agile fighting machines in their own right, but more often now they have add-ons, bolt-ons and point solutions hanging off the sides. It's challenging for users and service providers alike.

No other function within a distribution company has undergone as much change in its field in such a short time. Has your company kept pace with that change? Is it realistic or advisable to be looking at Star Wars capability when a vast majority of businesses haven't even started to use the basic functions that came with their systems?

The tough truth is that your IT manager should be part of the strategic planning process, but for many companies that role remains more technician and project manager. Because of this, it has created one of the industry's largest talent gaps. The process of evaluating what's new, what's right and what's implementable can be overwhelming on top of day-to-day requirements.

In addition to maintaining the information technology and business systems that keep the

heart of a company beating, they are wondering how to compete with Amazon. No pressure. Oh, and there's no budget for that.

The vast majority of distribution businesses don't have the luxury of a CIO and a full complement of professionals to address the complexity of today's IT environment. Some of it can be outsourced, but there's a core that can't be pieced out. It starts with building a vision where IT holds a more integrated and important role in a team-based approach to the company strategy. How do we face the current market challenges, identify opportunity gaps and exploit them for competitive advantage? What are the right tools to support our mission? Give IT a seat at this table instead of silo work projects.

A major piece is talent development beyond bits and bytes. A business-savvy IT manager is worth twice his or her weight in gold – and admittedly is a rare breed. Through training of current staff or new talent, this is a critical transition for every distributor to make, regardless of size.

How do you build a learning organization that develops IT, e-commerce and analytics talent? This is the right question to ask for any distribution organization that hopes to compete in this faster-moving, more complex competitive environment.

MODERN DISTRIBUTION MANAGEMENT

*Founded in 1967
by J. Van Ness Philip*

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Subscription Rates

To subscribe to Modern Distribution Management, please call 303-443-5060, email dillon@mdm.com or <http://www.mdm.com/subscribe>.

Published twice monthly; \$395/yr., \$415 U.S. funds other countries. Six-month and two-year terms are available. For group subscription rates and site licenses, please contact Dillon Calkins at 303-443-5060 or visit www.mdm.com/corporate.

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ISSN 0544-6538

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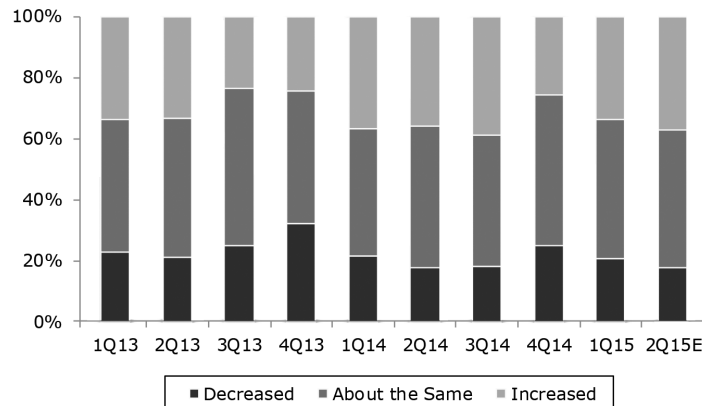
MDM-Baird Survey
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ment due to deflationary commodity trends. And some distributors have sought supplier price concessions, which represent a potential modest offset to gross margin pressures. Pricing was fairly consistent across geographic regions; high marks in the South and internationally were offset by below-average results in the Northeast and West.

Among the 19 product sectors, rental equipment posted the strongest revenue growth in the first quarter at 8.7 percent. Survey respondents also expect rental equipment to post a strong second quarter, with projected revenue growth of 7.3 percent, but then taper the rest of the year with a 2015 forecast of just 1.7 percent.

Other sectors performing well in the first quarter include pool & spa (6.1 percent), welding hardgoods (5.5 percent) and datacomm (5.3 percent). All three have high projections for 2015, as well, with pool & spa forecasted to post the highest revenue growth of the year at 6.9

Inventory Levels, Historical and Expected



Thirty-four percent of respondents reported higher inventory levels in the first quarter, while 20 percent decreased inventory levels, placing the net inventory increase slightly below the prior year but still relatively consistent with historical seasonal patterns. Looking forward, 82 percent of distributors expect to maintain/seasonally increase inventories in the second quarter, similar to the prior year.

Current and Expected Revenue and Pricing Levels by Sector

	1Q15 Sales Change	1Q15 Pricing Change	2Q15 Sales Forecast	2015 Sales Forecast	
Building Materials	-0.1%	-0.7%	2.6%	4.1%	Modestly negative pricing reflects recent lumber deflation
Cutting Tools	3.2%	1.0%	3.1%	3.7%	Capital goods for oil/gas, export markets under pressure
Datacomm	5.3%	-0.2%	4.8%	4.8%	Large data centers appear to be driver of improvement
Electrical	2.8%	0.0%	3.7%	3.5%	Nonres strength offset by caution re: industrial capex
Fasteners	3.2%	1.4%	4.5%	5.2%	Some report supply chain issues due to port strikes
Gases/Cylinder Rental	2.6%	2.2%	4.4%	5.9%	Underlying volume growth only slightly positive ex-price
Hoses & Accessories	0.8%	0.6%	0.9%	1.0%	First-quarter growth reverts to levels seen in 2013
HVAC	3.3%	1.5%	4.8%	6.1%	13-SEER pre-buy continues to skew channel trends
Mech/Power Trans	-0.3%	0.6%	2.3%	3.2%	Growth similar to 2013, sales declined low-single-digits
MRO - Industrial/Mfg*	4.5%	1.7%	3.7%	4.2%	Most resilient industrial supply category
MRO - Non-Mfg*	2.1%	1.5%	3.8%	4.3%	Stable growth anticipated, nationals taking share
Plumbing	1.1%	3.1%	2.7%	3.3%	Unfavorable weather weighed on regional revenue growth
Pool & Spa	6.1%	1.8%	4.6%	6.9%	Solid start to the 2015 selling season
PVF - Ind & Energy	1.9%	2.1%	2.2%	1.0%	Energy weakness offset by chemical/process market strength
PVF - Water & Sewer	-1.0%	0.4%	3.2%	1.6%	2Q expected to rebound modestly as weather normalizes
Rental Equipment	8.7%	0.9%	7.3%	1.7%	Growth expected to return to +2-3% range for 2015 overall
Roofing	1.4%	-0.2%	2.8%	3.4%	Shingle prices biased lower due to competitive pressures
Safety	2.0%	1.8%	3.6%	2.4%	Had been best-performing ind supply category
Welding Hardgoods	5.5%	1.9%	6.4%	5.2%	Welder shortages helping to support automation demand
Overall	2.7%	0.8%	3.9%	3.6%	

*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.

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percent due to a solid start to the selling season, according to the survey. Survey respondents project welding hardgoods to post 5.2 percent revenue growth and datacomm to post 4.8 percent revenue growth in 2015.

Survey respondents expect HVAC to have a strong year with 6.1 percent revenue growth, followed by gases & cylinder rental (5.9 percent) and fasteners (5.2 percent).

Only three sectors saw negative revenue growth in the first quarter – building materials (-0.1 percent), mechanical/power transmission (-0.3 percent) and PVF – water & sewer (-1 percent). But all of them are projected to post revenue growth in 2015 (4.1 percent, 3.2 percent and 1.6 percent, respectively).

Industrial supply companies began 2015 with momentum carried over from fourth-quarter, but “industrial trends (that were) choppier than expected” and “numerous growth headwinds” sapped their strength in the first quarter and sent them after supplier concessions to offset the challenging climate.

Fasteners posted 3.2 percent revenue growth in the first quarter, with a forecast of 5.2 percent for the year. MRO – industrial and manufacturing posted 4.5 percent revenue growth last quarter, and respondents expect growth of 4.2 percent in 2015.

Respondents expect the industrial supply category’s other sectors to post modest gains in 2015, at or slightly above industry average performances in the first quarter. Cutting tools posted 3.2 percent revenue growth in the first quarter and is projected for 3.7 percent in 2015. It was followed by safety (2 percent revenue growth in 1Q and projected for 2.4 percent in 2015), mechanical/power transmission (-0.3 percent and 3.2 percent), and hoses & accessories (0.8 percent and 1 percent).

Respondents summed up the first-quarter performance with words like “soft” and “slow,” with one calling the start to 2015 “surprisingly flat and unanticipated; we thought the economic barometers were more promising entering the year,” and another adding, “We were figuring on a repeat of last year.” More than one respondent attributed the soft numbers to declining sales in the energy sector, while others blamed weather and import issues as the main headwinds.

The **industrial gases** category benefited from a lack of M&A and supply chain issues, which brought some stability to its sectors and positioned it for a solid 2015. Gases & cylinder rental has one of the highest revenue growth forecasts for the year at 5.9 percent, while weld-

ing hardgoods turned in 5.5 percent revenue growth in the first quarter and expects revenue growth of 5.2 percent for 2015.

Though trends appear to be choppy, according to the survey, with some companies citing 2 to 3 percent growth and others lamenting the sluggish economy, one respondent noted, “All appears to be steady, with the exception of a busier spring/summer.”

The **building products and facilities maintenance** category was among the worst performing in the first quarter, but respondents project each sector to show significant revenue increases in 2015. Pool & spa is forecasted to post the highest revenue growth of the year at 6.9 percent, followed closely by HVAC at 6.1 percent. While MRO – non-manufacturing (2.1 percent), roofing (1.4 percent), plumbing (1.1 percent) and building materials (-0.1 percent) all performed below the industry average in the first quarter, each has higher expectations for 2015.

Nationals were viewed by respondents as taking share in the MRO – non-manufacturing. One respondent said, “National companies are driving down prices and margins. They have deep pockets and appear to be willing to give up profitability for market share.”

Commercial construction momentum bolstered **electrical & datacomm** companies in the first quarter, with datacomm at 5.3 percent revenue growth and electrical just above the industry average at 2.8 percent. The two sectors appear on different trajectories in 2015, however, with datacomm expected to dip slightly to 4.8 percent revenue growth and electrical rising to 3.5 percent.

Although construction has been solid, bidding remains competitive, and concerns have risen over lower copper prices and “lots of M&A chatter,” especially involving Sonepar. Comments included “Sonepar and the other big guys keep sucking up medium-size regional players,” and “We’re not going to compete with the Sonepars and pay that kind of multiple, especially in this kind of market.”

The oil and gas slump was especially tough on the **pipe, valves & fittings** category with industrial PVF – industrial & energy notching just 1.9 percent revenue growth in the first quarter, and PVF – water & sewer performing the worst of all sectors at -1 percent. The sectors’ upstream has been hit hardest by low oil prices and reduced rig counts, according to one respondent, while the midstream hasn’t been affected and the downstream has benefited.

MAPI Outlook: Manufacturing Sector Expansion to Slow

The U.S. manufacturing sector should continue its near-term growth but the pace of expansion will slow, according to the quarterly MAPI Foundation Business Outlook, a survey conducted by the MAPI Foundation, the research affiliate of the Manufacturers Alliance for Productivity and Innovation.

The survey's composite index tracks the manufacturing sector. The April 2015 composite index slipped to 64 from 66 in the January 2015 survey, the third straight decline after six quarters of incremental improvement. Still, it marked the 22nd consecutive quarter the index has remained above the threshold of 50, the dividing line separating contraction and expansion.

The composite business outlook index is based on a weighted sum of the prospective U.S. shipments, backlog orders, inventory and profit margin indexes. In the report, the views of 53 senior financial executives representing a broad range of manufacturing industries are segmented into 12 individual indexes split between current business conditions and forward looking prospects. Of those 12 indexes, four increased and eight declined.

The capacity utilization index, which measures the percentage of firms operating above 85 percent of capacity, increased to 45.8 percent in April from 42.3 percent in January. This index, which tends to be somewhat volatile, is well above its long-term average of 32 percent.

The current orders index, which compares orders in the first quarter of 2015 with the first quarter of 2014, increased to 73 from 71 in the

previous report.

The profit margin index slipped to 67 from 70 while the inventory index, which compares inventory levels for the first quarter of 2015 to the first quarter of 2014, declined to 57 from 62.

The export orders index, which compares anticipated exports in the first quarter of 2015 with those of one year prior, fell to 49 in April from 59 in January, and portends contraction in this area. The backlog orders index dropped to 59 from 68.

The U.S. investment index, based on executives' expectations regarding domestic capital investment for 2015 compared with 2014, improved to 61 from 58 in the previous survey. Conversely, the non-U.S. investment index, which forecasts investment abroad, slowed to 54 in April from 62 in January.

The prospective U.S. shipments index, which reflects expectations for first quarter 2015 shipments compared with those in the first quarter of 2014, decreased to 74 from 77 in January. The prospective non-U.S. shipments index, which measures expectations for shipments abroad by foreign affiliates of U.S. firms for the same period, fell to 55 in April from 58 in the previous report. Both indexes, though, are still performing at high levels.

The research and development spending index, comparing anticipated spending in 2015 with 2014, advanced to 69 from 67, but the annual orders index dropped 10 points, to 72 from 82 in the previous report.

Builders FirstSource to Buy ProBuild Holdings for \$1.6 Billion

Builders FirstSource Inc., Dallas, TX, a supplier and manufacturer of structural and related building products for residential new construction in the U.S., has agreed to acquire ProBuild Holdings LLC for \$1.6 billion.

The purchase unites two of the largest building materials companies in the U.S. ProBuild ranked No. 2 and Builders FirstSource ranked No. 7 on the sector's 2014 MDM Market Leaders list. Builders FirstSource reported sales for 2014 of \$1.6 billion, up 7.7 percent over the previous year, and ProBuild Holdings had estimated annual sales of \$4.3 billion in 2014.

Builders FirstSource completed two acquisitions – Trim Tech of Austin and Empire Truss

Ltd. – during the fourth quarter of 2014 and a total of five since the middle of last year.

“As the U.S. housing market continues its recovery, we believe now is the ideal time to position Builders FirstSource for its next phase of growth and value creation,” said Builders FirstSource CEO Floyd Sherman. “Together we will establish a broader, more efficient platform of manufacturing and distribution capabilities, supported by high-quality service from the best talent in the industry. In addition, each of our companies has complementary strengths, and we plan to learn from each other by implementing best practices across the combined company.”

1Q15 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.

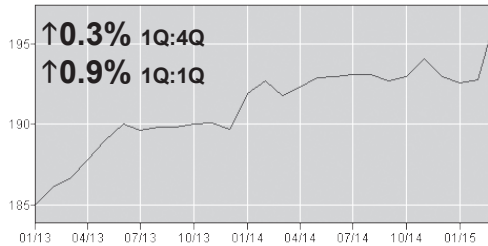
Key

↑X.X% 1Q:4Q (1Q '15 with 4Q '14)

↑X.X% 1Q:1Q (1Q '15 with 1Q '14)

Industrial

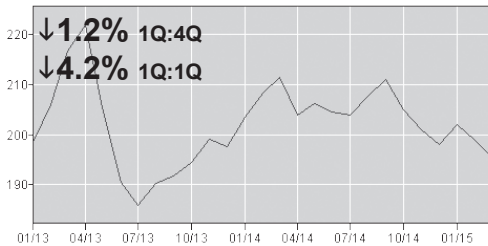
Abrasives



Product Group	1Q:4Q	1Q:1Q
Adhesives/Sealants	0.4%	0.9%
Pumps & Compressors	0.8	2.0
Ind. Mat Handling Eqmt	1.3	2.6
Rubber & Plastic Belts & Belting	-0.3	-0.7
Rubber & Plastic Hose	-2.3	-2.4
Industrial Rubber Products nec	0.1	1.6
Personal Safety Eqmt & Clothing	0.8	1.7
Metal Forming Machine Tools	0.1	2.0
Metal Cutting Machine Tools	0.8	1.3
Metal Valves (not FP)	0.4	1.8
Steel Mill Products	-4.1	-3.3

Construction

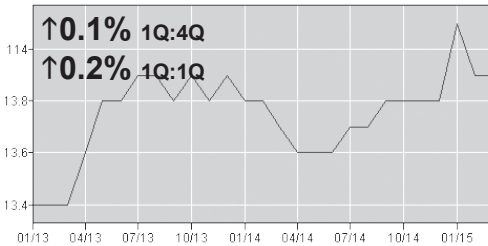
Softwood Lumber



Product Group	1Q:4Q	1Q:1Q
Plastic Construction Products	0.3%	1.0%
General Millwork	0.8	2.4
Gypsum Products	3.9	0.3
Hardboard, Particlebd, Fiberbd	0.4	-3.0
Hardwood Lumber	-3.0	-2.4
Plywood	-2.6	5.1
Wood Ties, Siding, Shingles, etc.	0.6	12.8

Electrical

Electrical Machinery & Eqmt*

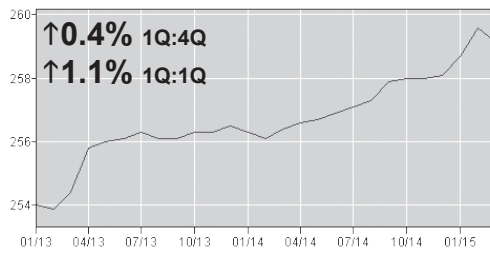


*Category includes products in table to right

Product Group	1Q:4Q	1Q:1Q
Electronic Components & Accs.	0.0%	-0.1%
Integrating/Measuring Instrumts	-0.4	0.1
Motors, Generators, etc.	0.0	0.3
Wiring Devices	0.4	0.3
Transformers/Power Regulators	-2.4	-2.8
Switchgear, Switchbd, etc. Eqmt	0.6	0.1
Communications/Related Eqmt	0.4	0.9
Electric Lamp Bulbs and Parts	4.2	2.2
Fab. Ferrous Wire Products	-0.1	0.5
Nonferrous Wire & Cable	-3.5	-4.9
Lighting Fixtures	1.1	1.8

Power Transmission/Bearing/Fluid Power

Mech. Power Transmission Eqmt*

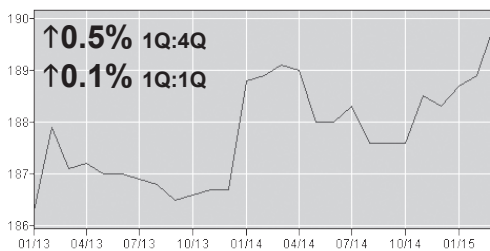


*Category encompasses first three (PT) products in table.

Product Group	1Q:4Q	1Q:1Q
Ball & Roller Bearings	-0.2%	1.8%
Plain Bearings & Bushings	0.0	1.3
Speed Changers/Drives/Gears	0.0	0.8
Fluid Power Equipment	0.3	0.8
Fluid Power Valves	0.3	0.7
FP Hose & Tube Fittings	-0.1	0.0
FP Cylinders, Actuators, Accum.	0.6	1.5
Fluid Power Pumps & Parts	0.4	0.6

Fasteners

Nuts, Bolts, Screws, Rivets, Washers*



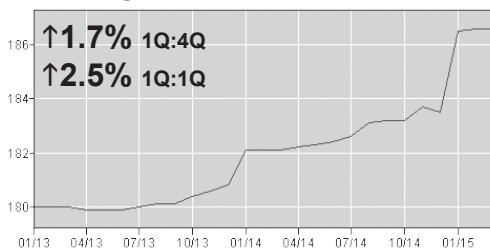
Product Group	1Q:4Q	1Q:1Q
Aircraft Fasteners	0.0%	-4.0%
Externally Thread. Fasteners**	0.4	1.4
Internally Thread. Fasteners**	0.9	2.8
Nonthreaded Metal Fasteners**	0.2	0.2

*Category encompasses products in table above

**Excludes aircraft fasteners.

Tools

Cutting Tools & Accessories*

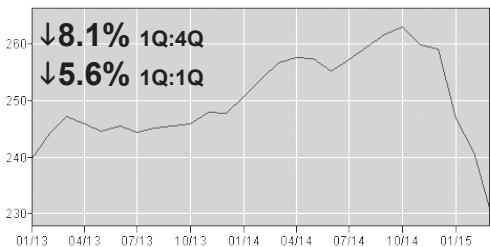


*Category encompasses some of the products in table.

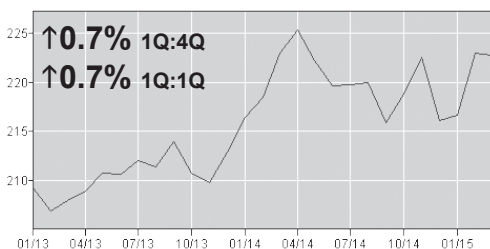
Product Group	1Q:4Q	1Q:1Q
Hand & Edge Tools	0.4%	0.6%
Power-Driven Hand Tools	1.6	2.3
Precision Measuring Tools	0.7	1.1
Small Cutting Tools	2.0	3.0
Tools, Dies, Jigs, Molds, Fixture	0.1	0.3

Other

Plastic Resins and Materials



Industrial Gases



Product Group	1Q:4Q	1Q:1Q
Hardware*	0.2%	1.1%
Builders Hardware	-0.7	1.7
Air Cond. & Refrigeration Eqmt	0.4	1.4
Heating Eqmt	0.1	1.7
Plumbing Fixtures & Fittings	1.1	3.2
Plastic Products (overall)	-0.3	0.4
Pkgng Products from Plastics	-1.2	-2.2
Welding Machinery & Eqmt	0.0	1.1
Office Supplies & Accessories	-0.5	-0.3
Pulp, Paper & Allied Products**	-0.1	-0.1
Boxes	0.5	1.5
Sanitary Paper Products	-0.1	-1.0

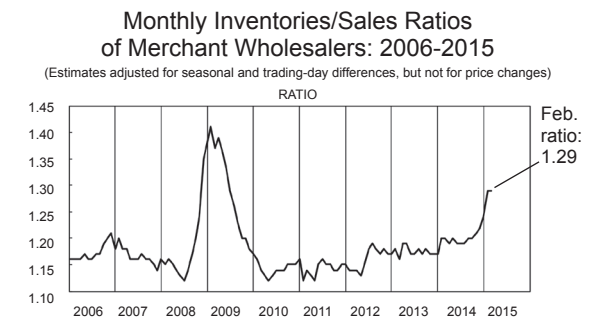
*This category includes builders' hardware & other product groups

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

Monthly Wholesale Trade Data

Wholesale revenues in February were \$444.2 billion, down 0.2 percent from the revised January level and down 1.5 percent from the February 2014 level. February sales of durable goods were down 2.4 percent from last month, but were up 3.5 percent from a year ago. Sales of nondurable goods were up 1.9 percent from January, but were down 5.8 percent from last February.

Inventories. Inventories were \$574 billion at the end of February, up 0.3 percent from the revised January level and up 6.1 percent from February 2014. February inventories of durable goods were up 0.3 percent from last month and up 7.6 percent from a year ago. Inventories of nondurable goods were up 0.2 percent from January



Source: U.S. Census Bureau

and up 3.8 percent from last February.

Inventories/Sales Ratio. The February inventories/sales ratio for merchant wholesalers was 1.29. The February 2014 ratio was 1.20.

Sales and Inventories Trends: February 2015

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	Percent Change Sales 1/15-2/15	Percent Change Sales 2/14-2/15	Percent Change Inventory 1/15-2/15	Percent Change Inventory 2/14-2/15
42	U.S. Total	444,240	574,010	1.29	-0.2	-1.5	0.3	6.1
423	Durable	214,263	355,647	1.66	-2.4	3.5	0.3	7.6
4231	Automotive	35,333	59,503	1.68	-1.9	6.8	2.4	12.6
4232	Furniture & Home Furnishings	6,504	10,477	1.61	-0.5	7.3	-1.2	5.1
4233	Lumber & Other Construction Materials	9,375	13,820	1.47	-1.8	8.1	-2.2	-0.1
4234	Prof. & Commercial Equip. & Supplies	37,148	40,453	1.09	-1.6	3.0	-0.5	7.7
42343	Computer Equipment & Software	19,321	15,887	0.82	-1.9	4.9	-1.4	8.5
4235	Metals & Minerals	14,699	32,418	2.21	-2.9	0.8	-0.3	11.3
4236	Electrical Goods	46,420	47,530	1.02	-5.0	7.8	1.1	10.2
4237	Hardware, Plumbing, & Heating Equipment	10,314	21,962	2.13	2.0	5.9	-0.1	12.0
4238	Machinery, Equipment & Supplies	34,994	102,717	2.94	-3.4	-0.1	0.4	6.3
4239	Miscellaneous Durable	19,476	26,767	1.37	1.3	-5.8	-1.3	-3.8
424	Nondurable Goods	229,977	218,363	0.95	1.9	-5.8	0.2	3.8
4241	Paper & Paper Products	7,715	7,652	0.99	-1.3	1.6	-2.3	1.2
4242	Drugs	49,800	54,486	1.09	4.0	17.8	0.5	15.8
4243	Apparel, Piece Goods & Notions	14,205	27,364	1.93	-1.1	3.8	1.1	7.2
4244	Groceries & Related Products	50,951	32,365	0.64	0.1	5.3	-1.0	7.3
4245	Farm-product Raw Materials	20,048	21,577	1.08	0.5	-1.9	-0.3	-7.9
4246	Chemicals & Allied Products	10,876	12,118	1.11	3.4	-0.9	-2.9	0.2
4247	Petroleum & Petroleum Products	44,305	19,254	0.43	5.5	-36.5	2.4	-17.8
4248	Beer, Wine & Distilled Beverages	10,946	15,181	1.39	0.0	3.2	0.7	5.4
4249	Miscellaneous Nondurable Goods	21,131	28,366	1.34	-0.6	3.9	0.5	5.8

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 2.3% in 1Q

Grainger, Chicago, IL, reported sales for the first quarter of \$2.4 billion, a 2.3 percent increase compared to the first quarter of 2014. Profit for the quarter decreased 2.6 percent to \$211 million.

"This was a challenging quarter," President and CEO Jim Ryan said. "Our results were affected by continued headwinds from the strong U.S. dollar and weakness in the oil and gas sector in North America. We remain encouraged by the growth achieved with large customers in our U.S. multichannel business and the customer acquisition strategy that is fueling our single channel online businesses."

Results for the quarter included a 1 percentage point increase from acquisitions and a 3 percentage point reduction from foreign exchange. Organic sales increased 4 percent driven exclusively by volume growth.

Sales for the U.S. segment increased 4 percent in the first quarter versus the prior year. Sales to customers in the commercial, light manufacturing, retail, government and heavy manufacturing customer end markets contributed to the sales increase in the quarter.

First-quarter sales for Acklands-Grainger, the Canadian business segment, decreased 8 percent in U.S. dollars but were up 3 percent in local currency.

Sales for the Other Businesses increased 8 percent, 21 percent in local currency, for the 2015 first quarter versus the prior year. Local currency sales growth in the Other Businesses was driven by the single channel online businesses in the United States and Japan, and the multichannel business in Mexico.

Grainger plans to permanently change its capital structure by taking on debt and buying back \$3 billion in stock over the next three years.

The company also plans to add approximately 400 new sales representatives in 2015, double the original number announced in late 2014.

Distributor News

France-based electrical distributor **Sonepar** agreed to acquire UK-based **Mayflex Holdings**, a distributor of data communications products related to converged IP solutions.

Building materials distributor **US LBM Holdings LLC**, Green Bay, WI, has agreed to acquire drywall distributor **Richardson Gypsum LLC**, Stamford, CT. Richardson Gypsum will join the **Feldman Lumber** team within US LBM's structure.

MSC Industrial Direct Co. Inc., Melville, NY, reported sales for its fiscal second quarter ended Feb. 28 of \$706.4 million, an increase of 6.8 percent from the prior-year period. Profit grew 4.1 percent to \$51.5 million. Sales for the first six months were \$1.4 billion, up 7.3 percent year over year. Profit was \$108.9 million, up 0.4 percent.

The Fastenal Company, Winona, MN, reported first-quarter sales of \$953.3 million, up 8.8 percent from a year ago. Profit grew 14 percent to \$127.6 million.

Industrial distributor **Lewis-Goetz**, Pittsburgh, PA, an **ERIKS North America** company, has acquired **Action Industrial Group**, a South Carolina-based fabricator and distributor specializing in fasteners, gaskets, hose products and industrial construction tools and supplies.

DXP Enterprises Inc., Houston, TX, has acquired **Tool Supply Inc.**, Tualatin, OR, a distributor of cutting tools, abrasives, coolants and machine shop supplies.

BlackHawk Industrial, Broken Arrow, OK, distributor of metalworking and industrial supplies, has acquired **Pioneer Tool Supply**, Agawam, MA, as well as its grind shop **Pioneer Precision Grinding** and product catalog partner **Cataleap**.

WinWholesale Inc., Dayton, OH, has agreed to acquire plumbing, heating and air conditioning products distributor **Security Supply**, Selkirk, NY.

WinWholesale Inc. opened **Wise County Winsupply** to serve wholesale plumbing contractors in Wise County, TX, and surrounding counties.

Bunzl plc, the international distribution and outsourcing group, has made four acquisitions – one in Turkey, **Istanbul Ticaret Hirdavat Sanayi AS** and its related company **Istanbul Ticaret İş Güvenligi ve Endüstriyel Ürünler Sanayi AS**; two in Canada, **Emballages Maska Inc.** and **Prescott S.M. Inc.**; and one in the Netherlands, **Janssen Packaging**.

HVAC distributor **Watsco Inc.**, Miami, FL, reported sales for the first quarter of \$809 million, up 6.1 percent from the previous year. Profit was \$23 million, up 37.6 percent from the first quarter of 2014.

The **Bossard Group**, Switzerland, reported sales for the first quarter of CHF

continued on p.2 of this section

News Digest

Continued from p. 1 of this section

168.8 million (US\$172.7 million), an increase of 5.1 percent year-over-year. As reported in local currencies, sales grew 8.2 percent, mainly due to acquisitions.

John R. McNaughton III, executive vice president & COO, has retired from electrical products distributor **McNaughton-McKay**, Madison Heights, MI. Scott Sellers succeeds McNaughton as executive vice president, operations, and John Kuczanski is the new executive vice president & CFO.

Beacon Roofing Supply Inc., Herndon, VA, has opened a new branch in Oxnard, CA.

Economic News

February **U.S. cutting tool consumption** was \$179.3 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 up 1.6 percent from February 2014 and down 2.3 percent from January 2015.

February **U.S. manufacturing technology orders** totaled \$304.7 million, according to the Association for Manufacturing Technology. This total, as reported by companies participating in

the USMTO program, was down 10.6 percent from January's \$341 million and down 14.8 percent compared to February 2014.

The **Producer Price Index** for final demand increased 0.2 percent in March, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. On an unadjusted basis, the index for final demand decreased 0.8 percent for the 12 months ended in March.

Industrial production decreased 0.6 percent in March after increasing 0.1 percent in February, according to the Federal Reserve. **Capacity utilization** for the industrial sector decreased to 78.4 percent in March.

Privately owned housing starts in March were at a seasonally adjusted annual rate of 1,039,000, according to the U.S. Census Bureau and the Department of Housing and Development. This is 5.7 percent below February, but 2.9 percent above March 2014.

The **NFIB Small Business Optimism Index** fell 2.8 points to 95.2 in March, the lowest reading since June 2014. All 10 index components declined.

Calculation of MDM Inflation Index for March 2015

	BLS Price Indices Mar '15	BLS Price Indices Feb '15	BLS Price Indices Mar '14	Weighted % Sales Weight	Weighted Indices Mar '15 (1)X(4)	% Change Mar '15 Feb '15	% Change Mar '15 Mar '14
1136 Abr. Prod.	582.7	572.3	572.3	19.1	111.30	1.82	1.82
1135 Cutting Tools	506.0	506.0	493.2	18.9	95.63	0.00	2.58
1145 Power Trans.	809.8	811.0	800.4	15.4	124.70	-0.15	1.17
1081 Fasteners	512.6	510.1	510.7	9.0	46.13	0.48	0.37
1149.01 Valves, etc.	962.1	966.1	963.4	7.6	73.12	-0.42	-0.13
1132 Power Tools	368.7	369.1	360.7	6.5	23.96	-0.12	2.21
1144 Mat. Handling	592.3	594.6	576.3	6.2	36.72	-0.39	2.79
0713.03 Belting	834.0	833.4	838.8	6.1	50.87	0.08	-0.58
1042 Hand Tools	784.6	779.8	779.2	8.1	63.55	0.61	0.70
108 Misc. Metal	478.3	478.6	478.3	3.1	14.83	-0.06	0.00

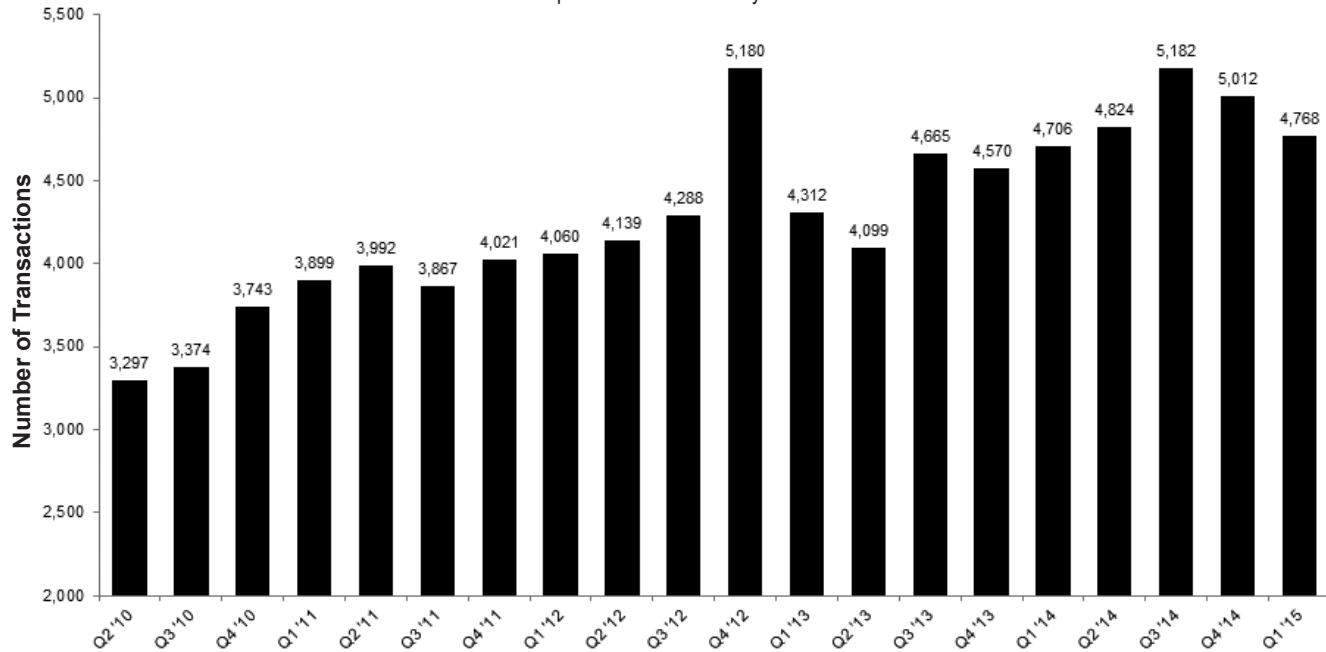
"New" March Index	334.8	March Inflation Index	640.82	0.31	1.20
"New" February Index	333.8	February Inflation Index	638.87		
		March 2014 Inflation Index	633.25		

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

First Quarter 2015 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.



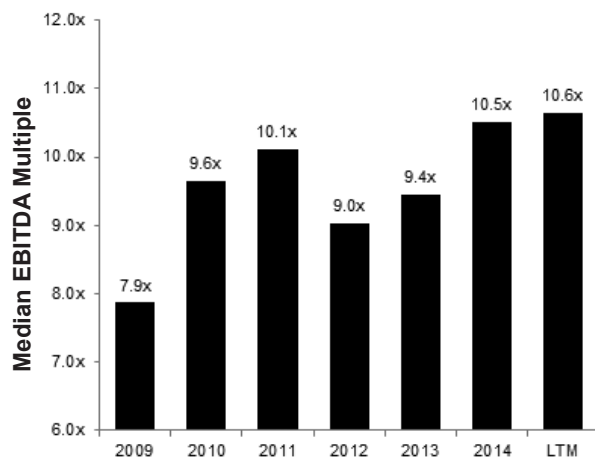
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 3/31/2015

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.

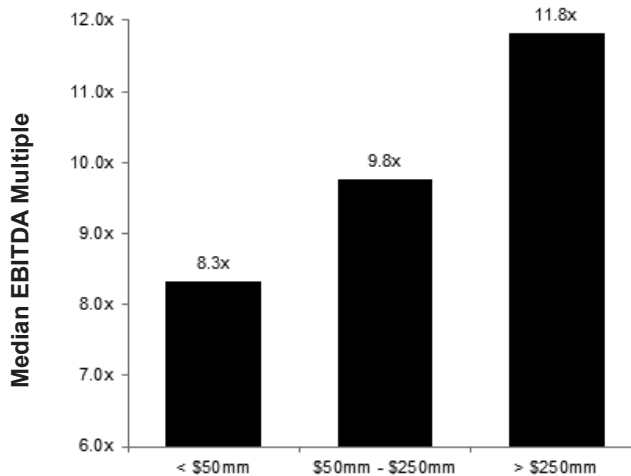
Median EBITDA Transaction Multiples – All Industries

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 3/31/2015

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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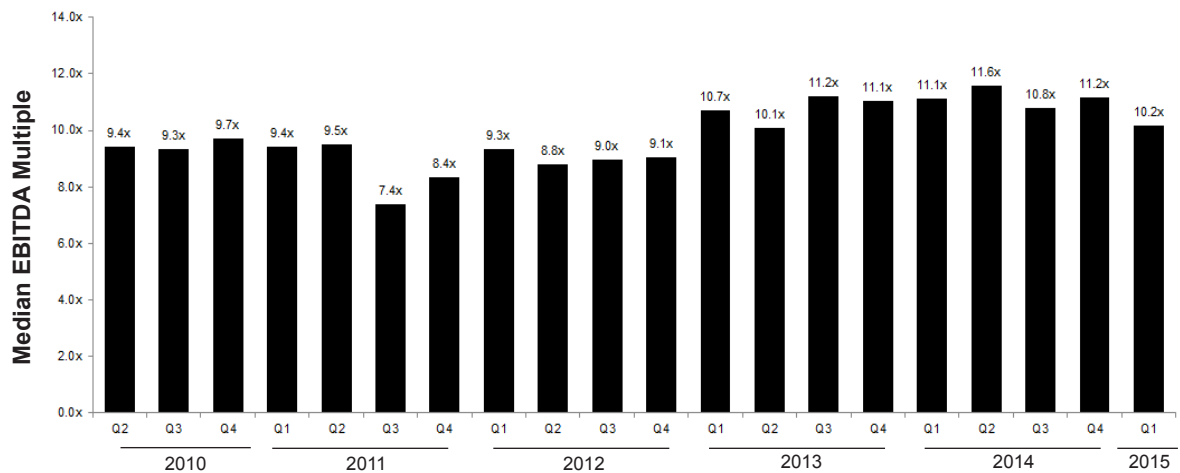
Houlihan Lokey is an international investment bank with a dedicated Distribution advisory practice and expertise in mergers and acquisitions, capital markets, financial restructuring and valuation. Houlihan Lokey is ranked as the No. 1 M&A advisor for U.S. transactions under \$1 billion, as well as the 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, 2015)

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-earning.

<i>(in millions, except per share data)</i>		Enterprise Value	LTM Sales	LTM Sales Growth	LTM Margins		Working Capital/LTM Sales	ROIC	EV/LTM EBITDA
Company	Ticker				Gross	EBITDA			
A.M. Castle	CAS	\$388	\$980	-0.2%	9.5%	-2.0%	29.0%	-21.3%	NM
Airgas Inc.	ARG	\$10,374	\$5,271	1.7%	55.5%	18.4%	17.1%	9.2%	10.7x
Anixter International Inc.	AXE	\$3,618	\$6,446	1.1%	22.8%	6.2%	22.8%	11.5%	9.0x
Applied Industrial Technologies Inc.	AIT	\$2,180	\$2,667	4.3%	27.9%	8.0%	21.6%	12.7%	10.2x
Arrow Electronics Inc.	ARW	\$7,542	\$22,769	1.1%	13.2%	4.6%	12.3%	8.8%	7.3x
Avnet Inc.	AVT	\$7,267	\$28,124	0.5%	11.6%	3.7%	13.7%	9.6%	6.9x
Beacon Roofing Supply Inc.	BECN	\$1,775	\$2,371	1.9%	22.7%	5.3%	18.6%	5.5%	14.1x
Bluelinx Holdings Inc.	BXC	\$525	\$1,979	-1.6%	11.6%	1.2%	16.3%	NA	NM
Builders FirstSource Inc.	BLDR	\$1,021	\$1,604	1.8%	22.3%	3.8%	10.7%	10.7%	16.8x
Bunzl	BNZL	\$10,258	\$9,595	-3.3%	24.3%	7.4%	7.9%	15.5%	14.5x
DXP Enterprises Inc.	DXPE	\$1,038	\$1,500	4.8%	28.9%	9.3%	14.5%	-5.7%	7.4x
Fastenal Company	FAST	\$12,219	\$3,734	3.1%	50.8%	23.0%	31.7%	25.2%	14.2x
Genuine Parts Company	GPC	\$14,909	\$15,342	2.0%	29.9%	8.3%	13.9%	17.0%	11.7x
HD Supply	HDS	\$11,318	\$8,882	-1.6%	28.8%	9.1%	12.5%	5.9%	14.0x
Houston Wire & Cable Company	HWCC	\$226	\$390	-1.2%	22.0%	7.3%	34.2%	9.5%	8.0x
Ingram Micro Inc.	IM	\$4,644	\$46,487	4.8%	5.7%	1.6%	7.9%	6.2%	6.1x
Kaman Corp.	KAMN	\$1,420	\$1,795	1.2%	28.3%	8.2%	24.4%	8.4%	9.7x
Lawson Products	LAWS	\$208	\$286	1.6%	60.4%	1.3%	15.5%	-6.5%	NM
MRC Global Inc.	MRC	\$2,642	\$5,933	2.9%	16.4%	6.7%	23.9%	7.2%	6.6x
MSC Industrial Direct Co. Inc.	MSM	\$4,916	\$2,885	1.6%	45.6%	16.3%	28.0%	13.7%	10.5x
NOW Inc.	DNOW	\$2,122	\$4,105	-0.8%	20.0%	4.9%	30.0%	6.2%	10.5x
Park-Ohio Holdings Corp.	PKOH	\$1,050	\$1,379	4.8%	17.0%	8.8%	19.6%	8.9%	8.7x
Pool Corp.	POOL	\$3,355	\$2,247	1.6%	28.6%	9.1%	14.8%	20.1%	16.4x
Reliance Steel & Aluminum Co.	RS	\$6,976	\$10,452	2.7%	25.1%	8.2%	23.4%	6.2%	8.2x
Rexel SA	RXL	\$7,854	\$15,834	-2.8%	24.3%	5.2%	10.4%	4.2%	9.6x
Stock Building Supply	STCK	\$565	\$1,296	0.9%	23.7%	2.5%	10.5%	4.9%	17.5x
United Stationers Inc.	USTR	\$2,274	\$5,327	2.1%	15.2%	4.9%	18.4%	8.8%	8.8x
W.W. Grainger	GWW	\$16,170	\$9,965	1.4%	43.3%	16.0%	15.6%	20.8%	10.1x
Watsco Inc.	WSO	\$4,596	\$3,945	1.3%	24.2%	8.2%	21.4%	15.2%	14.2x
Wesco Aircraft Holdings	WAIR	\$2,474	\$1,505	11.0%	30.1%	13.9%	63.3%	6.4%	11.8x
WESCO International Inc.	WCC	\$4,437	\$7,890	1.5%	20.4%	6.6%	15.8%	9.1%	8.5x
Wolseley plc	WOS	\$17,297	\$20,288	-4.7%	28.0%	6.6%	11.8%	8.0%	12.9x
Median		\$3,487	\$4,025	1.5%	24.3%	7.0%	16.7%	8.8%	10.2x

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

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