

## Survey: Headwinds Intensify

*Broadening industrial weakness impedes revenue growth in 2Q*

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 2015.

By Eric Smith

Hindered earlier in the year by temporary disruptions such as the West Coast port slowdown and inclement weather, distributors in the second quarter faced much fiercer headwinds as the oil & gas slump lingered and the strong U.S. dollar continued to curtail exports.

The broadening industrial weakness stymied sales growth for distributors across sectors and geographies during the period. Excluding acquisitions, revenue growth was just 1.8 percent from April to June, according to the most recent MDM-

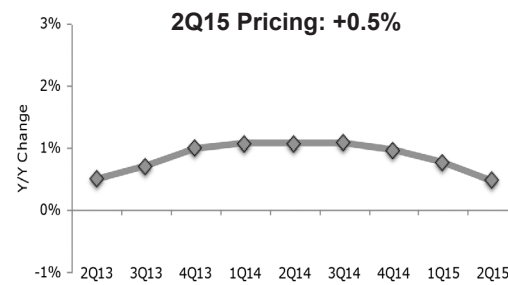
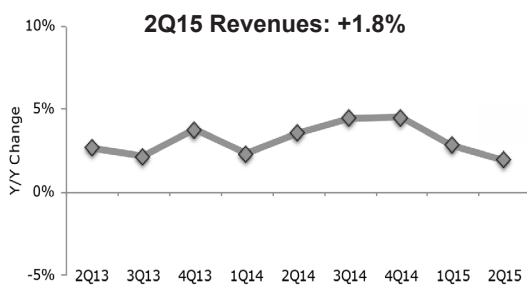
Baird Distribution Survey. That's down from 3.5 percent in the second quarter of 2014 and down from 2.7 percent the previous quarter.

While an improving commercial construction climate partially offset the tepid results, the 1.8 percent revenue growth marked the second straight period of decline and a two-year low for distributors.

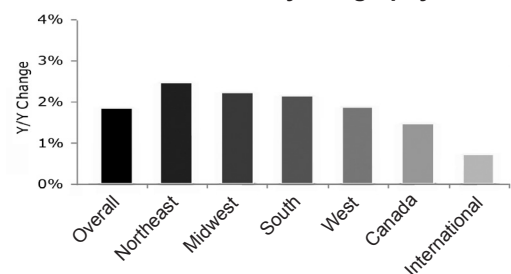
Pricing also continued a slow downward trajectory in the second quarter with 0.5 percent improvement year-over-year, as compared to 0.8 percent in the first quarter of 2015. Survey respondents said margin pressures were driven by several headwinds, including lower commodity prices, soft industrial demand and efforts by national distributors to gain market share. Pricing was slightly above average in the Northeast and South, while international markets saw slight price deflation.

The lackluster quarter portends more

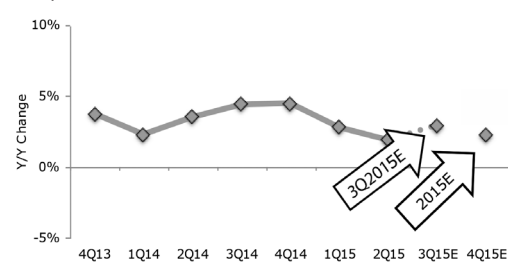
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2Q15 Revenue Growth by Geography



3Q15/2015 Revenue Outlook: +2.9%/+2.2%



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**PERSPECTIVE** ■ Commentary by Eric Smith**Distributors Remain Leery of Amazon – for Good Reason**

When Amazon sunset AmazonSupply a few months ago and replaced it with a B2B marketplace called Amazon Business, analysts at Baird said the move reduced much of the competitive threat for distributors, especially those in the industrial supply space. It also created an opportunity to sell to other businesses as a third-party vendor in Amazon's marketplace.

But will distributors flock to this new e-commerce option? That question was asked as part of this quarter's MDM-Baird Distribution Survey – and the response was eye-opening. (Overall survey results begin on Page 1.)

Of the more than 500 distributors and manufacturers polled, 26 percent said they definitely aren't participating in the B2B marketplace, 50 percent have not considered participating and 9 percent lean toward not participating. Only 9 percent lean toward participating and 6 percent are definitely not participating.

Survey responses included:

- "We will not give Amazon the opportunity to gather information on our customers, their buying behavior, their locations and fulfillment demands."
- "Amazon's terms & conditions are unfavorable."
- "We'd only be able to sell slow moving C & D items on there to be able to make

money at those fees."

- "We have no intention of telling Amazon what products we're shipping where. That's exactly how Amazon plans and fills its distribution warehouses."
- "What happens when Amazon has all of your customer information? Don't trust them."

Distributors haven't forgotten that AmazonSupply was going to "slaughter" wholesale distributors, as Forbes predicted a few years ago. Even when it became apparent nothing that drastic would happen, distributors remained anxious about the menacing behemoth that could put them out of business the same way its parent company squashed bookstores.

While that never came to fruition and probably won't, now is not the time to get complacent. Amazon loves creating chaos in the business world, and what MDM Publisher Tom Gale wrote a few years ago about competing with Amazon – even a less threatening Amazon – still holds true. His advice: migrate core branding online; leverage partners to extend your catalog and SKU capabilities as well as technical resources; manage your inventory for profitability; and be clear about why you are better.

This approach will help keep Amazon – and other threats – at bay.

**MODERN DISTRIBUTION MANAGEMENT**

Founded in 1967  
by J. Van Ness Philip

**Publisher**  
Thomas P. Gale  
tom@mdm.com

**Editor**  
Jenel Stelton-Holtmeier  
jenel@mdm.com

**Associate Publisher**  
Craig Riley  
craig@mdm.com

**Associate Editor**  
Eric Smith  
eric@mdm.com

**Contact Information**

Questions, comments, article proposals, address changes or subscription service to:

Gale Media, Inc.  
2569 Park Lane, Ste 200, Lafayette, CO 80026  
Tel: 303-443-5060  
Website: <http://www.mdm.com>

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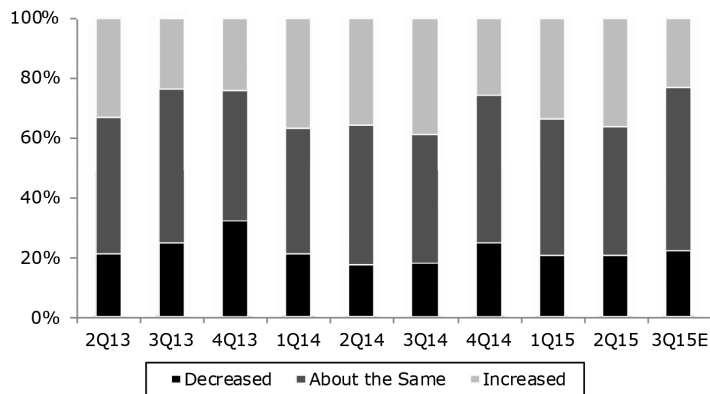
**MDM-Baird Survey**  
Continued from page 1

dismal days for distributors. According to the last Baird survey: “2Q15 trends will set the tone for the remainder of 2015.” That forecast appears to be holding true, as distributors now project 2.9 percent growth in the third quarter and just 2.2 percent growth for the year, down from the 3.6 percent growth they projected for 2015 just a few months ago.

Among the 19 product sectors, pool & spa registered the strongest revenue growth for the quarter at 5.3 percent. Survey respondents forecast the sector to cool with projected revenue growth of 3.9 percent for the third quarter and 3 percent for the full year.

Other sectors that performed well in the second quarter included plumbing (5 percent), datacomm (4.6 percent) and building materials (4.3 percent). Survey respondents forecast plumbing and datacomm to see slight changes in the third quarter before settling at 3.9 percent each for 2015. Building materials, which saw im-

**Inventory Levels, Historical and Expected**



Thirty-seven percent of respondents reported higher inventory levels in the second quarter, while 21 percent decreased inventory levels, placing the net inventory increase slightly below the prior year but still relatively consistent with historical seasonal patterns. Looking forward, 18 percent of distributors expect to maintain/seasonally increase inventories in the third quarter, down slightly versus the prior year.

**Current and Expected Revenue and Pricing Levels by Sector**

	2Q15 Sales Change	2Q15 Pricing Change	3Q15 Sales Forecast	2015 Sales Forecast	
<b>Building Materials</b>	4.3%	0.8%	2.0%	3.9%	Growth up nicely vs. flat 1Q trends
<b>Cutting Tools</b>	-1.0%	0.0%	1.7%	0.3%	Durable goods OEMs drive decline
<b>Datacomm</b>	4.6%	0.2%	4.8%	3.7%	Core trends modestly higher
<b>Electrical</b>	3.0%	0.4%	4.7%	3.0%	Modest construction pick up a plus
<b>Fasteners</b>	2.9%	1.3%	2.2%	2.3%	Positive construction exposure
<b>Gases/Cylinder Rental</b>	3.1%	1.9%	3.7%	4.0%	Positive price offsets flat volumes
<b>Hoses &amp; Accessories</b>	0.7%	0.2%	2.8%	1.7%	Growth continues in-line with 2013
<b>HVAC</b>	3.4%	1.7%	5.4%	3.5%	Residential replacement demand solid
<b>Mech/Power Trans</b>	-3.8%	-0.6%	-1.1%	-0.5%	Negative readings similar to mid-2013
<b>MRO - Industrial/Mfg*</b>	0.8%	-0.2%	2.1%	1.0%	Lower commodities, neg mix impact price
<b>MRO - Non-Mfg*</b>	2.5%	0.6%	2.1%	1.7%	Modest growth trajectory continues
<b>Plumbing</b>	5.0%	1.3%	4.1%	3.7%	1st mid-single-digit growth since 2014
<b>Pool &amp; Spa</b>	5.3%	0.2%	3.9%	3.0%	Growth averaged ~4% over past 2 yrs
<b>PVF - Ind &amp; Energy</b>	3.1%	1.2%	1.2%	2.2%	Low oil & gas survey exposure
<b>PVF - Water &amp; Sewer</b>	2.7%	2.1%	3.2%	3.5%	Normal weather pattern drives growth
<b>Rental Equipment</b>	2.2%	-0.8%	3.8%	4.6%	Down sharply vs. last quarter growth
<b>Roofing</b>	3.6%	1.0%	1.9%	3.5%	Shingle pricing stable; concern lingers
<b>Safety</b>	2.0%	0.8%	3.5%	2.7%	Stable trends sequentially
<b>Welding Hardgoods</b>	3.2%	0.8%	3.1%	3.8%	Weak eqmt demand neg. leading indicator
<b>Overall</b>	1.8%	0.5%	2.9%	2.2%	

\*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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provement after a flat first quarter, is projected to dip to 2 percent in the third quarter before improving to 3.9 percent for the year, the third-highest forecast among sectors.

Survey respondents project HVAC as the top-performing sector in the third quarter at 5.4 percent due to increased residential replacement demand. Rental equipment has the highest projection for 2015 at 4.6 percent.

Two subsectors recorded negative revenue growth during the second quarter – mechanical/power transmission (-3.8 percent) and cutting tools (-1 percent). Hoses & accessories (0.7 percent) and MRO – manufacturing (0.8 percent) also performed poorly. Mechanical/power transmission is the only sector forecasted for a negative third quarter (-1.1 percent) and negative 2015 (-0.5 percent).

**Industrial supply** companies fared the worst in the second quarter, with an average growth of 0.3 percent among the category's six sectors: MRO – manufacturing, safety, cutting tools, fasteners, mechanical/power transmission and hoses & accessories.

"We have seen a marked slowdown across virtually all industrial segments," said one survey respondent in industrial supply. "Oil & gas is obvious, but the slowdown has been more widespread in the last 45-60 days."

Other than general softness, key themes in industrial supply included persistent pricing pressure and the "return of hesitancy." As one respondent noted: "Companies are still nervous from 2009 and are being very cautious." That caution has led to some destocking, with "large distributors working to reduce inventories and improve turns," a respondent said.

Hesitancy across the category was reflected in revenue growth projections for the third quarter and 2015. Mechanical/power transmission, which saw similarly negative readings in mid-2013, was the only sector forecasted for negative growth in the next quarter and for the year. Only safety and fasteners came in above the 2 percent threshold at 2.7 percent and 2.3 percent, respectively. Forecasts for 2015 for the other industrial supply categories are: hoses & accessories (1.7 percent), MRO – manufacturing (1 percent) and cutting tools (0.3 percent).

The **industrial gases** category saw more stability than the other categories in second quarter due to a slower M&A climate and fewer supply chain snags, although weak equipment demand could dampen growth moving forward. Gases & cylinder rental registered an above-average 3.1 percent revenue growth in the second quarter and is forecasted to grow throughout the rest of

the year, with a projected 3.7 percent growth in 3Q and 4 percent growth in 2015.

Welding hardgoods saw 3.2 percent revenue growth in the second quarter; it is expected to stay flat in the third quarter and improve to 3.8 percent for the year. Pricing remains positive, but heightened competitive pressure concerns many distributors.

After a bleak start to the year, the **building products and facilities maintenance** category scored a comeback in the second quarter. Its sectors combined to average 4 percent revenue growth, more than double the industry average. Pool & spa, plumbing and building materials sectors did well – scoring three of the top four spots in the second quarter – but so did roofing (3.6 percent), HVAC (3.4 percent) and MRO – non-manufacturing (2.5 percent).

The upward trajectory from first quarter to second quarter isn't expected to last, however, as projections have most sectors flat or down for the remainder of 2015. One issue at the root of that forecasted decline is the dwindling labor pool, with one survey respondent noting: "The only thing that's holding us back is that contractors downsized during the downturn; they don't have the folks to do the work."

Modest commercial construction again boosted **electrical & datacomm** companies in the second quarter, with datacomm performing especially well at 4.6 percent revenue growth and electrical solidly above the industry average at 3 percent. Datacomm expects to see a brief improvement in the third quarter to 4.8 percent before dropping to 3.7 percent for the year, while electrical should see a more marked rise in the third quarter, to 4.7 percent, before settling back to 3 percent growth in 2015.

Although the industrial market's weakness has taken a toll, construction remains steady and is driving growth across the sectors.

The oil & gas slump again hurt the **pipe, valves & fittings** category, especially in regard to shrinking capex, although industrial PVF – industrial & energy (3.1 percent) and PVF – water and sewer (2.7 percent) outperformed many other sectors during the second quarter.

PVF – industrial & energy is expected to drop in the third quarter to 1.2 percent before settling in at 2.2 percent for 2015, while PVF – water and sewer is projected to rise steadily as the year progresses to 3.2 percent in 3Q and 3.5 percent for the year. "The market is soft and may get softer as major projects in the works are depleted and no new projects get started," is how one respondent summed up the biggest problem facing those with oil & gas exposure.



# Global Companies Pose Threat in U.S.

*McGladrey report: International firms have edge over American counterparts*

*International manufacturers have their eye on the U.S. market, especially as the economy continues to strengthen, but an extensive investment in technology and services could give them a competitive edge.*

**By Eric Smith**

Economic recovery in the U.S. is enticing international manufacturers to expand here, but their arrival poses a competitive threat to American companies that don't match their foreign counterparts' investment in technology, according to the 2015 Manufacturing & Distribution Monitor Report.

The annual report, compiled by the CPA firm McGladrey LLP, paints an improving picture of the economy by noting that three in four global manufacturing and distribution executives expect profits to increase, while the sector projects an average growth rate of 10 percent, over the next 12 months. Globally, executives expect average sales to increase 12 percent over the next 12 months, and they also plan to increase domestic hiring by roughly 8 percent.

But as the climate improves, more than half of the non-U.S. manufacturers that intend to sell products or services outside their home markets in 2015 have their eye on expanding in the U.S. And this influx of middle-market global manufacturing firms will provide fierce competition for U.S. businesses that haven't invested heavily in technology and infrastructure.

"These findings indicate that economic recovery in the U.S. is gaining significant traction," says Karen Kurek, a McGladrey partner. "While that's great for the U.S. economy, it's not always great for U.S. businesses that want to remain competitive with global firms looking to enter and expand in the domestic market. U.S. manufacturers and distributors should continue to incorporate innovation into their cultures to contend with global firms."

Non-U.S. companies are investing in technology at a much more rapid rate than U.S. companies, according to the report. Firms outside of the U.S. are about 10 percent more likely to have invested in the implementation of cloud computing, big data solutions, social media platforms, customer relationship management and e-commerce. They know that establishing a presence here means they must "up their game" and are taking the necessary steps, says Kurek. She also

says many of the Asian companies planning to set up shop here are young and heavily focused on investing in their business, which gives them an advantage over U.S. competitors that have continuously delayed technological innovation.

"After 2009, which was obviously the big recession and economic downturn, there were a lot of U.S. manufacturers that put off updating and investing in their IT systems," Kurek says. "They were basically making sure the lights stayed on and they were navigating what was happening in the economy at that time."

Even now, instead of proactively investing in technology to stay ahead of the competition, many U.S. companies instead "look to invest dollars to fix problems as more of a reaction to things that happen," Kurek says.

There is never a bad time for manufacturers and distributors to invest in their businesses, says Michael Sprague, director of e-business development, ThomasNet. But he knows company executives often dismiss the opportunity to add services, improve infrastructure or strengthen their bench during an economic upswing by claiming, "Well, we're too busy to work on these kind of issues." Conversely, he adds, distributors also use a feeble economy as an excuse by lamenting, "Well, we don't really have any money or resources to put at this right now because business is slow." To which Sprague replies, "So what's a good time then? There's very rarely a middle ground."

"I think the realization is coming around, independent of business cycles and everything, that they need to invest in these kind of tools, and I think that's a good thing," he says. "It's a good thing for everybody – consumers, manufacturers, distributors. I think we're getting to a better place, but, boy, it takes a long time in this industry."

The McGladrey survey also found that U.S. companies are hesitant to expand internationally, the result of unfavorable currency exchange rates and other factors, including untapped markets at home.

"In terms of having a strategy to think global, non-U.S. companies seem to be more advanced than U.S. companies," Kurek says. "Part of that relates to the fact that the U.S. market is so broad, so when you look at these middle-market manufacturers and distributors, they have a lot of domestic market space to sell into."

# 2Q15 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](http://www.mdm.com).

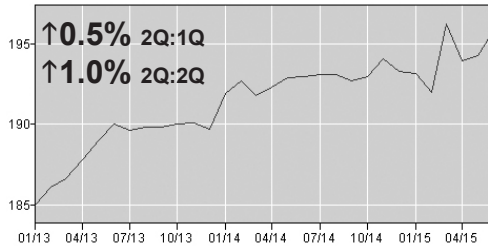
### Key

↑X.X% 2Q:1Q (2Q '15 with 1Q '15)

↑X.X% 2Q:2Q (2Q '15 with 2Q '14)

## Industrial

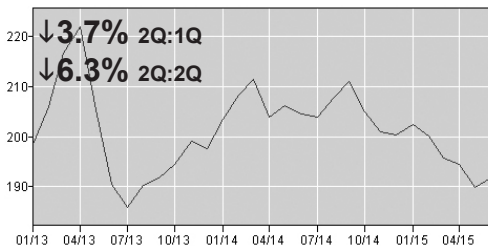
### Abrasives



Product Group	2Q:1Q	2Q:2Q
Adhesives/Sealants	-0.7	-0.9
Pumps & Compressors	0.3	2.1
Ind. Mat Handling Eqmt	0.8	2.3
Rubber & Plastic Belts & Belting	0.0	-0.6
Rubber & Plastic Hose	0.5	-2.0
Industrial Rubber Products nec	0.1	1.6
Personal Safety Eqmt & Clothing	0.0	2.0
Metal Forming Machine Tools	0.0	3.1
Metal Cutting Machine Tools	0.4	1.5
Metal Valves (not FP)	0.7	2.2
Steel Mill Products	-6.8	-10.7

## Construction

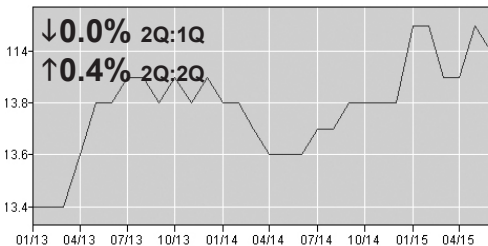
### Softwood Lumber



Product Group	2Q:1Q	2Q:2Q
Plastic Construction Products	0.9%	1.4%
General Millwork	1.2	3.1
Gypsum Products	-2.4	1.8
Hardboard, Particlebd, Fiberbd	-1.8	-4.7
Hardwood Lumber	-3.9	-9.6
Plywood	-1.2	1.1
Wood Ties, Siding, Shingles, etc.	0.0	5.7

## Electrical

### Electrical Machinery & Eqmt\*

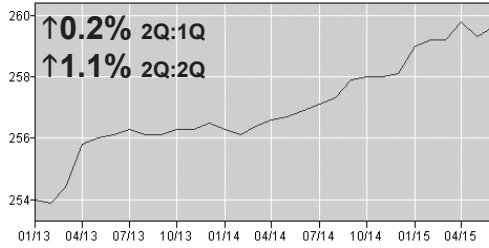


\*Category includes products in table to right

Product Group	2Q:1Q	2Q:2Q
Electronic Components & Accs.	0.0%	0.0%
Integrating/Measuring Instrumts	0.4	0.2
Motors, Generators, etc.	-0.1	0.0
Wiring Devices	-0.8	-0.2
Transformers/Power Regulators	-1.8	-4.6
Switchgear, Switchbd, etc. Eqmt	0.1	0.8
Communications/Related Eqmt	0.2	1.2
Electric Lamp Bulbs and Parts	-5.4	-0.3
Fab. Ferrous Wire Products	-0.1	0.4
Nonferrous Wire & Cable	0.0	-2.9
Lighting Fixtures	0.5	2.1

## Power Transmission/Bearing/Fluid Power

### Mech. Power Transmission Eqmt\*

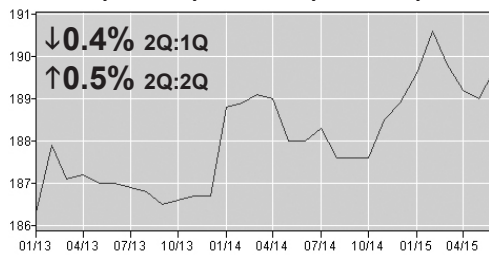


\*Category encompasses first three (PT) products in table.

Product Group	2Q:1Q	2Q:2Q
Ball & Roller Bearings	0.0%	1.2%
Plain Bearings & Bushings	0.7	1.5
Speed Changers/Drives/Gears	0.1	0.6
Fluid Power Equipment	0.3	0.9
Fluid Power Valves	0.1	0.8
FP Hose & Tube Fittings	0.8	1.1
FP Cylinders, Actuators, Accum.	0.3	1.3
Fluid Power Pumps & Parts	0.1	0.7

## Fasteners

### Nuts, Bolts, Screws, Rivets, Washers\*



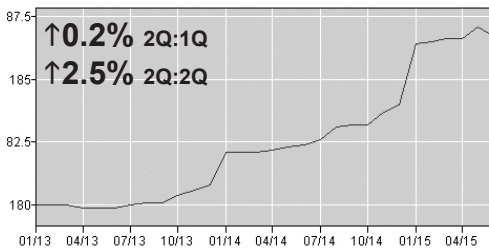
Product Group	2Q:1Q	2Q:2Q
Aircraft Fasteners	0.0%	-1.7%
Externally Thread. Fasteners**	-1.0	1.0
Internally Thread. Fasteners**	0.0	2.6
Nonthreaded Metal Fasteners**	0.1	0.4

\*Category encompasses products in table above

\*\*Excludes aircraft fasteners.

## Tools

### Cutting Tools & Accessories\*

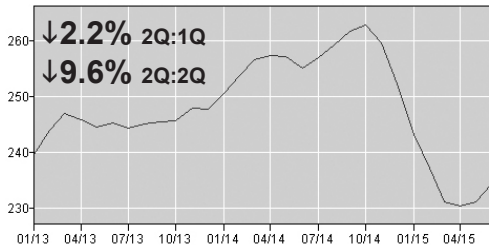


\*Category encompasses some of the products in table.

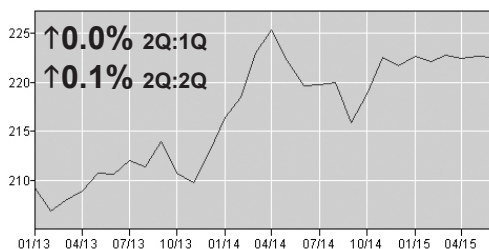
Product Group	2Q:1Q	2Q:2Q
Hand & Edge Tools	0.0%	0.4%
Power-Driven Hand Tools	0.8	2.4
Precision Measuring Tools	0.1	1.2
Small Cutting Tools	0.0	2.8
Tools, Dies, Jigs, Molds, Fixture	-0.4	-0.4

## Other

### Plastic Resins and Materials



### Industrial Gases



Product Group	2Q:1Q	2Q:2Q
Hardware*	-0.2%	0.8%
Builders Hardware	-0.4	0.3
Air Cond. & Refrigeration Eqmt	-0.3	0.5
Heating Eqmt	0.4	1.7
Plumbing Fixtures & Fittings	0.2	1.4
Plastic Products (overall)	-0.9	-1.1
Pkgng Products from Plastics	-3.1	-5.1
Welding Machinery & Eqmt	1.4	1.1
Office Supplies & Accessories	0.2	-0.5
Pulp, Paper & Allied Products**	-0.4	-0.8
Boxes	-0.2	0.9
Sanitary Paper Products	-0.2	-1.1

\*This category includes builders' hardware & other product groups

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

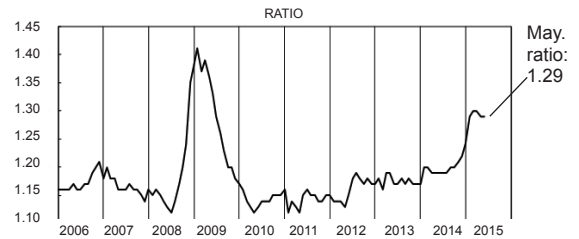
## Monthly Wholesale Trade Data

Wholesale revenues in May were \$449.8 billion, up 0.3 percent from the revised April level, but down 3.8 percent from the May 2014 level. May sales of durable goods were down 0.1 percent from last month, but up 1.6 percent from a year ago. Sales of nondurable goods were up 0.7 percent from April, but were down 8.3 percent from last May.

**Inventories.** Inventories were \$581.9 billion at the end of May, up 0.8 percent from the revised April level and were up 5 percent from May 2014. May inventories of durable goods were up 0.6 percent from last month and up 6.2 percent from a year ago. Inventories of nondurable goods were up 1.2 percent from April and up 3.1

### Monthly Inventories/Sales Ratios of Merchant Wholesalers: 2006-2015

(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

percent from last May.

**Inventories/Sales Ratio.** The May inventories/sales ratio for merchant wholesalers was 1.29. The May 2014 ratio was 1.19.

### Sales and Inventories Trends: May 2015

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	Percent Change Sales 4/15-5/15	Percent Change Sales 5/14-5/15	Percent Change Inventory 4/15-5/15	Percent Change Inventory 5/14-5/15
<b>42</b>	<b>U.S. Total</b>	<b>449,838</b>	<b>581,850</b>	<b>1.29</b>	<b>0.3</b>	<b>-3.8</b>	<b>0.8</b>	<b>5.0</b>
<b>423</b>	<b>Durable</b>	<b>217,520</b>	<b>360,093</b>	<b>1.66</b>	<b>-0.1</b>	<b>1.6</b>	<b>0.6</b>	<b>6.2</b>
4231	Automotive	37,742	61,793	1.64	2.2	9.4	1.2	12.2
4232	Furniture & Home Furnishings	6,554	10,721	1.64	-2.8	7.4	0.4	6.8
4233	Lumber & Other Construction Materials	9,167	14,414	1.57	-0.8	0.6	1.4	2.3
4234	Prof. & Commercial Equip. & Supplies	37,098	40,223	1.08	0.2	0.1	0.6	5.1
42343	Computer Equipment & Software	19,024	16,128	0.85	-1.0	-2.9	2.5	7.5
4235	Metals & Minerals	13,583	31,561	2.32	-1.1	-11.4	0.2	4.2
4236	Electrical Goods	47,775	47,979	1.00	-2.0	4.5	0.3	6.9
4237	Hardware, Plumbing, & Heating Equipment	10,459	22,694	2.17	-1.2	3.7	0.7	12.1
4238	Machinery, Equipment & Supplies	35,944	104,582	2.91	0.4	-0.1	0.7	6.3
4239	Miscellaneous Durable	19,198	26,126	1.36	2.0	-5.5	-0.4	-6.5
<b>424</b>	<b>Nondurable Goods</b>	<b>232,318</b>	<b>221,757</b>	<b>0.95</b>	<b>0.7</b>	<b>-8.3</b>	<b>1.2</b>	<b>3.1</b>
4241	Paper & Paper Products	8,027	7,748	0.97	1.1	4.8	-1.9	1.9
4242	Drugs	50,798	57,011	1.12	0.5	12.8	2.7	16.1
4243	Apparel, Piece Goods & Notions	14,239	28,648	2.01	-1.2	1.1	1.2	9.7
4244	Groceries & Related Products	50,718	32,857	0.65	0.3	0.8	-0.5	7.0
4245	Farm-product Raw Materials	18,674	19,517	1.05	-3.7	-22.2	-1.0	-17.5
4246	Chemicals & Allied Products	10,486	12,501	1.19	-1.0	-8.0	1.4	1.8
4247	Petroleum & Petroleum Products	46,490	19,835	0.43	4.3	-32.5	4.4	-16.7
4248	Beer, Wine & Distilled Beverages	11,087	15,224	1.37	0.1	3.9	0.1	3.5
4249	Miscellaneous Nondurable Goods	21,799	28,416	1.30	0.5	2.8	1.0	4.9

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.



## Fastenal Sales Up 5% in 2Q

The Fastenal Company (NASDAQ: FAST), Winona, MN, reported sales for the second quarter of \$997.8 million, up 5 percent year-over-year. Profit was \$140.4 million, up 7.5 percent.

For the first six months of the year, sales were \$2 billion, up 6.8 percent over the same period the previous year. Profit increased 10.5 percent to \$268 million.

The number of stores open in the second quarter was down 2.5 percent year-over-year to 2,616. Employee count was up 7.7 percent to 19,527 and daily sales for the second quarter grew 5 percent.

Sales growth in the second quarter was primarily due to higher unit sales. Sales were impacted by minimal price changes in non-fastener products and some price deflation in fastener products, but the net impact was a drag on growth. Growth was not meaningfully impacted by the introduction of new products or services, except for FAST Solutions industrial vending which has stimulated faster growth with a subset of customers.

The Winona, MN-based company boosted its FAST Solutions vending total 15.7 percent to 50,620 machines for the quarter compared to the same quarter a year ago. The sharp increase reveals a clear mission for the company, which has a “group of store employees, district managers and national account members that are keyed at driving that number,” said CFO Dan Florness.

Fastenal also reported sales for June of \$349 million, an 8.6 percent increase over the same period a year ago. Daily sales increased 3.7 percent to an average of \$15.9 million.

During the month, sales to manufacturing customers grew 2.6 percent, while sales to nonresidential construction customers grew 0.4 percent.

Store count was 2,616 in June, compared to 2,684 a year ago. Employee headcount increased 7.7 percent year-over-year to 19,527.

## Distributor News

**Anixter International Inc.**, Glenview, IL, has agreed to acquire the Power Solutions business unit of **HD Supply Holdings Inc.**, Atlanta, GA, for \$825 million.

**Grainger**, Chicago, IL, was the subject of a cyberattack. Intruders were able to access limited information on Grainger’s network, but the company did not experience any service disruptions or outages as a result of the incident.

**Grainger** reported sales for the second quarter of \$2.5 billion, a 1 percent increase over the same period a year ago. Profit increased 7 percent to \$221 million. For the first half of the year, sales were \$5 billion, up 1 percent from the same period one year ago. Profit increased 2 percent to \$432 billion.

**Essendant Co.**, a subsidiary of **Essendant Inc.**, Deerfield, IL, has agreed to acquire **Nestor Sales LLC**, Largo, FL, a wholesaler and distributor of tools, equipment and supplies to the transportation industry.

Germany-based **Würth Group** has acquired New York-based distributor **Northern Safety and Industrial**.

**MSC Industrial Direct Co. Inc.**, Melville, NY, a distributor of metalworking and MRO supplies, reported sales for the fiscal third quarter of \$745.5 million, up 3.5 percent year-over-year. Profit for the quarter decreased 2.1 percent to \$63.3 million. Fiscal year-to-date sales were \$2.2 billion, up 5.9 percent over the prior-year period. Profit decreased 0.6 percent to \$172.3 million.

**Praxair Inc.**, Danbury, CT, has acquired **Cryospec Inc.**, San Francisco, CA, and **Garland Welding Supplies Inc.**, Garland, TX.

**BlackHawk Industrial**, Broken Arrow, OK, has acquired industrial tooling distributor **Jarvis Supply**, Denver, CO.

**Tech Air**, Danbury, CT, has acquired Mobile, AL-based **L&M Welding Supply Inc.**

**Graybar**, St. Louis, MO, opened a new location in Fort Worth, TX.

**WinWholesale Inc.**, Dayton, OH, opened Des Moines Winsupply.

**SRS Distribution**, McKinney, TX, opened three new locations in Utah, Pennsylvania and Arkansas.

**Avnet Electronics Marketing**, an operating group of technology distributor **Avnet Inc.**, Phoenix, AZ, has named Kevin Yapp as senior vice president of digital transformation.

**Wesco Aircraft Holdings Inc.**, Valencia, CA, has appointed Daniel Snow to executive vice president of strategy and business process development.

Private equity firm **Supply Chain Equity** has partnered with **Herbert L.**

continued on p.2 of this section

**News Digest**

Continued from p. 1 of this section

**Flake Company**, Houston, TX, a security hardware and access control products distributor.

Analysis, through the Department of Commerce.

**Economic News**

May **U.S. cutting tool consumption** totaled \$172.8 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 7 percent from May 2014 and down 6 percent from April.

The **NFIB Small Business Optimism Index** dropped 4.2 points to 94.1 in June, well below the pre-recession average of 99.5. Nine of the 10 components dropped and one remained unchanged from May.

**Canadian municipalities issued building permits** worth C\$6.7 billion (US\$5.3 billion) in May, down 14.5 percent from April, following two months of double-digit gains.

May **U.S. manufacturing technology orders** totaled \$337 million, according to AMT – The Association for Manufacturing Technology. This total was down 13.2 percent from April and down 6.2 percent when compared to May 2014.

**Canadian manufacturing sales** edged up 0.1 percent to \$49.9 billion in May, the second gain in 2015, according to Statistics Canada.

The **Producer Price Index** for final demand rose 0.4 percent in June, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. On an unadjusted basis, the final demand index declined 0.7 percent for the 12 months ended in June, the fifth straight 12-month decrease.

**Manufacturer News**

**WD-40 Company**, San Diego, CA, reported sales for the fiscal third quarter ended May 31 of \$92.5 million, a decrease of 3 percent year-over-year. Profit increased 5 percent to \$11 million.

May **exports** were down \$1.5 billion from April to \$188.6 billion and **imports** were down \$0.3 billion to \$230.5 billion, according to the U.S. Census Bureau and the U.S. Bureau of Economic

**Robert Bosch LLC**, Farmington Hills, MI, the North American division of **BSH Hausgeräte GmbH**, Stuttgart, Germany, reported revenue for 2014 of \$11.3 billion, up 8.7 percent from 2013 and accounting for 17 percent of the Bosch Group's sales.

**Calculation of MDM Inflation Index for June 2015**

		BLS Price Indices June '15	BLS Price Indices May '15	BLS Price Indices June '14	Weighted % Sales Weight	Weighted Indices June'15 (1)X(4)	% Change June '15 May '15	% Change June '15 June '14
1136	Abr. Prod.	581.5	576.8	573.8	19.1	111.07	0.82	1.35
1135	Cutting Tools	506.2	507.3	497.8	18.9	95.68	-0.21	1.69
1145	Power Trans.	811.0	810.1	802.0	15.4	124.90	0.12	1.13
1081	Fasteners	512.3	510.4	508.5	9.0	46.11	0.37	0.74
1149.01	Valves, etc.	955.8	961.3	962.4	7.6	72.64	-0.57	-0.69
1132	Power Tools	371.1	371.8	361.8	6.5	24.12	-0.18	2.57
1144	Mat. Handling	594.0	594.0	582.0	6.2	36.83	0.00	2.07
0713.03	Belting	835.3	835.0	836.9	6.1	50.95	0.04	-0.19
1042	Hand Tools	779.8	779.8	777.5	8.1	63.17	0.00	0.31
108	Misc. Metal	477.7	478.3	478.3	3.1	14.81	-0.12	-0.12

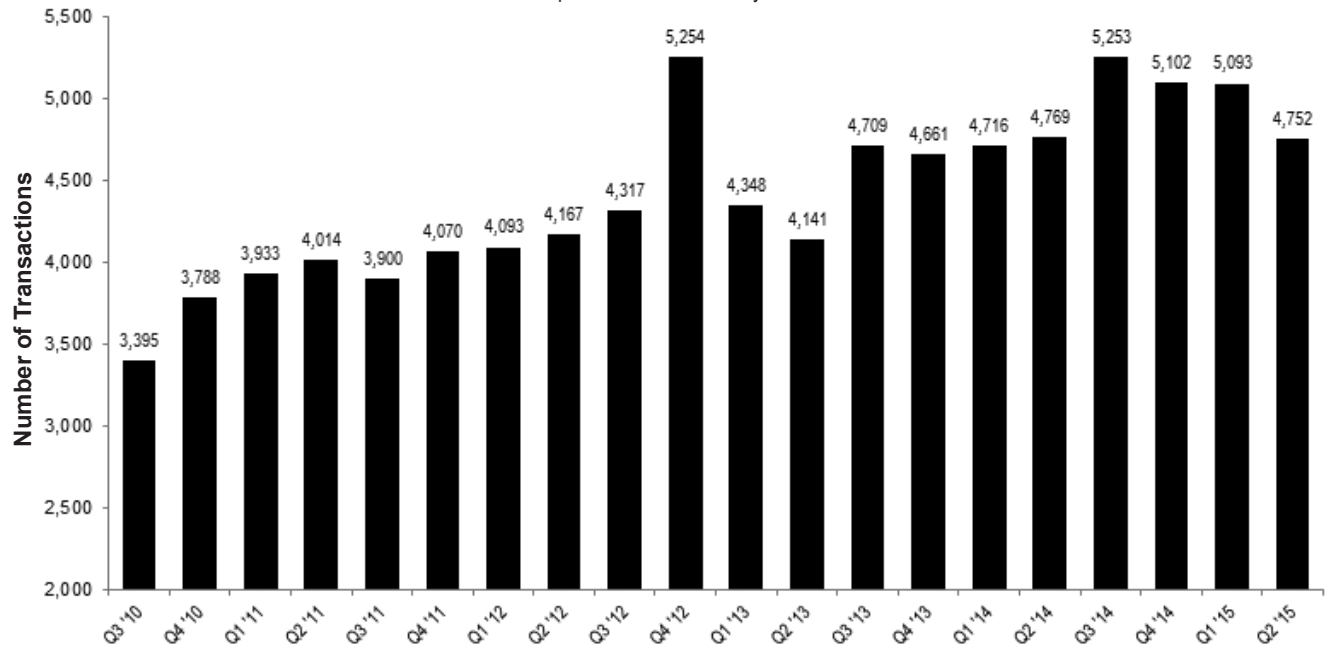
"New" June Index	334.5	June Inflation Index	640.28	0.09	0.90
"New" May Index	334.2	May Inflation Index	639.72		
		June 2014 Inflation Index	634.55		

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

## Second 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.



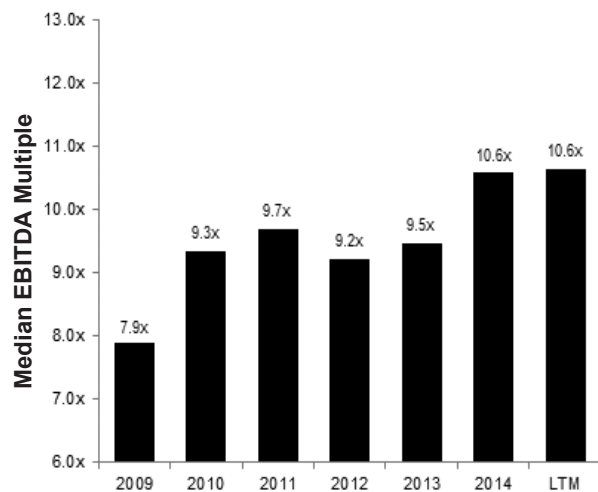
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 6/30/2015

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.

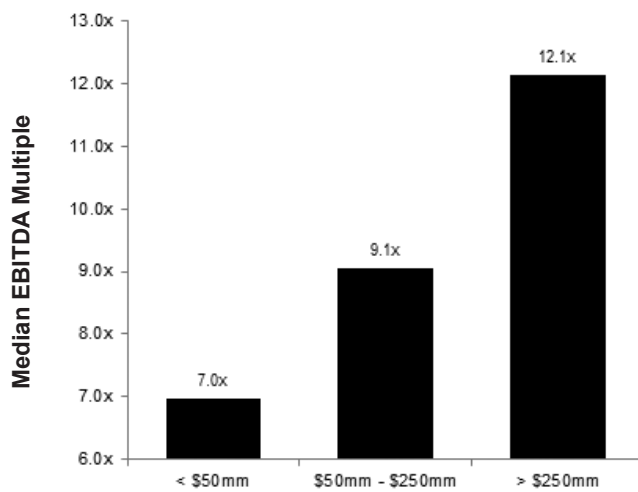
### Median EBITDA Transaction Multiples – All Industries

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 6/30/2015

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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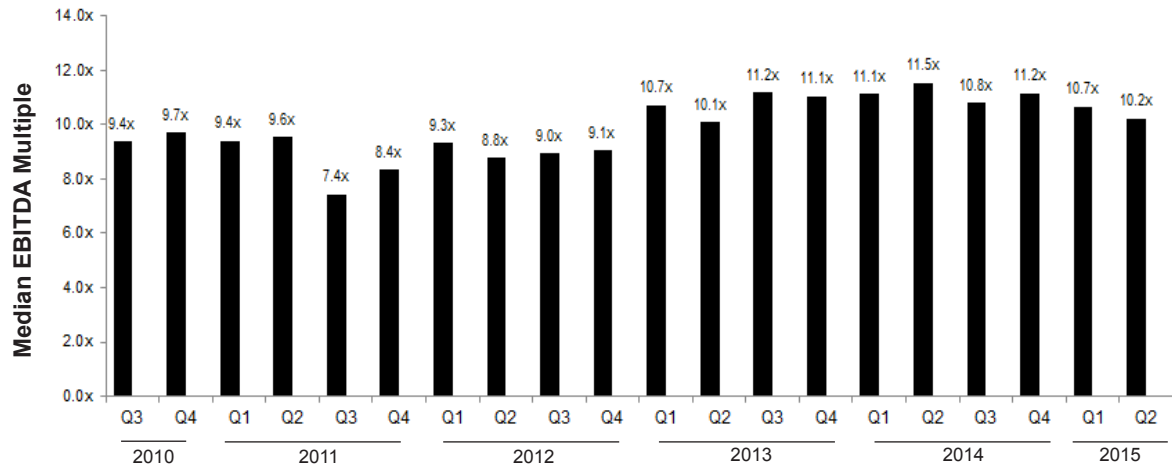
Houlihan Lokey is an international investment bank with a dedicated Distribution advisory practice and expertise in mergers and acquisitions, capital markets, financial restructuring and valuation. Houlihan Lokey is ranked as the No. 1 M&A advisor for U.S. transactions under \$1 billion, as well as the 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 June 30, 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-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	\$447	\$949	-6.4%	9.5%	-1.9%	28.1%	-21.9%	NM
Airgas Inc.	ARG	\$10,333	\$5,305	4.6%	55.6%	18.3%	16.7%	7.7%	10.6x
Anixter International Inc.	AXE	\$3,248	\$6,556	9.1%	22.7%	6.0%	22.4%	9.8%	8.2x
Applied Industrial Technologies Inc.	AIT	\$1,927	\$2,729	11.6%	27.9%	8.1%	20.7%	12.5%	8.7x
Arrow Electronics Inc.	ARW	\$7,509	\$22,689	5.1%	13.1%	4.6%	13.8%	8.5%	7.2x
Avnet Inc.	AVT	\$6,856	\$28,177	4.2%	11.5%	3.8%	13.4%	10.0%	6.5x
Beacon Roofing Supply Inc.	BECN	\$1,852	\$2,399	6.7%	22.9%	5.4%	17.4%	5.9%	14.2x
Bluelinx Holdings Inc.	BXC	\$549	\$1,990	-4.9%	11.4%	1.1%	17.8%	0.8%	NM
Builders FirstSource Inc.	BLDR	\$1,647	\$1,629	7.5%	22.5%	3.5%	10.0%	10.1%	NM
Bunzl	BNZL	\$10,386	\$9,595	1.0%	24.3%	7.4%	7.9%	12.4%	14.7x
DXP Enterprises Inc.	DXPE	\$1,062	\$1,493	14.8%	28.8%	9.2%	14.2%	-5.2%	7.8x
Fastenal Company	FAST	\$12,468	\$3,858	10.3%	50.6%	23.5%	31.8%	26.0%	13.7x
Genuine Parts Company	GPC	\$14,365	\$15,453	6.5%	29.9%	8.3%	13.6%	16.5%	11.2x
HD Supply	HDS	\$12,181	\$9,009	8.9%	28.9%	9.2%	13.8%	10.1%	14.7x
Houston Wire & Cable Company	HWCC	\$222	\$371	-4.6%	22.1%	6.9%	33.5%	8.4%	8.6x
Ingram Micro Inc.	IM	\$4,764	\$46,748	9.5%	5.7%	1.6%	8.1%	6.6%	6.2x
Kaman Corp.	KAMN	\$1,402	\$1,830	9.3%	28.5%	8.2%	23.2%	8.5%	9.4x
Lawson Products	LAWS	\$212	\$286	5.5%	60.8%	1.6%	15.8%	3.5%	NM
MRC Global Inc.	MRC	\$2,914	\$5,920	13.2%	16.2%	6.8%	22.5%	7.1%	7.2x
MSC Industrial Direct Co. Inc.	MSM	\$4,819	\$2,910	6.4%	45.4%	16.2%	26.8%	9.7%	10.3x
NOW Inc.	DNOW	\$2,147	\$3,891	-9.5%	19.7%	3.5%	32.4%	NA	15.9x
Park-Ohio Holdings Corp.	PKOH	\$1,001	\$1,436	16.0%	16.5%	8.7%	19.3%	9.3%	8.0x
Pool Corp.	POOL	\$3,451	\$2,291	8.3%	28.6%	9.2%	17.8%	19.4%	16.3x
Reliance Steel & Aluminum Co.	RS	\$6,790	\$10,513	7.8%	25.2%	8.2%	23.1%	7.0%	7.9x
Rexel SA	RXL	\$7,632	\$14,288	2.9%	24.2%	5.1%	12.8%	4.4%	10.6x
Stock Building Supply	STCK	\$591	\$1,313	6.9%	23.9%	2.7%	10.2%	7.5%	16.7x
United Stationers Inc.	USTR	\$2,166	\$5,405	6.2%	15.3%	4.8%	17.3%	9.3%	8.3x
W.W. Grainger	GWW	\$16,301	\$10,019	5.0%	43.2%	15.9%	16.6%	20.1%	10.2x
Watsco Inc.	WSO	\$4,599	\$3,991	5.2%	24.4%	8.4%	22.6%	15.6%	13.7x
Wesco Aircraft Holdings	WAIR	\$2,436	\$1,563	53.7%	29.9%	13.5%	60.4%	5.6%	11.5x
WESCO International Inc.	WCC	\$4,269	\$7,895	5.0%	20.3%	6.6%	14.8%	10.0%	8.2x
Wolseley plc	WOS	\$18,425	\$20,288	4.3%	28.0%	6.6%	11.8%	7.5%	13.7x
<b>Median</b>		<b>\$3,349</b>	<b>\$3,941</b>	<b>6.5%</b>	<b>24.3%</b>	<b>6.9%</b>	<b>17.3%</b>	<b>8.5%</b>	<b>10.2x</b>

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

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