

■ MDM-Baird Distribution Survey

Declining Demand Drives Down 4Q

Revenues down 0.6 percent but brighter days lie ahead

Robert W. Baird & Co., in partnership with Modern Distribution Management, conducted a survey of more than 500 distributors and manufacturers to gauge business trends and the outlook for the distribution industry in diverse sectors. Here is a summary of fourth-quarter 2015 results and distributor and manufacturer expectations for 2016.

By Eric Smith

As demand plummeted in the fourth quarter under the weight of economic weakness and global turmoil, distributor revenues followed suit by sinking to their lowest level since the aftermath of the Great Recession, according to the most recent MDM-Baird Distribution Survey.

Excluding acquisitions, fourth-quarter revenues decreased 0.6 percent after respondents projected 0.6 percent growth for the period, marking the first dip into negative digits in years. Distributors grappled

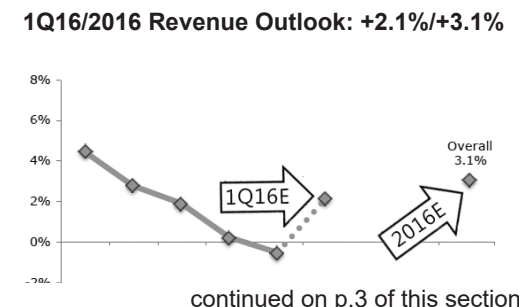
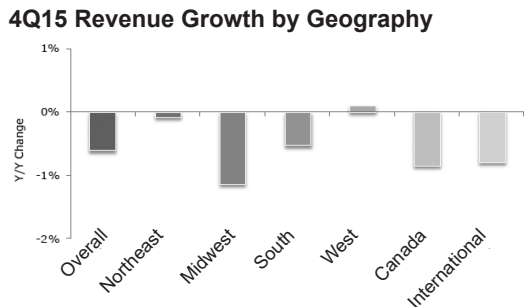
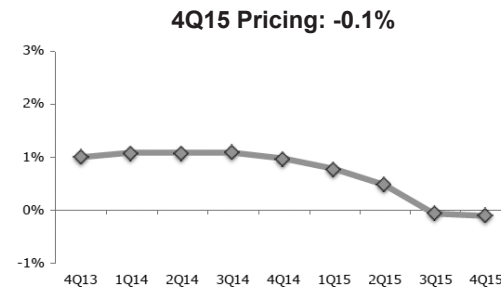
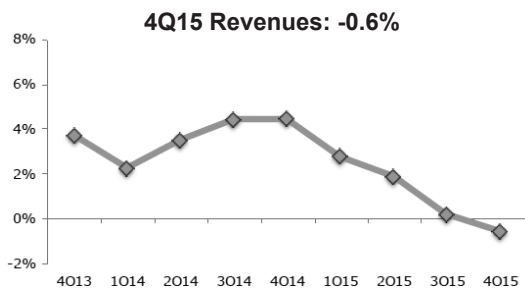
with dropping oil prices, an unfavorable currency exchange, commodity declines and reduced manufacturing production.

U.S. economic indicators steadily weakened during the last two quarters of 2015, and revenue growth narrowed to just a few end markets, most notably construction, according to the survey. Despite the lack of breadth in growth, however, the consumer economy continues to outweigh recessionary conditions in most industrial markets.

Among U.S. regions, only the West crept into the black. The Northeast was flat, while the Midwest and South saw negative revenue growth. Canada and other international regions also suffered, primarily due to China's financial crisis and unfavorable currency exchanges.

Pricing took another tumble in the fourth quarter at -0.1 percent. Two peri-

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PERSPECTIVE ■ Commentary by Thomas P. Gale**The 2016 Strategy Playbook**

The outlook for 2016 is about as fragmented and polarized as can be, which means that it is likely a year in which you create your own luck. Listen to one set of economists and the consumer will drive a growing economy with continued employment growth. Listen to other analysts tuned more closely to the industrial sectors and the picture is more pessimistic. If you didn't attend our 2016 MDM Industry Outlook webcast last week, a recording is available here: www.mdm.com/2016Outlook

There has been a great deal of value destruction in the current business cycle, and many distributors are feeling the impact. But it's important to keep perspective. The emergence of alternate channels through e-commerce and the focus on B2B market potential has consultants, media and service providers of every kind whipping up a frenzy. That does the industry no good.

The shifts taking place are disruptive and, as we distilled in the webcast, require a remodeling of traditional distribution business models to more adaptive ones. Most distribution companies aren't broken; they are simply misaligned to the current technology-infused acceleration of change.

Our research identified a few key themes that characterize how market leading companies are differentiating. Specifically, the key levers are focus, culture and technology, with data

a critical thread for how to move these levers. Distributors need to sharpen their approach to these areas if they hope to do more than just ride the economic cycle.

As to industry trends, e-commerce and the resulting shifts in purchasing behavior are arguably affecting the largest and smallest customer segments the most. At the top end of the market, Amazon is setting the bar for transactional efficiency and transparency. There are more e-tailers entering B2B markets and fighting for share. And vending and other national programs continue to tighten the profitability of these segments to those with the scale to compete.

At the small customer end, price shopping and alternate sourcing present a challenge to maintain profitable positions – and national distributors have built some strong footholds here as well.

So for the bulk of distributors, what's the play for 2016? The sweet spot to consider is the midmarket customer segments, where there is still opportunity to build strong, profitable value packages this segment is willing to buy – service, cost savings, productivity enhancement.

For most sectors of distribution, it's important to remember that less than a third of the market is "owned" by the largest national brands. That fragmentation is why there is still opportunity to be created in 2016 and beyond – in spite of the noise.

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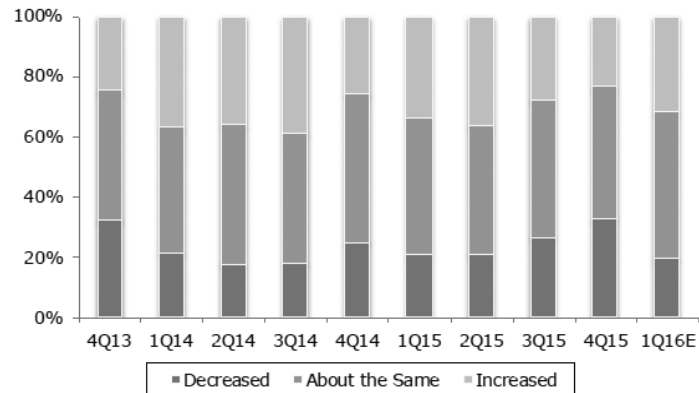
MDM-Baird Survey
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ods of decline followed five years of pricing improvement, albeit mostly flat since fourth quarter 2013. Almost a third – 32.5 percent – of survey respondents reported seasonally lower inventory levels while 23.5 percent reported increased inventory levels in the quarter. Thirty-two percent of respondents expect to increase their inventories in the first quarter.

Distributors see a glimmer of hope in 2016, with projected revenue growth of 2.1 percent for the first quarter and 3.1 percent for the year – a “weak first half of 2016, with hopes of a stronger second half,” is how one respondent described expectations.

Among the 19 product sectors, MRO – non-manufacturing registered the strongest revenue growth at 3.8 percent, displacing pool & spa for the top spot. Strong multifamily demand helped drive the segment’s growth as 2015 came to a close, and it is forecasted for 3.4 percent revenue growth in the first quarter and 3.8 percent rev-

Inventory Levels, Historical and Expected



Nearly a third (32.5 percent) of respondents reported lower inventory levels in the fourth quarter, while 23.5 percent increased inventory levels. The number of participants decreasing inventory was up sharply from last year’s fourth quarter (24.7 percent), consistent with the soft economic backdrop. Looking forward, 31.9 percent of distributors expect to increase inventories in the first quarter, consistent with seasonal shifts in demand.

Current and Expected Revenue and Pricing Levels by Sector

| | 4Q15 Sales Change | 4Q15 Pricing Change | 1Q16 Sales Forecast | 2016 Sales Forecast | |
|--------------------------------|-------------------|---------------------|---------------------|---------------------|---|
| Building Mat/Lumber | 3.0% | 0.1% | 2.9% | 4.9% | Mild weather helped to offset continued labor shortages |
| Cutting/Mtlwkg Tools | -1.9% | 1.1% | 1.5% | 4.5% | Survey consistent with Mtlwkg Business Index readings |
| Datacomm | 2.9% | -1.0% | 4.4% | 4.5% | Growth up q/q, still below previous mid-single-digit range |
| Electrical | 0.9% | 0.6% | 2.3% | 3.3% | Solid non-res construction trends expected into 2016 |
| Fasteners (OEM) | 1.4% | 0.1% | 1.8% | 4.6% | China weakening negative for imported fastener prices |
| Gases/Cylinder Rental | 2.8% | 0.9% | 3.3% | 4.0% | Price +0.9% vs. +2.2% two-year average |
| Hoses & Accessories | -5.0% | -0.5% | -2.2% | 0.5% | Second straight quarter of mid-single-digit declines |
| HVAC | 0.1% | 0.9% | 3.6% | 3.2% | Lull in replacement demand due to mild 4Q weather |
| Mech/Power Trans | -10.0% | -0.1% | 0.8% | 1.4% | Weakest underlying volume growth for 3rd straight qtr |
| MRO - Industrial/Mfg* | 0.1% | 0.3% | 1.9% | 3.6% | Headwinds from weak commodities and strong USD |
| MRO - Non-Mfg* | 3.8% | 1.5% | 3.4% | 3.8% | 2nd straight qtr of +4% growth, multi-family remains strong |
| Plumbing | -2.1% | -0.2% | 2.9% | 2.1% | Rev. swings to loss on slowing housing completion rates |
| Pool & Spa | 2.3% | 1.5% | 4.3% | 7.3% | Highest 2016 outlook in survey, similar to initial outlook |
| PVF - Ind & Energy | -8.0% | -8.2% | -0.5% | -0.2% | Pricing remains under intense pressure amid energy slump |
| PVF - Water & Sewer | 0.3% | -1.3% | 0.9% | -1.3% | Stage still set for potential waterworks investment cycle |
| Roofing | 1.6% | -1.3% | 2.1% | 3.7% | 2016 winter shingle pre-buy expected to be subdued |
| Safety | 0.0% | -0.2% | 0.1% | 2.2% | Competitive pressure from nationals continues |
| Welding Hardgoods | 0.2% | 0.2% | 2.5% | 2.5% | Outlook implies return to mid-2015 +2-3% growth range |
| Overall | -0.6% | -0.1% | 2.1% | 3.1% | |

*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.

enue growth for 2016, flat but above average.

Other sectors that performed well in the third quarter included building materials & lumber (3 percent), datacomm (2.9 percent), gases & cylinder rental (2.8 percent) and pool & spa (2.3 percent). All of these sectors are projected to have average first quarters but strong years with revenue growth of 4.9 percent, 4.5 percent, 4 percent and 7.3 percent, respectively, for 2016.

The 4.4 percent revenue growth forecast for datacomm in the first quarter and the 7.3 percent revenue growth forecast for pool & spa in 2016 are the highest projections among all sectors.

Five sectors recorded negative revenue growth in the fourth quarter, with three of them severely sagging the industry average by declining 5 percent or more. Mechanical/power transmission fell 10 percent, its third-straight quarter bringing up the rear. Industrial/energy PVF (-8 percent), hoses & accessories (-5 percent), plumbing (-2.1 percent) and metalworking/cutting tools (-1.9 percent) also finished in the red during 4Q.

While numerous sectors (eight of 19) are forecasting a negative first quarter, only two expect declines for all of 2016 – water and sewer products (-1.3 percent) and industrial/energy PVF (-0.2 percent).

Industrial supply companies again performed poorly in the quarter, with an average of -2.6 percent revenue decline among the category's six sectors: MRO – manufacturing, safety, cutting tools, fasteners, mechanical/power transmission and hoses & accessories.

While revenue growth was flat to down across the category, cutting tools (-1.9 percent) was negative for the third straight quarter and hoses & accessories (-5 percent) and mechanical/power transmission (-10 percent) were among the worst-performing sectors in the industry.

Survey respondents expect a modest rebound for the category in the first quarter, with 0.7 percent revenue growth, and a more solid 2016 at 2.8 percent revenue growth, with fasteners (4.6 percent) and metalworking/cutting tools (4.5 percent) bolstering the sector this year. Pricing, however, remains a concern for distributors in these sectors, with one respondent noting, "The significant drop in pricing of major commodities continues to hamper any significant market improvement in the short term."

The **industrial gases** category (gases & cylinder rental and welding hardgoods) saw above-average revenue growth in the fourth quarter at 1.5 percent, anchored by strength in

gases & cylinder rental at 2.8 percent. While the sector forecasts a drop in the first quarter to 0.6 percent, it expects to close 2016 on a high note at 3.3 percent.

Both industrial gases sectors expect to post a near or above average year, with gases & cylinder rental finishing at 4 percent revenue growth and welding hardgoods at 2.5 percent revenue growth. A lack of disruptions on the gases supply chain should prevent higher prices, as the third-quarter CO2 shortage has been resolved.

Big news hit the sector last quarter when Air Liquide announced it would acquire Airgas, prompting survey respondents to comment on how the deal might impact business. "We would expect a fair amount of turmoil, employee turnover and customers that may be unhappy with whatever comes from that deal," said one. "Traditionally these types of deals create opportunities for independents," said another.

The **building products and facilities maintenance** category again performed relatively well with four sectors – MRO – non-industrial, building materials & lumber, pool & spa and roofing – ranking near the top for revenue growth. The category averaged 1.5 percent revenue growth in the quarter. Plumbing's -2.1 percent growth dragged down the other sectors. Respondents in this category expect to do well in first quarter at 3.2 percent and 2016 at 4.2 percent.

Mild weather in the fourth quarter negatively impacted HVAC demand, with one survey respondent noting that fewer sales are "directly related to warmer weather," and another stating, "The equipment age and issues are still there. If we get colder weather in January/February, the concern is, 'Can we take care of it?'" Meanwhile, that same mild weather created "abnormally high demand" for roofing, according to a respondent.

Nonresidential construction again kept **electrical & datacomm** companies above the industry average during the fourth quarter, as distributors in this category averaged 1.9 percent revenue growth – flat sequentially but still the highest among all categories.

Datacomm was the stronger of the two sectors at 2.9 percent, but its revenue growth was "still below previous broad mid-single-digit range," according to the survey. The sector is expected to rise in the first quarter to 4.4 percent and improve slightly for the remainder of 2016 to 4.5 percent.

Survey respondents cited some of the common industry themes, such as hope for contin-

ued strength in construction but concern over industrial softness. Comments included: “Moderate growth in nonresidential construction. We see lots of good opportunities, and backlog is growing in January”; “Commercial construction outlook consistent with 2015 levels”; and “4Q was down significantly more than 3Q. Anything that has to do with commodities (energy, metals, ag) is dramatically off.”

The oil & gas slump took an especially heavy toll on revenue growth in the **pipe, valves & fittings** category. With the industrial/energy PVF sector (-8 percent) weighing it down, the

category saw -3.9 percent revenue growth in the fourth quarter. Respondents expect the category to worsen in the first quarter at -4.8 percent and then improve to -0.8 for 2016.

Words like “flat” and “slowdown” appeared throughout respondents’ comments – as they did elsewhere in the survey – but one sentiment in particular struck an ominous tone for the category: “First quarter will be very, very tough on the entire pipe, valve and fitting industry. We expect customer mergers, acquisitions, and some customers not making it through this next year.”

Fastenal Feeling Customers’ Pain

The Fastenal Co., Winona, MN, reported sales for 2015 increased 3.6 percent to \$3.9 billion. Profit rose 4.5 percent to \$516.4 million. The number of stores open in 2015 was down 0.6 percent to 2,622. FAST Solutions machines were up 18.5 percent to 55,510 vending machines. And employee count was up 12.6 percent to 20,746.

In the fourth quarter, sales were down 0.4 percent from the prior-year period to \$922.8 million. Profit in the fourth quarter declined 5.5 percent to \$111.9 million.

Though Fastenal’s sales rose for the year, the company felt the effects of pain growing more severe across its customer base as 2015 wore on and the economy weakened, CEO Dan Florness told analysts during a call to discuss the company’s results.

In the first quarter of 2015, 72 of the Winona, MN-based company’s top 100 customers grew, Florness said. That dropped to 63 in the second quarter, 56 in the third quarter and only 49 in the fourth quarter. In the fourth quarter, 37 of Fastenal’s top 100 customers were down more than 10 percent, and 22 of that group were down more than 25 percent.

In December, Florness added, “we saw some shutdowns of our customers.”

“We sell across the continent, around the planet. Most of our business is in North America, and we sell to a lot of different industries,” Florness said. “And when you start looking through the list, a lot of names that you recognize stand-out and you can see the pain they are feeling in their business.”

Because of customer contraction, the com-

pany said its fastener product line saw its daily growth decrease from about 10 percent growth in the last six months of 2014 to about 6 percent contraction in the fourth quarter of 2015.

Fastenal’s nonfastener product line has seen daily sales growth decrease from about 18 percent growth in the last six months of 2014 to about 1 percent growth in the fourth quarter of 2015.

The company, however, managed the slowdown through a robust “last mile in this online world,” Florness said. “We’re a company that’s built the last mile already. It’s a very efficient last mile and how can we take that last mile, take our employees at the store, take our employees that are supporting the store and together grow a great business, that’s what we focus on.”

In addition, the company is taking a cautious approach to expansion in the first quarter. Headcount is expected to remain steady through March 31, Florness said.

“As we see stabilization we’ll revisit our willingness to make investments in both store and support areas as we’re going to the new year,” he said. And early January trends point to the industry stabilizing over the next few months.

Fastenal reported sales for December of \$286.6 million, a 1.1 percent increase year-over-year. Daily sales decreased 3.8 percent to an average of \$13.7 million. During the month, sales to manufacturing customers fell 4.3 percent, while sales to nonresidential construction customers fell 8.4 percent.

-Eric Smith

4Q15 & Annual Pricing Trends Report

Inflation trends for dozens of product groups

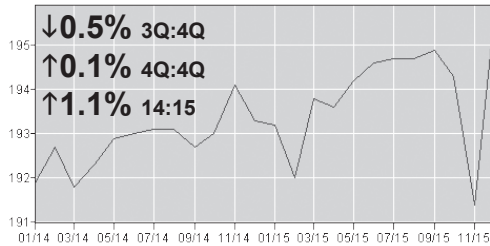
These select product groups provide a snapshot of inflation trends based on the Producer Price Index from the U.S. Bureau of Labor Statistics. This report, with graphs for all of the products listed here, is available online at this issue in pdf format at www.mdm.com.

Key

- ↑X.X% 3Q:4Q (3Q '15 with 4Q '15)
- ↑X.X% 4Q:4Q (4Q '14 with 4Q '15)
- ↑X.X% 14:15 (Year-end 2014 with 2015)

Industrial

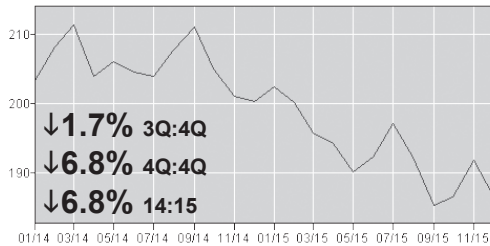
Abrasives



| Product Group | 3Q:4Q | 4Q:4Q | 14:15 |
|----------------------------------|-------|-------|-------|
| Adhesives/Sealants | -0.8% | -0.5% | -0.2% |
| Pumps & Compressors | 0.2 | 1.4 | 1.4 |
| Ind. Mat Handling Eqmt | 0.2 | 2.2 | 2.3 |
| Rubber & Plastic Belts & Belting | -0.4 | -0.4 | -0.2 |
| Rubber & Plastic Hose | 0.0 | -2.1 | -2.1 |
| Industrial Rubber Products nec | 0.0 | 0.2 | 0.2 |
| Personal Safety Eqmt & Clothing | 0.8 | 2.4 | 2.0 |
| Metal-Forming Machine Tools | -0.3 | -0.1 | 0.2 |
| Metal-Cutting Machine Tools | 0.1 | 1.1 | 1.1 |
| Metal Valves (not FP) | 0.5 | 2.0 | 1.9 |
| Steel Mill Products | -5.8 | -18.1 | -19.8 |

Construction

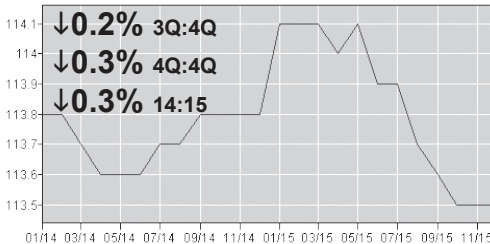
Softwood Lumber



| Product Group | 3Q:4Q | 4Q:4Q | 14:15 |
|---------------------------------|-------|-------|-------|
| Plastic Construction Products | -0.6% | 0.1% | 0.7% |
| General Millwork | 0.0 | 1.9 | 1.7 |
| Gypsum Products | -0.3 | 0.0 | -0.2 |
| Hardboard, Particlebd, Fiberbd | 4.3 | 2.9 | 6.2 |
| Hardwood Lumber | -1.0 | -10.6 | -9.4 |
| Plywood | 0.1 | -6.8 | -7.0 |
| Wd Ties, Siding, Shingles, etc. | -0.2 | 1.1 | 1.1 |

Electrical

Electrical Machinery & Eqmt*

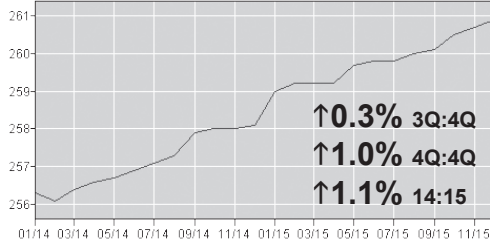


*Category includes products in table to right

| Product Group | 3Q:4Q | 4Q:4Q | 14:15 |
|---------------------------------|-------|-------|-------|
| Electronic Components & Accs. | -0.2% | -1.0% | -1.0% |
| Integrating/Measuring Instrumts | 0.4 | 0.8 | 0.5 |
| Motors, Generators, etc. | -0.0 | -0.2 | -0.3 |
| Wiring Devices | -1.0 | -1.9 | -1.9 |
| Transformers/Power Regulators | -3.2 | -7.8 | -7.7 |
| Switchgear, Switchbd, etc. Eqmt | 0.3 | 0.6 | 1.0 |
| Communications/Related Eqmt | -0.1 | 0.7 | 0.7 |
| Electric Lamp Bulbs and Parts | -1.4 | -4.4 | -4.1 |
| Fab. Ferrous Wire Products | 0.2 | 0.2 | 0.0 |
| Nonferrous Wire & Cable | -2.0 | -8.1 | -9.9 |
| Lighting Fixtures | 0.2 | 1.6 | 1.4 |

Power Transmission/Bearing/Fluid Power

Mech. Power Transmission Eqmt*

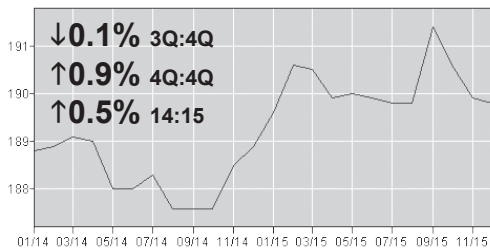


*Category encompasses first three (PT) products in table.

| Product Group | 3Q:4Q | 4Q:4Q | 14:15 |
|---------------------------------|-------|-------|-------|
| Ball & Roller Bearings | 0.0% | -0.3% | -0.4% |
| Plain Bearings & Bushings | 0.8 | 3.6 | 3.6 |
| Speed Changers/Drives/Gears | 0.3 | 0.2 | 0.3 |
| Fluid Power Equipment | 0.1 | 1.3 | 1.2 |
| Fluid Power Valves | 0.7 | 3.0 | 2.6 |
| FP Hose & Tube Fittings | -0.1 | 1.1 | 1.0 |
| FP Cylinders, Actuators, Accum. | 0.0 | 1.0 | 0.7 |
| Fluid Power Pumps & Parts | -0.1 | 0.5 | 0.4 |

Fasteners

Nuts, Bolts, Screws, Rivets, Washers*

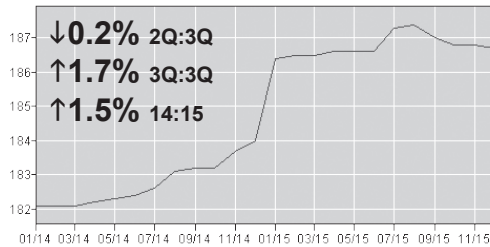


| Product Group | 3Q:4Q | 4Q:4Q | 14:15 |
|--------------------------------|-------|-------|-------|
| Aircraft Fasteners | 0.0% | 1.8% | 1.8% |
| Externally Thread. Fasteners** | -0.3 | 0.3 | -0.5 |
| Internally Thread. Fasteners** | -0.3 | 1.2 | -0.3 |
| Nonthreaded Metal Fasteners** | 0.3 | 0.7 | 0.7 |

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

Tools

Cutting Tools & Accessories*

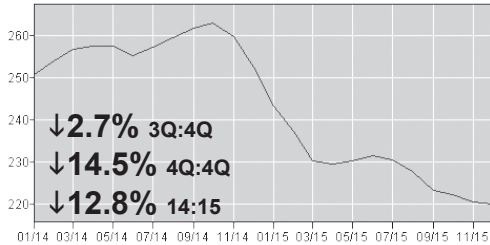


*Category encompasses some of the products in table.

| Product Group | 3Q:4Q | 4Q:4Q | 14:15 |
|-----------------------------------|-------|-------|-------|
| Hand & Edge Tools | 0.0% | 0.2% | 0.1% |
| Power-Driven Hand Tools | 0.4 | 2.7 | 3.2 |
| Precision Measuring Tools | 0.0 | 2.8 | 2.2 |
| Small Cutting Tools | -0.5 | 1.2 | 1.0 |
| Tools, Dies, Jigs, Molds, Fixture | -0.1 | -0.1 | -0.2 |

Other

Plastic Resins and Materials

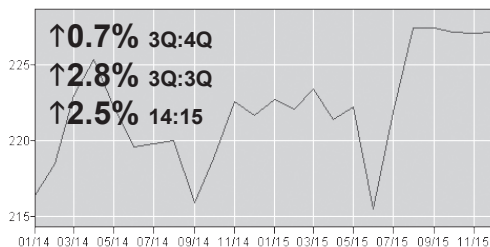


| Product Group | 3Q:4Q | 4Q:4Q | 14:15 |
|---------------------------------|-------|-------|-------|
| Hardware* | 0.2% | 0.7% | 0.4% |
| Builders Hardware | 0.8 | 0.3 | -0.8 |
| Air Cond. & Refrigeration Eqmt | 0.2 | 0.7 | 0.5 |
| Heating Eqmt | 0.4 | 1.9 | 2.0 |
| Plumbing Fixtures & Fittings | 0.3 | 1.5 | 1.3 |
| Plastic Products (overall) | -0.8 | -2.5 | -2.5 |
| Pkging Products from Plastics | -1.0 | -5.6 | -5.6 |
| Welding Machinery & Eqmt | 0.3 | 1.6 | 1.4 |
| Office Supplies & Accessories | 0.0 | -0.0 | -0.2 |
| Pulp, Paper & Allied Products** | -0.2 | -0.9 | -1.0 |
| Boxes | -0.2 | -0.3 | -1.0 |
| Sanitary Paper Products | 0.1 | -0.3 | -0.1 |

*This category includes builders' hardware & other product groups

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

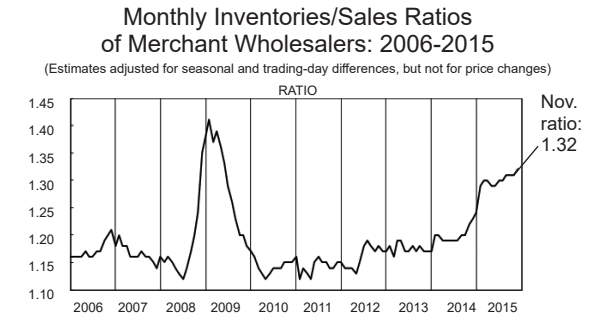
Industrial Gases



Monthly Wholesale Trade Data

Wholesale revenues in November were \$442.8 billion, down 4.6 percent from November 2014 and down 1 percent from October. November sales of durable goods were up 0.4 percent from last month, but were down 1.8 percent from a year ago. Sales of nondurable goods were down 2.4 percent from October and were down 7.2 percent from last November.

Inventories. Inventories were \$582.9 billion at the end of November, down 0.3 percent from the revised October level, but up 2.2 percent from the November 2014 level. November inventories of durable goods were down 0.2 percent from last month, but were up 1.3 percent from a year ago. Inventories of nondurable goods were



Source: U.S. Census Bureau

down 0.5 percent from October, but were up 3.7 percent from last November.

Inventories/Sales Ratio. The November inventories/sales ratio for merchant wholesalers was 1.32. The November 2014 ratio was 1.23.

Sales and Inventories Trends: November 2015

| NAICS Code | Business Type | Sales \$Millions | Inventory \$Millions | Stock/Sales Ratio | Percent Change Sales 10/15-11/15 | Percent Change Sales 11/14-11/15 | Percent Change Inventory 10/15-11/15 | Percent Change Inventory 11/14-11/15 |
|------------|---|------------------|----------------------|-------------------|----------------------------------|----------------------------------|--------------------------------------|--------------------------------------|
| 42 | U.S. Total | 442,801 | 582,907 | 1.32 | -1.0 | -4.6 | -0.3 | 2.2 |
| 423 | Durable | 216,452 | 356,391 | 1.65 | 0.4 | -1.8 | -0.2 | 1.3 |
| 4231 | Automotive | 35,858 | 63,926 | 1.78 | -0.2 | 1.7 | 0.4 | 12.8 |
| 4232 | Furniture & Home Furnishings | 7,093 | 11,151 | 1.57 | 1.9 | 7.0 | -0.9 | 8.0 |
| 4233 | Lumber & Other Construction Materials | 9,708 | 14,744 | 1.52 | 1.4 | 5.0 | 0.3 | 2.5 |
| 4234 | Prof. & Commercial Equip. & Supplies | 37,068 | 39,607 | 1.07 | 0.0 | -2.3 | -0.2 | -1.6 |
| 42343 | Computer Equipment & Software | 18,976 | 15,465 | 0.81 | -0.5 | -4.7 | -0.4 | -2.6 |
| 4235 | Metals & Minerals | 12,339 | 27,851 | 2.26 | 0.8 | -23.4 | -3.0 | -13.3 |
| 4236 | Electrical Goods | 49,924 | 48,170 | 0.96 | 0.3 | 2.5 | -0.1 | 3.6 |
| 4237 | Hardware, Plumbing, & Heating Equipment | 10,573 | 22,851 | 2.16 | 0.7 | 0.2 | 0.0 | 5.5 |
| 4238 | Machinery, Equipment & Supplies | 35,530 | 102,158 | 2.88 | 0.6 | -2.0 | 0.3 | 0.1 |
| 4239 | Miscellaneous Durable | 18,359 | 25,933 | 1.41 | 0.3 | -7.2 | -1.4 | -7.4 |
| 424 | Nondurable Goods | 226,349 | 226,516 | 1.00 | -2.4 | -7.2 | -0.5 | 3.7 |
| 4241 | Paper & Paper Products | 8,145 | 7,623 | 0.94 | 0.5 | 6.6 | -1.3 | 1.7 |
| 4242 | Drugs | 53,700 | 58,210 | 1.08 | 0.4 | 14.0 | 0.5 | 8.7 |
| 4243 | Apparel, Piece Goods & Notions | 15,247 | 30,341 | 1.99 | -1.8 | 4.8 | -1.0 | 12.7 |
| 4244 | Groceries & Related Products | 51,010 | 33,102 | 0.65 | 0.4 | -0.8 | -0.9 | 2.6 |
| 4245 | Farm-product Raw Materials | 16,760 | 20,014 | 1.19 | -15.0 | -16.9 | -7.1 | -10.6 |
| 4246 | Chemicals & Allied Products | 10,627 | 12,793 | 1.20 | 1.9 | -1.5 | 0.0 | 4.7 |
| 4247 | Petroleum & Petroleum Products | 37,621 | 18,496 | 0.49 | -7.4 | -37.8 | 2.3 | -9.3 |
| 4248 | Beer, Wine & Distilled Beverages | 11,475 | 15,683 | 1.37 | -0.6 | 7.0 | 1.1 | 4.7 |
| 4249 | Miscellaneous Nondurable Goods | 21,764 | 30,254 | 1.39 | 0.8 | 3.9 | 0.6 | 7.5 |

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.

MSC Minimizes 1Q Sales Declines

While Melville, NY-based MSC Industrial Supply's sales fell in its fiscal first quarter, the fact that they declined only 3.3 percent in the current industrial environment was a positive, according to Erik Gershwind, president and CEO.

MSC reported sales for the fiscal 2016 first quarter ended Nov. 28, 2015, of \$706.8 million. Profit during the quarter fell 4.2 percent to \$55 million.

"Our performance in the face of this challenging environment is highlighted by three things," he said on a call with investors to discuss the results. "First, continued share gains as indicated by growth rates well ahead of the market; second, sustained gross margin stabilization from solid execution on both the buy side and the sell side; and third, continued strong expense controls and realization of the benefits from our productivity initiatives."

Gershwind noted that most of the segments served by MSC "have deteriorated over the last few months." And while the company has very little direct exposure to oil and gas, the indirect exposure – customers with exposure – is having a significant impact. "It's ugly," he said.

That said, there are "pockets" of strength, including commercial and aerospace.

In addition, e-commerce sales continued to grow, reaching 57 percent of sales for the quarter, up from 54.5 percent a year ago. And sales to vending customers also continued to increase, adding "roughly 50 basis points of growth," Gershwind said.

"Economic slowdowns are the times when MSC makes its greatest strides," he said, because competitors are feeling the same pressures, opening the door to opportunities to grab even greater market share.

-Jenel Stelton-Holtmeier

Distributor News

Paris, France-based **Rexel** has agreed to sell its operations in Poland, Slovakia and the Baltics to the **Wurth Group**.

U.S. LBM Holdings LLC, Green Bay, WI, has acquired **Darby Doors Inc.**, Florence, AL.

Ohio Transmission Corp., Columbus, OH, has acquired **PumpTek LLC**, Monroe, OH. The company will operate as a division of **OTP Industrial Solutions**.

EFC International, St. Louis, MO, has acquired Texas-based fastener distributor **Technology Components Southwest**.

Fairmont Supply Co., Washington, PA, has merged with **Fairmont Supply Oil and Gas LLC**.

German fasteners and fastening technology distributors **Keller & Kalmbach** has acquired **Infinity Fasteners Inc.**, Lenexa, KS.

Apache Inc., Cedar Rapids, IA, acquired **Pacific Belting Inc.**, Portland, OR.

TPC Wire & Cable Corp., Macedonia, OH, has named Jeff Crane as president and CEO.

European distributor **Wolseley plc** has announced that CFO John Martin will succeed Ian Meakins, who plans to retire, as CEO.

UK-based **Bunzl plc** has appointed Frank van Zanten as chief executive.

Motion Industries has appointed Randy Breaux to senior vice president of marketing, distribution and purchasing; Tony Cefalu to senior vice president of hose & rubber, shops and service centers; and Kevin Storer to senior vice president of U.S. operations, president of Mi Mexico.

Economic News

November **U.S. manufacturing technology orders** totaled \$329.8 million according to AMT – The Association for Manufacturing Technology. This total was up 2.2 percent from September but down 13.8 percent from November 2014. With a year-to-date total of \$3.8 billion, 2015 was down 17.2 percent when compared with the same point in 2014.

The **Producer Price Index** for final demand decreased 0.2 percent in December, seasonally adjusted, according to the U.S. Bureau of Labor Statistics. On an unadjusted basis, the final demand index fell 1 percent in 2015.

Industrial production in the U.S. declined 0.4 percent in December. Capacity utilization for the industrial sector decreased 0.4 percentage point in December to 76.5 percent.

New orders for manufactured durable goods in November increased \$0.1

continued on p.2 of this section

News Digest

Continued from p. 1 of this section

billion to \$238.8 billion, according to the U.S. Census Bureau.

The **Conference Board Employment Trends Index** increased in December to 129.3, up from 128.3 in November. This represents a 2.6 percent gain in the ETI compared to a year ago.

Privately owned **housing starts** in December were at a seasonally adjusted annual rate of 1,149,000. This is 2.5 percent below the revised November rate of 1,179,000, but 6.4 percent above the December 2014 estimate of 1,080,000.

The **NFIB Small Business Optimism Index** rose 0.4 points in December to 95.2, well below the 42-year average of 98.

The value of **Canadian building permits** issued by municipalities was down 19.6 percent from October to C\$6.2 billion (US\$4.4 billion) in November, according to Statistics Canada.

Canadian wholesale sales rose 1.8 percent to C\$55.9 billion (US\$38.3 billion) in November, according to Statistics Canada.

Canadian manufacturing sales increased 1 percent to C\$50.8 billion (US\$34.8 billion) in

November, led by higher motor vehicle sales in Ontario, according to Statistics Canada.

Compared with October 2015, **European seasonally adjusted industrial production** in November fell by 0.7 percent in the euro area (EA19) and by 0.6 percent in the EU28, according to estimates from Eurostat, the statistical office of the European Union. Year-over-year industrial production increased by 1.1 percent in the euro area and by 1.4 percent in the EU28.

Manufacturer News

Praxair Surface Technologies Inc., a wholly owned subsidiary of Danbury, CT-based **Praxair Inc.**, and **GE Aviation** have entered into an agreement to form a joint venture for the development and application of specialized coatings.

Henkel, has named Hans Van Bylen, executive vice president of Henkel's Beauty Care business, as successor to CEO Kasper Rorsted, who resigned.

WD-40 Company, San Diego, CA, reported sales for the first quarter ended Nov. 30, 2015, of \$92.5 million, a decrease of 4 percent compared to the same period a year ago. Profit increased 11.8 percent to \$12.1 million.

Calculation of MDM Inflation Index for December 2015

| | BLS Price Indices Dec '15 | BLS Price Indices Nov '15 | BLS Price Indices Dec '14 | Weighted % Sales Weight | Weighted Indices Dec '15 (1)X(4) | % Change Dec '15 Nov '15 | % Change Dec '15 Dec '14 | |
|---------|------------------------------------|------------------------------------|------------------------------------|----------------------------------|---|-----------------------------------|-----------------------------------|-------|
| 1136 | Abr. Prod. | 580.4 | 568.2 | 572.9 | 19.1 | 110.85 | 2.14 | 1.30 |
| 1135 | Cutting Tools | 506.2 | 506.5 | 497.6 | 18.9 | 95.68 | -0.05 | 1.74 |
| 1145 | Power Trans. | 815.1 | 814.4 | 806.3 | 15.4 | 125.52 | 0.08 | 1.08 |
| 1081 | Fasteners | 512.6 | 512.8 | 508.5 | 9.0 | 46.13 | -0.05 | 0.80 |
| 1149.01 | Valves, etc. | 961.8 | 961.3 | 964.5 | 7.6 | 73.09 | 0.05 | -0.29 |
| 1132 | Power Tools | 375.5 | 371.1 | 362.5 | 6.5 | 24.41 | 1.19 | 3.61 |
| 1144 | Mat. Handling | 596.6 | 596.0 | 583.7 | 6.2 | 36.99 | 0.10 | 2.21 |
| 0713.03 | Belting | 831.4 | 831.4 | 832.1 | 6.1 | 50.72 | 0.00 | -0.08 |
| 1042 | Hand Tools | 779.2 | 779.2 | 777.8 | 8.1 | 63.11 | 0.00 | 0.18 |
| 108 | Misc. Metal | 471.2 | 472.9 | 478.9 | 3.1 | 14.61 | -0.36 | -1.59 |

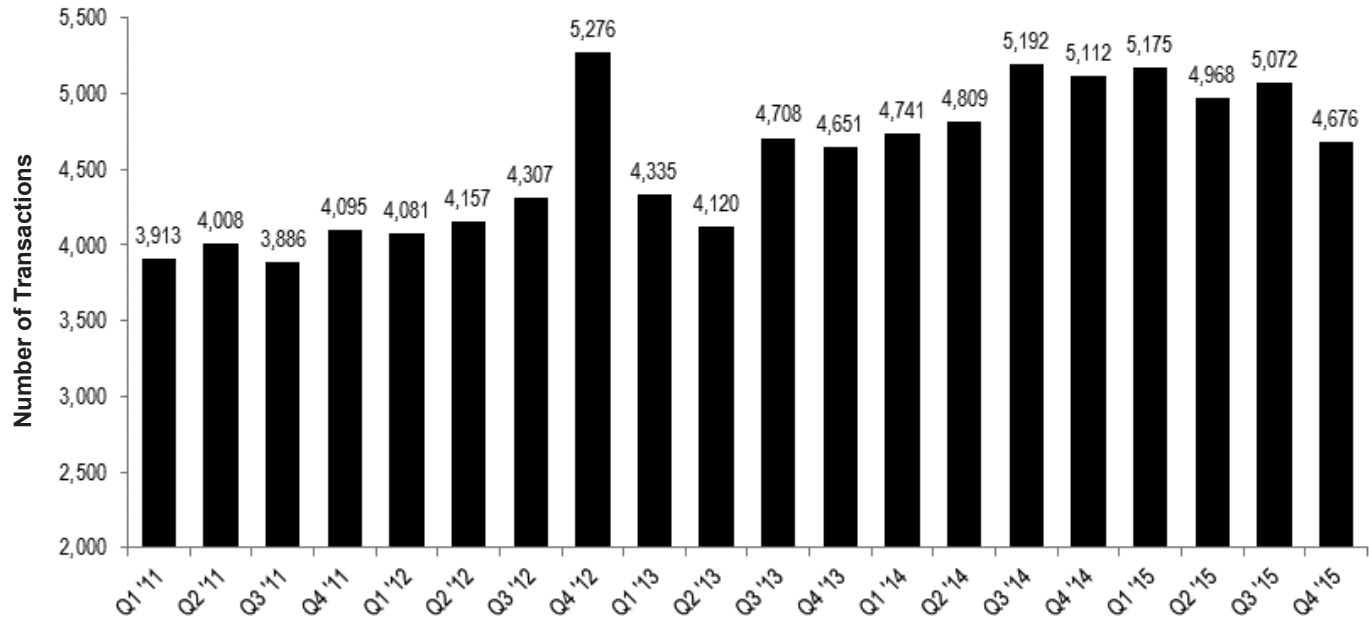
| | | | | | |
|----------------------|-------|-------------------------------|--------|------|------|
| "New" December Index | 335.0 | December Inflation Index | 641.11 | 0.42 | 0.95 |
| "New" November Index | 333.6 | November Inflation Index | 638.46 | | |
| | | December 2014 Inflation Index | 635.07 | | |

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

Fourth 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.



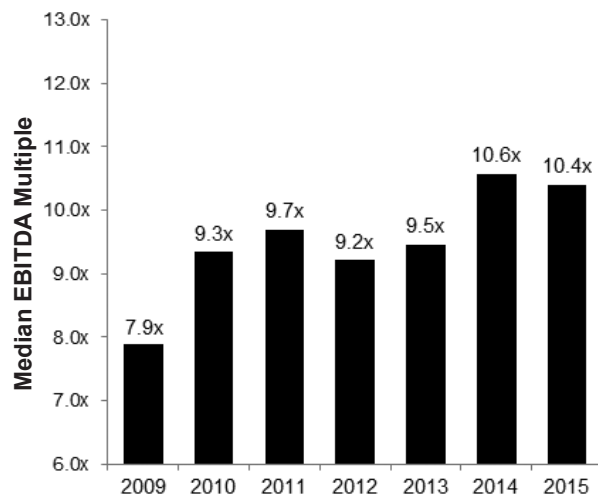
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 12/31/2015

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.

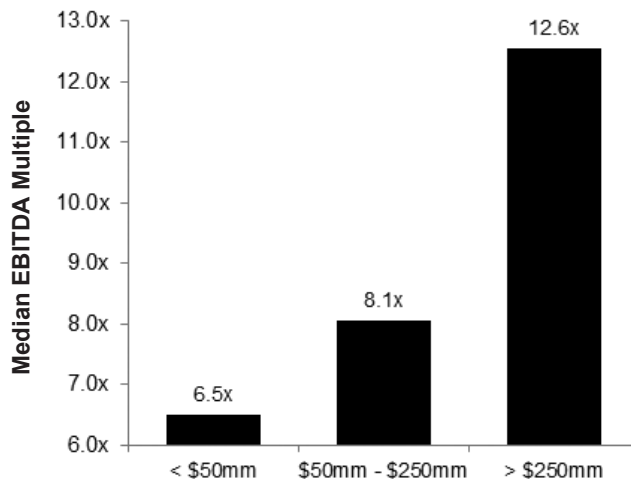
Median EBITDA Transaction Multiples – All Industries

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 12/31/2015

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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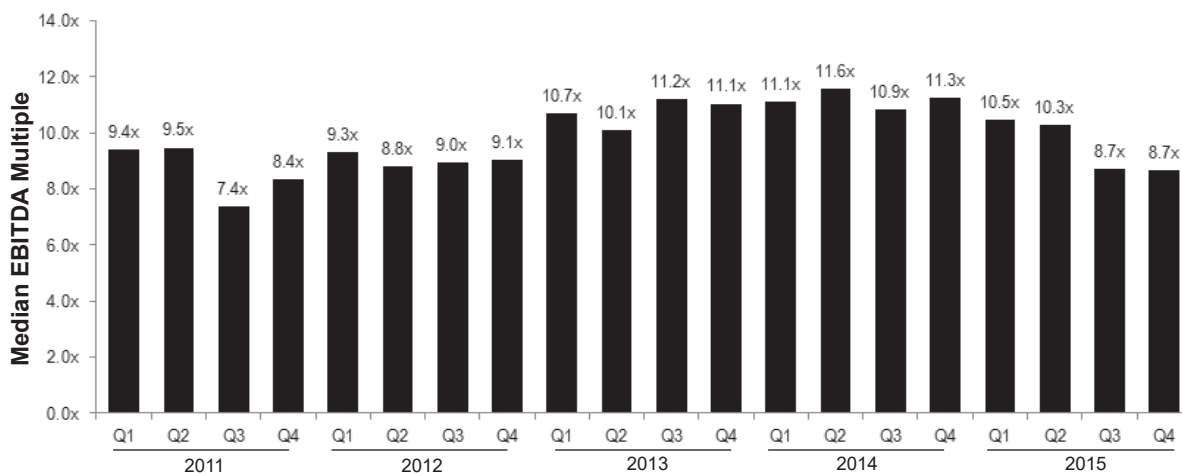
Houlihan Lokey is an international investment bank with a dedicated Distribution advisory practice and expertise in mergers and acquisitions, capital markets, financial restructuring and valuation. Houlihan Lokey is ranked as the No. 1 M&A advisor for U.S. transactions under \$1 billion, as well as the 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 December 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-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 | \$349 | \$838 | -14.6% | 9.4% | -2.7% | 24.2% | -7.1% | NM |
| Airgas Inc. | ARG | \$12,757 | \$5,358 | 3.4% | 55.8% | 18.2% | 16.3% | 8.6% | 13.1x |
| Anixter International Inc. | AXE | \$2,662 | \$6,745 | 19.3% | 22.5% | 5.5% | 16.6% | 8.4% | 7.1x |
| Applied Industrial Technologies Inc. | AIT | \$1,884 | \$2,691 | 5.3% | 28.1% | 8.2% | 18.4% | 10.3% | 8.5x |
| Arrow Electronics Inc. | ARW | \$7,619 | \$22,928 | 1.8% | 13.1% | 4.6% | 14.4% | 8.2% | 7.3x |
| Avnet Inc. | AVT | \$6,943 | \$28,055 | 0.2% | 11.4% | 3.8% | 14.1% | 8.4% | 6.6x |
| Beacon Roofing Supply Inc. | BECN | \$2,602 | \$2,515 | 8.1% | 23.7% | 6.3% | 17.9% | 7.2% | 16.3x |
| Bluelinx Holdings Inc. | BXC | \$509 | \$1,943 | -3.4% | 11.4% | 1.4% | 18.2% | 2.5% | 18.6x |
| BMC Stock Holdings Inc. | STCK | \$1,463 | \$1,378 | 13.9% | 23.2% | 4.7% | 16.6% | 5.9% | NM |
| Builders FirstSource Inc. | BLDR | \$3,137 | \$2,505 | 58.9% | 24.3% | 5.0% | 17.8% | 4.4% | NM |
| Bunzl | BNZL | \$10,738 | \$9,991 | -3.9% | 23.7% | 7.3% | 7.5% | 12.1% | 14.7x |
| DXP Enterprises Inc. | DXPE | \$699 | \$1,351 | -5.6% | 28.3% | 7.8% | 13.4% | 6.2% | 6.7x |
| Essendant Inc. | ESND | \$1,855 | \$5,399 | 3.5% | 15.8% | 5.0% | 16.7% | 9.5% | 6.9x |
| Fastenal Company | FAST | \$12,029 | \$3,869 | 3.6% | 50.4% | 23.6% | 31.7% | 24.8% | 13.2x |
| Genuine Parts Company | GPC | \$13,387 | \$15,421 | 2.6% | 29.9% | 8.3% | 11.6% | 17.4% | 10.5x |
| HD Supply | HDS | \$10,327 | \$9,195 | 29.6% | 29.4% | 9.8% | 11.2% | 10.7% | 11.5x |
| Houston Wire & Cable Company | HWCC | \$130 | \$327 | -17.1% | 21.8% | 5.3% | 33.9% | 5.8% | 7.5x |
| Ingram Micro Inc. | IM | \$4,974 | \$45,670 | 2.9% | 5.9% | 1.7% | 6.5% | 7.6% | 6.3x |
| Kaman Corp. | KAMN | \$1,350 | \$1,801 | 4.2% | 29.2% | 8.5% | 24.0% | 8.5% | 8.8x |
| Lawson Products | LAWS | \$205 | \$281 | 0.0% | 61.5% | 3.3% | 16.0% | 4.0% | NM |
| MRC Global Inc. | MRC | \$2,305 | \$5,074 | -12.0% | 16.2% | 6.2% | 20.2% | 5.6% | 7.3x |
| MSC Industrial Direct Co. Inc. | MSM | \$3,855 | \$2,886 | 1.6% | 45.2% | 15.5% | 25.7% | 13.6% | 8.6x |
| NOW Inc. | DNOW | \$1,690 | \$3,372 | -18.6% | 17.8% | -0.4% | 30.2% | -1.5% | NM |
| Park-Ohio Holdings Corp. | PKOH | \$873 | \$1,489 | 13.3% | 16.0% | 8.6% | 20.8% | 10.0% | 6.8x |
| Pool Corp. | POOL | \$3,814 | \$2,325 | 5.1% | 28.5% | 9.7% | 17.4% | 19.9% | 16.9x |
| Reliance Steel & Aluminum Co. | RS | \$6,181 | \$9,901 | -2.8% | 26.1% | 8.5% | 22.3% | 6.2% | 7.4x |
| Rexel SA | RXL | \$6,866 | \$15,275 | -4.8% | 23.9% | 4.9% | 12.5% | 4.8% | 9.2x |
| W.W. Grainger | GWW | \$14,360 | \$10,006 | 1.8% | 42.8% | 15.9% | 16.6% | 21.4% | 9.0x |
| Watsco Inc. | WSO | \$4,369 | \$4,086 | 4.9% | 24.5% | 8.6% | 23.4% | 13.8% | 12.4x |
| Wesco Aircraft Holdings | WAIR | \$2,049 | \$1,498 | 10.5% | 21.7% | 6.0% | 56.5% | 2.0% | NM |
| WESCO International Inc. | WCC | \$3,206 | \$7,652 | -1.6% | 20.0% | 6.0% | 16.5% | 7.6% | 6.9x |
| Wolseley plc | WOS | \$15,121 | \$20,851 | -3.6% | 28.0% | 7.2% | 9.3% | 11.9% | 10.1x |
| Median | | \$3,171 | \$3,978 | 2.2% | 23.8% | 6.3% | 17.0% | 8.3% | 8.7x |

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

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