Modern DISTRIBUTION MANAGEMENT®
Intelligence for Wholesale Distribution Professionals

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■ *M&A in Distribution: Part 2*

Navigating the M&A Landscape

Best practices for distributors looking to buy or sell

With M&A poised for a strong finish this year, distributors on either side of a deal should strategically prepare now for the opportunities that will arise. Buyers must carefully examine how a targeted asset fits, and sellers must ensure maximum value before entertaining offers.

This article is part two in our series on M&A in distribution. Part one gauged the current climate for activity across the industry and how countervailing winds have stunted the volume and size of deals.

By Eric Smith

Midway through 2016, a trio of headwinds – energy, price transparency and the strong U.S. dollar – stunted revenues across distribution and, in turn, slowed the pace of merger and acquisition activity.

Yet a lack of organic growth in many industry verticals has companies seeking acquisitions to boost their top lines. With the economy forecasted to recover in the second half of 2016, M&A is expected to accelerate as strategic buyers scour acquisition pipelines to buy growth while financial buyers look to deploy capital and pad their portfolios.

This projected rise in M&A over the next six months should prompt company executives – no matter what side of a deal they're on – to consider strategically preparing for this surge of opportunities.

"I think the slowdown in M&A at the beginning of the year is going to be temporary and that M&A will pick up meaningfully for the back half of 2016," says Reed Anderson, head of Houlihan Lokey's industrial distribution practice. "Momentum tends to pick up for deals because there's that time lag on M&A."

Advice for sellers

For the best results, companies looking to sell to a strategic or private equity buyer must be prepared when a suitor emerges. Just as someone selling a house can't expect top dollar if they haven't made some enhancements and upgrades such as a remodeled kitchen, a distributor hoping to get market value or better has to get their business in order, as well.

"M&A is not a flip-the-switch activity," Anderson says. "It does take a little while to successfully sell a business. So if you're going to move down that path if you've made a strategic decision to sell, it takes a little bit of time to execute that strategy to get a deal done."

While no company is perfect when it's put on the market, it is critical to think about removing as many blemishes as possible, or "de-risking your business before taking it to market," Anderson says.

The first item on any seller's checklist is deciding how quickly you want out. The timeline will dictate the type of maintenance you need to perform on the business, according to Jim Miller, a principal and founder at Supply Chain Equity Partners.

If you're looking to exit the business quickly – for example, in one year – the approach should be centered on "cleaning your financials, getting your inventory cleaned up, getting your receivables cleaned up," Miller says.

But for many businesses, delaying the sale might make more financial sense because it allows time to drive value into the company. Strategically investing in the company now, even if the exit plan is a few years down the road, will yield a larger

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PERSPECTIVE ■ Commentary by Thomas P. Gale

Internet Redefines Competitive Landscape

At the beginning of 1996, there were about 170,000 commercial domains – companies – registered with InterNIC, the internet domain registration authority at that time. By the end of July that year, there were more than 420,000 commercial domains registered – close to a 150-percent increase in six months.

MDM launched our mdm.com site that year also, and I noted in a column that the use of the internet is a learning process for everyone. Here we are 20 years later, and the same holds true.

Distributors were not disintermediated by the internet in the late 1990s, as some industry pundits predicted. No large national distributor has dominated across sectors. Nor has Amazon taken over in its 10 years of activity in industrial markets.

At the same time, every size distributor has felt the impact to market share as Amazon, other digital sellers and large nationals across broader product categories leverage digital channels aggressively to commoditize industrial and commercial product markets. A look at this year's MDM Market Leaders list, published in June, shows a competitive landscape that increasingly is polarizing within vertical sectors between big and small, but also converging product sectors quickly at the top end.

Effectively, nuclear digital warfare has broken out across product channels as distributors look to expand their target markets and product portfolios. Staples, The Home Depot and others are targeting industrial markets for growth, albeit in different ways. But it's getting crowded at the top wherever you look.

Within product sectors, distributors with stronger local-market presence continue to be successful if they find ways to adapt to their markets and customers. Our Market Mover profiles in the last issue offer strong case studies for what that looks like.

In spite of periodic waves of consolidation, markets are effectively more crowded. And that crowding is coming from competitors you haven't traditionally defined yourself by. That's why we evaluate how to evolve our annual Market Leaders listing to capture as closely as possible the shifting channel dynamics.

The internet continues to be a learning curve 20 years later because only recently have alternate threats escalated to disrupt strong customer relationships based on service, solutions and expertise. If you aren't thinking constantly about how to leverage evolving digital tools to keep your customer closer and differentiate your value, you are leaving your front door open.

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M&A
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payday when an offer emerges.

"On a five-year plan, the advice we give distributors is to build your business as if you're never going to sell it," Miller says. "Invest in the people, invest in training, invest in IT systems, invest in infrastructure, invest in the product lines."

A recent example is Airgas. The company in 2011 rejected a $5.8 billion takeover attempt by Air Products, an offer that the company's founder Peter McCausland said "grossly undervalued" the company and its growth potential. Last year Airgas agreed to a $10.3 billion offer from Air Liquide. In between, Airgas invested heavily in its e-commerce capabilities, among other areas.

But with so many distributors operating as lifestyle businesses, in which the owner is also the chief executive, they tend to make reactive decisions to threats and opportunities and aren't as good at making intentional, proactive moves when there is no apparent business need to do so, according to Mike Marks, Indian River Consulting Group.

"They add staff or they add IT when the system's just about to break and everybody's complaining," Marks says. "Then they'll step up to the plate, and they'll go do it."

Smart company executives don't wait for something to force a move that adds shareholder value. They start planning now for the next generation – or next owner – to take over.

"Real shareholder analysis is where you sit down with somebody and say, 'How do I get out of here? Do I bring somebody in to run it? Do I have offspring to pass it off to? Do I want to sell it? Do I want to keep it in the family?'" Marks says. "Having those discussions before the fact, so people can start to think about what it is they want to do, creates a lot more shareholder value."

Where to invest?

In today's M&A landscape, it is critical to invest in your business – especially technology – even when the economy is soft and profit margins are slim. This will help distinguish your company from other targets that buyers might be pursuing, says Jason Kliewer, co-head of Baird's distribution investment banking group.

"A strong ERP system enabling quick turnaround on diligence questions inspires confidence in a sale process, as does a clearly articulated growth strategy with metrics used to track progress," Kliewer says. "Each of these factors can have a meaningful impact on valuation."

Technology isn't the only area where a company can create a competitive advantage within the acquisition pipeline. Hiring the right talent, especially a superlative sales force, makes a distributor more attractive to suitors.

Forming an industry-leading customer experience also helps you rise above peer companies. While buyers will look at specific metrics when contemplating a deal, those that dig deeper in their due diligence might see how an abstract concept like the "customer experience" manifests itself in top- and bottom-line growth for distributors, says T.J. Monico, head of distribution, investment banking, KeyBanc Capital Markets.

"You see the better metrics with companies that know how to create a better, more progressive customer experience," Monico says. "You also see it evidenced in their growth rates, as well, so that companies growing above the industry growth rate – implying that they're taking some share from other companies – they either have a disruptive technology to help them deliver a better customer experience or just a better approach to making their customers happier. Otherwise it's harder to differentiate themselves."

No matter where the investment occurs, companies are "typically better off doing what makes the most sense for the business," Anderson says. "If you're looking at strategies, if you're looking at investments, and you think those are the right things to do for the business, those are likely the right things to do for an M&A sale, as well."

First and foremost, Miller says, companies should ask themselves, "Do I have a bad culture – a 'scraping dollars out of the business' culture – or do I have an 'investing in people' culture? Do I have a quality management team, quality recruiting and training and retention rates on quality people?"

If a distributor hasn't been keeping pace on ERP and inventory management, if it hasn't been hiring top-notch talent or creating a unique user experience, those problems will fall to the new ownership team and stunt future cash flow.

Best practices for buyers

All of those seller considerations are what buyers should be looking for in their new assets. SRS Distribution Inc., McKinney, TX, which

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has made 45 acquisitions since its founding in 2008, doesn't buy companies for "proprietary technology or proprietary products or access to anything new to the model," says President and COO Dan Tinker.

But "we certainly are always looking at the talent," Tinker says. "The financials are what they are; the key to us is are we acquiring a talented team of people that can grow the business with more resources and a different risk tolerance. Some people can do that, some can't, regardless of the company."

SRS looks for "people that can operate under our model, which is an EBITDA growth model rather than a privately owned family company model," Tinker says. "Can they thrive in that environment? You want them to come in and be excited about their new environment and really take the business to a new level with unlimited resources because they are now part of a national network and family of companies instead of being a mom and pop."

Other buyers, such as F.W. Webb Co., Bedford, MA, which has made three acquisitions in the past year, look to either extend the company's footprint or add a division in hopes of becoming a "complete solution for customers," says COO Bob Mucciarone.

The HVACR and plumbing distributor is strategic in making sure that the acquisition target will benefit the company in places it is looking to expand. Acquiring geography is often easier than launching a greenfield and trying to build a brand there.

"For example, down in New Jersey, acquisition is the way to go because you're buying relationships, you're buying people – and the biggest asset a company has is its people – and when we do an acquisition we keep most, if not all, employees," Mucciarone says. "And you're buying a customer list. They already have relationships with customers. That's significant because you have instant business. It's like turning on a switch."

Other considerations

Distributors looking to acquire in hopes of adding product lines, geographies or customer lists must be careful about who they target and why. They must first examine their core business and ask themselves, "What am I really good at? What do I do well and do better than someone else?" said Dave Gabriel, president, Sonepar North America, Charleston, SC, during a panel discussion at the National Association of Electrical Distributors conference this year.

"If you have an alignment … then maybe it makes sense," he says. "Know yourself first. Chasing volume for the sake of volume, or chasing geography for the sake of geography, I wouldn't advise that for anyone."

Gabriel says that during the due diligence process, Sonepar asks specific questions to determine a good fit. These include: How technical are they? What are the systems they have in place? What is the culture of the organization? Is it a good fit?

But as buyers look for a variety of factors that align with their business model, from talent to technology to geography to product line to growth rate, they must not act rashly, according to Marks.

"When you talk about acquisition, the first part is where do you add value? What's your value proposition?" Marks says. It doesn't make sense to just buy a company that gets you into a different market where there are no synergies. "There's a lot of really stupid acquisitions where people buy things and they destroy shareholder value."

A company also should focus on what it brings to the asset, not solely what the asset brings to the company. When Stellar Industrial Supply, Tacoma, WA, began looking at buying Impact Industrial Supplies, Tampa Bay, FL, last year, Stellar President and CEO John Wiborg said the company saw an opportunity to "bring some resources to Impact – and by that I mean not only financial resources but capabilities such as our vending solutions and also our metalworking capabilities."

But perhaps the biggest criterion a distributor should consider is culture. As Miller says, a buyer will inherit all the profit-draining traits of a bad culture, which is why Stellar and other savvy companies look to align not only product lines and geographies, but the basic principles of how each company's leaders run their respective businesses.

"When we're looking at acquisition possibilities, the first gate that's got to be overcome is, 'Is this organization we're looking at a great organization and are their values and business philosophy compatible with ours?'" Wiborg says. "They're never going to be exactly the same but they have to be compatible."

Mind the Training Gap for Negotiation

Negotiation critical for more than field sales

Distributors lag when it comes to follow-up or reinforcement training, and they woefully lack in negotiation training, even though a major part of a buyer's role is negotiating with vendors. This article, based on the results of a recent Real Results Marketing survey, further examines the challenges distributors face around providing training.

This article is part three in our ongoing series on training in distribution. Part one looked at how distributors can shift their thinking about training, and part two examined the challenges distributors face around providing training.

By Debbie Paul

The majority of training provided by distribution companies today is product and systems oriented. While critical, it may not be enough. For companies that are investing in sales and other soft skills training for their salespeople, the majority do not have consistent follow-up or reinforcement training, which makes the training less effective overall.

When CEOs and vice presidents of sales were asked how important negotiation training was for their sales employees, they responded with a resounding "very important." Yet the results of a recent Real Results Marketing survey highlighted a gap between the perception of importance and the training that was actually provided.

Minding the negotiation training gap

When asked "How often have the individuals in the following roles had negotiation training over the past three years?" at least half of respondents said "never" for most roles. The exception was field sales. (See **Figure 1**.)

For the distributors surveyed, more than half of field salespeople received some negotiation training. But even for field sales, more than one-third (37 percent) of respondents said they never provide negotiation training and 18 percent only provide it once.

This gap is problematic because field sales is not the only position involved with negotiation. A major part of a buyer's role is negotiating with vendors, and inside salespeople are actively setting pricing and service terms with customers.

We then asked "How likely are you to spend training budget on negotiation training for the following roles?" Survey respondents were very interested in supplying negotiation train-

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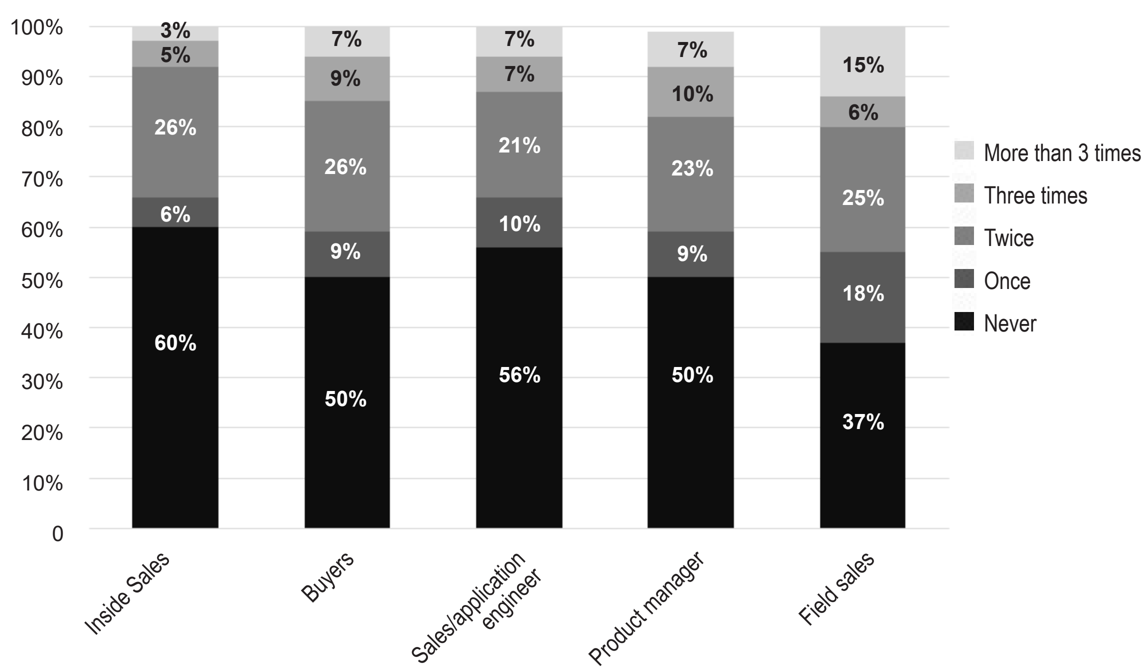
Figure 1: Over the past three years, how often have employees in the following roles received negotiation training?



ing for their salespeople. Eighty-three percent of respondents said they would be very likely or somewhat likely to spend training budget for field salespeople, while 72 percent would spend budget for buyers and 64 percent would do so for inside sales. (See **Figure 2**.)

So, why the gap between the perceived importance of negotiation training and what is actually occurring? We asked a few C-level individuals, who told us that there is only so much time for training employees within the company.

In distribution, there are so many products, variations and applications, that product training usually takes priority. Systems are changing, websites are being updated and new tools are being introduced at a much faster pace than in the past. This limits the amount of time available to be spent on "soft" skills training such as negotiation.

Sales employees are also starting to push back on the amount of their time spent in training versus performing their job duties. Because many distribution companies base compensation on actual results, the culture of the company develops into one focused on the daily, direct results job tasks. Without incentives and accountability to pursue additional training, employees will default to their daily tasks. (Read more in part two of this series.)

Training tools and techniques

The tools that are made available to salespeople may also be creating a challenge for ongoing training. On our survey we asked: "What types of tools do you use to enable your employees to negotiate effectively?"

The survey results show that the tools are largely historically based, contained in the form of data in an ERP or CRM system and related mostly to setting price. (See **Figure 3**.)

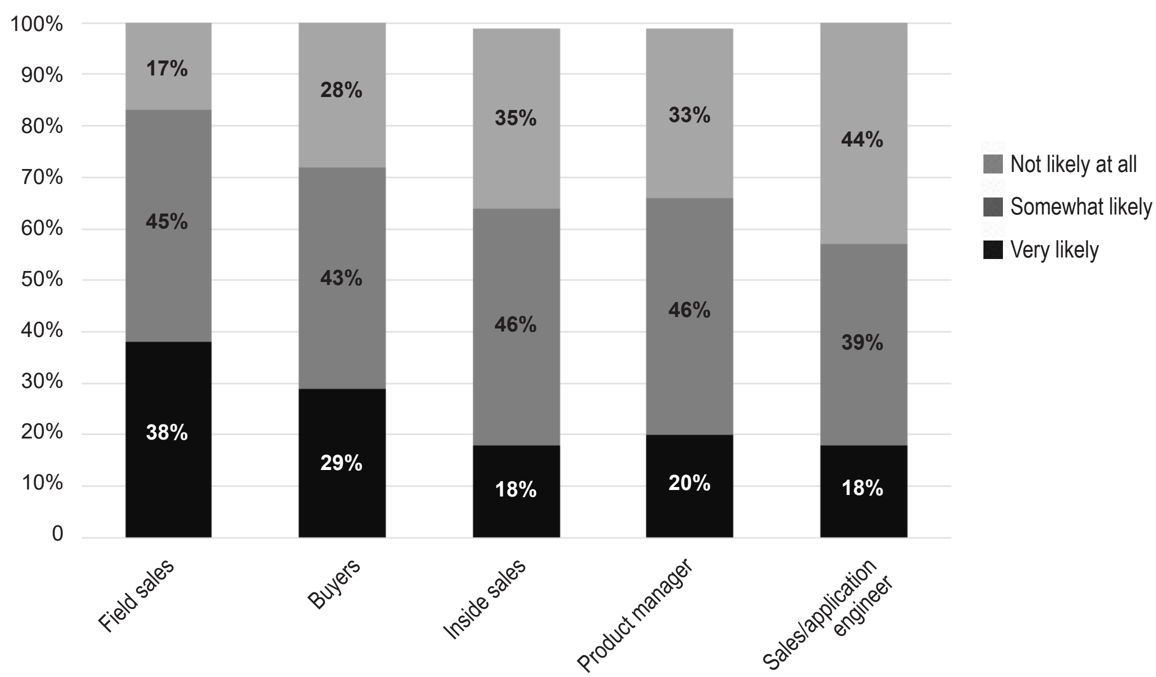
But where does value come into the equation? How much in extra services are distributors giving their customers but not receiving anything back for? When a customer wants a better price, what do salespeople typically do? Do they default to discounting or offer rebates?

Without effective negotiation techniques, most salespeople do not truly understand value and are not equipped to handle effective price negotiations.

What makes for a good negotiation training program? It should include many of the same components of any good training program: great content, role plays, retention programs and follow-up skills training. Use data to show how this type of training will help them improve in their own day-to-day tasks.

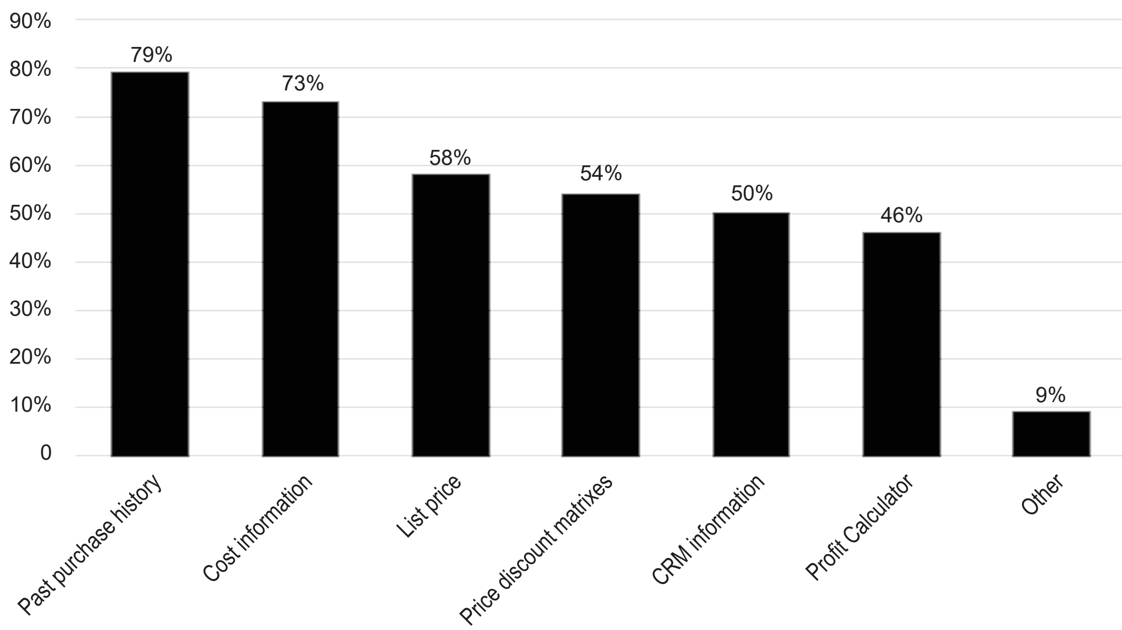
Just like any other training, negotiation training must be practiced and used consistently to be effective. These skill sets must become a standard part of all sales employees' repertoires. This will not only increase profitability for the company overall, but will lead to happier employees and better retention.

Figure 2: How likely are you to spend training budget on negotiation training for the following roles?



In order for any training program to be effective, it has to become a part of the company's culture from top to bottom. Management has to make it a priority, and it must build incentives and accountability into the program.

Figure 3: What types of tools do you use to enable your employees to negotiate effectively?



CFO Expectations Improve Slightly in 2Q

CFOs' assessments of the North American economy in the second quarter are only slightly better than they were in the first quarter, according to Deloitte's most recent CFO Signals report.

Equity markets and consumer confidence improved substantially, which seems to have fueled a reversal in several of last quarter's downward trends. Year-over-year growth expectations improved across the board (but most remain below their survey averages), and CFO confidence in their companies' prospects rebounded markedly from last quarter's strong downturn.

This quarter's net optimism of plus-30 marks a sharp reversal from declining sentiment that left last quarter's measure at plus-1.7 – the lowest level in more than three years. Sentiment is net-positive across all industries, with both manufacturing and energy/resources posting significantly more optimism than they did last quarter.

Consistent with this reversal, CFOs' expectations for revenue, earnings, capital spending and domestic hiring all rebounded from last quarter's mostly dismal levels. But the gains for some metrics were modest. Revenue growth expectations, for example, rose from last quarter's 3.3 percent to 4 percent, but remain relatively low. Moreover, nearly all industries continue to show weakness, with manufacturing again lowest.

Similarly, earnings growth expectations rebounded from their survey-low 6 percent last quarter to 7.7 percent – better, but still well off the long-term average. All industries expect positive growth, but most are still comparatively low.

Domestic hiring growth expectations rose to 1.1 percent from last quarter's survey-low 0.6 percent, but they are still relatively low as well.

Capital spending is the bright spot, rebounding strongly from last quarter's survey-low 1.7 percent to 5.4 percent – the highest level since the second quarter of 2015. Expectations for manufacturing improved, but energy/resources again lagged.

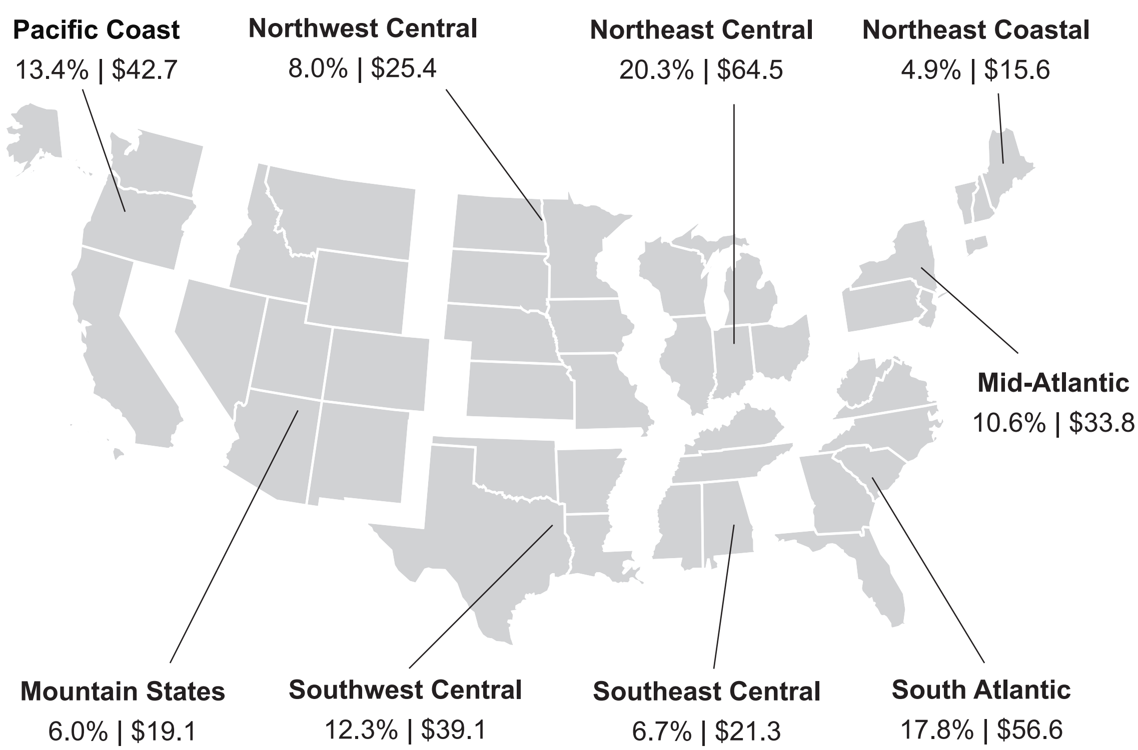
Last quarter's dismal sentiment was substantially driven by worries over the impact of faltering equity markets on consumer demand. These worries have declined, but they have been joined by even stronger concerns about oil prices and by growing concerns about the policy impacts of upcoming U.S. elections. Consequently, assessments of the North American economy are only slightly better than they were last quarter.

Tool Storage Market Demand in the United States | Market Snapshot

Market Demand for Tool Storage (portable tool boxes and drawer chests) in the U.S. was $318.1 million in 2015, according to data from MDM Analytics. All estimates are 2015 end-user demand, in U.S. dollars, including distributor margin.

■ U.S. End-User Market Demand for Tool Storage by Region, $ Millions (2015 est.)

U.S. Total: $318.1 million



■ U.S. End-User Market Demand for Tool Storage: Top 10 End Markets

Top 10 end markets in $ volume, by NAICS code, consuming Tool Storage (2015 est.)

End User		Estimated Consumption
238220	Plumbing, Heating, and Air-Conditioning Contractors	$20.3 million
238210	Electrical Contractors and Other Wiring Installation Contractors	$11.7 million
811111	General Automotive Repair	$10.3 million
236220	Commercial and Institutional Building Construction	$9.4 million
236115	New Single-Family Housing Construction (except For-Sale Builders)	$6.7 million
237310	Highway, Street, and Bridge Construction	$6.6 million
336411	Aircraft Manufacturing	$6.5 million
332710	Machine Shops	$5.8 million
336390	Other Motor Vehicle Parts Manufacturing	$5.4 million
336412	Aircraft Engine and Engine Parts Manufacturing	$4.6 million

This market size estimate was compiled by MDM Analytics, Lafayette, CO.
Learn more about MDM Analytics at www.mdm.com/analytics.

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Industrial & Construction Markets Update

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June 2016 M&A Roundup: Top Electrical Distributors Acquire for Growth

Consolidation in the electrical space ramped up last month, led by some of the largest distributors making strategic purchases – one of the trends identified for the sector in 2016.

France-based electrical distributor Sonepar – parent of Sonepar North America, No. 1 on MDM's list of the Top 25 Electrical Distributors – has agreed to acquire Belgium-based electrical wholesaler Cheyns NV. The company, which has 180 associates and 10 branches, reported 2015 sales of €70 million (US$78 million).

Graybar, St. Louis, MO – No. 3 in the electrical sector – agreed to acquire Cape Electrical Supply, Cape Girardeau, MO.

Cape Electric, a regional distributor serving electrical contractors and large engineering construction firms, as well as industrial, institutional and utility customers, reported sales of $126 million in 2015. It will continue to operate under the Cape Electrical Supply name as a subsidiary of Graybar.

And no. 7 Border States Electric, Fargo, ND, a wholesale electrical product and solution supplier, ventured into the Southeast with the acquisition of Shealy Electrical Wholesalers, based in North and South Carolina.

Shealy, an electrical wholesale supplier with 350 employees and 17 locations, will become Shealy Electrical Wholesalers, a division of Border States. Border States is also opening a regional office in Columbia, SC, with Shealy President David White serving as the Southeast region's vice president.

Also, Dansville Electrical Supply has agreed to be purchased by V.P. Supply Corp., Rochester, NY. All former Dansville Electrical employees and management will continue to operate at the current location under the name Dansville Electrical Supply, a division of V.P. Supply.

Distributor News

France-based electrical distributor **Sonepar** has agreed to acquire Netherlands-based wholesaler **EMG van de Meerakker**.

Brockton, MA-based **NorthEast Electrical Distributors**, a subsidiary of **Sonepar**, has named Frank Marandino as president.

Graybar, St. Louis, MO, a distributor of electrical, communications and data networking products and provider of related supply chain management and logistics services, has agreed to acquire **Cape Electrical Supply**, Cape Girardeau, MO.

Paris-based **Air Liquide** has agreed to sell certain assets in the United States to **Matheson Tri-Gas Inc.**, a subsidiary of **Taiyo Nippon Sanso Corp.** of Tokyo, Japan. These divestitures go toward satisfying the conditions required by the Federal Trade Commission in connection with Air Liquide's recently closed acquisition of **Airgas**.

Genuine Parts Co., Atlanta, GA, has agreed to acquire Canada-based **Auto-Camping Ltd.** and select jan-san assets of **Rochester Midland Corp.**

HVACR/plumbing distributor **F.W. Webb Co.**, Bedford, MA, has acquired **Lincoln Supply**, Trenton, NJ.

Bunzl plc, the UK-based international distribution and outsourcing group, has acquired England-based **Classic Printed Bag Co. Ltd.** and Belgium-based **Polaris Chemicals SPRL.**

Dansville Electrical Supply has agreed to be purchased by **V.P. Supply Corp.**, Rochester, NY.

Lighting distributor **Acuity Brands Inc.**, Atlanta, GA, reported sales for the fiscal third quarter ended May 31 of $851.5 million, an increase of 24.5 percent compared to the same period a year earlier. Profit increased 14.7 percent to $74 million. For the first nine months, sales were $2.4 billion, an increase of 21.5 percent year-over year. Profit grew 28.3 percent to $207.9 million.

Paris-based electrical distributor **Rexel** announced that Rudy Provoost will be stepping down as chairman of the board and CEO on June 30. Patrick Berard has been appointed as Rexel's new CEO, effective July 1. Rexel will also co-opt Ian Meakins, current CEO of Wolseley plc, as an independent director to replace Provoost.

Avnet Inc., Phoenix, AZ, has appointed Steve Gomez as senior vice president of sales, Avnet Electronics Marketing Americas, effective immediately. Gomez succeeds Chuck Delph, whose became president of Avnet Electronics Marketing Americas on July 3.

Industrial gases company **Praxair Inc.**, Danbury, CT, will increase prices for bulk industrial gas and medical gas customers in the United States and its territories, effective July 15.

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News Digest
Continued from p. 1 of this section

The Industrial Supply Association announced that Jeffrey Hughes has resigned as president & CEO.

Epicor Software Corp. has agreed to be acquired by global investment firm **KKR**. Epicor is currently owned by **Apax Partners**.

Economic News

Led by declines in production-related indicators, the **Chicago Fed National Activity Index** fell to -0.51 in May from +0.05 in April. All four broad categories of indicators that make up the index decreased from April, and all four categories made negative contributions to the index in May.

The June **PMI** was 53.2 percent, an increase of 1.9 percentage points from the May reading, according to supply executives in the latest Manufacturing ISM Report on Business. The **New Orders Index** registered 57 percent, an increase of 1.3 percentage points from the May reading of 55.7 percent.

New orders for manufactured goods decreased 1 percent to $455.2 billion in May, according to the U.S. Census Bureau. This followed a 1.8 percent April increase. Transportation equipment led the decrease, down 5.7 percent to $81.8 billion. New orders for manufactured nondurable goods increased 0.3 percent to $224.9 billion.

New orders for manufactured durable goods in May decreased 2.2 percent to $230.7 billion, according to the advance report from the U.S. Census Bureau. Excluding transportation, new orders decreased 0.3 percent. Excluding defense, new orders decreased 0.9 percent.

Real gross domestic product increased at an annual rate of 1.1 percent in the first quarter of 2016, according to the “third” estimate released by the Bureau of Economic Analysis.

The Conference Board Leading Economic Index for the U.S. decreased 0.2 percent in May to 123.7 (2010 = 100), following a 0.6 percent increase in April, and a 0.1 percent increase in March. The **Coincident Economic Index** was unchanged, while the **Lagging Economic Index** increased 0.3 percent.

May **construction spending** was estimated at a seasonally adjusted annual rate of $1,143.3 billion, 0.8 percent below the revised April estimate of $1,152.4 billion, according to the U.S. Census Bureau of the Department of Commerce. The May figure is 2.8 percent above the May 2015 estimate of $1,112.2 billion.

In 2014**, operating revenue for Canadian wholesalers** was up 5.9 percent and reached the C$1 trillion (US$770.1 billion) mark for the first time. Eight of nine subsectors posted increases.

Canada’s industrial product price index increased 1.1 percent in May, according to Statistics Canada. The increase was mainly due to higher prices for energy and petroleum products. The **Raw Materials Price Index** rose 6.7 percent, led by a gain in prices for crude energy products.

Compared with April, May **industrial producer prices** rose by 0.6 percent in both the euro area (EA19) and the EU28, according to estimates from Eurostat, the statistical office of the European Union. In April 2016, prices fell by 0.3 percent in the euro area and by 0.1 percent in the EU28. Compared with May 2015, industrial producer prices decreased by 3.9 percent in the euro area and by 3.7 percent in the EU28.

Heating, Air-conditioning and Refrigeration Distributors International reported a 6.5 percent sales increase for May. The annualized growth through May is 6.6 percent. The annual growth rate has remained between 6 and 7 percent for most of the past two years.

Manufacturer News

Motion and control technology manufacturer **Parker Hannifin Corp.**, Cleveland, OH, has acquired **Jäger Automobil-Technik GmbH** and **Jäger Automotive Polska Sp. z.o.o.** from **Arnold Jäger** Holding GmbH, Hannover, Germany.

Swedish manufacturer **Atlas Copco** has acquired the operating assets of **Roxel Rental AS**, a supplier of temporary air solutions for the Norwegian offshore industry based in Stavanger, Norway.

H.B. Fuller Co., St. Paul, MN, reported sales for the second quarter ended May 28 of $532.5 million, down 1.5 percent compared to the same

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ISM: Procurement Execs Expect Little to No Impact from Brexit

While most procurement executives do not foresee major disruptions from the recent Brexit vote, many are cautiously watching the situation closely and believe it will hamper growth, according to a special supplemental report released by the ISM.

"Great Britain's vote to leave the European Union is historic," said Thomas W. Derry, CEO of the Institute for Supply Management. "We saw that polling our manufacturing and non-manufacturing Business Survey Committees might provide important information to the markets with regard to how procurement executives view their business prospects for the remainder of the year."

The largely unexpected vote by the United Kingdom to withdraw from the European Union result rattled markets. The next trading day, Friday, June 24, saw the Dow Jones Industrial Average open lower and close down almost 600 points. Although markets have recovered somewhat since Monday, a sense of unease persists. And the foreign exchange market has been in flux, primarily for the British pound, the value of which dropped to 30-year lows.

When asked to project what could be the net financial impact of Brexit on their organization, a majority believed Brexit would have a negligible impact on their firm. About one in three surveyed thought their firm would be negatively or slightly negatively impacted. Only a small proportion (less than 10 percent) felt their business would be positively or at least slightly positively impacted by Brexit.

Among those projecting a negative impact, it was reported that changes in the exchange value of the dollar could be the most direct cause of their challenges. Changes in global demand is seen as a secondary cause, and a change in demand for goods and services by their customers in the United Kingdom is seen as a possible, though somewhat unlikely, reason for not meeting expectations.

For the remainder of 2016, procurement executives indicated that they were most concerned about financial market uncertainty and currency movements. Secondarily, they were concerned about global growth overall. Supply management executives were least concerned about their firm's trade links with the U.K. and EU.

A strong majority of those queried believed Brexit would have a negligible impact on their capital spending plans. Fewer than one in five respondents expected that their capital budgets would be negatively impacted. Only a very small proportion of respondents saw Brexit as spurring their capital budget.

Supply management executives were asked if their firms were likely to respond to the vote by employing various tactics to slim down or downwardly management their workforce. Overwhelmingly, respondents reported that would not or probably would not take such measures. Only a small proportion of panelists reported that their firms would or probably would hire fewer workers or more frequently utilize short-term labor contracts. Even fewer indicated they might make more use of third-party contingent labor. Less than 10 percent thought their firm might or would reduce the size of their workforce.

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For the remainder of 2016, due to Brexit, what do you expect to be the net financial impact on your organization?

	Composite	Manufacturing	Non-Manufacturing
Negative	6%	7%	6%
Slightly negative	27%	31%	26%
Negligible	61%	58%	61%
Slightly positive	4%	4%	4%
Positive	2%	0%	2%

Market Stability Fails to Materialize for MSC

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MSC Industrial Supply Co., Melville, NY, went into its fiscal third quarter with the hopes of economic and industry stabilization. "Unfortunately, that did not materialize," President and CEO Erik Gershwind told investors on a call to discuss the company's earnings. "In fact, things weakened."

MSC reported sales for the third quarter ended May 28, 2016, of $727.5 million, down 2.4 percent over the same period a year ago. Fiscal year-to-date, sales were $2.1 billion, down 3 percent year-over-year.

"The root causes really point you back – amazingly – to the same drivers that it's been throughout this prolonged downturn," Gershwind said. "The ongoing effect of low oil prices and the effects of the strong dollar."

On the bright side, profits for the industrial distributor saw year-over-year growth of 2.3 percent for the quarter, primarily due to cost-cutting measures implemented across the company earlier in the fiscal year.

Those cost-cutting initiatives include everything from supplier negotiations to minimizing professional fees to re-evaluating advertising expenditures. The company is even hosting more virtual meetings to limit travel expenses, said Rustom Jilla, CFO. And the company moved to a different health care plan nine months ago to help manage the rising costs of providing that benefit to employees. Headcount fell by 184 when compared with the same period a year ago, but "headcount is dropping because of attrition," Gershwind said, rather than layoffs. The company's continued focus on productivity – as part of the broader cost-cutting initiatives – allowed those positions to not be filled without damaging overall results.

"It's really a testament to our team getting more creative, scrappier in terms of thinking about new and different ways of doing things," he said.

Even with the focus on a leaner, more productive business, the outlook still appears dimmer than it did just a month ago. Based on current market conditions, the company expects net sales for the fiscal 2016 fourth quarter to be between $730 million and $742 million. At the midpoint, average daily sales are expected to decline approximately 5 percent.

"Overall, the sense that the industrial economy may have been stabilizing has given way to more belt tightening and less optimism among our customers," Gershwind said. "…That said, we caution that our visibility is very low. At this point it's hard for us to say how much of this is a material step down in conditions as opposed to customers taking advantage of seasonal summer slowdowns with more extensive shutdowns.

"If things do continue to deteriorate, it would provide an opportunity for MSC to accelerate share gains as local distributors come under even greater pressure," he said.

-Jenel Stelton-Holtmeier

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period a year ago. Profit increased 32.4 percent to $33.4 million. For the first six months, sales were $1 billion, down 0.5 percent over the same period a year ago. Profit increased 49.8 percent to $52.2 million.

Honeywell, Morris Plains, NJ, has agreed to acquire supply chain and warehouse automation provider **Intelligrated**, Atlanta, GA, for $1.5 billion from a company backed by the Permira funds.

Honeywell announced that Darius Adamczyk, president & COO, will succeed Dave Cote as CEO next March.

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