

■ MDM-Baird Distribution Survey

# Revenue Growth Continues to Decelerate

*The distribution industry's revenue growth was slower in the third quarter of this year, while prices mostly remain stable*

On average, businesses reported year-over-year revenue growth at +2.4% in the third quarter of 2019, which is below the forecasted +3.1% level, according to the latest Baird Industrial Distribution Survey, conducted in partnership with Modern Distribution Management. Growth decelerated 80 basis points compared to last quarter's survey, marking the third consecutive quarter of slowing growth. This trend reflects weaker momentum in the industrial sector.

By Leah Shepherd

Industry leaders anticipate seeing more growth, but at a slower rate, in the future. Survey respondents predict their revenue will grow by +1.9% in the fourth quarter,

which means an additional 0.5% moderation in growth is expected in the near term. The outlook for next year is moderately optimistic, at +2.6% revenue growth, which is below the average year-to-date growth of +3.3% for 2019.

### Pricing Stays Steady

For the last two years, industry prices have increased each quarter, but the rate is slowing down gradually. Prices rose an average of +1.2% in the third quarter of this year, marking the fifth straight quarter of moderation. This trend reflects a mixed experience with some categories facing softening demand and decelerating price gains.

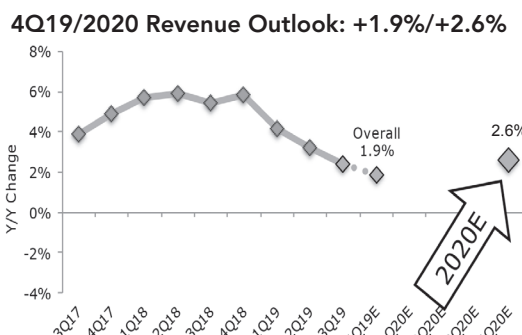
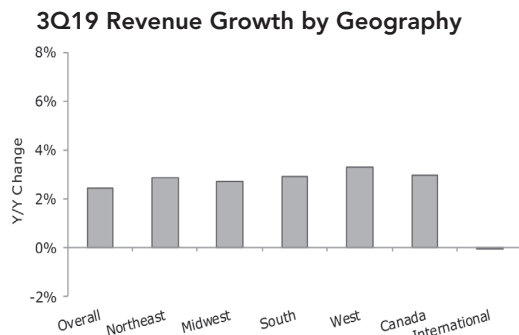
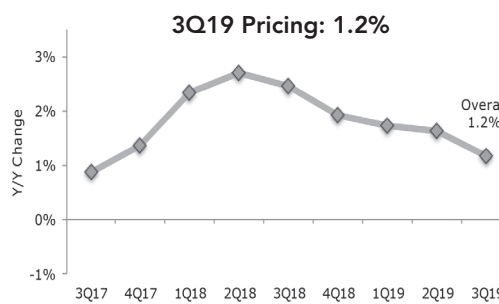
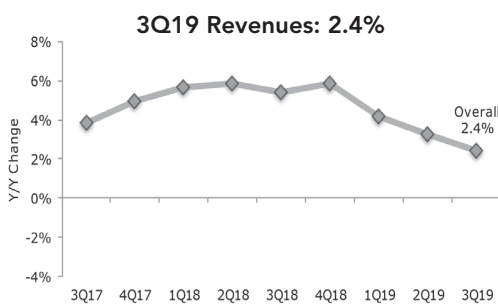
continued on p. 3 of this section

**INSIDE**

**Commentary:**  
**Market Shows Signs of a Slowdown**  
Growth decelerated 80 basis points versus last quarter's Baird survey.  
**Page 2**

**Third Quarter 2019 Pricing Trends Report**  
MDM's quarterly look at inflation trends for dozens of product groups.  
**Page 6**

**3Q2019 Financial Metrics & Trading Multiples**  
Page 3-4 of Industrial & Construction Markets Update.



**PERSPECTIVE** ■ Commentary by Elizabeth Galentine

## Market Continues to Show Signs of a Slowdown: 'It's not as hot as it was'

Words such as “softening demand,” “sluggish,” and “margin pressure” peppered the most recent Baird Industrial Distribution Survey results, conducted quarterly in partnership with MDM. While revenue is still growing (2.4% year-over-year in Q3), distributors have, for months, been reflecting their concerns about the potential for an economic slowdown at the end of this year or into 2020. Indeed, growth decelerated 80 basis points versus last quarter’s survey, and fell below respondents’ 3.1% forecast.

Broken down by industry, key themes in the industrial sector include slightly lower revenue year-over-year, the flattening of pricing trends and a growing drive to destock inventory. One respondent intends to cut 10% out of inventory by year’s end. Another captured the market sentiment expressed by a number of respondents: “It’s not as hot as it was.”

While the electrical sector showed a mix of growth and decline, there was general agreement from respondents that tariffs are continuing to cause margin issues. Both the gases and welding, and pipe, valves and fittings sectors mentioned uncertainty around tariffs. The Trump administration’s ongoing tariff dispute with China is having an impact on margin concerns and their ability to forecast growth levels.

Meanwhile, demand is solid with accelerating growth for much of the building products sector — with the exception of wallboard/gypsum distributors, who are seeing a decline in both revenue growth and selling prices. However, there is some optimism there, with one respondent noting, “Pricing has eroded but seems to be leveled off.”

Pricing is still holding firm for the HVAC and plumbing market, but growing competitive pressures are top of mind for these respondents. Between the effects of import tariffs and growth of e-commerce entrants, HVAC and plumbing distributors are evaluating the best path to maintain competitive pricing.

Overall, given the choice between a growth strategy focused on e-commerce or value-added services, two-thirds of respondents are pursuing the value-added services path (67%) versus e-commerce-based growth (33%). Some of those electing to prioritize e-commerce admit to doing it reluctantly, but say the increasingly digital global economy and the need to accomplish more with limited resources give them no choice. “Like it or not, it is the wave we need to ride right now,” said one respondent. “Our content needs to be complete and quickly accessible for the new generation of tech-savvy people in our industry.”

Speaking of the next generation, just 12% of respondents report an average employee tenure of five years or less. Low turnover can be a positive indication of a solid workplace with satisfied employees. But keep in mind that longer employee tenure, such as those with an average of 10-15 years’ service (32%) or even 15-20 years (20%), can create issues for distributors looking to implement e-commerce and other growth-driving practices with an employee base that may be reluctant to change.

For those invested in developing the next generation of talent, keep an eye out for MDM’s upcoming Future Leaders awards. We’re on the lookout for rising stars, age 40 and younger.

**MODERN  
DISTRIBUTION  
MANAGEMENT**

Founded in 1967  
by J. Van Ness Philip

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

**Editor**  
Elizabeth Galentine  
elizabeth@mdm.com

**Managing Editor**  
Arya Roerig  
arya@mdm.com

Gale Media, Inc.  
6309 Monarch Park Place, Suite 203, Niwot, CO 80503  
Tel: 303-443-5060  
Website: <http://www.mdm.com>

**Subscription Rates**  
To subscribe to Modern Distribution Management, please call 303-443-5060, email [tish@mdm.com](mailto:tish@mdm.com) or <http://www.mdm.com/subscribe>.

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

© 2019 by Gale Media, Inc. All rights reserved. Modern Distribution Management® and mdm® are registered trademarks of Gale Media, Inc. Material may not be reproduced in whole or in part in any form whatsoever without permission from the publisher. To request permission to copy, republish, or quote material, please call 303-443-5060.  
ISSN 0544-6538

**MDM Editorial Advisory Board**

Mark Bray, Supply Chain Director, ACR Supply

Chester Collier, SVP, Walter Surface Technologies

Ted Cowie, Vice President Sales, Safety & Industrial Products, Motion Industries

Larry Davis, CEO, AgoNow

Julia Klein, Chairwoman & CEO, C.H. Briggs Company

Doug Savage, President & CEO, Bearing Service Inc.

Burt Schraga, CEO, Bell Electrical Supply

Ted Stark, President, Dalco Enterprises

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

In the third quarter, the highest price increases came in the gases and cylinder rental (+2.6%), HVAC (+2.5%) and plumbing (+2.3%) categories. By contrast, the biggest price drops came in the wallboard/gypsum (-1.8%) and OEM fasteners (-1.5%) categories.

A survey respondent in the industrial category said, "There is much more pricing pressure in the market as the economy slows."

However, a survey respondent in the HVAC category experienced the opposite: "The different rounds of price increases the industry put through from sometime in 2018 all seem to be sticking. There's been very little pushback on any of them."

As before, there wasn't much regional variation in pricing in the United States in the third quarter of this year. Prices in the Midwest and the West were 0.3% above the survey average,

while the Northeast and South were 0.2% above the survey average.

**Recruiting Challenges**

In the last 10 years, distributors and manufacturers have been facing a skills gap and struggling to recruit younger workers, as their most experienced employees retire. Recruiting challenges continue to be a major concern for industry leaders.

Businesses are using these strategies to recruit younger workers:

- better employee benefits,
- higher starting salaries,
- nicer work environments,
- emphasizing continuing education,
- partnering with local colleges and technical schools,
- using social media like LinkedIn to connect with groups that attract younger workers,

continued on the next page

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

	3Q19 Sales Change	3Q19 Pricing Change	4Q19 Sales Forecast	2020 Sales Forecast
<b>Overall</b>	2.4%	1.2%	8.9%	4.5%
<b>Plumbing</b>	4.3%	2.3%	2.8%	3.1%
<b>Gases &amp; Cylinder Rental</b>	4.3%	2.6%	1.6%	3.0%
<b>Hoses &amp; Accessories</b>	0.8%	-1.0%	0.7%	-0.2%
<b>HVAC</b>	4.1%	2.5%	3.3%	4.8%
<b>Mechanical/Power Transmission</b>	-2.1%	0.8%	-1.7%	1.6%
<b>OEM Fasteners</b>	-3.9%	-1.5%	-0.7%	-0.9%
<b>Pool &amp; Spa</b>	2.3%	1.5%	3.0%	1.9%
<b>Safety</b>	1.9%	1.7%	3.0%	2.9%
<b>Industrial/Energy PVF</b>	0.8%	2.1%	1.6%	1.0%
<b>Electrical</b>	3.3%	1.5%	2.8%	2.8%
<b>General Industrial (MRO)</b>	1.0%	1.0%	-0.3%	1.1%
<b>Waterworks Products</b>	5.4%	0.9%	3.2%	3.4%
<b>Facilities Maintenance/Jan-San (MRO)</b>	1.3%	0.1%	1.6%	3.0%
<b>Metalworking/Cutting Tools</b>	-0.2%	1.1%	0.2%	2.9%
<b>Datacomm</b>	5.0%	-0.2%	1.2%	2.8%
<b>Welding Hardgoods</b>	2.3%	1.8%	1.4%	3.9%
<b>Roofing</b>	6.8%	1.5%	8.9%	4.5%
<b>Wallboard/Gypsum</b>	-3.0%	-1.8%	-2.8%	-0.1%
<b>Building Materials/Lumber</b>	3.8%	1.7%	3.1%	2.9%
<b>Landscape Supplies</b>	3.6%	0.8%	2.0%	2.5%

\*For MRO, industrial includes industrial & manufacturing end-markets; non-industrial includes institutional, hospitality and other non-manufacturing end-markets. Jan-San results are included in these categories.

- highlighting career advancement and inclusion,
- offering telework,
- getting more involved in high school job programs, and
- attending more college job fairs.

One survey respondent said, “We continue to emphasize our culture and focus on our mission of helping those around us do more than they ever thought possible.”

When asked about their average employee tenure, 32% of survey respondents said 5-10 years, while another 32% said 10-15 years, and 20% said 15-20 years.

### E-commerce vs. Value-Added Services

Industry leaders are divided on the right business strategy for future success. Some distributors are aggressively investing in e-commerce, while others are doubling down on value-added services. When asked which strategy they favored, 67% of survey respondents said value-added services, while 33% said e-commerce.

Those who preferred the e-commerce strategy noted that it saves money, and it’s what their customers are demanding now. “Our content needs to be complete and quickly accessible for the new generation of tech savvy people in our industry,” said one survey respondent.

Those who preferred value-added services said it builds customer loyalty. “We do not see ROI on investment in e-commerce. Seems like big guys already own the e-space, but can’t provide value-added services,” said one survey respondent.

A number of industry leaders see value in combining the two strategies right now. A survey respondent commented, “Ideally, you would do both. Purely focusing on e-commerce sets you up to compete with Amazon, and they have a tremendous advantage in e-commerce platforms.”

Another survey respondent said, “While we are investing in both, we believe we must provide value-added services as the first step in driving business to e-commerce as the ordering platform. Most middle-market customers want to have a go-to person to work with as they go through the decision-making process.”

Now let’s dive deeper into each sector to examine the third-quarter results.

### Industrial Sector

Revenues were slightly lower in the industrial sector in the third quarter. As a result, many distributors are destocking their inventory. “I

do think there’s been an effort by distributors to destock. There’s been an emphasis to have less working capital in general, and that continues to accelerate with recession thoughts,” said one survey respondent.

Within this sector, the strongest growth came from the safety (+1.9%) and facilities MRO and San-Jan (+1.3%) categories. The mechanical/power transmission (-2.1%) and OEM fasteners (-3.9%) categories reported revenue drops.

“We’re seeing an overall softening of the market. It’s primarily due to automotive and oil and gas. Aerospace is doing very well,” said one survey respondent.

Recent economic troubles for manufacturers are affecting the distributors in this sector. “Falling demand in manufacturing impacted our customers. [Customers] are buying smaller quantity orders to not bring in inventory,” a survey respondent said.

This sector gave a fairly modest forecast, with some categories outperforming others. The safety category is predicting revenue growth of +3.0% for the fourth quarter of this year and +2.9% for next year. The mechanical/power transmission category anticipates a decline (-1.7%) in revenue for the fourth quarter, but better performance (at +1.7% revenue growth) in 2020.

### Electrical Sector

In this sector, third-quarter trends were somewhat mixed, with construction growth slowing down. But revenue growth remained robust with the electrical category reporting +3.3% and datacomm reporting +5.0% in the third quarter. For next year, both categories predict +2.8% revenue growth.

“The last couple months were a little lighter than our forecast. Nothing to panic about, but not quite as robust as we were earlier in the year,” one survey respondent observed.

Tariffs are causing difficulties for distributors in this sector. “Tariffs continue to apply pressure on pricing and margins. It is a huge problem,” a survey respondent said.

Independent companies haven’t seen e-commerce fully take off in this sector, and they are relying on value-added services to remain competitive.

### HVAC/Plumbing Sector

The HVAC/plumbing sector has been performing very well recently. The HVAC category reported +4.1% revenue growth, while the plumb-

continued on the next page

ing category reported +4.3% revenue growth.

Their outlook remains positive. The HVAC category is predicting +3.3% revenue growth for the fourth quarter and +4.8% revenue growth for 2020, while the plumbing category is anticipating +2.3% in the fourth quarter and +3.1% in 2020.

There's been a lot of discussion about competitive pressures from big online retailers. "Pricing has been hard to maintain due to competition," one survey respondent noted.

"The entire industry has questions about pricing. Effects of import tariffs and the infusion of large, non-sector-specific e-commerce providers continue to redefine what pricing and availability are acceptable to maintain a competitive advantage," another survey respondent explained.

### Building Products Sector

This was one of the stronger sectors in the third quarter. The roofing category reported strong revenue growth at +6.8% in the third quarter, and it's predicting +8.9% in the fourth quarter and +4.5% in 2020. The building materials category also showed good momentum, reporting +3.8% revenue growth in the third quarter and anticipating +3.1% in the fourth quarter and +2.9% in 2020.

"Sales continue to meet or exceed plan, but are very unpredictable month-to-month," said one survey respondent.

Demand has been good in most of the categories, but sluggish in the wallboard gypsum category, which reported a decline in revenue (-3.0%) in the third quarter. In the lumber and building materials category, one survey respondent noted, "Reduced consumer borrowing costs have created greater demand for residential investments."

### Gases/Welding Sector

The ongoing worldwide helium shortage continues to impact the gases/welding category. Despite facing that challenge, the gases/welding category performed very well, reporting +4.3% revenue growth in the fourth quarter and predicting +1.6% in the fourth quarter and +3.0% in 2020.

The welding hardgoods category is expecting upward momentum for next year. After

reporting +2.3% revenue growth in the third quarter, it anticipates +1.4% in the fourth quarter and +3.9% in 2020.

"Business remains steady, but seeing slower growth. Most customers have a decent pipeline of work, and the medical/research customers are consistent," said one survey respondent.

"Business in Northeast should hold at least through the first half of 2020. It then depends on construction holding through 2020 and into 2021. Manufacturing will depend on if tariffs hold or are stopped," said another survey respondent.

### Pipes, Valves and Fittings Sector

In this sector, the waterworks products category showed robust revenue growth at +5.4% in the third quarter, and it expects to reach revenue growth of +3.2% in the fourth quarter and +3.4% in 2020.

Meanwhile, volatility in the energy market is holding back growth in the industrial/energy PVF category, which achieved +0.8% revenue growth in the third quarter. It's predicting to have +1.6% revenue growth in the fourth quarter and +1.0% in 2020.

"We expect slow growth over the next six months and downward pressure on gross margin. We are seeing customers shop projects harder and delay spend," said one survey respondent.

President Donald Trump's trade war with China continues, and various presidential candidates are ramping up for next year's election, so businesses are facing quite a bit of uncertainty. "Continued political uncertainty and governmental intervention in the marketplace (tariffs) are disruptive in all areas," a survey respondent explained.

### International Business

International business results were somewhat mixed in the third quarter. Revenue growth in Canada was slightly above the survey average and nearly all U.S. regions, but revenue growth in other countries was about 2.5% below the survey average.

Pricing in Canada was just below the survey average in the third quarter, while prices in other countries trailed the average by about 1%. That's the same as the previous quarter's results.

---

*The Baird-MDM quarterly survey is the deepest financial performance benchmarking analysis for industrial wholesale distribution sectors, representing more than \$100 billion in aggregate annual revenue across six distribution categories. Survey participants receive a complete readout of the quarterly results. For questions or to participate, contact [info@mdm.com](mailto:info@mdm.com), or Baird Senior Associate Luke Junk ([ljunk@rvbaird.com](mailto:ljunk@rvbaird.com)).*

# 3Q19 Pricing Trends Report

## Inflation trends for core industrial/construction products

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 in PDF format at [www.mdm.com](http://www.mdm.com).

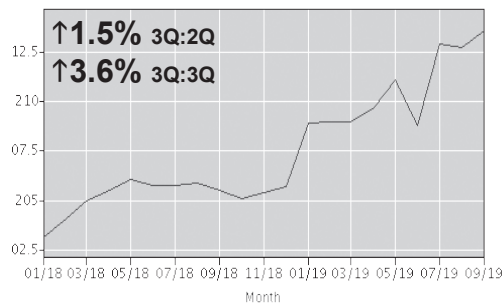
### Key

↑X.X% 3Q:2Q (3Q '19 with 2Q '19)

↑X.X% 3Q:3Q (3Q '19 with 3Q '18)

### Industrial

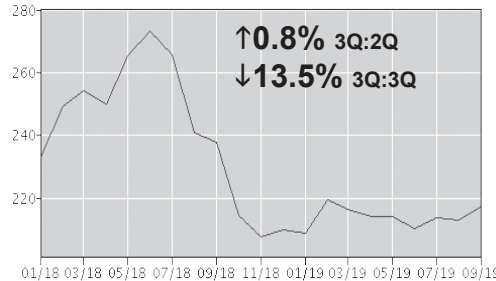
#### Abrasives



Product Group	3Q:2Q	3Q:3Q
Adhesives/Sealants	0.1%	2.1%
Ind. Mat Handling Eqmt	0.1%	2.1%
Industrial Rubber Products nec	1.7%	2.1%
Metal Cutting Machine Tools	1.3%	1.3%
Metal Forming Machine Tools	5.0%	5.0%
Metal Valves (not FP)	3.5%	2.8%
Personal Safety Eqmt & Clothing	3.2%	2.5%
Pumps & Compressors	1.8%	1.5%
Rubber & Plastic Belts & Belting	3.4%	3.4%
Rubber & Plastic Hose	3.4%	3.6%
Steel Mill Products	-9.8%	-11.1%

### Construction

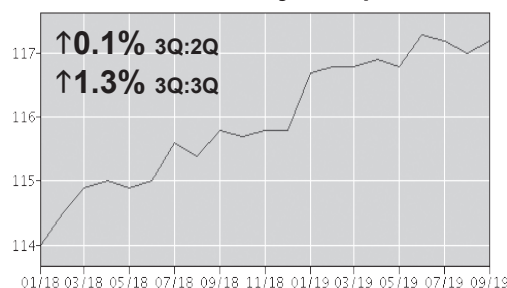
#### Softwood Lumber



Product Group	3Q:2Q	3Q:3Q
Plastic Construction Products	1.2%	0.8%
General Millwork	2.0%	1.6%
Gypsum Products	-7.9%	-8.0%
Hardboard, Particlebd, Fiberbd	-12.6%	-10.9%
Hardwood Lumber	-8.7%	-8.2%
Plywood	-15.5%	-16.0%
Wood Ties, Siding, Shingles, etc.	2.9%	2.4%

### Electrical

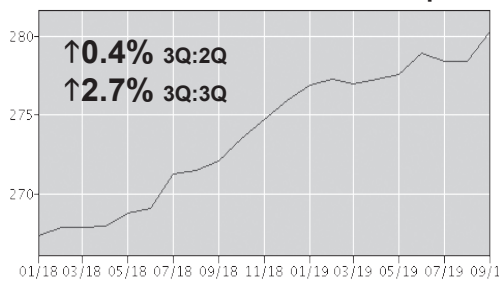
#### Electrical Machinery & Eqmt\*



Product Group	3Q:2Q	3Q:3Q
Communications/Related Eqmt	4.1%	4.3%
Electric Lamp Bulbs and Tubes	7.1%	5.5%
Electronic Components & Accs.	-0.1%	-0.2%
Integrating/Measuring Instrumts	0.2%	0.2%
Lighting Fixtures	5.4%	5.4%
Motors, Generators, etc.	2.0%	0.9%
Switchgear, Switchbd, etc. Eqmt	2.9%	3.8%
Transformers/Power Regulators	1.5%	1.7%
Wiring Devices	1.7%	2.2%
Fab. Ferrous Wire Products	1.3%	0.2%
Nonferrous Wire & Cable	-2.0%	0.3%

**Power Transmission/Bearing/Fluid Power**

**Mech. Power Transmission Eqmt\***

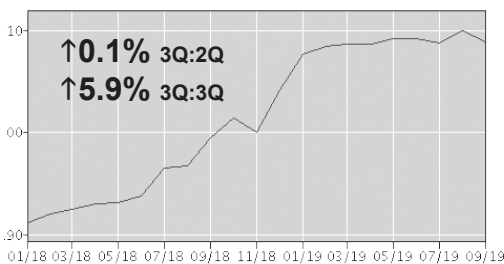


\*Category encompasses first three (PT) products in table.

Product Group	3Q:2Q	3Q:3Q
Ball & Roller Bearings	4.8%	5.3%
Plain Bearings & Bushings	1.5%	1.0%
Speed Changers/Drives/Gears	2.3%	2.4%
Fluid Power Equipment	2.7%	2.3%
FP Cylinders, Actuators, Accum.	2.8%	2.2%
FP Hose & Tube Fittings	3.5%	3.0%
Fluid Power Pumps & Parts	2.3%	2.1%
Fluid Power Valves	2.6%	2.7%

**Fasteners**

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



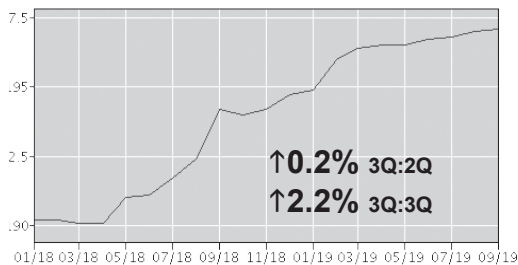
Product Group	3Q:2Q	3Q:3Q
Aircraft Fasteners	15.6%	13.5%
Externally Thread. Fasteners**	3.1%	2.5%
Internally Thread. Fasteners**	1.4%	1.6%
Nonthreaded Metal Fasteners**	1.4%	1.3%

\*Category encompasses products in table above

\*\*Excludes aircraft fasteners.

**Tools**

**Cutting Tools & Accessories\***

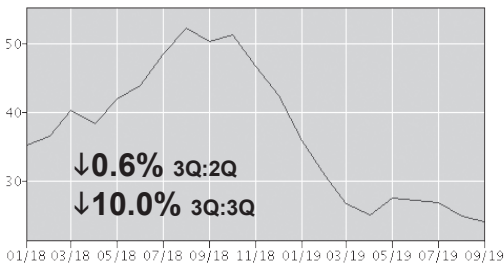


Product Group	3Q:2Q	3Q:3Q
Hand & Edge Tools	3.4%	2.4%
Power-Driven Hand Tools	1.7%	1.7%
Precision Measuring Tools	2.2%	2.2%
Small Cutting Tools	2.0%	1.1%
Tools, Dies, Jigs, Molds, Fixture	2.2%	1.6%

\*Category encompasses some of the products in table.

**Other**

**Plastic Resins and Materials**

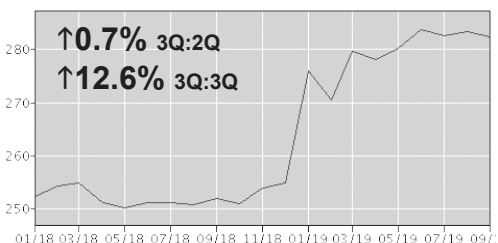


Product Group	3Q:2Q	3Q:3Q
Hardware*	2.2%	1.5%
Builders Hardware	2.5%	1.6%
Air Cond. & Refrigeration Eqmt	3.7%	3.6%
Heating Eqmt	4.5%	3.5%
Plumbing Fixtures & Fittings	4.9%	5.4%
Plastic Products (overall)	0.0%	-0.5%
Pkging Products from Plastics	-0.8%	-1.9%
Welding Machinery & Eqmt	2.0%	2.1%
Office Supplies & Accessories	2.8%	0.8%
Pulp, Paper & Allied Products**	-1.5%	-1.8%
Boxes	0.8%	0.9%
Sanitary Paper Products	1.3%	1.3%

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

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

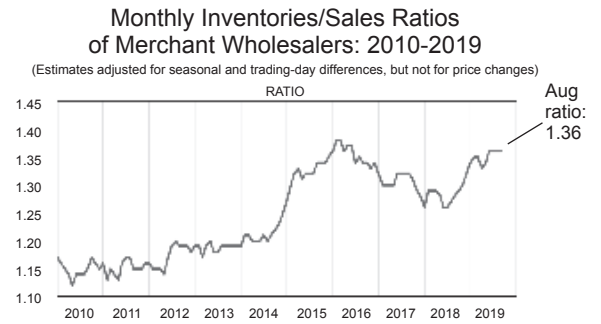
**Industrial Gases**



## August 2019 | Monthly Wholesale Trade Data

Wholesale revenues in August were \$499.1 billion, down 0.7% from August 2018 and flat over July. August sales of durable goods were up 0.3% over last month and down 1.6% from a year ago. Sales of nondurable goods were down 0.3% over July and up 0.3% over last August.

Inventories were \$680.7 billion at the end of August, up 0.2% from the revised July level and up 6.2% from last year. August inventories of durable goods were up 0.3% from last month and up 8.3% from a year ago. Inventories of nondurable goods were up 0.1% from July and up 2.9% from last August.



Source: U.S. Census Bureau

**Inventories/Sales Ratio.** The August inventories/sales ratio for merchant wholesalers was 1.36. The August 2018 ratio was 1.28.

### Sales and Inventories Trends: August 2019

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	% Change Sales 7/19-8/19	% Change Sales 8/18-8/19	% Change Inventory 7/19-8/19	% Change Inventory 8/18-8/19
<b>42</b>	<b>U.S. Total</b>	<b>499,053</b>	<b>680,702</b>	<b>1.36</b>	<b>0.0</b>	<b>-0.7</b>	<b>0.2</b>	<b>6.2</b>
<b>423</b>	<b>Durable</b>	<b>239,173</b>	<b>424,330</b>	<b>1.77</b>	<b>0.3</b>	<b>-1.6</b>	<b>0.3</b>	<b>8.3</b>
4231	Automotive	41,277	72,838	1.76	0.8	4.7	0.1	14.8
4232	Furniture & Home Furnishings	7,852	14,273	1.82	-2.9	1.4	-0.6	8.3
4233	Lumber & Other Construction Materials	11,970	19,265	1.61	-0.5	-0.4	0.5	3.7
4234	Prof. & Commercial Equip. & Supplies	42,877	55,295	1.29	-1.2	0.7	-0.2	8.8
42343	Computer Equipment & Software	21,518	20,902	0.97	-1.4	-5.5	-0.8	1.9
4235	Metals & Minerals	14,748	33,777	2.29	0.1	-8.3	-0.2	1.0
4236	Electrical Goods	49,126	58,465	1.19	1.2	-7.4	0.3	5.8
4237	Hardware, Plumbing, & Heating Equipment	12,797	27,919	2.18	-0.4	4.1	1.8	7.7
4238	Machinery, Equipment & Supplies	39,534	111,465	2.82	-0.4	-0.9	0.9	11.1
4239	Miscellaneous Durable	18,992	31,033	1.63	4.6	-5.2	-0.6	0.6
<b>424</b>	<b>Nondurable Goods</b>	<b>259,880</b>	<b>256,372</b>	<b>0.99</b>	<b>-0.3</b>	<b>0.3</b>	<b>0.1</b>	<b>2.9</b>
4241	Paper & Paper Products	7,570	9,566	1.26	-1.4	-8.5	0.6	3.4
4242	Drugs	60,490	65,358	1.08	-0.2	4.2	0.9	3.1
4243	Apparel, Piece Goods & Notions	12,099	30,427	2.51	-5.1	-10.0	1.2	13.3
4244	Groceries & Related Products	56,055	40,169	0.72	-0.2	4.2	0.3	4.6
4245	Farm-product Raw Materials	18,815	25,831	1.37	1.8	8.6	0.3	-1.6
4246	Chemicals & Allied Products	11,576	12,408	1.07	3.3	2.9	-3.1	-4.6
4247	Petroleum & Petroleum Products	57,568	20,280	0.35	-0.1	-7.8	-4.5	-9.5
4248	Beer, Wine & Distilled Beverages	13,726	18,804	1.37	0.4	4.7	1.7	10.6
4249	Miscellaneous Nondurable Goods	21,981	33,529	1.53	-2.0	2.3	-0.1	3.3

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.



## Orders for Manufactured Technology Goods Down 0.1% in August

New orders for manufactured goods in August, down following two consecutive monthly increases, decreased \$0.4 billion or 0.1% to \$499.8 billion, according to the U.S. Census Bureau. This followed a 1.4% July increase. Shipments, down two consecutive months, decreased \$0.7 billion or 0.1% to \$503 billion. This followed a 0.3% July decrease. Unfilled orders, up two consecutive months, increased \$1.1 billion or 0.1% to \$1,162.9 billion. This followed a 0.1% July increase. The unfilled orders to shipments ratio was 6.66, down from 6.67 in July. Inventories, down following eight consecutive monthly increases, decreased \$0.3 billion or virtually unchanged to \$695.9 billion. This followed a 0.1% July increase. The inventories to shipments ratio was 1.38, unchanged from July.

New orders for manufactured durable goods in August, up three consecutive months, increased \$0.4 billion or 0.2% to \$250.7 billion, unchanged from the previously published increase. This followed a 2.1% July increase. Fabricated metal products, up four of the last five months, drove the increase, \$0.4 billion or 1.2% to \$34.3 billion. New orders for manufactured nondurable goods decreased \$0.8 billion or 0.3% to \$249 billion.

Inventories of manufactured durable goods in August, up 13 of the last 14 months, increased \$1.1 billion or 0.2% to \$428.3 billion, down from the previously published 0.3% increase. This followed a 0.4% July increase. Transportation equipment, also up 13 of the last 14 months, drove the increase, \$1.7 billion or 1.2% to \$143.2 billion. Inventories of manufactured nondurable goods, down five consecutive months, decreased \$1.4 billion or 0.5% to \$267.6 billion. Petroleum and coal products, down four consecutive months, led the decrease, \$0.9 billion or 2.3% to \$39.1 billion.

**Triad Technologies**, Vandalia, Ohio, a distributor of fluid power and automation products, has acquired **Day Fluid Power**, Goshen, Indiana, an authorized distributor of Parker Hannifin fluid connector and pneumatic products.

North American buying group **AD**, Wayne, Pennsylvania, has added **Insite Software**, a leading provider of B2B eCommerce Solutions to its complement of e-commerce platform providers.

**3M**, St. Paul, Minnesota, has completed the acquisition of **Acelity, Inc.** and its **KCI** subsidiaries worldwide from a consortium comprised of funds advised by **Apax Partners**, together with controlled affiliates of the Canada Pension Plan Investment Board and the Public Sector Pension Investment Board for a total enterprise value of approximately \$6.7 billion, including assumption of debt and other adjustments.

**SRS Distribution Inc.**, McKinney, Texas, has acquired **Roofers Supply, Inc.**, Salt Lake City, an independently owned distributor of residential and commercial roofing products & accessories.

**Tosca**, an innovator in reusable packaging and supply chain solutions in the U.S., has agreed to acquire **Polymer Logistics**, an innovative company specializing in reusable transport packaging and retail merchandising systems in the United States and Europe, from a consortium of private investors.

**Fastenal Co.**, Winona, Minnesota, reported sales of \$1.38 billion for its fiscal third quarter, a 7.8% increase.

Quarterly profit was \$213.5 million, an 8% increase compared to the year-ago period. Sales for the first nine months of Fastenal's fiscal 2019 were \$4.06 billion, an 8.7% increase compared with the first nine months of 2018. Profit for the first nine months increased 5% to \$612.2 million.

**PPG Industries**, Pittsburgh, reported sales for the third quarter of \$3.8 billion, up 0.2% from the same period a year ago. Profit decreased 2.9% to \$367 million.

For the first nine months, sales were \$11.5 billion, down 1.7% year-over-year. Profit for the period was \$951 million, down 12.2% from the prior year.

**Textron**, Providence, Rhode Island, reported total revenues of \$3.3 billion for the third quarter of 2019, up 1.6% compared with the third quarter of 2018. Profit for the third quarter fell \$563 million in 2018 to \$220 million.

**Snap-on Inc.**, Kenosha, Wisconsin, reported sales for the third quarter of \$901.8 million, an increase of 0.4% from the prior year. Profit increased 1.1% to \$169.2 million.

For the first nine months, sales were \$2.8 billion, down 0.5% over the prior-year period. Profit increased 3.7% to \$536.2 million.

**United Rentals, Inc.**, Stamford, Connecticut, reported sales of \$2.5 billion for the third quarter, up 17.6% compared to a year ago. Earnings were \$391 million, up 17.4% compared with a year ago.

For the first nine months sales grew 19.2% to \$5.9 billion. Profit increased 6.4% to \$836 million.

Continued on next page

**News Digest**

Continued from previous page

**Genuine Parts Co.**, Atlanta, reported third quarter sales of \$5 billion, up 6.2% from the previous year. Profit increased 3.3% over the year to \$227.5 million.

Sales for the first nine months for Genuine Parts were \$14.7 billion, an increase of 4.3% over the same period in 2018. Profit decreased 1.8% to \$612.2 million.

HVAC distributor **Watsco Inc.**, Miami, reported third quarter sales of \$1.4 billion, up 8% year-over-year. Profit increased 2.9% to \$99.7 million. For the first nine months, sales were \$3.7 billion, up 4% over the same period a year ago. Profit grew 1.5% to \$251.4 million.

Paris, France-based electrical distributor **Rexel** reported sales for the third quarter of €3.4

billion (US\$3.8 billion), up 3.3% from the same period a year ago.

On a constant, same-day basis, sales were up 0.9%. For the first nine months, total group sales were up 3.6% to €10.2 billion (US\$11.4 billion). On a constant, same-day basis, sales were up 2.1%.

**Curbell Plastics Inc.**, Orchard Park, New York, No. 6 on MDM's 2019 Top Plastics Distributors list, has relocated its operations in Rochester, New York, to a new, larger facility.

**Gardner Denver Holdings** has named Emily A. Weaver as senior vice president and CFO.

**Turtle & Hughes** has named Dan Fongaro as director of internal audit.

**Winsupply Inc.** has named Eric Roush to vice president, supply chain.

**Calculation of MDM Inflation Index for September 2019**

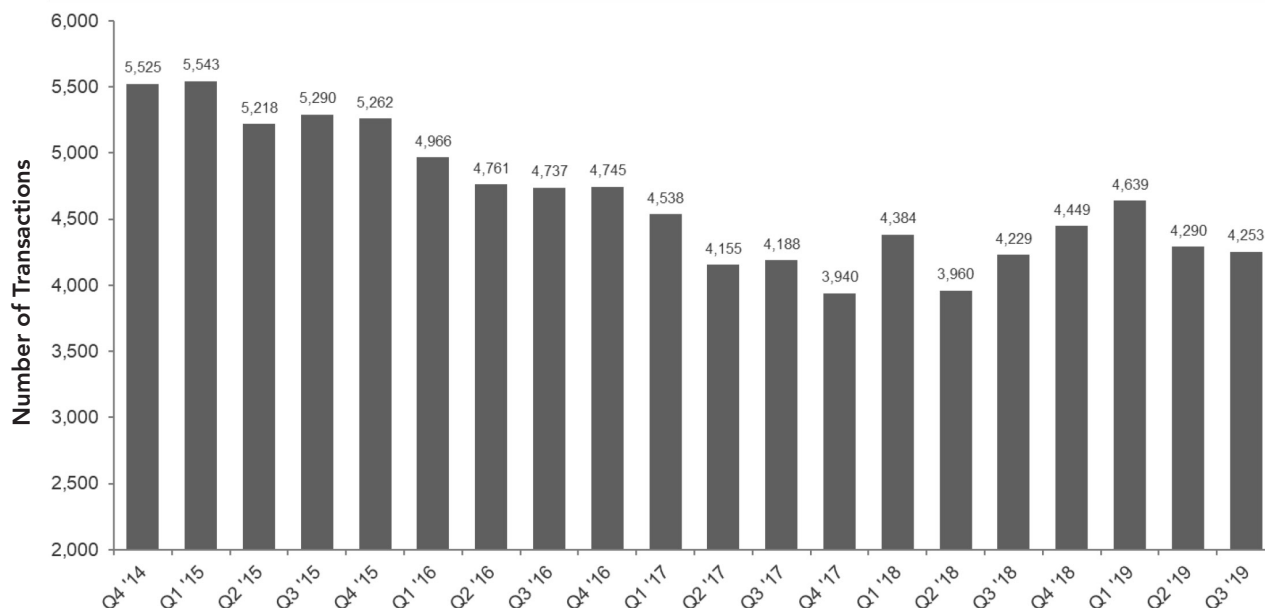
	BLS Price Indices Sept '19	BLS Price Indices Aug '19	BLS Price Indices Sept '18	% Sales Weight	Weighted Indices Sept '19 (1)X(4)	% Change Sept '19 Aug '19	% Change Sept '19 Sept '18
1136 Abr. Prod.	634.1	631.4	610.0	19.1	121.11	0.42	3.94
1135 Cutting Tools	534.4	534.2	526.8	18.9	101.01	0.05	1.44
1145 Power Trans.	875.7	869.7	850.7	15.4	134.85	0.68	2.94
1081 Fasteners	564.2	567.1	529.3	9.0	50.77	-0.52	6.58
1149.01 Valves, etc.	1071.6	1060.3	1038.1	7.6	81.44	1.07	3.23
1132 Power Tools	395.5	395.5	389.0	6.5	25.71	0.00	1.65
1144 Mat. Handling	646.8	647.6	639.3	6.2	40.10	-0.13	1.17
0713.03 Belting	947.3	947.3	913.8	6.1	57.79	0.00	3.66
1042 Hand Tools	835.7	836.1	815.3	8.1	67.69	-0.04	2.51
108 Misc. Metal	504.8	503.7	494.4	3.1	15.65	0.22	2.11
"New" Sept Index	363.7	September Inflation Index			696.12	0.29	3.03
"New" Aug Index	362.6	August Inflation Index			694.10		
		September 2018 Inflation Index			675.66		

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

## Third Quarter 2019 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.



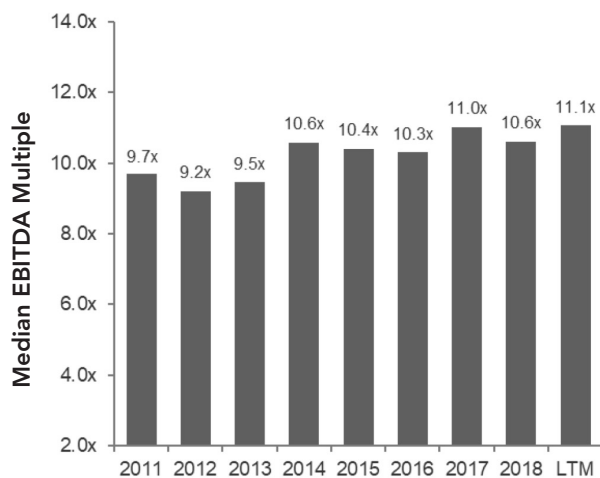
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 9/30/2019.

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.

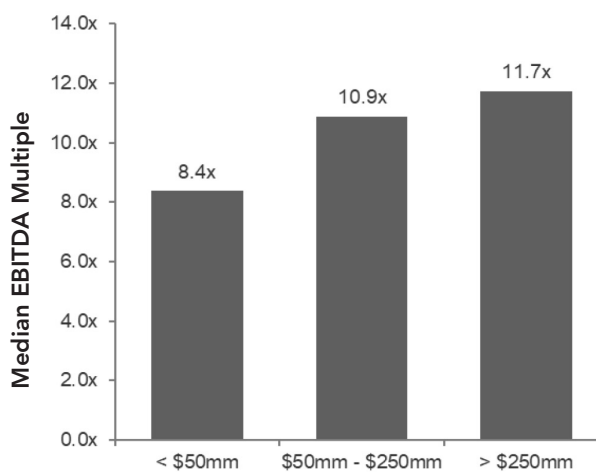
### Median EBITDA Transaction Multiples – All Industries

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 - 2019



Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 9/30/2019.

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.

© 2019 Houlihan Lokey. All rights reserved. This material may not be reproduced in any format by any means or redistributed without the prior written consent of Houlihan Lokey.

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.

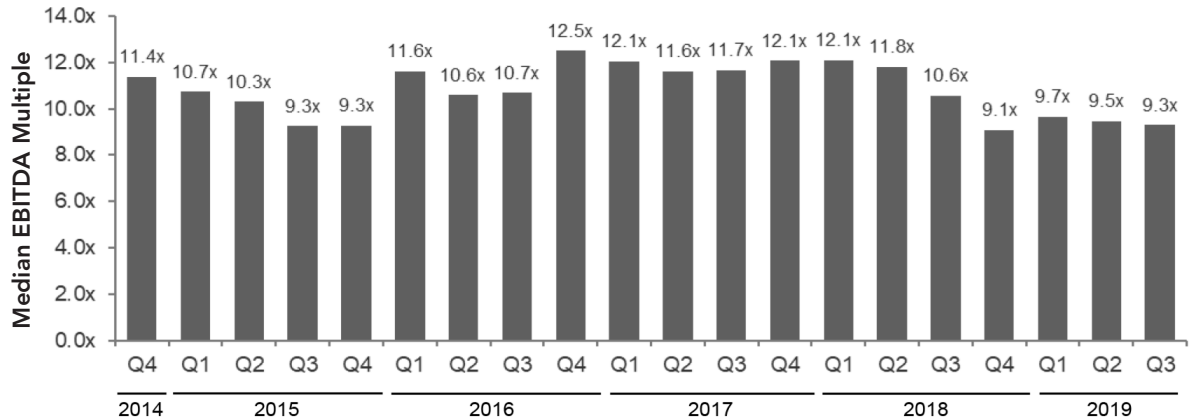
These materials are for informational purposes only. Houlihan Lokey gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this presentation. The material presented reflects information known to the authors at 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.

© 2019 Houlihan Lokey. All rights reserved. This material may not be reproduced in any format by any means or redistributed without the prior written consent of Houlihan Lokey.

### Distribution Financial Metrics and Trading Multiples

(Data as of September 30, 2019)

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.



The table below highlights key financial metrics and trading multiples for 32 distributors across diverse end markets. LTM means latest 12 months. Enterprise Value means market capitalization of a company's equity plus preferred stock plus total interest bearing debt net of any cash or cash equivalents. EBITDA means earnings before interest, taxes, depreciation and amortization. In certain cases earnings have been adjusted for certain disclosed income or expense items considered to be non-recurring.

Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Margins		Working Capital/LTM Sales	ROIC	EV/LTM EBITDA
					Gross	EBITDA			
Anixter International Inc.	AXE	\$3,817	\$8,669	6.6%	19.9%	4.8%	19.3%	7.3%	9.1x
Applied Industrial Technologies, Inc.	AIT	3,045	3,473	13.0%	29.0%	9.5%	19.2%	9.2%	9.2x
Arrow Electronics, Inc.	ARW	9,794	29,909	4.3%	12.0%	4.1%	16.0%	7.5%	8.0x
Avnet, Inc.	AVT	5,709	19,519	2.5%	12.7%	4.1%	20.8%	6.4%	7.2x
Beacon Roofing Supply, Inc.	BECN	5,613	7,011	NM	19.0%	6.6%	19.0%	2.4%	12.1x
Bluelinx Holding Inc.	BXC	1,001	2,878	NM	11.9%	3.8%	16.0%	1.7%	9.0x
BMC Stock Holdings, Inc.	BMCH	2,061	3,622	1.9%	25.7%	6.7%	11.1%	8.5%	8.5x
Builders FirstSource, Inc.	BLDR	4,078	7,470	0.3%	26.4%	6.7%	8.7%	10.3%	8.2x
Bunzl	BNZL	11,652	11,652	5.2%	24.5%	7.1%	8.7%	8.5%	13.4x
DXP Enterprises, Inc.	DXPE	896	1,264	13.4%	27.4%	7.9%	19.2%	8.0%	8.9x
Fastenal Company	FAST	19,295	5,288	9.7%	47.4%	22.6%	35.0%	22.0%	16.1x
Ferguson	WOS	18,444	22,010	6.1%	29.4%	8.0%	8.8%	14.7%	10.5x
Foundation Building Materials	FBM	1,366	2,133	3.5%	29.4%	8.0%	14.3%	5.3%	8.0x
Genuine Parts Company	GPC	18,939	18,998	7.3%	32.3%	7.5%	12.4%	9.6%	13.3x
GMS, Inc.	GMS	2,462	3,185	NM	32.4%	9.1%	16.2%	5.5%	8.5x
HD Supply	HDS	9,002	6,175	11.4%	39.2%	13.4%	16.2%	11.9%	10.9x
Houston Wire & Cable Company	HWCC	164	349	1.9%	24.1%	4.4%	38.4%	4.5%	10.7x
Lawson Products	LAWS	364	362	9.4%	53.6%	4.5%	15.2%	5.4%	NM
MRC Global Inc.	MRC	2,267	4,034	10.6%	17.3%	5.0%	23.0%	4.5%	11.2x
MSC Industrial Direct Co., Inc.	MSM	4,501	3,359	7.7%	42.8%	15.7%	27.9%	14.8%	8.5x
NOW Inc.	DNOW	1,305	3,147	8.3%	20.2%	4.0%	21.4%	3.9%	10.3x
Park-Ohio Holdings Corp.	PKOH	987	1,656	6.4%	16.2%	8.5%	25.0%	6.9%	7.0x
Pool Corp.	POOL	8,859	3,073	6.1%	29.3%	11.6%	22.7%	18.9%	24.8x
Reliance Steel & Aluminum Co.	RS	8,709	11,629	10.0%	28.1%	10.0%	22.2%	8.4%	7.5x
Rexel	RXL	6,674	14,998	3.1%	25.5%	4.8%	12.6%	5.2%	9.3x
SiteOne	SITE	3,896	2,223	12.4%	32.7%	7.5%	25.5%	6.6%	23.5x
W.W. Grainger	GWW	18,506	11,286	3.6%	38.6%	14.6%	16.6%	19.8%	11.2x
Watsco Inc.	WSO	7,042	4,590	3.1%	24.6%	8.4%	24.4%	11.9%	18.3x
Wesco Aircraft Holdings	WAIR	1,879	1,671	9.6%	24.6%	8.4%	57.7%	4.5%	13.4x
WESCO International, Inc.	WCC	3,634	8,190	1.2%	19.3%	5.0%	18.2%	6.1%	8.9x
<b>Median</b>		<b>3,987</b>	<b>4,312</b>	<b>6.4%</b>	<b>26.1%</b>	<b>7.5%</b>	<b>19.1%</b>	<b>7.4%</b>	<b>9.3x</b>

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