

MODERN DISTRIBUTION MANAGEMENT

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Wholesale Distribution Channel

Sonepar Offers \$3.5B for Hagemeyer

Electrical distributors consider next moves in the U.S.

By Lindsay Young and Thomas P. Gale

Paris-based Sonepar's unsolicited \$3.5 billion (2.5 billion euro) bid Oct. 8 for Hagemeyer NV shook the electrical distribution world this week. Hagemeyer rejected the offer, saying it "significantly undervalues the company." Nevertheless, the Netherlands-based company says it will meet with Sonepar to "clarify its intentions."

Based on comments by Hagemeyer CEO Rudi de Becker in August, Hagemeyer is not interested in selling. Still, Sonepar will likely try to persuade the company's board and raise its bid.

Joining Sonepar and Hagemeyer would create a global powerhouse with revenues of roughly 15 billion euro (US\$21 billion), based on the two companies' reported sales in 2006. The merger would also mean greater and complementary market coverage for both companies in North America.

Hagemeyer in North America

In North America, Hagemeyer did close to \$2 billion in sales in 2006, 85 percent of

which is to industrial customers. (Fifteen percent are to contractor customers in the U.S.) That's up from three years ago, when about three-fourths of sales in North America were to manufacturing customers. According to Hagemeyer's 2006 annual report, a "significant portion" of U.S. business is in integrated supply contracts.

More than 90 percent of Hagemeyer's total revenue is generated by its core Professional Products and Services business, which is focused on the distribution of electrical parts and supplies, safety and other MRO products in 25 countries across Europe, North America and Asia-Pacific. Its overall sales were around \$8 billion in 2006.

Hagemeyer built its North America presence significantly starting in 1999 when it bought Cameron & Barkley Co. (CamBar), at the time an \$850 million distributor that brought its core competency of integrated supply into Hagemeyer's fold. CamBar joined Tristate Electrical & Electronics Supply Company, and Valen Safety Supply Company, which were

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Mechanics Hand Tools represent a U.S. market of \$3 billion.
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European Distributor Presence in North American Markets

The combination of Sonepar and Hagemeyer would challenge Rexel's position in both Europe and North America.

	Global Revenue	N. America Revenue	N. America % of total rev.	Europe % of total rev
Hagemeyer NV	\$8B	\$2B	23%	63%
Sonepar	\$12.5B	\$2.4B	25%	73%
Rexel	\$12.5B	\$6B	50%	44%

For comparison, here are the numbers of European HVAC, plumbing and building materials distributor Wolseley:

Wolseley	\$26.0B	\$18B	63%	37%
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Source: Company annual reports and MDM estimates

acquired in 1999 and had revenues respectively of \$450 million and \$200 million. In 2002, Hagemeyer North America reached \$1.9 billion in sales.

In 2003, Hagemeyer NV divested its Information Technology Products and Services, dropping total global revenue from 8.3 billion euro to 6.3 billion euro. Sales fell to 5.4 billion euro in 2004, but have grown steadily since.

Sonepar's U.S. Growth Spurt

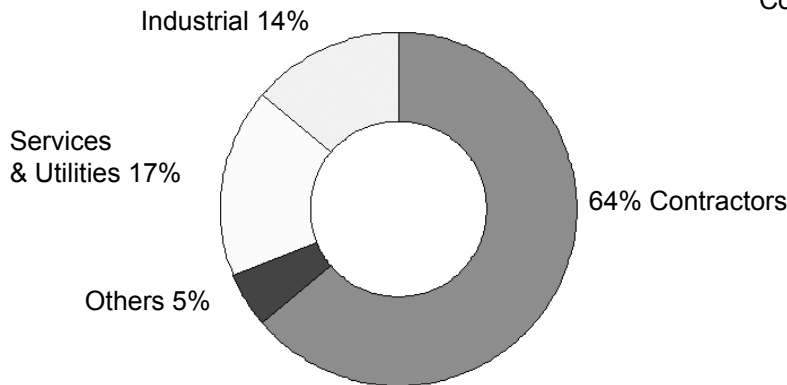
The Sonepar USA division is reported to have had \$2.4 billion in sales in 2006. That number should grow this year. Sonepar picked up its

acquisition pace significantly in 2007. Between 2005 and 2007, Sonepar completed eight acquisitions. The most recent were Friedman Electric in Pennsylvania and Crawford Electric in Texas.

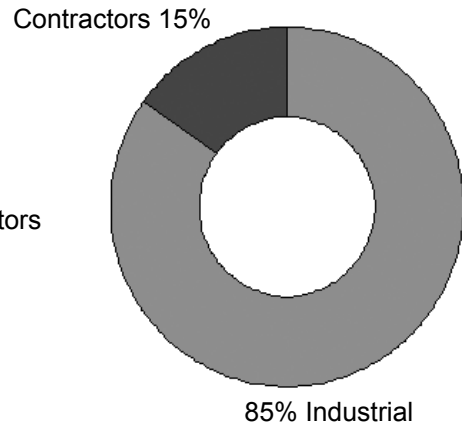
Sonepar estimates it will reach \$3 billion in 2007 sales in the U.S. In the past two years, Sonepar says, it has doubled in size.

Sonepar USA's parent, Sonepar Group, is a privately-owned electrical distributor with 9.45 billion euro (about US\$12.5 billion) in sales in 2006. The company operates in 29 countries on four continents. It is a family-owned group that has grown through acquisition since 1982 when it bought its Dutch peer Otra NV and doubled in size.

Sonepar USA Sales by Customer Profile



Hagemeyer NV North American Sales by Customer Profile



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After Sonepar announced it wanted to buy Hagemeyer, Hagemeyer's shares have advanced the most since January 2005, according to Bloomberg. Another potential suitor, Rexel, on the other hand, has seen its shares on Euronext drop more than 5 percent, probably because it made a major acquisition last year and would need to raise more debt to make the Hagemeyer acquisition.

Sonepar is privately owned.

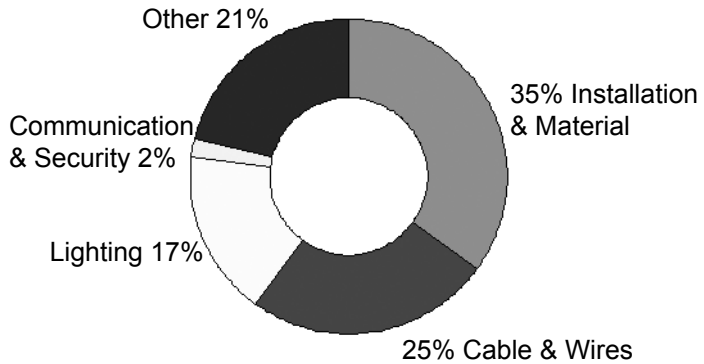
A Second Bidder?

Not to be left out: Rexel, the \$12 billion global electrical distributor that has been the target of speculation it would be the first one to bid for Hagemeyer.

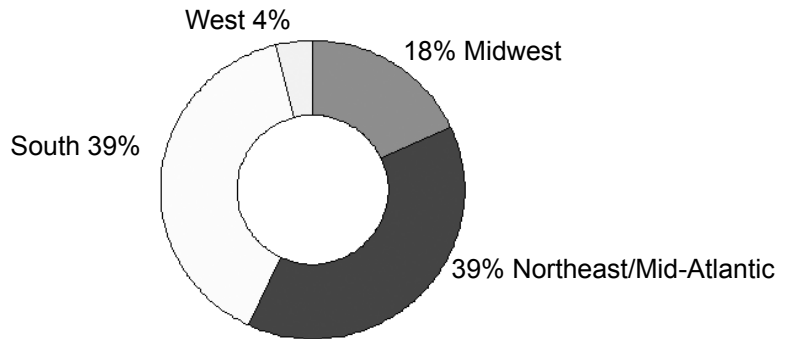
The company released a statement Oct. 9 saying the France-based global distributor is reviewing its strategic options in regards to Hagemeyer and will keep the market informed of its decisions.

Rexel has stated in company reports that it will keep its focus on smaller acquisitions, but would not rule out big acquisitions if they were a good fit. Most recently, Rexel made a big move in the U.S., buying GE Supply in mid-2006 for \$725 million, putting it among the top three electrical distributors stateside.

Sonepar USA by Product Line



Sonepar USA by Region



Another Move in the Electrical Markets: CED to Buy USESI

CED (Consolidated Electrical Distributors) will acquire US Electrical Services, LLC, Exton, PA, a recently formed distribution company lead by former Sonepar USA chief Richard Worthy. Privately-owned CED is among the top 10 electrical distributors in the U.S.

USESI has more than \$300 million in sales through 11 electrical distributors mostly in the Mid-Atlantic and Northeast U.S. US Electrical Services will be incorporated under a new name, US Electrical Services, Inc., which will continue to operate as a separate entity. USESI's founder, Worthy, will continue to lead the company as its CEO, and the US Electrical senior management team will also remain with the company.

Worthy is a seasoned veteran of the electrical distribution industry. Before founding USESI, he was CEO of Sonepar USA, where he led a series of acquisitions for the electrical distribution giant. (Sonepar just announced it wants to buy Hagemeyer NV.) USESI was backed by

private investors, including Michael Dell of Dell Computers.

Worthy released a statement on why he decided to sell:

"As we talked (with CED) it became clear that we share a common, optimistic vision of the electrical distribution industry's evolution, and most significantly, that the regional hub and spoke model that USESI employs was a distinct operating model and skill set that CED did in fact highly value. The last six months of negotiations also proved there is very good chemistry and the personality 'fit' is right. Our many meetings with CED cemented our initial feelings that CED was the right home for USESI."

As part of the transaction, Standard Electric, or SESCO, will come under the USESI umbrella of regional companies.

Worthy said USESI will soon be "back on the acquisition and expansion trail with the full support of CED."