

■ MDM-Baird Distribution Survey

4 Burning Questions as Pandemic Market Disruption Persists

From managing talent to navigating soft end markets, distributors chime in on the state of their business.

MDM's quarterly survey in partnership with investment banking firm Baird reveals that distributor revenues decelerated sharply in 2Q but not as bad as feared at the beginning of the pandemic shutdown. One consensus among more than 550 participants: Distributors began rethinking the way they manage talent.

By Eric Smith

In the disruptive second quarter of 2020, even distributors that managed to stay open because their local governments deemed them "essential" saw declining revenue as purchasing activity dried up and customer projects were shelved.

Not surprisingly, wholesale distribution revenues fell sharply in 2Q, though

not as bad as many had feared at the start of the quarter, according to the most recent quarterly MDM-Baird Distribution Survey. Distributors, as a whole, posted average revenue of -9.8% in 2Q (April through June), but the decline was 1.5% better than forecasted heading into the quarter.

Only two sectors — landscape supplies and safety — posted revenue growth in the quarter at 3.5% and 0.6%, respectively. Even facilities maintenance/JanSan, which was considered one of the standout categories once the pandemic took hold, dipped into the red at -4.4% in 2Q.

Meanwhile, nine categories saw declines in the double digits — general industrial/MRO (-12.1%), industrial/energy

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Lower-margin customers are often the most likely to challenge price.

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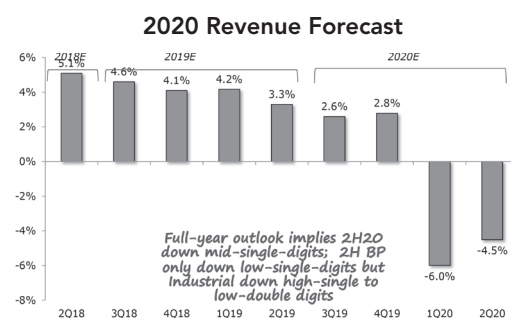
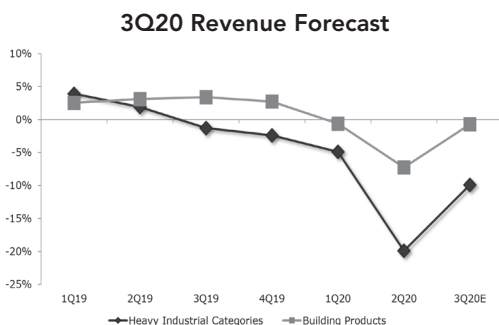
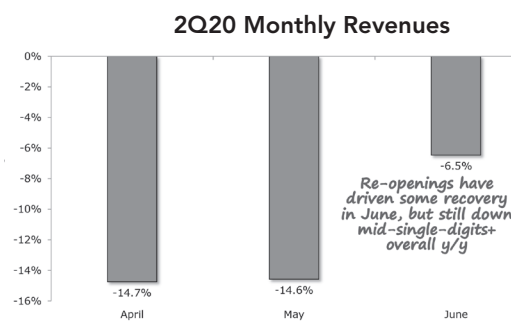
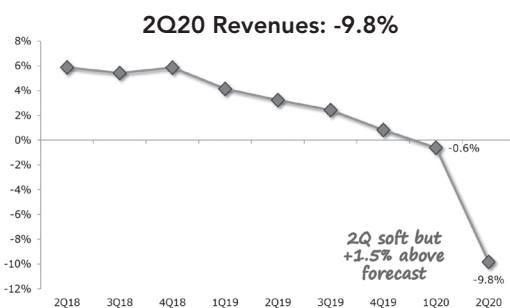
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Wholesale revenues, sales and inventory trends for the month of May 2020.

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Rethink the Automatic Price-Dropping Response

The last few times a customer told you they found a lower price on a product at one of your competitors, how often did you lower your price in response? According to a survey from John Gunderson, MDM VP of E-Business and Analytics, the majority of distributors (38%) report they will lower their price two out of three times. Twenty-nine percent say they'll do it once, 24% never will, and 9% will lower it every time.

Gunderson shared these statistics during MDM's July Sales Transformation Roundtable webcast. If there's ever a time to question the effectiveness of our response to routine occurrences like this, it's during a global pandemic when the business shakeups we are all experiencing give us the opportunity — I would even say the necessity — to examine the actual value that results from our rote actions.

For example, Gunderson noted that customers who make statements like the scenario above are typically lower-margin customers to begin with. The better you can get at resisting the gut reaction to lower your prices just because a customer raised the specter of finding lower prices elsewhere, "the better quality of customers you'll attract," Gunderson said.

Most distribution sales teams tend to think their prices are higher than the competition. In fact, Gunderson said in his two decades in the field, he's never come across a sales rep who believes their prices are competitive with those of their competition. It's not a surprise that reps can feel this way, and feel pressure to respond, because Gunderson also noted that the highest-rated buying factor by end customers is com-

petitive price.

But it's not just customer preferences that drive your sales team's focus on price. Other factors, Gunderson said, include:

- It is hard to change the quantity of each SKU the customer buys to a more margin-friendly quantity.

- It is hard to get customers to add SKUs to their purchase order, even with a concerted, "Would you like fries with that?" approach.

- It is easy to change the price. In fact, Gunderson said, 95% of the time it is the only part of the order process the sales rep can change.

So, what can you do? For starters, Mike Marks, managing partner at Indian River Consulting Group, recommended removing your sales team from the pricing process altogether. "Salespeople should not be involved in pricing if you want to play at the A level," he said.

If you're not ready to go that far, at least make sure you know how your team reacts to common pricing scenarios. Gunderson said to ask them questions such as:

- Ignoring the number in the system, what do they think a fair price is for a commodity product or non-commodity product?

- When a customer says the price is too high, what do they do?

Score how your team feels, but don't do it in a vacuum. If you're looking for a place to start, join Gunderson, Marks and fellow distributors for much more on pricing best practices at our upcoming all-virtual Sales GPS 2020 conference. Visit salesgps.mdm.com for more details.

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PVF (-13.5%), datacomm (-14.8%), wallboard/gypsum (-14.8%), electrical (-15.7%), metalworking/cutting tools (-17.9%), mechanical/power transmission (-19.1%), OEM fasteners (-19.9%) and hoses & accessories (-22.7%).

The pandemic revealed a lot about the soundness of distributors' operations — though with liquidity weathered the storm better than cash-strapped companies — but it also raised even more concerns about how businesses navigate the pandemic from this point forward. Here are four lingering questions that companies are beginning to answer as we enter the next phase of the coronavirus crisis:

1. How Are Distributors Managing Talent Differently as They Rebuild?

How to manage talent became a hot topic during the second quarter as the coronavirus ravaged

businesses and forced some distributors to enact furloughs or even layoffs. As business contracted, they had to examine their payrolls and make some tough decisions about who to keep and who to let go. They also had to weigh hiring freezes, pay cuts and reduced work hours.

In one of the MDM-Baird survey questions, distributors were asked about how they were managing talent during this crisis. Most companies emphasized the nationwide shift to working from home and doing almost all calls over video conferencing programs like Zoom, Skype, Webex or Teams.

With this in mind, sales calls have a new look and feel, and some distributors said they have shifted to a "greater focus on inside sales," which has been a key theme of MDM's Sales GPS and Sales Transformation Network campaigns.

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Current and Expected Revenue and Pricing Levels by Sector

	2Q20 Sales Change	2Q20 Pricing Change	3Q20 Sales Forecast	2020 Sales Forecast
Overall	-9.8%	-0.5%	-4.0%	-4.5%
Landscape Supplies	3.5%	3.8%	3.8%	6.3%
Safety	0.6%	0.9%	1.2%	0.2%
Waterworks Products	-1.8%	0.6%	-1.5%	-0.6%
Roofing	-3.1%	-0.2%	-2.0%	-2.1%
Facilities Maintenance/Jan-San (MRO)	-4.4%	-1.9%	-5.2%	-3.4%
Lumber & Building Materials	-5.8%	-1.2%	1.6%	-1.4%
Pool & Spa	-6.1%	2.0%	2.3%	-0.4%
HVAC	-6.2%	1.0%	0.0%	-1.4%
Gases & Cylinder Rental	-6.5%	1.0%	-0.4%	-1.1%
Welding Hardgoods	-7.5%	-1.5%	-2.0%	-2.4%
Plumbing	-8.3%	-0.6%	0.3%	-1.7%
General Industrial (MRO)	-12.1%	-0.9%	-3.7%	-5.2%
Industrial/Energy PVF	-13.5%	-1.7%	-9.6%	-8.5%
Datacomm	-14.8%	-0.9%	-6.6%	-6.6%
Wallboard/Gypsum	-14.8%	-4.3%	-5.7%	-11.8%
Electrical	-15.7%	-0.9%	-7.6%	-7.9%
Metalworking/Cutting Tools	-17.9%	-1.1%	-8.3%	-8.8%
Mechanical/Power Transmission	-19.1%	1.0%	-10.2%	-8.1%
OEM Fasteners	-19.9%	-0.4%	-10.7%	-13.1%
Hoses & Accessories	-22.7%	-0.1%	-10.5%	-11.4%

*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.

MDM-Baird Survey

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Other responses to this topic:

- “Communication of assignments and regular check-in on progress. Recognition for creativity and accomplishments.”
- “Ask talent to document contact points internally & externally, log calls, and any virtual meetings into Salesforce. Record discussions.”
- “Must keep top performers: add additional incentives, more flexible schedules.”
- “Identifying and attracting digital talent in all areas of the business.”
- “Stronger social media and e-commerce.”
- “How to keep the good people engaged and happy in a difficult environment (both professionally and personally). Taking immediate actions to reduce ‘B’ and ‘C’ team members.”
- “We’ve learned that you don’t need to fly everywhere to meet, not everyone needs to be in the office five days a week, and some roles may not be needed.”

2. How Severe is the Construction Slowdown?

A common theme across sectors was how the slowdown in construction projects led to fewer orders of building materials and electrical, HVAC and plumbing products. “May was the worst of it for us,” said one survey respondent. “It was just really soft, especially residential construction in April and May. June has been a little bit better than April and May.”

The non-residential construction market is likely to face challenges in late 2020 and early 2021, and one building products distributor said, “We have done OK through the pandemic but feel non-res construction will fall off a cliff later this year.”

Here are a few more comments regarding the impact from construction activity:

- “I don’t think capital deployment goes back to normal in the construction market. Nature of education is changed post-COVID, banking is almost purely digital, and office space gets re-thought.”
- “We are hearing that a lot of those construction projects that were completely shut down are at least opening in some respects. There are some opportunities just within the last 30 days that we hadn’t seen in April and May, so that’s a positive.”
- “When the economy shut down we closed all our branches to customers and furloughed all field sales personnel. Now slowly getting back to (new) normal.”
- “Being in states that shut down construc-

tion, volume was hit the hardest in April; it was better in May (still negative), very busy in June.”

- “I think market demand will stay strong through the third quarter and possibly the fourth. There does not seem to be a lot of new construction bidding going on for 2021 yet. I’m told some projects have been put on hold.”

3. Has Oil and Gas Hit Bottom?

The oil and gas collapse hit some sectors — namely industrial/energy PVF — harder than others, but even industrial distributors said they were feeling the effects of this market’s softness. Here are the comments from the hardest-hit category, showing the slowdown severity:

- “The collapse of the energy business and shocking demand decline of the pandemic have undermined our customer base.”
- “Revenues were significantly impacted by the rapid decline in the oil & gas market. Prices and product gross margins remained consistent, while overall margins were slightly impacted by a change in mix driven by the oil & gas decline.”
- “Revenue down 20% with slight growth in the back half of the year. Military and niche COVID-19 opportunities helped in Q2 but did not offset declines in oil & gas and infrastructure projects.”

4. What Will the Recovery Look Like?

Distributors’ performance varied in the second quarter, as do their expectations for the third quarter and full-year 2020. Only five sectors forecast growth in 3Q — landscape supplies (3.8%), pool & spa (2.3%), lumber & building materials (1.6%), safety (1.2%) and plumbing (0.3%), with HVAC projecting a flat quarter.

And only two are forecasting growth for full-year 2020 — landscape supplies (6.3%) and safety (0.3%). Here is what respondents said:

- “I don’t see our business getting much better the rest of this year. One account we work with is at 20% capacity and some machine shops have seen orders cut 20%-40%.”
- “Pro market had huge hit, decreasing by double-digit number. It will be a slow recovery. There was unexpected demand from the DIY sector (retails) with more home projects to be done while people spend more time inside of their homes.”
- “The municipal market saw a significant drop in purchasing. We are seeing a recovery in project and MRO procurement. Industrial segment sales have been affected by COVID-19 plant shut-downs. MRO occurs during these shutdowns.”

Distribution Markets Forecast

MDM debuts a new quarterly report in association with CU Boulder

MDM's new report, *Markets Forecast*, offers quarterly revenue projections for the wholesale distribution industry, plus breakouts for select categories, for the current calendar quarter and the next fiscal year. The inaugural Forecast looks at post-pandemic projections for distributors as a whole, plus specific sectors.

By Eric Smith

Wholesale trade is faring better than most industries during the COVID-19 pandemic, but the worst economic slowdown since the Great Recession is likely to linger across many distribution sectors for years to come.

That's the overarching theme of the first installment of MDM's Markets Forecast, a new quarterly report compiled by the editorial staff of *Modern Distribution Management* in conjunction with the Leeds School of Business at the University of Colorado Boulder.

This new report offers quarterly revenue projections for the wholesale distribution industry, plus breakouts for select categories, for the current calendar quarter and the next fiscal year. But to understand where the industry is heading first requires a look at where it's been in the last quarter. And the picture isn't pretty.

COVID-19 wreaked havoc throughout the

U.S., and wholesale distribution wasn't immune. At the onset of the pandemic, in March and April, wholesale trade sales decreased by 21.4%, though it increased by 5.4% in May. Seasonally adjusted May sales, however, remained down 16.2% compared to May 2019.

What's on tap for the current quarter and the remainder of 2020? Wholesale distribution is projected to decline by 14.1% in the calendar third quarter (July through September) and decline by 11.1% in 2020 compared to 2019. Distribution should return to modest growth in 2021 (2.6%) and strong growth in 2022 (9.5%), but the recovery will be a slow climb and industry-wide sales growth won't return until the second quarter of 2021.

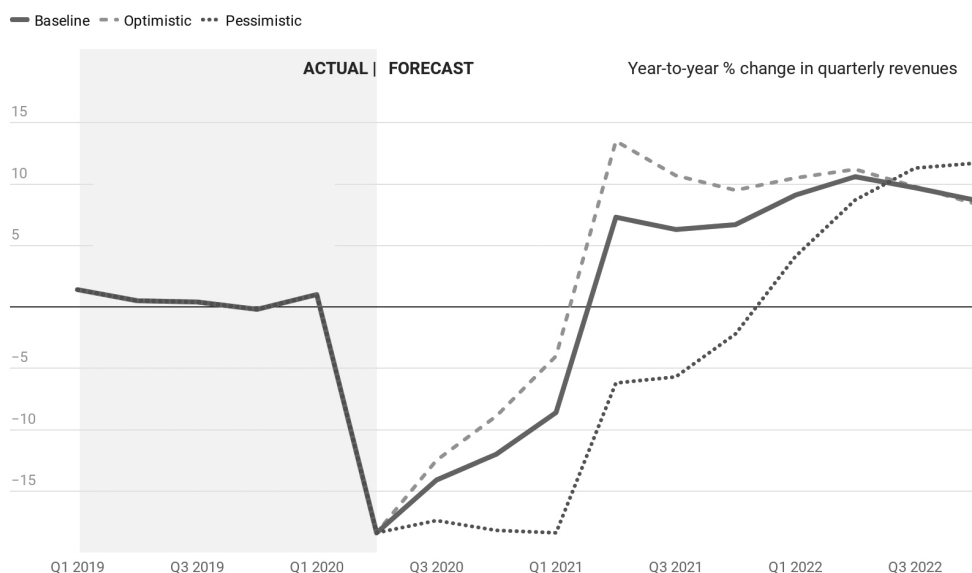
These forecasts, which combine data from sources like Moody's Analytics plus a host of federal sources, become harder to pinpoint further along due to uncertainty with the economy, the recovery efforts and even the political winds.

"There are so many moving parts that when we look out five years, 10 years, 40 years, some of the things will change and certainly won't be accurate in the forecast," says Brian Lewandowski, Markets Forecast lead researcher and executive director, business research division,

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MDM Quarterly WD Markets Forecast

After a flat 2019 and Q1 2020, the U.S. wholesale distribution sector posted an 18.4% decrease in YTY revenues in the 2020 second quarter. Here are three scenarios (baseline, optimistic and pessimistic) for MDM's forecasted quarterly revenue change through 2022.



Source: MDM Analytics • Created with Datawrapper

Distribution Markets Forecast

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University of Colorado Boulder's Leeds School of Business. "But I think taking a look at the long-term forecast is still helpful from a stress-testing or a scenario-testing standpoint for your own company revenues."

A Precipitous Decline

The U.S. economy hasn't experienced anything like the current situation since the Great Recession, which began in December 2007 and lasted until June 2009. But that 18-month period saw a steady decline, not the precipitous fall of the last four months.

Another difference: The Great Recession rebounded rather quickly with a V-shape recovery. The consensus now is that the post-COVID-19 environment will slowly get back to pre-pandemic levels, creating a "checkmark" or "swoosh" (think, Nike's logo) rather than the typical V, U or W recoveries associated with recessions.

How the recovery transpires, though, will

depend on factors that even the most accurate economic barometers can't measure. Taking a host of variables into account, MDM Markets Forecast has created three "alternative scenarios" for the annual and quarterly projections over the coming years — baseline, optimistic and pessimistic.

"Due to the unusual level of uncertainty in the economy, there are downside risks and upside opportunities to the forecast," Lewandowski says.

Let's look at each alternative scenario for wholesale distribution as a whole for the third quarter, the fourth quarter, full-year 2020 and full-year 2021.

3Q 2020: The baseline, or expected, scenario for wholesale distribution revenue is -14.1%, but if things break the right way — for example, if the coronavirus curve flattens more rapidly than expected because a vaccine comes to market — then an optimistic outcome would be -12.5%. However, the converse could also occur — shelter-in-place orders are extended and cases worsen — so the pessimistic forecast for whole-

MDM Markets Forecast Annual Change by Percentage: 2020-2022

Estimated annual forecast for the 19 wholesale distribution sectors, ranked by revenue size of each sector. Baseline = Q2 historical data.

	2019 Revenue	2020 Forecast	2021 Forecast	2022 Forecast
Pharmaceutical Wholesalers	4%	2%	-3%	0%
Oil and Gas Products Wholesale Distributors	-2%	-32%	19%	28%
Grocery and Foodservice Wholesale Distributors	4%	-3%	1%	4%
Electrical and Electronics Wholesalers	-5%	-7%	0%	9%
Motor Vehicles and Motor Vehicle Parts Wholesale Distributors	2%	-21%	15%	17%
Industrial Distributors	1%	-6%	4%	7%
Other Consumer Products Wholesale Distributors	1%	-1%	-1%	7%
Computer Equipment and Software Wholesale Distributors	1%	-7%	9%	7%
Commercial Equipment and Supplies Wholesale Distributors	6%	-13%	-2%	7%
Miscellaneous Durable Goods Wholesale Distributors	-5%	-12%	4%	12%
Agricultural Products Wholesale Distributors	-2%	-5%	-3%	5%
Metal Service Centers	-4%	-32%	-7%	40%
Beer, Wine and Liquor Wholesalers	4%	2%	2%	3%
Apparel and Piece Goods Wholesale Distributors	-3%	-32%	-5%	6%
Hardware, Plumbing, and Heating Equipment/Supplies Wholesalers	3%	-4%	-6%	1%
Building Material and Construction Wholesale Distributors	1%	-7%	-7%	12%
Chemicals and Plastics Wholesale Distributors	-1%	-10%	11%	10%
Furniture and Home Furnishing Wholesale Distributors	6%	-21%	-11%	1%
Office Product Wholesalers and Paper Merchants	-5%	-8%	6%	11%
Total Wholesale Distribution Industry	1%	-11%	3%	10%

Source: MDM Analytics • Created with Datawrapper

sale distribution revenue in 3Q is -17.4%.

4Q 2020: The baseline scenario for wholesale distribution revenue is -12%, while the optimistic scenario is -8.9% and the pessimistic scenario is -18.2%.

FY 2020: The baseline scenario for wholesale distribution revenue is -11.1%, while the optimistic scenario is -9.9% and the pessimistic scenario is -13.5%.

FY 2021: This marks the first full year of industry-wide growth, at least for the baseline and optimistic scenarios. The baseline scenario for wholesale distribution revenue is 2.6%, while the optimistic scenario is 7.1% and the pessimistic scenario is -8.5%.

Sector Breakdown

The outlook for individual sectors varies greatly, usually based on how quickly their end markets are expected to recover. Likewise, how those markets performed during the height of the pandemic — amid everything from supply chain disruptions to shelter-in-place orders to reduced spending to slumping oil prices — had a dramatic impact on 2Q revenues.

For example, in March and April, the sectors with the greatest percentage decline in sales were Apparel (-73%), Petroleum (-62%), Motor Vehicle and Parts (47%), and Furniture and Home Furnishings (-37%). The only wholesale sector that showed gains was Computer and Computer Peripheral Equipment and Software (2.1%).

Only two sectors — Beer, Wine and Liquor Wholesale and Pharmaceutical Wholesale — are projected to post gains in 2020 at 2.1% and 1.7%, respectively. Three sectors are forecasted to see staggering losses this year: Metal Service Centers (-32.1%), Apparel and Piece Goods Wholesale Distributors (-32%) and Oil and Gas Products Wholesale (-31.7%).

Here are more details on how prominent key wholesale sectors — Industrial; Electrical and Electronics; Building Material and Construction; and Hardware, Plumbing, and Heating/Equipment Supply — are forecasted to perform over the next three years.

Industrial distributors, which posted only minor gains (1.3%) in 2019, have a revenue forecast of -6% in 2020, but their fortunes should turn around the following year (3.8%) and then further accelerate (7.4%) in 2022. According to Lewandowski, “For industrial distributors, the year-over-year decline began in Q1 2020 (-0.6%), and the decrease was projected to precipitate to 13.3% in Q2, coinciding

with the manufacturing slowdown. The third and fourth quarters begin to recover, but year-over-year declines will persist. Year-over-year growth will likely not return until 2021.”

Electrical distributors, which ended 2019 in the red (-4.9%) are looking at a softer 2020 (-7.4%) before they moderate their losses in 2021 (-0.5%) and then finally see a significant bounce in 2022 (9.4%).

Building Material and Construction distributors, coming off a flattish 2019 (1.1%), are facing a long slog. They have a revenue forecast of -6.9% this year followed by an even worse 2021 (-7.5%) before the construction markets return with a vengeance in 2022 when they are projected to post 11.7% gains. According to Lewandowski, “The construction-related industries performed well early in the recession, and are expected to outperform, but remain negative when the Q2 data are released. The risk to the construction-related sectors is that future demand may fall with a decrease in fixed business investment, a slowdown in housing, and a disruption in retail and office real estate.”

And Hardware, Plumbing, and Heating Equipment/Supplies distributors, which are coming off moderate gains in 2019 (3.4%), are looking at negative performance in both 2020 (-3.6%) and 2021 (-5.6%) before improving to flat revenue growth (0.8%) in 2022.

Other Trends

Wholesale Trade Outperforms on Employment — Alongside the economic slowdown was a drastic decline in employment, not surprising given the number of jobless claims across the U.S. National employment decreased by 22.2 million jobs in March and April, combined, but regained 7.5 million jobs in May and June, combined. In June, national employment remained 14.7 million jobs (9.6%) below the January peak.

Wholesale trade employment decreased 6.7% in March and April but grew 1.4% in May and June combined, meaning its overall decline is just 5.4% from the cycle peak. “Wholesale employment has outperformed many other sectors of the economy,” Lewandowski says.

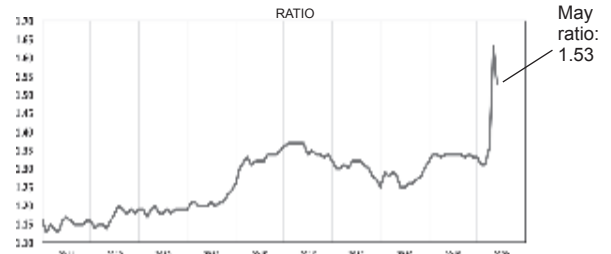
MDM Markets Forecast offers quarterly revenue projections for wholesale trade – plus breakouts of 19 categories – for the current calendar quarter and fiscal year using a trio of “alternative” scenarios – optimistic, baseline and pessimistic. The data is compiled by the Leeds School of Business at the University of Colorado Boulder exclusively for MDM, using data from Moody’s Analytics and a variety of federal data sources.

May 2020 | Monthly Wholesale Trade Data

Wholesale revenues in May were \$419.1 billion, down 16.2% from May 2019 and up 5.4% over April. May sales of durable goods were up 9.3% over last month and down 13.4% from a year ago. Sales of nondurable goods were up 1.8% over April and down 18.8% over last May.

Inventories were \$642.5 billion at the end of May, down 1.2% from the revised April level and down 4.2% from last year. May inventories of durable goods were down 2.0% from last month and down 5.1% from a year ago. Inventories of nondurable goods were up 0.1% from April and down 2.8% over last year.

Monthly Inventories/Sales Ratios
of Merchant Wholesalers: 2011-2020
(Estimates adjusted for seasonal and trading-day differences, but not for price changes)



Source: U.S. Census Bureau

Inventories/Sales Ratio. The May inventories/sales ratio for merchant wholesalers was 1.53. The May 2019 ratio was 1.34.

Sales and Inventories Trends: May 2020

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	% Change Sales 04/20-05/20	% Change Sales 05/19-05/20	% Change Inventory 04/20-05/20	% Change Inventory 05/19-05/20
42	U.S. Total	419,097	642,541	1.53	5.4	-16.2	-1.2	-4.2
423	Durable	207,489	388,561	1.87	9.3	-13.4	-2.0	-5.1
4231	Automotive	28,467	62,095	2.18	23.4	-29.4	-5.1	-10.5
4232	Furniture & Home Furnishings	6,782	12,289	1.81	22.8	-15.0	-2.8	-11.8
4233	Lumber & Other Construction Materials	12,124	18,459	1.52	13.6	-1.2	-1.9	-5.9
4234	Prof. & Commercial Equip. & Supplies	39,475	51,652	1.31	3.4	-10.4	-1.2	2.1
42343	Computer Equipment & Software	21,729	16,170	0.74	-2.8	-3.4	-2.2	-5.4
4235	Metals & Minerals	9,880	31,260	3.16	-0.4	-33.6	0.8	-8.2
4236	Electrical Goods	46,075	52,870	1.15	6.8	-7.3	-0.1	-5.3
4237	Hardware, Plumbing, & Heating Equipment	12,848	26,868	2.09	10.6	-2.1	-2.3	-1.0
4238	Machinery, Equipment & Supplies	34,057	103,000	3.02	5.4	-10.2	-2.3	-3.1
4239	Miscellaneous Durable	17,781	30,068	1.69	15.5	-8.0	-1.0	-7.7
424	Nondurable Goods	211,608	253,980	1.20	1.8	-18.8	0.1	-2.8
4241	Paper & Paper Products	6,651	9,518	1.43	2.4	-12.9	-1.3	2.8
4242	Drugs	56,747	70,064	1.23	-5.0	-4.8	-0.6	5.5
4243	Apparel, Piece Goods & Notions	7,070	29,488	4.17	44.5	-47.7	0.3	2.7
4244	Groceries & Related Products	54,310	41,320	0.76	5.3	-5.6	0.8	1.3
4245	Farm-product Raw Materials	15,781	21,338	1.35	0.4	-0.4	-1.8	-15.4
4246	Chemicals & Allied Products	9,026	12,599	1.40	3.2	-20.0	1.3	-6.6
4247	Petroleum & Petroleum Products	26,999	16,660	0.62	-1.8	-54.6	14.4	-24.8
4248	Beer, Wine & Distilled Beverages	13,944	18,015	1.29	12.8	5.3	-6.8	-0.9
4249	Miscellaneous Nondurable Goods	21,080	34,978	1.58	1.1	-6.0	-0.2	-5.6

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.

Grainger's 2Q Sales Dip 2% as MRO Market Suffers

W.W. Grainger Inc., Chicago, reported second-quarter sales of \$2.84 billion, down 2% compared to the year-ago quarter. The company said it gained significant share in the U.S. even as the MRO market declined 14% to 15% during the period. Grainger's 2Q profit decreased 56% to \$114 million, while diluted earnings per share of \$2.10 were down from \$4.67 in 2Q 2019.

Pandemic-related sales — including everything from masks to gloves to sanitizers — was the standout for Grainger in the period, soaring 66% in the U.S. during the second quarter. But the company also showed steady improvement in its traditional product mix.

Over the quarter, non-pandemic U.S. daily sales were down 21% in April (year-over-year), down 17% in May and down 13% in June. That trend continued in the right direction with July down just 11% month-to-date, the company said.

"In the U.S., we started to see increased pandemic sales in February, and they really picked up in March, but we quickly moved in-stock inventory," DG Macpherson, Grainger's chairman and CEO, told analysts on the company's earnings call. "This trend continued with pandemic-related sales up around 70% in the second quarter, and while the environment remains fluid, this has continued at an accelerated rate into July. A heightened demand came from a multitude of customers across numerous industries, with most of the pandemic products going to health care, government and essential businesses. Through most of March non-pandemic sales were pretty stable. With the stay-at-home orders, we saw non-pandemic sales fall off significantly in late March, but they have gotten better each month since bottoming out in April. We've seen further improvement in July."

For the first six months, Grainger's sales increased 2.6% to \$5.84 billion while its profit decreased 44% to \$287 million.

Distributor

Fastenal Co., Winona, Minnesota, reported second-quarter sales of \$1.5 billion, a 10.3% increase compared with same period a year ago. Quarterly profit was \$238.9 million, a 16.7% increase compared to the year-ago period.

HVACR distributor **Watsco Inc.**, Miami, reported second quarter sales of \$1.4 billion, down 1.2% year-over-year. Profit decreased 4% to \$86.6 million, and diluted EPS of \$2.26 was down from \$2.40 a year ago but beat analysts' estimates by 34 cents.

Private equity firm **Center Rock Capital Partners LP** announced that **LINC Systems**, its industrial fastener and packaging distribution platform, has acquired **Active Sales Co.**, Santa Fe Springs, California.

SRS Distribution Inc., McKinney, Texas, announced that it has acquired **A.L.L. Roofing Materials**, a San Jose, California-based distributor of residential and commercial roofing products & accessories.

Brady, Las Vegas, a distributor of janitorial supply, equipment and foodservice, announced the acquisition of **Campbell Paper Co.**, Fort Worth, Texas.

Kaman Distribution Group, Bloomfield, Connecticut, a distributor of bearings, power transmission, automation and fluid power products, announced the appointment of Stephen Martin as vice president – general counsel, and John Crawford as the vice president of human resources.

Crawford Electric Supply, Houston, a **Sonepar** company, announced it has made two promotions in its Texas Gulf Coast Region — Layne "Lucky" DeMoss has been promoted to branch manager for Crawford's Conroe facility, and TJ Horny will join the Houston branch as sales leader.

Fastener distributor **The Bossard Group**, Switzerland, reported its second-quarter sales fell 3.2% to CHF 180.5 million (US\$191.1 million) compared to the second quarter period of 2019. Sales for the period were down 13.7% in local currency.

Dakota Supply Group (DSG), Fargo, North Dakota, announced plans to open a new branch in Great Falls, Montana, in early fall.

Economic

New orders for manufactured durable goods in June increased \$14 billion or 7.3% to \$206.9 billion, according to the **U.S. Census Bureau**. This increase, up two consecutive months, followed a 15.1% May increase. Excluding transportation, new orders increased 3.3%. Excluding defense, new orders increased 9.2%. Transportation equipment, also up two consecutive months, led the increase, \$9.2 billion or 20% to \$55.3 billion.

Distributor revenue losses appear to have moderated, according to the latest **Indian River Consulting Group (IRCG)** weekly Pandemic Revenue

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News Digest

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Index. The PRI for the work week of July 13-17 indicated a 5.5% revenue decrease compared with the same week a year ago.

U.S. cutting tool consumption totaled \$136.6 million in May, according to the **U.S. Cutting Tool Institute (USCTI)** and **The Association For Manufacturing Technology (AMT)**. This total was down 36% when compared with the \$213.4 million reported for May 2019 and down 4.4% from April's \$149.9 million. With a year-to-date total of \$854.1 million, 2020 is down 18.8 percent when compared with the first five months of 2019.

The **Power Transmission Distributors Association** canceled the in-person Industry Summit, set for Oct. 21-24 in Atlanta, due to the surge in COVID-19 cases around the country. PTDA said it is "looking at virtual networking opportuni-

ties for the same week."

Led by improvements in production- and employment-related indicators, the **Chicago Fed National Activity Index (CFNAI)** rose to +4.11 in June from +3.50 in May. Three of the four broad categories of indicators used to construct the index made positive contributions in June, and two of the four categories increased from May. The index's three-month moving **average**, CFNAI-MA3, moved up to -3.49 in May from -6.36 in April.

Total industrial production increased 5.4% in June, according to the **Industrial Production and Capacity Utilization Report**, released by the Federal Reserve. However, it remained 10.9% below its pre-pandemic February level. For the second quarter as a whole, the index fell 42.6% at an annual rate, its largest quarterly decrease since post-World War II.

Calculation of MDM Inflation Index for June 2020

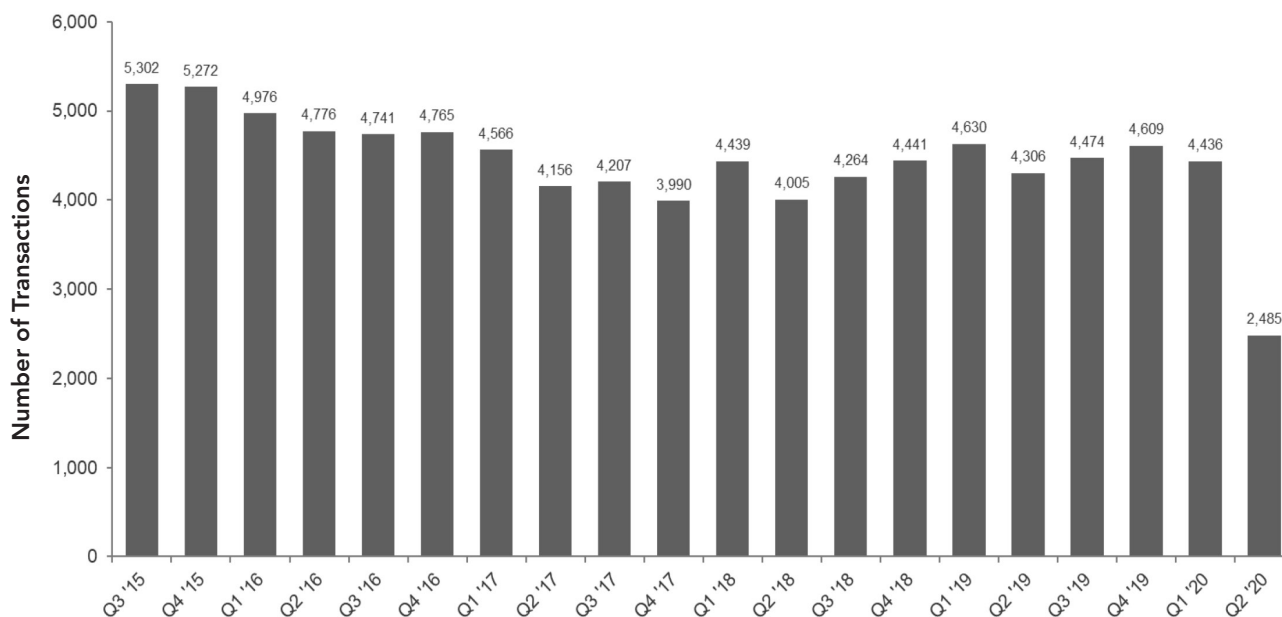
	BLS	BLS	BLS		Weighted	%	%	
	Price	Price	Price	%	Indices	Change	Change	
	Indices	Indices	Indices	Sales	June '20	June '20	June '20	
	June '20	May '20	June '19	Weight	(1)X(4)	May '20	June '19	
1136	Abr. Prod.	637.4	635.9	619.8	19.1	121.73	0.23	2.83
1135	Cutting Tools	536.9	536.9	533.3	18.9	101.47	0.00	0.66
1145	Power Trans.	885.4	882.9	871.3	15.4	136.35	0.28	1.61
1081	Fasteners	596.8	593.6	565.0	9.0	53.72	0.55	5.64
1149.01	Valves, etc.	1087.6	1082.9	1068.0	7.6	82.66	0.43	1.83
1132	Power Tools	400.6	400.6	395.2	6.5	26.04	0.00	1.35
1144	Mat. Handling	656.5	656.5	646.2	6.2	40.71	0.00	1.60
0713.03	Belting	972.1	972.4	951.8	6.1	59.30	-0.03	2.13
1042	Hand Tools	845.3	843.9	835.0	8.1	68.47	0.16	1.22
108	Misc. Metal	506.2	505.4	506.5	3.1	15.69	0.17	-0.06
	"New" June Index	368.9	June Inflation Index		706.12	0.20	1.96	
	"New" May Index	368.2	May Inflation Index		704.69			
			June 2019 Inflation Index		692.55			

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

Second Quarter 2020 Financial Metrics & Trading Multiples

Domestic M&A Activity – All Industries

This chart shows the number of transactions announced each quarter for the last five years.



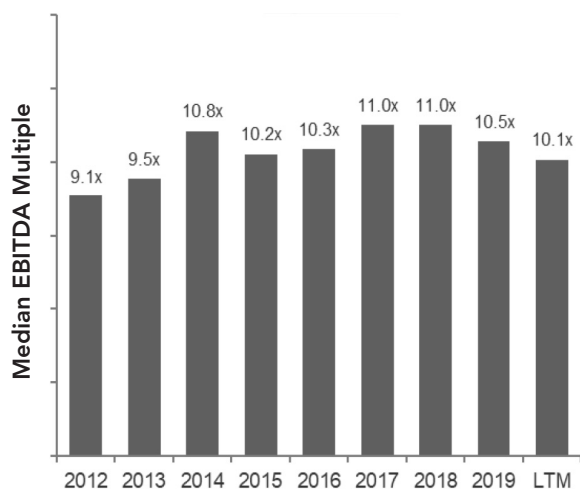
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 6/30/2020.

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.

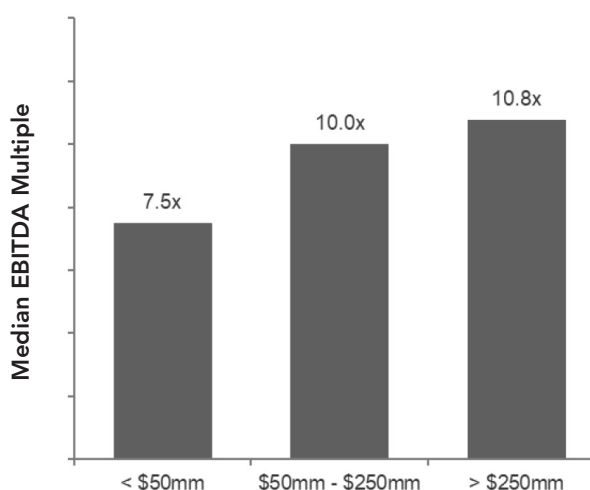
Median EBITDA Transaction Multiples – All Industries

The chart above shows the number of transactions announced each quarter for the last five years. The chart 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 - LTM



Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 6/30/2020.

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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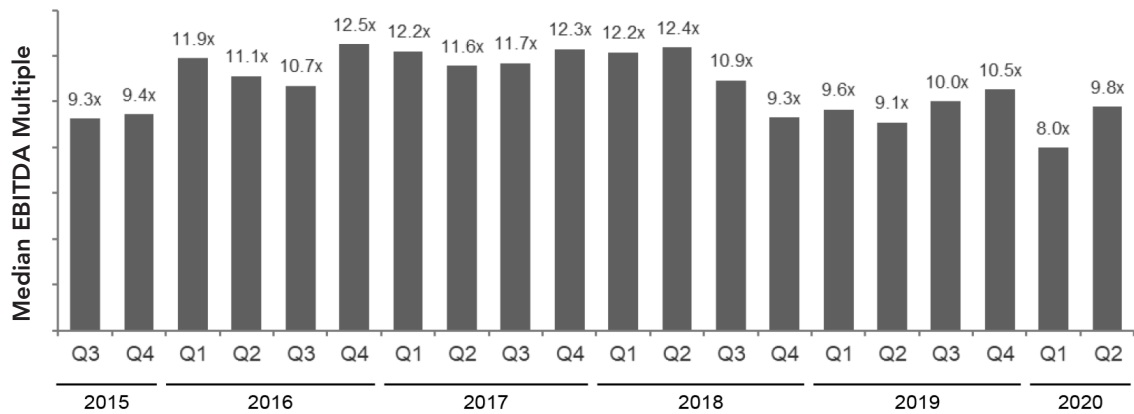
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Distribution Median EBITDA Trading Multiples

(Data as of June 30, 2020)

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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 chart above 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 30 distributors across diverse end markets. Please see definitions below.

Distribution Financial Metrics and Trading Multiples

(\$ in millions)									
Company	Ticker	Enterprise Value	LTM Sales	LTM Sales Growth	LTM Margins		Working Capital / LTM Sales	ROIC	EV / LTM EBITDA
					Gross	EBITDA			
Applied Industrial Technologies, Inc.	AIT	3,193	3,403	(2.4%)	29.1%	9.3%	19.3%	8.5%	10.1x
Arrow Electronics, Inc.	ARW	7,908	28,142	(6.1%)	11.2%	3.3%	13.7%	5.4%	8.6x
Avnet, Inc.	AVT	3,945	18,156	(8.8%)	12.0%	2.8%	20.7%	3.5%	7.9x
Beacon Roofing Supply, Inc.	BECN	4,959	7,088	0.9%	18.8%	6.0%	17.8%	1.8%	11.6x
Bluelinx Holdings Inc.	BXC	790	2,661	(13.2%)	13.7%	4.4%	17.6%	2.1%	6.8x
BMC Stock Holdings, Inc.	BMCH	1,902	3,722	1.3%	26.1%	6.5%	12.2%	6.9%	7.9x
Builders FirstSource, Inc.	BLDR	3,818	7,436	(2.9%)	26.9%	6.6%	9.0%	9.2%	7.8x
Bunzl	BNZL	11,093	11,695	2.7%	26.0%	7.7%	9.6%	8.9%	12.4x
DXP Enterprises, Inc.	DXPE	559	1,257	1.2%	27.6%	6.9%	19.4%	6.1%	6.4x
Fastenal Company	FAST	24,823	5,532	6.6%	46.2%	22.8%	33.8%	20.7%	19.7x
Ferguson	FERG	21,494	22,129	2.6%	29.4%	8.2%	11.4%	12.7%	11.9x
Foundation Building Materials	FBM	1,226	2,164	5.0%	29.0%	8.0%	14.4%	5.0%	7.1x
Genuine Parts Company	GPC	15,893	19,215	1.7%	32.8%	7.0%	10.5%	8.5%	11.7x
GMS, Inc.	GMS	1,966	3,241	4.0%	32.8%	8.8%	11.6%	5.7%	6.9x
HD Supply	HDS	7,582	6,048	(1.7%)	39.2%	13.0%	15.4%	10.9%	9.6x
Houston Wire & Cable Company	HWCC	124	337	(5.8%)	23.3%	2.9%	41.8%	2.2%	12.6x
Lawson Products	LAWS	297	370	3.9%	53.3%	7.9%	19.5%	10.9%	10.1x
MRC Global Inc.	MRC	1,333	3,486	(4.4%)	20.0%	4.6%	20.4%	3.5%	8.3x
MSC Industrial Direct Co., Inc.	MSM	4,685	3,287	(2.1%)	42.2%	14.4%	28.7%	11.7%	9.9x
NOW Inc.	DNOW	761	2,770	(12.0%)	19.7%	1.8%	16.6%	0.5%	15.2x
Park-Ohio Holdings Corp.	PKOH	731	1,565	(6.5%)	16.0%	7.7%	25.4%	5.6%	6.1x
Pool Corp.	POOL	11,426	3,279	9.0%	28.7%	11.4%	19.5%	19.5%	30.5x
Reliance Steel & Aluminum Co.	RS	7,714	10,590	(9.7%)	31.0%	11.3%	21.7%	8.6%	6.5x
Rexel SA	RXL	6,813	15,705	2.8%	24.6%	5.1%	11.8%	5.4%	8.5x
SiteOne	SITE	5,434	2,400	11.2%	32.8%	7.7%	23.6%	6.5%	29.4x
W.W. Grainger	GWW	18,866	11,688	3.9%	37.8%	13.7%	16.8%	17.4%	11.8x
Watsco Inc.	WSO	6,639	4,847	6.5%	24.2%	7.7%	22.4%	10.9%	17.8x
WESCO International, Inc.	WCC	2,988	8,366	2.7%	18.8%	4.8%	17.1%	5.6%	7.5x
Median		\$4,315	\$4,285	1.3%	27.3%	7.7%	17.7%	6.7%	9.8x

Definitions: LTM means latest twelve 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.

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