

■ MDM-Baird Distribution Survey

Is the V-Shaped Recovery for Real?

The market appears to be experiencing a quicker turnaround from the pandemic-induced downturn than originally expected.

MDM's quarterly survey in partnership with investment banking firm Baird reveals distributor revenues, though still shy of pre-pandemic levels, rebounded sharply in 3Q to form the beginning of a V-shaped recovery. Can the industry's economic fortunes continue at that same pace?

By Eric Smith

Will the third quarter of 2020 prove to be the turning point wholesale distribution had been hoping for since the pandemic hit U.S. businesses last spring? According to the most recent quarterly MDM-Baird Distribution Survey, that answer is a resounding "yes."

The latest data show that wholesale trade's coronavirus trough wasn't as low as many feared and that it has begun the upward climb of a V-shaped recovery that shouldn't take as long as many predicted.

Distributors, as a whole, posted average revenue of -3.2% in 3Q (July through September). The decline was 80 basis points above the forecasted revenue dip in the quarter and about 260 bps below 1Q, the last pre-pandemic quarter (though even the tail end of that period was affected).

Unlike last quarter, when only two sectors posted revenue growth, 3Q saw eight categories in the black: Pool & Spa (4%), Safety (3.5%), Roofing (2.9%), Lumber & Building Materials (2.7%), Landscape Supplies (2.4%), HVAC (1.4%), OEM Fasteners (1.1%) and Gases & Cylinder Rentals (0.1%).

The remaining 12 sectors posted revenue declines, though most moderated their losses compared with 2Q and

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A strong individual online presence can mean good things for your company.

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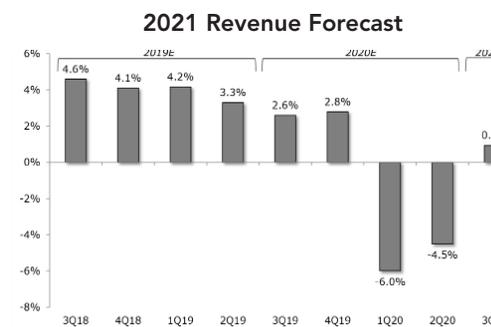
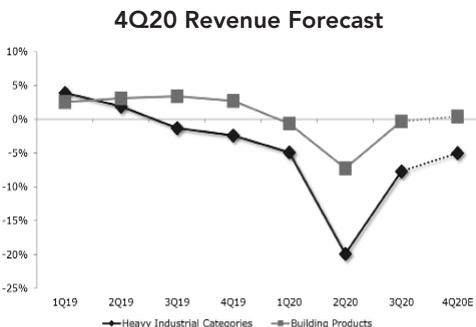
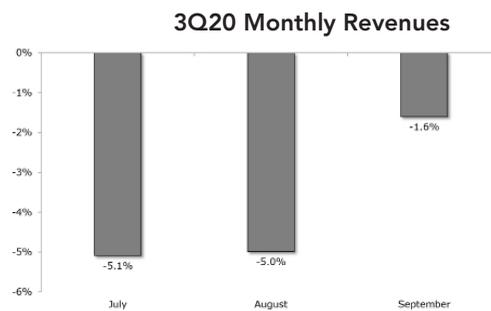
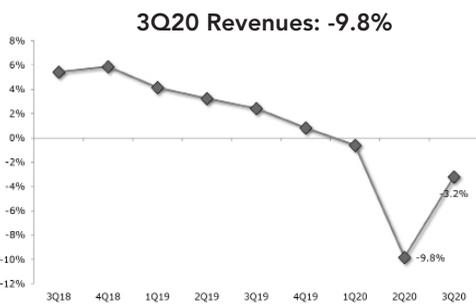
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Why Build Your Personal Brand?

Nary a day goes by in this pandemic era where the concept of putting on your own oxygen mask before helping others is not brought up. With regularity, it is pitched as a key tool in the quest to find that elusive work/life balance. It's become such a cliché that it's pretty much lost meaning to me. However, in participating in ISA's delightful Women in Industry virtual conference this week, one presentation got me thinking about that tired airplane analogy in a fresh and meaningful way.

On the topic of personal branding in the digital age, Amy Vandaveer Novak, a senior professor of practice in the marketing department at the University of Houston, talked about the importance of developing and maintaining a strong personal brand online. Vandaveer Novak shared many reasons why doing so makes sense for us as individuals, but it really piqued my interest when she explained how individual employees with strong personal brands will make the company brand stronger.

Work on yourself and your professional presentation and you will be a better employee and company representative because of it.

More Than a Selfie Fest

Particularly in this digital era, people can get the wrong idea about personal branding, Vandaveer Novak said, because they are just picturing self-obsessed social media posts. But it's much more than that.

She paraphrased subject matter expert William Arruda in saying, "Personal branding is not

about you. It's about putting your stamp on the value you deliver to others."

What distributor doesn't love to market itself on a strong value proposition? Imagine if that company-level strength was magnified and reinforced by each individual employee being confident in their personal brand and what it brings to the business.

"If you're not clear on the value that you're offering, others aren't clear on what you bring to the table, either," Vandaveer Novak said. "It's not personal promotion, it's about providing value."

People who use digital selling online tactics (yes, this means social media) will help create visible brand recognition for your organization, she added. Some statistics shared by Vandaveer Novak:

- Nearly 9 in 10 (88%) of U.S. consumers engage in online research before making a purchase.
 - More than three-quarters (78%) of sales people who are using social selling tactics are outselling peers.
 - Buyers are 57% through the buying process before they ever reach out to an organization to buy.
 - 75% of business-to-business buyers now use social media in order to connect with their vendors.
 - 90% don't ever respond to people that they don't know or are connected with online.
- "Because in the digital age," Vandaveer Novak said, "if you're not visible, you do not exist."

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

Editor in Chief
Elizabeth Galentine
elizabeth@mdm.com

Senior Editor
Eric Smith
eric@mdm.com

Gale Media, Inc.
6309 Monarch Park Place, Suite 201, Niwot, CO 80503
Tel: (303) 443-5060
Website: <http://www.mdm.com>

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MDM-Baird Survey

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only four saw decreases in the double-digits: Facilities Maintenance (-11.5%), hoses & accessories (-11.6%), mechanical/power transmission (-11.6%) and wallboard/gypsum (-11.9%).

The improvement from 2Q to 3Q hinged on distributors adapting to lockdowns and quarantines and finding ways to do business safely, according to Dave Manthey of Baird, the bank that has partnered with MDM on these quarterly reports since 2008. "The second quarter was really tough," Manthey says. "Offices were closed, manufacturing facilities were shut down, commercial construction job sites were shuttered. We saw the aggregate revenue down about 10%, in the second quarter, across all of the distribution categories combined. In the third quarter, every category improved. Many of them still negative, but one of these 'less bad' situations. That was driven by offices starting to open and people

starting to go back to work."

This earlier-than-expected rebound is an apt reward for an industry that found myriad ways to navigate COVID-19 over the past seven months. As MDM has reported since the pandemic forced lockdowns and stifled economic growth, distributors adapted to economic turmoil by pivoting their product offerings, adjusting how they handle sales calls, enhancing their customer service efforts and more.

That's not to say all is well in the state of distribution, however. The industry, like many, continues to reel from COVID-19 and has yet to return to pre-pandemic economic prosperity. And there will be plenty of bumps in the road in the current quarter and into 2021. But 3Q is a strong start for what the industry hopes will indeed be a prolonged V-shaped recovery.

Here are three key takeaways from the latest survey, which saw around 500 respondents

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*Continued on p. 4***Current and Expected Revenue and Pricing Levels by Sector**

	3Q20 Sales Change	3Q20 Pricing Change	4Q20 Sales Forecast	2021 Sales Forecast
Overall	-3.2%	1.1%	-0.3%	1.0%
Landscape Supplies	2.4%	-0.1%	0.5%	2.5%
Safety	3.5%	6.4%	3.4%	2.0%
Waterworks Products	-2.3%	-3.2%	0.0%	3.0%
Roofing	2.9%	0.9%	4.9%	1.6%
Facilities Maintenance/Jan-San (MRO)	-11.5%	0.8%	-10.5%	-10.9%
Lumber & Building Materials	2.7%	2.5%	2.3%	4.1%
Pool & Spa	4.0%	4.0%	2.4%	4.0%
HVAC	1.4%	0.2%	1.7%	3.6%
Gases & Cylinder Rental	0.1%	1.1%	2.3%	2.7%
Welding Hardgoods	-8.4%	-0.7%	-1.8%	-1.6%
Plumbing	-1.0%	0.0%	1.1%	2.4%
General Industrial (MRO)	-5.8%	-0.3%	-2.1%	1.8%
Industrial/Energy PVF	-9.5%	0.2%	-5.4%	0.3%
Datacomm	-4.2%	-2.4%	0.4%	-2.4%
Wallboard/Gypsum	-11.9%	-3.2%	-8.4%	-3.1%
Electrical	-4.9%	0.6%	-1.2%	0.0%
Metalworking/Cutting Tools	-8.5%	-3.7%	-4.4%	-2.2%
Mechanical/Power Transmission	-11.6%	0.0%	-7.7%	1.6%
OEM Fasteners	1.1%	-3.4%	-3.4%	1.0%
Hoses & Accessories	-11.6%	-0.3%	-4.5%	-2.0%

*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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representing companies with more than \$100 billion in aggregate revenue:

1. The Trough Wasn't as low as Many Feared

The big question heading into the heart of COVID-19 in the second quarter (especially April and May) was about how far would wholesale distribution fall. But the industry performed 1.5% better in 2Q than they had forecasted.

The same goes for 3Q which performed almost 1% better than expected. The tide began turning for distributors in the final month of the quarter, September, with companies across most verticals — but especially in construction — seeing their fortunes rise. “September was the first positive [growth] comp we’ve had in a while,” said one respondent to the MDM/Baird survey. “We now don’t have a single construction project shut down today.”

Indeed, the following sectors saw huge gains in September compared to July and August: Mechanical/PT (16.3%); Facilities Maintenance/JanSan (5.2%); Electrical (4.1%), OEM Fasteners (3.1%), Cutting Tools (2.9%), Hoses & Accessories (2.9%), General MRO (2.6%), and Datacomm (2.3%).

2. The Recovery Began Quicker

That September bump gave distributors some buoyancy entering the fourth quarter, says Baird analyst Quinn Fredrickson, who spotlighted a comment highlighting the general vibe of the survey audience. “Our weekly sales are in a fairly normal range. We’re not walking around saying we’re fully recovered, but things have certainly gotten better.”

Fredrickson adds: “Early on in this pandemic, day to day or week to week things were just so crazy and unpredictable. That particular respondent was saying that usually, their quarters have a normal cadence to it: maybe they start slow but finish strong at the end of the quarter. At the bottom of the pandemic, it was hard to predict, but as the quarter came to a close, things started to feel a lot more normal for people. That’s the tone out there: We’ve settled into a little bit more of a predictable environment. Still down, but more predictable.”

Here are a few more comments regarding respondents’ expectations for the fourth quarter following a strong end to 3Q:

- “We feel a little more confident that the worst is behind us, but some end markets will be slow to recover.”
- “Will hunker down.”

- “It appears the market demand has stabilized at the 85% to 90% rate of pre-COVID.”
- “It moderates our projection.”
- “Remains the same. We expected momentum to build into September.”
- “Indicates the need for caution.”
- “Strong outlook. Incoming orders have been growing rapidly for the past two months.”
- “We are very cautiously optimistic – if this momentum continues, we expect to end 2020 flat despite the challenging March, April and May.”

3. Recruiting Tactics Have Changed

MDM asked companies how their recruiting tactics have been altered by COVID-19 and the response was mixed. Some are focused on replenishing their ranks: “We are back to full staff,” according to one distributor. “The last person was recalled in August.”

Others said they weren’t focused on hiring at the moment after they had to enact some layoffs: “We have had layoffs in areas where business has truly softened — machining and assembly,” a respondent said. “There are not any plans for adding staff through 2021.”

Others still said that business had returned, and they needed the staff to accommodate it: “Hiring was on hold but the increase in business has required us to fill open positions,” this respondent said.

Here are a few more comments on this topic:

- “We are still looking for great talent.”
- “We still have a hiring freeze.”
- “We have resumed activities, with distribution centers at full capacity. Office staff working remotely.”
- “Replacing departed personnel only as necessary.”
- “Hiring has slowed. We have increased our digital activities.”
- “Digital talent continues to be in high demand. Looking to consultants and agencies for implementation and operations support.”
- “Hiring for key, revenue-generating roles has resumed.”
- “Hiring a few for service support, but overall, not hiring and recruiting much at this time.”
- “We hire to fill openings; we are not adding heads otherwise.”
- “We have resumed hiring assembly workers with our value-add increasing. Difficult finding people wanting to come back to work though.”
- “We have put new hires on hold and evaluated the need to replace on a case-by-case basis as turnover has happened.”

MDM Revised Forecast: 3Q Shaping a V-Swoosh Recovery

Consumer behavior is playing a role in speeding economic recovery.

In the home stretch of an unprecedented year, MDM Analytics' revised forecast for the third quarter shows a sharp rebound out of the second quarter trough, and a growth pattern through the fourth quarter.

By Thomas P. Gale

The pattern is great news for all distribution sectors, but note that the revised fourth quarter recovery outlook flattens slightly, with a stronger acceleration through the second quarter of 2021. Continued growth is forecast through 2021 and 2022, but moderating to mid-single-digit levels.

MDM's baseline annual forecast for 2020 for the wholesale distribution industry is for a 5.6% decrease from 2019, with a snapback in 2021 to a baseline estimate of 7.5% growth.

Overall, when third-quarter GDP data is released, it's projected to show a year-over-year decrease of roughly 5%, reflected across whole-

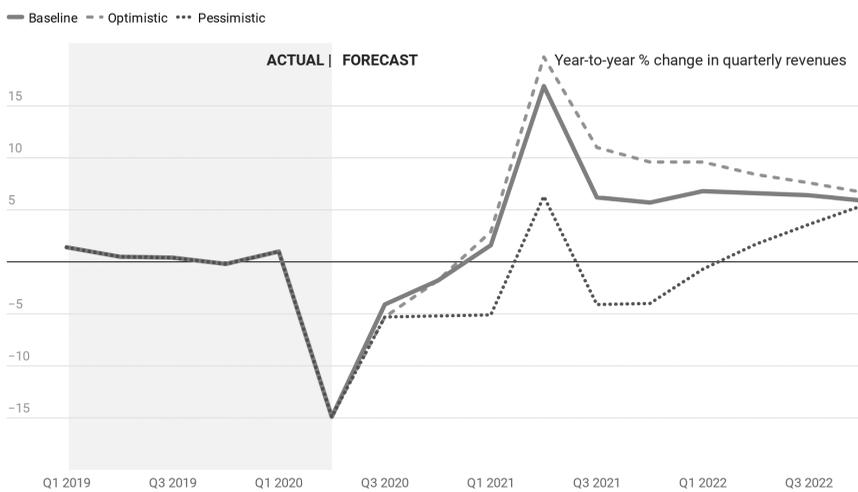
sale distribution sectors overall, but it will likely take two years to return to peak GDP, based on consensus GDP forecasts.

The 2020 pandemic recession has brought with it a number of records – unemployment, record decrease in wage and salary earnings, but also a record increase in personal income through government payments, including stimulus payments. Consumer behavior shifted dramatically and has played out in the recovery and retail sector performance, with consumer spending shifting from nondurable to durable goods.

There has been a surge in remodeling and home improvement, with building material and garden equipment stores experiencing year-over-year growth, with similar trending for sporting goods and hobby, grocery and liquor stores. These trends have impacted wholesale trade channels serving these retail sectors.

MDM Quarterly WD Markets Forecast: 3Q20 Update

Oct. 15, 2020 – MDM's third quarter 2020 forecast revision indicates a stronger V-shaped recovery going into 2021. Overall, the U.S. wholesale distribution sector posted a 14.9% decrease in YTY revenues in the 2020 second quarter, according to MDM's latest forecast update. Here are three scenarios (baseline, optimistic and pessimistic) for MDM's forecasted quarterly revenue change through 2022.



Source: MDM Analytics © 2020 All Rights Reserved. • Created with Datawrapper

Note: The MDM Analytics Quarterly Markets Forecast shown here is a composite forecast of revenues for all 19 major sectors comprising the \$6-trillion U.S. wholesale distribution industry. Contact info@mdm.com for more information regarding individual sector quarterly forecasts through 2022. Data for 3Q20 is forecast in this model until final GDP and other inputs are released in Q420.

3Q20 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 at this issue in PDF format at www.mdm.com.

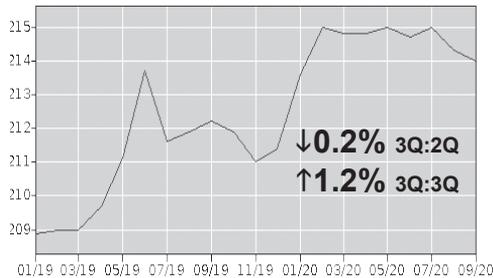
Key

↑X.X% 3Q:2Q (3Q '20 with 2Q '20)

↑X.X% 3Q:3Q (3Q '20 with 3Q '19)

Industrial

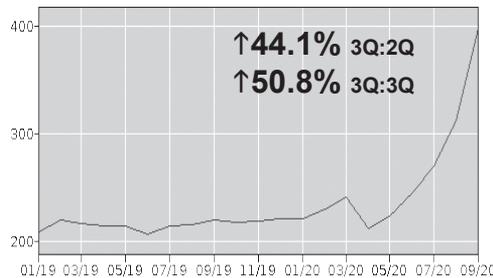
Abrasives



Product Group	3Q:2Q	3Q:3Q
Adhesives/Sealants	0.0%	1.0%
Ind. Mat Handling Eqmt	0.0%	1.4%
Industrial Rubber Products nec	-0.2%	0.6%
Metal Cutting Machine Tools	0.5%	2.0%
Metal Forming Machine Tools	-0.7%	1.4%
Metal Valves (not FP)	-0.1%	2.3%
Personal Safety Eqmt & Clothing	1.0%	2.1%
Pumps & Compressors	-0.4%	0.9%
Rubber & Plastic Belts & Belting	0.0%	2.6%
Rubber & Plastic Hose	-0.1%	0.5%
Steel Mill Products	-3.2%	-10.5%

Construction

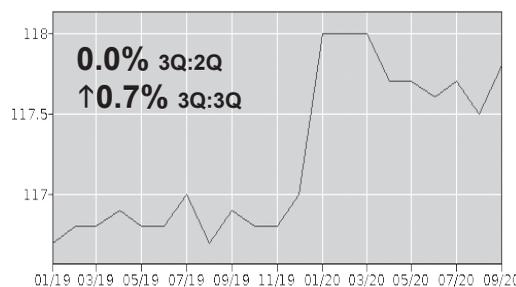
Softwood Lumber



Product Group	3Q:2Q	3Q:3Q
Plastic Construction Products	1.1%	1.4%
General Millwork	0.3%	2.0%
Gypsum Products	-0.2%	0.5%
Hardboard, Particlebd, Fiberbd	22.9%	32.9%
Hardwood Lumber	0.1%	-3.9%
Plywood	20.5%	22.5%
Wood Ties, Siding, Shingles, etc.	-0.1%	-1.2%

Electrical

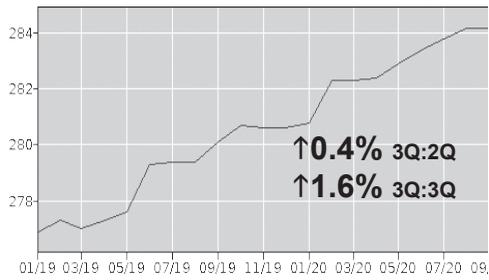
Electrical Machinery & Eqmt*



Product Group	3Q:2Q	3Q:3Q
Communications/Related Eqmt	0.2%	2.8%
Electric Lamp Bulbs and Tubes	0.8%	-0.7%
Electronic Components & Accs.	-0.5%	-1.5%
Integrating/Measuring Instrumts	0.3%	0.9%
Lighting Fixtures	0.0%	1.4%
Motors, Generators, etc.	0.0%	0.5%
Switchgear, Switchbd, etc. Eqmt	0.3%	1.4%
Transformers/Power Regulators	1.4%	1.1%
Wiring Devices	1.0%	1.9%
Fab. Ferrous Wire Products	0.3%	-0.7%
Nonferrous Wire & Cable	3.8%	1.1%

*Category includes products in table to right

Mech. Power Transmission Eqmt*

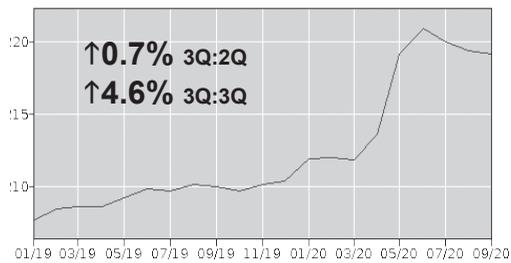


*Category encompasses first three (PT) products in table.

Product Group	3Q:2Q	3Q:3Q
Ball & Roller Bearings	-0.1%	1.1%
Plain Bearings & Bushings	0.1%	0.7%
Speed Changers/Drives/Gears	0.3%	1.0%
Fluid Power Equipment	0.0%	1.7%
FP Cylinders, Actuators, Accum.	-0.2%	1.6%
FP Hose & Tube Fittings	0.0%	0.4%
Fluid Power Pumps & Parts	0.1%	1.4%
Fluid Power Valves	0.4%	3.4%

Fasteners

Nuts, Bolts, Screws, Rivets, Washers*



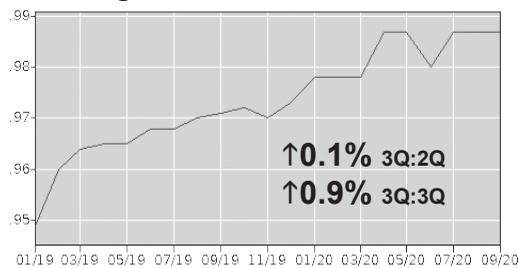
*Category encompasses products in table above

**Excludes aircraft fasteners.

Product Group	3Q:2Q	3Q:3Q
Aircraft Fasteners	0.4%	3.8%
Externally Thread. Fasteners**	1.7%	6.2%
Internally Thread. Fasteners**	-0.1%	7.2%
Nonthreaded Metal Fasteners**	-0.5%	0.4%

Tools

Cutting Tools & Accessories*

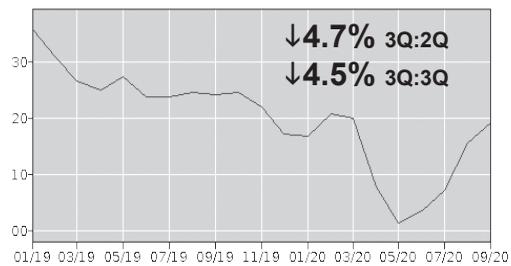


*Category encompasses some of the products in table.

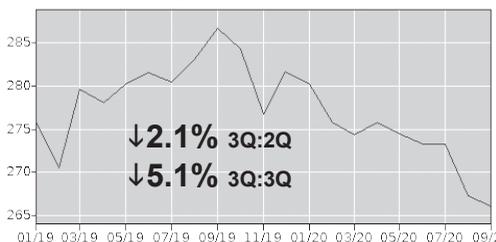
Product Group	3Q:2Q	3Q:3Q
Hand & Edge Tools	0.2%	1.8%
Power-Driven Hand Tools	0.0%	1.3%
Precision Measuring Tools	0.1%	0.1%
Small Cutting Tools	0.2%	0.7%
Tools, Dies, Jigs, Molds, Fixture	-0.4%	-1.7%

Other

Plastic Resins and Materials



Industrial Gases



Product Group	3Q:2Q	3Q:3Q
Hardware*	0.0%	1.6%
Builders Hardware	-0.2%	2.0%
Air Cond. & Refrigeration Eqmt	0.5%	1.7%
Heating Eqmt	0.1%	1.5%
Plumbing Fixtures & Fittings	0.8%	1.6%
Plastic Products (overall)	-0.5%	-1.4%
Pkgng Products from Plastics	-1.8%	-4.2%
Welding Machinery & Eqmt	0.6%	1.0%
Office Supplies & Accessories	-0.1%	-0.9%
Pulp, Paper & Allied Products**	0.2%	0.6%
Boxes	0.2%	-0.6%
Sanitary Paper Products	0.5%	1.2%

*This category includes builders' hardware & other product groups

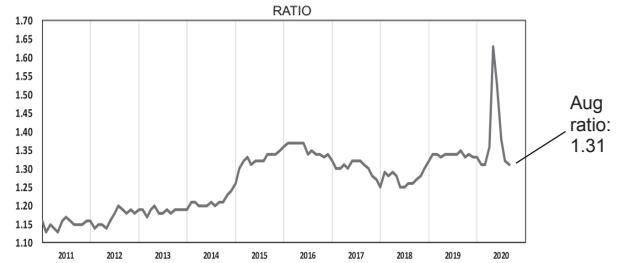
**Category includes boxes, sanitary paper products & office supplies & other groups

August 2020 | Monthly Wholesale Trade Data

Wholesale revenues in August were \$486.6 billion, down 2.3% from August 2019 and up 1.4% over July. August sales of durable goods were up 1.3% over last month and up 0.3% from a year ago. Sales of nondurable goods were up 1.6% over July and down 4.6% over last August.

Inventories were \$635.5 billion at the end of August, up 0.4% from the revised July level and down 5.2% from last year. August inventories of durable goods were up 0.6% from last month and down 6.8% from a year ago. Inventories of non-durable goods were flat over July and down 2.5% 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 August inventories/sales ratio for merchant wholesalers was 1.31. The August 2019 ratio was 1.35.

Sales and Inventories Trends: August 2020

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	% Change Sales 07/20-08/20	% Change Sales 08/19-08/20	% Change Inventory 07/20-08/20	% Change Inventory 08/19-08/20
42	U.S. Total	486,636	635,525	1.31	1.4	-2.3	0.4	-5.2
423	Durable	238,245	381,351	1.60	1.3	0.3	0.6	-6.8
4231	Automotive	39,366	63,948	1.62	1.7	-2.3	4.3	-7.8
4232	Furniture & Home Furnishings	7,553	11,608	1.54	0.1	-6.1	-2.0	-17.2
4233	Lumber & Other Construction Materials	13,318	19,117	1.44	3.1	5.9	1.8	-3.4
4234	Prof. & Commercial Equip. & Supplies	45,545	48,246	1.06	2.3	5.2	-0.8	-5.5
42343	Computer Equipment & Software	23,958	15,122	0.63	7.1	10.1	-1.9	-11.9
4235	Metals & Minerals	11,541	29,125	2.52	0.7	-20.4	-1.2	-11.1
4236	Electrical Goods	48,449	53,449	1.10	-0.7	-1.1	0.2	-3.4
4237	Hardware, Plumbing, & Heating Equipment	14,266	26,568	1.86	-1.3	9.6	1.1	-2.0
4238	Machinery, Equipment & Supplies	37,664	100,726	2.67	2.1	0.8	0.1	-5.9
4239	Miscellaneous Durable	20,543	28,564	1.39	2.7	5.4	-0.6	-13.1
424	Nondurable Goods	248,391	254,174	1.02	1.6	-4.6	0.0	-2.5
4241	Paper & Paper Products	7,377	9,777	1.33	1.7	-1.1	1.2	4.8
4242	Drugs	64,687	70,349	1.09	1.7	8.7	-0.3	5.5
4243	Apparel, Piece Goods & Notions	10,406	25,561	2.46	0.5	-16.5	-3.0	-11.6
4244	Groceries & Related Products	59,264	42,033	0.71	0.7	1.9	-1.1	1.8
4245	Farm-product Raw Materials	17,484	23,212	1.33	8.1	-0.5	3.1	-7.3
4246	Chemicals & Allied Products	9,407	12,300	1.31	-4.1	-14.9	1.8	-6.1
4247	Petroleum & Petroleum Products	41,122	19,162	0.47	2.2	-28.9	0.1	-12.5
4248	Beer, Wine & Distilled Beverages	15,688	17,451	1.11	1.3	16.3	2.6	-7.1
4249	Miscellaneous Nondurable Goods	22,956	34,329	1.50	0.6	0.6	-0.1	-3.5

U.S. Bureau of the Census, Current Business Reports, Monthly Wholesale Trade, Sales and Inventories Series: MDM compilation and analysis. Adjusted for seasonal and trading day differences. Figures for sales and inventories are preliminary adjusted estimates.

Why Fastenal is 'Optimally Positioned' to Take Share

Fastenal Co.'s shares might have dipped following the company reporting that it saw low-single-digit sales growth in the third quarter, but that disappointing stock performance doesn't adequately reflect the Winona-Minnesota-based distributor's long-term prospects.

The company is now "optimally positioned" to take share in the industrial market. That was the assessment of Baird analyst Dave Manthey, who sent a note to clients after Fastenal reported 3Q earnings and after company management held one-on-one conversations with the investment bankers who cover the industrial space.

"We believe FAST remains in an optimal position to capture an increasing share of the vast onsite/vending/VMI market opportunity," Manthey wrote. "With valuation about in-line with historical premiums for an industrial company growing earnings amid a recession with good cyclical upside, we would use today's weakness to add to positions in this best-in-class distributor."

Fastenal reported third-quarter sales of \$1.4 billion, a 2.5% increase compared with the same period a year ago. Quarterly profit was \$221.5 million, up 3.7% compared to the year-ago period. Both totals beat Wall Street's estimates.

Fastenal said the 3Q increase was driven primarily by higher unit sales of safety products, whose volume moderated relative to the pandemic-driven level of "surge" sales in the second quarter of 2020 but remained elevated relative to 3Q 2019.

The company also said the "reopening of the economy has been accompanied by greater demand for personal protection equipment (PPE), hand sanitizer and related products, which more than offset continued softness in underlying business activity owing to a generally weak industrial marketplace for products unrelated to mitigating the effects of COVID-19.

Distributor

Grainger, Chicago, reported third-quarter sales of \$3 billion, up 2.4% compared to the year-ago quarter, or 4.6% on an organic daily basis compared to the third quarter 2019 (excluding divestitures). Grainger's profit increased 3% to \$240 million.

Genuine Parts Co., the parent of Motion Industries — what GPC calls its "industrial parts group" — reported that the distributor's third-quarter sales of \$1.4 billion were down 18.6% year-over-year, or down 8.7% excluding the EIS divestiture, and represented 32% of total company revenues.

Pool Corp., Covington, Louisiana, a wholesale distributor of swimming pool and related backyard products, reported third-quarter sales of \$1.1 billion, up 26.8% from a year ago. Profit increased 49.8% to \$119.1 million.

Border States Electric, Fargo, North Dakota, announced a new regional structure to better serve customers and support manufacturers. This change takes effect Jan. 1, 2021. Each region will consist of five service areas, delivering a more unified experience.

HVACR distributor **Watsco Inc.**, Miami, reported third-quarter sales of \$1.5 billion, up 10.2% year-over-year. Profit increased 27.6% to \$106.5 million, and diluted EPS of \$2.76 was up from \$2.40 a year ago and beat analysts' estimates by 27 cents.

Optimas Solutions, a Glenview, Illinois-based manufacturer and distributor of industrial fasteners and supply chain solutions, announced the promotion of Marc Strandquist to CEO.

Economic

Indian River Consulting Group's (IRCG) weekly Pandemic Revenue Index for the work week of Oct. 12 to Oct. 16 indicated a 2.6% increase compared with the same week a year ago, which means that excluding the week of Labor Day where four selling days in 2020 were compared to five in 2019, with three small exceptions, business has generally been up going back to late July.

Privately owned housing units authorized by building permits in September were at a seasonally adjusted annual rate of 1,553,000. This is 5.2% above the revised August rate of 1,476,000 and is 8.1% above the September 2019 rate of 1,437,000.

American Supply Association, Itasca, Illinois, said recently that its member distributors reported an average sales growth of 2.5% and a median sales growth of 4.1% for the third quarter.

The **U.S. Census Bureau** announced that the combined value of distributive trade sales and manufacturers' shipments for August — adjusted for seasonal and trading day differences but not for price changes — was estimated at \$1.5 trillion, up 0.6% ($\pm 0.2\%$) from July but down 0.4% ($\pm 0.4\%$)

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News Digest

Continued from previous page

**MARKETS
UPDATE
SUPPLEMENT
P. 2**

from August 2019.

Total industrial production fell 0.6% in September, its first decline after four consecutive months of gains, according to the **Industrial Production and Capacity Utilization Report**, released by the Federal Reserve. Manufacturing output decreased 0.3% in September and was 6.4% below February's level.

Wholesale trade showed moderate improvement in August, according to the latest report from the **U.S. Census Bureau**. August 2020 sales of merchant wholesalers, except manufacturers' sales branches and offices, after adjustment for seasonal variations and trading day differences but not for price changes, were \$486.6 billion, up 1.4% from the revised July level, but were down 2.3% from the revised August 2019 level.

Manufacturer

Safety products manufacturer **SureWerx**, Vancouver, B.C., has acquired **Geroline Inc.**, the St. Catharines, Ontario-based company behind the K1 Series brand of winter traction aids. Financial terms of the acquisition were not disclosed.

Kimball Midwest, a national industrial supplier based in Columbus, Ohio, announced it has opened a larger distribution center in the Dallas area to serve customers in nine states.

Holding company **Entegra Attachments LLC** of Saint Charles, Illinois, in July acquired Bloom Manufacturing Inc., a 110-year-old manufacturer of standard and custom designed hydraulic winches, speed reducers, parts and accessories, located in Independence, Iowa.

Calculation of MDM Inflation Index for September 2020

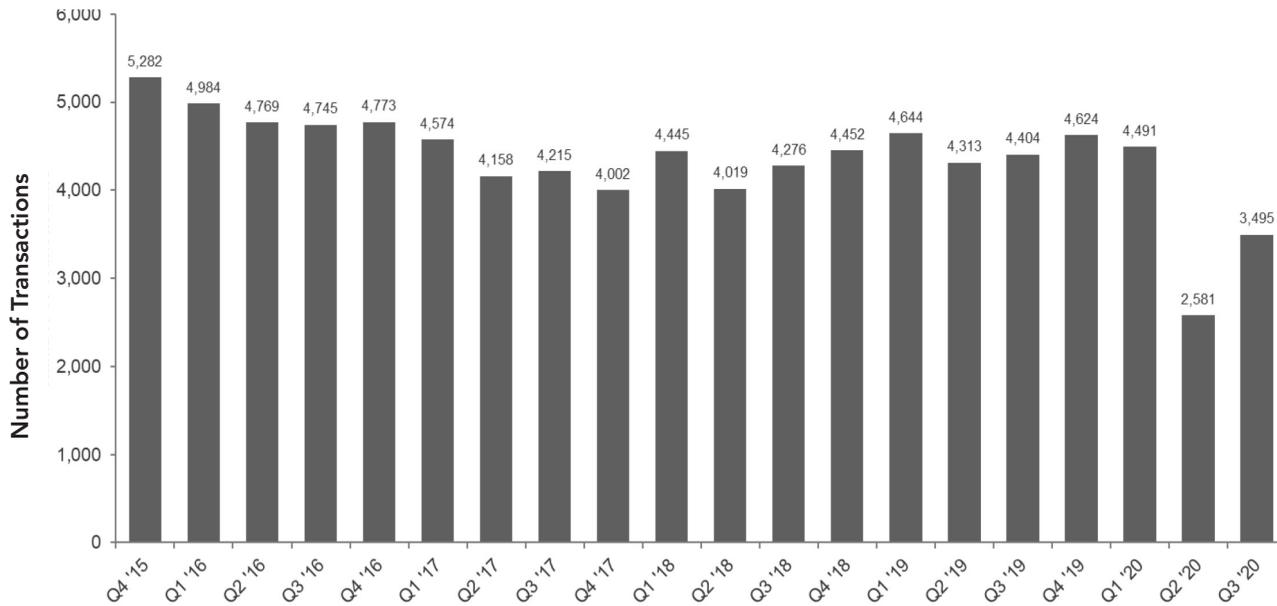
	BLS Price Indices Sept '20	BLS Price Indices Aug '20	BLS Price Indices Sept '19	Weighted % Sales Weight	Weighted Indices Sept '20 (1)X(4)	% Change Sept '20 Aug '20	% Change Sept '20 Sept '19
1136 Abr. Prod.	635.3	636.2	634.1	19.1	121.34	-0.14	0.19
1135 Cutting Tools	538.8	538.8	534.4	18.9	101.83	0.00	0.81
1145 Power Trans.	887.9	887.9	875.7	15.4	136.73	0.00	1.39
1081 Fasteners	592.0	592.5	564.2	9.0	53.28	-0.09	4.93
1149.01 Valves, etc.	1091.0	1107.7	1071.6	7.6	82.92	-1.50	1.81
1132 Power Tools	400.6	400.6	395.5	6.5	26.04	0.00	1.29
1144 Mat. Handling	656.5	656.3	646.8	6.2	40.71	0.04	1.51
0713.03 Belting	971.5	972.1	947.3	6.1	59.26	-0.07	2.55
1042 Hand Tools	854.5	851.4	835.7	8.1	69.21	0.36	2.24
108 Misc. Metal	506.8	504.5	504.8	3.1	15.71	0.45	0.39
"New" Sept Index	369.4	September Inflation Index			707.01	-0.17	1.56
"New" Aug Index	370.0	August Inflation Index			708.20		
		September 2019 Inflation Index			696.12		

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

Third 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.



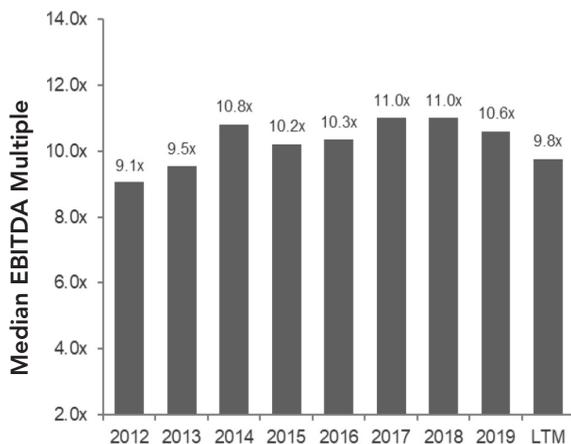
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 9/30/2020.

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.

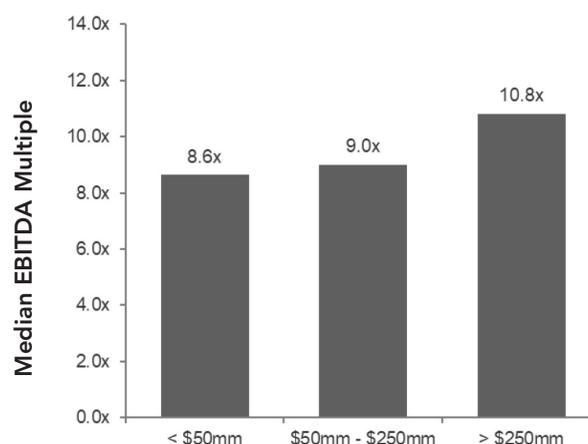
Median EBITDA Transaction Multiples – All Industries

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 9/30/2020.

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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Distribution Median EBITDA Trading Multiples

(Data as of Sept 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	2,789	3,246	(6.5%)	29.0%	9.0%	17.6%	7.7%	9.6x
Arrow Electronics, Inc.	ARW	8,301	27,404	(8.4%)	11.3%	3.5%	13.5%	6.1%	8.7x
Avnet, Inc.	AVT	3,500	17,634	(9.7%)	11.7%	2.3%	20.6%	2.6%	8.7x
Beacon Roofing Supply, Inc.	BEEN	4,894	6,956	(0.8%)	19.2%	6.0%	13.3%	1.8%	11.7x
Bluelinx Holdings Inc.	BXC	845	2,653	(7.8%)	14.0%	4.7%	15.8%	3.1%	6.7x
BMC Stock Holdings, Inc.	BMCH	2,975	3,756	3.7%	26.1%	6.8%	10.4%	7.6%	11.6x
Builders FirstSource, Inc.	BLDR	5,024	7,477	0.1%	26.8%	6.8%	7.6%	9.4%	9.9x
Bunzl	BNZL	12,994	12,457	4.1%	23.2%	7.1%	8.7%	8.5%	14.6x
DXP Enterprises, Inc.	DXPE	432	1,175	(7.0%)	27.6%	6.0%	16.4%	4.5%	6.1x
Fastenal Company	FAST	26,077	5,566	5.3%	45.8%	22.9%	33.2%	20.5%	20.5x
Ferguson	FERG	24,947	21,819	(0.9%)	29.4%	8.4%	9.2%	12.4%	13.7x
Foundation Building Materials	FBM	1,143	2,090	1.4%	30.0%	7.8%	12.4%	4.9%	7.0x
Genuine Parts Company	GPC	15,985	18,591	3.0%	32.9%	7.1%	4.5%	8.4%	12.2x
GMS, Inc.	GMS	1,966	3,197	0.4%	32.9%	8.9%	14.2%	5.5%	6.9x
HD Supply	HDS	8,469	5,976	(3.2%)	39.0%	13.1%	15.2%	10.9%	10.9x
Houston Wire & Cable Company	HWCC	119	318	(8.8%)	22.6%	1.6%	41.4%	0.7%	NM
Lawson Products	LAWS	362	347	(4.3%)	53.3%	8.2%	17.3%	10.8%	12.7x
MRC Global Inc.	MRC	1,161	3,104	(14.9%)	22.5%	2.9%	21.0%	1.4%	13.0x
MSC Industrial Direct Co., Inc.	MSM	4,147	3,287	(2.1%)	42.2%	14.4%	28.7%	11.7%	8.8x
NOW Inc.	DNOW	250	2,364	(24.9%)	19.5%	0.6%	15.9%	(1.3%)	16.6x
Park-Ohio Holdings Corp.	PKOH	720	1,378	(16.8%)	14.6%	5.6%	27.6%	2.8%	9.3x
Pool Corp.	POOL	13,817	3,439	11.9%	28.6%	11.9%	18.1%	20.3%	33.9x
Reliance Steel & Aluminum Co.	RS	7,783	9,726	(16.4%)	31.3%	10.8%	20.3%	7.5%	7.4x
Rexel SA	RXL	6,994	15,216	(4.6%)	23.9%	4.5%	10.9%	4.7%	10.3x
SiteOne	SITE	5,873	2,465	10.9%	33.0%	8.4%	19.8%	7.1%	28.5x
W.W. Grainger	GWW	21,070	11,632	3.1%	37.1%	12.3%	16.9%	15.1%	14.8x
Watsco Inc.	WSO	8,460	4,831	5.2%	24.1%	7.6%	20.3%	10.5%	23.1x
WESCO International, Inc.	WCC	7,027	8,303	1.4%	18.8%	10.6%	34.9%	3.4%	8.0x
Median		\$4,959	\$4,293	(1.5%)	27.2%	7.4%	16.6%	7.3%	10.9x

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.