



■ MDM-Baird Distribution Survey

# The Pandemic Recovery is On

*Distributors are optimistic about future business performance.*

These are the latest indicators on revenue and pricing based on fourth-quarter 2020 results and distributor and manufacturer expectations for first-quarter and full-year 2021.

By Elizabeth Galentine

After a difficult 2020, there is reason for optimism about the performance of the distribution market in 2021. Not only is this the gut feeling held by nearly every distributor MDM spoke with in recent weeks, but also economic benchmark data are pointing in the direction of a continued recovery.

According to the latest quarterly MDM-Baird Industrial Distribution Survey, the market has shown improvement each quarter since its dramatic COVID-19-induced dip in 2Q 2020. Down 10% year over year in the spring of 2020, it ended 4Q 2020 down just 1.5% below forecast. In fact, the

best performing markets were up in the fourth quarter:

- HVAC +6.2%
- LBM +5.8%
- Roofing +4.5%
- Pool & Spa +4.1%
- Safety +4%
- Landscape Supplies +3.6%
- Plumbing +3%
- Waterworks Products +2.8%

As David Manthey, senior research analyst at Baird, puts it, "We're fighting our way back."

Broken down further by each month in the last quarter of 2020, the recovery becomes clearer. While October was down -2.7% year over year, November was -2% and December was down just -0.1%.

The top-performing product categories

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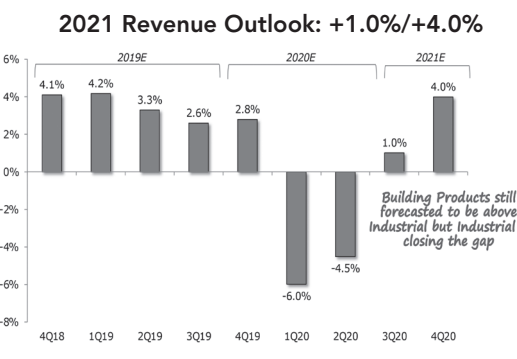
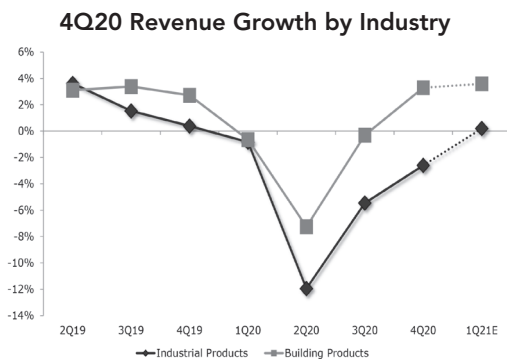
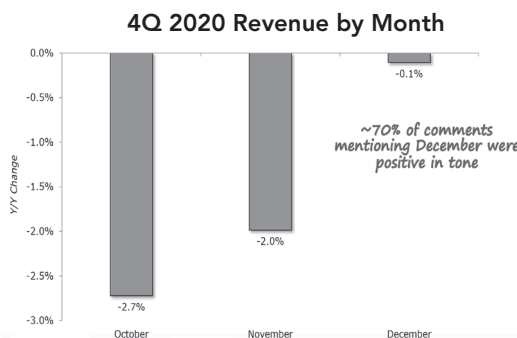
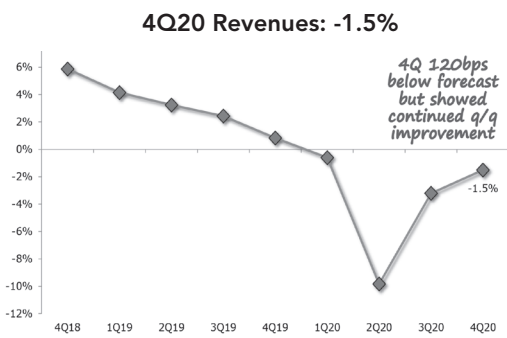
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MDM's quarterly look at inflation trends for dozens of product groups.

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**4Q2020 Financial Metrics & Trading Multiples**

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## Expectations Hinge on a Better Second Half

Do you remember where you were at this time last year? I was in Washington, D.C., on my first (and ultimately last) business trip of the year as an attendee of the National Association of Wholesaler-Distributors annual conference. Overall, there was little talk of the nameless virus spreading on the other side of the world that would soon reshape the rest of the year for all of us.

One year later, I am yearning — a word I do not use lightly — to be able to talk about COVID-19 in the past tense. But we aren't there quite yet.

In speaking personally with nearly a dozen distributors to kick off our 2021 industry coverage over the last couple of weeks, it's clear that the pandemic and the blanket of uncertainty it threw over us in 2020 is still here.

COVID-19 was the main talking point of our conversations, with distributors, manufacturers and industry representatives alike all pinning their expectations for the year primarily on the speed of the vaccine rollout. With that in mind, they were largely bullish on the second half of the year. Several themes came out of our conversations.

One, because so many companies in all sectors of the economy went through drastic changes last year, distributors noted that they are paying close attention to even the most minor of business developments at the customer level — more than they ever had before.

While some had customers who in 2020 were shut down for months at a time due to state regulations, others reported losing business not due to closures but rather customers

who took advantage of the relative downtime to bring in-house the services that the distributor used to provide for them. Even so, one distributor who lost his biggest client in this fashion is still optimistic about deepening relationships with other customers throughout 2021, as they are increasingly asking him for assistance with robotics and 3D printing capabilities that his company is in the process of developing.

Two, distributors reported a wide variation in the degree to which they have opened back up. On one end of the spectrum, I spoke with a distributor in Texas while he was in the middle of attending a "business fair," as he described it, full of people. From the other side, two industry veterans in Canada talked about how restrained they continue to be by strict curfews, reduced business hours and closely monitored travel limitations.

Third, with the recent presidential inauguration transitioning leadership of the United States from Republican Donald Trump to Democrat Joe Biden, politics did come up a bit, but mostly in the context of hoping for a calmer 2021 now that the U.S. is out of the election cycle.

Take a look at the results of our first MDM-Baird Industrial Distribution Survey of the year that are featured throughout this issue of Premium. As you'll see, distributors in a variety of sectors are largely optimistic about the year as a whole. For even more details on the 2021 outlook, listen to the replay of our latest webcast, where Baird's distribution pro David Manthey joined our CEO Tom Gale to discuss the year ahead in detail: visit [mdm.com/events/event\\_category/webcasts/](http://mdm.com/events/event_category/webcasts/) and scroll to January 21.

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**MDM-Baird Survey**

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in December include:

- 1) HVAC +8.1%
- 2) LBM +6.2%
- 3) Pool & Spa +5%
- 4) Plumbing +4.1%
- 5) Roofing +1.7%

The strongest 4Q forecasts were in Roofing (+5.4%), Wallboard (+5%), LBM (+4.4%), HVAC (+4.1%) and OEM Fasteners (+3.9%). However, projections were not all positive. The weakest forecasts came from FM/Jan-San (-8.6%), Hoses & Accessories (-3.4%), Industrial/Energy PVF (-1.2%), Mechanical/PT (-0.7%) and Electrical (-0.5%).

Here is a breakdown of key themes and distributor expectations in a variety of distribution sectors, according to the survey.

**Industrial Market**

Experiencing a strong finish to the year in De-

ember, Mechanical/PT in particular is recovering quicker than expected. Heavy manufacturing end markets are projecting a ‘flattish’ first quarter and modest growth in 2021. Expect pricing to accelerate with additional inflation likely ahead.

Distributors in the sector report:

- “While October and November were difficult months, December was our best month of the entire year.”
  - “A lot of companies that I’ve talked to are looking at revamping their mechanical processes, whether they had machinery that was old or they’re re-designing it for a more efficient process.”
  - “Durable goods inventories are very low. Surge in replenishment orders booked 4Q20.”
  - “Revenue still climbing out of ‘COVID-ditch’ in 4Q but momentum is building.”
- “Raw material costs like steel, stainless and

*Continued on p. 4*

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

	4Q20 Sales Change	4Q20 Pricing Change	1Q21 Sales Forecast	2021 Sales Forecast
<b>Overall</b>	-1.5%	1.5%	0.9%	4.0%
<b>Plumbing</b>	3.0	1.0	2.3	4.0
<b>Gases &amp; Cylinder Rental</b>	2.9	0.8	3.5	5.3
<b>Hoses &amp; Accessories</b>	-9.0	0.0	-3.4	4.8
<b>HVAC</b>	6.2	1.2	4.1	5.5
<b>Mechanical/Power Transmission</b>	-5.5	0.0	-0.7	4.4
<b>OEM Fasteners</b>	-1.8	1.1	3.9	5.7
<b>Pool &amp; Spa</b>	4.1	4.3	0.1	5.7
<b>Safety</b>	4.0	2.3	2.5	4.2
<b>Industrial/Energy PVF</b>	-5.5	1.4	-1.2	2.3
<b>Electrical</b>	-5.5	0.2	-0.5	3.8
<b>General Industrial (MRO)</b>	-5.0	1.4	0.4	4.5
<b>Waterworks Products</b>	2.8	0.3	3.8	3.3
<b>Facilities Maintenance/Jan-San (MRO)</b>	-2.1	-5.2	-8.6	2.7
<b>Metalworking/Cutting Tools</b>	-11.0	0.3	0.3	4.8
<b>Datacomm</b>	-5.8	0.6	-0.2	4.4
<b>Welding Hardgoods</b>	-0.2	0.7	3.0	4.8
<b>Roofing</b>	4.5	1.4	5.4	6.1
<b>Wallboard/Gypsum</b>	-6.5	-2.3	5.0	1.8
<b>Building Materials/Lumber</b>	5.8	4.2	4.4	5.4
<b>Landscape Supplies</b>	3.6	1.3	2.3	4.4

\*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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aluminum and copper are way up... all that stuff filters right down into our COGS. More than normal, pricing seems to be going up."

#### Electrical Market

While construction demand was generally solid in 4Q20, weakening backlogs could lead to challenges ahead, according to the survey. Even so, industrial momentum is building. Pricing has moderated slightly with additional inflation likely ahead. With 1Q21 expected to accelerate sharply, the 2021 outlook is raised.

Distributors in the sector report:

- "Residential construction remains strong, and small project commercial will follow."
- "Construction was definitely the highlight for 2020 — finished really strong in the construction market."
- "Projects that were delayed due to COVID are being released. Other than that catch-up, we think it will be a rather tough 1H21. My backlog is 10% lower today than six months ago. We turn our backlog 3x per year so things ship 4-6 months after being booked. The simple fact is what didn't get created in 2Q20/3Q20 will impact 1H21."
- "Industrial business is starting to pick up so we are more optimistic than we have been."
- "Manufacturer price increases, especially on commodities, helped top-line revenue but increased margin pressure."
- "Copper & PVC continue to rise driving good profitability."
- "Continued to improve each month. December exceeded our expectations and we enter 1Q21 feeling positive."

#### HVAC/Plumbing Market

Supply constraints are easing for HVAC OEM. Residential HVAC demand remains strong, but the commercial market is still soft. Strong residential construction and renovation demands are powering plumbing growth that is forecasted to be steady in the near term.

Distributors in this sector report:

- "The issues are more so on indoor products (air handlers and coils). We are doing pretty well with the outdoor stuff."
- "Stronger than predicted demand due to weather and increased attention to comfort, ventilation, and air quality this year."
- "Pent-up demand created by home improvement projects and renewed commercial activity."

- "There's some quoting activity in commercial but I really think it's 2H21 before we start to see things recover. 2022 should be a good commercial year."

- "Residential remodeling and construction up and commercial construction down and non-existent. Many commercial jobs put on hold, indefinitely suspended, or cancelled."

- "Pricing remains highly competitive and margins compressed but we are lucky in that we have a lot of projects going and more on the horizon barring any COVID spikes and shutdowns."

- "Revenue & pricing will increase due to supplier price increases. Gross margins will be challenged with increased competition, especially from online marketplaces."

#### Building Products Market

Strong residential demand and favorable pricing are powering roofing growth. For lumber and building materials, there is continued de-urbanization and demand for single-family home construction. Solid home renovation spending continues amid COVID-19 in the pool & spa/landscaping supplies sector. Positive pricing momentum has wallboard/gypsum respondents optimistic about 2021.

Distributors in this sector report:

- "Price was the least consideration. When can I get it was the key question."
- "Supply will be an issue. Demand will force pricing up and shortages."
- "If you can get shingles, you will sell shingles."
- "We've seen continued strength for us with ample in-stock items that has allowed us to pick up market share. We saw increased activity in late Q4 compared to prior years with more customers willing to accept product to ship. Demand has stayed strong in both the renovation and new construction markets where we service."
- "We are still seeing accelerated demand and have been able to command better pricing as a result. Demand levels are outpacing production capacity, leading to longer than 'normal' lead times and an opportunity to reallocate marketing spend."
- "Hard to resist price increases when very short on inventory."
- "Residential is still high at low, low margins and commercial is undecided because of continued COVID-19 and political change that is coming. The price increases on steel and drywall are holding."



### Gases/Welding Market

Inflation is picking up in this market, with the 2021 outlook generally positive for both gases and welding hardgoods.

Distributors in this sector report:

- “Seeing price increases being announced for 2021, and occasional blips in the supply chain require extra effort and cost.”
- “Cost pressures (commodities) are escalating quickly. Tariffs, what will the new administration do? Taxes, going to go up, pressure pass on price increases will grow as the year progresses.”
- “Announcement of price adjustments for Q1 ‘21 went smoother than anticipated. Oct, Nov and December all grew nicely MOM.”
- “2021 can be a breakout year, but it WILL be different. Although we were able to adjust to the COVID impact in 2020, it is not assured that we can do the same in 2021. I also worry about the supply chain of equipment, once the surge happens. I expect a big surge in demand all at once.”
- “Better than expected year-end order activity, especially from larger accounts. Most

were looking for best investment/ROI for cashflow reserves stockpiled in earlier quarters. Good sign regarding outlook for 2021, namely anticipating demand and do not want to be out-of-stock when it returns and lose business.”

### Pipe, Valves & Fittings Market

Industrial/Energy PVF demand continues to recover sequentially with margins under pressure. The Waterworks market saw a solid quarter over quarter improvement with pricing near flat.

- “Revenue came in in line with our revised estimates, with continued improvements month-to-month. Price was down slightly, and margins were slightly lower based on product mix driven by slower industrial markets.”
- “Will continue to be very unstable environment, not the least because of a new environment with more regulations and higher taxes.”
- “Lower volumes put pressure on margins as we couldn’t take fixed cost out further.”
- “Customers are using the downturn as an opportunity to renegotiate pricing and T&C’s. They are being very aggressive especially with T&C’s.”

*Since 2010, Robert W. Baird & Co., in partnership with Modern Distribution Management, has conducted quarterly surveys of distributors and manufacturers to gauge business trends and the outlook for the industry. 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 Research Associate Quinn Fredrickson ([qfredrickson@rubaird.com](mailto:qfredrickson@rubaird.com)).*



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# 4Q20 & Annual 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.

**Key**

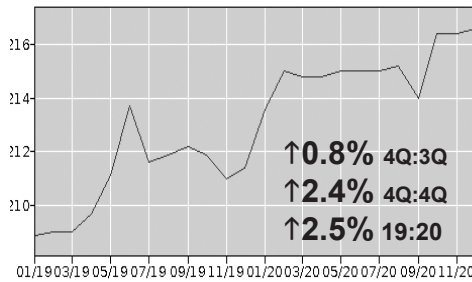
↑X.X% 4Q:3Q (4Q '20 with 3Q '20)

↑X.X% 4Q:4Q (4Q '20 with 4Q '19)

↑X.X% 19:20 (Year-end 2019 with 2020)

**Industrial**

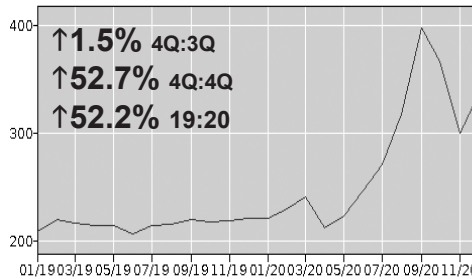
**Abrasives**



Product Group	4Q:3Q	4Q:4Q	19:20
Adhesives/Sealants	0.4%	1.3%	1.3%
Ind. Mat Handling Eqmt	0.2%	1.5%	1.6%
Industrial Rubber Products nec	-0.4%	-0.4%	-0.3%
Metal Cutting Machine Tools	0.2%	1.7%	1.8%
Metal Forming Machine Tools	1.0%	2.9%	1.8%
Metal Valves (not FP)	0.9%	2.6%	2.8%
Personal Safety Eqmt & Clothing	0.5%	2.6%	2.9%
Pumps & Compressors	0.0%	0.8%	0.7%
Rubber & Plastic Belts & Belting	-0.2%	2.3%	2.3%
Rubber & Plastic Hose	0.2%	0.4%	0.5%
Steel Mill Products	3.6%	-3.1%	2.0%

**Construction**

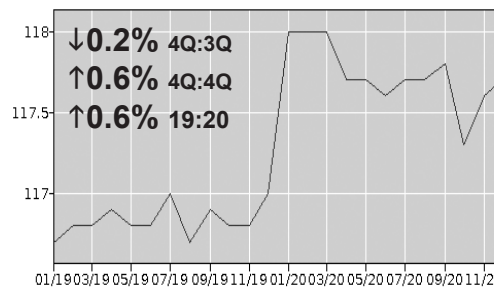
**Softwood Lumber**



Product Group	4Q:3Q	4Q:4Q	19:20
Plastic Construction Products	3.6%	5.4%	6.0%
General Millwork	0.4%	2.5%	2.7%
Gypsum Products	2.3%	2.6%	4.0%
Hardboard, Particlebd, Fiberbd	17.6%	61.7%	58.1%
Hardwood Lumber	6.5%	6.1%	9.8%
Plywood	6.9%	36.7%	29.8%
Wood Ties, Siding, Shingles, etc.	-0.2%	-1.4%	-1.5%

**Electrical**

**Electrical Machinery & Eqmt\***

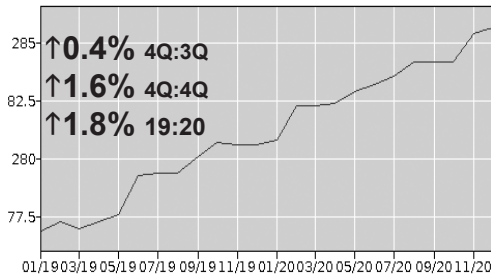


Product Group	4Q:3Q	4Q:4Q	19:20
Communications/Related Eqmt	-0.1%	2.6%	2.6%
Electric Lamp Bulbs and Tubes	0.4%	0.2%	0.2%
Electronic Components & Accs.	-1.2%	-2.6%	-2.4%
Integrating/Measuring Instrumts	0.0%	0.7%	0.5%
Lighting Fixtures	0.9%	1.8%	1.6%
Motors, Generators, etc.	0.3%	0.6%	0.1%
Switchgear, Switchbd, etc. Eqmt	0.4%	1.5%	1.7%
Transformers/Power Regulators	1.1%	1.2%	0.8%
Wiring Devices	3.5%	4.9%	6.1%
Fab. Ferrous Wire Products	0.2%	0.2%	1.3%
Nonferrous Wire & Cable	3.7%	5.4%	7.9%

\*Category includes products in table to right

### Power Transmission/Bearing/Fluid Power

#### Mech. Power Transmission Eqmt\*

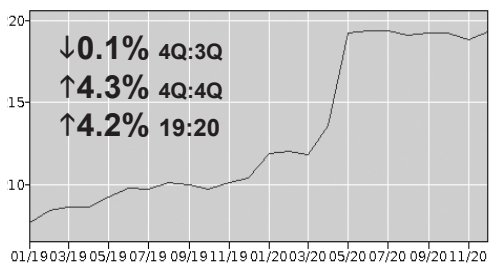


\*Category encompasses first three (PT) products in table.

Product Group	4Q:3Q	4Q:4Q	19:20
Ball & Roller Bearings	0.3%	0.7%	0.2%
Plain Bearings & Bushings	0.0%	0.8%	0.9%
Speed Changers/Drives/Gears	0.7%	1.4%	1.6%
Fluid Power Equipment	0.0%	1.6%	1.2%
FP Cylinders, Actuators, Accum.	-0.1%	1.1%	0.6%
FP Hose & Tube Fittings	0.0%	0.3%	0.2%
Fluid Power Pumps & Parts	0.2%	1.4%	1.1%
Fluid Power Valves	0.1%	3.3%	2.8%

### Fasteners

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



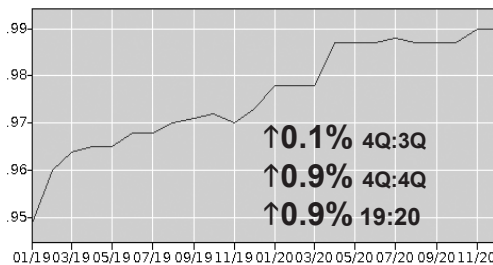
Product Group	4Q:3Q	4Q:4Q	19:20
Aircraft Fasteners	0.0%	3.4%	3.4%
Externally Thread. Fasteners**	0.0%	6.0%	6.2%
Internally Thread. Fasteners**	0.3%	6.8%	7.1%
Nonthreaded Metal Fasteners**	0.4%	-0.2%	0.3%

\*Category encompasses products in table above

\*\*Excludes aircraft fasteners.

### Tools

#### Cutting Tools & Accessories\*

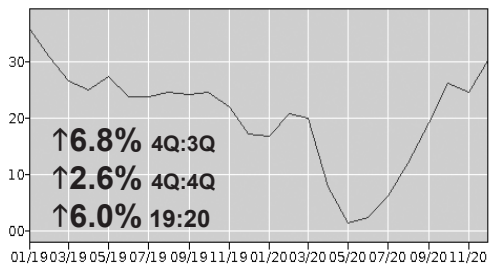


Product Group	4Q:3Q	4Q:4Q	19:20
Hand & Edge Tools	0.6%	2.5%	2.6%
Power-Driven Hand Tools	1.1%	2.4%	2.4%
Precision Measuring Tools	0.3%	0.4%	0.4%
Small Cutting Tools	0.1%	0.8%	0.7%
Tools, Dies, Jigs, Molds, Fixture	0.0%	-1.0%	-0.6%

\*Category encompasses some of the products in table.

### Other

#### Plastic Resins and Materials

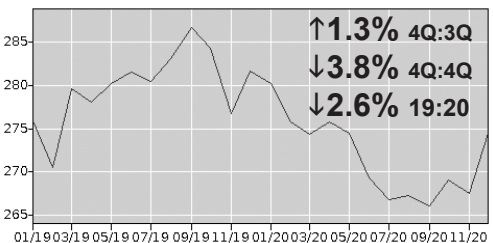


Product Group	4Q:3Q	4Q:4Q	19:20
Hardware*	0.3%	1.7%	1.3%
Builders Hardware	0.0%	1.2%	-0.3%
Air Cond. & Refrigeration Eqmt	0.5%	2.4%	2.5%
Heating Eqmt	0.2%	1.0%	0.9%
Plumbing Fixtures & Fittings	0.8%	2.4%	1.9%
Plastic Products (overall)	1.1%	0.1%	0.6%
Pkgng Products from Plastics	1.0%	-2.5%	-1.8%
Welding Machinery & Eqmt	0.1%	1.1%	1.2%
Office Supplies & Accessories	0.0%	-0.5%	-0.4%
Pulp, Paper & Allied Products**	1.2%	2.3%	2.8%
Boxes	0.1%	-0.2%	-0.1%
Sanitary Paper Products	-0.6%	0.0%	0.1%

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

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

#### Industrial Gases



## Nov 2020 | Monthly Wholesale Trade Data

Wholesale revenues in November were \$496.7 billion, down 0.2% over November 2019 and up 0.2% over October 2020. November sales of durable goods were down 0.4% over the previous month and up 2.5% from a year ago. Sales of nondurable goods were up 0.7% over October and down 2.8% from last November.

Inventories were \$649.8 billion at the end of November, flat from the revised October level and down 2.1% from last year. November inventories of durable goods were up 0.9% from October and down 4.1% from a year ago. Inventories of nondurable goods were down 1.2% over October and up 1.1% from last November.

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



**Inventories/Sales Ratio.** The November inventories/sales ratio for merchant wholesalers was 1.31. The November 2019 ratio was 1.33.

### Sales and Inventories Trends: Nov 2020

NAICS Code	Business Type	Sales \$Millions	Inventory \$Millions	Stock/Sales Ratio	% Change Sales 10/20-11/20	% Change Sales 11/19-11/20	% Change Inventory 10/20-11/20	% Change Inventory 11/19-11/20
<b>42</b>	<b>U.S. Total</b>	<b>496,738</b>	<b>649,823</b>	<b>1.31</b>	<b>0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>-2.1</b>
<b>423</b>	<b>Durable</b>	<b>243,118</b>	<b>386,960</b>	<b>1.59</b>	<b>-0.4</b>	<b>2.5</b>	<b>0.9</b>	<b>-4.1</b>
4231	Automotive	41,185	63,907	1.55	-3.9	2.5	0.8	-4.6
4232	Furniture & Home Furnishings	7,653	11,981	1.57	-2.6	-2.6	4.3	-11.7
4233	Lumber & Other Construction Materials	14,487	20,204	1.39	1.7	14.7	1.5	1.3
4234	Prof. & Commercial Equip. & Supplies	47,515	48,644	1.02	2.8	8.9	1.8	-4.6
42343	Computer Equipment & Software	23,984	15,205	0.63	3.3	11.1	4.0	-9.9
4235	Metals & Minerals	12,354	29,389	2.38	1.7	-10.2	0.7	-8.0
4236	Electrical Goods	45,670	53,243	1.17	-1.9	-7.0	-0.8	-2.6
4237	Hardware, Plumbing, & Heating Equipment	13,825	28,780	2.08	-2.0	7.9	1.3	5.9
4238	Machinery, Equipment & Supplies	38,266	101,330	2.65	-0.8	2.5	0.9	-5.0
4239	Miscellaneous Durable	22,163	29,482	1.33	2.4	11.8	0.3	-6.8
<b>424</b>	<b>Nondurable Goods</b>	<b>253,620</b>	<b>262,863</b>	<b>1.04</b>	<b>0.7</b>	<b>-2.8</b>	<b>-1.2</b>	<b>1.1</b>
4241	Paper & Paper Products	7,477	9,910	1.33	0.7	-3.1	-0.5	7.6
4242	Drugs	66,075	72,229	1.09	1.2	10.0	-5.4	5.3
4243	Apparel, Piece Goods & Notions	11,818	24,897	2.11	6.6	-5.5	0.7	-12.3
4244	Groceries & Related Products	59,218	42,351	0.72	-0.1	0.8	0.4	1.4
4245	Farm-product Raw Materials	19,030	29,413	1.55	6.1	18.8	-2.3	26.5
4246	Chemicals & Allied Products	10,072	11,699	1.16	3.4	-5.1	-0.7	-7.0
4247	Petroleum & Petroleum Products	41,067	19,961	0.49	-1.3	-31.9	6.8	-4.2
4248	Beer, Wine & Distilled Beverages	15,083	18,016	1.19	-5.1	11.5	2.2	-7.1
4249	Miscellaneous Nondurable Goods	23,780	34,387	1.45	0.8	11.4	-0.9	-4.3

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.



## Fastenal Execs Shed Light On 'Evolving' Branch Model

On its recent earnings call with analysts, Fastenal Co. executives shared the usual facts and figures from the Winona, Minnesota-based distributor's impressive fourth quarter.

CEO Dan Florness and CFO Holden Lewis ticked off such metrics as revenue and profit growth, earnings per share increase, operating margin improvement and other key stats from both 4Q and 2020.

They recounted the positive contributions from the ongoing pandemic-driven product mix (safety was again key to top-line performance), which helped drive record net income and operating cash flow while also providing Fastenal enough capital to acquire Apex Industrial Technologies in March.

But it was one notable decline they discussed on the call that showed how Fastenal continues to adapt to a changing economic landscape — the company's shrinking branch footprint.

Fastenal ended 2020 with just 2,003 branch locations, down 111 — or 5.3% — from the same time a year ago. Meanwhile, its in-market location employee count declined 9.3% to 12,680 from 13,977 also year-over-year.

These diminishing numbers are the result of the company's "evolved" branch model, Florness told analysts on the call.

And while he said the company would expand on this new outlook in the months to come, he shed light on the "distinct Fastenal branch models that have emerged in 2020."

One is the customer service branch (CSB). Said Florness: "That's the traditional branches that many of you are familiar with where there is a showroom in front, there is a walk-in element to our business.

Still, most of it's going out the back door, but it's more traditional. It's about half of our branch network today."

## Distributor

Industrial distributor **MSC Industrial Supply Co.**, Melville, New York, and Davidson, North Carolina, will permanently close 73 branch offices, which have been temporarily closed due to COVID-19, and eliminate 115 jobs. The company said it expects to achieve ongoing annual cost savings of \$15 million to \$18 million beginning in fiscal 2022, and savings of \$7 million to \$9 million in fiscal 2021.

Industrial distributor **Hisco Inc.**, Houston, has acquired **Kimco Distributing Corporation**, a Mentor, Ohio-based supplier of products, services and solutions to the manufacturing, testing and repair industries to numerous companies in the Midwest.

**American Construction Source**, a Springfield, Missouri-based building materials distributor backed by **Angeles Equity Partners LLC** and **Clearlake Capital Group LP**, announced the acquisition of **Builder's Resource Group**, Woodville, Wisconsin.

**Air Hydro Power Inc.** (AHP), Louisville, Kentucky, has acquired **Uland Supply**, also of Louisville.

**Beacon Roofing Supply Inc.**, Herndon, Virginia, announced that it has received early termination of the waiting period required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 in connection with the \$850 million divestiture of its Interior Products business.

**Houston Wire & Cable Co.**, Houston, announced that it has agreed to sell its **Southwest Wire Rope** business in an asset transaction for \$5 million.

Switzerland-based fastener distributor **The Bossard Group** reported its full-year 2020 sales fell 3.3% to CHF 812.8 million (US\$916.5 million) compared to 2019. Sales for the period were down 7.2% in local currency as a result of a stronger Swiss franc.

**Motion Industries Inc.**, Birmingham, Alabama, a distributor of maintenance, repair, and operation replacement parts and a wholly owned subsidiary of **Genuine Parts Co.**, announced it is rebranding as simply "Motion."

**Kaman Distribution Group**, Bloomfield, Connecticut, announced the appointment of Chris Henson as vice president of business development.

Electrical and industrial distributor **Turtle & Hughes**, Linden, New Jersey, has promoted four executives — Norman Blumenthal and Billy Wresch to senior vice president, and Shiv Singh and Izabela Legocka to vice president.

Industrial distributor **Bearing Headquarters** (BHQ), Broadview, Illinois, has named Jimmy Timble president and CEO.

**Kimball Midwest**, a national industrial supplier based in Columbus, Ohio, has appointed Julio Ramirez as CFO, Tyler Wooddell as chief business development officer and Steve Thompson as general sales manager.

*continued on p. 2 of this section*

**MARKETS  
UPDATE  
SUPPLEMENT  
P. 2**

**News Digest**

Continued from p. 1 of this section

Electrical distributor **Schaedler Yesco Distribution Inc.**, Harrisburg, Pennsylvania, announced a corporate restructuring at the fourth-generation, family-owned distributor, including Greg Schaedler being named the company's CEO, succeeding his father, Jim Schaedler.

**Kraft Fluid Systems**, a Cleveland-based industrial distributor of hydraulic equipment and provider of mobile drive solutions in the Midwest U.S., recently announced the promotion of Scott Durand to president and Melissa Book to CFO.

**Brady Industries**, a Las Vegas-based full-line janitorial supply, equipment and foodservice distributor, appointed Mark Allen to the newly created position of vice president of procurement.

**Genuine Parts Co.**, the Atlanta-based parent of distributor **Motion**, announced it has appointed William P. Stengel as president.

**NetPlus Alliance**, Lockport, New York, announced that on Jan. 1, the organization's

founder and chairman, Dan Judge, transitioned ownership of the industrial and contractor supplies buying group to his daughter and NetPlus president, Jennifer Murphy.

**The Power Transmission Distributors Association (PTDA)**, Chicago, will host its first virtual trade show on March 16.

**Economic**

Total industrial production grew 1.6% in December, according to the **Industrial Production and Capacity Utilization Report**, released by the Federal Reserve. The index has recovered much of its 16.5% decline from February to April, but output in December was still 3.5% lower than its pre-pandemic February level.

Privately owned housing units authorized by building permits in December were at a seasonally adjusted annual rate of 1,709,000, according to the **U.S. Census Bureau and the U.S. Department of Housing and Urban Development**.

This is 17.3% above the December 2019 rate of 1,457,000 and 4.5% above the revised November rate of 1,635,000.

**Calculation of MDM Inflation Index for December 2020**

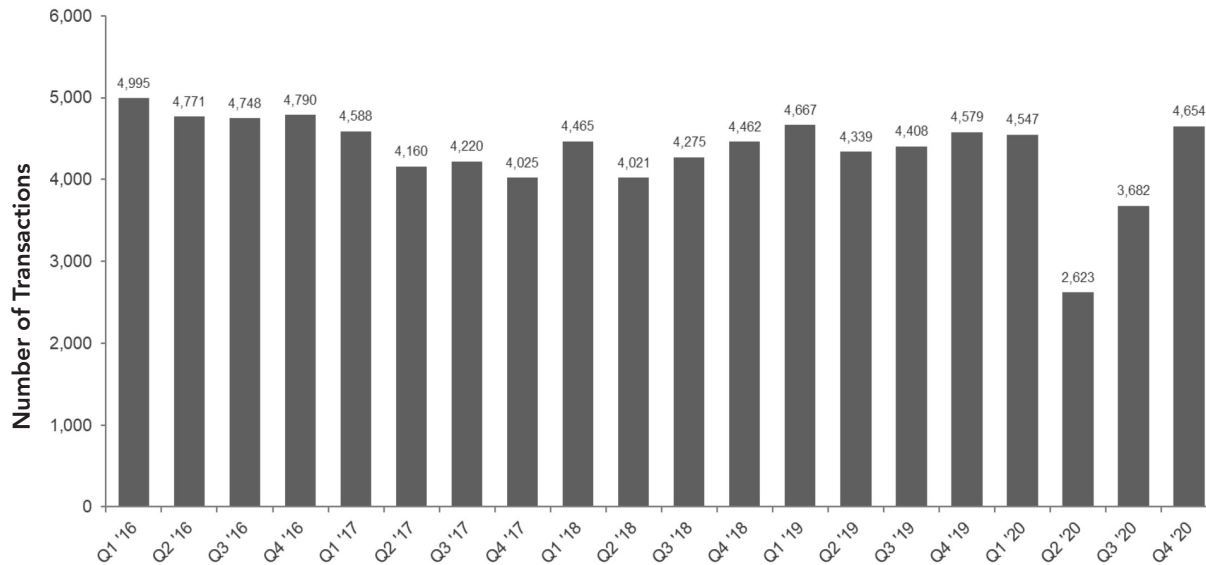
	BLS Price Indices Dec '20	BLS Price Indices Nov '20	BLS Price Indices Dec '19	Weighted % Sales Weight	Weighted Indices Dec '20 (1)X(4)	% Change Dec '20 Nov '20	% Change Dec '20 Dec '19
1136 Abr. Prod.	643.0	642.4	627.9	19.1	122.81	0.09	2.41
1135 Cutting Tools	539.6	539.6	535.0	18.9	101.98	0.00	0.86
1145 Power Trans.	892.6	891.6	877.2	15.4	137.45	0.11	1.75
1081 Fasteners	592.2	590.9	567.4	9.0	53.30	0.23	4.38
1149.01 Valves, etc.	1147.6	1118.7	1062.7	7.6	87.22	2.59	7.99
1132 Power Tools	404.8	404.8	395.5	6.5	26.31	0.00	2.35
1144 Mat. Handling	659.7	656.8	648.8	6.2	40.90	0.44	1.68
0713.03 Belting	970.2	970.2	948.9	6.1	59.18	0.00	2.24
1042 Hand Tools	859.6	855.8	838.8	8.1	69.62	0.44	2.48
108 Misc. Metal	507.9	507.9	504.5	3.1	15.75	0.00	0.67
"New" Dec Index 373.3					December Inflation Index 714.53	0.43	2.76
"New" Nov Index 371.7					November Inflation Index 711.47		
					December 2019 Inflation Index 695.35		

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

## Fourth 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.



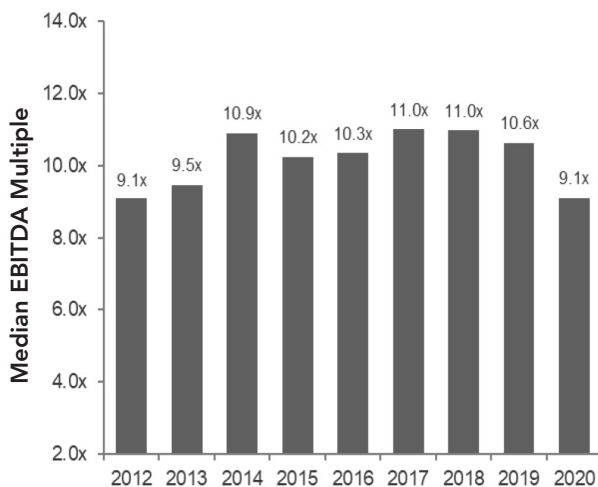
Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 12/31/2020.

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.

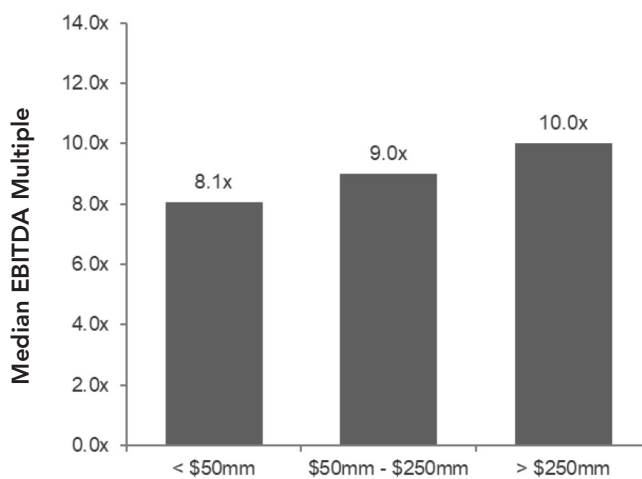
### Median EBITDA Transaction Multiples – All Industries

The 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 - 2020



Data Source: Houlihan Lokey, Thomson Reuters, S&P Capital IQ, as of 12/31/2020.

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 Financial Metrics and Trading Multiples

(Data as of December 31, 2020)

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.

(\$ in millions)		Enterprise		LTM Sales	LTM Margins		Working Capital /	EV / LTM	
Company	Ticker	Value	LTM Sales	Growth	Gross	EBITDA	LTM Sales	ROIC	EBITDA
Applied Industrial Technologies, Inc.	AIT	3,610	3,137	(9.5%)	28.9%	9.0%	16.9%	7.3%	12.9x
Arrow Electronics, Inc.	ARW	9,462	27,557	(6.6%)	11.1%	3.5%	13.4%	6.2%	9.9x
Avnet, Inc.	AVT	4,349	17,727	(7.0%)	11.5%	2.0%	20.2%	2.0%	12.3x
Beacon Roofing Supply, Inc.	BECN	5,320	5,941	(2.6%)	24.5%	6.7%	12.2%	2.4%	13.3x
Bluelinx Holdings Inc.	BXC	851	2,845	5.5%	15.3%	4.6%	14.7%	9.0%	6.5x
Builders FirstSource, Inc.	BLDR	6,030	11,673	6.8%	25.9%	7.4%	9.3%	9.5%	7.0x
Bunzl	BNZL	13,431	13,156	4.1%	21.9%	6.7%	8.2%	8.5%	15.1x
DXP Enterprises, Inc.	DXPE	511	1,068	(16.7%)	27.5%	4.5%	15.8%	2.5%	10.5x
Fastenal Company	FAST	28,106	5,647	5.9%	45.5%	23.1%	31.4%	21.5%	21.6x
Ferguson	FERG	29,649	21,819	0.1%	29.4%	8.4%	9.2%	12.4%	16.1x
Genuine Parts Company	GPC	16,516	18,436	3.3%	33.3%	7.4%	3.8%	9.0%	12.1x
GMS, Inc.	GMS	2,206	3,148	(2.0%)	32.8%	8.8%	15.0%	5.4%	8.0x
Houston Wire & Cable Company	HWCC	110	303	(11.9%)	22.3%	1.6%	38.7%	0.5%	NM
Lawson Products	LAWS	443	342	(7.2%)	53.0%	7.1%	9.1%	8.8%	18.3x
MRC Global Inc.	MRC	1,269	2,747	(29.7%)	17.2%	2.3%	20.9%	0.5%	20.5x
MSC Industrial Direct Co., Inc.	MSM	5,209	3,141	(6.4%)	42.0%	13.6%	19.9%	12.3%	12.2x
NOW Inc.	DNOW	481	1,939	(37.0%)	19.2%	(1.2%)	16.1%	(3.4%)	NM
Park-Ohio Holdings Corp.	PKOH	881	1,314	(20.1%)	14.0%	5.1%	28.9%	2.0%	13.2x
Pool Corp.	POOL	15,239	3,680	16.4%	28.6%	12.3%	16.1%	23.4%	33.7x
Reliance Steel & Aluminum Co.	RS	8,695	9,126	(19.5%)	31.8%	10.6%	20.8%	6.7%	9.0x
Rexel SA	RXL	8,072	15,713	(4.6%)	23.1%	4.3%	10.5%	4.7%	11.9x
SiteOne	SITE	7,222	2,564	11.6%	33.1%	8.7%	19.7%	7.5%	32.3x
W.W. Grainger	GWW	23,700	11,703	2.6%	36.7%	13.3%	17.0%	18.4%	15.3x
Watsco Inc.	WSO	8,264	4,973	6.0%	24.2%	8.0%	20.4%	11.1%	20.8x
WESCO International, Inc.	WCC	8,475	10,297	NM	19.2%	8.6%	26.5%	4.7%	9.5x
<b>Median</b>		<b>\$6,030</b>	<b>\$4,973</b>	<b>(3.6%)</b>	<b>25.9%</b>	<b>7.4%</b>	<b>16.1%</b>	<b>7.3%</b>	<b>12.9x</b>

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