

## M&A Market Analysis

Summer 2013

# Industrial Distribution

Industry Update



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The following report has been prepared by the Investment Banking Department of Robert W. Baird & Co. This report is an overview and analysis of industry and consolidation trends and is not intended to provide investment recommendations on any specific industry or company. A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at <<http://www.rwbaird.com/researchdisclosure>>. You can also call 1-800-792-2473 or write: Robert W. Baird, Equity Research, 24th Floor, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

Robert W. Baird & Co. (“Baird”) is a leading middle-market focused investment bank serving the M&A and equity financing needs of our clients throughout the U.S., Europe and Asia. Since 2004, we have advised on 447 M&A transactions totaling more than \$78.5 billion and have served as an underwriter on more than 519 equity offerings totaling \$133.0 billion in capital raised.

Since 2004, Baird’s Distribution Group has completed 29 M&A transactions totaling more than \$6.2 billion and 29 financing transactions totaling more than \$12.7 billion. Since 2011, Baird had advised on 22 industrial distribution transactions totaling approximately \$12 billion.

Baird’s balanced buy- and sell-side practice provides expertise for public and private companies, while our dedicated financial sponsor coverage further expands opportunities and financing resources for our clients. Through close coordination between our U.S., European and Asian bankers, we work to optimize opportunities and results for clients in the international marketplace. Approximately half of our M&A activity over the past five years has involved international transactions.

Please refer to Appendix – Disclaimers and Other Disclosures on page 29.

# Executive Summary

**Introduction.** Baird's Distribution Group is pleased to present *Industrial Distribution – Industry Update*. This report, created by Baird's Investment Banking Distribution Team, highlights capital markets and M&A trends and recent events that impact companies within the industrial distribution sector.

Since the mid-1990s our team has enjoyed the privilege of serving clients across numerous industrial distribution verticals, including the automotive and heavy duty truck aftermarket, building, infrastructure and roofing products, electrical / electrical utilities and automation, flow control, jan / san, industrial supply, integrated supply, PVF and safety distribution sectors, among others. Industrial distribution is a highly diverse "sector" that spans multiple end markets and encompasses varied business models, ranging from branch-based distributors emphasizing local relationships, to "catalog" models serving customers through a centralized distribution center. Industrial distribution is a global sector, with long-established and entrenched distribution models in North America and Europe, as well as new and rapidly evolving distribution channels in emerging economies.

**Industrial Distribution Performance Review.** This report details the financial and stock price performance for 19 publicly traded North American industrial distributors (shown on pages 13-15) with combined annualized sales of approximately \$66 billion.

## Q1 2013

### Revenue Growth

- Median Q1 2013 revenue growth was 2.6% sequentially, while year-over-year Q1 revenue growth was 2.7%
- Median full year 2012 revenue growth was 8.9%

### EBITDA Growth

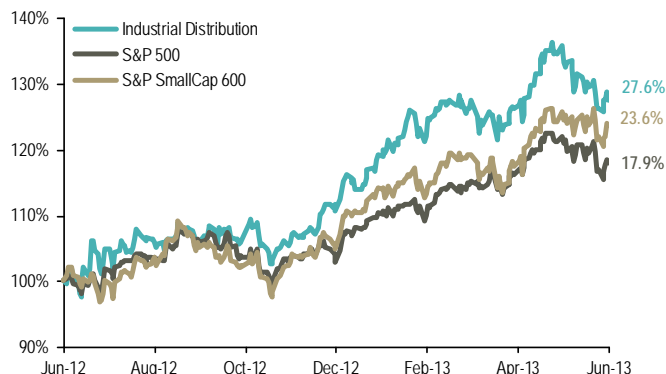
- Median Q1 2013 EBITDA growth was 4.8% sequentially, while year-over-year Q1 EBITDA growth was 5.2%
- Median full year 2012 EBITDA growth was 10.9%

## 2013 Outlook

- The median consensus 2013 estimated revenue growth is 7.8% and EBITDA growth is 13.6%

**LTM Stock Price Performance Review.** Outperforming broader market indices, our industrial distribution stock price index increased significantly over the last twelve months ("LTM"). In the LTM period ended June 30, 2013, our market cap weighted index increased 27.6%.

## Industrial Distribution Stock Performance



Source: Capital IQ as of June 30, 2013.

Note: The Industrial Distribution Index return is adjusted to reflect dividends.

**Positive Economic Trends.** U.S. GDP expanded at a 2.1% annual rate in the first three months of 2013, with growth largely driven by a pick-up in consumer spending and a faster rate of inventory accumulation. Unemployment hit a four-year low in April at 7.5% followed by 7.6% in May and June. The Dow Jones and S&P 500 surpassed all-time highs in May and returned 18.1% and 20.6% respectively in the LTM ended June 30, 2013. Economic conditions remain favorable, as an accommodating monetary policy and positive market momentum continue into Q3 2013.

**M&A Activity.** M&A activity remains strong in the industrial distribution sector. Baird tracked 89 industrial distribution M&A transactions YTD through June 30, 2013, in line with the 91 transactions tracked in YTD 2012. In full year 2012, Baird tracked 182 industrial distribution M&A transactions globally. The deal value was disclosed for 35 of these transactions, with an aggregate reported value of \$12.0 billion and an average enterprise value of \$343.6 million. Transaction activity includes a diverse buyer universe, with larger, platform distributors generating strong interest from both domestic and international strategic buyers, as well as private equity buyers.

The healthy M&A environment is fueled by sizable levels of unallocated financial sponsor capital, improved credit conditions, strong corporate balance sheets and, despite some volatility, generally stable macro-economic conditions. We expect these factors to continue to support M&A activity through 2013, as the long-term consolidation trend within the distribution sector continues.

# Industrial Distribution Performance

## INDUSTRIAL DISTRIBUTION PERFORMANCE

**Revenue Growth.** Reported revenue growth for our distribution group moderated in Q1 2013, following strong growth in 2012.

- Median Q1 2013 revenue growth was 2.6% sequentially, while year-over-year Q1 revenue growth was 2.7%
- Median full year 2012 revenue growth for our distribution group was 8.9%
- Full year 2012 year-over-year revenue growth was positive for 17 of 19 distributors in our group
- 8 of 19 distributors reported double digit revenue growth in 2012

Large distributors continue to achieve growth in excess of the end markets they serve through share gains and strategic acquisitions.

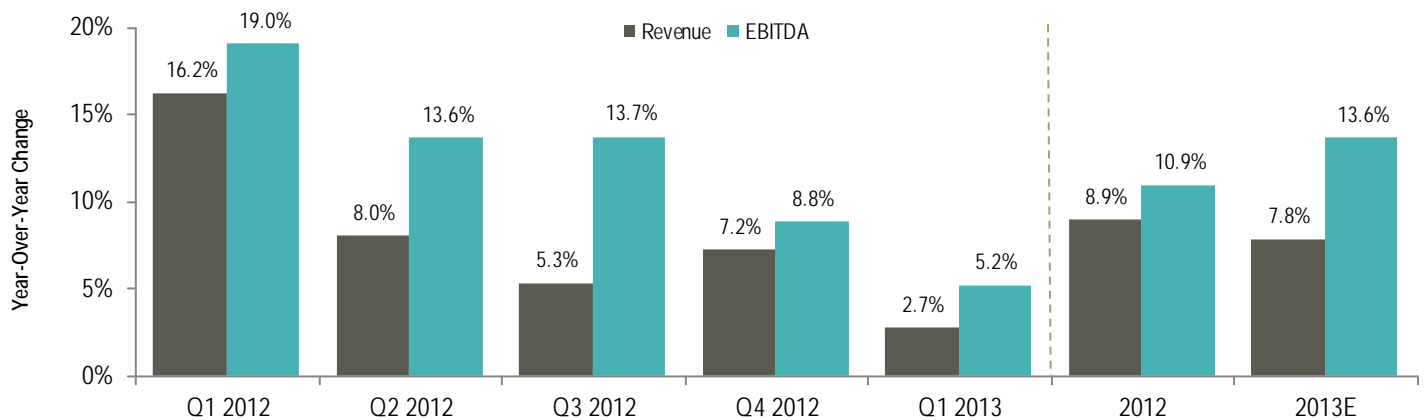
Revenue growth is expected to accelerate through 2013 for our distribution group, with median consensus estimated revenue growth of 7.8%.

**EBITDA Growth.** Our distribution group reported slower EBITDA growth in Q1 2013 after healthy gains in 2012.

- Median Q1 2013 EBITDA growth was 4.8% sequentially, while year-over-year Q1 EBITDA growth was 5.2%
- Median full year 2012 year-over-year EBITDA growth rate for our distribution group was 10.9%.
- 7 of 19 companies generated double digit EBITDA growth in 2012
- EBITDA growth exceeded revenue growth, demonstrating operating leverage

Based on consensus analyst forecasts, strong EBITDA growth is anticipated in 2013. The median projected EBITDA growth for 2013 is 13.6%.

Median Year-Over-Year Revenue and EBITDA Growth



Source: Capital IQ. Consensus estimates as of June 30, 2013.

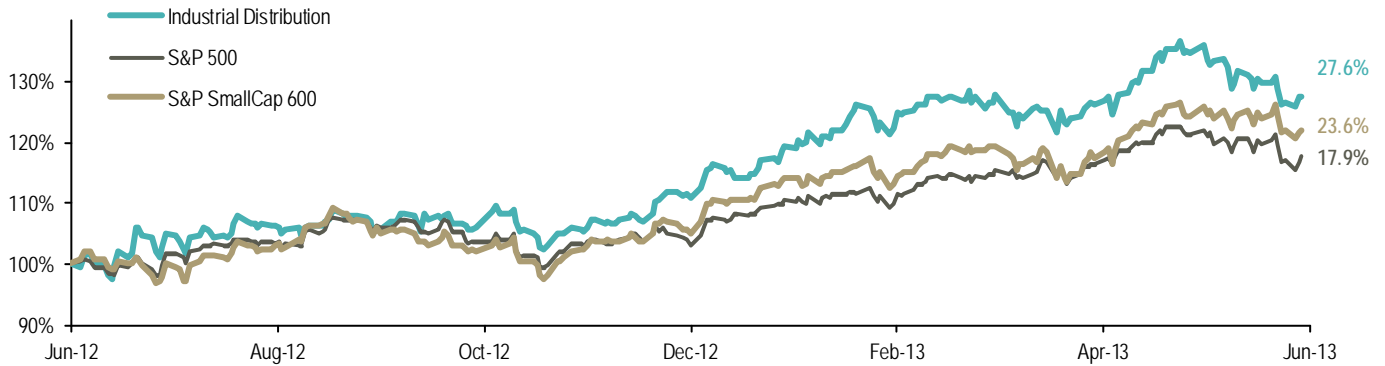
Baird's North American Industrial Distribution Index includes Airgas, Anixter International, Applied Industrial Technologies, Beacon Roofing Supply, BlueLinx Holdings, Builders FirstSource, DXP Enterprises, Edgen Group, Fastenal Company, Genuine Parts Company, Houston Wire and Cable, Lawson Products, MRC Global, MSC Industrial Direct, Pool Corporation, Watsco, Wesco Aircraft Holdings, WESCO International and W.W. Grainger.

# Industrial Distribution Performance

**LTM Stock Price Performance.** Our group of industrial distribution stocks outperformed the broader market averages over the last twelve months. The chart below illustrates the performance of our index of 19 industrial distribution stocks compared to the S&P 500 Index and the S&P SmallCap 600 Index during the LTM period ended June 30, 2013. The industrial distribution index posted a 27.6% gain over this timeframe.

**Valuation Multiples.** On a quarterly Enterprise Value to LTM EBITDA multiple basis, public distributors are trading higher in 2013 compared to 2012. Current Enterprise Value to EBITDA multiples are trading 13.9% higher than the quarterly average 2012 multiples. The chart below shows the median Enterprise Value to LTM EBITDA multiple for our group of 19 industrial distributors at the end of each quarter since 2007.

## LTM Stock Price Performance

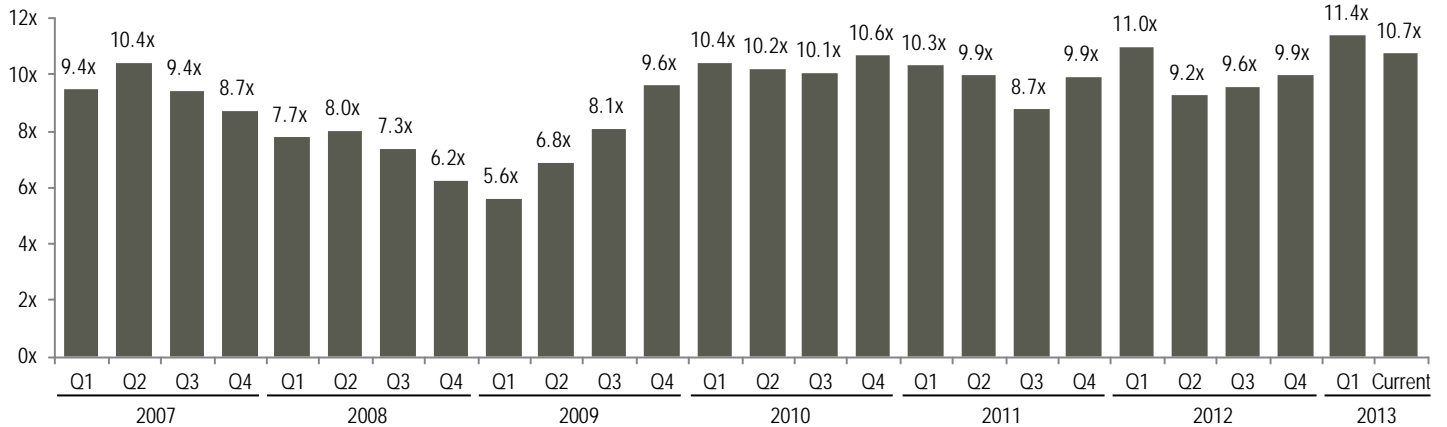


Source: Capital IQ as of June 30, 2013.

Baird's North American Industrial Distribution Index includes Airgas, Anixter International, Applied Industrial Technologies, Beacon Roofing Supply, BlueLinx Holdings, Builders FirstSource, DXP Enterprises, Edgen Group, Fastenal Company, Genuine Parts Company, Houston Wire & Cable Company, Lawson Products, MRC Global, MSC Industrial Direct, Pool Corporation, Watsco, Wesco Aircraft Holdings, WESCO International and W.W. Grainger.

Note: The Industrial Distribution Index return is adjusted to reflect dividends.

## Median Enterprise Value to LTM EBITDA



Source: Capital IQ as of June 30, 2013.

Median of Baird's North American Industrial Distribution Index includes Airgas, Anixter International, Applied Industrial Technologies, Beacon Roofing Supply, BlueLinx Holdings, Builders FirstSource, DXP Enterprises, Edgen Group, Fastenal Company, Genuine Parts Company, Houston Wire & Cable Company, Lawson Products, MSC Industrial Direct, Pool Corporation, Watsco, Wesco Aircraft Holdings, WESCO International and W.W. Grainger.

# Industrial Distribution Performance

Several key trends in the distribution space were prevalent throughout 2012 and are expected to continue through 2013.

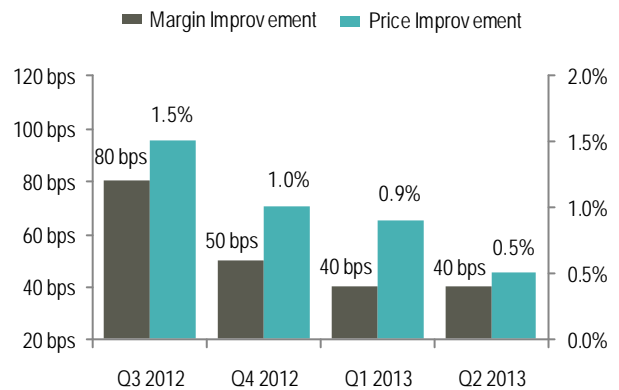
**Strong M&A Activity Continues.** Distribution M&A activity since 2010 has been strong as market conditions continue to improve and the industry consolidates. Strategic buyers are focused on penetrating new geographies and expanding their product lines to better serve existing customers. Private equity activity remains healthy.

**Distributors Build Global Presence.** Larger distributors continue to expand their geographic footprint on a global scale.

**Leveraging Technology.** As competition among distributors increases, companies innovate by leveraging technology to focus resources and improve operations. Top distributors are focused on improving analytics to better understand sales, marketing and product trends to drive value-added solutions and streamline operations. Distributors are also refining their online platforms to develop eCommerce ordering capabilities and sales force management tools.

**Vending Model Driving Growth.** The onsite vending model is increasingly recognized as a key growth opportunity as it accelerates sales with customers, improves distribution efficiency and increases customer loyalty.

## Year-Over-Year Margin Performance



Source: Robert W. Baird & Co. Analysis.

**Margin Expansion.** Distributors in Baird's quarterly Distribution Surveys reported healthy gains in gross margin through 2012 and modest gains in the first half of 2013. The first three quarters of 2012 saw strong margin expansion, while the fourth quarter experienced a slowdown, perhaps due to increased uncertainty around the presidential election, then anticipated fiscal cliff and other economic concerns. Pricing also improved through 2012 in many sectors, with an overall median quarterly improvement of 1.6%. Margin and price performances were up slightly in Q1 and Q2 2013.

**Sector Trends.** Healthy sector trends were seen through 2012 and into Q2 2013, with the quarterly performance for each sector summarized below.

## LTM Revenue and Pricing Trends by Sector

	Q3 2012		Q4 2012		Q1 2013		Q2 2013	
	Revenue Growth	Pricing	Revenue Growth	Pricing	Revenue Growth	Pricing	Revenue Growth	Pricing
PVF – Water & Sewer	4.9%	1.5%	0.4%	(0.5%)	11.6%	0.1%	6.4%	2.7%
Pool & Spa	1.1%	1.7%	3.2%	0.6%	10.1%	2.2%	5.1%	2.2%
Plumbing	2.7%	0.5%	6.0%	2.2%	9.6%	(0.2%)	9.2%	0.7%
Rental Equipment	7.4%	2.4%	8.2%	0.0%	8.0%	0.4%	28.1%	0.5%
Building Materials	5.5%	5.1%	5.2%	5.1%	7.8%	8.0%	1.1%	(3.3%)
Datacomm	4.0%	(0.3%)	2.7%	0.5%	3.9%	1.6%	4.6%	1.8%
HVAC	4.0%	0.4%	2.7%	0.5%	3.4%	0.6%	5.8%	0.4%
Electrical	4.8%	1.5%	4.5%	0.9%	2.9%	0.7%	1.9%	1.0%
Gases & Cylinder Rental	7.0%	5.4%	4.2%	1.3%	2.3%	2.3%	3.4%	1.3%
PVF – Industrial & Energy	(1.0%)	(6.0%)	3.7%	(1.0%)	2.0%	(0.3%)	(7.0%)	(3.3%)
Roofing	2.4%	0.0%	1.6%	0.2%	2.0%	1.6%	3.3%	1.3%
Welding Hardgoods	5.4%	2.5%	3.6%	1.0%	1.9%	1.7%	(4.2%)	0.9%
<b>Overall</b>	<b>4.1%</b>	<b>1.5%</b>	<b>3.0%</b>	<b>1.0%</b>	<b>1.9%</b>	<b>0.9%</b>	<b>2.6%</b>	<b>0.5%</b>
Safety	5.0%	1.8%	1.7%	1.7%	□.7%	0.8%	4.1%	0.6%
Fasteners	4.9%	1.3%	2.1%	0.2%	1.1%	0.1%	2.8%	1.8%
General Industrial (MRO)	3.7%	2.3%	1.8%	1.4%	0.6%	0.5%	2.0%	0.7%
Cutting Tools	4.2%	1.8%	8.1%	1.7%	0.2%	1.3%	(1.5%)	1.2%
Janitorial/Sanitization	4.7%	2.2%	5.1%	1.5%	(0.8%)	0.6%	2.0%	3.3%
Other	5.8%	1.1%	0.9%	0.5%	(1.0%)	0.6%	0.0%	3.3%
Mechanical/Power Transmission	2.1%	2.3%	0.5%	0.9%	(2.5%)	0.4%	(0.5%)	0.1%

Source: Robert W. Baird & Co. Analysis.

# Industrial Distribution Performance

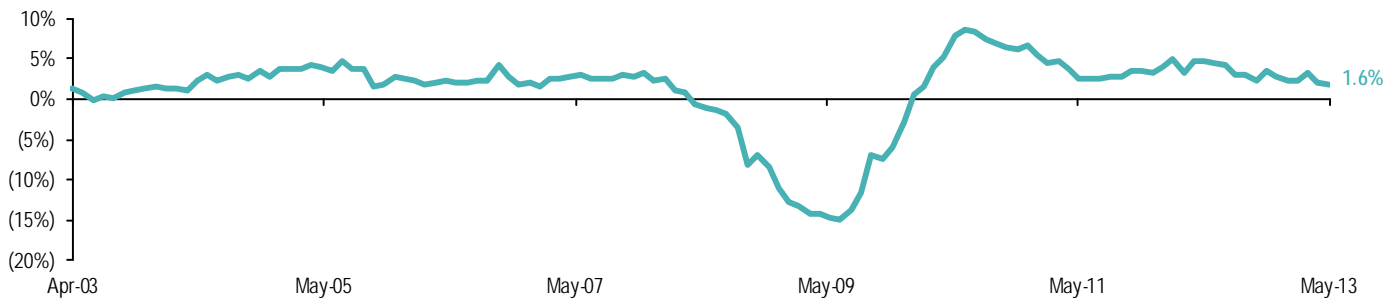
**Economic Indicators.** Recent economic indicators have shown signs of continued recovery. Momentum in key economic indicators, including the unemployment rate, which recently reached its lowest level since December 2008, suggests a positive outlook for distributors in 2013.

Industrial production growth reached 1.6% in May 2013, marking 40 consecutive months of expansion. Capacity utilization has gradually improved over the past two years, reaching 77.6 in May 2013 while remaining below its 79.7 average from 1986 to 2013.

The Purchasing Managers Index (PMI) has indicated expansion for 43 of the past 45 months. PMI registered 50.9 in June 2013, indicating moderating expansion. The New Orders Index has indicated expansion for 39 of the past 45 months and registered 51.9 in June, illustrating modest gains.

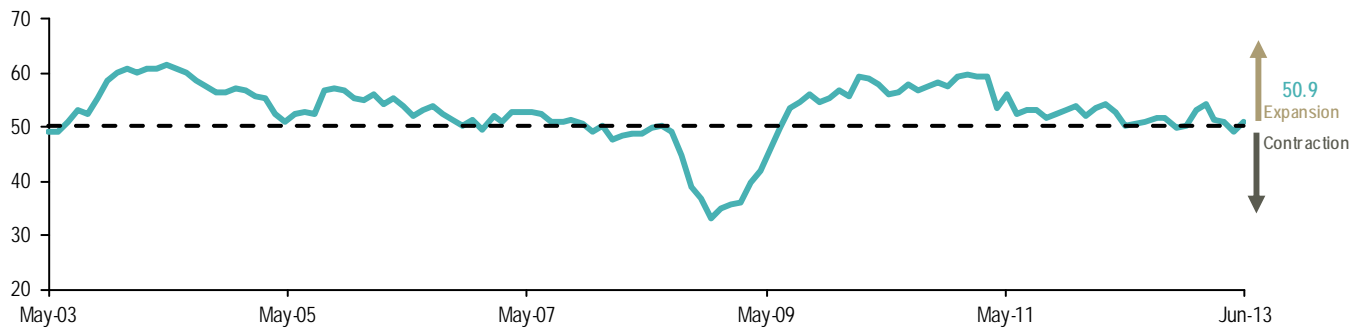
Steady industrial production trends continue to drive performance for our industrial distribution group. In this environment, original equipment manufacturers (OEMs) continue to rely on distributors to deliver critical supplies both for production of finished goods and equipment maintenance.

## Industrial Production Growth



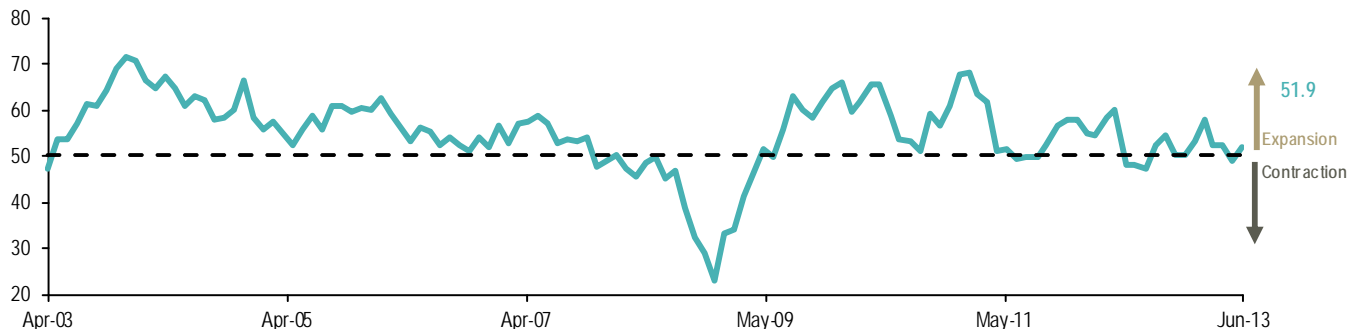
Source: U.S. Federal Reserve. Year over year change in industrial production, seasonally adjusted.

## PMI



Source: Institute for Supply Management. Seasonally adjusted index.

## New Orders Index



Source: Institute for Supply Management. Seasonally adjusted index.

# Industrial Distribution M&A Analysis

The global industrial distribution sector experienced robust M&A activity in recent years. Since the start of 2005, Baird identified approximately 1,200 majority-stake M&A transactions. Among deals with a reported value, the aggregate value over this period was \$95 billion.

Drivers of consolidation activity include:

- Fragmented Markets
- Economies of Scale
- Cross-selling and Product Portfolio Expansion
- Entry into New Geographies
- Access to New Capabilities

**Fragmented Markets.** The industrial distribution sector remains highly fragmented, with consolidation opportunities in a number of end markets. Revenue concentration is low among the leading participants in the key sub-verticals.

- Within the \$100+ billion North American Industrial Supply distribution market, the top eight distributors represent only 31% of total sales
- In the \$94 billion Electrical Products distribution vertical, the five leading distributors account for 32% of revenue, and the balance of the top 200 make up 30%, leaving nearly 40% of the category to about 8,000 mostly local distributors
- In the \$100+ billion Building Products market, more than 85% of sales occur through distributors outside of the top five
- The \$300+ billion vehicle aftermarket is highly fragmented, with distributors differentiated by both channel focus (e.g., independent, OES, retail) and product focus (e.g., heavy duty truck repair, replacement tires). For example, the top eight wholesale distributors in the \$30 billion specialty aftermarket represent less than 40% of industry sales

The prevalence of smaller, local distributors has resulted in a slow and steady consolidation process. With the large majority of the market still controlled by local independent distributors, consolidation will likely continue for some time.

**Economies of Scale.** Industrial distributors often choose to acquire rather than open a greenfield location in order to quickly gain scale economies, which are extremely beneficial in the sector. Scale advantages stemming from higher sales volumes and increased power in the channel include:

- Technology and Logistics
- Sourcing Capabilities
- Volume Discounts from Suppliers
- Management Resources
- Recruiting and Retention of Talent
- Access to Growth Capital

We believe that larger distributors will grow faster than the market through secular share gains (enabled by scale advantages) and acquisitions. Scale advantages typically translate to higher gross margins and increased leverage on existing infrastructure, reinforcing a stronger competitive position. Larger distributors have the resources to invest in technology and logistics that enable differentiated services. Strategic buyers with large, established businesses have greater ability to reduce costs for acquired firms post-transaction.

**Cross-selling and Product Portfolio Expansion.** Acquisitions that add customers and products allow distributors to leverage an existing customer base and product portfolio through cross-selling, resulting in incremental revenue opportunities. Distributors also make acquisitions to become more relevant to customers by offering a more comprehensive set of services and products.

**Entry into New Geographies.** Larger distributors often have the capabilities and expertise to add branches in new locations. Additional facilities enable distributors to serve customers with multiple sites, facilitating sales to high-volume national and regional accounts. Acquisitions may be the most practical and cost effective means of entering new markets in certain distribution sectors.

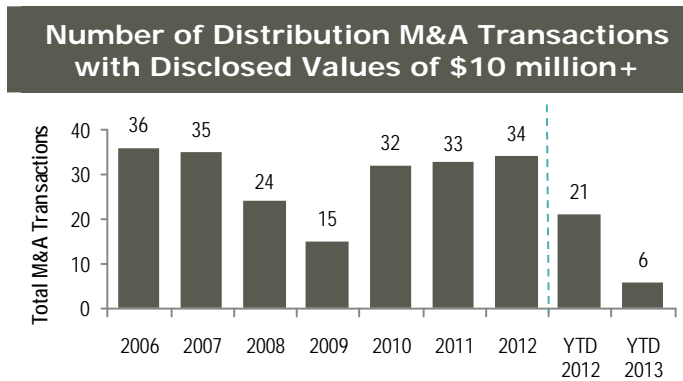
**Access to New Capabilities.** M&A can enable distributors to access new capabilities. For example, a distributor of technical products may acquire complementary fabrication capabilities. Similarly, a less technically-focused distributor may acquire an engineering or design team to better support customer demands.



# Industrial Distribution M&A Analysis

**Overall, Total U.S. M&A Activity Mixed.** As of June 30, 2013 year-to-date transaction dollar volume was up 22% and the number of transactions was down 24%. During 2012, uncertainty and volatility characterized the first three quarters while a strong resurgence occurred in the fourth quarter. Overall, 2012 M&A transaction value decreased 9.0%, but the number of transactions increased 10.7%.

M&A activity in the industrial distribution sector moderated in the first half of 2013 compared to 2012, with total transactions in line but fewer disclosed transactions and lower dollar volume. Baird identified 89 transactions year-to-date as of June 30, 2013 compared to 91 for 2012 year-to-date. In 2012, Baird identified a total of 182 distribution M&A transactions. The aggregate transaction value among these deals with a reported value reached approximately \$12.0 billion in 2012, driven by a significant increase in the number of disclosed transactions greater than \$100 million in enterprise value compared to 2011.



Source: Source: Baird proprietary Industrial Distribution Database. Sample size of 1,395 – disclosed values of at least \$10 million. Most transactions reported during this period have an undisclosed value and are not included above.

**Distribution M&A Activity by Deal Size**

	2011	2012	YTD 2012	YTD 2013
<b>Deal Count</b>				
<\$100M	23	12	6	3
\$100M-\$500M	13	16	11	1
>\$500M	2	7	4	3
Undisclosed	144	147	70	82
<b>Total</b>	<b>183</b>	<b>182</b>	<b>91</b>	<b>89</b>
<b>Transaction Value</b>				
<\$100M	\$731	\$689	\$309	\$41
\$100M-\$500M	\$3,527	\$4,293	\$3,373	\$268
>\$500M	\$1,162	\$7,045	\$5,025	\$2,450
Undisclosed	**	**	**	**
<b>Total</b>	<b>\$5,420</b>	<b>\$12,027</b>	<b>\$8,707</b>	<b>\$2,759</b>

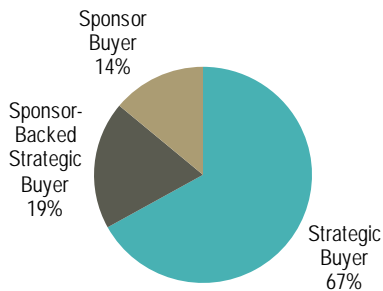
Source: Robert W. Baird & Co. proprietary Industrial Distribution Database.  
Note: Year-to-Date as of June 30, 2013.

**LTM Financial Sponsor M&A.** Sponsor activity in industrial distribution remains strong, boosted by improved credit availability. Selected platform financial sponsor transactions included:

- June 2013 – **Svoboda Capital** acquired **Blake & Pendleton**, a distributor and servicer of compressors, dryers, filters and compressor management systems, from KLH Capital
- May 2013 – **AEA Investors** acquired **AramSCO**, a distributor of safety products and equipment, from Summit Partners
- March 2013 – **PAI Partners** acquired **IPH Group**, a distributor of industrial supplies, from Investcorp
- February 2013 – **Berkshire Partners** acquired **SRS Distribution**, a distributor of roofing supplies and other building products, from AEA Investors
- February 2013 – **Investcorp** acquired **Hydrasun Limited**, a distributor of fluid transfer products from Equistone Partners
- January 2013 – **One Equity Partners** acquired **Merfish Pipe & Supply and Pipe Exchange**, distributors of steel pipe, fittings and flanges
- December 2012 – **Linsalata Capital Partners** acquired **Stag-Parkway Inc.**, a distributor of recreational vehicle parts and accessories, from Ares Capital
- December 2012 – **High Road Capital Partners** acquired **Accurate Component Sales**, a distributor of industrial fasteners, hardware and components
- December 2012 – **Ridgemont Equity Partners** acquired **J.A.M. Distributing Company**, a distributor of lubricants, fuel, base stock and ancillary products
- October 2012 – **Blue Point Capital Partners** acquired **Smith-Cooper International**, a distributor of valves and fittings, from ZS Fund
- October 2012 – **Harvest Partners** acquired **FCX Performance**, a distributor of flow control equipment, from Sterling Investment Partners. **Baird** served as exclusive financial advisor to FCX Performance
- October 2012 – **American Securities** acquired **GHX Holdings**, a distributor of fluid transfer and sealing products to the energy market, from CapStreet Group. **Baird** served as exclusive financial advisor to American Securities
- October 2012 – **TPG Capital** acquired **Fleetpride**, a distributor of heavy duty truck and trailer parts, from Investcorp
- May 2012 – **Goldman Sachs Capital Partners** acquired **Interline Brands**, a distributor of MRO and facilities maintenance products, for approximately \$1,070 million in a take-private transaction

# Industrial Distribution M&A Analysis

## M&A by Buyer Type Since 2011



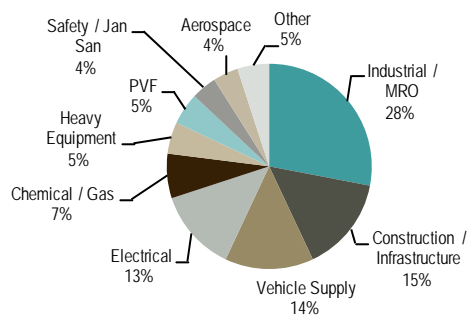
Note: Based on 459 distribution announced distribution transactions tracked by Baird.

**M&A Activity by Buyer Type.** Distribution M&A activity since 2011 has been led by strategic buyers, with financial sponsors primarily engaging in transactions on behalf of an existing portfolio company. Strategic acquirors are most active in this space due to strong combination benefits that exist between distributors. Distributors can capitalize on scalable business models, strong operating leverage, significant cost synergies, an expanded customer base and the ability to better serve existing customers through an enhanced product offering. Financial sponsors seek investment in distributors due to their scalable business models, ability to quickly integrate acquisitions, high margins, cycle resiliency and strong and reliable cash flows. We expect the majority of 2013 distribution transactions to be completed by strategics or on behalf of strategics as the industry continues to consolidate.

**Cross-Border M&A.** In the LTM, several key cross-border transactions were completed. Selected cross-border transactions include:

- April 2013 – U.S.-based **LKQ Corporation** acquired Netherlands-based **Sator Beheer**, a distributor of auto parts, tools and equipment, for approximately \$268 million. **Baird** served as exclusive financial advisor to LKQ Corporation
- March 2013 – U.S. based **Genuine Parts Company** acquired the remaining stake in **Exego Group**, a distributor of aftermarket automotive replacement parts
- October 2012 – U.S.-based **WESCO International** acquired Canada-based **EECOL**, a distributor of electrical parts and service, for approximately \$1,170 million
- August 2012 – France-based **Sonepar** acquired U.S.-based **Codale Electric Supply**, a distributor of electrical products with approximately \$220 million in sales
- May 2012 – France-based **Rexel** acquired U.S.-based **Platt Electric Supply**, a distributor of electrical products and services, for approximately \$380 million

## M&A Activity by Vertical Since 2011

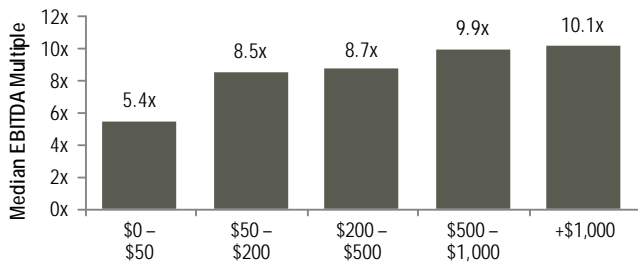


Note: Based on 459 announced distribution transactions tracked by Baird.

**M&A Activity by Vertical.** The diversity of the industrial distribution space is illustrated by the chart above. Since 2011, M&A activity has been concentrated in the Industrial/ MRO, Construction/Infrastructure, Automotive and Electrical verticals. Industrial/MRO represented the most active vertical with 28% of deal volume.

# Industrial Distribution M&A Analysis

## Industrial Distribution – Historical Multiple Analysis



Source: Baird proprietary Industrial Distribution Database. Sample size of 1,395 – 108 with disclosed multiples.

### Impact of Company Size on Valuation Multiples.

Since 2000, Baird has tracked 1,366 distribution M&A transactions, 104 with disclosed multiples. Disclosed transactions indicate a significant relationship between company size and EV/EBITDA valuation multiples. As enterprise values increase, EV/EBITDA multiples also tend to increase. The historical median transaction multiple for companies with \$0-\$50 million in enterprise value is **5.4x**, while the median multiple for transactions with over \$1 billion in enterprise value is **10.1x**.

**2013 Outlook.** The recent M&A environment has become more challenging, but several key variables favor deal activity. M&A is expected to remain strong in 2013, as the conditions that supported deal-making in 2012 remain in place.

- 2013 is off to a mixed start, with aggregate deal value increasing despite a decrease in transaction count
- Deal count could accelerate as many prospective buyers and sellers deferred decisions due to heightened uncertainties in 2012
- Credit markets remain conducive to M&A, with steadily increasing leverage multiples and tighter pricing. Investors continue to search for yield, evidenced by significant inflows into leveraged loan funds. Middle-market lenders are aggressively searching for opportunities to deploy capital, particularly for stronger credits
- Financial sponsors are holding aging portfolios and significant uninvested capital (\$400+ billion).
- Strategic acquirors with large cash holdings continue to seek growth via M&A to supplement moderate organic growth opportunities
- Key fundamentals continue to improve the U.S. economy, including equity capital markets conditions, housing recovery, positive GDP growth and four-year low unemployment

The industrial distribution sector remains highly fragmented. With the large majority of the market still controlled by local independent distributors, the industry remains poised for consolidation. Over the long term, we expect M&A activity in industrial distribution to remain robust. Strategic buyers will seek to grow their businesses through transactions that add products, services and geographies. Financial sponsors will look for opportunities to combine an acquired business with an existing portfolio company or to enter an attractive sector through a platform investment.

# Baird Industrial Distribution Research

Baird's top-ranked\* research department provides active equity research on various Industrial Distribution companies. Excerpts from recent research notes are below. Click on the quote to read the entire note and related disclosures.

## *Baird Research Commentary*

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# Airgas™

*"With growth more weighted towards gases as the cycle progresses, any upside to revenue growth should read through at high incremental profitability. As such, we continue to recommend this long-term value creator and continue to like the stock, particularly on pullbacks."*

— [Research note on 5/2/13](#)

# ANIXTER

*"Long term, we believe Anixter can achieve mid- to upper-single-digit organic sales growth with EPS growing in the mid-teens. The company is also positioned to supplement organic growth through acquisitions, and continues to invest in various growth initiatives focused on product line/serving offering expansion, geographic expansion, and share gains."*

— [Research note on 4/24/13](#)



Beacon Roofing Supply, Inc.

*"We view BECN as a very attractive, defensive, and domestic growth stock with mostly recurring revenue streams and catalysts from new construction, pricing, storms, and ongoing consolidation of the highly fragmented industry. BECN has now delivered two consecutive years of organic growth within the company's targeted +5-10% range."*

— [Research note on 7/12/13](#)

# FASTENAL®

*"We believe there is outperformance over the next 1-2 years based upon our mid-cycle thesis, augmented by several growth catalysts and excellent execution overall."*

— [Research note on 7/11/13](#)

# GRAINGER®

FOR THE ONES WHO GET IT DONE

*"GWW reported 2013 EPS slightly above expectations, as better-than-expected gross margin and SG&A leverage more than offset slightly softer sales growth. Management tweaked the low end of EPS guidance higher, similar to last quarter, although corresponding sales growth guidance was reduced 1% at the high end. While guidance continues to bracket Street expectations, July sales growth is trending slightly lower than June."*

— [Research note on 7/17/13](#)

# HWC

HOUSTON WIRE & CABLE COMPANY

*"Management continues to expect overall revenues to be up vs. 2012, reflecting an ongoing cautious tone with respect to both end markets and geographies. Encouragingly, however, management commented that underlying same-store trends in April improved vs. March."*

— [Research note on 5/10/13](#)

\* Baird ranked No. 1 for "most trusted research" for the tenth consecutive year and No. 1 for "most important" research firm in the 2013 Greenwich Associates Survey (2004-2013). Surveys conducted with U.S. small-cap and mid-cap fund managers.

# Baird Industrial Distribution Research

## *Baird Research Commentary*

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**MRC**<sup>®</sup>

*"Both the Flow Control acquisition and Celanese global supply contract are consistent with our favorable secular view of MRC, namely that the company should benefit from additional accretive acquisitions and future global supply contract wins, while we believe increasing domestic energy production should also drive infrastructure additions."*

— *Research note on 6/18/13*



**MSC**  
*Industrial Supply Co.*

*"MSM reported solid 3QF13 results despite continued lackluster end-market trends, consistent with our 2Q13 survey. Encouragingly, BDNA is proceeding on schedule, and gross margin is expected to ramp meaningfully in 1QF14."*

— *Research note on 7/11/13*



**POOLCORP**<sup>™</sup>

*"With new construction and major renovation starting to accelerate, we believe the company is at a transition point where top-line growth will drive more earnings growth relative to cost leverage. That said, we believe the company is well-positioned to make this transition."*

— *Research note on 6/19/13*



**watsco**

*"We believe Watsco will continue to take market share from the fragmented group of 1,300+ HVAC distributors in the US given benefits of scale (higher rebates, better sourcing, management resources, breadth of products, etc.). Sales of parts and supplies via the Carrier Enterprise JV should also lead to share gains and outsized growth in these categories."*

— *Research note on 4/18/13*



**WESCO**<sup>®</sup>

*"We continue to like WCC due to excellent execution and for investors seeking higher industrial beta, especially as we look forward to reaccelerating economic growth in 2H13. We also view the recently completed EECOL Electric acquisition favorably, which we see as a very good strategic fit with the potential for significant sales synergies longer term."*

— *Research note on 4/18/13*



**Wesco Aircraft**

*"2QF13 operating results were above expectations, highlighted by contributions from new/expanded contracts, with favorable non-operating items. Corresponding F2013 guidance was also raised (but by less than the 2QF13 outperformance) -- likely conservative -- but nonetheless implying 2HF13 operating results below previous expectations."*

— *Research note on 4/29/13*

# Industrial Distribution Overview

## SELECTED MARKET SEGMENTS

Distributors, as we define them, are businesses offering a variety of products from various suppliers, together with the complementary value-added services required to make the use, installation or design of these products more convenient for customers.

Leading industrial distributors play a critical role in the supply chain between manufacturers and customers. Often serving as the outsourced sales and inventory management function for manufacturers, distributors provide comprehensive solutions and timely delivery of products to a typically diverse and fragmented customer base.

**Building Products.** The North American Building Products distribution market is approximately \$100+ billion annually and includes firms distributing products such as lumber, roofing products, siding, windows and insulation.

- This market tends to be cyclical and has shown historical correlations to economic growth, interest rates and population growth
- The Building Products market is influenced by commercial and residential construction projects. Projects range from home improvements to large, multi-year commercial developments

**Electrical Products.** The North American Electrical Products distribution market is approximately \$94 billion in size and includes firms distributing products such as connectors, controls, enclosures, lighting products, power systems and wire and cable.

- This market is generally tied to growth in the industrial economy as well as residential and commercial construction cycles
- Electrical distributors are poised to benefit from upgrades to energy infrastructure and long-term growth in energy consumption
- Green energy initiatives are an emerging trend in this market, with advances in alternative energy expected to require significant supporting infrastructure

**Industrial Supply.** The North American Industrial Supply distribution market represents approximately \$100 billion and includes firms distributing products such as abrasives, fasteners, janitorial supplies, safety products and tools. Industrial Supply distributors provide products that are necessary to maintain facilities and operate equipment.

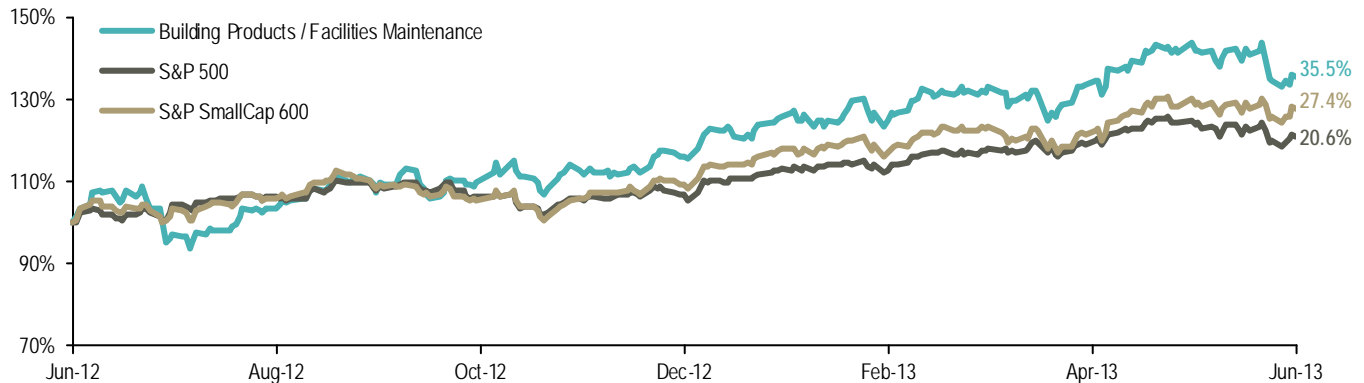
- This market generally grows in line with GDP and has shown historical correlations to the U.S. Purchasing Managers Index (PMI)
- Product availability is a key competitive factor, as are price and service

**Vehicle Aftermarket.** The U.S. vehicle aftermarket is approximately \$300+ billion and includes firms distributing replacement products such as chassis, batteries, brakes, driveline components, filtration products, C-class MRO products and tires. The vehicle aftermarket includes multiple channels, including both one- and two-step distribution models, to service independent repair shops and OES and retail centers, which in turn serve the end customer.

- The market tends to be less cyclical than the new vehicle market, as vehicles are maintained throughout the economic cycle
- The number of vehicles on the road, growth in new vehicles, total miles driven and average vehicle age impact sales in the aftermarket channel

# Building Products Sector Update

## LTM Stock Performance



Source: Capital IQ as of June 30, 2013.

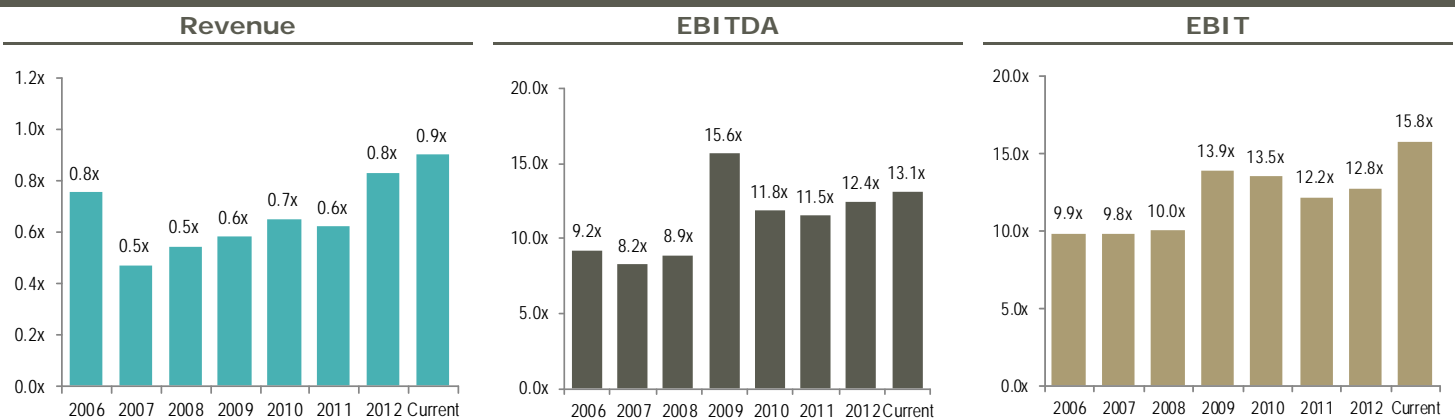
Building Products includes: Beacon Roofing Supply, BlueLinX Holdings, Builders FirstSource, Pool Corporation and Watsco.

## Valuation and Operating Statistics

Ticker	Company	Enterprise Value (\$mil)	LTM Revenue (\$mil)	LTM Margins		Revenue Growth		EBITDA Growth		LTM Enterprise Value /		
				EBITDA	EBIT	2012	2013E	2012	2013E	Revenue	EBITDA	EBIT
BECN	Beacon Roofing Supply, Inc.	\$2,123.6	\$2,088.6	7.7%	6.5%	8.7%	14.8%	16.8%	15.8%	1.0x	13.1x	15.8x
BXC	BlueLinX Holdings Inc.	657.9	1,957.3	0.7%	0.3%	8.7%	N/M	N/M	N/M	0.3	N/M	N/M
BLDR	Builders FirstSource, Inc.	816.1	1,171.0	0.8%	(0.1%)	37.4%	36.6%	N/M	N/M	0.7	N/M	N/M
POOL	Pool Corp.	2,710.2	1,962.4	8.4%	7.8%	9.0%	4.8%	19.4%	10.2%	1.4	16.4	17.7
WSO	Watsco Inc.	3,278.5	3,511.8	7.2%	6.7%	15.2%	8.6%	14.3%	15.8%	0.9	12.9	13.8
<b>Mean</b>		<b>\$1,917.3</b>	<b>\$2,138.2</b>	<b>5.0%</b>	<b>4.2%</b>	<b>15.8%</b>	<b>16.2%</b>	<b>16.8%</b>	<b>13.9%</b>	<b>0.9x</b>	<b>14.1x</b>	<b>15.8x</b>
<b>Median</b>		<b>2,123.6</b>	<b>1,962.4</b>	<b>7.2%</b>	<b>6.5%</b>	<b>9.0%</b>	<b>11.7%</b>	<b>16.8%</b>	<b>15.8%</b>	<b>0.9</b>	<b>13.1</b>	<b>15.8</b>

Source: Capital IQ. LTM as of June 30, 2013.

## Median Trading Multiples

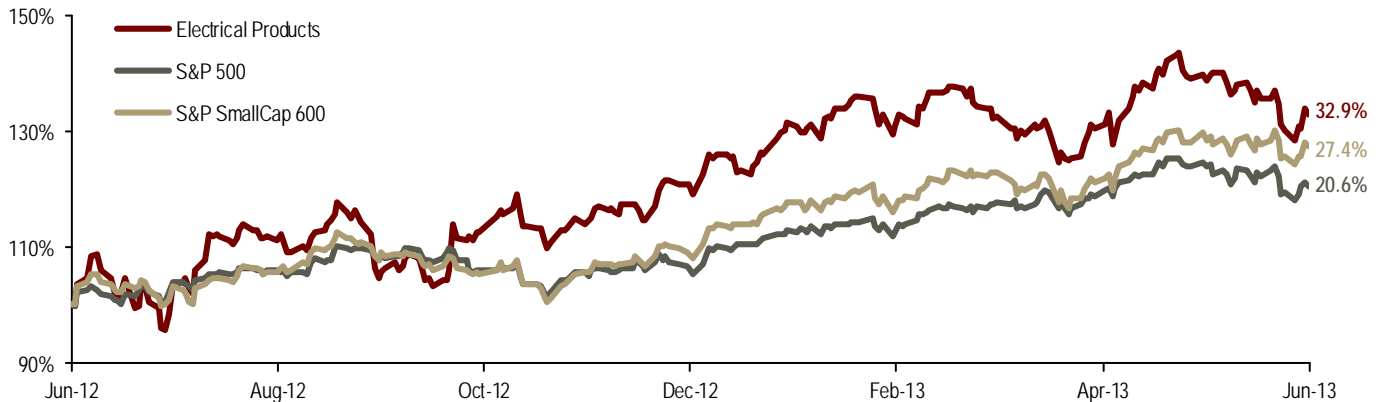


Source: Capital IQ. Current multiples as of June 30, 2013.

Median multiples are based on enterprise values as of the end of the period indicated divided by the income statement figure for the period indicated.

# Electrical Products Sector Update

## LTM Stock Performance



Source: Capital IQ as of June 30, 2013.

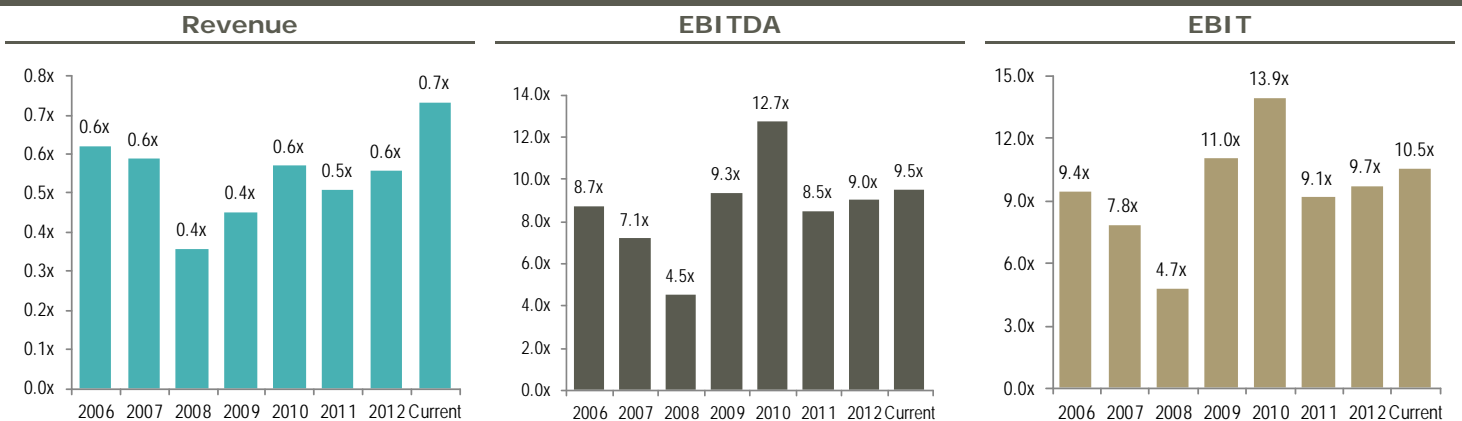
Electrical Products includes: Anixter International, Houston Wire & Cable Company and WESCO International.

## Valuation and Operating Statistics

Ticker	Company	Enterprise Value (\$mil)	LTM Revenue (\$mil)	LTM Margins		Revenue Growth		EBITDA Growth		LTM Enterprise Value /		
				EBITDA	EBIT	2012	2013E	2012	2013E	Revenue	EBITDA	EBIT
AXE	Anixter International Inc.	\$3,310.5	\$6,221.3	5.9%	5.4%	1.7%	1.9%	(7.0%)	9.6%	0.5x	9.0x	9.9x
HWCC	Houston Wire & Cable Compan	299.8	392.9	8.0%	7.3%	(0.9%)	2.8%	(8.0%)	4.1%	0.8	9.5	10.5
WCC	WESCO International Inc.	4,555.7	6,781.3	6.3%	5.7%	7.4%	16.5%	1.0%	51.0%	0.7	10.7	11.8
<b>Mean</b>		<b>\$2,722.0</b>	<b>\$4,465.2</b>	<b>6.7%</b>	<b>6.1%</b>	<b>2.8%</b>	<b>7.0%</b>	<b>(4.7%)</b>	<b>21.6%</b>	<b>0.7x</b>	<b>9.8x</b>	<b>10.7x</b>
<b>Median</b>		<b>3,310.5</b>	<b>6,221.3</b>	<b>6.3%</b>	<b>5.7%</b>	<b>1.7%</b>	<b>2.8%</b>	<b>(7.0%)</b>	<b>9.6%</b>	<b>0.7</b>	<b>9.5</b>	<b>10.5</b>

Source: Capital IQ. LTM as of June 30, 2013.

## Median Trading Multiples



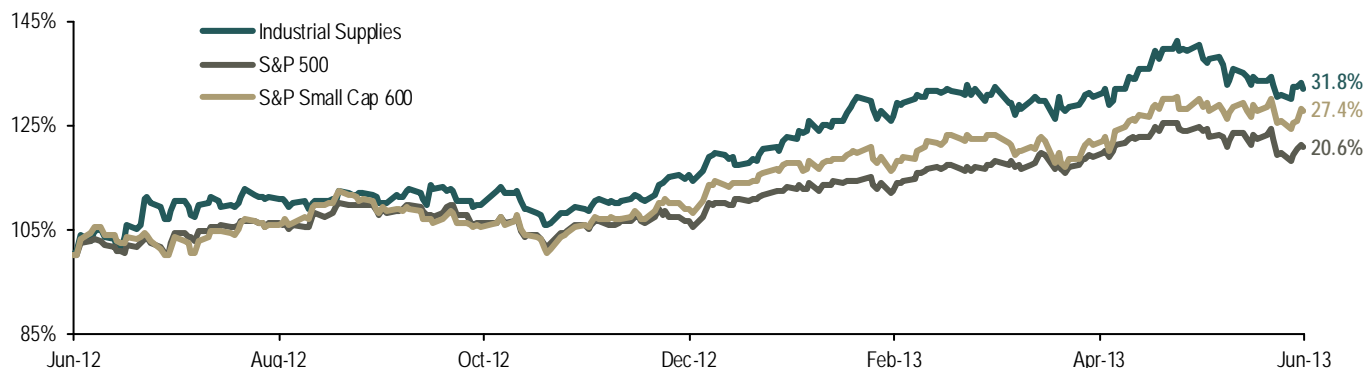
Source: Capital IQ. Current multiples as of June 30, 2013.

Median multiples are based on enterprise values as of the end of the period indicated divided by the income statement figure for the period indicated.



# Industrial Supplies Sector Update

## LTM Stock Performance



Source: Capital IQ as of June 30, 2013.

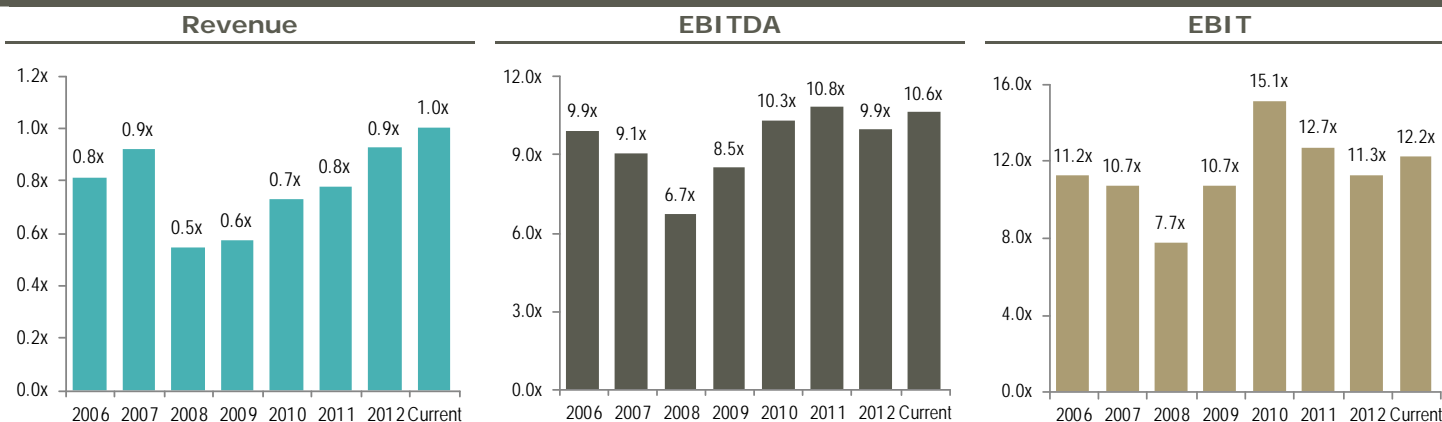
Industrial Supplies includes: Airgas, Applied Industrial Technologies, DXP Enterprises, Edgen Group, Fastenal Company, Genuine Parts Company, Lawson Products, MRC Global, MSC Industrial Direct, W.W. Grainger and Wesco Aircraft Holdings.

## Valuation and Operating Statistics

Ticker	Company	Enterprise Value (\$mil)	LTM Revenue (\$mil)	LTM Margins		Revenue Growth		EBITDA Growth		LTM Enterprise Value /		
				EBITDA	EBIT	2012	2013E	2012	2013E	Revenue	EBITDA	EBIT
ARG	Airgas, Inc.	\$9,592.5	\$4,957.5	18.0%	12.2%	7.1%	3.0%	8.2%	7.2%	1.9x	10.7x	15.8x
AIT	Applied Industrial Technologies,	1,993.5	2,441.7	8.3%	7.3%	5.2%	4.0%	6.3%	6.8%	0.8	9.8	11.2
DXPE	DXP Enterprises, Inc.	1,158.9	1,134.9	10.0%	8.2%	35.9%	16.1%	N/M	15.2%	1.0	10.2	12.4
EDG	Edgen Group Inc.	672.4	1,959.3	6.4%	4.8%	22.9%	(11.4%)	15.2%	(16.2%)	0.3	5.4	7.1
FAST	Fastenal Company	13,424.5	3,213.7	23.6%	21.8%	13.3%	7.4%	17.4%	11.2%	4.2	17.7	19.2
GPC	Genuine Parts Company	12,181.1	13,031.4	8.6%	7.8%	4.5%	9.6%	12.3%	16.9%	0.9	10.9	12.0
LAWS	Lawson Products Inc.	139.8	286.5	(2.1%)	(3.8%)	(7.8%)	1.9%	N/M	N/M	0.5	N/M	N/M
MRC	MRC Global Inc.	3,854.3	5,493.3	8.2%	7.3%	15.3%	(0.5%)	N/M	(6.1%)	0.7	8.5	9.6
MSM	MSC Industrial Direct Co. Inc.	4,662.0	2,419.1	18.5%	16.7%	14.0%	6.9%	14.7%	(0.9%)	1.9	10.4	11.5
GWW	W.W. Grainger, Inc.	17,694.8	9,037.0	15.0%	13.4%	10.8%	7.0%	9.6%	19.7%	2.0	13.1	14.6
WAIR	Wesco Aircraft Holdings, Inc.	2,289.8	838.5	21.7%	20.3%	8.9%	14.5%	(5.0%)	14.9%	2.7	12.6	13.4
<b>Mean</b>		<b>\$6,151.3</b>	<b>\$4,073.9</b>	<b>12.4%</b>	<b>10.6%</b>	<b>11.8%</b>	<b>5.3%</b>	<b>9.8%</b>	<b>6.9%</b>	<b>1.5x</b>	<b>10.9x</b>	<b>12.7x</b>
<b>Median</b>		<b>3,854.3</b>	<b>2,441.7</b>	<b>10.0%</b>	<b>8.2%</b>	<b>10.8%</b>	<b>6.9%</b>	<b>10.9%</b>	<b>9.2%</b>	<b>1.0</b>	<b>10.6</b>	<b>12.2</b>

Source: Capital IQ. LTM as of June 30, 2013.

## Median Trading Multiples

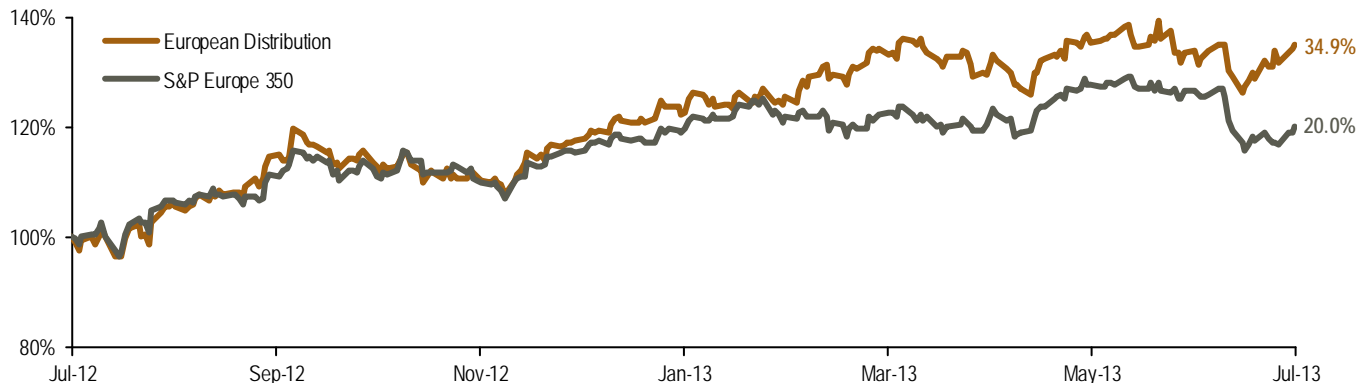


Source: Capital IQ. Current multiples as of June 30, 2013.

Median multiples are based on enterprise values as of the end of the period indicated divided by the income statement figure for the period indicated.

# European Distribution Update

## LTM Stock Performance



Source: Capital IQ as of June 30, 2013.

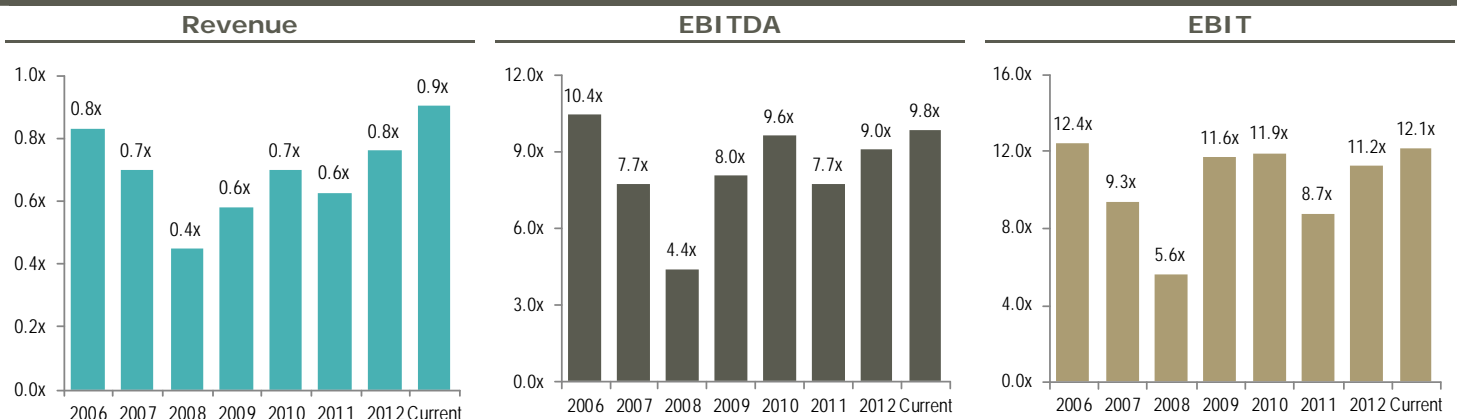
European Distribution includes: B&B Tools, Bossard, Brammer, Bunzl, Daetwyler, Diploma, Electrocomponents, Klöckner, Premier Farnell, Rexel, TAKKT, Trifast and Wolseley. Dividends are not included in sector index.

## Valuation and Operating Statistics

Ticker	Company	Enterprise Value (\$mil)	LTM Revenue (\$mil)	LTM Margins		Revenue Growth		EBITDA Growth		LTM Enterprise Value /		
				EBITDA	EBIT	2012	2013E	2012	2013E	Revenue	EBITDA	EBIT
OM:BBTO B	B&B Tools AB	\$472.0	\$1,174.1	4.6%	3.8%	1.7%	(6.3%)	(17.0%)	8.8%	0.4x	8.7x	10.7x
SWX:BOS	Bossard Holding AG	781.7	514.6	12.1%	10.1%	5.1%	22.9%	(0.9%)	35.4%	1.5	12.6	15.0
LSE:BRAM	Brammer plc	663.8	1,039.6	6.5%	5.6%	16.9%	(4.4%)	25.5%	8.4%	0.6	9.8	11.4
LSE:BNZL	Bunzl plc	7,526.7	8,710.6	7.0%	5.7%	9.5%	4.6%	8.6%	3.7%	0.9	12.3	15.1
SWX:DAE	Daetwyler Holding Inc.	1,704.4	1,295.3	13.6%	9.2%	15.3%	14.3%	0.2%	29.4%	1.3	9.7	14.3
LSE:DPLM	Diploma PLC	950.7	414.2	20.3%	17.3%	17.0%	1.4%	16.8%	1.4%	2.3	11.3	13.3
LSE:ECM	Electrocomponents plc	1,882.1	1,876.2	9.9%	7.8%	3.2%	(5.2%)	(13.9%)	(1.7%)	1.0	10.1	12.8
XTRA:KCO	Klöckner & Co SE	1,710.8	9,055.7	1.6%	0.1%	5.7%	(7.9%)	N/M	18.1%	0.2	11.7	N/M
LSE:PFL	Premier Farnell plc	1,490.3	1,498.4	11.1%	10.1%	(1.9%)	(0.9%)	(9.6%)	9.3%	1.0	9.0	9.9
ENXTPA:RXL	Rexel SA	9,593.0	17,139.0	5.9%	5.3%	7.3%	(0.1%)	6.3%	2.1%	0.6	9.4	10.7
XTRA:TTK	Takkt AG	1,398.2	1,221.2	13.5%	10.9%	11.9%	6.3%	11.6%	8.7%	1.1	8.5	10.5
LSE:TRI	Trifast plc	104.4	184.6	7.5%	6.2%	12.8%	(2.9%)	48.7%	8.0%	0.6	7.5	9.1
LSE:WOS	Wolseley plc	13,996.1	20,375.6	6.2%	4.9%	(6.2%)	0.6%	3.9%	6.2%	0.7	11.1	14.0
<b>Mean</b>		<b>\$3,251.9</b>	<b>\$4,961.5</b>	<b>9.2%</b>	<b>7.5%</b>	<b>7.6%</b>	<b>1.7%</b>	<b>6.7%</b>	<b>10.6%</b>	<b>0.9x</b>	<b>10.1x</b>	<b>12.2x</b>
<b>Median</b>		<b>1,490.3</b>	<b>1,295.3</b>	<b>7.5%</b>	<b>6.2%</b>	<b>7.3%</b>	<b>(0.1%)</b>	<b>5.1%</b>	<b>8.4%</b>	<b>0.9</b>	<b>9.8</b>	<b>12.1</b>

Source: Capital IQ. LTM as of June 30, 2013.

## Median Trading Multiples



Source: Capital IQ. Current multiples as of June 30, 2013.

Median multiples are based on enterprise values as of the end of the period indicated divided by the income statement figure for the period indicated.

# Spotlight Transaction

## Spotlight Transaction: Sale of Barnes Distribution North America to MSC Industrial

Barnes Group Inc. (“Barnes Group”) (NYSE: B) recently completed the sale of its Barnes Distribution North America business (“BDNA”) to MSC Industrial Direct Co., Inc. (“MSC”) (NYSE: MSM) for \$550 million, which is approximately 15.3x LTM EBITDA.

Barnes Group is an international aerospace and industrial manufacturer and service provider, serving a wide range of end markets and customers. The products and services provided by Barnes Group are used in far-reaching applications that provide transportation, communication, manufacturing and technology. Barnes Group has approximately 3,700 dedicated employees at more than 60 locations worldwide.

MSC is a leading distributor of metalworking and maintenance, repair and operations (“MRO”) supplies to industrial customers. With this acquisition, MSC adds a highly complementary provider of fasteners and other high margin consumable products and services with an industry-leading field sales force and vendor managed inventory (“VMI”) solution.

### Barnes Distribution North America Overview

Barnes Distribution North America (“BDNA”) is a leading industrial distributor of fasteners and other high margin, low cost consumables with a broad distribution footprint throughout the U.S. and Canada. BDNA has a strong presence with customers across manufacturing, government, transportation and natural resources end markets.

BDNA specializes in lowering the total cost of customers’ inventory management through storeroom organization and vendor managed inventory. BDNA services roughly 31,000 customers with nearly 1,400 associates, including over 800 field sales associates. BDNA reported 2012 sales of approximately \$300 million.

### The Rationale

The divestiture should allow Barnes Group to enhance focus and growth on the company’s higher-return industrial and aerospace businesses, including potential expansion of the recently acquired Synventive platform. Barnes Group will use approximately \$400 million of after-tax proceeds to reduce debt, buyback common shares, invest in profitable growth initiatives and for general corporate purposes.

The acquisition expands MSC’s inventory management solutions in fasteners and other high gross margin consumable industrial products and will establish a significant presence in the Canadian market. MSC hopes to leverage the BDNA VMI solution to promote cross-selling through a broadened product line and increase customer “stickiness.” MSC expects the acquisition to bring \$15-\$20 million in run-rate cost synergies by fiscal 2015.

**Baird served as the exclusive financial advisor to Barnes Group in the transaction.**

### The Key Themes

- **Sales Force Growth.** Addition of over 800 experienced sales professionals, significantly increasing the MSC sales force
- **Channel Expansion.** Enhanced channel to serve customers through industry’s leading VMI solution
- **Customer Base and Diversity.** Access to BDNA’s large and diverse customer base
- **New Avenues for Growth.** Entry into Canada and natural resources markets
- **Product Expansion.** Expanded presence in fastener product category

### Selected End Markets



### Selected Products



### Leading VMI Solution



# Selected Companies

Company Name / Headquarters	Ticker	LTM Sales (\$mil)	Employees	Founded
Airgas, Inc. <i>Radnor, PA</i>	NYSE: ARG	\$4,957.5	15,000	1982
Angst + Pfister Group <i>Zurich, Switzerland</i>	N/A	N/A	N/A	N/A
Anixter International Inc. <i>Glenview, IL</i>	NYSE: AXE	\$6,221.3	8,300	1957
Applied Industrial Technologies, Inc. <i>Cleveland, OH</i>	NYSE: AIT	\$2,441.7	5,000	1923
B&B Tools AB <i>Stockholm, Sweden</i>	OM: BBTO B	\$1,174.1	2,780	1906
Beacon Roofing Supply, Inc. <i>Peabody, MA</i>	NASDAQ: BECN	\$2,088.6	2,781	1928
Berner GmbH <i>Kunzelsau, Germany</i>	N/A	N/A	8,100	1957
BlueLinx Holdings Inc. <i>Atlanta, GA</i>	NYSE: BXC	\$1,957.3	1,900	1996
Bossard Holding AG <i>Zug, Switzerland</i>	SWX: BOS	\$514.6	1,812	1831
Brammer plc <i>Manchester, United Kingdom</i>	LSE: BRAM	\$1,039.6	2,592	1920
Builders FirstSource, Inc. <i>Dallas, TX</i>	NASDAQ: BLDR	\$1,171.0	2,750	1998
Bunzl plc <i>London, United Kingdom</i>	LSE: BNZL	\$8,710.6	11,738	1940
Daetwyler Holding Inc. <i>Aldorf, Switzerland</i>	SWX: DAE	\$1,295.3	6,670	1958
Diploma plc <i>London, United Kingdom</i>	LSE: DPLM	\$414.2	1,117	1931
DXP Enterprises, Inc. <i>Houston, TX</i>	NASDAQ: DXPE	\$1,134.9	2,817	1908
Edgen Group <i>Baton Rouge, LA</i>	NYSE: EDG	\$1,959.3	597	2011
Electrocomponents plc <i>Oxford, United Kingdom</i>	LSE: ECM	\$1,876.2	6,300	1928
ERIKS N.V. <i>Alkmaar, Netherlands</i>	N/A	N/A	5,073	N/A
Fastenal Company <i>Winona, MN</i>	NASDAQ: FAST	\$3,213.7	13,212	1967
Genuine Parts Company <i>Atlanta, GA</i>	NYSE: GPC	\$13,031.4	31,900	1928

Source: Capital IQ and company websites.

# Selected Companies

## Business Description

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Airgas is a distributor of industrial, medical, and specialty gases, as well as hard goods in the United States.

Angst + Pfister is an international technical distributor of high-end industrial components.

Anixter International is a distributor of communications products, specialty wire and cable products, fasteners, and small parts.

Applied Industrial Technologies is a distributor of various industrial products in North America.

B&B Tools is a distributor of industrial consumables, industrial components, and related services for the industrial sector in the Nordic region.

Beacon Roofing Supply is a distributor of residential and commercial roofing materials in the United States and Canada.

Berner is a distributor to the building, construction, and automotive sectors.

BlueLinx Holdings is a distributor of building products in North America.

Bossard Holding is a distributor of fasteners and small component parts in Europe, America, and Asia.

Brammer is a distributor of power transmission components and related inventory management, procurement, and logistics services in Europe.

Builders FirstSource is a distributor of structural and related building products for residential new construction in the United States.

Bunzl is a distributor of non-food consumable products to various customer markets in the Americas, Europe, and Australasia.

Daetwyler is a distributor of industrial, engineering, and electronic components primarily to the manufacturing, pharmaceutical, and datacomm industries.

Diploma plc is a distributor technical products and services in the United Kingdom, the rest of Europe, and North America.

DXP Enterprises is a distributor of maintenance, repair, and operating products, equipment, and services to industrial customers in the United States.

Edgen Group is a distributor of specialty steel products to the energy sector.

Electrocomponents is a distributor of electronic, electrical, industrial, and commercial supplies and services to engineers worldwide.

ERIKS is a distributor of a range of mechanical engineering components in Europe, the United States, and Southeast Asia.

Fastenal Company is a distributor of fasteners and industrial supplies.

Genuine Parts Company is a distributor of automotive replacement parts, industrial replacement parts, office products, and electrical/electronic materials.

Source: Capital IQ and company websites.

# Selected Companies

Company Name / Headquarters	Ticker	LTM Sales (\$mil)	Employees	Founded
Houston Wire & Cable Company <i>Houston, TX</i>	NASDAQ: HWCC	\$392.9	427	1975
Interline Brands, Inc. <i>Jacksonville, FL</i>	N/A	\$1,389.5	4,100	1978
Klößner & Co Aktiengesellschaft <i>Duisburg, Germany</i>	XTRA: KCO	\$9,055.7	10,212	1906
Lawson Products, Inc. <i>Des Plaines, IL</i>	NASDAQ: LAWS	\$286.5	1,550	1952
MRC Global <i>Houston, TX</i>	NYSE:MRC	\$5,493.3	4,810	1921
MSC Industrial Direct Co., Inc. <i>Melville, NY</i>	NYSE: MSM	\$2,419.1	4,923	1941
Pool Corporation <i>Covington, LA</i>	NASDAQ: POOL	\$1,962.4	3,400	1993
Premier Farnell plc <i>London, United Kingdom</i>	LSE: PFL	\$1,498.4	4,400	1939
Rexel S.A. <i>Paris, France</i>	ENXTPA: RXL	\$17,139.0	30,416	1967
TAKKT AG <i>Stuttgart, Germany</i>	XTRA: TTK	\$1,221.2	2,351	1945
Trifast plc <i>Uckfield, United Kingdom</i>	LSE: TRI	\$184.6	1,029	1973
W.W. Grainger, Inc. <i>Lake Forest, IL</i>	NYSE: GWW	\$9,037.0	21,750	1927
Watsco, Inc. <i>Coconut Grove, FL</i>	NYSE: WSO	\$3,511.8	4,600	1945
Wesco Aircraft Holdings, Inc. <i>Valencia, CA</i>	NYSE: WAIR	\$838.5	1,200	1953
WESCO International, Inc. <i>Pittsburgh, PA</i>	NYSE: WCC	\$6,781.4	9,000	1922
Wolseley plc <i>Nr Reading, United Kingdom</i>	LSE: WOS	\$20,375.6	40,000	1887
Wurth Group <i>Kunzelsau, Germany</i>	N/A	\$13,175.7	66,113	1945

Source: Capital IQ and company websites.

# Selected Companies

## Business Description

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Houston Wire & Cable Company is a distributor of specialty wire and cable products.

Interline Brands is a distributor of maintenance, repair, and operations products in the United States, Canada, and Central America.

Klöckner is a distributor of steel and metal products.

Lawson Products is a distributor of maintenance, repair, and operating products to the industrial, commercial, institutional, and governmental marketplaces in the United States and Canada.

MRC Global is a distributor of pipes, valves, fittings and related products and services to the energy industry worldwide.

MSC Industrial Direct is a distributor of metalworking and maintenance, repair, and operations supplies to industrial customers throughout the United States.

Pool Corporation is a distributor of swimming pool supplies, equipment, and related leisure products in North America and Europe.

Premier Farnell is a distributor of electronic, electrical, and industrial products to the design, maintenance, and repair sectors in Europe, North America, and the Asia Pacific.

Rexel is a distributor of electrical products worldwide.

TAKKT is a distributor of office, business, and warehouse equipment in Europe, North America, and Asia.

Trifast is a distributor of industrial fasteners and associated components.

W.W. Grainger is a distributor of industrial supplies and other related products and services.

Watsco is a distributor of air conditioning, heating, and refrigeration equipment and related parts and supplies in the United States.

Wesco Aircraft is a distributor of aerospace hardware, bearings, electronic components, and machined parts, as well as a provider of supply chain management solutions to the aerospace industry.

WESCO International is a distributor of electrical and industrial maintenance, repair, and operating supplies.

Wolseley is a distributor of heating and plumbing products to the professional market, as well as a supplier of building materials in Europe and North America.

Würth is a distributor of assembly and fastening products.

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Source: Capital IQ and company websites.

# Selected LTM M&A Transactions

Date Announced	PE to PE Transaction	Acquiror	PE Buyer	Target	Target Business Description	Transaction Value (\$mil)	Target Trailing Sales (\$mil)	Enterprise Value/	
								Sales	EBITDA
6/10/2013	Yes	Svoboda Capital	Yes	Blake & Pendleton	Distributor of air compressors, dryers, filters and compressor management systems	-	-	-	-
6/7/2013		Shook and Fletcher		National Insulation Co.	Distributor of commercial and industrial insulation, including Fiberglass, Foamglas, PVC's, jacketing, tapes, Rubatex, aluminum & stainless steel bands & elbows	-	-	-	-
6/3/2013		Singer Equities		Stewart-Hunt	Distributor of fluid energy; specializes in the sales, service, testing and repair of hydraulic pumps, motors, cylinders and other hydraulic components	-	-	-	-
5/24/2013		RelaDyne		Maxum Petroleum (Lubricants and tank wagon fuel businesses)	Distributor of a comprehensive offering of refined petroleum products and services	-	-	-	-
5/22/2013	Yes	AEA Investors	Yes	AramSCO	Distributor of safety products, equipment and supplies	-	-	-	-
5/15/2013		Monroe Engineering		R.J. Vedovell	Distributor of O-rings, gaskets, seals and molded rubber	-	-	-	-
5/3/2013		Turtle & Hughes		Mid-Island Electric Supply	Distributor of electrical products	-	-	-	-
4/25/2013		LKQ Corporation		Sator Beheer	Distributor of auto parts, tools and equipment	\$268.0	-	0.7x	8.6x
4/25/2013		Distribution International		Midwest Sales	Distributor of commercial and industrial insulation	-	-	-	-
4/17/2013		DXP Enterprises		National Process Equipment	Distributor of pumps and related process equipment	-	\$69.0	-	-
4/9/2013		ERIKS		Klaus Technische Grosshandlung GmbH	Distributor of industrial hoses and accessories, seals, tools and pumps	-	-	-	-
3/29/2013		TriMark USA		Strategic Equipment and Supply Corporation	Distributor of foodservice equipment	-	-	-	-
3/28/2013		American Tire Distributors Inc.		Regional Tire Distributors	Distributor of tires	-	-	-	-
3/26/2013		ABC Supply Co Inc.		Lee Wholesale Supply	Distributor of roofing, siding and other building products	-	-	-	-
3/11/2013		Genuine Parts Company		Exego Group	Distributor of automotive replacement parts	800.0	-	-	-
3/6/2013	Yes	PAI Partners	Yes	IPH Group	Distributor of industrial supplies	-	1,124.0	-	-
2/28/2013	Yes	Berkshire Partners	Yes	SRS Distribution	Distributor of roofing supplies	-	-	-	-
2/22/2013		MSC Industrial Direct		Barnes Distribution North America (subsidiary of Barnes Group)	Distributor of MRO supplies	550.0	300.0	1.8	15.3
2/18/2013	Yes	Investcorp International, Inc.	Yes	Hydrasun Limited	Distributor of fluid transfer products	-	140.5	-	-
2/6/2013		Praxair		NuCO2	Distributor of carbonation gasses for soda products	1,100.0	250.0	-	9.6
1/10/2013		Bunzl plc		Vicsa Safety	Distributor of personal protection equipment	-	60.0	-	-
1/9/2013		FCX Performance		Pierce Pump Company	Distributor of pumps, mechanical seals and compressed air equipment	-	-	-	-
1/8/2013		One Equity Partners	Yes	Merfish Pipe & Supply and Pipe Exchange	Distributors of steel pipe, fittings and flanges	-	-	-	-
1/7/2013		Morrison Supply		Express Pipe & Supply	Distributor of residential plumbing products	-	-	-	-
1/2/2013		BlackHawk Industrial		EF Bailey Industrial Supply	Distributor of cutting tools, abrasives, fluids and engineered products	-	-	-	-
1/2/2013		F.W. Webb		Systemation	Distributor of measurement and flow control products	-	-	-	-
12/31/2012		Rawson (ERIKS)		Regal-Brown	Distributor of instrumentation, process control and filtration systems equipment	-	-	-	-
12/31/2012		Stock Building Supply		Total Building Services Group	Distributor of structural components and architectural millwork	-	-	-	-
12/28/2012		Beacon Roofing Supply		Ford Wholesale and Construction Materials Supply	Distributor of commercial roofing and related accessories	-	60.0	-	-
12/20/2012	Yes	Linsalata Capital Partners	Yes	Stag-Parkway Inc.	Distributor of recreational vehicle parts and accessories	-	-	-	-
12/19/2012		Advance Auto Parts		B.W.P Distributors	Distributor of automotive aftermarket parts	-	-	-	-
12/19/2012		Ridgemont Equity Partners	Yes	J.A.M. Distributing Company	Distributor of lubricants, fuel, base stock and ancillary products	-	-	-	-

Source: Baird Investment Banking internal database. Shading indicates Baird transaction.



# Selected LTM M&A Transactions

Date Announced	PE to PE Transaction	Acquiror	PE Buyer	Target	Target Business Description	Transaction Value (\$mil)	Target Trailing Sales (\$mil)	Enterprise Value/	
								Sales	EBITDA
12/18/2012		The Hillman Companies, Inc.		H. Paulin & Co.	Distributor and manufacturer of fasteners, fluid system products and retail hardware	\$103.7	\$146.7	0.7x	11.6x
12/17/2012		W.W. Grainger		Techni-Tool and Wassco	Distributors of electronic production, maintenance, and voice/video and data equipment	-	88.0	-	-
12/11/2012		Edgen Group		HSP Group	Distributor of valves	-	37.0	-	-
12/6/2012		High Road Capital Partners	Yes	Accurate Component Sales	Distributor of industrial fasteners, hardware and components	-	-	-	-
12/5/2012		GHX Industrial		Express Hose & Fittings II	Distributor of hose, fittings and other products	-	-	-	-
12/4/2012		Interline Brands		JanPak	Distributor of cleaning and packaging supplies	82.5	232.0	0.4	9.4
12/3/2012		PetroChoice		Craft Oil Corporation	Distributor of motor oil and lubricants	-	-	-	-
12/1/2012		Industrial Controls / ERIKS		IEC Control Shop	Distributor of HVAC controls	-	-	-	-
11/30/2012		American Tire Distributors		TriCan Tire Distributors	Distributor of tires	97.5	-	-	-
11/30/2012		MRC Global		Production Specialty Services	Distributor of pipes, valves, fittings and other MRO products	-	127.0	-	-
11/28/2012		Rugby IPD Corp.		F.W. Honerkamp Co.	Distributor of architectural based building products	-	-	-	-
11/21/2012		HD Supply		Water Products (3 businesses)	Distributor of water, sewer and gas system installations and maintenance products and repair services	-	-	-	-
11/8/2012		Bearing Distributors, Inc.		Bearing Sales	Distributor of bearings	-	-	-	-
11/2/2012		Wolseley		Burdens Limited	Distributor of drainage and civil engineering products	38.4	-	-	-
11/2/2012		Penfund	Yes	Jet Equipment and Tools	Distributor and marketer of tools, materials handling equipment and abrasives	-	-	-	-
10/31/2012		Rexel		Munro Distributing Company	Distributor of electrical, safety and energy efficient solutions	150.0	-	-	-
10/25/2012		Bossard Group		KVT Fastening	Distributor of high quality, special fastening and sealing applications	214.0	128.5	1.7	-
10/18/2013	Yes	Blue Point Capital	Yes	Smith-Cooper International	Distributor of valves and fittings	-	-	-	-
10/22/2012		United Stationers		O.K.I. Supply	Distributor of welding, safety and industrial products	90.0	150.0	0.6	-
10/18/2012	Yes	Harvest Partners	Yes	FCX Performance	Distributor of flow control equipment	-	-	-	-
10/17/2012		WESCO International		EECOL Electric Corporation	Distributor of electrical products and services	1,177.0	900.0	1.3	10.0
10/15/2012		Invicta Holdings		Kian Ann Engineering	Distributor of heavy machinery parts and diesel engine components	155.4	139.6	1.1	8.7
10/10/2012		United Central Industrial Supply		GHX Holdings	Distributor of fluid transfer and sealing products	240.0	259.0	0.9	-
10/9/2012	Yes	TPG Capital	Yes	Fleetpride	Distributor of heavy duty truck and trailer parts	-	-	-	-
10/8/2012		Lindstrom Metric		Bossard Metrics	Distributor of metric fasteners	-	-	-	-
10/3/2012		Reliance Steel & Aluminum		Sunbelt Steel Texas	Distributor of special alloy steel bar and heavy-wall tubing products	-	48.0	-	-
9/27/2012		Crescent Electric Supply		Stoneway Electric Supply	Distributor of electrical products	-	130.0	-	-
8/29/2012		Russel Metals		Apex Distribution	Distributor of industrial and oilfield products and services	253.0	-	-	-
8/22/2012		Sonepar		Codale Electric Supply	Distributor of electrical products	-	220.0	-	-
8/16/2012		Wencor Group		AmSafe Aftermarket Spares and Services business	Distributor of aftermarket commercial aviation parts	-	-	-	-
8/13/2012		Kaman Corporation		Zeller	Distributor of electrical and automation components	-	80.0	-	-
8/8/2012		Wencor Group		Absolute Aviation Services and Soundair Aviation Services	Distributors of MRO products and services	-	-	-	-
8/1/2012		Arrowhead Electrical Products		Power Sports Industries / All Balls Racing	Distributor of bearing kits and suspension components for ATVs and motorcycles	-	-	-	-
7/20/2012		Pilot Flying J	Yes	Maxum Petroleum	Distributor of refined petroleum products	-	-	-	-
7/12/2012		Anixter International		Jorvex	Distributor of electrical wire, cable, PVC, HDPE pipe and conveyor belts	-	115.0	-	-
6/25/2012		B/E Aerospace		Interturbine Group	Distributor of chemicals, consumables, composites and other MRO products	251.0	-	-	-
6/20/2012		FCX Performance		Pump Pros	Distributor of industrial pumps	-	-	-	-
6/18/2012		WESCO International		Conney Safety Products	Distributor of workplace safety and first aid supplies	-	85.0	-	-

Source: Baird Investment Banking internal database. **Shading indicates Baird transaction.**

# Baird's Recent Transaction Experience

## Selected M&A Transactions

*Shading = LTM Transactions*

 <p>Acquisition of</p>  <p>A Portfolio Company of</p> 	 <p>Sale of</p> <p><b>Barnes Distribution North America Business</b></p> <p>to</p> 	 <p>A Portfolio Company of</p>  <p>Sale to</p> 	 <p>A Portfolio Company of</p>  <p>Acquisition of</p> 
 <p>Sale of</p>  <p>to</p> 	 <p>Sale of</p> <p><b>European Distribution Business</b></p> <p>to</p> 	 <p>A Portfolio Company of</p>  <p>Sale to</p> 	 <p>ELECTRICAL / AUTOMATION / UTILITY</p> <p>A Portfolio Company of</p>  <p>Sale to</p> 
 <p>A Portfolio Company of</p>  <p>Sale to</p> <p>LITTLEJOHN &amp; CO.</p>	 <p>Sale to</p> 	 <p>A Portfolio Company of</p>  <p>Sale to</p> 	 <p>A Portfolio Company of</p>  <p>LUTHER KING CAPITAL MANAGEMENT</p> <p>Sale to</p> 
 <p>Sale to</p>  <p>A Portfolio Company of</p> 	 <p>Sale to</p>  <p>LUTHER KING CAPITAL MANAGEMENT, L.P.</p>	 <p>Sale to</p>  <p>LUTHER KING CAPITAL MANAGEMENT</p>	 <p>A Portfolio Company of</p>  <p>Sale to</p> 

Note: Selected transactions since 2006.  
Please visit [rwbaird.com/investmentbanking](http://rwbaird.com/investmentbanking) for a complete list of transactions.

# Baird's Recent Transaction Experience

## Selected Financing Transactions

*Shading = LTM Transactions*

 <p><b>\$1,101,063,816</b> Common Stock</p> <p><i>Initial Public Offering</i></p>	 <p><b>\$395,250,000</b> Common Stock</p> <p><i>Initial Public Offering</i></p>	 <p><b>\$276,000,000</b> Common Stock</p> <p><i>Follow-on Offering</i></p>	 <p><b>\$740,600,000</b> Common Stock</p> <p><i>Follow-on Offering</i></p>	 <p><b>\$1,275,000,000</b></p> <p><i>Senior Notes</i></p>
 <p><b>\$506,000,000</b> Common Stock</p> <p><i>Follow-on Offering</i></p>	 <p><b>\$477,272,733</b> Common Stock</p> <p><i>Initial Public Offering</i></p>	 <p><b>\$1,625,000,000</b></p> <p><i>Senior Secured Notes</i></p>	 <p><b>\$315,000,000</b> Common Stock</p> <p><i>Initial Public Offering</i></p>	 <p><b>\$345,000,000</b> Convertible Debt</p> <p><i>Exchange Offer</i></p>
 <p><b>\$427,800,000</b> Common Stock</p> <p><i>Follow-on Offering</i></p>	 <p><b>\$186,875,000</b> Common Stock</p> <p><i>Follow-on Offering</i></p>	 <p><b>\$127,075,000</b> Common Stock</p> <p><i>Initial Public Offering</i></p>	 Beacon Roofing Supply, Inc. <p><b>\$276,718,750</b> Common Stock</p> <p><i>Follow-on Offering</i></p>	 <p><b>\$115,100,000</b> Common Stock</p> <p><i>Follow-on Offering</i></p>
 <p><b>\$169,337,500</b> Common Stock</p> <p><i>Follow-on Offering</i></p>	 <p><b>\$289,200,000</b> Common Stock</p> <p><i>Follow-on Offering</i></p>	 <p><b>\$215,625,000</b> Common Stock</p> <p><i>Initial Public Offering</i></p>	 Beacon Roofing Supply, Inc. <p><b>\$201,825,000</b> Common Stock</p> <p><i>Initial Public Offering</i></p>	 <p><b>\$139,500,000</b> Common Stock</p> <p><i>Follow-on Offering</i></p>

Note: Select transactions since 2004.  
Please visit [rwbaird.com/investmentbanking](http://rwbaird.com/investmentbanking) for a complete list of transactions.

# Baird's Industrial Distribution Team

**THOMAS LANGE** – *MANAGING DIRECTOR, HEAD OF INDUSTRIAL DISTRIBUTION GROUP*



Tom Lange joined Baird in January 1996, and is the leader of the distribution team within Baird's investment banking group. Since 2000, Baird has completed over \$18 billion in equity capital markets and advisory transactions on behalf of Baird distribution and supply chain clients. Prior to joining Baird, he was a partner in the securities and mergers and acquisitions practice of the law firm of Foley & Lardner. He is a member of the State Bar of Florida, and the American Institute of Certified Public Accountants. Tom graduated, magna cum laude, from Notre Dame Law School, and received a BBA degree with a concentration in Accounting, cum laude, from the University of Notre Dame. He began his career in the Chicago office of Ernst & Whinney.

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**JASON KLIEWER** – *MANAGING DIRECTOR*



Jason Kliewer joined Baird in July 1998, and is a member of the distribution team within Baird's investment banking group. Jason has extensive M&A and capital markets experience working with distribution clients on both sides of the Atlantic. Jason was a founder member of Baird's M&A team in Europe and was based in Baird's London office for five years. Jason received an MBA from the University of Cambridge, where he was a Gates Cambridge Scholar, and graduated with a BS degree in Finance, with highest honors, from the University of Florida.

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David Silver joined Baird in January 1998 having practiced as a corporate and banking lawyer at Berwin Leighton. He is a founder member of Baird's M&A team in Europe and has extensive experience advising private equity clients, corporates and entrepreneurs in the US and Europe. Mr. Silver is Head of European Investment Banking and is responsible for Baird's Investment Banking and European business services practice and coverage of the financial sponsor community. Mr. Silver has an MBA, with distinction, from London Business School and a law degree from Leeds University.

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**ANTHONY SIU** – *MANAGING DIRECTOR, HEAD OF INVESTMENT BANKING FOR GREATER CHINA*



Anthony Siu is a Managing Director and the Head of Investment Banking for Greater China. He has over 18 years of investment banking experience in Asia. Prior to joining Baird in 2008, Anthony was a Director of Corporate Finance & Advisory at Standard Chartered Bank, responsible for cross-border M&A activities in the region. Before joining Standard Chartered, Anthony was a Senior Vice President at Daiwa Securities SMBC. He also worked at Dresdner Kleinwort Wasserstein and Schroders where he was involved in a variety of M&A and capital market transactions. Anthony received his Executive MBA degree from the Kellogg School of Management at Northwestern University and HKUST and holds a B.A. degree from Pomona College. He is a CPA certified in California.

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# Baird's Industrial Distribution Team

**SATOSHI MATSUMOTO** — *MANAGING DIRECTOR, DIRECTOR OF JAPAN M&A*



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Satoshi is a Managing Director and Director of Japan M&A based in Baird's Chicago office. In his role, Satoshi leads the firm's cross-border M&A origination and execution efforts involving Japanese companies, working across all of Baird's industry groups and geographies. Satoshi has an extensive background in cross-border M&A involving Japanese companies. Prior to joining Baird in 2012, Satoshi was a Managing Director and Head of Japan Consumer Retail at Barclays Capital. Prior to joining Barclays in 2009, he was a Managing Director at Nomura Securities, which had acquired Lehman Brothers' former Asian & European operations. Prior to Nomura, Satoshi spent 11 years at Lehman Brothers in Tokyo and New York. In 2006 he was asked to build the Japan Consumer/Retail Coverage team at Lehman, which became one of the most successful Consumer / Retail teams in Japan with a leading position in cross-border M&A in the Consumer / Retail sector. Prior to joining Lehman Brothers in 1997, Satoshi worked at Long-Term Credit Bank of Japan for 4 years. Satoshi has a B.A. in Economics from Keio University, Tokyo.

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