

INDUSTRIAL DISTRIBUTOR M&A PULSE

JUNE 2015

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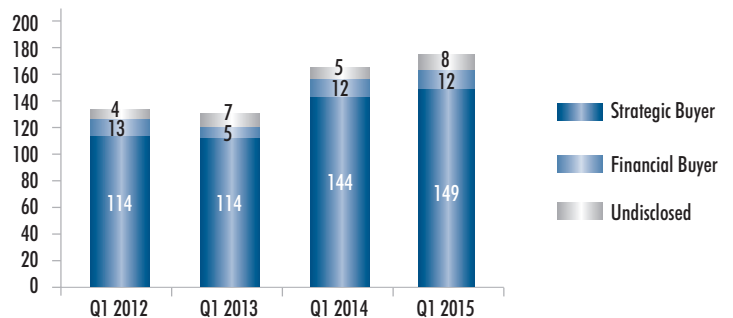


DIVERSIFIED INDUSTRIALS | PMCF INSIGHTS

STRONG Q1 M&A ACTIVITY FROM STRATEGIC BUYERS

Momentum from the back end of 2014 carried into the new year, resulting in 169 total Q1 deals in the PMCF Industrial Distributor Transaction Database. The uptick in industrial distribution deal volume represents nearly a 5.0 percent increase from the same period last year – one of the strongest years for M&A in recent memory. Total U.S. M&A deal volume during the first quarter of the year was up 11.6 percent compared to Q1 2014. Interestingly, private equity investment in the U.S. market during Q1 decreased meaningfully in terms of deal count and capital invested when compared to Q1 2014, as PE groups completed 30 percent fewer acquisitions than during the same period last year. Though less pronounced, the shift in buyer interest from financials to strategics was also felt in the industrial distribution segment. During Q1 2015, financial buyers accounted for 6.6 percent of total disclosed industrial distribution acquisitions, down 0.9 percent from the same period last year. The trend illustrates an elevated level of interest from strategic buyers in the space, indicating a greater appetite for inorganic growth opportunities in a modest growth macro environment.

Industrial Distribution M&A Activity



Source: Capital IQ, Proprietary Research

Broad economic indicators such as GDP suggest stagnant economic performance through April, registering almost zero growth over the period. However, several sector-specific metrics reveal solid performance within select distribution subsets and should support a strong runway for continued growth in these sectors for the remainder of the year. The Purchasing Managers Index (PMI), for example, averaged 52.4 through May and 54.9 TTM, indicating healthy expansion within the manufacturing sector. Housing data was positive as well, with new housing starts through March up 4.7 percent compared to Q1 2014 and building permits up 6.9 percent. Distributors serving these sectors performed accordingly – the PMCF Building Products Index is up 11.9 percent on the year.

The M&A market still faces numerous economic headwinds going forward. Uncertainty in the oil & gas sector, which dominated headlines to start the year, continues to weigh on the earnings of DXP Enterprises, Rexel SA, and other distributors serving the segment. An increased likelihood of interest rate hikes in late summer / early fall also pose a threat to companies, especially those who have used leverage to finance organic growth in recent years. In spite of these potential headwinds, PMCF maintains confidence in the M&A market in the near term. Strategic and financial buyers alike recognize the benefits of M&A as a tool for end market, product, and geographic diversification, and we expect continued consolidation to take place given the current market fragmentation within distribution.

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Market Segment Profile

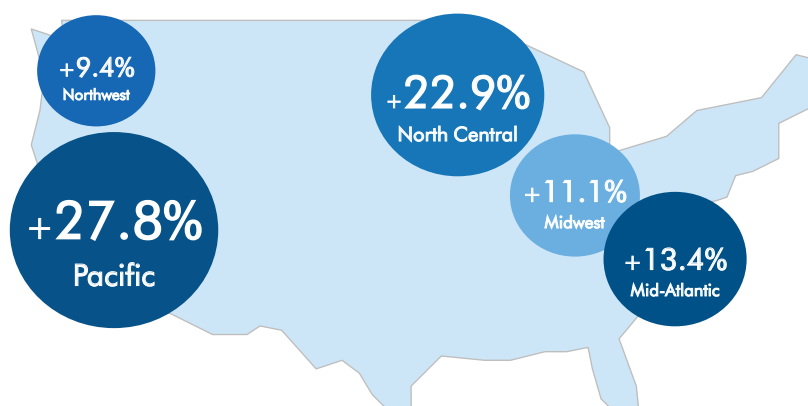
INDUSTRIAL FASTENER DISTRIBUTION

The fasteners segment of the global industrial distribution landscape continues to show substantial upside potential in terms of size, scope, and opportunity for consolidation. Demand for fastener products remains high. The Fastener Distributor Index (FDI) – a seasonally adjusted metric used to measure fastener distributor sentiment within North America – finished 2014 at a four month average of 57.9, well above the baseline reading of 50, indicating strong supply and demand side fundamentals throughout the industry. This performance continued into 2015 with distributors across North America reporting strong revenue growth. The Specialty Tools & Fasteners Distributors Association (STAFDA), which compiles quarterly reports reflecting the financial performance of its members, reported that its member distributors averaged 8.3 percent growth in Q1 2015 YoY. The fasteners segment experienced significant growth in major geographical regions as shown in the graph, including the Pacific, Midwest, Mid-Atlantic and North Central United States. President of the National Fastener Distributor Association Paul Tiffany expressed optimism in select sectors heading into the second half of the year, highlighting a positive outlook for the construction and defense sectors, as an example.

Leading fastener distributors such as Bossard, Fastenal, Würth, and Wesco Aircraft spent early 2015 executing growth strategies that will enable them to compete for market share gains in this growing landscape. These distributors, and others, are actively expanding their service offerings and geographic reach through both organic and inorganic means. During Q1 2015, Bossard Holding AG announced two acquisitions and closed two others, including Aero-Space Southwest, Inc., an Arizona-based distributor of diversified fastening solutions to a wide array of end markets. This strategy continues to drive top line growth for Bossard, whose U.S. sales increased over 22 percent during the quarter as a result of the Aero-Space Southwest acquisition. Fastenal Company, on the other hand, announced new customer wins, increased hiring, and revealed a facility expansion program that it anticipates will support organic growth over the long term. Fastenal is performing well as a result of these initiatives, posting 8.8 percent growth in revenue, 14 percent growth in earnings, and 32.3 percent growth in incremental margin during the first quarter. Both strategies are yielding positive financial outcomes and we expect others in the industry to replicate these successful initiatives.

On the opposite side of the spectrum, financial buyers recognize the aforementioned growth opportunities and are aligning their portfolios accordingly. In February, American Industrial Partners announced its acquisition of the fasteners segment of Anixter International, Inc. for \$380 million. Soon after, Incline Equity acquired AFC Holdings and announced plans to expand the company's capacity and client base in the near future. Other notable private equity acquisitions during the period include Platinum Equity's acquisition of PrimeSource Building Products, Inc. and Novaria Group's acquisition of John Hassall, Inc. Distributors who offer product line diversity and value added services such as consolidated invoicing, engineering services, and integrated supply services, will receive greater interest in the M&A market, especially from financial buyers. PMCF expects interest in the fasteners segment to persist throughout the year as companies look to capitalize on the present growth prospects.

Q1 2015 Fastener Distributor YoY Sales
Growth by Region



Q1 Trends in Distribution

What we're seeing...



- 1 Same day delivery is gaining prevalence within the industry – made evident by Amazon and Ace Hardware’s newly minted distribution models
- 2 Distributors are moving internal IT systems to cloud infrastructures, allowing for streamlined store and facility expansions
- 3 Constricted economic growth, in part due to harsh winter weather, is giving way to elevated consumer sentiment and spending heading into the summer months
- 4 Large distributors continue to show a propensity to expand via small, regionally focused acquisitions as opposed to blockbuster mergers

Continued regional consolidation within the sector indicates industrial distributors are recognizing the need to reduce response & delivery times. We expect same day delivery to soon become the expectation among downstream customers – the M&A market can benefit from this dynamic.

Market Commentary

Though earnings season was a mixed bag for distributors, industry executives generally maintain confidence in business prospects throughout the remainder of 2015. While disruptive weather and adversity in the oil & gas sector affected most industry participants, several executives communicated positive developments within select business segments.

April 2015: "Focusing [on] our end markets for a moment. **Machinery, paper, fabricated metals and food manufacturing all showed positive results year-over-year**, while mining and transportation equipment manufacturing remained relatively weak. While we have experienced some near-term challenges at distribution, we believe we are well positioned for a solid 2015... I would highlight that **our third quarter in distribution is expected to be our strongest** in both a revenue and profit perspective."

Robert D. Starr, Chief Financial Officer & Senior Vice President, Kaman Corporation

May 2015: "...we're encouraged and experienced strong growth in Service Centers in the chemical, upstream production, downstream, food and beverage markets. Additionally, **we continue to add diversification** to our Service Center end markets **through new customers and acquisitions**. Subsequent to the quarter end, we completed the acquisition of Tool Supply... This furthers the efforts we have been undertaking over the past years to add businesses that have good end markets outside of oil and gas."

"I believe that the DXP management team will use this downturn in the oil and gas industry to increase our presence and hit rate to gain profitable market share. I believe that **this downturn in oil and gas will be like all the others** when demand and supply get out of balance, and **it takes about one year to bring the supply and demand back into balance.**"

David R. Little, Chairman, Chief Executive Officer, DXP Enterprises, Inc.

April 2015: "**Demand for new housing continues to slowly yet consistently improve, and we look to use this momentum to grow our revenues and market share** while continuing to improve our operating margins. Our recently announced transaction with ProBuild, which we expect to close in the second half of 2015, will be a high priority for us in the coming months, and we look forward to being able to bring the best talent in the industry together as one team. We believe this transaction significantly enhances our opportunity for growth, and we've never been more excited about the future prospects for our company."

Floyd F. Sherman, Chief Executive Officer and Director, Builders FirstSource, Inc.

Publicly Traded Distributors

Company Name	HQ Location	Market Capitalization	Total Enterprise Value	TTM Revenue	TTM Gross Margin	TTM EBITDA Margin	Net Debt/ EBITDA	TEV/ Revenue	TEV/ EBITDA ⁽¹⁾
\$ in Millions									
Industrial/MRO/Safety									
W.W. Grainger, Inc.	United States	\$ 16,083	\$ 16,547	\$ 10,019	43.2%	15.9%	0.2x	1.7x	10.4x
Fastenal Company	United States	12,266	12,270	3,810	50.7%	23.3%	0.0x	3.2x	13.8x
HD Supply Holdings, Inc.	United States	6,401	11,573	9,009	28.9%	9.2%	6.3x	1.3x	14.3x
MSC Industrial Direct Co., Inc.	United States	4,280	4,794	2,885	45.6%	15.9%	1.1x	1.7x	10.4x
Applied Industrial Technologies, Inc.	United States	1,702	2,036	2,729	27.9%	8.1%	1.5x	0.7x	9.2x
MRC Global, Inc.	United States	1,577	2,901	5,920	16.2%	6.8%	3.3x	0.5x	7.2x
Essendant, Inc.	United States	1,488	2,150	5,405	15.3%	4.8%	2.5x	0.4x	8.3x
Kaman Corporation	United States	1,153	1,413	1,830	28.5%	8.2%	1.7x	0.8x	9.5x
Bossard Holding AG	Switzerland	949	1,057	622	31.9%	13.6%	1.2x	1.7x	11.9x
DXP Enterprises, Inc.	United States	584	984	1,493	28.8%	9.2%	2.9x	0.7x	7.2x
Median					28.8%	9.2%	1.6x	1.0x	9.9x
Electrical Products									
Rexel SA	France	\$ 5,334	\$ 8,231	\$ 14,288	24.2%	5.1%	3.9x	0.6x	11.2x
WESCO International, Inc.	United States	3,178	4,411	7,895	20.3%	6.6%	2.4x	0.6x	8.5x
Anixter International, Inc.	United States	2,241	3,342	6,556	22.7%	6.0%	2.8x	0.5x	8.4x
Houston Wire & Cable Co.	United States	156	205	371	22.1%	6.9%	1.9x	0.6x	8.0x
Median					22.4%	6.3%	2.6x	0.6x	8.5x
Building Products									
Wolseley plc	Switzerland	\$ 15,877	\$ 17,800	\$ 20,288	28.0%	6.6%	1.4x	0.9x	13.0x
Watsco, Inc.	United States	4,100	4,670	3,991	24.4%	8.4%	1.0x	1.2x	13.9x
Pool Corp.	United States	2,885	3,281	2,291	28.6%	9.2%	1.9x	1.4x	15.5x
Beacon Roofing Supply, Inc.	United States	1,556	1,759	2,399	22.9%	5.4%	1.6x	0.7x	13.5x
Builders FirstSource, Inc.	United States	1,219	1,591	1,629	22.5%	3.5%	6.5x	1.0x	27.8x
Universal Forest Products, Inc.	United States	1,106	1,307	2,739	12.4%	5.0%	1.3x	0.5x	9.5x
Median					23.6%	6.0%	1.5x	0.9x	13.7x
Chemicals & Gases									
Brenntag AG	Germany	\$ 9,324	\$ 11,008	\$ 10,929	20.7%	7.3%	2.0x	1.0x	13.5x
Airgas, Inc.	United States	7,698	10,043	5,305	55.6%	18.3%	2.4x	1.9x	10.3x
Median					38.1%	12.8%	2.2x	1.5x	11.9x
Median					26.1%	7.7%	1.9x	0.8x	10.4x
Mean					28.2%	9.2%	2.3x	1.1x	11.6x

Market capitalizations and total enterprise values as of May 31, 2015; income statement and balance sheet data as of last period reported

(1) Multiple of EBITDA based on EBITDA inclusive of equity income from affiliates

Currency conversions assume historical rate

Source: Capital IQ

Public Company Equity Performance & Trends

Valuation Trends

- Q1 2015 brought a small dip in our Industrial Distribution Index from an EBITDA multiple standpoint, with the mean EV/EBITDA multiple for the total index shedding 0.1x. However, within the index both the Industrial/MRO/Safety segment and Electrical products segment fell 0.6x while the Building Products segment rose from 13.1x to 14.0x

PMCF Industrial Distribution Index Valuation

	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015
Revenue Multiple									
Median	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x	0.8x
Mean	1.2x	1.1x	1.2x	1.2x	1.2x	1.2x	1.1x	1.1x	1.1x
EBITDA Multiple⁽¹⁾									
Median	11.3x	10.7x	11.7x	11.6x	11.8x	11.5x	10.9x	11.2x	10.6x
Mean	11.5x	11.6x	12.0x	12.2x	12.0x	12.2x	11.1x	11.4x	11.3x

(1) Multiple of EBITDA based on EBITDA inclusive of equity income from affiliates

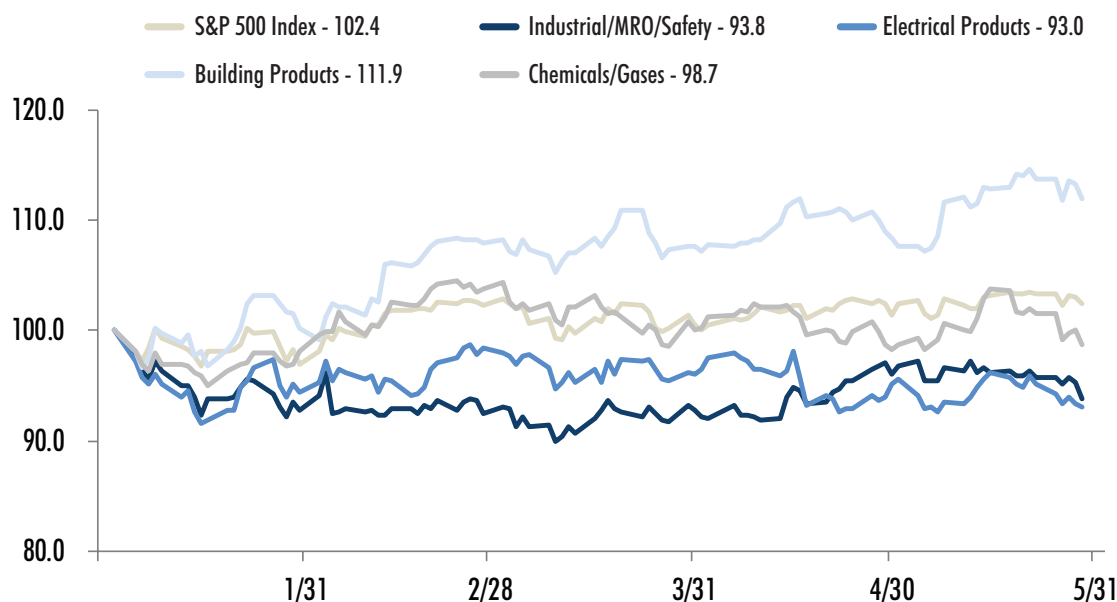
Quarterly figures based on the last trading day of each quarter shown

Source: Capital IQ

Equity Performance

- While the broader market showed modest gains through May – rising 2.4 percent from the start of the year – select segments show strong performance YTD. The PMCF Building Products Index performed particularly well over the first five months, rising 11.9 percent on the year as total construction starts showed significant improvement, up 28 percent in Q1 2015 compared to Q1 2014
- The Electrical Products and Industrial/MRO/Safety indices carried losses from 2014 into the first five months of 2015, down 7.0 percent and 6.2 percent YTD, respectively
- Though still positive on the year, markets have been tempered by poor consumer spending during the winter months, uncertainty in interest rate hikes, and a depressed energy sector due to oil prices

Values as of: May 31, 2015

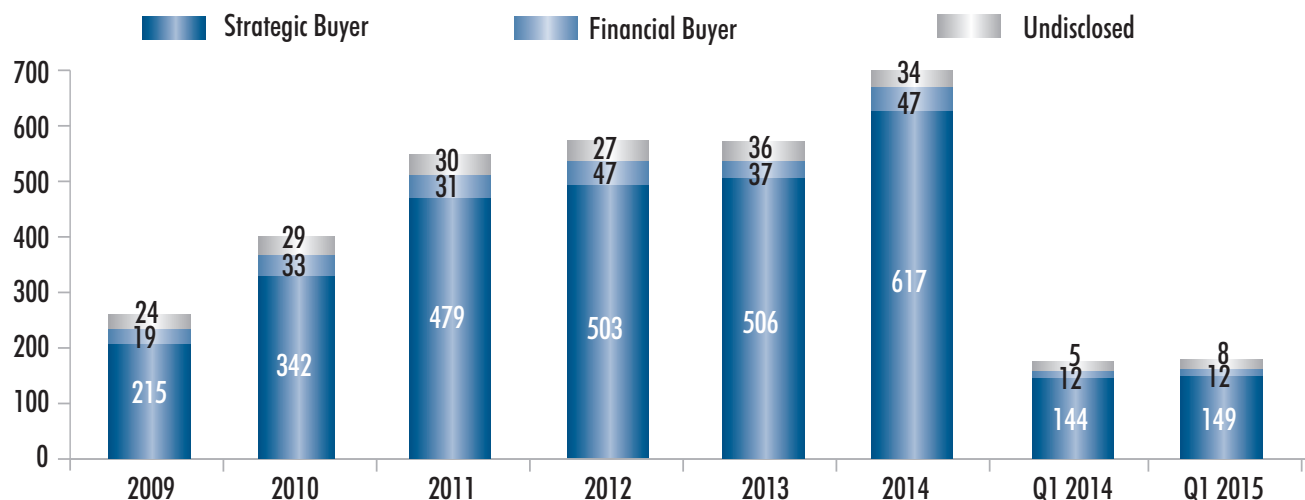


Market capitalization indices with mixed currencies are converted into USD using historical spot rates

Local currency quotes converted to USD using historical spot rates

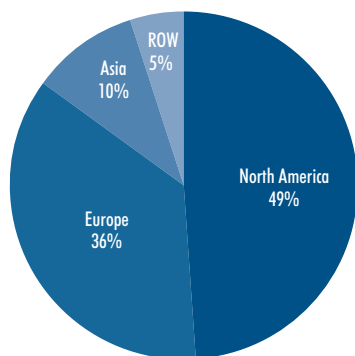
Source: Capital IQ, Dodge Data & Analytics

Industrial Distribution M&A Activity

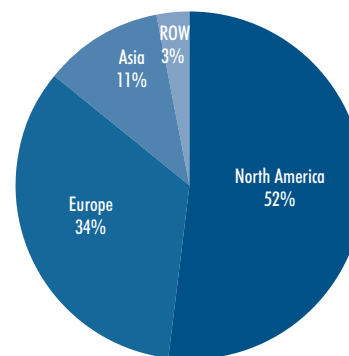


Index includes majority acquisitions of Trading Companies and Distributors, as classified by Capital IQ, as well as various transactions reported in industry publications
 Index includes deals reported through March 31, 2015
 Source: Capital IQ, proprietary research

Target Breakdown by Continent — Q1 2015



Buyer Breakdown by Continent — Q1 2015⁽¹⁾



(1) Excludes 8 unidentifiable buyers
 Index includes majority acquisitions of Trading Companies and Distributors, as classified by Capital IQ, as well as various transactions reported in industry publications
 Index includes deals reported through March 31, 2015
 Source: Capital IQ, proprietary research

Select Transactions, as of May 31, 2015

Date	Target	Buyer	Industry Segment	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
May-15	Químicas Meroña, S.L.	Brenntag AG	Chemicals & Gases	\$ 10	0.8x	6.1x
Apr-15	Zep, Inc.	New Mountain Capital, LLC	Chemicals & Gases	700	1.0x	14.9x
Apr-15	ProBuild Holdings, Inc.	Builders FirstSource	Building Products	1,820	1.1x	9.6x
Apr-15	Marias Technologies SAS	Tesmec S.p.A.	Industrial/MRO/Safety	14	0.5x	4.7x
Apr-15	GPA, Specialty Substrate Solutions Inc.	Fedrigoni S.p.A.	Paper/Packaging	50	0.7x	6.3x
Feb-15	The HC Companies, Inc.	Wingate Partners	Home Furnishings	110	0.6x	n/a
Median					0.8x	6.3x
Mean					0.8x	8.3x

Sources: Capital IQ, company websites and PMCF industry research

Key Deal Highlights

Geographic Realignment

Sonepar SA & Rexel SA Latin American Operations

On April 30, 2015, global electrical equipment distributor Sonepar SA completed its acquisition of the Latin American operations of Rexel SA. The acquisition expands Sonepar's presence in Central and South America and brings its total global presence to 43 countries. In February of 2015, Rexel announced its plan to discontinue operations in Brazil, Chile, and Peru, which contributed \$287 million, or 2% of total 2014 sales. With the sale, Rexel plans to refocus on its more profitable regions, including Europe, North America, and the Asia-Pacific markets. Enterprise value for the transaction totaled \$51 million.

Deployment of New Capital

New Mountain Capital & Zep, Inc.

New Mountain Capital began 2015 by making a platform acquisition for its new Fund IV. On April 8th, New Mountain Capital acquired Zep, Inc., a distributor of cleaning and maintenance chemicals and related products serving the commercial and industrial markets of North America and Europe. The transaction comes on the heels of New Mountain Capital's oversubscribed Fund IV, which totals \$4.13 billion of equity capital commitments and closed in October of 2014. Zep, Inc. was acquired at an EV/EBITDA multiple of 14.9x.

Corporate Carve-Out

Platinum Equity & PrimeSource Building Products, Inc.

On March 27, 2015, Platinum Equity Partners announced its acquisition of PrimeSource Building Products, Inc. ("PrimeSource") from ITOCHU Corporation and ITOCHU International Inc. PrimeSource distributes fasteners and building materials throughout North America and is the largest distributor of screws and nails in the United States with 42 total distribution centers. The acquisition adds a blue-chip distributor to Platinum's already expansive portfolio, which includes 53 current and pending investments.

Product Line Expansion

Ryan Herco Flow Solutions & GFI Stainless

Ryan Herco Flow Solutions ("RHFS"), a distributor of purity and corrosion resistant fluid handling systems, acquired GFI Stainless ("GFI") on February 2, 2015 for an undisclosed amount. GFI provides complimentary products to RHFS' current offering, as well as new product lines that will provide current and future customers a more comprehensive source of corrosion resistant fluid handling products. GFI Stainless (doing business as Fluker Enterprises, Inc.) distributes stainless steel and special alloy fluid handling products including pipes, fittings, pumps gaskets, instrumentation, and others.

About PMCF

P&M Corporate Finance (PMCF) is an investment banking firm, focused exclusively on middle market transactions, with professionals in Chicago, Detroit and across the globe through Corporate Finance International associates. Our dedicated Diversified Industrials Group has deep industry knowledge and covers a wide range of industries including aerospace & defense, automotive, energy and industrial distribution. Offering a breadth of advisory services, the Diversified Industrials Group has helped clients worldwide meet their sale, acquisition, financing and strategic growth objectives.

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