

January 2013

Distribution Industry Insights

Overview

Executive Summary

The industrial distribution market is experiencing elevated M&A activity, principally driven by the gradual rebounding end markets and favorable industry and valuation fundamentals. Strategic investors are increasingly looking for and acquiring well-run operating targets that help facilitate a variety of strategic initiatives such as geographic expansion, new and

complementary product line expansion and portfolio strengthening. Financial investors, on the other hand, are continuing to evaluate their next distribution platform, or add-on acquisition for an existing portfolio company. In addition, the equity and bond markets continue to trade well within the industrial distribution sector, as the respective Duff & Phelps indices have each outperformed their

broader performance benchmarks. These valuation dynamics may continue to foster a healthy level of M&A dialogue and opportunities. The Duff team remains very active in this space, having completed several important M&A assignments and many other corporate finance projects for clients in the industrial distribution sector.

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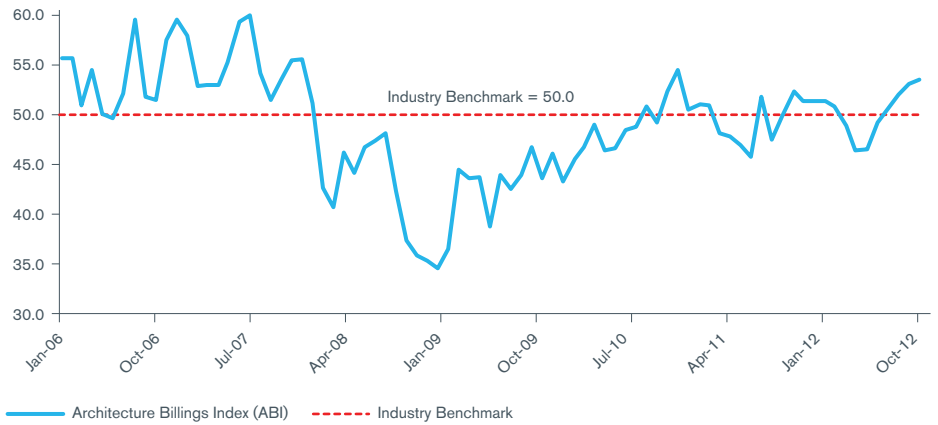
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Macroeconomic Backdrop

For the first time in several years, the end markets driving demand in the industrial distribution sector are no longer creating a drag on the economy and are now helping propel the economy forward.

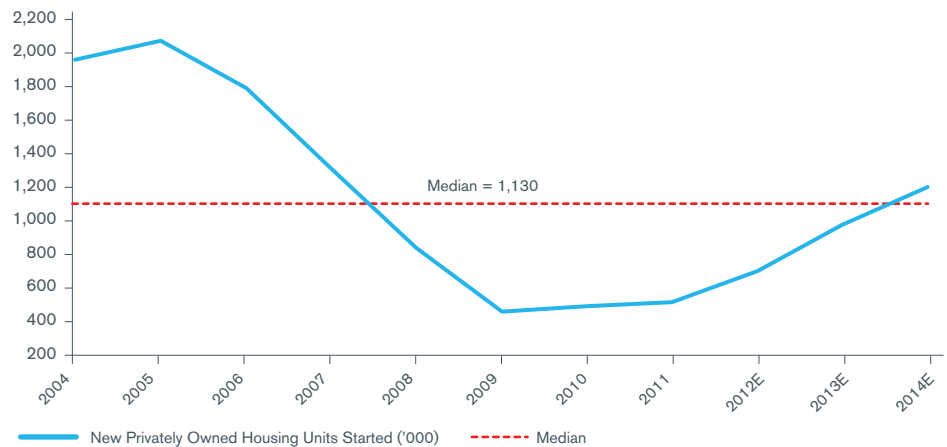
AIA Supports Expansion



Source: AIA Economic & Research Group

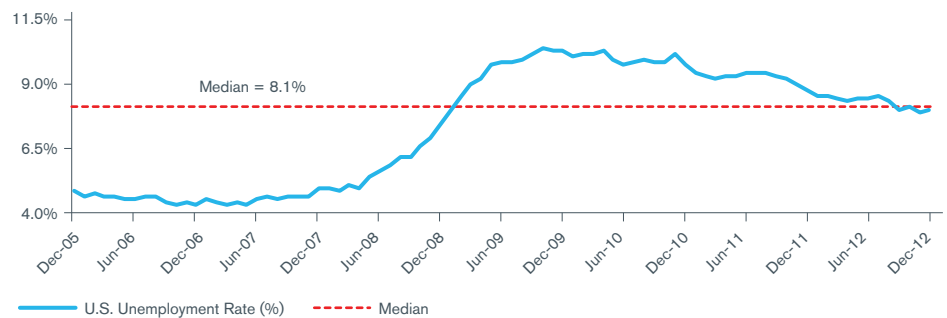
While many industry experts debate the shape of the housing recovery, most agree that housing demand will be driven by rising job growth, population and household formation, all of which are showing signs of strength.

Housing in Recovery Mode



Source: U.S. Census Bureau, SAAB (Seasonally Adjusted Annual Rate)

Unemployment Improving



Source: U.S. Bureau of Labor Statistics

Macroeconomic Backdrop (continued)

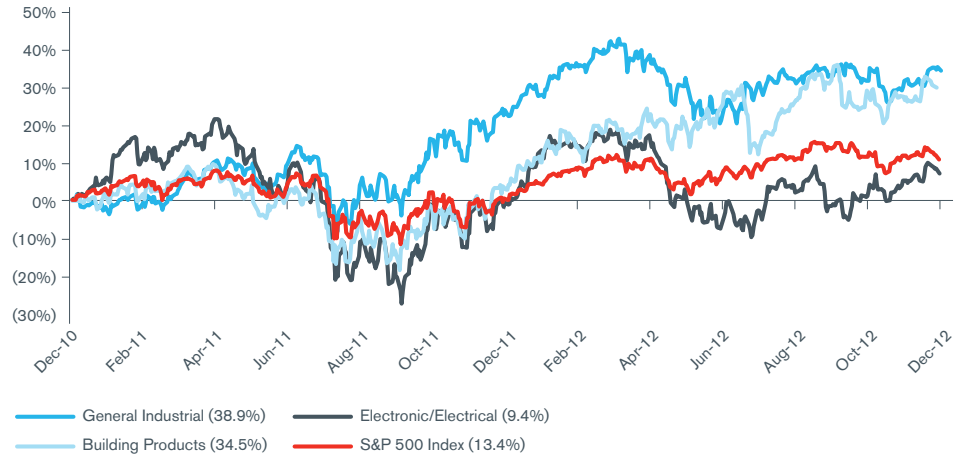
Valuation Insights

- Within the industrial distribution space, the General Industrial segment has outperformed the Building Products Index and the Electronic/Electrical Products Index, as well as the S&P 500 Index over the past two years.
- Equity investors in the industrial distribution space have outperformed the overall market due to the expectation that companies in these sectors will enjoy stronger than average financial performance and growth from M&A due to the highly fragmented nature of these industries.

M&A Volume

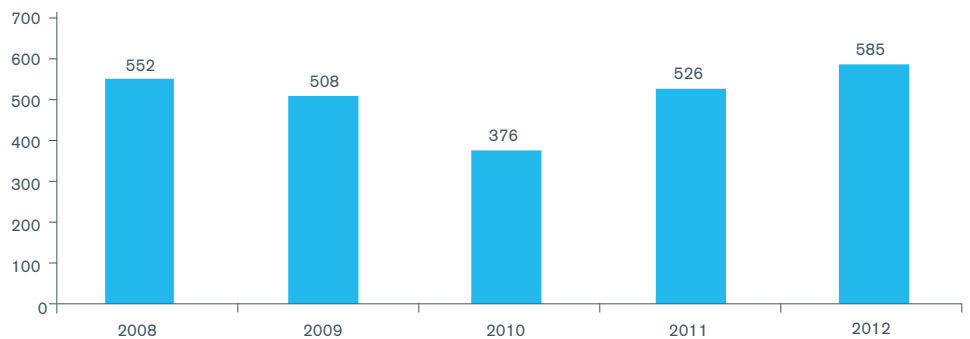
- During the economic downturn, M&A activity was weak as there were few willing sellers coupled with low acquisition appetite of potential buyers. However, with the recessionary trends abating, M&A markets in the industrial distribution market have demonstrated improvement since 2010.
- Strategic buyers accounted for the vast majority of M&A transactions (~90%) in this space, although financial investors continue to increase their share of M&A deals.

Stock Performance over the Past Two Years



Source: Capital IQ

M&A Volume



Notes: Above data represents number of deals involving a U.S. distribution target
Source: Capital IQ and Mergermarket

Notable Commentary from the Industry (Q4 2012)

Suppliers

"It's possible that the current global economic sluggishness is creating some pent-up demand for manufacturing investment. If that is true, a couple of positive macroeconomic signals could give customers confidence to accelerate their spending. We're counting on market conditions improving early enough to have a positive impact on the second half of our fiscal 2013. We're excited about and counting on new products to help us grow next year, even in sluggish market conditions. We expect the U.S. to stay on a low growth track, and we don't think Europe gets any worse."

- **Theodore Crandall,**
CFO, Rockwell Automation

"We've seen very good tone and strength in our Americas Electrical business. We had a remarkable quarter in terms of profitability, over 18%, a continued growth in the business....We think you [have] a number of years of high single digit, maybe double digit growth on the resi side. Nonresidential, we think that's not a high single digit number going into next year, but a mid single digit number, and that's terrific for us. Our business has continued to gain share...utility's been pretty strong."

- **Alexander Cutler,**
CEO and Executive Chairman, Eaton Corp

"The growth we saw earlier in 2012 has slowed. Metals prices declined in mid-2012 due to supply rather than demand issues as underlying cost inputs at the producer level decreased, imports were plentiful, and domestic overcapacity persisted. Recently, we have seen low price increases for certain products, but we're not certain if these are sustainable given the general economic uncertainty that exists here in the Us and abroad. On average, price per ton in our 3rd quarter was down 3.8% sequentially and 6.3% versus the third quarter last year... Non-residential construction continues to show signs of life, but demand remains at low levels, well below the 2006 peak."

- **David Hannah,**
CEO, Reliance Steel & Aluminum

Public Distribution Comments

"We remain confident in our ability to execute our strategic plan for growth and increased profitability, organically, via acquisition and through our technology investments. Accordingly...our revenue growth expectations [are] 6% to 10% (in fiscal 2013)."

- **Neil F. Schrimsher,**
CEO, Applied Industrial Technologies

"This is a relationship business. It always has been. It always will be. It's very difficult to help customers get operating costs and administrative costs out of their business unless you know them and unless you understand how their business works."

"What we're seeing is people spending money on...software, some capital equipment...anything that improves productivity."

- **James T. Ryan,**
CEO, W.W. Grainger, Inc.

"What customers may have once regarded as a nice-to-have is now considered a business imperative and requisite to their survival. There is a shift occurring away from the traditional distributor relationships that previously cemented the bond to a customer's increasing focus on consolidating spend and reducing supply base, better managing inventory and reducing the costs... required to run their shop or facility."

- **David K. Sadler,**
CEO, MSC Industrial Direct Co.

Large Customers

"We certainly anticipated that it would be more robust when we developed our initial forecast for 2012 and 2013. Instead, we continue to see very slow, even stagnant growth. The impact on our company, and in fact, our industry is essentially flat electric distribution sales with no growth in the residential sector, decreasing demand from many small and medium-sized commercial customers and very spotty growth in many sectors of the industrial customer class. This weak sales environment is coupled with depressed power and natural gas prices, which has put downward pressure on earnings from our competitive segment."

- **Anthony Alexander,**
CEO, First Energy

"Take a step back to the big picture, what really drives our business? All the improvement we have seen today still leaves us at demand levels that are historically at very low levels. What's it going to take to have sustainable increases in housing and housing demand for the long term? Well, long term, it's going to take job growth. We're seeing small amounts of job growth right now. The second strongest driver is consumer confidence. Consumers are spending money. We believe there's still some upside in pent-up demand."

- **Bill Wheat,**
CFO, DR Horton

"Simply put, the housing market is recovering. Not only are sales, margins and backlogs improving, but the beginnings of a sense of visibility are coming back to underwriting land acquisitions and planning for the future. The Homebuilding business is beginning to revert to normal and that's positive for the U.S. economy in general, which is, in turn, good for a sustained recovery in the housing market."

- **Stuart A. Miller,**
Lennar Corp.

Strategic Investor Actions and Commentary

2012 Selected Distribution Transactions

(\$ in millions)					Enterprise Value	
Announced Date	Target Name	Target Business Description	Acquirer Name	LTM Revenue	LTM EBITDA	
12/17/12	Techni-Tool, Inc.	Distributes electronic production and rework, field service and maintenance, and voice/video/data equipment.	W.W. Grainger, Inc.	NA	NA	
12/12/12	Lloyd Graves Electric Supply Company, Inc.	Distributes and sells electrical products.	WinWholesale Inc.	NA	NA	
12/6/12	Southern Sales Company, Inc.	Engages in sale of water and wastewater pumps, filters, meters, and control systems.	Tencarva Machinery Company Inc.	NA	NA	
11/1/12	HyQuip, LLC	Distributes rubber, air, Teflon, silicone, thermoplastic, and industrial hoses	Applied Industrial Technologies, Inc.	NA	NA	
10/22/12	McClure-Johnston Company	Engages in the distribution of building products in Pennsylvania	Beacon Roofing Supply Inc.	NA	NA	
10/17/12	EECOL Electric Corp.	Distributes electrical products including automation and control products motor controls and control centers, frequency drives, and personnel safety products	WDCC Enterprises Inc.	1.29x	NA	
10/5/12	Davis & Warshow, Inc.	Distributes kitchen and bath products for architects, interior designers, trade professionals, and retail customers	Ferguson Enterprises, Inc.	0.68x	NA	
8/22/12	Codale Electric Supply, Inc.	Distributes electrical supplies such as electrical, lighting and lighting control, automation, utility, and outside plant and data communication products	Sonepar USA, Inc.	NA	NA	
8/1/12	Aeon Corporation; Terjan Co.; Mountain Welding Supply	Distributes industrial gas and welding supplies	Airgas USA, LLC	NA	NA	
7/2/12	Florida Bearings, Inc.	Distributes bearing and power transmission products including industrial power transmission products, worm gear speed reducers, and conveying equipment	Kaman Industrial Technologies Corporation	NA	NA	
6/5/12	Chaparral Supply, LLC	Distributes pipe, valve and fitting (PVF) products and oilfield supplies	MRC Global Inc.	NA	NA	
5/30/12	CE Franklin Ltd.	Engages in the distribution of pipes, valves, flanges, fittings, production equipment, tubular products, and other general industrial supplies	National Oilwell Varco, Inc.	0.40x	8.1x	
5/29/12	Interline Brands Inc.	Direct marketer and distributor of maintenance, repair, and operations products in the United States, Canada, and Central America	Goldman Sachs Group, Merchant Banking Division	0.85x	9.9x	
5/17/12	Cassady Pierce Company, Inc.	Operates as a wholesale distributor of residential and commercial exterior building products	Beacon Roofing Supply Inc.	NA	NA	
4/20/12	Dayton Parts, LLC	Engages in the manufacture, distribution, and sale of brake, spring, wheel end, exhaust, steering, and suspension products	AEA Investors LP	NA	NA	
4/12/12	Bailey International LLC	Engages in the manufacture and distribution of hydraulic cylinders and related components	Pfingsten Partners, L.L.C.	NA	NA	
4/12/12	Sager Electrical Supply Company, Inc.	Distributes electronic components such as capacitors, circuit protection products, connectors, enclosures, motors, and power management supplies	TTI, Inc.	NA	NA	
4/11/12	Walters Wholesale Electric Company	Distributes and sells electrical products and tools to contractors and construction companies	Consolidated Electrical Distributors, Inc.	NA	NA	
4/4/12	Certified Power, Inc.	Distributes, designs, and assembles hydraulic, pneumatic, and electronic components and controls for industrial and mobile applications	Sun Capital Partners, Inc.	NA	NA	
3/30/12	Nordan Smith, Inc.	Distributes industrial, medical, and specialty gases, as well as welding equipment and supplies in the United States	Airgas, Inc.	NA	NA	
3/13/12	Carrier Corporation, HVAC Distribution Network	Distributes heating, ventilating, air conditioning, and refrigeration equipment	Watsco Inc.	0.87x	NA	
3/8/12	HD Supply, Inc., IPVF Business	Distributes manual and automated valve products and accessories	TowerBrook Capital Partners L.P.; The Stephens Group	0.67x	7.7x	
EBITDA Earnings Before Interest, Taxes, Depreciation, and Amortization			Mean	0.79x	8.5x	
LTM Last Twelve Months			Median	0.76x	8.1x	

Source: Capital IQ, company filings and other public sources

Strategic Investor Actions and Commentary

Summary of Selected Key Deals in 2012

Expanding in Southeast Texas

On 12th December 2012, WinWholesale, a privately-held U.S. industrial distributor acquired Lloyd Graves Electric Supply, which gives Win a strategic position in the electrical market in the Houston area. Lloyd Graves maintains supply relationships primarily with Square D, Leviton and Hubbell.

Tapping New Markets

On 17th October 2012, WESCO International Inc, a provider of electrical, industrial and communications Maintenance and Repair Operations (MRO) and Original Equipment Manufacturer (OEM) products, construction materials, and advanced supply chain management and logistics services, announced its acquisition of EECOL Electric Corporation, through its wholly-owned subsidiary, WDCC Enterprises Inc for an implied enterprise value of \$1,162 million or CAD 1.14 billion (1.29x EV/Revenue). WESCO's interest in EECOL was funded by the company's existing credit facilities and from proceeds of a new institutional term loan of about CAD 735 million. According to the October 17, 2012 press release, through the acquisition of EECOL, a premier full-line distributor of electrical equipments, products, and services, WESCO plans to expand its operations in Canadian and South American regions, thus improving its sales and service capabilities. Further, WESCO expects to benefit from EECOL's strong supplier relationships.

Management Buyout

A High Premium Deal: On 29th May 2012, private equity investors Goldman Sachs Group and Merchant Banking Division (P2 Capital Partners LLC), as well as selected Interline shareholders, acquired a controlling stake in Interline Brands Inc for

an implied enterprise value of \$1,073 million (9.9x EV/EBITDA, 0.85x EV/Revenue).

The acquisition was completed on 7th September 2012, with a cash payment of \$25.50 per share, representing a premium of about 41.6% over one week prior to the announcement date of the acquisition. The Interline Brands' executive team invested a portion of their proceeds from the transaction back into the new company along with Goldman Sachs and P2 Capital Partners. Since this transaction closed in September, Interline has already closed on a new tuck-in acquisition (Janpak, a \$230 million supplier of cleaning and packaging solutions in the Southeastern, Mid-Atlantic, and South Central U.S.). The debt capital markets continue to trade the debt securities well as the 2018 Senior Unsecured Bonds are currently trading above par at 108, yielding 7.4%.

Strengthening Portfolio

On 26th March 2012, investment management firms TowerBrook Capital Partners LP and Stephen Group LLC completed the acquisition of the IPVF business of HD Supply Inc through its subsidiary, Shale-Inland Holdings LLC, in a definitive agreement for an implied enterprise value of about \$469 million (7.7x EV/EBITDA, 0.67x EV/Revenue). HD Supply's IPVF segment involves industrial distribution of stainless steel, chrome, nickel and nickel alloys, aluminum and carbon steel pipe, plate, bar, coil, sheet, valves, flanges and fittings with capability to ship products worldwide. Post acquisition, Shale Inland and HD Supply's IPVF business will be combined, enabling the merged entity to serve about 6,000 customers across four continents.

Strengthening Market Position Through Joint Venture

On 27th April 2012, Watsco, a US distributor of air conditioning, heating and refrigeration equipment, acquired a 60% stake in Carrier's HVAC distribution network in Canada from UTC Canada Corporation for an implied enterprise value of \$288.7 million (0.88x EV/Revenue). The acquired business will operate as a joint venture, Carrier Enterprise Canada. Stake in the HVAS distribution network was purchased by offering cash considerations of \$82.16 million and 1.25 million shares. According to the April 30, 2012 press release, the newly formed joint venture is aimed at strengthening Watsco's presence in large markets of North America with energy efficient and environmentally friendly products catering to the needs of residential and commercial customers.

Acquiring a Complementary Business

On 1st August 2012, Airgas Inc, a U.S. distributor of industrial, medical and specialty gases, and hardgoods acquired the assets and operations of three industrial gas and welding supply distribution companies; Aeon Corporation, Terjan Co Inc and Mountain Welding Supply LLC. Post acquisition, Aeon Corporation will operate as a part of Airgas USD LLC's Southwest region; Terjan Co. Inc will operate as part of Airgas USA's West region; and Mountain Welding Supply LLC will operate as a part of Airgas USA's Northern California and Nevada region. According to the August 8, 2012 press release, these acquisitions were aimed at strengthening the packaged gas and hardgoods distribution portfolio of Airgas.

Selected Recent Duff & Phelps Distribution Experience

Sell Side Advisor

Sager Electrical Supply Company, Inc. has been acquired by TTI, Inc., a subsidiary of Berkshire Hathaway, Inc.



Financial advisor to Sager Electrical Supply Company, Inc.

Transaction Description

- Sager Electrical Supply Company, headquartered in Middleborough, Massachusetts, is a specialty distributor of electronic components serving a broad network of North American customers. With a deep commitment to innovation and service, Sager has become a leading distributor of interconnect, passive, and electromechanical components to Industrial, Medical, Transportation, Instrumentation, and Contract Manufacturing industries. Sager operates out of a state-of-the-art distribution center and four logistics locations strategically positioned across the United States, employing more than 275 professionals.
- Duff & Phelps was engaged as the exclusive financial advisor to Sager Electrical Supply Company to provide merger and acquisition advisory services in connection with a sale transaction.

Buy Side Advisor

(2 Transactions)

Eriks NV has acquired Lewis-Goetz & Company, Inc., a portfolio company of the Audax Group and Industrial Controls Distributors, Inc., a portfolio company of AEA Investors LP



Financial advisor to ERIKS NV

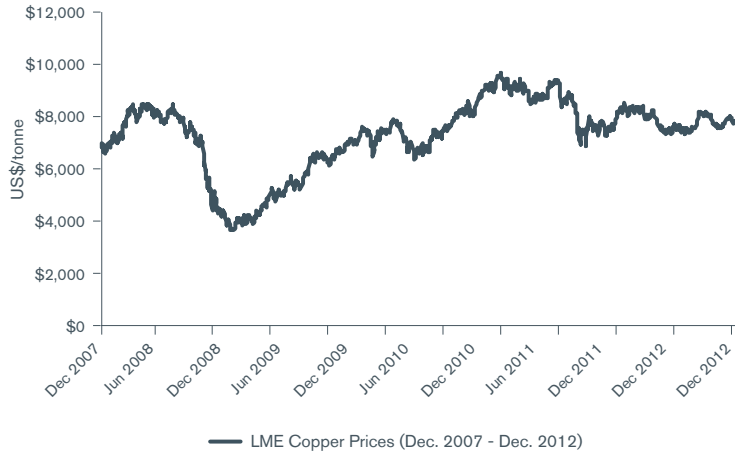
Transaction Description

- Lewis-Goetz & Company, Inc. is one of the largest industrial distributors in North America. Specializing in fabricated hose, conveyor belts and sealing products, the company serves customers in a wide range of industries from 86 locations throughout North America.
- Industrial Controls Distributors, Inc. is the leading distributor of controls, instrumentation, automation and automated Valves in the US Industrial Controls serves over 10,000 blue chip customers with the industry's premier brands through its national network of 17 branch offices and e-commerce/catalog capabilities.
- Duff & Phelps served as the exclusive financial advisor to ERIKS in connection with its acquisition of Lewis-Goetz and Industrial Controls.

Appendix

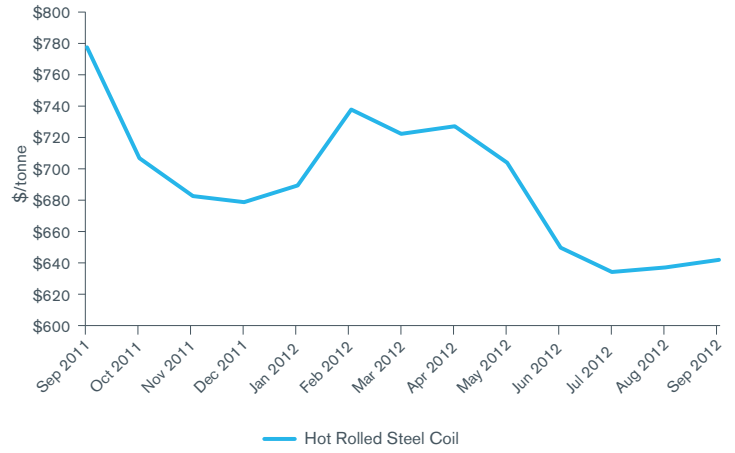
Key Pricing Indicators

Copper



Source: London Metal Exchange

Steel



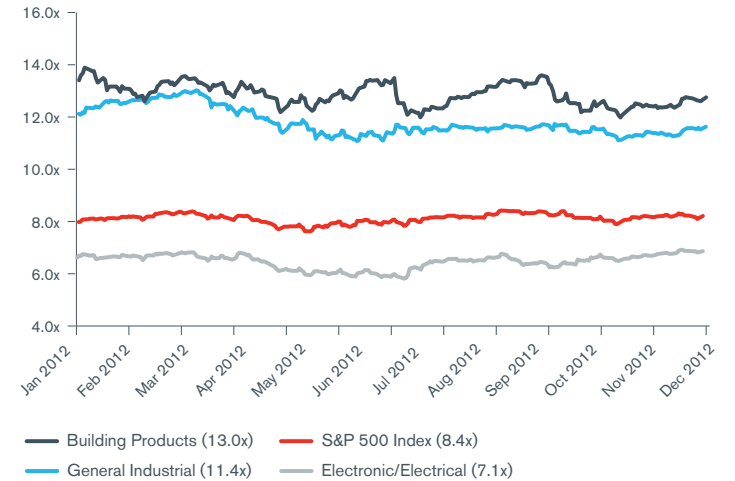
Source: MEPS (International) Ltd.

Crude Oil



Source: U.S. Energy Information Administration (EIA)

Multiple Performance Charts – All Calendar Year to Date (EV / EBITDA Multiples)



Source: Capital IQ

- The Industrial Distribution Index is consistently trading at a higher EV / EBITDA multiple the S&P 500 Index as well as the Electronic / Electrical Products Index.
- Generally speaking, the distribution companies with higher margin/EBITDA growth profiles trade at stronger multiples.

Appendix

Comparable Company Analysis

(\$ in millions, except per share amounts)

General Industrial	Price as of 1/24/13	% of 52-Week High	Enterprise Value	Operating Benchmarks					Comparable Multiples							
				Revenue	TTM Revenue Growth	TTM EBITDA Growth	EBITDA Margin	EBITDA CAGR 2011-2014	EV/Revenue		EV / EBITDA			Debt/ EBITDA	Net Debt / EBITDA	
					2013	2013	2013	2013	2014							
Airgas, Inc.	\$93.74	98.8%	\$9,421	\$4,882	8.8%	7.6%	17.8%	11.4%	1.93x	1.82x	10.8x	9.2x	8.3x	2.49x	2.43x	
Applied Industrial Technologies	42.93	95.7	1,728	2,406	6.2	8.4	8.2	9.4	0.72	0.66	8.8	7.8	7.0	0.00	(0.29)	
Barnes Group Inc.	22.89	80.0	1,830	1,186	11.4	5.0	15.5	11.9	1.54	1.31	10.0	7.9	7.0	3.76	3.28	
DXP Enterprises, Inc.	51.10	97.4	967	1,022	34.8	59.7	9.5	30.1	0.95	0.78	10.0	7.4	6.7	2.68	2.55	
Fastenal Company	47.56	86.4	13,556	3,074	16.3	21.1	23.0	16.5	4.41	3.85	19.2	16.2	13.8	0.00	(0.31)	
Genuine Parts Company	65.14	97.4	10,295	12,909	5.4	11.0	8.4	8.8	0.80	0.75	9.5	8.4	8.0	0.46	0.09	
Kaman Corporation	37.70	97.6	1,255	1,588	6.9	0.8	7.9	10.1	0.79	0.72	10.0	8.6	7.8	2.19	2.09	
MSC Industrial Direct Co. Inc.	77.22	91.1	4,421	2,388	14.0	14.7	19.2	12.6	1.85	1.73	9.7	8.9	7.8	0.01	(0.50)	
W.W. Grainger, Inc.	203.66	91.8	14,406	8,801	12.4	6.5	14.1	12.9	1.64	1.51	11.6	9.5	8.4	0.46	0.12	
Wolseley plc	47.63	98.0	12,832	21,048	(1.0)	4.7	5.8	11.7	0.61	0.59	10.5	8.7	7.6	1.08	0.02	
			Average	\$5,930	11.5%	13.9%	12.9%	12.4%	1.52x	1.37x	11.0x	9.3x	8.2x	1.31x	0.95x	
			Median	\$2,740	10.1%	8.0%	11.8%	11.8%	1.24x	1.04x	10.0x	8.6x	7.8x	0.77x	0.11x	
Building Products																
Beacon Roofing Supply Inc.	\$34.82	99.1%	\$1,919	\$2,044	12.4%	30.5%	8.2%	14.8%	0.94x	0.82x	11.4x	9.8x	8.9x	1.70x	1.47x	
Builders FirstSource, Inc.	5.92	95.2	764	976	33.0	NM	NM	NM	0.78	0.59	NM	16.3	9.0	NA	NA	
Pool Corp.	43.83	99.8	2,258	1,918	8.7	21.2	8.4	14.1	1.18	1.10	14.0	12.3	11.0	1.35	1.17	
Universal Forest Products Inc.	39.99	92.2	852	2,006	12.8	46.0	3.7	30.1	0.42	0.38	11.5	8.6	7.1	0.75	0.69	
Watsco Inc.	76.89	95.7	2,819	3,312	10.8	19.2	7.2	12.8	0.85	0.77	11.8	10.1	9.3	0.84	0.65	
			Average	\$2,051	15.5%	29.2%	6.9%	14.3%	0.83x	0.73x	12.2x	11.4x	9.1x	1.16x	0.99x	
			Median	\$2,006	12.4%	25.8%	7.7%	13.5%	0.85x	0.77x	11.6x	10.1x	9.0x	1.10x	0.93x	
Electronic / Electrical																
Anixter International Inc.	\$65.01	87.9%	\$2,978	\$6,208	2.9%	1.9%	6.4%	4.9%	0.48x	0.45x	7.5x	6.9x	6.4x	2.61x	2.27x	
Arrow Electronics, Inc.	38.35	88.4	5,685	20,443	(3.5)	(10.1)	4.6	(4.4)	0.28	0.28	6.1	6.3	6.2	2.09	1.70	
Avnet, Inc.	30.78	83.1	5,609	25,152	(6.1)	(10.2)	3.9	(4.9)	0.22	0.23	5.7	6.2	5.9	2.40	1.33	
Rexel SA	20.64	93.3	9,341	17,149	6.4	3.8	6.1	7.3	0.54	0.51	8.9	8.1	7.4	3.71	3.40	
WESCO International Inc.	69.67	99.0	3,622	6,524	11.2	15.2	6.2	12.0	0.56	0.52	9.0	7.8	7.2	1.93	1.66	
			Average	\$15,095	2.2%	0.1%	5.4%	2.0%	0.42x	0.40x	7.4x	7.1x	6.6x	2.55x	2.07x	
			Median	\$17,149	2.9%	1.9%	6.1%	0.0%	0.48x	0.45x	7.5x	6.9x	6.4x	2.40x	1.70x	
			High	\$25,152	34.8%	59.7%	23.0%	30.1%	4.41x	3.85x	19.2x	16.3x	13.8x	3.76x	3.40x	
			Low	\$976	(6.1%)	(10.2%)	3.7%	(4.9%)	0.22x	0.23x	5.7x	6.2x	5.9x	0.00x	(0.50x)	
			Average	\$7,252	10.2%	13.5%	9.7%	10.1%	1.07x	0.97x	10.3x	9.3x	8.0x	1.61x	1.25x	
			Median	\$3,193	9.8%	8.4%	8.2%	11.7%	0.79x	0.73x	10.0x	8.6x	7.7x	1.70x	1.33x	

EBITDA
Earnings Before Interest, Taxes, Depreciation, and Amortization

Enterprise Value
Market Capitalization + Total Debt + Preferred Equity + Minority Interest – Cash and Short Term Investments

TTM
Trailing Twelve Months

CAGR
Compound Annual Growth Rate

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