



Industrial Distribution Industry Insights

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January 2015

Executive Summary

The Industrial Distribution market continues to be driven by improving end markets and favorable industry dynamics. This industry has been characterized by stable and predictable revenue streams, limited customer concentration, strong free cash flow and a fragmented marketplace. As customer expectations continue to rise and online companies are entering the industrial space, competition within the industry has grown stronger. Acquisition activity has increased as larger distributors acquire smaller companies that provide complementary product lines in an effort to create a “one-stop” shop for consumers.

Acquisitions are expected to increase this year, fueled by a declining customer base and increasing demand for on-site inventory management. Strategic investors are acquiring well-run operating targets that help facilitate a variety of strategic growth initiatives such as international expansion, establishment of a comprehensive product line and expanding or strengthening market position.

Financial investors on the other hand continue evaluating their next distribution platform or add-on acquisition for an existing portfolio company, attracted by the fragmented structure of the industry and abundant consolidation opportunities. In addition, the capital markets continue to be favorable and have been particularly receptive toward the industrial distribution sector.

Duff & Phelps’ respective distribution indices have continued to outperform their broader performance benchmarks. We expect these valuation dynamics will foster a healthy level of M&A dialogue and opportunities in 2015. The Duff & Phelps Industrial Distribution team remains very active in this space, having closed several significant M&A assignments and currently working to close multiple distribution deals, that are enjoying strong strategic and financial buyer demand and resulting valuations.

A Closer Look – W.W. Grainger, Inc. (NYSE:GWW)

Company Overview

W.W. Grainger, Inc. operates as a distributor of maintenance, repair, and operating (MRO) supplies, and other related products and services. Founded in 1928, Grainger has grown to a \$9.4 billion revenue business with 709 branches in 23 countries. Grainger uses a multichannel business model to provide customers with a range of options for finding and purchasing products, utilizing sales representatives, direct marketing materials, catalogs and eCommerce. Grainger serves more than 2 million customers worldwide through a network of highly integrated branches, distribution centers, websites and export services.

By the Numbers

9.4 Billion In 2013 sales	2 Million Active customers
28.7% Average annual total shareholder return (2009 - 2013)	15th Largest e-retailer in the U.S. and Canada
23,700 Employees	1.2 Million Products available

Source: Capital IQ

M&A Growth Strategy

Grainger has focused its acquisition strategy in markets where the company has established scale. For example, in December 2013, Grainger acquired Safety Solutions, which sells safety footwear to manufacturers. As the largest distributor of safety products to commercial and industrial customers, Grainger utilized this acquisition to penetrate the footwear market and provide Safety Solutions with channels of growth through its relationships within the sector.

Other Recent M&A Activity



Sept. 2014 – Windsor Factory Supply distributes tools and supplies to industrial markets, specializing in automotive, tooling, construction and plumbing



Aug. 2013 – E&R Industrial Sales, Inc. operates as a distributor of MRO, janitorial/sanitation, and industrial supplies and solutions



Dec. 2012 – Techni-Tool distributes electronic production and rework, field service and maintenance, and voice/video/data equipment



Oct. 2009 – Imperial Supplies distributes fleet-specific maintenance repair parts to the transportation industry

Source: W.W. Grainger, Inc.

On M&A Activity...

“We believe that you’re going to see this market continue to consolidate, not at a rapid pace but the rate of consolidation, we think, is picking up. We are seeing customer trends in reducing the number of distributors to drive more productivity through cost reduction and reducing working capital and inventory that they carry. So if they can find a distributor who has great products, great availability, competitive price and value added services – that’s very attractive.”

On Changing Industry Dynamics...

“What we’re finding is that for larger customers, you need to be on their site if you’re going to gain more share and help them extract costs from their operations. For smaller customers, we think the battleground will be online and we’ve developed some single channel business models that are very successful with these customers that tend to have similar purchasing behaviors as a consumer.”

On the Economy...

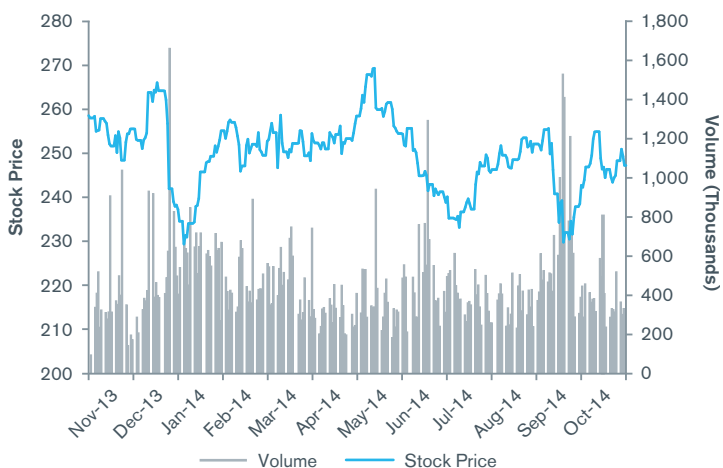
“From a macro standpoint, in general we are seeing slow, lumpy growth with expectations in 2015 of continued improvement. Any distributor lives off of the spread between their price inflation and cost of goods sold inflation; although we are currently in a low inflationary environment, we believe that ultimately we will revert to the [20 year historical] mean [of 1 – 2%].”

William Chapman
Senior Director of Investor Relations of W.W. Grainger, Inc.

Financial Performance

(USD)	Fiscal Year Ended			LTM
	12/31/11	12/31/12	12/31/13	09/30/14
Revenue	8,078.2	8,950.0	9,437.8	9,831.2
Growth	12.5%	10.8%	5.4%	5.9%
EBITDA	1,208.6	1,305.1	1,491.2	1,557.3
Margin	15.0%	14.6%	15.8%	15.8%
EBIT	1,078.4	1,162.1	1,333.5	1,378.1
Margin	13.3%	13.0%	14.1%	14.0%

Stock Price Performance



Source: Capital IQ

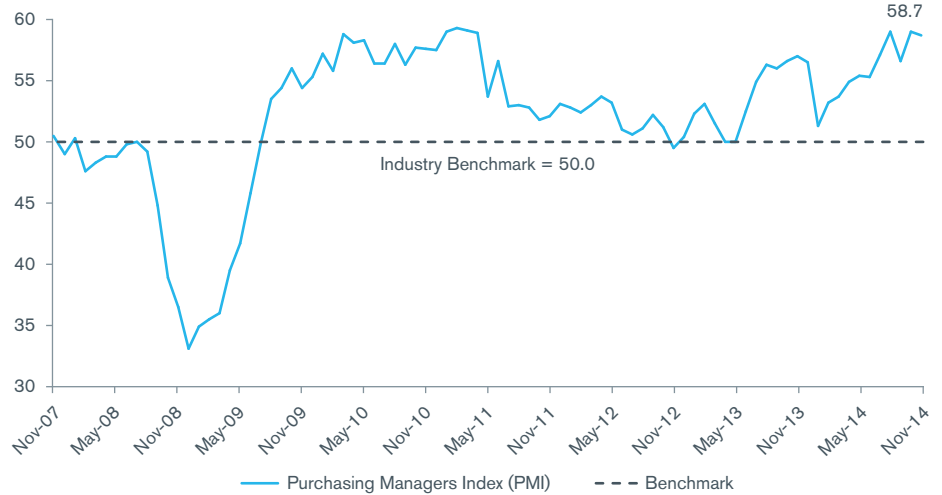
Macroeconomic Backdrop

Manufacturing Sector Expanding

Throughout 2014, the industrial distribution end markets continued to drive demand and propel the economy forward.

The purchasing managers index continued to expand above the industry benchmark during the second half of 2014 indicating an expanding manufacturing sector.

Manufacturing Sector Expanding

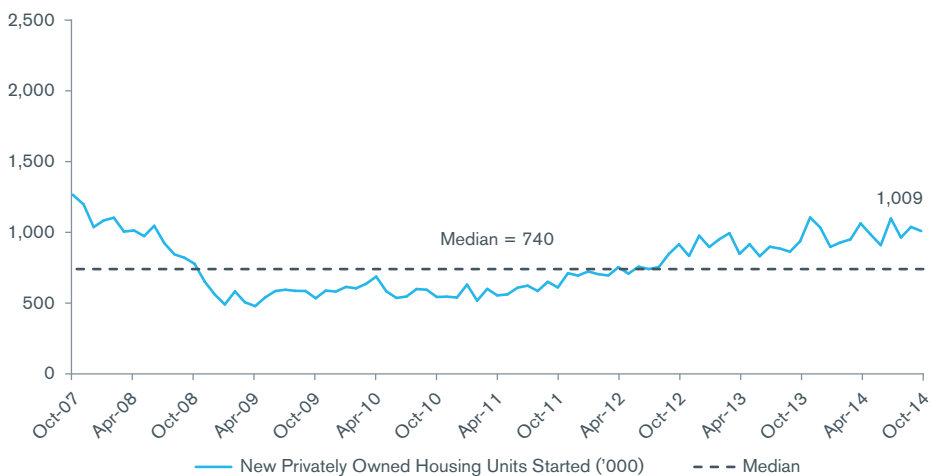


Source: Institute for Supply Management

Housing in Recovery Mode

Housing demand continues to slowly recover throughout 2014 with housing starts hovering around 1.0 million, increasing toward the 1.5 million start benchmark that industry analysts believe to be the normalized level. The recovery of the housing market is primarily driven by rising job and population growth, improving economic indicators, and low interest rates, all of which continue to have a positive impact through 2014 and into 2015.

Housing in Recovery Mode

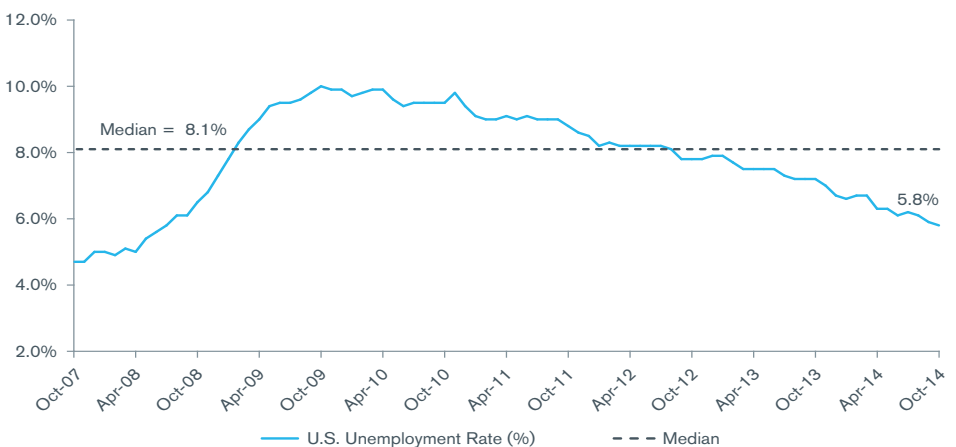


Source: U.S. Census Bureau, SAAB (Seasonally Adjusted Annual Rate)

Unemployment Improving

The level of unemployment affects the industrial distribution sector because distributors rely on downstream demand. Unemployment has been improving since a high of 10.0% in October 2009 and is expected to show continued improvement into 2015. The current unemployment rate is 5.8%.

Unemployment Improving



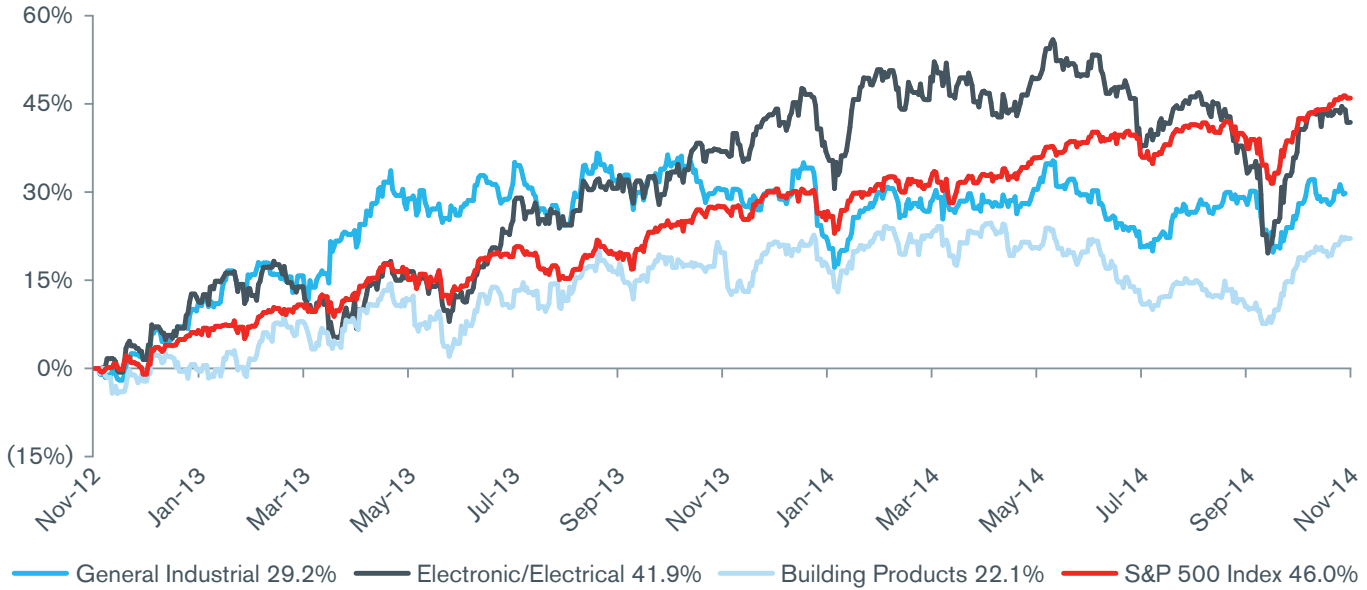
Source: U.S. Bureau of Labor Statistics

Public Companies Valuation Trends

Equity Market Performance

- The General Industrial index has grown steadily over the past two years by 29.2% overall.
- Over the past 24 months, the Electronic / Electrical Distribution Index has performed most in line with the S&P 500 at 41.9%.
- The Building Products index has slightly underperformed the General Industrial index by approximately 7%.

Stock Performance over the Past Two Years

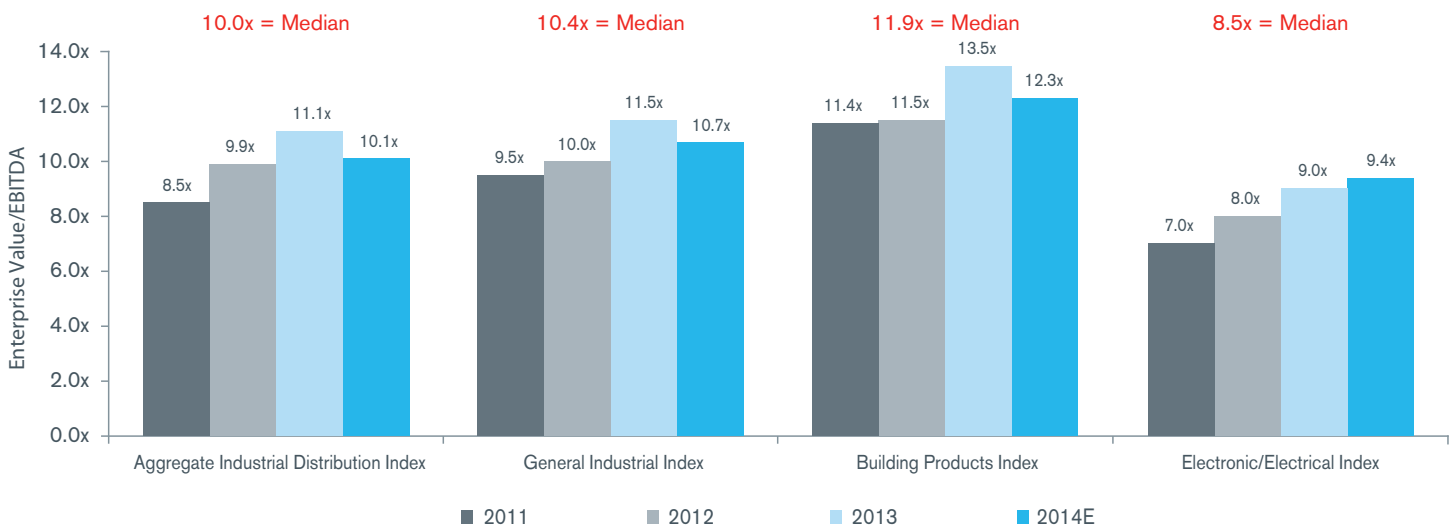


Source: Capital IQ

Valuation Trends

- Valuation multiples as a whole for the overall industry have remained stable since fiscal year 2011 at a median of 10.3x.
- The Building Products index has consistently traded at a higher EV / EBITDA multiple than the other indices.

Historical Median EV / EBITDA Multiple Trends by Sub-Sector



Source: Capital IQ

Public Companies Trading Analysis

(\$ in millions, except per share amounts)

Comparable Company Analysis	Price as of 12/15/14	% of 52-Week High	Enterprise Value	Operating Benchmarks					Comparable Multiples						
				Revenue	TTM Revenue Growth	TTM EBITDA Growth	EBITDA Margin	EBITDA CAGR 2012-2014	EV / Revenue		EV / EBITDA			Debt / EBITDA	Net Debt / EBITDA
									TTM	2014	TTM	2014	2015		
General Industrial															
Airgas, Inc.	\$110.20	92.8%	\$10,671	\$5,182	3.0%	3.5%	18.4%	5.7%	2.06x	2.03x	11.2x	11.0x	10.0x	2.62x	2.55x
Applied Industrial Technologies	43.51	82.7	2,068	2,557	4.1	2.6	7.9	9.2	0.81	0.78	10.2	9.2	7.9	1.60	1.34
Barnes Group Inc.	34.03	83.2	2,330	1,243	17.4	29.7	20.7	20.7	1.87	1.84	9.1	8.5	7.9	2.10	1.85
DXP Enterprises, Inc.	44.85	38.4	1,089	1,431	17.2	14.4	9.5	14.5	0.76	0.73	8.0	7.6	6.7	3.30	3.22
Fastenal Company	45.25	86.7	13,403	3,621	10.7	6.5	22.8	10.4	3.70	3.58	16.2	15.6	13.7	0.13	(0.01)
Genuine Parts Company	101.65	97.3	16,249	15,037	9.9	7.6	8.3	8.1	1.08	1.07	13.0	12.5	11.5	0.67	0.56
Kaman Corporation	37.73	84.6	1,352	1,774	8.0	3.5	7.9	10.8	0.76	0.74	9.7	9.2	8.0	2.43	2.36
MSC Industrial Direct Co. Inc.	77.94	80.7	5,107	2,787	13.4	3.2	16.7	3.4	1.83	1.79	11.0	11.1	10.1	0.72	0.62
W.W. Grainger, Inc.	244.17	90.5	16,869	9,831	5.9	4.8	15.8	10.1	1.72	1.69	10.8	10.4	9.7	0.30	0.09
		Average	\$7,682	\$4,829	10.0%	8.4%	14.2%	9.7%	1.62x	1.58x	11.0x	10.6x	9.5x	1.54x	1.40x
		Median	\$5,107	\$2,787	9.9%	4.8%	15.8%	10.1%	1.72x	1.69x	10.8x	10.4x	9.7x	1.60x	1.34x
Building Products															
Beacon Roofing Supply, Inc.	\$26.41	63.8%	\$1,497	\$2,327	3.8%	(17.0%)	5.6%	3.5%	0.64x	0.62x	11.6x	9.4x	9.1x	1.91x	1.48x
Builders FirstSource, Inc.	6.10	64.9	915	1,576	11.9	36.3	NM	NM	0.58	0.57	15.1	14.0	10.1	6.33	5.21
Pool Corp.	61.10	97.2	3,037	2,211	8.1	12.8	9.0	11.7	1.37	1.36	15.3	15.0	13.3	1.99	1.92
Universal Forest Products Inc.	49.10	83.9	1,050	2,566	6.2	34.9	5.0	27.6	0.41	0.40	8.2	8.0	6.9	0.66	0.46
Watsco Inc.	103.14	96.6	3,944	3,895	5.8	10.0	8.0	13.5	1.01	1.00	12.7	12.4	11.1	1.14	1.08
Wolseley plc	54.99	94.3	15,311	22,170	(0.2)	3.4	6.5	7.3	0.69	0.73	10.7	10.6	9.5	1.17	0.88
		Average	\$4,292	\$5,791	6.0%	13.4%	6.8%	12.0%	0.78x	0.78x	12.3x	11.6x	10.0x	2.20x	1.84x
		Median	\$2,267	\$2,446	6.0%	11.4%	6.5%	11.7%	0.67x	0.67x	12.1x	11.5x	9.8x	1.54x	1.28x
Electronic / Electrical															
Anixter International Inc.	\$82.82	71.5%	\$3,873	\$6,375	3.3%	12.5%	6.3%	1.2%	0.61x	0.60x	9.6x	9.3x	8.1x	3.08x	2.86x
Arrow Electronics, Inc.	55.23	86.6	7,328	22,525	9.3	19.1	4.5	7.2	0.33	0.32	7.2	7.1	6.7	2.19	1.94
Avnet, Inc.	42.13	87.4	7,049	27,994	7.9	9.2	3.7	7.4	0.25	0.25	6.8	6.5	6.0	2.01	1.23
Rexel SA	17.88	69.8	8,487	16,282	(2.0)	(4.4)	5.4	(2.2)	0.52	0.52	9.6	9.4	8.8	4.68	3.78
WESCO International Inc.	72.22	76.2	4,619	7,774	6.8	6.6	6.6	14.2	0.59	0.58	9.1	8.5	7.7	2.98	2.76
		Average	\$6,271	\$16,190	5.1%	8.6%	5.3%	5.3%	0.46x	0.46x	8.5x	8.2x	7.5x	2.99x	2.51x
		Median	\$7,049	\$16,282	6.8%	9.2%	5.4%	7.2%	0.52x	0.52x	9.1x	8.5x	7.7x	2.98x	2.76x
		Aggregate High	\$16,869	\$27,994	17.4%	36.3%	22.8%	27.6%	3.70x	3.58x	16.2x	15.6x	13.7x	6.33x	5.21x
		Aggregate Low	\$915	\$1,243	(2.0%)	(17.0%)	3.7%	(2.2%)	0.25x	0.25x	6.8x	6.5x	6.0x	0.13x	(0.01x)
		Aggregate Average	\$5,839	\$7,210	7.9%	10.3%	10.1%	9.3%	1.10x	1.08x	10.8x	10.3x	9.1x	2.15x	1.86x
		Aggregate Median	\$3,944	\$3,621	7.9%	7.6%	8.0%	9.7%	0.76x	0.74x	10.2x	9.4x	8.8x	2.01x	1.85x

Enterprise Value = Market Capitalization + Net Debt + Preferred Equity + Minority Interest

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

TTM = Trailing Twelve Months

CAGR = Compounded Annual Growth Rate

Source: Capital IQ as of November 28, 2014

Notable Commentary from the Industry

Suppliers	Public Distribution Comments	Large Customers
<p>“We’re in a world of greater geopolitical uncertainty, falling oil prices and a stronger U.S. dollar. The U.S. economy remains strong but recently some Western European countries have slowed and there is heightened uncertainty related to Russia, the Ukraine and therefore the Middle East. In China, over capacity, lack of liquidity and underperforming loans are still waiting on economic growth and Brazil is in a recession.</p> <p>More specific to Rockwell and the automation market, the need for productivity and modernization, growing consumer demand in Emerging Markets and the connected enterprise are key drivers dealing continued market growth. And I believe we have the right strategy to capitalize on these opportunities.”</p> <p align="center">– Keith Nosbusch, Chairman and CEO of Rockwell Automation</p>	<p>“We enter our second quarter [FY 2015] with positive momentum, and we are well-positioned for continued improvements in sales, operations and earnings. All across Applied, we are focused on expanding our value-add, extending our market reach, and enhancing our capabilities to serve our customers.</p> <p>Looking ahead, we see an industrial market that offers continued opportunities for growth, and we are maintaining our full fiscal 2015 guidance for earnings.”</p> <p align="center">– Neil F. Schrimsher, CEO of Applied Industrial Technologies</p>	<p>“The stage was set with the unusually warm temperatures in our region in September 2013, which strained the regional grid. With the start of the next year, the same region was impacted by the polar vortex and subsequent severe weather events throughout the winter. These episodes of increased demand revealed weaknesses in the region’s power supply and resulted in nearly 100 emergency actions, interruptions of service to customers and severe spikes in wholesale power prices.</p> <p>At the same time, we have been working to support changes that can help prevent similar or even more disastrous stress on the electric grid in the future. It is becoming evident that the weather events are serving as a catalyst for a number of very important reforms that we not only endorse but view as critical to stabilizing the wholesale markets in this region.”</p> <p align="center">– Anthony Alexander, CEO of First Energy</p>
<p>“What does 2015 start to look like? We think market growth is likely to be similar to 2014. I think the big trends there are continuing growth in the U.S. and lower growth outside of the U.S. As you break that down into our individual businesses, [...] our general feeling is that Aerospace is likely to be a little higher growth than the average. Hydraulics is going to be a little lower growth than the average, and the other franchises are going to fall somewhere in between.”</p> <p align="center">– Sandy Cutler, CEO and Chairman of Eaton Corp</p>	<p>“We continue to see favorable momentum in our customer base, including strengthening in nonresidential construction, which we expect will result in ongoing growth in our key markets.</p> <p>Overall leading indicators in the industrial market remain positive, while notable customer trends of increased outsourcing and supplier consolidation remain in place.”</p> <p align="center">– John Engel, Chairman, Chief Executive Officer, and President of WESCO International, Inc.</p>	<p>“In 2014, while demand for new homes across most of our markets remained relatively stable, we generated greater than 20% growth in both revenue and pretax income by successfully leveraging our platform as the nation’s largest and most geographically diverse home builder. Our national market share is the largest in company history. We have closed 46% more homes than any other builder in the recently reported 12-month period, and we are positioned to generate further growth.”</p> <p align="center">– David Auld, CEO and President of DR Horton</p>
<p>“Although the typical seasonal trend is for third quarter volume to decline from the second quarter, our tons sold were up 0.4%, and well ahead of the MSCI industry trend of down 2.2%. Our increased volume reflects ongoing slow but steady improvement in customer demand. In addition, the overall pricing environment continued to improve during the third quarter with a 2.9% increase in our average selling price per ton sold over the prior quarter, driven by strength in most of our products. Overall, we remain very pleased with the execution of our managers in the field, as demonstrated by Reliance’s consistently strong FIFO gross profit margin of 25.8% for both the third quarter and year-to-date periods, especially in light of the historically high levels of imports and increased competitive pressures.”</p> <p align="center">– David Hannah, CEO of Reliance Steel & Aluminum</p>	<p>“While the demand environment has improved considerably over prior year, we would not say the same of the pricing environment which remains soft. Our gauge here is the rate and pace of manufacturer list increases which remains sparse. There are some indication of potential commodities inflation in products made with nickel and other steel used in many of our cutting tools. If that were to continue for a sustained period of time it would likely result in a more robust pricing environment in quarters to come.”</p> <p align="center">– Erik Gershwind, President and CEO of MSC Industrial Direct Co.</p>	<p>“The market has continued a slow and steady recovery that is markedly different from past down cycle recoveries. History would suggest a more vertical recovery especially given the severity of the economic decline. This recovery has been a decidedly different experience as the slope of recovery has been shallow and the expected acceleration has not materialized.</p> <p>While this is generally the case for the overall economy, it is very much the case for housing in particular. The housing recovery has been moving gently upward in a fairly narrow channel with movement up and down along the way. [...] We continue to believe that the fundamental drivers of improvement remain a steadily improving economy with a slowly improving employment picture, unlocking pent-up demand while supplies remain constrained to meet that demand.”</p> <p align="center">– Stuart A. Miller, CEO of Lennar Corp.</p>

Note: Industry commentary represents the latest earnings call for each respective company

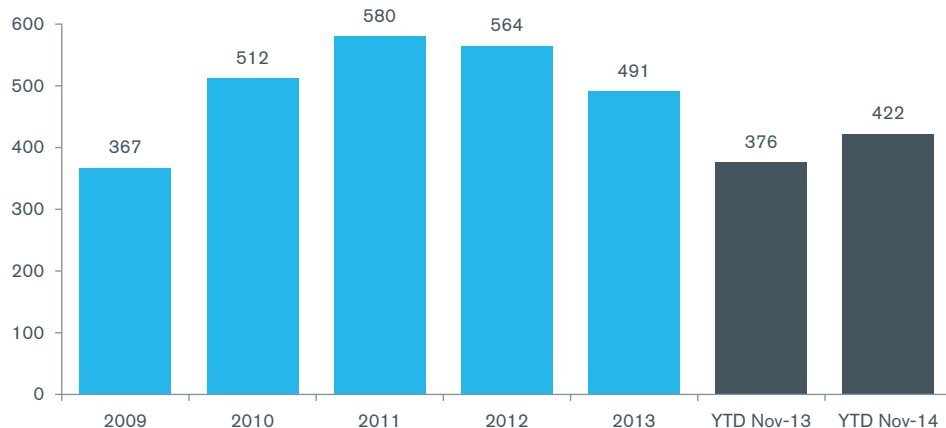
Strategic Investor Actions and Commentary

2014 Industrial Distribution M&A Activity

Industrial Distribution M&A Trends

- As of November 2014, year-over-year U.S. M&A activity improved, indicating a rebound in overall M&A activity into 2015.
- M&A activity continues to increase as the industry is trending toward consolidation of larger distributors and smaller companies with complementary product lines
- Consolidation has been driven by changes in customer demand, trending toward fewer distributors providing integrated inventory services.

Industrial Distribution M&A Trends



Note: Above data represents all deals involving a U.S. distribution target
Source: Capital IQ and Mergermarket

Notable M&A Activity – YTD October 2014

(\$ in millions)

Announced Date	Target Name	Target Business Description	Acquirer Name	Enterprise Value	Enterprise Value	
					LTM Revenue	LTM EBITDA
12/2/2014	HD Supply Distribution Services, LLC	Distributes builders hardware, rope, chain and accessories, rod and steel, and garage storage products to national and regional hardware retailers	The Home Depot, Inc.	NA	NA	NA
11/21/2014	Specialty Pipe & Tube, Inc.	Distributes steel pipes and tubes	Synalloy Corporation	\$36.5	1.22x	NA
11/13/2014	Evergreen Tank Solutions, Inc.	Supplies equipment for liquid and solid temporary storage, pumping, and filtration	Mobile Mini, Inc.	\$405.0	NA	NA
10/1/2014	Applicators Sales & Service, Inc.	Supplies building products for contractors	Beacon Roofing Supply, Inc.	NA	NA	NA
9/25/2014	Belt Power LLC	Distributes and fabricates conveyor belts, conveyor belting equipment, belting accessories, and conveyor components	Shorehill Capital LLC	NA	NA	NA
9/19/2014	Sesco Electric Supply Company, Inc.	Supplies electrical lighting products	Hunzicker Brothers, Inc.	NA	NA	NA
9/18/2014	Industrial Distribution Group, Inc.	Distributes maintenance, repair, operations, and production products and integrated supply solutions	Sonepar North America, Inc.	NA	NA	NA
9/10/2014	MEDCO and G2S Equipment de Fabrication et d'Entretien ULC	Provides automotive aftermarket tools and supplies	United Stationers Supply Company	\$140.0	0.58x	NA
9/7/2014	LedHut Ltd	Supplies LED products to customers in Europe	Batteries Plus Bulbs	\$31.0	NA	NA
8/29/2014	Casco Automotive Group Inc.	Supplies engineered data connectivity, power, charging, and sensor products	Amphenol Corporation	\$450.0	2.05x	NA
8/8/2014	Tri-Ed Distribution, Inc.	Engages in the distribution and integration of security and access controls products	Anixter Inc.	\$420.0	0.74x	11.7x
7/17/2014	Cole-Parmer Instrument Company, Inc.	Distributes laboratory and industrial fluid handling products, instrumentation, equipment, and supplies	GTCR, LLC; GTCR Fund XI LP	\$480.0	2.09x	NA
7/3/2014	Dodson Steel Products, Inc.	Distributes carbon steel weld fittings, flanges, and forged steel fittings to wholesalers	Texas Pipe and Supply Company, Ltd.	\$110.0	NA	NA
6/24/2014	Astrex Electronics, Inc.	Distributes interconnect products and services to customers globally	TTI, Inc. / Sager Electronics, Inc.	NA	NA	NA
6/12/2014	PowerGateLLC	Supplies AC/DC power supplies, DC/DC converters, and DC/AC inverters for medium to large quantity OEM requirements in medical, industrial, IT, LED, and Datacom markets	TTI, Inc. / Sager Electronics, Inc.	NA	NA	NA
5/23/2014	Knox Oil Field Supply, Inc.	Distributes and markets oilfield production equipment	Applied Industrial Technologies, Inc.	\$132.8	1.33x	NA
5/21/2014	Hi-Line Utility Supply Company, LLC	Supplies tools and equipment for the construction and maintenance of above and underground installations in the U.S.	WESCO Distribution, Inc.	NA	NA	NA
5/16/2014	The Hillman Companies, Inc.	Provides hardware-related products and related merchandising services to retail markets in North America	Oak Hill Capital Partners; CCMP Capital Advisors, LLC	\$1,475.0	2.07x	12.8x
5/9/2014	Agrium Inc., Turf and Ornamental Business	Supplies controlled release fertilizers to turf and horticulture industry	Koch Agronomic Services, LLC	\$94.0	NA	NA
5/1/2014	Machinery Tooling & Supply, LLC	Distributes cuttings tools, abrasives, coolants, machine shop, and industrial / safety supplies	DXP Enterprises, Inc.	\$14.9	0.39x	6.0x
4/2/2014	Lake Welding Supply Company Inc.	Distributes welding equipment, consumables, industrial, specialty, medical and carbonic gases, safety equipment, abrasives, and power and hand tools	Praxair Inc.	NA	NA	NA

Strategic Investor Actions and Commentary

2014 Industrial Distribution M&A Activity

Notable M&A Activity – YTD October 2014 (cont.)

(\$ in millions)

Announced Date	Target Name	Target Business Description	Acquirer Name	Enterprise Value	Enterprise Value	
					LTM Revenue	LTM EBITDA
3/6/2014	Value Lighting, Inc. and AL Enterprises, Inc.	Supplies lighting fixtures and ceiling fans	Revolution Lighting Technologies, Inc.	\$49.0	1.01x	NA
3/4/2014	J. K. Distributors, Inc.	Distributes automotive replacement parts, maintenance items and accessories	Uni-Select Inc.	NA	NA	NA
2/28/2014	Nave Communications Company	Offers new and used telecommunications and networking equipment	ADDvantage Technologies Group Inc.	\$17.8	1.29x	12.0x
2/20/2014	Wholesale Specialties, Inc.	Supplies plumbing and piping products for commercial and residential markets	MSC Holdings Inc.	NA	NA	NA
2/18/2014	Solenis International LP	Supplies specialty chemicals for water treatment applications to the pulp, paper, mining, food and beverage, chemical processing and general manufacturing industries	Clayton, Dubilier & Rice, Inc.	\$1,790.0	1.05x	NA
2/17/2014	Terry's Tire Town, Inc.	Distributes tires in the United States	American Tire Distributors, Inc.	\$365.0	NA	NA
2/14/2014	Dell Fastener Corporation	Supplies stainless steel and metric fasteners, safety wire locking clips and adhesives for customers globally	AFC Industries, Inc.	NA	NA	NA
1/28/2014	Hard Rock Solutions, LLC	Distributes drilling tools	SD Company, Inc.	\$25.0	NA	NA
1/24/2014	Hercules Tire & Rubber Company, Inc.	Distributes private label tires to tire dealers and distributors in the United States, Canada and internationally	American Tire Distributors, Inc.	\$431.9	0.72x	18.8x
			Mean	\$359.3	1.21x	11.5x
			Median	\$136.4	1.13x	11.8x

Source: Capital IQ, Company Filings, and other public sources

EBITDA = Earnings Before Interest, Taxes, Depreciation and Amortization

LTM = Last Twelve Months

Strategic Investor Actions and Commentary

Summary of Selected Key Deals in 2014*

Growing Market Position and Enhancing Global Footprint:

On September 18, 2014, Sonepar North America acquired Industrial Distribution Group (“IDG”), a market leader in supply chain solutions and national distributor of indirect industrial materials and energy distribution services. IDG serves customers from 42 locations in the U.S. and over 170 on-site customer locations in North America, Asia, and Europe. The acquisition of IDG strengthens Sonepar’s position in the Integrated Supply & MRO space while enhancing its North American reach.

Establishing Leading Position through Complementary Strategic Growth Initiatives:

On August 11, 2014, Anixter International Inc. (NYSE: AXE), a leading global distributor of enterprise cabling and security solutions, entered into a definitive agreement to acquire Tri-Ed, a leading independent distributor of security and low-voltage technology products from Audax Group (“Audax”) for a purchase price of \$420 million (11.7x EV/EBITDA). According to Anixter’s President and CEO, the acquisition of Tri-Ed is a strategic opportunity for Anixter and its security business to create a leading global security platform and to accelerate profitable revenue growth. Through expansion of AXE’s product offering into highly complementary product lines, the company will provide better service and broader security solutions while achieving long term growth and value-creation for shareholders.

Acquiring a Complementary Business: On June 24, 2014, TTI, Inc., via Sager Electronics, Inc., the world’s leading authorized distributor of passive, connector, electromechanical and discrete components, acquired Astrex Electronics, Inc. from RockWood Equity Partners LLC for an undisclosed amount. Astrex Electronics, a specialized, value-added small business distributor of interconnect products and services, reported revenues of \$37.6 million. Following the acquisition, TTI, Inc. will be able to provide its customers with an even higher level of service. With a core competency aligned with TTI, Astrex Electronics will prove to be an exceptional benefit to TTI customers.

Expanding Global Reach: On May 23, 2014, Applied Industrial Technologies, Inc. (NYSE: AIT), a leading distributor of industrial products for maintenance, repair and operational needs, acquired Knox Oil Field Supply, Inc. for approximately \$130 million (1.33x EV/Revenue). Knox Oil Field Supply, Inc., a distributor and marketer of oilfield production equipment, will greatly expand Applied Industrial Technologies’ gas market presence, in addition to enhancing Applied Industrial’s capabilities to serve upstream oil and gas customers. Following the acquisition, Applied Industrial will be able to enhance its bearing and power transmission product offering by providing new opportunities in Mexico and Western Australia.

Driving Growth through Financial Buyer: On May 19, 2014, CCMP Capital Advisors, LLC (“CCMP”) and the Hillman Companies, Inc. announced the acquisition of Hillman Companies from Oak Hill Capital Partners for \$1,475 million (2.07x EV/Revenue, 12.8x EV/EBITDA). Hillman, a leader in the hardware and home improvement industry, offers products for commercial and residential uses, as well as inventory management and in-store merchandising services. CCMP Capital Advisors, a private equity firm specializing in buyouts and growth equity transactions with extensive experience in retail/supply management, plans on working with the Hillman team to help drive Hillman’s next phase of growth as the company expands organically and through strategic acquisitions into adjacent markets and new geographies, according to the press release. Hillman has shown strong growth historically, growing EBITDA by approximately 50% since being bought by Oak Hill Capital Partners in 2010.

Strengthening Market Leadership Position: On February 18, 2014, Clayton Dubilier & Rice, Inc., a private equity investment firm specializing in buyouts, acquisitions, and growth capital financings, signed a definitive agreement to acquire Ashland Water Technologies (n/k/a Solenis International LP), for \$1,790 million (1.05x EV/Revenue). Ashland Water Technologies is a leading specialty chemical supplier to the pulp, paper, mining, food and beverage, chemical processing, general manufacturing, institutional and municipal markets. According to the press release, Clayton, Dubilier & Rice is looking to move the business forward to its next level of profitable growth, in addition to building upon the company’s market leadership position.

Establishing a Comprehensive Product Offering: On January 24, 2014, American Tire Distributors, Inc. acquired Hercules Tire & Rubber Company, Inc., a leading distributor of private label tires to tire dealers and distributors, for \$321.5 million.

*Source: Company press releases

Select Recent Duff & Phelps Industrial Distribution Experience

Sell Side Advisor



a portfolio company of



has been acquired by



Transaction Description

- Founded in 1935, Honsador is the largest independent distributor of building materials and electrical supplies in the state of Hawaii. The Company operates two market-leading distribution businesses, a lumber and building materials business that serves residential homebuilders and contractors, and an electrical supply business that services commercial electrical contractors and the Hawaiian power company. Together, these two businesses provide Honsador with greater scale, end market diversification and multi-faceted growth potential as the residential and commercial construction end markets continue to expand to accommodate Hawaii's growing population and economy.
- Duff & Phelps served as exclusive financial advisor to the shareholders of Honsador and provided M&A advisory services in connection with the sale transaction.

Sell Side Advisor

Machinery
Tooling & Supply

has been acquired by



Transaction Description

- Machinery Tooling & Supply, LLC ("MT&S" or the "Company") is a leading distributor of innovative cutting tools, abrasives, maintenance, repair, and operations supplies, filtration, and other industrial tooling solutions that enhance productivity and profitability across a variety of industrial end market applications. The Company distributes products to metalworking manufacturers and job shops that serve the oil & gas, construction, automotive and other manufacturing markets. MT&S distributes its products throughout Illinois, Wisconsin and Indiana via two facilities in Schaumburg, Illinois and Brookfield, Wisconsin.
- Duff & Phelps acted as exclusive financial advisor to MT&S in connection with the sale of the Company.

Sell Side Advisor



a portfolio company of



has been acquired by



Transaction Description

- TMI International, LLC ("TMI" or the "Company") is a vertically integrated, leading provider of over 3,000 highly engineered polyvinyl chloride ("PVC") products and solutions designed to meet the exacting demands of a variety of commercial and industrial workplace environments. The Company leverages its comprehensive expertise and capabilities to provide products such as industrial strip doors and soft wall curtains, engineered plastics for OEM customers, and process isolation systems for cleanrooms and datacenters. Many of TMI's products have regular replacement cycles due to their continual usage and the compelling low-cost, high-benefit proposition that these products provide in a variety of settings.
- Duff & Phelps served as exclusive financial advisor to the shareholders of TMI and provided M&A advisory services in connection with the sale transaction.

Sell Side Advisor



has made a significant investment in



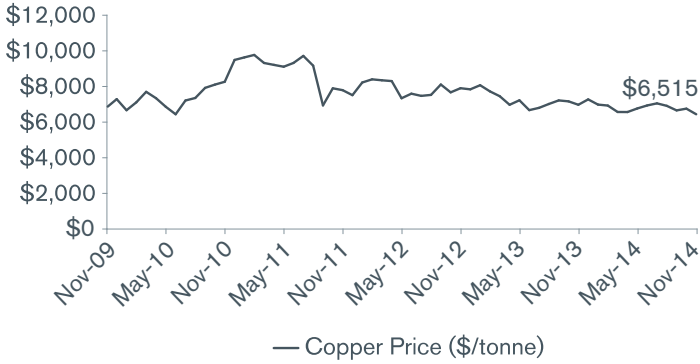
Transaction Description

- Raben Tire Company ("Raben" or the "Company"), is a Midwest independent tire dealer and automotive service provider offering a broad assortment of name brand tires, expert advice and reliable automotive service. The Company supplies a wide range of tires, including passenger, motorcycle, farm, OTR, and truck tires, to retail, wholesale, and commercial customers, including trucking fleets, mining companies and agricultural and industrial businesses. Raben also offers a range of complementary, high-margin automotive services for passenger vehicles and light trucks, including oil change services, brakes, batteries, and other repair and maintenance services.
- Duff & Phelps served as exclusive financial advisor to the shareholders of Raben and provided M&A advisory services in connection with the sale transaction.

Appendix

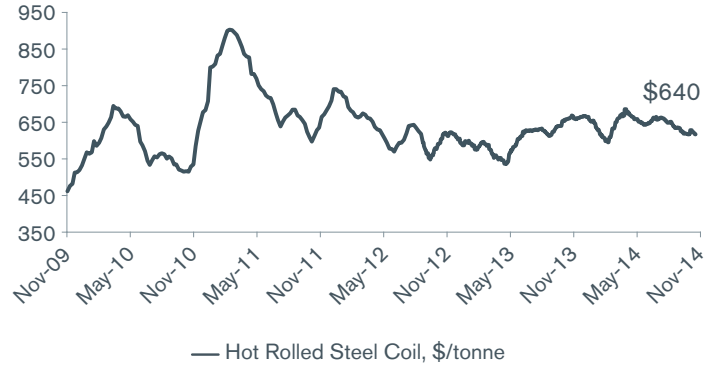
Key Pricing Indicators

Copper



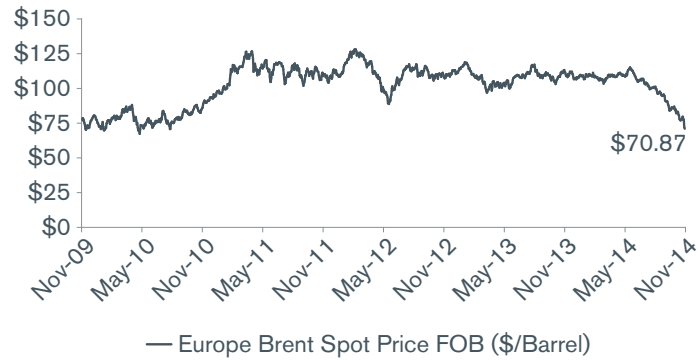
Source: London Metal Exchange

Steel



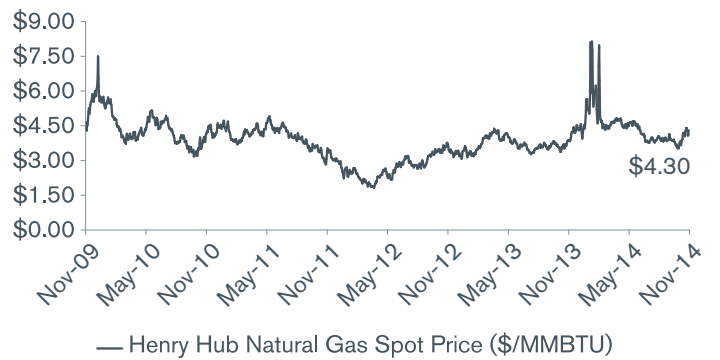
Source: MEPS (International) Ltd.

Crude Oil



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

Natural Gas



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

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