

INDUSTRIAL DISTRIBUTOR M&A PULSE

FIRST QUARTER 2016

INSIDE THIS ISSUE

PMCF Insights – The M&A Cycle
Page 2

M&A Case Study – DistributionNOW
Page 3

What We're Discussing with Clients
Page 4

Market Commentary & Equity
Market Valuations
Page 5-7

M&A Activity Update
Page 8-9



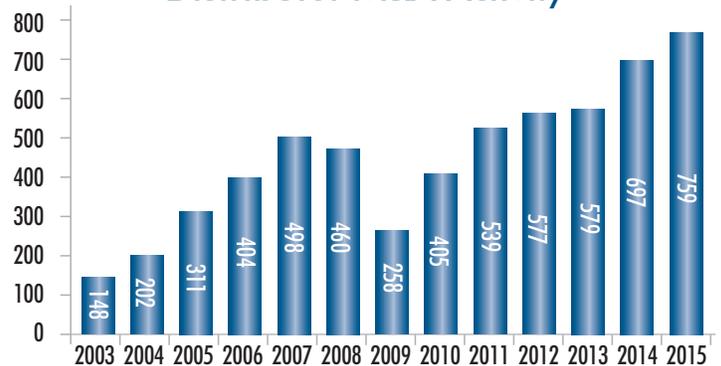
INDUSTRIALS | PMCF INSIGHTS

THE M&A CYCLE AND INDUSTRIAL DISTRIBUTORS

After a record year of M&A deal volume in 2014, industrial distributors continued to exhibit an appetite for inorganic acquisition-driven growth in 2015. Deal volume in the industrial distribution segment grew 8.9% YoY to total 759 deals, representing a CAGR of 13.4% since 2010. Despite several notable private equity deals occurring throughout the year, including Irving Place Capital’s acquisition of Ohio Transmission Corp. in October and Platinum Equity’s acquisition of PrimeSource Building Products, Inc. in May, the industrial distribution M&A landscape was again dominated by strategic buyers seeking access to new markets, new customers, and additional product lines.

2015 saw a greater number of transactions with reported enterprise values of over \$500 million, especially among strategic acquirers. Industrial distribution deals valued at over \$500 million totaled 10 percent of total deals, compared to only 4 percent in 2014. While strong corporate balance sheets and relatively easy access to capital continue to support deal flow across the broader economy, the sustained growth in deal volume and increasing amount of large deals in the industrial distribution segment may reflect pressures placed on publicly traded distributors to generate strong earnings growth in an otherwise sluggish economic environment. Faced with softness in emerging markets, a strong dollar pushing down exports, a contraction in the Purchasing Managers Index, and a general glut in oil and other commodities, industrial distributors that comprise the PMCF Industrial Distribution Index reported 63 completed deals during the year, up 6.8% from 2014.

Historical Volume of Industrial Distributor M&A Activity



Expect the aforementioned headwinds to persist and impact deal flow in 2016. In the short term, volatility in the equity and credit markets can lead to extended closing timelines and tighten previously loose financing sources. From a macro perspective, buyers and sellers are focused on predicting the timing and magnitude of the next slowdown in the M&A market. Deal volume has risen consistently since the depths of the financial crisis, and record years in 2014 and 2015 suggest the market may be reaching its peak. Still, certain characteristics of the current market, such as accommodative monetary policy, significant cash on corporate balance sheets, and undeployed private equity capital, will continue to sustain a healthy M&A environment in the short-term in our opinion. While the M&A cycle may taper in the coming years, sellers should continue to benefit from accommodative market forces and attractive valuations over the next 18 months, meaning sale processes launched by Q3 of this year should realize these advantages. PMCF expects 2016 to be a healthy year for M&A activity – specifically in the middle-market – as business owners attempt to capitalize on the remaining momentum in the M&A market.

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M&A Case Study

BUILDING SCALE VIA AGGRESSIVE INORGANIC GROWTH

DistributionNOW (“DNO” or the “Company”) operates as one of the largest industrial distributors in the world, commanding a market cap of \$1.9 billion and serving customers in over 90 countries worldwide. It primarily provides pipes, valves, fittings, and MRO products to the energy and general industrial markets and has considerable exposure to oil & gas customers, which partially reflects its extensive history as a former division of National Oilwell Varco, Inc. The Company’s split from National Oilwell Varco in 2013 was completed to enhance DNO’s ability to explore growth opportunities outside of the energy markets and invest solely in its distribution capabilities.

After the spin-off, DNO outlined a strategy to increase top and bottom line growth by scaling its customer base and geographic reach via organic initiatives and M&A. The Company’s M&A history is well documented, having completed over 40 transactions as a member of National Oilwell Varco in the 10 years preceding the split. Now, as a standalone entity, DNO tends to target privately held distributors operating in the lower middle market with revenue near or below \$100 million. Though many industrial distributors employ a similar consolidation strategy, DNO is unique in that its appetite for acquisitions increases during periods of stagnant or declining economic activity. As CEO Robert Workman commented in 2014, “... we’re really actively wanting to deploy capital for M&A... because this company was built in downturns, not upturns.” With the S&P 500 Energy sector down nearly 25% YoY, DNO is turning to M&A as a way to position itself for the future.

Recent headwinds in the oil & gas sector continue to weigh on earnings across the industry and, as a result, DistributionNOW has taken a more aggressive position in the M&A market. In the 12 months ending October 31, 2015, DNO completed nine acquisitions. The acquisitions that have been publicly disclosed suggest that the recent buying spree is consistent with management’s mandate to address holes in the Company’s product mix, strengthen relationships in key end markets, add SKUs, and broaden its geographic reach. And it doesn’t appear the Company will scale back its efforts anytime soon. During a November earnings call, CEO Robert Workman noted that the Company is willing to allocate over \$700 million towards additional M&A opportunities should they fit its strategic objectives.

While its core operations continue to feel the effects of the current economic environment, DistributionNOW recognizes the benefits of leveraging M&A to capture additional market share and shore-up gaps in the organization. DNO’s M&A strategy illustrates that opportunities are available to buyers and sellers regardless of fluctuations in the business cycle and that both parties can improve their respective companies by effectively navigating the M&A market.

Recent DNO Acquisitions



Acquired
June 2015

Odessa Pumps & Equipment, Inc. distributes pumps and related equipment and provides service and repair for the oil & gas, municipal, and industrial markets. The acquisition will allow DNO to expand its product and service offerings to existing energy customers and strengthen its position within the Gulf Coast region.



CHALLENGER
INDUSTRIES

Acquired
August 2015

Challenger Industries, Inc. is a leading pipe, valve, and fittings supplier to up-, mid-, and downstream energy markets. The acquisition will expand DNO’s pipe, valve, and fitting distribution capabilities to mid- and downstream customers, and strengthen its ability to service upstream customers in the Rocky Mountain region of the U.S.



Acquired December 2015

Updike Supply, Inc. provides industrial MRO supplies and inventory management solutions. The company will operate in the Machine Tools Supply and Manufacturing Services group at DNO. The acquisition will further strengthen DNO’s technical applications support and inventory management solution offerings to members of the manufacturing sector.

Buyers and Sellers Beware...

What we're discussing with clients



- 1 Buyers are pushing more aggressively to secure customer and vendor consent early in the process; sellers need to assess the benefits and risks of allowing earlier access than is typical
- 2 Government service contracts need to be carefully reviewed before launching a sale process; business awarded under small business set aside programs may be at risk if a company is sold to a buyer that doesn't comply with the government's criteria
- 3 While winning large pieces of business is great for top line growth, carefully consider the investment required to launch the new business... depending on the magnitude of the investment and the structure of the awarded work, the timing to launch a sale process may need to be adjusted

Market Commentary

Companies continue to employ strategies in preparation for the next economic correction. Through capital investment and inorganic growth strategies, executive teams are working to offset tepid earnings by positioning themselves for potential future growth opportunities while simultaneously generating revenue inorganically.

November 2015: "... customer feedback is predicting a brighter 2016, particularly in the latter half of the year ... Supply Chain Services continued its organic growth strategy around gaining market share in slow times by bringing customers value-added solutions and guaranteed cost savings. This is proving to have continued success in winning additional sites with existing and new customers. We are also continually diversifying our customer base to achieve balance to withstand the current economic outlook."

"We will strategically invest in DXP's future, and **we will take market share through organic and inorganic initiatives. We are positioning DXP for the eventual market turn**, and we will continue to provide the excellent service that our customers deserve."

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

January 2016: "In addition, **investments will be continued in the field of multi-channel distribution**, which includes the sales force, branch offices and e-business activities... Investments in future growth and increasing price pressure have prevented a parallel development of profits and sales. We are planning to improve our profitability in 2016 while still generating reasonable sales growth."

Robert Friedman, Chairman of the Central Managing Board, Würth Group

October 2015: "Right now in the third quarter, **44 of our top 100 customers are negative**... In some cases, they're negative because their business is very negative and ... in some cases, their business is trading water and they've decided to tighten their belt. Of that 44 that were negative, 32 of them were negative more than 10% ...17 of them were negative more than 25%. **That's a sign of a recessionary environment**. But despite all that, we continue to add customers at a faster pace than we've done in recent years, and we continue to grow our National Account business, which is about momentum, but we have existing customers that are struggling through a pretty weak environment in their own business."

Daniel L. Florness, Chief Executive Officer, Fastenal Company

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	\$ 12,906	\$ 14,546	\$ 10,006	42.8%	15.9%	1.0x	1.5x	9.2x
Fastenal Company	United States	12,063	12,266	3,873	50.5%	23.7%	0.2x	3.2x	13.4x
HD Supply Holdings, Inc.	United States	6,104	10,421	9,195	29.4%	9.8%	4.8x	1.1x	11.6x
MSC Industrial Direct Co., Inc.	United States	3,537	3,927	2,910	45.2%	15.6%	0.9x	1.3x	8.7x
Applied Industrial Technologies, Inc.	United States	1,610	1,901	2,691	28.1%	8.2%	1.3x	0.7x	8.6x
MRC Global, Inc.	United States	1,339	2,325	5,074	16.2%	6.2%	2.0x	0.5x	7.4x
Essendant, Inc.	United States	1,225	1,865	5,399	15.8%	5.0%	2.4x	0.3x	6.9x
Kaman Corporation	United States	1,129	1,374	1,801	29.2%	8.5%	1.6x	0.8x	9.0x
Bossard Holding AG	Switzerland	876	1,062	678	31.1%	12.7%	2.2x	1.6x	13.1x
DXP Enterprises, Inc.	United States	326	697	1,351	28.3%	7.8%	3.5x	0.5x	6.6x
Median					29.3%	9.1%	1.8x	0.9x	8.8x
Electrical Products									
Rexel SA	France	\$ 4,037	\$ 6,915	\$ 15,275	23.9%	4.9%	3.9x	0.5x	9.4x
Anixter International, Inc.	United States	2,001	2,672	6,745	22.5%	5.5%	1.8x	0.4x	7.2x
WESCO International, Inc.	United States	1,847	3,213	7,652	20.0%	6.0%	3.0x	0.4x	6.9x
Houston Wire & Cable Co.	United States	88	129	327	21.8%	5.3%	2.4x	0.4x	7.4x
Median					22.2%	5.4%	2.7x	0.4x	7.3x
Building Products									
Wolseley plc	Switzerland	\$ 14,071	\$ 15,306	\$ 20,851	28.0%	7.2%	0.9x	0.7x	10.8x
Watsco, Inc.	United States	3,890	4,436	4,086	24.5%	8.6%	0.8x	1.1x	12.6x
Pool Corp.	United States	3,517	3,889	2,325	28.5%	9.7%	1.6x	1.7x	17.2x
Beacon Roofing Supply, Inc.	United States	2,490	2,667	2,515	23.7%	6.3%	1.1x	1.1x	16.7x
Universal Forest Products, Inc.	United States	1,400	1,436	2,854	13.2%	5.7%	0.1x	0.5x	8.9x
Builders FirstSource, Inc.	United States	1,176	3,102	2,505	24.3%	5.0%	15.5x	1.2x	24.9x
Median					24.4%	6.8%	1.0x	1.1x	14.7x
Chemicals & Gases									
Airgas, Inc.	United States	\$ 10,013	\$ 12,783	\$ 5,358	55.8%	18.2%	2.8x	2.4x	13.1x
Brenntag AG	Germany	8,273	9,661	11,588	21.5%	7.6%	1.7x	0.8x	11.1x
Univar Inc.	United States	2,344	5,319	9,403	19.6%	5.2%	6.1x	0.6x	10.8x
Median					21.5%	7.6%	2.8x	0.8x	11.1x
Median					24.5%	7.6%	1.8x	0.8x	9.4x
Mean					28.0%	9.1%	2.7x	1.0x	10.9x

Market capitalizations and total enterprise values as of December 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

- The industrial distribution index experienced significant movement in EV/EBITDA valuation multiples during the year, rising to 11.7x by the end of Q2 then slipping to 10.4x over the following three months. The index finished the year relatively unchanged from where it started, climbing to 10.9x by year-end

PMCF Industrial Distribution Index Valuation

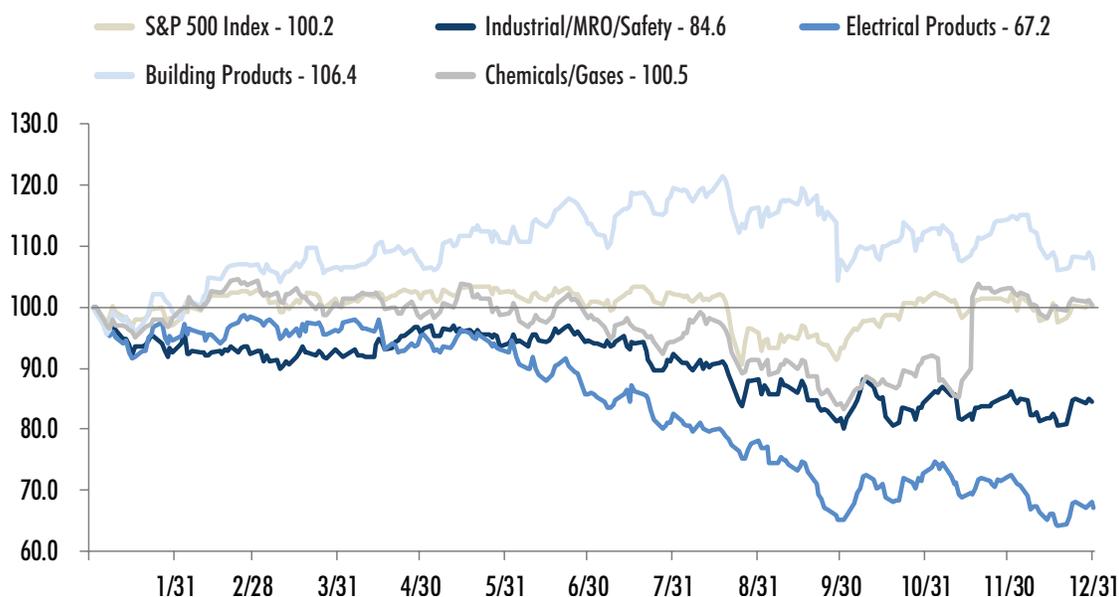
	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015
Revenue Multiple									
Median	0.8x								
Mean	1.2x	1.1x	1.1x	1.0x	1.1x	1.0x	1.0x	0.9x	1.0x
EBITDA Multiple⁽¹⁾									
Median	11.6x	11.8x	11.4x	10.9x	11.1x	10.5x	10.5x	9.2x	9.4x
Mean	12.1x	11.9x	11.7x	10.6x	10.9x	10.8x	11.7x	10.4x	10.9x

(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

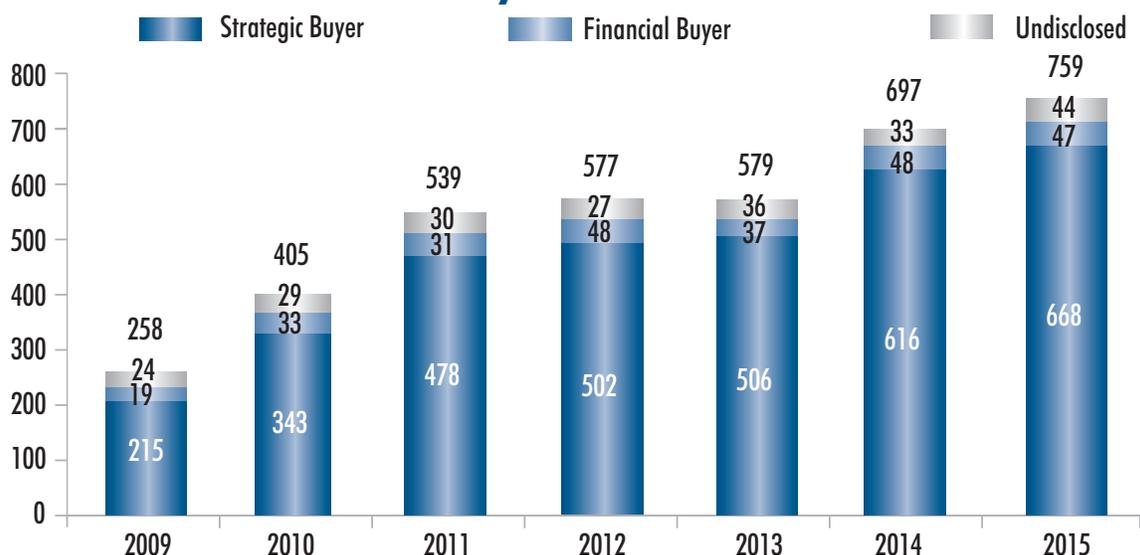
- A turbulent year for the broader stock market culminated in nearly zero growth for the S&P 500. Industrial distributors were not immune to market forces, with the index underperforming the S&P 500 by 10 percent
- The only segment of the industrial distribution index to finish the year in positive territory was the Building Products sector, helped by strength in U.S. housing starts and confidence in the overall housing market
- Companies in Industrial / MRO / Safety and Electrical Products segments performed particularly poorly in 2015, exhibiting 15 percent and 32 percent declines, respectively

Values as of: December 31, 2015



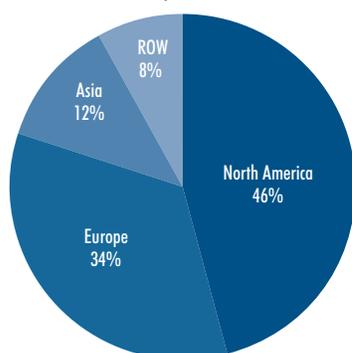
Market capitalization indices with mixed currencies are converted into USD using historical spot rates
 Local currency quotes converted to USD using historical spot rates
 Source: Capital IQ

Industrial Distribution M&A Activity

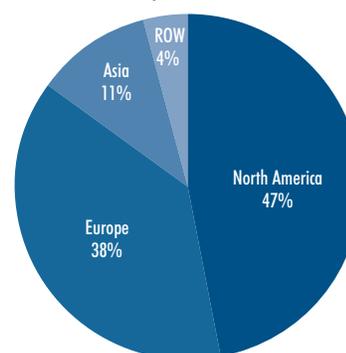


Index includes majority acquisitions of Trading Companies and Distributors, as classified by Capital IQ, as well as various transactions reported in industry publications
 Index includes deals reported through December 31, 2015
 Source: Capital IQ, proprietary research

Target Breakdown by Continent — FY 2015



Buyer Breakdown by Continent — FY 2015⁽¹⁾



(1) Excludes 44 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 December 31, 2015
 Source: Capital IQ, proprietary research

Select Transactions, as of December 31, 2015

Date	Target	Buyer	Industry Segment	Implied EV	EV/TTM Revenue	EV/TTM EBITDA
Nov-15	Airgas, Inc.	Air Liquide SA	Industrial Gases	\$ 13,400	2.5x	13.7x
Aug-15	Interline Brands, Inc.	The Home Depot, Inc.	Industrial Gases	2,423	1.4x	18.5x
Sep-15	Cromwell Group (Holdings) Ltd.	W.W. Grainger, Inc.	Industrial/MRO/Safety	475	n/a	n/a
Jun-15	Industrial Air & Gas Technologies	Colfax Corporation	Industrial Gases	185	1.2x	8.4x
Nov-15	Isero B.V.	Grafton Group plc	Electrical Products	98	1.0x	9.2x
Sep-15	Rexel SA, Operations in Latin America	Sonepar S.A.	Electrical Products	51	0.2x	n/a
Apr-15	Tool Supply, Inc.	DXP Enterprises, Inc.	Industrial/MRO/Safety	5	1.1x	4.3x
Median					1.1x	9.2x
Mean					1.2x	10.8x

Sources: Capital IQ, company websites and PMCF industry research

Key Deal Highlights

Geographic Realignment

Air Liquide SA & Airgas, Inc.

On November 17th, 2015, Air Liquide SA, a leading global provider of gases, technologies, and services for the industrial and health sectors, announced its intent to acquire Airgas, Inc. The acquisition expands Air Liquide's presence in the United States, making them not only the country's largest distributor of industrial gases, but the largest distributor in the world. The addition of Airgas is expected to increase Air Liquide's overall U.S. revenue contribution from 24 percent to 42 percent. Air Liquide agreed to pay \$10.6 billion in cash for Airgas at an Enterprise Value of \$13.4 billion.

Portfolio Diversification

Irving Place Capital & Ohio Transmission Corporation

On October 2nd, 2015, Irving Place Capital acquired Ohio Transmission Corporation, a distributor of mechanical power transmission equipment and pumps serving the commercial and industrial markets of North America and Europe. Irving Place bought the company from a group of private equity firms including Frontenac Company, Harvey & Company, Norwest Mezzanine Partners and others. The company will be a part of Irving Place Capital Partners' Fund III portfolio, a \$2.7 billion fund that has historically limited its pursuit of industrial holdings. Terms of the deal were not disclosed.

Distribution Channel Enhancement

W.W. Grainger, Inc. & Cromwell Group

On September 1st, 2015, W.W. Grainger, North America's leading broad line distributor of MRO products, completed its acquisition of Cromwell Group for approximately \$482 million in cash. Cromwell is the largest independent MRO distributor in the United Kingdom. The acquisition pairs Cromwell's product strength and customer relationships with Grainger's expertise in supply chain and e-commerce and will allow Grainger to accelerate the growth of its online MRO business in England and Germany.

Product Line Expansion

WESCO International & Needham Electric Supply

On November 2nd, 2015, WESCO International, a distributor of electrical, industrial, and MRO, construction materials and other products, purchased Needham Electric Supply Company for an undisclosed amount. The Needham acquisition complements WESCO's current product and service offerings and will enhance WESCO's electrical distribution and construction businesses. Needham has long-standing customer and supplier relationships in New England and a national lighting business that serves customers across the United States.

Extensive industry expertise drives value creation.

PMCF is ready to assist in the preparation or refinement of your strategic planning process by bringing relevant industry expertise, transaction experience, and insight gained from over 20 years of advising clients on over 300 successfully completed engagements.

Transaction Planning Approach

- PMCF is frequently requested to complete an analysis of a company's strategic positioning within the industrial distribution marketplace
- Our review may consider your operations, products, end markets, financial trends, growth opportunities, and management team
- We are available to brief your management team, ownership, or board with our thoughts on strategic alternatives including capital raises, acquisitions, or a sale

Working with PMCF

- PMCF is a licensed and FINRA-registered investment banking organization
- Confidentiality is of the highest importance and we welcome the execution of appropriate agreements prior to the exchange of data
- PMCF's senior bankers are directly involved with all facets of the transaction process
- If engaged, the majority of PMCF's costs are contingent upon the completion of a successful transaction

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 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 Industrials Group has helped clients worldwide meet their sale, acquisition, financing and strategic growth objectives.

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