

Inside this Issue

Welcome to the latest issue of the Distribution DealReader, a newsletter focused on merger and acquisition trends, transactions and events of interest to owners and managers of distribution businesses and their advisors.

In this issue, we examine recent M&A activity across the various distribution related sectors and explain why now is a unique time for buyers to acquire high-quality distribution businesses. M&A activity in the sector continues at a steady pace with both strategic buyers and private equity groups announcing transactions in various end markets and product segments. Several of

the noteworthy transactions announced in recent months are summarized below.

Other topics covered in this issue include:

- Current distribution public market valuations
- Historical distribution public market price and EBITDA multiple valuation trends
- Recent distribution transactions

We hope that you find this newsletter a useful tool and we welcome your comments. ■

Curt Tatham, Managing Director at Lincoln International, has over 15 years of experience advising owners and senior executives of distribution businesses. Clients have included large and mid-market public corporations, leading private equity firms and privately held or family owned businesses.



Curt Tatham

Curt Tatham is a regular contributor to Industrial Distribution Magazine, where he authors the Market Pulse column.

Lincoln International

M&A Transaction Review

Public market valuation multiples in the distribution sector remain relatively steady as companies continue to report improved earnings and modestly more optimistic guidance regarding future quarters. The earnings improvement continues to be driven by a return of top-line sales growth generating magnified earnings growth based on the operating leverage created through cost efficiencies achieved during the economic downturn.

Automotive & Truck

- 8/12/10—**U.S. Auto Parts Network, Inc.** acquired **Whitney Automotive Group**, a distributor / retailer of aftermarket auto parts
- 8/4/10—**IMPCO Technologies, Inc.** acquired **Productive Concepts, Inc.**, a wholesale supplier of automotive parts
- 4/23/10—**The Halifax Group** acquired **Service Champ, Inc.**, a distributor of automotives parts, for \$86.5m

Communications and Electronics

- 9/16/10—**EIS Inc., (Genuine Parts Company)** acquired **Seacoast Electric Company Inc.**, a distributor of offshore electrical cables
- 8/3/10—**Tech Data Corp.** acquired **Triade Holding B.V.**, a distributor of consumer electronics, mobility and IT products
- 7/15/10—**Avnet, Inc.** acquired **Unidux, Inc.**, a distributor of electronic components to Japanese OEMs

Consumer

- 8/6/10—**Implus Footcare** acquired **Eurosphere / Anticipation**, a distributor of footwear and related accessories
- 8/2/10—**Core-Mark Company, Inc.** acquired **Finkle Distributors, Inc.**, a distributor of candy, tobacco and groceries
- 7/12/10—**Sysco Corp.** acquired **Lincoln Poultry & Egg Co.**, a distributor of supplies to commercial foodservice businesses

Industrial

- 8/31/10—**ERIKS** acquired **Rawson LP**, a distributor of process and flow control products and field instruments
- 8/10/10—**Audax Group** acquired **Distribution International, Inc.**, a distributor of industrial and marine insulation products
- 7/31/10—**Applied Industrial Technologies, Inc.** acquired **UZ Engineered Products**, a distributor of MRO products
- 7/30/10—**Freeman Spogli & Co.** acquired **Brooks Equipment Company, Inc.**, a distributor of fire protection equipment
- 6/7/10—**Industrial Distribution Group, Inc.** acquired **Alamo Iron Works, Inc.**, a distributor of industrial steel products
- 6/10/10—**McJunkin Red Man Corp.** acquired **The South Texas Supply Company, Inc.**, a distributor of oilfield supplies
- 5/11/10—**ABC Supply Co. Inc.** acquired **Bradco Supply Corp.**, a distributor of building materials to contractors

Office and Laboratory Supplies

- 7/28/10—**Marco Inc.** acquired **Ed Davis Business Machines**, a distributor of copiers, type writers and other office supplies

Other

- 9/16/10—**Tricor Pacific Capital, Inc.** acquired **BFG Supply Company**, a distributor of greenhouse and nursery supplies
- 7/27/10—**Clayton, Dubilier & Rice** and **GS Capital Partners** acquired **HGI Holdings, Inc.**, a distributor of medical products

M&A Transaction Review (continued)

M&A activity within the sector should continue its pace in coming months contingent upon continued improvement in public market valuations and strong balance sheets of strategic acquirers, as well as the need for public companies to augment internally generated growth rates, large pools of undeployed capital at private equity firms and continued improvement in liquidity in the debt markets. In addition, with the expected increases in the capital gains taxes for both private equity firms and private company owners, a large number of transactions are expected to be completed prior to year-end. This abundance of businesses in the market will create unique opportunities for both strategic and financial buyers to acquire high-quality distribution businesses in the fourth quarter of 2010 and into 2011. ■

M&A Transaction Update

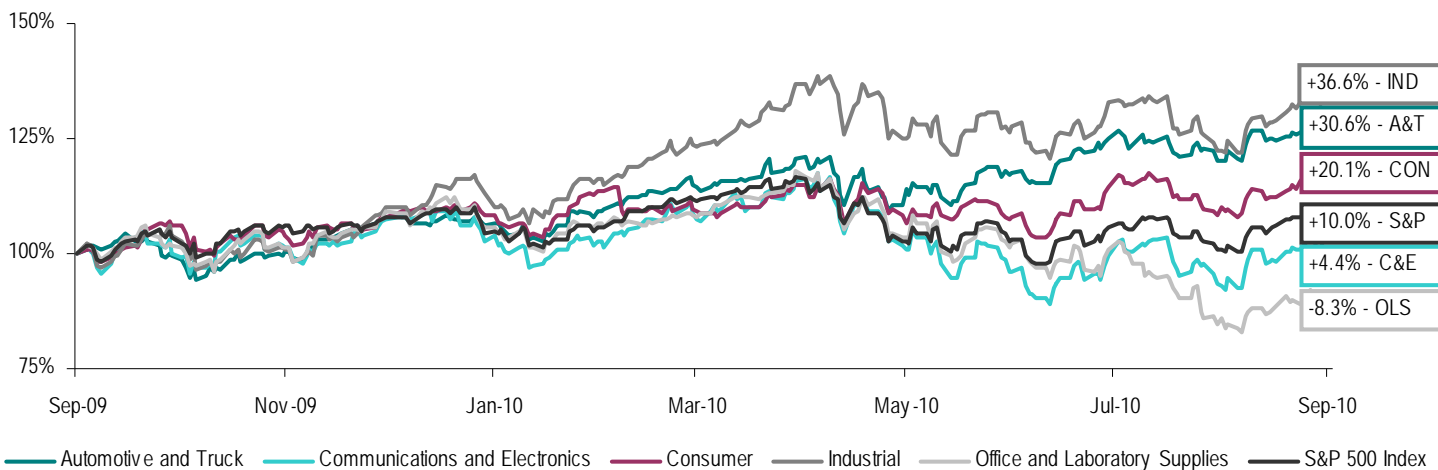
Select Precedent Distribution M&A Transactions

Date	Target Company	Target Description	Acquiring Company
Aug-10	Univar	Commodity and specialty chemicals	Clayton, Dubilier & Rice / CVC Capital
Aug-10	One Distribution, LLC	Apparel and footwear	Bertram Capital Management LLC
Aug-10	Distribution International, Inc.	Industrial, commercial and marine insulation products	Audax Group
Aug-10	Eurosphere/Anticipation	Deodorizing footwear products	Implus Footcare (AEA Investors)
Aug-10	HGI Holdings Inc.	Medical products	Clayton, Dubilier & Rice, Inc.
Aug-10	Brooks Equipment Company	Fire protection equipment and parts	Freeman Spogli & Co.
Aug-10	UZ Engineered Products	MRO products	Applied Industrial Technologies, Inc.
Jul-10	Finkle Distributors, Inc.	Candy, tobacco and grocery items	Core-Mark Holding Company, Inc.
Jul-10	Bell Microproducts Inc.	Storage products and systems	Avnet, Inc.
Jul-10	Abrasive Products & Equipment, LP	Portable air blast equipment	ShoreView Industries
Jul-10	American Air Products, Inc.	Air compressors, dryers and filters	Atlas Copco Group
Jun-10	Alamo Iron Works, Inc.	Industrial supplies and steel products	Industrial Distribution Group, Inc.
Jun-10	The South Texas Supply Company, Inc.	Oilfield supplies	McJunkin Red Man Corporation
May-10	Hillman Companies, Inc.	Industrial products and fasteners	Oak Hill Capital Partners
May-10	Southern Wire Corporation	Industrial wire ropes, aircraft cables and related hardware	Houston Wire & Cable Company
May-10	Cedar Creek Wholesale, Inc.	Wood products to building material dealers	Charlesbank Capital Partners, LLC
May-10	Tallard Technologies	Servers, peripherals and convergence equipment	Avnet, Inc.
Apr-10	Minarik Corporation	Motion control solutions	Kaman Corporation
Apr-10	American Tire Distributors Holdings, Inc.	Replacement tires	TPG Capital
Apr-10	Bill Voorhees Company	HVAC equipment	Watsco, Inc.
Apr-10	Converge	Provider of reverse logistics services	Arrow Electronics, Inc.
Apr-10	Northwest Roofing Supply Inc.	Roofing supplies	Roofing Supply Group (Sterling Group)
Apr-10	Quadna, Inc.	Fluid handling systems	DXP Enterprises
Apr-10	Allied Bearings Supply Co.	Bearing, power transmission and material handling	Kaman Industrial Technologies

Source: Bloomberg, Capital IQ, Industrial Distribution Magazine and company filings

Valuation Update: Lincoln International Distribution Index

LTM Relative Stock Price Performance: September 25, 2009 through September 24, 2010



Source: Capital IQ

Valuation Update: Lincoln International Distribution Index

Select Distribution Public Comparables: As of September 24, 2010

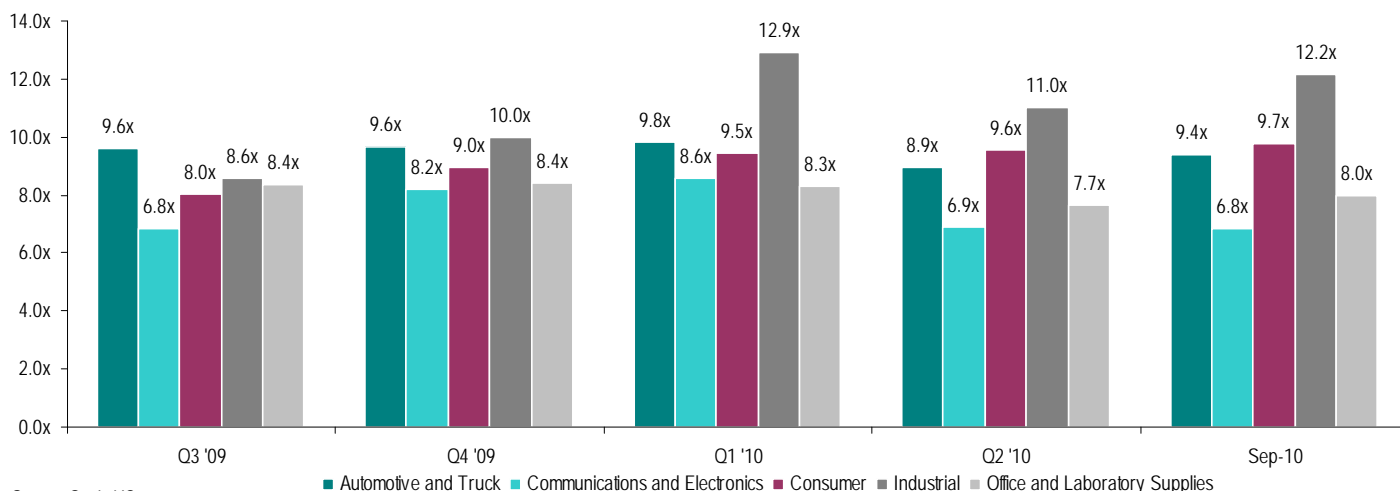
(Dollars in millions except per share data)

Company Name	Market Cap	Enterprise Value	Enterprise Value / LTM			Stock Price	% of 52 Week High
			Revenue	EBITDA	EBIT		
Automotive and Truck							
AutoZone Inc.	\$ 10,182	\$ 12,992	1.8x	8.7x	9.8x	\$ 225.73	99.2%
Genuine Parts Company	7,074	7,171	0.7x	8.8x	9.9x	44.88	98.7%
LKQ Corp.	2,978	3,393	1.5x	10.7x	12.2x	20.80	95.0%
Communications and Electronics							
Anixter International Inc.	\$ 1,761	\$ 2,456	0.5x	9.0x	10.3x	\$ 52.12	96.0%
Arrow Electronics, Inc.	3,063	3,827	0.2x	5.9x	6.6x	26.00	78.2%
Avnet Inc.	4,076	4,264	0.2x	6.0x	6.5x	26.84	77.5%
Ingram Micro Inc.	2,570	2,121	0.1x	4.2x	4.9x	16.40	85.3%
ScanSource, Inc.	744	741	0.4x	9.1x	9.8x	27.85	84.8%
Consumer							
Bunzl plc	\$ 4,016	\$ 5,248	0.7x	10.1x	12.7x	\$ 12.21	96.9%
Core-Mark Holding Company, Inc.	334	327	0.1x	5.6x	8.4x	30.99	89.5%
Nash Finch Co.	522	815	0.2x	5.6x	7.7x	42.40	99.3%
Pool Corp	1,000	1,234	0.8x	16.1x	18.7x	20.17	76.5%
Sysco Corp.	17,640	19,511	0.5x	8.2x	9.9x	29.98	92.6%
United Natural Foods, Inc.	1,540	1,822	0.5x	12.8x	15.9x	35.37	97.0%
Industrial							
Airgas Inc.	\$ 5,685	\$ 7,407	1.9x	10.9x	16.8x	\$ 67.95	99.7%
Applied Industrial Technologies, Inc.	1,298	1,198	0.6x	9.1x	10.9x	30.60	92.2%
Barnes Group Inc.	973	1,305	1.2x	9.9x	16.2x	17.71	78.3%
DXP Enterprises Inc.	271	379	0.6x	n/a	n/a	19.55	89.1%
Fastenal Co.	7,874	7,653	3.7x	19.6x	21.9x	53.41	93.5%
Interline Brands Inc.	594	785	0.7x	8.4x	10.6x	17.99	80.0%
Kaman Corporation	685	781	0.7x	12.4x	17.4x	26.39	92.0%
Lawson Products Inc.	126	123	0.3x	8.6x	12.2x	14.84	72.6%
MSC Industrial Direct Co. Inc.	3,364	3,256	2.1x	13.6x	15.3x	53.63	92.0%
W.W. Grainger, Inc.	8,568	8,763	1.3x	9.9x	11.5x	120.74	98.3%
Watsco Inc.	1,832	1,934	0.7x	12.8x	13.7x	56.55	84.8%
WESCO International Inc.	1,653	2,160	0.5x	10.5x	11.6x	38.93	91.6%
Office and Laboratory Supplies							
Henry Schein Inc.	\$ 5,247	\$ 5,800	0.8x	9.6x	11.4x	\$ 57.33	91.3%
School Specialty Inc.	244	571	0.7x	7.2x	11.5x	12.92	50.8%
United Stationers Inc.	1,254	1,723	0.4x	7.1x	8.5x	53.66	84.0%
Mean			0.8x	9.7x	11.9x		88.2%
Adjusted Mean¹			0.8x	9.5x	11.8x		89.1%
Median			0.7x	9.1x	11.4x		91.6%

Source: Bloomberg, Capital IQ and company filings

Note: (1) Adjusted mean excludes the high and low values from the calculation

Historical Enterprise Value / EBITDA Valuation Performance: Q3 2009 through September 24, 2010



Source: Capital IQ

Lincoln International's Global Footprint



- More than 70 professionals in the U.S.
 - More than 75 professionals plus an 18-person advisory board in Europe
 - Office in Japan and strategic partnerships in China and India
- ★ Indicates Lincoln International office
- ✦ Indicates strategic partnership and/or Lincoln International personnel

About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, private capital raising and restructuring advice on mid-market transactions. Lincoln International also provides fairness opinions, valuations and pension advisory services on a wide range of transaction sizes. With ten offices in Asia, Europe and North America, and strategic partnerships with leading institutions in China and India, Lincoln International has strong local knowledge and contacts in the key global economies. The organization provides clients with senior-level attention, in-depth industry expertise and integrated resources. By being focused and independent, Lincoln International serves its clients without conflicts of interest. More information about Lincoln International can be obtained at www.lincolninternational.com.

Select Recent Distribution Transactions



Virtual manufacturer and supplier of jan/san products



Distributor of computer components

Industry Groups

Lincoln International dedicates teams headed by senior professionals in each of its global offices to the following industries:

- Aerospace and Defense
- Automotive and Truck
- Building and Infrastructure
- Business Services
- Chemicals
- Consumer
- Distribution
- Electronics
- Industrials
- Packaging
- Technology

Lincoln International Contacts

NORTH AMERICA

Curt Tatham
Managing Director
ctatham@lincolninternational.com
+1-312-580-8329

Tom Williams
Managing Director
twilliams@lincolninternational.com
+1-312-580-8341

Gaurang Shastri
Vice President
gshastri@lincolninternational.com
+1-312-407-6357

Eugene Bord
Associate
ebord@lincolninternational.com
+1-312-506-2734

Natalie Linsalata
Analyst
nlinsalata@lincolninternational.com
+1-312-506-2752

EUROPE AND ASIA

FRANKFURT
Patrick von Herz
Managing Director
p.vonherz@lincolninternational.de
+49-0-69-97-105-442

LONDON
Julian Tunnicliffe
Managing Director
jtunnicliffe@lincolninternational.com
+44-0-20-7022-9880

MADRID
Ivan Marina
Managing Director
i.marina@lincolninternational.es
+34-91-220-1032

PARIS
Dominique Lecendreau
Managing Director
d.lecendreau@lincolninternational.fr
+33-01-53-53-18-20

TOKYO
Tetsuya Fujii
Managing Director
tfujii@lincolninternational.com
+813-4360-9160

VIENNA
Witold Szymanski
Managing Director
w.szymanski@lincolninternational.at
+43-72-03-32-03-87



AMSTERDAM | CHICAGO | FRANKFURT
LONDON | LOS ANGELES | MADRID
NEW YORK | PARIS | TOKYO | VIENNA

Results you can rely on

© 2010 Lincoln International LLC