

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 the factors that made 2011 a very strong year in distribution M&A and recap some of the transactions that occurred during the year. We also look ahead to 2012 and assess the current economic environment and what it means for the market dynamics in M&A.

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
- Middle market M&A activity and outlook

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

Lincoln International

Curt Tatham, Managing Director at Lincoln International and head of its Distribution Group, 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 several Distribution sector publications including Industrial Supply Magazine and Modern Distribution Management.

2011 Concludes Strong Year of M&A in Industrial Distribution Sector

As expected, 2011 saw a very healthy level of M&A activity both broadly as well as within the industrial distribution sector. The current environment is very likely to continue to foster another busy year of M&A activity in 2012. The ongoing strength in M&A continues to be driven by several factors including:

- Within the financial sponsor universe, nearly **\$500 billion of available capital** in funds is beginning to expire
- Lending markets remain attractive but cautious with **greater financing availability for larger companies** (\$10+ million EBITDA)
- **Strategic acquirers have been very active** in the market since early 2010, needing acquisitions to supplement organic growth and expand EPS
- **Strategic acquirers retain significant cash** (\$1.9+ trillion) to deploy, debt remains available and they enjoy higher trading multiples
- **Financial performance at targets generally remains quite strong** with favorable year-over-year comparisons facilitating a smoother due diligence process
- **The manufacturing sector continues to show strength** and leads the economic recovery, making industrial distribution targets attractive
- **Consolidation continues** as acquirers seek to add scale, expand product breadth, expand value-added services offerings, expand geography and realize potential cost synergies resulting from elimination of redundancies

2011 included numerous notable transactions, many of which are detailed below.

- **Advent International Corporation** acquired a majority stake in **Morrison Supply Company, LLC**, a distributor of plumbing and HVAC supplies. Chip Hornsby, an Advent operating partner and former CEO of Wolsley plc, will join Morrison as CEO.
- **AEA Investors LP** acquired **Singer Equities Inc.**, a distributor of rubber products, from **LLR Partners Inc.**

- **BlackHawk Industrial Distribution, Inc.** (majority-owned by **Brazos Private Equity Partners, LLC**) continued to implement an active buy-and-build strategy in the industrial distribution market by completing four acquisitions in 2011 (**Tool Service Corp.**, **Tool Fabrication Corp.** and **Fluid Services Corp.**, **Sanders Tool Supply**, **Fuchs Machinery, Inc.** and **Rogers Industrial Supply Corp.**)
- **CI Capital Partners LLC** acquired a controlling interest in **Tech Air of Connecticut, Inc.**, a distributor of industrial, specialty and medical gases
- **DXP Enterprises, Inc.** acquired **C.W. Rod Tool Company**, a distributor of cutting tools, abrasives, coolants and machine shop supplies
- **ERIKS NV**, acquired **Lewis-Goetz & Company**, an industrial rubber products distributor from **The Audax Group** and **Industrial Controls Distributors, Inc.**, a distributor of controls and solutions for commercial HVAC, process control and industrial automation from **AEA Investors**
- **Greenbriar Equity Group LLC** acquired **Anixter International Inc.'s Aerospace Hardware Division** and **Ryan Herco Flow Solutions**, a national distributor of corrosion-resistant fluid handling, filtration and flow control products
- **Hajoca Corporation** acquired **HD Supply's HVAC / Plumbing** business
- **Kaman Corporation** acquired **Catching Fluid Power Inc.**, a distributor of fluid power products
- **Littlejohn & Co.** acquired **SunSource Holdings, Inc.**, a fluid power distributor from **CHS Capital**
- **Sonepar USA, Inc.** acquired **OneSource Distributors, LLC**, a distributor of electrical materials and components, industrial automation, lighting, switchgear requirements, manufacturing and subassembly
- **WESCO International, Inc.** acquired **RS Electronics**, a distributor of electronic and electrical products
- **W.W. Grainger, Inc.** acquired **Fabory Group**, a European distributor of fasteners and related MRO products

2011 Concludes Strong Year of M&A in Industrial Distribution Sector (Continued)

As we enter 2012 and look ahead to 2012's M&A prospects, economic fundamentals are encouraging. U.S. manufacturing grew at its fastest pace in six months in December and producers appear to be boosting output to replenish de-stocked inventory in coming months. The Institute for Supply Management's closely watched index of factory activity rose to 53.9 in December, up from 52.7 in November and its best showing since June (readings over 50 indicate expansion on the 100-point scale). Meanwhile, a measure of December new orders jumped to its highest level since April, while 25% of respondents said their inventories were "too low" in December, compared with 19% the month before. Lastly, stronger demand is finally translating into jobs. Within the report

from the Institute for Supply Management, a measure for hiring, jumped to 55.1 in December, up from 51.8 in November. That tracks with other recent gains in the broader jobs market.

To be sure, there are still large global issues that could lead to a dislocation in global debt and equity markets including Europe's sovereign debt situation as well as the uncertainty a U.S. election year always brings with it. However, the current positive fundamental economic environment, coupled with the positive M&A market dynamics discussed previously, should be supportive of another active year of M&A activity within the industrial distribution sector. ■

Transaction Spotlight: RS Electronics

Since acquiring RS Electronics ("RSE") 20 years earlier through a management buyout, the two entrepreneurial shareholders grew the business into a leading North American value-added distributor of electronic and electrical components and one of the most respected names in the industry. When they decided the time was right for a liquidity event, they turned to Lincoln International for advice. Lincoln created a competitive process by contacting global strategic and financial acquirers and emphasizing RSE's unique place in the highly fragmented industry. Lincoln also held pre-marketing meetings with the key strategic acquirers for the business, during which we aggressively conveyed the significant and quantifiable synergies available to each acquirer. The result for RSE's shareholders was finding the right strategic partner at an attractive value.

Lincoln International's dedicated team has established itself among the best M&A advisors in the middle market. Our extensive transaction experience has cultivated strong relationships with the



most active strategic partners and fostered a deep understanding of critical industry dynamics. At Lincoln International, our in-depth industry expertise, quality execution and globally integrated resources deliver high valuation multiple outcomes for domestic and international clients. ■

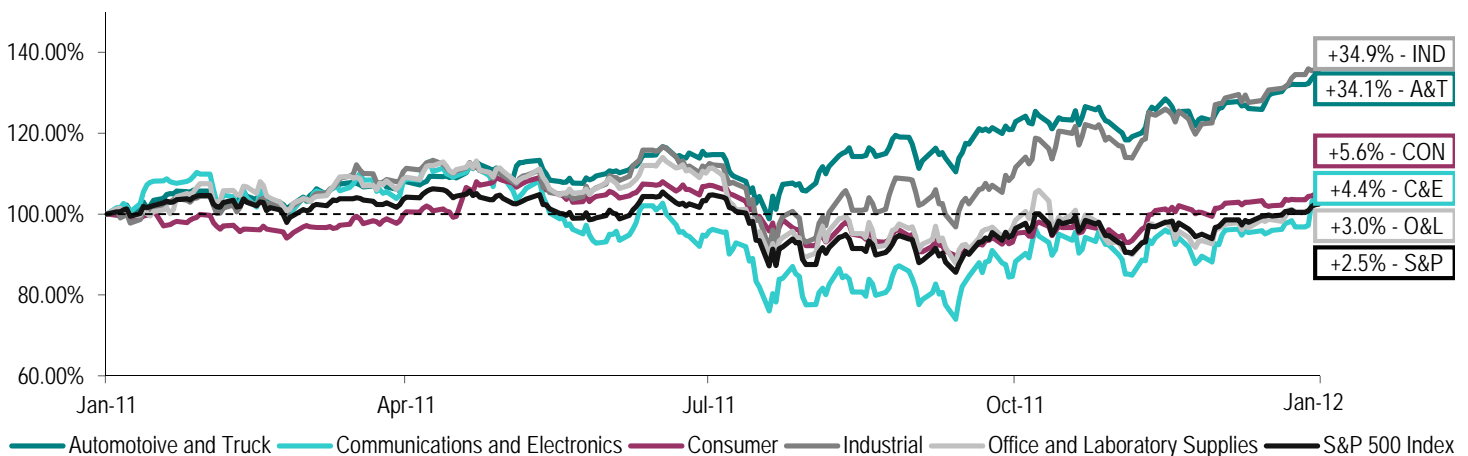


Why Lincoln International?

- **Extensive transaction experience** yields in-depth knowledge of the distribution industry
- **Globally integrated resources** provide access to strategic and financial acquirers worldwide
- **Customized approach** recognizes the uniqueness of each client and tailors advice accordingly
- **Flawless execution** achieves premium valuations and certainty of close for our clients

Valuation Update: Lincoln International Distribution Index

LTM Relative Stock Price Performance: January 1, 2011 through January 20, 2012



Source: Capital IQ

Valuation Update: Lincoln International Distribution Index (Continued)

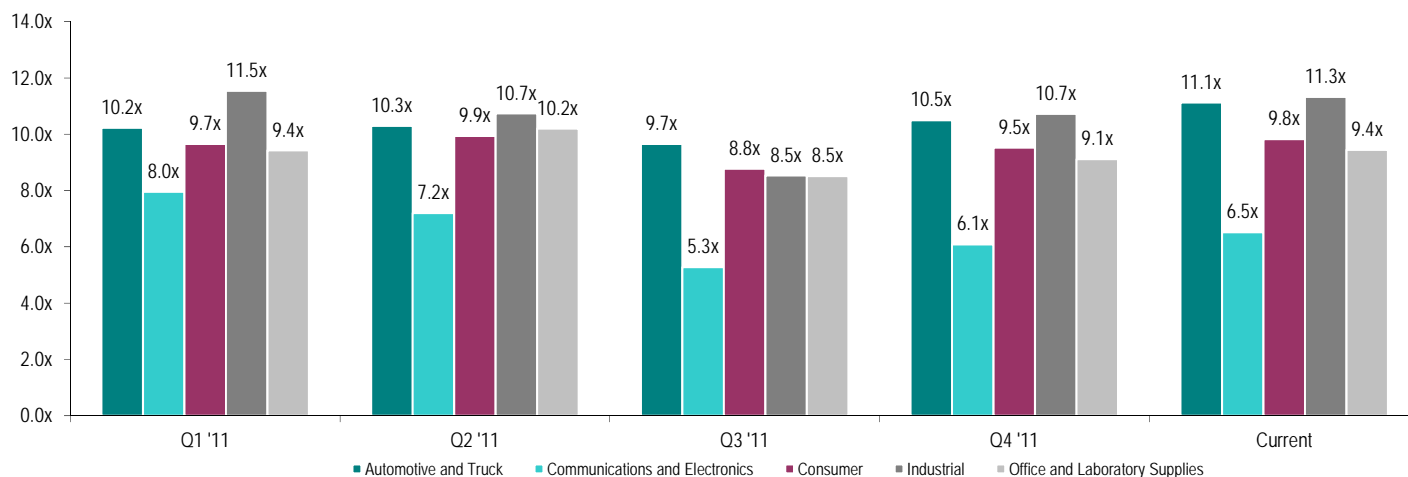
Select Distribution Public Comparables: As of January 20, 2012

Company Name	Market	Enterprise	Enterprise Value / LTM			Stock	% of 52 Week			
	Cap	Value	Revenue	EBITDA	EBIT	Price	High			
Automotive and Truck										
AutoZone Inc.	\$	13,658	\$	16,903	2.1x	9.8x	11.1x	\$	347.00	99.0%
Genuine Parts Company		9,985		9,960	0.8x	10.2x	11.2x		64.15	98.1%
LKQ Corp.		4,777		5,372	1.8x	13.5x	15.4x		32.59	98.3%
Communications and Electronics										
Anixter International Inc.	\$	2,195	\$	3,012	0.5x	7.8x	8.5x	\$	66.60	87.4%
Arrow Electronics, Inc.		4,666		6,351	0.3x	6.1x	6.7x		41.76	87.9%
Avnet Inc.		5,034		6,319	0.2x	5.8x	6.3x		33.93	89.3%
Ingram Micro Inc.		2,878		2,274	0.1x	4.5x	5.0x		19.29	89.2%
ScanSource, Inc.		1,026		1,093	0.4x	8.5x	9.0x		37.74	94.4%
Consumer										
Bunzl plc	\$	4,445	\$	5,610	0.7x	10.4x	13.1x	\$	13.44	95.1%
Core-Mark Holding Company, Inc.		450		475	0.1x	8.1x	12.7x		39.72	97.7%
Nash Finch Co.		354		663	0.1x	5.1x	7.1x		29.18	64.9%
Pool Corp.		1,592		1,842	1.0x	13.8x	15.0x		33.44	99.7%
Sysco Corp.		17,827		20,139	0.5x	8.6x	10.4x		30.22	92.2%
United Natural Foods, Inc.		2,045		2,261	0.5x	12.9x	16.3x		41.94	91.1%
Industrial										
Airgas Inc.	\$	6,028	\$	8,269	1.8x	10.2x	15.1x	\$	79.40	97.3%
Applied Industrial Technologies, Inc.		1,611		1,538	0.7x	8.5x	9.7x		38.38	99.5%
Barnes Group Inc.		1,331		1,640	1.3x	9.5x	14.4x		24.32	94.1%
DXP Enterprises Inc.		492		592	0.8x	9.8x	11.7x		34.89	95.3%
Fastenal Company		13,541		13,396	5.1x	22.9x	24.8x		45.86	96.4%
Interline Brands Inc.		554		770	0.6x	7.1x	9.0x		17.27	74.1%
Kaman Corporation		822		956	0.6x	7.9x	9.6x		31.35	81.7%
Lawson Products Inc.		145		126	0.4x	14.4x	22.7x		16.94	62.3%
MSC Industrial Direct Co. Inc.		4,803		4,678	2.2x	11.7x	12.7x		76.11	96.1%
W.W. Grainger, Inc.		13,995		14,334	1.8x	12.3x	13.7x		200.65	98.6%
Watsco Inc.		2,220		2,521	0.8x	12.5x	13.3x		67.30	91.7%
WESCO International Inc.		2,504		3,181	0.5x	9.1x	9.8x		57.88	89.2%
Office and Laboratory Supplies										
Henry Schein Inc.	\$	6,276	\$	7,019	0.9x	10.2x	12.2x	\$	69.45	92.6%
School Specialty Inc.		56		361	0.5x	10.7x	nmf		2.93	17.6%
United Stationers Inc.		1,412		1,906	0.4x	7.4x	8.5x		33.10	88.9%
Mean					1.0x	10.0x	12.0x			88.3%
Adjusted Mean ¹					0.8x	9.7x	11.7x			90.5%
Median					0.6x	9.8x	11.4x			92.6%

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: Q1 2011 through January 20, 2012



Source: Capital IQ

M&A Transaction Recap

Select Precedent Distribution M&A Transactions: *January 1, 2011 through December 31, 2011*

Date	Target Company	Target Description	Acquiring Company
Dec-11	Intermountain Supply	Roofing supplies and related materials	Roofing Supply Group
Dec-11	Sock & Accessory Brands Global	Fashion casual and athletic socks	Huron Capital Partners
Dec-11	Catching FluidPower	Fluid power products	Kaman Industrial Technologies Corp.
Dec-11	Singer Equities Inc.	Rubber products	AEA Investors
Dec-11	Merizon Group Inc.	Office products	Global Imaging Systems
Dec-11	Greeley Truck Parts	Heavy duty parts including brakes and switches	Fleetpride, Inc. (Investcorp)
Dec-11	Tool Service Corp.	Industrial metalworking	Blackhawk Industrial
Dec-11	Fluid Services Corp.	Turn-key fluid management programs	Blackhawk Industrial
Nov-11	Morrison Supply Company	Plumbing and HVAC	Advent International
Nov-11	Stock Building Supply	Building materials	The Gores Group
Nov-11	Groeniger & Co.	Pipeline materials and other equipment	Ferguson
Nov-11	TruckPro	Brake parts, engine maintenance parts and accessories	Harvest Partners, LLC
Nov-11	Ivan Supply Co., LLC	Roofing and siding	Allied Building Products
Nov-11	PacificSource	Building materials	Allied Building Products
Nov-11	Fowler & Peth	Roofing and building materials	Beacon Roofing Supply
Nov-11	Arrowhead Electrical Products, Inc.	Rotating electrical parts and components	Pfingsten Partners
Nov-11	Lewis-Goetz	Fabricated hose, conveyor belts and sealing products	ERIKS NV
Oct-11	Pattonair USA, Inc.	Aerospace components	Exponent Private Equity, LP
Oct-11	SunSource Holding, Inc.	Fluid power products and systems	Littlejohn & Co., LLC
Oct-11	Plains Bearing Corp.	Bearing and power transmission products	Kaman Industrial Technologies Corp.
Oct-11	The Roofing Connection	Residential roofing products and related accessories	Beacon Roofing Supply
Oct-11	Industrial Controls Distributors, Inc.	HVAC controls, valves and process control instruments	ERIKS NV
Sep-11	SG Supply	Plumbing products	Ferguson
Sep-11	Ideal Global Sistemas de Higiene Ltda	Cleaning and hygiene consumable products	Bunzl plc
Sep-11	D-Care BV	Medical disposable products	Bunzl plc
Sep-11	E-conolight, LLC	Indoor and outdoor lighting fixtures	Ruud Lighting
Sep-11	Cobra Wire & Cable, Inc.	Specialty wires and cables	Genuine Parts Company
Sep-11	HD Supply Plumbing/HVAC Group, Inc.	Plumbing and HVAC	Hajoca Corporation
Aug-11	Louisiana Chemical Pipe, Valve and Fitting	Pipes, valves, fittings and flanges	Ferguson
Aug-11	Barnes Distribution Europe	Aerospace and industrial components	Berner GmbH
Aug-11	Sanders Tool Supply	Abrasives, cutting and assembly tools and machinery	Blackhawk Industrial
Aug-11	Chaines-Plus	Bearings, power transmissions and related products	Applied Industrial Technologies
Aug-11	Fabory Group	Fasteners and MRO products	W.W. Grainger
Aug-11	Anixter International, Aerospace Hardware Division	Communication and security products	Greenbriar Equity Group
Aug-11	Weldco, Inc.	Specialty gases and welding equipment	Praxair Distribution, Inc.
Aug-11	Wetsel, Inc.	Seeds and lawn and garden products	BFG Supply Co., LLC
Jul-11	Build Center	Building materials	Saint-Gobain
Jul-11	Electric Center	Electrical products including wiring and cable accessories	Edmundson Electrical
Jul-11	American Tool Supply and American Specialty Grinding	Metalworking supplies	MSC Industrial Direct
Jul-11	entrada Kommunikations GmbH	Security products	Westcon Group
Jun-11	Austin Acoustical Materials	Drywall, ceiling tile and related products	Allied Building Products
Jun-11	Astro Building Supplies	Building materials	Allied Building Products
Jun-11	White Apron, Inc.	Meat products	U.S. Foodservice
Jun-11	Hospitality Depot	Catering equipment and disposables	Bunzl plc
Jun-11	SIG Safety and Workwear	Personal protection equipment and workwear	Bunzl plc
Jun-11	King Espana	Foodservice disposables and cleaning supplies	Bunzl plc
May-11	Harper Power Products Inc.	Power products	Wajax Corp.
May-11	Pain Enterprises, Inc.	Dry ice and carbon dioxide	Airgas Inc.
May-11	Thompson Electronic Supplies	Electronic components	Heilind Electronics, Inc.
Apr-11	Ritter Food Service	Poultry, meats and seafood products	U.S. Foodservice
Mar-11	GSI Commerce Inc.	E-commerce and interactive marketing services	eBay Inc.
Mar-11	Omega Hospitality Suppliers Pty. Limited	Catering equipment and disposables	Bunzl plc
Mar-11	Cannon Consumables	Cleaning and hygiene consumable products	Bunzl plc
Mar-11	TagWorks	Pet ID tag programs	The Hillman Companies, Inc.
Feb-11	Midway Produce Inc.	Produce for restaurants, healthcare facilities and schools	U.S. Foodservice
Jan-11	Yantra Automation	Industrial automation and control products	Rexel
Jan-11	Nortel Suprimentos Industriais	Electric supplies in Brazil	Rexel
Jan-11	EVCO House of Hose	Hose, fittings and related products	Lewis-Goetz & Company, Inc.

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

Mid-Market M&A Activity and Outlook

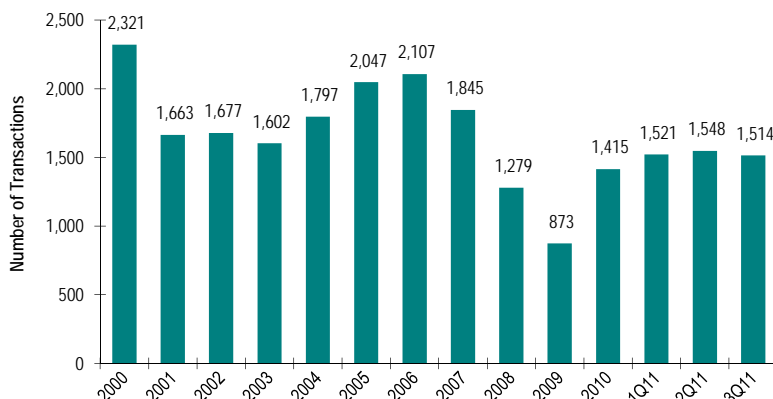
Transaction Volume

U.S. M&A Activity—Closed Transactions

Deal Size	Number of Deals		
	12 Months Ended		Change
	9/30/2011	9/30/2010	
\$1 Billion +	178	139	28.1%
\$500M to \$999.9M	162	129	25.6%
\$250M to \$499.9M	269	186	44.6%
\$100M to \$249.9M	375	364	3.0%
\$50M to \$99.9M	334	325	2.8%
\$25M to \$49.9M	374	370	1.1%
\$10M to \$24.9M	414	498	(16.9%)
Under \$10M	809	1,124	(28.0%)
Undisclosed	6,813	5,836	16.7%
Total	9,728	8,971	8.4%

Source: Factset Mergerstat

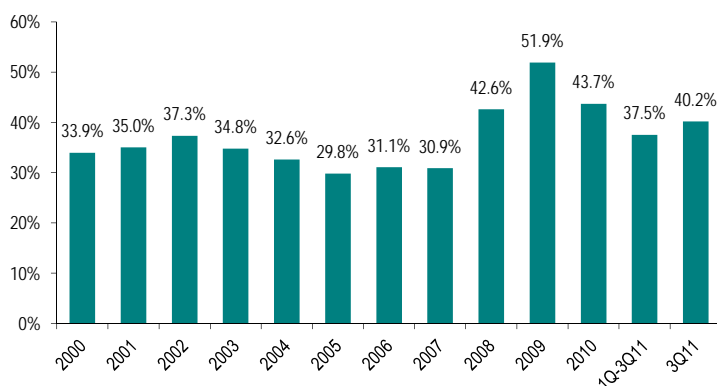
Middle Market M&A Transaction Volume



Source: Factset Mergerstat

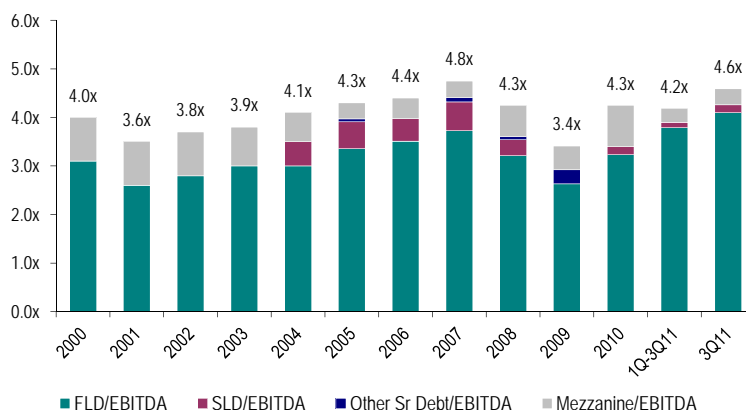
Current Financing Market Statistics

Average Equity Contribution: LBO Loan Sponsors



Source: Standard & Poor's Leveraged Commentary and Data

Average Debt Multiples of Mid-Market LBO Loans



Source: Standard & Poor's Leveraged Commentary and Data

Overview of U.S. Middle Market Pricing and Terms

	Borrowers with < \$10 mm - \$15mm EBITDA		Borrowers with > \$10 mm - \$15mm EBITDA	
	Pricing	Multiples	Pricing	Multiples
Asset Based Senior	L+250-300 LIBOR Floor: 0-100	n/a	L+250-300 LIBOR Floor: 0-100	n/a
Cash Flow Senior	L+600-700 LIBOR Floor: 100-200	Unlikely, but not > 2.00x – 2.75x EBITDA	L+500-600 LIBOR Floor: 100-200	2.75x – 3.75x EBITDA
Unitranche	L+900-1100 LIBOR Floor: 200	3.50x – 4.00x EBITDA	L+800-1000 LIBOR Floor: 200	4.00x – 5.00x EBITDA
2nd Lien Loans	Unlikely	3.50x – 4.00x EBITDA	L+900-1100	4.00x – 5.00x EBITDA
Sub Debt	Cash of 11-13% / PIK of 2-4% / All-in of 15-17%	3.50x – 4.00x EBITDA	Cash of 11-13% / PIK of 1-3% / All-in of 13-16%	4.00x – 5.00x EBITDA

Source: Lincoln International

Lincoln International's Global Footprint



About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt 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 twelve offices (three in the Americas, two in Asia, and seven in Europe) and strategic partnerships with leading institutions in China and Korea, Lincoln International has strong local knowledge and contacts in the key global economies. The firm 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. Additional information about Lincoln International can be obtained at www.lincolninternational.com.

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
- Healthcare
- Industrials
- Packaging
- Technology

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