

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 discuss recent market trends and the effect that they have had on M&A activity within the distribution industry. We also highlight several industry participants that have indicated an interest in par-

ticipating in the steady return to normalized levels of M&A market activity.

Other topics covered in this issue include:

- Current distribution public market valuations
- Historical distribution public market stock price and EBITDA multiple valuation trends
- Recent distribution news and notes

- Key M&A and financing markets statistics and historical trends
- Recent Lincoln International credentials

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

Lincoln International

Distribution Sector Strategic Players Picking Up Acquisition Pace

Strategic players in the Distribution sector have become increasingly more acquisitive in recent months. Acquisitions have been completed or are being contemplated as distributors make an effort to broaden product offering, expand an existing geographic footprint, access new end markets and perhaps realize cost savings related to consolidation of distribution centers.

The uptick in M&A activity is likely being driven by the presence of several factors including: an acknowledgement among stakeholders that their businesses have made great strides toward stabilization; a broader optimism regarding the economic recovery; a recovery in the stock prices of public companies; strong balance sheets among many of the larger industry participants; the completion of internally focused operational efficiency initiatives; a perception that seller valuation expectations have perhaps begun to migrate toward levels that acquirers would view as more reasonable; and the need for

“...as distributors make an effort to broaden product offering, expand an existing geographic footprint, access new end markets and perhaps realize cost savings related to consolidation of distribution centers”

public companies in particular to deliver growth in excess of what might be relatively meager stand-alone growth in 2010.

Examples of acquisitions completed by strategic players in recent months include:

Airgas, Inc., a distributor of industrial, medical, and specialty gases, as well as welding consumables and equipment acquired the assets and operations of **Tri-Tech**. Tri-Tech is a Tampa-based distributor of industrial, medical, and specialty gases and related supplies. The acquired business, with 16 locations throughout Florida, Georgia, and South Carolina, generates approximate annual revenues of \$31 million.

Arrow Electronics, Inc., a global provider of products, services and solutions to industrial and commercial users of electronic components and enterprise computing solutions, announced an agreement to acquire **A.E. Petsche Company** (“**A.E. Petsche**”), a leading distributor of interconnect products, including specialty wire, cable and harness management solutions, to the aerospace and defense markets. With approximately 250 employees, A.E. Petsche provides value-added distribution services to over 3,500 customers. Total sales in 2008 were approximately \$220 million.

Interfast Inc., a global aerospace and industrial fastener distributor, purchased certain assets of U.K.-based **Burwood Fastener Products Ltd.** and launched a new European division that will operate under the name **Interfast Europe Ltd.** The establishment of Interfast Europe now

brings the total of Interfast stocking locations to nine across North America and Europe.

Kimberly-Clark Corp., based in Dallas, Texas, acquired **Jackson Products, Inc.**, a privately held safety products company headquartered in Fenton, Missouri. Jackson Products, Inc., also known as Jackson Safety, is a provider of welding safety products, personal protective equipment and work zone safety products.

Lewis-Goetz and Co., a distributor of fabricated rubber industrial products serving power generation, aggregate, coal mining, steel, and general industrial end markets, acquired Houston-based **International Gasket and Supply**. IGS specializes in the fabrication and supply of specialty gaskets, bolts and sealing products for the oil and gas exploration industry as well as the petroleum and specialty chemical industries along the Texas Gulf Coast. The deal helps Lewis-Goetz expand its product offering and presence in the Gulf Coast region which it first entered with the acquisitions of Goodall Rubber and Samson Industrial. Lewis-Goetz is owned by the private equity firm, Audax.

McJunkin Red Man Corporation (MRC), a North American distributor of pipe, valves and fittings (PVF) and related products and services to the energy and general industrial sectors, acquired **Transmark**

(Continued on page 2)

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Fcx Group, an international distributor of specialty valves and flow control equipment. Transmark has a network of 45 distribution and service facilities in the U.K., Europe, the Middle East, Australia, New Zealand, and Southeast Asia. The company serves major international companies in the petrochemical and refining, chemical, power and energy industries.

Motion Industries, a distributor of bearings, mechanical power transmission, electrical automation, hydraulic and industrial hose, hydraulic and pneumatic components (and a subsidiary of **Genuine Parts**) acquired **General Tool and Supply**, a regional industrial supplies distributor, headquartered in Portland, Oregon and its subsidiary **Industrial Tool and Supply** headquartered in Tucson, Arizona.

Unisource Canada, a division of paper, packaging and facility supplies distributor **Unisource Worldwide, Inc.**, Norcross, Georgia, completed its acquisition of Concord, Ontario-based **Mondrian-Hall Inc.**

W.W. Grainger, a broad line distributor of facilities maintenance products, acquired

Imperial Supplies. Imperial is a national distributor of maintenance products and aftermarket components for the vehicle and fleet industry with 2008 sales of \$67 million.

Meanwhile, a host of other strategic players have publicly expressed the fact they are actively seeking acquisitions including:

“...should all lead to increased M&A activity in the Distribution in 2010”

Bunzl, a distributor of plastic packaging, disposable paper products, cleaning and safety products

Core-Mark Holding, a distributor of 42,000 SKUs of packaged consumer products to the convenience retail industry

Houston Wire & Cable, a distributor of specialty wire and cable products to the electrical distribution market

Interline, a distributor of MRO products including plumbing products, janitorial and sanitary products, electrical and lighting products and HVAC components

Kaman, a distributor of industrial components including bearings, mechanical and electrical power transmission, fluid

power, motion control, and materials handling components

The combination of more highly active strategic acquirers, a thawing in the financing markets, improved economic fundamentals driving improved operating performance, and large pools of un-deployed private equity capital should all lead to increased M&A activity in the Distribution sector in 2010.

Curt Tatham, 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. www.inddist.com.

Transaction Spotlight: ProTeam, Inc.

In September 2009, ProTeam, Inc. (“ProTeam”) was sold to Emerson Electric Co. Lincoln International initiated the transaction, assisted in the negotiations and acted as the exclusive financial advisor to ProTeam.

Headquartered in Boise, Idaho, ProTeam is a privately-held designer, manufacturer and distributor of powerful, efficient and ergonomic commercial vacuum cleaners. The Company is also the world’s largest provider of backpack vacuum cleaners.

In working with the shareholders’ objective to maximize value while maintaining confidentiality, Lincoln International created a customized sales process that involved a targeted marketing geared towards highly strategic domestic and international acquirers.

To facilitate this approach, Lincoln organized pre-marketing “Road Show” meetings with the highly strategic domestic and international buyers, at each respective buyer’s location. Further, the Lincoln team created comprehensive and tailored

marketing materials to fit the rationale of each potential acquirer and highlighted ProTeam’s key investment considerations, which included:

- Favorable industry trends related to ergonomic cleaning products
- Leading brand name and #1 and #2 market shares in the backpack and

hipstyle vacuum cleaner product categories

- High margin, recurring aftermarket business for parts, filters and accessories
- Well-developed sales distribution network penetrable by other product categories

As a result, ProTeam received strong interest from both domestic and foreign strategic acquirers, and was ultimately sold to Emerson Electric Co. in September 2009. ■



ProTeam, Inc. has been sold to Emerson Electric Co.

Valuation Update: Lincoln International Distribution Index

Select Distribution Public Comparables: As of November 18, 2009

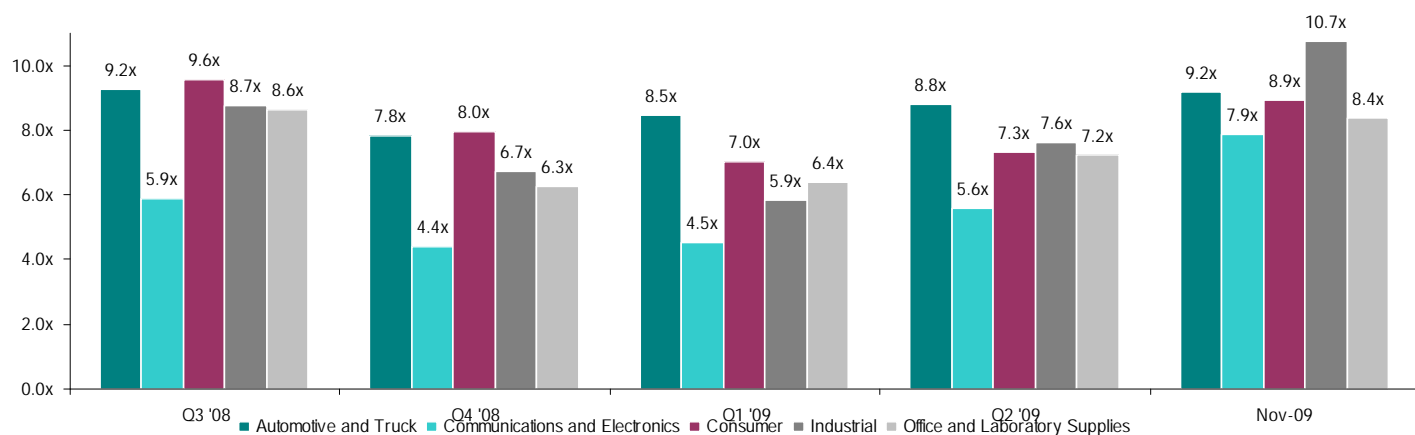
(Dollars in millions except per share data)

Company Name	Market Cap	Enterprise Value	Enterprise Value / LTM			Stock Price	% of 52 Week High
			Revenue	EBITDA	EBIT		
Automotive and Truck							
AutoZone Inc.	\$ 7,274	\$ 9,894	1.5x	7.3x	8.4x	\$ 145.86	85.8%
Genuine Parts Co.	5,876	6,021	0.6x	8.0x	9.1x	36.83	90.9%
LKQ Corp.	2,566	3,036	1.5x	12.3x	14.5x	18.15	92.0%
Communications and Electronics							
Anixter International Inc.	\$ 1,561	\$ 2,293	0.4x	9.1x	10.7x	\$ 45.42	99.7%
Arrow Electronics, Inc.	3,294	3,563	0.2x	8.2x	9.6x	27.50	91.7%
Avnet Inc.	4,249	4,270	0.3x	8.7x	10.0x	28.09	99.3%
Ingram Micro Inc.	3,035	2,241	0.1x	5.6x	6.7x	18.55	97.7%
ScanSource, Inc.	674	616	0.3x	7.9x	8.7x	25.36	78.3%
Consumer							
Bunzl plc	\$ 3,594	\$ 4,905	0.6x	9.6x	12.1x	\$ 10.96	96.2%
Core-Mark Holding Company, Inc.	305	267	0.1x	3.1x	3.9x	29.25	96.6%
Nash Finch Co.	435	767	0.2x	6.4x	9.6x	33.87	72.2%
Pool Corp	999	1,248	0.8x	16.5x	19.5x	20.40	81.6%
Sysco Corp.	16,169	18,214	0.5x	8.1x	9.8x	27.32	98.1%
United Natural Foods, Inc.	1,091	1,340	0.4x	9.8x	12.2x	25.24	89.3%
Industrial							
Airgas Inc.	\$ 3,884	\$ 5,451	1.4x	7.9x	11.8x	\$ 47.30	92.7%
Applied Industrial Technologies, Inc.	927	949	0.5x	8.4x	10.6x	21.90	91.4%
Barnes Group Inc.	930	1,276	1.2x	10.4x	18.0x	16.99	88.9%
DXP Enterprises Inc.	163	290	0.5x	6.7x	9.4x	12.59	76.8%
Fastenal Co.	5,619	5,424	2.7x	14.9x	16.7x	37.88	90.9%
Interline Brands Inc.	560	806	0.7x	9.5x	12.2x	17.26	92.6%
Kaman Corporation	577	639	0.5x	9.4x	12.2x	22.42	92.6%
Lawson Products Inc.	136	125	0.3x	10.7x	17.6x	15.95	59.8%
MSC Industrial Direct Co. Inc.	2,899	2,867	1.9x	12.4x	14.0x	46.15	93.7%
W.W. Grainger, Inc.	7,301	7,226	1.2x	9.0x	10.6x	98.25	95.8%
Watsco Inc.	1,674	1,808	1.0x	22.2x	24.3x	52.23	90.6%
WESCO International Inc.	1,175	1,788	0.4x	7.5x	8.3x	27.80	91.2%
Office and Laboratory Supplies							
Henry Schein Inc.	\$ 4,722	\$ 4,732	0.7x	8.7x	10.2x	\$ 52.19	91.7%
School Specialty Inc.	455	855	0.9x	8.7x	11.6x	24.16	95.5%
United Stationers Inc.	1,285	1,651	0.4x	7.7x	9.4x	53.79	99.0%
Mean			0.8x	9.5x	11.8x		90.1%
Adjusted Mean¹			0.7x	9.2x	11.6x		90.9%
Median			0.5x	8.7x	10.6x		91.7%

Source: Bloomberg, Capital IQ and company filings

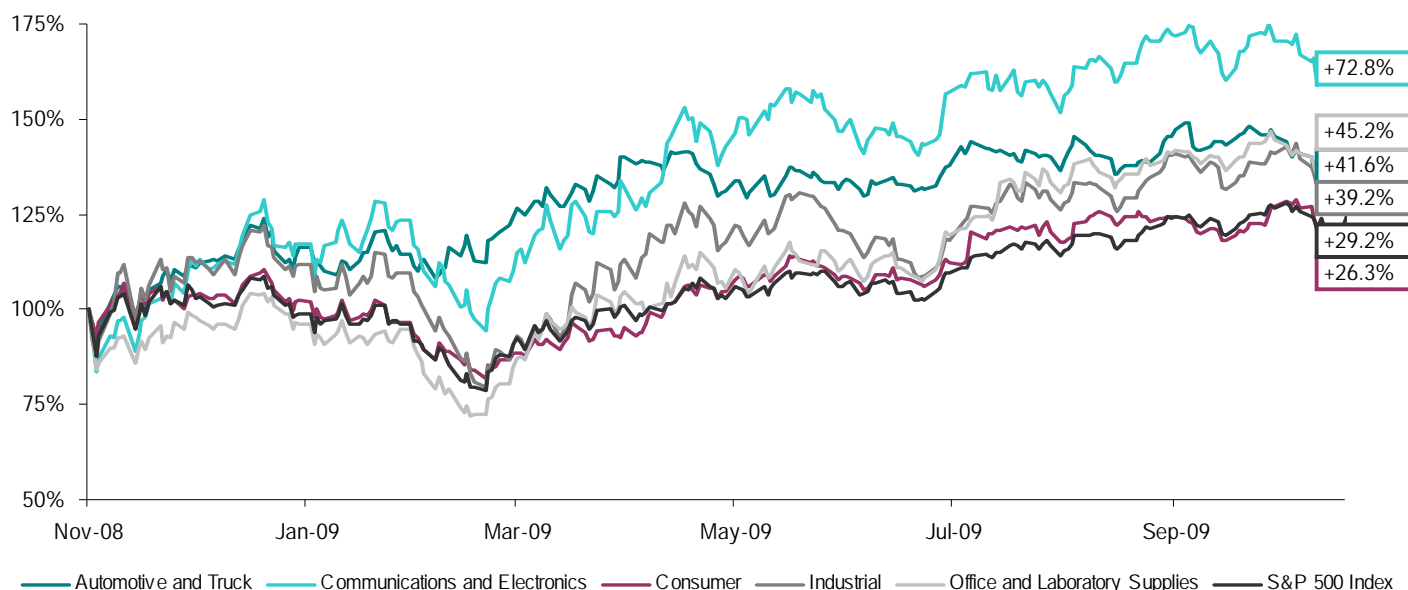
Note: (1) Adjusted mean excludes the high and low values from the calculation

Historical Enterprise Value / EBITDA Valuation Performance: Q3 2008 through November 18, 2009



Source: Capital IQ

LTM Relative Stock Price Performance: November 18, 2008 through November 18, 2009



Source: Capital IQ

Precedent Transaction Update

Select Precedent Distribution M&A Transactions: July 1, 2009 through November 18, 2009

Date	Target Company	Target Description	Acquiring Company
Pending	Service Electrical Supply Co.	Electrical components	Schaedler Yesco
Pending	Burwood Fastener Products Ltd.	Aerospace fasteners and consumables	Interfast, Inc.
Oct-09	Imperial Supplies	Fleet maintenance products	W.W. Grainger, Inc.
Oct-09	Transmark Fcx Group B.V.	Valves and flow control equipment	McJunkin Red Man Corporation
Oct-09	Premier Supply	Building materials	Bradco Supply
Oct-09	General Pool & Spa Supply	Spa products	Pool Corp.
Sep-09	MonotaRO Co. Ltd.	Facilities maintenance products	W.W. Grainger, Inc.
Sep-09	BSC Supply	Computer, printer and office supply	People Fund, The
Sep-09	Williams Power Tools, Inc.	Lawn and garden maintenance equipment	Grove Toys Inc.
Sep-09	Schoeneman Beauty Supply Incorporated	Professional salon products	Beauty Systems Group LLC
Sep-09	Moore-Handley Inc.	Power and hand tools	House-Hasson Hardware Company
Sep-09	Tri-County Welding Supplies Ltd.	Welding products and compressed gases	Air Liquide Canada, Inc.
Sep-09	Swedish Match (South Africa) (Pty) Ltd.	Lighters, matches and cigars	Philip Morris International, Inc.
Sep-09	HwCg Ltd.	Wine	PLB Group Ltd.
Sep-09	Rush Racing Limited	Racing equipment and accessories	ONE Industries Europe
Sep-09	Rosker Limited	Outdoor camping and leisure products	Fenix Outdoor AB
Sep-09	International Gasket and Supply	Specialty gaskets, bolts and sealing products	Audax Group
Sep-09	Exocor Inc.	Welding materials and equipment	Saugatuck Capital Company
Aug-09	Danks Holdings Ltd.	Hardware and garden products	Lowe's Companies Inc.
Aug-09	Eco Wave, LLC	Green building materials and products	Natural Blue Resources, Inc.
Aug-09	Hartung Brothers, Inc., Fertilizer Division	Liquid and dry fertilizers	The Andersons, Inc.
Aug-09	Carlson Systems Holdings Inc.	Fastening and packaging products	Industrial Opportunity Partners
Jul-09	Har-Bell Athletic Goods, Inc.	Sports equipments	Sport Supply Group, Inc.
Jul-09	Panhandle Truck Parts, Inc.	Truck and semi-trailer products	FleetPride, Inc.
Jul-09	Fleet Supply of Tallahassee, Inc.	Heavy duty truck and trailer parts	FleetPride, Inc.
Jul-09	Bob O'Leary Health Food Distributor Co.	Bodybuilding, health and fitness product	USA Sports, LLC
Jul-09	Mondrian-Hall, Inc.	Photographic and digital imaging equipment	Unisource Canada, Inc.

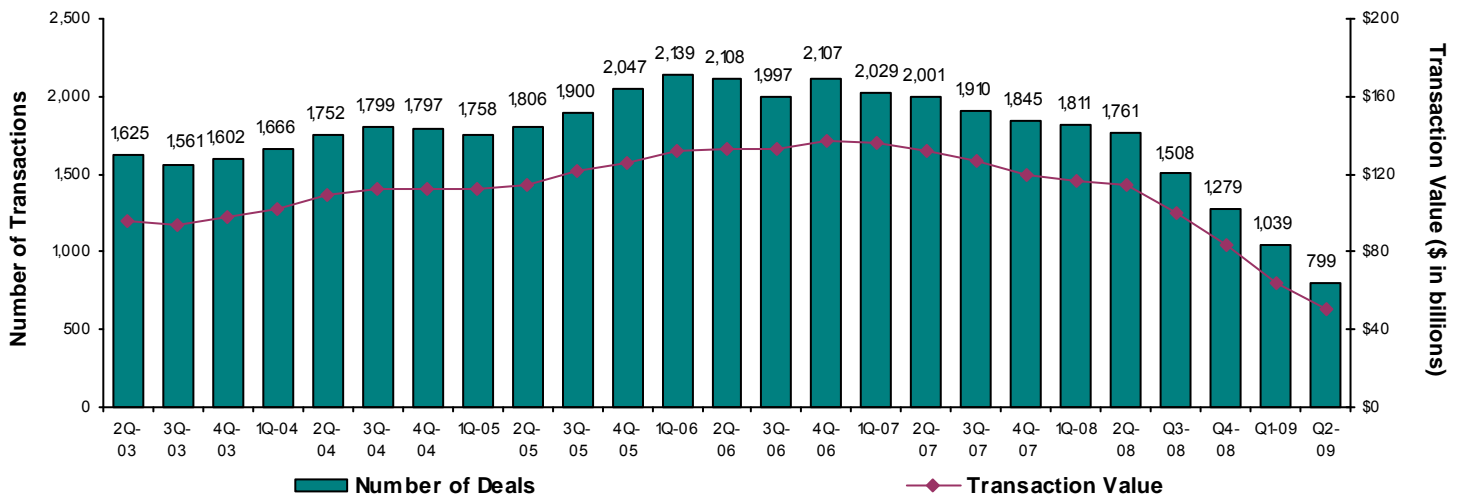
Source: Bloomberg, Capital IQ, Industrial Distribution Magazine and company filings

Recent Macroeconomic and Distribution Industry News and Notes

- 11/16/09: Commerce Department said that businesses reduced inventories 0.4 percent in September, slightly better than the 0.7 percent drop economists expected.
- 11/02/09: Orders for durable goods increased 1% in September, per U.S. Commerce Department data, marking the fourth such increase in six months.
- 10/16/09: Genuine Parts Co. reported 3Q net income fell 18% year-over-year, though the Company said its decline in sales has begun to slow.
- 10/14/09: According to the Commerce Department, U.S. wholesale inventories fell 1.3% in August, after dropping 1.6% in July. Sales rose 1.0% in August after a 0.6% increase in July.
- 10/14/09: U.S. retail same-store sales rose 0.6% in September, the first such rise in 13 months, as consumers took advantage of back-to-school sales.
- 10/14/09: W.W. Grainger acquired Imperial Supplies, LLC, a distributor of maintenance and aftermarket components for the fleet industry, from American Capital, Ltd.
- 10/9/09: The Canadian Industrial Product Price Index (IPPI) rose 0.5% and the Raw Materials Price Index (RMPI) was up 3.7% in August, compared to July.
- 10/9/09: August 2009 construction spending was estimated at \$941.9 billion, 0.8% above the July 2009 and 11.6% below August 2008, according to the Department of Commerce.
- 10/5/09: The private nonfarm sector lost 254,000 jobs in September, down from the 277,000 jobs lost in August. The current unemployment rate is estimated at 9.8%.
- 10/5/09: Interline Brands Inc. filed a registration statement with the Securities and Exchange Commission that would allow it sell up to \$350 million of equity and debt securities.
- 9/28/09: Small-business loans are up. According to the Treasury's monthly bank lending survey, June small-business loan originations increased 26% over May.
- 9/21/09: The Federal Reserve reported that U.S. factory output climbed 0.8% in August, following a 1% increase in July.

Mid-Market M&A Activity and Outlook

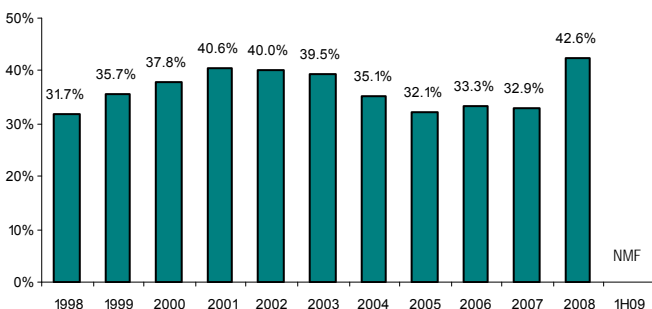
- Mid-market M&A activity continued to decline through the first half of 2009
- Leverage multiples have come down meaningfully from their 2007 peak and continue to decline
- As leverage levels have come down, buyers' percentage equity contributions increased substantially through 2008 and into 2009
- Financing data is not available for Q1 and Q2 2009 due to lack of market activity



Source: Factset Mergerstat
Note: Transaction values between \$10 million and \$250 million

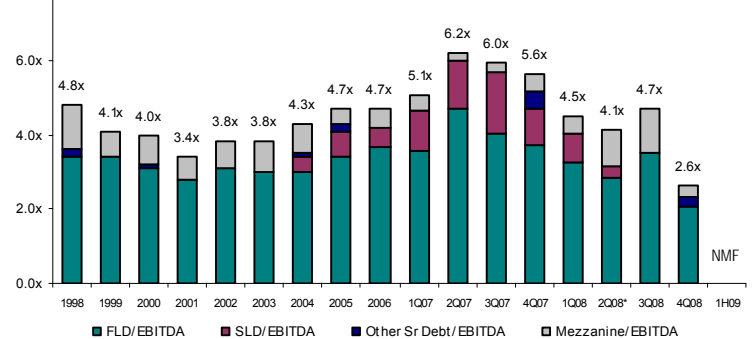
Current Financing Market Statistics

Equity as a Percentage of Total LBO Capitalization



Source: Standard & Poor's Leveraged Commentary and Data; too few data points were available to form meaningful samples for 1Q09 or 2Q09
Note: Transactions for companies <\$50mm EBITDA

Average Debt Multiples of Mid-Market LBO Loans



Source: Standard & Poor's Leveraged Commentary and Data; too few data points were available to form meaningful samples for 1Q09 or 2Q09
Note: Note: (*) Based on LI deal flow and market observations

Lincoln International's Global Footprint



About Lincoln International

Lincoln International specializes in merger and acquisition advisory services, debt advisory services, UK pension advisory services and providing fairness opinions and valuations for leading organizations involved in mid-market transactions. With offices in Chicago, Frankfurt, London, Los Angeles, Madrid, New York, Paris, Tokyo and Vienna, and strategic partnerships with China Everbright in China and ICICI Securities, Inc. in 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.

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

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