

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, as a difficult 2009 comes to a close, we take a moment to evaluate the financial implications of some of the changes that have taken place within the distribution sector. Through this data, as we revisit some of the year's economic woes and hardships, we begin to see the results of the hard work that many of the world's largest distributors put forth to improve their respective organizations.

Revenue run-rates and margins appear to have bounced off their lows and an improved outlook has led to market capitalization increases and strong stock market relative outperformance. As the data demonstrates, the worst is hopefully behind us.

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.

Lincoln International

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.



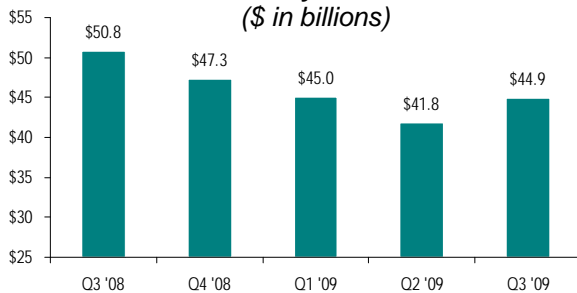
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Curt Tatham is a regular contributor to Industrial Distribution Magazine, where he authors the Market Pulse column. www.inddist.com.

Distribution Sector Quarterly Analysis

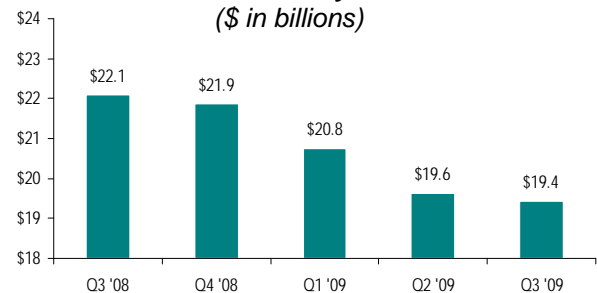
The data in this section aggregates the financial results and statistics of all companies that are part of the **Lincoln International Distribution Index** (see page 3 for a complete list). As Q4 2009 results are not yet available for all companies within the index, the data examines information available in public filings for the periods ended 9/30/09 or earlier.

Quarterly Revenue
(\$ in billions)



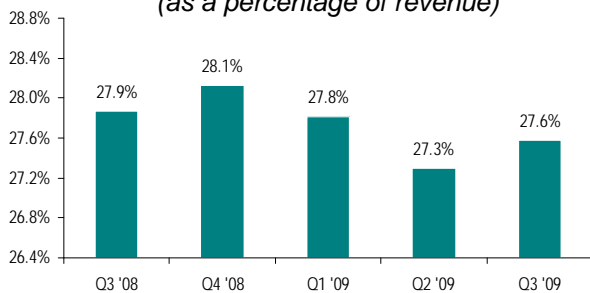
- Quarterly revenue declined every quarter from Q3 '08 to Q2 '09, though notably was up in Q3 '09 from its Q2 '09 lows
- However, Q3 '09 revenue remained ~12% below Q3 '08 levels

Inventory
(\$ in billions)



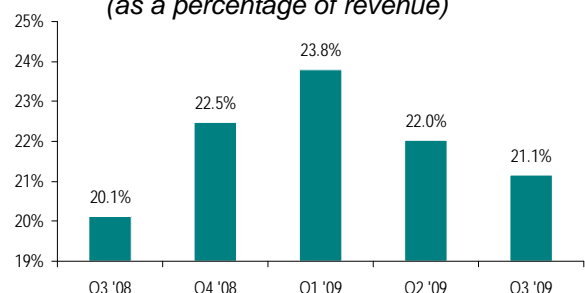
- As expected, inventory levels have declined consistently for the last four quarters, although the rate of decline has slowed
- For companies with fiscal quarters ending in Oct. and Nov., Q4 '09 inventory is on average up over Q3 '09

Gross Profit
(as a percentage of revenue)



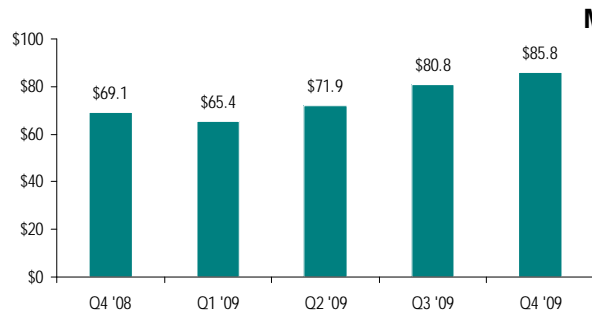
- On average, distributors saw gross margins decline during the first two quarters of 2009
- Q3 '09 gross profits saw an increase over Q2 '09, though remain slightly below year ago levels

Selling, General & Administrative Expense
(as a percentage of revenue)



- Due in large part to declining revenue, SG&A expenses increased as a percentage of revenue through Q1 '09
- The last two quarters demonstrate the results of the hard work to reduce expenses coupled with a stabilizing revenue environment

Distribution Sector Quarterly Analysis (continued)



Source: Capital IQ

- As with the rest of the market, distributors saw a continued and steady increase in their market capitalizations throughout 2009
- Aggregate market capitalization for the **Lincoln International Distribution Index** saw an increase of over \$20 billion, or ~31% from March 31, 2009 to December 31, 2009

M&A Transaction Update

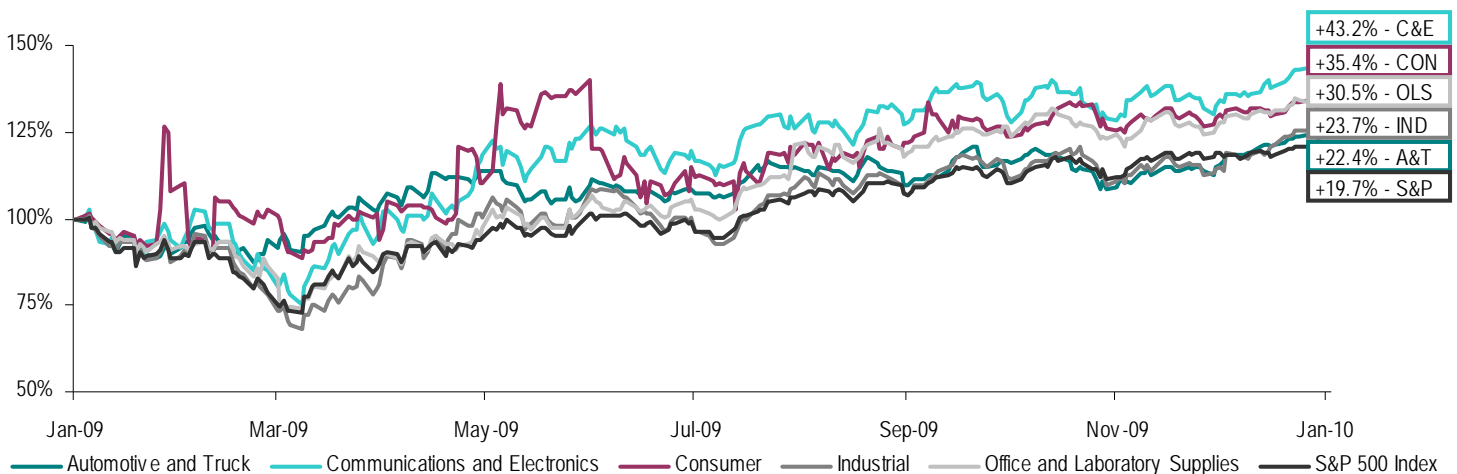
Select Precedent Distribution M&A Transactions: October 1, 2009 through December 31, 2009

Date	Target Company	Target Description	Acquiring Company
Pending	BC Bearing	Industrial products	Motion Industries, Inc.
Pending	Holo-Krome Company	Fasteners and screws	Fastenal Co.
Dec-09	Atlantic Tool Systems	Abrasives and cutting tools	Duncan Industrial Solutions
Dec-09	Lookout Supply Company	Roofing systems and related accessories	Beacon Roofing Supply, Inc.
Dec-09	Carlson Distributors Inc.	Building materials	Bradco Supply
Dec-09	Jake's Carts	Golf car lift kits, parts and accessories	Audax Group / Nivel Holdings, LLC
Dec-09	Euro-Papier	Paper, packaging and facility supplies	Unisource Worldwide, Inc.
Dec-09	Fitch Industrial & Welding Supply	Industrial gas and welding supply	Airgas, Inc.
Nov-09	K&D Pratt Industrial Division	Industrial and safety products	W.W. Grainger, Inc.
Nov-09	Butler Animal Health Supply, LLC	Animal healthcare products	Henry Schein, Inc.
Nov-09	OfficeSource Inc.	Office furniture	United Stationers Inc.
Nov-09	A.E. Petsche Company	Interconnects	Arrow Electronics, Inc.
Nov-09	Tri-Tech	Industrial, medical and specialty gases	Airgas, Inc.
Oct-09	Imperial Supplies	Fleet maintenance products	W.W. Grainger, Inc.
Oct-09	Beck Electric Company	Electrical products to contractors	Svoboda Capital Partners, LLC
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.

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

Valuation Update: Lincoln International Distribution Index

LTM Relative Stock Price Performance: January 2, 2009 through December 31, 2009



Source: Capital IQ

Valuation Update: Lincoln International Distribution Index

Select Distribution Public Comparables: As of December 31, 2009

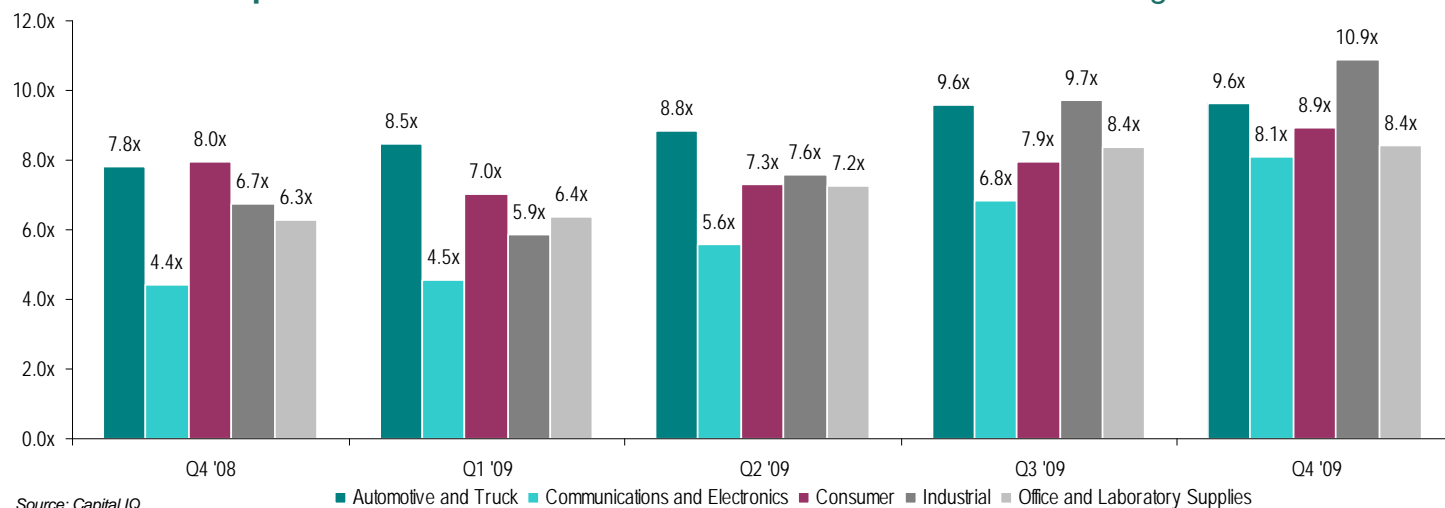
(Dollars in millions except per share data)

Company Name	Market Cap	Enterprise Value	Enterprise Value / LTM			Stock Price	% of 52 Week High
			Revenue	EBITDA	EBIT		
Automotive and Truck							
AutoZone Inc.	\$ 7,824	\$ 10,484	1.5x	7.6x	8.8x	\$ 158.07	93.0%
Genuine Parts Co.	6,057	6,201	0.6x	8.2x	9.4x	37.96	95.3%
LKQ Corp.	2,770	3,240	1.6x	13.1x	15.4x	19.59	97.6%
Communications and Electronics							
Anixter International Inc.	\$ 1,619	\$ 2,350	0.4x	9.3x	11.0x	\$ 47.10	97.0%
Arrow Electronics, Inc.	3,547	3,816	0.3x	8.7x	10.3x	29.61	98.4%
Avnet Inc.	4,562	4,583	0.3x	9.3x	10.7x	30.16	97.9%
Ingram Micro Inc.	2,855	2,024	0.1x	4.7x	5.6x	17.45	91.9%
ScanSource, Inc.	709	653	0.4x	8.4x	9.2x	26.70	82.4%
Consumer							
Bunzl plc	\$ 3,580	\$ 4,843	0.7x	9.9x	12.4x	\$ 10.90	99.3%
Core-Mark Holding Company, Inc.	344	305	0.1x	3.5x	4.5x	32.96	99.3%
Nash Finch Co.	476	809	0.2x	6.2x	8.9x	37.09	79.0%
Pool Corp	934	1,183	0.8x	15.6x	18.5x	19.08	76.4%
Sysco Corp.	16,536	18,581	0.5x	8.3x	10.0x	27.94	94.8%
United Natural Foods, Inc.	1,152	1,382	0.4x	10.1x	12.6x	26.74	94.6%
Industrial							
Airgas Inc.	\$ 3,908	\$ 5,523	1.4x	8.0x	11.9x	\$ 47.60	93.3%
Applied Industrial Technologies, Inc.	934	956	0.5x	8.5x	10.7x	22.07	92.2%
Barnes Group Inc.	925	1,271	1.2x	10.4x	17.9x	16.90	88.4%
DXP Enterprises Inc.	169	296	0.5x	6.8x	9.6x	13.07	79.7%
Fastenal Co.	6,177	5,981	3.0x	16.4x	18.4x	41.64	98.5%
Interline Brands Inc.	561	806	0.7x	9.5x	12.2x	17.27	92.7%
Kaman Corporation	595	657	0.6x	9.6x	12.5x	23.09	92.9%
Lawson Products Inc.	150	140	0.4x	11.9x	19.6x	17.65	66.2%
MSC Industrial Direct Co. Inc.	2,968	2,936	2.0x	12.7x	14.3x	47.00	95.4%
W.W. Grainger, Inc.	7,196	7,120	1.2x	8.9x	10.4x	96.83	94.4%
Watsco Inc.	1,570	1,705	1.0x	20.4x	22.5x	48.98	85.0%
WESCO International Inc.	1,142	1,755	0.4x	7.4x	8.1x	27.01	88.6%
Office and Laboratory Supplies							
Henry Schein Inc.	\$ 4,759	\$ 4,769	0.8x	8.8x	10.3x	\$ 52.60	92.4%
School Specialty Inc.	441	792	0.8x	8.4x	11.5x	23.40	92.5%
United Stationers Inc.	1,358	1,754	0.4x	8.2x	10.0x	56.89	97.4%
Mean			0.8x	9.6x	12.0x		91.3%
Adjusted Mean¹			0.7x	9.4x	11.9x		91.9%
Median			0.6x	8.8x	10.7x		93.0%

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: Q4 2008 through Q4 2009



Source: Capital IQ

Lincoln International's Global Footprint



About Lincoln International

Lincoln International specializes in mergers and acquisitions services, debt advisory services, UK pensions advisory services and providing restructuring advice, 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 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. Additional information about Lincoln International can be obtained at www.lincolninternational.com.

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

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