



Capstone Partners

Investment Banking Advisors

INDUSTRIAL DISTRIBUTION

Q4 2015

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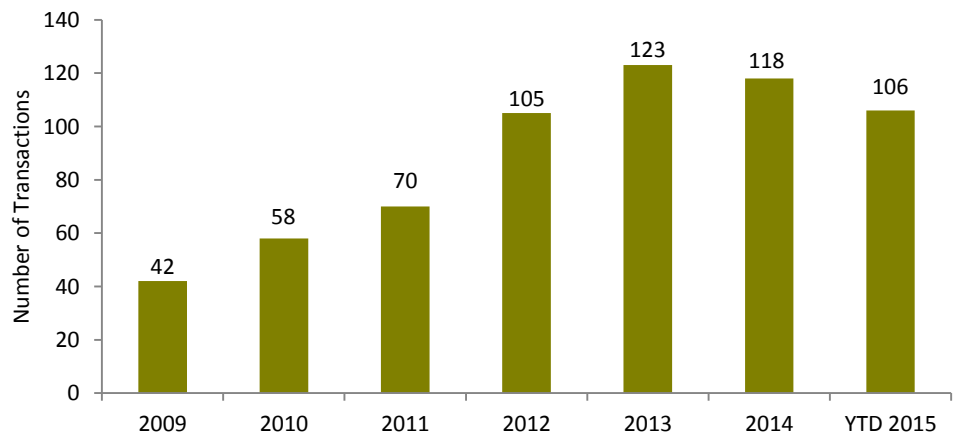
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MERGERS AND ACQUISITIONS OUTLOOK

As 2015 winds to an end we think it's an appropriate time to look back on deal activity for the year and attempt to assess what M&A markets hold in store for the new year. Without a doubt, 2015 was another banner year for distribution related M&A with a number of sectors exhibiting both significant transactions and strong deal volume. Electrical, building materials, and industrial/MRO all saw robust activity. M&A markets continue to be driven by the strong winds of consolidation and we expect that to continue into the new year. However, there are issues and developments on the horizon that have caught our attention, such as strong economic indicators making it likely that the Fed will raise interest rates in the near future. While most analysts expect the rate increase to be marginal, it will add to acquisition costs for any transaction utilizing debt, hence making deals more expensive.

In addition, while recent employment numbers have been positive for the overall economy, the outlook for industrials may be somewhat less attractive. Fastenal, Grainger, United Rentals and others are all exhibiting significant weaknesses in earnings and share prices. Additionally, many industrial issuers have aggressively taken advantage of attractive debt markets for the last few years resulting in debt issuance at or above pre-crisis levels. While the jury is still out on how these trends will impact 2016 activity, we believe those companies thinking of pursuing a transaction may be well advised to do so in the first or second quarter of 2016 as there are clearly signs of potential slowdown for industrial related M&A activity.

Industrial Distribution: M&A Transaction Volume



Source: Capstone Partners LLC research and Capital IQ
Includes only disclosed transactions in U.S. and Canada. 01/01/2015 through 10/31/2015

NOTABLE INDUSTRIAL DISTRIBUTION TRANSACTIONS

Several notable transactions were completed or announced in the Industrial Distribution industry through the fourth quarter of 2015. Selected transactions are outlined below, followed by a more comprehensive list in the following table.

- ▶ **Eastern acquires M&R (August 2015)** – In line with industry trends, Eastern Industrial Supplies (Eastern) has agreed to acquire privately held M&R Pipe and Supply (M&R), a pipe, valves and fittings (PVF) distributor based out of Birmingham, Alabama. Eastern, a premier distributor of PVF with 15 branches throughout the Eastern U.S., aims to expand their geographic footprint in the Southeast while also increasing scale and efficiency. The deal provides M&R with improved IT services, competitive pricing and a larger customer base. The terms of the deal were not disclosed. “This acquisition is in line with our strategic efforts to strengthen our base of business, reinforce customer support and improve operational efficiencies,” Eastern President and CEO Kip Miller said.

- ▶ **Anixter acquires the Power Solutions segment of HD Supply (July 2015)** – Anixter International Inc., a leading supplier of electrical transmission and distribution products, has recently acquired the Power Solutions segment of HD Supply for \$825 million. This acquisition represents the largest in Anixter’s history and is congruent with a renewed focus on their core business. “Power Solutions is a compelling strategic acquisition for Anixter. Consistent with our message that we are sharpening our focus, this transaction will significantly enhance our competitive position in the electrical wire and cable business and further strengthen our customer and supplier value proposition,” said Bob Eck, President and Chief Executive Officer of Anixter.

- ▶ **The Home Depot acquires Interline Brands (July 2015)** – The Home Depot, the world's largest home improvement retailer, has acquired Interline Brands for \$2.4 billion. Interline Brands is a leading national distributor and direct marketer of broad-line maintenance, repair and operations (MRO) products. The acquisition provides Home Depot with an additional channel to sell products to its professional contractor customer base outside of its traditional retail focus. "By joining forces with Interline, we'll be able to better serve our Pro customers whether in-store, online or at their place of business," said Craig Menear, Chairman, CEO and President of The Home Depot.

INDUSTRIAL DISTRIBUTION: SELECT M&A TRANSACTIONS

Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV / LTM	
					Revenue	EBITDA
10/23/15	Specialty Tool	BlackHawk	Distributes cutting tools, abrasives, gages, coolants and MRO supplies in the Midwest.	-	-	-
10/02/15	Forest Hills	Turtle & Hughes	Provides electrical supplies and services in the Boston area and beyond.	-	-	-
10/02/15	Ohio Transmission	Irving Place	Operates as an industrial supply distributor of mechanical power transmission equipment and pumps.	-	-	-
10/02/15	S. G. Morris	Applied Industrial	Distributes fluid power components.	-	-	-
09/29/15	Delo Welding	Jackson Welding	Distributes welding, specialty gases, industrial supplies, safety items and more.	-	-	-
09/28/15	GRABBER Construction	Svoboda Capital	Manufactures and distributes fasteners and fastening systems for wood, metal and drywall applications.	-	-	-
09/23/15	Graco Supply	CM Equity	Supplies adhesives, sealants, coatings, lubricants, tapes and MRO products.	-	-	-
09/08/15	Anchor	GHX	Distributes gaskets and fluid sealing products.	-	-	-
09/08/15	Cortech	DXP	Provides pumps and process equipment in California and Southern Nevada.	-	-	-
09/05/15	Electric Motor Sales	Consolidated Electrical	Distributes electrical, mechanical power transmission and automation equipment.	-	-	-
09/01/15	Environmental Filtration	Camfil	Distributes HVAC filters in Northern California.	-	-	-
08/28/15	M & R	Eastern Industrial	Distributes polyvinyl fluoride pipes.	-	-	-
08/24/15	Lake Erie Abrasive	Motion Industries	Distributes abrasive products and machinery in the Northeast Ohio region.	-	-	-
08/18/15	D&H Pump	Third Century	Offers services and installs fuel dispensing equipment to the commercial and retail fueling industry.	-	-	-
08/12/15	Reliable Pipe Supply	B.K. Thorpe	Distributes pipes, valves, fittings and steel products in the United States.	-	-	-
08/10/15	Graffams	Stellar	Distributes metal working and MRO products.	-	-	-
08/07/15	Buckeye	Ohio Transmission	Offers and services/repairs industrial and municipal process pumps.	-	-	-
08/06/15	Northern Safety	Wurth Group	Offers safety and industrial supplies to companies in the United States.	-	-	-
08/05/15	Williams Supply	Electrical Equipment	Distributes electrical supplies and lighting.	-	-	-
08/03/15	Magneto Power	Power Distributors	Distributes outdoor power equipment and replacement parts.	-	-	-
08/03/15	Odessa	NOW	Distributes pumps and equipment for oil and gas markets, and water/wastewater industries.	-	-	-
08/03/15	TECO	Rumsey Electric	Offers motion control and automation products and services to industrial and OEM markets.	-	-	-
07/31/15	Motor City Fastener	Oakland Standard	Distributes fasteners and related parts in the Midwest.	-	-	-

INDUSTRIAL DISTRIBUTION: SELECT M&A TRANSACTIONS (CONTINUED)

Date	Target	Acquiror	Target Business Description	Enterprise	EV / LTM	
				Value (mm)	Revenue	EBITDA
07/27/15	Major Incorporated	Shale-Inland	Distributes valves and piping related products for power and chemical industries internationally.	-	-	-
07/24/15	Tucson Abrasives	Stellar Industrial	Supplies abrasives and industrial supplies to large and small companies in the Mountain West region.	-	-	-
07/21/15	Interline Brands	The Home Depot	Distributor and direct marketer of broad-line MRO products in the United States, Canada and Central America.	\$2,423.2	1.4x	18.5x
07/17/15	Weldinghouse	Airgas	Sells and repairs welding and fabricating equipment.	-	-	-
07/15/15	HD Supply Power Solutions	Anixter	Supplies electrical transmission and distribution products.	\$825.0	0.4x	10.4x
07/08/15	StandardAero	Veritas Capital	Provides maintenance, repair and overhaul (MRO) services.	-	-	-
07/07/15	Norvell	Sager	Distributes power products.	-	-	-
07/07/15	Alta	Atkins & Pearce	Supplies expandable monofilament sleeveings to electronic, automotive, marine and medical industries.	-	-	-
07/06/15	L&M Welding	Tech Air	Distributes welding and industrial equipment.	-	-	-
07/06/15	Propane Advantage	Ferrellgas	Sells and services container tanks in Salt Lake City and surrounding area.	-	-	-
07/02/15	Kramer	Finning	Offers equipment and specialized attachments for industrial industries.	\$194.5	0.8x	-
07/01/15	Jarvis	BlackHawk	Offers industrial tooling to machine shops in Colorado and beyond.	-	-	-
06/25/15	MS Inserts	Herndon	Supplies aerospace and electronic fasteners.	-	-	-
06/24/15	Gateway Fasteners	AFC	Supplies metric and stainless steel fasteners to industry, government and commercial customers online.	-	-	-
06/23/15	Sage	APR	Distributes plumbing and HVAC products.	-	-	-
06/23/15	Western Builders	Pan American Screw	Wholesale distributor of screws and fasteners.	-	-	-
06/19/15	Eck	Sonepar	Distributes electrical construction materials to commercial construction, industrial and OEM/MRO in the Mid-Atlantic.	-	-	-
06/19/15	Next-Gen Solar	SolaRight	Distributes light emitting diode (LED) solar paver tiles and street safety markers.	-	-	-
06/17/15	Dougherty	Gregory Poole	Distributes material handling equipment.	-	-	-
06/12/15	AMC	Quality Tools & Services	Distributes metalworking and general manufacturing industry tools.	-	-	-
06/10/15	Kentec	Southern Fastening	Supplies commercial quality tool and supplies.	-	-	-
06/10/15	QIP	Wolseley Industrial	Supplies valves, controls, instrumentations and fittings to customers in eastern Canada.	-	-	-
06/02/15	Valley of Birmingham	GHX	Stocks and distributes non-asbestos, fluid sealing products and gaskets.	-	-	-

INDUSTRIAL DISTRIBUTION: SELECT M&A TRANSACTIONS (CONTINUED)

Date	Target	Acquiror	Target Business Description	Enterprise Value (mm)	EV / LTM Revenue	EBITDA
06/01/15	Optimas OE Solutions	American Industrial	Distributes engineered fasteners and small components to commercial and power generation equipment companies.	\$380.0	0.4x	-
05/27/15	Outil Pac	Descours & Cabaud	Distributes industrial machinery.	-	-	-
05/22/15	Gatto Electric	Amp Electrical	Distributes lighting and electrical equipment in Northeast Ohio.	-	-	-
05/21/15	Southern Industrial	Magnetech	Sells and services industrial electromechanical products, electronics and apparatus.	-	-	-
05/20/15	Chem-Star	Clayburn Services	Supplies industrial fiberglass, paint coatings and abrasive blastings.	-	-	-
05/19/15	Steel Toe	C&B Equipment	Supplies products for municipal water and wastewater, OEMs and process/industrial markets.	-	-	-
05/08/15	PrimeSource	Platinum Equity	Distributes fasteners and building materials.	-	-	-
05/08/15	TPC Wire & Cable	Audax Group	Manufactures and distributes wire, cables and connectors used in harsh industrial environments.	-	-	-
04/30/15	VibrAlign	Metravib SAS	Distributes alignment equipment.	-	-	-
04/24/15	Midwest Valve Parts	Industrial Service	Offers remanufactured valves and pipeline parts.	-	-	-
04/13/15	Security Supply	WinWholesale	Markets plumbing, heating and cooling equipment.	-	-	-
04/09/15	Action Industrial	Lewis-Goetz	Distributes fasteners, hose products, gaskets, and industrial construction supplies.	-	-	-
04/08/15	Tool Supply	DXP	Supplies tools, drill bushings, cutting tools and brazed tools.	-	-	-
04/07/15	Direct South	Boelter	Distributes foodservice equipment and supplies.	-	-	-
04/07/15	Pioneer Tool Supply	BlackHawk	Sells metal-cutting tools to manufacturers in New England.	-	-	-
04/07/15	Malcomtech	Seika	Sells and services soldering process control devices internationally.	-	-	-
04/02/15	Munch's	Rotunda	Sells heating and air conditioning products.	-	-	-
04/01/15	Mega Fluidline	Triad Technologies	Distributes fluid connectors, hydraulic products and seals through its locations in Ohio.	-	-	-
03/31/15	Welders Supply	nexAir	Distributes welding supplies in central and south Alabama.	-	-	-
03/30/15	AFC Industries	North Sky and Incline	Distributes cable ties, tubing, electronic hardware and other products for OEMs worldwide.	-	-	-
03/27/15	East Metro Supply	DGI Supply	Supplies cutting tools, abrasives and related metalworking industrial products in the Carolinas.	-	-	-
03/19/15	Transformer Testing	Resa	Provides transformer maintenance services.	-	-	-
03/17/15	Green Energy	Barrett Green	Markets and sells energy saving lighting products and water management system.	-	-	-

INDUSTRIAL DISTRIBUTION: PUBLIC COMPANY TRADING & OPERATING DATA

Company	Price 11/12/15	% 52 Wk High	Market Cap	Enterprise Value	Revenue	LTM EBITDA	Margin	1-Yr Rev Growth	EV / LTM Revenue EBITDA		
General Industrial											
Airgas, Inc.	\$94.59	79.5%	\$6,815.9	\$9,586.4	\$5,357.8	\$977.4	18.2%	3.4%	1.8x	9.8x	
Applied Industrial Technologies, Inc.	\$40.40	81.2%	\$1,588.9	\$1,880.2	\$2,691.1	\$221.7	8.2%	5.3%	0.7x	8.5x	
DXP Enterprises, Inc.	\$28.94	42.2%	\$416.7	\$787.0	\$1,350.9	\$105.0	7.8%	(5.6)%	0.6x	7.5x	
Fastenal Company	\$38.65	79.8%	\$11,196.7	\$11,399.9	\$3,872.6	\$917.4	23.7%	6.9%	2.9x	12.4x	
Genuine Parts Company	\$87.26	80.1%	\$13,155.6	\$13,593.5	\$15,420.7	\$1,276.7	8.3%	2.6%	0.9x	10.6x	
Kaman Corporation	\$38.90	89.5%	\$1,053.9	\$1,298.4	\$1,800.8	\$153.1	8.5%	4.2%	0.7x	8.5x	
MSC Industrial Direct Co. Inc.	\$59.90	70.6%	\$3,693.6	\$4,083.6	\$2,910.4	\$453.8	15.6%	4.4%	1.4x	9.0x	
Park-Ohio Holdings Corp.	\$37.01	56.7%	\$468.3	\$876.3	\$1,489.4	\$128.6	8.6%	13.3%	0.6x	6.8x	
W.W. Grainger, Inc.	\$199.83	76.4%	\$12,547.1	\$14,187.0	\$10,006.1	\$1,593.6	15.9%	1.8%	1.4x	8.9x	
Mean								12.8%	4.0%	1.2x	9.1x
Median								8.6%	4.2%	0.9x	8.9x
Harmonic Mean								10.9%	NA	0.9x	8.9x

Electrical & Electronics											
Anixter International Inc.	\$64.43	71.6%	\$2,124.3	\$2,794.8	\$6,745.0	\$373.2	5.5%	19.3%	0.4x	7.5x	
Arrow Electronics, Inc.	\$57.51	88.5%	\$5,378.9	\$7,930.6	\$22,927.6	\$1,048.9	4.6%	1.8%	0.3x	7.6x	
Avnet, Inc.	\$44.69	94.5%	\$5,899.4	\$7,186.9	\$28,054.8	\$1,058.2	3.8%	0.2%	0.3x	6.8x	
Houston Wire & Cable Company	\$5.79	43.0%	\$97.1	\$138.2	\$327.3	\$17.3	5.3%	(17.1)%	0.4x	8.0x	
Rexel SA	\$12.24	67.3%	\$3,672.2	\$6,309.8	\$13,686.9	\$671.4	4.9%	7.7%	0.5x	9.4x	
WESCO International Inc.	\$46.75	54.0%	\$1,969.6	\$3,335.1	\$7,652.4	\$462.9	6.0%	(1.6)%	0.4x	7.2x	
Mean								5.0%	1.7%	0.4x	7.7x
Median								5.1%	1.0%	0.4x	7.5x
Harmonic Mean								4.9%	NA	0.4x	7.7x

Construction & Energy											
Beacon Roofing Supply, Inc.	\$36.59	95.4%	\$2,149.7	\$2,423.9	\$2,453.9	\$134.8	5.5%	7.4%	1.0x	18.0x	
Builders FirstSource, Inc.	\$13.88	83.2%	\$1,507.0	\$3,433.0	\$2,505.3	\$124.6	5.0%	58.9%	1.4x	27.5x	
NOW Inc.	\$17.07	58.4%	\$1,830.0	\$1,824.0	\$3,372.0	NM	NA	(18.6)%	0.5x	NA	
HD Supply Holdings, Inc.	\$28.34	77.0%	\$5,643.8	\$10,753.8	\$9,097.0	\$856.0	9.4%	22.0%	1.2x	12.6x	
MRC Global Inc.	\$13.63	59.8%	\$1,393.0	\$2,379.3	\$5,073.6	\$314.9	6.2%	(12.0)%	0.5x	7.6x	
Pool Corp.	\$81.39	96.4%	\$3,467.3	\$3,839.9	\$2,324.5	\$225.7	9.7%	5.1%	1.7x	17.0x	
Universal Forest Products Inc.	\$72.99	94.3%	\$1,469.5	\$1,505.8	\$2,853.6	\$161.5	5.7%	11.2%	0.5x	9.3x	
Watsco Inc.	\$120.26	90.4%	\$3,925.3	\$4,471.1	\$4,086.2	\$351.6	8.6%	4.9%	1.1x	12.7x	
Wolseley plc	\$35.67	81.1%	\$9,059.2	\$9,894.2	\$13,332.0	\$959.0	7.2%	8.6%	0.7x	10.3x	
Mean								7.2%	9.7%	1.0x	14.4x
Median								6.7%	7.4%	1.0x	12.6x
Harmonic Mean								6.7%	NA	0.8x	12.4x

Aerospace & Defense											
KLX Inc.	\$32.11	68.0%	\$1,694.0	\$2,475.7	\$1,695.7	\$371.7	21.9%	31.3%	1.5x	6.7x	
TransDigm Group Incorporated	\$229.50	93.7%	\$12,286.1	\$19,870.1	\$2,707.1	\$1,164.4	43.0%	14.1%	7.3x	17.1x	
Wesco Aircraft Holdings, Inc.	\$12.11	69.2%	\$1,182.6	\$2,106.5	\$1,536.1	\$194.9	12.7%	30.0%	1.4x	10.8x	
Mean								25.9%	25.1%	3.4x	11.5x
Median								21.9%	30.0%	1.5x	10.8x
Harmonic Mean								20.3%	22.0%	1.9x	10.0x

\$ in millions, except per share data

EV = enterprise value; LTM = last twelve months

Source: Capital IQ

CAPSTONE PARTNERS: INDUSTRIAL DISTRIBUTION TRANSACTIONS

Capstone Partners has completed several transactions within the Industrial Distribution sector. These transactions involved companies across various industries, product offerings and stages of the business life cycle. Our experience in the Industrial Distribution sector provides us with insight into the valuable attributes and valuation metrics of a target company, the active buyers in the industry and the process of transactions in this space.

<p>CONFIDENTIAL</p> <p><i>corporate sale (IN MARKET)</i></p> <p>ELECTRONIC WIRE & CABLE ASSEMBLY & DISTRIBUTION</p>	<p>CONFIDENTIAL</p> <p><i>corporate sale (IN MARKET)</i></p> <p>ELECTRONICS & INDUSTRIAL FASTENER DISTRIBUTION</p>	 <p>TR MFG. INC.</p> <p><i>has been acquired by</i></p> 	 <p>RAD ELECTRONICS, INC.</p> <p><i>has sold certain assets to</i></p> 
 <p>L-com</p> <p><i>has recapitalized with</i></p> 	 <p>Doe & Ingalls</p> <p><i>has been acquired by</i></p> 	 <p>Milestek</p> <p><i>has been acquired by</i></p> 	 <p>AVTEK INC.</p> <p><i>has been acquired by</i></p> 
 <p>ECL</p> <p><i>has sold certain assets to</i></p> 	 <p>AW DIRECT</p> <p><i>has been acquired by</i></p> 	 <p>EAST HAVEN BUILDERS SUPPLY, INC.</p> <p><i>has been acquired by</i></p> 	

THE INDUSTRIAL DISTRIBUTION TEAM



Todd McMahon, Managing Director

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Todd McMahon possesses over 20 years of transaction, financial services and corporate executive experience. Prior to Capstone, Todd was President of Array Financial Services, a Boston based boutique M&A advisory firm he founded in 2002. He began his career at Putnam Investments, later moving to Bank Boston's investment banking group. Later, Todd served as Managing Director at Ross Crossland Weston/RCW Mirus, where he was responsible for managing the firm's technology investment banking practice. Todd's investment banking experience is complemented by his involvement as an entrepreneur and investor where he was involved in various consolidation transactions, raised over \$30mm of debt and equity financing and was responsible for managing all aspects of operations. He earned his MBA from Boston University and his BA from the University of Massachusetts.



Daniel Schultz, Director of Business Development

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Dan oversees Capstone's national business development and industry coverage activities, working closely with current and prospective clients of the firm on matters related to corporate sales, recapitalizations, mergers & acquisitions and growth financings. In his role, Dan is able to deliver specific market intelligence to clients regarding M&A, financing, strategic, industry and competitive trends. Prior to spearheading the firm's business development and market initiatives, he was a Vice President in Capstone's M&A group, managing numerous successful transactions across a variety of industries. Dan also gained hands-on transaction experience as an investment banker at Headwaters MB. He started his career with Ernst & Young's National Professional AABS practice and later worked in Assurance and Advisory Business Services in the Denver office. Dan received a BE in Biomedical Engineering with a Business Minor from Vanderbilt University. He earned an MBA and a Master of Accountancy from the Daniels College of Business at the University of Denver.



Kyle Wilson, Associate

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Kyle is an Associate with Capstone's Boston investment banking team. He works closely with senior team members and clients to execute corporate finance transactions. Prior to joining Capstone, Kyle worked as an Analyst, and later as an Associate, with BCMS Capital Advisors, a global boutique investment bank with offices in 32 countries. While working at their North American headquarters in New York City, Kyle focused primarily on M&A advisory for private, middle-market companies based in the U.S. and abroad. His experience includes working with businesses in a variety of industries, including manufacturing, distribution, energy, chemicals, business services, healthcare and consumer products and services, as well as cross-border transactions. He holds a BA in Economics from New York University.

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ABOUT CAPSTONE PARTNERS

Capstone Partners LLC is a premier investment banking firm dedicated to serving the corporate finance needs of middle market business owners, investors and creditors. The firm provides M&A, corporate restructuring, private placement and financial advisory services. Headquartered in Boston, Capstone has offices in Chicago, London, Los Angeles, Philadelphia, San Diego, Silicon Valley and Tampa with an international presence that spans 450+ professionals in close to 40 countries.

For more information
about our expertise,
please visit

www.capstonellc.com



Capstone Partners
Investment Banking Advisors

World Class Wall Street Expertise. Built for the Middle Market