

■ *Reports Digest*

Distributors Increase Focus on Cost Reduction, Efficiencies

In distributors' recent earnings calls with analysts, many said they were looking at cost reductions, better training, increasing private label, and considering strategic acquisitions in the next year. The focus will remain on sustaining profitability.

Refocusing on the Workforce

Drug distributor **Owens & Minor** has seen a work force opportunity arising from the economic turmoil: Build on existing resources.

In the last quarter, the drug distributor continued to invest in its employee training program, known as OMU. The program was launched in 2005, and more than 40,000 courses have been completed since its inception.

"We know that our team provides a competitive advantage for us in the field every day, and we will continue to invest in their development," Owens & Minor CEO Craig R. Smith said.

Airgas COO Michael Molinini agrees that continued training of the existing workforce is the best way to "enhance the Airgas customer experience and emerge from this slowdown even stronger than we are today."

Still, even though many recognize the value of ongoing training, many distributors have had to reduce their workforce through layoffs or by attrition and not filling open spots.

That includes Chicago, IL-based facilities maintenance distributor **Grainger** and **United Stationers**. Grainger announced recently it would be eliminating 300 to 400 positions across the company; United Stationers will be eliminating 250.

Those who serve the housing industry continue to be hardest hit. **Builders First-Source** said it cut headcount by 2,100 by the end of 2008, a decrease of 39.3 percent from the start of the year. The building materials distributor and supplier closed or

■ *Sales Trends*

**A Selection of Reports
from Various Wholesale Sectors**

	Current Qtr.	Prev. Qtr.
United Stationers	↑ 2.3%	↑ 12%
Owens & Minor	↑ 13.6%	↑ 7.3%
Motion Industries	↑ 5%	↑ 7%
Reliance Steel & Aluminum	↑ 26%	↑ 42%
Watsco Inc.	↑ 3%	↑ 8.3%
W.W. Grainger	↓ 1%	↑ 11%
Fastenal Co.	↑ 5%	↑ 17.1%
MSC Industrial Direct (1Q)	↓ 1%	↑ 5.8%
Anixter	↓ 2%	↑ 4%
Interline Brands	↓ 7.5%	↓ 3.8%
Praxair	↓ 4.8%	↑ 16%
Avnet (2Q)	↓ 10.2%	↑ 9.7%

Numbers include acquisitions and are not adjusted for currency impacts. Reliance Steel includes the acquisition of PNA Group; United Stationers includes ORS Nasco; Owens & Minor includes The Burrows Company. All current-quarter numbers fourth-quarter 2008 unless otherwise specified. More earnings at www.mdm.com.

"mothballed" 14 facilities during the year.

Applied Industrial Technologies addressed branch closure possibilities. "We look at it on a location-by-location basis.

For example, if we have a large customer that has shut down operations permanently, and if it is a significant portion of that location's business, then those are the situations where we look at merging that location with one that is close by," said Richard Shaw, vice president, communications and learning.

"If business is down overall, we have

continued on next page

About This Report

This is the MDM Public Distributor Report, provided on a quarterly basis to subscribers of Modern Distribution Management. Each quarter, MDM takes a closer look at one distributor.

This quarter, we have chosen to look at how suppliers are faring in the current economic climate and what they are seeing in the diverse end-markets each serves. Read about it on page 3.

On the first page, you will find recent sales figures from various sectors, as well as a Reports Digest, with information you can use from public distributor reports and earnings calls, distilled by MDM.

Each Public Distributor Report will include quarterly Distribution Comparables, the latest numbers for dozens of public distributors across various wholesale sectors, provided by Robert W. Baird & Co.

We hope you will view this quarterly feature as another way to gather ideas, stay on top of the moves of your largest competitors, and hone your business plan.

in some cases reduced the work force and in others we've reduced the work week. ... we're talking all those actions on a case-by-case basis."

Private Label

Airgas, a gases and welding distributor based in Radnor, PA, has been focused on building brand recognition of its private label products, recognizing an increased demand in tough times.

The result: Sales of Radnor products increased 17 percent in the fourth quarter. Sales of those products have a higher gross margin than its other OEM product lines, the distributor says.

United Stationers reported similar growth in its private brand. "Customers used these products to stretch their dollar further," said Victoria J. Reich, senior vice president and CFO.

Owens & Minor continued its push to expand its MediChoice private label. As more hospitals are looking for ways to save money, MediChoice has become a more attractive option within established relationships, said Charles C. Colpo, senior vice president of operations.

Other Initiatives

United Stationers is focusing on reducing unused space in warehouses company-wide.

"We're looking at that constantly, and it's both a combination of looking at warehouses in total, but also across our three businesses we're finding opportunities to move businesses into unused space, and leverage the cost that way as well," said Richard Gochnauer, United Stationers president and CEO.

The newly passed Stimulus Package shows

some promise for some, including HVAC distributor **Watsco Inc.** CEO Albert Nahmad said the legislation will provide tax credits to homeowners for adding energy-efficient air conditioners or furnaces, covering 30 percent of the cost up to a total of \$1,500.

This combined with local and state incentives for consumers to upgrade their AC systems has Watsco optimistic for market growth despite difficult conditions.

End-Markets

Applied Industrial reported 13 of its top 30 industries served by its U.S.-based business declined by double-digits from last year. These included primary metals, cement, forest products, transportation equipment and fabricated metal products.

Overall, 21 of its top 30 industries fell, said Ben Mondics, COO. On the positive side, Mondics said, were coal mining, power generation and food. "All achieved moderate growth," he said. Government sales also improved.

Accounts Receivable

Builders FirstSource reported continued pressure on its accounts receivable. "What you're seeing within the industry is many smaller customers are struggling," said Charles Horn, ... "Many of them are basically heading to what I would call orderly liquidation.

"... Year-over-year, if you look at what happens with delinquency, we have seen about a 5 percent increase in what has slipped into our greater-than-60-day bucket." - *MDM Staff*

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■ *Manufacturer Focus*

Suppliers' View of the Market

Eaton, 3M, Actuant, Kennametal talk end-market strength, weakness, outlook

Manufacturers are reporting slowdowns in nearly all of their end markets and geographies. Here is a synopsis of recent earnings calls.

Rapid Declines

Actuant Corp., Milwaukee, WI, saw rapid shifts in its end-market performance for its first quarter ended Dec. 31, 2008.

Marine truck auto and vehicle-oriented markets – core sales in the euro truck market changed from a positive 5 percent in September to a decline of 7 percent in October and a decrease of 33 percent in November. Maxima, owned by Actuant – a global electronics company focused on vehicle instrumentation, controls, components and systems, went from 10 percent core growth in the fourth quarter to a negative 16 percent in the fiscal first quarter.

Core sales declined in eight of its 10 reportable product lines year-over-year. The only two product lines not seeing a decline were Enerpac and Hydratight, both in Actuant's industrial segment. Actuant's industrial segment saw core growth of 12 percent in the first quarter.

Kennametal Inc., Latrobe, PA, CFO Frank Simpkins said the cutting tool manufacturing also saw sharp declines in the most recent quarter. "The year-to-year decline in organic sales occurred quite abruptly and sharply in the latter part of the December quarter as a result of unusually early and rapid shutdowns of customer plants in combination with swift actions by customers to reduce their inventories," he said in Kennametal's second quarter fiscal 2009 call.

3M, St. Paul, MN, saw one sector with positive organic growth in its fourth quarter 2008: Health Care. Safety and Security was "relatively close," said CEO George Buckley. 3M saw rapid slowdowns in consumer electronics. 3M also had weakness in automotive and telecoms, as well as residential housing. "Overall, we saw all the classic signs one would expect at times like these: Cancel orders, take inventory corrections in the channel, long factory shutdowns, many extending well into January, layoffs and overall weak business conditions," Buckley said.

Global View

Eaton Corp., Cleveland, OH, provided its assumptions based on various forecasts for the next year. It reported it believes that the U.S.

GDP will decreased between 2 percent and 3 percent in the full year 2009, U.S. manufacturing production will decline 7 percent, and that European Union's economy will decline 2 percent. China is to remain positive, around 6.5 percent, and the supplier said it sees a decline of 4 percent for Japan, flat growth for Brazil and an increase for India at 5 percent.

"We do not anticipate any form of strong snap back in the second half," said Eaton CEO Alexander Cutler.

"We think this is going to be a very, very weak year of demand around the world."

For Eaton's 2008 fiscal year, hydraulics was at a negative 20 percent in North America due to a pullback in industrial capital spending, lower demand for construction equipment and weakness in the agricultural sector, according to Cutler. In the rest of the world, hydraulics saw an 11 percent decrease.

Aerospace saw 4 percent growth, largely due to the end of the Boeing strike. Eaton saw a 3 percent decline outside of the U.S. in this area. Eaton's truck index was down 19 percent in the U.S., and 11 percent out of the U.S.

"We're thinking the North American heavy duty market will probably be in a range of 155,000 units in 2009, significantly below the 2008 level," Cutler said. Automotive was down 18 percent in the U.S., and 13 percent outside of the U.S.

For the outlook, Cutler expects that U.S. markets will be down about 9 percent to 10 percent in 2009; outside of the U.S. will be down 6 percent to 7 percent.

Outlook

Kennametal offered its outlook for the rest of the year.

The company forecasts global industrial production will remain below last year, likely in the same range of the second half of the latest quarter. Automotive production will remain weak worldwide. Energy markets will weaken somewhat.

Aerospace will continue growth, but at declining rate. Foreign currencies will be similar to the average levels in the latest quarter. Bank lending will remain tight, which will result in "suppressed capital investment and high incremental borrowing costs." - *Lindsay Young*

Distribution Financial Metrics and Trading Multiples

(Data as of December 31, 2008)

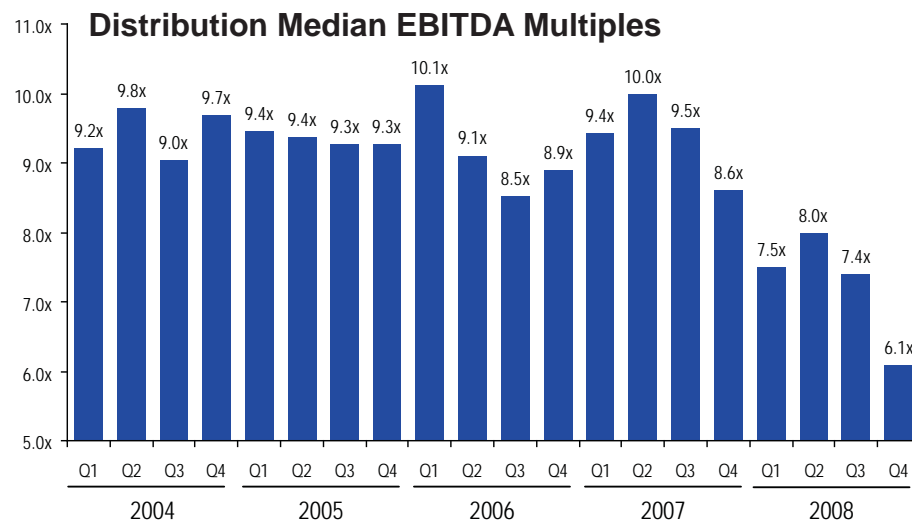
(\$ in millions)

Company	Ticker	Enterprise Value	LTM					EV to LTM Sales	EV to LTM EBITDA	ROIC	Working Capital/Sales
			Sales	Sales Growth	Gross Margin	EBITDA	EBITDA Margin				
Airgas Inc. *	ARG	\$4,953	\$4,373	22.7%	52.0%	\$739	16.9%	1.1 x	6.7 x	9.9%	6.6%
AM Castle & Co.	CAS	378	1,502	5.7%	15.4%	90	6.0%	0.3	4.2	7.8%	19.2%
Anixter International Inc. *	AXE	2,189	6,170	9.0%	23.8%	497	8.1%	0.4	4.4	13.1%	26.8%
Applied Industrial Technologies Inc.	AIT	852	2,115	3.7%	27.1%	166	7.9%	0.4	5.1	16.8%	15.1%
Barnes Group Inc. *	B	1,226	1,468	4.1%	38.0%	229	15.6%	0.8	5.3	11.7%	21.4%
Beacon Roofing Supply Inc. *	BECN	974	1,784	8.4%	23.5%	129	7.2%	0.5	7.6	7.7%	15.1%
BlueLinx Holdings Inc.	BXC	463	3,057	(23.5%)	10.9%	11	0.3%	0.2	N/M	N/M	12.6%
Builders FirstSource, Inc. *	BLDR	263	1,168	(32.4%)	22.0%	(42)	(3.6%)	0.2	N/M	N/M	12.1%
Building Materials Holding Corp.	BLGM	314	1,601	(32.5%)	17.9%	(42)	(2.6%)	0.2	N/M	N/M	12.5%
Bunzl plc	BNZL	3,888	7,599	9.6%	23.4%	559	7.3%	0.5	7.0	12.8%	6.1%
DXP Enterprises Inc.	DXPE	357	712	100.5%	27.6%	56	7.8%	0.5	6.4	9.6%	19.6%
Fastenal Co. *	FAST	5,124	2,315	16.2%	52.3%	481	20.8%	2.2	10.6	25.5%	32.7%
Genuine Parts Co.	GPC	6,480	11,122	3.4%	29.7%	938	8.4%	0.6	6.9	17.4%	23.1%
Houston Wire & Cable Company *	HWCC	209	375	6.3%	24.3%	46	12.4%	0.6	4.5	23.9%	29.6%
Huttig Building Products Inc.	HBPI	35	725	(21.7%)	19.0%	(14)	(1.9%)	0.0	N/M	N/M	9.3%
Interline Brands Inc. *	IBI	723	1,218	(1.1%)	38.2%	119	9.8%	0.6	6.1	8.1%	26.2%
Kaman Corp.	KAMN	548	1,209	13.7%	27.0%	86	7.1%	0.5	6.4	8.8%	26.0%
Lawson Products Inc.	LAWS	199	499	(2.5%)	57.8%	41	8.2%	0.4	4.8	13.6%	17.5%
MSC Industrial Direct Co. Inc. *	MSM	2,483	1,780	5.4%	46.2%	347	19.5%	1.4	7.2	22.2%	26.1%
Park-Ohio Holdings Corp.	PKOH	419	1,067	(2.5%)	14.6%	69	6.5%	0.4	6.1	7.0%	24.9%
Pool Corp *	POOL	1,174	1,825	(6.2%)	28.4%	132	7.2%	0.6	8.9	12.4%	18.2%
Reliance Steel & Aluminum Co.	RS	3,699	8,282	16.2%	25.7%	961	11.6%	0.4	3.8	11.7%	24.7%
Rexel SA	RXL	6,216	17,114	12.3%	24.2%	1,045	6.1%	0.4	5.9	6.9%	15.1%
Smith International Inc.	SII	8,912	10,012	18.3%	32.5%	1,793	17.9%	0.9	5.0	15.0%	33.5%
Watsco Inc. *	WSO	1,127	1,763	1.3%	25.9%	112	6.3%	0.6	10.1	10.5%	21.5%
WESCO International Inc. *	WCC	1,915	6,170	4.8%	19.8%	394	6.4%	0.3	4.9	14.3%	13.2%
Wolseley plc	WOS	7,658	32,787	(0.5%)	27.7%	1,809	5.5%	0.2	4.2	4.6%	11.1%
WW Grainger Inc. *	GWW	6,159	6,869	9.6%	42.5%	908	13.2%	0.9	6.8	20.6%	16.0%
Median		\$1.151	\$1.805	5.1%	26.4%	\$149	7.6%	0.5 x	6.1 x	12.0%	18.7%

* = Companies covered by Baird Research

The table above highlights key financial metrics and trading multiples for 30 publicly traded distributors in the industrial and building products industries.

The table below illustrates historical median EBITDA multiples for the above companies calculated using LTM EBITDA as of the quarter shown and the enterprise value as of the last day of the quarter. Please see Definitions at bottom of page.



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Definitions. **LTM** means latest twelve months. **Enterprise Value** ("EV") means market capitalization of a company's equity plus preferred stock plus total interest bearing debt (including capitalized leases) net of any cash or cash equivalents. **EBITDA** means earnings before interest, taxes, depreciation and amortization. In certain cases earnings have been adjusted for certain disclosed income or expense items considered to be non-recurring in nature. **ROIC** means return on invested capital and is defined as tax-effected EBIT divided by the sum of the book value of equity plus net debt. **Working Capital** is calculated as current assets, less cash, minus current liabilities excluding short-term borrowings and current portion of long-term debt.