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■ MDM Interview

HD Supply: After the Deal

CEO Joe DeAngelo talks about the distributor's vision, post-Home Depot

HD Supply, Atlanta, GA, now separated from its parent company, The Home Depot, is ready to move forward as a focused organization after the ups and downs of 2007. HD Supply's CEO Joe DeAngelo spoke recently with MDM on the distributor's plans to stay on the acquisition trail, the company's strategy for integrating acquired companies, its plans for private label and green, and how he views the current economic situation.

MDM: How did the past year of not knowing the direction of the company in terms of ownership affect HD Supply and its ability to execute its strategy?

Joe DeAngelo: The good news is that we got through it all. We woke up the first part of 2007 and find out we're not selling mid-February, and you go with the flow with that and then find out when you're just about sold you have a liquidity crisis, and the deal is going back and forth, and on top of that you have a major residential downturn to contend with. It was a lot going into '07. We were looking forward to 2008. And we had a good February and we're having a good March.

MDM: How did you communicate with your customers during this time?

JD: For us it was most important that our customers knew there were no changes.

Certainly as you go through these things, a lot of rumors float through the marketplace, and the competition takes advantage, so you have to make sure your customers know the truth. You have to everyday do a little more for them. Although there were massive distractions, I couldn't be prouder of how my team dealt with this.

MDM: Post-Home Depot, what is your vision for this company?

JD: We're a natural consolidator in the industry. We did shed one business, the lumber business, with which we had a No. 6 position in two states. That business would have required a massive investment to become a No. 1 or 2 and would have been a cash drain for the other businesses. We did that very early and effectively and to a business (ProBuild Holdings) we believe in allow our associates to have long-term success.

MDM: What is the difference for HD Supply under private equity ownership versus ownership under Home Depot?

JD: The primary difference is that now this is the entire business, so you don't have to worry about any other pieces and parts. As a business leader, it's nice to have clarity and it's a pure professional business.

Private ownership is also just an easier way to run the business. Everybody on my board is an owner, and I myself and my leadership team are big owners. We all have money in the deal and we're all interested in succeeding. We have a very concentrated ownership structure that allows you to have everybody that's an owner to participate in the decision-making.

MDM: Is the next step a public offering?

JD: That is probably the most likely option. Given the size we will probably be it would be difficult for someone else to swallow us. We're building the company to last forever, so if we happen to become

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public in five years, there will be a number of initial investors who will stay in. Hopefully an IPO would be a natural transition to a more diverse ownership structure.

MDM: Some in the industry thought that HD Supply's impact on the industry would lessen after Home Depot divested the unit.

JD: The way I look at it, I am 100-percent dedicated to HD Supply and so is my team. We've got the portfolio we like, and we're well capitalized because the purchase price went down significantly (from \$10 billion to \$8.5 billion).

So we have the head room to grow, and we're in no way, shape or form worried about keeping the lights on. We're really focused on just driving the business hard and doing a good job for the customers out there.

MDM: What does it mean that Home Depot still holds a 12.5 percent interest in HD Supply?

JD: It's mainly a financial interest. No board seat is associated with it. Home Depot is a customer of ours, and there's a good relationship there, but no controlling right or decision-making they're involved with on a daily basis.

MDM: How will HD Supply keep focus despite the fact you are spread across so many areas?

JD: Our lines of business are very independent. Their job is to be the best waterworks business, the best electrical business, best construction supply business, and so on.

That's what they do and that's how they are structured. They focus on nothing but doing that. On the top of that they're enabled to be better businesses because centrally we have expertise in finance, IT and human resources.

The businesses have the capability to have one of their brother or sister companies figure something out and then be the benefactor of that work. They don't have to put in the capital or the human capacity, which makes them faster and better than a peer.

The key is not to overcomplicate it, to do too much centrally, and make sure there is incredible independence in each unit. But at the same time, it's important to make sure there are certain things the business leaders don't have to worry about. They don't need to worry about making payroll, for example.

MDM: What did Home Depot ownership do for HD Supply?

JD: The Home Depot ownership was incredible for us. It allowed us to do a lot of things very rapidly. We were very well funded and able to focus a ton of energy on getting acquisition integrations done right. We also put a tremendous amount of money into digitization, safety and suite management to make us a stronger business. All that work is a carry-forward. Not only are we in a better capital position, because we've already spent the money, we're in a better HR position – because that project work is behind us so we can focus 100 percent on the customer.

MDM: How does HD Supply approach integrating the companies it acquires?

JD: That is the ultimate challenge. If you're not good at it, you shouldn't do it because you will lose your value. For us it is an extreme core competency. We're very rigorous in two aspects of integration.

The first – How do you get cultural alignment? That's the harder one. If you don't have cultural alignment, you should walk away from an acquisition. I always make sure I have direct contact with the executive team. I ask the field leadership to come into a central location, have dinner with them the night before, and I get to know everybody casually. And the next day we do one-on-ones with critical field leadership.

By the time you're done with that day, they know what you're about and you know what they're about. We always ask one simple question up front – what should we not change? What's your secret sauce? So we can write it on the wall and not change it. If it's something we have to change, then we most likely have to walk away from the deal. The level of rigor we apply is extreme.

The guy we have running our strategic business development and integration team is a nuclear scientist by training. He knows complex things but he also knows how to simplify things. We don't mess up. When we convert somebody's benefits, we get it right. When we convert someone's payroll, we get it right. All of those things that can create great consternation with people, we create two safety valves. One is personal access to me and the leadership team so we can answer any questions up front.

And if you hear any rumors we can squash them. If there are concerns that something good will go away, we can make sure it doesn't. And two, extreme execution. So that we can make sure that what we say we're going to do, we'll do with a level of excellence. That's the key to

doing integrations.

MDM: Does HD Supply plan to make any more divestments?

JD: We have no plans to divest any other piece.

MDM: What are your plans for acquisitions?

JD: Primarily smaller bolt-ons for 2008. In White Cap, there are plenty of opportunities. Our waterworks business includes waterworks and fire protection.

We really like the fire protection business – it is growing organically and we will continue to acquire within that space. In facilities maintenance and utilities, there are great adjacent business models they could get into.

A lot of great folks out there have built good businesses and may be at the point or time in their careers to make a transition with a natural buyer, to make sure their associates stay on a path to continue their success. When I talk to private owners – that's what they care about. They care about landing associates with a plan that will give them great opportunities.

MDM: How do you view the current economic situation?

JD: This is a tough economic situation, and we did not kid ourselves coming into '08. we predicted it would be a down market – certainly residentially – from what it was in '07 and '07 was a down market from '06. We took all the right action in '07 to right-size ourselves. By the same token, we have businesses that are off the charts, and we have been growing employment in those businesses.

When the market is favorable – we make sure we staff favorably and take advantage of that, and when the market is unfavorable we made sure we take aggressive action but also make sure we don't have death by a 1,000 cuts. 2008 is the year of the customer for us. That is all we're going to focus on.

MDM: What are HD Supply's plans for private label?

JD: We will have two proprietary brands: Seasons, which will cover consumer-oriented products like faucets or others inside a home; and Brigade, covering heavy professional brand that you'd see on job sites. White Cap will probably be the leader with the Brigade brand. And our facilities maintenance business will take the lead with Seasons, but the brands will go across

The Makeup of HD Supply

HD Supply works in three sectors:

Infrastructure and Energy

- **Includes:** Waterworks, Utilities, Electrical, Industrial PVF

"We see it as having endless demand," DeAngelo says. "Every element of infrastructure in the U.S. and Canada is aged. Its useful life has passed or will be." Industrial PVF is a good area for HD Supply, DeAngelo says, because "with oil over \$100 a barrel" the energy and chemicals sectors are strong.

Maintenance Repair & Improvement

- **Includes:** Facilities Maintenance, Distribution Services, Repair/Remodel
- HD Supply's facilities maintenance business, in addition to servicing multi-family housing market, is also growing in health care and hospitality to adjacent segments.

HD Supply's distribution services business mainly supplies Home Depot. And its repair/remodel business is contractor-oriented and primarily on the West Coast. "What that sector benefits from is that it has some great break-fix economics," DeAngelo says. "The key is to always be in stock with the product required to fix anything."

Specialty Construction

- **Includes:** White Cap Construction Supply, Creative Touch Interiors, Plumbing

White Cap focuses on concrete applications, heavy contractor tools, residential fasteners, specialty fasteners for seismic and hurricane zones, and waterproofing. Also in this segment is Creative Touch Interior.

all of our businesses.

We're not moving away from national brands. But we want to have something in our sales kit that the other folks don't have and that we're able to, wherever there is a value gap, fill it so that our customer is never without.

MDM: Do you believe the term 'private label' has a negative connotation?

JD: I think normally what private label does is says you're trying to make something that you're going to price less than other guys. And that's not our intent. Our intent is to be price-competitive but make sure we are paid for the features and value we're bringing to market.

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