



C L E V E L A N D
R E S E A R C H C O M P A N Y

Industrial Distribution Industry Trends

Monthly Distributor Survey Summary

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Important Disclosures found in Appendix

October 2015



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Industrial Distribution Industry Survey

September Sales Decline 8%, Forecasts Decline



September 2015 Sales Trends

- ▶ Distributors on average reported a decrease of 8% in daily sales y/y in September, a deterioration from a 6% decline in August.
- ▶ 33% of distributors reported higher sales in September, an decrease from August.
- ▶ A net 39% of distributors missed their sales budgets in September. Every month in 2015 has come in below forecast on a net basis.

Private Industrial Distributor Survey: Monthly Sales Trends															
% of Contacts	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
% Higher y/y	83%	50%	74%	83%	57%	74%	55%	48%	52%	38%	59%	29%	27%	35%	33%
% Flat	9%	32%	26%	17%	22%	17%	30%	28%	30%	19%	23%	19%	27%	12%	39%
% Lower y/y	9%	18%	0%	0%	22%	9%	16%	24%	17%	43%	18%	52%	45%	53%	28%
Net % (Higher - Lower)	74%	32%	74%	83%	35%	65%	39%	24%	35%	-5%	41%	-24%	-18%	-18%	6%
Average Sales Growth y/y	9%	9%	9%	8%	9%	9%	9%	5%	1%	1%	1%	-3%	-5%	-6%	-8%
Net Sales vs. Plan	17%	-5%	16%	27%	8%	22%	-10%	-20%	-4%	-29%	-50%	-10%	-23%	-61%	-39%

Source: Cleveland Research surveys, adjusted for selling days



End Market Trends

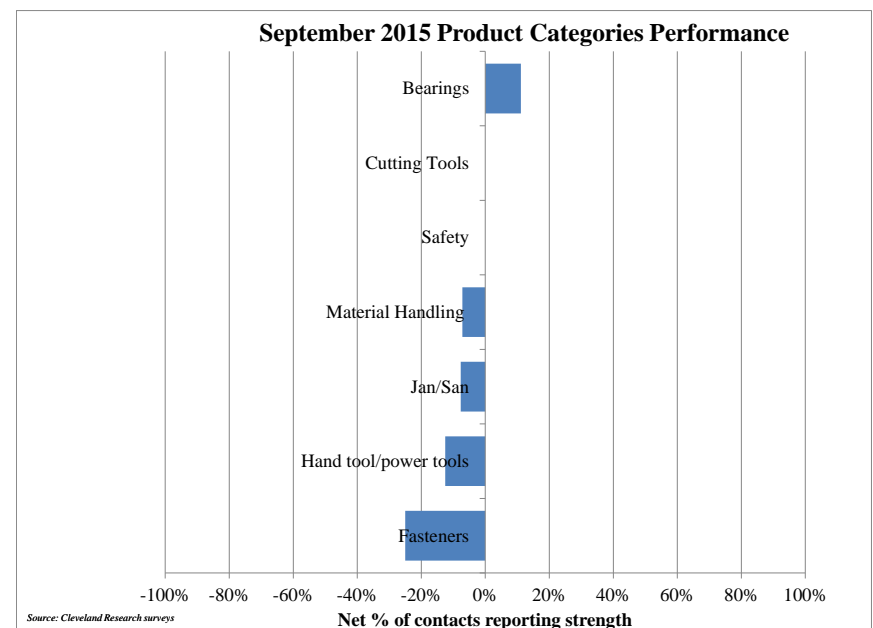
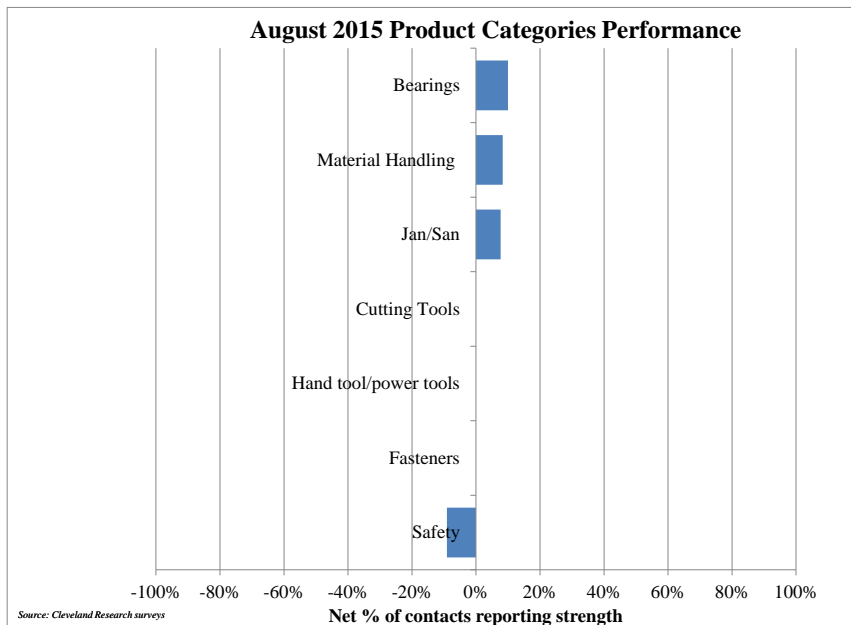
- ▶ Automotive, medical and aerospace produce remain strong end markets, consistent with the past few months. Notably utility was reported as the second strongest end market after being on of the weaker markets in August.
- ▶ Mining/aggregate, oil & gas, primary metals, machine tool, paper, heavy truck, job shops, government, and lumber and wood remain weak.

Cleveland Research Industrial Distribution Survey - Demand By End Market													
Net % Reporting Strong	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Automotive	47%	47%	47%	45%	47%	32%	44%	29%	39%	50%	38%	14%	27%
Utility	22%	9%	0%	0%	20%	31%	-10%	-10%	-17%	0%	18%	-11%	20%
Medical	54%	29%	25%	41%	43%	41%	33%	13%	33%	42%	27%	20%	15%
Aerospace	31%	50%	47%	62%	42%	53%	46%	54%	14%	43%	57%	42%	14%
Food Products	27%	42%	0%	0%	0%	33%	44%	8%	27%	44%	20%	10%	11%
Contractor	11%	0%	9%	9%	-10%	-7%	9%	0%	-9%	11%	10%	0%	9%
Lumber and Wood	0%	9%	0%	-25%	-10%	0%	-11%	-33%	-30%	-14%	-20%	-13%	-17%
Government	-9%	-7%	0%	-23%	-36%	-23%	-45%	-25%	-38%	-30%	-33%	-40%	-18%
Job Shops	22%	47%	41%	50%	6%	24%	5%	-5%	-25%	0%	-17%	-20%	-29%
Heavy Truck	11%	31%	12%	21%	0%	8%	14%	0%	0%	0%	0%	-21%	-33%
Paper	-10%	-18%	-8%	-22%	-10%	-7%	-44%	-30%	-22%	-50%	-38%	-29%	-44%
Machine Tool	33%	37%	30%	47%	20%	26%	20%	13%	0%	0%	-7%	-8%	-53%
Primary Metals	33%	43%	33%	25%	13%	20%	-29%	-22%	-50%	-60%	-38%	-67%	-70%
Oil & Gas/ Petrochem	40%	38%	23%	20%	-29%	-36%	-81%	-85%	-85%	-85%	-82%	-69%	-91%
Mining/Aggregate	-14%	13%	-31%	-27%	-10%	-38%	-42%	-58%	-70%	-63%	-86%	-88%	-100%

Source: Cleveland Research Company

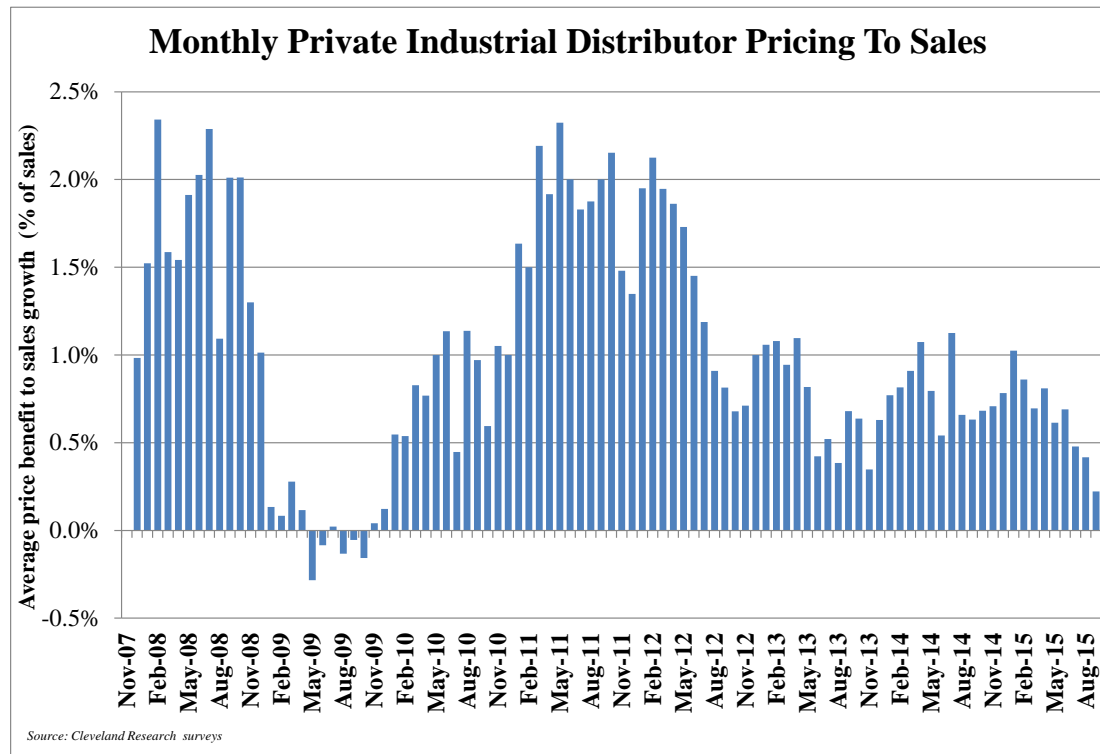
Sales by Product Type

- ▶ Bearings are reported as the strongest selling product category in September, consistent with August. No other category was reported as strong.
- ▶ Fasteners were reported as the weakest selling product category in September, with a net 25% reporting weakness. Hand tools, jan/san, and material handling were, also, reported as weak in the month.



Pricing Trends

- ▶ Pricing remains muted at under a 1% contribution to revenue growth. September took a step down to flat inflation, the lowest reading reported since December of 2009.





Sales Growth Outlook

- ▶ The 2015 outlook declined to 0% growth, coming down from full year expectations of 6% coming into 2015.
- ▶ Only 39% of distributors forecast full year sales growth in September, the seventh monthly decline. This compares with 80% in 1Q15, 67% in 2Q15, and 47% in 3Q15 overall.
- ▶ The outlook implies a required return of 2% growth for the remainder of the year to achieve the flat sales growth target.
- ▶ The 2016 outlook declined to 2% growth vs the 3% growth forecast in August.

Private Industrial Distributor Survey: 2015 Sales Growth Outlook													
% of Contacts	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Higher sales y/y	95%	95%	88%	96%	79%	83%	78%	70%	67%	65%	55%	47%	39%
Flat sales	5%	5%	13%	4%	16%	8%	9%	20%	24%	25%	23%	24%	39%
Lower sales y/y	0%	0%	0%	0%	5%	8%	13%	10%	10%	10%	23%	29%	22%
Net % (Higher - Lower)	95%	95%	88%	96%	74%	75%	65%	60%	57%	55%	32%	18%	17%
Average Forecast	7%	7%	7%	7%	6%	6%	6%	5%	4%	4%	3%	1%	0%

Source: Cleveland Research surveys



Macroeconomic Indicators

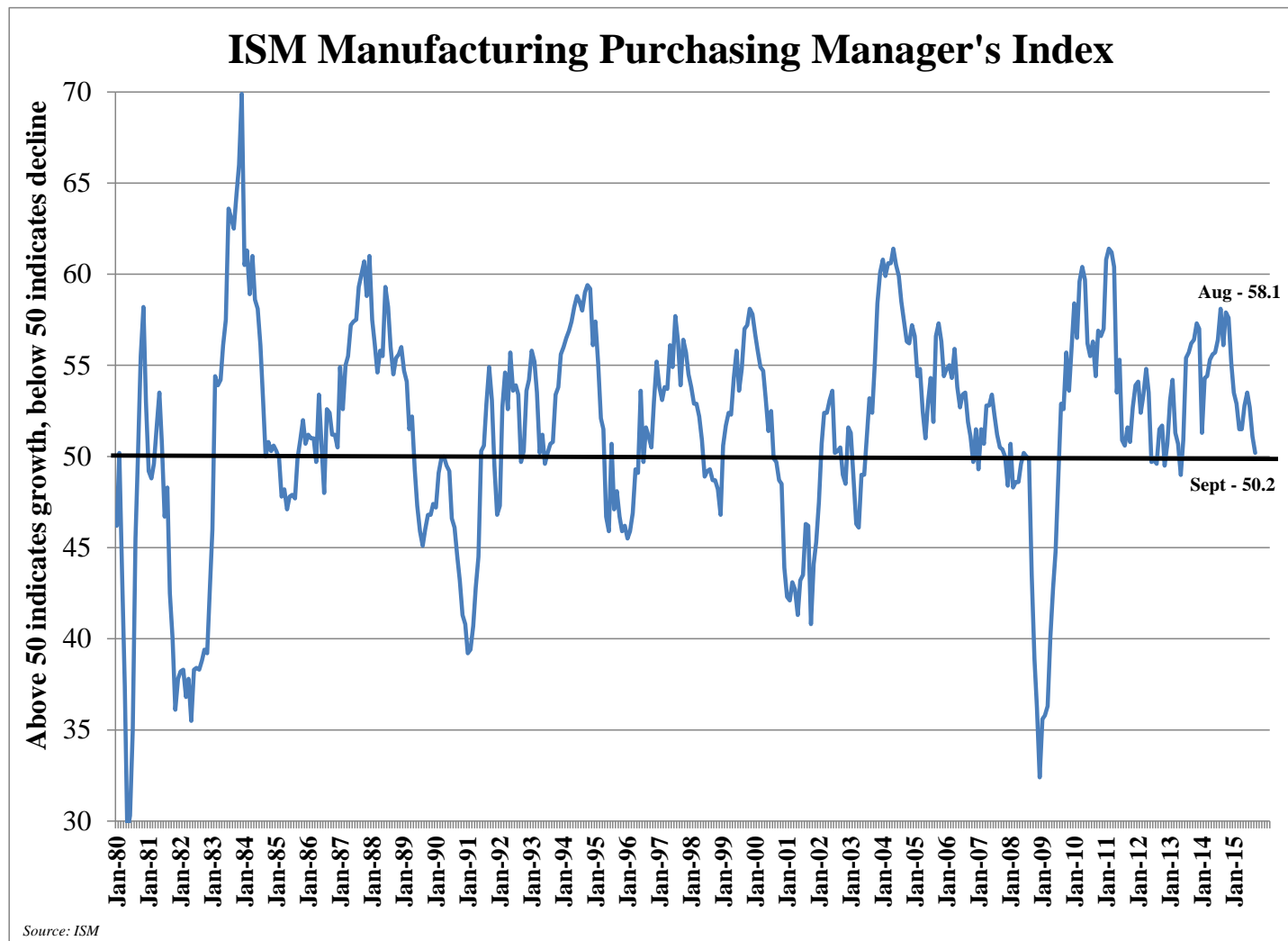


ISM, Industrial Production, Capacity Utilization, and Employment Data

ISM Purchasing Manager Index: September Declines to 50.2



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ISM Purchasing Manager Index: End Market Ranking



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ISM Manufacturing End Market Momentum

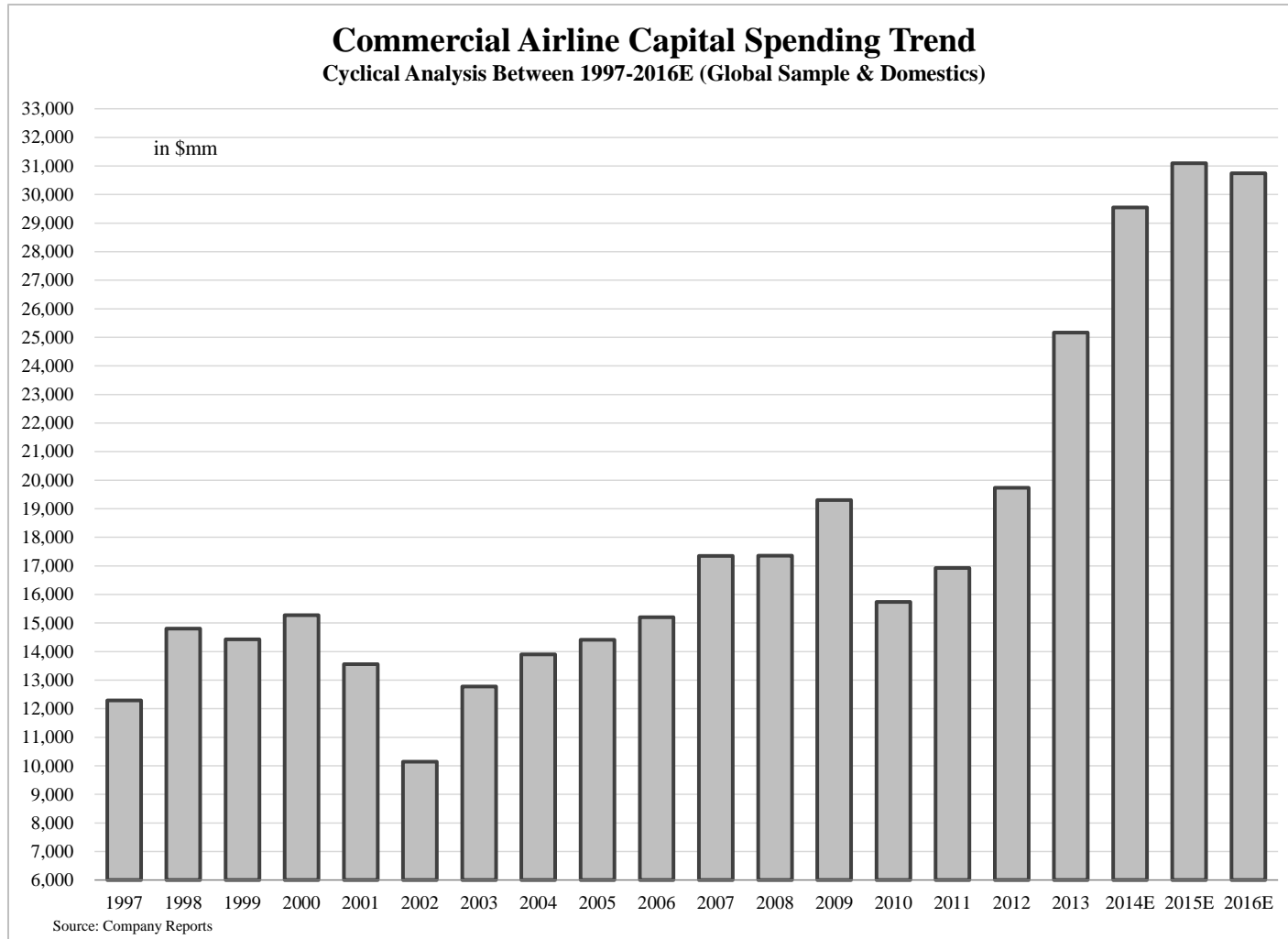
Major End Market (rank order)	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
Printing, related support activities	↑	↑	↑	↑	↑	↑	↑	↔	↑	↑	↔	↑	↔	↑
Textile mills	↓	↑	↑	↑	↑	↓	↓	↓	↑	↓	↔	↑	↑	↑
Furniture and related products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Paper products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Nonmetallic mineral products	↑	↑	↑	↑	↓	↓	↑	↑	↑	↑	↑	↑	↑	↑
Food, beverage and tobacco products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑
Miscellaneous manufacturing	↑	↑	↑	↑	↑	↑	↑	↓	↑	↑	↑	↑	↑	↔
Chemical products	↑	↑	↑	↔	↓	↑	↑	↑	↑	↑	↑	↓	↑	↔
Transportation equipment	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↓
Plastics and rubber products	↑	↓	↑	↑	↓	↔	↔	↓	↑	↑	↓	↓	↑	↓
Fabricated metal products	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓
Computer and electronic products	↑	↑	↑	↔	↓	↑	↓	↑	↓	↓	↑	↔	↓	↓
Machinery	↑	↓	↑	↑	↓	↑	↑	↑	↑	↑	↑	↓	↑	↓
Electrical equipment, appliances, components	↑	↓	↑	↑	↑	↑	↑	↓	↑	↑	↓	↓	↓	↓
Wood product	↑	↑	↔	↔	↓	↑	↔	↑	↑	↔	↑	↓	↔	↓
Petroleum and coal products	↑	↑	↓	↑	↑	↑	↔	↓	↔	↔	↓	↔	↓	↓
Apparel, leather and allied products	↑	↑	↑	↓	↔	↔	↓	↓	↓	↑	↔	↑	↓	↓
Primary metals	↑	↑	↑	↑	↑	↑	↑	↑	↑	↑	↓	↓	↓	↓
Statistics	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
% Better	94%	83%	89%	78%	61%	78%	67%	61%	83%	78%	61%	61%	56%	33%
Unchanged	0%	0%	6%	17%	6%	11%	17%	6%	6%	11%	17%	11%	11%	11%
% Worse	6%	17%	6%	6%	33%	11%	17%	33%	11%	11%	22%	28%	33%	56%
Net % of Industries Improving	89%	67%	83%	72%	28%	67%	50%	28%	72%	67%	39%	33%	22%	-22%
PMI	58.1	56.1	57.9	57.6	55.1	53.5	52.9	51.5	51.5	52.8	53.5	52.7	51.1	50.2

Source: Institute for Supply Management

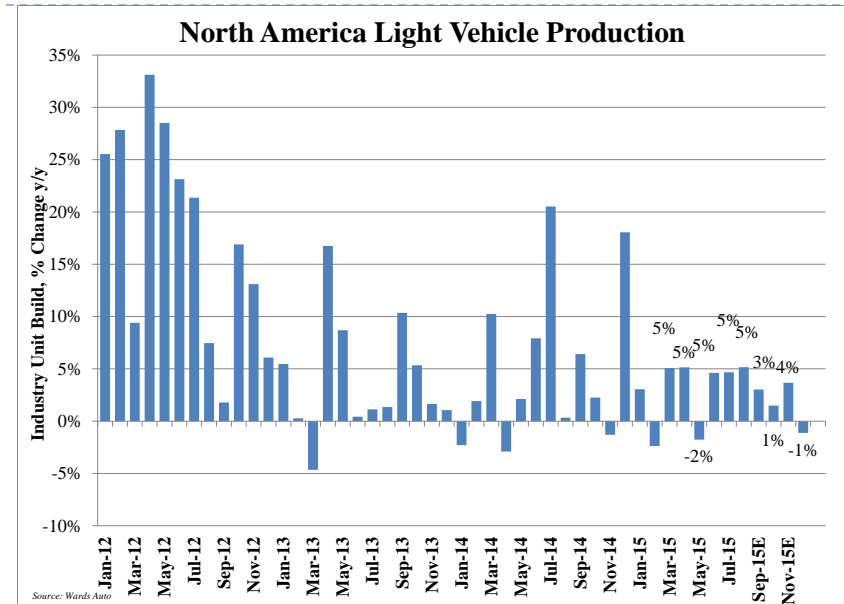
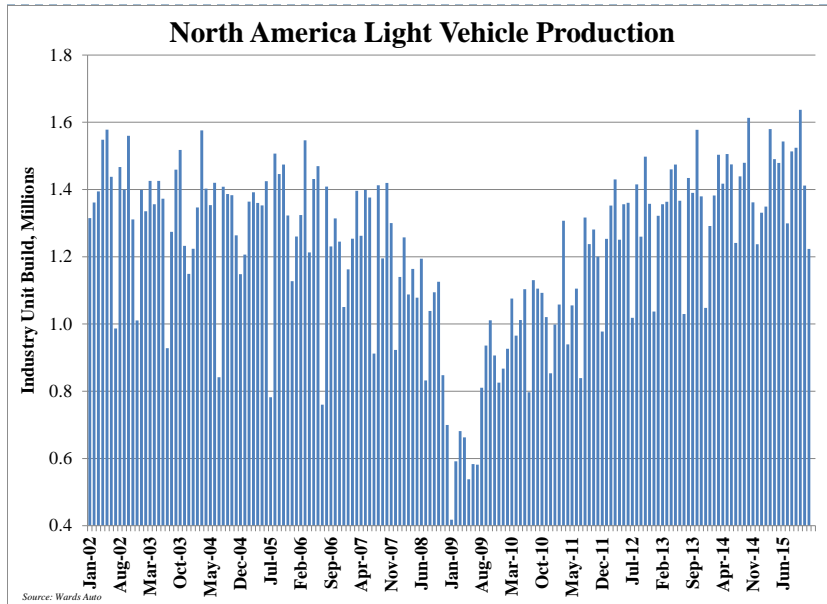
Manufacturing Industry End Market Data

Aerospace, Automotive, Heavy Truck, Farm Equipment, and Mining Equipment

Commercial Aerospace: Airline Capital Spending Plans



Automotive: Sales Rise 1.8% y/y in Sept.



Wards Vehicle Production Outlook

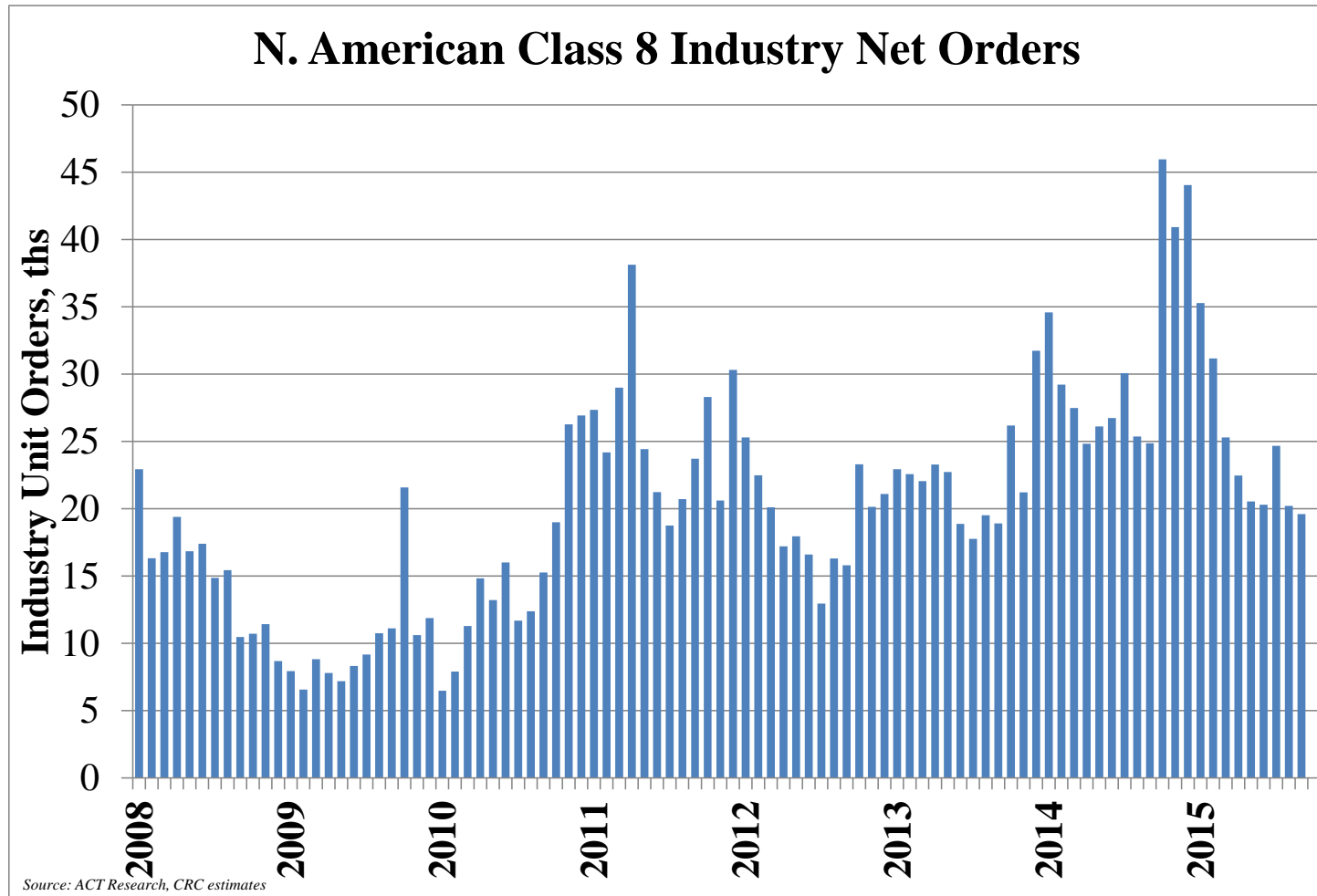
Units thousands	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15E	2013	2014	2015E	2016E
United States	2,845	2,956	2,798	2,765	2,877	3,080	2,937	2,846	10,816	11,364	11,740	11,514
Canada	561	626	571	624	538	555	568	604	2,370	2,382	2,265	2,101
Mexico	770	816	791	816	845	878	831	822	2,911	3,193	3,377	3,893
Total NAFTA Build	4,177	4,398	4,160	4,205	4,260	4,512	4,337	4,272	16,097	16,939	17,381	17,508
% change y/y												
United States	6%	3%	9%	3%	1%	4%	5%	3%	7%	5%	3%	-2%
Canada	-3%	0%	3%	2%	-4%	-11%	-1%	-3%	-3%	1%	-5%	-7%
Mexico	6%	8%	8%	17%	10%	8%	5%	1%	2%	10%	6%	15%
Total NAFTA Build	4%	4%	8%	5%	2%	3%	4%	2%	5%	5%	3%	1%

Source: Wards, Cleveland Research. September 28, 2015

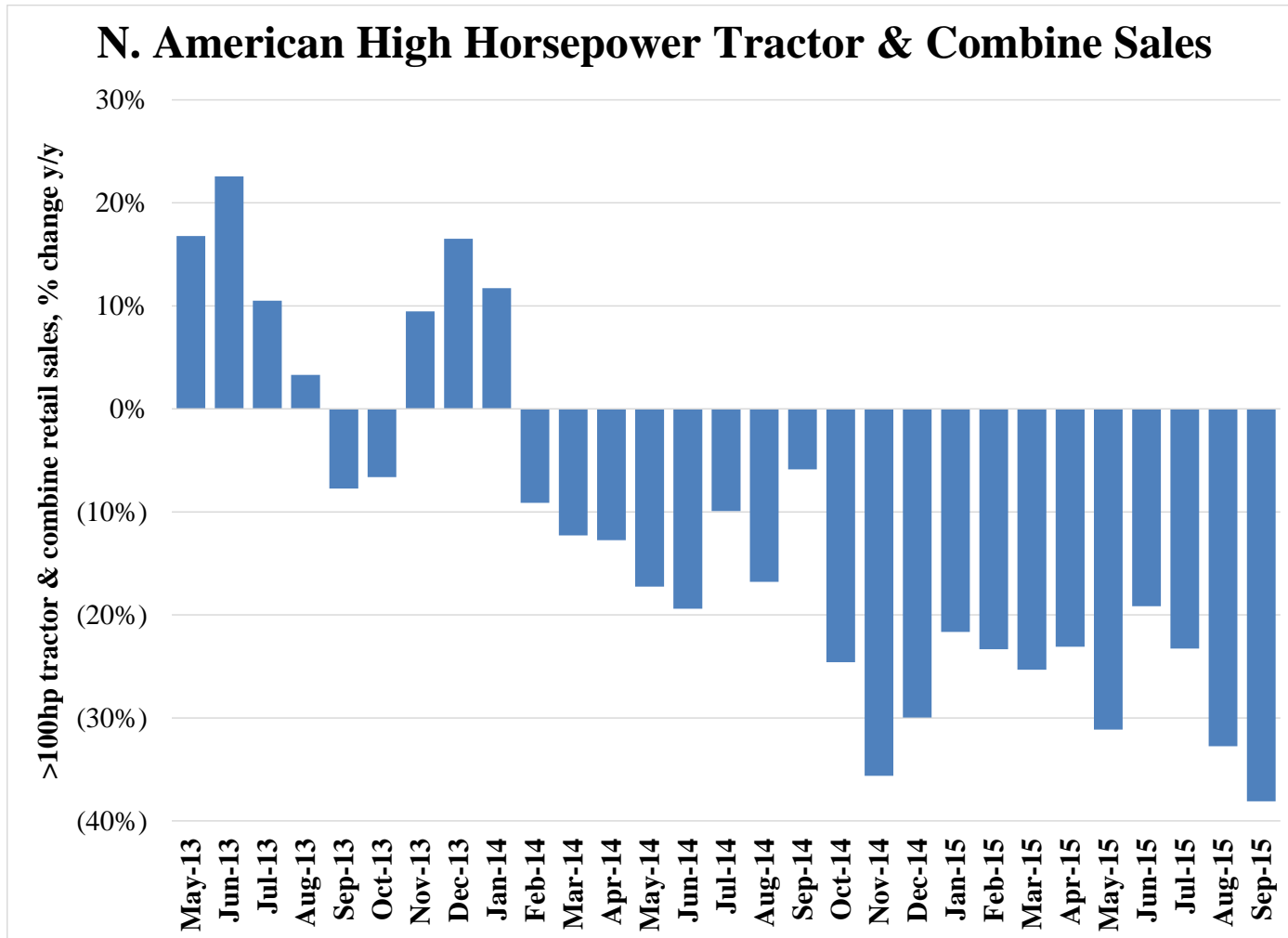
Memo:
Canada 2Q15
impacted by
Chrysler
changeover.

Heavy Duty Truck:

September Orders Fall 21% y/y, decrease 3% Sequentially



Farm Equipment: Sales Forecast ↓ 25-30% in 2015

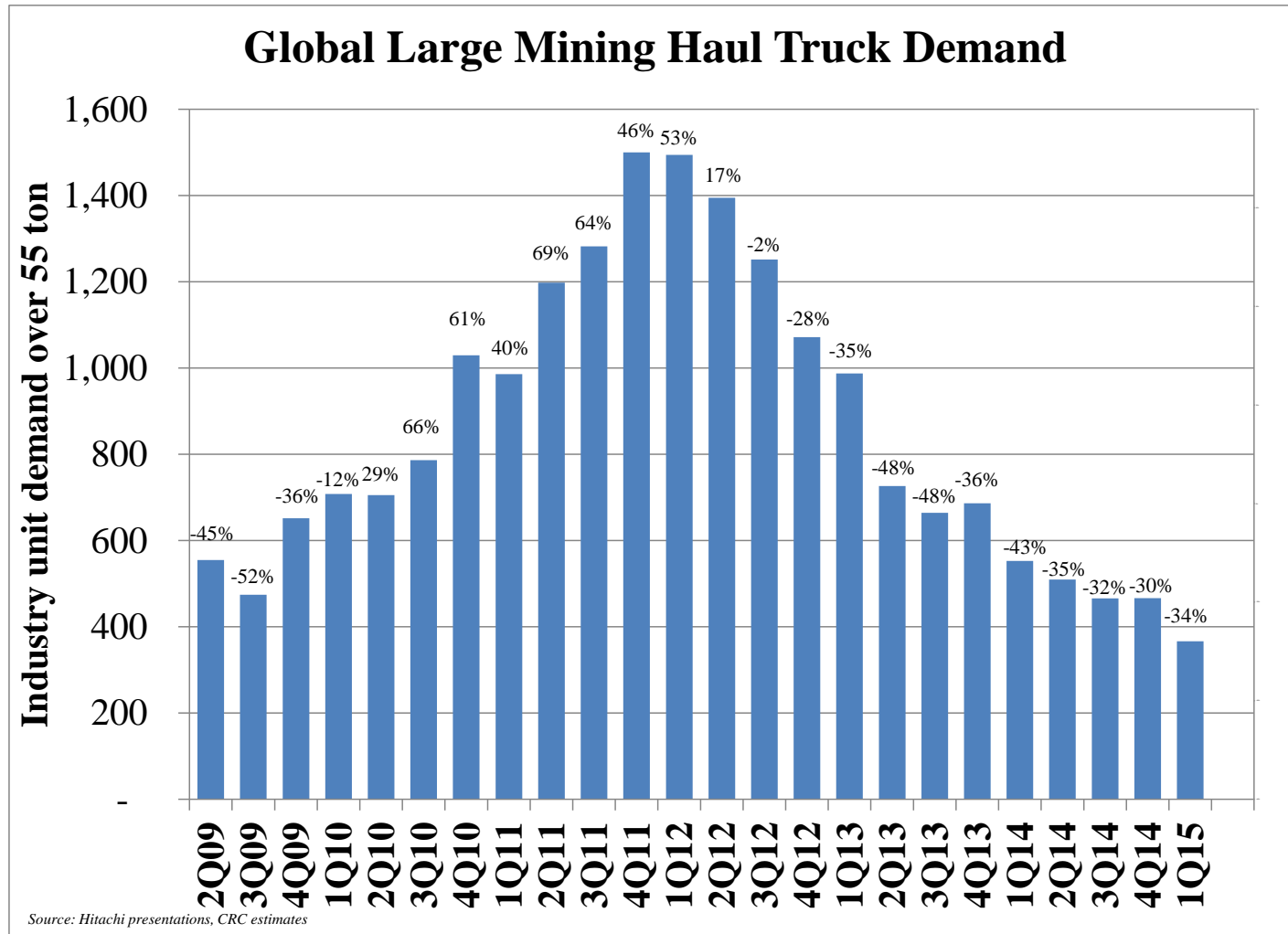


Source: AEM

Global Mining Equipment: +10% Declines Expected in 2015



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Industrial Distribution Industry Overview

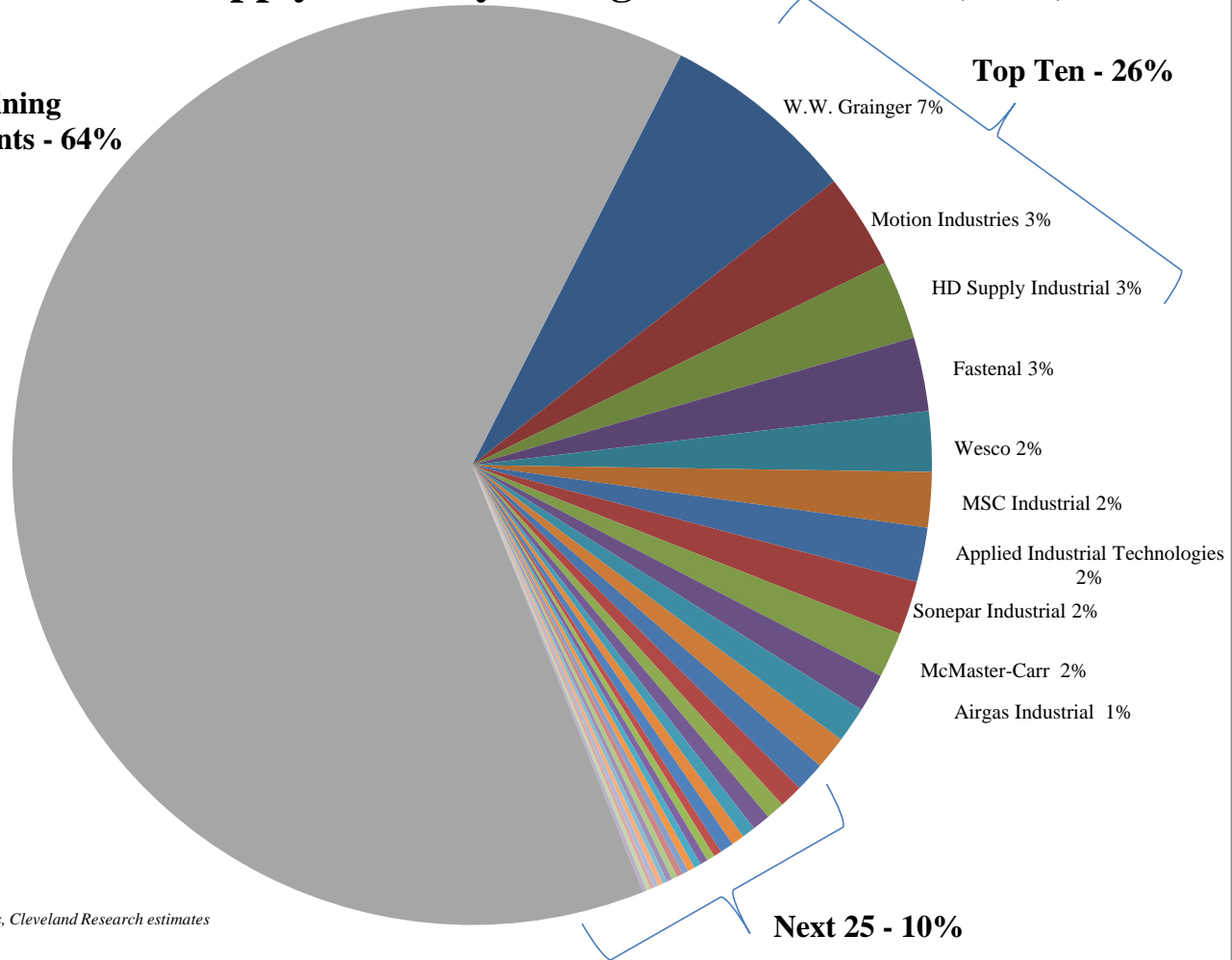
Industry Size, Public Distributor Growth Trends, Acquisition Multiples

Industrial MRO Industry: ~\$140 Billion Industry



Industrial Supply Industry - Largest Distributors (2014)

Remaining
Independents - 64%



Source: Company reports, Cleveland Research estimates



Publicly Traded Distributor Organic Sales Trends



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Industrial Distributor Organic Sales Growth Rates																			
Organic Sales Growth %	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	2008	2009	2010	2011	2012	2013	2014	08-'14 Avg
Fastenal (FAST)	6%	5%	6%	8%	9%	12%	15%	16%	10%	6%		14%	-17%	18%	22%	14%	6%	13%	10%
MSC Industrial (MSM)	0%	0%	0%	5%	4%	7%	8%	8%	5%	4%		5%	-19%	24%	15%	9%	1%	7%	6%
Grainger (GWG)	6%	6%	4%	5%	5%	4%	6%	8%	4%	2%		6%	-9%	10%	9%	9%	5%	6%	5%
Motion Industries (GPC)	-2%	-1%	-3%	2%	3%	4%	8%	9%	3%	-2%		0%	-20%	16%	15%	7%	-1%	6%	3%
WESCO Intl. (WCC)	-2%	-1%	1%	2%	2%	6%	7%	8%	3%	-3%		1%	-24%	8%	14%	5%	0%	6%	1%
Kaman Industrial Tech. (KAMN)	-6%	-3%	-2%	4%	2%	3%	2%	5%	2%	-1%		5%	-18%	15%	7%	0%	-2%	3%	1%
Applied Industrial Tech. (AIT)	-1%	-2%	-5%	-1%	0%	-1%	3%	5%	1%	-1%		-4%	-20%	16%	9%	3%	-2%	2%	1%
HD Supply (HDS)	11%	8%	7%	7%	6%	9%	10%	9%	7%	6%		-15%	-23%	2%	9%	11%	8%	8%	0%
Interline Brands (IBI)	4%	2%	3%	6%	3%	5%	5%	7%	5%	5%		-4%	-12%	-1%	3%	5%	4%	5%	0%
Lawson Products (LAWS)	-4%	-2%	-1%	2%	3%	6%	9%	7%	2%	-1%		-6%	-22%	5%	-1%	-6%	-1%	6%	-3%
Group Average	1%	1%	1%	4%	3%	6%	7%	8%	4%	2%		0%	-18%	11%	10%	6%	2%	5%	2%
CRC Private Industrial Distributor	0%	0%	0%	4%	4%	7%	9%	9%	5%	0%		3%	-24%	14%	14%	7%	1%	7%	3%
FAST vs CRC survey	6%	5%	6%	3%	5%	6%	6%	7%	5%	6%	0%	11%	7%	4%	8%	7%	5%	6%	7%

Source: Company reports, CRC estimates. Adjusted for currency, acquisition, selling days

Grainger Organic Daily Sales Growth						
	2010	2011	2012	2013	2014	2015
January	5%	8%	13%	7%	4%	4%
February	6%	9%	13%	6%	3%	4%
March	10%	10%	11%	3%	7%	3%
April	8%	12%	8%	7%	5%	3%
May	9%	8%	9%	5%	5%	2%
June	13%	9%	9%	5%	3%	3%
July	15%	7%	8%	4%	5%	2%
August	14%	9%	7%	4%	6%	0%
September	12%	8%	8%	3%	5%	
October	9%	11%	6%	5%	7%	
November	11%	10%	7%	3%	9%	
December	14%	6%	1%	5%	7%	

Source: Company reports, Cleveland Research estimates

Fastenal Total Average Daily Sales Growth						
	2010	2011	2012	2013	2014	2015
January	2%	19%	21%	7%	7%	12%
February	4%	22%	20%	8%	8%	9%
March	12%	23%	19%	5%	12%	6%
April	19%	23%	17%	5%	10%	6%
May	21%	23%	13%	5%	13%	5%
June	21%	23%	14%	6%	13%	4%
July	24%	22%	12%	3%	15%	3%
August	22%	20%	12%	7%	15%	2%
September	23%	19%	13%	6%	13%	0%
October	22%	21%	7%	8%	15%	
November	18%	22%	8%	8%	15%	
December	21%	21%	10%	7%	17%	

Source: Company reports, Cleveland Research estimates

MSC Industrial Organic Daily Sales Growth						
	2010	2011	2012	2013	2014	2015
January	11%	20%	15%	1%	3%	8%
February	16%	20%	13%	0%	7%	5%
March	22%	20%	11%	-2%	11%	2%
April	27%	14%	11%	3%	4%	6%
May	31%	14%	10%	0%	6%	3%
June	33%	14%	9%	0%	8%	2%
July	32%	12%	6%	1%	8%	
August	32%	12%	7%	3%	8%	
September	24%	12%	7%	3%	7%	
October	25%	10%	2%	6%	9%	
November	20%	11%	3%	6%	8%	
December	21%	12%	-1%	2%	8%	

Source: Company reports. Excludes acquisitions.

Industrial Distributor Deals: Purchase Price Multiples



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Select Industrial Distributor Acquisition History and Purchase Multiples								
Acquirer	Target Company	Date	Annual Sales	EBITDA	Price paid	EV / EBITDA	Price / Sales	EBITDA Margin
DXP Enterprises	C. W. Rod Tool	Dec-11	\$57	\$7	\$43	6.2x	0.8x	12.3%
DXP Enterprises	Mid-Continent Supply	Feb-12	\$10	\$1	\$4	4.4x	0.4x	8.5%
Shale-Inland Holding LLC	HD Supply IPVF	Mar-12	\$699	\$47	\$469	10.0x	0.7x	6.7%
GS Capital Partners & P2 Ca	Interline Brands	May-12	\$1,293	\$109	\$1,071	9.8x	0.8x	8.4%
HD Supply	Peachtree Business Products LLC	Jun-12	\$69		\$196		2.8x	
WESCO	EECOL	Oct-12	\$900	\$116	\$1,160	10.0x	1.3x	12.9%
Interline Brands	JanPak	Dec-12	\$232	\$9	\$83	9.4x	0.4x	3.8%
Grainger	Techni-Tool	Dec-12	\$88		\$40		0.5x	
Airgas	Four regional distributors (FL, MS, AL, NJ)	Dec-12	\$20					
Applied Industrial Technol	Parts Associates	Dec-12	\$25					
Airgas	Metroplex Service & Excel Welding/Indust	Jan-13	\$30					
MSC Industrial Direct	Barnes Distribution N. America	Feb-13	\$300	\$37	\$549	14.8x	1.8x	12.3%
DXP Enterprises	Tucker Tool Company	May-13	\$8	\$1	\$5	5.0x	0.6x	12.5%
Kaman Industrial Tech	Northwest Hose & Fittings	May-13	\$8		\$5		0.6x	
MRC Global	Flow Control	Jun-13	\$28		\$24		0.9x	
DXP Enterprises	Alaska Pump & Supply	Jul-13	\$16	\$2	\$13	5.4x	0.8x	14.9%
Kaman Industrial Tech	Ohio Gear & Transmission	Jul-13	\$9		\$8		0.9x	
Kaman Industrial Tech	Western Fluid Components	Aug-13	\$11		\$10		0.9x	
Grainger	E&R Industrial Sales	Aug-13	\$180		\$116		0.6x	
Grainger	Safety Solutions	Dec-13	\$63		\$30		0.5x	
DXP Enterprises	B27 LLC	Dec-13	\$198	\$35	\$285	8.1x	1.4x	17.7%
Applied Industrial Technol	Texas Oilpatch Services	Jan-14	\$14	\$3	\$17	5.0x	1.3x	25.0%
WESCO	LaPrairie, Inc	Feb-14	\$30	\$4.0	\$34	8.4x	1.1x	13.5%
WESCO	Hazmasters	Mar-14	\$80	\$7	\$57	8.4x	0.7x	8.5%
Kaman	BW Rodgers	Apr-14	\$100	\$9	\$72	8.0x	0.7x	9.0%
WESCO	Hi Line Utility Supply	May-14	\$30	\$4.1	\$42	10.3x	1.4x	13.7%
Applied Industrial Technol	Reliance Industrial Products	May-14	\$135	\$22	\$189	8.8x	1.4x	15.9%
Applied Industrial Technol	Knox Oil Field Supply	May-14	\$100	\$14	\$133	9.7x	1.3x	13.7%
Applied Industrial Technol	Rodamientos y Derivados, Great Southern	Jul-14	\$20	\$2	\$13	7.7x	0.6x	8.2%
SP Richards (GPC)	Impact Products LLC	Jun-14	\$85		\$96		1.1x	
Applied Industrial Technol	Ira Pump & Supply	Nov-14	\$56	\$8	\$42	4-6x	0.7x	15.0%
Global Industrial (SYX)	Plant Equipment Group (TAKKT)	Jan-15	\$104	\$2	\$25	nm	0.2x	1.9%
Anixter	HDS Power Solutions Business	Jul-15	\$1,950	\$82	\$825	10.1x	0.4x	4.2%
Wurth Group	Northern Safety Co.	Jul-15	\$190					
Home Depot	Interline Brands	Jul-15	\$1,695	\$144	\$1,625	11.3x	1.0x	8.5%
Grainger	Cromwell Group	Jul-15	\$440	\$44	\$482	11.0x	1.1x	10.0%
Mean Since 1997			\$413	\$45	\$308	8.7x	0.8x	9.3%
Median Since 1997			\$71	\$13	\$57	8.8x	0.7x	8.5%

Source: Company reports, CRC estimates. Ratios on a last twelve months reported basis. List does not include non-disclosed acquisitions.

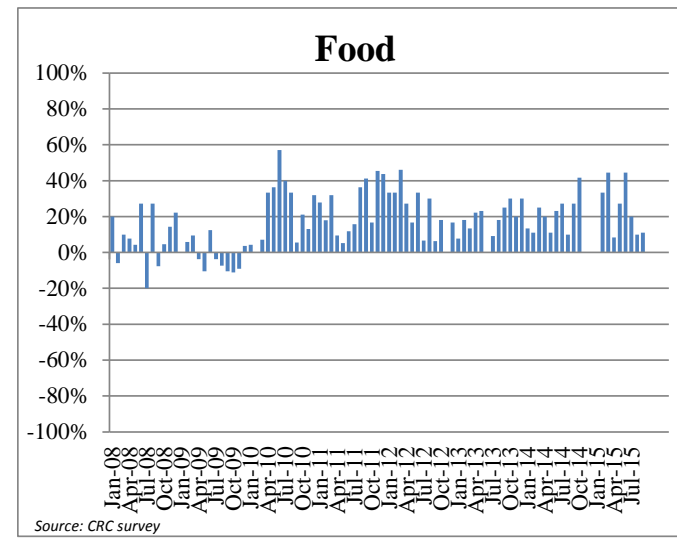
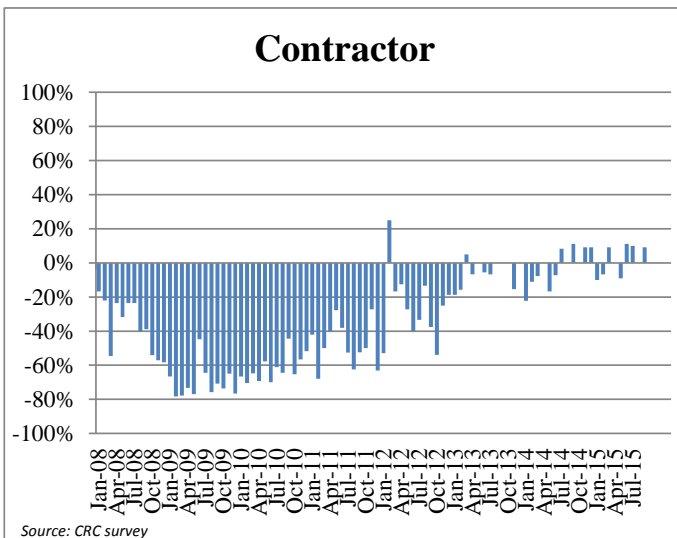
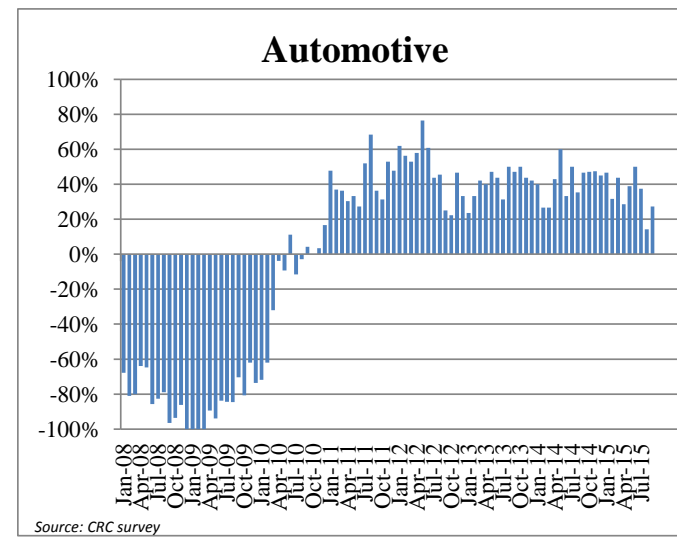
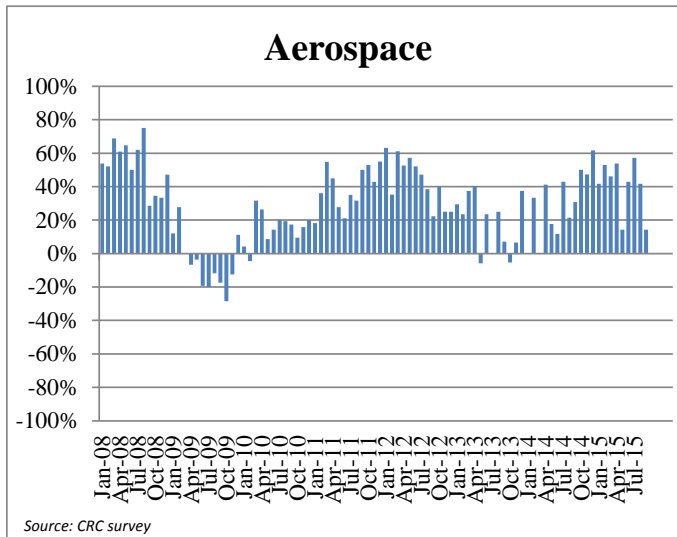
Cleveland Research Distributor Survey Appendix

Long Term End Market Trends

Industrial Distributor Survey: End Market Trends



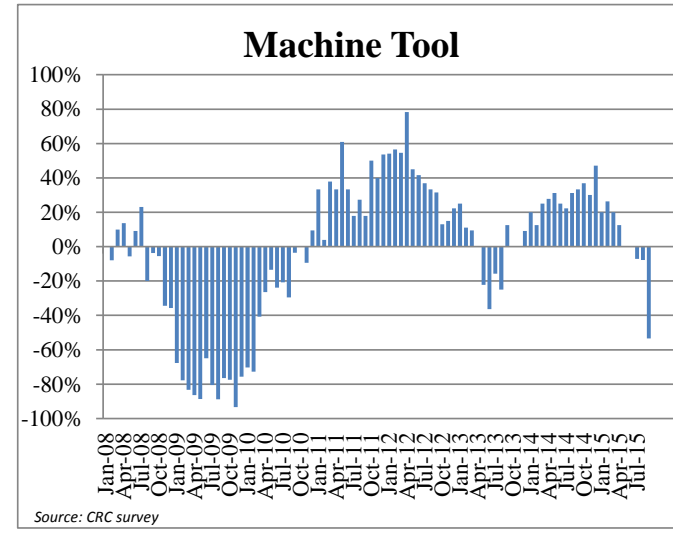
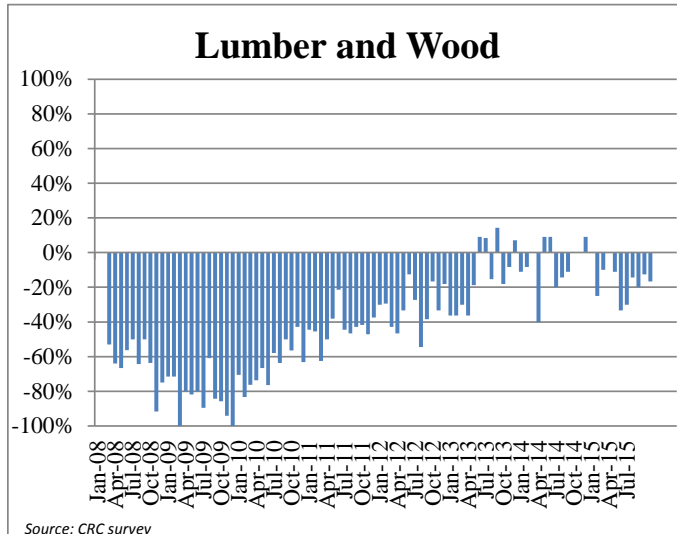
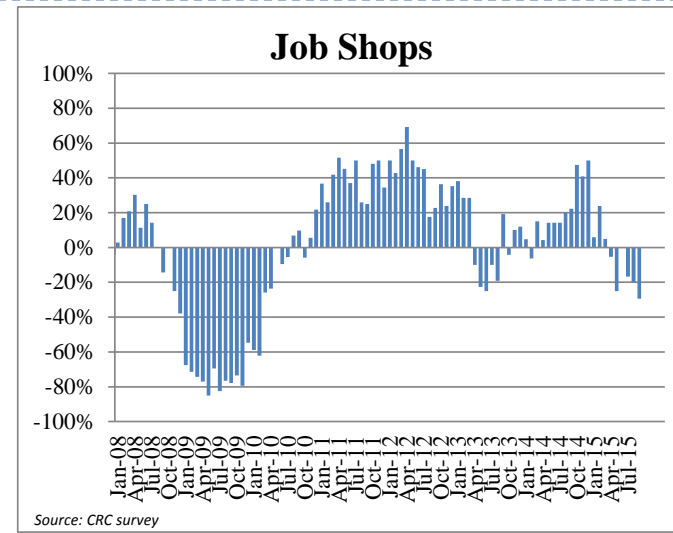
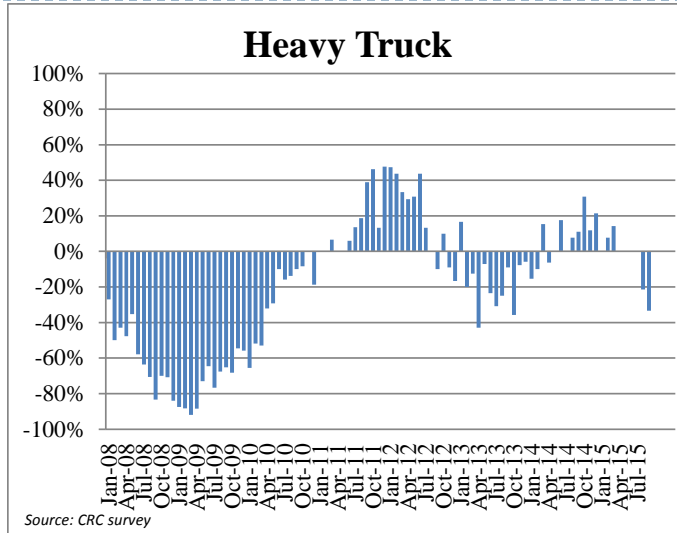
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Industrial Distributor Survey: End Market Trends



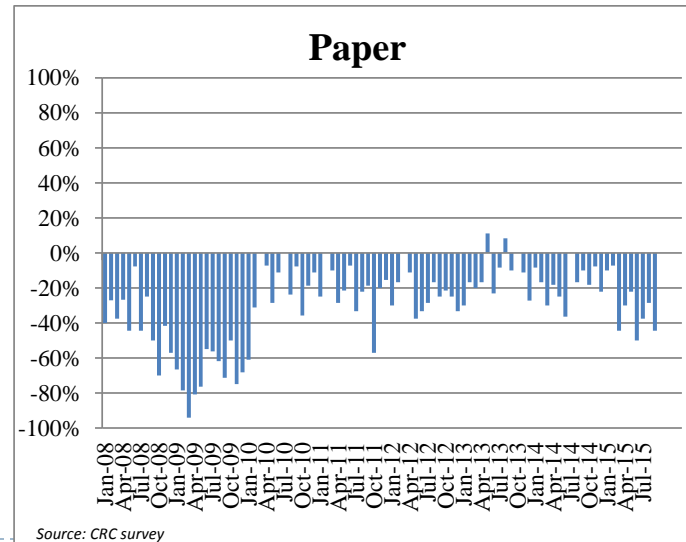
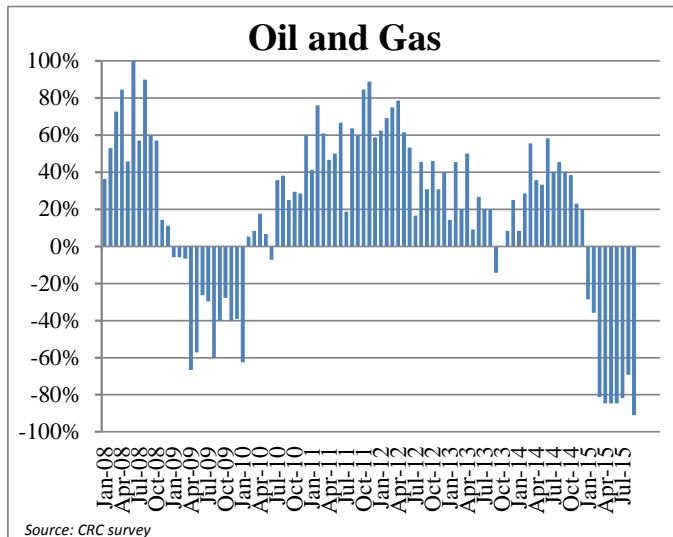
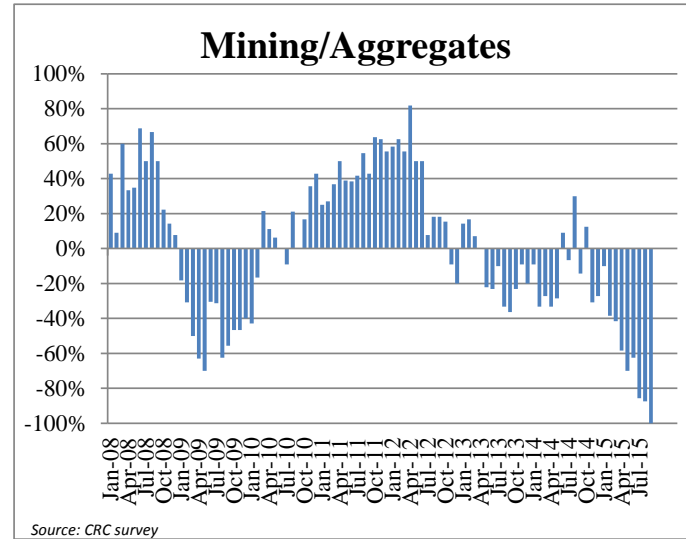
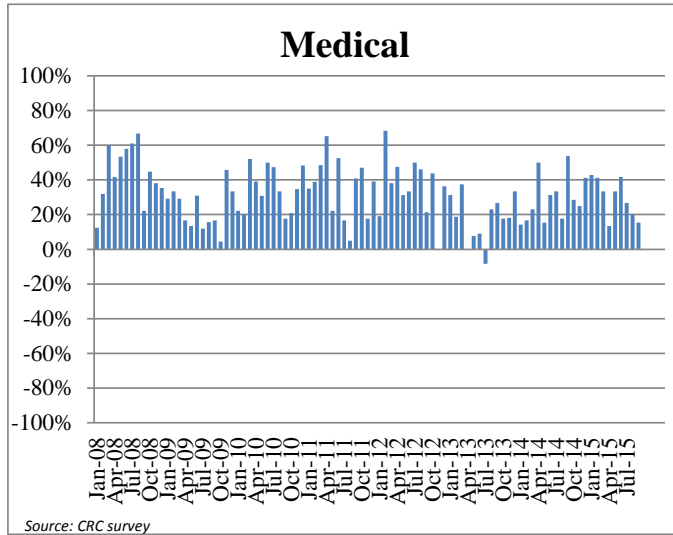
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Industrial Distributor Survey: End Market Trends



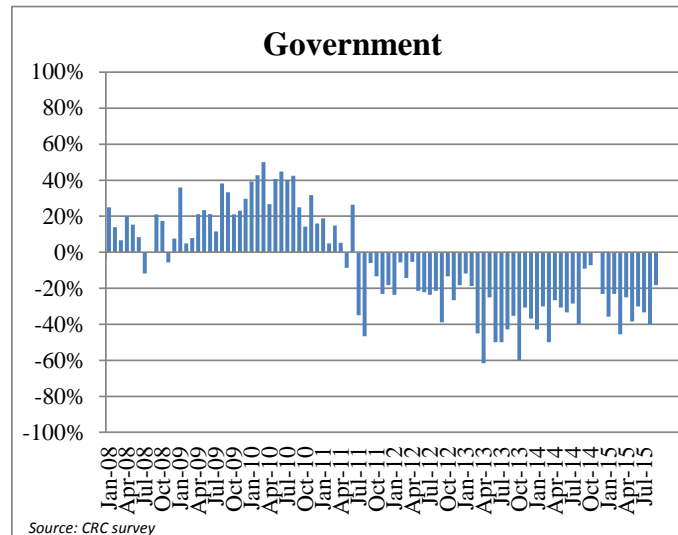
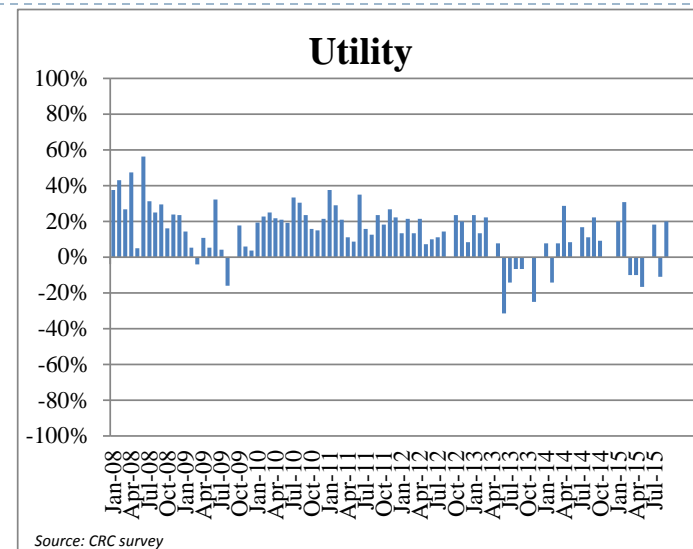
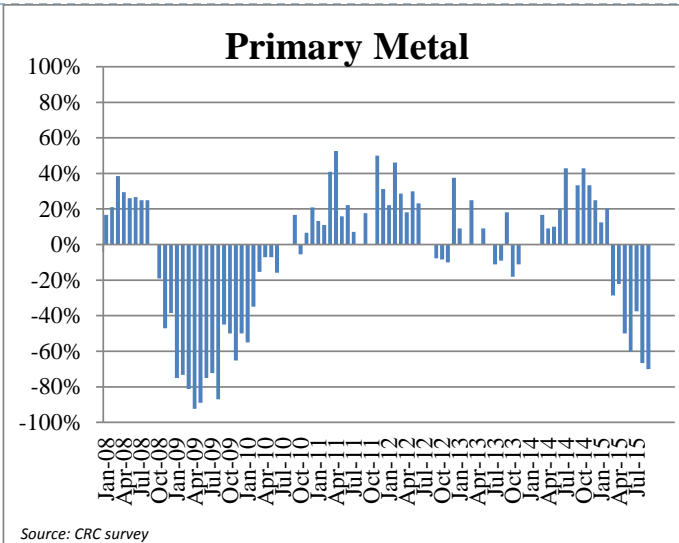
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Industrial Distributor Survey: End Market Trends



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Appendix

Important disclosures can be found at: www.cleveland-research.com/clients/disclosures

Disclosures

Buy: *The stock's return is expected to exceed the market due to superior fundamentals and positive catalysts.*

Underperform: *The stock's total return is expected to underperform the market due to weak fundamentals and a lack of catalysts.*

Neutral: *The stock is expected to be in line with the market due to full valuation and/or a lack of catalysts.*

Valuation and Risk: *Price targets are established under various valuation methods including P/E, P/S, EV/EBITDA on financial estimates based on forward earnings. Price targets are not established for every stock. The price target's effectiveness may be affected by various outside factors. Risk assessments can be found in the most recent research on these stocks.*

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