

Merger and Acquisition Update

Burke Burkhardt, senior managing director, HT Capital Advisors, New York, offers an insider's perspective on the state of distributor merger and acquisition activity in the electrical market.

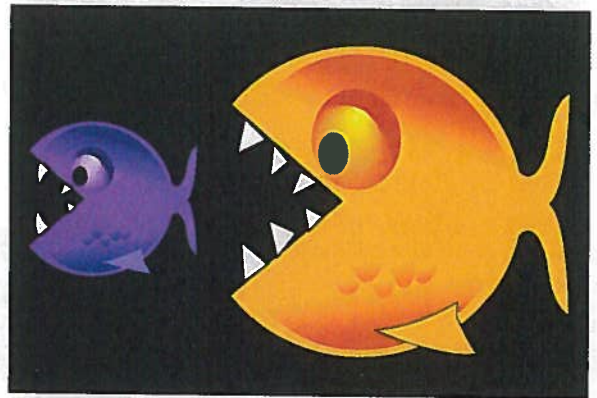
HT Capital Advisors is an investment banking firm with a major focus on the electrical wholesaling industry, and over the years it has represented the owners of many electrical distributors in mergers and acquisitions.

These companies include but are not limited to Braid Electric Supply, Crawford Electric Supply, Electrical Wholesalers, Friedman Electric Supply, Harris Electric Supply, Mustang Electric Supply, Mag-Trol Long Beach, Independent Electric Supply (California), Owens Electric Supply, Project Lighting Co., Ralph Pill Electric Supply, Sonepar and Weidenbach-Brown. As an executive on the HT Capital Advisors team who has worked on many of these acquisitions, we thought Burke Burkhardt could give us a good idea of what's happening with mergers and acquisitions in the electrical market. He offered his insight in the following Q&A.

Q. Do you think there will be a significant amount of merger and acquisition activity over the next year?

A. I think it's likely there will be more transactions over the next year than in 2013. We are currently in the initial stages of representing the owners of four companies. At the NAED Eastern, Western and South-Central Conferences over the past year, we met with the owners of several electrical distributors who are seriously thinking about exploring a sale transaction now that their companies have recovered significantly from recession lows. All of the national companies and several large regionals are actively bird-dogging for acquisitions.

Also, we have been approached by several large companies in other industrial distribution sectors that have indicated that they might be interested in acquiring an electrical distributor. We believe we are in a sellers' market, and that that there is an open window of opportunity for owners who want to sell their companies, and may have missed the train as it was leaving the station in past years.



Q. Your firm has been advising business owners in the electrical industry for over 25 years on how to position their companies for a successful sale transaction, and you have orchestrated the sale of a large number of companies. Based on your experience what are some of the major mistakes owners should avoid when thinking about exploring a sale transaction?

A. Failure to adequately prepare and position a company is one of the major mistakes. Prior to starting the sale process it's important to have verifiable financial statements and a relatively clean balance sheet without a lot of dead or obsolete inventory or a large amount of overdue account receivables. It's also crucial to have a well-thought out business plan with realistic growth assumptions.

Another major mistake owners make is having unrealistic valuation assumptions. These are often based on EBITDA or revenue multiples they heard about in other sale transactions. Each company is different, and many factors influence the sale price, including the historic track record and future growth prospects, size of the company, geographic location, vendor and customer relationships and management depth. Bottom line, there is no fixed

valuation formula, and ultimately the price is determined by the market.

Q. So what is the range of valuation multiples you see now?

A. Based on the transactions we are currently working on, we anticipate achieving valuations attractive to our clients. We think the buyers realize they cannot be successful acquirers by bottom fishing. While there will be some higher valuations for truly exceptional electrical distributors, we believe that for most companies the EBITDA multiple will be in the 5x-7x range.

Q. Richard Worthy is back in the acquisition game, apparently with strong financial backing, and probably with the objective to build another USESI, which was sold to CED. What do you know about him and do you think he will be successful again?

A. We know Mr. Worthy and how he operates rather well. His USESI vehicle acquired two of our clients, Electrical Wholesalers, Connecticut's largest player, and Weidenbach-Brown, a leading national accounts lighting distributor. Mr. Worthy is very experienced in all facets of electrical distribution, as are the nationals and regionals. Generally, his approach is to partner with the owners of companies he acquires and supply the financial and other resources to enhance growth prospects. We found him to be very receptive to creative transaction structures to meet the needs of owners. ■

MEET BURKE BURKHARDT

Burke Burkhardt has been with HT Capital Advisors since 1994. Prior to joining the firm, he was a general investment banker for over 10 years with Janney Montgomery Scott, the investment banking subsidiary of Penn Mutual Life. He began his career as a financial analyst with Aetna Life and Casualty's Private Placement Financing Department and subsequently was elected an officer and became manager of Aetna's Corporate Development Department. His corporate experience also includes three years as director of CBS' Acquisition Department, where he was also involved with venture capital and strategic alliance activities. He is a U.S. Army Veteran and holds an A.B. from Brown University; an M.B.A. from Columbia University Business School; and an L.L.B from Duke University School of Law. He can be contacted at (212) 759-9080 or cburkhardt@htcapital.com.

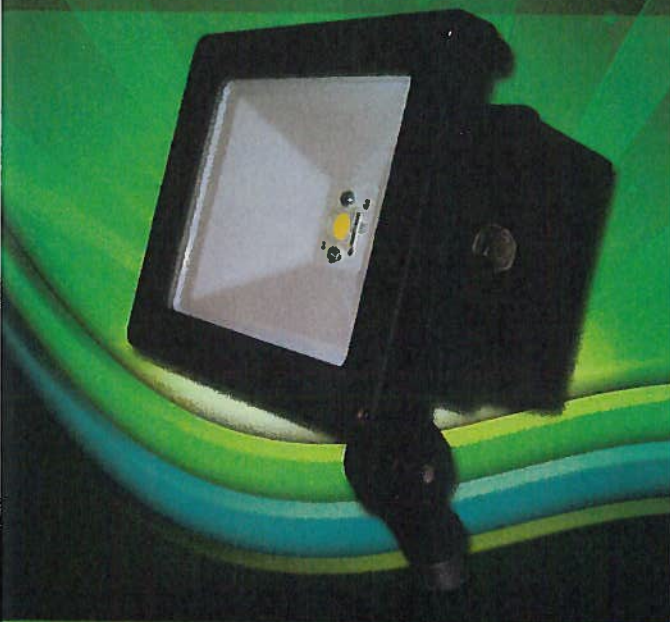
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