



## **2016: Another Active Year For Industrial Distribution M&A**

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The strong winds of consolidation continued to blow into the fragmented industrial distribution industry in 2016. Despite various headwinds, including challenging economic conditions which stifled the growth of many companies, 2016 followed 2015 as an active year for industrial distribution mergers and acquisitions. In general, the M&A market was a “seller’s market” with buyers competing aggressively for attractive companies, which resulted in premium valuations and attractive terms for sellers. As indicated by the selected transactions reviewed below both strategic and private equity buyers were active buyers. As in prior years several large foreign companies made acquisitions to enhance their U.S. footprint.

### **A Blockbuster Transformational Gases And Welding Supply Transaction**

The acquisition of publicly-held **Airgas**, a leading nationwide provider of industrial, medical and specialty gases and welding equipment and supplies for \$10.3 billion in cash, and the assumption of \$2.8 billion of liabilities by France-based Air Liquide, ranks as the largest industrial distribution transaction in 2016. Founded in 1982, Airgas became the leading consolidator of the fragmented gas and welding supply industry and was ranked No. 7 on *Industrial Distribution’s* [2016 Big 50 List](#). More than 450 acquisitions were made during a 34-year period and annual sales grew to an estimated \$5.3 billion. Interestingly, in 2010 Airgas prevailed in a bitter hostile takeover attempt by giant Air Products and Chemicals, which offered an estimated \$5 billion for the company. Airgas probably ranks as one of the most successful and financially rewarding roll-ups of a fragmented industrial distribution segment. Investors who acquired and held common stock when the company went public in 1986 realized a return of 13,000 percent, and company founder Peter McCausland reportedly walked away with close to \$1 billion upon the sale.

### **Significant Bolt-On Fastener Transactions**

Dallas, TX-based PrimeSource, a leading distributor of a wide variety of fasteners and other building products, enhanced its fastener brands and geographic footprint with the acquisition of Northeast Wholesale. Based in Massachusetts, Northeast Wholesale is a distributor of fasteners, tools and other

building products with over 300 professional customers in New England and the Mid-Atlantic. This was the first acquisition by PrimeSource since it was acquired in 2015 by private equity firm Platinum Equity for \$800 million from Japan's ITOCHU Group. The company's management has indicated that it continues to look for additional acquisitions to enhance its geographic footprint and product offerings.

Another transaction by a private equity-backed fastener platform was Wisconsin-based All Integrated Solutions (AIS) acquisition of Michigan-based Great Lakes Fasteners, a distributor of fasteners and related components with particular expertise in vendor-managed inventory programs for OEMs. In addition to distributing fasteners, AIS distributes production components, tools and various MRO products. The acquisition substantially enhances AIS' geographic footprint into the Michigan market and automotive and material handling industries.

Switzerland-based Bossard Group, which has fastener distribution locations in the Midwest, Southeast and Southwest, extended its footprint to the Northeast with the acquisition of Massachusetts-based Arnold Industries, a \$40 million sales company. The acquisition reinforces Bossard's market position in several industries, including electronics, medical technology, energy and telecommunications.

### **Motion Control And Power Transmission**

The most active motion control and power transmission acquirer was Genuine Parts Company subsidiary Motion Control (MI), the largest U. S. company in this segment with sales over \$4.6 billion (No. 8 on *ID's* Big 50 List). MI's largest transaction was the acquisition of Minnesota-based Braas Company, a distributor of products for industrial automation and control customers, including pneumatics and machine safety products. Braas, with estimated sales of \$90 million, serves customers in the Midwest and Southeastern U.S. from five branches and three warehouses.

MI enhanced its product offerings with the acquisition of Missouri Power Transmission, which distributes bearings, seals, electric motors, belting and other products and also provides value-added machine shop services. Another acquisition which enhanced MI's product offering was the addition of Florida-based Epperson Co., a provider of material conveying products and services in the Southwest. Epperson and Missouri Power Transmission have estimated combined sales of \$50 million.

MI will probably continue to be an active acquirer of industrial distribution companies. Genuine Parts Company has publicly stated that it is targeting bolt-on acquisitions with sales of \$25-\$150 million and that it is open to consider other complimentary distribution companies. At my private investment bank, [HT Capital Advisors](#), we anticipate that the motion control and power transmission segment may have significant merger and acquisition in 2017. The owners of several independent companies have told us recently that they have been approached by other large companies in this segment including Applied Industrial Technologies, Kaman, and BDI (Nos. 15, 20 and 25 on *ID's* Big 50).

### **Safety Products**

Motion Industries extended its safety products business into the Middle Atlantic states with the acquisition of Virginia-based OBBCO Safety & Supply, a \$20 million sales distributor of a wide range of personal protective equipment, hazardous storage units, first-aid supplies and gas detection equipment. The seller was private equity firm Boathouse Capital which had acquired the Company in 2013.

Another division of Genuine Parts Company acquired Connecticut-based Safety Zone, a \$180 million sales importer and distributor of gloves for safety, janitorial, medical and food processing applications and other safety related products. With eight distribution centers in the U.S. and one in Canada, the company generated annual sales of about \$180 million.

Mallory Safety Supply, the largest independent safety products distributor in the Western U.S. completed its 14th transaction in the last 11 years with the addition of R. J. Safety Supply, based in San Diego, CA. In late 2015 Mallory acquired Sanderson Safety Supply, based in Portland, OR, and now has 14 locations between Washington, Oregon, California, Idaho and Wisconsin.

Based on inquiries from several large industrial distribution companies in various segments we believe that safety products distribution will continue to be targeted as a desirable product line extension opportunity.

### **Significant Wholesale Electrical Distribution Transactions**

Some of the leading wholesale electrical distribution consolidators made significant geographic footprint acquisitions. Fargo, ND-based Border States Electric Supply, which ranks as the seventh-largest company in this segment with sales approaching \$2 billion, entered the Southeastern market with the acquisition of Shealy Electrical Wholesalers with 17 locations in North and South Carolina. With the acquisition Border States now has 97 branches in 18 states. Border States entered the Mid-South region previously with the acquisition of HT Capital client Harris Electric Supply Company, based in Nashville, TN.

Graybar Electric Supply, which ranks as the third-largest company in this segment with sales over \$6 billion, acquired Cape Electric Supply, based in Cape Girardeau, MO. Cape has a total of 17 branches in Missouri, Illinois, Arkansas, Kentucky, Tennessee and Alabama. This transaction came as a surprise to us and other involved with the industry because unlike other major players in the industry — including Sonepar, Rexel, WESCO and Consolidated Electrical, Crescent and Border States — Graybar has not been an active acquirer in the past. In announcing the transaction, Graybar management indicated that it would continue to seek other acquisitions to expand its reach and diversify its business.

### **Flow Control, Hose And Accessories**

The most active acquirer in the flow control segment was \$330 million sales publicly-held FCX Performance, based in Ohio. FCX increased its geographic footprint with the acquisition of the following companies: 90-year old Syracuse, N.Y. based R. L. Stone, a leading flow control distributor in the Northeast; Michigan-based SW Controls, a distributor of valves and instrumentation to process markets; and North Carolina-based PCI-LLC, which provides instrument calibration, regulatory consulting and commissioning solutions to companies in the life sciences industry. With these three acquisitions FCX now has 37 locations in the U. S.

In the hose and accessories segment, regional distributor Air Hydro Power, based in Louisville, KY, enhanced its geographic footprint with the acquisition of Total Hose, which has facilities in Decatur and Huntsville, AL. Total Hose was a particularly attractive acquisition candidate because it was an authorized Parker Fluid Connector and distributor of other Parker lines. The acquisition gives Air Hydro 12 locations in Kentucky, Indiana and Alabama.

### **Major Plumbing And Waterworks Transactions**

Fort Worth, TX-based MORSCO, a leading distributor of commercial and residential plumbing, HVAC and PVF products, has grown rapidly through acquisitions since being acquired in November 2011 by large private equity firm Advent International. It significantly advanced its strategic goal to become a leading waterworks provider with the acquisition of North Carolina-based Fortiline Waterworks, one of the largest wholesale distributors of water, sewer and storm utility products in the U. S. Founded in 1997, the company was previously acquired by a private equity firm which sold it to MORSCO. The company also expanded its footprint in the Southeast with the acquisition of Devore & Johnson, a leading plumbing distributor in the greater Atlanta, GA market.

Ferguson Enterprises, the largest plumbing and waterworks distributor in the U.S. with sales over \$13 billion, enhanced its waterworks competitive position and footprint with the acquisition of South Bend, IN-based Underground Pipe and Valve Company. Underground offers a full line of water and sewer products through four branches in Indiana and Michigan. Ferguson also acquired Fort Smith, AR-based Bruce-Rogers Company, which serves contractors from six location in Western Arkansas, Eastern Oklahoma and Southern Missouri.

Massachusetts-based F.W. Webb, one of the largest plumbing distributors in the Northeast with over 80 locations and sales close to \$1 billion, positioned itself to become a leading waterworks distributor in the Northeast with the acquisition of Malden, MA-based Waterworks Supply Corporation, which has extensive product lines and expertise to address below ground construction, installation and repair of water mains, sewer lines, water processing facilities and waste treatment plants. The acquisition has become the core of the company's new Waterworks Division.

The Flint, MI water crisis dramatically brought to the forefront that water infrastructure in many parts of the U.S. is in dire need of repair or replacement. If the Trump Administration's infrastructure spending plans are implemented and water infrastructure is targeted as an area for spending, waterworks distributors will be presented with a major growth opportunity. Waterworks could become a hotbed of merger and acquisition activity as plumbing supply distributors seek to enhance their geographic footprints and product and service offering through acquisition.

### **Other Notable Transactions**

Houston, TX-based Distribution International (DI), a distributor of mechanical and industrial insulation products, continued to execute its nationwide roll-up strategy with the acquisition of Michigan-based 3i Supply Company, Johnson Insulation (Spokane, WA), and E. O. Wood Company (Fort Worth, TX). DI was founded in 1986 and was acquired by Audax, a Boston-based private equity firm in August 2011, which sold it to Advent International, a large private equity firm in December 2014. DI has closed 20 acquisitions over the past four years and now has 85 locations.

In July, Audax acquired Ohio-based Reladyne, an industrial lubricant, fuel and diesel exhaust fluid distributor, which has closed 20 acquisitions since its formation in 2010 and currently has 40 locations. With the financial backing of Audax, Reladyne will be on the prowl for acquisitions to achieve its stated mission to become a national platform for the distribution of industrial lubricants and related products.

A very large, unique and complex transaction in industrial chemical and plastics distribution was the acquisition of Nexeo Solutions for about \$1.7 billion. The seller was TPG, a large private equity firm, and the buyer was WL Ross Holdings, a publicly-held special purpose acquisition company created and

controlled by private investor Wilbur Ross, who was chosen to be Secretary of Commerce in the Trump Administration. In announcing the transaction, WL Ross Holdings said that Nexeo is an ideal platform to further roll-up the fragmented chemical and plastics distribution space. As a result of this transaction, what can be expected is increased competition for attractive acquisition between Nexeo and other large players in this segment, including Germany-based Brenntag Group, the global leader in chemical distribution, and Ohio-based Univar.

## **Forecasting 2017 M&A, And Mistakes To Avoid**

We at [HT Capital Advisors](#) believe that 2017 will follow 2015 and 2016 as another active year for industrial distribution mergers and acquisitions. A major driving force will continue to be the desire and need of potential buyers — both strategic and private equity backed platforms — to make acquisitions to achieve their growth and profitability objectives through geographic footprint expansion and product line and services enhancement and diversification.

Most of the large strategic buyers have strong balance sheets and substantial cash resources and common stock equity to use to pay for acquisitions, and while interest rates may increase in 2017, bank financing will be available. Private equity firms are estimated to have close to \$1 trillion available to put to work. As indicated by some of the transactions mentioned above they have had success with and are attracted to industrial distribution. Many of them contact us regularly seeking add-on acquisitions for their existing platforms or seeking acquisitions to form a new platform.

We have talked recently to the owners of many industrial distribution companies, and several of them are thinking about exploring the sale of their businesses in 2017. Most are confident that the growth prospects for their companies will be good in 2017. While there is a lot of uncertainty about the implementation and timing of some of the proposed Trump Administration policies — including increased spending on infrastructure, a decrease in the corporate tax rate and less regulations — many business owners are cautiously optimistic that these policies could favorably affect the growth and profitability of their companies.

Timing is often everything in the world of mergers and acquisitions. Assuming that a company has been positioned for sale and that an owner is emotionally prepared to sell, the ideal time to explore a sale transaction is when growth prospects for the company are good and there are multiple potential buyers. With both strategic and private equity buyers actively on the acquisition trail, we believe that the merger/acquisition market in 2017 will continue to be a sellers' market in which independent industrial distribution company owners will have an open window of opportunity to sell their companies at attractive valuations while achieving their other objectives.

**Based on our experience, the following are four major mistakes a company owner should avoid to have a smooth and successful sale transaction:**

1. NOT HAVING REALISTIC PRICE EXPECTATIONS — Having unrealistically high price expectations scares off potential buyers and is a waste of time for everyone. When preparing to sell, an owner would be wise to obtain a professional valuation. To be sure we are in agreement on an acceptable sale price, HT Capital provides potential clients with a preliminary range of value before executing an engagement agreement.

2. NOT BEING UPRONT ABOUT A MAJOR PROBLEM — Problems such as loss of a vendor, a major A/R write-off, the existence of obsolete inventory or a tax issue should be disclosed to the financial advisor who will deal with it appropriately. If a potential buyer finds such problems upon due diligence it could kill the proposed transaction.
3. OVERSTATING SALES AND EARNINGS PROJECTIONS — If a potential buyer determines that projections are unrealistic, a red flag will go up and the buyer may walk away.
4. TALKING TO JUST ONE POTENTIAL BUYER — Generally the most effective way to enhance the sale price and achieve other objectives is to get competition going among two or more parties. With the help of his financial advisor an owner should go beyond what he thinks are the most likely buyers in his industry and develop a list of other potential buyers.

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