



## C. A. Burkhardt [GUEST COLUMN]

# 2015: Another Active Year for M&A

**F**or the first 9 months of the year, HT Capital tracked over 90 transactions in all industrial distribution segments. Both strategic and private equity buyers – either with existing platform companies or seeking a new platform company – were very aggressively seeking acquisitions. In general, the 2015 industrial distribution merger-acquisition market was a “sellers” market, with multiple buyers seeking acquisitions and offering valuations and terms attractive to potential sellers.

### Four Big MRO Transactions

The blockbuster transformational industrial distribution transaction in 2015 was the acquisition of private equity owned Interline Brands, Inc., a distributor of an extensive line of MRO products. The buyer was The Home Depot, the world’s largest home improvement retailer with revenues over \$83 billion. A major driving force behind the transaction was The Home Depot’s goal to better serve the contractor market. Interline gives it an experienced outside and national salesforce, extensive MRO fulfillment capability, and a distribution network of 90 branches throughout the U.S., and in Canada and Puerto Rico. Additionally:

- France-based Sonepar substantially enhanced its existing MRO business with the acquisition of Industrial Distribution Group (“IDG”). Based in North Carolina, IDG has 42 branches, and over 170 on-site customer locations in North America, Europe, and Asia.
- W. W. Grainger, the broad line MRO distributor with \$10 billion revenues, went abroad to acquire Cromwell Group, Ltd., the UK’s leading MRO distributor for \$484 million (1.1x revenues of \$440 million).
- Fairmont Supply, a long time MRO supplier to the coal industry, was acquired by a private equity firm. The seller was Consol Energy, a major coal producer. As a free-standing company with private equity backing, Fairmont will likely be on the prowl for acquisitions.

### Gas & Welding Supply Consolidation

The long term consolidation trend of gas and welding supply distribution continued in 2015. The leading players, Airgas and Praxair, were active buyers, as were the platforms of two private equity funds. A company with over \$5 billion in revenues, Airgas acquired 9 companies with total revenues of \$74 million. Airgas expanded its Southern Texas footprint with the acquisition of WeldingHouse,

based in Corpus Christi, with four branches and revenues of about \$19 million. Another significant acquisition for Airgas was Priority Energy Services, a nitrogen supplier with revenues of \$21 million in 2014.

Two private equity backed platforms completed acquisitions to enhance their U.S. footprint. Connecticut-based Tech-Air acquired U.S. Oxygen Supply in Arlington, TX and Specialty Air Technologies in California, as bases for further expansion in the large Texas and California markets. Memphis-based NexAir expanded its geographic footprint in Georgia with the acquisition of M&A Welding Supply with four branches, and in Alabama with the acquisition of Welder’s Supply and Equipment Co. with two branches. Matheson Tri-Gas also acquired Sam’s Welding Supply in Long Beach, CA.

### Private Equity’s Fastener Acquisitions

Prime Source, the largest distributor of screws and nails in the U.S. with 42 distribution centers, was acquired by global private equity firm, Platinum Equity. Terms were not disclosed, but informed sources estimate that the price was about \$800 million. The seller was Japan’s ITOCHU Group, which had acquired the company in 1998.

Another large fastener transaction was Anixter International’s sale of its OEM fastener unit, a worldwide distributor of highly engineered fasteners sold to many industries. The price was \$380 million (.42x the unit’s estimated revenues of \$900 million). With the backing of the buyer, private equity firm American Industrial Partners, it will probably seek to grow through acquisitions, and will compete for acquisitions with Fastenal, Bossard, and other major fastener distributors.

### Plumbing And HVAC/R Acquisitions

Ferguson Enterprises, the world’s largest plumbing and HVAC/R distributor, continued its aggressive growth-through-acquisition strategy with the acquisition of 13 companies in 2015, which enhanced its U.S. geographic footprint in many areas. One of the larger transactions was the acquisition of Redlon & Johnson, based in Portland, ME with 10 branches in Maine and New Hampshire. Fort Worth, TX-based MORSCO acquired NC-based Murray Supply, which has four plumbing and three MRO branches, and an industrial PVF branch. Murray is MORSCO’s first acquisition in the Southeast, and its management has

publicly stated that it regards it as a platform for further acquisitions in that area.

## Large Wholesale Electrical Acquisitions

One of the most surprising and transformational electrical distribution transactions was Anixter's acquisition of HD Supply Holding's Power Solutions business for \$825 million (.43x revenues of \$1.9 billion). Anixter publicly announced that the transaction was a strategic move to sharpen the company's focus, while also making it more of a full-line wholesale electrical distributor. This indicates this acquisition will result in another major potential buyer for standard wholesale electrical distribution companies as Anixter deploys some of the \$380 million proceeds from the sale of its fastener unit to fill out gaps in its Prime Solutions network.

Giant diversified \$7.9 billion industrial distributor WESCO International substantially enhanced its position in the Texas market with the acquisition of HT Capital's client, Hill Country Electric Supply, based in Austin. Hill Country focuses on the commercial construction market and had revenues of approximately \$140 million from nine locations in central and South Texas. Private equity backed AMP Electrical Distribution Services enhanced its operations in the Midwest with the acquisition of HT Capital client Gatto Electrical Supply.

## Fluid, Hose & Accessories

Netherlands-based distributor ERIKs continued its aggressive U.S. acquisition program with two purchases. Lewis-Goetz, the largest U.S. company owned by ERIKs, acquired Action Industrial Group, an SC-based distributor of hose, gasket, and fastener products with revenues of \$21.5 million in 2014. ERIKs Seals and Plastics unit, based in Grapevine, TX, acquired Dallas-based Seals and Packaging, which expands its product and service offering and oil and gas customer base.

DXP Enterprises increased its geographic footprint in the water treatment, municipal water treatment, and desalination markets on the West Coast with the acquisition of CA-based Cortech Engineering, a distributor of pumps and other process equipment in California and Nevada.

Applied Industrial Technologies enhanced its fluid power product and service offerings with the acquisition of S.G. Morris Co., a distributor of fluid power components, also known for its technical capability to design and integrate fluid power, motion control, and lubrication systems.

## Other Notables

- **Safety:** Würth Group, the second largest industrial distributor in the world, acquired Northern Safety and Equipment, based in Frankfort, NY, a distributor of a broad line of industrial safety products with estimated revenues of \$180 million. Press release statements by both Würth and Northern indicate that Northern will be the platform upon which Würth plans to build a major safety products distribution company.

- **Power Transmission/Bearings:** The largest transaction in the power transmission/bearing segment was Irving Place Capital's acquisition of Ohio Transmission Corporation. Founded in 1963, OTC, based in Columbus, OH, is a distributor of highly engineered power transmission, bearing, motion control, and factory automation products with 23 branch locations in 12 states in the Midwest, South, and Northwest. In August 2015, OTC acquired OH-based Buckeye Pumps.

## Future Outlook

Assuming that the U.S. economy continues to improve, we believe that in 2016 and beyond all segments of industrial distribution will experience a high level of merger/acquisition activity. Most importantly, both strategic and private equity buyers have substantial cash resources to support their acquisition programs, and while interest rates will probably increase somewhat over the next year, bank financing will still be available at attractive interest rates. Timing is often everything in the world of mergers and acquisitions, and we believe that 2016 will be an ideal time for industrial distribution company owners to explore the sale of their businesses.

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