MODERN DISTRIBUTION MANAGEMENT

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2021 Distribution M&A Landscape

What distributors need to know about buying and selling as they navigate the post-pandemic consolidation boom.

2021 M&A activity is just starting to heat up. At MDM's recent M&A Virtual Summit, members of Baird's distribution team mapped out the current landscape and what distributors should keep an eye on as they position themselves for accelerating activity.

By Eric Smith

After a year like no other for M&A, 2021 could wind up being historic as companies look to position themselves for the post-pandemic boom and leverage the current pent-up demand for consolidation.

That was a key theme that emerged during MDM's recent M&A Virtual Summit. Investment bankers, private equity partners, distribution executives and M&A advisers outlined how distributors should approach M&A in today's unusual circumstances of nearing the end of this once-in-a-lifetime disruption.

The summit kicked off with an overview of M&A themes across the industry. The session, "The 2021 Wholesale Distribution Landscape," provided an overview of the dramatic shifts that have impacted M&A activity, and what is emerging next.

The session's presenters were Jason Kliewer and Nick Troyer of Baird's distribution team. They dissected what happened to activity over the last year, but also, more importantly, what's in store for the industry in 2021. Here, we break down their presentation as an introduction to our 2021 distribution M&A playbook.

What happened in 2020?

While we need to examine last year's historic upheaval, of course, Kliewer and Troyer stepped further back in history to the 1990s, when distribution was viewed much differently than it is today.

Back then, Kliewer posited, distributors were often viewed as low margin without a clear vision of the value they might add to the channel. Many wondered, why not sell direct? That, of course, evolved, and the public markets and institutional investors soon embraced the power of the distribution model. Distributors' perceived and actual values soared.

Before long, "private equity, family offices and, even more recently, SPACs [special-purpose acquisition companies] became very interested in this space — and for good reason," Kliewer said.

That reason? Strategic and financial buyers recognized the fragmentation of distribution markets, and they soon understood how a distributor could use technology and a specialized sales team to offer solutions to customers and truly bring value to a supplier, to a customer, to the entire channel.

That emphasis on technology wound up playing a central role in the M&A story of 2020. For one, the companies that were on the leading edge of technological advancements — strong ERP, mature e-commerce, digital expertise on staff, etc. — rose to the top of buyers' target lists. And two, technology played a key role in the actual deal-making that got done.

"Many of our transactions have been completed only through Zoom, without even an in-person meeting between senior private equity partners or strategic buyers and a distributor's management team," Kliewer said. "We're having some of those meetings now, finding ways to do that in a socially distanced and safe way, maybe over a dinner in a large conference room, but it certainly has evolved."

More on that below. But first, as the introduction, offer and diligence phases of deals evolved, so did activity. While the second quarter of last year hit a major roadblock as companies shifted their focus

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competitive intelligence for wholesale distribution

PERSPECTIVE ■ Commentary by Elizabeth Galentine

Future of Distribution Event Will Lay Out the Dynamics of the Industry's Next Stage

As we hit the one-year mark of the pandemic, it's natural to reflect on the ways life has changed in the last 365 days. Time moves differently when you're largely in the same spot day in and day out. If you're not intentional about how you set your schedule and what to prioritize, it's easy to find yourself simply moving from one task to the next during the time between when you open the curtains in the morning and when you close them at night.

I imagine for many of us if we'd known sometime in advance that we'd have a year-plus when business as usual suddenly shifted, we'd think of it as an opportunity to reset priorities and find time for the important tasks we're perpetually putting off. We didn't have that advanced notice but we still have the opportunity for a reset.

That's why I'm very much looking forward to MDM's next virtual event. Our first-ever Future of Distribution Summit will take place online on Tuesday, April 13. We've got an all-star lineup of speakers who will take you through three phases of industry transformation and how to best capitalize on them:

1- New Distribution Models

We'll open up the conference with the industry's innovation expert Mark Dancer taking us through how the last year of remote work and online buying have signaled the start of new business strategies and innovation opportunities for distributors. MDM's Tom Gale will then explore new models of market differentiation that are putting digital acceleration at the forefront of trends shaping the rest of the year. Then, we'll hear firsthand stories from distributors who are making tech-driven changes happen in their businesses.

2- Productivity and the New Workplace

Part two addresses how to build a more resilient workplace, kicking off with a discussion between me and Graybar CEO Kathy Mazzarella. You'll meet our Women in Distribution award winners, and hear from several of them during an in-depth panel discussion on redefining workplace culture, performance management and how these factors tie into overall business development. Author and professor Jim Pouliopoulos will then break down how the pandemic altered employees' expectations about work and what you'll need to do to keep your best people moving forward.

3- Talent Development, Recruiting, Retaining

We will wrap up with distribution recruitment specialist John Salvadore on key trends in the new recruitment landscape, followed by a discussion on the broadening talent spectrum. Several of our Future Leaders will share their knowledge about the skillset that the newest generation in the workforce brings to distribution and how they plan to set career priorities.

It'll be a jam-packed event but it's not too late to help influence the agenda. What do you want to hear covered during the conference? Send me an email at elizabeth@mdm.com.

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to ensuring the safety of employees as well their top lines, the pause in activity led to a backlog of deals, many of which still made business sense and would eventually resume.

"Our distribution team expects the activity that was lost in 2Q to be more than compensated for as we move into 2021," Kliewer said. "It's been interesting in our industry because there's now actually a backlog of transactions. Those are coming back at the same time as the normal cadence of activity has begun in 2021. That, combined with the expectations for recovery as we move through the year, bodes extremely well for activity in 2021."

Trends and Dynamics to Watch

During their presentation, Troyer and Kliewer outlined the dynamics that bolster Baird's forecast for increased activity this year. Here are the top four trends they said could reshape the landscape.

1) Pent-up M&A supply. Deals stalled last spring and summer, and the companies that chose or were forced to sit on the sidelines are looking to get back in the game. Said Troyer: "On the one hand, you have many deals that went on hold when COVID hit starting to come back as we move into 2021. But you also have the regular wave of deals. There's also a pull-forward effect of valuations; deals that were likely circled for a later time horizon now look like an opportunity, often due to a target's strong performance through COVID." What's more, he added, is that with the backdrop of COVID-19, private equity owners are looking at shorter hold periods for their platforms and bolt-ons. Instead of the typical five-year hold, they might shorten it to two or three and would therefore look to placing assets on the selling block.

2) Corporate buyers well-capitalized. Many public distributors fared well during COVID-19; at the very least, they have scaled back their capital investments. That could be a recipe for those companies to invest in strategic additions as a way to jumpstart their top lines. Said Troyer: "In terms of the corporate buyers, there has been this trend for the last few years of very strong corporate balance sheets. That has only increased in the last 12 months, in part due to COVID. There was certainly an inward shift from a lot of the large corporates that were typically active acquirers going into the COVID period. What we're hearing more broadly across the Baird universe is that well-capitalized corporate buyers are looking at ways to reaccelerate and redeploy through M&A."

3) Financial sponsors poised to deal. Troyer said the sponsor front is experiencing a similar dynamic. "We've been seeing this increasing growth of dry powder sitting within private equity holdings. Part of that is influenced by record-low interest rates, finding ways to chase yields, greater allocations toward private equity as an investment class. In 2020, we saw a larger and larger threshold of average funds raised, and yet deployment was — across most pockets of the economy, not all — lower on the M&A front. What that led to was more dry powder than ever sitting within private equity looking for deals." In other words, PE firms have money to spend and distribution is a safe bet after its value creation during COVID-19.

4) SPACs as incremental buyers. Troyer said, "2020 was supposed to be the year of the SPAC," but COVID-19 had other plans for these special-purpose acquisition companies. "Last year, there were 250 SPACs, which was up six-fold from where it was in 2019," he said. "And in 2021, we're already well above that pace. The expectation is that SPACs will eclipse IPOs this year, by potentially a wide margin. What's important about that from an M&A perspective is that SPACs have a finite window to go out and complete an acquisition, so we're seeing SPACs become more active participants in M&A."

What's the Impact on Distribution?

What, specifically, do these trends mean for wholesale distributors looking to either buy or sell? Deal activity already has been picking up since late 3Q and into 4Q and now 1Q 2021.

And distributor valuations are increasing, according to Troyer, who said that across the industrial and building products verticals — two of the main sectors this Baird duo covers — "nearly all of these companies are trading at record levels from multiple standpoints. From a share price level, they are at or near record levels in terms of their trading point. In terms of private valuations, we're seeing a similar trend. Certainly, the companies that have demonstrated strong resilience through COVID, those counter-cyclical opportunities, are getting the greatest attention and have seen the greatest move in terms of valuation."

He added, "In general, there has been a rising tide lifting all ships regarding valuation across distribution. That thematic further supports the idea of more sellers potentially looking at a window to bring a business to market in the

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year ahead."

The rising tide was evident in the latest quarterly MDM-Baird Industrial Distribution Survey. According to the report, the market has shown improvement each quarter since 2Q 2020 when COVID-19 decimated revenues. While the industry average revenue was down 10% year-over-year in the spring of 2020, it ended 4Q 2020 down just 1.5% below forecast.

And several sectors notched low- to mid-single-digit growth in the final period of 2020. They include HVAC (+6.2%), LBM (+5.8%), Roofing (+4.5%), Pool & Spa (+4.1%), Safety (+4%), Landscape Supplies (+3.6%), Plumbing (+3%) and Waterworks Products (+2.8%).

These upbeat numbers send a signal that business owners who were looking to sell in 2020 — but had to shelve those plans due to COVID-19 — can now put their companies back on the market. "Generally speaking, it's much more of a seller's market," Kliewer said. "The debt markets are incredibly attractive for businesses that performed well through COVID. Combine the scarcity of best-in-class distribution with all this dry powder and very low interest rates — which strategic buyers and private equity firms can tap into — and then throw in family offices and SPACs that weren't part of the discussion a few years ago, you have a very strong overall seller's market."

How Deals Will Differ This Year and Beyond

No matter what happens with M&A in 2021, the deal-making process will be altered — perhaps for good. As activity slowly accelerated in the third and fourth quarters of last year, both buyers and sellers finally found a comfort level with performing due diligence virtually.

While this cut down on the number of "de novo" deals (those in which neither party knows each other), it had little impact on transactions that were already in progress or involving buyers and sellers familiar with one another.

In the post-pandemic phase of M&A, expected later this year, look for some due diligence to still occur over Zoom or Teams rather than with everyone in the same conference room.

"I think buyers and sellers have gotten more and more comfortable with the ability to not only execute a lot of the workstreams that have to happen in terms of the information sharing and the diligence side of the equation, but also the interpersonal side of getting to know a potential partner," Troyer said. "That is certainly not ideal — and I think we're all hoping that a lot of this can move back to in-person sooner than later — but what it has done is introduced efficiencies into a process, and one result has been shorter execution timelines."

He added that while parties are eager to return to the old ways of meeting in person and breaking bread together to get a better sense of a potential new partner, those old ways of doing business will be balanced with some virtual interactions this year and beyond.

"We think some of that will be with us to stay," Troyer said. "We don't think an entire deal will happen in a virtual world once we're back to normal, travel restrictions are lifted and everyone's comfortable, but elements of the deal that are more diligence-oriented will remain virtual."

Key Drivers Informing M&A Activity

M&A Returns with a Vengeance

After a pause due to COVID-19, deal volume returned in earnest at the end of the second quarter and into the third quarter, with activity accelerating to close the year. Some of the larger consolidators in distribution — both on the financial and strategic side — made plays or announced their intent to step off the sidelines and steer their capital toward prime targets. The move that kicked everything off was WESCO's $4.5 billion acquisition of Anixter, the roots of which date back to late 2019. The deal survived the pandemic and closed in June. A flurry of deals, though none as sizeable, followed in the ensuing months making 2020 a somewhat decent year for M&A. Look for this trend to continue in 2021.

PE Firms Deploy Dry Powder

Private-equity firms made headlines in the latter half of 2020 for the fat stacks of cash they invested in distribution, especially building materials and construction. Here are a few examples. Clayton, Dubilier & Rice bought HD Supply's White Cap division for $2.9 billion (and also distribution ERP provider Epicor for a staggering $4.7 billion). Clearlake Capital Group L.P. acquired PrimeSource from another PE firm, Platinum Equity. Affiliates of American Securities LLC paid $1.4 billion for Foundation Building Materials Inc. and $850 million for Beacon's Interior Products Business. And Bain Capital Private Equity bought US LBM Holdings.

Building Materials Sector Blows Up

In addition to the mega-deals mentioned above, consolidation was rampant across the building materials sector, with both strategic and financial deals regularly being announced to close the year. The strategic highlight was HD Supply Holdings Inc.'s return to its roots when The Home Depot bought the building products distributor for $8.7 billion. In 2007, Home Depot sold HD Supply to private equity, and HDS went public in 2013, operating on its own for the last seven years but slowly shedding business division until it went back to its core focus — and back to its original owner.

A New Deal-Making Landscape

While due diligence became harder to navigate thanks to social distancing and reduced air travel, companies that saw deals as advantageous to their businesses found a way to get them done over Zoom, Teams or Webex. However, this new dynamic did cut down on "de novo," or new, transactions where the parties didn't know one another. "In this current environment, conducting due diligence is harder, and assessing individuals and personalities is harder," Reed Anderson of Houlihan Lokey told MDM for a mid-July 2020 report on M&A. "If you are a strategic buying a smaller player in your space, you can take comfort in generally knowing what that target has been doing, and you have personnel capabilities on your team to make sure that M&A transaction works well post-close."

Valuation Becomes More Challenging

With lockdowns in place and many companies' revenues stunted due to COVID-19 restrictions and the general economic slowdown, valuations became increasingly difficult to gauge. Was a company's struggles — or its successes (think PPE) — due to COVID-19 or something else? "I definitely would not say that a business that experiences challenges right now is going to face a distressed valuation," Nick Troyer of Baird told MDM. "On the other end of the spectrum, however, I do believe there will be a premium for businesses that outperform through this crisis. When we've analyzed valuation multiples over time across distribution sectors, we clearly see the value in downside protection. The stronger performers are also likely to be the first to come back out."

What to Consider When Planning to Sell a Distribution Business This Year

The impact of taxes during the M&A decision-making process is expected to be elevated in 2021.

While 2021 seems rife for a sell-off of businesses to distributors and other entities, sellers might want to take a hard look at the tax implications this year, according to a panel during last month's M&A Summit virtual conference.

By Mike Robuck

Speaking during the investor panel, "Is Your Business an Attractive Target?," Brent Grover, M&A adviser for Brent Grover & Co., said he was advising his clients to review the proposed tax changes under the Biden administration, as well as changes in state taxes. Motivators for selling all or part of a business included the need for more money to grow profits, succession plans and changes to the capital tax gain rate, according to Grover.

Grover said sellers were worried about capital gains rates, which are currently around 20%, elevating to 39.6%, although 28% was more likely.

"But in addition to that, something that's new and different is state income taxes, particularly for people in New York, California or other states," Grover said. "The things they have in common is, of course, they're wealthy states, but with outrageous income tax rates of 13% to 16%. [That] would be the tax paid by a seller in state income taxes, which is not deductible under current law from federal income tax. Consequently, the effective tax rate for those sellers could be 50% or more.

Biden Tax Plan

- Increase in top individual tax rates from 37% to 39.6%
- Eliminate income cap on social security tax
- Increase in C Corp rates from 21% to 28%
- Elimination of the 199A deduction
- Increase tax on dividends and capital gains from 20% to 40%
- Adopt carryover basis for estate tax purposes and lower the exemption

"And one more thing, and that is the estate taxes. Currently, there's a more or less $22 million exemption for a married couple who own a business that is very likely to become $11 million or less between now and 2025."

The end result in Grover's example is that a wholesale distribution business that changes hands could be subject to a tax of 40% when it changes hands from one generation to another.

In another M&A Summit session, CPA Jeff Pease, president of Pease and Associates, outlined some of the potential tax changes that were currently on the drawing board, which included an increase in top individual tax rates from 37% to 39.6% and the elimination of the income cap on Social Security taxes.

Longer-Term Holds

Jim Miller, founder and partner for Supply Chain Equity Partners, said there's a bifurcation taking place this year between the companies that are looking to exit being pulled forward at a faster rate versus those that don't get out before the current tax window closes.

"I think there are going to be longer-term holds because of the difficulties in running the buy and build program long term," Miller said.

Prospective sellers are faced with a balancing act this year when it comes to the probability of taxes going up, according to Jason Wilcox, the managing director and founder of Wilcox Investment Bankers.

"Based on how much you think they may go up, you may be willing to do a deal today for a little bit lower valuation because you may end up better off even if the multiple is a little bit smaller today," Wilcox said. "So that's part of the thought process on trying to figure out when to go to market, not to mention all the other basic things you think about. But, yeah, taxes could be a really big thing."

Raymond James' Gareth Hughes said during the panel that the need for estate planning was even more important this year in the face of the tax changes. Business owners need to have their revised estate plans completed before the tax changes occur.

"One of the things that we would advise our clients pretty early on is to make sure they're speaking to tax advisers and getting estate planning in place because it's pretty complex," said Hughes, who is the director of investment banking at Raymond James. "There are cutoff points by which any tax planning done after that point effectively doesn't apply. You really need to get in front of it early with the changes that are coming."

Over the past several months, Irving Place Capital Partner Devraj Roy said his company has seen an uptick in activity from families and private business owners that are almost entirely tax driven, even though a business may not be at the right point in its lifecycle to change hands.

"We are seeing taxes being the primary motivator to come to the table with the understanding that the owners may not get full value for the business, given where it sits today," Roy said. "But on an after-tax basis, they will get more today versus waiting to get a higher multiple down the road because of the tax dynamic. I would say there's much more interest in tax-driven transactions."

Walmart Gears Up Automation Capabilities

The retail giant fires a shot across the bow of other large distributors by scaling up local fulfillment centers using automation.

Ahead of the start of the pandemic, Walmart worked for years on automation across various sectors — including distribution center technology, fulfillment center technology, and store-level market fulfillment center technology.

By Mike Robuck

By working with tech companies such as Fabric, Alert Innovation and Dematic, Walmart is ramping up the build out of mini, automated fulfillment centers in stores across the U.S.

According to a recent blog by Walmart U.S.'s Tom Ward, senior vice president of customer product, a local fulfillment center (LFC) is a compact, modular warehouse that is built within a store's existing footprint or added to a store location.

Walmart, like Kroger, Target and other large grocery chains, built out its remote shopping capabilities during the pandemic by having employees manually pick-up items from shelves that were on customers' shopping lists prior to delivering the goods outside at a pre-designated location for payment and loading.

While online grocery shopping proved to be popular last year during the coronavirus pandemic, stores were often overwhelmed by the large demand, which led to longer fulfillment cycles.

Walmart's LFCs can store thousands of items that it knows are in the most demand. Automated bots pull the items off of a shopper's list from within the fulfillment center before another robot sends them to a workstation where they can be assembled and bagged prior to delivery.

Walmart can augment some products, such as canned goods and electronics, with personnel shoppers that handpick fresh items, such as produce or meat.

"Our automation plan is now ready to scale," Walmart CEO Doug McMillon said during last month's earnings call. "We will be investing in our distribution centers, our e-commerce fulfillment centers and in-market fulfillment centers, which will in many cases be inside of or built beside our stores."

During the earnings call, McMillon also said Walmart's CAPEX was projected to be $14 billion in fiscal year 2022, which includes large investments in automation, e-commerce, supply chain and additional technologies.

Walmart's Brett Biggs, EVP and CFO, said the company expects e-commerce sales globally to be over $100 billion in the next couple of years. Automation is set to make grocery fulfillment easier and more profitable while also enabling aisle-ready pallets that can go directly to a store floor for faster stocking.

A Head Start

Walmart started testing its first local fulfillment center in Salem, New Hampshire, in late 2019, which gave Walmart a leg up once the pandemic hit. The benefits to date have included the ability to do more orders at a faster rate — with pick-ups or deliveries within an hour of ordering — as well as fulfilling orders for nearby stores from one LFC.

In his blog, Rice said Walmart will be adding

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automated pickup points for some stores, which will enable customers and delivery drivers to drive up to a location, scan a code, receive the order, and go.

Walmart plans to work with Alert Innovation, Dematic and Fabric on testing different orientations and add-on features to find the best solutions across different environments.

"In the U.S., we thought, based on how large the country is and how people like to drive their cars — they do drive-throughs for food and banks and everything else — that we had the opportunity to really focus on pickup for a few years, which was obviously economically advantageous for us," McMillon said. "On the automation side, I think we're going as quickly and as aggressively as we can and should go. These things will take some time.

"If we find that it's working really well and we can go faster, I'm going to be in the camp of wanting to go faster, because this looks like it's going be really great for our supply chain, great for customers, [and] great for the company from a financial point of view."

McMillon said automation was also a key strategic component for Walmart+, which competes against Amazon Prime. While Amazon is working to build warehouses closer to customers in large urban areas, Walmart has more than 4,000 stores across the U.S. to potentially provision with its LFCs. By contrast, Amazon has close to 500 Whole Foods stores in North America.

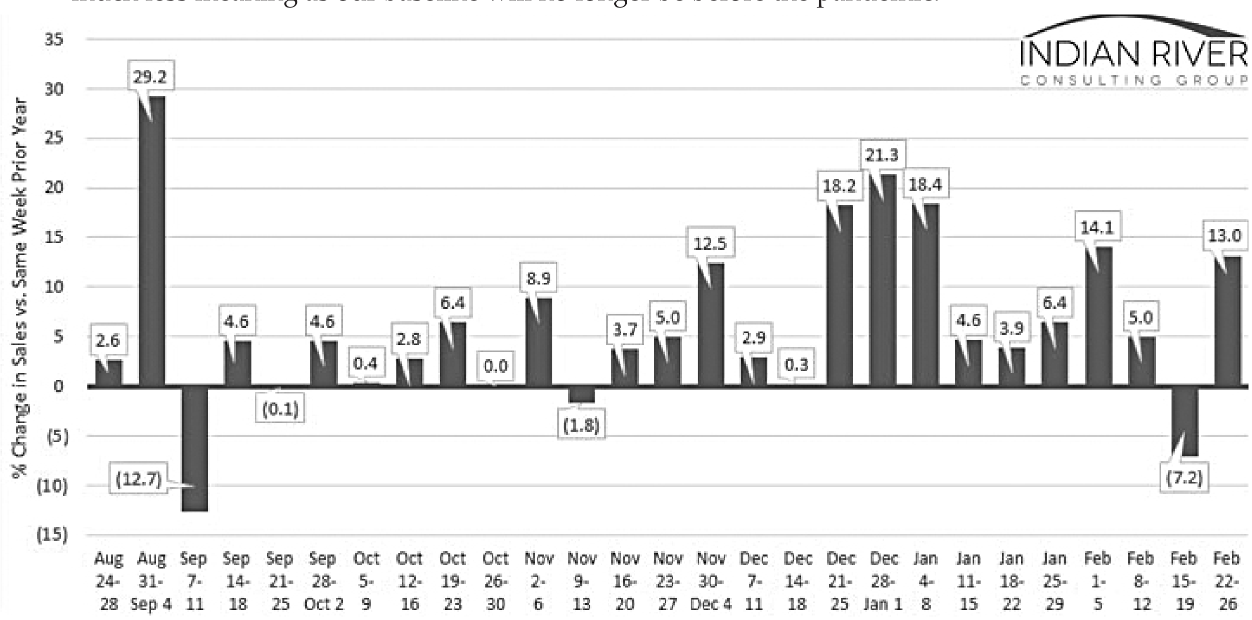
"E-commerce deliveries are important, but the supercenter perishable assortment is obviously really important," McMillon said. "And we've got a limit on how much we can pick and deliver from stores. The automation that we're investing in will help change that. And the other capacity choices that we're making will help unlock that, which will enable Walmart+ to grow more."

Walmart hasn't said how many LFCs it plans to have in place this year, or when the automatic pickup points will go live.

Pandemic Revenue Index Up 13%

Indian River Consulting Group Index for the work week of Feb. 22-26

IRCG's weekly Pandemic Revenue Index for the work week of Feb. 22 to Feb. 26 increased 13% as the PRI nears its one-year anniversary and, therefore, its conclusion. The sample size for the week's Index was 13 firms. Seven respondents reported increases with three greater than 50% while six companies saw declines ranging from 3% to 11%. "Next week will be a complete year since the world changed during the second week of March 2020," said Mike Emerson, IRCG partner. "This will be the penultimate publishing of the PRI. After next week, year-on-year sales change will have much less meaning as our baseline will no longer be before the pandemic."



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Industrial & Construction Markets Update

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Manufacturing Technology Orders Up 12% in January

U.S. manufacturing technology orders totaled $322.5 million in January, a 12% increase from the same month a year ago, according to the U.S. Manufacturing Technology Orders report published March 8 by AMT – The Association For Manufacturing Technology.

It marked the third straight month of year-over-year gains, a trend not seen since late 2018. But new orders placed in January also marked a 29% decrease from December 2020.

"It is encouraging to see that January was the third straight month of year-over-year gains in manufacturing technology orders," said Douglas K. Woods, president of AMT. "The decline from December 2020 was expected, given the unusual strength of that month's orders.

"January orders were buoyed by the largest capital equipment investments in forming technology since May 2019. The automotive sector was particularly active, as U.S. auto manufacturers are planning external body styling changes in 2021 that were postponed in 2020 due to the pandemic. The high number of January automotive orders for forming not only reflected orders planned for 2021, but also included orders planned for 2020 that were delayed until 2021.

"Another bright spot was the mold and die sector, which after nearly a two-year decline in monthly orders, has been increasing capacity steadily since May 2020, reflecting the supply chain shifts to domestic producers. We expect that additional actions to reduce supply chain risks will maintain investment in this sector through 2021 and perhaps even be accelerated with President Biden's executive orders to have agencies evaluate supply chains critical to manufacturing capacity."

Distributor

Grainger, Chicago, announced that it has appointed Julie Myerholtz as vice president, chief information security officer (CISO).

Winsupply Inc., Dayton, Ohio, has opened Winsupply of Rio Grande Valley, in Mission, Texas. The new company serves heating, ventilation and air conditioning (HVAC) contractors in the Rio Grande Valley of southern Texas.

Fastenal Co., Winona, Minnesota, reported February sales of $437.7 million, up 1.5% from the same month a year ago. The company reported daily sales of $21.9 million, also up 1.5% versus a year ago. By region, U.S. sales dipped 0.2%, Canada/Mexico sales grew 6.7% and "rest of world" sales grew 30.1%. By end market, manufacturing sales increased 0.6% while non-residential construction sales decreased 14.4%, the company said. Safety sales continued to drive the company's top line, increasing 17.6%, while fasteners declined 2.1% and "other" improved 2.4%.

BlueLinx Holdings Inc., Marietta, Georgia, reported sales for 2020 of $3.1 billion, up 17% from 2019. BlueLinx reported a profit of $81 million, compared with a loss of $18 million a year ago.

Curbell Plastics Inc., Orchard Park, New York, announced the promotion of three employees to new leadership positions. Bill Rummell and AJ Lacey have been promoted to regional sales managers, and Sherrie Bloom has been promoted to associate director of marketing.

Electrical distributor **Turtle & Hughes**, Linden, New Jersey, announced that Wendy Buchholz has joined the company as vice president of sales. She will be responsible for growth in Upstate New York with an emphasis on sustainable solutions.

Building materials distributor **Huttig Building Products Inc.**, St. Louis, reported sales for 2020 of $792.3 million, down 2.4% compared to 2019. The company reported a loss of $0.9 million, up from a loss of $21.3 million a year ago.

Bunzl PLC announced that it has completed three recent acquisitions. In January the company acquired **Deliver Net**, a health care distributor to care home groups in the UK, with 2020 revenue of £20 million (US$27.8 million). In February, the company completed the acquisition of **Disposable Discounter,** an online distributor of foodservice disposable products, with 2020 revenue of £18 million (US$25.1 million).

NOW Inc., Houston, announced that it has agreed to acquire **Flex Flow**, Midland, Texas, from **GR Energy Services Holdings LP**, a portfolio company of the private equity firm **Pine Brook Partners**. Financial terms of the all-cash deal weren't disclosed.

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MARKETS UPDATE SUPPLEMENT P. 2

F.W. Webb Co., Bedford, Massachusetts, announced it has acquired **Danbury Plumbing** and **HVAC Supply Co**. of Western Connecticut.

Core & Main LP, St. Louis, announced it has closed on its previously announced agreement to acquire **Triple T Pipe & Supply LLC** of Lubbock, Texas. Financial terms of the deal weren't disclosed.

Building materials distributor **Builders FirstSource Inc**., Dallas, reported 2020 sales of $8.6 billion, a 17.6% increase compared to 2019. Acquisitions and core organic growth contributed 2.5% and 5.6% of the increase, respectively.

Economic

The **U.S. Census Bureau** and the **U.S. Bureau of Economic Analysis** announced that the goods and services deficit was $68.2 billion in January, up $1.2 billion from $67 billion in December, revised. January exports were $191.9 billion, $1.8 billion more than December exports. January imports were $260.2 billion, $3.1 billion more than December imports. The January increase in the goods and services deficit reflected an increase in the goods deficit of $1.3 billion to $85.4 billion and an increase in the services surplus of $0.1 billion to $17.2 billion. Year-over-year, the goods and services deficit increased $23.8 billion, or 53.7%, from January 2020. Exports decreased $15.7 billion, or 7.6%. Imports increased $8.1 billion, or 3.2%.

The seasonally adjusted **Fastener Distributor Index** (FDI) for February was 66.1, up from 57.7, in January, according to the latest analysis from Baird, FCH Sourcing Network and the Institute for Supply Management. The **Forward-Looking Indicator** (FLI) surged to an all-time high of 73.9 from 66.7 in January. According to the report, the FLI "implies additional expansionary readings in the months ahead."

Construction spending during January was estimated at a seasonally adjusted annual rate of $1,521.5 billion, 5.8% above the January 2020 estimate of $1,437.7 billion and 1.7% above the revised December estimate of $1,496.5 billion, according to the **U.S. Census Bureau**.

The **U.S. Census Bureau** released advance indicators showing that the international trade deficit and wholesale inventories increased in January. The international trade deficit was $83.7 billion in January, up $0.5 billion from $83.2 billion in December. Exports of goods for January were $135.2 billion, $1.9 billion more than December exports. Imports of goods for January were $218.9 billion, $2.5 billion more than December imports. Wholesale inventories for January, adjusted for seasonal variations but not for price changes, were estimated at an end-of-month level of $661.6 billion, up 1.3% from December 2020, and were up 0.5% from January 2020. The November 2020 to December 2020 percentage change was revised from up 0.3% to up 0.5%.

Economic activity in the manufacturing sector improved in February, and the overall economy grew for the ninth consecutive month — after it had dipped significantly in the early stages of the coronavirus — according to the nation's supply executives in the latest **Manufacturing ISM Report on Business**. The February Manufacturing PMI registered 60.8%, an increase of 2.1% from the January reading of 58.7%. This figure indicates expansion in the overall economy for the ninth month in a row after contraction in March, April, and May. The New Orders Index registered 64.8%, up 3.7% from the January reading of 61.1%. The Production Index registered 63.2%, an increase of 2.5% compared to the January reading of 60.7%. The Backlog of Orders Index registered 64%, 4.3% above the January reading of 59.7%. The Employment Index registered 54.4%, 1.8% higher from the January reading of 52.6%. The Supplier Deliveries Index registered 72%, up 3.8% from the January figure of 68.2%.

Heating, Air-conditioning & Refrigeration Distributors International (HARDI), Columbus, Ohio, released its monthly TRENDS report, showing the average sales performance by HARDI distributors was an increase of 6.9% during January. The average annual sales growth for the 12 months through January 2021 is 4.8%.

Manufacturer

Swedish industrial manufacturer **Atlas Copco** announced it has acquired **Cooper Freer Ltd**., a British distributor that serves industrial, water treatment and service companies in the Midlands region. Financial terms of the deal weren't disclosed.

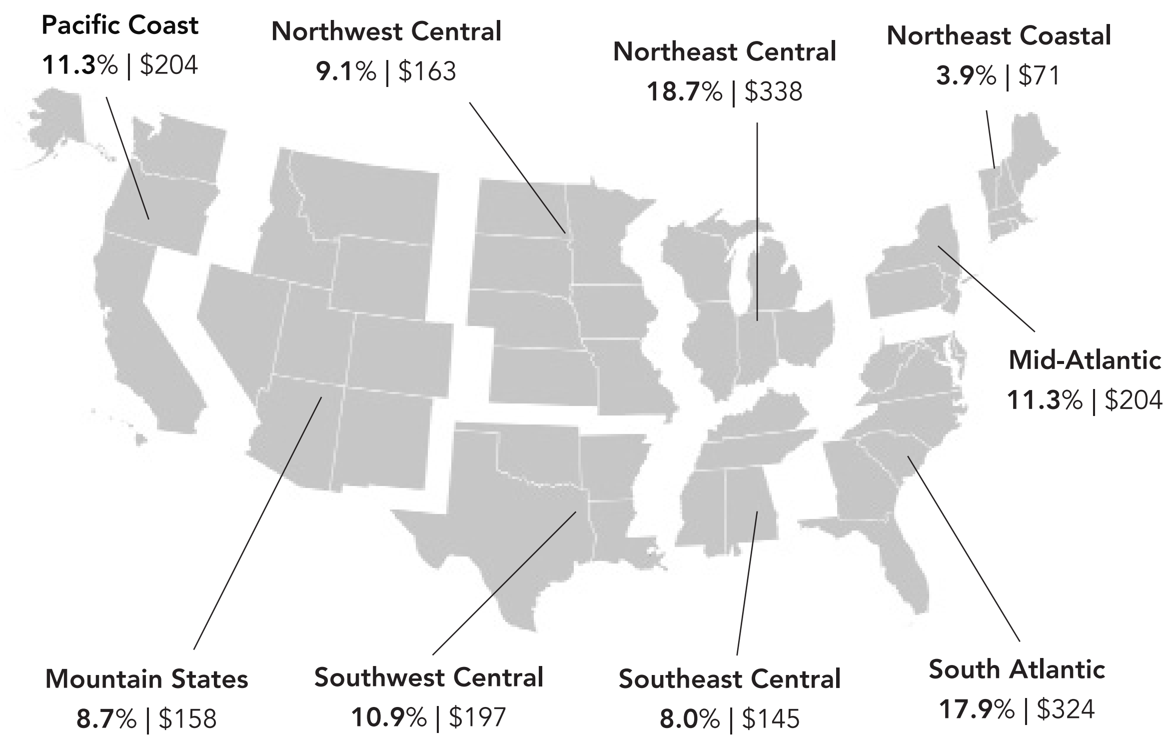
MARKETS UPDATE SUPPLEMENT P. 3

Conveyor Belting Flat | Market Snapshot

U.S. Total: $1.8 billion

Market demand for conveyor belting flat in the U.S. was $1.8 billion as of March 2021, according to data from MDM Analytics. All estimates are 2021 end-user demand, in U.S. dollars, including distributor margin.

U.S. End-User Market Demand for conveyor belting flat by Region, $Millions (2021)



U.S. End-User Market Demand for Conveyor Belting Flat: Top 10 End Markets

Top 10 end markets in $ volume, by SIC code, consuming conveyor belting flat (2021 est.)

End User		Estimated Consumption
5411	Grocery Stores	$90,356,895
3535	Conveyors and Conveying Equipment	$70,636,900
1221	Bituminous Coal and Lignite Surface Mining	$64,083,229
1241	Coal Mining Services	$60,732,069
2621	Paper Mills	$57,826,262
1222	Bituminous Coal Underground Mining	$57,194,313
3523	Farm Machinery and Equipment	$49,796,216
3559	Special Industry Machinery, Not Elsewhere Classified	$46,382,390
1479	Chemical and Fertilizer Mineral Mining, Not Elsewhere Classified	$37,703,329
3531	Construction Machinery and Equipment	$36,771,911

Source: MDM Analytics, Niwot, CO. Contact info@mdm.com for permission to reprint/share. Learn more about MDM Analytics at www.mdm.com/mdm-analytics.

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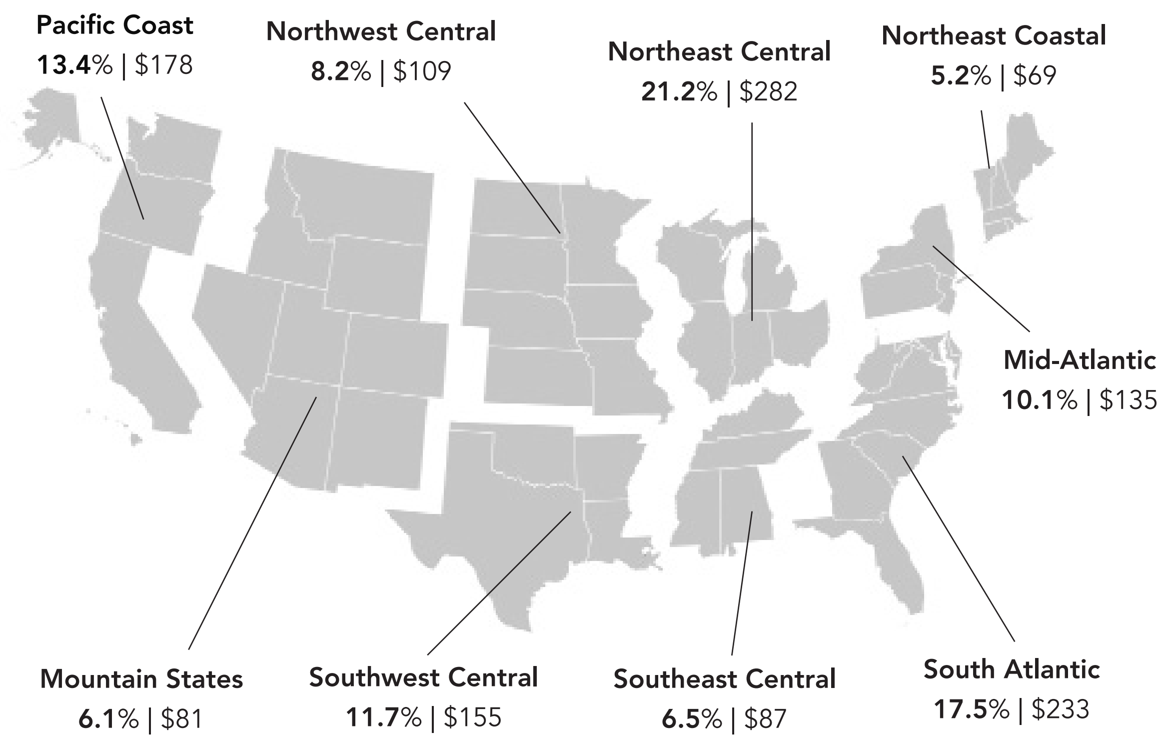
MARKETS UPDATE SUPPLEMENT P. 4

Air | Market Snapshot

U.S. Total: $1.3 billion

Market demand for air in the U.S. was $1.3 billion as of March 2021, according to data from MDM Analytics. All estimates are 2021 end-user demand, in U.S. dollars, including distributor margin.

U.S. End-User Market Demand for air by Region, $Millions (2021)



U.S. End-User Market Demand for air: Top 10 End Markets

Top 10 end markets in $ volume, by SIC code, consuming air (2021 est.)

End User		Estimated Consumption
1711	Plumbing, Heating and Air-Conditioning	$59,953,224
3714	Motor Vehicle Parts and Accessories	$52,830,749
3711	Motor Vehicles and Passenger Car Bodies	$50,065,053
1731	Electrical Work	$47,003,770
3721	Aircraft	$31,405,417
3651	Household Audio and Video Equipment	$26,776,997
3724	Aircraft Engines and Engine Parts	$25,862,918
1542	General Contractors-Nonrez Bldgs, other than Industrial & Warehouses	$24,602,475
3531	Construction Machinery and Equipment	$22,313,290
3441	Fabricated Structural Metal	$21,373,278

Source: MDM Analytics, Niwot, CO. Contact info@mdm.com for permission to reprint/share. Learn more about MDM Analytics at www.mdm.com/mdm-analytics.